ANNUAL REPORT 2018

Business name:	AS Harju Elekter
Main field of activity:	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
Registry code:	10029524
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E-mail:	info.he@harjuelekter.com
Website:	www.harjuelekter.com
CEO:	Andres Allikmäe
Auditor:	AS PricewaterhouseCoopers
Start of financial year:	1 January
End of financial year:	31 December

Annexes:

- Independent auditor's report
- Profit allocation proposal

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STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Harju Elekter 50 - several generations of experience

In 2018, Harju Elekter celebrated its 50th year of operation. The company was named in 1983, registered in the Estonian commercial register in 1993, and during its operating time, the company has seen various regimes and business forms across several generations. Yet in 1968 when it began as a department of the Harju KEK producing electric cables, nobody dared to dream that in half a century, the structural unit would have grown into a group with a turnover of over 100 million euros, with subsidiaries also in Sweden, Finland and Lithuania.

Having worked for Harju Elekter throughout these 50 years, I find it a remarkable achievement that the company has never been at a loss for half a century. Our strong desire is to develop this Estonian capital-based group of industrial companies further and to make every effort to remain independent and be a valued partner for our customers, shareholders and Group employees.

Looking back at out jubilee year, I can point out several milestones in the company's history, all of which played an important role in its success. The introduction of capitalism in the company essentially started already deep in Soviet Union times - at first, in the natural economy where the cables manufactured by the company could be exchanged for other building materials. Soon we started thinking about how to attract the best engineers to our factory in Keila. We managed to create a well-functioning and independent enterprise that was needed in this era, which had a technical-technological department, an instrumental department, production facilities, a supply-distribution department and an economics department. During the period when Estonia restored its independence, the year 1991 came with a big shock when trade with the Soviet Union was lost, but in this regard we were also prepared. We were saved by a foreign trade licence that we had managed to obtain a few years earlier. We were among perhaps only a dozen companies that held such a licence in the USSR. This meant that for exported goods we received currencies that we used to buy equipment and everything else that we needed. To keep foreign currencies, we opened a foreign currency account in a Finnish bank. An intensive foreign capital attraction period followed. We successfully cooperated with Nokia, ABB, Glamox and other foreign companies. Avoiding losses, we saw more difficult times during an economic crisis at the end of the 1990s when we had to introduce a four-day working week and the employees agreed to a pay cut, but thereafter a rigorous expansion started again. In 2002, we expanded to Finland. A year later to Lithuania, in 2010 to Sweden. During last two years four new companies were acquired by the Group.

Thus, Harju Elekter has in five decades grown into a well-known and renowned medium and low voltage electrical and automation equipment manufacturer in the Baltic Sea region, still providing its customers and cooperation partners with functioning electrical solutions. The Group consists of 12 companies in Estonia, Finland, Sweden and Lithuania.

On behalf of the Supervisory Board, I would like to thank all the shareholders, partners and employees.

Endel Palla
Chairman of the Supervisory Board

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

The year 2018 – Harju Elekter's 50th anniversary – was a very busy and resulted, despite some serious challenges, in an 18% increase in sales. The Group's 12 companies in Estonia, Finland, Sweden and Lithuania managed to consolidate 120.8 million euros in revenue and 2.4 million euros in operating profit.

The operating profit decrease was primarily caused by the organisation's increased administrative and development capacity-creating costs, a slight decrease in the energy sector's order volumes in Finland and Estonia, and high project costs in the shipping industry activity. Most of the revenue was generated by the sales of electrical equipment and goods, supported by electrical installation work, sales of telecommunications products and lease of industrial real estate. Finland remained the largest market (63%), but the share of Sweden grew strongly, reaching 11%. The Estonian market share in the Group's sales revenue fell to 13% due to the small size of the market as well as the small order volume of its largest distribution network.

The year was eventful. We consider the conclusion and renewal of several energy supply contracts with Caruna and Elenia in Finland as well as with Ellevio and E.ON in Sweden the most important. Significant sales growth was achieved by the Group's Lithuanian subsidiary RIFAS UAB, which reached 14.7 million euros. Very good work was done by Finnish subsidiaries Satmatic Oy and Finnkumu Oy. The Group's management also recognises the contribution of the subsidiaries operating in Estonia and Sweden. Group companies participated in several important fairs, and both subsidiaries and the entire Harju Elekter Group earned high rankings in various business competitions, which clearly demonstrates our competitiveness and sustainability. Significant investments were made in both technology and commercial real estate. To increase our sheet metal processing capabilities, we invested in a modern fully automated sheet metal line and considerably expanded the production facilities of AS Harju Elekter Teletehnika, a subsidiary engaged in manufacturing sheet metal products. The launch of the first commercial solar power plant built in Haapsalu with a capacity of over 700 kW can be pointed out. In addition, the Group has for its own use more than 550 kW worth of solar power solutions that are located on the roofs of buildings.

The entire financial year was characterised by festivities celebrating and marking the 50th anniversary of the Harju Elekter Group. With the introduction of the common trademark, Harju Elekter, we are about to join our international staff of nearly 750 employees into a single big motivated team.

The Harju Elekter Group manages and develops various types of real estate in Estonia, Finland and Lithuania primarily for its own use, but also for rental purposes. A variety of production, storage and office space amounted to over 106,000 m^2 at the end of the year while land holdings spanned 47 ha. In Estonia we operate in three industrial parks located in the rural municipalities of Keila, Haapsalu and Saue. In 2019, a significant expansion of 6,000 m^2 will be added to the Lithuanian subsidiary.

We have invested in our engineering development capability across the Group and see the need for digitalising various processes in order to ensure effectiveness and competitiveness and to provide an attractive challenge for our teams.

Our expectations for the current year and coming years are high. We continue improving the organisation and process management and increasing efficiency in order to increase profitability and sales capacity.

On behalf of the Management Board of AS Harju Elekter I would like to thank all our customers, partners, shareholders and employees! I wish you every success in the years ahead.

Andres Allikmäe
Chairman of the Management Board

MANAGEMENT REPORT

ORGANISATION

Activities and business philosophy of the Harju Elekter Group

AS Harju Elekter has been manufacturing electrical equipment since 1968. The Group's core operations include the design, manufacturing and marketing of power distribution equipment, including substations, power distribution cabinets, metering cabinets, automation centres and control centres for the energy and industrial sectors and for infrastructure. 87% of the Group's output is distributed outside Estonia. The shares of AS Harju Elekter are listed on the Nasdaq Tallinn Stock Exchange.

With over 50 years of history, the Harju Elekter Group has grown into a company with a significant impact in Estonia, Lithuania, Finland and Sweden. A prerequisite for being competitive and growing on the international market is to adhere to the principles of sustainability. Sustainability and honest and ethical business activities have become more important cooperation factors for the Group's interest groups, which is why the Group considers it important to follow the principles of a fair and transparent business culture in its day-to-day business activities.

Mission

As a responsible industrial group, Harju Elekter provides customers and partners with expert, high-quality and environmentally friendly electrical and automation solutions.

Vision

To grow into one of the largest electrical and automation equipment designers and manufacturers in the Nordic countries.

Goal

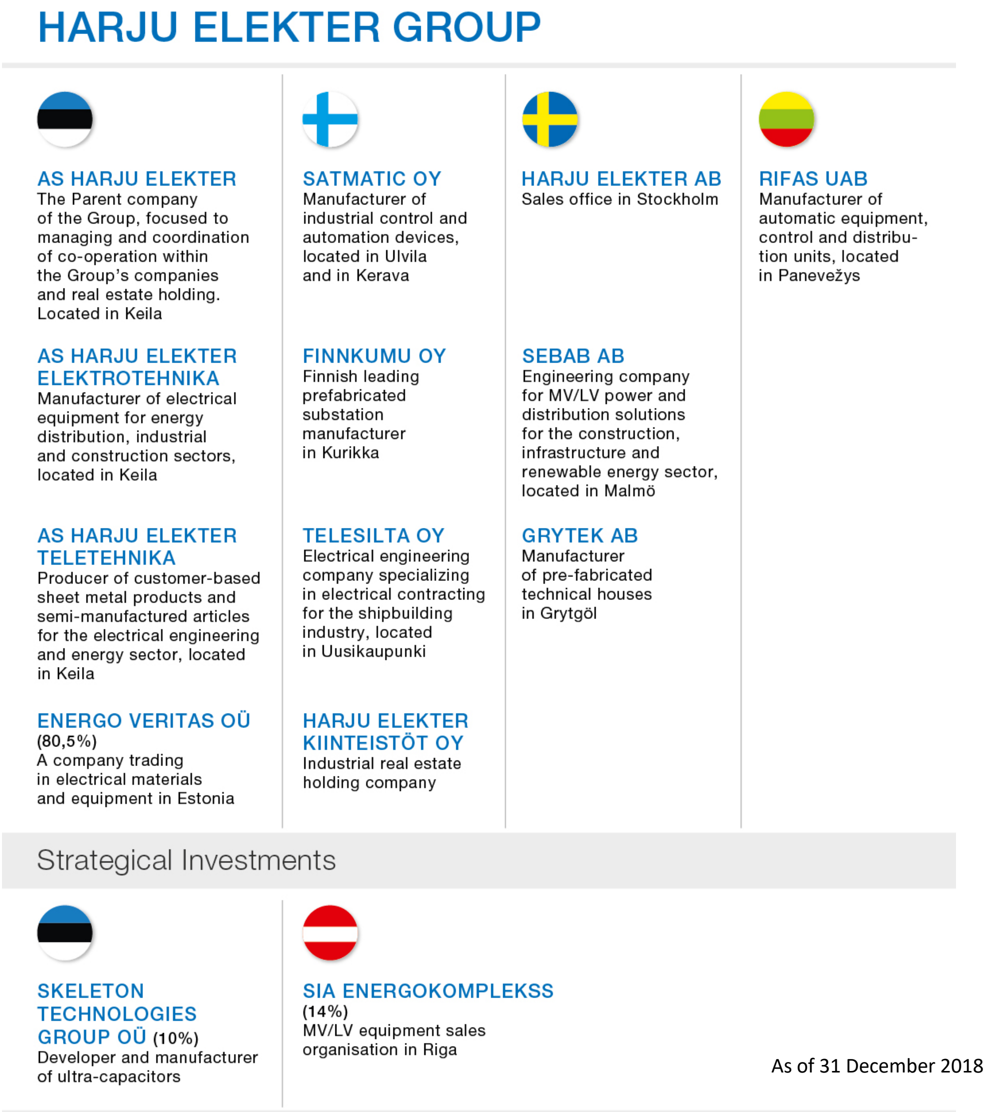
We want to be successful in the long term, delivering added value and being the first choice for our customers and partners and to provide to our international team with motivating work and development opportunities.

Values

Development - We are keen to learn and innovative.
Cooperation - Together we achieve more.
Reliability - No bargaining in quality.

Organisation chart

AS Harju Elekter's share in subsidiaries is 100%, unless otherwise stated in the chart.



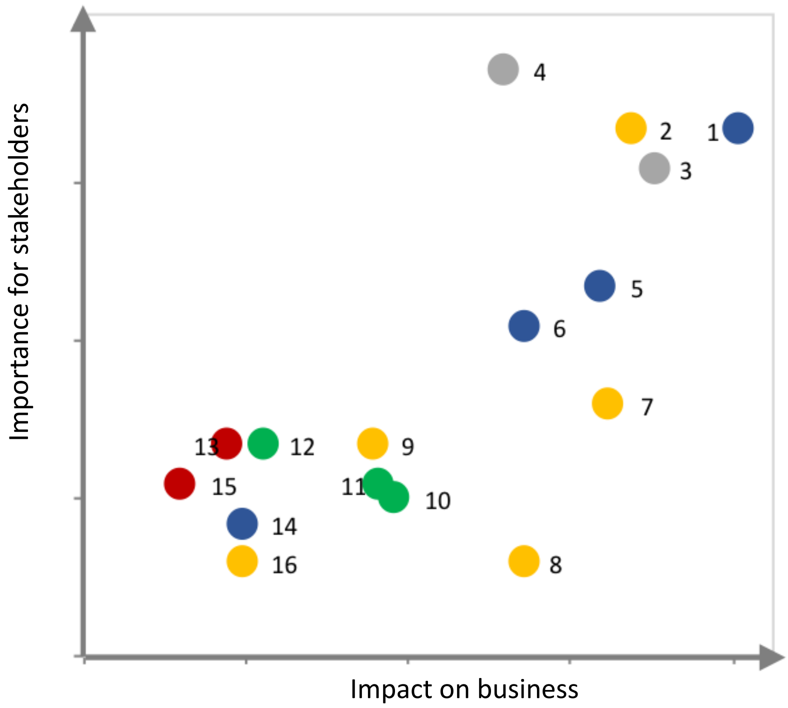
Harju Elekter Group's sustainability focus topics

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

The Group is most affected by the views of its owners, employees, customers and suppliers. Communication with them is intense: depending on the nature of the relationship a lot of informing, discussion and feedback-giving takes place (for further information see the respective chapters of this report). In relations with local authorities and residents, regulators and supervisory authorities, issues are raised mutually, where necessary. In cooperation with educational institutions, professional associations and non-governmental organisations the Group attends to subjects that create mutual value. As the Group is of the opinion that taking into account the expectations of stakeholders are a sign of contemporary high-quality management, it is very important to keep all parties well informed about the Group's management methods. Considering the subjects that have been raised in usual communication and the feedback received from our customers and employees, the main factors that influence the Group's success were mapped by the managers of the Parent Company and larger subsidiaries at the end of 2016. To ensure a high quality and the reliability of the results, the analysis was led by independent advisors.

Since the expectations of the external stakeholders of the Group are largely similar, these have been listed in the aggregate view in the matrix of the focus topics that affect sustainability. The chapters of this report reflect the principles of management of subjects of greater importance for the stakeholders. Issues raised by employees are analysed internally, including by way of satisfaction surveys, and development efforts are planned based on recommendations received.

Responsible management in every focus area is important for the Group in every business segment and in all subsidiaries. The most important focus areas have been integrated in a detailed manner, systematically and purposefully into the strategic and operative management of the Group's companies. Upon making management decisions, less important aspects are taken into account intuitively and in line with the fundamental principles. Therefore, the Group's Annual Report 2018 gives an overview of the management and effectiveness of all these areas.



Product and customer
1 Product quality
5 Innovation and development
6 Customer experience and satisfaction
14 Requirements for suppliers and purchasing principles
Management
3 Economic results
4 Honest and ethical business
Personnel
2 Occupational health and safety
7 Employee training and development
8 Employee devotion and satisfaction
9 Labour availability
16 Diversity and fair treatment
Environment
10 Energy
11 Environmental impact of products
12 Materials and waste
Community
13 Contribution to community development
15 Communal relations and stakeholder

***Figure**: Harju Elekter Group's sustainability focus topics*

The Harju Elekter Group senses that its customers and funding providers expect the whole Group as well as each of its companies to have an increasingly stronger comprehensive view upon managing their social and environmental impact and upon implementing their ethical and sustainable business practices. The increasing expectations of employees to the inclusive and caring working environment and the ambition to operate more in Nordic markets also call for responsible operations.

Taking all this into account, the Group wishes to develop the management of its companies knowing the expectations of stakeholders, considering people and environment, honestly, ethically and transparently.

2018 - EVENTS, ACKNOWLEDGEMENTS AND AWARDS

Harju Elekter celebrated its 50th anniversary of operation throughout 2018. On 1 February, AS Harju Elekter Elektrotehnika opened its new modern factory in Keila Industrial Park. In the new factory, nearly 3,000 substations and distribution devices were assembled in the financial year, of which over 80% were exported. In May, the company's sporty clients and partners were invited to Energiagolf, which took place for the tenth time. The Group's Finnish companies also celebrated their anniversaries, gathering in Pori Jazz in July: Telesilta Oy turned 40, Satmatic Oy 30 and Finnkumu Oy 15 years old. AS Harju Elekter Teletehnika celebrated its twentieth year of operation as a Group’s subsidiary by launching an innovative robot line in September and the Lithuanian subsidiary RIFAS UAB, which has been operating in the Group for 25 years, placed a cornerstone in the autumn for a factory expansion that will be completed by mid-2019. A festive closing of the jubilee year took place on 14 December at the Tallinn University of Technology.

Acknowledgements and awards

The Estonian Chamber of Commerce and Industry recognised the most competitive companies of Estonia, ranking AS Harju Elekter first in the field of industry and energy and second in the large enterprises category. The awards have been given out since 2003 to recognise the best companies in Estonia, to value their role in society and to promote entrepreneurship. The calculation is based on two years of economic activity indicators: sales revenue, net profit, labour costs, investments in non-current assets, equity, number of employees.

At the end of November, business magazine *Äripäev* presented Estonia's top-ranking companies, including the best in counties, where AS Harju Elekter was ranked first among Harju County’s most successful companies and the runner-up in the *Äripäev* TOP100 among all Estonian companies. The ranking is compiled on the basis of the economic results of the previous year published in the commercial register. In 25 years, a total of 17 companies have had the pleasure of being ranked the most successful company in Estonia.

At the Estonian Association of Electrical Enterprises (EAEE) autumn conference, the Association’s best were announced and for the first time in the history of the Association two companies out of EAEE’s TOP3 belonged in the same group. First place was awarded to AS Harju Elekter Elektrotehnika, while AS Harju Elekter was the runner-up. The ranking was compiled on the basis of the previous year’s annual report and results.

In 2018, AS Harju Elekter Elektrotehnika was declared by Elenia Oy to be worthy of the title "Best Quality Products".

At the beginning of the year, Keila Industrial Park quality managers gathered for the first quality management development round table, which became a regular meeting of quality managers pursuing a common goal. Together they keep the importance of quality, environmental and occupational safety issues in the forefront, while a common approach to similar issues provides a better overview of the opportunities and threats. The Estonian Quality Association conferred upon Keila Industrial City’s quality managers venture the “Quality Deed 2018” award.

In November, Harju Business and Development Centre Competition revealed Harju County's 2018 performers in different categories, and AS Harju Elekter was awarded by the Harju County Health Council the title of Health Promoter of the Year for organising the walking competition *Energialaks* (Eng. Energy Boost).

Events

In 2018, AS Harju Elekter Elektrotehnika signed several supply contracts with Finnish, Swedish and Estonian electricity network companies. With Finland's largest electricity network company Caruna Oy, an agreement was signed with an approximate volume of 5 million euros for low voltage metering cabinets and metering cabinets supply for 2+1+1 years and the supply contract for substations concluded in 2016 was renewed by two years to 2020. With Sweden's largest distribution network operator E.ON Energidistribution AB, a 3-year framework contract was signed for more than 2,000 substations supply to Sweden and with Elektrilevi OÜ a 5-year contract with a total volume of 2.25 million euros for 250 kVA substations supply to Estonia was made. In addition, the subsidiary also won the procurement of the Ellevio substations in Sweden, where the total volume of the 3-year contract is approximately 3 million euros.

Year-long active investment in the production and technology modernisation in the Group was culminated by the festive opening of an FMS automatic line in the subsidiary AS Harju Elekter Teletehnika in September 2018. The launch of the robotic production line will help to increase the capacity of the factory to produce a steady flow of small and large batches, thus steeply increasing the factory's productivity and bringing the Group's production to the level of a smart factory or Industry 4.0. Together with the renovation work, which increased the production area of the subsidiary to around 9,000 m^2, the investments totalled 3 million euros.

AS Harju Elekter purchased in the third quarter 2,7 ha commercial and industrial land on the land plot adjacent to Keila Industrial Park for the development of industrial real estate and business expansion.

In August 2017, AS Stera Saue opened a new factory in the Allika Industrial Park, owned by AS Harju Elekter, with a production area of 3,400 m^2. In 2018, Harju Elekter continued the second and third stage building for Stera, and new production areas of 4,000 m^2 and 3,000 m^2 accordingly were accounted for. Total production space rented to Stera increased to 10,400 m^2.

In August, the Lithuanian subsidiary of Harju Elekter - RIFAS UAB concluded a contract to expand its production building in Panevežys. Construction work began in September and after completion of the works in 2019, the office and production area of the Lithuanian subsidiary will increase from current 3,500 m^2 to 9,000 m^2. Investments in expanding production facilities and technology upgrades will allow to significantly increase production capacity to secure supply to the subsidiary's customers in shipbuilding and industry segment. The investments total volume is 3.5 million euros.

AS Harju Elekter constructed a solar power plant in Haapsalu, and this is the first of its kind for the company. The solar power plant is located on a few hectares of land. In total, over 2,700 panels were installed at Haapsalu Station, capacity of the plant at 794 kilowatts.

AS Harju Elekter Elektrotehnika opened its new factory in Keila Industrial Park in February. Due to several large orders, the Group's subsidiary, manufacturer of LV/MV distribution and automation devices, experienced significant growth in its production volume during the year, which resulted in the need to expand the working premises. In comparison with the previous 10,400 m^2, the new factory has 16,715 m^2 of space. The increase in production capacity, along with the growth in the number of employees to 251, including 40 sales, production and product development engineers, is initially sufficient to fulfil orders.

On January 8, 2018, the transaction entered into force for the acquisition of all the shares of the Swedish company SEBAB AB, a provider of sales and technical solutions, and its sister company Grytek AB, a manufacturer of pre-fabricated technical buildings, by AS Harju Elekter. SEBAB AB specializes in the development and supply of medium and low voltage solutions for power distribution to the infrastructure, construction and renewable energy sectors. The acquired companies will continue as the Group's 100% subsidiaries.

On May 3, 2018, the annual general meeting of the shareholders of AS Harju Elekter approved the annual report of 2017 and the profit distribution proposal, appointed company's auditor for years 2018-2020 as AS PricewaterhouseCoopers and approved the key persons stock option program for AS Harju Elekter and its group companies.

During the reporting year, the Group's subsidiaries participated actively in trade fairs in Finland, Sweden and Estonia: electricity fair Sähkö Tele Valo AV 2018 in Jyväskylä, Alihankinta fair in Tampere, EBR fair in Falun, international construction fair in Estonia Builds in Tallinn and Maamess in Tartu.

Events after the reporting date

AS Harju Elekter Elektrotehnika, a subsidiary of AS Harju Elekter, received an order for 54 special purpose substations to be supplied to Konecranes during the year. Supplies are sent to the United Arab Emirates.

THE GROUP'S ACTIVITIES IN THE YEAR 2019

The Harju Elekter Group as a whole is guided by the business strategy, according to which short as well as long term decisions are based on the goal of being a well-known and recognized manufacturer of electrical and automation equipment in the Baltic and Scandinavian countries, producing and supplying a professional range of products and complete solutions for medium and low voltage products using modern technology and applying the best know-how. The Group's activities are based on the idea of acting and deciding primarily according to the interests and preferences of customers and partners. The changing world adds significantly challenges and choices. We are convinced that the Group as a whole, the organisation and the subsidiaries are ready to continue their success story in a changing world an environment of changing economic models.

The Group's future activities and plans will be based on its strengths in product development, learned experiences, and customer expectations, trying to be open and attentive to everything new and changing. The Group's priority is placed on key markets in Scandinavia, but through this we see opportunities for deliveries all over the world, both in industrial automation as well as in the power distribution sector products. In the daily business of the Group, we contribute to the development of energy-efficient products and technologies as well as to the inclusion of new and innovative projects and activities. Due to the strong expansion in recent years and the addition of subsidiaries, the focus of the Group is on reviewing the management structure(s), integrating new companies into the Group, fostering co-operation between the Group companies and creating the necessary organisational prerequisites for this. This is supported by sufficient investment in personnel and technology, including digitalisation projects in business development, security and financial accounting. At the same time, activities will be continued to identify and launch potential financial investments, merger and takeover projects.

AS Harju Elekter continues to see Scandinavia as its most important target market. With the acquisition of new Swedish subsidiaries, the focus in the coming years will be on increasing the Group's market share in Sweden, with a particular focus on acquiring and executing new contracts and increasing sales. At the same time, as an Estonian company, it is also considered important to maintain the share of the home market, where growth opportunities are seen, in particular, in adapting the products and product groups for the construction sector to meet the demands of the market and to make them more competitive. Complex solutions based on solar energy is a new and prospective business perspective.

Continued development of Allika Industrial Park to find new tenants and start new promising industrial real estate projects.

FINANCIAL SUMMARY

Group	2018	2017	2016	2015	2014
Statement of profit or loss (million euros)					
Revenue	120.8	102.4	61.2	60.7	50.6
Operating profit	2.4	5.4	3.2	3.3	2.2
Net profit (attributable to owners of the parent company)	1.5	29.1	3.2	3.2	9.7
Statement of financial position at year-end (million euros)					
Total current assets	44.0	48.7	22.3	19.8	25.1
Total non-current assets	54.2	41.3	51.7	46.7	44.7
Total assets	98.2	90.0	74.0	66.5	69.8
Equity (attributable to owners of the parent company)	66.9	69.9	60.3	58.1	58.5
Equity multiplier (%)	72.7	77.7	81.5	87.2	83.8
Growth rates (% vs previous year)					
Revenue	18.0	67.4	0.8	19.9	4.8
Operating profit	-55.7	71.1	-2.9	47.1	27.8
Net profit (attributable to owners of the parent company)	-94.7	804.9	0.9	-67.1	87.9
Assets	9.1	21.6	11.1	-4.6	-1.8
Equity (attributable to owners of the parent company)	-4.2	15.9	3.8	-0.7	-6.4
Profitability ratios (%)					
Operating margin	2.0	5.3	5.2	5.4	4.4
Net margin	1.3	28.4	5.3	5.3	19.3
Return of assets (ROA)	1.7	35.5	4.6	4.7	13.8
Return of equity (ROE)	2.3	44.7	5.4	5.5	16.0
Share (euros)					
Average number of shares (1,000 pc)	17,740	17,740	17,740	17,551	17,400
Equity per share	3.86	3.67	3.34	3.32	3.48
Share closing price	4.12	5.00	2.83	2.63	2.79
Earnings per share	0.09	1.64	0.18	0.18	0.56
P/E ratio	45.78	[3]3.05	15.72	14.61	4.98
Dividend per share	[1] 0.18	0.24	0.18	[2] 0.12	0.15
Liquidity ratios					
Current ratio	2.2	2.4	2.1	2.7	2.8
Quick ratio	1.5	1.6	1.3	1.7	1.9
Staff and salaries					
Average number of employees	713	567	455	472	459
Number of employees at the end of the period	736	630	480	470	483
Wages (million euros)	18.5	14.1	10.6	9.7	9.2

Operating margin	= Operating profit/revenue*100
Net margin	= Net profit (attributable to owners of the parent company)/Revenue*100
Equity per share	= Equity (average, attributable to owners of the parent company))/Number of shares (average of the period)
Return of assets (ROA)	= Net profit (attributable to owners of the parent company)/Average assets*100
Return of equity (ROE)	= Net profit (attributable to owners of the parent company)/Average equity (attributable to owners of the parent company) *100
Equity multiplier	= Average equity (attributable to owners of the parent company)/Average assets*100
Earnings per share	= Net profit (attributable to owners of the parent company / Average number of shares
P/E ratio	= Share closing price/Earnings per share
Current ratio	= Average current assets / Average short-term liabilities

[1] Proposal by the Management Board.

[2] Incl. 0.07 euros, payment of equity.

[3] Includes profit from extraordinary sale of investments in 2017.

ECONOMIC ENVIRONMENT OVERVIEW

World economy

According to SEB's economic forecast, the world economy was volatile and diverse in 2018. The US economy continued growing despite political conflicts. In Europe, on the other hand, optimism cooled and economic growth slowed down. The biggest concern was the development of emerging markets, the outlook for which has been overshadowed by an increase of US interest rates, trade tensions, national currency weaknesses, etc. Financial markets became volatile after a long period of stability. At the same time, the US dollar rose by 4.3% against other major currencies over the year. Interest rates remained low and inflation remained at 2% in the eurozone. According to IMF, the world economy grew by 3.7%, the Eurozone by 2%, the US by 2.9% and China by 6.6% in 2018.

The Nordic and Baltic countries

According to Swedbank analysts, the Nordic and Baltic countries did well. The rapid growth of the global economy has boosted exports and demand in Finland. In addition, economic growth has been driven by a rise in purchasing power, rising employment and low interest rates. At the same time, the optimism about the future of the exporting industry has decreased. According to the Bank of Finland, the Finnish economy grew by 2.7% in 2018, but the fastest growth phase is over and the growth for the next two years is expected to be similar to Sweden, around 2%. Economic growth of Sweden has slowed down after several years of rapid growth. Despite the weakness of the Swedish krona, record low interest rates and fiscal stimuli, the Swedish economy did not show the expected results. The exporting industry did not use the potential of cheap currency, private consumption was hampered by the uncertain situation in the real estate market and the continued slowdown in residential construction volumes. The biggest risk factor is the weakening of the external environment for small economies like Finland, Sweden and others. In the Baltic countries in 2018 economic growth was fastest in Latvia, where it reached 4.8%, in Estonia the economy grew by 3.9% and in Lithuania by 3.5%.

Estonia

According to Estonian Statistical Office, Estonia enjoyed another strong year, with the second half stronger than the first. Estonia's economic growth was supported by the external environment and although the growth of external demand had already reached its peak before 2018, it was still strong, offering good export opportunities for Estonian companies. The construction sector accounted for the largest part of economic growth - 28% - but also the contribution of other sectors (in particular manufacturing, professional and technical activities, and the transport and ICT sectors) was important. The main contributors to the growth of manufacturing industry were production and export of mobile devices, shale oil and wood products. The growth of Estonian domestic demand, with the highest share of private consumption and investments, accelerated to 5.5% last year.

Strong domestic demand and production activity accelerated the growth of import, but productivity also improved, which is very important in the environment of rapid growth of labour costs and labour shortages. Overall, however, productivity growth remained below labour cost growth, which means a weakening of price-based competitiveness. In general, Estonia's economy is well balanced. According to Swedbank, the current account will remain in surplus in the next few years, public finances are strong and households will be able to save money. According to Swedbank's forecast, Estonia's economic growth in 2019 is about 3%.

Sources: IMF, Bank of Estonia, Bank of Finland, Statistics Estonia, SEB Bank, Swedbank

OPERATING RESULTS

Group structure and changes

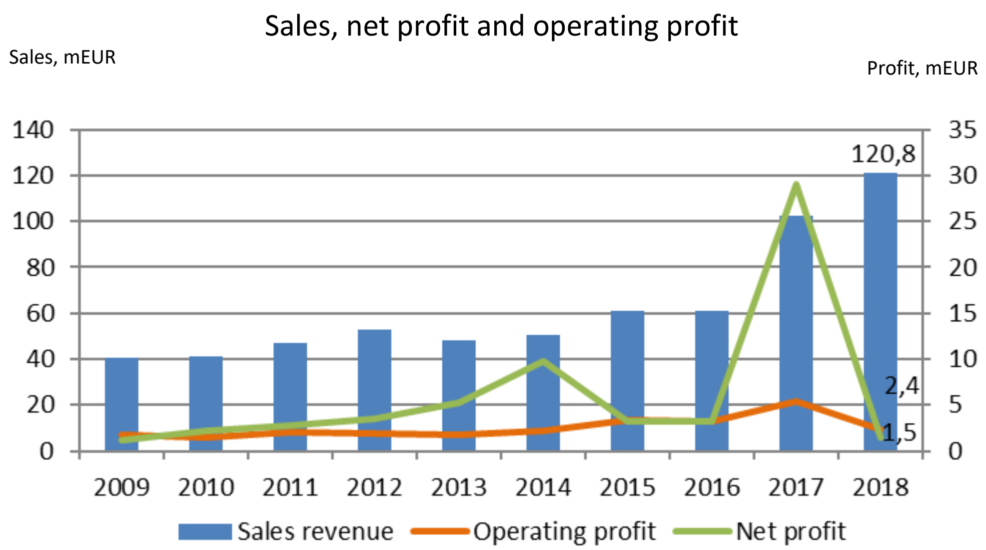
In Annual Report 2018, the financial statements of AS Harju Elekter (the consolidating entity) and its subsidiaries AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Energo Veritas OÜ, Satmatic Oy, Finnkumu Oy, Telesilta Oy, Harju Elekter Kiinteistöt Oy, Harju Elekter AB, SEBAB AB, Grytek AB and RIFAS UAB are consolidated line by line. The subsidiary of RIFAS UAB - Automatikos Iranga UAB, was liquidated due to the termination of its activities in the third quarter. The liquidated subsidiary had a minor impact on the consolidated financial statements.

AS Harju Elekter acquired a 100% stake in SEBAB AB, a Swedish company offering sales and technical solutions, and Grytek AB, a sister company manufacturing pre-fabricated technical buildings in the first quarter. The transaction entered into force on 8 January 2018. The financial results of SEBAB AB and Grytek AB are reflected in the consolidated annual report since January 2018.

Sales revenue and profit

In recent years, AS Harju Elekter has made large-scale investments and made active sales efforts to increase its market share in Scandinavia. As a result, the Group's sales have doubled in the last two years. At the beginning of 2018, two Swedish companies were merged with the Group, but integrating new subsidiaries into the Group is a longer process and reaching the desired profitability requires extra time and money.

