ANNUAL REPORT 2017

Translation from Estonian original

Business name	AS Harju Elekter
Main business area:	production of electrical distribution systems and control panels; production of sheet metal products; wholesale and mediation of light fittings and electrical appliances; real estate holding; management assistance and services; holding of investments
Commercial registry code:	10029524
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CEO:	Andres Allikmäe
Auditor:	KPMG Baltics OÜ
Beginning of the reporting period:	1st of January
End of the reporting period:	31st of December

Added documents to the annual report:

- The independent auditor's report
- Profit allocation proposal

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ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

The bumpy road we have been following during the 50 years of our existence has made us stronger and led us to several success stories.

The first valuable lesson came with the collapse of the regime teaching us to deal with the western world in order to obtain materials, find business partners and investors, as well as searching for new markets after we were denied access to the Eastern markets. The second lesson was given to us during last years when internal Estonian orders dropped almost by half in a year in every single year. The management and sales personnel of AS Harju Elekter Elektrotehnika foresaw it and thanks to their active sales efforts concluded several major contracts with Finnish customers, generating a positive challenge by doubling turnover. The third lesson was related to the fact that PKC Group left Estonia and eventually the whole PKC Group Oyj was sold which, on one side, deprived us of stable rental income and dividends (approx.1 million euros a year), but on the other hand, allowed us to finance boosting circulating assets and investments.

Undoubtedly, the sale of PKC Group Oyj shares and leaving the Helsinki Stock Exchange meant the end of a certain era for AS Harju Elekter. The co-operation with Nokia in manufacturing cable harnesses started in 1991. In 1994 AS Harju participated in the MBO of the PKC Group Oyj from Nokia. The co-operation with PKC Group Oyj has been very important to us for several reasons: we acquired the experience of batch production and just-in-time production; in co-operation with Nokia we founded in 1992 a joint cable production venture in Keila; the participation on the Management Board of PKC Group Oyj from 1994 to 2014 provided us with excellent experience in managing an international company, the transposition and sales of companies and introducing them to a stock exchange which was an obvious incentive for taking AS Harju Elekter to the stock exchange in 1997.

All in all, for 22 years we have earned from our initial investment of 2 million euros approx. 50 million euros in dividends and share sales which makes an average of 2.2 million euros per year. The financial opportunities that became available accelerated the development of AS Harju Elekter considerably, leading to the expansion of the company to new markets, the transposition of other companies, starting new co-operation projects and investments in technology, innovative projects and the development of industrial real estate.

As a result of active sale work, the company won several procurement tenders and concluded substantial contracts in Finland which almost doubled the Group’s sales revenue in 2017. Although the closure of the PKC Eesti AS plant in the Keila Industrial Park deprived us of a reliable rental income, the spaces that became vacant ideally suited the production lines of AS Harju Elekter Elektrotehnika and 25.8 million euros gained from the sale of shares allowed the financing of investments that contributed to the growth of turnover. As a result, many highly qualified specialists, who had been engaged in PKC Eesti AS, became available and they are now successfully integrated in other companies of the Group. In addition, we have made several investments in the purchase of new companies: Energo Veritas OÜ, Telesilta Oy and, at the end of the year, Sebab AB and Grytek AB in Sweden. We also invested in land and real estate at the Allika and Keila Industrial Parks, including the renovation of the new plant of AS Harju Elekter Elektrotehnika. The Lithuanian subsidiary, Rifas UAB, has overcome its years of interim decline and made a vigorous breakthrough in export markets. Thus, the previous year was eventful and full of challenges for the whole team starting from workers to middle and top managers.

The years 2017 and 2018 are anniversary years for our countries. The Republic of Finland celebrated its 100 years of independence in 2017 and Lithuania, Estonian and Latvia are doing the same in 2018. In 2017, our Finnish subsidiary, Satmatic Oy, celebrated its 15th year in the Harju Elekter Group. AS Draka Keila Cables and AS Glamox HE established by AS Harju Elekter with foreign capital became 25 years old. This year AS Harju Elekter has its 50th anniversary, Satmatic Oy and Sebab AB celebrate their 30th birthdays.

I see successful years ahead for the Harju Elekter Group where our sales revenue will exceed 100 million euros. On behalf of the Supervisory Board I would like to thank all our employees, customers and partners in Estonia as well as abroad. I would like to thank our shareholders for their support, we will continue to pay stable dividends.

/signature/
Endel Palla, Chairman of the Supervisory Board

ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD

The year 2017 was extraordinary for the Harju Elekter Group. The choices and decisions made reporting year and before, boosted by success, and executed with an excellent economic performance, made it the best in our history. Right on time to celebrate the 50th anniversary of AS Harju Elekter and the 100th anniversary of the Estonian Republic in 2018.

We increased our sales revenue by 67.4%, amounting to 102.4 million euros. The operating profit increased by 71.1%, amounting to 5.4 million euros and the profit attributable to the owners without the extraordinary income by 33.2%, amounting to 4.3 million euros, and together with the extraordinary income earned from the sale of financial investment the profit attributable to the owners amounted a substantial figure of 29.1 million euros. The most important markets that provide 84% of the sales revenue of the Group are located outside Estonia and the other Baltic states. Despite this we are doing our best to give our Estonian customers the maximum service.

The largest share of our sales comes from our core business – the provision of electro-technical products and solutions, as well as from our growing presence in the Real estate segment. As to our primary activities, we have entered into the highly promising and growing sector of shipbuilding as well as our core businesses of electrical engineering and automatic equipment. Finland is the most important market for us, but our share of the Swedish market is also increasing.

Our previous economic results, as well as perspective contracts and investments, gave a very positive impetus to the growth of the share price that rose by 75.4%, increasing it from 2.85 euros to 5.0 euros. The number of shareholders increased to almost 2,500.

During the year 2017 we acquired several new companies: in the first half of the year Telesilta Oy in Finland and Energo Veritas OÜ in Estonia, and at the end of the year contracts to purchase the Swedish companies, Sebab AB and Grytek AB, were concluded. At the beginning of 2018 the Group controls 12 major companies in Estonia, Finland, Sweden and Lithuania and employs a total of almost 700 people. With such a team, we can look confidently to the future. Our rejuvenescent, professional and active personnel have certainly acquired a new impetus. The opportunity to work for an international group, experience another kind of business culture, together with the optimistic feel for the forthcoming years has made the Harju Elekter Group a highly valued employer.

Because of the right decisions so many young people have joined us, but, at the same time, so many experienced and competent workers and managers from different fields have stayed with us.

We expect outstanding development in 2018 and beyond. No doubt our biggest challenges will be maintaining our market share, but we are convinced that thanks to our purposeful and professional actions we are the best choice and the most reliable partner for our customers. In order to ensure the sustainable development of the Group for many years we have to increase our technological engineering and administrative capabilities. The investment in sheet metal technology, IT solutions and process digitalisation are more important than ever for us. We are also planning to invest more in real estate and renewable energy projects. These are the keywords that characterise the tasks ahead of us in the best manner.

The goal is to ensure the creation of added value for our customers, our team and for our shareholders. I assure you that the Harju Elekter Group will do everything possible to achieve these set goals.

As the company is larger than ever before, we have a duty to increase our social responsibility. We will continually contribute to the promotion of higher technical and vocational education, and influence young people's educational and career choices. It is important to return added value as well as support the society. We continually think that it is very important to contribute to the development of the whole society.

I wish a successful and productive anniversary year to all our customers, partners, shareholders and employees. Success, strength and good results rely on co-operation!

/signature/

Andres Allikmäe, Chairman of the Management Board

MANAGEMENT REPORT

ORGANISATION

Activities and business philosophy of the Harju Elekter Group

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. 84% of the products are marketed outside Estonia. Shares of AS Harju Elekter are listed on Nasdaq Tallinn.

During the half century of its existence the Harju Elekter Group has become a company with a significant impact in Estonia, Lithuania, Finland and Sweden. In order to stay competitive and to grow in the international market it is vital to follow the principles of sustainability. Honest and ethical business with sustainability has become more and more important, co-operation factors with the stakeholders of the Group and, therefore, it is important for the Group to follow in its daily business the principles of honest and transparent business culture.

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.

Values

Development – we are innovative and keen to learn
Co-operation – together we achieve more
Reliability – we do not bargain on quality

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART

* On 12 December 2017, AS Harju Elekter signed a contract to acquire all of the shares of Swedish company Sebab AB and Grytek AB from the company Tnåa AB. The transaction completed on 8 January 2018.

Harju Elekter Group's focal points of sustainability

AS Harju Elekter understands that one of the preconditions to the growth of the Group is to follow the ideas that are important to its stakeholders. On one side, the expectations of stakeholders influence the actions of the Group, on the other side the Group has to take responsibility in matters where its business influences other parties.

The Group is most of all affected by the views of its owners, staff, customers and suppliers. Communication between them is intense – depending on the nature of the relationship a lot of informing, discussion and feedback is going on (more information about it can be found in the respective chapter of this report). As to the local governments and inhabitants, regulators and surveillance authorities' subjects of discussion are taken up when it is necessary. In co-operation with educational institutions, professional associations and non-governmental organisations the Group deals with subjects that create mutual value. As the Group is of the opinion that taking into account the expectations of stakeholders are a token of a contemporary high-quality management, it is very important to keep all parties well informed about the Group's methods of management. Considering the topics that have been raised within conventional communication and the feedback of customers and employees, the main factors that influence the success of the Group were highlighted by managers of the Parent company and larger subsidiaries at the end of 2016. To ensure a high quality and reliability of the results, the analysis was carried out by independent advisors.

Responsible management in every focus area is important to the Group in every business segment and in all subsidiaries. The most important focus areas are integrated in a detailed manner, systematically and purposefully into the strategic and operative management of the Group's companies. The less important factors are also taken into account as basic principles to keep in mind when making management decisions. Therefore, the Annual Report 2017 of the Group gives an overview of the management and productivity of all these areas.

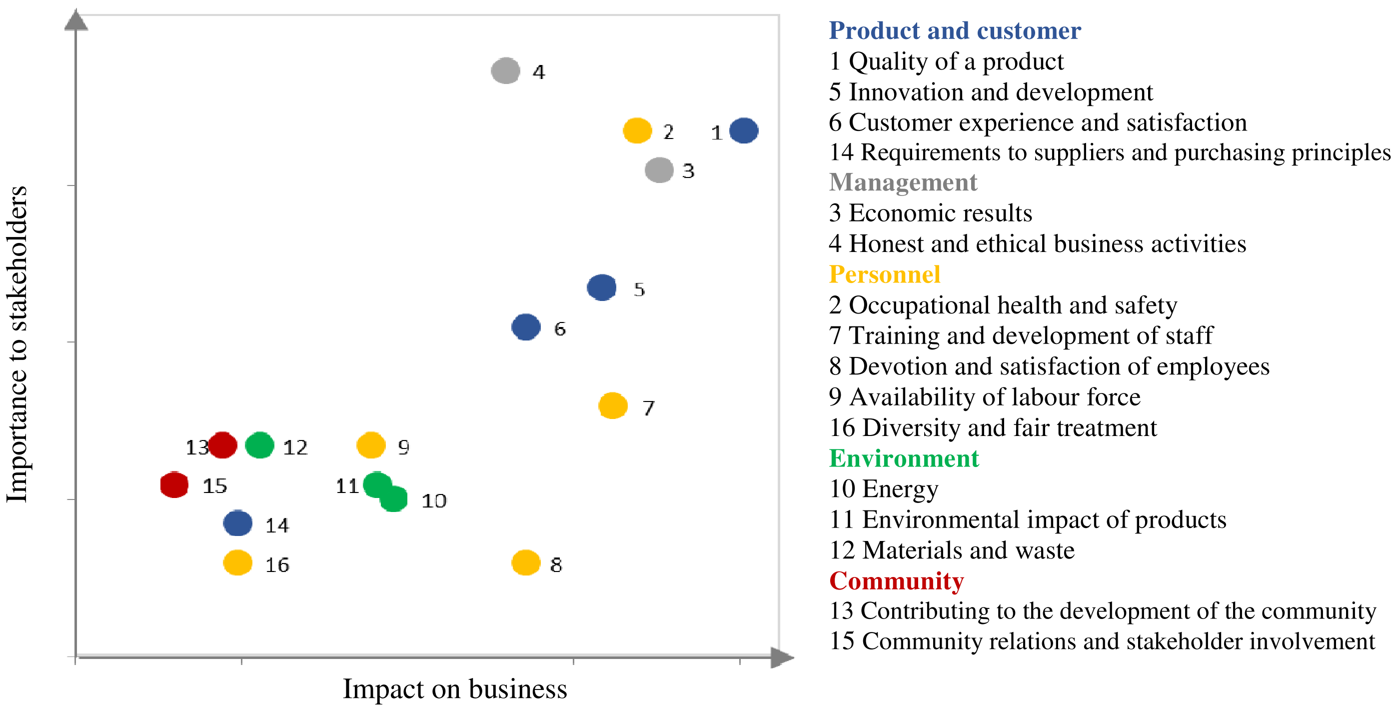


***Figure**: Focus areas that influence the sustainability of Harju Elekter Group*

Harju Elekter Group understands that its customers and financers expect from the whole Group, as well as from each of its companies a comprehensive view of their social and environmental impact and the implementation of ethical and sustainable customs of trade. The increasing expectations of employees in the participatory and considerate working environment and the ambition to operate more in Nordic markets also demand responsible operation.

Taking all this into account, the Group endeavours to develop its management in a manner that actions the expectations of its stakeholders and considers the needs of people and the environment honestly, ethically and transparently.

YEAR 2017. EVENTS, RECOGNIATIONS AND AWARDS

Motherson Sumi Systems Limited and the Management Board of PKC Group Oyj signed a merger agreement on 19 January 2017 and to the shareholders of PKC Group Oyj was submitted a takeover bid at the price of 23.55 euros per share. On 22 March 2017, PKC Group Oyj announced that the takeover bid had been successful. AS Harju Elekter owned 1,094,641 PKC Group Oyj shares, of which AS Harju Elekter, received 25.8 million euros on 30 March 2017.

In January 2017, the subsidiary AS Harju Elekter Elektrotehnika received a large order from Konecranes, for the supply of 86 special substations to the USA. Together with the agreements concluded with Finnish distribution networks companies at the end of 2016, the production of substations in the Estonian and Finnish plants of the Group increased to 3,000 substations annually.

In March, AS Harju Elekter purchased an 80.52% holding in Energo Veritas OÜ, a company trading in electrical materials and equipment. AS Harju Elekter Trading Group and business activities of Energo Veritas OÜ was combined. As of 1 June, the united business activities continue in Group's subsidiary, under the name of Energo Veritas OÜ.

On 27 April, the AGM of shareholders of AS Harju Elekter was held; it approved the 2016 annual report and distribution of profit, appointed a new Supervisory Board and approved the remuneration of the members.

On 2 June, AS Harju Elekter signed a contract for the purchase of all shares in Telesilta Oy, an electrical engineering company specializing in electrical contracting for the shipbuilding industry. Telesilta Oy continues to operate under its own name and brand as a wholly-owned subsidiary of the Group. The purchase provides new knowledge and skills in manufacture and installation of the electrical and automation equipment for ships and opens the door to the promising Finnish shipbuilding sector.

On 29 August, AS Stera Saue opened a new factory, with 3,400m^2 of production space, in the Allika Industrial Park owned by AS Harju Elekter. In 2018, AS Harju Elekter will be building an additional 4,000m^2, followed by another 3,000m^2 of new production space for AS Stera Saue, with the total amount of production space rented by AS Stera Saue growing to 10,400m^2.

In March, AS Harju Elekter received the traditional Export Deed of the Year award from KredEx Credit Insurance. The company was recognized thanks to its outstanding contracts with foreign partners and increased export in 2016.

In June 2017, the Lithuanian subsidiary of the Group, Rifas UAB, was awarded a prestigious Rolls-Royce award for the maritime product and service sector "Innovation and technology company of 2017". This acknowledgment was given for innovation in developing, and the industrial introduction of a complex electricity distribution and control system SAVe CUBE.

Rifas UAB received an award as „The most innovative company 2017"from Panevežys City Government.

AS Harju Elekter Elektrotehnika was acknowledged in 2017 by Elenia Oy with the title of" The Best Supplier".

Endel Palla, Chairman of the Management Board of AS Harju Elekter, was awarded the Distinguished Service Medal Mente et Manu, the highest form of recognition from TUT, for his long-term fruitful cooperation in the development of curricula and support for students through programs as well as scholarships.

During the year, the Group's subsidiaries participated actively in the professional fairs in Estonia, Finland and Sweden: the largest exhibition of electrical energy and power distribution in the Nordic Countries - Elfack in Gothenburg; the fairs Verkosto and Alihankinta in Tampere as well as Teknologia 17 exhibition in Helsinki. Group's Trade unit continued to introduce its products in the international building fair in Tallinn.

Events after the reporting date

On 12 December 2017, AS Harju Elekter signed a contract to acquire all of the shares of Swedish company Sebab AB, a provider of sales and technical solutions, and its sister company Grytek AB, a manufacturer of pre-fabricated technical buildings, from the company Tnåa AB. Sebab AB is a marketing and engineering company for MV/LV power and distribution solutions for the construction, infrastructure and renewable energy sector. The acquired companies will initially continue to use their names and trademarks, operating as 100% subsidiaries of the Group. The transaction completed on 8 January 2018.

On 18 January 2018, AS Harju Elekter Elektrotehnika signed a contract with Caruna Oy, the largest electrical grid company in Finland, to supply LV cable distribution cabinets and metering cabinets to them in the course of 2+1+1 years. According to estimates by Caruna, the expected volume of the contract is at least 5 million euros. Harju Elekter Group already has valid contracts in place with the Caruna Group to supply pre-fabricated substations, due to which the production of substations in the Group's factories in Estonia and Finland has grown from the annual 1,000 substations to 3,000 substations in a single year.

On 1 February 2018, AS Harju Elekter Elektrotehnika opened its new factory in Keila Industrial Park. Thanks to several large orders, the Group's subsidiary, manufacturer of LV/MV distribution and control engineering devices, experienced significant growth in its production volume during the year, which resulted in the need to expand the working premises. Their move, which lasted for nearly six months, was completed in December 2017. In comparison with the previous 10,400m^2, the new factory has 16,715m^2 of space. The increase in production capacity, along with the growth in the number of employees to 236, including 43 sales, production and R&D engineers, is sufficient to seamlessly fulfil the current sales volume without any interruptions.

AS Harju Elekter Elektrotehnika won a tender for the supply of pre-fabricated substations in Sweden. In February 2018, largest distribution network enterprise in Sweden E.ON Energidistribution AB, made a public announcement on the winner of the tender, based on which more than 2,000 substations will be supplied to Sweden in the 3-year contract period. The framework contract is planned to be concluded in March.

THE GROUP'S ACTIVITIES IN 2018

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/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 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.

Due to the dynamic expansion during recent years the Group needs to focus in 2018 on reviewing its management structure, promoting the co-operation between the companies belonging to the Group and creating organisational preconditions necessary for it. This is to be supported by sufficient investments in the personnel and technology, including the digitalisation of business processes, security and financial accounting. However, the group continues actively to search for, and the initiation of, possible financial investment, merger and transposition projects.

It is important for the Group to maintain and increase its market share in Scandinavia. In the near future the Group will focus mainly on implementing new contracts and increasing sales in Sweden, but, as an Estonian company, it is important to maintain our market share in the domestic market where the possibilities for growth lie mainly in reviewing products and product groups in the construction sector to meet with market demands and make them more competitive. A comprehensive solar energy service seems to be one of the new promising business areas for the company.

The company will continue the development of the Allika Industrial Park in order to find new leaseholders and seek possibilities to start other promising industrial real estate projects.

BUSINESS RESULTS

5 years statistical summary

Group	2017	2016	2015	2014	2013
Statement of profit or loss (million EUR)					
Revenue	102.4	61.2	60.7	50.6	48.3
Operating profit	5.4	3.2	3.3	2.2	1.7
Profit attributable to owners of the Company	29.1	3.2	3.2	9.7	5.2
Statement of financial position at the end of the year (million EUR)					
Total current assets	48.7	22.3	19.8	25.1	15.9
Total non-current assets	41.3	51.7	46.7	44.7	55.2
Total assets	90.0	74.0	66.5	69.8	71.1
Equity attributable to owners of the Company	69.9	60.3	58.1	58.5	62.5
Equity ratio (%)	77.7	81.5	87.4	83.8	87.9
Rates of growth (%, y-o-y)					
Revenue	67.4	0.8	19.9	4.8	-8.5
Operating profit	71.1	-2.9	47.1	27.8	-11.5
Profit attributable to owners of the Company	804.9	0.9	-67.1	87.9	46.8
Assets	21.6	11.1	-4.6	-1.8	19.2
Equity attributable to owners of the Company	15.9	3.8	-0.7	-6.4	28.1
Performance indicators (%)					
Operating margin	5.3	5.2	5.4	4.4	3.6
Net margin	28.4	5.3	5.3	19.3	10.7
Return of assets (ROA)	35.5	4.6	4.7	13.8	7.9
Return of equity (ROE)	44.7	5.4	5.5	16.0	9.2
Share (EUR)					
Average number of shares (1000 pc)	17,740	17,740	17,551	17,400	17,400
Equity per share	3.67	3.34	3.32	3.48	3.20
The closing price	5.00	2.83	2.63	2.79	2.70
EPS	1.64	0.18	0.18	0.56	0.30
P/E	[3] 3.05	15.72	14.61	4.98	9.00
Dividend per share	[1] 0.24	0.18	[2] 0.12	0.15	0.10
Liquidity ratio					
Current ratio	2.4	2.1	2.7	2.8	2.3
Quick ratio	1.6	1.3	1.7	1.9	1.4
Personnel and remuneration					
Average number of employees	567	455	472	459	455
Number of employees at the end of the period	630	480	470	483	451
Wages and salaries (million euros)	14.1	10.6	9.7	9.2	8.6

Operating margin	= Operating profit/Revenue *100
Net margin	= Profit attributable to owners of the Company / Revenue *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
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
Current ratio	= Average current assets/ Average current liabilities
Quick ratio	= Average liquid assets (current assets – inventories)/ Average current liabilities

[1] Management Board' proposal
[2] incl 0.07 euros, related payment from reduction of the share capital
[3] take into account the profit from sales of investment (PKC Group Oyj shares) in 2017

OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

The news about the state of the global economy stayed positive all throughout the year 2017. The growth in the US exceeded expectations; the Japanese economy increased faster than previous years; within the Euro zone, Germany and Spain showed very good results and the economic situation also improved in France and Italy. Although the exit of the United Kingdom from the EU had some detrimental effect on the economy of the country, its influence was less dramatic than suspected. Geopolitical risks remained the main factors jeopardising the economy and the conflict between Russia and Ukraine continually put a strain on it. During the reporting year all the most important equity markets in the world went through remarkable increases, with above average increases in the price of shares of US companies. It was also a good year for raw material markets. The demand for copper increased more than 30%, gold by 12% and the price of oil increased to its highest level for the last 2.5 years (66 USD/barrel), increasing by 16% a year. Within a year the US dollar lost its value by 9% against other major currencies, while the value of the euro increased by 14%. Interest rates remained consistently low, but for the first time after a long period a small rise in inflation appeared, peaking at a level of 1.7% for the whole European Union. The IMF rated the global economic growth in 2017 as 3.7% and in the European Union as 2.5%. The Swedish economy grew by 3.2%, Finland by 3.0%, Lithuania by 3.8%, Latvia by 4.5%, and Estonia by 4.9%.

Euro area

The more rapid economic growth in the Euro zone was due to the synergy of several favourable factors. Large-scale political turmoil seems to have calmed down in Europe for now and the strengthening labour markets have increased confidence in households. The strong economic growth in Europe meant better export opportunities for Nordic and Baltic countries. The economic progress of Finland was much better that expected and the Swedish economy that has been showing good economic growth lately slowed down slightly.

Estonia and the Baltic countries

Similarly, to other Baltic states the economic growth in Estonia accelerated substantially during the reporting year, being supported by the strengthening economy in the euro zone and the swift recovery of the Finnish economy. The growth that started in the second half of 2016 continued during the whole of 2017 and according to the Statistics Estonia, the Estonian economy increased by 4.9%. The growth was firm and extensive, strongly supported by the industrial sector that focused mainly on exports, as well as meeting internal demand. Exporting companies enjoyed the economic growth in Europe and the long-awaited growth of the Finnish market that is very important for Estonia. Businesses focusing mainly on domestic consumption were continually successful, supported by the high employment rate and by almost 7% increase in wages. In the second half of 2017, 68% of the Estonian labour force was employed which is one of the highest employment rates in Europe. The recurrence of inflation was one of the most significant changes after several years of standstill. The cost of the average consumers basket increased by 3.4%. This rise was contributed also by the Estonian government who increased the excise tax on alcohol and petrol. According to the estimation of Eesti Pank the economic environment was extremely favourable – interest rates were low and the budgetary policy of Estonia was more lenient than ever. All in all, the year was characterised by a high employment rate, a fall in unemployment, improvements to the living standards and the revival of investment activities.

Sources: IMF, Eesti Pank, Statistics Estonia, SEB Pank

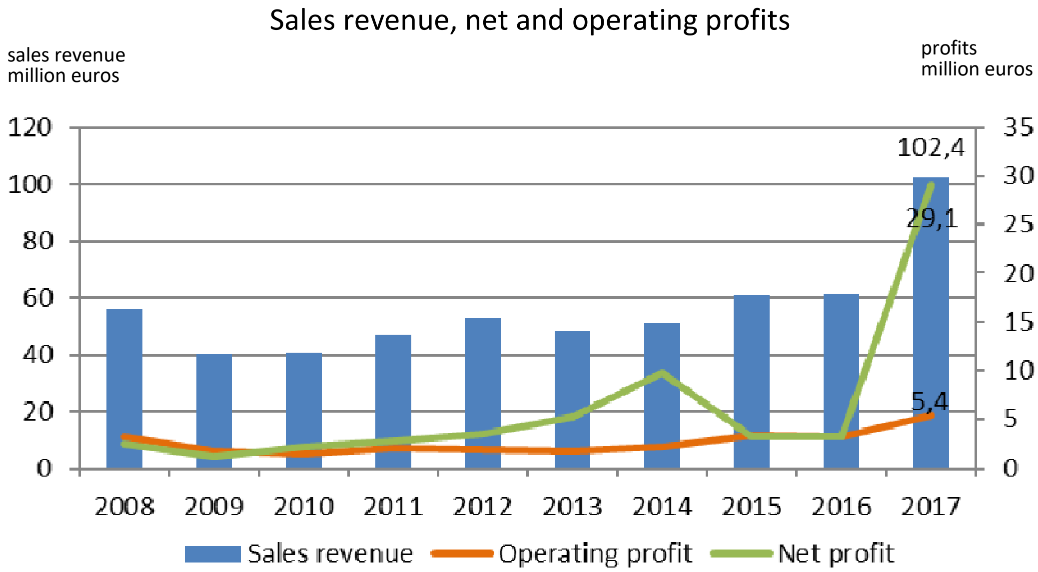
OPERATING RESULTS

Group structure and changes on it

In the 2017 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Energo Veritas OÜ, Satmatic Oy, Finnkumu Oy, Telesilta Oy, Harju Elekter Kiinteistöt Oy, Harju Elekter AB, Rifas UAB and Automatikos Iranga UAB are consolidated line-by-line.

In February 2017, AS Harju Elekter acquired the remaining 10% of shares in Harju Elekter AB, obtaining a 100% ownership after the transaction. In March 27th, AS Harju Elekter purchased an 80.52% holding in Energo Veritas OÜ, a company trading in electrical materials and equipment and in June 2nd, AS Harju Elekter purchased all shares in Telesilta Oy, an electrical engineering company specializing in electrical contracting for the shipbuilding industry. The financial indicators of Energo Veritas OÜ have been included in the consolidated reports since the second quarter the financial indicators of Telesilta Oy since the second half of 2017.

Earnings and margins



The year of 2017 was very successful for the Harju Elekter Group. Compared to the year before, the Group's sales grew almost 70%, reaching over 100 million euros. The increase in sales volumes and financial results was influenced by the large agreements concluded at the end of 2016 as well as the acquisition of subsidiaries Energo Veritas OÜ and Telesilta Oy in 2017.

In 2017, the consolidated sales revenue reached 102.4 (2016: 61.2) million euros and operating profit 5.4 (2016: 3.2) million euros. The consolidated net profit of the reporting year was 29.1 (2016: 3.2) million euros. Out of the consolidated revenue 24.8% (2016: 34.2%) was contributed by the Estonian, 66.1% (2013: 57.3%) by the Finnish, 8.7% (2016: 8.5%) by the Lithuanian and 0.4% (2016: 0%) by the Swedish companies.

As to the markets, once again the Finnish and Estonian markets were dominant with 89.0% (2016: 88.9%) of the Group's products and services sold there.

Finland has grown to the biggest and the most important market of the Group; 73.0% of the Group's products and services were sold on the Finnish market (2016: 67.0%). During the year, sales to the Finnish market grew by 34.0 million euros up to 75.0 million euros. The Finnish market is continually characterised by large investments in the energy distribution sector. The main reason for the growth was the contracts concluded with Finnish network companies at the end of 2016, whose orders began in Q1 of 2017. The acquisition of the new subsidiary Telesilta Oy also made a significant contribution to the growth of the Finnish market, increasing Group's sales revenue by 12.9% during reporting year.

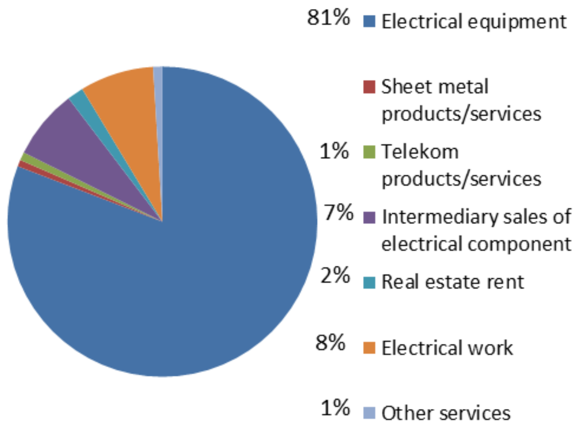
In 2017, the Group sold 16.0% (2016: 21.9%) of its products and services to the Estonian market. The supplies to the Estonian market increased within a year by 3 million euros i.e. 22.7% (2016: decreased by 0.8 million euros i.e. 5.8%). Due to the small size of the Estonian market, and the lack of interest investing here, the Group has started to focus more on foreign markets. During the reporting year 84.0% (2016: 78.1%) of the Group's products and services were sold outside Estonia.

