



ANNUAL REPORT 2019

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
Address:	Paldiski Str 31, 76606 Keila
Telephone:	+372 67 47 400
Fax:	+372 67 47 401
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:	<ul style="list-style-type: none">• Independent auditor's report• Profit allocation proposal• Supplementary annexes

TABLE OF CONTENTS

STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD	3
STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD	4
MANAGEMENT REPORT	5
ORGANISATION	5
YEAR 2019 – EVENTS, RECOGNITION	8
GROUP ACTIVITIES IN 2020	10
FINANCIAL SUMMARY	11
ECONOMIC ENVIRONMENT OVERVIEW	12
OPERATING RESULTS	13
BUSINESS SEGMENTS	17
INVESTMENTS, INNOVATION AND DEVELOPMENT ACTIVITY	26
QUALITY IN PRODUCTS AND CUSTOMER RELATIONSHIPS	29
PERSONNEL	34
ENVIRONMENTAL MANAGEMENT	39
SHARE AND SHAREHOLDERS	42
CORPORATE GOVERNANCE AND BASIS FOR PREPARATION OF THE MANAGEMENT REPORT	45
SOCIAL CONTRIBUTION	50
CONSOLIDATED FINANCIAL STATEMENTS	52
MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT	101
SIGNATURES OF THE MEMBERS OF THE SUPERVISORY BOARD TO THE ANNUAL REPORT OF 2019	102
INDEPENDENT AUDITOR'S REPORT	103
PROFIT ALLOCATION PROPOSAL	110
SUPPLEMENTARY ANNEXES	111
FORMULAS TO CALCULATE RATIOS	111
GRI CONTENTS	112

STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

The anniversaries of Group companies are over. Though, the start of 2020 has been restless, the Group's aim is to return to normal everyday business. Owing to our strong expansion in recent years and the acquisition of new businesses, we have significantly increased our revenue; however, there is still room for further growth in profitability which we plan to achieve mainly through improved intra-Group integration.

The year 2019 was marked by the restructuring of the management structures of Group companies and the rejuvenation of the (top) management – almost all our subsidiaries in Finland, Sweden and Estonia have new CEOs. In December 2019, the long-term Chairman of the Management Board of AS Harju Elekter announced that he will step down from his position after the expiry of the term of office as the Management Board member at 3 May 2020. We continue to enhance the Group management and simplification of its structure.

Energy systems are undergoing a rapid and fundamental change. The industry is on the verge of the fourth industrial revolution. Automation of manufacturing will be followed by digitization. The marine sector is also becoming more algorithm-based and automated. The importance of historical energy sources for generating electricity is changing, as are the ways in which electricity is transmitted and distributed. World electricity consumption is constantly increasing while the production of electricity is becoming more and more decentralized, increasing the complexity of grid management. To meet these challenges, we need state of the art products and solutions. Harju Elekter is already offering technology to many power and heat co-generation plants working on renewable energy and technical solutions in the field of solar and wind energy.

We are living in a changing world where the greatest advances in electrical engineering are taking place thanks to the green revolution. This is a major challenge for the Group, but also a great opportunity for further growth. It is our unavoidable task to add more automation and intelligence to our products. The Group companies in Finland and Lithuania are the leaders in this field, and the other companies must follow their example. The objective is to increase productivity, efficiency and speed and to improve quality in order to achieve greater competitiveness of Group companies and the Group as a whole.

We will continue to invest in successful businesses, real estate and solar power plants. As a listed company, we are pleased with the growth in the number of shareholders that already exceeds 3,500. We are proud to see that we are trusted and regarded as a strong sustainable company also in the future. For our part, we are doing everything we can to make sure that the investment made by our shareholders is solid and profitable. We are the only company on the Nasdaq Tallinn Stock Exchange that has paid dividends every year. We intend to continue this tradition in line with our dividend policy, whereby the size of the dividend will continue to depend on the Group's profit and investment needs.

On behalf of the Supervisory Board, I would like to thank our employees, customers and partners both in Estonia and worldwide and shareholders for their support. Collaboration with us is your guarantee for success!



Endel Palla
Chairman of the Supervisory Board

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

The activities of Harju Elekter Group in 2019 could be aptly described using the keywords “changes” and “restructuring”. The first word describes our markets and the second one our organizational development. We are likely facing major long-term changes and developments, as evidenced in the global electrotechnical business in recent years. Countries and nations are taking major new steps, including through legislative changes, to reorganize the needs due to climate change and fossil energy economy that has at times become critical. On the one hand, it enables to develop completely new technologies and energy management solutions, and on the other hand, it urges us to rethink our traditional business model and take into account the changing needs of our customers. Many, if not the majority, of our products and solutions are designed for the new and more sustainable green economy in the near future, not to mention our ambitious plans to achieve climate neutrality by 2050. Such a choice and inevitability is related to responsibility. Harju Elekter Group is responsible for providing its customers and stakeholders with consistency, care and support in achieving common goals.

The changing environment and future-oriented challenges related to the incorporation and reorganization of our business structure have not made it easy for us to achieve good results. Nevertheless, we successfully managed to increase our revenue to 143.4 million euros (18.7%) and our operating profit to 3.3 million euros (35.6%). Expectations for higher profitability were not met due to delays in major complex projects and higher-than-expected costs in Sweden, but also due to the significant changes in the Finnish substation market resulting underutilization of Estonian companies. At the same time, we are proud of the Group’s Lithuanian and Finnish manufacturing companies for achieving their best ever results.

The restructuring of our subsidiaries in four countries was a necessary and forward-looking development. In Lithuania, we opened a 5,500 square meter state-of-the-art production and logistics extension, our Finnish manufacturing companies Satmatic Oy and Finnkumu Oy appointed new CEOs and a new CEO was also appointed at AS Harju Elekter Elektrotehnika, Estonia’s largest manufacturing company. The Group specified its three key business areas, which are mainly related to the electrical engineering segment, development of industrial real estate and management of financial investments. After receiving significant customer support and meeting the Group’s expectations as well as the need to give a clear signal of our opportunities and capabilities, we are adopting a single brand name Harju Elekter that will gradually involve all Group companies. In 2019, our Lithuanian subsidiary was renamed Harju Elekter UAB and the entire Harju Elekter Group switched to the domain name harjuelekter.com. In 2020, we will move the Finnish manufacturing companies under single management and brand name - Harju Elekter.

The start of the year 2020 has been busy for Harju Elekter: we need to fulfill major supply contracts for Elektrilevi OÜ in Estonian main power distribution network, the industrial and shipbuilding market in Finland, engineering companies in the Scandinavian shipbuilding industry as well as power distribution companies in Finland and Sweden. We are increasingly investing in solar solutions and charging systems for the electrical transport means. In the real estate segment, we are investing in new rental real estate.

The longer perspective of Harju Elekter Group shows an interesting but demanding and technologically challenging path. We have chosen responsible and sustainable future with innovative and high-quality energy and automation solutions.

Harju Elekter Group would like to thank its customers and partners, employees and shareholders for their trust and support. By working together, we ensure the future of responsible, high-quality electrical solutions for the community, businesses and end-users.



Andres Allikmäe
Chairman of the Management Board

MANAGEMENT REPORT

ORGANISATION

Activities and business philosophy of Harju Elekter Group

Harju Elekter is an industrial group that was established in 1968 and has operations in four countries: Estonia, Finland, Sweden and Lithuania. Our home markets are around the Baltic Sea but our ambitions are global while tending to the business needs of our customers and partners. The Group's operations are divided into three operating segments:

- **Production** – design, sale, manufacturing and after-sales service of power distribution, switching and transformation equipment as well as automation, process management and engine control equipment.

Our customers and partners are power distribution, manufacturing and infrastructure companies. An increasing share of our technical solutions is targeted at the renewable energy sector, providing integrated packages for solar stations, recharging devices of electric cars and other related solutions. A contemporary company making sheet metal details and products supports the needs of our Group as well as customers.

- **Real estate** – industrial real estate development, project management, leasing and related real estate services for our leasing partners and Harju Elekter Group companies.
- **Other activities** – management of financial investments, retail and project sale of electrical goods, as well as power installation works for the ship-building industry.

Harju Elekter has a strong orientation towards exports and conducting business outside Estonia where almost 90% of our products are marketed. Since 1997, the shares of AS Harju Elekter are listed on the Nasdaq Tallinn Stock Exchange.

Mission

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

Vision

To become 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 business partners, and to provide motivating work and development opportunities to our international team.

Values

Development – We are keen to learn and being innovative

We are constantly expanding our know-how to develop advanced products. We value innovative proposals and are ready to implement them.

Cooperation – We work as one team

We listen to our customers and collaborate with our partners to make products that meet and exceed our customers' expectations.

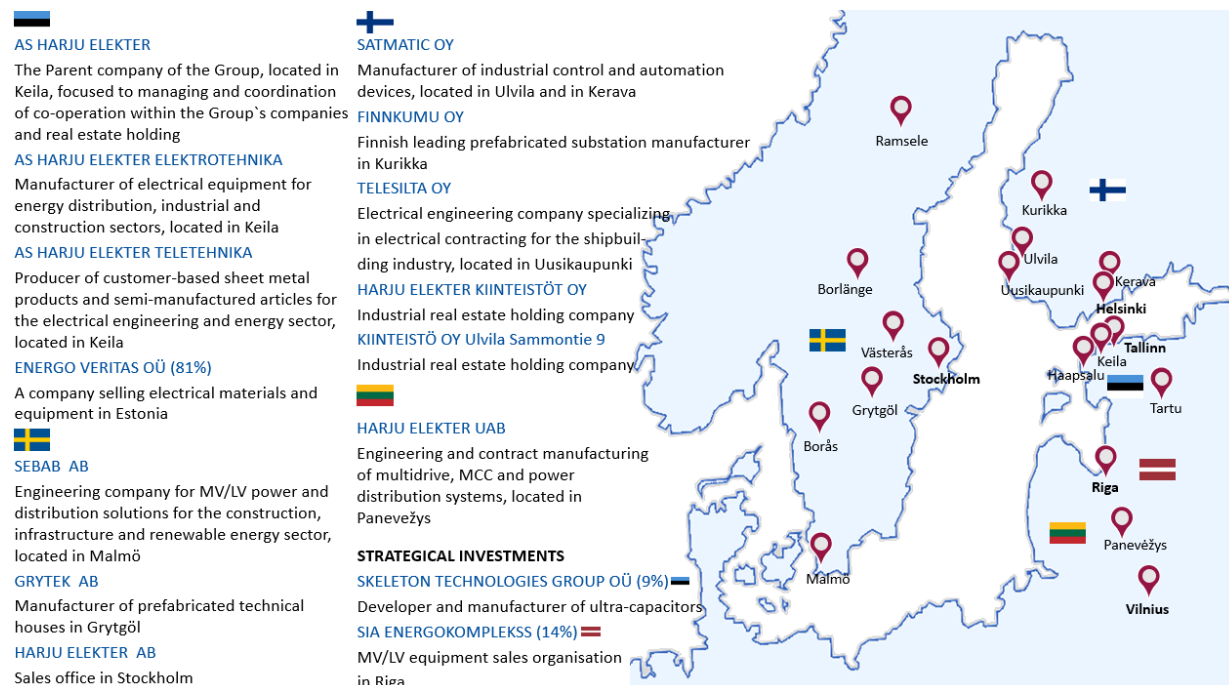
Reliability – No bargaining over quality

It is a great honor for us to make high-quality products. We make use of advanced technology and all of our know-how to fulfil orders on time.

Organizational chart

The holding of AS Harju Elekter in its subsidiaries is 100%, unless otherwise stated in the chart.

Harju Elekter Group at 31 December 2019

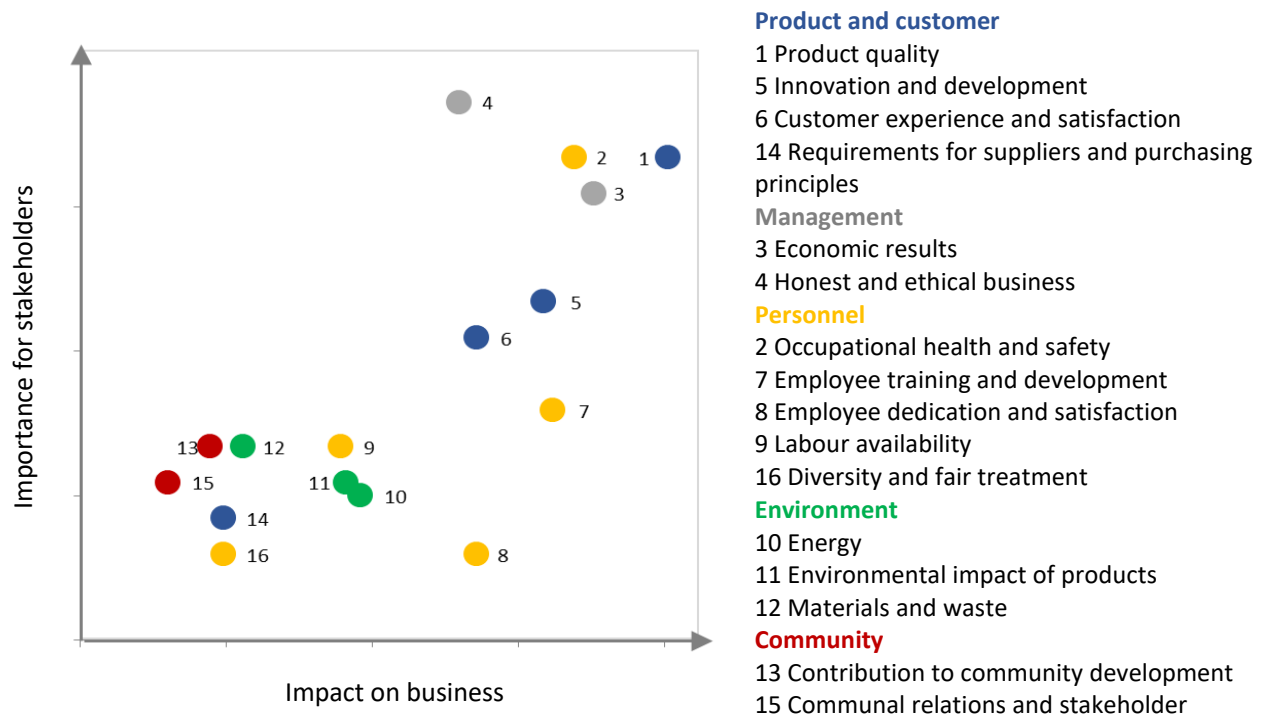


Harju Elekter Group's sustainability focus topics

Harju Elekter is aware that the Group's growth prerequisites include understanding of the economic, social and environmental trends as well as addressing the issues that are important to its stakeholders. In 2019, society's expectations regarding an honest and transparent way of running a business and engagement of key stakeholders increased significantly. In addition, environmental and climate issues also gained greater attention. Harju Elekter believes that its contribution to the creation of a societal, business, living and natural environment will help guarantee the Group's viability over the long term.