In total, the consolidated sales revenue for 2018 was 120.8 (2017: 102.4) million euros, operating profit 2.4 (2017: 5.4) million euros and EBITDA 5.0 (2017: 7.6) million euros. Operating margin was 2.0% (2017: 5.3%) and operating margin before depreciation 4.1% (2014: 7.4%). Profitability was significantly affected by the loss of 1.9 million euros related to shipbuilding electrical work in the second half of the year. Immediately before the approval of this report, the final agreement was concluded with the customer and as a result thereof no additional costs will arise. In total, the consolidated net profit for the financial year was 1.5 (2017: 29.1) million euros and net profit per share was 0.09 (2017: 1.64) euros. The consolidated net profit for the comparative period without extraordinary income (one-off gain of 24.8 million euros from the sale of PKC Group Oyj shares) was 4.3 million euros.



Markets

Estonian companies accounted for 20.5% of the consolidated revenue (2017: 24.8%), Finland 56.2% (2017: 66.1%), Lithuania 12.3% (2017: 8.7%) and Sweden 11.0% % (2017: 0.4%).

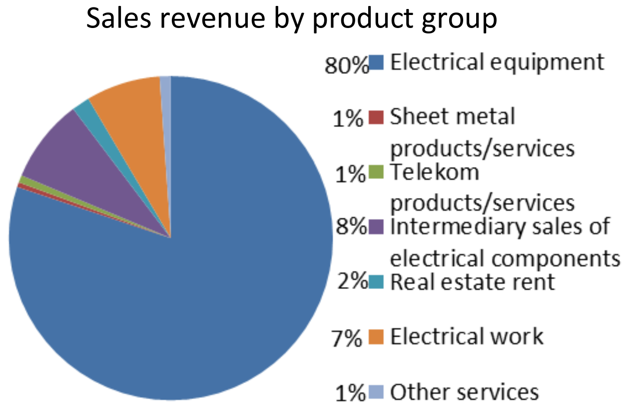
Sales of the largest and most important market of the Group, Finnish market, remained at the same level as in the previous year: 75.5 (2017: 74.7) million euros, but the share of the Finnish market in the Group's revenue has decreased to 62.5% (2017: 73.0%) due to the integration of new Swedish companies.

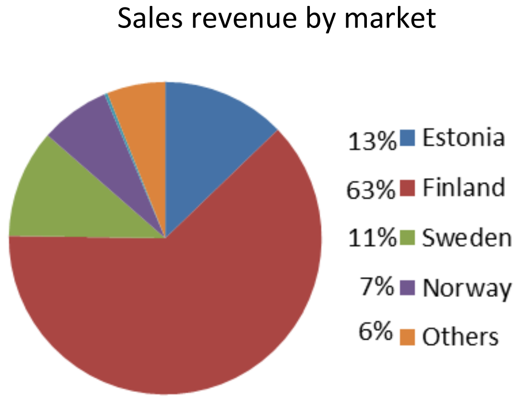
Due to the low level of investment in the power distribution sector and the tight competition, the sales volumes of the Estonian market have been declining in recent years. In 2018, the Group sold 12.8% (2017: 16.0%) of its products and services to the Estonian market, earning revenue of 15.4 (2017: 16.4) million euros in the reporting year. The Group's sales outside of Estonia accounted for 87.2% in the reporting year and 84.0% in the comparative period.

The direction of the sales strategy for export markets of the Lithuanian subsidiary of Harju Elekter, RIFAS UAB, has increased the foreign market share in the subsidiary's revenue to 98.2% (2016: 87.7%). Increase in order volumes in the Norwegian market has increased the revenue of both the Lithuanian subsidiary and the Group by 2.8 million euros during the year. Sales to the Norwegian market grew by 48.5% (2017: 104.4%) to 8.7 million euros during the year, representing 7.2% of consolidated revenue (2017: 5.7%).

Sales to Swedish market increased the most, growing by nearly 5 times to 13.5 (2017: 2.7) million euros in the reporting period. The Swedish market accounted for 11.2% of the consolidated revenue (2017: 2.7%). The growth was due to the acquisition of Swedish subsidiaries as well as the goal-orientated work of the Group's other subsidiaries to increase sales in the Swedish market. In the first quarter, AS Harju Elekter Elektrotehnika signed a 3-year framework contract with Sweden's largest distribution network company E.ON Energidistribution AB and started substation deliveries to Sweden in the third quarter.

Of the other markets, the Netherlands was the largest, with sales revenue of 3.0 million euros in the reporting period; 1.7 million euros and 0.9 million euros was earned on the Austrian and Danish markets respectively. Revenue from other markets grew by 433% (2017: 11%), amounting to 7.3 (2017: 1.4) million euros. New markets include Spain, Belgium, Switzerland and United Arab Emirates.





Revenue by segment

The main activity of the Group is the production and sale of power distribution and control equipment. Manufacturing activities accounted for the largest part of 82.6% (2017: 83.2%) and real estate and other non-segmented activities for a total of 17.4% (2017: 16.8%) of the consolidated revenue. During the year, the sales volume of the Production segment increased by 14.6 million euros

(2017: 29.6) to 99.8 (2017: 85.2) million euros, of which 97.0% came from the sale of electrical equipment.

The sales revenue of the Real estate segment increased by 0.6 million euros to 2.6 million euros, mainly from higher lease income due to the completion and leasing of new production and warehouse facilities at Allika Industrial Park. Revenue from other non-segmented activities has increased by 3.1 million euros over the year to 18.4 million euros, accounting for 15.2% (2017: 14.9%) of consolidated revenue. The majority of the other activities' revenue growth was generated by the mediation of electrical equipment to the Swedish market and the addition of the electrical installation business in the second half of the year 2017.

Expenses

Cost of sales increased by 17.8 (2017: 36.2) million euros or 20.4% (2017: 71.3%), exceeding the growth of sales revenue, which was 18.0% (2017: 67.4%). As a result, the gross profit for the reporting period was 16.0 million euros, increasing by 4.0% over the year. The gross margin decreased by 1.8 percentage points to 13.2% year-on-year. Expenses increased considerably by the losses from shipbuilding electrical works recognised in the second half of the financial year in the amount of 1.9 million euros.

Harju Elekter sees opportunities to expand and grow its business mainly in foreign markets, which has led to an increase in the Group's distribution costs. Distribution costs increased by 1.4 million euros to 5.3 million euros during the year and the distribution cost rate increased by 0.6 percentage points to 4.4%. The increase in tailor-made orders has led to increased development costs for upgrading existing products and developing new product lines. The recruitment of new specialists and increasing of the qualifications of staff has resulted in increase of training costs and new job preparation costs. Higher salary levels of senior executives in Swedish and Finnish subsidiaries as well as one-off expenses related to the 50th anniversary of Harju Elekter also contributed to the increased costs. As a result, administrative expenses increased by 2.2 million euros to 8.2 million euros and the share of the revenue increased by one percentage point to 6.8% during the financial year.

The increase in production volumes due to large-scale sales contracts has created a constant need for new employees. Acquisition of new subsidiaries in the second half of 2017 in Finland and in the first quarter of 2018 in Sweden and the recruiting of new employees increased the wage cost and the average wage per employee in the Group during the reporting period. As of the end of the reporting period, the Group employed 736 people, which was 106 employees more than a year ago. Labour costs increased by 32.2% to 24.7 million euros in 12 months. The labour cost rate accounted for 20.5% of the revenue for the financial period and increased by 2.3 percentage points compared to previous year. 18.5 million euros were paid to employees as wages and salaries in the financial year 2018 (2017: 14.1); the average monthly salary per employee was 2,166 euros, an average increase compared to previous year was 5%. Overall, operating expenses increased by 21.4 million euros to 118.3 million euros.

Financial position

As of the end of the reporting period, current assets accounted for 44.8% (2017: 54.1%) and non-current assets 55.2% (2017: 45.9%) of the value of total assets; liabilities accounted for 31.8% (2017: 22.3%) and equity for 68,2% (2017: 77.7%).

As of 31 December 2018, the Group's assets amounted to 98.2 million euros, increasing by 8.2 million euros over the year. Current assets decreased by 4.7 million euros to 44.0 million euros, including increase of inventories by 4.4 million euros, trade receivables and other receivables by 8.6 million euros, and decrease of cash and cash equivalents by 7.9 million euros. At the end of the reporting period, management decided to classify listed securities acquired in the third quarter of 2017 as a non-current financial asset. The fair value of the reclassified financial assets at the reporting date was 4.7 million euros.

To increase production efficiency, the Group is increasingly investing in automation and robotization. In 2018, a new Finn-Power production line and Amada bending machine were acquired for the production of the subsidiary. The cost of non-current assets in the statement of financial position increased by 12.9 million euros to 54.2 million euros over the year. The Group has invested 2.6 (2017: 4.1) million euros in real estate, 6.6 (2017: 3.1) million euros in property, plant and equipment and 1.4 (2017: 1.9) million euros in intangible assets during the year. The Group invested a total of 10.6 (2017: 9.1) million euros in non-current assets during the financial year, of which acquisitions through business combinations accounted for 1.0 (2017: 1.8) million euros.

As at 31 December 2018, interest-bearing liabilities accounted for 38.8% of the Group's liabilities and 12.3% of the cost of assets (as at 31.12.2017 17.6% and 3.9%, respectively). The Group had a total of 12.1 (31.12.2017: 3.5) million euros interest-bearing borrowings, of which the current liabilities amounted to 6.7 (31.12.2017: 0.6) million euros.

As at the reporting date, the Group had total liabilities of 31.2 (2017: 20.0) million euros, of which current liabilities accounted for 82.4% or 25.7 million euros; 85% or 17.1 million euros for the comparable period. Current liabilities increased by 8.6 million euros during the year, incl. trade and other payables by 2.1 million euros to 14.9 million euros and borrowings by 6.0 million euros to 6.7 million euros. Non-current liabilities increased by 2.6 million euros over the year. The increase in current and non-current debt liabilities is due to large investments in real estate development in both Estonia and Lithuania.

Cash flow

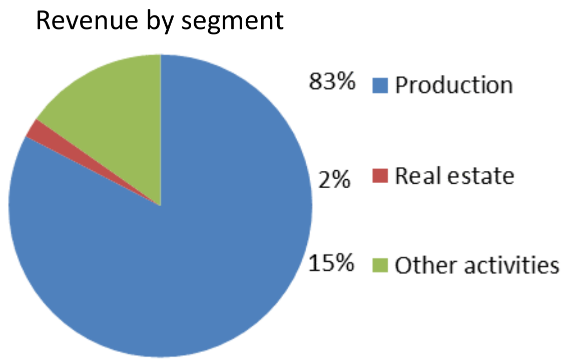
In the reporting period, the cash flow was negative by 3.4 million euros while it was positive by 4.6 million euros in the comparative period. Cash flows from operating activities were mostly influenced by the significant increase in trade receivables and inventories due to the increase in orders.

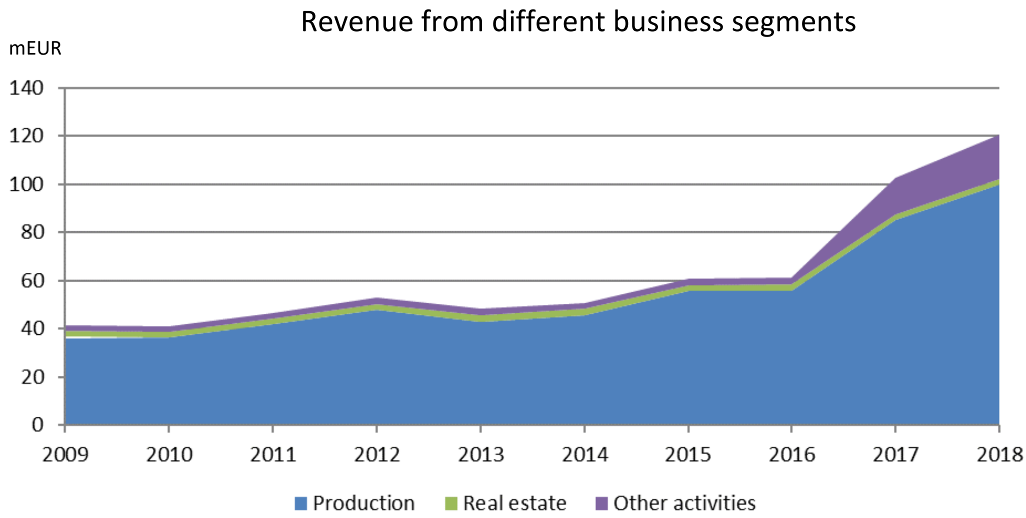
During the financial year, a total of 10.9 million euros was paid in investments, including a total of 7.9 million euros in investment property, property, plant and equipment and intangible assets and 2.9 million euros in the acquisition of subsidiaries. In April of the financial year, a term deposit of 5.0 million euros was released. In total, 5.7 million euros was an outflow from investing activities during the reporting period, while 6.3 million euros was inflow from investing activities in a comparative period: in 2017, 25.8 million euros was received from the sale of the shares of PKC Group Oyj and 19.6 million euros was paid in investments.

In 2018, dividends in amount of 4.3 million euros were paid out for 2017, i.e. 0.24 euros per share, which was 1.0 million euros more than in 2017. In addition, current and non-current loans in amount of 7.1 million euros was taken during the reporting period. In total, 1.3 million euros was received from financing activities. In the comparative period, cash outflows from financing activities amounted to 3.2 million euros, including proceeds from a non-current loan in amount of 2.6 million euros, dividends paid in amount of 3.2 million euros and share capital reduction paid out by 1.2 million euros.

BUSINESS SEGMENTS

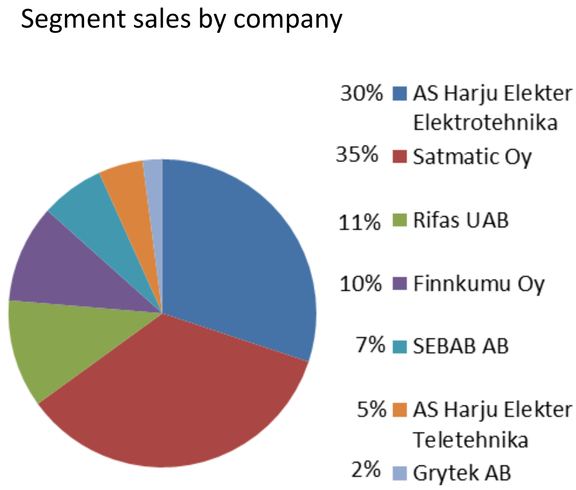
As of 31 December 2018, the Group was operating in two fields: Production and Real estate segments. Each activity was important enough to form a separately reflected segment where the accompanying risks and rewards were quite different. Other activities include fields where each activity does not have enough weight to form a separate segment.





PRODUCTION

The Production segment includes electric-equipment plants in Estonia (AS Harju Elekter Elektrotehnika), in Finland (Satmatic OY, Finnkumu OY), in Sweden (SEBAB AB) and in Lithuania (RIFAS UAB), the main products that are produced are medium and high voltage electric power distribution equipment (substations, cable distribution cabinets and metering cabinets) and automatic boards and control boards for energy and marine sectors and for infrastructure. This segment also includes AS Harju Elekter Teletehnika (Estonia), which produces sheet metal products for energy, electrotechnical and telecom sectors. This segment also includes Grytek AB (Sweden), a manufacturer of pre-fabricated technical buildings.

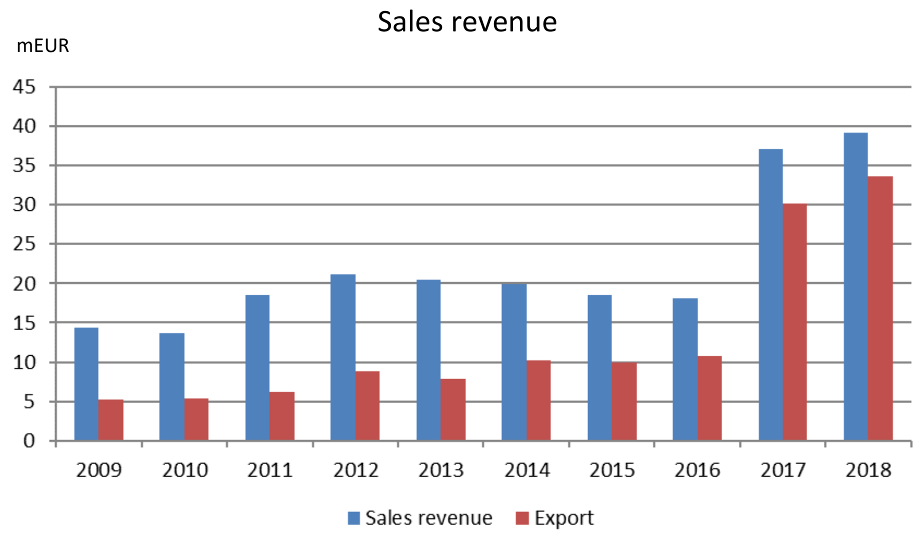


In 2018, production contributed 82.6% of consolidated revenue. Although the volume of sales grew by 14.6 million euros, up to 99.8 million, the share of revenue in the Group's revenue remained practically at the same level as previous years´ revenue. Revenue of Other activities grew by 3 million euros, up to 18.4 million, amounting to 15.2% of the Group revenue.

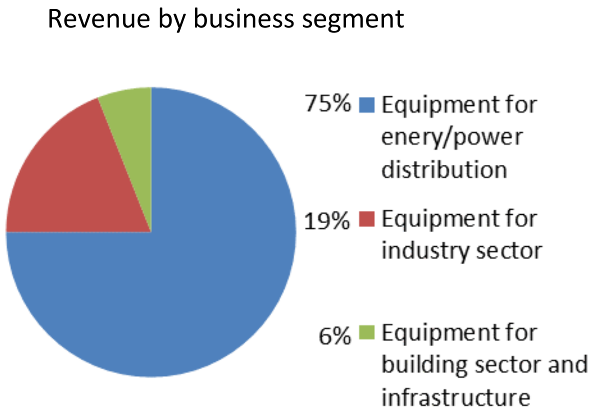
AS Harju Elekter Elektrotehnika

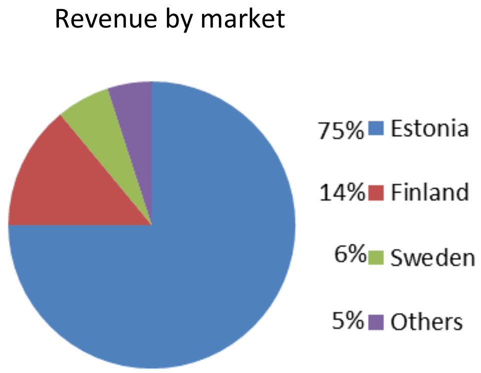
AS Harju Elekter Elektrotehnika is a fully owned subsidiary of AS Harju Elekter, AS Harju Elekter Elektrotehnika is a leading developer, producer and distributor of medium and low voltage electrical equipment. The headquarters and plant are both located in Keila Industrial Park, where company occupies area of nearly 27,000 m^2 for production, office and warehouse. At the end of the accounting year, 245 employees worked at the company, one fifth of the personnel worked at sales and product development department.

2018 was a year of continuous growth for AS Harju Elekter Elektrotehnika. The biggest commercial achievements were the renewal of all the important procurement contracts for the coming option years and the launch of energy sector deliveries to Sweden. The gradual strengthening of the low voltage business in exports is pleasant as well. Active sales efforts in the field of specialised substations has given new cooperation possibilities with technological partners, including more complex and labour-intensive projects. Owing to previous positive experience, partnerships for electrification of port cranes and numerous renewable energy solutions continued.



Revenue increased by 5.9% to 39.5 million euros by the year, from which a record 86% was earned outside of Estonia. Biggest foreign markets were Finland and Sweden, sales to Estonian market remained on the same level as previous year. All of the most important clients and business sectors managed to raise their sales volumes.





As for development activities, various new product solutions were developed and implemented in manufacturing for performing added framework agreements and serial manufacturing was optimised as well. During the financial year, the key processes of the company were clarified and improved. The application of new manufacturing methodologies continued. The introduction of various management measures and employee dedication raised the company's security of supply to an excellent level. Following the company's staff development plan, the planned structural changes were implemented in manufacturing and administration. Various training courses were carried out for raising sales and management competencies. The Corporate Governance Code was implemented.

In 2019, the volume of orders of the key customers will continue to be served, but more attention will be paid to the development of low voltage products and implementation of sales strategy for low voltage products. The focus of the company at every level will be targeted at continuous growth of effectiveness and insuring the development of the company. The company will invest more in keeping the company in good health and in the implementation of best management practices. To increase competitiveness, continuous development of products and customer-centred consultative sales are key elements. AS Harju Elekter Elektrotehnika will continue to work closely with group companies in local and foreign markets.

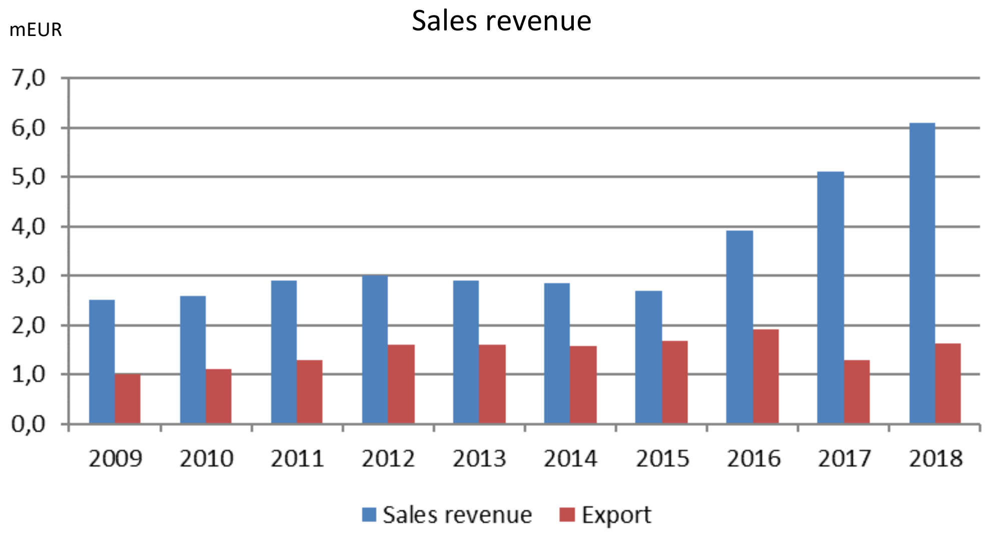
AS Harju Elekter Teletehnika

AS Harju Elekter Teletehnika is a fully owned subsidiary of AS Harju Elekter, the main activity of the company is to produce customer-specific sheet metal products and solutions for the energy, electrical engineering and telecom sectors. AS Harju Elekter Teletehnika´s 9,000m^2 factory with its production capacity is one of the largest manufacturers of thin sheet metal products in the area. The company also includes a mechanics department, which mainly deals with special orders for companies at the Keila industrial park. There are 103 people at Keila headquarters and factory, 80% of whom are directly involved in production processes.

Many challenges were faced during the reporting year. On one hand, this was due to a large investment plan, but on the other hand to continued high intra-group and external demand. The vast majority of the investments was aimed at increasing the technological level of the production equipment, as well as the sharp increase in production capacity.

Although revenue growth was lower than expected due to problems with the acquisition of skilled labour, the revenue in 2018 increased by 19.4% compared to 2017 and reached 6.1 million euros. 26.3% of revenue was earned on foreign markets. The biggest export article was the data network racks and their components. Finland and Sweden can be pointed out as the main target markets.

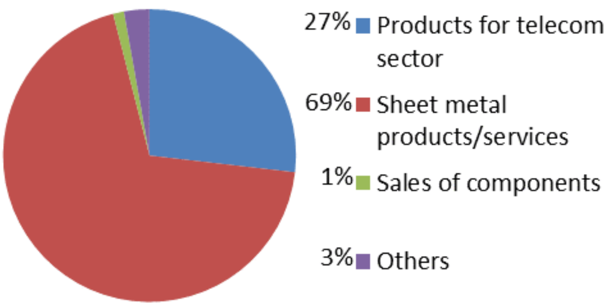
Sales to the local market increased by 17.8% in the reporting year (2017: 90.8%). Within the product groups, the sales of sheet metal products increased the most, mainly at the expense of energy sector products, but also sales of own products to Finland.



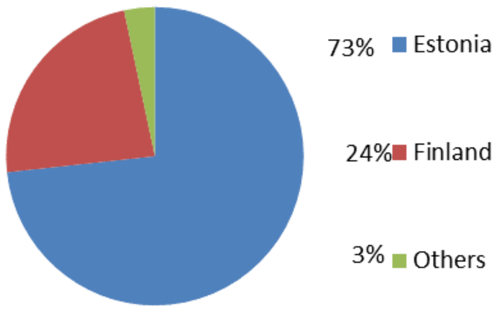
Focus in 2019 is on increasing volumes through the full deployment of new equipment and increased efficiency. Continuously, more attention is been put on increasing productivity and planning accuracy, as well as hedging price risks on the purchase of sheet metal, are also continuing to be highlighted

At the same time, more and more flexibility is offered to customers. In the long run, all the company's activities are motivated by the desire to become the first choice for customers for both products and outsourcing products as well as in services and to support customers in their goals.

Revenue by business segments



Revenue by market



Satmatic Group

Satmatic Group consists of Satmatic Oy, with its head office in Ulvila, Finland, factories are located in Ulvila and Kerava and subsidiary Finnkumu Oy is located in Kurikka.

Satmatic Group's sales revenue for 2018 was 59.0 (2017: 59.9) million euros, remaining at the same level as a year earlier. The Satmatic Group employs a total of 102 people.

Improvement of competitiveness in the reporting year strengthened the Finnish export capacity, which had a positive impact on the industrial sector of the whole country as well as for the Satmatic Group. Although contract-based production remained slightly below last year's level, deliveries of project-based products and services continued to grow, as did the share of power distribution networks and renewable energy products in sales revenue.

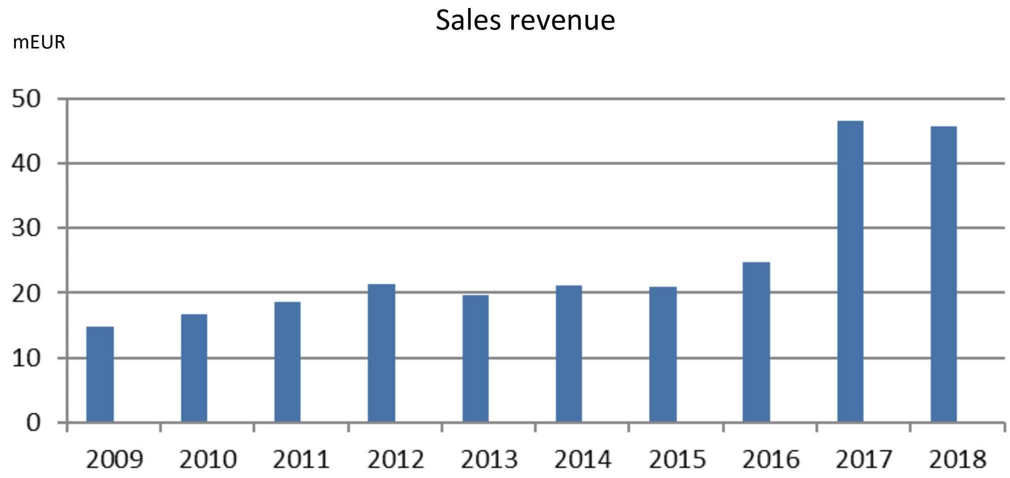
Satmatic Oy

Satmatic Oy is a subsidiary fully owned by AS Harju Elekter, the company is a leading manufacturer of industrial automation equipment and power distribution and transmission equipment in Finland. The company's products are aimed at the industrial, energy production and distribution sectors and infrastructure, covering the needs of customers from the development of products, programs, projects to the provision of maintenance services. The product range is wide, and the product portfolio includes various products and solutions up to 20 kV. An important part of Satmatic Oy's products and solutions are sold outside Finland and they reach customers either directly or through resellers companies, with the help of Finnish exporters. At the same time, Satmatic Oy is also an importer and distributor of products of Group companies in Finland. The company's office and factory are located in Ulvila, near Pori, and the company has a sales office and assembly plant in Kerava to serve the customers of the Helsinki business area. The company employs 81 people.

Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure. Based on the supply type, there are three main supply models: contractual manufacturing, project-based product/solution, and sale of products. The biggest risks were mainly the instability of export-oriented customers, the competitiveness of the Finnish export sector and the production capacity and capacity of countries with lower labour costs closer to the end users. The success of the energy production and distribution sector, which is managed largely by local enterprises, continued in the financial year. This sector will continue to grow significantly as investments are secured both in the power distribution sector and in the renewable energy sources (bio, wind, solar) and nuclear power plants.

Overall, the company's revenue remained virtually the same as in the previous year, at 45.6 (2017: 46.5) million euros. Sales outside Finland - either directly or through customers - remained stable over the years, accounting for 38% of revenue. At the same time, the company managed to increase sales of project products. Production time was reduced based on Lean Management model, internal logistics and electronic information flow with all of its functionality and by enhancing efficiency. By increasing the level of automation, both material handling and acceptance of goods were strengthened in the company.

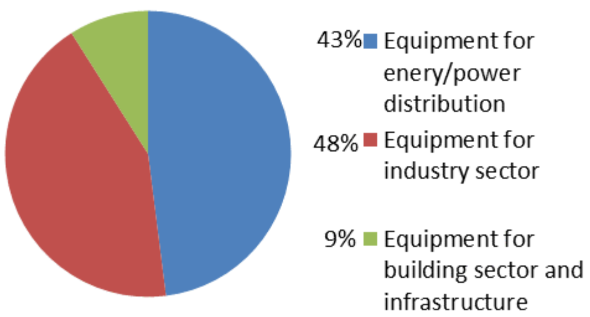
Various electrical, control and power automation devices and solutions for the cellulose and paper industry, as well as for stone-wool, steel and food industries, offshore and shipbuilding and mining and (electric) power stations were developed for the customers at the factory. The main target countries were Estonia, Sweden, Lithuania, Poland, Hungary, China, USA and Indonesia.



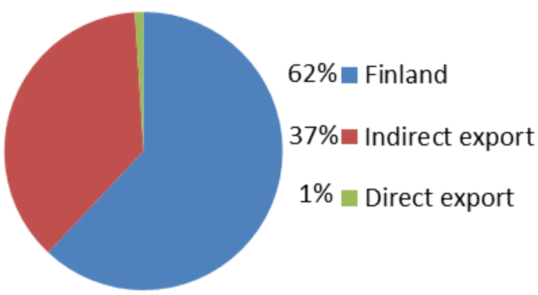
The largest and most important project of the reporting year was the fuel supply software developed for a Swedish power plant, including with the distribution equipment that was delivered to the customer, set up and deployed into work.

The deliveries of substations and cable distribution cabinets produced at the Finnish plants of Satmatic Oy and Finnkumu Oy and at AS Harju Elekter Elektrotehnika Estonia were mainly directed to the power distribution sector, Finnish power distribution companies, as well as power and energy stations. In the renewable energy sector, the most sold products were on-grid and off-grid solar solutions. The total capacity of the solutions supplied by Satmatic Oy to Finland is ca 12 MW.

Revenue by business segment



Revenue by market

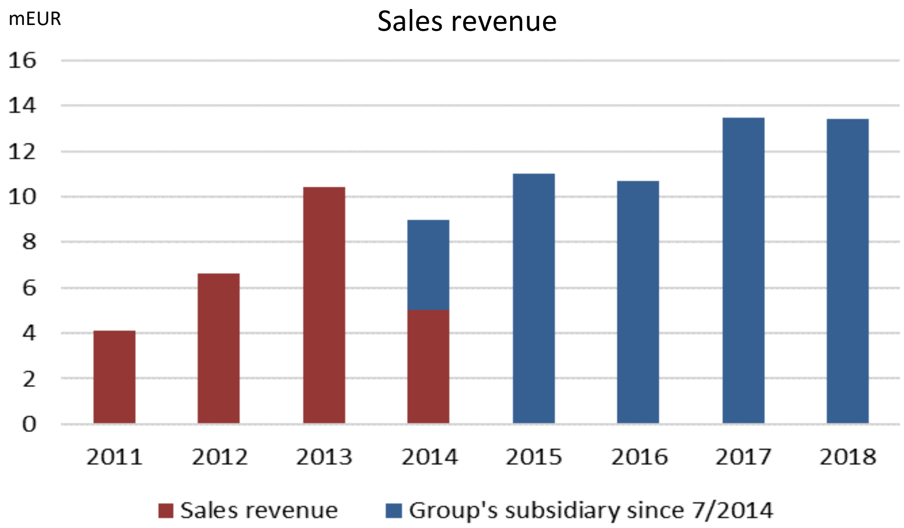


The company's operations continue to be based on contracts-based manufacturing, services within projects, supplies to the power distribution sector, and the manufacturing sector and infrastructure. All operations are continually being developed with automation increasing new solutions.