The Lithuanian subsidiary's focus in sales strategy is on export markets. In the reporting year, the share of foreign markets in the subsidiary's sales revenue was to 86% (2016: 89%). The growth in the order volumes in the Norwegian market increased the Lithuanian subsidiary Rifas UAB sales revenue by 2.5 million euros in 12 months. Sales to the Norwegian market doubled to 5.9 million euros a year, accounting for 5.7% of consolidated sales revenue.

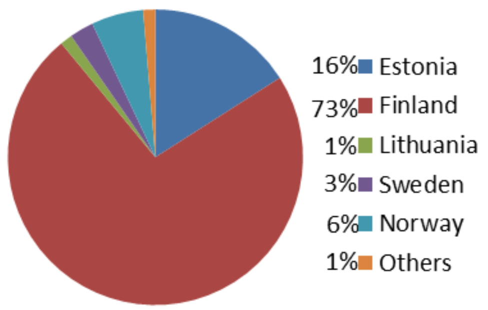
In 2017, the Group continued active work in Sweden in the fields of sales, as well as product development. Sales revenue earned on the Swedish market increased in twelve months to 2.7 million euros i.e. 28.6%.

Seales revenue from other markets increased during the year more than 10%, accounting for 1.4 (2016: 1.2) million euros. Portugal, Austria, Slovakia and Indonesia were entered as new markets in the reporting year.

Revenue by business area



Revenue by market



The Group's main area of activity is the production and marketing of electric power distribution and transfer equipment. Production made up the largest part of the consolidated revenue, i.e. 83.2%; Real estate and other activities accounted for 16.8%. Over the year, the sales of the Production segment increased by 29.6 million euros to 85.4 million euros, of which 97.1% was from the sale of electrical equipment. The sales revenue of the Real estate segment continued to decrease, dropping by 0.5 million euros and amounting to 2.0 million euros that accounted for 1.9% of the consolidated sales revenue. This was mainly due to the termination of production activities of PKC Group Oyj in Estonian and leaving the Group's rental space at the beginning of 2017. The rental income earned from one rental space launched in the Allika Industrial Park belonging to AS Harju Elekter was included in the income of the Group, as well as from those of the Real estate segment starting from the third quarter. The sales revenue earned from other non-segmented activates increased during 12 months by more than five times, amounting to 15.3 million euros and accounting for 14.9% of the consolidated sales revenue. The expression of the economic indicators of the Finnish company, Telesilta Oy, that was acquired in June, starting from the third quarter, and the expression of the economic indicators of Energo Veritas OÜ starting from the second quarter, generated an increase in sales revenue of Other activities and that of the Group during the reporting year. Electric installation work accounted for 51.8% and the intermediate sale of electric products for 35.0% of the sales revenue of Other activities.

Within a year the cost of sales increased by 36.2 million euros i.e. 71.3%, outperforming the rate of growth of sales revenue which was 67.4%. Because of that the the gross margin of the reporting period amounted to 15.4 million euros, exceeding the results of the reference period by 48.2%. In the first half of the year, leading sheet metal manufacturers in Europe increased the price of raw materials which increased the level of cost of sales. In comparison to the reference period the gross profit margin dropped by 1.9 percentage points within the year, amounting to 15.0%.

Distribution costs and administration expences of the Group increased within a year by 2.7 million euros, amounting to 9.8 million euros. The share of distribution as well as administration costs in sales revenue was decreasing, dropping by one percentage point within 12 months and amounting respectively to 3.8% and 5.8%. A soaring growth in specific orders has generated a need to hire more specialists that, in turn, came with extra costs for training and creating work stations. The Group has invested substantial sums in preparing procurements and acquiring new subsidiaries.

The number of employees of the Group increased during the year by 150 people, amounting to 630 employees. By purchasing Telesilta Oy and Energo Veritas OÜ 42 new employees joined the Group. In the second half of 2015 the optimisation of production was started in the Group's Estonian companies. Until Q3 2016 it involved the reduction of the number of employees, but after the conclusion of several large-scale sales contracts a creation of new jobs was started in the last quarter of the year 2016. Hiring new people is complicated due to the tough competition on the labour market and the increasing wage pressure. In order to hire new and keep the existing employees the review of salary levels was started in Q4 2016. During the year the number of employees was reduced only in the Parent company. In the 12-month period, labour costs increased by 38.9%, amounting to 18.7 million euros. The ratio of labour costs to sales revenue was 18.3% (2016: 22.0%). In 2017, employee wages and salaries totalled 14,073 (2016: 10,597) thousand euros. The increase in labour costs by one third is due to hiring new employees due to the substantial increase in the volume of production. However, it is less than the increase in sales revenue: 67.4%. The average wages per employee per month amounted to 2,067 euros, increasing by 127 euros in average. The average increase in salaries was influenced by the increase in the share of Finnish employees in the Group, as the level of earnings in Finland is higher than in Estonian and Lithuanian companies.

Overall, the growth rate of operating expenses was similar to the growth of sales revenue, increasing by 67.1% a year and amounting to 96.9 million euros. In 2017, EBIT was 5,442 (2016: 3,181) thousand euros and EBITDA 7,587 (2016: 4,777) thousand euros. Return of sales for the reporting year was 5.3% (2016: 5.2%) and return of sales before depreciation was 7.4% (2016: 7.8%). Return of sales has decreased due to less rental income as PKC Group Oyj moved out from the Group's rental premises in the beginning of 2017 and the increase in global commodity prices. Also, the non-recurrent expenses occurred in AS Harju Elekter Elektrotehnika, resulting from moving to new production facilities, had effect on return of sales.

Overall, the consolidated net profit of the year 2017 was 29,132 (2016: 3,224) thousand euros. The share of the owners of the Company was 29,129 (2016: 3,219) thousand euros. EPS for the 12 months period was 1.64 (2016: 0.18) euros. Large net profit was the result of extraordinary financial income from the sale of the PKC Group Oyj shares in amount of 24,839 thousand euros. The consolidated net profit without extraordinary income of the year 2017 was 4,293 (2016: 3,224) thousand euros and EPS was 0.24 (2016: 0.18) euros.

Other comprehensive income

In January 2017 a takeover bid of 23.55 euros per share was made to shareholders of PKC Group Oyj. The takeover bid was successful. AS Harju Elekter possessed 1,094,641 shares of PKC Group Oyj of which 25.8 million euros was received by the company on March 30. Due to the sale of shares of PKC Group Oyj other comprehensive income and the revaluation reserve in owner's equity decreased in 2017 by 16,367 thousand euros which was expressed in the profits of the reporting year. In 2016 the revaluation of financial assets reported other comprehensive income as 1,142 thousand euros.

Financial position and cash flows

At the end of reporting period current assets amounted to 54% (2016: 30%) and non-current assets to 46% (2016: 70%), while foreign capital accounted for 22% (2016: 18%) and equity 78% (2016: 82%) of total assets.

As of 31.12.2017 the value of assets of the Group amounted to 90.0 million euros which is 16.0 million euros more than a year before. Current assets increased during the year by 26.4 million euros, of which inventories increased by 3.3 million euros, amounting to 13.0 million; trade and other receivables by 5.1 million euros, amounting to 13.6 million, cash and cash equivalents by 7.7 million euros, amounting to 11.0 million euros. During the reporting period short-term financial investments were obtained for a total of 9.9 million euros.

In 12 months, the value of non-current assets in the statement of financial position decreased by a total of 10.4 million euros, and dropped to 41.3 million euros. In the first quarter of 2017 all the shares of PKC Group Oyj owned by AS Harju Elekter were sold and due to that the value of long-term financial investment decreased in the statement of financial position by 17.3 million euros, dropping to 4.7 million euros.

During 2017 the Group invested 4.1 million euros in real estate and 3.1 million euros in property, plant and equipment, which is a total of 7.2 million euros, while in the reference year it was respectively 3.1 million euros and 1.5 million euros, of which 0.9 million euros was spent acquiring property, plant and equipment related to the purchase of a real estate company in Finland.

As at 31 December 2017, interest-bearing debt obligations made up 17.6% of the Group's liabilities and 3.9% of the cost of its assets; 14.5% and 2.7%, respectively, as at 31 December 2016. The Group had interest-bearing debt obligations totalling 3.5 (31.12.2016: 2.0) million euros, of which the short-term obligations making up 0.6 (31.12.2016: 0.8) million euros.

As at the reporting date, the Group's liabilities totalled 20.0 (2016: 13.6) million euros, of which short-term liabilities made up 85% i.e. 17.1 million euros, while in the reference period this indicator was 91% i.e.12.4 million euros. The 4.7 million euros increase in current liabilities was mainly caused by the increase in trade payables by 2.9 million euros, and the increase in tax arrears that amounted to 1.2 million euros. Non-current liabilities of the Group increased by 1.7 million euros, amounting to 2.9 million euros. The equity of the Group increased by 9.5 million euros, amounting to 69.9 million euros.

Cash flows from operating activities yielded money in the amount of 4.6 (2016: 2.6) million euros in 2017.

During the reporting year a total of 19.6 million euros were invested, of which a total of 7.6 million was invested in real estate and property, plant and equipment and intangible assets; 10.0 million euros in other financial investments. The procurement of subsidiaries generated a net cash outflow of 2.0 million euros (Note 29). In 2017, a total of 25.8 million euros came in from the sale of shares of PKC Group Oyj and 0.1 million euros from the sale of non-current assets. All in all, the investment activities in 2017 brought in 6.3 million euros. During the reference year 4.5 million euros was spent on investment activities. In 2016, a total of 1.2 million euros (Note 29) was paid for shares of subsidiaries and 0.7 million euros for other financial investments. PKC Group Oyj paid a dividend of 0.70 euros per share – in 2016 altogether net dividends of 0.7 million euros was received. The procurement of real estate, property, plant and equipment, as well as intangible assets affected cash flows by 3.2 million euros.

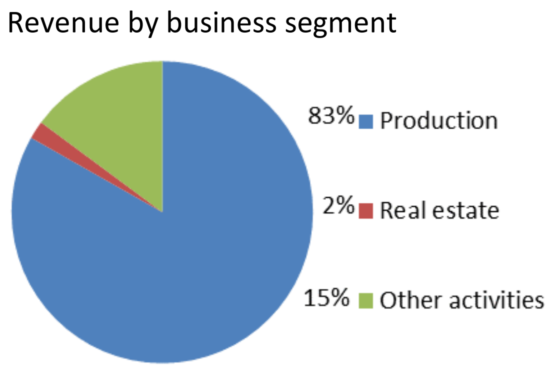
In 2017, the cash flow out due to financing activities increased and amounted to 3.1 million euros, which was 2.6 million euros more than during the reference period. The cash flows of financing activities were influenced by a larger payout to shareholders – AS Harju Elekter paid a dividend of 3.2 (2016: 0.9) million euros and to the reduction of share capital of 1.2 million euros. The General Meeting of Shareholders that took place on 28 April 2016 decided to reduce the share capital by 1.2 million euros by paying shareholders 0.07 euros per share. The payout was made in January 2017. During the reporting year a long-term loan of 2.6 million euros was raised and a total of 0.8 million euros of short- and long-term loans were redeemed, while in 2016 0.1 million euros of long-term loan and 0.6 million euros of short-term loan was raised. Cash and cash equivalents increased by 7.7 million euros to 11.0

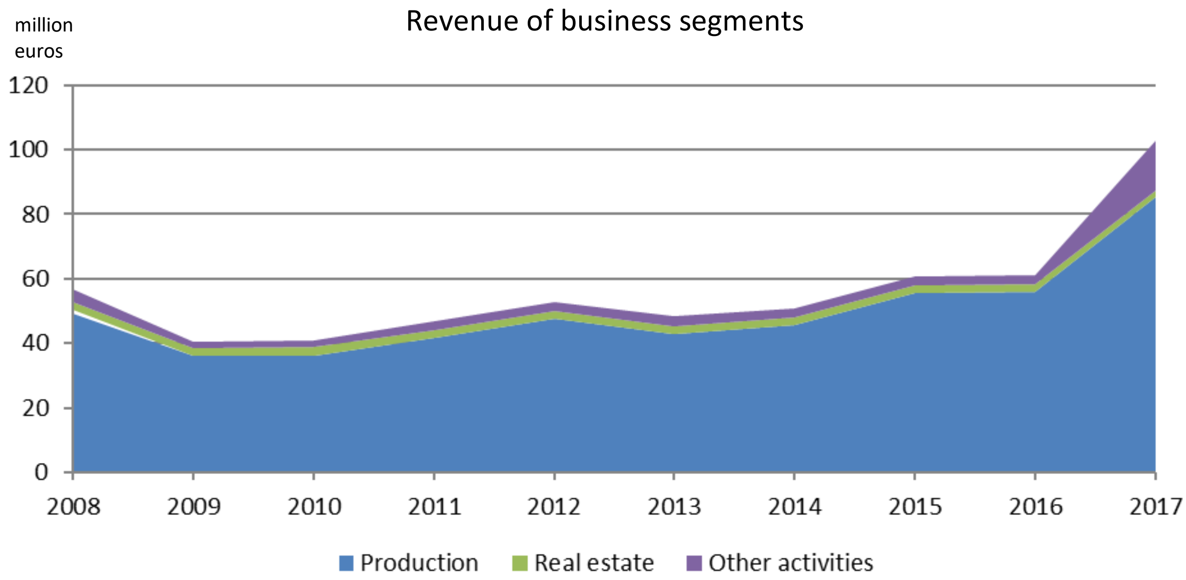
million euros in the reporting year and decreased by 2.4 million euros to 3.3 million euros in the comparable period.

The goals and principles of managing financial risks related to the Group's financial instruments and the risks related to the changes in exchange rates, interest rates and stock exchange rates that may occur during the financial year and during compiling the report are listed and described in Note 5 (Financial risks management) of the Consolidated Financial Statements.

BUSINESS SEGMENTS

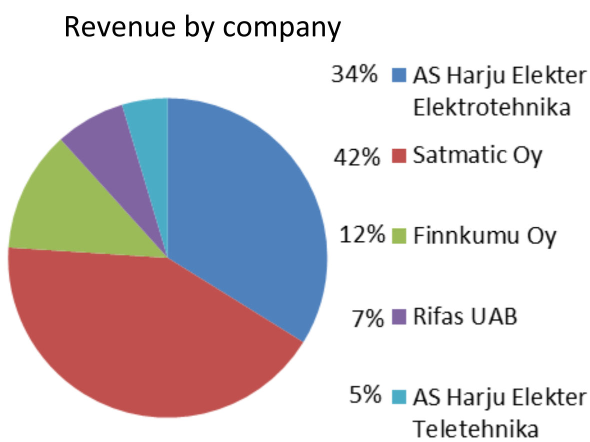
As of 31 December 2017, the Group was active in two fields – Production and Real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. Other activities include areas that are not large enough to form a separate segment.





PRODUCTION

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 and marine sectors, industry and infrastructure. AS Harju Elekter Teletehnika in Estonia which manufactures products for the electrical engineering and energy sectors as well as telecom sector, also belongs in this segment.

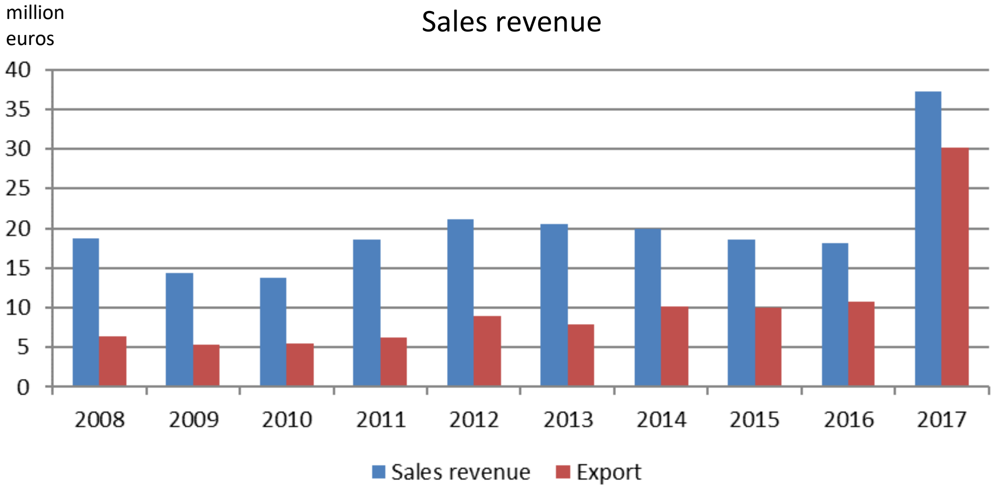


In 2017, production gave 83.2% (2016: 91.2%) of the consolidated sales revenue. Although the sales volume of the production segment increased within a year by 53.1%, amounting 85.4 million euros, its share in the Group's sales revenue decreased due to the increase in the sales revenue of Other activities by five times, amounting to 15.3 million euros.

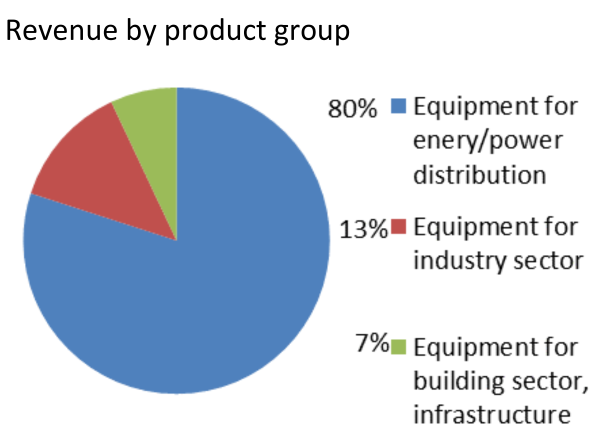
AS Harju Elekter Elektrotehnika

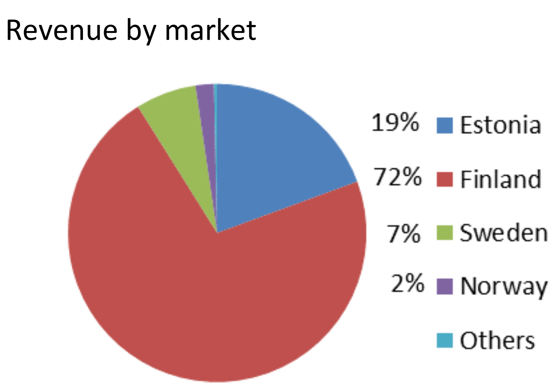
AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. In 2017, the headquarters and plant of AS Harju Elekter Elektrotehnika moved in new production halls in Keila comprising nearly 17,000m^2 of production, warehouse and office premises. The number of employees is 236, incl. one fifth of them working in sales and R&D.

2017 was a year of economic glut in Europe and the business environment also stayed favourable in our most important target countries in Scandinavia. Due to the changes in regulations fast-paced investments in several Finnish and Swedish electrical power networks and active construction works continued.



2017 was a breakthrough year for AS Harju Elekter Elektrotehnika and successful from the point of view of taking the development of the company to a new stage. Consistently focusing on foreign markets led to the desired outcomes. Successful completion of vast-scale contracts to supply Finnish electrical power networks were concluded as a result of active sales during the last years to multiply the production of substations. The additional order of specific substations for the United States ports increased the total sales revenue of the subsidiary of the Group manufacturing LV/MV distribution and control engineering devices by 105%, amounting to 37.1 million euros. In 2017, the share of exports in sales revenue was an all-time record 82%, with the largest markets in Finland (increased by 203%) and Sweden (increased by 43%). The sales in Estonian remained at the same level as in the previous year.





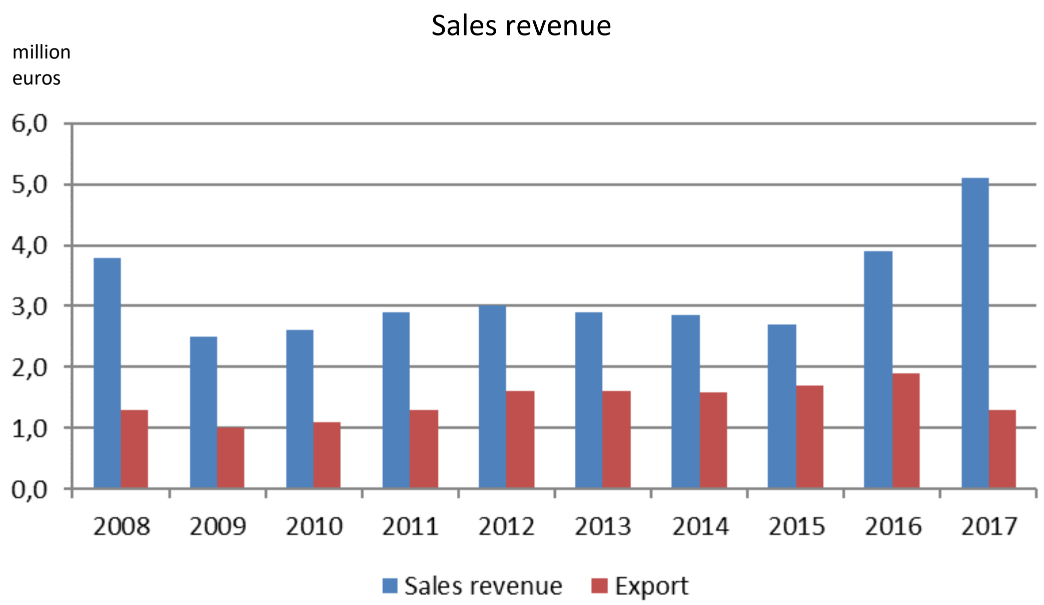
As to line of business, the year 2017 was especially successful for medium voltage line of business where sales revenue doubled thanks to the contract to supply substations to Finland. During the year, 2,068 substations were manufactured at the Keila factory. As to low voltage equipment, active development and sales continued in order to conclude new framework contracts, and this work has resulted, at the end of the year, with winning a major tender awarded to Caruna Oy for the procurement of cable distribution boxes.

The rapid increase in production created the need for a larger production space. Due to the drastic increase in production volumes, all the production activities of the company were smoothly moved within a year to the modern production facilities at the Keila Industrial Park. During the reporting year the large-scale mapping of the main processes of the company was finalised by entering them into the process management system (2c8), along with the implementation of new production methods in line production. Following the personnel development plan of the company the planned structural changes were made in production (positions of team leaders were created) as well as in administration systems (classification of management levels). In addition to that several training courses were offered to the personnel in order to improve its sales and management competences.

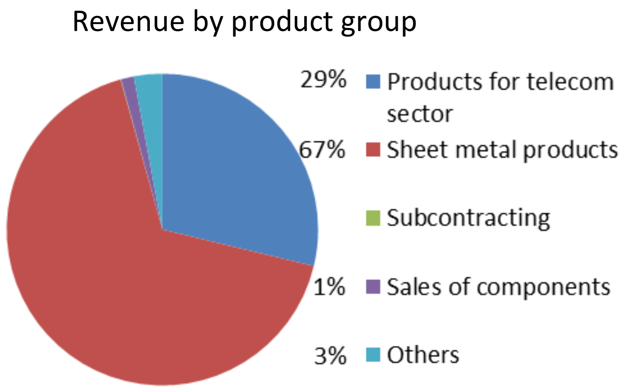
In 2018 the company will continually focus on successful servicing of the increasing amount of orders and on the development and implementation of the sales strategy of low voltage products. As to the supply chain the company will focus on increasing the efficiency by introducing a failure reduction programme. More and more time will be committed to deal thoroughly with problems related to the personnel. To ensure sustainability, the company will continue the development product and carry out customer-friendly consultative sales. Due to the fact, that every year new companies join the Group, the co-operation between the companies becomes more and more important, as well as offering new opportunities.

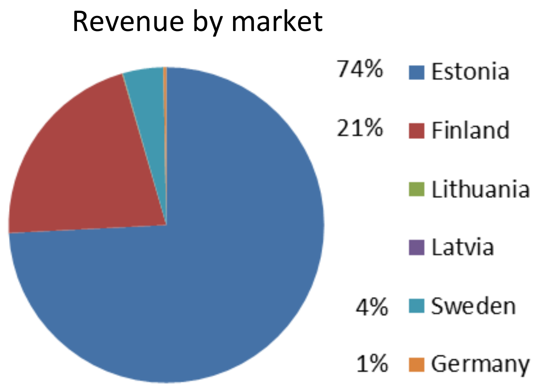
AS Harju Elekter Teletehnika

The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include a range of customer-based sheet metal products and semi-manufactured articles are produced for the electrical engineering and energy sectors as well as for the telecom sector. In addition, 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. The factory is located in Keila and the company employs 91 people.



The year 2017 offered several challenges to the company. The merger of the sheet metal units of the Group's Estonian plants during the previous year and incorporating all resources, capabilities and know-how related to sheet metals into AS Harju Elekter Teletehnika changed substantially the focus and product portfolio of the company. Keeping up with the dramatic increase in demand which was mainly directed to the subsidiary of the Group, AS Harju Elekter Elektrotehnika, and executing all the orders was a huge challenge, especially taking into account the changes in the product range. The profitability of the company was influenced by the increase in the price of raw materials, lack of labour, and the introduction of additional shifts in the production process. At the end of the year more stress was added by moving the production to more spacious premises without interupting manufacture.





In 2017, the sales revenue increased by 32.6% compared with 2016 and amounted to 5.1 million euros. The increase in sales revenue was mainly influenced by the growth of sales by 90.8% on the domestic market (2016: 93.6%). The sales in export markets decreased by 29.3% (2016: increased by 9.2%). The overall share of exports in sales revenue amounted to 25.8% (2016: 48.4%) and this drop was caused by the substantial increase in the production output to meet huge demands from sister companies who had won huge substation procurement contracts. The domestic sales within the Group increased for the same reason.

By product group, sales of sheet metal products increased the most i.e. by 93.3% and this was mainly at the expense of energy sector products. In the telecom sector, products and services decreased by a quarter. The largest export article was data communication racks and their accessories.

In 2018 AS Harju Elekter Teletehnika will concentrate on the growth of the production resources for sheet metal by investment in equipment, of which the automatic production line is the most important. Continually more attention will be paid to the improvement of productivity and planning accuracy, and on managing price risks during the purchase of sheet metal.

Satmatic Group

Satmatic Group consists of Satmatic Oy with headquarters in Ulvila and plants in Ulvila and Kerava as well as its subsidiary Finnkumu Oy, located in Kurikka.

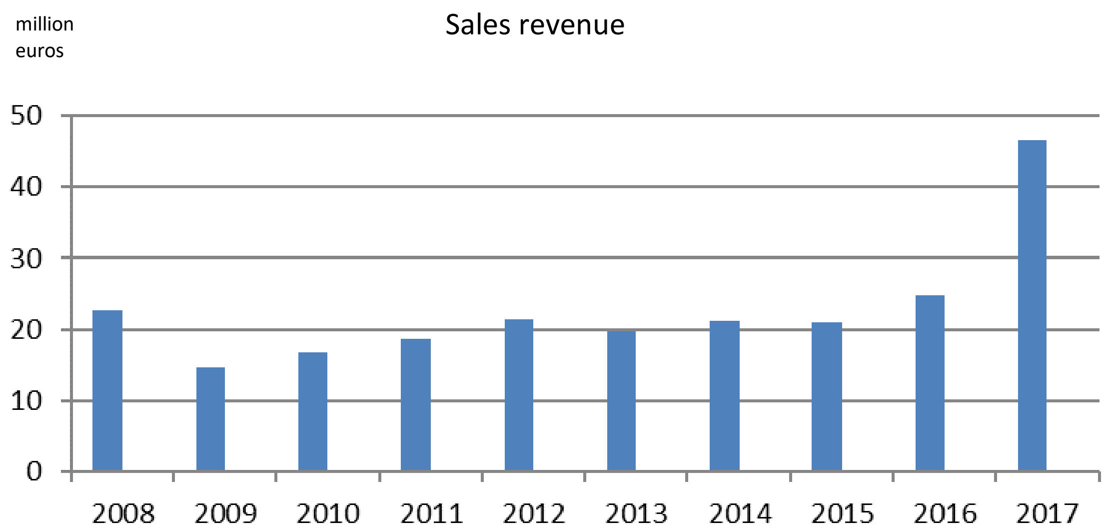
In 2017, the Satmatic Group's sales revenue amounted to 59.9 (2016: 35.1) million euros, growing by 70.5% during the year. There are 98 employees working in the Group.

The enhancement of competitiveness during the reporting year increased Finland's export capacity which had a positive influence on the whole industrial sector as well as to Satmatic Group. Contract based production as well as project based supplies of products and services increased. The share of power distribution networks and renewable energy products increased considerably when compared to the previous year.

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 76 employees.

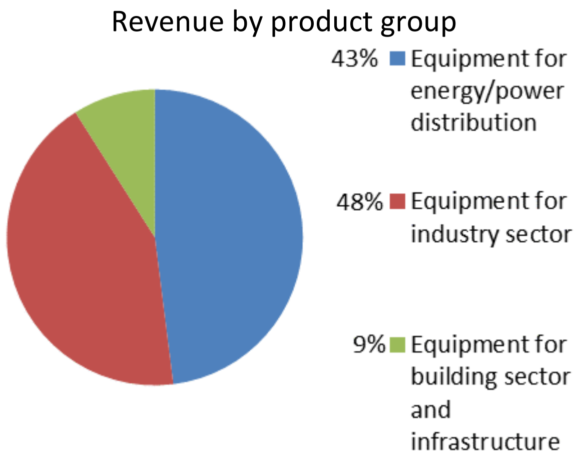
Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure. According to the type of supply two different production models can be differentiated: contract manufacturing and project based product/solution. The largest threats were related to the instability of customers orientated to exports, the competitiveness of the Finnish exports sectors and the production capabilities of the countries that are close to final consumers and, have at the same time, lower labour costs. The power production and distribution sector managed by local companies were continually successful during the reporting year. This sector continues its considerable growth, as investments are guaranteed for power distribution sectors, as well as for renewable energy sources (bio, wind, solar, hydrogen) and nuclear power stations.