Harju Elekter places great importance on active communication with its stakeholders, i.e. customers, shareholders, employees, suppliers and local community. In interaction with local authorities and residents as well as regulatory and supervisory authorities, the Group and its counterparties raise issues as appropriate. In cooperation with educational institutions, professional associations and non-governmental organizations the Group deals with issues that create mutual value.

Harju Elekter knows that both its customers as well as creditors expect the Group as a whole and each Group company individually to have a holistic approach when managing the social and environmental impact as well as implementing sustainable business practices. Employees' increasing expectations of an engaging and caring work environment, and the company's ambition to increase its presence in the Nordic countries also requires responsible action. Harju Elekter developed focus topics in 2017 that express the importance of the areas related to social responsibility to the stakeholders, and their impact and importance to the Group.

Chart: Focus topics impacting the sustainability of the operations of Harju Elekter Group

Thus, the focus topics of Harju Elekter Group include:

- offering of high-quality products;
- development of a safe and healthy work environment;
- honest and ethical business culture and strong performance;
- innovation and development of products and processes;
- good customer experience and ensuring high satisfaction;
- continuous staff training and development.

Sustainable and responsible management is crucial in all operating segments and subsidiaries. The topics outlined in the matrix are part of the strategic and operational management of Group companies. Less important aspects are taken into consideration as underlying principles when making management decisions. Therefore, the Group's annual report for 2019 also includes an overview of the management and performance of all these topics. In the financial statements, the key aspects related to the sustainability focus topics have been recognized using the international sustainability reporting framework, the GRI Standard, the contents of which is disclosed on the last pages of the report.

YEAR 2019 – EVENTS, RECOGNITION

Changes in the management of group companies

The former head of the sales department Indrek Ulmas was appointed as the managing director of AS Harju Elekter Elektrotehnika starting from 1 April 2019.

In connection with the restructuring of the activities of Harju Elekter Group in Finland and consolidation of Satmatic Oy and Finnkumu Oy under one common management, the Group appointed Jan Osa, the former manager of AS Harju Elekter Elektrotehnika, as the new CEO of Satmatic Oy and Finnkumu Oy and he started in this position at Satmatic Oy from 1 April 2019 and at Finnkumu Oy from 1 July 2019.

There was also a change in the management of Telesilta Oy, where the current board member and project manager Joonas Puustelli was appointed as the CEO as at 1 October 2019. The long-time Managing Director of Telesilta Oy, Kari Laulajainen, will stay at the company at least until the year-end 2020 as Sales Manager.

As at 1 January 2020, a new CEO has also been appointed for the Swedish subsidiaries SEBAB AB and Grytek AB. Mikael Schwartz Jonsson started to work at Harju Elekter Group on 1 October 2019. During the three-month transitional period, the new CEO closely collaborated with the current CEO Thomas Andersson who started to work as Sales and Marketing Director in Sweden at 1 January 2020.

At its meeting at 29 October 2019, the Supervisory Board of AS Harju Elekter decided to extend the powers of Members of the Management Board of the Group, Mr. Tiit Atso (CFO) and Mr. Aron Kuhi-Thalfeldt (Real-Estate and Energy Service Manager), starting from 1 November 2019 for the next three years. The Chairman of the Management Board Andres Allikmäe will take the position of Head of Business Development at AS Harju Elekter, following the expiration of his Management Board member contract at 3 May 2020.

Key events and recognition

The subsidiary AS Harju Elekter Elektrotehnika received an order for 54 special-purpose prefabricated substations to be supplied to Konecranes during a period of one year. The supplies are sent to the United Arab Emirates.

At 1 April, the subsidiary Energo Veritas OÜ opened a new sales office and central warehouse at 19 Tuisu Street, Tallinn. The range of products in the areas of electrical and weak current materials, construction of telecom and power grids as well as lighting was expanded, and the sales outlet for products in Estonia increased. The attractive location and larger premises create better possibilities for servicing customers and quicker issuing of products.

Energo Veritas OÜ, a project and retailer of electrical installation products, won the procurement of transformers for the distribution network Elektrilevi OÜ worth 1.3 million euros.

Finland's business newspaper Kauppalehti awarded "Menestyjät 2019" title to Finnkumu Oy based on its economic results from June 2018 to May 2019. Such acknowledgement is given to companies with a well-established business, stable growth, good results and profitability, strong financial structure, and liquidity to ensure sustainable operations.

The Supervisory Board and Management Board of AS Harju Elekter have decided to bring all companies of the Group under the single Harju Elekter trademark. Based on the above, the Lithuanian subsidiary RIFAS UAB was renamed Harju Elekter UAB. The entry was made into the Lithuanian Register of Legal Entities at 2 July 2019. Using a common trademark helps to strengthen the Group's competitiveness and creates additional benefits and opportunities for marketing.

At 30 August 2019, a purchase and sale agreement was signed under which Satmatic Oy, a subsidiary of AS Harju Elekter, bought the real estate company Kiinteistö Oy Ulvila Sammontie 9, owned by the Municipality of Ulvila. The transaction price was 2.0 million euros. In the course of the transaction, Satmatic Oy acquired an immovable of 0.86 ha with production premises on the property of 4,330 sqm. The transaction was the conclusion of the contract signed at 17 November 2008 by Satmatic Oy, a subsidiary of Harju Elekter AS, and the Municipality of Ulvila, according to which Satmatic Oy was entitled to acquire Sammontie 9, Ulvila's property with a production building built there after a 10-year lease. The activity follows the principle according to which the production areas used by the Group companies are in the Group's ownership.

In the third quarter, Telesilta Oy completed several large projects. In August, the working vessel Hydrograf-17 was completed, built for the Polish Gdynia Maritime Administration at the UTV Uusikaupunki shipyard, where Telesilta Oy was the main contractor for the electric system works. In September, the UTV shipyard delivered to their client the first hybrid ferry Elvy, manufactured in Finland, the electrical and navigation system turnkey solution of which was completed at Telesilta Oy. The ferry will start operating on the River Göta in Sweden.

In co-operation with the Group's subsidiaries - Energo Veritas OÜ and AS Harju Elekter Teletehnika – series of external fiber optic cabinet models were developed for Elektrilevi OÜ fast internet network project (Last Mile). Cabinet deliveries started in September. Over the next 5 years, Elektrilevi OÜ plans to invest about 100 million euros into the project, of which the materials form about a fifth.

In September, the Lithuanian subsidiary had a festive launch of the new production hall in Panevėžys. During the expansion works lasting for almost a year, the subsidiary's office and production premises increased from 3,500 sqm to 9,000 sqm. In addition, 1.9 hectares of land adjacent to the existing properties were purchased in second quarter of 2019 to ensure the possibility of future expansion. The total volume of investments was 3.5 million euros. Investments in the expansion of the production facility and upgrading of technology enable to significantly increase production capacity to secure supplies for the subsidiary's customers in the segments of shipbuilding and industry.

The daily business activities and organization of production of Group companies are based on the quality and environmental policy in compliance with an international standard and valid ISO quality standards are used in the majority of the Group's manufacturing companies. Telesilta Oy started the preparation for the implementation of ISO 9001 in 2018 and in September this year, Bureau Veritas issued a certificate that the company's business and production management was in line with the international quality standard ISO 9001. AS Harju Elekter Teletehnika passed the ISO 9001:2015 and 14001:2015 recertification audit and it received new quality and environmental management system certificates at 16 December 2019. AS Harju Elekter Elektrotehnika underwent an audit and in addition to the valid ISO 9001 and ISO 14001 quality certificates; it also received ISO 45001 certification.

Telesilta Oy, a subsidiary of AS Harju Elekter, and Uudenkaupungin Työvene Oy have signed a contract to perform electrical works on seven coast guard vessels to be built for the Finnish Coast Guard. The contract price is around 4 million euros and the work will be carried out between 2020 and 2023.

AS Harju Elekter Elektrotehnika, a subsidiary of AS Harju Elekter, won a tender of Elektrilevi OÜ for the supply of 630 kVa and 1000 kVa prefabricated substations and related components. The cost of the 62-month contract is 27.8 million euros.

The Group's subsidiaries participated actively in professional fairs in Estonia, Finland and Sweden: Elfack 2019, the largest Nordic electricity fair in Gothenburg, showcased the HECON line system of the Universal Mechanical Engine Control Centres (MCC), developed for 2500A-4000A solutions, and the HEKA 1VM SS2 prefabricated substation in line with the needs of the local market. At the trade fair for electricity and communication networks in Tampere, the products targeted at Verkosto energy distribution sector were showcased and at the Alihankinta fair in September, both vehicle charging solutions of Satmatic Oy and strong sales of components as well as the high-quality data network products of AS Harju Elekter Teletehnika were showcased. At the construction fairs in Estonia, the product range of the Energo Veritas OÜ was mainly showcased.

Events occurring after the reporting period

In order to simplify the coordination of sales and marketing activities and the management of Finnish subsidiaries, Harju Elekter decided to merge its subsidiaries Finnkumu Oy and Kiinteistö Oy Ulvilan Sammontie 9 with Satmatic Oy in 2020. The next step is to transfer all real estate properties located in Finland to Harju Elekter Kiinteistö Oy and then rename Satmatic Oy to Harju Elekter Oy.

The Supervisory Board of AS Harju Elekter decided at its meeting held on March 16, 2020 to appoint the current member of the Management Board, Tiit Atso, as Chairman of the Management Board as of May 4, 2020. Starting from May 4, 2020 the Management Board of AS Harju Elekter will continue with two members – Tiit Atso (Chairman of the Board) and Aron Kuhi-Thalfeldt (Member of the Board).

GROUP ACTIVITIES IN 2020

In 2020, Harju Elekter will focus on changes in management and increasing co-operation. The year started with the change of the new CEO in Sweden and will continue in the spring with changes in the Group's Management Board. These changes require the introduction of new management principles together with goal and vision setting. In addition, this year Finnish companies will be consolidated under the Harju Elekter trademark, and a similar consolidation plan of entities must also be carefully considered in Sweden, where we currently have three companies and trademarks. We want to be one and consolidated Harju Elekter for all our partners and to provide the best know-how, product range and solutions of the Group regardless of the location.

The main objective of day-to-day operations in 2020 is to improve profitability. Through consistent expansion, we have attained a significant position in the Scandinavian market. High sales volumes have been achieved, and the new priority is to earn sustainable profits. We believe that this will be achieved through the introduction of a single Harju Elekter trademark and increased intra-Group co-operation in sales, supply chain and know-how. We will continue to invest in technology development - digitization and automation - to make businesses more efficient.

Exciting times are ahead for the sectors related to Harju Elekter's core business. Plans to renovate Nordic power grids have now been agreed for a longer period than the fast-track action plans initially established, but electrification of ports, railways and highways, along with the use of eco-friendlier ships and vehicles, is a challenge for power suppliers and a major opportunity for Harju Elekter. Therefore, we will be investing in our daily business as well as in the development of forward-looking energy-efficient products and technologies. In addition, future large-scale and longer-term procurement needs to be borne in mind. While last year we won an important procurement for Elektrilevi OÜ substations in the Estonian market, this year we are expecting new procurements in the Finnish and Swedish substation markets.

In 2020, we will continue to invest in industrial real estate for our own use and for rental to third parties. For this purpose, we have acquired several promising plots of land in Estonia and Lithuania, with design work and adoption of detail plans underway. The development of Allika Industrial Park continues: in autumn 2020, Laohotell II will be completed and most of its rental premises have been pre-leased to date. In addition to opportunities to start new industrial real estate developments, we are considering new solar power generation projects. We have excellent in-house knowhow on solar solutions, so we can provide a complete solar solution to our customers interested in power generation.

Due to several acquisitions, the Group has achieved rapid sales growth, and we are ready to look for possible financial investments, mergers and acquisitions in the future. As investment proposals, we may consider future start-ups that are closely related to our sector as well as existing sales and production organizations.