Finnkumu Oy

Finnkumu OY is a subsidiary that is fully owned by Satmatic OY. Finnkumu is a leading manufacturer of complete substations and cable distribution cabinets, Finnkumu designs, manufactures and supplies equipment for the power distribution sector. The products are aimed at the Finnish market. Founded in 2004, Finnkumu Oy is a part of the Group since 2014. Finnkumu Oy is located in Kurikka, where it has 2,500 m^2 of production and office space. The company employs 21 people.

The beginning of the reporting year was calm, but as the year progressed, the pace got higher. The construction and installation of electricity networks continued and there is no decrease in orders in the Finnish power distribution sector. No major changes have occurred in the company's customer base and products. The main focus was still on air-insulated sub-stations. The company's largest customers are located in eastern and northern Finland. All in all, despite the intense competition, the targets were met and the company's sales revenue reached 13.4 (2017:13.5) million euros in the year before.



Finnkumu Oy continues to have a good reputation as a supplier of substations in Finland. The company has a solid loyal customer base, which has developed over the years, whose orders are handled by a small sales team. By working with customers, company can improve its products and make them more suitable for specific projects. Manufacturing in the company has been organized by the strong network of well-functioning subcontractors that provide the necessary details for production. The assembly and final assembly and inspection of the products take place at the Kurikka factory.

Finnkumu Oy will continue to manufacture high quality substations and cable distribution cabinets based on customers' needs, adding new substation solutions to its product portfolio in response of customer demand. The ultimate goal is to reach agreements that will allow for the distribution of substation manufacturing to be more even throughout the year, to ensure steady employment throughout the year and, thus, promote job satisfaction. Modernisation of the production area will continue and, if necessary, production facilities may be expanded. The company will retain its focus on quality and environmental issues.

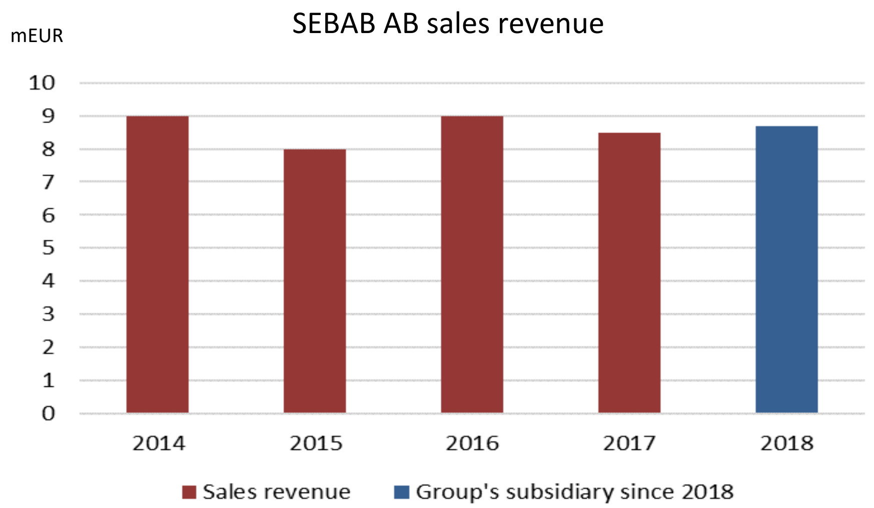
SEBAB AB and Grytek AB

On December 12, 2017, AS Harju Elekter signed an agreement to acquire all shares of the Swedish company SEBAB AB, which offers sales and technical solutions, and all the shares of the sister company Grytek AB. The deal entered into force on 8 January 2018.

SEBAB AB, a fully owned subsidiary of AS Harju Elekter, specializes in the development and supply of medium and low voltage solutions for energy production and distribution in the infrastructure, construction and renewable energy sectors. The company's headquarters is located in Malmö, production, sales and services department is led from there. Branch offices that offer technical and engineering solutions are located in Stockholm and Borlänge. The company employs 34 people.

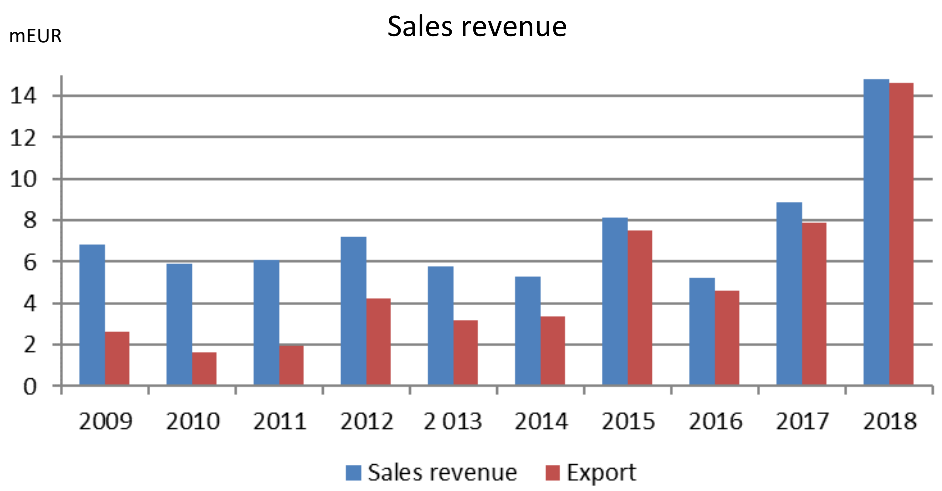
Grytek AB, a sister company of SEBAB AB located at Grytgöl, manufactures technical buildings for factory production. The company employs 21 people. The sales revenue of SEBAB AB in 2018 remained at the level of 8.7 million euros, slightly lower than expected. The vast majority of products and services were delivered to the home market. The sales revenue of the sister company Grytek AB in 2018 was 2.7 million euros.

For the Swedish subsidiaries, the reporting year was the year to blend in to the Group, it was the year where the existing rules had to be harmonized with the existing procedures in the Group and information and other systems integrated. It is a long-term and ongoing process that requires extra time and expense. In spite of all this, in cooperation with other sister companies, the Group's sales to the Swedish market were doubled to 13.5 million euros over the years and the share of the Swedish market in consolidated revenue increased to 11.2% (2017: 2.7%).



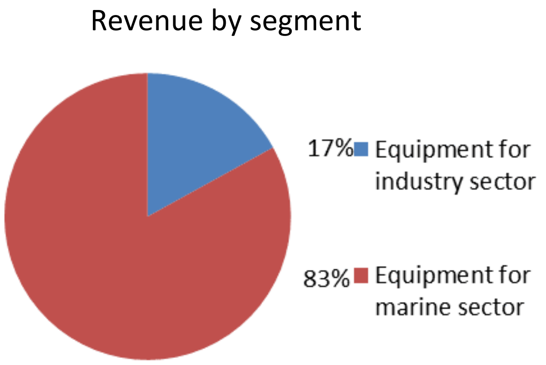
RIFAS UAB

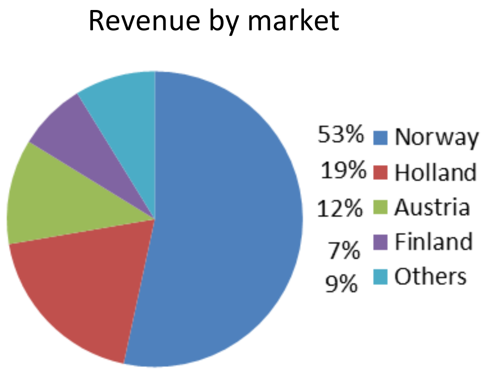
RIFAS UAB, the fully owned Lithuanian subsidiary of AS Harju Elekter, has been part of the Group since 2003. The focus of RIFAS UAB is on the development of different products and solutions and manufacturing based on contract for system integrators in the marine and industrial sector, providing them with specially designed power distribution and multidrive systems and solutions. The company has its headquarters in Panevežys, Lithuania. The company employs 120 people. In the third quarter of 2018, Automatikos Iranga UAB (67%) a subsidiary of RIFAS UAB, was liquidated. Automatikos Iranga UAB was engaged in designing solutions for RIFAS UAB. The company had a minor impact on the consolidated financial statements.



RIFAS UAB ended the year 2018 with the best economic results in its history. The good economic climate in the company's main target markets in Scandinavia and the company's unique skills to provide solutions and products to almost all of its key customers increased the company's revenue by 85.0% to 14.7 (2017: 8.9, including Automatikos Iranga UAB revenue 1.0) million euros. The share of foreign markets in the company's sales was nearly 100%. The main destinations were the Netherlands, Norway, Turkey, Finland and Germany.

Most of the revenue was generated from the development, production and sales of project-based products and services to the maritime sector. Various frequency converter equipment systems as well as electrical and control shields for the maritime sector were among the highest in the product range. The supply of quality products to the maritime sector is very strongly linked to RIFAS UAB's engineering capabilities, the orders are mainly for project and customer-specific solutions that are not found in standard catalogues. Thus, the ingenuity of the engineering and development team in the projects is to apply different solutions skilfully and flexibly to one of the company's most important sales arguments to win new large customers.

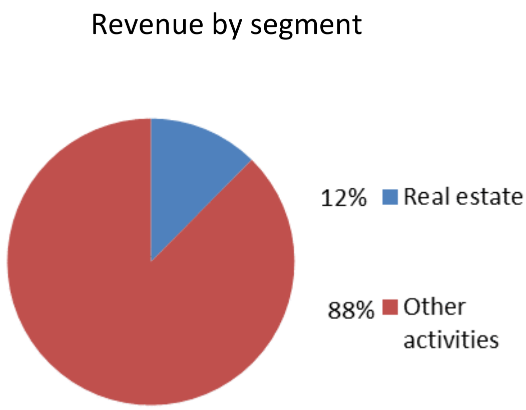




On a daily basis, the company focuses on improving steps related to quality, reliability and contract-based professional manufacturing. In order to ensure a fast-growing flow of orders and production volume, RIFAS UAB concluded in August 2018 a contract for expanding its production facilities. After the construction work has been completed in 2019, the company’s office and production premises will have expanded from the current 3,500 m^2 to 9,000 m^2. The total investment in the expansion of the production building and modernisation of the technology amounts to 3.5 million euros.

REAL ESTATE AND OTHER ACTIVITIES

The sales revenue of the Real estate segment (Parent company) and Other activities (Parent company, Energo Veritas OÜ, Telesilta Oy, Harju Elekter AB) totalled 17.4% (2017: 16.8%) of consolidated revenue, of which 12% was income from the Real estate segment and 88% revenue from other products and services.



Real estate

In the reporting year, the revenue of the Real estate segment was 2.6 million euros, increasing by 0.6 million euros year-on-year and constituting 2.2% of the Group's revenue (2017: 1.9%). The increase in revenue of the Real estate segment compared to the previous period is related to the departure of long-term shareholder PKC Group Oyj from the Group's rental premises at the beginning of 2017, lowering the sales revenue of the period. The new production and warehouse facilities completed at the Allika Industrial Park in autumn 2017 and was leased to Stera Technologies AS and Laohotell, which was put into use at the beginning of the current year, have stopped the revenue decline in the Real estate segment and increased lease income this year.

Lease income for the reporting year was 2.1 (2017: 1.7) million euros. The provision of utility services and other services provided a total of 18.0% (2017: 12.5%) of the segment's revenue.

The Group owns properties in industrial parks in Estonia (Keila, Harku, Haapsalu), Finland (Ulvila, Kerava, Kurikka) and Lithuania (Panevežys), with a total of 46 ha, with production, office and warehouse premises in total of 106,640 m^2.

Other activities

The sales volume of Other activities increased by 20.6% to 18.4 million euros, accounting for 15.2% (2017: 14.9%) of the Group's revenue.

AS Harju Elekter

AS Harju Elekter is the Group's parent company. The company's activities are divided into two parts - Real estate and Other activities. In addition to real estate activities, the Parent company coordinates cooperation between the Group companies, manages its subsidiaries through management boards and supervisory boards, manages the Group's cash flows, investment planning, corporate governance as well as business development, product development, and the provision of different services such as personnel, information technology and communications services.

The business operations of the parent company contributed 3.1% of the consolidated revenue (2017: 3.5%).

Telesilta Oy

Telesilta Oy is an electrical works company founded in 1978 in Uusikaupunki, Finland, specialized in designing, manufacturing and installing electrical equipment for ships, as well as installation and maintenance. The company employs 36 people. Telesilta Oy has been a member of the Group since 2017 and AS Harju Elekter's holding in the company is 100%.

In the 3rd quarter of the reporting year, two ship projects were completed: in August, a 158-meter new ro-pax-type ship was delivered at the Rauma factory, where the company carried out electrical works; In the second project, the research vessel Aranda was renovated, where the entire ship's electrical system was replaced and the ship's operating system was rebuilt on a hybrid. The projects had problems that caused delays leading to additional costs and disagreements with the customer. In the third quarter of 2018, the Group incurred 1.9 million euros of shipbuilding losses as expenses. Immediately before the approval of this report, the final agreement was concluded with the customer and as a result thereof no additional costs will arise. In all, Telesilta Oy's sales revenue for 2018 was 9.1 (2017: 10.1) million euros.

Energo Veritas OÜ

Energo Veritas OÜ focuses on project-based sales and trading activity, additionally the company has sales offices and shops in Tallinn, Tartu and Keila, through which the Group´s products, its related companies products and other electrical installation products are sold to retail customers and medium and smaller electrical works companies. The company employs 32 people. Energo Veritas OÜ has been a part of the Group since 2017 and the holding of AS Harju Elekter is 80.52%.

Energo Veritas OÜ revenue of 2018 increased by 25% to 6.9 (2017: 5.5) million euros. Revenue growth was mainly driven by investments in the electricity (+ 47%) and telecom networks (+ 90%) sectors, with a major contribution to the growth of construction (+ 13%) sector, which increased sales of electrical materials. The focus of the company during the financial year was on developing new business areas, which meant developing new competencies and organisational support functions.

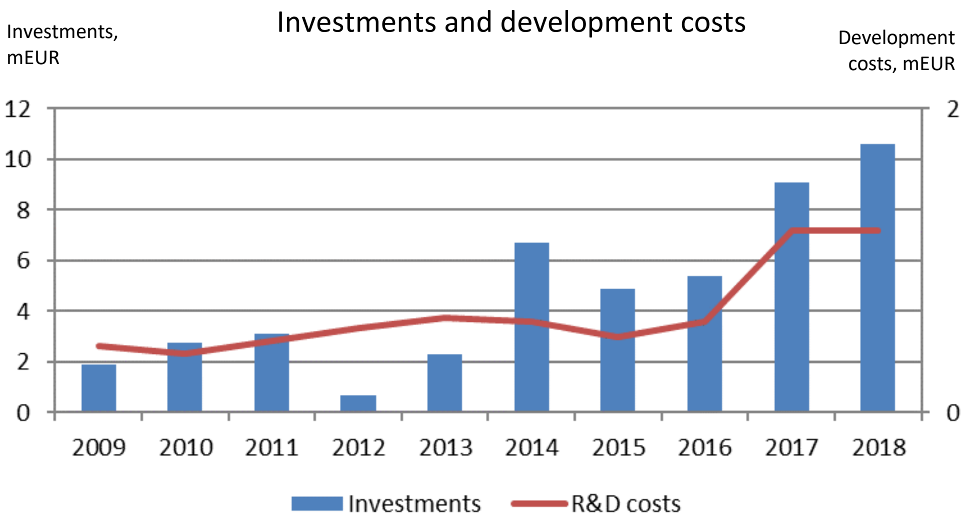
Significant changes were also made in the structure and work organisation, which focused on redesigning the sales organisation and sales channels in order to develop sales capability and thereby increase the efficiency of the entire company. As a strategic decision, the launch of the construction for the new sales office and the central warehouse in Tallinn can be highlighted. The move to the new premises is scheduled for March 2019.

All in all, Energo Veritas OÜ managed to grow its market share, find new customers and win important procurements in the midst of organisational changes.

Harju Elekter AB

Harju Elekter AB - the sales organisation and sales office in Sweden for medium-voltage and substation products - was established in 2010. In 2014-2017, the company's operations were temporarily suspended. In February 2017, AS Harju Elekter acquired a 10% minority holding in the company, increasing its shareholding to 100%, and in the autumn of the same year the subsidiary started active business again. The sales revenue of Harju Elekter AB in 2018 was 2.7 million euros and the company has 1 employee.

INVESTMENT AND DEVELOPMENT ACTIVITY



In 2018, the Group invested a total of 9.6 (2017: 7.3) million euros in fixed assets. Acquisition of subsidiaries increased investments in property, plant and equipment by 1.0 (2017: 1.8) million euros. In total, the volume of investments in the reporting period amounted to 10.6 (2017: 9.1) million euros. In general, investments of the Group could be divided into two: supporting and consolidating further development of the Group, and investments to ensure the quality of production facilities and technology and to meet modern requirements.

In order to increase the capacity of digitalisation and information security, the IT organisation of AS Harju Elekter was restructured in the reporting period. The Group introduced a new common information security policy and number of important basic services were harmonized. An intra-group communication and collaboration platform was introduced, and preparations were made for the introduction of a common email domain. Significant results were also achieved in the digitalisation of the subsidiaries' processes, including the production line management system integration with Group´s accounting software. A new reporting and analytical platform as well as a software solution for simplifying of consolidation were introduced. The Group's digitalisation development plan for the next five years was made.

According to the Group's development principles, the Group's product development aims to continuously modernize and develop products that meet customer needs and to improve technology.

The Group's development costs at the cost of the Group amounted to 1.2 (2017: 1.2) million euros, accounting for 1.03% of the Group's sales.

Strong and flexible product development is one of the Group's strengths. Product development resources for energy sector products are mainly concentrated in the company AS Harju Elekter Elektrotehnika; Satmatic Oy specializes in the development of industry-oriented products and renewable energy solutions, and RIFAS UAB´s specialisation is mainly project and customer-specific solutions in the maritime and industrial sectors.

AS Harju Elekter Elektrotehnika Development Centre brings together both electrical and mechanical engineers. In 2018, 29 electrical and mechanical engineers worked in the Development Centre. The purpose of the Development Centre is to provide a sales channel with innovative products and solutions, at the same time providing technical support for production and sales. In the product development department, engineers are divided into three functions: new product development, product improvement, and sales support. Each department has its own action plan.

One of the most important product development projects of the reporting year is the product family of air-insulated substations, composed of 6 different substation types, developed for medium-voltage business in the Swedish market. It is a concrete foundation with metal factory-made substations. In this solution much emphasis has been put on security of the substation, and thanks to its strong structure, the substation also successfully passed standard tests according to IEC standard during the reporting year in TalTech and certified laboratories in Poland. Various customer-specific ETO projects and their design are constantly being addressed.

In the low-voltage business, the HECON line control system for 2,500A – 4,000A was developed for engine control centres. Product development is based on Nordic requirements, which means that it is suitable for the needs of Finnish, Swedish and Norwegian customers. It is a multi-annual project that has now reached a stage where the concept is extended to lower amperages and components of different suppliers. In the future, this concept will also be extended to the power distribution sector. It is an important product for the Group, with design and mechanical solutions developed by the local engineers. The product developed by the company also makes it easier to offer special solutions to the clients, because the company is not tied to any specific brand and can use the components that suit the best to each customer's needs.

Due to the large sales order of the Estonian subsidiary from Konecranes to supply 54 special purpose substations to the UAE during the year, engineering work was started at the beginning of 2019 to complete the order.

In order to quickly and flexibly monitor intra-group development projects, AS Harju Elekter Elektrotehnika has designed and built new laboratory equipment to test the temperature rise of its own low-voltage distribution equipment. Laboratory equipment includes a main power transformer cabinet, load resistors and a thermo-pair data logger system. Previously, there was no in-house capability to test products with higher electrical currents (> 1,000 A) over a longer period of time. Two temperature tests have been conducted to date. There is plenty of work for the laboratory equipment and the next in-house tests are already waiting. The stand is set up according to future tests. In addition, some follow-up activities have been planned in the near future for stand.

Finnish subsidiaries have been focused on the development of renewable energy projects, and on offering suitable solutions to customers. In addition, Satmatic Oy has contributed to reducing waiting times in production by increasing the share of electronic information flow and increasing the level of automation of material handling; the reception of the goods was made more efficient. The Finnish subsidiary also increased the sales of solar power equipment and solutions and continued its development in the product segment of the car parking engine heater and electric vehicle charging shields, making the products even more customer-friendly.

The subsidiaries participated actively in specialty fairs in Finland, Sweden and Estonia during the reporting year: the production segment companies were represented at the Electricity Fair Sähkö Tele

Valo AV 2018 in Jyväskylä, Alihankinta fair in Tampere and EBR fair in Falun and Energo Veritas OÜ at the International Construction Fair in Estonia Builds in Tallinn and Maamess in Tartu.

INNOVATION

In terms of product development and innovation, the Group's operations are largely dictated by customers' demand for innovative solutions. It is important for the Group to keep up with these issues in order to be able 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. It is an opportunity to offer more help to customers, to meet their expectations and provide the Groups' engineers with exciting and challenging work.

Since 2011 the Group organises annual innovation competitions for finding the best engineering solutions.

The Group's ability to create innovation is reflected in three views:

- In product development, the Group independently as well as in cooperation with customers looks for ways to make conventional products in a smarter way or to make them function more effectively. The Group also invests in the applied research and development of new products (e.g. energy storage devices).
- Constant changes are carried out to make production more efficient through technology and process renewal (e.g. heat recovery systems of production lines for heating buildings and domestic water and the wider use of solar energy).
- The supply chain co-operates with suppliers to develop and improve already established structures.

Major development projects in Group companies in 2018

- Harju Elekter's manufacturing companies are focused on systematic implementation of the lean production principles. The companies have set up teams to map production processes, identify wasting, generate ideas for improvement and redesign the processes, thereby increasing efficiency and generating significant financial savings.
- AS Harju Elekter Elektrotehnika introduced a 2c8 process mapping model that reflects all of the company's processes depicted as flow charts. At the beginning of 2018, this model underwent ISO recertification, followed by the mapping of financial management, IT and system management processes. To date, new processes have been mapped and the existing ones have been improved in 2c8. Most of the basic and support processes have been reviewed and approved.
- In order to monitor intra-group development projects quickly and flexibly, AS Harju Elekter Elektrotehnika designed and built new laboratory equipment for the purpose of testing the temperature rise of low-voltage switchgear. The laboratory equipment consists of a main power transformer cabinet, load resistor and a data logger system with thermocouples. In the past, AS Harju Elekter Elektrotehnika lacked the in-house capability to test products with higher electrical currents (>1,000 A). By now, two temperature tests have been carried out and more tests are waiting.
- In the financial year, AS Harju Elekter Elektrotehnika, in cooperation with several different remote-control service providers in Finland, launched the testing of remote-control equipment in a substation. Previously, a remote-control unit was added to a substation on site and thereafter the unit had to be programmed and tested on site, but now it is installed in the substation and connected already at the factory. The factory also installs and tests a client-

specific software program and object-specific settings. Thus, a substation that is fully ready for connecting to the grid is delivered to the site. Owing to the remote testing service, the number of errors decreased and also the customer's time and money is saved.

- In order to smoothly perform a large-scale framework agreement, AS Harju Elekter Elektrotehnika thoroughly changed the manufacturing procedures of the sub-stations. As a result of this, the series manufacturing of substations in a manner novel for the company was launched. The current production process, where 20 electric assemblers made 20 substations per week, was replaced with a new step-by-step manufacturing process where 20 electric assemblers complete 15 substations per day and 75 substations per week. In the course of the project, the logistics of materials improved, Kanban and step-by-step material collection was introduced, the transit time was shortened, and the workload was made more even. Overall, the effectiveness of manufacturing and product quality improved. From the customer's point of view, the security of supply increased owing to the shorter transit time.
- Satmatic Oy supplemented the product family of electric vehicle charging equipment.
- RIFAS UAB focused on further development of high-tech electrical equipment for ships.

QUALITY MANAGEMENT, PRODUCT QUALITY AND QUALITY OF CUSTOMER RELATIONS

Harju Elekter Group`s one main goal is to ensure product quality. Customer satisfaction depends greatly on the product quality, which, in turn, has a direct influence on long-term business success. In this field, the Group companies were recognized by clients in 2018 - Elenia OY awarded AS Harju Elekter Elektrotehnika with the title "Highest Quality Products". In 2018, the Quality Managers of Keila Industrial Park decided to join forces in maintaining and addressing quality, environmental and occupational safety issues. At the beginning of the year, the first-round table for the development of quality management was gathered, which became a regular meeting of quality people pursuing a common goal. Together, the issues of quality, the environment and safety at work will be kept in greater overview and a common approach to similar issues provides a better overview of opportunities and risk areas.

Quality and properly manufactured products, security of supply and adherence to deadlines, smooth co-operation and understanding of the client and the credibility of the company as a result of its strength and history today – The Group understands that these factors ensure a strong customer relationship. Therefore, the proportion of products completed by the agreed deadline is measured, customer complaints and feedback are monitored. The proportion of products that have been properly delivered to customers by the due date varies from company to company depending on the nature of the work to be done, remaining within the range of 70-100% for all Group companies during the reporting year.

Product quality assurance

The Group believes that a quality product is manufactured in a responsible manner if:

- The product is safe, meets the technical requirements set by customers and is visually correct.
- The product also meets those requirements that customers cannot express specifically. These aspects are negotiated with customers on the initiative of the subsidiaries themselves.
- All sales and production processes are carried out in accordance with the requirements of the law.

The daily business operations and organisation of the Group companies are based on quality and environmental policies that complies with international standards. The current ISO 9001 quality management standard is applied in most of the Group's production plants: AS Harju Elekter

Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, RIFAS UAB, SEBAB AB and Grytek AB, as well as the sales company Energo Veritas OÜ. Telesilta OY and Finnkumu OY started preparatory work for the implementation of ISO 9001 during the reporting year and the certifications are planned to be carried out in 2019. All manufacturing companies in the Group (except Finnkumu Oy) have implemented the valid environmental management standard ISO 14001.

During the reporting year, several audits of key accounts, product certification companies and vendors of licensed products were successfully conducted in subsidiaries of the Group. Satmatic Oy has a valid UL certificate, which is a prerequisite for delivering the company's products on the US market.

Quality certificates

Company	2010	2011	2012	2013	2014	2015	2016	2017	2018
AS Harju Elekter Elektrotehnika	↻ ISO9001/ ISO14001 (since 2000)			↻		↻ until 2018			↻
AS Harju Elekter Teletehnika		↻ ISO9001/ ISO14001 (since 2002)			↻		↻ until 2019		
RIFAS UAB		ISO14001 OHSAS 18001	↻ ISO9001 (since 2003)			↻ until 2019			
Satmatic Oy		ISO14001	↻ ISO9001 (since2003)			↻ until 2019			
SEBAB AB				ISO9001/ ISO14001					↻
Grytek AB									ISO9001/ ISO14001
Energo Veritas OÜ						ISO9001		↻	

↻ - 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 quality assurance in the example of AS Harju Elekter Elektrotehnika:

The company believes that quality has to be developed into products and produced, not only subsequently checked.

1. **At the product development stage**, the preconditions for the production of high-quality final product are created – the planned solutions must be made easily and clearly understandable for the production workers.
2. **Materials and component suppliers** are also selected and audited from a quality perspective - timely deliveries, availability of quantities, and response to Group complaints are also important.
3. **The check of purchased products and materials** helps to identify any faults at an early stage – this is done randomly for higher risk purchases.
4. **The alertness of employees** ensures that features dependent on a human factor were of high quality – reasonable workload, motivation that comes with the control and responsibility and training (focusing of products, management and electrical engineering, etc.) are all important.
5. **Process descriptions** create clarity in the tasks - the deficiencies that are detected at early stages leave more time to improve them, therefore, an unwritten catch-word 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 inspections** are carried out on finished products in order to be sure of its compliance with applicable safety requirements, laws, standards and customer requirements.

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.

Improving quality is a continuous process. Each subsidiary of the Group has its own approach to it, but improvement activities receive their input largely from four sources:

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

1. Share of defective products

In order to defect faults all products are checked during the production process and detected defects are discussed every morning. In serial production, there are more products, which are manufactured correctly and without defects, but for more sophisticated special orders, there are more findings that need to be improved before finalisation.

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, so that corrective and preventive actions can be implemented immediately. All reclamations are recorded and analysed. Subsidiaries are monitoring failure costs connected with rectification of faulty products.

The number of justified customer complaints received from external customers in 2018 was relatively low in all Group companies. Depending on the company, the Group received an average of 2.1 (2017: 3.9) customer complaints 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 engineering solutions with customer expectations. The received feedback helps to map customers' overall attitudes towards the company, but in order to ascertain the root causes of customer satisfaction and making conclusion, the claims and improvement proposals filed by customers are analysed. The management of the company monitors the summary of complaints on a weekly basis. The average recommendation index for 2018 was 47 (2017: 59) points out of 100.
- **AS Harju Elekter Teletehnika** also evaluates its customer satisfaction quarterly. On a scale of 5 points, TOP10 customers are asked for feedback on product range and quality, delivery accuracy and speed, documentation accuracy, price level and availability of contact persons. The average result for 2018 was 76% (2017: 80%).
- **Satmatic OY**, a Finnish subsidiary, asks quarterly feedback from customers on prices, quality, security of supply and overall cooperation and in 2018 the result was 90% (2017: 97%). Telesilta OY evaluates customer satisfaction based on the security of supply and monitors the ratio of working hours spent on warranty works to total project hours. Finnkumu Oy did not collect customer satisfaction data in the financial year, but the result for 2017 was 80% of the possible maximum.

3. Relations with suppliers and 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 obtaining 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 the last couple of years, the first steps have been taken towards group-wide purchasing process. Single contracts with suppliers support better delivery conditions and ensure a smooth and transparent process. During the year, 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 ratio is more important than a low price. The main suppliers are usually more permanent and new ones are contacted only when there is a need or if a new solution appears on the market.

In addition, from time to time representatives of subsidiaries visit main suppliers to ensure that suppliers are reliable and follow orders.

The manufacturing companies introduce 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.

Quality enhancing activities in Group companies during the reporting year

In the reporting year, AS Harju Elekter Teletehnika started mapping processes to identify risk points using the 2c8 method. A quality room was opened in the production premises, where the data is presented, feedback is given, situations are analysed and improvement activities are carried out. The Quality Unit has been shifted closer to the case sites to bring the percentage of defective products to zero by providing more efficient assistance and more efficient prevention.

In the reporting year, Telesilta OY updated its review procedures for sales offers and order documentation to minimize deviations.

In recent years, AS Harju Elekter Elektrotehnika has reviewed its management processes in connection with the increase in the volume of orders. The most important changes concerned the strategic planning of the company, the descriptions of the processes - documentation and the establishment of a meeting system. As a result of the work, in the supply chain and strategic purchasing area positions have been created and process descriptions have been updated. To date, the most processes have been mapped and validated. The ultimate goal is to make the management of the company more efficient and to improve the quality of products and customer service.

Approximately ten quality managers of different companies operating in Keila Industrial Park regularly attend club meetings, which are coordinated by the Estonian Quality Association. The purpose of the initiative for Keila Industrial Park companies is to acknowledgment quality management. Collectively discuss topical issues concerning industrial enterprises and try to find improvement projects.

AS Harju Elekter Elektrotehnika developed a system that allows employees to rotate between different work sections of the factory. This will help to optimise the workload and develop people.

In order to guarantee quality, The Lithuanian subsidiary uses a 3D model-based assembly, where each element is numbered, which means that new employees do not need long training and can quickly guarantee primary quality. At the end of each working day, the master checks all the products in his/her area of responsibility according to the 3D drawings. In the interest of the rapid movement of information, the Quality Department is directly subordinate to the Management Board. They monitor production on the basis of a detailed quality questionnaire, and they have the right to stop production immediately when a mistake is detected.

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 each finished product. 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 has to 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 (each 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 of the proper manufacturing of each product.
4. The aim of the final inspection is to identify possible 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 contracts to compensate for potential loss events.