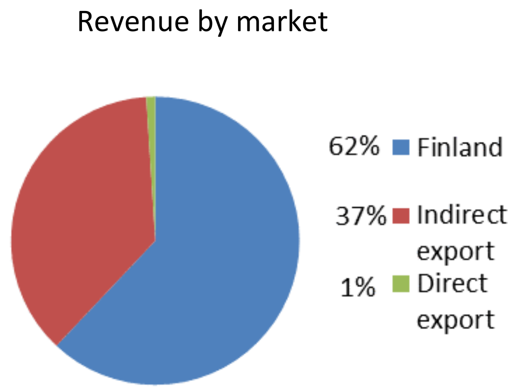


All in all, the sales revenue of the company made a drastic leap upwards, increasing by 88.1% amounting to 46.5 (2016: 24.7) million euros. The sales outside Finland – either directly or through mediators – accounted for 38% of sales revenue and grew 5% compared with the reference year. Exports to the technology industry sector increased by more than 20%.

An 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 Estonia, Sweden, Lithuania, Poland, China, USA and Indonesia.

Speedy growth continued with contractual customers and serial products, among which automation solutions for cable machines, packaging lines and storage systems, as well as heating panels and charging stations for cars and electronic assemblies formed the largest product groups.





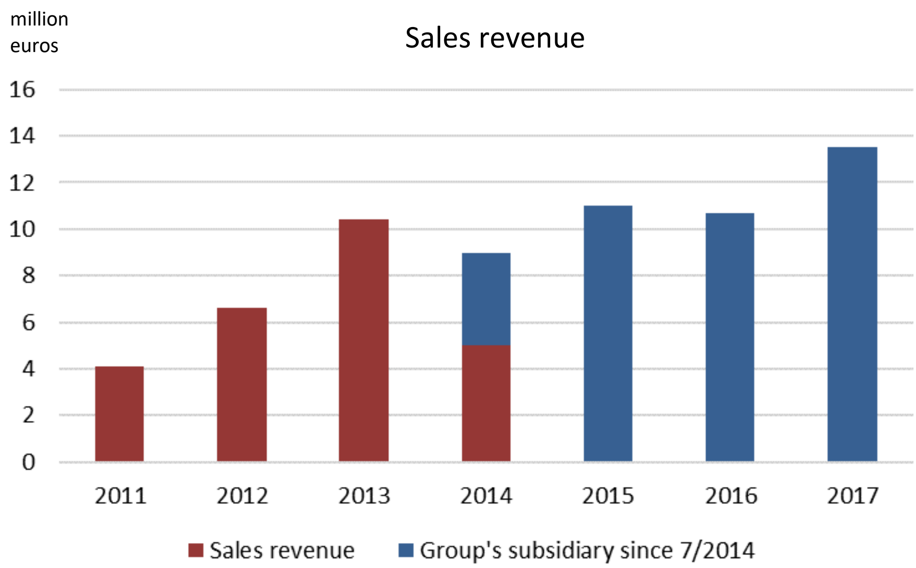
Pre-fabricated substations and distribution cabinets that are manufactured in the plants of Satmatic Oy and Finnkumu Oy and in the plant of AS Harju Elekter Elektrotehnika are sold to energy distribution sector, mainly to Finnish grid operators/companies and power and energy stations. On-grid and off-grid solar energy solutions proved to be the stand-out products in the renewable energy sector. Total capacity of the supplied solutions to Finland amounted to 10MW.

The company's operation is continually based on contractual production, project services and supplies to power distribution, and the production sector and infrastructure. All operations are continually improved, by implementing new solutions that require automation. The development of the competitiveness of company will continue on the basis of the Lean management model.

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. Products are addressed to the Finnish market. Finnkumu Oy was founded in 2004 and has belonged to the Harju Elekter Group since 2014. The company uses production and office spaces with an area of 2,500m^2 in Kurikka and hires 22 employees.

As the competition has become tougher the reporting year has passed in a great hurry for the company. Despite the tough supply schedule, the quality of products has had the utmost priority. However, the exact planning of production resources made it possible to ensure that customers were supplied on time and delays were avoided. Construction of power networks and installation of cables continued with zest and currently there is no evidence that the orders from the Finnish power distribution sector will decrease.



In 2017, the sales revenue of Finnkumu Oy increased by more than a quarter, amounting to 13.5 (2016: 10.7) million euros. At the same time, a competent use of production and labour resources and economising in procurements and purchases led to the improved profitability of the company. The well-targeted and successful operation of the company was spotted by a wider audience and the company was again ranked, as many years before, at the top of the list of Successful Entrepreneurs of South Ostrobothnia region.

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 at the company's plant in Kurikka.

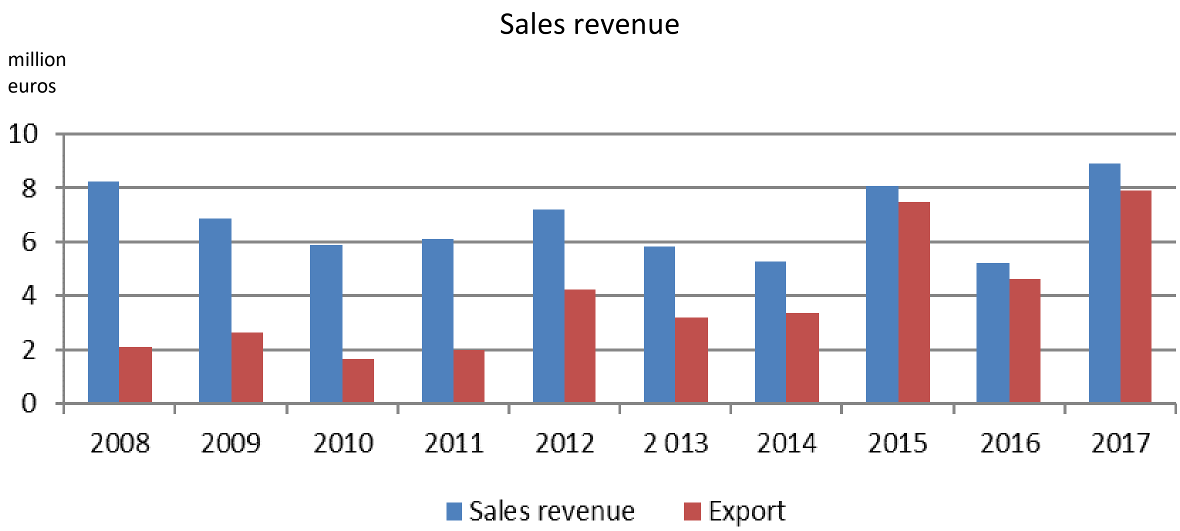
Finnkumu Oy will continue to produce high quality pre-fabricated substations and cable distribution boxes according to the needs of its customers. The success of the company is based on its close customer operation and impeccable quality of products, as well as timely delivery of products.

In 2018, the company will aim to achieve agreements and framework contracts that allow the more even distribution of production of substations over the year in order to ensure a stable employment level throughout the year and promote job satisfaction among its employees.

Rifas Group

Rifas Group consists Rifas UAB with headquarters in Panevežys and its subsidiary Automatikos Iranga UAB (67%), specialised in project designing.

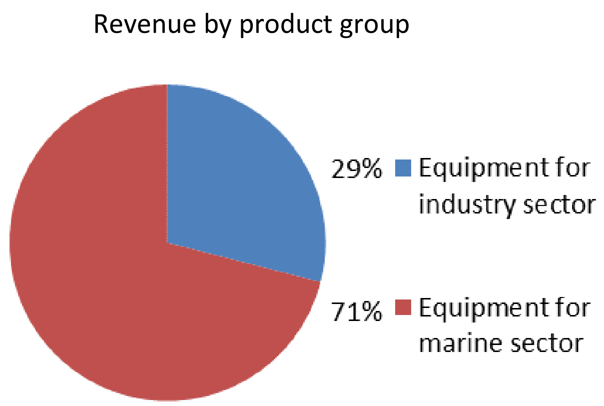
In 2017, Rifas Group's sales revenue increased by 71.0% compared with the previous year, amounting to 8.9 (2016: 5.2) million euros, including the sales revenue of 1.0 (2016: 0.5) million euros of Automatikos Iranga UAB that was earned almost entirely in the Lithuanian market. There are 120 employees working in the Group.

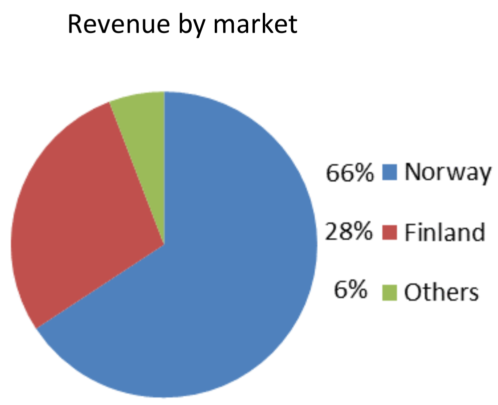


Rifas UAB

Rifas UAB, AS Harju Elekter's 100% owned Lithuanian subsidiary, belongs to the Group since 2003. The company focuses on the development of products and services and contract-based production for marine and industrial sector system integrators.

A favourable economic climate and solid economic growth in the main target markets of the company in Scandinavia, and the company's unique skill to offer solutions and products that meet almost all requests of it key customers, increased Rifas UAB sales revenue in 2017 by 65.3%, amounting to 7.8 (2016: 4.7) million euros. The share of export markets in the company's sales revenue is practically 100%. The main partners of the company are located in Norway, Finland, Austria and the Netherlands, however, it products are used also in projects carried out in North America and Asia.

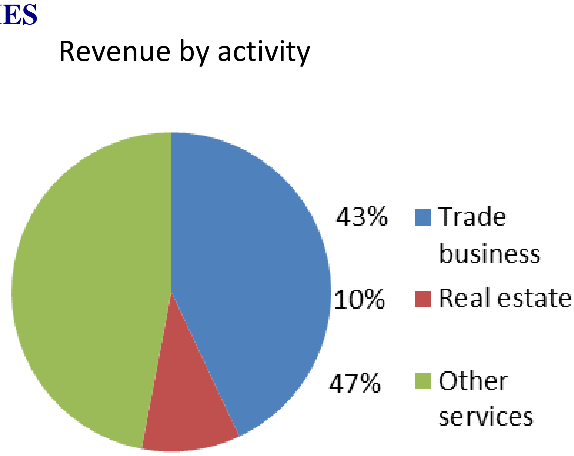




Most of the sales revenue come from the production and sales of project based products and services and a small part of it from the intermediate sale of electric components. Different frequency converter, electric and control boxes for the marine industry have the largest share in the range of products of the company. The engineering capabilities of Rifas UAB offer high quality products to the maritime sector. Customers order mainly project and customer adapted solutions that are not available in standard catalogues. Thus, the resourcefulness of the engineering and development team that allows the implementation of skilful and flexible solutions suitable for different projects is one of the main sales arguments of the company for gaining new large-scale customers.

On a daily basis, the company focuses on the improvement of quality and reliability of its product and professional implementation of contract-based production processes. To ensure an increasing flow of orders and constant output and, by that, increasing opportunities in the future, the production space of the Lithuanian subsidiary will be extended in 2018 from the current 2,500m^2 to 6,500m^2.

REAL ESTATE HOLDING AND OTHER ACTIVITIES



The sales revenue of the Real estate segment (Parent company) and Other activities (Energo Veritas OÜ, Telesilta Oy) totalled 16.8% (2016: 8.8%) of the consolidated sales revenue, out of which intermediary sale of goods formed 42.6%, rental income 10.1%, and income from other products/services formed 47.3%.

Real estate

The sales revenue of the segment was 2.0 million euros, decreasing by 500 thousand euros comparing to the previous year and giving 1.9% (2016: 4.7%) from the consolidated sales revenue. The decrease in Real estate segment sales was caused by PKC Group Oyj ceasing its production activities in Estonia and leaving from the Group's rental premises. In the fourth quarter 2017, the production spaces were finally taken into use by AS Harju Elekter Elektrotehnika. In August, AS Stera Saue opened new production hall and warehouse in the Allika Industrial Park owned by AS Harju Elekter. Rental income reflected in the Group's revenue as well as in income of Real estate segment from the third quarter.

Rental income amounted to 1.7 (2016: 2.2) million euros, accounting for 87.5% (2016: 88.8%) of the revenue of the segment. Utilities and other services totalled 12.5% (2016: 11.2%) of the sales revenue of the segment.

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.

The business activity of the Parent company gives 3.5% (2016: 8.8%) from the consolidated sales revenue.

Other activities

During the reporting period, the sales revenue of Other activities increased by 426.7% amounting to 15.3 million euros and forming 14.9% (2016: 4.7%) of the Group's sales revenue. The increase in the sales revenue of Other segmented activities was created by the two companies that were acquired by the Group during the reporting year: Energo Veritas OÜ whose economic indicators are reported in the consolidated financial statement starting from the second quarter, and Telesilta Oy, economic indicators are reported starting from the third quarter. The electric installation works that are part of the product portfolio of Telesilta Oy accounted for 51.8% and the intermediate sales of electric goods as the main activity of Energo Veritas OÜ accounted for 35.0% of sales revenue of Other activities earned from external customers that do not belong to the Group.

Telesilta Oy

On 2 June 2017, AS Harju Elekter signed a contract for the purchase of all shares in Telesilta Oy, an electrical engineering company specializing in electrical contracting for the shipbuilding industry. Telesilta Oy continues to operate under its own name and brand as a wholly-owned subsidiary of the Group. The purchase provides new knowledge and skills in manufacture and installation of the electrical and automation equipment for ships and opens the door to the promising Finnish shipbuilding sector.

Telesilta Oy is an electrical engineering company established in 1978, located in Uusikaupunki, Finland. The company specializes in electrical contracting for the shipbuilding industry – everything from planning to installation, implementation and service. In 2017, the sales revenue of the company was 10.1 (2016: 4.5) million euros; of which 7.9 million euros was included into the Group’s sales revenue. The company employs 35 people.

Energo Veritas OÜ

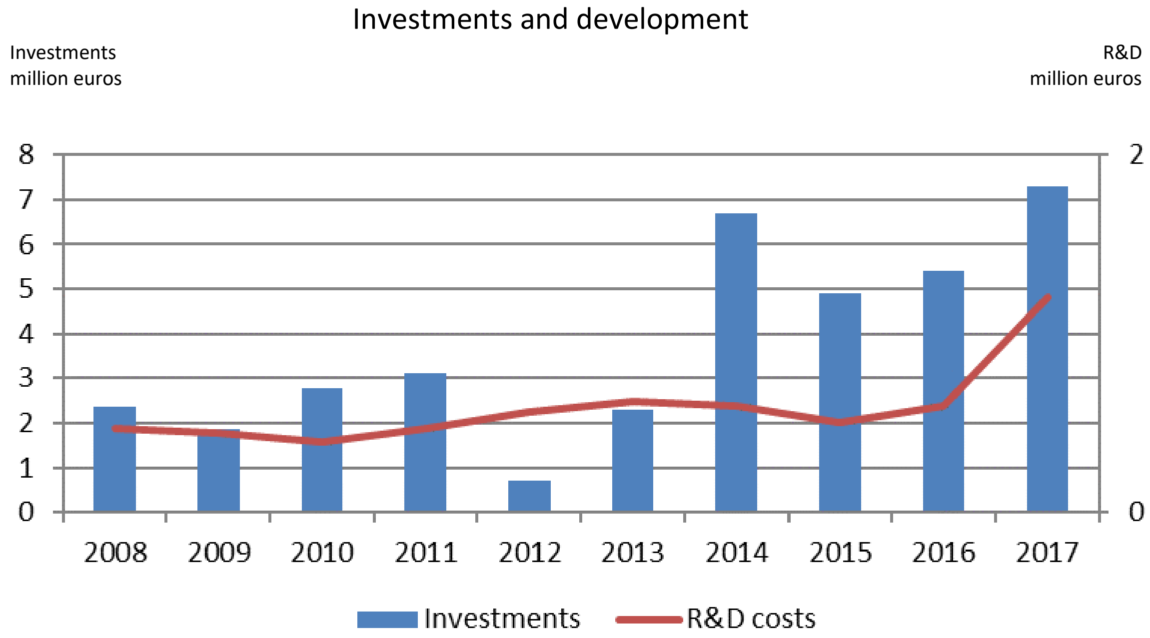
On March 29, AS Harju Elekter purchased an 80.52% holding in Energo Veritas OÜ, a company trading in electrical materials and equipment. AS Harju Elekter Trading Group and business activities of Energo Veritas OÜ was combined.

With the establishment of a strong trade unit, the Group increases its market share in Estonia, notably expands its offered product range, and creates prerequisites for boosting the sale of the Group’s products in Estonia and the Baltic states. Energo Veritas OÜ focuses primarily on project-based trading activity, but its sales offices and stores, selling 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, located in Tallinn, Tartu and Keila.

In 2017, the sales revenue of the company was 5.5 (2016: 4.2) million euros, and the company employs 19 people.

INVESTMENTS AND DEVELOPMENT

In 2017, the Group investments to fixed assets totalling 7.3 (2016: 5.4) million euros. With the acquisition of new subsidiaries, the investments in intangible assets increased by 1.8 million euros. The value of investments during the reporting year amounted to a total of 9.1 million euros. As a whole, the investments can be divided into two categories: half of them aimed to support and ensure the Group’s further development and the other half includes renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.



In 2017 several substantial information system developments were implemented with the main aim of automating internal ordering processes between the companies of the Group. The project and post of service software was renewed at the retail points. The Swedish sales organisation introduced a modern sales and account management software. As to the business analysis, several analytical solutions with different focuses were implemented. Due to the expansion of the Group one of the priorities was to include, without delay, the new subsidiaries in the common reporting system. In line with the Group's strategy the administration of the hardware of work stations was outsourced by involving an external partner who offered a full service.

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 2017, the development costs, at cost price, of the Group amounted to a total of 1.2 (2016: 0.6) million euros, accounting for 1.2% of the Group's sales volume.

The main product development resources of the Group are concentrated in the Estonian subsidiary, AS Harju Elekter Elektrotehnika; Satmatic Oy and Rifas UAB specialise in industrial products and the development of renewable energy solutions.

The Development Centre which pools the engineers from product development and technical departments consists of 27 (2016: 19) employees. The Development Centre will be an incubator that will provide sales units with innovative products and solutions and offer technical support to production units. Due to the structural changes in one of the subsidiaries the structure of the product development department was also drastically changed. Engineers were distributed between three functions: development of a new product, improvement of the existing product and sales support. Each field had its own action plan.

The reporting year was full of changes and very interesting for the Estonian product development team. A substantial part of the Keila Development Centre's production development capacities in MV business were targeted to the development of new substation solutions. A substation HEKA1SM1000-1 with a metal enclosure that can be serviced from inside was specially developed for the Finnish market. This is a completely new solution, as so far, no substations with a metal enclosure that can be serviced from inside had been manufactured. The newly developed pre-fabricated substation has passed successfully all the necessary type tests, meets customer requirements and is fully approved by the customer. The development of a product range of pre-fabricated air insulated substations for the promising Swedish market was started. The first substation has already passed and others are about to go into the trial phase. The specific requirements and preferences of Nordic distribution networks have been taken into account when developing these substations and, therefore, a wide range of finishing designs is offered, including different shades from brick to imitation wood surfaces. The image of the Group as a solid partner offering high quality products that are suitable for Nordic conditions has been reinforced by winning tenders and concluding framework contracts with Nordic network companies, such as Elenia, Caruna and E.On Energidistribution AB (in March 2018).

As to low voltage products the company started to develop a new product range of control boards with the aim to achieve a modern series of products that will replace the swichgears currently in the product range. In addition to that, a new product range of cable distribution cabinets that meets all the customer's requirements was developed in close co-operation with the customer. The company has been busy developing engineering tools over a year. We have completed LV electrical equipment, HEPO configurator, for pre-fabricated substations which is a useful tool for a faultless generation of new assemblies.

At the beginning of the year the company received a large sales order from Konecranes for the supply of 86 special prefabricated substations to be delivered to USA over a two-year period. The engineering design was started immediately to execute the order. The initial feedback from the customer has been very positive.

The Finnish subsidiaries focused on developments and projects related to renewable energy and offering suitable solutions in this field. Satmatic Oy contributed a lot to the reduction of waiting time in production, by increasing the share of electronic information flow and improving the level of automation of material handling. The reception of goods was also made more efficient. 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 to make these products even more customer-friendly.

The Group's subsidiaries are actively participated in the professional fairs in Estonia, Finland and Sweden: in May the subsidiary, AS Harju Elekter Elektrotehnika, participated in the largest electrical products fair in the Nordic countries, Elfack 2017, which was held in Göteborg, Sweden to present its substation made of concrete that can be serviced inside and is specially designed to satisfy the requirements of the local market. In addition to that, subsidiaries who were led by Satmatic Oy participated with a joint stand or individually at several professional fairs in Finland: at (energy) distribution network fair in Verkosto and a sub-contracting fair, Alihankinta, in Tampere, as well as in a technology fair, Teknologia17, in Helsinki.

INNOVATION

Regarding production development and innovation, the Group's activities are dictated by the customers' demand for innovative solutions. The Group has to be aware of the latest advances in the market and be prepared to offer new solutions when the customers are ready for them.

The Harju Elekter Group aims to go with the general trends in the market and apply a realistic approach to certain areas of innovation. This allows the Group to offer more help to customers, to meet their expectations and provide the Groups' engineers with exciting and challenging work.

The Group is involved in innovation in three ways:

- Concerning product development, the Group looks independently, as well as in co-operation with customers, for ways to make ordinary products smarter or make them function more efficiently. The Group contributes in the applied research and development of new products (e.g. energy storage devices).
- As to manufacturing, constant changes are carried out to make it more efficient by innovating technology or processes (e.g. heat recovery systems of production lines that heat buildings and domestic water and the wider use of solar energy).
- Regarding the supply chain, the Group co-operates with suppliers to develop and improve the established structure.

In 2017, the companies of the Group had more than 10 development projects in progress.

The Group is planning to complement its product portfolio with engine control centres that were developed by AS Harju Elekter Elektrotehnika in 2017. The industrial equipment used in the centres allows for the smooth control of rotation speed of three-phase asynchronous and synchronous engines and monitor the parameters of the engines. More efficient use of industrial equipment and smart management solutions save energy and improve the quality of electric energy.

The cooling systems installed in substations produced by AS Harju Elekter Elektrotehnika have to regulate the temperature in the substations. Achieving certain temperature levels substantially extends the life span of transformers. The Group has developed solutions that meet very high standards in temperature levels, and these systems are incorporated when producing substations for customers whose requirements may not need the high levels the sub-stations' capacity affords to regulate temperature.

Satmatic Oy extended the product family of electric car chargers by adding new models.

Rifas UAB concentrated on the high technology development of electric devices used on boats and this project won the Grand Prix at the annual innovation competition of the Group.

QUALITY MANAGEMENT: QUALITY OF PRODUCTS AND CUSTOMER RELATIONS

Product quality assurance is one of the main aims of Harju Elekter Group. Customer satisfaction depends greatly on the product quality which, in turn, has a direct influence on long-term business success.

High quality products that have been manufactured in accordance with established requirements, security of provision and meeting deadlines, smooth co-operation and understanding of customers' needs, as well as the reliability that proceeds from the historical and current soundness of the company – the Group understands that these are the factors that guarantee strong customer relations. Therefore, the company keeps an eye on the share of products completed on time, as well as on customer complaints and feedback.

In 2017, the share of due products assigned to customers on time differs by company depending of the nature of the work, stayed between 70–100% for all companies of the Group, with the exception of AS Harju Elekter Elektrotehnika where the share of due products assigned to customers on time was substantially lower that usual. This was due to the doubling of the amount of sales that required the readjustment of the delivery chain and moving production to a new space. By the end of the year most of the reorganisation was completed.

Product quality assurance

The Group believes the high-quality product is manufactured in a responsible manner if:

- The product is safe, meets the technical requirements set by customers and is visually accurate;
- The product also meets those requirements that customers cannot express but presume. These aspects are negotiated with customers by the initiative of subsidiaries;
- The whole sale and production process is carried out in compliance with the law.

Everyday business actions and arrangements of the Group are based on the quality and environmental policy that complies with international standards. The current ISO 9001 quality management standard is implemented in most of the Group's manufacturing companies, such as: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Rifas UAB. Telesilta Oy and Finnkumu Oy are planning to introduce ISO 9001 in 2018.

All manufacturing companies in the Group (except Finnkumu Oy) have implemented the current environmental management standard ISO 14001.

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.

Company	2009	2010	2011	2012	2013	2014	2015	2016	2017
AS Harju Elekter Elektrotehnika		() ISO9001/ ISO14001 (since 2000)			()		() up to 9/2018		
AS Harju Elekter Teletehnika			() ISO9001/ ISO14001 (since 2002)			()		() up to 12/2019	
Rifas UAB	() ISO9001 (since 2003)		ISO14001 OHSAS 18001	()			() up to 9/2018 and 12/2018		
Satmatic Oy	() ISO9001 (since 2003)		ISO14001	()			() up to 7/2018		

() - recertification

Quality related subjects are dealt intrinsically as a part of everyday management, sales, development, logistics and real estate management activities.

The stages that influence product quality assurance in the example of AS Harju Elekter Elektrotehnika:

The company believes that quality assurance has to be an intrinsic part of development and manufacturing of products and not something that is checked afterwards.

1. During the **product development** phase preconditions for the production of high quality final product are created – the planned solutions must be made easily and clearly understandable.
2. **Suppliers of materials and components** are selected and audited from the aspect of quality – timely suppliers, availability of necessary quantities and response to the reclamations of the Group are important.
3. **The check of purchased products and materials** helps to identify any faults at an early stage – this is done randomly for purchases with a higher risk.
4. **The alertness of employees** ensures that features dependent on a human factor were of high quality – reasonable work load, motivation that comes with the control and responsibility and training (focusing of products, management and electrical engineering, etc.) are all very important.
5. **Descriptions of processes** make tasks clear – deficiencies that are discovered at early stages leave more time to rectify them, therefore, a tacit agreement has been established that whoever is touching anything by hand during the production process has to check its status and compliance (incl. checks during processes).
6. **Safety inspection** is done to finished products in order to be sure of its compliance with applicable safety requirements, laws, standards and customer expectations.
7. **Final quality tests** are carried out in order to check the compliance of products with different aspects of customer expectations. Sometimes products are pre-adjusted in a factory by distance control from control systems located in customer's premises.

The improvement of quality is a continuous process. Each subsidiary of the Group has its own approach to it; however, the improvement activities receives their input mainly from four sources:

- the share of faulty products;
- customer feedback;
- quality of materials;
- external audits.

1. The share of faulty products

In order to detect faults all products are checked during the production process and deficiencies found are discussed every morning. There are more faultless products in batch production, but as to more difficult special orders, more defects that have to be rectified before the final completion of products.

2. Customer feedback

The Group pays great attention to customer feedback on non-conforming products i.e. customer reclamations. The relevant information has to reach the necessary employees with minimum delay, who then immediately implement the corrective and preventive actions. All reclamations are recorded and analysed. Subsidiaries are monitoring failure costs connected with rectification of faulty products.

The number of justified external customer complaints to all the companies in the Group was relatively low in 2017. An average of 3.9 customer complaints was submitted per every million euros of turnover.

Each subsidiary collects customer feedback and recommendations in their own manner.

- **AS Harju Elekter Elektrotehnika** measures net promoter score on a quarterly basis and the compliance of products and technical solutions with customer expectations. The feedback helps to map the overall attitude of customers to the company, but in order to ascertain the roots of customer satisfaction and making conclusion, the reclamations and improvement proposals filed by customers are analysed. The management of the company views the summary of complaints on a weekly basis. In 2017, the average net promoter score was 59 points out of 100.
- **AS Harju Elekter Teletehnika** also evaluates its customer satisfaction results once a quarter. A feedback on products range and quality, accuracy and speed of delivery, correctness of documents, price level and accessibility of contact persons is recorded on a scale of 5 points. In 2017 the average was 4.0 points out of 5.
- **Finnish subsidiaries** also ask once a quarter customer feedback on their satisfaction with prices, quality, security of provision and overall co-operation. Satmatic Oy's collected result amounted to 97% and Finnkumu Oy 80% of possible maximum

3. Relations with suppliers and the quality of materials

The quality of materials is covered by reclamations made to suppliers by the Group. Calling for tenders and measuring different alternatives is considered a good practice within the Group for getting the best purchase conditions. There are more and more examples where companies have moved from buying materials or components from a single supplier to procurements from several suppliers.

In 2017, AS Harju Elekter took its first steps towards trans-subsidiary purchasing for the Group. Single contracts with suppliers create better purchasing conditions and ensure a smooth and transparent process. Procurement and supply chain departments of several subsidiaries were created and restructured in order to optimise purchases, and to cope with the rapid growth in production output and structural changes.

Some materials and components that are regularly used are described by the supplier in a very precise manner. If the subsidiaries of the Group have the right to choose a supplier, their choice is influenced by the reputation, record and reliability of the supplier, as well as the quality, price and conditions of supply. The price and quality factors are more important than a low price. The main suppliers are usually immanent and new ones are contacted only when required or if a new solution appears on the market.

In addition to that, representatives of subsidiaries visit main suppliers every now and then in order to be convinced of the reliability of suppliers and to observe the organisation of the execution of orders.

AS Harju Elekter Elektrotehnika introduces different suppliers within the whole supply chain to each other, and suppliers can advise each other to make the processes smoother.

4. External audits

Customers, supervision authorities, product certification companies and licence issue companies carry out audits and checks on the companies in the Group on a regular basis. Most of the time, companies have passed audits successfully and observations made during them have been useful.

Besides product specific issues, customer and supply chain audits increasingly focus on occupational safety, security, human rights and environmental management aspects of the production process.