FINANCIAL SUMMARY

Group	2019	2018	2017	2016	2015
Statement of profit or loss (million euros)					
Revenue	143.4	120.8	102.4	61.2	60.7
Operating profit	3.3	2.4	5.4	3.2	3.3
Profit (attributable to owners of the parent company)	2.5	1.5	⁽²⁾ 29.1	3.2	3.2
Statement of financial position at year-end (million euros)					
Total current assets	48.0	44.0	48.7	22.3	19.8
Total non-current assets	59.9	54.2	41.3	51.7	46.7
Total assets	107.9	98.2	90.0	74.0	66.5
Equity (attributable to owners of the parent company)	67.1	66.9	69.9	60.3	58.1
Equity multiplier (%)	65.1	72.7	77.7	81.5	87.2
Growth rates (% vs previous year)					
Revenue	18.7	18.0	67.4	0.8	19.9
Operating profit	35.6	-55.7	71.1	-2.9	47.1
Net profit (attributable to owners of the parent company)	59.1	-94.7	⁽²⁾ 804.9	0.9	-67.1
Assets	9.9	9.1	21.6	11.1	-4.6
Equity (attributable to owners of the parent company)	0.2	-4.2	15.9	3.8	-0.7
Profitability ratios (%)					
Operating margin	2.3	2.0	5.3	5.2	5.4
Net margin	1.7	1.3	28.4	5.3	5.3
Return on assets (ROA)	2.4	1.7	35.5	4.6	4.7
Return on equity (ROE)	3.7	2.3	44.7	5.4	5.5
Share (EUR)					
Average number of shares (1,000 pc)	17,740	17,740	17,740	17,740	17,551
Equity per share	3.78	3.86	3.67	3.34	3.32
Share closing price	4.21	4.12	5.00	2.83	2.63
Earnings per share	0.14	0.09	1.64	0.18	0.18
P/E ratio	30.07	45.78	⁽²⁾ 3.05	15.72	14.61
Dividend per share	⁽¹⁾ 0.18	0.18	0.24	0.18	⁽³⁾ 0.12
Liquidity ratios					
Current ratio	1.6	2.2	2.4	2.1	2.7
Quick ratio	0.9	1.5	1.6	1.3	1.7
Staff and salaries (pcs)					
Average number of employees	778	713	567	455	472
Number of employees at the end of the period	791	736	630	480	470
Wages (million euros)	21.4	18.6	14.1	10.6	9.7

(1)- proposal by the Management Board

(2)- Includes profit from extraordinary sale of investments in 2017

(3)- Incl. 0.07 euros, payment of share capital

Calculation of ratios is disclosed in supplementary annexes to the annual report on page 111.

ECONOMIC ENVIRONMENT OVERVIEW

World economy

The keywords that most influenced the global economy in 2019: political tensions, tightening international trade relations, Brexit, green movement towards climate neutrality and strong support of central banks for the economy.

According to the preliminary data from the IMF, the world economy grew by about 3% in 2019, 0.9% in the euro area, 2.4% in the US and 6.1% in China. The manufacturing sector was slightly more active and has started to stabilize, but global trade still remained subdued. The initial US-China trade agreement has eased trade tensions and should help reduce the impact of growth obstacles in trade and the outlook is again more positive, at least in the short term. Looking ahead, there is considerable uncertainty, conflicting views and assessments about the future of the global economy, and the long-term impact of low interest rates, record-high debt, global growth slowdown and subdued inflation. An additional source of concern is the rapidly escalating global coronavirus (COVID-19) outbreak, whose short- and long-term impact on the global, Nordic and Baltic economies is impossible to forecast.

Nordic and Baltic countries

According to Eesti Pank (Bank of Estonia), the economies of Estonia's main trading partners have been relatively stable and growing modestly. Economic growth in Latvia and Lithuania was largely driven by domestic demand: investments grew and private consumption got a boost from rapid growth in household incomes. Growth was also strong in the construction sectors of the Baltic countries, supported in particular by EU structural funds and strong labor indicators in Lithuania. The Estonian economy grew by 4.3% last year, the fastest in the Baltic States, followed by Lithuania (3.9%) and Latvia (2.8%).

Household consumption also supported the Nordic economy, but to a lesser degree than in Latvia and Lithuania. However, investment increase in Finland and Sweden decelerated, especially in the construction sector. Following the strong boom in recent years, growth in the Swedish economy has significantly slowed down. The growth of the Swedish economy has also been supported by higher service exports.

Estonia

According to Statistics Estonia, the Estonian economy grew by 3.9% in the fourth quarter and by 4.3% in 2019. Information and communication, trade, and professional, scientific and technical activities contributed significantly to growth. Additional support in GDP came from manufacturing, transport and warehousing, and financial and insurance activities. Extraordinary factors, such as the major contribution of the agricultural sector, also played a significant role.

The Estonian economy is still in the strong business cycle. This is evidenced by rapid wage rise as well as low unemployment and growing expectations of companies regarding weaker economic activity. Economic growth has also been supported by strong domestic demand and private consumption, which has been very broad-based. Corporate and household investments are also increasing slightly. Estonian exports have so far withstood the cooling of the global economy. The current account surplus was 1.2% in 2019, a slight decrease compared to the previous year.

Lower foreign demand and exhaustion of internal growth resources are likely to slow down Estonian growth rates in the coming years.

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

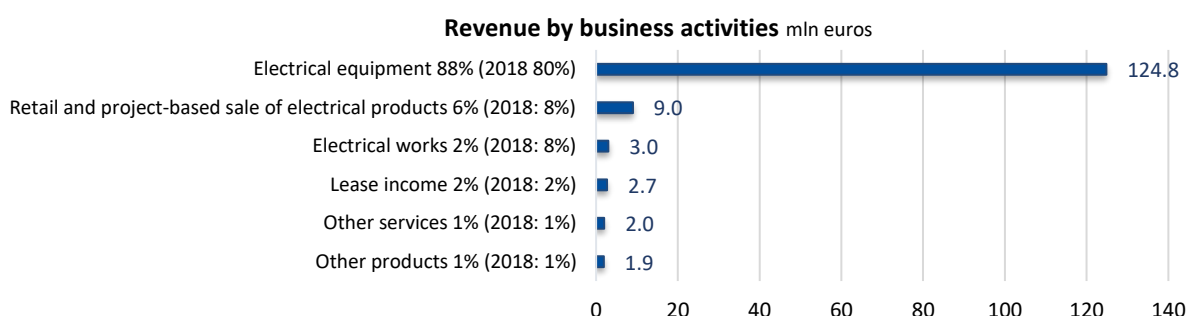
OPERATING RESULTS

Group structure

In the Annual Report 2019, 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 and its subsidiaries Finnkumu Oy and Kiinteistö Oy Ulvila Sammontie 9; Telesilta Oy, Harju Elekter Kiinteistöt Oy, Harju Elekter AB, SEBAB AB, Grytek AB and Harju Elekter UAB are consolidated line by line.

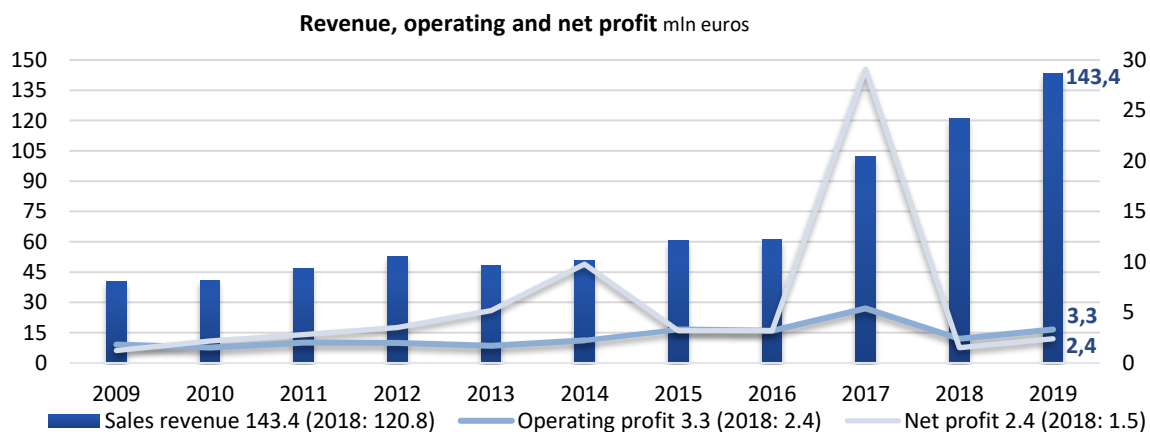
Revenue and profit

The Group's goal to continue increasing its market share in the Nordic countries has demonstrated positive results. The Lithuanian and Swedish subsidiaries increased their revenue and the Finnish manufacturing subsidiaries managed to offset a moderate decline in the sale of energy network products by the growth in the industrial sector and renewable energy products. The extension of the factory of the Lithuanian subsidiary more than doubled their sales volume in 2019.



The Group's core activity is to develop and produce electricity distribution, lead and power automation equipment and miscellaneous metal products. In addition, the Group earns revenue from real estate leasing and electricity works in the ship-building industry.

Overall, the consolidated revenue for 2019 was 143.4 (2018: 120.8) million euros, operating profit 3.3 (2018: 2.4) million euros and operating profit before depreciation and amortization 6.8 (2018: 5.0) million euros. The operating margin was 2.3% (2018: 2.0%), before depreciation and amortization it was 4.7% (2018: 4.1%). Profitability was mostly impacted by the growth in the sale of lower-margin products in the Swedish market, postponement of the deadlines of several major projects by customers, change in the exchange rate of the Swedish krona and underutilization of Estonian companies due to fewer orders by Finnish electricity networks. Overall, the consolidated profit for the financial year was 2.4 (2018: 1.5) million euros, of which the share of the owners of the parent company was 2.5 (2018: 1.5) million euros. Earnings per share totaled 0.14 (2018: 0.09) euros.



Markets

The Group's key markets continue to be Estonia, Finland and Sweden followed by Norway. The Group's Estonian companies continue to contribute to activities in the home market, participating in potential procurements, selling electrical equipment in retail and project sales, and providing industrial rental premises to business customers. In 2019, the Group sold 11.7% of its products and services in the Estonian market, earning revenue of 16.7 (2018: 15.4) million euros in the reporting period. The Group's sales to other countries accounted for 88.3% in the reporting period and 87.2% in the comparable period.

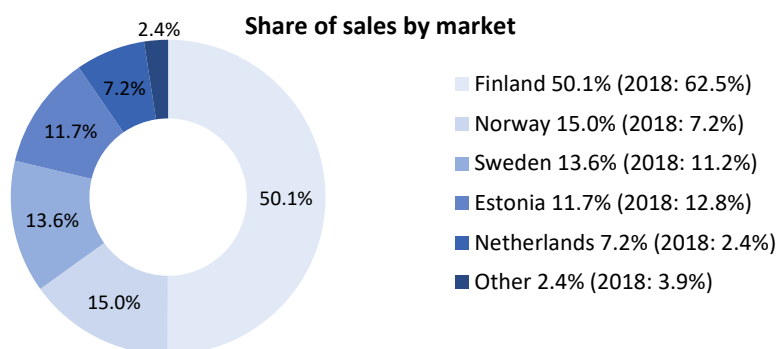
In a year-over-year comparison, the sales to the Finnish market have decreased by 3.7 million euros to 71.8 million euros. The revenue decline was mostly impacted by the decrease in the planned volume of the renovation of the Finnish electricity and network construction projects. At the same time, sales of electrical equipment increased in other areas. The Finnish market contributed 50.1% to the Group's revenue which is 12.4 percentage points less than in the comparable period but Finland is still the Group's largest market. The decline in the share of the Finnish market in the Group's revenue was also related to strong sales growth in the Swedish, Norwegian and Dutch markets.

In the financial year, sales to the Swedish market amounted to 19.5 million euros, which was 44.5% or 6 million euros more than in 2018. Growth was driven by higher sales of substations in Sweden as well as the addition of larger projects for the Swedish subsidiaries. The Swedish market accounted for 13.6% of the consolidated revenue.

Due to the successful sales activities of the Lithuanian subsidiary, the Group's sales to the Norwegian market have increased the most, by 2.5 times as compared to last year to 21.6 million euros. The doubling of the sales volume has increased the share of the Norwegian market in the consolidated revenue to 15.0%, and it has become the second largest market for the Group.

In the second half of 2018, supplies were launched to the Dutch market, where stable revenue growth has been attained. In a year-over-year comparison, the sales to the Dutch market increased by 7.3 million euros to 10.3 million euros, contributing 7.2% to consolidated revenue.

Revenue from other markets fell by 1.2 million euros to 3.5 million euros in a year. Of other markets, the largest were Poland, Latvia, Denmark, Austria and Switzerland, where sales totaled 3.1 million euros in the financial year.



Revenue by segment

The Group's activities are divided into three segments: Production, Real estate and Other activities. Manufacturing contributed the largest share, i.e. 87.1% (2018: 82.6%), and combined real estate and other non-segmented activities 12.9% (2018: 17.4%) to consolidated revenue. In a year, the revenue of the Production segment increased by 25.0 million euros to 124.8 (2018: 99.8) million euros, of which 99.9% was derived from the sale of electrical equipment.

The lease income in the Real estate segment is generated by rental premises in Keila, Allika and Haapsalu industrial parks. The recently completed production and warehouse facilities in Allika Industrial Park were leased out in the last quarter of 2018, thus in the financial year the revenue earned in the Real estate segment increased by 24.8% as compared to last year and reached 3.3 (2018: 2.6) million euros. Overall, the revenue of the Real estate segment accounted for 2.3% (2018: 2.2%) of the Group's revenue.

The revenue of other non-segmented activities has decreased by 3.1 million euros to 15.3 million euros, accounting for 10.6% (2018: 15.2%) of consolidated revenue. In the first six months of 2018, large-scale electrical works were performed in the shipbuilding industry, which explains the decline in other non-segmented revenue for the financial year.