Environmental impact of product life cycle

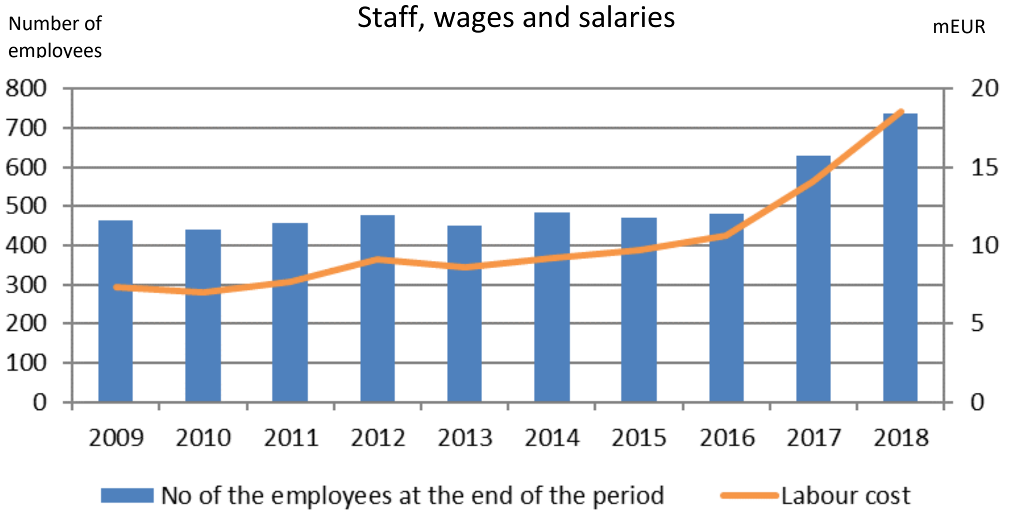
The Group companies' goal is to create long-lasting solutions– for customers they have to be reliable and sustainable solutions, not individual products. The market presumes that, for example, substations have at least 40 years of life cycle. Long-term solutions mean that smaller numbers of new substations 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 environmentally friendly alternatives include the use of air insulation or vacuum, but these would raise the price of the whole product by about a third and the market is simply not ready for it yet.

PERSONNEL

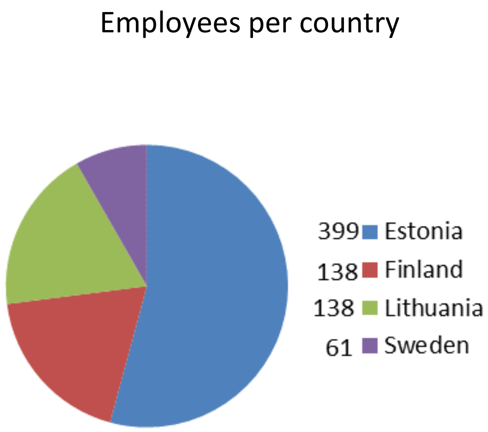
Companies of the Harju Elekter Group are based in Estonia, Finland, Lithuania and Sweden. Given the expansion of the Group, the increased production volumes owing to successful bids and the rapid economic growth in the entire region, a complicated situation on the labour markets of the Group's companies continued. The lack of trained specialists remained an acute issue. The situation was made more difficult due to the little attractiveness of the pay level offered by the business sector. The pay pressure remained strong. According to the Estonian Statistical Office, in 2018 the rate of participating in labour was 71.9%, the employment rate was 68.1% and the unemployment rate was 5.4%. The number of the long-term unemployed in Estonia was the lowest of the last 20 years.

The bringing of all the subsidiaries and the Group as a whole into compliance with the changes arising from the rapid growth and expansion experienced in recent years continued throughout 2018. In connection therewith, management quality (incl. change management and delegation matters) and the availability of high-quality labour remained in the focus of the personnel field as major risks. Innovations and changes caused by growth considerably affected employee satisfaction and turnover in 2018 and put the employer's branding in the focus in the context of possible new employees as well as current employees. Therefore, the activities of the year focused on formulating the employer's branding offer and on supporting the subsidiaries in managing changes, above all, via organising training aimed at improving management quality and via recruitment. In addition, the principles of Good Corporate Governance were formulated in the Estonian subsidiaries of the Group and a 360-degree feedback survey was launched in order to map the results of the development and training efforts to date.



On the report date of 31 December 2018, the Group had 736 employees (2017: 630). Following the acquisition of Swedish subsidiaries in the first quarter, the number of employees of the Group rose by 45. The average number of employees in the financial year was 713 (2017: 567). The salaries, wages, bonuses and benefits paid out to the employees in 12 months amounted to 18.5 (2017: 14.1) million euros. The average monthly salary per employee was 2,166 (2017: 2,067) euros in the financial year, growing by 5% on average. Here, it should be pointed out that the average pay levels in Finland and Sweden are multiple times higher than those of Estonia and Lithuania.

Most of the employees of the Group (i.e. 399) worked in Estonia. The average age in the Group has been around 40 over the years and in the financial year it was 41.2 years. 27% of the employees (201 people) of the Group have higher education, 53% (390 people) have secondary and secondary specialised education and 20% (145 people) have basic education.



The Group is characterised by a strong established organisation culture. The large proportion of employees in a long-term employment relationship supports the following and upholding of traditions also by new colleagues. Every second employee of the Group has been with the Group for more than five years. Staff turnover among the employees of the Group companies was 17% on average (15% in Estonia, 5% in Finland, 46% in Lithuania and 9% in Sweden).

The share of employees with an employment contract made for an unspecified time as per gender and place of business: men 99%, women 99%; Estonia 99%, Finland 100%, Lithuania 100%, Sweden 100%. Share of full-time employees per gender and place of business: men 98%, women 95%; Estonia 97%, Finland 99%, Lithuania 100%, Sweden 95%. The companies of the Group do not use subcontractors or agency workers to a significant extent.

Overview of employment as of 31 December 2018

	Estonia	Finland	Lithuania	Sweden	Total	% of all employees
Employees in total	**399**	**138**	**138**	**61**	**736**	
*Incl. office staff**	136	42	44	28	**250**	34%
Incl. workers	263	96	94	33	**486**	66%
Men in total	281	122	109	57	**569**	77%
Women in total	118	16	29	4	**167**	23%
Under the age of 30 yrs	70	33	54	19	**176**	24%
30-49 yrs	211	66	74	25	**376**	51%
50 yrs and older	118	39	10	17	**184**	25%
New employees	126	8	79	19	**232**	
Employees left**	99	2	61	8	**170**	
Average turnover***	15%	5%	46%	9%	**24%**	

* The number of top executives in the Group (i.e. members of the Supervisory Board and Management Board, the Chief Executive Officer): Estonia 13, Finland 12, Lithuania 5 and Sweden 5
** Incl. voluntarily, due to dismissal, retirement or death.
*** The number of employees that left during the year divided by the average number of employees

New generation of employees

The Harju Elekter Group wishes to be an attractive employer and the first choice in its field of activity for those entering the labour market as well as a preferred choice for those who already have prior work experience. Therefore, improving the employer's reputation holds an important place in the personnel strategy of the Group for 2017-2022.

Since the lack of qualified labour is a serious risk in the development of the Group, fruitful cooperation with universities and other research institutions continued in 2018 as well for the purpose of ensuring sufficient ongrowth of employees with required skills. In Estonia, close cooperation with the Tallinn University of Technology (TalTech), TTK University of Applied Sciences, Tallinn Industrial Education Centre, Tallinn Polytechnic School and Tallinn Construction School continued. In cooperation with TalTech, up to four scholarships are annually granted to bachelor's and master's students of energy or mechanics specialisations. Over the years, more than 65 Bachelor's and master's students have participated in the scholarship programme and 14 of them have come to work for the Group following their studies. Currently, the Group employs seven scholarship recipients.

Finnish subsidiary Satmatic Oy has close ties with technical and professional higher education institutions of the region: Satakunna Apprenticeship Training Centre and the Tampere University of Technology. Lithuanian subsidiary RIFAS UAB has good cooperation relationships with the Panevezys College, Visaginas Technology and Business Training Centre and Klaipeda Marine University.

Harju Elekter considers it important to be represented in major labour and career fairs. In 2018, it participated in the Career Fair of the TTK University of Applied Sciences, in TalTech's student fair "Key to the future" and in regional fairs organised by the Unemployment Insurance Fund. The Group also pursues constant internship cooperation with various schools.

Employee satisfaction and motivation

Major changes in almost all subsidiaries of the Group in recent years have highlighted various dissatisfaction-sparking problems in management quality, teamwork and remuneration systems.

In Estonian companies of the Group (the parent company, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika and Energo Veritas OÜ), an employee satisfaction survey is carried out once every two years. In 2018, no employee satisfaction survey was carried out and the next survey will be carried out in spring 2019. The last survey was carried out in 2017. The employee response rate was 72%, which was 29.6% higher than the response rate of the preceding survey. Executives were the most active respondents with 93%, while the response rate among production workers was the lowest with 68%.

Positive assessments and the highest satisfaction rates were recorded regarding topics that were related to the employer's stability and reliability, cooperation with the direct supervisor, opportunities for applying one's knowledge and take responsibility, and friendly colleagues. The satisfaction rates regarding remuneration, the comprehensibility of calculation of the variable remuneration, and the physical working environment were the lowest. The most motivated employees were in the parent company where 89% of the respondents considered their motivation to be high or medium. In AS Harju Elekter Elektrotehnika, the same indicator was 76% and in AS Harju Elekter Teletehnika it was 77%. The recommendation index was high as well. As much as 93% of the employees of the parent company were prepared to recommend their company as an employer. In AS Harju Elekter Elektrotehnika, the same indicator was 70% and in AS Harju Elekter Teletehnika it was 69%.

In addition, the survey gave an overview of the greatest development needs of the company. The results of the last satisfaction survey were taken into account in shaping the Group's personnel strategy. As a result thereof, the Group focuses on developing employees, improving the quality of the working environment and employee satisfaction, and attends to devotion issues.

In the financial year, satisfaction surveys were carried out in the Finnish (except for Telesilta Oy) and Swedish companies. RIFAS UAB and Telesilta Oy do not measure their employee satisfaction rates. However, RIFAS UAB does assess employee satisfaction through staff turnover and length of employment, which are measured regularly and compared against the results from previous years. Energo Veritas OÜ will join the employee satisfaction survey carried out in Estonian companies in 2019. The average employee satisfaction rate in the Group companies is between 70-95%.

The Group uses various solutions to raise employee satisfaction and to increase their motivation. The motivation system is reviewed and changes are made, where necessary, once a year. At the Group level, long-term employees in Estonia can get additional days off: one paid day of work for every two years of employment (maximum five days a year), which the employees can use between December and March.

Group companies have created various motivation systems that provide various benefits, such as, for example:

- a bonus system dependent on the operating profit and personal performance, which includes all employees. Bonuses that depend on the profit motivate employees to act on the effectiveness of the work performed from the point of view of the company as a whole;
- stimuli dependent on the length of employment;
- share option programmes aimed at involving members of the management bodies and employees of the Group companies as shareholders of the company in order to motivate them to act for the sake of attainment of better economic results;
- inter-company and inter-country exchange programmes that encourage rapid development of knowledge and experiences in the Group and offering rotation opportunities for employees;
- additional benefits such as sports allowances, Christmas and summertime events for employees and their children, a day off for the parents of children who start their first year in school, celebration of jubilees and anniversaries, support in the event of the loss of a person close to an employee, school graduation bonuses and election of the employees of the year. Developing health sports among employees is in a separate focus.

Personal development of employees

In 2018, the focus remained on improving the management capacity and quality of the executives of the companies of the Group. Several team thinking training courses and study days of application of lean production management principles were carried out in the Estonian subsidiaries. In total, 68% of executives and specialists participated in management courses in 2018 (2017: 61%).

In 2018, the companies of the Group continued developing the new employee acclimatisation programme. Thus, for instance, in Finnish subsidiary Satmatic Oy all new employees undergo a two-day welcome course that is followed up by a six-month support in the form of a company mentor. A four-month acclimatisation programme involving training in various fields was developed for the employees of AS Harju Elekter Elektrotehnika. The compilation of an introductory training day and training materials was commenced as well.

Every year, regular exercises and training courses are organised in the companies of the Group for the purpose of improving professional skills and qualifications. The development of the 5S programme continued in the Estonian production units in order to reduce wasting resources, inefficiency and activities that do not add value. First aid, occupational safety and electrical safety courses were also organised for the employees of the companies of the Group and training was organised for working environment representatives for the purpose of keeping them informed of relevant legislative amendments. All employees are regularly instructed in the companies about waste management and waste collection by type.

In conclusion, on average 72% of the employees of the Group participated in training in 2018 (2017: 71%). On average, the Group's employees attended training to the extent of 8.4 hours per employee (2017: 12.1). The parent company trained its employees the most: they attended training to the extent of 26.6 hours per employee. As for production companies, AS Harju Elekter Elektrotehnika trained its employees the most, averaging 15.7 hours of training per employee. The executives and specialists of the company attended training in 2018 on average to the extent of 19.5 hours (2017: 18.1), while workers averaged 2.7 hours (2017: 7.5) per person.

The training and development needs are identified via development conversations held with employees at least once a year. Development conversations are held with employees of all levels in the Group. In 2018, development conversations were held on average with 79% of the employees (2017: 69%) and with 58% of the executives/specialists (2017: 51%). One of the goals of the Group is to constantly increase the share of employees with whom a development conversation has been held.

Occupational health and safety

The occupational health and safety of the employees and a modern working environment are of utmost importance for the Group. Being a caring and responsible employer, Harju Elekter provides its employees with modern work and non-work conditions that are also in accordance with the laws in force. Since people perceive high risks in the work environment, the Group invests more in improving occupational health and safety than the law demands. All the subsidiaries of the Group have made the management of occupational health and safety a strategic matter.

The last two years have been years of major changes in the field of occupational health and safety, because AS Harju Elekter Elektrotehnika moved to new production halls and AS Harju Elekter Teletehnika updated and expanded the existing production premises. Overall, the work conditions improved considerably.

Since the end of 2017, the Estonian companies of the Group have had contracts with Mediserv OÜ, which carries out medical examinations of employees in accordance with the procedure established by law and at intervals prescribed by an occupational health doctor.

To assess the compliance of the work environment with the requirements and employees' requests and to assess possible risks, the Estonian production units have carried out a risk analysis based on the results of which the company made various investments in tools and in work organisation changes throughout 2018. The focus remains on improving the management of the field of occupational safety and other similar practical issues, e.g. hoist-related safety, fire safety and evacuation issues, use of personal protective equipment, etc.

Subsidiaries AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika and Satmatic Oy improve workplace safety by relying on the 5S system, which, in addition to occupational safety, aims at creating orderly and systematised workplaces, reduce a waste of resources, improve productivity and product quality. To ensure the functioning of the system, inspection rounds are organised. Respectively authorised team leaders and support persons are responsible for the functioning of the system.

The production operations of RIFAS UAB and SEBAB AB comply with the OHSAS 18001:2007 occupational health and safety standard. In 2018, AS Harju Elekter Elektrotehnika and Satmatic Oy started preparations for implementing the same standard.

In 2018, the companies of the Group registered 21 (2017: 11) occupational accidents or injuries, including 4 (2017: 1) in Estonia, 4 (2017: 1) in Lithuania, 3 (2017: 9) in Finland, and 10 in Sweden. There were no fatal occupational accidents or any cases of occupational diseases. The share of lost workdays due to occupational accidents in the companies of the Group was on average 0.9% (2017: 0.9%) and the number of workdays lost due to an illness was on average 1.9% (2017: 5%).

Diversity and fair treatment

In the Harju Elekter Group, following the principles of diversity and fair treatment is part of the work organisation and the recruitment process. Therefore, the company does not distinguish between or select employees based on their gender, religion, nationality or race, but relies on their skills and competencies. 23% of the staff of the Group are women (2017: 24%). Two out of the 22 top executives of the Group (Supervisory Board, Management Board and executives) are women.

The Group has made certain that people get equal pay in equal job categories and ensured equal pay levels for men and women of the same position and job category. The companies of the Group try to knowingly create an open corporate culture and management processes that would help to mitigate risks and discrimination arising from human rights violations and unequal treatment.

No discrimination cases were registered in 2018.

Trade unions

The Group accepts its employees' membership in trade unions and, therefore, 80% of the employees of the Group are covered by trade union agreements.

The parent company and the manufacturing companies operating in Estonia have constructive cooperation with the KETA Trade Union of the Keila Industrial Village. Approx. 33% of the employees of these companies have registered themselves as its members.

The companies have concluded a collective agreement with the representatives of the employees, which applies to all employees. The trade union is an important channel for communicating information between the management of the Group and the employees (e.g. employees are informed of major changes concerning the company a moment before the disclosure via the trade union) as well as for organising other actions concerning employees. AS Harju Elekter supports the trade union with 0.2% of the payroll fund, which goes to the trade union for organising its activities. The employees of the Group's subsidiaries located outside Estonia are voluntarily members of local trade unions.

ENVIRONMENTAL MANAGEMENT

The Harju Elekter Group takes minimising the environmental impact of its operations seriously. The companies of the Group regularly monitor and measure their environmental risks and impact, making every effort to reduce them.

In essence, the manufacturing of energy distribution and control equipment is a rather clean process and does not have any serious harmful impact or burden on the natural environment. The company finds that the main environmental impact aspects include the consumption of electricity and heat on the manufacturing premises, the use of certain materials (above all, copper) and waste generation (above all, copper and steel, to a lesser extent also paint residues). Like before, the companies of the Group did not violate any environmental laws or other legislation in 2018. The Group is prepared to openly discuss any environmental deviations and irregularities in order to improve itself.

The management of environmental aspects is based on three pillars:

- compliance with environmental laws and other legislation;
- annual analysis of environmental risks and environmental impact assessment;
- implementation of environmental management standard ISO 14001 in all the manufacturing enterprises of the Group (except for Finnkumu Oy).

Customers who determine the qualities of a finished product and the criteria for the material to be used for manufacturing play an important role in shaping the environmental impact. The environmental policy guides the Group companies towards following environmental requirements arising from laws, rules, society and customers. Action plans focus on optimising processes, using materials and resources in a more sustainable manner, making work techniques and technologies more effective and attaining the minimum possible environmental impact. The members of the management boards of the Group and subsidiaries and the specialists of the respective fields are responsible for environmental matters.

The environmental awareness and behaviour of the employees of the Group is of crucial importance from the point of view of ensuring environmental friendliness. All the employees have undergone training ensuring that they notice ways of making transportation, waste management, and the use of materials and energy more reasonable and environmentally friendlier and make respective recommendations. In several Estonian and Finnish subsidiaries, the employees are responsible for following 5S principles aimed at increasing productivity which, in addition to creating orderly and systematic workplaces, also support the reduction of a waste of resources.

As for climate issues, Satmatic Oy has the clearest position among the subsidiaries of the Group. The company has promised to reduce its carbon gas emissions through giving preference to energy-efficient manufacturing methods in its operations and through raising customers' awareness of renewable energy products and sources. Keeping in mind the same goal, contributions to the development of the and promotion of the sale of electrical vehicle charging systems are increased, thus contributing to the growth of popularity of electric vehicles in Finland.

Materials and waste

The main materials used in manufacturing include steel and copper elements, powder paints and various electronics components. Even though a large portion of the selection of the materials is dictated by customers, the companies of the Group themselves choose more environmentally friendly alternatives of the highest quality, where possible. The generation of waste metal is tried to reduce via the optimisation of the manufacturing processes. Metal waste is collected with the aim of making use of it to the maximum extent in manufacturing. However, depending on the product, up to one fifth of the sheet metal remains unused. The paint lines are able to collect some of the paint residue and reuse it. Most of the packaging is reused as well.

The companies of the Group are contractual partners of the non-profit association Eesti Pakendiringlus, the subsidiary Satmatic Oy cooperates with the Finnish producer liability organisation RINKI in order to ensure the channelling of electronics, copper, cables and other waste to reuse. The Group's Lithuanian subsidiary RIFAS UAB gives unused electrical components to the electrical technology students of the Panevežys College so that these could be used in teaching and learning activities.

Hazardous waste is collected and handed over to waste management undertakings. In the shops of the subsidiary Energo Veritas OÜ, the collection and handling of waste electrical and electronic equipment (lamps, light sources, batteries, cables, boilers, etc.) is ensured in compliance with the Waste Act with the help of Estonian non-profit association Elektri- ja Elektroonikaseadmete Ringlus.

In connection with the sales growth, the quantity of waste in the companies of the Group increased. In 2018, a total of 1065 tons of waste was generated (2017: 910), including 2 tons of hazardous waste (2017: 32). 89% of non-hazardous waste was sorted and channelled to reuse (2017: 93%). Since 2018, the data include those of two Swedish subsidiaries that joined the Group.

Energy

The companies of the Group try to reduce the consumption of electricity and heat through smart and sustainable technologies and through constructing energy-efficient buildings. In addition to buildings used by the subsidiaries, the Group considers energy-efficiency important also in the case of industrial real estate developed by it in the Keila Industrial Park, Allika Industrial Park and Haapsalu. In 2018, the companies of the Group consumed 4,545 (2017: 3,854) MWh of electricity and 5,263 (2017: 2,986) MWh of heat. Approx. 12% (2017: 16%) of the total consumption originated from renewable sources. Since 2018, the indicators also include the data of two Swedish subsidiaries that joined the Group.

Upon developing industrial real estate, AS Harju Elekter follows the principles of environmental friendliness:

- In the case of new buildings, it is thoroughly assessed what heating solution is the most suitable one for the given building or manner of production. New buildings are built to be more heat-preserving than the requirements prescribe. The production buildings constructed 2017-2018 are either equipped with solar panels or ready for such functionality.
- Older buildings are made more energy efficient by insulating the walls and roofs and their ventilation systems are modernised. In the existing buildings, lighting solutions are replaced with more economical LED lamps.

Such improvements help to meet the increasing expectations of lessees and to value environmental conservation and more economic energy consumption.

Generation of renewable energy

The Harju Elekter Group pays increasing attention to the generation and use of renewable energy. By today, the total capacity of the Group's solar panels amounts to 1,340 kW of which 794 kW was installed in Haapsalu, 154 kW in the Allika Industrial Park on the roof of the production facility of Stera Technologies AS, 27 kW on the roof of the production facility of AS Harju Elekter Elektrotehnika and 45 kW on the roof of the production facility of AS Harju Elekter Teletehnika. Although it still only accounts for a small portion of the energy consumption of the Group and its lessees, new buildings to be constructed will be using solar energy as a power source to a reasonable extent.

The Finnish and Lithuanian subsidiaries use renewable energy to a considerable extent in supplying their production facilities with electricity. These companies generate energy using their own solar panels (Satmatic Oy 60 kW, Finnkumu Oy 50 kW and RIFAS UAB 80 kW), while the remaining need is covered using bioenergy-based gas (Finland) or wind power (Lithuania).

In the financial year, the electricity consumed by RIFAS UAB was 100% generated from renewable energy sources. In the Finnish subsidiaries, the share of electricity from renewable energy sources amounted to approx. 2/3 of the total consumption.

Given that the construction of solar power plants has become less expensive and opportunities of applying for renewable energy benefits have emerged, AS Harju Elekter constructed a 794-kW solar power plant in Haapsalu. The project developed for the purpose of production of electricity and selling it to the grid was completed in October 2018. The Group is planning, analysing opportunities and looking for places where to build additional solar power plants in Estonia.

On 1 February 2018, a new factory and a non-work block of AS Harju Elekter Elektrotehnika were opened. Before that, the technical systems of the premises were renovated, economic LED lamps were installed on office and production premises, air locks were installed in the storage facility doors for the purpose of reducing heat losses, water-saving shower systems were installed on the recreation premises, and waste collection stations were created in the production building for the purpose of sorting waste by type. In 2018, solar panels with a full capacity of 27 kW were installed on the roof of the production building, which is sufficient for covering the power consumption of the company's office and non-work premises. The energy consumption of the new building is constantly monitored using respective technology.

SHARE AND SHAREHOLDERS

On 30 September 1997, the shares of AS Harju Elekter were listed on the Nasdaq Tallinn Stock Exchange, which is part of the world's largest stock exchange group. The symbol of the share of AS Harju Elekter on the Nasdaq Tallinn Stock Exchange is HAE1T. ISIN: EE3100004250. All the shares of the company are freely traded on the stock exchange and every share gives an equal right to voting and dividend. All the shareholders of the company are equal as well and there are no separate restrictions or agreements on voting rights. To the knowledge of AS Harju Elekter there are no restrictions on the transfer of the securities or other specific control rights in relationships between the shareholders either.

As of 31 December 2018, the share capital of AS Harju Elekter amounted to 11.18 million euros, which is divided into 17.74 million ordinary shares without a nominal value. The book value of a share is 0.63 euros.

In the last year of investment, the entire world suffered losses. The US stock exchange index S&P 500 fell by 6.2% in a year, which is the biggest decrease since the financial crisis. The Tallinn Stock Exchange fell by 6.4% in a year and, according to the trade statistics of the main list, merely four out of 17 companies managed to increase their share price in 2018. Stoxx 600 Europe, which characterises European stock markets, fell by 13%, MSCI Asia Pacific fell by 15% and MSCI Emerging Markets Index fell by 16%.

Similarly, to other stock exchanges of the world, the year 2018 was a hectic and nervous one on the Nasdaq Tallinn Stock Exchange. In the final months of the year, the sales wave that started in the US brought the prices of local securities down and sent Baltic indexes into a fall.

Share price and trading

EUR	2018	2017	2016	2015	2014
Average number of shares (pcs)	17,739,880	17,739,880	17,739,880	17,550,851	17,400,000
Nominal value	-	-	-	0.70	0.70
Highest price	6.68	5.08	2.94	3.14	2.85
Lowest price	3.89	2.80	2.43	2.49	2.52
Closing price	4.12	5.00	2.83	2.63	2.79
Change (%)	-17.6	76.7	7.6	-5.7	3.3
Company market value (in million)	73.09	88.70	50.20	46.66	48.55
Traded shares (pcs)	1,100,773	1,349,617	947,294	1,086,451	800,823
Turnover (in million)	5.98	5.46	2.45	2.98	2.17
Net profit per share	0.09	1.64	0.18	0.18	0.56
P/E ratio	45.78	****3.05	15.72	14.61	4.98
Dividend per share	*0.18	0.24	0.18	**0.12	0.15
Dividend rate (%)	4.4	4.8	6.4	1.9	5.4
Dividend/net profit (%)	206.6	***100.0	100.0	27.8	26.8

* Management Board's proposal

** Incl. 0.07 euros, equity payment

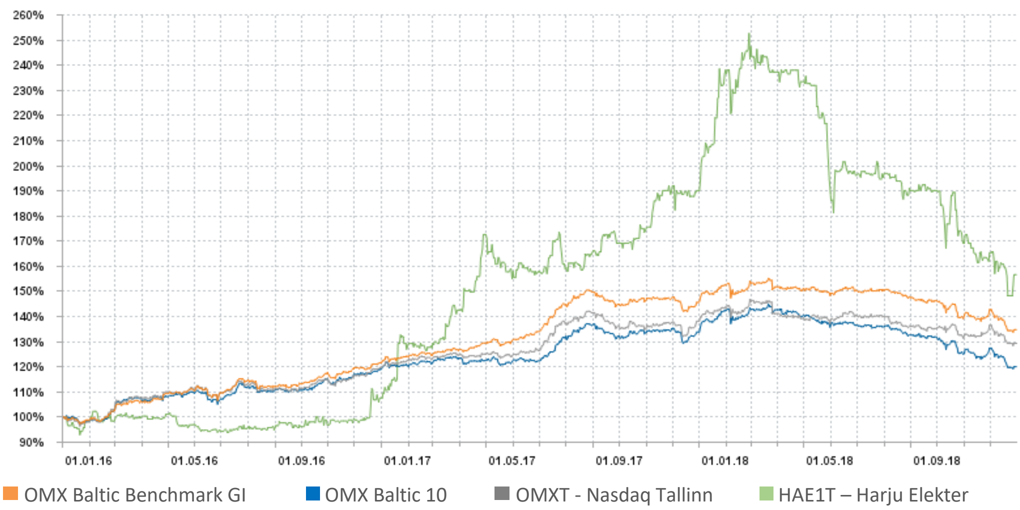
*** From ordinary net profit = the net profit of the owners of the parent company less the one-off income from the sale of the shares in PKC Group Oyj

**** Takes into account the profit from the extraordinary sale of an investment in 2017

On the last trading day of the year, the share of AS Harju Elekter closed at the level of 4.12 euro, falling by 17.6% in a year after the 76.7% rise witnessed in 2017. As of 31 December 2018, the market value of the company was 73.09 million euros. The volume of transactions somewhat increased, remaining at the level of 5.98 million euros, which is comparable to the preceding year, as is the number of traded shares (1.1 million shares in 2018 as compared to 1.3 million shares in 2017). The number of the shareholders of the company continued rising. As of 31 December 2018, the company had 3,102 shareholders (2017: 2,468).

The share of AS Harju Elekter (HAE1T) on the Nasdaq Tallinn Stock Exchange 2016–2018

The share of AS Harju Elekter in a comparison of indexes 2016–2018
Further information: http://www.nasdaqbaltic.com/market/



The OMX Baltic 10 index consists of ten most liquid and stable companies in the Baltic region. In 2018, the index comprised of AS Harju Elekter, Klaipedos Nafta, LHV Group, Telia Lietuva, Grindeks, Šiauliu Bankas, Tallinna Kaubamaja Grupp, Tallink Grupp, Tallinna Vesi and, until it left the exchange, also Olympic Entertainment Group.

Shareholder structure, 31 December 2018

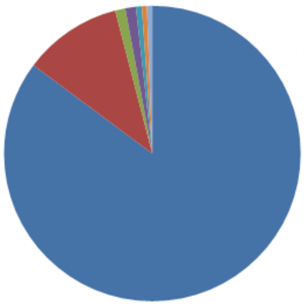
As of 31 December 2018, AS Harju Elekter had 3,102 shareholders. During the financial year, the number of shareholders has increased by 634. The largest shareholder of AS Harju Elekter is AS Harju KEK, which is based on the local capital and holds 31.39% of the share capital of the company. The shareholding held by foreign capital amounts to 14.8%. As of 31 December 2018, the total direct and indirect shareholding of the members of the Supervisory Board and Management Board in the company amounted to 10.81%. The full list of the shareholders of AS Harju Elekter is available on the website of the Nasdaq Tallinn Stock Exchange (https://nasdaqcsd.com/statistics/et/shareholders).

Division of shareholders by shareholding size

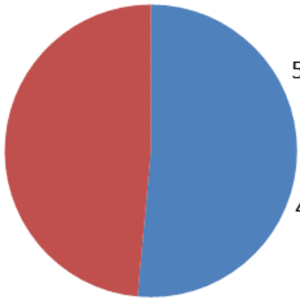
Shareholding %	Number of shareholders	% of total number	Voting right %
Over 10%	2	0.1	42.1
1.0 - 10.0%	7	0.2	20.6
0.1 - 1.0%	63	2.0	18.6
Below 1.0%	3,030	97.7	18.7
Total	3,102	100.0	100.0

List of shareholders (over 5%) as of 31 December 2018	Shareholding (%)
AS Harju KEK	31.4
ING Luxembourg S.A.	10.7
Endel Palla	7.0
Shareholders whose shareholding is below 5%	50.9

Division of shareholders by country



Division of shareholders by category

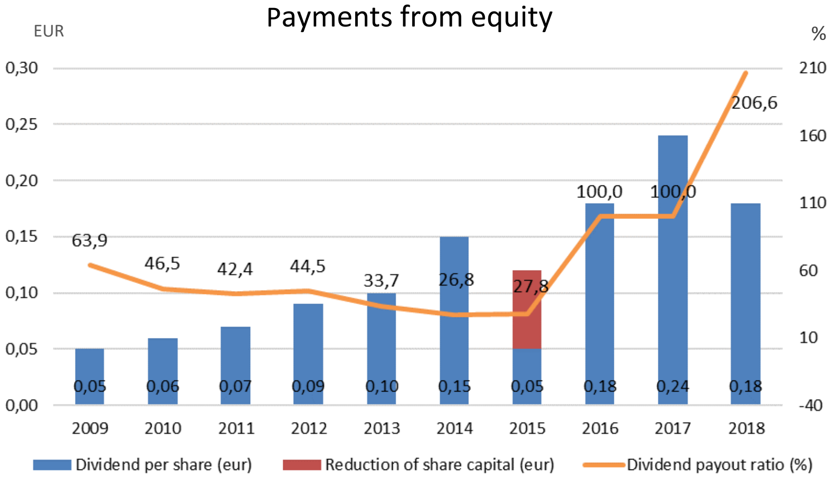


Dividends

According to the Group's policy on dividends, at least a third of the net profit earned from ordinary economic activities is distributed as dividends. The Group has developed a good practice of paying dividends earned on other financial investments. The actual dividend rate depends on the Group's cash flows, development prospects and the need to finance them.

With the approval of the Supervisory Board, the Management Board makes a proposal to the General Meetings to pay for 2018 dividends at the rate of 0.18 (2017: 0.24) euros per share, i.e. a total of 3.2 (2017: 4.3) million euros.

Payments from equity



CORPORATE GOVERNANCE AND BASES FOR PREPARATION OF THE MANAGEMENT REPORT

Upon organising its business operations, the Harju Elekter Group follows the legislation in force in all its markets, the articles of association of the company, the rules of the Nasdaq Stock Exchange applicable to it as a listed company, the guidelines on the Corporate Governance Code (CGC), and the principle of equal treatment of shareholders and investors.

Since 2017, the report includes a sustainability and social responsibility part that is based on the Global Reporting Initiative's (GRI) sustainability reporting standard. The Group relies on the management principles that ensure maximum integrity and transparency in internal communication, customer relationships and relations with other parties. In 2018, the companies of the Group did not make any monetary contributions or contributions in kind to any political activities.