Examples

In 2017, AS Harju Elekter Elektrotehnika has, mainly due to doubling of the amount of orders, reviewed its management processes. The largest changes were made in the strategic planning of the company, descriptions and documentation of processes and in creating a system for meetings. Resulting from this, positions responsible for reclamations of the supply chain and strategic purchases were created and the descriptions of processes were drawn up. For example, instead of earlier 20 processes mapped in the company 200 of them are mapped now. The development of the management process that was carried out in 2017 is a part of making the management of the company more efficient and increasing the quality of products and customer service.

In 2017, AS Harju Elekter Elektrotehnika introduced the system that allows the rotation of employees between different positions within the plant. This helps to optimise the work load and support the development of employees. The company also created a four months introductory training programme for its employees, supporting it with appropriate training materials and hired in specialist trainers.

The ten quality managers from different companies who are operating in the Keila Industrial Park meet regularly in a club-like atmosphere. These meetings are organised by the Estonian Association for Quality. The aim of the initiative specially designed for the companies located in the Keila Industrial Park is to assess quality management. Topical subjects concerning industrial organisations are discussed in these meetings with the aim of finding solutions for improvement.

The subsidiary, Rifas UAB, uses two approaches to quality assurance:

- Assembly of products that is based on a 3D model, where each element is numbered which means that employees do not need extensive training and are quickly able to ensure initial quality. At the end of each working day a foreman checks all the products made within his/her area of supervision against the 3D drawings.
- The quality department is not a part of production but reports directly to the Management Board. The department monitors the production on the basis of a detailed quality questionnaire and when and if any fault is discovered it can stop production immediately.

Safety and environmental impact of finished products

As to other quality requirements it is always very important for the companies of the Group to ensure the safety of finished products. This is achieved by four stages of safety control:

1. The basis of the safe use is created in the stage of product development which leads to technical solutions that meet requirements established by certain standards.
2. Before new products enter a batch production phase or a major special execution phase they have to pass type tests of possible risks or inspections by customers (every year several so called Factory Acceptance Tests are carried out).
3. As the installers of products, the employees of the Group must ensure and be convinced that each product is produced in conformity with the established requirements.
4. The aim of the final check is to identify any defects in products caused by human factors or possible faults in components.

During the last twenty years there has been no record of cases where any of the finished product manufactured by the Group has caused a life-threatening situation because of a production fault.

The Group has concluded product liability insurance policies to indemnify any damaged caused.

Environmental impact of the life span of products

Harju Elekter Groupi aims to create solutions that are long lasting – for customers they have to be reliable and sustainable solutions, not individual products. The market presumes that, for example, substations function for many years. Long-term solutions mean that smaller numbers of new substations are needed i.e. their environmental impact is smaller.

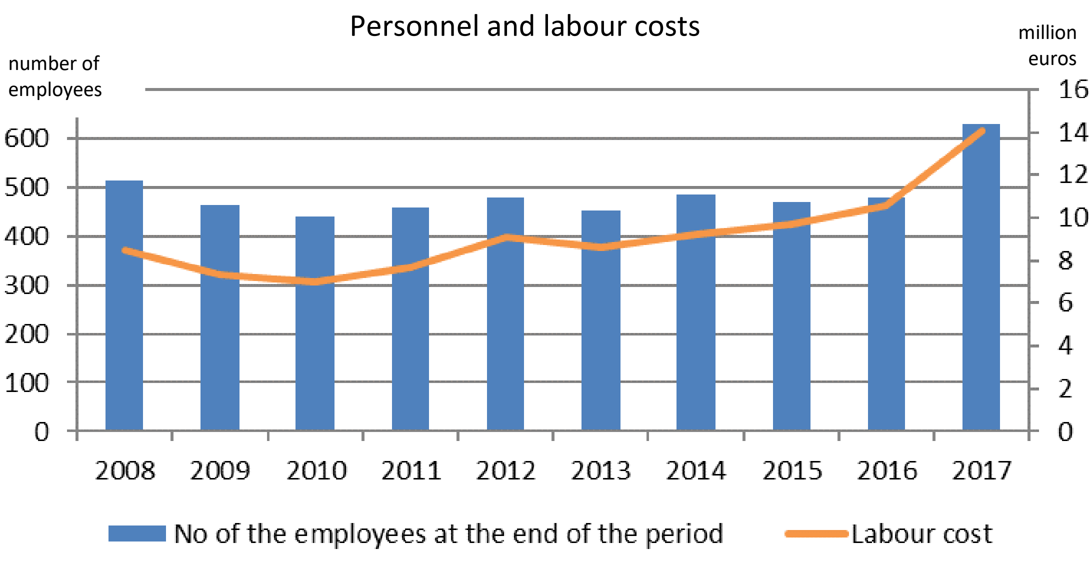
Today Estonian regulations do not require that products have to be provided with utilisation instructions. In the case of substations, it is usual that the concrete used for their construction is crushed and reused as filler in road construction; metal parts are given to purveyance and electric components are recycled as required.

The main negative environmental impact of the use of substations comes from SF6 gas that is used to make switches in medium voltage equipment which is still preferred by a large number of customers, especially in Estonia and Finland. More environment-friendly alternatives use either air isolation or vacuum which increases the price of the product by about one third and for which the market is not yet ready.

PERSONNEL

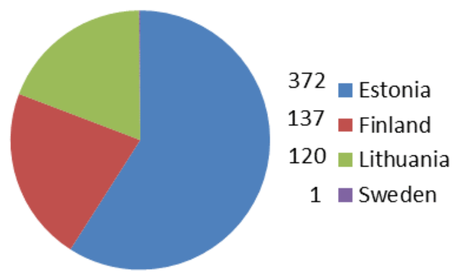
The companies of the Harju Elekter Group are located in Estonia, Finland, Lithuania and Sweden. Due to the expansion of the Group, the increased volume of production resulting from winning several procurement contracts, and the rapid growth of the economy in the whole region, the labour market situation continues to be a problem in the markets where the Group's companies are operating. The lack of qualified specialists is a constant burning issue which is made even more complicated by the unattractive salary levels in the business sector. Wage pressure is continually hard. According to the Statistics Estonia, the employment rate in Estonia was 68% in 2017 which places us at the forefront in Europe.

2017 was a year of major changes and rapid growth for the Group. As a result of this, the quality of management, including the management of changes, delegating skills and the availability of labour, emerged as one of the most important risks. Changes, as well as reforms conditioned by the growth, substantially influenced the satisfaction of employees, and labour turnover in 2017, and raised the issue of employer branding among possible future employees and the current personnel. Therefore, the parent company focused on a new personnel strategy, development of employers' branding and supporting its subsidiaries in managing the necessary changes, especially in organising training in management quality and hiring.



At the balance date, there were 630 (2016: 480) people working in the Group and the average number of employees was 567 (2016: 455). Employee wages and salaries totalled 14.1 (2016: 10.6) million euros in the year 2017. The average wages per employee per month amounted 2,067 (2016: 1,940) euros. It is important to note, that the average wage in Finland and Sweden is a multiple time higher compared to Estonia and Lithuania.

Employees by country



Most of the Group's employees – 372 people – worked in Estonia. The average age of the Group's employees has remained around 40 years. It was 41.8 years in 2017. 22% (138 persons) working in the Group has higher education, 53% (334 persons) have secondary education and 25% (158 persons) have basic education.

Harju Elekter Group is characterised by its solid organisational culture. A large proportion of employees who have worked for the Group for a long time, as well as new employees, contribute to the continuation of the company traditions. Every second employee has been working in the Group for longer than 5 years. Labor turnover of the Group's employees was on average of 15% (14% ni Estonia, 3% in Finland and 29% in Lithuania).

Summary, Group's employees as at 31.12.2017

	Estonia	Finland	Lithuania	Sweden	Total	% of all employees
Total No of employees	**372**	**137**	**120**	**1**	**630**	
*incl.managers**	117	56	41	1	**215**	34%
incl.workers	255	81	79	0	**415**	66%
Men	260	119	101	1	**481**	76%
Woman	112	18	19	0	**149**	24%
under 30 years	67	28	53	0	**148**	23%
30-49 years	191	73	56	1	**321**	51%
50 years and over	114	36	11	0	**161**	26%
new employees	138	16	64	0	**218**	
left employees **	55	4	30	0	**89**	
Average turnover ***	14%	3%	29%	0%	**15%**	

*The number of top managers in the Group (i.e. members of Supervisory and Management Board and the executive manager): 22 in Estonia, 15 in Finland and 7 in Lithuania.
** Including those who left willingly, as well as those who were sacked or died
*** The number of employees who left within a year divided with the mean number of employees

New generation of employees

Harju Elekter Group wants to be an attractive employer. As a major employer, it should be the first choice, as well as the preferred option for a second job for many people in the regions where it operates. Therefore, the Personnel Strategy of the Group for the period from 2017 to 2022 focuses on reinforcement of the employer image of the company.

Due to the fact that the lack of qualified labour has been a major risk for the development of the Group, in 2017 a very rewarding co-operation with universities and research institutions was continued with the aim to ensure a new generation of employees with sufficient skills. In Estonia close co-operation was continued with the Tallinn Technical University, the TTK University of Applied Sciences, the Tallinn Industrial Education Centre, the Tallinn Polytechnic School and the Tallinn Construction School. The company has been co-operating for years with the Tallinn Technical University, granting every year up to four scholarships for Bachelor's or Master's level students in the field of electrical engineering and mechanics. Over the years more than 61 Bachelor's or Master's level students, of whom 14 have been employed by the Group after their graduation, have participated in this scholarship programme. Currently the Group employs 6 grantees.

The Finnish subsidiary, Satmatic Oy, has close relations with local technical and vocational schools – the Satakunta Apprenticeship Training Centre and the Tampere University of Technology. The Lithuanian subsidiary, Rifas UAB, has good co-operation with the Panevezys College and the Klaipeda Marine University.

Harju Elekter Group tries to be represented at most of the important labour and career fairs in the region. In 2017, the Group participated in the Tallinn Technical University Career Fair, the career fair Teeviit and regional fairs organised by the Unemployment Insurance Fund. The Group co-operates with different schools offering traineeship for students.

Job satisfaction and motivation

Due to the fact that in 2017 substantial and forceful changes took place in all the subsidiaries of the Group the company had to face several problems that caused discontent with the quality of management, teamwork and the wages system.

In 2017, a job satisfaction survey was carried out in the parent company, AS Harju Elekter Elektrotehnika and AS Harju Elekter Teletehnika. 72% of employees of these companies participated in the survey which is 29.6% more than in the previous survey. Managers were the most active respondents (93%), while the participation among production workers was much lower (68%).

Issues related to the stability and reliability of the employer, co-operation with a line manager, possibility to implements personal knowledge and take responsibility and friendly relations with fellow workers were usually rated more positively and got higher satisfaction scores. Employees were less satisfied with wages, with the comprehensibility of calculating changing compensation and the physical work environment (i.e. noise, air, lights and other conditions).

The job satisfaction survey also studied the motivation and commitment of employees and their readiness to recommend the company as an employer. Motivation was highest among the employees who worked in the parent company where 89% of respondents valued their motivation as high or average. In AS Harju Elekter Elektrotehnika 76% and in AS Harju Elekter Teletehnika 77% of the employees were of the same opinion.

The level of recommendation was also high. As many as 93% of the employees of the parent company were ready to recommend their company as an employer. In AS Harju Elekter Elektrotehnika 70% and in AS Harju Elekter Teletehnika 69% of employees were ready to do that.

In addition to the above-mentioned data the survey also referred to the biggest development needs of the company. The results of the job satisfaction survey carried out in March 2017 have been taken into consideration when developing the personnel strategy of the Group and, therefore, the main focus is now on the personal development of employees, enhancing the work environment and increasing job satisfaction and commitment. The company plans to carry out such surveys on a regular basis i.e. every other year.

Job satisfaction surveys were also carried out in the Lithuanian and Finnish companies of the Group. The average job satisfaction level of employees of the Group was between 70% to 82% out of 100.

The subsidiaries, Rifas UAB and Telesilta Oy, do not carry out a separate measuring of job satisfaction. However, Rifas UAB assesses the job satisfaction on the basis of the fluctuation of manpower and continuity of service that is measured continually and compared with the indicators of previous years.

The Group uses several incentives to increase the satisfaction and motivation of employees. The motivation system is reviewed and, if possible, improved, once a year. In 2017, the Group introduced a system that gives its long-term employees extra rest days. For example, for every 2 years 1 extra rest day on full pay. Each employee can take up to 5 such days a year and use these days during the period from December to March.

The companies of the Group have established their own motivation systems that include different advantages, such as:

- A bonus system linked to operating profit as well as personal performance and involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- Incentives related to the continuity of service;
- Share-option schemes that aim at involving members of governing bodies of the companies belonging to the Group, as well as other employees as shareholders in the companies in order to motivate them to act in the best possible way to increase the economic results of the Group;
- Cross-border exchange programmes between companies that foster rapid exchange of knowledge and experience within the Group and offer rotation opportunities for employees;
- Additional advantages, such as sports benefits, Christmas and summer events for employees and their children, a day off for a parent whose child goes to the first class, celebration of anniversaries, death grant, graduation bonus and elections of the best employee. Special attention is paid to the promotion of recreation sports of employees.

Personal development of employees

The Manager of AS Harju Elekter, Andres Allikmäe, has said: “Business is dynamic and people have to go along with new customers and the development of needs”.

In 2017, the Group focused on the enhancement of leadership and the quality of management.

Managers of AS Harju Elekter Elektrotehnika passed the largest number of training courses, mainly on general management principles, non-monetary motivation, primary level management, performance management and carrying out an annual development interview. In 2017, a total of 61% of the Group’s managers and specialists participated in management training.

In 2017, the Group developed a special settling in programme for new employees. For example, in the Finnish subsidiary, Satmatic Oy, all new employees attend a settling in training course that lasts two days and after that they are supported for a half a year by their mentor appointed by the company. In 2017, AS Harju Elekter Elektrotehnika developed for its employees a four month settling in programme that includes training in different areas.

In addition to that several exercises and training were carried out in the companies of the Group to improve professional skills and qualifications of employees. In the Estonian 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, as well as occupational and electrical safety training courses are organised regularly for all the employees. Courses that focus on the most important amendments in laws related to occupational health are organised for working environment representatives. All employees are continually instructed about the company’s policy on the organisation of waste handling and collecting waste by category.

In 2017, a total of 71% of the Group’s employees participated in a training course necessary for them. Each employee of the Group spent an average of 12.1 hours on training courses. Satmatic Oy offered its employees more courses than any other company of the Group i.e. 24 hours per employee. In 2017, managers and specialists of the Group received an average of 18.1 hours of training and workers an average of 7.5 hours.

The information on training and development needs in the companies of the Group are gathered during the development interviews with employees that are carried out at least once a year.

Although, in earlier years development interviews were carried out mainly with managers and specialists, in 2017 the companies of the Group made substantial changes to make sure that such interviews are also regularly carried out with the workers. For example, in 2017 AS Harju Elekter Elektrotehnika established the position of a team lead who is, inter alia, responsible for carrying out development interviews with the team members.

In 201,7 an average of 69% of workers and 51% of managers/specialists participated in development interviews. The Group aims to continually increase the number of employees who pass such interviews.

Occupational health and safety

Occupational health and safety and the working environment are extremely important to the Harju Elekter Group. The Group is a responsible and caring employer offering its employees contemporary working and recreation conditions that are in compliance with the current law. As the working environment entails high risks the Group contributes to the improvement of occupational safety and working environmental even more than required by law. All the subsidiaries of the Group have raised the issues of managing occupational health and safety at a strategic level.

2017 was a year of great changes in the area of occupational health and safety because the manufacturing conditions in AS Harju Elekter Elektrotehnika as well as in AS Harju Elekter went through a substantial improvement. Due to the termination of the previous occupational health doctor's service the Estonian companies of the Group agreed health service contracts with Mediserv OÜ who carry out medical examination of employees according to the procedures provided by law and according to the timetable prescribed by an occupational health doctor.

In order to assess the compatibility of the working environment with the established requirements and wishes of employees, and estimate possible risks, a risk analysis was carried out in the production unit of AS Harju Elekter Elektrotehnika in 2017. On the basis of the result of this analysis the company invested a great deal into improving facilities and making changes in the division of work. The company is currently focusing on the improvement of the management of occupations safety and dealing with more practical issues, such as safety while working with hoists, fire safety and evacuation, as well as the use of personal protective equipment, etc.

The subsidiaries of the Group, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika and Satmatic Oy, use the 5S system to increase the safety of working stations. This system aims, besides ensuring occupational safety, also to create tidy and systemised working stations and reduce waste, increase productivity and improve the quality of products. Visiting rounds are organised to make sure that the system works. Specially authorised team leads and support persons are made responsible for ensuring that the system works.

The production activities of AS Harju Elekter Teletehnika and Rifas UAB comply with OHSAS 18001:2007 occupational health and safety standards. AS Harju Elekter Elektrotehnika and Satmatic Oy are preparing to introduce these standards in 2018.

In 2017, 11 accidents/injuries at work were registered in the companies of the Group, 1 of them in Estonia, 1 in Lithuania and 9 in Finland. None of the accidents at work was fatal. No occupational disease cases were registered during 2017. The share of working days lost due to accidents at work was an average of 0.9% for all the companies in the Group. The average share of working days lost due to illness for all the companies in the Group was 5%.

Diversity and fair treatment

The observance of the principle of diversity and fair treatment is a part of the personnel policy and recruitment processes of the Harju Elekter Group and, therefore, the company does not differentiate or choose employees on the basis of their gender, religion or race, but on their skills and competencies. 24% of the Group's employees are women. Among the top 21 managers (members of the Supervisory Board and Management Boards, and executive managers) of the Group there are two women.

The Group has conformed with the equality of wages for the same categories of work and ensured that an equal salary level is applied to men and women who work in the same position and in the same work category. The companies of the Group consciously create an open business culture and management processes that help to manage risks related to violation of human rights and unequal treatment, as well as to prevent any discrimination.

In 2017, no discrimination cases were registered.

Trade unions

The Group accepts that its employees belong to trade unions and, therefore, 80% of the Group's employees are covered by trade union agreements. There are no trade unions in the Lithuanian subsidiaries, Rifas UAB and Automatikos Iranga.

The parent company and its Estonian subsidiaries are involved in constructive co-operation with the Keila Industrial Park trade union KETA which has mediated the conclusion of the collective labour agreement between employees and the companies. Approx. 33% of the employees of AS Harju Elekter, AS Harju Elekter Elektrotehnika and AS Harju Elekter Teletehnika are members of KETA. The trade union is an important channel for exchanging information between the management of the Group and employees (for example, employees are informed through the trade union about the most important changes concerning them before they are made public), as well as organising other activities related to employees. AS Harju Elekter supports the activities of trade unions with a sum that accounts for 0.2% of the payroll fund.

ENVIRONMENTAL MANAGEMENT

Harju Elekter Group takes the environmental impact of its activities very seriously. The companies of the Group observe and measure, on a regular basis, the risks and influences of their operations on the environment and do everything possible to decrease such an impact.

The production of distribution and control equipment of electric power is a rather clean process and has no substantial harmful impact or effect on the environment. The main environmental impact aspects are related to the consumption of electric and thermal energy in production premises, the use of certain materials (especially copper) and the creation of waste (mainly copper and steel, and to a lesser extent paint waste).

In 2017, no violation of any environmental law or regulation was identified in the companies of the Group.

The Group is ready to consider any deviation from environmental requirements and violations open-mindedly and treat it as an input to improvement.

The management of environmental aspects is based on three pillars:

- Compliance with environmental laws and regulations;
- Annual environmental risks analysis and impact assessment;
- Implementation of the environmental management standard ISO 14001 in all the manufacturing plants of the Group (except Finnkumu Oy).

Customers who determine the properties of finished products and the criteria of materials used in production have an important role in establishing the environmental impact.

The environmental policy directs the Group's companies' attention to the environmental requirements proceeding from laws, standards, society and customers. Action plans focus on the optimisation of processes, economical use of materials and resources, streamlining of work practices and technologies, and achieving an even smaller environmental impact.

To ensure the environmental sustainability, it is important to make sure that all employees of the companies belonging to the Group know and abide by the relevant requirements. All employees have been trained to notice and make improvement proposals for more reasonable waste treatment and better use of transport, materials and energy that makes it more environment-friendly. In some of the Estonian and Finnish subsidiaries employees are obliged to follow the 5S principles that increase and promote tidy and systemised working stations and encouraged to reduce wastage.

As to climate issues Satmatic Oy has the clearest position among all the companies of the Group. The company has promised to reduce emissions of carbon gases by preferring modes of production that save energy and by increasing the awareness of customers about renewable energy products and sources, as well as by developing and selling more car charging systems for electric cars and contributing by that to the increase in the numbers of electric vehicles in Finland.

Materials and waste

Steel and copper elements, powder paints and different electronic components are the main materials used in the production processes of the Group. Although the choice of materials is mostly dictated by customers, the companies of the Group always try to choose, as much as possible, more sustainable alternatives with better quality.

Metal waste is reduced by optimising production processes. Metal waste is gathered up in order to use as much of it as possible in the production. However, depending on the product, up to one fifth of the sheet metal remains unused.

Painting lines can gather up some of the paint waste and recycle it. Most of the packaging is also recycled.

The companies of the Group are contractual partners to the Estonian PackCycling. The Finnish subsidiary, Satmatic Oy, co-operates with the Finnish prodcuer responsibility organisation, RINKI, to ensure the recycling of electronic, copper, cable and other waste.

The Lithuanian subsidiary of the Group, Rifas UAB, offers some of its waste to students of the Panevezys College to be used in their studies.

Hazardous waste is gathered up and handed over to waste treatment facilities. The shops of the subsidiary, Energo Veritas OÜ, have organised the gathering and/or disposal of electronic waste (boilers, etc.), daylight fluorescent lamps and batteries according to the waste act.

In 2017, the companies of the Group produced all together about 910 tons of waste, including approx. 32 tons of hazardous waste. 93% of non-hazardous waste was sorted and recycled.

Energy

The companies of the Group try to reduce the electric and thermal energy used by smart and sustainable technologies and by the construction of energy efficient buildings. It is important for the Group that the industrial real estate developed by the Group in the Keila Industrial Park, the Allika Industrial Park and in Haapsalu is as energy efficient as the premises used by its own subsidiaries.

In 2017, the companies of the Group consumed 3,854 MWh of electric energy and 2,986 MWh of thermal energy. A total of approx. 16% of the used energy came from renewable sources.

When developing industrial real estate AS Harju Elekter conforms to the environmental sustainability principles:

- In the case of new structures, a detailed assessment is carried out to find the most suitable heating solution for that building or mode of production. New buildings are insulated to above standard requirements. Buildings constructed in 2017 are provided with solar panels or have the facilities to add them.
- Older buildings are renovated to make them more energy efficient – insulation is added to walls and roofs; ventilation systems are modernised. To meet the wishes of leaseholders, the existing light fittings have been replaced with the more economical LED lamps. During the reporting year 700 fittings where replaced by LED lamps.

Such improvements help to meet growing expectations of leaseholders, protect the environment and consume less energy.

Production of renewable energy

Harju Elekter Group pays more and more attention to the production and use of renewable energy. As of today, the Group has installed solar panels that give all together 320 kW of energy and more than half of them are located in Estonia. In 2017, solar panels with a capacity of 130 kW were installed in the Allika

Industrial Park and some of them also to the Finnish production unit. Although they supply only a small part of the energy used by the Group and its leaseholders, the Group wants to continue to use a reasonable amount of solar energy in its new buildings.

In the Finnish and Lithuanian subsidiaries of the Group a substantial part of energy used in their production units comes from renewable sources. Both of the companies produce their own energy with solar panels (Satmatic Oy 60 kW, Finnkumu 50kW and Rifas UAB 80 kW) and in order to provide the rest of their energy needs, bio-energy based gas (in Finland) or wind energy (in Lithuania) is used.

100% of the electric energy consumed by Rifas UAB in 2017 came from renewable sources. Approx. 2/3 of the total energy consumption of the Finnish subsidiaries was produced by energy from renewable sources.

Having regard to the fact that the construction of solar power stations is becoming more and more beneficial, and there are opportunities for applying for renewable energy grants, AS Harju Elekter has decided to establish a solar power station in Haapsalu with a capacity of 750 kW. This project of selling energy to the public network should be completed during 2018. The Group is currently planning and analysing the possibilities, as well as searching for locations to establish even more solar power stations in Estonia.

The production of AS Harju Elekter Elektrotehnika was moved to a new plant in 2017. The primary task now is to monitor the energy consumption of the new building and other aspects that have impact on the environment, and start the major improvements, only after the relevant data has been analysed. However, in 2017 the technical systems of the new premises were renovated, the installation of more economic LED lamps was started in offices and production areas, airlocks were added to the storage doors in order to reduce heat loss, water-saving shower systems were installed and waste collection and sorting stations were established. Solar panels with a total capacity of 27 kW, which should be enough for covering the energy consumption of the offices and rest rooms, are ready to be installed.

SHARE AND SHAREHOLDERS

The shares of AS Harju Elekter were first listed on the Nasdaq Tallinn Stock Exchange on September 30, 1997. Nasdaq Tallinn is part of the largest exchange company in the world, the NASDAQ Group.

The last year was positive to share markets in the world. The upturn was extensive and general, all markets were on the plus side. The global share rally was led by the US, European and Asian markets. The most popular share index in the world, S&P 500 increased by 19.4%, amounting to 2,673.3 points by the end of the year.

As to the Baltic stock exchanges, the Riga stock exchange index increased most rapidly i.e. by 35.9%, followed by the Lithuanian index by 17.2%, and the Tallinn stock exchange index increased by 15.4%. In the Nasdaq Tallinn Stock, the shares of AS Harju Elekter made the biggest rise, increasing by 76.7%, followed by PRFoods (+63.2%) and Tallink (+36.9%).

At December 31, 2017, the share capital of AS Harju Elekter was 11.18 million euros, which is divided into 17.74 million no par value shares. The book value of a share is 0.63 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.

Key share data **EUR**	**2017**	**2016**	**2015**	**2014**	**2013**
Number of shares (in thousand)	17,739,880	17,739,880	17,550,851	17,400,000	17,400,000
Par value of a share	-	-	0.70	0.70	0.70
Highest price	5.08	2.94	3.14	2.85	2.92
Lowest price	2.80	2.43	2.49	2.52	2.46
Closing price	5.00	2.83	2.63	2.79	2.70
Change (%)	76.7	7.6	-5.7	3.3	2.3
Market value (in million)	88.70	50.20	46.66	48.55	46.98
Traded shares (pc)	1,349,617	947,294	1,086,451	800,823	936,162
Turnover (in million)	5.46	2.45	2.98	2.17	2.48
Earnings per share, EPS	1.64	0.18	0.18	0.56	0.30
P/E	****3.05	15.72	14.61	4.98	9.00
Dividend per share	*0.24	0.18	**0.12	0.15	0.10
Dividend yield (%)	4.8	6.4	1.9	5.4	3.7
Dividend payout ratio (%)	***100.0	100.0	27.8	26.6	33.7

* Management Board's proposal
** incl 0.07 euros, related payment from reduction of the share capital
*** from regular activities=Profit attributable to owners of the Company minus extraordinary income from the sale of PKC Group Oyj shares
**** take into account the profit from sales of investment (PKC Group Oyj shares) in 2017

Share of AS Harju Elekter in Tallinn Stock Exchange 2015-2017

In the reporting year, the share price of AS Harju Elekter increased by 76.7% to 5.00 euros and the company's market value as at December 31 was 88.7 million euros. The volume of transactions more than doubled and the number of traded shares was also one third larger than the previous year. The number of shareholders of the company continued increasing. At the end of 2017, AS Harju Elekter had 2,468 (2016: 1,925) shareholders.

The stock exchange index OMX Baltic 10 comprises of the ten most liquid and stable companies in the Baltic region. Starting from 2.01.2018 the following companies are listed under this index: AS Harju Elekter, Klaipedos nafta, LHV Group, Telia Lietuva, Olympic Entertainment Group, Grindeks, Šiauliu bankas, Tallinna Kaubamaja Grupp, Tallink Grupp and Tallinna Vesi.

A comparison of AS Harju Elekter share indexes 2015-2017

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

OMX Baltic Benchmark GI OMX Baltic 10 OMXT - Nasdaq Tallinn HAE1T – Harju Elekter

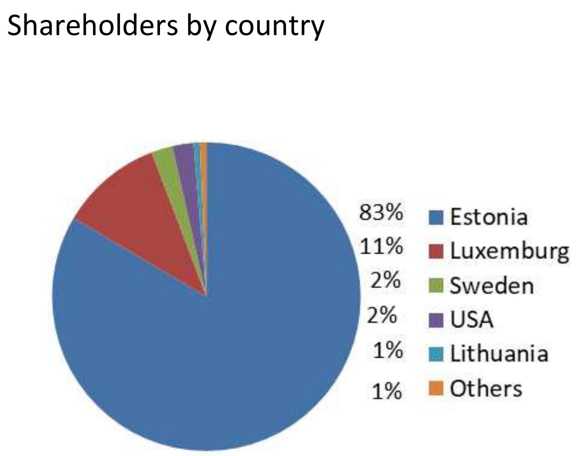
Shareholders structure, at December 31, 2017

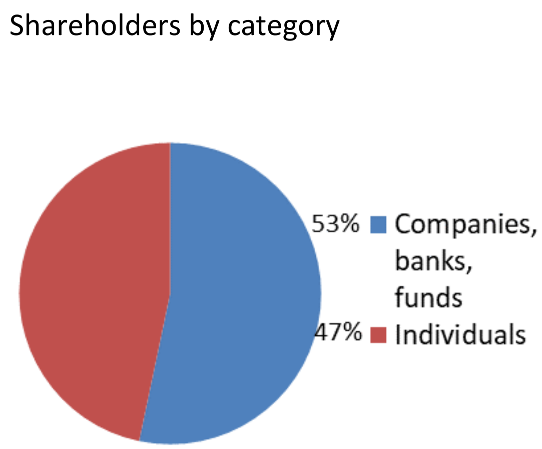
At the end of 2017, AS Harju Elekter had 2,468 shareholders. The number of shareholders increased during the year by 543 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2017 held 31.39% of AS Harju Elekter share capital. Foreign equity participation is 17.0%. Members of the Supervisory and Management Board and persons or companies associated with them hold 10.67% of the shares. The comprehensive list of shareholders is available at the website of the Nasdaq Tallinn https://nasdaqcsd.com/statistics /et/shareholders).