Expenses

In the financial year, cost of sales totaled 140.1 (2018: 118.3) million euros. The major part of this growth, i.e. 20.3 million euros, came from the cost of goods sold. The key reasons included higher than planned project implementation costs in Sweden which in turn were impacted by the change in the exchange rate of the Swedish krona. The cost of goods sold was 0.7 percentage points higher than revenue growth, lowering the gross margin by 0.5 percentage points in comparison with the gross margin of the comparable period.

Group companies have participated in several professional fairs and are actively searching for ways to increase their business volumes. Their focus on increasing exports has led to higher distribution costs of 0.4 million euros to 5.7 million euros. The share of distribution costs in the Group's revenue has declined year-over-year, being 4.0% (2018: 4.4%). The additional expenditures related to the integration of new companies, launch of development projects and daily work to automate production in order to reduce reliance on staff has led to a slight increase in administrative expenses in the financial year. However, the growth rate of administrative expenses (12.2%) was still lower than revenue growth (18.7%). In a year, administrative expenses increased by 1.0 million euros to 9.2 million euros, contributing 6.4% (2018: 6.8%) to the Group's revenue.

New employees hired in conjunction with the extension of the Lithuanian subsidiary and the salary pressure arising from demand for local qualified labor has led to higher staff costs. In addition, the cost of the share option program in the amount of 189 (2018: 97) thousand euros has been included in staff costs for the financial year. In a year, staff costs increased by 8.4% to 26.5 million euros. The staff cost rate accounted for 18.5% of the revenue of the year, decreasing by 1.8 percentage points as compared to last year. In the financial year, employee wages and salaries totaled 21.4 (2018: 18.6) million euros and the average monthly salary per employee was 2,296 euros at the Group, increasing by 6.0% as compared to the previous year.

Financial position

As at the end of the reporting period, current assets accounted for 44.5% (2018: 44.8%) and non-current assets 55.5% (2018: 55.2%) of total assets; liabilities accounted for 37.9% (2018: 31.8%) and equity 62.1% (2018: 68.2%).

As at 31 December 2019, the Group's assets totaled 107.9 million euros, increasing by 9.7 million euros in a year. Due to higher sales orders and production volumes, the Group's current assets have increased by 9.1% in a year, reaching 48.0 million euros, incl. an increase of inventories by 1.6 million euros, cash and cash equivalents by 1.7 million euros and receivables by 0.7 million euros.

The cost of non-current assets in the statement of financial position increased by 5.7 million euros to 59.9 million euros. During the year, the Group invested 0.9 (2018: 2.6) million euros in real estate, 4.2 (2018: 6.6) million euros in property, plant and equipment and 0.4 (2018: 1.4) million euros in intangible assets. The Group invested a total of 5.5 million euros in non-current assets in the financial year. The major part of investments was made for the extension of the production plant of the Lithuanian subsidiary, the related infrastructure necessary for provision of services and new production equipment. The remaining share of investments was made in the development projects of group companies and industrial parks as well as launch of the new flagship store and central warehouse of the Estonian subsidiary. In the comparable period, investments in non-current assets totaled 10.6 million euros, of which 1.0 was acquired through business combinations.

As at 31 December 2019, the Group's liabilities totaled 40.9 (31.12.2018: 31.2) million euros, of which current liabilities accounted for 80.5% or 33.0 million euros, and 82.4% or 25.7 million euros in the comparable period. Current liabilities increased by 7.2 million euros in a year, incl. trade and other payables by 1.5 million euros to 16.4 million euros and current borrowings by 4.6 million euros to 11.3 million euros.

As at 31 December 2019, interest-bearing liabilities accounted for 46.9% of the Group's liabilities and 17.8% of the cost of assets while as at 31 December 2018, the respective figures were 38.8% and 12.3%. The Group's interest-bearing liabilities totaled 19.2 (31 December 2018: 12.1) million euros, of which the current portion totaled 11.3 (31 December 2018: 6.7) million euros. Non-current borrowings increased by 2.5 million euros to 8.0 million euros in a year. Long-term loans and a finance lease have been used in conjunction with real estate developments in Estonia and in Lithuania, and the investment in the automated sheet metal stamping and bending line. Due to the adoption of the new accounting policies arising from IFRS 16 *Leases*, the change in current and non-current borrowings was 1.9 million euros.

Cash flow

In the reporting period, the cash flow was a positive amount of 1.8 million euros while it was an outflow of 7.7 million euros in the comparable period. Cash inflows from operating activities were 6.2 million euros while cash outflows were 3.4 million euros in the comparable period.

During the financial year, various investments totaled 6.4 (2018: 10.9) million euros, including 5.7 (2018: 7.9) million euros in investment properties, property, plant and equipment and intangible assets. Overall, the cash outflows from investment activities totaled 5.5 (2018: 5.7) million euros in the financial year.

In 2019, dividends in the amount of 3.2 million euros were paid for 2018, i.e. 0.18 euros per share which was 1.1 million euros less than in the previous year, and current and non-current loans were taken out in amount of 6.8 (2018: 7.2) million euros, so overall, the cash inflows from financing activities were 1.2 (2018: 1.3) million euros.

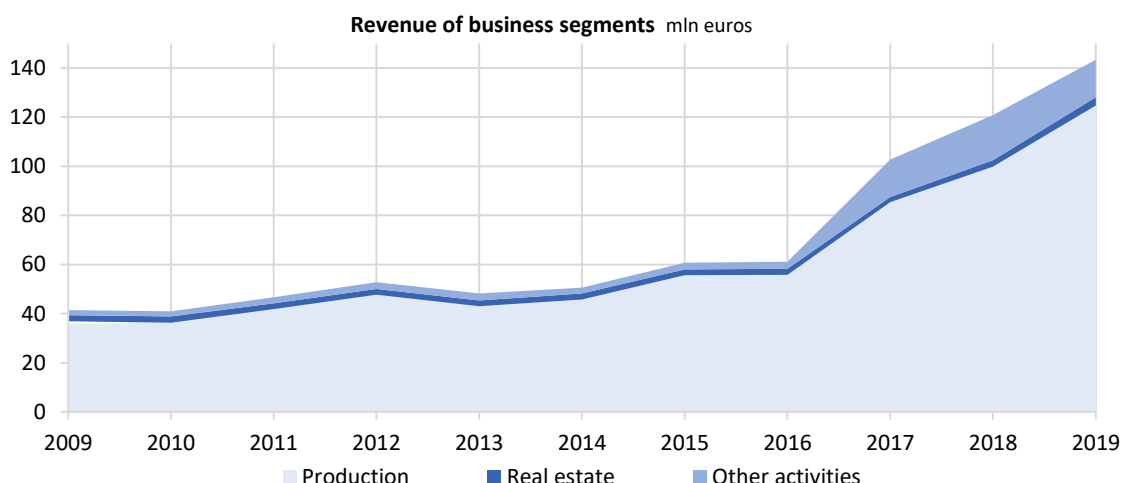
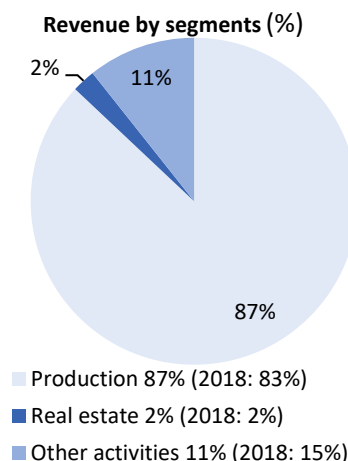
BUSINESS SEGMENTS

In the financial year ended at 31 December 2019, the Group operated in two areas which were large enough to form separate segments, and the related risks and benefits of which were significantly different and clearly identifiable. These segments were production and real estate.

The activities in the Production segment are design, sale, production and after-sale service of electricity distribution, switching and transformation equipment as well as automatics, process management and engine control equipment.

The Real estate segment covers development, project management, leasing and other related services of industrial real estate property to leasing partners and Group companies.

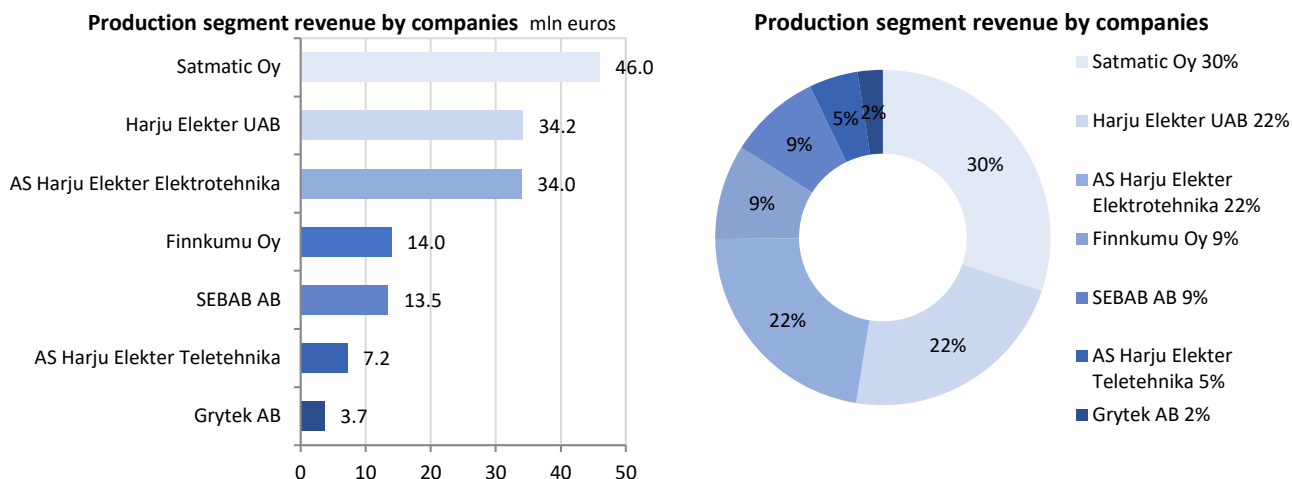
Other activities encompass all other non-segmented operating areas where each area is not large enough to form a separate segment. Such activities are, for example, management of financial investments, retail and project sale of electrical goods and electricity installation works for shipbuilding.



PRODUCTION

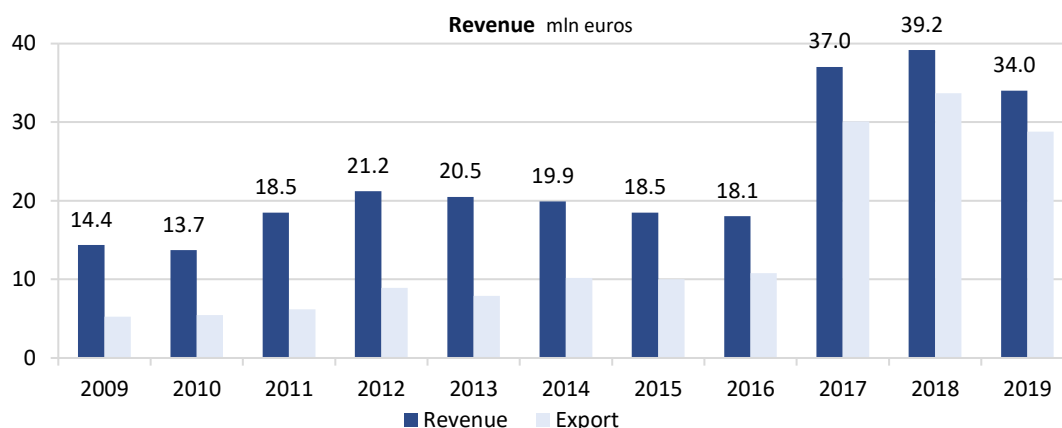
The Production segment includes electrical equipment plants in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy and Finnkumu Oy), Sweden (SEBAB AB) and Lithuania (Harju Elekter UAB), where the majority of the products manufactured at plants include medium- and low-voltage electric power distribution equipment (various substations, cable distribution cabinets and metering cabinets) and automatic and control boards for energy, manufacturing and marine sectors, and infrastructure. This segment also includes AS Harju Elekter Teletehnika (Estonia), a manufacturer of sheet metal products for electrotechnical and telecommunications sectors, and Grytek AB (Sweden), a manufacturer of prefabricated technical buildings. The Production segment also includes real estate holding companies Harju Elekter Kiinteistöt Oy and Kiinteistö Oy Ulvila Sammontie 9 in Finland. The core activity of both companies is management of the Group's industrial real estate properties.

In 2019, the revenue of the Production segment was 129.1 million euros, including revenue from external customers of 124.8 million euros, while in the comparable period these figures were 102.9 million euros and 99.8 million euros, respectively. The Production segment contributed 87.1% (2018: 82.6%) to consolidated revenue. The 25% growth of the segment was broad-based and was attributable to strong performance of several companies. The revenue of Harju Elekter UAB increased the most.

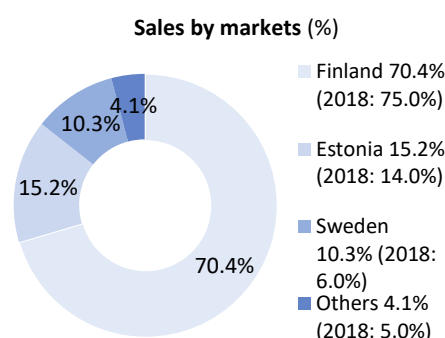


AS Harju Elekter Elektrotehnika

The 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. Both the company's head office and plant are located in Keila Industrial Park, where company has almost 23,100 sq. m of production, office and warehouse premises. At the end of the financial year, 208 (2018: 245) employees worked for the company, one fifth of the personnel worked in the sales and product development areas. From 1 April 2019, the CEO of the company is Indrek Ulmas, the former Director of the Sales Department.