The Group has zero tolerance towards a conflict of interests, corruptive behaviour and unfair competition demonstrated by its employees and international partners. Internal regulations established in the companies of the Group and unwritten agreements at managerial level help to reduce reputation risks and thus maintain the Group's trustworthiness in the market and in its relations with stakeholders. This, in turn, serves as the basis for a profitable business.

To mitigate the aforementioned risks, the parent company and all the subsidiaries have adopted internal work procedure rules and field-related principles. For instance, RIFAS UAB and Satmatic Oy have established Codes of Conduct that must be followed by all employees. At the start of their employment relationship, the internal work procedure rules are introduced to all the employees of the Group and field-related training and internal audits are carried out regularly.

In order to mitigate risks arising from a conflict of interests, it has been agreed that, for instance, in the case of major transactions an additional decision-maker must be involved, the supervisor's consent is required for participating in motivational events organised by customers, etc.

In 2018, the Group did not learn of any incident of corruption and personal conflict of interests and, therefore, did not need to dismiss any employees of the Group for such acts, impose any related penalties or file any court claims in that regard. There were also no cases in the course of which contracts concluded with business partners would have had to be terminated or their renewal suspended due to corrupt behaviour.

The companies pay great attention to developing an open organisation culture. To that end, the Group uses a procedure for holding meetings and exchanging information, which brings critical transactions that involve high economic risks as well as any inconsistencies to the attention of the management of the company. The members of the Management Board of the Group and its subsidiaries as well as specialists in respective fields are responsible for social and environmental issues.

In addition, national legislation and rules applicable to listed companies are followed, which means that the key persons are required to declare their business interests, rules of conduct have been established to persons possessing inside information, etc.

In 2018, no conflicts with the legislation and rules in force, including with economic, social or environmental legislation and rules, occurred in the activities of the companies of the Harju Elekter Group and, thus, no fines or non-monetary sanctions were imposed on the companies of the Group. Likewise, no company or employee of the Group was taken to court for failure to abide by laws.

This Annual Report covers the activities of the entire year 2018, it is prepared annually, and it is a follow-up to Annual Report 2017.

Corporate Governance Report 2018

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

CGC item 1.3.3.

Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

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

CGC item 2.2.7

Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

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

Performance pay is paid to the members of the Management Board on the same grounds as to the administrative staff of the parent company. Performance pay is divided on the basis of the basic remuneration and work contribution, thereby the performance pay of a member of the Management Board is coordinated with the Chairman of the Supervisory Board. Performance pay is paid on a quarterly basis to the extent of 80%, while the remaining 20% is paid out after the approval of the results of the financial year.

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

CGC item 3.1.3

The Supervisory Board shall regularly assess the activities of the Management Board and its implementation of the Issuer's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required. Upon the establishment of committees (audit committee, remuneration committee etc.) by the Supervisory Board, the Issuer shall publish on its website their existence, duties, membership and position in the organisation. Upon change of the committee structures, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

In June 2010, the Supervisory Board of AS Harju Elekter formed an Audit Committee in the company and approved the statutes of the committee because of a requirement arising from the Auditors Activities Act. In 2018, the duties of a committee member were performed by Triinu Tombak and Andres Toome. Information on the Audit Committee has been published on the company website.

CGC item 3.2.5

The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

The AGM of the shareholders of AS Harju Elekter is competent to approve the composition and elect members of the Supervisory Board and their term of office. The AGM of shareholders held on 27 April 2017 approved the composition and members of the Supervisory Board for the next five years, setting the Supervisory Board member remuneration to 1,000 euros a month and the remuneration of the Chairman of the Supervisory Board to 1,600 euros a month as of 4 May 2017. In addition, the remuneration of a member of the Supervisory Board for participating in a meeting was set to 200 euros, but no remuneration is paid if a member of the Supervisory Board participates in a meeting over the telephone. The bonus system effective in the company is applied to a member of the Supervisory Board who works in the management (for further information see item 2.2.7 of the CGC). No severance pay is paid to a member of the Supervisory Board. The next elections of the Supervisory Board are held at the AGM of shareholders held in 2022.

CGC item 3.3.2

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

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

CGC item 5.3

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

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

CGC item 5.6

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

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

CGC item 6.2

Election of the Auditor and Auditing of the Annual Accounts

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

Management bodies and further information

Harju Elekter is a public limited company whose management bodies include the General Meeting of shareholders, the Supervisory Board and the Management Board. AS Harju Elekter does not have a document setting out a diversity policy. Upon electing and appointing people to the highest management bodies, the companies have first and foremost made its decision based on the added value that they bring to the management of the Group owing to their knowledge and skills as well as on their suitability.

General meeting

The General Meeting of shareholders is the highest management body of the company. Its competence includes amendment and approval of the articles of association, amendment of the size of the share capital, removal of a member of the Supervisory Board, deciding the dissolution, division, merger and transformation of the company, provided that at least 2/3 of the votes of the shareholders represented at the General Meeting are in favour thereof. There are annual and special General Meetings. The annual General Meeting takes place once a year within six months after the end of the company's financial year. A special General Meeting is called by the Management Board where the company's net assets have fallen below the statutory minimum or the Supervisory Board, the auditor or the shareholders whose shares account for at least 1/10 of the share capital demand that the General Meeting be called. The general meeting has a quorum if over a half of the votes represented by shares are present. The circle of persons entitled to participate at the General Meeting is determined seven days before the meeting is held.

The annual General Meeting 2018 of AS Harju Elekter was held on 3 May in the Keila Culture Centre (Keskväljak 12). In total, 103 shareholders or their authorised representatives were present, representing 70.9% of the total number of votes. The CEO and the Chairman of the Supervisory Board of AS Harju Elekter made a presentation at the meeting.

The General Meeting approved the Annual Report 2017 and the distribution of profit, deciding to pay dividends to the shareholders for 2017 at the rate of 0.24 euros per share, which amounts to 4.3 million euros in total. The General Meeting appointed AS PricewaterhouseCoopers as the auditor of AS Harju Elekter for the term of 2018-2020 and approved a share option programme.

Supervisory Board

According to the articles of association, the Supervisory Board of AS Harju Elekter consists of 3-5 members. The members of the Supervisory Board are elected by the General Meeting for a term of five years. The Supervisory Board plans the activities of the company, arranges the management of the company and exercises supervision over the activities of the Management Board. Meetings of the Supervisory Board are held when necessary, but no less frequently than once every quarter. A meeting of the Supervisory Board has a quorum if over a half of the members of the Supervisory Board participate in it. In 2018, nine meetings of the Supervisory Board were held. The members of the Supervisory Board participated in most of the meetings of the Supervisory Board.

On 27 April 2017, the annual General Meeting of shareholders elected the following people to the Supervisory Board of the company for the next five years: Endel Palla (Chairman) and members Arvi Hamburg, Aare Kirsme, Triinu Tombak and Andres Toome. Endel Palla, the Chairman of the Supervisory Board, has worked in AS Harju Elekter since 1969, including 1985-1999 as the CEO; since 1999 he has also performed the duties of the Group's Chief Development Officer. Supervisory Board member Arvi

Hamburg, a member of the Advisory Board and Visiting Professor of TalTech, adds research competence to the Supervisory Board. Aare Kirsme is a member of the Supervisory Board of AS Harju KEK who represents the interests of the company's largest shareholder (as of 31 December 2018, AS Harju KEK held 31.39% of the shares in the company). Andres Toome (CEO of OÜ Tradematic) has been a member of the Supervisory Board since 2007, providing the Supervisory Board with his long-term investment experience, while Triinu Tombak (CEO of TH Consulting OÜ, a member of the Supervisory Board since 2012) is a financial consultant. Two of the five members of the Supervisory Board (Arvi Hamburg and Triinu Tombak) are independent members.

Upon expiry or early termination of the service contracts of the members of the Supervisory Board, the Group's compensation obligations do not exceed those provided by law. The only exception is the Chairman of the Supervisory Board who is entitled to a severance pay amounting to six months' salary of the Chief Development Officer. As of the end of 2018, the total direct and indirect shareholding of the members of the Supervisory Board in the company amounted to 9.5% (2017: 9.3%).

Management Board

The Management Board is a management body that represents the company and directs the day-to-day activities of the company in accordance with law and the articles of association. The Management Board must act in the most economically practicable manner. According to the articles of association, the Management Board of AS Harju Elekter may consist of 1-5 members who are elected by the Supervisory Board for a term of three years. The Chairman of the Management Board is elected by the Supervisory Board. The Supervisory Board also appoints and removes from office other members of the Management Board on a proposal of the Chairman of the Management Board. A member of the Management Board may represent the company in any legal transaction.

The Management Board of the public limited company has three members. The Chairman of the Management Board is Andres Allikmäe with whom a three-year contract was concluded on 5 May 2017. The other members of the Management Board are Tiit Atso (CFO of the group of AS Harju Elekter) and Aron Kuhi-Thalfeldt (Head of the Real estate and Energy Division). Their term of office started on 1 November 2016 and ends on 31 October 2019.

The competence and powers of the Management Board are governed by the Commercial Code and set out in the articles of association of the company. There are no variations or deviating agreements in that regard. The members of the Management Board are remunerated in accordance with a management board member contract. The size of the remuneration of the members of the Management Board is determined by a Management Board member contract and, by agreement of the parties, is not subject to disclosure. The Chairman of the Management Board is entitled to a severance pay to the extent of up to ten months' remuneration, while other members of the Management Board are entitled to a severance pay to the extent of up to eight month's remuneration of a Management Board member.

The Chairman of the Management Board is responsible for organising business operations at the Group level, thereby also performing the tasks of the CEO. The Group's CFO and the Head of the Real estate and Energy Division are responsible for managing their fields at the Group level. The members of the Management Board participate in the work of the management and review bodies of the subsidiaries of the Group. In companies based outside Estonia, the compliance with the established business practices is ensured by the local management.

At the end of 2018, the total direct and indirect shareholding of the members of the Management Board in the company amounted to 1.3% of the shares of the company (Note 21.4).

More detailed information on the education, career, participation in the management bodies of companies as well as their shareholdings in AS Harju Elekter is available at www.harjuelekter.com.

Additional management bodies and committees

The required procedures are regulated by rules in the company and there has not been any practical need for establishing any additional management bodies. In order to assess and manage the Group's risks better, the Group has an internal control specialist who regularly prepares reports for the management.

In 2010, the Supervisory Board of the company established an Audit Committee because of the requirement arising from the Auditors Activities Act. The Committee monitors and analyses financial information, risk management and the efficiency of internal control, the consolidated annual accounts audit process, the independence of the audit firm and the auditor representing it under law. The Committee is also required to make proposals and recommendations to the Supervisory Board in matters provided by law. Since 2012, the members of the Audit Committee are Supervisory Board members Triinu Tombak and Andres Toome (chair).

Disclosure of information

Being a listed company, AS Harju Elekter follows the principles of openness and equal treatment of investors. The information required in the rules of the stock exchange is disclosed regularly by the prescribed deadlines. Thereby the company follows the principle of not disclosing forecasts, but merely reflects and comments on facts.

In order to inform investors and the public operatively, the company has a website containing all the stock exchange announcement, financial reports, an overview of the history and products of the Group as well as other important information. All subsidiaries of the Group have their own websites.

Auditors

According to the resolution of the General Meeting of shareholders dated 3 May 2018, the audits of AS Harju Elekter and its subsidiaries between 2018 and 2020 are carried out by AS PricewaterhouseCoopers (except for Energo Veritas OÜ, which is audited by Baker Tilly Baltics OÜ).

SOCIAL CONTRIBUTION

The Harju Elekter Group wishes to be an active and participant member of the community and to support the development of its business sector in the countries where the company's production units are located and employees reside. The support policy of the Group aims at making it a stable partner. Therefore, the Group focuses rather on the establishment of long-term cooperation relationships.

In 2018, the Group focused on supporting local life, education, sports and culture and on contributing to the development of its industry.

We support engineering education

In 2018, AS Harju Elekter continued various cooperation projects with educational institutions in order to develop engineering education and increase its popularity among young people.

- AS Harju Elekter is a golden sponsor of the Tallinn Technical University (TalTech), annually granting up to four scholarships to bachelor's and master's students. Since 2000, 65 students have participated in the scholarship program.
- In cooperation with TalTech's Development Fund and other Estonian companies, the Group participates in awarding the M. Aitsam Scholarship aimed at students with special needs and supports the granting of the O. Liik Scholarship. In addition, the Chairman of the Supervisory Board, Endel Palla, has for many years been awarding his own personal scholarship.
- In 2018, AS Harju Elekter also continued its long-standing tradition of supporting the holding of the Electrical Engineering Week organised by the Electrical Engineering Faculty of TalTech. The Group also supported Robotex, the largest robotics event in Europe, and provided support to Student Formula, an international product development competition aimed at the students of TalTech and the TTK University of Applied Sciences.
- AS Harju Elekter has participated as much as possible also in furnishing the technology and research laboratories of TalTech and participated in research and development projects. One of the most important of these in recent years was the product development project which resulted in the completion of a prototype of an energy storage device for an energy management substation in the framework of a doctoral thesis of an engineer working with TalTech and AS Harju Elekter Elektrotehnika (TalTech, 2015) as well as a laboratory built in cooperation between TalTech, Siemens and AS Harju Elekter, where energy students, researchers and engineers are able to test and analyse relay protection systems and study automation, system stability and cyber protection of electrical systems.
- Besides supporting various projects, regular student training visits are made to the Estonian subsidiaries of the Harju Elekter Group and the Group's employees contribute to the development of various engineering curricula with their knowledge and experience. Thus, for example in 2018 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 curriculum for TalTech's Faculty of Mechanics.

In 2018, the Group's Estonian subsidiaries continued pursuing several cooperation programmes with the Tallinn Industrial Education Centre, TTK University of Applied Sciences, Tallinn Polytechnic School and Tallinn Construction School.

Lithuanian subsidiary RIFAS UAB continued cooperating with the regional Panevezys Elektrotehnika College, offering internships and supporting the College with various educational tools.

Finnish subsidiary Satmatic Oy has close relationships with the technical and professional schools in its region, i.e. with Satakunta Apprenticeship Training Centre, the Tampere University of Technology and the Turku School of Economics.

In 2018, the Group offered a total of 54 (2017: 109) internships to young people. The Lithuanian subsidiary has offered the most internships.

We actively participate in developing local life

AS Harju Elekter feels responsibility for the development of the region where it does business and for increasing the well-being of the community. Therefore, the company has decided to focus on supporting the studies of the children and young people of the region and on increasing opportunities for practising various meaningful activities. AS Harju Elekter has long-term cooperation relationships with Keila School, Keila Music School and Keila's nursery schools, sports clubs and hobby clubs. Keila SOS Children's Village residents are supported in the form of the school bag support.

We support and encourage young athletes

In support aimed at sports, AS Harju Elekter has contributed the most to youth sports, aiming at steadily increasing the number of young people practising sports. The parent company is a long-time supporter of Keila's basketball and football clubs. We consider youth projects to be forward-looking, aimed at attracting a large number of young people, doing consistent work with children and young people, giving rise to world-class athletes who could represent Estonia in the future.

We contribute to the development of the sector

The Group considers it important to contribute to the development of society also through professional associations and organisations. With its expertise and human resources, the Group contributes to topics that stand for fair competition as well as for sustainable and safe product solutions.

In cooperation with the Estonian Association of Electrical Enterprises (EAEE), AS Harju Elekter continues to raise electrical safety issues before the legislators as well as in public.

Companies of the Group are members in the following organisations:
Estonian Chamber of Commerce and Industry (AS Harju Elekter)
Estonian Association of Electrical Enterprises (AS Harju Elekter, AS Harju Elekter Elektrotehnika, Energo Veritas OÜ)
Association of Lithuanian Chambers of Commerce, Industry and Crafts (RIFAS UAB)
Association of Industrial Enterprises of Panevežys Region (RIFAS UAB)
Finnish Chamber of Commerce (Satmatic Oy)
Technology Industries of Finland (Satmatic Oy)

In 2018, the total budget of various scholarships and support granted by the Harju Elekter Group amounted to 76.4 (2017: 77.0) thousand euros.

GRI CONTENTS

Since 2017 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, SEBAB AB and Grytek AB, 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. Data is collected and given with the granularity that the companies of the Group have considered important and with the level of detail that the Group companies collect on the basis of materiality.

GRI Standard	Disclosure no	Disclosure title	Location	Explanation
Foundation (GRI 101: 2016)				
General disclosures (GRI 102: 2016)				
Organisational profile				
	102-1	Name of the organization		AS Harju Elekter
	102-2	Activities, brands, products, and services	p 1, 6, 17, 24-27	
	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 42-44	
	102-6	Markets served	p 14	
	102-7	Scale of the organization	p 6, 11, 13-16, 59	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 33-35	
	102-9	Supply chain	p 6, 17	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 4,13, 8-10, 26-29, 42-44	
	102-11	Precautionary Principle or approach	p 39	Covered with corporate environmental policies.
	102-12	External initiatives	p 29, 30, 38, 45-50	
	102-13	Membership of associations	p 52	
Strategy				
	102-14	Statement from senior decision-maker	p 3-4	The Chairmen's addresses do not include the issue of sustainability and its importance for the group.

GRI Standard	Disclosure no	Disclosure title	Location	Explanation
Ethics and integrity				
	102-16	Values, principles, standards, and norms of behaviour	p 5, 45	
Governance				
	102-18	Governance structure	p 48-50	
Stakeholder engagement				
	102-40	List of stakeholder groups	p 6-7	
	102-41	Collective bargaining agreements	p 38	
	102-42	Identifying and selecting stakeholders	p 6-7	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.
	102-43	Approach to stakeholder engagement	p 6-7, 30-32, 35, 37-38, 51-52	
	102-44	Key topics and concerns raised	p 6-7	
Reporting practice				
	102-45	Entities included in the consolidated financial statements	p 13, 53	
	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		
	102-50	Reporting period	p 1	
	102-51	Date of most recent report		Audited Annual Report of Harju Elekter Group of 2017 was published on 4.04.2018
	102-52	Reporting cycle	p 45	
	102-53	Contact point for questions regarding the report		Tiit Atso, tiit.atso@harjuelekter.com
	102-54	Claims of reporting in accordance with the GRI Standards	p 53	
	102-55	GRI content index	p53-55	
	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 29-33	
	non-GRI	Customer complaints	p 31	
	non-GRI	Products delivered to customers on time in accordance with required conditions	p 29	
Customer experience				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 31-32	
	non-GRI	Customer satisfaction	p 31-32	

GRI Standard	Disclosure no	Disclosure title	Location	Explanation
Innovation				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 26-30	
	non-GRI	Investments and development costs	p 26	
	non-GRI	Innovation and development projects	p 26-30	
Environmental impact of product				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 33, 40-41	
	non -GRI	Renewable energy production	p 40-41	
Economic performance (GRI 201: 2016)				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 13-16, 44	
	201-1	Direct economic value generated and distributed	p 11, 13-16, 44, 52, 105-106	
Anti-corruption (GRI 205: 2016)				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 48	
	205-3	Confirmed incidents of corruption and actions taken	p 45	
Energy (GRI 302: 2016)				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 39-41	
	302-1	Energy consumption within the organization	p 40	Electricity and heat as the main types of energy consumed.
Effluents and waste (GRI 306: 2016)				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 39-40	
	306-2	Waste by type and disposal method	p 39-40	The sorted / unsorted waste is handed by waste management companies, which ensure that waste is recycled, incinerated or properly treated. The share of recycled waste is based on the amount of sorted waste transferred to the waste management companies.
Environmental compliance (GRI 307: 2016)				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 39	
	307-1	Non-compliance with environmental laws and regulations	p 39	

GRI Standard	Disclosure no	Disclosure title	Location	Explanation
Supplier environmental assessment (GRI 308: 2016)				
Management apch (GRI 103: 2016)	103-1 until 103-3		p 30-32	
	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 apch (GRI 103: 2016)	103-1 until 103-3		p 34-36	
	401-1	New employee hires and employee turnover	p 35	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p 36-37	Presented by the description of the motivation system of employees.
	non-GRI	Interns	p 51	
	non-GRI	Employee level of education	p 35	
	non-GRI	Employee satisfaction and feedback	p 36	
Occupational health and safety (GRI 403: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3, 403-1, 403-2, 403-7		p 32-33, 37	
	403-9	Injuries at work	p 37	Data is given with the granularity that the companies of the Group have considered important
Training and education (GRI 404: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 36	
	404-1	Average hours of training per year per employee	p 36	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 36	Data is given with the granularity that the companies of the Group have considered important.
	mitte-GRI	Employee participation at trainings	p 36	
Diversity and equal opportunity (GRI 405: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 37	
	405-1	Diversity of governance bodies and employees	p 34, 37, 47	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 37	
	406-1	Incidents of discrimination and corrective actions taken	p 37	

GRI Standard	Disclosure no	Disclosure title	Location	Explanation
Local communities (GRI 413: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 6, 49-50	
	413-1	Operations with local community engagement, impact assessments, and development programs	p 6, 49-50	Group companies evaluate their impact and plan activities in local communities in the course of their daily work (incl through community-based decisions, community responses and suggestions), no separate impact assessments have been carried out.
Supplier social assessment (GRI 414: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 30-32	
	414-1	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.
Public policy (GRI 415: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 44	
	415-1	Political contributions	p 44	
Customer health and safety (GRI 416: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 32-33	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	lk 33	
Socio-economic compliance (GRI 419: 2016)				
Management approach (GRI 103: 2016)	103-1 until 103-3		p 44	
	419-1	Non-compliance with laws and regulations in the social and economic area	p 44	

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
EUR '000	Note	**2018**	**2017**
Current assets			
Cash and cash equivalents	6,7	3,142	10,992
Current financial investments	11	0	9,935
Trade and other receivables	8	22,218	13,575
Prepayments	9	1,173	1,174
Inventories	10	17,468	13,037
Total current assets		**44,001**	**48,713**
Non-current assets			
Deferred tax assets	24	98	56
Non-current financial investments	11	9,587	4,684
Investment properties	12	19,804	17,881
Property, plant and equipment	13	17,403	11,983
Intangible assets	15	7,260	6,660
Total non-current assets		**54,152**	**41,264**
TOTAL ASSETS	22	**98,153**	**89,977**
Liabilities			
Borrowings	16	6,656	625
Prepayments from customers		1,740	1,309
Trade and other payables	18	14,911	12,802
Tax liabilities	19	2,409	2,376
Current provisions		14	24
Total current liabilities		**25,730**	**17,136**
Borrowings	16	5,449	2,910
Other non-current liabilities		35	0
Total non-current liabilities		**5,484**	**2,910**
Total liabilities	22	**31,214**	**20,046**
Equity			
Share capital	21	11,176	11,176
Share premium	21	804	804
Reserves	21	2,665	2,844
Retained earnings		52,316	55,048
Total equity attributable to owners of the parent company		**66,961**	**69,872**
Non-controlling interests		-22	59
Total equity		**66,939**	**69,931**
TOTAL LIABILITIES AND EQUITY		**98,153**	**89,977**

The notes on pages 64 to 114 are an integral part of the consolidated financial statements

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Kuupäev/date 25.03.2019
PricewaterhouseCoopers, Tallinn

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR '000	Note	1 January until 31 December 2018	2017
Revenue	22, 23	120,804	102,402
Cost of sales	23	-104,828	-87,043
Gross profit		**15,976**	**15,359**
Distribution costs	23	-5,267	-3,866
Administrative expenses	23	-8,223	-5,981
Other income		124	49
Other expenses		-197	-119
Operating profit*		**2,413**	**5,442**
Net gain on sale of available-for-sale financial assets	11	0	24,839
Finance income		157	30
Finance costs		-63	-96
Profit before tax		**2,507**	**30,215**
Income tax	24	-993	-1,083
Profit for the period		**1,514**	**29,132**
Profit is attributable to:			
Owners of the parent company		1,546	29,129
Non-controlling interests		-32	3
Earnings per share			
Basic earnings per share (EUR)	25	0.09	1.64
Diluted earnings per share (EUR)	25	0.09	1.64

**Operating profit - Profit before finance income and costs, net gain on sale of available-for-sale financial assets and income tax.*

The notes on pages 64 to 114 are an integral part of the consolidated financial statements

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000	Note	1 January until 31 December 2018	2017
Profit for the period		**1,514**	**29,132**
Other comprehensive income (-loss)			
Items that subsequently may be reclassified to profit or loss:			
Gain on available-for-sale financial assets reclassified to profit or loss (-)		0	-16,367
Net loss on revaluation of financial assets (-)	21	-295	0
Exchange differences on translation of foreign operations	21	-134	0
Other comprehensive income (-loss) for the period		**-429**	**-16,367**
Total comprehensive income (-loss) for the period		**1,085**	**12,765**
Total comprehensive income (-loss) for the period is attributable to:			
Owners of the parent company		1,117	12,762
Non-controlling interests		-32	3

The notes on pages 64 to 114 are an integral part of the consolidated financial statements

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CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	Note	1 January until 31 December 2018	2017
Cash flows from operating activities			
Profit for the period		1,514	29,132
Adjustments			
Depreciation, amortization and impairment losses	12,13,15,22,23	2,588	2,145
Gain on sale of property, plant and equipment	26	-20	-12
Share-based payments	27	97	0
Net gain on sale of available-for-sale financial assets		0	-24,839
Finance income		-157	-30
Finance costs		63	96
Income tax	24	993	1,083
Changes			
Changes in trade and other receivables		-6,293	-3,643
Changes in inventories		-2,306	-2,972
Changes in trade and other payables		1,092	4,425
Corporate income tax paid	26	-939	-797
Interest paid		-58	-28
Total cash flow (-outflow) from operating activities		**-3,426**	**4,560**
Cash flows from investing activities			
Payments for investment property	26	-2,722	-4,350
Payments for property, plant and equipment	26	-4,691	-3,102
Payments for intangible assets	26	-475	-163
Acquisition of subsidiary, net of cash acquired	28	-2,906	-2,008
Payments for financial assets	11	-99	-9,999
Proceeds from sale of property, plant and equipment	26	66	108
Proceeds from sale of financial assets	11	0	25,779
Proceeds from deposits	11	5,000	0
Interest received		16	8
Dividends received		147	11
Total cash flow (-outflow) from investing activities		**-5,664**	**6,284**
Cash flows from financing activities			
Change in overdraft balance	16	4,967	-642
Proceeds from borrowings	16	2,205	2,630
Repayments of borrowings	16	-677	-127
Principal elements of financial lease payments	16	-605	-297
Payments for reduction of share capital		0	-1,241
Transactions with non-controlling interests	28	-39	-5
Dividends paid	21	-4,258	-3,226
Income tax paid on dividends		-244	-218
Total cash flow (-outflow) from financing activities		**1,349**	**-3,126**
Total net cash flow (-outflow)		**-7,741**	**7,718**
Cash balance at the beginning of the period		**10,992**	**3,278**
Change in cash balances		-7,741	7,718
Effects of exchange rate differences		-109	-4
Cash balance at the end of the period	7	**3,142**	**10,992**

The notes on pages 64 to 114 are an integral part of the consolidated financial statement

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent company						
EUR'000	Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**11,176**	**804**	**19,214**	**29,113**	**60,307**	**85**	**60,392**
Comprehensive income 2017							
Profit for the period	0	0	0	29,129	29,129	3	29,132
Other comprehensive income	0	0	-16,370	3	-16,367	0	-16,367
Total comprehensive income	**0**	**0**	**-16,370**	**29,132**	**12,762**	**3**	**12,765**
Transaction with owners recognized directly in equity							
Dividends	0	0	0	-3,193	-3,193	-33	-3,226
Transactions with non-controlling interests	0	0	0	-4	-4	4	0
Total transactions with owners	**0**	**0**	**0**	**-3,197**	**-3,197**	**-29**	**-3,226**
Balance 31 December 2017	**11,176**	**804**	**2,844**	**55,048**	**69,872**	**59**	**69,931**
Change in accounting policy	-	-	153	-27	126	-	126
Restated balance at 1 January 2018	**11,176**	**804**	**2,997**	**55,021**	**69,998**	**59**	**70,057**
Comprehensive income 2018							
Profit for the period	0	0	0	1,546	1,546	-32	1,514
Other comprehensive income	0	0	-429	0	-429	0	-429
Total comprehensive income	**0**	**0**	**-429**	**1,546**	**1,117**	**-32**	**1,085**
Transaction with owners recognized directly in equity							
Share-based payments	0	0	97	0	97	0	97
Dividends	0	0	0	-4,258	-4,258	0	-4,258
Transactions with non-controlling interests	0	0	0	7	7	-49	-42
Total transactions with owners	**0**	**0**	**97**	**-4,251**	**-4,154**	**-49**	**-4,203**
Balance at 31 December 2018	**11,176**	**804**	**2,665**	**52,316**	**66,961**	**-22**	**66,939**

Information about share capital and reserves are presented in Note 21.

The notes on pages 64 to 114 are an integral part of these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter (address: Paldiski Str 31, Keila, Republic of Estonia) is a company registered in Estonia (business register number: 10029524). The consolidated financial statements prepared as at 31.12.2018 comprises AS Harju Elekter (hereinafter the „Parent company“) and its subsidiaries (together referred to as the „Group“).

		Ownership and voting rights	
Subsidiaries of AS Harju Elekter	**Core business**	**31.12.2018**	**31.12.2017**
Estonia			
AS Harju Elekter Teletehnika	Production	100%	100%
AS Harju Elekter Elektrotehnika	Production	100%	100%
Energo Veritas OÜ	Retail and wholesale	80.52%	80.52%
Finland			
Harju Elekter Kiinteistöt Oy	Management of industrial real estate	100%	100%
Satmatic Oy	Production	100%	100%
Telesilta Oy	Electrical engineering	100%	100%
Satmatic Oy subsidiary:			
Finnkumu Oy	Production	100%	100%
Lithuania			
Rifas UAB	Production	100%	100%
Rifas UAB subsidiary:			
Automatikos Iranga UAB	Project design	-	67%
Sweden			
Harju Elekter AB	Intermediary sales	100%	100%
SEBAB AB	Production	100%	-
Grytek AB	Production	100%	-

Further information on subsidiaries is provided in Note 28.

AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997.

On 25 March 2019 the Management Board signed those consolidated financial statements for the financial year ending on 31 December 2018. According to the Estonian commercial code, the annual report including the consolidated financial statements, prepared by Management Board and approved by Supervisory Board, will be approved by the annual general meeting of shareholders.

The Group’s main activity is the production of electrical distribution equipment and control panels and sale of goods to the energy, construction and industrial sector. Activities of the Group are further described in „Segment information“(Note 22).

2 Basis of preparation

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).

2.1. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets, which are recognized at fair value.

2.2. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that can have a material impact on the application of policies and carrying 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 amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated. The effect of a change in an accounting estimate is recognized 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 5.

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.

2.3. Primary financial statements of the Parent company

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 29 "Primary financial statements of the Parent company". 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.

3 Changes in accounting policies

(a) Impact of new standards, amendments to existing standards and new interpretations of standards on financial statements

The Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these financial statements, except for the changes below.

The Group has adopted the following new standards and amendments (including any associated amendments to other standards) effective for the first time from 1 January 2018.

IFRS 9 Financial Instruments (2014)

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

The Standard replaces IAS 39 „Financial Instruments: Recognition and Measurement", except for the exception in IAS 39, which concerns the interest rate risk fair value hedging on a portfolio of financial assets or financial liabilities and a choice remains whether to apply IFRS 9 or IAS 39 for hedge accounting of all instruments.

Although the available measurement bases for financial assets – amortized 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.

Financial asset is classified as at amortized cost only if both of the following criteria are met:

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

In addition, for equity instruments which are not held for trading, the group may irrevocably elect to recognize subsequent changes in fair value (including foreign exchange gains and losses) in other comprehensive income. These changes are not subsequently reclassified to statement of profit or loss.

For debt instruments measured at FVOCI, interest income, expected credit loss and foreign exchange gains and losses are recognized in profit or loss similarly to amortized cost assets. Other gains and losses are recognized in OCI and are reclassified to statement of profit and loss on derecognition.

IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities. The main change relates to financial liabilities designated at fair value through profit or loss, whereby entity is required to present the effects of fair value changes due to own credit risk in other comprehensive income.

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 recognized.

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.

Initial application of IFRS 9 did not have a material impact on the Group’s financial statements. The classification and measurement of the Group’s financial instruments did not change significantly under IFRS 9 due to the nature of the entity’s operations and the types of financial instruments that it holds. Group considers that impairment losses may increase and become more volatile for the assets under the scope of expected credit loss model, but as the impairment of the Group’s receivables have been historically immaterial and cash and deposits are held in credit institutions with a high rating; it does not give rise to significant impairment losses in financial reporting.

The following table explains the measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of Group’s financial assets as at 1 January 2018 (at the date of initial adoption).