Shareholder structure by size of holding

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.08	42.10
1.0 – 10.0%	8	0.32	22.15
0.1 – 1.0%	66	2.68	18.82
< 0.1%	2,392	96.92	16.93
Total	2,468	100.0	100.0

Shareholders list (> 5%) 31.12.2017	Holding (%)
HARJU KEK AS	31.39
ING LUXEMBOURG S.A.	10.71
Mr Endel Palla	6.90
Shareholders, holding under 5%	51.00

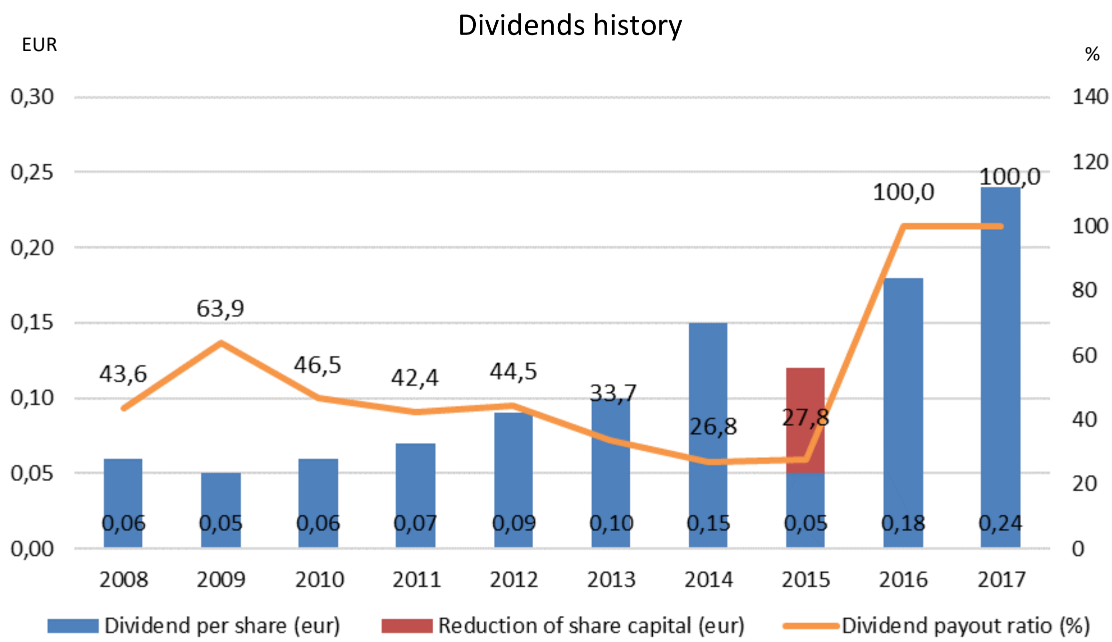




Dividends

According to the dividend policy of the Group, one third of the net profit of regular activities is paid out as dividends. The Group has an established practice of paying out dividends on gains from other financial investments. The actual ratio will be determined based on the Group's cash flows, development prospects and funding needs.

As discussed with the Supervisory Board, the Management Board proposes to AGM to pay 4.3 (2016: 3.2) million euros i.e 0.24 (2016: 0.18) euros per share in dividends to shareholders, which amounted 100% of the reporting year net profit of regular activities (Profit attributable to owners of the Company minus extraordinary income from the sale of PKC Group Oyj shares).



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

BASIS OF PREPARATION OF THE MANAGEMENT REPORT

AS Harju Elekter follows the national provisions applicable in all the markets it operates, its own Articles of Association, and as a public company, AS Harju Elekter also observes the rules of the Nasdaq Tallinn Stock Exchange, the Principles of the Corporate Governance Code and the principle of treating its investors and shareholders equally. The Group has integrated into its 2017 report a part that is subject to the requirements of sustainability and social responsibility which are based on the guidelines for sustainable reporting G4 of the Global Reporting Initiative (GRI). The Group follows the management principles that make relations honest and transparent within the Company, with customers and any other parties. In 2017, the companies of the Harju Elekter Group did not contribute to any political activities neither by monetary or non-monetary support.

As to the conflict of interests, corruptive behaviour or unfair competition, zero tolerance is applied by the Group to its employees, as well as external partners. Internal regulations established in the companies of the Group and tacit agreements at management level help to manage risks related to reputation, and maintain the credibility of the Group in the market, and in relations with stakeholders. This forms a good basis for profitable business.

In order to manage the above-mentioned risks, the Parent company, as well as all the subsidiaries have established internal work procedure rules and area specific principles. For example, Rifas UAB and Stamatic Oy have established a Code of Conduct that is obligatory for all employees. All new employees of the Group are introduced to the internal work procedure rules and area specific training and internal audits are carried out on a regular basis.

In order to manage risks related to conflict of interests, certain principles have been agreed, such as that in the case of large-scale transactions the "principle of four eyes" must be followed or that in order to participate in any motivation events organised by customers consent from a manager is required.

In 2017, no incidents of corruption or conflict of interests were registered in the Harju Elekter Group and nobody was discharged from the Group for that reason, no fines related to such actions were issued and no court appeals were lodged. There were no cases where the contract was terminated or suspended with any of the business partners of the Group because of the partners' corruptive behaviour.

The Company is very conscious of establishing open organisation culture. That is why several changes were made in the organisation of meetings and exchange of information in 2017. The aim of such changes is to bring all critical transactions connected with high economic risks, as well as possible disparities to the attention of the management.

In addition to that, the Company follows national regulations as well as requirements applicable to quoted companies i.e. key personnel are obliged to follow the established rules and declare their economic interests to the holder of insider information, etc.

In 2017, no deviations from the established regulations were found in the activities (incl. economical, social or environmental) of the companies belonging to the Harju Elekter Group and, therefore, no fines or non-monetary sanctions were applied to any of the companies of the Group. None of the companies or employees of the Group were contacted with any court case for infringing any law.

This annual report gives an overview of activities during the whole of 2017. The report is presented annually and it is a continuation to the annual report of 2016.

Corporate Governance Report 2017

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 2017, 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 since acquisition of such equipment is not been under consideration yet, currently attendance and participation in general meetings is not possible by means of communication 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 remuneration of a member of the Management Board and the procedure for its payment is determined by the decision of the Supervisory Board and shall not be disclosed to the public under an agreement between the parties. The chairman of the Board is entitled to receive a severance payment in the amount of 10 months' and two members in the amount of 8 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.

The management, incl. members of the Management Board are paid an annual bonus of 0.8% of the consolidated net profit 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.

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 2017, members of the Supervisory Board of AS Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. 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 AGM which was held on 27 April 2017 appointed the membership of the Supervisory Board for the following 5 years, setting 1,000 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). In addition to that, 200 euros was set as a payment for the member of the Supervisory Board for participating in a meeting. However, it will not be paid to the member of the Supervisory Board if they participate in the meeting over the phone. No severance pay is allotted to members of the Supervisory Board. The next elections of the Supervisory Board will take place at the AGM 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 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 laws and Articles of Association, in the best interests of the Company and its shareholders. In 2017, 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 Nasdaq Tallinn 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. The next elections of the auditing company will take place at the AGM in 2018.

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. AS Harju Elekter has not established documented diversity policy. However, people have been elected and appointed to higher ranking management positions, first of all, on the basis of the possible added value that they could offer to the Group with their knowledge and skills, and on the basis of their suitability to the position.

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 Board, 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 2017 was held on 27 April at Keskväljak 12 in Keila, Estonia. 97 shareholders and a total of 73.2% of the voting stock were represented. Presentations were made by the chairman of the Management Board, chairman of the Supervisory Board and auditor.

The general meeting approved the 2016 annual report and profit distribution and decided to pay dividends amounting to 0.18 euros per share, totally 3.2 million euros. The AGM extended the credentials of a member of the Supervisory Board, appointed a new member of the Supervisory Board and approved a pay deal for members of the Supervisory Board.

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 2017, the Supervisory Board met 10 times. All members of the Supervisory Board attended most of the meetings.

On 27 April 2017, the AGM assigned a five-member Supervisory Board for the next five-year period as follows: Endel Palla (chairman) and members Arvi Hamburg, Aare Kirsme, Triinu Tombak and Andres Toome. 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. The newly elected member of the Supervisory Board, Mr Hamburg, who is a member of the Advisory Board and a visiting professor from the Tallinn Technical University, adds some scientific competence to the Board. Mr Kirsme is a member of Supervisory Board of AS Harju KEK, the biggest shareholder of AS Harju Elekter (holding 31.39% of the shares of the Company on 31.12.2017). 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 (chairman of TH Consulting OÜ), to include more financial knowledge to the Board. Two of the five members of the Supervisory Board – Triinu Tombak and Arvi Hamburg - 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 2017, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 9.3% (2016: 9.2%) of AS Harju Elekter shares (Note 22).

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 three-member Management Board. Andres Allikmäe, the Chairman of the Managing Board and CEO of the Company, will continue work on the basis of the 3-years contract of service agreed on the 05.05.2017 and the mandate given to him. In addition to him the CFO of the AS Harju Elekter, Tiit Atso, and the Head of Real Estate and Energy Services, Aron Kuhi-Thalfeldt, were appointed as members of the Managing Board. The mandate of the new members of the Managing Board started on 01.11.2016 and it will end on 31.10.2019.

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. The chairman of the Board is entitled to receive a severance payment in the amount of 10 months' and two members in the amount of 8 months' remuneration of a member of the Management Board.

The everyday business activities of the Group are managed by the Chairman of the Management Board /CEO. The Chief Financial Officer and the Head of Real Estate and Energy Services of the Group are responsible for managing their domains in the whole Group. The members of the Managing Board participate in the work of the management and control bodies of the Group's subsidiaries. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies.

At 31 December 2017, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.3% of AS Harju Elekter shares (Note 22).

More specific information about the education and career of the members of the Management and Supervisory Boards, as well as their membership in the management bodies of companies and their shareholdings, have been published on the home page of the Company at www.harjuelekter.ee.

Additional management bodies and special committees

The necessary procedures are regulated by rules and the need for additional management bodies has not occurred. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010 the Supervisory Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed the Audit Committee of the Company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of consolidated financial statements; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. In 2012, the members of the Supervisory Board of AS Harju Elekter – Triinu Tombak and Andres Toome - were appointed as members of the Committee.

Information management

As a publicly traded company AS Harju Elekter follows the principles of openness and equal treatment of investors. The information requested by the rules and regulations of the stock exchange is published regularly on the due dates. AS Harju Elekter therefore follows the principle of not publishing estimates but communicates and comments only information concerning events which have actually happened.

In order to keep investors and the public informed AS Harju Elekter administers a home page which includes all stock exchange notices, business reports and an overview of the Company's background, products and other important issues. All subsidiaries of the Group also have home pages.

Auditors

According to the decision of the general meeting of the shareholders (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 (not included Telesilta Oy, where audit is carried by Nexia Oy).

SOCIAL CONTRIBUTION

Harju Elekter Group wishes to be an active and sensitive member of the community and to support the development of the sector related to its business in countries where its production units are located and its employees live. The support policy of the Group aims to make it a stable partner and, therefore, the Company focuses more on the establishment of long term co-operative relations and development of the community.

In 2017, the Group focused on contributing to the support of local life, education, sports and culture and the development of its industrial sector

Supporting engineering education

In 2017, AS Harju Elekter continued the co-operation with Estonian educational institutions in order to promote and develop the education of engineers.

- AS Harju Elekter is a golden sponsor of Tallinn Technical University (TTU) every year granting up to four scholarships to Bachelor's and Master's level students. Over the years, 61 students have participated in this scholarship programme.
- In co-operation with the Development Fund of the TTU and other companies, the Group awards the Mihkel Aitsam Scholarship to students with special needs and actively supports the Olev Liik Scholarship. In addition to that the Chairman of the Supervisory Board, Endel Palla, has for many years been awarding a scholarship under his own name.
- In 2017, AS Harju Elekter also continued the long-standing tradition of supporting electrical engineering week organised by the electrical engineering faculty of the TTU. Besides that, the Group supported the largest robotics event in Europe, Robotex, and gave support to the international product development team of technology students Student Formula.
- AS Harju Elekter has participated, as much as possible, also in furnishing the technology and research laboratories of TTU and participated in research and development projects. One of the most important ones during the recent years was the joint development project which ended with the completion of a prototype of an energy storage device for an energy management sub-station within the framework of a doctorial thesis of an engineer working with TTU and AS Harju Elekter Elektrotehnika. The device was tested in TTU on the real micro-grid test bench and exhibited at the largest electricity and power industry fair in Nordic countries, Elfack.
- Besides supporting different projects, the Estonian companies of the Harju Elekter Group organise regular training visits of engineering faculty students and employees to the companies to contribute to the development of engineering curricula with their knowledge and experience. Thus, for example in 2017 the managers of AS Harju Elekter Elektrotehnika participated as the industrial representatives in the work of the Advisory Committee of Electrical Engineering and Mechatronics, helping to draw up a curricular for the Faculty of Mechanics of the TTU.

In 2017, the Estonian companies of the Group continued to carry out several co-operation programmes with the Tallinn Industrial Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. AS Harju Elekter was also the main sponsor of the Estonian competition of Vikipeedia Teadusfoto 2017 that is a part of the global scientific photo competition.
The Lithuanian subsidiary, Rifas UAB, continued co-operation with the regional Panevezys Electrical Engineering College, offering the traineeships and supporting the College with study aids.

The Finnish subsidiary, Satmatic Oy, has close co-operation with local technical and vocational schools: the Satakunta Apprenticeship Training Centre, the Tampere University of Technology and the Turku School of Economics.

In 2017, the companies of the Group offered traineeship to 109 young people. The Lithuanian subsidiary, Rifas UAB, has offered more traineeship opportunities than any other company in the Group.

Active participation in the development of local life

Harju Elekter Group feels responsible for the development of the region and well-being of the local community. Therefore, the Group is constantly contributing to the education and recreation of children and young people living in the regions where it operates. Therefore, the Group has concluded long-term sponsorship agreements with the Keila School as well as kindergartens, sport and hobby clubs in Keila. The Keila SOS Children's Village is supported with a donation to purchase children's school bags and school supplies.

Supporting and inspiring young sportsmen

AS Harju Elekter has, above all, supported youth sports, aiming to increase the popularity of sports by long-term and constant sponsorship. For several years the Parent company has sponsored the football and basketball clubs in Keila. Youth projects will only bear fruit in the future, and the main aim is to give as many children as possible the chance to experience the sports they like, with the hope that one day such work with children and young people will produce fine sportsmen who can represent Estonia internationally.

Contributing in the development of the sector

The Group attaches a lot of importance to contributing to the development of the society through professional associations and organisations. The Group contributes with its knowledge and time resources of its people to actions that stand for honest competition and sustainable and safe products.

In 2017, the Estonian companies of the Group focused on issues related to electrical safety regulation by legislation, as well as in broader public co-operation with the Estonian Association of Electrical Enterprises (EAEE).

The companies of the Group are members of the following organisations:
Estonian Chamber of Commerce and Industry (AS Harju Elekter)
Estonian Association of Electrical Enterprises (AS Harju Elekter)
Council of the Tallinn Industrial Education Centre (AS Harju Elekter)
Lithuanian Chamber of Commerce and Industry (Rifas UAB)
Union of Industrial Enterprises in Panevezys Region (Rifas UAB)
Finnish Chamber of Commerce (Satmatic Oy)
Federation of Finnish of Technology Industries (Satmatic Oy)

In 2017, the Harju Elekter Group paid into different scholarship and support programmes 77.0 (2016: 24.4) thousand euros.

GRI CONTENTS

It is the first time that the Group has based its annual report on the standards of internationally highly recognised and widely used Global Reporting Initiative (GRI) at the “Core” level. The topics proceeding from the GRI requirements have been integrated into the rest of the report as an integrated part of it.

The report covers the environmental, social and responsible governance, responsible management and market behaviour issues that are most important from the point of view of the Company’s activities and influence and expectations of stakeholders. The table with GRI content presented below includes data on the activities of the Parent company, AS Harju Elekter, and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Telesilta Oy, Rifas UAB, Automatikos Iranga UAB, unless otherwise noted. OÜ Energo Veritas and Harju Elekter AB are included in the report only with the data on the personnel. Each company has collected the data and presented it based on a common methodology.

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Foundation (GRI 101: 2016)				
General disclosures (GRI 102: 2016)				
Organizational profile				
	102-1	Name of the organization		AS Harju Elekter
	102-2	Activities, brands, products, and services	p 1, 6, 16	
	102-3	Location of headquarters		Keila (Estonia)
	102-4	Location of operations	p 6	Estonia, Finland, Sweden, Lithuania, Latvia
	102-5	Ownership and legal form	p 38, 40-41	
	102-6	Markets served	p 12-13	
	102-7	Scale of the organization	p 10, 12-16	The nature of activities and products differs by the company and, therefore, they are presented on the basis of sales revenue.
	102-8	Information on employees and other workers	p 31-32	The share of employees who have permanent employment contracts in the main places of operation: men 95%, women 97%, EST 95%, FIN 95%, LTL 99%. The share of full-time workers: men 98%, women 93%, EST 95%, FIN 100%, LTL 99%

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
	102-9	Supply chain		To produce the main products of the Group, i.e. the production of electric distribution and control equipment (1) the products are designed according to the initial task; (2) necessary components are purchased from suppliers or produced by subsidiaries of the Group; (3) products are complemented; (4) tested and (5) sent or taken to the customer's site.
	102-10	Significant changes to the organization and its supply chain	p 7-9, 40	
	102-11	Precautionary Principle or approach	p 36-37	
	102-12	External initiatives	p 27, 42-44	
	102-13	Membership of associations	p 48	
Strategy				
	102-14	Statement from senior decision-maker	p 3-4	
Ethics and integrity				
	102-16	Values, principles, standards, and norms of behaviour	p 5, 42	
Governance				
	102-18	Governance structure	p 44-46	
Stakeholder engagement				
	102-40	List of stakeholder groups	p 6	
	102-41	Collective bargaining agreements	p 36	
	102-42	Identifying and selecting stakeholders		The relations with stakeholders who are influence by the activities of the Group and whose activities influence the Group most of all, are most important for the Group. The main stakeholders have been identified over the years through the work and communication and within the framework of analysis of priority subjects that was carried out in the end of 2016 with the participation of the management of the Group.

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
	102-43	Approach to stakeholder engagement	p 6-7, 29, 33-34, 36, 47-48	
	102-44	Key topics and concerns raised	p 6-7	
Reporting practice				
	102-45	Entities included in the consolidated financial statements	p 12, 49	
	102-46	Defining report content and topic Boundaries	p 6-7	
	102-47	List of material topics	p 7	
	102-48	Restatements of information		No restatements
	102-49	Changes in reporting		This is the first GRI report for the Group
	102-50	Reporting period	p 1	
	102-51	Date of most recent report		This is the first GRI report for the Group. Audited Annual Report of Harju Elekter Group of 2016 was published on 28.3.2017
	102-52	Reporting cycle	p 42	
	102-53	Contact point for questions regarding the report		Tiit Atso, tiit.atso@he.ee
	102-54	Claims of reporting in accordance with the GRI Standards	p 49	
	102-55	GRI content index	p 49-55	
	102-56	External assurance		The GRI report has not been certified by any third parties.
SUSTAINABILITY FOCUS ASPECT				
Product quality				
Management approach (GRI 103:2016)	103-1 until 103-3		p 27-31	
	non-GRI	Customer complaints	p 29	
	non-GRI	Products delivered to customers on time in accordance with required conditions	p 27	
Customer experience				
Management approach (GRI 103:2016)	103-1 until 103-3		p 29	

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
	non-GRI	Customer satisfaction	p 28-30	
Innovatsion				
Management approach(GRI 103:2016)	103-1 until 103-3		p 24-27	
	non -GRI	Investments and development costs	p 24-25	
	non -GRI	Innovation and development projects	p 27	
Environmental impact of product				
Management approach (GRI 103:2016)	103-1 until 103-3		p 31, 38	
	non -GRI	Renewable energy production	p 38	
Economic performance (GRI 201: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 12-16, 42	
	201-1	Direct economic value generated and distributed	p 10, 12-16, 42, 48, 102-104	
Anti-corruption (GRI 205: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 42	
	205-3	Confirmed incidents of corruption and actions taken	p 42	
Energy (GRI 302: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 36-38	
	302-1	Energy consumption within the organization	p 37-38	Electric and thermal energy are reported as the main forms of energy consumed.
Effluents and waste (GRI 306: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 36-37	
	306-2	Waste by type and disposal method	p 37	

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Environmental compliance (GRI 307: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 36	
	307-1	Non-compliance with environmental laws and regulations	p 36	The share of recycled waste is based on the amount of sorted waste that was handed over to the waste treatment facilities.
Supplier environmental assessment (GRI 308: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 29	
	308-2	Negative environmental impacts in the supply chain and actions taken		The companies of the Group have informed 90-100% of their suppliers about their expectations relating to environmental impact management. A higher risk level connected with the use of fuel has been ascertained in the case of one supplier.
Employment (GRI 401: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 31-34	
	401-1	New employee hires and employee turnover	p 32	Data is given with the granularity that the companies of the Group have considered important.
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p 33-34	Presented by the description of the motivation system of employees.
	non -GRI	Interns	p 47	
	non -GRI	Employee level of education	p 32	
	non -GRI	Employee satisfaction and feedback	p 33	
Occupational health and safety (GRI 403: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 34-35	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	p 35	Data is given with the granularity that the companies of the Group have considered important. The companies of the Group do not employ many sub-contractors.

GRI Standard	Disclosure no	Disclosure title	Location	Explanation
Training and education (GRI 404: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 34-35	
	404-1	Average hours of training per year per employee	p 34	Data is given with the granularity that the companies of the Group have considered important.
	404-3	Percentage of employees receiving regular performance and career development reviews	p 34-35	Data is given with the granularity that the companies of the Group have considered important.
	non-GRI	Employee participation at trainings	p 34	
Diversity and equal opportunity (GRI 405: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 35	
	405-1	Diversity of governance bodies and employees	p 31-32, 35	Data is given with the granularity that the companies of the Group have considered important.
Non-discrimination (GRI 406: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 35	
	406-1	Incidents of discrimination and corrective actions taken	p 35	
Local communities (GRI 413: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 6, 47-48	
	413-1	Operations with local community engagement, impact assessments, and development programs	p 6, 47-48	
Supplier social assessment (GRI 414: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 28	
	414-2	Negative social impacts in the supply chain and actions taken		The companies of the Group have informed 90-100% of their suppliers about their expectations relating to social impact management. No sub-stantial actual or possible negative impacts were ascertained.

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Public policy (GRI 415: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 42	
	415-1	Political contributions	p 42	
Customer health and safety (GRI 416: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 30-31	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p 30-31	
Socio-economic compliance (GRI 419: 2016)				
Management approach(GRI 103:2016)	103-1 until 103-3		p 42	
	419-1	Non-compliance with laws and regulations in the social and economic area	p 42	

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
EUR'000	Note	**2017**	**2016**
Current assets			
Cash and cash equivalents	5,7	10,992	3,278
Short-term financial investments	11	9,935	0
Trade and other receivables	8	13,575	8,480
Prepayments	9	1,118	771
Prepaid income tax	9,19	56	24
Inventories	10	13,037	9,712
Total current assets		**48,713**	**22,265**
Non-current assets			
Deferred income tax assets	25	56	37
Long-term financial investments	11	4,684	21,990
Investment property	12	17,881	13,273
Property, plant and equipment	13	11,983	10,972
Intangible assets	15	6,660	5,431
Total non-current assets		**41,264**	**51,703**
TOTAL ASSETS	23	**89,977**	**73,968**
Liabilities			
Interest-bearing loans and borrowings	16	625	804
Advances from customers		1,309	857
Trade and other payables	18	12,802	8,283
Payables to shareholders	22	0	1,242
Other current tax liabilities	19	2,106	1,075
Income tax liability	19	270	133
Short-term provisions	20	24	15
Total current liabilities		**17,136**	**12,409**
Interest-bearing loans and borrowings	16	2,910	1,167
Total non-current liabilities		**2,910**	**1,167**
Total liabilities	23	**20,046**	**13,576**
Equity			
Share capital	22	11,176	11,176
Share premium	22	804	804
Reserves	22	2,844	19,214
Retained earnings		55,048	29,113
Equity attributable to owners of the Company		**69,872**	**60,307**
Non-controlling interests		59	85
Total equity		**69,931**	**60,392**
TOTAL LIABILITIES AND EQUITY		**89,977**	**73,968**

The notes on pages 62 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
EUR'000	Note	**2017**	**2016**
Revenue	23, 24	102,402	61,167
Cost of sales	24	-87,043	-50,806
Gross profit		**15,359**	**10,361**
Distribution costs	24	-3,866	-3,034
Administrative expenses	24	-5,981	-4,138
Other income	24	49	76
Other expenses	24	-119	-84
Operating profit		**5,442**	**3,181**
Finance income	24	24,869	775
Finance costs	24	-96	-24
Profit before tax		**30,215**	**3,932**
Income tax expense	25	-1,083	-708
Profit for the year		**29,132**	**3,224**
Profit attributable to:			
Owners of the Company		29,129	3,219
Non-controlling interests		3	5
Earnings per share			
Basic earnings per share (EUR)	26	1.64	0.18
Diluted earnings per share (EUR)	26	1.64	0.18

The notes on pages 62 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000	Note	For the year ended 31 December **2017**	**2016**
Profit for the year		**29,132**	**3,224**
Other comprehensive income			
Items that subsequently might be classified to profit or loss:			
Gain on change in fair value of available-for-sale financial assets	11,22	0	1,142
Gain on sale of financial assets	22	-16,367	0
Foreign currency translation differences – foreign operations		0	1
Total other comprehensive income for the year		**-16,367**	**1,143**
Total comprehensive income for the year		**12,765**	**4,367**
Comprehensive income attributable to:			
Owners of the Company		12,762	4,362
Non-controlling interests		3	5

The notes on pages 62 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	Note	For the year ended 31 December 2017	2016
Cash flows from operating activities			
Profit for the period		29,132	3,224
Adjustments for:			
Depreciation and amortisation	12,13,15,23,24	2,145	1,596
Gain on sale of property, plant and equipment	24	-12	-31
Finance income	24	-24,869	-775
Finance costs	24	96	24
Income tax expense	25	1,083	708
Changes in:			
Change in trade and other receivables		-3,643	-2,301
Change in inventories		-2,972	-2,564
Change in trade and other payables		4,425	3,315
Corporate income tax paid	27	-797	-601
Interest paid	24	-28	-24
Net cash from operating activities		**4,560**	**2,571**
Cash flows from investing activities			
Acquisition of investment property	27	-4,350	-2,539
Acquisition of property, plant and equipment	27	-3,102	-662
Acquisition of intangible assets	27	-163	-142
Acquisition of a subsidiary, net of cash acquired		-2,008	-1,224
Acquisition of other financial investments	11	-9,999	-660
Proceeds from sale of property, plant and equipment	27	108	34
Proceeds from sale of financial investments	11	25,779	0
Interest received	27	8	12
Dividends received		11	651
Net cash used in investing activities		**6,284**	**-4,530**
Cash flows from financing activities			
Growth/decreases in short-term loans	16	-642	642
Proceeds from borrowings	16	2,630	129
Repayment of borrowings	16	-127	-12
Payment of finance lease principal	16	-297	-296
Reduction of share capital	22	-1,241	0
Acquisition of non-controlling interests	29	-5	-50
Dividends paid	22	-3,226	-887
Dividends income tax paid		-218	0
Net cash used in financing activities		**-3,126**	**-474**
Net cash flow		**7,718**	**-2,433**
Cash and cash equivalents at beginning of year		**3,278**	**5,711**
Increase / decrease in cash and cash equivalents		7,718	-2,433
Effect of exchange rate fluctuations on cash held		-4	0
Cash and cash equivalents at end of year	7	**10,992**	**3,278**

The notes on pages 62 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017	**Attributable to owners of the Company**								
EUR'000	**Share capital**	**Share pre-mium**	**Capital reserve**	**Fair value reserve**	**Trans-lation reserve**	**Retained earnings**	**TOTAL**	**Non-Control-ling interests**	**TOTAL**
At 31. December 2016	**11,176**	**804**	**1,242**	**17,969**	**3**	**29,113**	**60,307**	**85**	**60,392**
Comprehensive income 2017									
Profit for the period	0	0	0	0	0	29,129	29,129	3	29,132
Other comprehensive income for the period	0	0	0	-16,367	-3	3	-16,367	0	-16,367
Total comprehensive income	**0**	**0**	**0**	**-16,367**	**-3**	**29,131**	**12,762**	**3**	**12,765**
Transaction with the owners of the Company, recognised directly in equity									
Dividends	0	0	0	0	0	-3,193	-3,193	-33	-3,226
Acquisition of non-controlling interest	0	0	0	0	0	-4	-4	4	0
Total transaction with the owners of the Company	**0**	**0**	**0**	**0**	**0**	**-3,197**	**-3,197**	**-29**	**-3,226**
At 31 December 2017	**11,176**	**804**	**1,242**	**1,602**	**0**	**55,048**	**69,872**	**59**	**69,931**

Further information on share capital and reserves are presented in note 22.

The notes on pages 62 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the Company								
EUR'000	**Share capital**	**Share premium**	**Capital reserve**	**Fair value reserve**	**Translation reserve**	**Retained earnings**	**TOTAL**	**Non-Controlling interests**	**TOTAL**
At 31. December 2015	**12,418**	**804**	**1,218**	**16,827**	**2**	**26,817**	**58,086**	**118**	**58,204**
Comprehensive income 2016									
Profit for the period	0	0	0	0	0	3,219	**3,219**	5	**3,224**
Other comprehensive income	0	0	0	1,142	1	0	**1,143**	0	**1,143**
Total comprehensive income for the year	**0**	**0**	**0**	**1,142**	**1**	**3,219**	**4,362**	**5**	**4,367**
Transaction with the owners of the Company, recognised directly in equity									
Increase of capital reserve	0	0	24	0	0	-24	**0**	0	**0**
Reduction of share capital	-1,242	0	0	0	0	0	**-1,242**	0	**-1,242**
Dividends	0	0	0	0	0	-887	**-887**	0	**-887**
Acquisition of non-controlling interest	0	0	0	0	0	-12	**-12**	-38	**-50**
Total transaction with the owners of the Company	**-1,242**	**0**	**24**	**0**	**0**	**-923**	**-2,141**	**-38**	**-2,179**
At 31 December 2016	**11,176**	**804**	**1,242**	**17,969**	**3**	**29,113**	**60,307**	**85**	**60,392**

Further information on share capital and reserves are presented in note 22.