The year 2019 was full of challenges for AS Harju Elekter Elektrotehnika, marked by a significant reduction of orders. Decline in the planned volume of the renovation of the Finnish power and grid projects and the related postponement of orders until next periods led to a decline in sales volume and profits. In 2019, the revenue totaled 34.0 (2018: 39.3) million euros, which was 13.4% less than in 2018. In the financial year, exports made up 85% (2018: 86%) of the sales volume. The biggest export markets are still Finland and Sweden, followed by the Netherlands that has demonstrated strong growth. The Estonian market's contribution to the company's revenue is comparable to the last periods and it has remained at a stable level.



The highlights of 2019 include several new procurements as a major commercial success. In January, the company secured an order for supply of 54 special-purpose compact substations to Konecranes that were completed by the year-end. In the fourth quarter, the company won the contract of Elektrilevi OÜ to supply factory-made compact substations and related components. The total cost of the 62-month contract

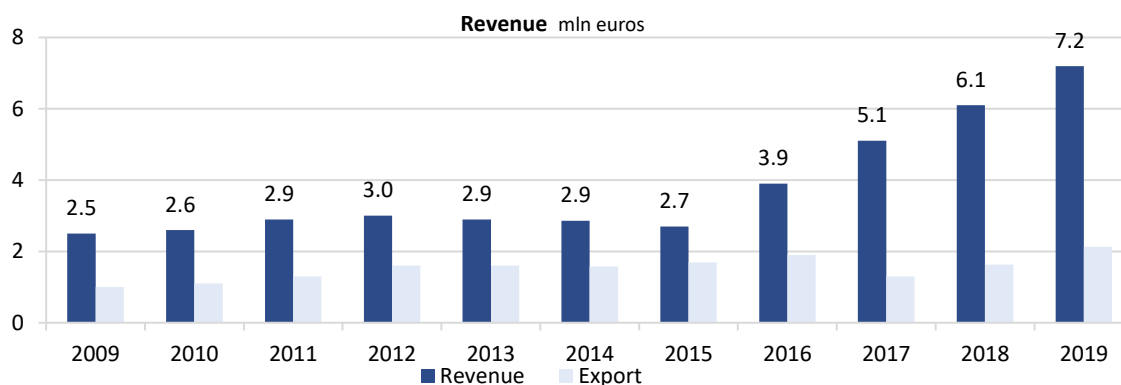
concluded with Elektrilevi OÜ is 27.8 million euros. In addition, solid security of supply is a positive development that continues to be one of the priorities in the future. Active sales in the area of special substations have opened up new collaboration opportunities with technology partners to undertake more complex and labor-intensive projects. Owing to the previous positive experience, the partnership continued in the form of new contracts to provide electricity to port cranes as well as several renewable energy solutions.

As for development activities, various new product solutions were simultaneously developed and implemented in manufacturing, and serial production was optimized as well. In the last quarter, major structural changes were made in manufacturing, and new production groups and routines were launched. In addition, training was provided to the employees of several areas, various training sessions were organized to increase sales and management competencies, and the quality of planning and designing of engineers was enhanced. AS Harju Elekter Elektrotehnika passed the audit process, which resulted in granting of the ISO 45001 certificate to the company in addition to the valid ISO 9001 and ISO 14001 quality certificates.

In 2020, the company will continue to fulfil the orders of its key customers. The company will focus on cost savings and profitability. To attain its goals, the company contributes more to continuous improvement of effectiveness, strengthening of its sales network, promotion of products and implementation of the best management practices. To increase competitiveness, continuous development of products and customer-centered 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 which is production of sheet metal products and solutions for the energy and electrical engineering sectors. The company also produces and sells sheet metal outdoor cabinets and components for the telecommunications sector as well as subcontracts in the area of sheet metal processing and finishing. With its production capacity, AS Harju Elekter Teletehnika's 9,000 sq. m factory in Keila is one of the largest manufacturers of thin sheet metal products in the area. The company also has a mechanical engineering department, which mainly deals with special orders for companies at Keila Industrial Park.



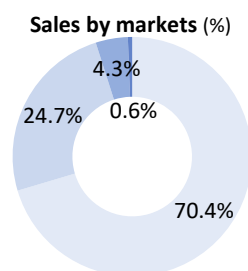
As at the year-end, the company employed 86 (2018: 103) people and the average number of employees was 101 (2018: 96) in 2019. About 80% of the employees are directly engaged in the manufacturing process.

Although revenue growth was lower than expected, it increased in 2019 by 18% as compared to 2018 and totaled 7.2 (2018: 6.1) million euros. Exports contributed 29.6% (2018: 26.7%) to revenue. The largest export articles were data network racks, rack cabinets and their components. In terms of product groups, the sales of intra-Group sheet metal products increased the most. Key export markets were Finland and Sweden. Sales in home markets increased by 13.4% in the financial year.

The financial year was characterized by large fluctuations in production volumes and efficiency in various periods. The focus was on delivering the best service to our customers in terms of security of supply, quality and integrity, which was successful.

The challenge was to offset the unexpected drop in demand from key customers by new projects. The company restructured its sales activities and production processes and started developing products for new projects, the production of which is scheduled to start in 2020. In cooperation with Energo Veritas OÜ, the Group's electrical products project and retail seller, a series of fiber optic cabinet models has been developed for Elektrilevi OÜ's high-speed internet project (Last Mile). Cabinet deliveries began in September.

The focus for 2020 will be on increasing sales volumes through activation of sales and efficiency gains. Priorities still include improvement of productivity and planning accuracy as well as management of price risks when purchasing sheet metal. To increase productivity and efficiency, the bending unit will invest in a robotization and factory-scale training program based on Lean methods throughout the year. In addition, there are several products that need to be developed. In the long run, all of the company's activities are driven by the desire to become the first choice for customers both in terms of in-house and outsourced products/services, and to support customers in their goals.



- Estonia 70.4% (2018: 73.3%)
- Finland 24.7% (2018: 23.4%)
- Sweden 4.3% (2018: 2.1%)
- Other 0.6% (2018: 1.2%)

Satmatic Group

As at 31 December 2019, the Satmatic Group consists of Satmatic Oy with its head office in Ulvila in Finland, factories located in Ulvila and Kerava, its subsidiary Finnkumu Oy in Kurikka and the real estate company Kiinteistö Oy Ulvila Sammontie 9 that was acquired in the reporting year and owns a 0.86 ha production property and a production building with 4,330 sq. m of floor space. The core business of the real estate company, the acquisition of which was completed after the end of the 10-year purchase and lease period, is administration of the production premises used by the Group and its core activities have no impact on the consolidated revenue.

The unconsolidated revenue of the Satmatic Group companies for the year 2019 amounted to 60 million (2017: 59 million) euros, remaining at the same level as in the previous year. At the end of the reporting period, the Satmatic Group employed 103 (2018: 102) people.

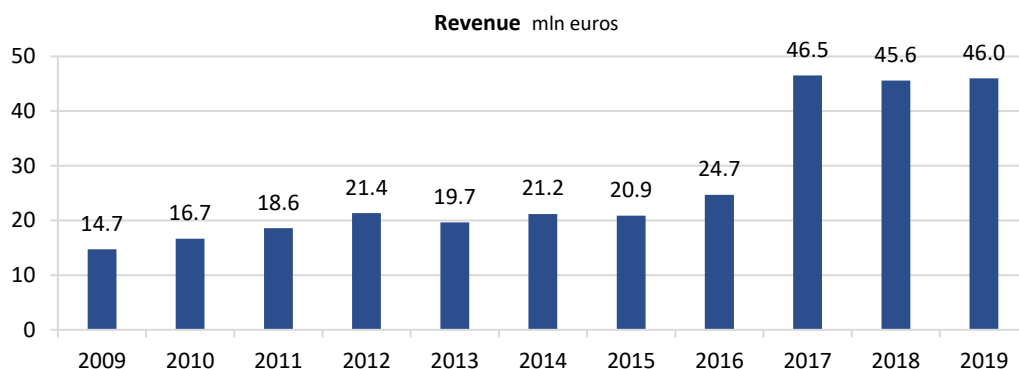
Due to the restructuring of the operations of Harju Elekter Group in Finland and the transition of Satmatic Oy and Finnkumu Oy under joint management, the new Managing Director of joint companies of Satmatic Group is Jan Osa, the former Director of AS Harju Elekter Elektrotehnika who started to work at Satmatic Oy on 1 April 2019 and Finnkumu Oy on 1 July 2019.

Satmatic Oy

Satmatic Oy, a wholly-owned subsidiary of AS Harju Elekter, 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 generation and distribution sectors and infrastructure, covering the needs of customers from the development of product, programs and project to maintenance provision of maintenance services. The product range is wide, and the product portfolio includes various products and solutions of up to 20 kV. A major share of Satmatic Oy's products and solutions is sold outside Finland, reaching customers either directly or through reseller companies, with the help of Finnish exporters. At the same time, Satmatic Oy is also an importer and distributor of products of Estonian subsidiaries in Finland. The mediated sales of products imported from Estonia to the Finnish market amounted to 17.5 million (2018: 23.6 million) euros. The company's head office and factory are located in Ulvila, near Pori, and the company has a sales office and assembly plant in Kerava to serve customers in the Helsinki Business Area. At the end of the year, the company employed 78 (2018: 81) employees and the average number of employees was 78 (2018: 78) in the financial year.

The revenue of Satmatic Oy remained almost unchanged from the previous year at 46 million (2018: 45.6 million) euros. Sales were also affected by the reduction in the initial volume of the Finnish electricity and grid renovation plan and, in this context, by the postponement of orders to subsequent periods. At the same time, the company was able to increase sales of project products in a highly competitive market. Relying on

the Lean management model and streamlining internal logistics and electronic information flow, all of its functionality reduced product lead times. By raising the level of automation, the company strengthened both its handling of materials and the receipt of goods. The company actively sought out sales opportunities and participated in professional fairs to present its products.



The biggest risks were related to the decrease in investments in the Finnish electricity networks and the delaying of orders by customers for a longer period, which resulted in a lower production volume than was initially expected. The decline in the power grid sector was offset by improved performance in other business areas. Various electrical, control and power automation equipment and solutions for the pulp and paper industry, but also for rock wool, steel and food industries as well as offshore and shipbuilding, mining and power plants were developed at the plant for customers.

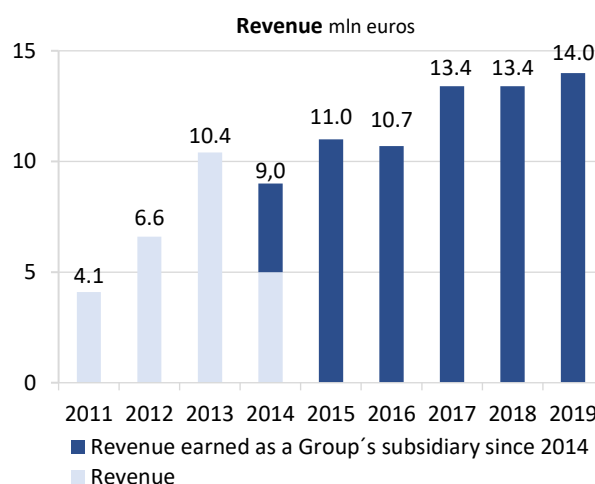
During the financial year, investments were made to increase production efficiency by acquiring a new wire and cable production unit for cost-effective production and launching several projects and developments for reviewing internal processes, of which some were carried out in collaboration with other Group companies. In addition, the acquisition of the subsidiary Kiinteistö Oy Ulvila Sammontie 9 was completed during the reporting period.

The company's future operations will continue to be based on contract manufacturing, project services and supply to the electricity distribution sector, manufacturing sector and infrastructure. All operations are constantly evolving with new solutions that enhance automation. More intense competition is certainly to be expected. In order to facilitate the coordination of sales and marketing work and the management of Finnish subsidiaries, Harju Elekter decided to merge its subsidiaries Finnkumu Oy and Kiinteistö Oy Ulvilan Sammontie 9 with Satmatic Oy in 2020. The next step is to transfer all real estate properties located in Finland to Harju Elekter Kiinteistö Oy and then rename Satmatic Oy to Harju Elekter Oy.

Finnkumu Oy

Finnkumu Oy, a wholly-owned subsidiary of Satmatic Oy is Finland's leading manufacturer of complete substations and cable distribution cabinets. Finnkumu Oy designs, manufactures and supplies equipment for the power distribution sector. The products are aimed at the Finnish market. Founded in 2004, Finnkumu Oy has been part of the Group since 2014. Finnkumu Oy is located in Kurikka, where it has 2,500 sq. m of production and office space. The company employed 25 (2018: 21) people at the end of the year and the average number of employees was 24 (2018: 20) in the reporting period.

2019 was another successful year for Finnkumu Oy. There were no significant changes in the company's customer base or products during the year. Stronger competition and tightening of technical requirements are noticeable in the market, but despite intense competition, the company was able to meet its targets and reached sales of 14.0 million (2018: 13.4 million) euros by the year-end.