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied without restating comparative balances; impact on adoption has been recorded in initial balance sheet as of 1 January 2018. Balances as at 31 December 2017 are recorded under IAS 39.

EUR '000	Note	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9	Diffe-rence
Cash and cash equivalents	7	Amortized cost	Amortized cost	10,992	10,992	0
Deposits	11	Amortized cost	Amortized cost	5,000	5,000	0
Trade and other receivables	8	Amortized cost	Amortized cost	13,575	13,548	-27
Total debt instruments				**29,567**	**29,540**	**-27**
Listed securities	11	Available-for-sale financial assets at fair value	Fair value through other comprehen-sive income	4,935	4,935	0
Other equity investments	11	Available-for-sale financial assets at cost	Fair value through other comprehen-sive income	22	175	153
Other equity investments	11	Available-for-sale financial assets at fair value	Fair value through other comprehen-sive income	4,662	4,662	0
Total equity instruments				**4,684**	**4,837**	**153**
TOTAL				**39,186**	**39,312**	**126**

The table below explains the impact of IFRS 9 Financial Instruments on the Group's statement of financial position. The application of new accounting policy has no impact on the consolidated statement of profit or loss.

EUR '000	As originally presented **31 December 2017**	Impact of IFRS 9	Restated **1 January 2018**
Current assets			
Cash and cash equivalents	10,992	-	10,992
Current financial investments	9,935	-	9,935
Trade and other receivables	13,575	-27	13,548
Prepayments	1,174	-	1,174
Inventories	13,037	-	13,037
Total current assets	**48,713**	**-27**	**48,686**
Non-current assets			
Deferred tax asset	56	-	56
Non-current financial investments	4,684	153	4,837
Investment properties	17,881	-	17,881
Property, plant and equipment	11,983	-	11,983
Intangible assets	6,660	-	6,660
Total non-current assets	**41,264**	**153**	**41,417**
TOTAL ASSETS	**89,977**	**126**	**90,103**

EUR '000	As originally presented **31.12.2017**	Impact of IFRS 9	Restated **1.01.2018**
Liabilities			
Borrowings	625	-	625
Prepayments from customers	1,309	-	1,309
Trade and other payables	12,802	-	12,802
Tax liabilities	2,376	-	2,376
Current provisions	24	-	24
Total current liabilities	**17,136**	**-**	**17,136**
Borrowings	2,910	-	2,910
Total non-current liabilities	**2,910**	**-**	**2,910**
Total liabilities	**20,046**	**-**	**20,046**
Equity			
Share capital	11,176	-	11,176
Share premium	804	-	804
Reserves	2,844	-	2,844
Retained earnings	55,048	126	55,174
Total equity attributable to owners of the parent company	**69,872**	**126**	**69,998**
Non-controlling interests	59	-	59
Total equity	**69,931**	**126**	**70,057**
TOTAL LIABILITIES AND EQUITY	**89,977**	**126**	**90,103**

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 recognize revenue, and at what amount.

The new model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to receive for those goods or services. Depending on whether certain criteria are met, revenue is recognized either:

- over time or;
- at a point in time, when all the performance obligation is fulfilled and control over the goods or services is transferred to the customer.

If contract consideration varies for any reasons, only the minimum amounts if they are not at significant risk of reversal must be recognized as revenue.

Costs incurred to fulfil contracts with customers have to be capitalized and amortized 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.

Management Board of the Group assessed that the initial application of IFRS 15 did not have a material impact on the Group's financial statements. The timing and measurement of the Group's revenues do not change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

Group has adopted IFRS 15 using modified retrospective approach, which requires that the cumulative effect of initially applying this standard is recognized in retained earnings at the date of initial application (i.e. 1 January 2018) and the information presented for 2017 is recognized, as previously reported, under IAS 18, IAS 11 and related interpretations. There were no material impact of the adoption of IFRS 15 to the retained earnings as at 1 January 2018, therefore no adjustments to the equity have been made.

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.

Group estimates that the amendments do not 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 recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Group estimates that the amendments, when initially applied, do not have an impact on the presentation of the financial statements of the Group, because 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.

(b) 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 2018 and have not been applied in preparing these financial statements:

IFRS 16 Leases

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

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces standard IAS 17 and associated interpretations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees will be required to recognize:

- Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- Depreciation of lease assets separately from interest on lease liabilities in the statement of profit and loss.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Group has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16 and intends to apply the simplified transition approach from the beginning of 2019 and will not restate comparative amounts for the year prior to first adoption. The Group expects to recognize right-of-use assets and lease liabilities of 2,112 thousand euros as the result of new standard from 1 January 2019. The lease commitments recognized as operating leases at the reporting date will be recognized at the present value of the remaining lease payments, discounted using the Group's weighted average incremental borrowing rate of 1.6%. Incremental borrowing rate is the interest rate the Group would have to pay if, instead of leasing, it finances the purchase of the same asset with a loan. At transition the right-of-use assets are measured at the amount of the initial measurement of lease liability. The depreciation of the right-of-use asset is not longer than the lease term, therefore Group assesses that there is no impact on the Group's profit for the period of 2019. Short-term leases shorter than 12 months are recognized similarly to other leases following IFRS 16.

Remaining new or amended standards or interpretations, which are not yet effective, are not expected to have significant impact on the Group.

4 Significant accounting policies

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

4.1. Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

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.

(b) Business combinations

Business combinations are accounted for using the acquisition method, whereby all identifiable assets, liabilities and contingent liabilities of the acquired subsidiary are recognized at their fair values at the acquisition date, irrespective of the existence of a non-controlling interest.

The consideration transferred on the acquisition of the subsidiary includes:

- the fair values of the assets transferred;

- the liabilities incurred to the former owners of the acquiree;
- the equity instruments issued by the Group;
- the fair value of the asset or liability arising from the contingent consideration arrangements; and
- the fair value of the previously held interest in the subsidiary.

For each business combination, the Group chooses whether to recognize a non-controlling interest in the acquiree at fair value or in proportion to the non-controlling interests in the acquiree's identifiable net assets. The Group recognizes the cost of acquiring a business combination, except for the costs of issuing of debt or equity securities, as an expense when incurred.

If the consideration transferred, the non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (as at the acquisition date) exceeds the Group's interest in the identifiable assets acquired and liabilities assumed, the difference is recognized as goodwill. If the aforementioned amount is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized immediately in the statement of profit and loss.

Non-controlling interests is the portion of subsidiaries' profit or loss and net assets 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 company.

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

4.2. Foreign currency transactions and balances

(a) Functional currency and presentation currency

The functional currency of the Group companies is the currency of its economic environment. The Group's Estonian, Lithuanian and Finnish companies use euros (EUR) in accounting, Swedish companies use Swedish krona (SEK).

The consolidated financial statements are presented in euros, which is the reporting and presentation currency of the Parent company. All figures are given in thousands, rounded to the nearest thousand unless otherwise indicated. EUR'000 is used in the report as a symbol for one thousand euros.

(b) Foreign exchange transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency using the official exchange rates of the European Central Bank officially valid on the day of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the conversion at the exchange rate of financial assets and financial liabilities denominated in a foreign currency are recognized in the statement of profit and loss of the financial year.

Unrealized and unrealized gains and losses arising from the settlement and revaluation of foreign currency-denominated principal activities and liabilities are recognized using the net method under Other income (-expenses). Unrealized gains and losses arising from the revaluation of cash, cash equivalents and loans are recognized using the net method on the line Finance income (-expenses).

The financial results and position of all Group entities whose functional currency differs from presentation currency are translated into presentation currency. Assets and liabilities of foreign entities are translated into euros at the exchange rate of the European Central Bank at the balance sheet date, income and expenses are translated into euros on the basis of the weighted average exchange rate of the period and other changes in equity at the exchange rate on the day of their

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occurrence. Translation differences are recognized in other comprehensive income and are presented in equity as currency translation differences reserve.

When a foreign operation is partially disposed of or sold, the currency translation differences recognized in equity are reclassified to 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 translated into euros at the exchange rate prevailing at the balance sheet date.

4.3. Financial assets

Accounting policies from 1 January 2018

The Group classifies financial assets into the following measurement categories:

- those to be measured at amortized cost;
- those to be measured subsequently at fair value (either through OCI or through profit or loss).

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Purchases and sales of financial assets under normal market conditions are recognized on the trade-date, which is the date when the Group commits to purchase or sell the asset.

Financial assets are derecognized when the rights to the cash flows from the financial asset expire or are transferred and the Group transfers substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. All the Group's financial assets were classified in amortized cost category. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income on these assets is recognized in financial income using the effective interest rate method. Upon derecognition, the gain or loss received is recognized in the statement of profit and loss in other income/ expenses. Foreign exchange gains and losses and credit losses are recognized separately in the statement of profit and loss.

(b) Equity instruments

The Group recognizes equity instruments at fair value. When the Group has adopted an irrevocable decision to recognize changes in the fair value of equity instruments held for non-trading purposes through the statement of comprehensive income, it is not possible to reclassify the fair value changes on the equity instrument at the date of derecognition and to recognize them through profit or loss. Dividends received from such investments continue to be recognized in the statement of profit and loss under other income.

In the case of listed securities, fair value is based on the closing price of the security at the end of the reporting period. For unlisted securities, fair value is based on publicly available information and, using valuation techniques, comparisons with other fair value instruments that are substantially similar at the end of the reporting period and / or discounted cash flow analysis.

The acquisition cost is no longer allowed for an equity instrument, but in some cases the acquisition cost may be considered to be close to fair value. The Group recognizes an equity instrument at acquisition cost only if no information about the investee is available after the acquisition, or the range of possible fair values is very broad and the acquisition cost is the best estimate within that range.

The valuation of financial assets is described in Note 4.9.

Accounting policies applied until 31 December 2017

The Group classifies its financial assets into the following categories:

(a) current financial assets at fair value through profit or 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 recognized in profit or loss. 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 recognized 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 realized 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.

Loans and receivables are initially measured at acquisition cost, which is the fair value of consideration paid. Initial cost includes all direct transaction costs. Subsequently loans and receivables are measured at amortized cost (less subsequent impairment losses), recognizing interest income based on effective interest rate.

(c) Available for sale

Non-derivative financial assets, which are not cash and cash equivalents and which are not classified as other financial assets, are classified as available-for-sale financial assets. Those are classified as non-current assets, except when management intends to sell the asset in 12 months from balance sheet date.

Purchases and sales of financial assets are recognized on the trade date - the date the Group commits to purchase or sell the financial asset. Investments are initially recognized at acquisition cost, to which transaction costs are added.

The Group's financial investments in shares and equities are classified as financial assets available for sale and they are measured at fair value. Gains and losses arising from changes in the fair value of financial assets are recognized in other comprehensive income or loss, except in cases of permanent impairment of assets. The fair value of financial assets available for sale is based on offers at the balance sheet date. When the assets available for sale are derecognized, the resulting accumulated gain or loss recognized in equity is reclassified to the profit or loss. The Group's financial investments in shares and equities, that are not publicly quoted, are valued using other information available to the Management Board in assessing fair value.

Other financial investments that do not have an active market and whose fair value cannot be reliably measured are carried at an acquisition cost.

4.4. Inventories

Inventories are recorded at acquisition cost or net realizable value, whichever is the lower. The weighted average cost method is used to calculate materials and goods in the Group. The cost of finished goods and work-in-progress includes design costs, raw materials, direct labor costs, other direct costs and costs associated with production (based on normal operating capacity), except financing costs. When accounting for project assets, the individual cost method is used. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling costs.

4.5. Investment properties

Investment property is an asset that the Group holds either as an owner or under finance leases as a lessee for earning rental income, increasing market value or for both purposes and which is not used in its own business activities. Investment properties are stated at cost method, at an acquisition cost less accumulated depreciation and any impairment losses.

The useful lifetime of similar items of property is used for the investment property (Note 4.6.c).

The Group discloses the fair value of investment property in Note 12 of the financial statements.

4.6. Property, plant and equipment

Property, plant and equipment are assets used for production, provision of services or administrative purposes over a period of more than one year.

(a) Recognition and measurement
Property, plant and equipment are recognized at an acquisition cost less accumulated depreciation and impairment. Acquisition cost consists of the purchase price of the asset and other costs directly related to the acquisition, including costs necessary for bringing the asset to its working condition and location. The acquisition cost of a property, which is made for own use, consists of material costs, direct labor costs and a proportional share of production overheads and financing costs which are related to the acquisition, construction or production of fixed assets.

When an item of property, plant and equipment consists of separate material components that have different useful lives, these components are accounted as separate assets, by allocating separate depreciation rates according to the useful lives of the components.

(b) Subsequent costs
Parts of some items of property, plant and equipment require replacement or renovation at certain intervals. Such costs are recognized in the carrying amount of property, plant and equipment when it is likely that future economic benefits associated with the parts will flow to the Group and the cost of the part for the asset can be measured reliably. The carrying amount of a part that is replaced is derecognized.

In accordance with the accounting principles in the previous paragraph, the cost of day-to-day maintenance of an item is not included in the carrying amount of the asset. Such costs are expensed as incurred.

(c) Depreciation
Depreciation is recognized as an expense 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 companies use uniform depreciation rates.

The estimated useful lives, residual values and depreciation methods are reviewed annually. The effect of the changes is reflected in the reporting period and in subsequent periods.

The following estimated useful lives are applied:

Asset category	**Useful life**
Buildings and structures	10 - 33 years
Machinery and equipment	5 - 10 years
Other equipment and fixtures	3 - 16 years

4.7. Intangible assets

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

(a) Goodwill
Goodwill is recognized according to the accounting policies described in "Basis of consolidation" (Note 4.1).

Goodwill arising from a business combination is initially recognized at acquisition cost. The useful life of goodwill is indefinite, so goodwill is not amortized but the possible impairment is assessed at each balance sheet date (Note 4.9).

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 investment.

(b) Research and development costs
Research expenditures are the costs of implementing research results to develop new products and services. Expenditures on scientific research and research carried out for the purpose of generating new technical knowledge are recognized as expenses in the period they have occurred.

Development costs are the costs of implementing research results for the development, design or testing of new specific products, services, processes or systems. Development costs are capitalized as intangible assets, if the amount of development costs can be measured reliably and there are technical and financial possibilities and a positive intention to implement the project and the Group can use or sell the asset and the future economic benefits of the intangible asset can be estimated.

Capitalized development costs are stated at an acquisition cost less accumulated amortization and impairment losses. Development costs are expensed using a linear method over their estimated useful life which does not exceed 10 years. Depreciation is commenced when the development project is ready for use.

(c) Other intangible assets
Other intangible assets include licenses, computer software and acquired customer contracts. Acquired licenses are recognized at an acquisition cost. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the software and prepare it for the use. Other intangible assets acquired are measured at an acquisition cost less accumulated depreciation and impairment losses. The useful life of an intangible asset arising from the acquired customer contract is equal to the term of the contractual rights.

4.8. 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 probably, i.e. management is actively marketing the asset for a 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 amortization 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.

4.9. Impairment of assets

At each balance sheet date, the Group critically assesses whether there is any indication that an asset may be impaired. If such indication exists, the asset is tested for impairment by estimating its recoverable amount.

(a) Financial assets

Accounting policies from 1 January 2018

Expected credit losses are assessed on the basis of information about the future for all debt instruments accounted for at amortized cost. The credit loss methodology depends on whether the credit risk has significantly increased.

Expected credit loss is measured based on:

- Unbiased and probability-weighted amount, the determination of which shall assess a number of possible outcomes,
- the time value of money and
- reasonable and justified information available at the end of the reporting period, without excessive cost or effort, on past events, current conditions and forecasts of future economic conditions.
- Credit loss model for cash and cash equivalents, deposits, trade receivables and contract assets without significant financing component is based on the simplified approach according to IFRS 9 and calculated impairment loss based on the lifetime expected credit losses at initial recognition. Impairment matrix is used, whereby allowance is calculated based on different aging categories (Note 6.3).

Accounting Policies until 31 December 2017

- *Trade receivables*

  Trade receivables are 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 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 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.

  The recoverable amount of the receivables at amortised cost is increased only when the increase is objectively related to an event occurring after the impairment loss was recognised.

- *Available-for-sale financial asset*

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

(b) Non-financial assets

In the case of both indefinite lifetime property, plant and equipment and depreciable assets, the existence of circumstances indicating potential impairment of the asset is assessed. If such circumstances occur, the recoverable amount of the asset is assessed and compared with the carrying amount. When assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects both the change in the value of money over time and the risks associated with the asset. If the asset does not generate cash flow independently, the recoverable amount is found from the cash-generating unit to which the asset belongs is determined.

Impairment losses on intangible assets with indefinite useful lives, including goodwill, are recognized when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount of the asset or cash-generating unit. Impairment losses on assets are recognized as a loss for the financial year.

An impairment loss on a cash-generating unit is allocated as follows. Firstly, the carrying amount of the goodwill allocated to the entity (group of units) is reduced and then all assets belonging to that unit (group of units) are valued proportionally.

Potential impairment of goodwill is reviewed at least annually at the end of the financial year. If there are events or changes in estimates that lead to a decrease in the carrying amount of goodwill, the test is performed more frequently. The impairment is determined by measuring the recoverable amount of the cash-generating unit to which the goodwill relates.

For impairment testing, goodwill is allocated to those cash-generating units or groups of entities in the Group that should obtain economic benefits from a particular business combination. Impairment losses on goodwill are recognized in the statement of profit and loss.

(c) Reversal of impairment

If the reason for the impairment loss disappears, the previously recognized impairment loss is reversed. Changes in the circumstances of the impairment are analyzed at least annually at the end of the reporting period. The write-downs are reversed and the value of the asset is increased to a maximum of the book value that would have accrued on the asset if the discount had not been made, taking into account depreciation that has incurred. The reversal of an impairment loss is recognized in the statement of profit and loss of the period in the same line as the previous write-down was. As an exception, goodwill impairment is not reversed.

Impairment losses on an investment in an equity instrument classified as available for sale are not reversed through profit or loss. If the fair value of a classified debt instrument has increased and the increase can be objectively attributed to an event occurring after the impairment loss was recognized in the statement of profit and loss, the impairment loss is reversed and the amount of the reversal is recognized in the statement of profit and loss.

4.10. Rental contracts

A finance lease is a transaction whereby all significant risks and rewards of ownership of the asset are transferred to the lessee. The remaining leases are treated as operating leases.

(a) The Group as the lessor

Assets leased out under operating lease terms are recognized in the statement of financial position as usual, similarly to other assets recognized. Operating lease payments are recognized over the lease term as income using the linear method.

(b) The Group as a lessee

Assets and liabilities related to the finance leases are initially recognized in the statement of financial position as assets and liabilities at the amount of fair value of the leased asset or the present value of the minimum lease payments, if it is lower. Lease payments payable are divided into financial expenses and a reduction of the liability. Financial expenses are allocated to the lease term so that the interest rate during the lease period is the same with respect to the residual value of the liability. Operating lease payments are recognized as a cost over the lease term using linear method.

4.11. Financial liabilities

All financial liabilities of the Group are classified as "other financial liabilities at amortized cost". Financial liabilities are classified as current liabilities when their maturity date is 12 months after the balance sheet date unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting period. Liabilities with due dates more than one year from the date of the statement of financial position are disclosed in the statement of financial position as non-current liabilities.

(a) Loans and borrowings
Loans and borrowings are initially recognized at fair value less direct transaction costs. Subsequently, loans are recognized at amortized cost using the effective interest rate.

(b) Trade payables
Trade payables are initially recognized at fair value less direct transaction costs and they are subsequently measured at amortized cost using the effective interest rate.

4.12. Income tax and deferred tax

Income tax is paid on fringe benefits, gifts, donations, admission costs, dividends and non-business payments.

The consolidated statement of profit and loss recognizes the income tax expense, the effect of the change in deferred tax liabilities and assets for the subsidiaries located in Sweden, Lithuania and Finland, and the income tax on dividends of Estonian companies.

(a) Corporate income tax in Estonia
According to the Income Tax Act, which came into force in Estonia on 1 January 2000, the company's profits are not taxed, but net dividends paid. Therefore, the Group companies in Estonia do not have any differences between the tax bases and the carrying amounts of assets and liabilities that would result in a deferred tax liability or liability. As at January 1, 2015, dividends distributed as dividends are 20/80 of net amount paid out. Income tax on dividends is recognized as a liability and an expense when the dividends are declared, regardless of the period for which they were declared or actually paid. From 2019 onwards, it is possible to apply a tax rate of 14/86 to dividend payments. This more favorable tax rate can be used for dividend payments up to an average dividend payout of up to three previous tax years, taxed at 20/80. In calculating the average dividend payment for the three preceding financial years, 2018 is first year to be considered.

No provision is made for future dividend income before the dividend is declared, more information about it is disclosed in the notes.

(b) Corporate income tax in other countries
The profit of the Group's Finnish, Swedish and Lithuanian subsidiaries is subject to income tax, thus their income tax assets and liabilities, and income tax expense and tax income include current (payable) and deferred tax. The corresponding corporate tax rates in these countries are: Finland 20% (2017: 20%), Sweden 22% (2017: 22%) and Lithuania 15% (2017: 15%). Taxable profit is calculated from profit before tax, which is adjusted in income tax declarations with temporary or permanent differences based on local tax law requirements.

Deferred income tax is calculated on all significant temporary differences between the tax bases and the book values of the assets and liabilities. Deferred tax assets are recognized in the entity's statement of financial position when it is probable that it will be reversible in the future. Deferred tax is not recognized for temporary differences arising from:

- initial recognition of goodwill;
- 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 revers in the foreseeable future.

Deferred tax is determined at the tax rates that have entered into force or are actually in force at the balance sheet date and are expected to be applied to the realization of the deferred tax asset or the payment of income tax liability.

4.13. Employee benefits

(a) Profit-sharing and bonus plans

Liabilities to employees include, among other things, an obligation arising from performance reward systems, that is accounted in accordance with the financial results of the Group companies and the achievement of the targets set for the employees.

(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 those benefits. The Group recognizes termination benefits when it has made a clear commitment to: terminate the employment with existing employees in accordance with a detailed formal plan that the company cannot withdraw; pay compensation to employees on the basis of an offer to promote voluntary redundancy. If the maturity date of the termination benefit expires more than 12 months after the balance sheet date, the liability is discounted.

4.14. Provisions

Provisions are recognized when: The Group has a legal or constructive obligation arising from past events; when it is likely that a resource outflow is required to settle this obligation; the amount is reliably measurable. Provisions are not recognized for future operating losses.

Where there are several similar obligations, the probability of a reduction in the resources is measured and this is determined by considering all the liabilities as a whole. A provision is also recognized when the probability of an outflow of resources due to any of the same type of liabilities may be small.

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

4.15. 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 recognized on the statement of financial position

4.16. Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are recognized in the equity as deductions from proceeds.

If any entity in the Group repurchases the entity's equity instruments (treasury shares), the consideration payable, including directly attributable costs (without income tax), is deducted from the equity of the owners of the Parent until the shares are cancelled or reissued. Upon re-issuance of these shares, the fee received, of which directly attributable transaction costs and related income tax effects are deducted, is transferred to the Parent's equity holders' equity.

4.17. Mandatory reserve

According to the Estonian Commercial Code, entities form a statutory reserve prescribed by law. At least 1/20 of the net profit must be transferred to the reserve each financial year until the reserve amounts to 1/10 of the amount of share capital. Mandatory reserve can be used to cover losses and increase share capital. It is prohibited to make distributions to the shareholders from the reserve.

4.18. Share-based transactions

The Group has equity-settled share-based compensation plans (Note 27). The fair value of the services acquired from the employees in exchange for the share options is recognized as an expense and equity as 'Retained earnings' during the vesting period (from the issue of the option until the beginning of the investing period). The fair value of the services received is determined based on the fair value of the equity instruments granted to the employees at the grant date. Proceeds from the share issue less direct transaction costs, are recognized in equity as share capital and share premium.

4.19. Segment information

Operating segments is a component of the Group that engages in business activities from which it may earn revenue and incur expenses; for which discrete financial information is available and for which separate budgets are prepared. The Management of the group regularly reviews segment information in order to determine the allocation of resources between segments and to assess segment performance.

4.20. Revenue from contracts with customers

Accounting principles since 1 January 2018

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a good or service to a customer.

(a) Sale of goods
The Group manufactures and sells electrical distribution equipment and control panels and various metal products. Sales are recognized when control of the products has transferred, being when the products are delivered to the clients, the client has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If electrical equipment is manufactured according to client's specifications and there is no alternative use for the specific asset, whereby the Group cannot use or sell the asset without considerable additional costs, and the Group has the right to payment according to the progress of work, revenue is recognized over time of production. Revenue is determined based on the share of actual costs incurred compared to the total expected costs. If client has been invoiced less than revenue recognized at the balance sheet date, the contract asset is recognized in the statement of financial position as Trade and other receivables (Note 8). If invoices exceed the revenue recognized to date, contract liability is recognized in the statement of financial position as Prepayments from clients.

If the Group provides any additional services to the client after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognized over the time of the service rendering.

(b) Retail and project-based sale of electrical equipment
The Group operates a chain of retail stores selling products produced by the Group as well as other goods needed for electrical installation works. Revenue from the sale of goods is recognized when the Company sells a product to the customer.

Payment of the transaction price is due immediately or at a payment schedule when the customer purchases and takes the product from the store. Customer has a right to return a faulty good according to the regulations. Since the number of returned products has remained at the same level for years, it is very likely that there will be no significant cumulative reversal of revenue. At each balance sheet date, the validity of this assumption and the estimated number of refunds are reviewed.

If the Company provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognized over the time of the service rendering.

(c) Electrical works and other services
Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. Revenue is calculated as the ratio of incurred costs to total expected costs.

Where the contracts include multiple performance obligations, the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of product, revenue for the product is recognized at a point in time when the product is delivered, the legal title has passed and the customer has accepted the product.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the statement of profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognized as Trade and other receivable (Note 8). If the payments exceed the services rendered, a contract liability is recognized as Prepayments from clients.

If the contract includes variable consideration, revenue is recognized only to the extent that it is highly probable that there will be no significant reversal of such consideration.

Accounting policies until December 31, 2017

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

(a) Sale of goods - retail and wholesale

The Group manufactures and sells electrical distribution equipment and control panels and various metal products. The sale of the goods is recognized when a Group entity has delivered products to the buyer, the buyer has full discretion over the products and there are no unfulfilled obligation that could affect the acceptance of the products by the buyer. Revenue is not recognized 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 of refusal to accept has expired or the Group has objective evidence that all admission criteria are met. Sales are recorded on the basis of the prices and agreements stipulated in the sales contracts.

The Group has retail stores for selling electrical supplies. Sales of goods are recognized when the Group company sells the product to the customer. Retail is usually settled in cash or by bank card.

(b) Provision of services

Revenue from the rendering of services is recognized 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 –based 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 recognized 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 recognized as an expense immediately and in full.

4.21. Lease income

Lease income from investment property is recognized on a straight-line basis over the lease term, when the client benefits from the service while service is rendered. Any benefits offered to lease clients are treated as an integral part of lease income (Note 4.10).

4.22. Interest and dividend income

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

(b) Dividend income
Dividend income is recognized when the right to receive payment is established.

4.23. Earnings per share

Basic earnings per share are calculated by dividing the net profit 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 net profit attributable to equity holders of the Parent Company by the weighted average number of shares during the period, also taking into account the number of shares that can be issued with a potentially dilutive effect.

4.24. Distribution of dividends

Distribution of dividends to the Parent’s shareholders is recognized as a liability in the Group's financial statements in the period when the Company's shareholders approve the dividends.

4.25. Related parties

For the purposes of the consolidated financial statements the related parties are:

- AS Harju KEK, which owns 31.39% of the shares of AS Harju Elekter;
- members of the Management Board and Supervisory Board of the Parent Company;
- immediate family members of the aforementioned persons - spouse, minor child or person sharing a joint household with a member;
- companies controlled by the members of the Management Board and Supervisory Board.

4.26. Subsequent events

The financial statements for the financial year reflect material circumstances affecting the valuation of assets and liabilities that occurred between the balance sheet date and the reporting date and relate to transactions in the reporting period or prior periods. Subsequent events that are not related to the reporting period or prior period transactions are not recognized in the statement of financial position, the contents of which are disclosed in the notes to the financial statements

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PricewaterhouseCoopers, Tallinn

5 Accounting estimates and judgements

The financial statements prepared according to the International Financial Reporting Standards as adopted by the European Union must be prepared using management estimates. Management also has to make judgments on the selection and implementation of accounting policies.

Management's judgments and estimates have been consistently reviewed and are based on historical experience and other circumstances, including making predictions of future events that are considered reasonable under existing conditions.

5.1. Critical accounting estimates made by management in the preparation of the financial statements

(a) Useful lives of investment property and property, plant and equipment (Note 4.5, 4.6, 12, 13)
Management has assessed the useful life of investment property, buildings and equipment based on of production volumes and conditions, historical experience in the area and future prospects. Depreciation rates are increased when the useful life appears shorter than initially estimated and technically obsolete assets are written off or impaired.

(b) Fair value of financial assets (Note 11)
In the financial statements, the Group discloses the fair value of Skeleton Technologies Group OÜ, the valuation of which is based on the offer price used in the financing round.

6 Financial risk management

6.1. Financial risk factors

In its day-to-day operations, the Group faces various risks. Management of these risks is an important and integral part of the company's business. The ability of the company to identify, measure and control different risks is an important input to the Group's overall profitability. Risk is defined by the Group's management 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 risk), credit risk, liquidity risk and capital risk.

The Group's risk management is based on the requirements set by the Nasdaq Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, the monitoring of generally accepted accounting standards and good practice, and the company's internal regulations and risk policies. Risk management at a general level involves identifying, measuring and controlling risks. The main role of risk management and approval of risk procedures in the management of the parent company is at the level of each subsidiary and parent company, both consolidated and individually. The Supervisory Board of the Parent Company monitors the measures taken to manage the risks of the Management Board.

6.2. Market risk

(a) Currency risk

Currency risk is defined as a fluctuation in the fair value or the cash flows of a financial instrument due to the changes in the foreign exchange rate. The Group’s activities take place in Estonia (currency EUR), Finland (currency EUR), Lithuania (currency EUR) and Sweden (currency SEK). Financial assets and liabilities nominated in euros are not considered to bear any currency risk. With the acquisition of the new subsidiaries in Sweden since 2018 the Group is affected by the fluctuations of Swedish kronor in relation to euro.

As at 31 December EUR '000	2018		2017	
	EUR	SEK	EUR	SEK
Assets	602	8,038	0	498
Liabilities	1,217	-3,806	-19	-330
Net open foreign currency position	**-615**	**4,231**	**-19**	**168**
Income	126	14,038	0	415
Expenses	-769	-13,500	0	-459
Net open foreign currency position	**-643**	**538**	**0**	**-44**

The impact of the changes of foreign currency fluctuations to the comprehensive income is calculated based on the maximum fluctuation of the currency during the reporting period. For the purposes of sensitivity analysis of Group's net open foreign currency position all other inputs were held constant. Possible impact to the total comprehensive income:

EUR '000	2018	2017
Impact of SEK exchange rate +9.5% (2017: +6.3%)	-300	-3
Impact of SEK exchange rate -9.5% (2017: -6.3%)	363	3

To mitigate currency risks, the Group concludes as many international agreements as possible and makes most intra-group transactions in euros. The table below shows the Group's foreign currency receivables and liabilities. Based on availability, the funds received from foreign currency receivables will be used to settle liabilities in the same currency. All existing long-term loans and leases are denominated in euro and are therefore treated as not subject to currency risk.

Due to the above, management believes that the Group is not exposed to currency risks to a significant extent and therefore no separate instruments have been used in the Group for hedging currency risks in 2018 and 2017.

(b) Price risk

The Group is exposed to equity price risk arising from the investments held by the Group. The fluctuation of the market price of the Group's 9.84% share in Skeleton Technologies Group OÜ may have a significant impact on the value of the Group's assets. Following the 2016 investment round, the value of the financial investment increased by 1.6 million euros. Revaluation gain was recognized in other comprehensive income. More information on the shareholding of Skeleton Technologies Group OÜ is provided in Note 11.

Other non-current financial investments include listed securities and a 14.0% stake in SIA Energokomplekss. The fair value of these financial investments decreased by a total of 295 thousand euros in the financial year (Note 11).

(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 current and non-current borrowings, which are based on floating interest rates. Through floating rate financial liabilities, the Group is exposed to cash flow interest rate risk. The Group's interest rate risk is firstly dependent on a possible change in Euribor (Euro Inter-Bank Offered Rate). The Group's interest rates of non-current borrowings as of December 31, 2018 are based on 3-month and 6-month Euribor and short-term loans are based on 3-month Euribor (Note 16).

At the balance sheet date, the interest rate structure of the Group's interest-bearing financial liabilities were as follows:

As at 31 December EUR '000	Note	**2018**	**2017**
Fixed rate borrowings	16	302	238
Floating rate borrowings	16	11,803	3,297
Total		**12,105**	**3,535**

If the interest rate had changed by an average of one percentage point during the reporting period, the profit or loss and equity would have increased (decreased) as follows (assumes that all other variables remain constant). The calculation was performed in 2017 on the same basis.