The notes on pages 62 to 112 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter (address: Paldiski mnt 31, Keila, Estonia) is a company registered in Estonia (registry number 10029524). These consolidated financial statements as at and for the year ended 31 December 2017 comprises AS Harju Elekter (the 'Parent company' or the 'Company') and its subsidiaries (together referred to as the 'Group').

Subsidiaries of AS Harju Elekter	**Domicile**	**Core business**	**Ownership and voting rights, %**	
As at 31 December			**2017**	**2016**
AS Harju Elekter Teletehnika	Estonia	Manufacturing	100.00	100.00
AS Harju Elekter Elektrotehnika	Estonia	Manufacturing	100.00	100.00
Energo Veritas OÜ	Estonia	Retail- and wholesale	80.52	-
Harju Elekter Kiinteistöt Oy	Finland	Administration of Manufacturing Real Estate	100.00	100.00
Satmatic Oy	Finland	Manufacturing	100.00	100.00
Telesilta Oy	Finland	Electrical installation service	100.00	-
Rifas UAB	Lithuania	Manufacturing	100.00	100.00
Harju Elekter AB	Sweden	Intermediary sale	100.00	90.00
Subsidiary of Satmatic Oy				
Finnkumu Oy	Finland	Manufacturing	100.00	100.00
Subsidiary of Rifas UAB				
Automatikos Iranga UAB	Lithuania	Project designing	67.00	67.00

Further information on subsidiaries is provided in Note 29.

AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997; 31.39% of the Company's shares are held by AS Harju KEK, a company registered in Estonia.

The Management Board authorised these consolidated financial statements as at and for the year ended 31 December 2017 for issue on 26 March 2018. According to the Commercial Code of the Republic of Estonia, final approval of the annual report including the consolidated financial statements, which have been prepared by the Management Board and approved by the Supervisory Board, takes place at the annual general meeting.

The Group's core business is the production and sale of power distribution and control equipment for the energy, construction and manufacturing sectors. The Group's activities are described in detail in Note 23 "Segment reporting".

2 Basis of preparation

Under the Estonian Accounting Act, the Parent company's separate primary financial statements (the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are to be disclosed in the notes to the consolidated financial statements. The separate primary financial statements of AS Harju Elekter are disclosed in Note 31 "Primary financial statements of the Parent". The separate primary financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements, except that in the Parent's separate primary financial statements investments in subsidiaries and associates are accounted for using the cost method.

2.1. Statement of compliance

The consolidated financial statements of AS Harju Elekter and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except that available-for-sale financial assets and short-term financial investments which are recognised at fair value.

2.3. Functional and presentation currency

Group entities keep their books and records in the currency of the primary economic environment in which they operate. Estonian, Lithuania and Finnish Group entities use the euro (EUR), the Swedish entity uses the Swedish krona (SEK).

The consolidated financial statements are presented in euros, which is the Parent company's functional and presentation currency. Numerical data is presented in thousands, rounded to the nearest thousand, unless indicated otherwise. The abbreviation EUR'000 stands for a thousand euros.

2.4. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognised in the period of the change and any future periods affected by the change. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The main accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been applied in consideration of the principles of consistency and comparability. The substance and effects of changes in measurements are explained in relevant notes. If the presentation or method of classification of financial statement line items is changed, comparative prior period figures are reclassified accordingly.

2.5. Changes in accounting policies

Effect on financial statements of application of new standards and amendments and new interpretations to standards

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

Amendments to IAS 7

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

According to the Group's assessment, the amendments had no material impact on its financial statements because it had disclosed the information required by the amendments already previously in Note 16.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2017 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments (2014)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions.

This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement,* except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Group does not expect IFRS 9 (2014) to have a material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the entity's operations and the types of financial instruments that it holds. However, the entity believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss model.

IFRS 15 Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018.

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

Contracts whose remuneration may change in certain circumstances, minimum amounts must be recognised if they are not at significant risk of reversal.

Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

According to the Management Board of the Group it is expect that the new standard, when initially applied, will not have a significant impact on the financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated, and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

The Group has not yet fully completed its initial assessment of the potential impact of IFRS 16 however, it is expected that the new standard, when initially applied, will have probably a significant impact on the financial statements, since it will require the entity to recognise in its statement of financial position assets and liabilities relating to operating leases for which the entity acts as a lessee. As at 31 December 2017, the Group had long-term operating lease liabilities of 446 thousand euros (Note 14). As at 1 January 2019 that amount would be recognised in the Group's statement of financial position as an asset and a liability which would increase the size of the Group's statement of financial position.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group, because there are currently no intentions to enter into share-based payment transactions.

Amendments to IAS 40 Transfers of Investment Property

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group does not expect that the amendments will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the interpretation, when initially applied, will have a material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment, then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group does not expect that the Interpretation, when initially applied, will have a material impact on the financial statements as the Group does not have material uncertain tax positions.

Annual Improvements to IFRS 2015-2017 Cycle

Effective for annual periods beginning on or after 1 January 2019.

The *Improvements to IFRSs (2015-2017)* contains four amendments to standards. The main changes were to:

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 *Business Combinations*;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 *Joint Arrangements*;
- clarify that the entity should always account for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that in computing the capitalisation rate for funds borrowed generally, an entity should exclude borrowing costs applicable to borrowings made specifically for obtaining a qualifying asset, only until the asset is ready for its intended use or sale. Borrowing costs related to specific borrowings that remain outstanding after the related qualifying asset is ready for intended use or for sale would subsequently be considered as part of the general borrowing costs of the entity.

None of these changes are expected to have a material impact on the financial statements of the Group.

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all Group entities.

3.1. Basis of consolidation

(a) Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

For acquisitions, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire, less
- the net recognised amount (generally at fair value) of the identifiable assets acquired and liabilities assumed.

If the cost of the acquired shareholding is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in income.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(b) Subsidiaries
Subsidiaries are all entities over which the Parent company has control. Control is assumed if the Parent Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed before.

The consolidated financial statements comprise the financial statements of AS Harju Elekter and its subsidiaries. The financial statements of the subsidiaries are prepared for the same period as the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Non-controlling interest is the portion of subsidiaries' profit or loss and equity in a subsidiary not attributable to the Group. In the consolidated statement of income and other comprehensive income, profit or loss and each component of other comprehensive income are attributed to owners of the Parent and to the non-controlling interests. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to equity holders of the Parent.

(c) Transactions eliminated on consolidation
Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated but only to the extent that there is no indication of impairment.

3.2. Foreign currency translation

(a) Transactions and balances
Foreign currency transactions are translated into the presentation currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of monetary items and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognised in profit or loss.

(b) Financial statements of foreign operations
The results and financial positions of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency. The assets and liabilities of foreign operations are translated into euros at foreign exchange rates ruling at the reporting date.

The Swedish entity uses the Swedish krona (SEK). The income and expenses of the Swedish company are translated into euros at exchange rates at the dates of the transactions. Foreign exchange differences are recognised in other comprehensive income and presented within the translation reserve in equity.

When a foreign operation is sold or control is lost, exchange differences that were recorded in equity are recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated into euros at the closing exchange rates.

3.3. Financial assets

Management determines the classification of its financial assets on initial recognition. The classification depends on the purpose for which the financial assets were acquired.

The Group classifies its financial assets into the following categories: current financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

(a) Current financial assets at fair value through profit and loss
A financial asset is classified as a financial asset at fair value through profit or loss if it is held for trading or upon initial recognition.

A financial asset at fair value through profit or loss is measured at its fair value at each reporting date without any deduction for the transaction costs that may be incurred on its sale or other disposal. A gain or loss on a change in fair value is recognised in profit or loss. The fair value of a listed security is determined based on its quoted bid price at the close of business at the reporting date. The fair value of an unlisted security is established using publicly available information and valuation techniques, which may include comparison with the current fair value of another instrument which is substantially the same and/or discounted cash flow analysis.

A gain or loss on the disposal of a financial asset at fair value through profit or loss as well as any interest and dividend income on the financial asset is recognised in profit or loss for the period. A financial asset at fair value through profit or loss is classified as a current asset when it has been acquired for trading or it is expected to be realised within twelve months.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified current assets, except where the maturity date is more than 12 months after the reporting date. These are classified as non-current assets. The Group’s loans and receivables comprise trade and other receivables and cash and cash equivalents.

- *Cash and cash equivalents* includes cash on hand, demand deposits, and other short-term highly liquid investments with original maturities of three months or less that are subject to an insignificant risk of changes in value. In the statement of cash flows, cash flows from operating activities are reported using the indirect method.
- *Trade receivables* are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

Impairment testing for trade receivables is described in Note 3.9.

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are not cash or cash equivalents and have not been designated to any other category of financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Purchases and sales of financial assets are recognised at the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at cost plus any attributable transaction costs.

The Group's investments in equities are classified as available-for-sale financial assets and are measured at fair value, with any arising gain or loss from a change in fair value recognised in other comprehensive income, except for impairment losses. The fair value of available-for-sale financial assets is their quoted bid price at the reporting date. When available-for-sale financial assets are derecognised, any cumulative gain or loss previously recognised in equity is reclassified to profit or loss for the year. Management uses other available information to measure the fair value of Group's investments in equities which are not publicly traded.

Other financial assets that do not have an active market and whose fair value cannot be measured reliably are measured using the cost method.

3.4. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average cost formula. The cost of finished goods and work in progress comprises the costs of design, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Project based products are measured using the individual cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

3.5. Investment property

Investment property is property held by the Group as the owner or the lessee under a finance lease to earn rentals or for capital appreciation or both. Investment property is measured using the cost model, i.e. investment property is carried at cost less any accumulated depreciation and any impairment losses.

Investment property is depreciated using the same depreciation rates and useful lives as those assigned to similar items of property, plant and equipment (see 3.6.c).

The Group reports the fair value of investment property in Note 12.

3.6. Property, plant and equipment

(a) Recognition and measurement
Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of production overheads, and borrowing costs related to the acquisition, construction or production of qualifying assets.

Where an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items of property, plant and equipment and are assigned depreciation rates that correspond to their useful lives.

(b) Subsequent costs
Parts of some items of property, plant and equipment require replacement or renovation at regular intervals. The costs of such replacements and renovations are recognised in the carrying amount of an item of property, plant and equipment if it is probable that future economic benefits associated with the parts will flow to the Group and their cost can be measured reliably. The carrying amount of a part that is replaced is derecognised. Under the recognition principle provided in the previous paragraph, the costs of the day-to-day servicing of an item are not recognised in the carrying amount of the item. Instead, such costs are expensed as incurred.

(c) Depreciation
Depreciation is charged to expenses on a straight-line basis over the estimated useful life of each item and significant part of an item of property, plant and equipment. Land and construction in progress are not depreciated. Group entities use, in all material respects, uniform depreciation rates.

Estimated useful lives, residual values and deprecation methods are reviewed annually. The effect of any resulting changes is recognised in the current and subsequent periods.

The following estimated useful lives are applied:

Asset class	**Useful life**
Buildings and structures	10 - 33 years
Production plant and equipment	10 years
Other machinery and equipment	5 - 10 years
Vehicles	5 - 8 years
Other equipment and fixtures	3 - 16 years

3.7. Intangible assets

Intangible assets (except goodwill) are amortised on a straight-line basis over their estimated useful lives. Intangible assets are tested for impairment whenever there is any indication of impairment similarly to items of property, plant and equipment.

(a) Goodwill
Acquisition of goodwill is described in the policy Basis of consolidation (Note 3.1.).

The goodwill that has emerged as a result of business combination shall be initially registered at its acquisition value. The useful life of goodwill is indefinite and, therefore, not amortized. However, the possible decrease in goodwill is assessed at every balance date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The goodwill allocated to equity-accounted investees is included in the cost of the investees.

Impairment testing is described in the policy Impairment of assets (Note 3.9.).

(b) Research and development expenditures
Research expenditure is expenditure incurred upon the application of research findings to the development of new products and services. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised as an expense as incurred.

Development expenditures include expenditures incurred in the application of research findings on the development, design or testing of specific new products, services, processes or systems. Development expenditure is capitalised and recognised as an intangible asset if the expenditure can be measured reliably, the Group has technical and financial resources and a positive intention to complete the development of the asset, the Group can use or sell the asset and the probable future economic benefits generated by the asset can be measured.

Capitalised development expenditures are carried at cost less any accumulated amortisation and any accumulated impairment losses. Development expenditure is recognised as an expense on a straight-line basis over its estimated useful life that generally does not exceed five years. Amortisation commences when the Group has started the business activity that was expected to result from the development project.

(c) Other intangible assets
Other intangible assets comprise licenses, software and acquired customer contracts. Acquired licences are recognised at cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the software and prepare it for use. Other acquired intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The useful life of an intangible asset arising from an acquired customer contract is equal to the term of the contractual rights.

Other intangible assets are charged to expenses on a straight-line basis over their estimated useful lives that do not exceed 5 years.

3.8. Non-current assets held for sale

Non-current assets held for sale are items of property, plant and equipment or intangible assets whose sale in the next 12 months is highly probable, i.e. management is actively marketing the asset for sale at a price that is reasonable in relation to its current fair value.

Non-current assets held for sale are classified as current assets and their depreciation or amortisation is discontinued as of the date they are classified as held for sale. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

3.9. Impairment

At each reporting date the Group assesses whether there is any indication that an asset other than an item of inventory or a deferred tax asset may be impaired. If such indication exists, the asset is tested for impairment by estimating its recoverable amount.

(a) Trade receivables
A trade receivable is considered to be impaired when it is reasonable to assume that the Group will not be able to recover the entire amount in accordance with the originally agreed terms and conditions. The difference between carrying amount and the estimated future cash flows discounted at the original effective interest rate is recognised as an impairment loss in the statement of profit or loss. When a trade receivable proves uncollectible, it is written off against the impairment allowance for trade receivables. Subsequent recoveries of amounts previously written off are recognised by reducing loss within the same item where the original impairment loss was recognised. The recoverable amount of receivables measured at amortised cost is calculated as the present value of their estimated future cash flows, discounted at the original effective interest rate. Short-term receivables are not discounted.

An impairment loss in respect of a receivable carried at amortised cost is reversed and the item's carrying amount is increased if the subsequent increase in recoverable amount can be objectively related to an event occurring after the impairment loss was recognised.

(b) Cash-generating unit and goodwill
An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (groups of units) and then, to reduce the carrying amounts of the other assets in the unit (groups of units) on a pro rata basis.

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that the carrying amount of goodwill may be impaired. Impairment is determined by estimating the recoverable amount of the CGU to which goodwill has been allocated.

For the purpose of impairment testing, goodwill is allocated to the Group's CGUs or groups of CGUs that are expected to benefit from the synergies of a business combination. Impairment losses on goodwill are recognised in profit or loss.

(c) Available-for-sale financial asset
When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is permanently impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the book value and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(d) Other assets
The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

(e)Impairment loss
The Group assesses at least at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If such indication exists, the impairment loss is reversed. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised. A reversal of an impairment loss is recognised in profit or loss (within the same item where the original impairment loss was recognised). As an exception, impairment losses on goodwill are not reversed.

An impairment loss recognised for an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

3.10. Leases

A lease that transfers substantially all the risks and rewards of ownership to the lessee is recognised as a finance lease. Other leases are treated as operating leases.

(a) The Group as a lessor
Assets leased out under finance leases are recognised as a receivable at an amount equal to the net investment in the lease. Lease payments receivable are divided into principal repayments and finance income. Finance income is recognised over the lease term using the effective interest rate method.

Assets leased out under operating leases are presented in the statement of financial position according to the nature of the asset, similarly to other items of property, plant and equipment which are carried in the statement of financial position. Operating lease payments are recognised as income on a straight-line basis over the lease term.

(b) The Group as a lessee
Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

3.11. Financial liabilities

Liabilities that are due to be settled within more than one year after the reporting date are classified as non-current liabilities. Liabilities that are due to be settled within 12 months after the reporting date are classified as current liabilities.

(a) Loans and borrowings
Loans and borrowings are recognised initially at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is expensed over the loan term using the effective interest method, except borrowing costs that are eligible for capitalisation.

(b) Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.12. Income tax and deferred tax

(a) Corporate income tax
According to the Estonian Income Tax Act that took effect on 1 January 2000, corporate income tax is not levied on profits earned but dividends distributed. Since 01.01.2015 the effective tax rate has been 20/80 on paid out net dividend. The income tax calculated on dividends is recognised as a liability and an expense when the dividend is declared irrespective of the period for which they are declared or in which they are distributed.

No provision is recognised for income tax payable on a dividend distribution before the dividend has been declared but information on the contingent liability is disclosed in the notes to the consolidated financial statements.

The consolidated statement of profit or loss includes the Swedish, Lithuanian and Finnish subsidiaries' current corporate income tax (calculated on profits earned), changes in deferred tax assets and liabilities and the dividend tax expense of the Estonian Group entities.

(b) Deferred tax
Under the effective Estonian Income Tax Act, there are no differences between the tax bases and carrying amounts of the assets and liabilities of the Estonian Group entities that could give rise to deferred tax assets or liabilities. The profits of the Finnish, Swedish and Lithuanian Group entities are adjusted for temporary differences and taxed in accordance with the laws of their domiciles (see below).

(c) Income tax at the Group's foreign operations
Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised as other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit,
- temporary differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right for this and they relate to income taxes levied by the same authority on the same taxable entity, or on different taxable entities, but it is intended to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

3.13. Employee benefits

(a) Profit-sharing and bonus plans
The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit after certain adjustments.

(b) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to their liability.

3.14. Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be estimated reliably. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (a) the best estimate of the expenditure required to settle the financial obligation at the reporting date and (b) the amount initially recognised less, when appropriate, cumulative amortisation.

3.15. Contingent liabilities

Significant commitments and other obligations which may transform into a liability subject to the occurrence of some uncertain future events are disclosed in the notes to the consolidated financial statements as contingent liabilities. Contingent liabilities are not recognised on the statement of financial position.

3.16. Share capital

(a) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Where any Group entity repurchases the company’s equity instruments (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent company’s equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent company’s equity holders.

3.17. Share-based payments

In the earlier periods, the Group has been equity-settled share-based payment plans. The fair value of services received from the Group’s employees in return for shares is recognised as an expense and within retained earnings in equity during the vesting period (from the grant date of the option until the vesting date). The fair value of services received is determined by reference to the fair value of the equity instruments granted to the employees at the grant date. The sums received in exchange for issue of shares minus direct transaction costs are shown within share capital and share premium in equity.

3.18. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and for which separate budgets are prepared. The management of the company reviews segment reporting regularly in order to provide the segment with the necessary means and to evaluate its productivity.

3.19. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating intra-Group sales.

(a) Sale of goods – wholesale and retail
The Group manufactures and sells electrical distribution systems and control panels and various metal products. Sale of goods is recognised when a Group entity has delivered products to the buyer, the buyer has full discretion over the products and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Revenue is not recognised until all significant risks and rewards of ownership have been transferred to the buyer and either the buyer has accepted the products in accordance with the terms of the sales contract, the time period for rejection has elapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the prices specified in the sales contracts.

The Group operates a chain of retail outlets for electrical appliances. Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually settled in cash or by debit or credit card.

(b) Rendering of services
Revenue from the rendering of services is recognised when the service has been rendered or on the basis of the percentage of completion of the product at balance date. The percentage of completion method is applied to the project products if customers are entitled to make substantial changes in them during the whole production process. The cost method is applied in order to determine the percentage of completion.

The stage of completion is determined on the basis of the relationship between the actual costs incurred by the balance sheet date and the estimated costs of the contract. The actual costs of the contract consist of direct and overhead costs of the construction contract. If the invoices issued to the customer by the balance sheet date are either higher or lower than the revenue calculated under the stage of completion method, then the difference is recognised as a liability or as a receivable in the statement of financial position. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and in full.

(c) Rental income
Rentals earned on investment property are recognised in revenue on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(d) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable becomes impaired, the Group reduces its carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income
Dividend income is recognised when the right to receive payment is established.

3.20. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Parent company by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Parent company by the weighted average number of shares outstanding during the period, considering the effects of all dilutive potential shares.

3.21. Dividend distribution

A dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

3.22. Related parties

For the purposes of these consolidated financial statements, related parties include:

- AS Harju KEK that owns 31.39% of the shares of AS Harju Elekter;
- members of the Parent company’s Management and Supervisory Boards;
- close family members of the above;
- companies controlled by members of the Management and Supervisory Boards.

3.23. Events after the reporting date

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities which became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods. Material events after the balance sheet date not related to transactions in the reporting period or previous periods are not reported in the statement of financial position but they are disclosed in the notes to the financial statements.

4 Accounting estimates and judgments

The preparation of financial statements in conformity with IFRS EU requires use of accounting estimates. It also requires management to exercise its judgment in the process of selecting and applying accounting policies.

Estimates and judgments reviewed on an ongoing basis and they are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

4.1. The most important accounting assessments given by the management during the preparation of the annual financial statement

(a) Useful lives of investment property and property, plant and equipment (Notes 3.5, 3.6, 12 and 13)
Management estimates the useful lives of investment property and property, plant and equipment based on production volumes and conditions, historical experience and future prospects. Depreciation rates are increased if the useful life of an asset proves shorter than originally estimated. Technically obsolete assets are either written down or written off.

(b) Fair value of investment properties (Note 12)
The Group publishes the fair value of investment properties in the financial statement and uses discounted cash flow analysis method to evaluate it.

(c) Fair value of financial investment (Note 11)
The Group publishes the fair value of Skeleton Technologies Group OÜ in the financial statement and uses emission price of shares used in investment round to evaluate it.

4.2. Significant judgments related to selection and implementing of accounting policies

(a) Subsidiaries (Note 29)
The Group has reported the acquisition of the subsidiary Harju Elekter Kiinteistöt Oy as acquisition of fixed assets. Since the acquired company was not involved in separately identifiable business activities, the clauses of IFRS 3 standard "Business combinations" that regulate the reporting about business combinations, have not been applied when reporting about the acquisition of the company. The main asset of the acquired company is its investment property (which is being leased to the subsidiary of the Group, Finnkumu Oy) and, therefore, the acquisition of the company has been reported in compliance with IAS 16 as an acquisition of fixed assets.

5 Financial risk management

5.1. Financial risk factors

In its everyday activities, the Group faces different risks. Management of those risks is an important and inherent part of its business activity. The Group's capability to identify, measure and control different risks is an important input for its profitability. The Group's management defines risk as a possible negative deviation from the expected financial result. The main risk factors are market risk (including currency risk, price risk and interest rate brisk), credit risk, liquidity risk, operational risk and capital risk.

The Group's risk management is based on the requirements and guidelines of the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, compliance with generally accepted accounting and reporting standards and relevant best practice, and internal regulations and risk management policies. At a general level, risk management includes identification, assessment and control of risks. The Parent company's Management Board has the key role in managing risks and approving risk procedures, both consolidated and individually, at the level of each subsidiary and Parent company. The Parent company's Supervisory Board monitors the measures taken by the Management Board for mitigating risks.

5.2 Market risk

(a) Currency risk
The Group operates in Estonia (currency EUR), Finland (currency EUR), Sweden (currency SEK) and Lithuania (currency EUR).

To mitigate currency risks, the Group concludes all major foreign contracts in euros. The Group does not have any material receivables (Note 8) or payables denominated in foreign currencies that are not pegged to the euro. All existing long-term loan and finance lease contracts (Note 16) have been made in euros. Therefore, they are treated as liabilities without currency risk.

Based on the above, the Group is not materially exposed to currency risks and, therefore, did not use separate instruments to hedge its currency risks in 2017 or 2016. Information on foreign exchange gains and losses is disclosed in Note 24.

EUR'000	Note	EUR	NOK	SEK	2017 TOTAL	EUR	USD	SEK	2016 TOTAL
Cash and cash equivalents	7	10,793	10	189	10,992	3,120	141	17	3,278
Trade receivables	8	13,368	-	207	13,575	8,447	-	33	8,480
Available-for-sale financial assets	11	14,619	-	0	14,619	21,969	-	0	21,969
TOTAL		**38,780**	**10**	**396**	**39,186**	**33,536**	**141**	**50**	**33,727**
Current portion of interest-bearing loans and borrowings	16	-625	-	0	-625	-804	-	0	-804
Trade payables	18	-9,078	-	-1	-9,079	-6,150	-	-3	-6,153
Other short-term liabilities	18	-3,719	-	-4	-3,723	-2,120	-	-10	-2,130
Non-current portion of interest-bearing loans and borrowings	16	-2,910	-	0	-2,910	-1,167	-	0	-1,167
TOTAL		**-16,332**	**-**	**-5**	**-16,337**	**-10,241**	**-**	**-13**	**-10,254**
Net exposure		**22,448**	**10**	**391**	**22,849**	**23,295**	**141**	**37**	**23,473**

(b) Price risk

The Group is exposed to equity price risk through its investments in equity instruments. Fluctuations in the market price of the Group's 9.84% interest in Skeleton Technologies Group OÜ, reported under other long-term financial investments, may have a significant impact on the value of the Group's assets. After the funding round of 2016, the value of the investment grew by 1.6 million euros.

The gain on the change in value was recognised in other comprehensive income. Information on the investment in Skeleton Technologies Group OÜ is presented in Note 11. Since the latest funding round, there have been no events which would indicate that the fair value of the investment has changed materially and the business performance and development of Skeleton Technologies OÜ have corresponded to the forecasts on which investors relied during the latest funding round.

Short-term financial investments comprise a term deposit, which is not exposed to the risk of material fluctuations in market value, and highly liquid equities listed on the Finnish stock exchange. The fair value of the short-term financial assets decreased by -64 thousand euros in the reporting year.

(c) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short-term and long-term loans and borrowings that have floating interest rates. Loans and borrowings with floating interest rates expose the Group to cash flow interest rate risk. Above all, the Group's exposure to interest rate risk depends on changes in Euribor (Euro Interbank Offered Rate). At 31 December 2017, the Group's long-term loans and borrowings had floating interest rates linked to 3 month Euribor and short-term loans and borrowings had floating interest rates linked to 1 month Euribor and 6 month Euribor (Note 16).

The interest rate profile of the Group's interest-bearing loans and borrowings is as follows:

As at 31 December EUR'000	Note	**2017**	**2016**
Fixed rate loans and borrowings	16	238	288
Floating rate loans and borrowings	16	3,297	1,683
Total		**3,535**	**1,971**

An average change of one percentage point in interest rates as during the reporting period would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2016.

As at 31 December	EUR'000	**2017**	**2016**
One percentage point increase		-33	-20
One percentage point decrease		33	20

5.3. Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation and thus the Group will not receive the cash flows to which it is entitled. The Group's main sources of credit risk are trade receivables and loans granted.

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest.

Exposure to credit risk is mitigated by monitoring the customers' settlement behaviour and ability to meet commitments on an ongoing basis. Customers are set individual risk limits based on internal and external ratings. Use of and adherence to of credit limits is regularly monitored. Sales to retail customers are settled in cash or by debit or credit cards issued by recognised banks. Therefore, sales to retail customers do not involve credit risk. The Group has established rules, which set out the circumstances in which litigation proceedings should be initiated in order to achieve debt recovery.

The maximum credit risk exposure is the value of trade receivables, less write-downs for impairment, and deposits with banks and financial institutions.

As at 31 December	EUR'000	Note	**2017**	**2016**
Cash and cash equivalents		7	10,992	3,278
Trade receivables		8	12,028	8,442
Total			**23,020**	**11,720**

At the reporting date, the Group's credit risk exposure was 23.0 million euros (31 December 2016: 11.7 million euros). Although settlement of receivables may be influenced by various economic factors, management is of the opinion that the Group does not have any significant risk of loss that would exceed the impairment allowance already recognised.

From the carrying amount of trade receivables as at 31 December the outstanding part as at 15 March 2018 is 0.8 million euros.

5.4. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty associated with financial obligations that have to be settled by delivering cash or another financial asset. Management monitors cash flow forecasts on an on-going basis, reviewing the availability and sufficiency of financial resources required to meet the Group's commitments and to finance the Group's strategic objectives.

Liquidity risk is mitigated with different financial instruments such as loans and finance leases. Short-term and long-term loan agreements have concluded during the reporting period to mitigate the possible liquidity risk (Note 16). At the reporting date the Group's free cash totalled 11.0 million euros and loans and borrowings totalled 3.5 million euros (Note 16), trade payables and other short-term liabilities totalled 12.8 million euros (Note 18), total liabilities 20.0 million euros. The Group's current ratio and the quick ratio for the year 2017 were respectively 2.4 and 1.6 and for the year 2016 respectively 2.1 and 1.3.

5.5. Capital management

In capital management, the main objective is to ensure sustainable development of the Group so as to ensure return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

According to established practice, the Group monitors its capital through debt to capital ratio and equity ratio. Debt to capital ratio is the ratio of net debt to total capital. Net debt is found by deducting cash and cash equivalents from total debt (short-term and long-term interest-bearing liabilities in the consolidated statement of financial position). Total capital consists of equity recognised in the consolidated statement of financial position plus net debt. Equity ratio is found by dividing total equity by total assets.

The laws of the Parent company's domicile set out minimum requirements to the equity of companies. In line with the law, the equity of a limited company defined as company has to amount to at least half of its share capital and no less than 25,000 euros. In the reporting period, the Group was in compliance with all legal and prudential requirements to equity.

Debt to capital ratio and equity ratio:

As at 31 December EUR'000	Note	**2017**	**2016**
Interest-bearing loans and borrowings	16	3,535	1,971
Cash and cash equivalents	7	-10,992	-3,278
Net debt		-7,457	-1,307
Total equity		69,931	60,392
Total capital		62,474	59,085
Debt to capital ratio		**-11.9%**	**-2.2%**
Total assets		89,977	73,968
Equity ratio		77.7%	81.6%

5.6. Determination of fair value (Note 6)

The book value of cash, receivables, short-term loans and borrowings has been expressed in their approximate reasonable value of their fair value, therefore, the Group has not disclosed their fair value. According to the management of the Group the fair values of long-term loans and borrowings do not differ significantly from their carrying amounts because their interest rates are regularly re-priced to market rates.