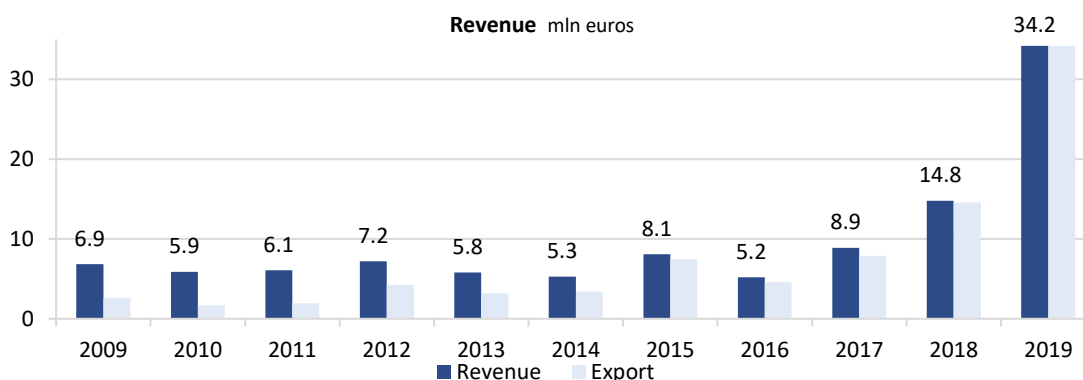


Finnkumu Oy continues to have a good reputation as a supplier of substations in Finland. During its years of operation, the company has developed a well-established loyal customer base, whose orders are processed by a small sales team. Working together with customers, the company improves its products and customizes them for specific projects. Similarly to previous years, the company develops its own products, and also collaborates with other Group companies. The assembly, final assembly and inspection of products take place at 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 to customer demand. The ultimate goal is to reach agreements that will make the distribution of substation manufacturing more even throughout the year, to ensure steady employment and, thus, promote job satisfaction. Modernization 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. Preparations for applying for the ISO 9001 and ISO 14001 quality standards will continue in 2020. In addition, several internal development activities in process, logistics and IT systems are planned for 2020.

Harju Elekter UAB

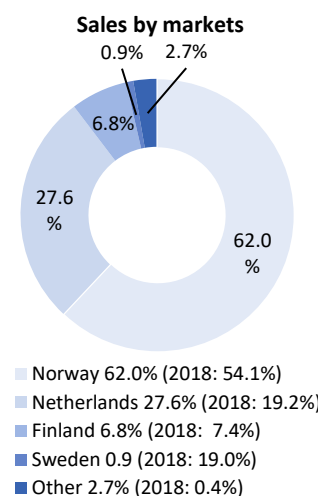
Harju Elekter UAB, a wholly-owned Lithuanian subsidiary of AS Harju Elekter, has been a part of the Group since 2003. The company focuses on the development of different products and solutions and contract manufacturing for system integrators in the marine and industrial sector, providing them with tailor-made power distribution and multidrive systems and solutions. The company's head office is in Panevėžys, Lithuania. As at 31 December, the company employed 251 (2018: 138) people and the average number of employees during the financial year was 207 (2018: 133).



The most significant event in the reporting period was the completion of the extension of the company's production plant, which increased the company's office and production space from 3,500 sq. m to 9,000 sq. m. Total investments made in the extension of the production plant, in the upgrading of production equipment and technology amounted to 3.2 million euros in 2019. After completion, the additional production space was successfully commissioned, and, among others, helped Harju Elekter UAB to end a second consecutive year with historically best economic results. The expansion of production has also resulted in a 55% increase in the average number of employees.

A good business climate is the company's main target markets in Scandinavia and the Netherlands, and the company's unique ability to provide solutions and products to meet almost all the needs of its key customers increased its sales by 133% to 34.2 million (2018: 14.8 million) euros. The company exported all of its products to foreign markets, the key export partners being the Netherlands, Norway and Finland.

About 90% of revenue was generated from the development, production and sales of project-based products and services to the marine and shipping sectors. In the product range, various frequency converter systems and electrical and control panels for the marine sector were the largest contributors. The supply of quality



products to the marine sector is very strongly linked to the company's engineering capabilities, the orders are mainly for project and customer-specific solutions that are not found in standard catalogues.

In its daily work, the company focuses on improving steps related to quality, reliability and contract-based professional manufacturing. The rapidly growing order flow and production volume is being analyzed and additional efficient ways for production are being sought.

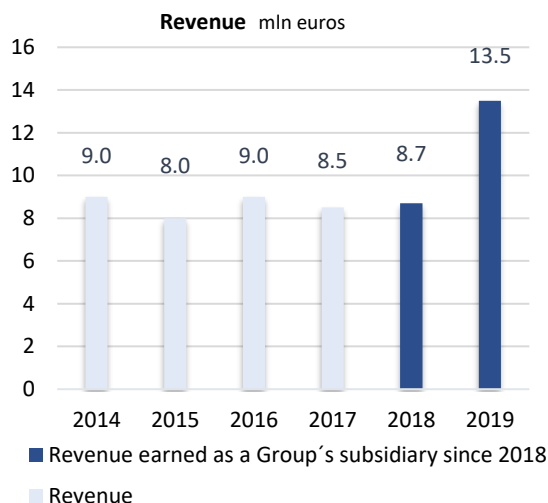
SEBAB AB

SEBAB AB, a wholly-owned subsidiary of AS Harju Elekter that is part of the Group since the beginning of 2018, specializes in developing medium- and low- voltage solutions for power generation and distribution and supplying them to the infrastructure, construction and renewable energy sectors. The company is headquartered with a manufacturing, sales and service unit and warehouse in Malmö. The company also has branch offices offering engineering solutions in Stockholm and Borlänge. As at December 31, the company employed 41 (2018: 39) people and an average of 39 (2018: 33) people in the reporting period.

SEBAB AB's revenue for 2019 was 13.5 million euros, up 55% from 2018. Most of the products and services were delivered to the home market in Sweden. Most of the

revenue growth came from the energy and infrastructure sectors, which were supplied with a variety of customer-specific solutions. SEBAB AB's second year as a Group company turned out to be quite challenging. Due to delays in several major projects, higher-than-expected costs, higher sales of lower margin products and changes in the exchange rate of the Swedish krona, the initial profitability expectations were not met.

Mikael Schwartz Jonsson has been appointed as the new CEO of SEBAB AB since 1 January 2020 and the former CEO has moved to the position of Sales and Marketing Manager in Sweden. In this context, the sales structure and operations of the Group's Swedish companies are also planned to be restructured in 2020. The company will continue with its core business in 2020, looking for additional opportunities for growth and efficiency gains.

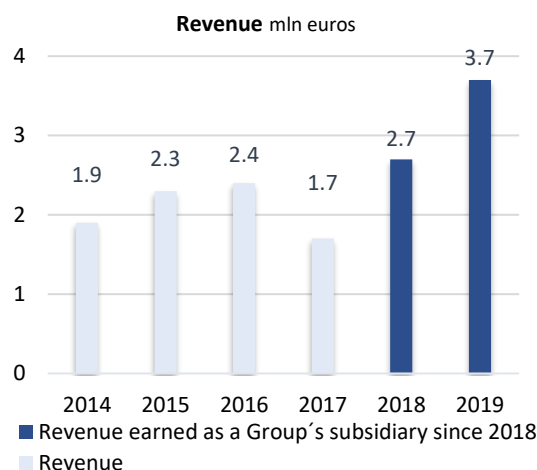


Grytek AB

The main activity of AS Harju Elekter's wholly-owned subsidiary Grytek AB is the production of various technical buildings at the factory. The company, based in Grytgöl, Sweden, also focuses on the production of technical buildings for the projects of other Group companies. At the end of the reporting period, the company employed 18 (2018: 21) people and the average number of employees for was 23 (2018: 17) in the reporting period. Grytek AB's revenue was 3.7 million euros, up 38% as compared to last year.

The reporting period was characterized by very uneven distribution of production and sales volumes, fluctuations in the exchange rate of the Swedish krona and higher than initially planned costs of several major projects. Together

with its sister company SEBAB AB, it has been actively contributing to the growth of the Group's Swedish market sales. In addition, the company has developed its own products, increased the safety class and fire resistance of the houses that are produce, and has been granted the respective certificates.



Mikael Schwartz Jonsson has been appointed as the new CEO of Grytek AB effective from 1 January 2020. The company plans to continue its core business in 2020 and look for growth opportunities.

REAL ESTATE

The activities of the Real estate segment include development, maintenance, leasing of industrial real estate properties, services related to the maintenance of real estate properties and production capacities and intermediation of services. Real estate is classified as a separate segment because the volume of assets is greater than 10% of the volume of the Group's assets. This segment includes the real estate department of the parent company AS Harju Elekter. As at the end of the reporting period, the Real estate segment employed 9 (2018: 10) people.

The Group owns registered immovables in its industrial parks in Estonia (Keila, Allika and Haapsalu), Finland (Ulvila, Kerava, Kurikka) and Lithuania (Panevėžys), totaling 46 ha with 112,140 sq. m of production, office and warehouse premises. The premises in Keila, Allika and Haapsalu industrial parks are leased out to external customers.

In the financial year, the revenue of the Real estate segment totaled 4.7 (2018: 4.0) million euros of which external sales totaled 3.3 (2018: 2.6) million euros, contributing 2.3% (2018: 2.2%) to consolidated revenue. Lease income contributed 83% (2018: 82%) and utility and other services 17% (2018: 18%) to the revenue of the Real estate segment.

In 2020, the company will continue with its real estate development. The company has already launched construction of a new 3,900 sq. m warehouse and production plant complex in Allika Industrial Park to be completed in autumn 2020.

OTHER ACTIVITIES

Other activities encompass all other non-segmented operating areas where each area is not large enough to form a separate segment. At the Group, such activities are, for example, management of financial investments, retail and project sale of electrical goods and electricity installation works for shipbuilding.

In the financial year, the external non-segmented sales totaled 15.3 (2018: 18.4) million euros, declining by 16.8% in a year and sales to other operating segments remained at the same level as in 2018, being 0.6 million euros. Other activities contributed 10.6% (2018: 15.2%) to the consolidated revenue of the Group.

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 collaboration 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. Other operating activities of the Parent company accounted for 0.4% of consolidated revenue (2018: 0.3%).

Telesilta Oy

Telesilta Oy, a wholly-owned subsidiary of AS Harju Elekter, is an electrical works company founded in 1978 in Uusikaupunki, Finland, specializing in the design and manufacturing, installation, commissioning and maintenance of marine electrical systems for the Finnish market. The company offers customized solutions to its customers, with a marginal share of its own products. As at 31 December 2019, the company had 30 (2018: 36) employees. Telesilta Oy has been a member of the Group since 2017. Joonas Puustelli, the current member of the management team, has been the CEO of Telesilta since 1 October 2019.

In the financial year, the company's revenue was 3.0 million (2018: 9.1 million) euros. A significant decrease in revenue is due to the fact that unlike in 2018 when major projects were being implemented, during the

reporting year only smaller projects were carried out. Work on some projects was complicated at the end of the reporting year due to trade union strikes at site locations.

The achievement of 2019 included the successful completion of ISO 9001 certification, the successful completion of several projects and winning of the contract for the electrical works of seven Coast Guard vessels to be built for the Finnish Border Guard. This contract is worth 4 million euros and work is planned for 2020 - 2023.

Energo Veritas OÜ

Energo Veritas OÜ focuses on project-based sales and trading activities. The company has sales offices and stores in Tallinn, Tartu and Keila for selling the Group's products, products of associated companies and other goods required for electrical installation work to smaller and medium-sized electrical installation companies and retail customers. The company had 27 (2018: 23) employees as at 31 December 2019. Energo Veritas OÜ has been part of the Group since 2017 and AS Harju Elekter has a holding of 80.52% in the company.

In 2019, the revenue of Energo Veritas OÜ increased by 19.6% amounted to 8.3 (2018: 6.9) million euros. In 2019, the new Tallinn sales office and central warehouse contributed significantly to sales growth. The addition of new space also helped to expand the product range in the field of electrical and low-voltage materials, telecommunications and power grid construction and lighting. During the reporting period, a procurement of Elektrilevi OÜ to build distribution transformers was won and in cooperation with Harju Elekter Teletehnika a series of fiber optic cabinet models has been developed for Elektrilevi OÜ's high-speed internet project (Last Mile). In addition, the focus during the reporting period was on developing sales capacity. The results and the cash flow of the company were adversely affected by the payment difficulties of a few customers.

In spite of these organizational changes, Energo Veritas OÜ managed to increase its market share, find new customers and win significant procurements.

Harju Elekter AB

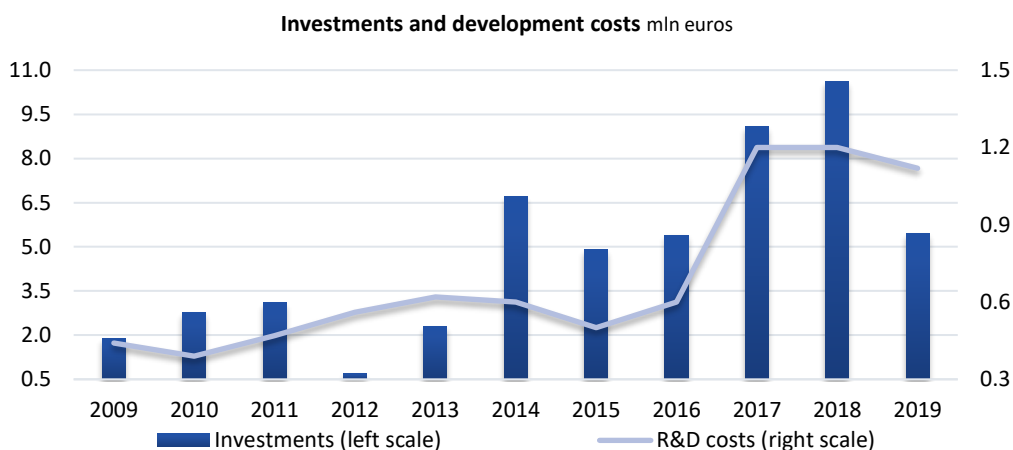
Founded in 2010, Harju Elekter AB is a sales organization and sales representative of the Group's medium-voltage and substation products in Sweden. In 2014 - 2017, the company's operations were temporarily suspended. In February 2017, AS Harju Elekter acquired a 10% minority holding in the company, increasing its shareholding to 100%, and in the autumn of the same year the subsidiary resumed active business. The revenue of Harju Elekter AB in 2019 was 4.1 (2018: 2.7) million euros, up 52% due to successful electrical equipment solutions offered to customers in the Swedish market in cooperation with other Group companies. During the reporting period, the company had 1 employee.