As at 31 December EUR '000	**2018**	**2017**
Increase by one percentage point	-118	-33
Decrease by one percentage point	118	33

6.3. Credit risk

(a) Credit risk assessment

Credit risk represents a potential loss that could arise if a Group's counterparty in a transaction is unable to meet its contractual obligations and provide cash flows from the financial instrument. Credit risk is mainly related to cash and cash equivalents, deposits, trade receivables, contractual assets and loans granted by the Group.

Credit risk is managed on a Group level, accepting only banks and financial institutions with a minimum credit rating of A as long-term partners in the Baltic States and Scandinavia. In order to manage liquidity risk, the Group keeps available funds in various banks: Swedbank AB Group banks, AS SEB Pank, AS LHV Group, Luminor Group AB, and banks of OP Corporate Bank Group. According to Moody's Investor Service, the credit ratings of these credit institutions or their parent companies were at least "A" as at the date of preparation of the report.

The size of the Group's credit risk is most affected by the specific circumstances of each customer. At the same time, the Group's management also follows the general circumstances such as the legal status of the client (private or public company), the geographical location of the client, the field of operation, the state of the economy and future economic predictions. The Group's experience shows that the largest credit risk is in the private sector, with public authorities and local governments having the lowest credit risk.

To reduce the credit risk, customers' payment discipline and their ability to meet their commitments are monitored daily. Based on internal and external ratings, individual credit limits are set for customers. There is regular monitoring of the use of credit limits. Retail customers pay in cash or with known bank's payment cards. The card payment requirement is secured by the Swedbank AS card payment agreement, which guarantees the receipt of card payments within two banking days, thus, the credit risk is not associated with retail customers. Conditions are in place for when the debt recovery is taken to court.

The maximum amount exposed to credit risk is the carrying amount of receivables less allowances, and deposits with banks and financial institutions.

As at 31 December EUR '000	Note	2018	2017
Cash and cash equivalents	7	3,142	10,992
Deposits	11	0	5,000
Trade and other receivables	8	22,218	13,575
Total		**25,360**	**29,567**

As of the reporting period, the Group's credit risk was 25.4 million euros and as 31 December 2017 it was 29.6 million euros. Management considers that the Group has no significant risk of credit loss exceeding the amount already recognized.

As at March 15, 2019, the outstanding amount of trade receivables issued as of 31 December 2018 amounted to 1.96 million euros. In the comparable period, the outstanding amount of trade receivables issued as of 31 December 2017 amounted to 0.8 million euros.

(b) Credit quality of financial assets

As of 1 January 2018 the Group applies a simplified approach to expected credit losses under IFRS 9, at using lifetime expected credit losses for all trade receivables and contract assets. Historical loss rates are adjusted to include both current and future information about the macroeconomic factors, which may have impact on the ability of customers to pay the receivables. Based on the principles described above the impact of impairment losses on the cash and cash equivalents according to IFRS 9 was immaterial as of adoption date 1 January 2018 and 31 December 2018.

To measure the expected credit losses the trade receivables and contract assets are grouped according to the credit risk criteria and aging period. The expected credit loss rates are based on last 24 months data about payment discipline and actual credit losses until 31 December 2018 or, accordingly until 1 January 2018.

Based on the principles described above the allowances as of 31 December 2018 and 1 January 2018 (adoption of IFRS 9) were as follows:

EUR'000	Note	Not due	Less than 30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
1 January 2018							
Expected loss rate		0.27%	1.45%	3.7%	11.38%	55.43%	
Trade receivables	8	10,195	1,156	450	162	274	12,237
Contract assets	8	1,496	0	0	0	0	1,496
Other receivables	8	15	0	0	0	0	15
Total loss allowance		**32**	**17**	**17**	**18**	**152**	**236**
31 December 2018							
Expected loss rate		0.22%	0.74%	2.70%	4.87%	12.4%	
Trade receivables	8	15,230	1,235	480	218	158	17,321
Contract assets	8	4,802	0	0	0	0	4,802
Other receivables	8	94	0	0	0	0	94
Total loss allowance		**44**	**9**	**14**	**11**	**19**	**97**

Accounting policies until December 31, 2017

Receivables were written down when it was likely that the Group will not recover all amounts based on the initial contract conditions. Impairment indicators considered were client's significant financial difficulties, likelihood of bankruptcy, delay over 180 days or failure of payments.

6.4. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in discharging its financial liabilities that are settled by the transfer of cash or another financial asset. The Management Board continuously monitors cash flows, taking into account the availability and sufficiency of the Group's financial resources to meet its commitments and to finance the Group's strategic objectives.

Liquidity risk is hedged by various financial instruments such as loans and finance leases. During the reporting period, overdraft and long-term loan agreements have been signed, which also help to mitigate potential liquidity risk (Note 16). As of the end of the financial year, the Group had available funds in the amount of 3.1 million euros, debt obligations of 12.1 million euros (Note 16), trade payables and other short-term liabilities of 14.9 million euros (Note 18), liabilities totaling 31.2 million euros. In 2018, the Group's short-term debt coverage ratio and liquidity ratio were 2.2 and 1.5 respectively and in 2017 they were 2.4 and 1.6.

Analysis of Group’s financial liabilities by maturity:

EUR ‘000	Note	< 3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2017						
Borrowings		160	481	2,938	0	3,579
Trade payables	18	9,079	0	0	0	9,079
Other liabilities	18	670	0	0	0	670
Total		**9,909**	**481**	**2,938**	**0**	**13,328**

EUR ‘000	Note	< 3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2018						
Borrowings		1,678	5,038	5,524	0	12,240
Trade payables	18	10,602	0	0	0	10,602
Other liabilities	18	1,180	0	35	0	1,215
Total		**13,460**	**5,038**	**5,559**	**0**	**24,057**

6.5. Capital risk management

The Group's goal in managing capital is to protect the Group's sustainability in order to ensure return to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce capital costs.

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 for debt reduction.

According to common practice, the Group uses debt-to-capital ratio and equity ratio to monitor capital. The debt-to-capital ratio is calculated as the ratio of net debt to total capital. Net debt is calculated by deducting cash and cash equivalents from the total debt (current and non-current interest bearing borrowings recognized in the consolidated statement of financial position). Total capital is the sum of equity and net debt recognized in the consolidated statement of financial position. Equity ratio is obtained by dividing equity by total assets.

The Group's equity:

As at 31 December EUR'000	Note	**2018**	**2017**
Interest-bearing borrowings	16	12,105	3,535
Cash and cash equivalents	7	-3,142	-10,992
Net debt		8,963	-7,457
Total equity		66,939	69,931
Total capital		75,902	62,474
Debt to capital ratio		**11.8%**	**-11.9%**
Total assets		98,153	89,977
Equity ratio		68.2%	77.7%

In accordance with the laws of the country where the Parent Company is located, minimum requirements for the equity limits of companies have been established. According to the law, the company's equity capital must be at least half of the share capital, but not less than 25 thousand euros. During the reporting period, the Group has complied with all statutory requirements relating to the amount of equity.

6.6. Fair value measurement (Note 6)

The Group divides assets and liabilities according to their fair value estimates at three different levels:

- Level 1: Assets and liabilities valued using unadjusted price from the stock exchange or other active regulated market.
- Level 2: Assets and liabilities valued using valuation techniques based on directly or indirectly monitored inputs. This category includes, for example, financial instruments that are valued using the prices of similar instruments on an active regulated market or financial instruments whose revaluation is valued at the price of a regulated market but with low liquidity on the stock exchange. As of 31 December 2018, and 2017 the Group did not have financial instruments at level 2.
- Level 3: Assets and liabilities that are valued using non-monitored inputs.

Cash and cash equivalents (Note 7), deposits, trade and other receivables (Note 8), borrowings (Note 16), trade and other payables (Note 18) are current, and therefore management considers their fair value to be close to the carrying amount.

Majority of Group's current and non-current borrowings are based on floating interest rate, which changes according to the market interest rate. Management considers that Group's risk rating has not changed considerably compared to the inception of the borrowings, and Group's interest rates on borrowings correspond to the market. Fair value is determined by discounted cash flow analysis, whereby future contractual cash flows are discounted at effective market interest rates, which are available to the Group from using similar financial instruments. Such financial instruments are classified at level 3.

Fair value of the financial instruments traded on active markets (listed securities, Note 11) is based on market prices at balance sheet date and are therefore classified as level 1. The fair value of the unlisted financial instrument is determined by the management and is classified as level 3.

Additionally, Group discloses the fair value of the investment properties in the Note 12, which is assessed at each balance sheet date based on methods at level 3.

7 Cash and cash equivalents

As at 31 December EUR'000	Note	2018	2017
Cash on hand		2	5
Current accounts in banks		3,140	10,987
Total cash and cash equivalents	6.3	**3,142**	**10,992**

8 Trade and other receivables

As at 31 December EUR'000	Note	2018	2017
Trade receivables			
Trade receivables		17,321	12,237
Loss allowance for trade receivables		-87	-209
Total trade receivables		**17,234**	**12,028**
Contract assets		4,802	1,496
Loss allowance		-10	-
Total contract assets		**4,792**	**1,496**
Other receivables			
Other current receivables		94	15
Other accrued income		98	36
Total other receivables		**192**	**51**
Total trade and other receivables	6.3	**22,218**	**13,575**

Contractual assets have increased, as the Group has offered more contractual services with a fixed-price, for which revenue is recognized based on services rendered over time. The change also reflects similar services consolidated through the business combination that took place in 2018. Group also assessed the expected credit loss as of 31 December according to IFRS 9 (Note 6.3).

Changes in allowances for receivables

The carrying amounts of financial assets as of 31 December 2018, taking into account the restatement of the opening balances arising from the change in the standard:

EUR'000	Trade receivables 2018	Trade receivables 2017	Contract assets 2018	Contract assets 2017
Opening balance at 31 December				
Loss allowance – calculated under IAS 39	-209	-206	-	-
Amounts restated through opening retained earnings - calculated under IFRS 9	-23	-	-4	-
Opening balance at 1 January in accordance with IFRS 9	**-232**	**-206**	**-4**	-
Changes from 1 January to 31 December				
Increase in loss allowance recognized in expenses	-52	-54	-6	-
Receivables written off during the year as uncollectible	197	51	-	-
Closing balance at 31 December	**-87**	**-209**	**-10**	**-**

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9 Prepayments

As at 31 December EUR'000	Note	2018	2017
Prepaid tax	19	480	921
Prepaid expenses		693	253
Total prepayments		**1,173**	**1,174**

10 Inventories

As at 31 December EUR'000	2018	2017
Raw and other material	11,747	7,868
Work in progress	1,946	2,487
Finished goods	2,056	1,399
Goods purchased for sale	1,719	1,283
Total	**17,468**	**13,037**
Impairment losses of inventories during the period 1 January to 31 December	7	3

11 Financial investments

EUR'000	Note	2018	2017
As at 31 December			
Deposits (amortized cost)		0	5,000
Listed securities (available-for-sale financial assets at fair value)		0	4,935
Total current financial investments		**0**	**9,935**
Listed securities (fair value through other comprehensive income)		4,712	0
Other equity investments (fair value through other comprehensive income)		4,864	0
Other equity investments (available-for-sale financial assets at fair value)		0	4,662
Other equity investments (available-for-sale financial assets at cost)		0	22
Other financial assets through profit or loss		11	0
Total non-current financial investments		**9,587**	**4,684**
Total		**9,587**	**14,619**
Changes from 1 January to 31 December	Note		
1. Financial assets at amortized cost			
Carrying amount at the beginning of the period		5,000	-
Acquisitions		0	5,000
Termination of term deposit		-5,000	-
Carrying amount at the end of the period		**0**	**5,000**
2. Financial assets at fair value through other comprehensive income *(2017: available-for-sale financial assets at fair value)*			
Carrying amount at the end of the prior period		9,597	21,969
Impact of IFRS 9 application	3	175	0
Carrying amount at the beginning of the period		**9,772**	**21,969**
Acquisitions		99	4,999
Sale of shares		0	-17,307
Change in fair value through other comprehensive income		-295	0
Other changes		0	-64
Carrying amount at the end of the period		**9,576**	**9,597**

In April 2017 the Group opened a one-year term deposit at LHV Bank for a value of 5 million euros. The term expired on 13 April 2018. Total interest income on the deposit was 15.2 thousand euros, of which 4.2 thousand euros in 2018.

In the third quarter of 2017 the Group placed 5 million euros into highly liquid equities listed on the stock exchange. In 2018 the Group decided to classify those as non-current financial asset. The change in fair value was reflected in the loss of the reporting period of 322 thousand euros.

Other equity investments as of 31 December 2018 include investment into the shares of Skeleton Technologies Group OÜ in the amount of 4,662 thousand euros (31 December 2017: 4,662 thousand euros). 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 the shares is a complicated process due to the lack of an active market, requiring assumptions and decisions that have substantial influence on their fair value. Skeleton Technologies Group OÜ is increasing its manufacturing capacity and the assessment of future cash flows includes significant uncertainties. The shareholding of AS Harju Elekter has decreased after the investment round in 2016 and is 9.84%. The information available to management is limited (financial statements) and does not support further change of fair value compared to 31 December 2017. According to the information publicly available the latest investment round took place in 2016.
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 25.78 million euros for the shares by 30 March 2018, recognizing a one-off gain of 24.84 million euros.

12 Investment properties

EUR'000	Land	Buildings	Construction in progress	Total
As at 31 December 2016				
Cost	2,582	10,967	3,055	**16,604**
Accumulated depreciation	0	-3,331	0	**-3,331**
Carrying amount	**2,582**	**7,636**	**3,055**	**13,273**
Movements in 2017				
Additions	543	0	3,522	**4,065**
Depreciation charge	0	-490	0	**-490**
Reclassification	0	6,018	-6,018	**0**
Reclassification as investment property (Note 13)	0	1,033	0	**1,033**
Total movements	**543**	**6,561**	**-2,496**	**4,608**
As at 31 December 2017				
Cost	3,125	18,829	559	**22,513**
Accumulated depreciation	0	-4,632	0	**-4,632**
Carrying amount	**3,125**	**14,197**	**559**	**17,881**
Movements in 2018				
Additions	0	0	2,637	**2,637**
Depreciation calculated	0	-714	0	**-714**
Reclassification	0	3,074	-3,074	**0**
Total movements	**0**	**2,360**	**-437**	**1,923**
As at 31 December 2018				
Cost	3,125	21,837	122	**25,084**
Accumulated depreciation	0	-5,280	0	**-5,280**
Carrying amount	**3,125**	**16,557**	**122**	**19,804**

The Group's investment properties comprise of production and office buildings in Estonia: Keila, Saue municipality and Haapsalu.

On August 29, 2017, Stera Saue opened a factory with 3,400 m^2 production area in the Allika Industrial Park, which is owned by Harju Elekter AS. During 2018, the construction of the second and third stage of AS Stera Saue was continued and new production areas of 4,000 m^2 and 3,000 m^2 were recognized respectively. Total production areas rented to AS Stera Saue totaled to 10,400 m^2.

In 2017, reclassifications of investment property were made in relation to the space which was taken into use as Group's production facility after the space was no longer occupied by the Group's tenant PKC Eesti AS.

According to management's estimate, at 31 December 2018 the fair value of the investment property is 27.8 (31 December 2017: 22.1) million euros. Management estimate is based on a discounted cash flow method, taking into account the current lease agreements, the contractual growth rates, the average vacancy rate on the market, and the projected change in the consumer price index. Future cash flows were discounted at 11% discount rate. For investment properties, the condition of the leased property, the term of contracts and the possibility of renting out the property were evaluated. Investment property at fair value is classified at level 3 (Note 6.6), according to the fair value measurement method.

In 2018, the direct maintenance and repair costs of the investment properties amounted to 402 (2017: 280) thousand euros. Information on lease income received is provided in Note 14.

As at 31 December 2018, the Group had no commitments to acquire investment properties in subsequent periods.

13 Property, plant and equipment

13.1. Movements of property, plant and equipment

EUR'000	Note	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
As at 31 December 2016							
Cost		641	11,337	7,317	1,118	170	**20,583**
Accumulated depreciation		0	-3,124	-5,621	-866		**-9,611**
Carrying amount		**641**	**8,213**	**1,696**	**252**	**170**	**10,972**
Movements in 2017							
Additions		0	66	616	359	2,048	**3,089**
Acquired in the acquisition of subsidiary		0	0	9	25	0	**34**
Disposals in book value		0	0	-78	-18	0	**-96**
Depreciation charge		0	-489	-370	-124	0	**-983**
Reclassification		0	956	3	0	-959	**0**
Reclassification to investment property	12	0	-1,033	-1	1	0	**-1,033**
Total movements		**0**	**-500**	**179**	**243**	**1,089**	**1,011**
As at 31 December 2017							
Cost		641	11,292	7,438	1,337	1,259	**21,967**
Accumulated depreciation		0	-3,579	-5,563	-842		**-9,984**
Carrying amount		**641**	**7,713**	**1,875**	**495**	**1,259**	**11,983**

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EUR'000	Note	Land	Buildings and facilities	Machinery and equip-ment	Other fixtures	Construc-tions in progress and pre-payments	Total
Movements in 2018							
Additions		1,363	47	2,275	190	2,623	**6,498**
Acquired in the acquisition of subsidiary	28	0	0	75	25	26	**126**
Disposals in book value		0	0	-43	-3	0	**-46**
Depreciation charge		0	-488	-507	-158	0	**-1,153**
Reclassification		0	696	1,007	0	-1,703	**0**
Reclassification to investment property	12	51	568	0	24	-643	**0**
Currency translation differences		0	0	-2	-1	-2	**-5**
Total movements		**1,414**	**823**	**2,805**	**77**	**301**	**5,420**
As at 31 December 2018							
Cost		2,055	12,591	10,599	1,415	1,560	28,220
Accumulated depreciation		0	-4,055	-5,919	-843		**-10,817**
Carrying amount		**2,055**	**8,536**	**4,680**	**572**	**1,560**	**17,403**

A subsidiary (AS Harju Elekter Teletehnika) opened a FMS automated production line in September 2018. Combined with the renovation works, which increased the subsidiary's production area to nearly 9,000 m^2, the total cost of the investment was 3 million euros.

AS Harju Elekter built a solar power plant in Haapsalu, which is the first of its kind for the Group. More than 2,700 panels were installed on a few hectares of land in Haapsalu power plant, with a capacity of 700 kilowatts.

The acquisition cost of property, plant and equipment written off and sold during the reporting period totaled 366 (2017: 706) thousand euros, including machinery and equipment 194 (2017: 504) thousand euros and other fixed assets 172 (2017: 168) thousand euros. Assets written off were fully depreciated.

As at 31 December 2018, the acquisition cost of fully depreciated property, plant and equipment was 1,608 thousand euros and as at 31 December 2017 it was 2,732 thousand euros. As at 31 December 2018, the Group had no commitments to acquire property, plant and equipment in subsequent periods.

13.2. Property, plant and equipment acquired on finance lease terms

EUR '000	Buildings	Machinery and equipment	Total
As at 31 December 2017			
Cost	1,905	468	**2,373**
Carrying amount	1,420	352	**1,772**
As at 31 December 2018			
Cost	1,905	3,277	**5,182**
Carrying amount	1,359	3,084	**4,443**

In 2018, new lease agreements with a total value of 2,809 thousand were signed. No new finance lease agreements were signed in 2017. Information on finance lease liabilities and terms is disclosed in Note 16.

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14 Operating leases

EUR '000	Note	1 January – 31 December 2018	2017
Lease income			
- on investment property		2,135	1,742
- other		33	2
Total	23	**2,168**	**1,744**
Lease expenses			
Land		59	35
Office, commercial and production premises		861	170
Vehicles		191	166
Other		20	15
Total		**1,131**	**386**

In the statement of profit or loss the lease income is classified as revenue; the expenses and depreciation related to assets leased out are classified as cost of sales.

Investment property lease agreements have been concluded for the term of 1 to 9 years. Changes in lease 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 1-18 month advance notice.

Future lease payments from existing lease agreements are classified as follows:

As at 31 December EUR'000	**2018**	**2017**
Lease income		
< 1 year	2,596	1,783
1-5 years	9,455	5,565
> 5 year	4,195	3,248
Total lease income	**16,246**	**10,596**

Amount of future lease payments in non-cancellable operating leases based on contractual maturities

As at 31 December EUR '000	**2018**	**2017**
Lease income		
< 1 year	1,914	1,654
1-5 years	52	725
Total lease income	**1,966**	**2,379**
Lease expenses		
< 1 year	723	328
1-5 years	2,682	446
Total lease expenses	**3,405**	**774**

15 Intangible assets

15.1. Movements of intangible assets

EUR '000	Note	Goodwill	Develop-ment costs	Licenses	Customer contracts	Total
As at 31 December 2016						
Cost		4,860	305	1,443	0	6,608
Accumulated amortization		0	-198	-979	0	-1,177
Carrying amount		**4,860**	**107**	**464**	**0**	**5,431**
Movements in 2017						
Additions		0	97	61	0	158
Acquired in the acquisition of subsidiary		510	0	0	1,233	1 743
Depreciation charge		0	-36	-181	-455	-672
Total movements		**510**	**61**	**-120**	**778**	**1,229**
As at 31 December 2017						
Cost		5,370	402	1,504	1,233	8,509
Accumulated amortization		0	-234	-1,160	-455	-1,849
Carrying amount		**5,370**	**168**	**344**	**778**	**6,660**
Movements in 2018						
Additions		0	260	215	0	475
Acquired in the acquisition of subsidiary	28	864	0	0	0	864
Depreciation charge		0	-54	-217	-450	-721
Reclassification		0	60	-57	-3	0
Currency translation differences		-18	0	0	0	-18
Total movements		**846**	**266**	**-59**	**-453**	**600**
As at 31 December 2018						
Cost		6,216	658	1,620	1,230	9,724
Accumulated amortization		0	-224	-1,335	-905	-2,464
Carrying amount		**6,216**	**434**	**285**	**325**	**7,260**

The only intangible asset with an indefinite useful life is goodwill.

Development costs are the direct costs of manufacturing and testing of new specific products. Licenses consist of mainly product manufacturing licenses and computer software.

As a result of the acquisition of the subsidiary Telesilta Oy in 2017, the Group recognized customer contracts in the amount of EUR 541 thousand, which will be amortized over 3 years, and 689 thousand euros in open orders from customers, which were fully depreciated in 2018. In the reporting period 450 (2017: 455) thousand euros were expensed.

15.2 Testing the recoverable amount of goodwill

Goodwill has arisen through the acquisition of interest in subsidiaries.

At the beginning of 2018, AS Harju Elekter acquired a 100% stake in SEBAB AB, a technical solutions provider, and Grytek AB, which manufactures the factory buildings (in Sweden). With the acquisition of subsidiaries, goodwill increased by a total amount of 806 thousand euros.

Goodwill from previous periods in the amount of 5,370 thousand euros was acquired as follows: in 2014 a 100% holding in production company Finnkumu Oy was acquired, in 2017 a 100% holding in shipbuilding company Telesita Oy was acquired and in 2017 a 80.52% holding in electrical equipment and materials sales company Energo Veritas OÜ was acquired.

Goodwill is related to the subsidiary's ability to generate distinct cash flows, therefore the subsidiary is the smallest cash generating unit for accounting of goodwill and monitoring cash flows. The value in use of the subsidiary has been determined by the discounted cash flow method and its amount was compared to the carrying out of the value of cash generating unit.

General assumptions for determining value in use

The key assumptions and estimates used by the management for the purposes of impairment testing are described below. Cash generating unit also includes the attributable goodwill. Management estimates are based on historical data, but take into account the market situation and other relevant assumptions about the future periods that were available at the time of preparation of the financial statements. For Finnkumu OY and other subsidiaries' goodwill was evaluated based on the following inputs:

- The forecast period is 2019-2023 plus a terminal year.
- A discount rate of 9.8% was used to calculate discounted cash flows.
- Terminal growth rate of 2% was used.
- Annual revenue growth of 10% on average was used.

Potential impact of changes in estimates

The value of use of the cash-generating unit is compared to the amount of the investment and goodwill. Given that the value in use is an estimate, the change of selected inputs can have a positive or negative impact on the result of the assessment. The Group's management has conducted a sensitivity analysis of the material inputs and assumptions used and did not identify such reasonably possible changes in inputs or assumptions that would cause an impairment of goodwill.

16 Borrowings

16.1. Borrowings as at 31 December

EUR '000	2018	2017
Borrowings		
Current bank loans	4,967	0
Repayment of non-current bank loans in the next period	989	511
Repayment of non-current lease liabilities in the next period	670	114
Current loans with related parties	30	0
Total current borrowings	**6,656**	**625**
Non-current bank loans	3,429	2,409
Non-current lease liabilities	2,020	501
Total non-current borrowings	**5,449**	**2,910**
Total borrowings	**12,105**	**3,535**

EUR '000	2018	2017
Borrowings at the beginning of the period	**3,535**	**1,971**
Movements during the year		
Change in overdraft balances	4,967	-642
Received non-current bank loans	2,175	2,630
Received current loan from related parties	30	0
Repayments of non-current loans	-677	-127
New lease liabilities	2,680	0
Repayments of non-current lease liabilities	-605	-297
Borrowings at the end of the period	**12,105**	**3,535**

16.2. Terms of current bank loans

As at 31 December (EUR '000)

Base currency	Loan balance 2018	Loan balance 2017	Loan limit 2018	Loan limit 2017	Interest rate 2018	Interest rate 2017
SEK	115	-	244	-	3.40%	-
EUR	186	-	500	-	3-month euribor+1.20%	-
EUR	180	-	600	600	3-month euribor+0.75%	1-month euribor+1.00%
EUR	3,411	-	3,500	2,000	3-month euribor+0.65%	3-month euribor+0.65%
EUR	1,075	-	2,500	1,000	3-month euribor+1.30%	3-month euribor+1.30%
EUR	-	-	2,000	-	3-month euribor+0.90%	-

Information on assets pledged as the collateral of bank loans is provided in Note 17.

16.3. Terms of non-current bank loans

As at 31 December (EUR '000)

Base Currency	Loan balance 2018	Loan balance 2017	Loan limit 2018	Loan limit 2017	Interest rate 2018	Maturity date
EUR	187	238	0	0	2.00%	30.09.2022
EUR	535	-	2,800	-	6-month euribor+1.35%	31.07.2023
EUR	3,696	2,682	4,635	2,994	3-month euribor+0.95%	24.10.2021

Information on assets pledged as the collateral of bank loans is provided in Note 17.

16.4. Finance lease liability

Present value of lease payments:

EUR '000	Present value
Net balance as at 31 December 2016	**912**
Lease payments	-297
Net balance as at 31 December 2017	**615**
New lease liabilities	2,680
Lease payments	-605
Net balance as at 31 December 2016	**2,690**

The base currency of lease contracts is euro. At 31 December 2018, the interest rates of finance lease contracts were in the range of 1.1% to 2.07% (as at 31 December 2017, 1.5% to 1.9%). In 2017, the weighted average effective interest rate of finance lease liabilities was 0.81% and 1.66 % in the comparable period.

16.5. Finance lease liability by maturity

EUR ‘000	<1 year	1-5 year	Total
As at 31 December 2017			
Minimum amount of lease payments	311	314	625
Future finance expenses	-7	-3	-10
Present value of lease payments	**304**	**311**	**615**
As at 31 December 2018			
Minimum amount of lease payments	706	2,087	2,793
Future finance expenses	-36	-67	-103
Present value of lease payments	**670**	**2,020**	**2,690**

Lease payments are paid monthly.

17 Loan collateral and pledged assets

The carrying amounts of assets pledged:

As at 31 December EUR ‘000	**2018**	**2017**
* Commercial pledge for movable property	500	500
* Investment properties	9,042	3,040
** Land and buildings	330	370

* The Group has entered into current loan and investment loan agreements with Swedbank AS. Loans are secured by a commercial pledge on the movable property of Parent Company and mortgages on investment properties. The total value of the mortgages set is 7.3 million euros. The Group can use current loans of up to 2.5 million euros and non-current loans of up to 4.6 million euros, according to the pledges of the loans. As at the reporting date, a non-current loan of 3.7 million euros was in use.

* The Group has entered into a non-current investment loan agreement with AB SEB bankas. Loans are secured by a mortgage on the real estate in Lithuania in the amount of 1.2 million euros. Pledges partially are set against the non-current loan up to the amount of 2.8 million euros. As at the reporting date, a non-current loan of 0.5 million euros was in use.

** A mortgage on land and buildings in favor of Kurikan Osuuspankki has been set as a pledge for the investment loan. A loan of 300 thousand euros was taken out, with a balance at the end of reporting period of 187 thousand euros.

18 Trade and other payables

As at 31 December EUR '000	2018	2017
Trade payables		
Payable for goods and services	10,393	8,790
Payable for property, plant and equipment	5	0
Outstanding payment for investment property	204	289
Total trade payables	**10,602**	**9,079**
Other current liabilities		
Payables to employees	3,129	3,053
Other accrued expenses	1,013	664
Other liabilities	167	6
Other current liabilities	**4,309**	**3,723**
Total trade and other payables	**14,911**	**12,802**

19 Taxes

As at 31 December EUR '000	Note	2018	2017
Prepayment			
Value added tax		360	861
Corporate income tax		90	56
Social security tax		30	4
Total	9	**480**	**921**
Tax liabilities			
Value added tax		1,268	1,389
Corporate income tax		44	270
Personal income tax		422	267
Social security tax		603	386
Other taxes		72	64
Total		**2,409**	**2,376**

20 Contingent liabilities

20.1. Income tax

As at 31 December EUR '000	2018	2017
Retained earnings	52,412	55,048
Maximum possible dividend distributable to owners	44,832	46,959
Potential income tax expense on dividend distribution	7,580	8,089

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 2018.

The contingent income tax liability is calculated based on the maximum tax rate of 20/80, effective from 1 January 2015. From 2019 it is possible to apply a more favorable tax rate on dividend payments (14/86), if dividend payment is at least the average dividend of previous three financial years.

The Group is able to use the 14% tax rate on 319 thousand euros distributable when paying out the 2019 dividends.

20.2 Potential tax risks

The tax authority has neither initiated nor carried out a tax audit or individual case review in any of the Group companies. The tax authority has the right to check the tax records of the Group companies for up to 5 years from the date of submission of the tax return and to determine the additional amount of tax, interest and fines when identifying errors. Management estimates that there are no circumstances that could lead the tax authority to determine the amount of additional tax for the Group.

21 Share capital and reserves

21.1. Share capital and share premium

As at 31 December	Unit	**2018**	**2017**
Share capital	EUR ‘000	11,176	11,176
Number of shares (fully paid)	Pc ‘000	17,740	17,740
Share premium	EUR ‘000	804	804

As at 31 December 2018, the number of ordinary shares with no par value of AS Harju Elekter was 17,739,880. According to the articles of association, the maximum authorized share capital amounted to 14.0 million euros and minimum to 3.5 million euros.

21.2. Dividend per share

In 2018 according to the profit allocation decision a dividend of 0.24 euros per share was paid for 2017, totaling 4.3 million euros. Dividends were paid on May 22, 2018. In the comparable period, dividends of 0.18 euros per share were paid for 2016, totaling 3.2 million euros.

21.3. Interests of members of the Supervisory Board and Management Board in AS Harju Elekter

		Number of shares	**Direct participation**	**Indirect participation**
Palla, Endel	Chairman of the Supervisory Board	1,249,000	7.04%	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		**1,758,250**	**9.91%**	**0.90%**

The number of shares owned by the shareholders and the percentage of holding was fixed at 23:59 on December 31, 2018. In accordance with the requirements of the Nasdaq Tallinn Stock Exchange rules, the issuer is obliged to present in its annual report information on its members of the management board and supervisory board (direct holding) and the number of shares of the issuer belonging to their immediate family members (indirect holding) as at the end of the financial year. The votes represented by the shares of a company controlled by a member of the Group's supervisory board or board of directors shall also be considered as indirect participation.

21.4. Shareholders holding more than 5% of the votes

As at 31 December	2018	2017
AS Harju KEK	31.39%	31.39%
ING Luxembourg S.A	10.71%	10.71%
Endel Palla	7.04%	6.90%
Shareholders holding under 5%	50.86%	51.00%

21.5. Reserves

EUR '000	Note	Mandatory reserve	Share-based payments	Revaluation reserve	Currency translation differences	Total reserves
Balance at 1 January 2017		**1,242**	**0**	**17,969**	**3**	**19,214**
Gain on available for sale financial assets (-)		0	0	-16,367	0	-16,367
Currency translation differences		0	0	0	-3	-3
Balance at 31 December 2017		**1,242**	**0**	**1,602**	**0**	**2,844**
Change in accounting policy	3	-	0	153	-	153
Adjusted balance at 1 January 2018		**1,242**	**0**	**1,755**	**0**	**2,997**
Net loss on revaluation of financial assets (-)	11	0	0	-295	0	-295
Share-based payment expenses	27	0	97	0	0	97
Currency translation differences		0	0	0	-134	-134
Balance at 31 December 2018		**1,242**	**97**	**1,460**	**-134**	**2,665**

Revaluation reserve

The revaluation reserve consists of unrealized gains and losses arising from the revaluation of financial assets at fair value. The revaluation reserve includes the revaluation amounts of investment in Skeleton Technologies Group OÜ, securities of listed companies and the financial investment of SIA Energokomplekss.