The fair value of long-term financial liabilities is estimated for disclosure purposes by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on their quoted market prices at the reporting date.

In addition, the Group discloses in the financial statements the fair value of investment property, which is measured at the end of each reporting period. The Group has measured the fair value of investment property using the discounted cash flow method. Discounted cash flows are found by forecasting the future rental income from a property (including rental per square metre and the occupancy rate) and associated operating expenses. Depending on how easily tenants can cancel their rental agreements and how probable the cancellations are, the Group's management analyses either the property's existing cash flows or the market's average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate that best reflects current market assessments of the expected rate of return and the risks specific to the asset.

The Group divides financial instruments into three levels depending on their revaluation:

Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.

Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs.

This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.

Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

6 Financial instruments

6.1. Fair values of financial instruments (Note 5.6)

At 31 December 2017 EUR'000	Note	Carrying amount Loans and recei-vables	Available for sale financial assets	Other financial liabilities	TOTAL	Fair value
Cash and cash equivalents	7	10,992	0	0	10,992	-
Trade and other receivables	8	13,575	0	0	13,575	-
Available-for-sale financial assets (fair value; listed)	11	0	4,935	0	4,935	4,935
Available-for-sale financial assets (fair value; unlisted)	11	0	9,662	0	9,662	9,662
Available-for-sale financial assets (cost method)	11	0	22	0	22	-
Total financial assets		**24,567**	**14,619**	**0**	**39,186**	**14,597**
Interest-bearing loans and borrowings	16	0	0	-3,535	-3,535	-3,535
Trade payables	18	0	0	-9,079	-9,079	-
Other payables	18	0	0	-3,723	-3,723	-
Total financial liabilities		**0**	**0**	**-16,336**	**-16,336**	**-3,535**

At 31 December 2016 EUR'000	Note	Carrying amount Loans and recei-vables	Available for sale financial assets	Other financial liabilities	TOTAL	Fair value
Cash and cash equivalents	7	3,278	0	0	3,278	-
Trade and other receivables	8	8,480	0	0	8,480	-
Available-for-sale financial assets (fair value; listed)	11	0	17,306	0	17,306	17,306
Available-for-sale financial assets (fair value; unlisted)	11	0	4,662	0	4,662	4,662
Available-for-sale financial assets (cost method)	11	0	22	0	22	-
Total financial assets		**11,758**	**21,990**	**0**	**33,748**	**21,968**
Interest-bearing loans and borrowings	16	0	0	-1,971	-1,971	-1,971
Trade payables	18	0	0	-6,153	-6,153	-
Other payables	18	0	0	-2,130	-2,130	-
Total financial liabilities		**0**	**0**	**-10,254**	**-10,254**	**-1,971**

Available-for-sale financial assets in their fair value (listed) are classified as belonging to level 1 on the basis of the method of evaluating fair value, while available-for-sale financial assets in their fair value (unlisted), interest-bearing loans and borrowings are classified as belonging to level 3.

6.2. Credit quality of financial assets

Ageing of trade receivables

As at 31 December	EUR'000	Note	2017	2016
Not past due			10,195	7,315
Up to 3 months past due			1,606	789
3 to 6 months past due			162	231
Over 6 months past due			274	313
Total		8	**12,237**	**8,648**

7 Cash and cash equivalents

As at 31 December	EUR'000	2017	2016
Cash on hand		5	4
Current accounts		10,987	3,274
Cash and cash equivalents		**10,992**	**3,278**

8 Trade and other receivables

As at 31 December	EUR'000	2017	2016
Trade receivables			
Trade receivables		12,237	8,648
Allowance for impairment		-209	-206
Total trade receivables		**12,028**	**8,442**
Due from customers for contract work		1,496	0
Other short-term receivables		15	17
Other accrued income		36	21
Total receivables		**13,575**	**8,480**

A receivable is written down when it is reasonable to assume that the Group will not be able to recover the entire amount in accordance with the originally agreed terms and conditions. Indications of impairment of a receivable include the debtor's significant financial difficulty, it being probable that the debtor will enter bankruptcy, and settlement defaults or delays (receivable is over 180 days past due).

Movements in allowance for impairment of receivables

For the year ended 31 December	EUR'000	2017	2016
At 1 January		-206	-231
Receivables arising on the acquisition of a subsidiary		-5	0
Items expensed as doubtful		-54	-5
Recovery of doubtful items		0	30
Doubtful items written off as irrecoverable		56	0
At 31 December		**-209**	**-206**

Expenses from impairment of receivables are recognised 12 thousand euros as cost of sales and 42 thousand euros as distribution costs in the statement of profit or loss in 2017. In 2016, 5 thousand euros was recognised as the distribution costs.

Other classes within trade and other receivables do not contain impaired items.

9 Prepayments and prepaid income tax

As at 31 December EUR'000	Note	**2017**	**2016**
Prepaid taxes	19	921	373
Prepaid expenses		253	422
Total prepayments		**1,174**	**795**

10 Inventories

As at 31 December EUR'000	**2017**	**2016**
Raw and other materials	7,868	5,660
Work in progress	2,487	2,553
Finished goods	1,399	897
Merchandise purchased for resale	1,283	602
Total	**13,037**	**9,712**
Items written down to net realisable value	0	146
Expenses from write-down of inventories during the year	3	64

11 Other long-term financial investments

As at 31 December EUR'000	Note	2017	2016
Current financial assets at fair value through profit and loss			
Term deposits		5,000	0
Investment in securities		4,935	0
Available-for-sale equity securities (fair value)			
PKC Group Oyj shares		0	17,306
Skeleton Technologies Group OÜ share		4,662	4,662
Available-for-sale financial assets (cost method)		22	22
Total		**14,619**	**21,990**
Changes during the year			
1. Current financial assets at fair value through profit and loss			
Carrying amount at 1 January		-	-
Additions		9,999	-
Loss on change in fair value	24	-64	-
Carrying amount at 31 December		**9,935**	**-**
2. Available-for-sale equity securities (fair value)			
Carrying amount at 1 January		21,969	17,767
Additions		0	660
Sale of shares at sales price		-25,779	0
Sales gain		8,472	0
Reclassification		0	2,400
Gain on change in fair value		0	1,142
Carrying amount at 31 December		**4,662**	**21,969**
3. Available-for-sale financial assets (cost method)			
Carrying amount at 1 January		22	2,422
Reclassification		0	-2,400
Carrying amount at 31 December		**22**	**22**
Total carrying amount at 31 December		**14,619**	**21,990**

PKC Group Oyj share	**2017**	**2016**
Number of the shares (1000)	-	1,095
Ownership (%)	-	4.5
Market price at 31 December (EUR)	-	15.81
Carrying amount of PKC Group Oyj shares at 31 December	-	17,306

On 19 January 2017, Motherson Sumi Systems Limited and the Management Board of PKC Group Oyj signed a merger agreement. The shareholders in PKC Group Oyj were made a takeover bid at a price of 23.55 euros per share. AS Harju Elekter received for the shares 25.78 million euros by 30 March, earning one-off finance income of 24.84 million euros (Note 24).

In April of reporting year, the Group opened a one-year term deposit from LHV Bank for a value of 5.0 million euros. The interest income from short-term investments at the end of the year was 11 thousand euros.

In the third quarter, the Group placed 5 million euros into highly liquid equities listed on the Finnish stock exchange. The fair value of the short-term financial assets decreased by a total of 64 thousand euros in the reporting year. The change in fair value was reflected in the loss of the reporting period.

On June 3, 2015 AS Harju Elekter acquired a 10% holding in Skeleton Technologies Group OÜ, a company that develops and produces ultracapacitors. The determination of fair value of shares is a complicated process because of the lack of an active market, requiring assumptions and decisions that have substantial influence to their value. Skeleton Technologies Group OÜ is a company who ramps up its production and whose future cash flows are largely unpredictable. In August 2016 a new investor was involved and in the course of an additional round of funding AS Harju Elekter invested in the company 660 thousand euros. The management of the Group assessed the fair value of ownership interest in the company on the basis of the price of new shares issued in the previous round of funding. The share of AS Harju Elekter decreased after the round of investment, dropping to 9.84%, while the recalculation of ownership interest increased the value of the financial investment by 1.6 million euros. Since the latest funding round, there have been no events which would indicate that the fair value of the investment has changed materially and the business performance and development of Skeleton Technologies OÜ have corresponded to the forecasts on which investors relied during the latest funding round.

12 Investment property

EUR'000	Land	Buildings	Total
At 31 December 2015			
Cost	2,582	15,155	**17,737**
Accumulated depreciation	0	-4,811	**-4,811**
Carrying amount	**2,582**	**10,344**	**12,926**
Construction in progress	0	64	**64**
Total	**2,582**	**10,408**	**12,990**
Movements in 2016			
Additions	0	3,111	**3,111**
Depreciation charge	0	-509	**-509**
Reclassification	0	-2,319	**-2,319**
Total	**0**	**283**	**283**
At 31 December 2016			
Cost	2,582	10,967	**13,549**
Accumulated depreciation	0	-3,331	**-3,331**
Carrying amount	**2,582**	**7,636**	**10,218**
Construction in progress	0	3,055	**3,055**
Total	**2,582**	**10,691**	**13,273**
Movements in 2017			
Additions	543	3,522	**4,065**
Depreciation charge	0	-490	**-490**
Reclassification	0	1,033	**1,033**
Total	**543**	**4,065**	**4,608**
At 31 December 2017			
Cost	3,125	18,829	**21,954**
Accumulated depreciation	0	-4,632	**-4,632**
Carrying amount	**3,125**	**14,197**	**17,322**
Construction in progress	0	559	**559**
Total	**3,125**	**14,756**	**17,881**

The Group's investment properties are of a specialised nature, comprising production and office buildings in Estonia: Keila, Saue municipality and Haapsalu.

On 29 August, AS Stera Saue opened a new factory, with 3,400m^2 of production space, in the Allika Industrial Park owned by AS Harju Elekter. Next year, AS Harju Elekter will be building an additional 4,000m^2, followed by another 3,000m^2 of new production space for AS Stera Saue, with the total amount of production space rented by AS Stera Saue will be growing to 10,400m^2.

During the reporting period investment property that was formerly leased to PKC Eesti AS, was reclassified because the Group started to use the buildings in its production.

The fair value of investment property calculated on the basis of cost method remains, according to the estimations of the management, 22.1 million euros. The estimation of the management is based on the discounted cash flow method that takes into account the valid lease agreements, the growth rate established by them, the average vacancy rate in the market and the estimated change in the consumer price index. Future cash flows were discounted by 11%. As to investment property the state of the real estate that is subject to a commercial lease, the duration of contracts and the prospect of renting it out were evaluated. Subject to the method of fair value evaluation the investment property and its fair value has been classified to level 3 (Note 5.6).

In 2017, investment property direct maintenance and repair costs were 280 (2016: 217) thousand euros. The information on income from rent is presented in Note 14.

As of 31.12.2017 the Group's contractual obligations for the acquisition of investment property in subsequent periods amounted to 0.8 (31.12.2016: 3.5) million euros.

13 Property, plant and equipment

13.1. Movements in property, plant and equipment

EUR'000	Note	Land	Buildings	Plant and equipment	Other items	Total
At 31 December 2015						
Cost		277	8,336	7,439	1,058	**17,110**
Accumulated depreciation		0	-2,828	-5,483	-820	**-9,131**
Carrying amount		**277**	**5,508**	**1,956**	**238**	**7,979**
Construction in progress		0	26	5	0	**31**
Total		**277**	**5,534**	**1,961**	**238**	**8,010**
Movements in 2016						
Additions		181	182	187	125	**675**
Additions through acquisition of subsidiaries	29	183	668	0	0	**851**
Disposals		0	0	-3	0	**-3**
Depreciation charge for the year		0	-323	-446	-111	**-880**
Reclassification		0	2,319	0	0	**2,319**
Total		**364**	**2,846**	**-262**	**14**	**2,962**
At 31 December 2016						
Cost		641	11,337	7,317	1,118	**20,413**
Accumulated depreciation		0	-3,124	-5,621	-866	**-9,611**
Carrying amount		**641**	**8,213**	**1,696**	**252**	**10,802**
Construction in progress		0	167	3	0	**170**
Total		**641**	**8,380**	**1,699**	**252**	**10,972**
Movements in 2017						
Additions		0	1,107	1,623	359	**3,089**
Additions through acquisition of subsidiaries		0	0	9	25	**34**
Disposals		0	0	-78	-18	**-96**
Depreciation charge for the year		0	-489	-370	-124	**-983**
Reclassification		0	-1,033	-1	1	**-1,033**
Total		**0**	**-415**	**1,183**	**243**	**1,011**
At 31 December 2017						
Cost		641	11,292	7,438	1,337	**20,708**
Accumulated depreciation		0	-3,579	-5,563	-842	**-9,984**
Carrying amount		**641**	**7,713**	**1,875**	**495**	**10,724**
Construction in progress		**0**	**252**	**1,007**	**0**	**1,259**
Total		**641**	**7,965**	**2,882**	**495**	**11,983**

As at 31 December 2017 the Group had no contractual obligations related to the acquisition of property, plant and equipment in subsequent periods.

At 31 December 2017, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was 2,732 (31 December 2016: 3,380) thousand euros.

During the reporting period, the total cost of the Group's property, plant and equipment that were written off and sold was 706 thousand euros, included buildings were 34 thousand euros, plant and equipment 504 thousand euros and other items 168 thousand euros. The written off items of property, plant and equipment were fully depreciated.

13.2. Property, plant and equipment acquired with finance lease

EUR'000	Buildings	Plant and equipment	Total
At 31 December 2016			
Cost	1,905	468	**2,373**
Carrying amount	1,481	402	**1,883**
At 31 December 2017			
Cost	1,905	468	**2,373**
Carrying amount	1,420	352	**1,772**

Information on finance lease liabilities and lease terms is disclosed in Note 16.

13.3. Property, plant and equipment leased out under operating leases

	At 31 December	
EUR'000	**2017**	**2016**
Plant and equipment		
Cost of items leased out	17	17
Accumulated depreciation	-16	-14
Carrying amount at end of period	**1**	**3**

The Group has leased out production plant and equipment under operating leases.

14 Operating leases

For the year ended 31 December EUR'000	Note	**2017**	**2016**
Lease income			
- on investment property		1,742	2,214
- on plant and equipment		2	2
Total	24	**1,744**	**2,216**
Lease expense			
Land		35	35
Office, commercial and production premises		170	95
Vehicles		166	154
Other		15	9
Total		**386**	**293**

In the statement of profit or loss, lease income is recognised in revenue; the expenses and depreciation related to assets that have been leased out are recognised in the cost of sales.

Investment property lease agreements have been concluded for the term of 1 to 9 years. Changes in lease term and conditions are renegotiated before the end of the lease term, otherwise the lease agreements will extend automatically by one year. Lease agreements are cancellable with a 1-12 month advance notice.

Future lease payments under non-cancellable operating leases

As at 31 December	EUR'000	2017	2016
Lease income			
< 1 year		1,783	1,539
1-5 years		5,565	4,706
> 5 years		3,248	3,648
Total lease income		**10,596**	**9,893**
Lease expenses			
< 1 year		328	106
1-5 years		446	210
Total lease expenses		**774**	**316**

15 Intangible assets

15.1. Movements in intangible assets

EUR'000	Note	Goodwill	Develop-ment expenditure	Licenses	Other	TOTAL
At 31 December 2015						
Cost		4,860	277	1,324	-	6,461
Accumulated amortisation		0	-171	-799	-	-970
Carrying amount		**4,860**	**106**	**525**	**-**	**5,491**
Movements in 2016						
Additions		0	28	119		147
Amortisation charge for the year		0	-27	-180		-207
Total		**0**	**1**	**-61**		**-60**
At 31 December 2016						
Cost		4,860	305	1,443	-	6,608
Accumulated amortisation		0	-198	-979	-	-1,177
Carrying amount		**4,860**	**107**	**464**	**-**	**5,431**
Movements in 2017						
Additions		0	97	61	-	158
Soetatud tütarettevõtte ostuga	29	510	0	0	1,233	1,743
Amortisation charge for the year		0	-36	-181	-455	-672
Total		**510**	**61**	**-120**	**778**	**1,229**
At 31 December 2017						
Cost		5,370	402	1,504	1,233	8,509
Accumulated amortisation		0	-234	-1,160	-455	-1 849
Carrying amount		**5,370**	**168**	**344**	**778**	**6,660**

Development expenditure comprises direct costs related to the production and testing of products. Licences are mainly product manufacturing licences and computer software.

The Group has only goodwill as an intangible asset with an indefinite useful life.

With the acquisition of the subsidiary Telesilta Oy in 2017, the Group recognised as intangible assets customer contracts of 541 thousand euros which will be amortised to expenses within 3 years and open orders of 689 thousand euros which will be amortised in full in 2018. In the reporting year, 455 thousand euros were charged to the expense (Note 29).

15.2 Impairment testing for goodwill

Positive goodwill has arisen on the acquisition of investments in subsidiaries.

In 2017, AS Harju Elekter purchased 100% interest in Telesilta Oy, a Finnish electrical engineering company specialising in work for the shipbuilding industry, and an 80.52% interest in Energo Veritas OÜ, a company selling electrical materials and equipment. In connection with the acquisition of the subsidiaries, goodwill grew by 510 thousand euros in total.

Previously recorded goodwill of 4,860 thousand euros arose in 2014 when AS Harju Elekter acquired 100% interest in the subsidiary Finnkumu Oy.

Goodwill is related to the cash-generating capabilities of the subsidiary. Therefore, for the purpose of impairment testing, goodwill is allocated to subsidiary which represents the lowest level within the Group at which goodwill is monitored for internal management purposes (cash-generating units). The value in use of the subsidiary was determined using the discounted cash flow method and it was compared with the carrying amount of the investment including goodwill.

General assumptions for determining value in use

The following are management's key assumptions and estimates on the basis of which the cash-generating unit (CGU) including goodwill were tested for impairment. Management's estimates were based on historical experience but also took into account the market situation and other relevant information at the date the impairment test was performed:

- The forecast period was 2019-2022 plus the terminal year.
- Discounted cash flows were determined on the basis of the discount rate of 9.8%.
- The year growth rate of 1% was used in the impairment test.

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. The management of the Group carried out a sensitivity analysis of all essential inputs and estimates used. They did not find any inputs or estimates whose alteration in reasonable limits would lead to the need to write down the value of the Group.

16 Interest-bearing loans and borrowings

16.1. Interest-bearing loans and borrowings at 31 December

EUR'000	Note	**2017**	**2016**
Current interest-bearing loans and borrowings			
Short-term bank loans		0	642
Current portion of long-term bank loans		511	54
Current portion of lease liabilities		114	108
Total current interest-bearing loans and borrowings		**625**	**804**
Non-current portion of long-term bank loans		2,409	363
Non-current portion of lease liabilities		501	804
Total non-current interest-bearing loans and borrowings		**2,910**	**1,167**
Total interest-bearing loans and borrowings		**3,535**	**1,971**
Interest-bearing loans and borrowings at beginning of the year		**1,971**	**1,208**
Changes during the year			
Increase (+)/decrease (-) in short-term loans		-642	642
Received long-term loans		2,630	129
Received long-term loans through acquisition of subsidiaries	29	0	300
Repayment of borrowings		-127	-12
Settlement of non-current finance lease liabilities		-297	-296
Interest-bearing loans and borrowings at end of the year		**3,535**	**1,971**

16.2. Details of short-term bank loans

At 31 December (EUR'000)

Base currency	Balance		Loan limit		Interest rate
	2017	**2016**	**2017**	**2016**	**2017**
EUR	-	-	600	600	1month euribor+1.0%
EUR	-	-	500	250	6 month euribor+2.5%
EUR	-	452	2,000	1,100	3 month euribor+0.65%
EUR	-	190	1,000	2,000	3 month euribor+1.3%

Information on assets pledged as loan collateral is presented in Note 17.

16.3. Details of long-term bank loans

At 31 december (EUR'000)

Base currency	Balance		Loan limit		Interest rate	Repayment
	2017	**2016**	**2017**	**2016**	**2017**	period
EUR	238	288	0	0	2.0%	30.09.2022
EUR	2,682	129	2,994	4,900	3 month euribor+0.95%	24.10.2021

Information on assets pledged as loan collateral is presented in Note 17.

16.4. Finance lease liabilities

Present value of lease payments

EUR'000	Present value
At 31 December 2015	**1,208**
Finance lease payments made	-296
At 31 December 2016	**912**
Finance lease payments made	-297
At 31 December 2017	**615**

In most lease contracts the base currency is the euro. At 31 December 2017, the interest rates of finance lease contracts were in the range of 1.5% to 2.07% (31 December 2016: 1.5% to 1.9%). In 2017, the weighted average effective interest rate of finance lease liabilities was 1.66 % (2016: 1.5 %).

16.5. Finance lease liabilities by maturities

EUR'000	<1 year	1-5 years	Total
At 31 December 2016			
Minimum amount of lease payments	310	625	935
Future finance charges	-12	-11	-23
Present value of lease payments	**298**	**614**	**912**
At 31 December 2017			
Minimum amount of lease payments	311	314	625
Future finance charges	-7	-3	-10
Present value of lease payments	**304**	**311**	**615**

Lease payments are made monthly.

17 Loan collateral and pledged assets

As at December 31

Pledged assets		**2017**	**2016**
Shares in PKC Group Oyj	Number of shares	-	693,638
	Carrying amount of shares EUR'000	-	10,966

At the reporting date, no shares were pledged. Until March 2017 when all commitments under the bank loan agreements had been fully satisfied, the Group's shares in PKC Group Oyj were pledged to the bank. On 19 January 2017, Motherson Sumi Systems Limited and the Management Board of PKC Group Oyj signed a merger agreement under which the wiring harness businesses of Motherson Sumi Systems Limited and PKC Group Oyj were combined. The shares in PKC Group Oyj were sold on 22 March 2017 (Note 11).

At 31 December

Pledged assets in residual value	2017	2016
*Commercial pledge set to movable property	500	500
*Investment properties	3,040	3,040
**Land and buildings	370	370

*The Group has concluded a short-term and long-term investment loan agreements with Swedbank AS. The Parent company's movable property has been encumbered with commercial pledge for the benefit of Swedbank AS and investment property has encumbered with morgages. The value of mortgages are set to 7.3 million euros. Thanks to the properties secured by pledges and mortgages the Group has the opportunity to use a short-term loan of up to 1.0 million euros and long-term loan of up to 3.0 million euros. As of the reporting date 2.7 million euros of long-term loans secured by commercial pledge and mortgages had been taken into use (Note 16).

**The Group has encumbered certain land and a building with a mortgage for the benefit of Kurikan Osuuspankki in order to cover an investment loan. Secured by the pledged property the Group took a long-term loan of 300 thousand euros. As of the reporting date the remaining loan was 238 thousand euros (Note 16).

18 Trade and other payables

As at 31 December EUR'000	2017	2016
Trade payables	**9,079**	**6,153**
Other short-term liabilities		
Miscellaneous payables	6	5
Payables to employees	3,053	1,935
Other accrued expenses	664	190
Total	**3,723**	**2,130**
Total trade and other payables	**12,802**	**8,283**

Trade payables

As at 31 December EUR'000	2017	2016
Trade payables		
Payable for goods and services	8,790	5,561
Payable for property, plant and equipment	0	13
Payable for investment property	289	574
Payable for intangible assets	0	5
Total	**9,079**	**6,153**

19 Taxes

As at 31 December	EUR'000	Note	2017	2016
Prepaid taxes				
Value added tax			861	346
Prepaid income tax			56	24
Social security tax			4	3
Total		9	**921**	**373**
Tax liabilities				
Value added tax			1,389	477
Income tax liability			270	133
Personal income tax			267	236
Social security tax			386	345
Other taxes			64	17
Total			**2,376**	**1,208**

20 Provisions

(EUR '000)	Warranties provision	Other provisions	TOTAL
At 1 January	**15**	**0**	**15**
Provisions made during the year	42	13	55
Provisions used during the year	-46	0	-46
At 31 December	**11**	**13**	**24**

Warranties provisions are recognised to cover expected warranty expenses. Under the sales agreements, the Group grants products sold a one-year warranty during which it has to repair or replace substandard and defective products free of charge.

21 Contingent liabilities

21.1. Corporate income tax

As at 31 December (EUR'000)	2017	2016
Consolidated retained earnings	55,048	29,113
Maximum possible dividend	46,959	25,422
Income tax payable on the maximum possible dividend	8,089	3,691

The maximum possible income tax liability has been calculated under the assumption that the net dividend and the related income tax liability cannot exceed retained earnings as at 31 December 2017.

The contingent income tax liability was calculated on the basis of the tax rate of 20/80, valid since 1 January 2015. The income tax, accounted outside of Estonia, has been taken into account.

21.2. Guarantees

The Group has issued letters of guarantee on behalf of the subsidiaries to secure the Group's current payment obligations to third parties. The letters of guarantee will expire at the end of 2018. The reported amount reflects the maximum amount that third parties may claim from the Group if the Group is unable to meet its contractual obligations. According to management's assessment, the probability that the Group might incur additional expenditure in connection with the guarantees is remote.

As at 31 December (EUR '000)	**2017**	**2016**
Payment guarantees	1,917	-

21.3 Potential liabilities arising from tax inspection

Tax authorities have neither launched nor performed tax inspections or single case reviews at group entities. The tax authorities have the right to verify the Group's tax records up to 5 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

22 Capital and reserves

22.1. Share capital and share premium

As at 31 December	Unit	**2017**	**2015**
Share capital	EUR'000	11,176	11,176
Number of shares issued (fully paid)	Pc'000	17,740	17,740
Share premium	EUR'000	804	804

As at 31.12.2017 the number of ordinary shares (without par value) of AS Harju Elekter amounted to 17,739,880.

According to the articles of association, the maximum authorised share capital amounted to 14.0 million euros and minimum to 3.5 million euros.

22.2. Dividend per share

In line with the profit distribution resolution, in 2017 the Group distributed for 2016 a dividend of 0.18 euros per share, i.e. 3,226 thousand euros in total. The dividends were paid out on 16 May 2017. In the comparative period, the Group paid for 2015 a dividend of 0.05 euros per share, i.e. 887 thousand euros in total and reduced share capital by 1,242 thousand euros, i.e. 0.07 euros per share. The distribution to shareholders was made in January 2017.

22.3. Shareholders holding over 5% of the votes determined by shares

As at 31 December	**2017**	**2016**
AS Harju KEK	31.39%	31.39%
ING LUXEMBOURG S.A	10.71%	10.71%
Endel Palla	6.90%	6.56%
Shareholders holding under 5%	51.00%	51.34%

22.4. Interests of members of the Management and Supervisory Boards of AS Harju Elekter

		Number of shares	Direct ownership	Indirect ownership
Palla, Endel	Chairman of the Supervisory Board	1,224,000	6.90%	0.36%
Kirsme, Aare	Member of the Supervisory Board	228,250	1.29%	0.20%
Toome, Andres	Member of the Supervisory Board	30,000	0.17%	0.34%
Tombak, Triinu	Member of the Supervisory Board	15,000	0.08%	0.00%
Allikmäe, Andres	Chairman of the Management Board	225,000	1.27%	0.00%
Kuhi-Thalfeldt, Aron	Member of the Management Board	11,000	0.06%	0.00%
Total		**1,733,250**	**9.77%**	**0.90%**

The number of shares held by shareholders and their ownership interests were determined on 31 December 2017 at 11:59 p.m. In accordance with the rules of the Nasdaq Tallinn Stock Exchange, an issuer has to disclose in the annual report the number of the issuer's shares that are held by members of its Management and Supervisory Boards (direct interest) and people connected to them (indirect interest) as at the end of the financial year. Voting power belonging to a company controlled by a member of the Management or Supervisory Board is also treated as indirect interest. People connected to shareholders include their spouses, minor children and people sharing the household with them.

22.5. Reserves

As at 31 December (EUR '000)	2017	2016
Capital reserve	1,242	1,242
Fair value reserve	1,602	17,969
Translation reserve	0	3
Total	**2,844**	**19,214**

Capital reserve

The Estonian Commercial Code requires companies to create a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders.

Fair value reserve

The fair value reserve compromises gains and losses from a changes in fair value of available-for-sale financial assets. In connection with the sale of the shares in PKC Group Oyj, the fair value reserve decreased by 16,367 thousand euros. After the disposal of the shares, the amount was recognised as finance income. In 2016, the fair value reserve increased by 1,142 thousand euros through gain on the change in the fair value of financial assets.

Translation reserve

The translation reserve comprises foreign exchange differences from the translation of the financial statements of foreign subsidiaries whose functional currency differs from the Group's presentation currency.

23 Segment reporting

The Management Board of the Group's Parent company, AS Harju Elekter, reviews the Group's internal reports to assess the Group's performance and to make decisions about allocation of resources. The Management Board has determined the Group's operating segments on the basis of these reports.

Three segments – production, real estate and other activities– are distinguished in the consolidated financial statements.

Production – The segment is involved in the manufacture and sale of power distribution and control equipment and systems as well as associated activities. The entities of this segment are AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Harju Elekter Kiinteistöt Oy, Rifas UAB and Automatikos Iranga UAB.

Real estate – The segment is involved in real estate development, maintenance and rental, services related to managing real estate and production capacities and intermediation of services. Real estate has been identified as a reportable segment because the value of its assets exceeds the aggregate value of the assets of all Group by 10%.

Other activities – The segment is involved in selling products of the Group and companies related to the Group as well as other goods necessary for electrical installation works mainly to retail customers and small- and medium-sized electrical installation companies and in providing management services as well as electrical installation works for the shipbuilding. Other activities are less significant for the Group and none of them constitutes a separate reporting segment. The entities in these activities are Parent company and Group's companies Energo Veritas OÜ, Harju Elekter AB and Telesilta Oy.