INVESTMENTS, INNOVATION AND DEVELOPMENT ACTIVITY

Investments

The investments of the Group can broadly be divided into two: supporting and consolidating further development of the Group, and investments to ensure the quality of production facilities and technology, and compliance with modern requirements. In 2019, the Group invested a total of 5.5 (2018: 10.6) million euros in non-current assets and 0.7 million euros in financial investments.

The majority of the investments in the financial year, i.e. 3.2 million euros were made in the extension of the Lithuanian subsidiary's production plant in Panevėžys, construction of the related infrastructure and new production equipment. As a result of the investment, office and production premises increased from the former 3,500 sq. m to 9,000 sq. m. In addition, 1.9 ha of land adjacent to the existing registered immovable was acquired in Lithuania, to ensure opportunities for future extension. The investments made in the extension of the production plant and upgrading of technology enable to significantly increase our production capacity to ensure supplies to the customers of the Lithuanian subsidiary both in shipbuilding and industrial sectors.



Innovation and development

Harju Elekter Group has a clear goal of keeping pace with general market trends and paying greater attention to developments and innovation. In respect of product development and innovation, the Group's activities are greatly impacted by customer demand for innovative solutions. The Group wants to be prepared for this and thus, the goal of the Group's product development is to constantly upgrade its products that meet the needs of customers as well as upgrade technologies. It increases the value to the customers on the one hand and provides exciting work for engineers on the other hand.

In the financial year, the Group's development costs totaled 1.1 (2018: 1.2) million euros (Note 23), accounting for 0.78% (2018: 1.03%) of the consolidated revenue.

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

- In **product development**, the Group itself as well as in cooperation with customers is searching for ways to make conventional products in a smarter way or to operate them more effectively. The Group also invests in the applied research and development of new products (e.g. energy storage devices).
- In **production**, 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 broader use of solar energy).
- In **the supply chain**, the Group collaborates with suppliers to develop and improve already established structures.

Product development resources in the energy sector are mainly concentrated in the subsidiary AS Harju Elekter Elektrotehnika; Satmatic Oy specializes in the development of industrial products and renewable

energy solutions, and Harju Elekter UAB is primarily engaged in development of project and customer-specific integrated solutions in the marine and industrial sector.

Harju Elekter's manufacturing companies focus on systematic implementation of the principles of Lean manufacturing. To increase efficiency and generate significant savings, the Group has set up in-house teams to map out and optimize production processes, detect wastefulness, generate improvement ideas and redesign processes.

With the aim of providing new products and solutions, a unit of AS Harju Elekter Elektrotehnika Engineering was established. In 2019, Engineering employed 28 electrical and mechanical engineers who develop new solutions to sales channels while also providing technical production and sales support. Engineers are divided into three functions: new product development, enhancement of existing products and sales support.

Major development projects of Group companies in 2019:

- SKIDS, a project of AS Harju Elekter Elektrotehnika in cooperation with Siemens Data Center Solution. As part of the project, a compact substation was manufactured whose frame can accommodate electrical gear weighing a total of about 17 tons and with maximum frame deflection of 1 mm/m during lifting. In the past, the company had outsourced design and strength calculations for HEJA substations. In 2019, the installation was designed from start to finish at AS Harju Elekter Elektrotehnika. In the course of the project, staff qualifications were also improved as 12 staff members underwent training on the use of FEM software and strength calculations.
- The project of AS Harju Elekter Elektrotehnika, during which nine data communication substations were completed within 12 weeks for Singapore. This involved the development of a completely new substation type Data Center Solution (DCS). The main project innovations included the design of the substation's base frame and the cooling solution. The manufacturing area of the production hall was reorganized for the project, enabling to manufacture larger substations in the production hall in the future. During the first phase of the project, nine substations were built.
- For rapid and flexible monitoring of development projects within the Group, AS Harju Elekter Elektrotehnika designed and developed new laboratory equipment for testing the temperature rise of its own low-voltage switchgears. Laboratory equipment includes such key components as 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). This helps to eliminate the quality and safety risk, and provides assurance that the solutions work as they should and comply with local and international standards and regulations. By November 2019, 15 trials had been conducted.
- The development project took into account the requests of the end customer, the specific features of procured products, the ease of installation, as well as product requirements for mass production. The active installation period of the project is 2019-2024.
- AS Harju Elekter Elektrotehnika launched a new solution - capacitor systems. The substation product family expanded with several new substations targeted at the Finnish and Swedish market. The development of crane substations continued for Israel.
- Satmatic Oy acquired a new cable harness preparation machine that enables more cost-effective production of wiring harnesses and cable harnesses for different projects, and developed more solid ground mounting frames for solar panels and more stable stands for heating and charging stations.
- In 2019, AS Harju Elekter Teletehnika deployed process mapping software 2c8 and used it for mapping all key processes to determine more effective improvement activities.
- SEBAB AB launched new equipment that does not use SF6 gas, and is more environmentally friendly and safer. In addition, SEBAB AB launched the new arc shortening solution for the medium voltage device AKTIF, using Arcteq devices.



- The project of Telesilta Oy that implemented power and navigation system solutions for Elvy, the first hybrid ferry manufactured in Finland. Electrical work was also carried out at UTV Uusikaupunki shipyard on the Hydrograf-17, a ship built for the Gdynia Maritime Administration in Poland.
- In the low-voltage business line, development work continued for HECON 2500-4000 A motor control center racking system solutions. This product has been developed according to Nordic requirements, which means that it suits the needs of customers in Finland, Sweden and Norway. This is a multi-year project that has now reached the stage of extending this concept to lower amperages and components from different suppliers. There are plans to extend this concept to the energy distribution sector in the future. HECON, developed by local engineers, is an important design and mechanical product for the Group. Own products developed in the company makes it easier offer to the customer customized solutions as there is no reliance on any particular manufacturer's products and by using components that best meet the needs of each customer.
- Since 2011, the Group has been organizing annual innovation competitions to find the best engineering solutions. In 2019, nine entries were submitted to the competition, the best of which was Singapore DCS substation project of AS Harju Elekter Elektrotehnika's seven-member team. This is the development of a completely new substation type Data Center Solution for the Group in the Port of Singapore.



QUALITY IN PRODUCTS AND CUSTOMER RELATIONSHIPS

Quality management

The Group understands that it is the factors, such as high-quality and properly manufactured products, security of supply, adherence to deadlines, smooth cooperation, customer-focus, and the credibility arising from the company's strength and history that ensure strong relationships with its customers.

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 has no visual imperfections;
- The product also meets the requirements that customers cannot express specifically. These aspects are negotiated with customers at 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 organization of the Group companies are based on quality and environmental policies that comply with international standards. The current ISO 9001 quality management standard is valid in most of the Group's production plants: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Harju Elekter UAB, SEBAB AB and Grytek AB as well as the sales company Energo Veritas OÜ. In 2019, Telesilta Oy received the certificate ISO 9001. Finnkumu Oy is preparing to be certified during 2020. AS Harju Elekter Elektrotehnika passed the audit and it was granted the ISO 45001 certificate in addition to the existing quality certificates. Most of the Group's production plants hold also the valid environmental management standard ISO 14001.

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

Quality certificates

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

↺ - recertification

All Estonian companies of Harju Elekter Group are jointly part of the Estonian Quality Association to help increase the awareness of the importance of quality issues, improve the training of the employees involved in quality control and cooperate with other international quality associations.

The share of the products transferred to the customers by the due date as required varies by company depending on the nature of the work performed. In the financial year, this measure of all Group companies

was in the range of 78–100% while being 92% on average at the Group which is a better result than in 2018 (91%).

Quality-related issues are dealt with intrinsically as part of everyday management, sales, development, logistics and real estate management activities. Several Group companies (Satmatic Oy and Finnkumu Oy) implemented special projects in 2019 to improve internal processes and thereby increase product quality and satisfaction with services.

The stages that influence quality assurance, using AS Harju Elekter Elektrotehnika as the example:

The company believes that quality has to be developed into products.

1. At the product development stage, preconditions for the production of a 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 from the quality perspective – timely deliveries, availability of quantities and response to the Group's reclamations are also important.
3. The check of outsourced products and materials helps to identify any faults at an early stage – this is done randomly for higher risk purchases.
4. The commitment of employees ensures that features dependent on the human factor are of high quality – reasonable workload, motivation that comes with the control and responsibility and training (focusing of products, management and electrical engineering, etc.) are equally important.
5. Process descriptions create clarity in the tasks – there is more time to improve deficiencies that are detected at early stages, 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 make sure that various aspects of products meet customer expectations. Sometimes products are pre-adjusted in a factory by distance control from control systems located in the customer's premises.

Quality improvement

Quality improvement is a continuous process. Improvement activities receive their input largely from four sources:

1. Customer feedback

Group companies place great importance on collecting customer feedback and recommendations. Subsidiaries have different processes as to how to collect customer feedback, such as measurement of general customer satisfaction, recommendation willingness and the engineering-technical solutions' meeting expectations. The feedback received will help map out the general attitude of customers towards the company, however, in order to identify the root causes of satisfaction and draw conclusions, customer reclamations and improvement proposals are analyzed.

In 2019, the number of justified customer complaints received from external customers was relatively low in all Group companies. Depending on the company, the Group received an average of 2.9 (2018: 2.1, 2017: 3.9) customer complaints per every million euros of revenue. The number of reclamations grew in all Group companies, but they increased the most in Lithuanian and Finnish companies due to the complexity of the work and growth in volumes.

The Group pays great attention to customer feedback on non-compliant products i.e. customer reclamations. Information has to reach the necessary employees with a minimum delay, so that corrective and preventive actions can be implemented immediately. All reclamations are recorded and analyzed. Subsidiaries also monitor failure costs connected with rectification of faulty products.

The satisfaction score of foreign customers increased strongly across the Group. The satisfaction score, that is based on the results of satisfaction survey of 2018 -2019, was 80 on a 100-point scale as compared to 61 in 2017-2018. This positive change is attributable to continued and close cooperation with current customers and keeping of customer promises.

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

- AS Harju Elekter Teletehnika evaluates customer satisfaction on a quarterly basis. On a 5-point scale, TOP10 customers are asked for feedback on product range and quality, delivery accuracy and speed, documentation accuracy, price level and availability of contact persons. In 2018, the response rate was 76% and the average satisfaction score was 3.82 points. In 2019, the response rate was 100% among those who received the survey; the average score reached 4.12 points. The respondents were most satisfied with the wide product range. The average security of supply for the year reached 97%, in two months this figure reached 100%.
- AS Harju Elekter Elektrotehnika's customer satisfaction score increased strongly. In 2019, it was 53 (2018: 50) points. To achieve this result, AS Harju Elekter Elektrotehnika pays special attention to change management and streamlining of internal processes. We continue to pay attention to being the first choice for our partners in energy management.
- Of the Finnish subsidiaries, Satmatic Oy asks quarterly feedback from all customers on the price, quality, security of supply and overall cooperation, and in 2019 the score was 87 (2018: 90). Telesilta OY evaluates customer satisfaction based on security of supply and monitors the ratio of working hours spent on warranty works to total project hours. As compared to the last survey conducted in 2017, the growth has been strong at Finnkumu Oy. In 2019, the satisfaction score was 90 and in 2017, it was 80. In addition, Satmatic Oy and Finnkumu Oy started to use the Net Promoter Score (NPS) in 2019. The recommendation index of Satmatic Oy was 61 and that of Finnkumu Oy, 83.

2. Relations with suppliers and quality of materials

The quality of materials is evidenced by reclamations that the Group makes to its suppliers. 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 cases 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. Harmonized contracts with suppliers support better delivery conditions and ensure a smooth and transparent process. During the year, procurement and supply chain departments were established and restructured at several subsidiaries in order to optimize purchases, and to cope with the rapid growth in production output and structural changes.

For some of the materials or components, the final customer describes in detail which supplier's products to use. 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 Group has also agreed on specific social and environmental criteria with approximately 46% (2018: 32%) of its suppliers.

The Group's manufacturing companies demonstrate the entire supply chain from the viewpoint of the company from beginning to end to teams of suppliers, and suppliers can advise each other on how to improve the processes.

3. Share of defective products

To detect defects, all products are checked throughout the process and the defects that have been found are reviewed every morning. In serial production, the share of properly manufactured non-defective products is higher while there are more cases related to more complicated special orders that need to be rectified before their completion.

4. External audits

Customers, supervision authorities, product certification companies and license issue companies carry out audits and checks on the companies in the Group on a regular basis. In most cases, companies pass audits successfully and observations made during them are useful inputs for the companies.