In connection with the application of new IFRS 9 from 1 January 2018, the measurement of financial assets at cost is no longer permitted for the equity instruments. When applying the new accounting policies, the Group estimated the fair value of investment in SIA Energokomplekss at 175 thousand euros, increasing the revaluation reserve by 153 thousand euros (Note 3), which increased by 27 thousand euros at the end of the financial year, totaling EUR 180 thousand.

In connection with the sale of PKC Group Oyj shares, the revaluation reserve in 2017 decreased by 16,367 thousand euros, which was recognized in profit or loss after derecognition of the asset.

Currency translation differences

The reserve for currency translation differences consists of exchange differences arising on the translation of the financial statements of a foreign subsidiary into the presentation currency of the Group. At the beginning of 2018, AS Harju Elekter acquired a 100% stake in the Swedish company SEBAB AB and Grytek AB. The currency translation differences from the translation of the balances of the new subsidiaries was 134 thousand euros.

22 Segment information

The Management Board of the parent company AS Harju Elekter monitors the Group's internal reports in order to assess effectiveness and make decisions regarding resources. The Management Board has determined business segments based on these reports. In the consolidated financial statements, three segments are distinguished - production, real estate and other.

Production – manufacturing and sale of electrical equipment and associated activities. This segment includes the Group's companies AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Harju Elekter Kiinteistöt Oy, Rifas UAB, Automatikos Iranga UAB (until 30 June 2018), SEBAB AB and Grytek AB.

Real estate - development, maintenance and rental of real estate, services related to the maintenance of real estate and production capacity and intermediation of services. This branch includes the Parent Company.

Other activities - sales of products needed for electrical installation works mainly to retail customers and smaller and medium-sized electrical installation companies; management services, project management for installation works and electrical engineering for shipbuilding. Other activities are of less importance to the Group and none of them constitutes a separate segment for reporting purposes. This segment includes the Parent Company and the Group's subsidiaries Energo Veritas OÜ, Harju Elekter AB and Telesilta Oy.

The Group assesses the result of operating segments on the basis of segment revenue and operating profit. According to the management of the parent company, inter-segment transactions take place under normal market conditions and do not differ significantly from the terms of the transactions with third parties.

Unallocated assets are the Parent's cash, other receivables, prepayments, and other financial investments. Unallocated liabilities are the Parent's borrowings, taxes payable and accrued expenses.

2017 EUR '000	Note	**Production**	**Real estate**	**Other activities**	**Elimination**	**Consolidated**
Revenue from external customers	23	85,154	1,991	15,257	0	102,402
Inter-segment revenue		835	1,233	551	-2,619	
Segment revenue		**85,989**	**3,224**	**15,808**	**-2,619**	**102,402**
Operating profit		**5,709**	**280**	**-567**	**20**	**5,442**
Segment assets		48,528	18,975	11,906	-8,823	70,586
Unallocated assets						19,391
incl. Cash and cash equivalents						*4,677*
incl. Shares and other securities						*14,619*
incl. Other receivables and pre-payments						*95*
Total assets						**89,977**
Segment liabilities		21,996	399	3,427	-8,823	16,999
Unallocated liabilities						3,047
incl. Borrowings						*2,682*
incl. Accrued expenses						*291*
incl. Other						*74*
Total liabilities						**20,046**
Investments to non-current non-financial assets	12,13,15	2,985	4,065	2,039	0	**9,089**
Depreciation and amortization	12,13,15	963	490	721	-29	**2,145**

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2018 EUR '000	Note	**Produc-tion**	**Real estate**	**Other activities**	**Elimi-nation**	**Consoli-dated**
Revenue from external customers	23	99,795	2,605	18,404	0	120,804
Inter-segment revenue		3,092	1,395	679	-5,166	
Segment revenue		**102,887**	**4,000**	**19,083**	**-5,166**	**120,804**
Operating profit		**4,553**	**1,290**	**-3,235**	**-195**	**2,413**
Segment assets		58,426	20,674	21,948	-12,905	88,143
Unallocated assets						10,010
incl. Cash and cash equivalents						*248*
incl. Shares and other securities						*9,576*
incl. Other receivables and pre-payments						*186*
Total assets						**98,153**
Segment liabilities		31,873	329	4,232	-12,905	23,529
Unallocated liabilities						7,685
incl. Borrowings						*7,254*
incl. Accrued expenses						*129*
incl. Other						*302*
Total liabilities						**31,214**
Investments to non-current non-financial assets	12,13,15	5,829	2,637	2,134	0	**10,600**
Depreciation and amortization	12,13,15	1,136	714	758	-20	**2,588**

Revenue by geographic regions (customer location)

As at 31 December EUR '000	Note	**2018**	**2017**
Estonia		15,444	16,402
Finland		75,458	74,704
Sweden		13,522	2,706
Norway		8,688	5,852
Lithuania		401	1,371
Other		7,291	1,367
Total revenue	23	**120,804**	**102,402**

Location of the Group's non-current non-financial assets

As at 31 December EUR '000	**2018**	**2017**
Estonia	32,419	26,322
Finland	7,882	8,486
Sweden	1,039	0
Lithuania	3,127	1,716
Total value of assets	**44,467**	**36,524**

23 Information on the profit or loss line items

Revenue by business activities

EUR '000	Note	*At a point in time 2018*	*Over time 2018*	**2018**	**2017**
Electrical equipment		*90,987*	*5,799*	96,786	82,710
Retail and project-based sale of electrical equipment		*10,106*	*0*	10,106	7,473
Other goods		*1,463*	*0*	1,463	709
Electrical works		*0*	*8,933*	8,933	7,904
Other services		*0*	*1,348*	1,348	988
Lease income	14	-	-	2,168	1,744
Total	22	***102,556***	***16,080***	**120,804**	**102,402**

Expenses

EUR '000	Note	**2018**	**2017**
Cost of sales			
Goods and materials		-77,965	-70,178
Services		-7,834	-3,320
Personnel expenses (see below)		-16,305	-12,222
Depreciation and amortization		-2,132	-1,747
Other expenses		-2,084	-1,258
Increase in work in progress and finished goods inventories		1,492	1,682
Total		**-104,828**	**-87,043**
Distribution costs			
Services purchased		-935	-493
Personnel expenses (see below)		-2,931	-2,426
Depreciation and amortization		-36	-26
Other expenses		-1,365	-921
Total		**-5,267**	**-3,866**
Administrative expenses			
Services purchased		-1,426	-599
Personnel expenses (see below)		-5,197	-4,052
Depreciation and amortization		-420	-372
Other expenses		-1,180	-958
Total		**-8,223**	**-5,981**
- including development costs		-1,243	-1,169
Personnel expenses allocated to cost of sales, distribution costs and administrative expenses			
Salaries		-18,610	-14,120
Social security and other payroll taxes		-6,135	-3,929
Share-based payments	27	-97	0
Capitalized personnel expenses		373	62
Change in accrued personnel expenses		36	-713
Total		**-24,433**	**-18,700**

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24 Income tax and deferred tax

Income tax expense

EUR '000	2018	2017
Current income tax expense	1,035	1,102
Deferred income tax income/expense	-42	-19
Income tax expense in the statement of profit and loss	**993**	**1,083**

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 tax rate

EUR '000	2018	2017
Total calculated income tax	673	1,184
Finland 20%	*564*	*1,153*
Lithuania 15%	*95*	*31*
Sweden 22%	*15*	*0*
Adjustments for calculated income tax	-235	-319
Income tax on dividends	244	218
Total	**682**	**1,083**
Change in deferred tax assets recognized off balance sheet	311	0
Total income tax expense	**993**	**1,083**

Deferred tax asset as at 31 December

EUR '000	2018	2017
Deferred tax asset	98	56

The recovery of the deferred tax asset calculated from tax losses depends on the future taxable profits of the subsidiaries, which exceed the carry-forward tax losses at the balance sheet date. In the preparation of the annual report, the analysis of future profits of subsidiaries was carried out. A prerequisite for profit is the achievement of the strategic goals of each subsidiary. Deferred tax assets were recognized to the extent that it is probable that future profits will materialize in future periods.

25 Basic and diluted earnings per share

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

Potentially issued shares are taken into account for the calculation of *diluted earnings per share*. As at 31 December 2018 the Group had 348,175 potential shares. In accordance with the decision of the general meeting of shareholders held on May 3, 2018, the share price was fixed at 3.49 euros. For share-based benefits subject to IFRS 2 requirements, the share subscription price also includes the cost of services provided by employees in the future in exchange for the share-based compensation. The value of the service was estimated by an independent expert at 1.55 euros per share. Thus, under IFRS 2, the subscription price of a share is 5.04 (3.49 + 1.55) euros and the potential shares become diluting only after the average market price of their period exceeds 5.04 euros. The average market price of the shares during the period from 1 July to 31 December 2018 was 4.69 euros.

	Unit	**2018**	**2017**
Profit attributable to owners of the Parent company	EUR‘000	1,546	29,129
Average number of shares in the period	Pc‘000	17,740	17,740
Basic earnings per share for owners of the Parent company	EUR	0.09	1.64
Adjusted average number of shares in the period	Pc‘000	17,740	17,740
Diluted earnings per share	EUR	0.09	1.64

26 Information on the statement of cash flows line items

1 January to 31 December EUR ‘000	Note	**2018**	**2017**
Corporate income tax			
Income tax expense in the statement of profit or loss	24	-993	-1,083
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability	19	-260	105
Income tax prepayment/liability arising on the acquisition of a subsidiary	28	112	-18
Income tax expense on dividends	24	244	218
Deferred income tax expense/income	24	-42	-19
Corporate income tax paid		**-939**	**-797**
Paid for investment properties			
Acquisitions of investment properties	12	-2,637	-4,065
Decrease (-)/ increase (+) incurred by purchase	18	-85	-285
Paid for investment properties		**-2,722**	**-4,350**
Paid for property, plant and equipment			
Additions of property, plant and equipment	13	-6,498	-3,089
Purchased under finance lease		1,802	0
Liability decrease (-)/ increase (+) incurred by purchase property, plant and equipment	18	5	-13
Paid for property, plant and equipment		**-4,691**	**-3,102**
Paid for intangible assets			
Additions of intangible assets	15	-475	-158
Liability decrease (-)/ increase (+) incurred by purchase		0	-5
Paid for intangible assets		**-475**	**-163**
Proceeds from sale of property, plant and equipment			
Book values of disposed property, plant and equipment	13	46	96
Profit on disposal of property, plant and equipment		20	12
Proceeds from sale of property, plant and equipment		**66**	**108**

27 Related parties

Related parties are the Management team members, their immediate family members and AS Harju KEK, which owns 31.39% of AS Harju Elekter shares and has significant influence over AS Harju Elekter. The management team of the Group consists of members of the Supervisory Board and Management Board of the Parent Company. The Management Board has 3 members and the Supervisory Board has 5 members.

Transactions with related parties

1 January to 31 December EUR '000	2018	2017
Purchase of goods and services from related parties:		
- Lease of property plant and equipment from Harju KEK	121	106
- Lease payments to a company associated with a member of the management board of a subsidiary	464	-
Sale of goods and services to related parties		
- Other services for Harju KEK	3	4
Loans received from related parties:		
- Loan from a member of the Management Board of a subsidiary	30	0
Balances with related parties:		
- Loan from a member of the Management Board of a subsidiary	30	-
- Payables for goods and services	325	-
Remuneration of the Supervisory and Management Boards		
- salary, bonuses, additional remuneration	400	395
- social security tax	132	131
Total	532	526

Members of the Management Board receive remuneration in accordance with the employment contracts, in addition to being entitled to severance pay: Chairman of the Board for up to 10 months and other members of the Management Board for up to 8 months of the remuneration of the Management Board member. The Chairman of the Supervisory Board is entitled to receive severance pay in the amount of 6 months' salary of the Development Director. Members of the Management Board do not have any pension benefits. There were no other transactions with the members of the Group's board members and/or their immediate family members during the financial year

Share-based compensation

On 3 May 2018, the General Meeting of Shareholders decided on a share option program for the key individuals of the Group, including management team members, leading specialists and engineers, to involve them as shareholders of the company to motivate them to act in order to achieve a better financial performance for the Group. As part of the option program, AS Harju Elekter issues stock options each year up to two percent (2%) of the total number of AS Harju Elekter shares. The maturity of the option program is three years plus the maturity date of the share options. Participation in the Share Issue is subject to a prior agreement, a contract fee of ten (0.10) euro cents per share option paid in by the date of the option agreement and the valid employment relationship until the subscription period. From 04 June to 15 June 2018, a total of 351,925 share subscription rights were registered for 124 employees at the time of signing the preliminary agreements.

The issue price of shares to be acquired for share options was determined by the average price of closing prices for the period 2015-2017 on the NASDAQ Tallinn Stock Ex-change as at 31 December. The share issue price was 3.49 euros.

The principles of IFRS 2 have been applied to the recognition of share subscription rights. The Group used the fair value of the option for the services (labor input) to be received from the employees at the time of entering into the contracts. An independent expert assessed the value of the service at 1.55 euros per issue. In 2018, the amount of share-based payments recognized as labor costs is 97 thousand euros.

The Black-Scholes valuation model was used to estimate the fair value. The price is based on the weighted average market price of the share (3.49 euros), the expected volatility of the share (30%), the risk-free interest rate (1.75%), the expected dividends and the length of the period between the conclusion of the preliminary contracts and the planned share subscription (3 years).

28 Subsidiaries

28.1. Subsidiaries with non-controlling interests

As at the reporting date, the Group has one subsidiary with non-controlling interests:

As at 31 December	Country	Ownership 2018	Ownership 2017	Area of activity
Automatikos Iranga UAB	Lithuania	-	67.00%	Project designing
Energo Veritas OÜ	Estonia	80.52%	80.52%	Intermediation of goods

In July 2018, the Lithuanian subsidiary Rifas UAB acquired an additional 33% of the shares of its subsidiary Automatikos Iranga UAB, thereby increasing its shareholding to 100%, and liquidation of the subsidiary was initiated. The subsidiary that was liquidated by the end of the third quarter had a minor impact on the consolidated financial statements.

In the 1st quarter of 2017, AS Harju Elekter acquired an 80.52% stake in Energo Veritas OÜ, a company selling electrical materials and equipment.

28.2. Business combination in 2018

Acquisition of SEBAB AB and Grytek AB

On December 12, 2017, AS Harju Elekter signed an agreement with Tnåa AB to acquire all the shares of the Swedish company SEBAB AB, which provides automation and electrical engineering solutions, and to acquire all the shares of Grytek AB, which is a manufacturing company producing technical buildings. The final purchase price of the transaction for the two companies totaled 3.8 million euros (SEK 37.5 million), of which 3.1 million euros (SEK 30.1 million) was paid on the effective date of the contract on 8 January 2018, and the rest part of 0.7 million euros (2.2 million SEK) was paid in accordance with the contract in the second quarter. The consolidated financial statements include the results of SEBAB AB and Grytek AB as at 8 January 2018.

The Group has been active on the Swedish market since 2010, supplying substations and industrial automation solutions to Swedish customers. As a result of the transaction, new market segments in Sweden will be entered and the Group's product portfolio will be expanded. At the same time, the Group's ability to offer its Swedish customers more sophisticated engineering solutions, turnkey projects and support services is increasing.

The Group recognizes the acquisition of new business combinations in accordance with IFRS 3 by carrying out a purchase analysis that assesses the value of the assets of the new group of subsidiaries. Assets and liabilities were recognized at fair value at the acquisition date. Purchase analysis is based on the financial information of 31 December 2017, which was the closest date to the acquisition with reliable financial information.

The acquisition of business combinations resulted in goodwill of 0.8 million euros, which was the difference between the fair value of the contractual consideration and the net assets acquired.

The impact of acquisition on the Group's assets, liabilities and cash flow

EUR '000	Note	Acquired net assets
Assets and liabilities		
Cash and cash equivalents		1,055
Trade receivables		2,198
Corporate income tax	27	112
Other current receivables and prepayments		410
Inventories		2,124
Financial investments		14
Property, plant and equipment	13	126
Intangible assets	15	58
Bank overdraft		-172
Trade and other payables		-2,942
Net assets		**2,983**
Purchase consideration		3,789
Goodwill	15	806
Cash flows		
Paid in cash for shares		-3,789
Cash and cash equivalents in the acquired company		1,055
Overdraft		-172
Total impact of cash on the Group		**-2,906**

28.3. Paying for the shares of the subsidiary in 2017

Acquisition of Energo Veritas OÜ

On 29 March 2017, AS Harju Elekter purchased an 80.52% stake in Energo Veritas OÜ, a company selling electrical materials and equipment. The business activities of AS Harju Elekter trading group and Energo Veritas OÜ were merged. From 1 June, the joint sales organization and subsidiary of the Group continued under the name of Energo Veritas OÜ. With the purchase of Energo Veritas OÜ and the establishment of a trading subsidiary of the Group, the Group increases its market share in Estonia, significantly expands its product assortment and creates the prerequisites for leveraging the Group's products in Estonia and the Baltic countries. The company focuses on project-based sales and trading activity.

According to the agreement and based on the fact that the transaction is not significant within the meaning of the Stock Exchange Rules, the parties do not disclose the value of the transaction. Goodwill 0.4 million euros arising on the acquisition of a subsidiary was the difference between the fair value of the consideration transferred and the net assets acquired.

Acquisition of Telesilta OY

AS Harju Elekter acquired a 100% stake in the Finnish shipbuilding company Telesilta Oy. The deal entered into force on 2 June 2017. With the acquisition of Telesilta Oy, the Group expanded its knowledge and skills in manufacturing and installing electrical and automation equipment for ships and entered the prospective Finnish shipbuilding market.

The Group recognized the acquisition of Telesilta Oy in accordance with the requirements of IFRS 3 by carrying out a purchase analysis that assessed the value of the assets of the consolidation group of the new subsidiary. Assets were recognized at fair value on the acquisition date. The basis for the purchase analysis was the financial information on 31 May 2017, which was the closest to the acquisition with reliable financial information. In 2017, client contracts were recorded as intangible assets for the amount of 541 thousand euros, which are amortized over 3 years, and open orders from customers in the amount of 689 thousand euros were also recorded as intangible assets, which were amortized in 2018. The MEEM method (Multi-Period Excess Earnings Method) was used to determine the fair value of Telesilta OY customer contracts and open orders. The acquisition of the subsidiary resulted in goodwill of 0.1 million euros, which was the difference between the fair value of the consideration transferred and the net assets acquired.

Telesilta Oy's revenue for 2017 was 10.0 million euros and net profit 0.56 million euros. The Group consolidated Telesilta Oy revenue of 7.9 million and net profit of 0.65 million euros from the acquisition date June 2, 2017.

The impact of acquisition on the Group's assets, liabilities and cash flow

EUR '000	Note	Acquired net assets
Assets and liabilities		
Cash and cash equivalents		835
Trade receivables		644
Contract assets		347
Other current receivables		16
Prepayments		213
Inventories		47
Property, plant and equipment		21
Intangible assets		1,230
Trade and other payables		-947
Corporate income tax liability	26	-18
Net assets		**2,388**
Purchase consideration		2,489
Goodwill		101
Cash flows		
Paid in cash for shares		-2,489
Cash and cash equivalents in the acquired company		835
Total impact of cash on the Group		**-1,654**

Acquisition of additional share in subsidiary Harju Elekter AB

In February 2017, AS Harju Elekter acquired a remaining 10% from non-controlling interest in Harju Elekter AB and has a 100% stake in the subsidiary after the deal. 5 thousand euros were paid for the shares. The carrying amount of the non-controllable interest was 1 thousand euros. The difference between acquisition cost and book value, which was 4 thousand euros, was deducted from retained earnings in equity.

29 Primary financial statements of the parent company

In accordance with the Estonian Accounting Act, the unconsolidated primary financial statements of the parent company (statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity) is presented in the notes to the consolidated financial statements (Note 2).

STATEMENT OF FINANCIAL POSITION

As at 31 December EUR '000	**2018**	**2017**
Cash and cash equivalents	248	4,677
Current financial investments	0	9,936
Trade receivables	593	381
Receivable from related parties	10,979	4,691
Other current receivables and prepayments	255	94
Inventories	0	13
Total current assets	**12,075**	**19,792**
Investments in subsidiaries	13,724	9,215
Long-term receivables from subsidiaries	4,111	5,297
Other non-current financial investments	9,577	4,785
Investment properties	24,570	22,460
Property, plant and equipment	2,533	639
Intangible assets	144	195
Total non-current assets	**54,659**	**42,591**
TOTAL ASSETS	**66,734**	**62,383**
Borrowings	4,288	460
Trade payable	352	469
Tax liabilities	129	73
Other liabilities and prepayments received	424	297
Total current liabilities	**5,193**	**1,299**
Borrowings	2,931	2,222
Other non-current liabilities	35	0
Total non-current liabilities	**2,966**	**2,222**
Total liabilities	**8,159**	**3,521**
Share capital	11,176	11,176
Share premium	804	804
Reserves	2,703	2,844
Retained earnings	43,892	44,038
Total equity	**58,575**	**58,862**
TOTAL LIABILITIES AND EQUITY	**66,734**	**62,383**

STATEMENT OF COMPREHENSIVE INCOME

1 January until 31 December EUR '000	**2018**	**2017**
Revenue	4,505	5,853
Cost of sales	-2,291	-3,912
Gross profit	**2,214**	**1,941**
Other income	1	27
Distribution costs	0	-244
Administrative expenses	-2,064	-1,854
Other expenses	-44	-46
Operating profit	**107**	**-176**
Income from subsidiaries	3,800	1,800
Dividend income from available-for-sale financial assets	147	11
Gain from sale of available-for-sale financial assets	0	24,839
Interest income	207	144
Loss from revaluation of financial assets	0	-64
Interest costs	-26	-4
Loss from change of foreign exchange rates	-4	-2
Profit from operating activities	**4,231**	**26,548**
Income tax	-119	-218
Profit for the period	**4,112**	**26,330**
Other comprehensive income/-loss		
Gain/-loss from revaluation of financial assets	-295	-16,367
Total other comprehensive income/loss for the period	**-295**	**-16,367**
Comprehensive income/expense for the period	**3,817**	**9,963**

STATEMENT OF CASH FLOWS

EUR '000	1 January until 31 December 2018	2017
Cash flows from operating activities		
Profit for the period	4,112	26,330
Adjustments		
Depreciation, amortization and impairment losses	1,249	1,005
Profit on sale of non-current assets	-1	-7
Profit on sale of financial assets	0	-24,839
Financial income	-4,154	-1,955
Financial expenses	30	70
Income tax	119	218
Changes		
Changes in trade receivables	244	-497
Change in inventories	12	521
Changes in trade payables	44	-166
Interest paid	-24	-4
Total cash flow from operating activities	**1,631**	**676**
Cash flows from investing activities		
Payments for investment properties	-2,723	-4,350
Payments for property, plant and equipment	-2,478	-1,221
Payments for intangible assets	-83	-59
Acquisition of subsidiaries	-4,509	-2,924
Acquisition of financial investments	-99	-10,103
Proceeds from sale of property, plant and equipment	14	69
Proceeds from sale of financial investments	0	25,779
Proceeds from deposits	5,000	0
Repayments of loans granted	7,344	3,475
Loans granted	-12,973	-5,979
Interest received	205	173
Dividends received	3,947	1,811
Totals cash flows (-outflow) from investing activities	**-6,355**	**6,671**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	35	0
Change in overdraft balance	3,523	-642
Proceeds from borrowings	1,740	2,630
Repayments of borrowings	-626	-77
Reduction of share capital	0	-1,241
Dividends paid	-4,258	-3,193
Dividend income tax paid	-119	-218
Total cash flows (-outflow) from financing activities	**295**	**-2,741**
Total cash flows (-outflow)	**-4,429**	**4,606**
Cash and cash equivalents at the beginning of the period	**4,677**	**71**
Change in cash and bank accounts	-4,429	4,606
Cash and cash equivalents at the end of the period	**248**	**4,677**

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PricewaterhouseCoopers, Tallinn

STATEMENT OF CHANGES IN EQUITY

EUR '000	Share capital	Share pre-mium	Manda-tory reserve	Reva-luation reserve	Retained earnings	Total
Balance at 31 December 2016	**11,176**	**804**	**1,242**	**17,969**	**20,901**	**52,092**
Profit for 2017	0	0	0	0	26,330	26,330
Other comprehensive income / loss for 2017	0	0	0	-16,367	0	-16,367
Total comprehensive income / loss	**0**	**0**	**0**	**- 16,367**	**26,330**	**9,963**
Transactions with the owners of parent company recognized directly in equity						
Increase of mandatory reserve	0	0	0	0	0	0
Reduction of share capital	0	0	0	0	0	0
Dividends paid	0	0	0	0	-3,193	-3,193
Total transactions with the owners of parent company	**0**	**0**	**0**	**0**	**-3,193**	**-3,193**
Balance at 31 December 2017	**11,176**	**804**	**1,242**	**1,602**	**44,038**	**58,862**
Change in accounting policy	-	-	-	153	-	153
Restated balance	**11,176**	**804**	**1,242**	**1,755**	**44,038**	**59,015**
Profit for 2018	0	0	0	0	4,112	4,112
Other comprehensive income /l oss for 2018	0	0	0	-294	0	-294
Total comprehensive income/- loss	**0**	**0**	**0**	**-294**	**4,112**	**3,818**
Transactions with the owners of parent company recognized directly in equity						
Increase of mandatory reserve	0	0	0	0	0	0
Reduction of share capital	0	0	0	0	0	0
Dividends paid	0	0	0	0	-4,258	-4,258
Total transactions with the owners of parent company	**0**	**0**	**0**	**0**	**-4,258**	**-4,258**
Balance at 31 December 2018	**11,176**	**804**	**1,242**	**1,461**	**43,892**	**58,575**

EUR '000	**2018**	**2017**
Adjusted unconsolidated equity as at 31 December	**58,575**	**58,862**
Interests under control and significant influence:		
- Carrying amount	-13,724	-9,215
- Carrying amount under the equity method	22,109	20,225
Adjusted unconsolidated equity as at 31 December	**66,960**	**69,872**

According to the Estonian Accounting Act, the amount from which a public limited company may make payments to shareholders is as follows: adjusted non-consolidated equity less share capital, share premium and reserves. According to the Commercial Code, the parent company, which prepares the consolidated annual report, adopts the decision to distribute profit on the basis of the consolidated reports of the group. It is not permitted to distribute profit based on consolidated reports to the extent that it would reduce the net assets of the parent company to the level below the total sum of share capital and reserves, the payment of which to shareholders is not permitted by law or the Articles of Association.

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

The Management Board confirms that the Management Report as set out on pages 5 to 57 gives a true and fair view of the key events that occurred during the reporting period and their impact on the financial statements contains a description of the key risks and uncertainties, and reflects material transactions with related parties.

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2018 as set out on pages 58 to 114 and that:

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

Andres Allikmäe
Chairman of the Management board
25 March 2019

SIGNATURES TO THE ANNUAL REPORT OF 2018

The Management Board has prepared the consolidated financial statements and annual accounts of AS Harju Elekter for 2018.

Andres Allikmäe
Chairman of the board
25 March 2019

The Supervisory Board has reviewed the annual report prepared by the Management Board (pp. 5-114), which consists of management report and financial statements, and approved it for submission to the general meeting of shareholders.

Endel Palla	Head of Supervisory Board	02 April 2019
Arvi Hamburg	Member of Supervisory Board	02 April 2019
Aare Kirsme	Member of Supervisory Board	02 April 2019
Triinu Tombak	Member of Supervisory Board	02 April 2019
Andres Toome	Member of Supervisory Board	02 April 2019

Independent auditor's report

To the Shareholders of AS Harju Elekter

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Harju Elekter and its subsidiaries (together the Group) as at 31 December 2018, and 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.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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.

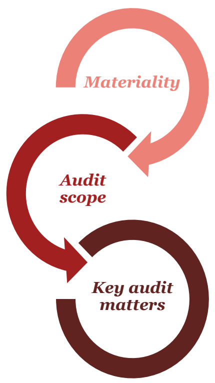
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia. During 2018, we have provided to the Group tax services.

Our audit approach

Overview



Materiality

Overall group audit materiality is EUR 1,200 thousand, which represents 1% of consolidated revenue.

Audit scope

A full scope audit was performed by us and, under our instructions, other PwC network entities for all material Group entities covering 92% of Group's assets and 90% of Group's revenues. For a subsidiary audited by non-PwC auditors, we determined the level of involvement needed to be able to report on the financial statements as a whole. Furthermore, we performed additional audit procedures for the remaining balances.

Key audit matter

- Revenue recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group audit materiality	EUR 1,200 thousand
How we determined it	1% of consolidated revenue
Rationale for the materiality benchmark applied	We have applied this benchmark, as we consider the Group's ability to generate revenue to be key determinant of the Group's value and a key metric used by management, investors, analysts and lenders.

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.

Key audit matter	***How our audit addressed the key audit matter***
Revenue recognition *(refer to Note 3 'Changes in accounting policies', Note 4 'Significant accounting policies', Note 22 'Segment reporting' and Note 23 'Further information on line items in the statement of profit and loss')* In 2018, the Group has recognised revenue of EUR 120 million. Revenue consists mainly of sales of electrical equipment and products in the amount of EUR 108 million and revenue from electrical works and other services in the amount of EUR 12 million. While majority of the Group's revenue transactions are non-complex, some judgment and management estimates are needed for a proper accounting in certain areas, especially measuring the progress towards satisfaction of performance obligations of projects where revenue is recognised over time (mainly applicable to production of specific electrotechnical equipment and delivery of electrical works). To measure the progress, the management assesses at each balance sheet date the relation of costs incurred to total estimated costs necessary to complete the contract as well as possible changes in the contract fee. Revenue recognition requires significant time and resource to audit due to its magnitude, and is therefore considered to be a key audit matter.	When auditing revenue recognition we performed the following tests: • We obtained understanding of the sales process and evaluated the effectiveness of control environment and procedures. • We assessed if the Group had appropriately applied the guidance in the new revenue recognition standard IFRS 15, including for revenue recognised over time. • We obtained confirmation letters from the largest customers for both annual revenue and year-end receivable balance. • We assessed the correctness of revenue bookings, by agreeing selected transactions in the accounting systems to supporting evidence, such as invoices, agreements and subsequent cash receipts. • Regarding revenue recognised over time, we examined the procedures and management estimates to ensure that revenue recognised corresponds to the selected underlying agreements and progress of the project. In addition, we examined whether all conditions to recognise revenue were met. • We obtained the list of manual journal entries impacting revenue and checked the underlying supporting evidence. • We examined the correctness and sufficiency of the information disclosed in the financial statements about recognition of revenue.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of a number of subsidiaries that are further disclosed in Note 1. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms for entities covering 92% of the Group's assets and 90% of the Group's revenues, and, under our instructions, by an external independent audit firm covering 4% of the Group's assets and 6% of the Group's revenues. The remaining components of the Group were immaterial, therefore we only performed selected audit procedures on these components relating to specified account balances or disclosures.

Where work was performed by component auditors from other PwC network firms or from an external independent audit firm, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The nature, timing and extent of the work impacting the Group audit opinion is set and monitored by the Group audit team in Estonia. We also audited the consolidation process and performed procedures to assess that the audits of the group entities and of specified account balances covered all material items in the Group's financial statements.

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's 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 identified above 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 the Management Board and those charged with governance for the consolidated financial statements

The Management Board 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 the Management Board 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, the Management Board 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 the Management Board 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.

Auditor’s 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 auditor’s 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 the Management Board.
- Conclude on the appropriateness of the Management Board’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 auditor’s 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 auditor’s 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 to 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a 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

Appointment and period of our audit engagement

We were first appointed as auditors of AS Harju Elekter for the financial year ended 31 December 2018. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AS Harju Elekter can be extended up to the financial year ending 31 December 2027, and after a new tendering process, up to the financial year ending 31 December 2037.

AS PricewaterhouseCoopers

Ago Vilu
Certified auditor in charge, auditor's certificate no.325

Eva Jansen-Diener
Auditor's certificate no.501

25 March 2019

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROPOSAL OF PROFIT ALLOCATION

Profits attributable to equity holders of AS Harju Elekter:	EUR
Retained earnings for prior periods	50,769,939
Profit for 2018	1,545,940
Total distributable profit as at 31 December 2018	52,315,879

The Management Board proposes to distribute profit as follows:

For dividends (0,18 euro per share)	3,193,178
Balance of retained earnings after profit distribution	49,122,701

Andres Allikmäe
Chairman of the board

25 March 2019