The Group assesses the performance of its operating segments on the basis of revenue and operating profit. Based on the assessment of the Parent company's Management Board, inter-segment transactions are carried out on ordinary market terms that do not differ substantially from the terms agreed in transactions conducted with third parties.

Unallocated assets comprise the Parent company's cash, other receivables, prepayments and other financial investments.

Unallocated liabilities consist of the Parent company's (Estonia) interest-bearing loans and borrowings, tax liabilities and accrued expenses.

2017 EUR'000	Note	**Produc-tion**	**Real estate**	**Other activities**	**Elimi-nations**	**Consoli-dated**
Revenue from external customers	24	85,154	1,991	15,257	0	102,402
Inter-segment revenue		835	1,233	551	-2,619	
Total revenue		**85,989**	**3,224**	**15,808**	**-2,619**	**102,402**
Operating profit		**5,709**	**280**	**-567**	**20**	**5,442**
Finance income						24,869
Finance costs						-96
Profit before tax						**30,215**
Income tax expense						-1,083
Profit for the year						**29,132**
Segment assets		51,650	18,248	10,008	-8,823	71,083
Unallocated assets						18,894
Total assets						**89,977**
Segment liabilities		21,996	399	3,426	-8,823	16,998
Unallocated liabilities						3,048
Total liabilities						**20,046**
Capital expenditure	12,13,15	2,985	4,065	2,039	0	**9,089**
Depreciation charge for the year	12,13,15	963	490	721	-29	**2,145**

2016						
Revenue from external customers	24	55,791	2,480	2,896	0	61,167
Inter-segment revenue		144	978	402	-1,524	0
Total revenue		**55,935**	**3,458**	**3,298**	**-1,524**	**61,167**
Operating profit		**2,502**	**1,112**	**-241**	**-192**	**3,181**
Finance income/-costs						775
Finance costs						-24
Profit before tax						**3,932**
Income tax expense						-708
Profit for the year						**3,224**
Segment assets		39,599	13,725	3,869	-7,270	49,923
Unallocated assets						24,045
Total assets						**73,968**
Segment liabilities		17,525	665	399	-7,270	11,319
Unallocated liabilities						2,257
Total liabilities						**13,576**
Capital expenditure	11,12,13,15	1,509	3,113	822	0	**5,444**
Depreciation charge for the year	12,13,15	862	509	238	-13	**1,596**

Capital expenditure comprises acquisitions of financial investments (Note 11), investment properties (Note 12), property, plant and equipment (Note 13) and intangible assets (Note 15).

Revenues by geographic (location of customers) region

For the year ended 31 December EUR'000	Note	2017	2016
Estonia		16,402	13,371
Finland		74,704	41,004
Sweden		2,706	2,104
Norway		5,852	2,863
Lithuania		1,371	592
Other		1,367	1,233
Total	24	**102,402**	**61,167**

Location of the Group's long-term non-financial assets

For the year ended 31 December EUR '000	2017	2016
Estonia	26,322	20,424
Finland	8,486	7,754
Lithuania	1,716	1,498
Total assets	**36,524**	**29,676**

24 Further information on statement of profit or loss line items

For the year ended 31 December EUR'000	Note	2017	2016
REVENUE BY BUSINESS ACTIVITY			
Electrical equipment		82,710	52,476
Sheet metal products and services		709	986
Telecom products and services		874	1,236
Intermediary sale of electrical products and components		7,473	3,416
Rental income	14	1,744	2,216
		7,904	-
Other services		988	837
Total	23	**102,402**	**61,167**
COST OF SALES			
Goods and materials		-70,178	-40,451
Services		-3,320	-1,202
Personnel expenses (see below)		-12,222	-8,660
Depreciation and amortisation		-1,747	-1,225
Other costs		-1,258	-802
Change in work in progress and finished goods inventories		1,682	1,534
Total		**-87,043**	**-50,806**
DISTRIBUTION COSTS			
Services purchased		-493	-453
Personnel expenses (see below)		-2,426	-2,072
Depreciation and amortisation		-26	-22
Other		-921	-487
Total		**-3,866**	**-3,034**

For the year ended 31 December	EUR'000	Note	**2017**	**2016**
ADMINISTRATIVE EXPENSES				
Services purchased			-599	-552
Personnel expenses (see below)			-4,052	-2,732
Depreciation and amortisation			-372	-349
Other			-958	-505
Total			**-5,981**	**-4,138**
- Of which development costs			-1,169	-626
Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:				
Salaries and other remuneration			-14,073	-10,597
Social security and other taxes on salaries and other remuneration			-3,914	-2,990
Other provisions			-713	123
Total			**-18,700**	**-13,464**
OTHER INCOME				
Gains on sale of property, plant and equipment			12	31
Interest on arrears and penalty payments received			20	4
Other			17	41
Total			**49**	**76**
OTHER EXPENSES				
Interest on arrears, penalty payments and similar items paid			-25	-8
Net loss from foreign exchange differences			-52	-19
Gifts and donations made			-30	-32
Other			-12	-25
Total			**-119**	**-84**
FINANCE INCOME				
Interest income			19	9
Gain on sale of financial assets		11, 22.5	24,839	0
Dividend income			11	766
Total			**24,869**	**775**
FINANCE COSTS				
Interest expense			-28	-24
Loss on change in fair value of current financial assets		11	-64	0
Net loss from foreign exchange differences			-4	0
Total			**-96**	**-24**

25 Income tax and deferred tax

Income tax expense

EUR'000	**2017**	**2016**
Income tax expense	1,102	688
Deferred income tax expense/income	-19	20
Income tax expense in the statement of profit or loss	**1,083**	**708**

Income tax expense calculated on the Group's profit differs from actual income tax expense for the reasons explained in the following table.

Income tax by regions for the year ended at 31 December 2017

EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit before income tax	24,287	5,766	205	-44	30,215
Income tax rate	0%	20,0%	15,0%	22,0%	
Tax calculated at the tax rate	0	1,153	31	0	1,184
Income tax expense on dividends	218	0	0	0	218
Profit from previous periods	0	-7	0	0	-7
Utilisation of tax losses carried forward	0	0	-19	0	-19
Effect of tax exempt income	0	-298	-39	0	-337
Effect of non-deductible expenses	0	21	23	0	44
Income tax expense	**218**	**869**	**-4**	**0**	**1,083**

Income tax by regions for the year ended at 31 December 2016

EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit before income tax	100	4,135	-303	0	3,932
Income tax rate	0%	20%	15%	22,0%	
Tax calculated at the tax rate	0	827	0	0	827
Income tax expense on dividends	115	0	0	0	115
Utilisation of tax losses carried forward	0	0	20	0	20
Effect of tax exempt income	0	-280	0	0	-280
Effect of non-deductible expenses	0	23	3	0	26
Income tax expense	**115**	**570**	**23**	**0**	**708**

Deferred income tax assets at 31 December

EUR '000	2017	2016
Non-current portion of deferred tax assets	56	37
Of which on tax loss carry-forwards	56	37

The recovery of the deferred income tax assets arising from tax loss carry-forwards depends on the subsidiaries' future taxable profits which at the reporting date exceed the existing losses to be carried forward. An analysis of the subsidiaries' expected future profits was carried out on preparing the financial statements. Generation of profit assumes attainment of each subsidiary's strategic targets. Deferred tax assets were recognised to the extent that it is probable that they can be utilised in the future.

26 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by considering the effects of all dilutive potential shares. At 31 December 2017, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

	Unit	**2017**	**2016**
Profit attributable to owners of the Parent	EUR ‘000	29,129	3,219
Average number of shares during the period	Pc’000	17,740	17,740
Basic earnings per share for owners of the Parent	EUR	1.64	0.18
Adjusted number of shares during the period	Pc’000	17,740	17,740
Diluted earnings per share	EUR	1.64	0.18

27 Further information on line items in the statement of cash flows

For the year ended 31 December (EUR’000)	Note	**2017**	**2016**
Corporate income tax paid			
Income tax expense in the statement of profit or loss	25	-1,083	-708
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability	19	105	-9
Income tax liability arising on the acquisition of a subsidiary	29	-18	-19
Income tax expense on dividends		218	115
Deferred income tax expense/income	25	-19	20
Corporate income tax paid		**-797**	**-601**
Paid for investment property			
Additions of investment property	12	-4,065	-3,111
Liability decrease (-)/ increase (+) incurred by purchase	18	-285	572
Acquisition of investment property		**-4,350**	**-2,539**
Paid for property, plant and equipment			
Additions of property, plant and equipment	13	-3,089	-675
Liability decrease (-)/ increase (+) incurred by purchase	18	-13	13
Acquisition of property, plant and equipment		**-3,102**	**-662**
Paid for intangible assets			
Additions of intangible assets	15	-158	-147
Liability decrease (-)/ increase (+) incurred by purchase	18	-5	5
Acquisition of intangible assets		**-163**	**-142**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	13	96	3
Profit on disposal of property, plant and equipment	24	12	31
Proceeds from sale of property, plant and equipment		**108**	**34**
Interest received			
Interest income	24	19	9
Receivable increase (-)		-11	3
Interest received		**8**	**12**

28 Related parties

The related parties of AS Harju Elekter are members of the Group's management and their close family members, and AS Harju KEK which owns 31.39% of the shares in AS Harju Elekter. The Group's management comprises members of the Parent company's Supervisory and Management Boards. The Management Board has three members and the Supervisory Board has five members.

Transactions with related parties

For the year ended 31 December (EUR'000)	2017	2016
Purchase of goods and services from related parties:		
- from Harju KEK	106	105
Total	106	105
Of which:		
- lease of property plant and equipment	106	105
- purchase of non-current assets	0	0
Sale of goods and services to related parties:		
- to Harju KEK	4	4
Total	4	4
Of which:		
- other services	4	4
Remuneration of the Management and Supervisory Boards		
- salaries, bonuses, additional remuneration	395	235
- social security and other taxes on salaries	131	78
Total	526	313

The members of the Management Board receive remuneration in accordance with the contract and are also entitled to receive a severance payment: Chairman in the amount of 10 months and other members 8 months remuneration of a member of the Management Board. The Chairman of the Supervisory Board is entitled to termination benefits that may extend to 6 monthly remuneration of a development manager. Members of the Management Board have no rights related to pension. During the reporting year, no other transactions were made with members of the Group's directing bodies and the persons connected with them.

29 Subsidiaries

29.1 Subsidiaries with non-controlling interest

At the balance date the Group owned the following subsidiary with minority interest:

		Ownership		
As at 31 December	**Domicile**	**2017**	**2016**	**Area of activity**
Automatikos Iranga UAB	Lithuania	67.00%	67.00%	Project designing
Energo Veritas OÜ	Eesti	80.52%	-	Retail- and wholesale

In October 2016, the subsidiary Rifas UAB acquired an additional 16% stake in the subsidiary Automatikos Iranga UAB for 50 thousand euros, increasing its ownership interest to 67%. The carrying amount of the non-controlling interest was 38 thousand euros. The difference between cost and carrying amount of 12 thousand euros was recognised in equity, as an decrease in retained earnings.

AS Harju Elekter purchased an 80.52% holding in Energo Veritas OÜ, a company trading in electrical materials and equipment. The transaction was completed as at 29 March 2017, when monetary settlements were also made.

29.2 Acquisition of subsidiaries

Acquisition of an additional share in the subsidiary Harju Elekter AB

In February 2017, AS Harju Elekter acquired the remaining 10% of shares in Harju Elekter AB for 5 thousand euros, obtaining a 100% ownership after the transaction. The carrying amount of the non-controlling interest was 1 thousand euros. The difference between cost and carrying amount of 4 thousand euros was recognised in equity, as an decrease in retained earnings.

Telesilta OY

AS Harju Elekter purchased 100% interest in Telesilta Oy, a Finnish electrical engineering company specialising in work for the shipbuilding industry. The transaction was completed as at 2 June 2017. The purchase of Telesilta Oy provides new knowledge and skills in manufacture and installation of the electrical and automation equipment for ships and opens the door to the promising Finnish shipbuilding sector.

AS Harju Elekter accounted for the acquisition of Telesilta Oy in accordance with IFRS 3, carrying out a purchase price allocation which included measuring the value of the assets of the new subsidiary's group. The purchase price allocation was carried out based on financial information as at 31 May 2017, i.e. reliable financial information closest to the date of acquisition. In 2017, the Group recognised as intangible assets customer contracts of 541 thousand euros which will be amortised to expenses within 3 years and open orders of 689 thousand euros which will be amortised in full in 2018. The fair value of the customer contracts and open orders of Telesilta Oy was measured using MEEM (the Multi-Period Excess Earnings Method). The acquisition of the subsidiary gave rise to goodwill of 0.1 million euros which was the difference between the consideration transferred and the fair value of the net assets acquired. In 2017, Telesilta Oy generated revenue of 10.0 million euros and earned a net profit of 0.56 million euros. The Group consolidated Telesilta Oy's revenue and profit from the date of acquisition of 2 June 2017 in an amount of 7.9 million euros and 0.65 million euros respectively.

Influence of purchase to the Group's assets, liabilities and cash flow

Assets and liabilities (EUR'000)	Note	Recognised value on acquisition
Cash and cash equivalents		835
Trade receivables		644
Due from customers for contract work		347
Other receivables		16
Prepayments		213
Inventories		47
Property, plant and equipment		21
Intangible assets		1,230
Trade and other payables		-947
Income tax liabilities	27	-18
Net assets		**2,388**
Purchase price		2,489
Goodwill		101
Cash flow		
Money paid (-)		-2,489
Balance of sums of purchase (+)		835
Net cash flow		**-1,654**

Energo Veritas OÜ

In March 29, 2017 AS Harju Elekter purchased an 80.52% holding in Energo Veritas OÜ, a company trading in electrical materials and equipment. AS Harju Elekter Trading Group and business activities of Energo Veritas OÜ was combined. As of 1 June, the united business activities continue in Group's subsidiary, under the name of Energo Veritas OÜ. With the purchase of Energo Veritas OÜ and establishment of a trade unit operating as a subsidiary of the Group, the Group increases its market share in Estonia, notably expands its offered product range, and creates prerequisites for boosting the sale of the Group's products in Estonia and the Baltic states. The company focuses primarily on project-based trading activity.

According to the agreement and based on the fact that the transaction is not relevant for the purpose of the Stock Exchange Rules, the parties will not disclose the value of the transaction. The goodwill of 0.4 million euros recorded on the acquisition of the subsidiary is the difference between the consideration transferred and the fair value of the net assets acquired.

Harju Elekter Kiinteistöt Oy

On 14 October 2016, AS Harju Elekter acquired the real estate company Kiinteistöt Oy Uutvallinkulma. Following the transaction, the acquired company will trade under the name Harju Elekter Kiinteistöt Oy. This activity is consistent with the policy of the Group, whereby any production premises used by companies in the Group are owned by the Group. Kiinteistöt Oy Uutvallinkulma leased production premises to Finnkumu Oy and continues the activity after the transaction.

The contract price worked out to be 528 thousand euros. The acquisition of the company has been recorded as the acquisition of fixed assets under IAS 16 and not as a business combination to be recorded under IFRS 3, as the acquired company did not include a separately identifiable business activity.

Influence of purchase to the Group's assets, liabilities and cash flow of year 2016

Assets and liabilities (EUR'000)	Recognised value on acquisition
Cash and cash equivalents	17
Property, plant and equipment	851
Income tax liabilities	-19
Other payables	-21
Interest-bearing loans and borrowings	-300
Net assets	**528**
Cash flow	
Money paid (-)	-528
Balance of sums of purchase (+)	17
Net cash flow	**-511**

Finnkumu Oy

On 17 June 2014, Satmatic Oy (Finland) signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer. Finnkumu Oy was purchased in order to acquire the Finnish market share of substations, and their customer base, as well as to increase the synergy between the manufacturing companies of the Group.

The acquisition cost of the shares worked out to be 8,300 thousand euros, of which 6,716 thousand euros was paid in 2014. Under the contract, the rest of the amount had to be paid in two instalments: in 2015, 50% of the company's 2014 operating profit and in 2016, 40% of the company's 2015 operating profit.

In 2016, Satmatic Oy paid the final instalment 713 thousand euros.

30 Events after the reporting date

On 12 December 2017, AS Harju Elekter signed a contract to acquire all the shares of Swedish company SEBAB AB, a provider of sales and technical solutions, and its sister company Grytek AB, a manufacturer of pre-fabricated technical buildings, from the company Tnåa AB. The transaction price for the two companies was 3.6 million euros (SEK 36.0 million), of which 3.0 million euros (SEK 30.1 million) will be paid on 8 January 2018, the date of entry into force of the transaction, with the delayed part of payment being payable in accordance with the agreement. The acquired companies will initially continue to use their names and trademarks, operating as 100% subsidiaries of the Group.

Harju Elekter Group has been active on the Swedish market since 2010, delivering substations and industrial automation solutions to Swedish clients. As a result of this transaction, new prospective market segments will be entered in Sweden, and the Group's product portfolio will be expanded. Concurrently, Harju Elekter Group's capability to offer its Swedish clients more complete technical solutions and turn-key projects as well as service support will increase.

The Group is still measuring the fair values of assets and liabilities acquired in the business combination and has not completed identifying and measuring the fair values of all assets accounted for off the statement of financial position.

The financial results of SEBAB AB and Grytek AB will be included in the consolidated reports of Harju Elekter as of 1 January 2018.

31 Primary financial statements of the Parent

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the Parent company's separate primary financial statements (i.e. statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) (Note 2).

PARENT COMPANY'S STATEMENT OF FINANCIAL POSITION

As at 31 December (EUR'000)	2017	2016
Cash and cash equivalents	4,677	71
Short-term financial investments	9,936	0
Trade receivables	381	937
Receivables from related parties	4,691	1,830
Other receivables and prepayments	94	288
Inventories	13	534
Total current assets	**19,792**	**3,660**
Investments in subsidiaries	9,215	5,291
Long-term receivables from related parties	5,297	5,436
Other long-term financial investments	4,785	21,990
Investment property	22,460	18,119
Property, plant and equipment	639	659
Intangible assets	195	256
Total non-current assets	**42,591**	**51,751**
TOTAL ASSETS	**62,383**	**55,411**
Liabilities		
Interest-bearing loans and borrowings	460	646
Trade payables	469	1,052
Payables to shareholders	0	1,242
Tax liabilities	73	80
Other payables and advances received	297	174
Total current liabilities	**1,299**	**3,194**
Interest-bearing loans and borrowings	2,222	125
Total non-current liabilities	**2,222**	**125**
Total liabilities	**3,521**	**3,319**
Equity		
Share capital	11,176	11,176
Share premium	804	804
Reserves	2,844	19,212
Retained earnings	44,038	20,900
Total equity	**58,862**	**52,092**
TOTAL LIABILITIES AND EQUITY	**62,383**	**55,411**

PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December (EUR'000)	**2017**	**2016**
Revenue	5,853	6,717
Cost of sales	-3,912	-4,018
Gross profit	**1,941**	**2,699**
Other income	27	25
Distribution costs	-244	-457
Administrative expenses	-1,854	-1,366
Other expenses	-46	-42
Operating profit	**-176**	**859**
Income from subsidiaries	1,800	950
Dividend income from available-for-sale financial assets	11	766
Income from sale of financial assets	24,839	0
Interest income	144	134
Loss on change in fair value of current financial assets	-64	0
Interest expense	-4	-1
Net loss from foreign exchange differences	-2	0
Profit before tax	**26,548**	**2,708**
Income tax expense	-218	-115
Profit for the year	**26,330**	**2,593**
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	-16,367	1,142
Total other comprehensive income for the period	**-16,367**	**1,142**
Total comprehensive income for the year	**9,963**	**3,735**

PARENT COMPANY'S STATEMENT OF CASH FLOWS

For the year ended 31 December (EUR'000)	2017	2017
Cash flows from operating activities		
Profit for the period	26,330	2,593
Adjustments for:		
Depreciation, amortisation and impairment losses	1,005	882
Gain on sale of property, plant and equipment	-7	0
Finance income	-26,794	-1,850
Finance costs	70	1
Income tax expense	218	115
Changes in:		
Growth/decrease in receivables related to operating activity	-497	-542
Growth/decrease in inventories	521	-89
Growth/decrease in payables related to operating activity	-166	-61
Interest paid	-4	-1
Net cash from operating activities	**676**	**1,048**
Cash flows from investing activities		
Acquisition of investment property	-4,350	-2,705
Acquisition of property, plant and equipment	-1,221	-254
Acquisition of intangible assets	-59	-74
Acquisition of subsidiaries	-2,924	-528
Acquisition of other financial investments	-10,103	-660
Proceeds from sale of property, plant and equipment	69	1
Proceeds from sale of financial investments	25,779	0
Repayment of loans granted	3,475	2,311
Loans granted	-5,979	-2,033
Interest received	173	109
Dividends received	1,811	1,601
Net cash from/used in investing activities	**6,671**	**-2,232**
Cash flows from financing activities		
Growth/decreases in short-term loans	-642	642
Proceeds from borrowings	2,630	129
Repayment of borrowings	-77	0
Reduction of share capital	-1,241	0
Dividends paid	-3,193	-887
Dividends income tax paid	-218	0
Net cash used in financing activities	**-2,741**	**-116**
Net cash flows	**4,606**	**-1,300**
Cash and cash equivalents at beginning of year	**71**	**1,371**
Increase/decrease in cash and cash equivalents	4,606	-1,300
Cash and cash equivalents at end of year	**4,677**	**71**

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

EUR'000	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
At 31 December 2015	**12,418**	**804**	**1,218**	**16,828**	**19,218**	**50,486**
Profit for the year 2015	0	0	0	0	2,593	2,593
Other comprehensive income	0	0	0	1,142	0	1,142
Total comprehensive income	**0**	**0**	**0**	**1,142**	**2,593**	**3,735**
Transaction with the owners of the Company, recognised directly in equity						
Increase of share capital	0	0	24	0	-24	0
Reduction of share capital	-1,242	0	0	0	0	-1,242
Dividends	0	0	0	0	-887	-887
Total transaction with the owners of the Company	**0**	**0**	**24**	**0**	**-911**	**-2,129**
At 31 December 2016	**11,176**	**804**	**1,242**	**17,970**	**20,900**	**52,092**
Profit for the year 2017	0	0	0	0	26,330	26,330
Other comprehensive income	0	0	0	-16,367	0	-16,367
Total comprehensive income	**0**	**0**	**0**	**-16,367**	**26,330**	**9,963**
Transaction with the owners of the Company, recognised directly in equity						
Increase of capital reserve	0	0	0	0	0	0
Reduction of share capital	0	0	0	0	0	0
Dividends	0	0	0	0	-3,193	-3,193
Total transaction with the owners of the Company	**0**	**0**	**0**	**0**	**-3,193**	**-3,193**
At 31 December 2017	**11,176**	**804**	**1,242**	**1,602**	**44,038**	**58,862**

EUR'000	2017	2016
Adjusted unconsolidated equity at 31 December	**58,862**	**52,092**
Interests under control and significant influence:		
- Carrying amount	-9,215	-5,291
- Carrying amount under the equity method	20,225	13,506
Adjusted unconsolidated equity at 31 December	**69,872**	**60,307**

According to the Estonian Accounting Act, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

According to the Commercial Code, a Parent undertaking who prepares the annual report of the consolidation group shall approve the profit distribution resolution based on the consolidated reports of the consolidation group. Profit as apparent from the consolidated reports shall not be distributed in so far as this would decrease the net assets of the parent undertaking to a level below the total of share capital and reserves which pursuant to law or the articles of association shall not be paid out to shareholders.

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

The Management Board confirms that management report as set out on pages 5-55 gives a true and fair view of the key events occurred in the reporting period and their impact on the financial statements contains a description of key risks and uncertainties and provides an overview of important transactions with the related parties.

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2017 as set out on pages 56-112 and that:

- the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standard as adopted in the European Union;
- the financial statements give a true and fair view of the financial position, the results of the operations and the cash flows of the Parent and the Group;
- Harju Elekter AS and its subsidiaries are going concerns.

Andres Allikmäe	Chairman of the Management Board	/signature/	26rd March 2018

SIGNATURES TO THE ANNUAL REPORT OF 2017

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2017.

Andres Allikmäe	Chairman of the Management Board	/signature/	26rd March 2018

The Supervisory Board has reviewed the annual report prepared by the management board (pp. 5-112) including an activity report and annual financial statements and has approved its presentation to the general meeting of the shareholders.

Endel Palla	Chairman of the Supervisory	/signature/	04th April 2018
Arvi Hamburg	Member of the Supervisory Board	/signature/	04th April 2018
Aare Kirsme	Member of the Supervisory Board	/signature/	04th April 2018
Triinu Tombak	Member of the Supervisory Board	/signature/	04th April 2018
Andres Toome	Member of the Supervisory Board	/signature/	04th April 2018

Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of AS Harju Elekter

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Harju Elekter (the Group) as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

We have audited the consolidated financial statements of AS Harju Elekter, as set out on pages 56 to 112. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017,
- the consolidated statement of profit or loss for the year then ended,
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated cash flows for the year then ended,
- the consolidated changes in equity for the year then ended, and
- the notes, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements of the Auditor's Activities Act of the Republic of Estonia and with the ethical requirements of the ethics standards for professional accountants as set in the same act, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit scope

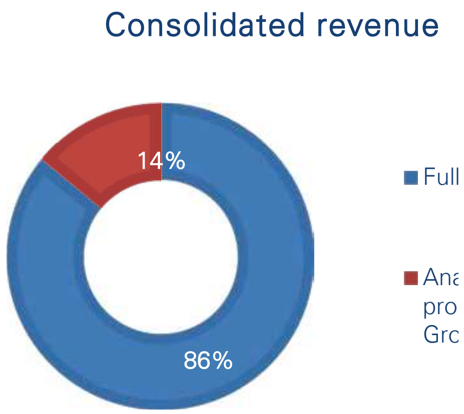
Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we have determined the type of work to be performed for Group entities based on the size and/or the risk characteristics of the Group entities.

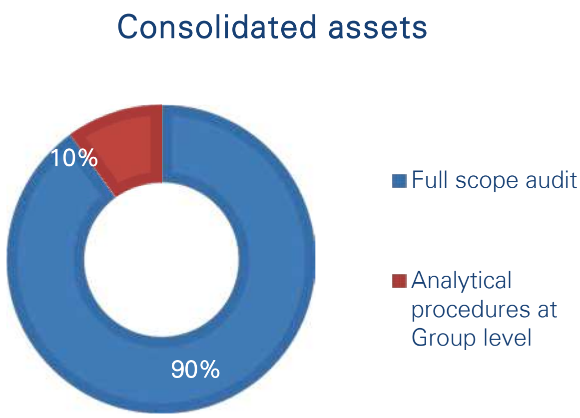
Of the Group's 11 components, we determined 6 components to be significant Group entities and we subjected those components to a full scope audit. These components include AS Harju Elekter, Harju Elekter Elektrotehnika AS, Harju Elekter Teletehnika AS, Satmatic Oy, Finnkumu Oy and Rifas UAB.

For Automatikos Iranga UAB, Harju Elekter Kiinteistöt Oy, Telesilta Oy, Harju Elekter AB ja Energo Veritas OÜ, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within it.

We also performed procedures over the consolidation process at Group level.

Coverage of procedures performed over consolidated revenue and total consolidated assets:





The work on AS Harju Elekter, AS Harju Elekter Elektrotehnika and AS Harju Elekter Teletehnika was performed by the Group audit team in Estonia. The work over remaining components was performed by component auditors in Finland and Lithuania. The Group audit team instructed component auditors as to the areas to be covered and determined the information required to be reported to the Group audit team. We have had regular communications with component auditors and executed audit file reviews, as necessary.

By performing the procedures mentioned above over the Group entities, together with additional procedures at the Group level, we have been able to obtain sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measuring the fair value of the investment in Skeleton Technologies Group OÜ

Refer to Note 11 to the consolidated financial statements for further information.

The key audit matter	How the matter was addressed in our audit
The Group's financial assets include an investment in Skeleton Technologies Group OÜ (hereafter Skeleton) which is measured at fair value. As at 31 December 2017 the value of Skeleton in the consolidated statement of financial position was 4,662 thousand euros. In the absence of an active market, measuring the fair value of an investment is a complex process which requires making assumptions and judgements, which have a significant impact on value. Skeleton is a company in the process of starting up its production operations and its future cash flows are hard to forecast. Therefore, the Group's management estimated the fair value of the investment by reference to the issue price of new shares in Skeleton's latest funding round. Due to the above circumstances, we considered measuring the fair value of the investment in Skeleton to be a key audit matter.	We conducted in this area, among others, the following audit procedures: • we analysed whether the latest funding round was a sufficiently reliable basis for measuring fair value; • we consulted with our own valuation specialists regarding the appropriateness of the key assumptions used the valuation model adopted for measuring fair value; • we reviewed financial information about Skeleton which was at the disposal of the Group's management; • we reviewed information about Skeleton's development which was available from public sources; • we evaluated to what extent the information available on Skeleton confirmed, or contradicted, the realisation of the plans in force at the date of the latest funding round. We evaluated the appropriateness of the disclosures made in the financial statements, including the disclosures of the key assumptions and judgements, as well as their compliance with the disclosure requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 14 May 2015 to audit the financial statements of AS Harju Elekter for the periods ended 31 December 2015 to 31 December 2017. Our total uninterrupted period of engagement is 22 years, covering the periods ending 31 December 1995 to 31 December 2017. In accordance with the Estonian Auditors Activities Act and Regulation (EU) No 537/2014, our engagement as auditors of AS Harju Elekter may be extended until the period ending 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;

- we have not provided the Group with the prohibited non-audit services (NASs) referred to in Article 5(1) of Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have provided the following services to the Group and its controlled entities which are not disclosed in the Management Report or in the financial statements of the Group:

- tax advisory services;
- IT advisory services.

Tallinn, 26 March 2018

/signature/

Indrek Alliksaar
Certified Public Accountant, Licence No 446

KPMG Baltics OÜ
Licence No 17

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PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EUR
Retained earnings of prior periods	25,919,289
Profit for 2017	29,128,985
Total distributable profits at 31 December 2017	55,048,274

The Management Board proposes that profits be allocated as follows:

Dividend distribution (EUR 0.24 per share)	4,257,571
Retained earnings after allocations	50,790,703

Andres Allikmäe Chairman of the Management Board /signature/ 26rd March 2018