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 in the reporting year

In the financial year, AS Harju Elekter Teletehnika started mapping out processes to identify risk points using the 2c8 method and the route case analysis project. A quality room was opened in the production premises, where the data is presented, feedback is given, situations are analyzed 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 faster 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 continued to enhance its management processes to meet current needs. For example, the organizational model has been simplified and the involvement of various units in the decision-making process of the company is more broad-based. Today, the key processes have already been mapped out, however, the simplification of processes and movements between areas is still ongoing. Systems have been developed that facilitates employee rotation between different stages of work throughout the factory. This will help optimize the workload and develop people. In addition, the company uses project management measures to treat special orders to enable fast and resource-effective treatment of topics across various areas. The ultimate goal is to make the management of the company more efficient and to improve the quality of products and customer service.

In order to guarantee quality, Harju Elekter UAB 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 supervisor checks all the products in his/her area of responsibility according to the 3D drawings. To facilitate fast movement of information, the Quality Department is directly subordinated 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 an error is detected.

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 specifically launched for Keila Industrial Park companies is to acknowledge the importance of quality management. They collectively discuss current issues concerning industrial enterprises and try to find remediation projects.

Safety and environmental impact of finished products

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

1. The basis for the safe use is created in the stage of product development, which leads to technical solutions that has to meet the requirements established by certain standards.
2. Before new products enter a batch production phase or a major special execution phase, they have to pass standard tests to uncover 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 that each product is manufactured according to specifications.
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 products manufactured by the Group have 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, the lifecycle of substations is at least 40 years. Long-term solutions translate into lower demand for production of new substations and less harm on the environment.

Estonian regulations do not require that products have to be provided with utilization 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.

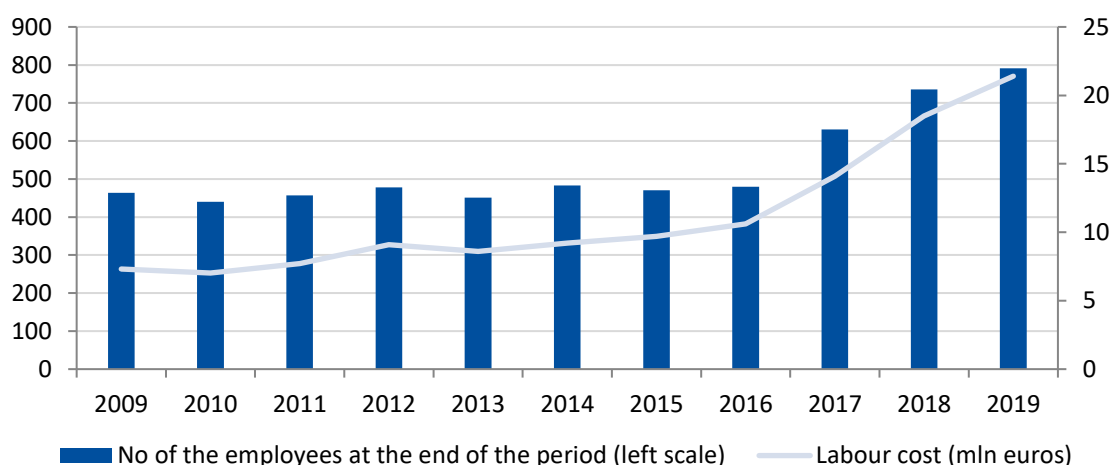
PERSONNEL

The companies of the Harju Elekter Group are based in Estonia, Finland, Lithuania and Sweden. The lack of qualified specialists and wage pressure continue to be hot topics. According to Statistics Estonia, in 2019, the labor market participation rate was 71.6%, the employment rate was 68.4% and the unemployment rate was 4.4%. The number of long-term unemployed people in Estonia was the lowest of the last 20 years.

Structural changes were made to Group companies located in Estonia, in conjunction with the reduction in portfolios of orders and to a lesser extent, in management levels and positions.

Adaptation of the entire Group to the changes arising from the rapid growth and expansion experienced in recent years continued throughout 2019. In connection therewith, management quality (incl. change management and delegation matters) and the availability of high-quality labor remained in the focus of the human resources as major risks. Innovations and changes caused by growth considerably affected employee satisfaction and turnover in 2019 and highlighted the topic of the employer's branding in the context of potential new hires as well as current employees. Therefore, during the year, the activities were focused on formulating the employer's branding and supporting the subsidiaries in change management, primarily via organizing training aimed at improving management quality and via recruitment. At AS Harju Elekter Elektrotehnika, corporate governance principles were laid down and the activities to implement them were launched. Other Group companies will adopt corporate governance principles during 2020.

Staff, wages and salaries



As at 31 December 2019, the Group had 791 employees (2018: 736). The changes were related to the significantly increased production capacity at the Lithuanian subsidiary. Almost half of the Group's employees – 346 people (2018: 399) – work in Estonia. The average age in the Group has been around 40 over the years and in the financial year it was 41.7 years. 30% of the Group's employees (239 people) have higher education, 50% (394 people) have secondary and secondary specialized education, and 20% (158 people) have basic education. In the financial year, the average number of employees was 778 (2018: 713).

Employee salaries, bonuses and benefits over the 12-month period totaled 21.4 (2018: 18.5) million euros. In the financial year, the annual average pay per Group employee was 2,296 (2018: 2,166) euros, increasing by 6% on average. The decision of the Republic of Lithuania to account for part of the social security taxes as employee gross wages impacted the Group's cost of wages and salaries but had a little effect on staff costs.

The Group is characterized by a strong established organizational culture. The large proportion of employees in a long-term employment relationship encourages also new employees to follow and uphold traditions. Every other 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 (2018: 17%). The turnover by country was as follows: 16% (2018: 15%) in Estonia, 12% (2018: 5%) in Finland, 29% (2018: 46%) in Lithuania and 5% (2018: 9%) in Sweden.

The share of the Group's employees with an employment contract entered into for an unspecified term was as follows: 100% in Estonia, Finland and Lithuania, and 97% in Sweden while the share of men was 77% and that of women was 23 %.

The share of the Group's employees working full-time was as follows: 98% in Estonia and Finland, 99% in Lithuania and 97% in Sweden while the share of men was 74% and that of women was 26%. The Group companies did not use subcontractors or agency workers to a significant extent.

Overview of employment as at 31 December 2019

	Estonia	Finland	Lithuania	Sweden	Total	% of all employees
Total number of employees	346	134	251	60	791	
<i>incl. office staff*</i>	120	55	54	31	260	33%
<i>incl. workers</i>	226	79	197	29	531	67%
<i>incl. men</i>	238	106	208	52	604	76%
<i>incl. women</i>	108	28	43	8	187	24%
<i>incl. under the age of 30</i>	56	24	100	19	199	25%
<i>incl. 30-49 year-olds</i>	194	70	127	25	416	53%
<i>incl. 50 years and older</i>	96	40	24	16	176	22%
New employees	138	6	178	11	333	
Employees left**	59	13	59	3	134	
Average turnover ***	16%	12%	29%	5%	17%	

* The number of top executives in the Group (i.e. members of the Supervisory Board and Management Board, the Chief Executive Officer): 11 in Estonia, 6 in Finland, 1 in Lithuania and 2 in Sweden. Some managers are part of the management structure of several companies.

** Incl. voluntarily and due to retirement or death

*** The number of employees who left voluntarily during the year divided by the average number of employees

New generation of employees

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

Since the lack of qualified labor is a serious risk in the development of the Group, constructive cooperation with universities and other research institutions continued in 2019 to ensure sufficient availability of employees with certain competencies. In Estonia, close cooperation with 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 mechanical engineering specializations. Over the years, more than 69 Bachelor's and Master's students have participated in the scholarship program and 14 of them have been employed by the Group following their studies. Currently, the Group employs five scholarship recipients.

The 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. The Lithuanian subsidiary RIFAS UAB has good cooperation relationships with the Panevezys College, Visaginas Technology and Business Training Centre and Klaipeda University.

Harju Elekter considers it important to be present in major labor and career fairs. In 2019, 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 organized by the Unemployment Insurance Fund. The Group also closely collaborates with various schools in provision of internship positions.

Employee satisfaction and motivation

At the 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 the organization's health survey conducted in spring 2019, 73% (2017: 72%) of the employees participated, the most active of whom were the employees of the Group's parent company.

When compared with the survey conducted in 2017, all scores showed improvement. The company's goals and further steps are considered important by employees and keeping track of financial results increases a sense of belonging and moving towards goals. Good relations with colleagues at different levels lay a foundation for open communication.

The most motivated employees work in the Parent company where the recommendation index was 85%, followed by AS Harju Elekter Elektrotehnika with 71% and AS Harju Elekter Teletehnika with 63%. 83% of the respondents of Energo Veritase OÜ recommended the company as an employer.

In addition, the survey gave an overview of the greatest development needs of the company. The results of the last health survey were taken into account in shaping the Group's human resources strategy, therefore the Group focuses on employee development, improvement of the quality of the working environment, and employee satisfaction and commitment.

In the financial year, satisfaction surveys were carried out in the Finnish (except for Telesilta Oy) and Swedish companies. Harju Elekter UAB and Telesilta Oy do not separately measure their employee satisfaction. However, Harju Elekter UAB assesses employee satisfaction through staff turnover and length of employment, which are measured regularly and compared against the results from previous years.

The Group uses various solutions to enhance employee satisfaction and 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 vacation days to be used between December and March.

Group companies have created various motivation systems, for example:

- a bonus system based on operating profit and personal performance that covers all employees. Profit-based bonuses motivate employees to contribute to the performance of the company as a whole;
- stimuli dependent on the length of employment;
- share-option plans aimed at involving members of the management bodies and employees of the Group companies as shareholders of the Group in order to motivate them to contribute to better economic results;
- inter-company and inter-country exchange programs supporting quick gaining 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 whose children start school, celebration of jubilees and anniversaries, allowance in the event of the loss of a close family member, school graduation bonuses and election of the employees of the year. Fostering recreational sports is a separate focus.

Personal development of employees

In 2019, the focus remained on improving the management capacity and quality of the executives of the Group companies. In addition, employee training courses laid emphasis on efficiency issues related to production optimization.

Professional training courses and study days related to the application of Lean Production Management principles were carried out in the Estonian subsidiaries. In total, 68% (2018: 68%) of executives and specialists participated in the management courses in 2019.

In 2019, the Group companies continued developing the new employee orientation program. Thus, for instance, in Finnish subsidiary Satmatic Oy all new employees undergo a two-day orientation course that is followed up by a six-month support by an internal mentor. A four-month orientation program 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 practical exercises and training courses are organized in the Group companies for the purpose of improving professional skills and qualifications. The development of the 5S program 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 organized for the employees of the Group companies and training courses were organized for working environment commissioners for the purpose of keeping them informed of relevant legislative amendments. All employees are regularly instructed about waste management and waste collection by type in the companies.

In 2019, 46% (2018: 72%) of the Group's employees participated in training courses, attending 11 (2018: 8.4) hours per employee on average. The Parent company trained its employees the most with 33.5 hours on average per employee (2018: 26.6). As for production companies, AS Harju Elekter Elektrotehnika trained its employees the most, averaging 10 (2018: 15.7) hours of training per employee. In 2019, the company's executives and specialists attended 13.6 (2018: 19.5) hours of training on average while workers attended 8.4 (2018: 2.7) hours on average per person.

The training and development needs are identified via performance appraisals held with employees at least once a year. Performance appraisals are held with employees of all levels in the Group.

Occupational health and safety

Occupational health and safety of the employees and a modern working environment are of utmost importance to the Group. Being a caring and responsible employer, Harju Elekter provides its employees with modern work and non-work conditions that are 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 requires. All the subsidiaries of the Group have made the management of occupational health and safety a strategic matter.

Since September 2019, the Group's Estonian companies have concluded contracts with an occupational health partner which carries out medical examinations of employees in accordance with the procedure established by law and at intervals prescribed by an occupational health doctor. The new service provides a better overview of mental health related risks and carries out a staff health audit on the basis of thorough data analysis. For the companies, it provides an action plan with recommendations to improve employee health: how to increase productivity and profitability.

To assess the compliance of the work environment with the requirements, potential risks and meeting of employees expectations, the Estonian production units have carried out a risk analysis. Based on its results, the Group invested in work equipment and reorganized work in 2019. The focus remains on improving the management of occupational safety and other similar practical issues, e.g. hoist-related safety, fire safety and evacuation issues, use of personal protective equipment, etc.

To improve workplace safety, the Subsidiaries AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika and Satmatic rely on the 5S system, which, in addition to occupational safety, aims at creating well-maintained and systematized workplaces, reduce a waste of resources, improve productivity and product quality. To ensure the functioning of the system, inspections are organized. The authorized team leaders and support persons are responsible for the functioning of the system.

The production operations of Harju Elekter UAB and SEBAB AB comply with the Occupational Health and Safety Assessment Series ISO 45001. In 2019, AS Harju Elekter Elektrotehnika and Satmatic Oy started preparations for implementing the same standard.

The number of occupational accidents decreased in 2019. The Group companies registered 13 (2018: 21) occupational accidents or injuries, including 1 (2018: 4) in Estonia, 2 (2018: 4) in Lithuania, 1 (2018: 3) in Finland and 9 (2018: 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 group companies was 0.02% (2018: 0.9%) on average and the number of workdays lost due to an illness was 2.0% (2018: 1.9%) on average.

Diversity and fair treatment

At the Group, following the principle of diversity and fair treatment is part of the work organization and the recruitment process of the staff. Therefore, the Group does not distinguish between or select employees

based on their gender, religion, nationality or race, but relies on their skills and competencies. 24% (2018: 23%) of the staff of the Group are women while there was one female executive out of 20 top executives (Supervisory Board, Management Board and executives).

The Group has made certain that people get equal pay in equal job categories and ensured equal pay levels for men and women in the same position and job category. The Group companies 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 2019.

Trade unions

The Group approves its employees' membership in trade unions and, therefore, 84% of the employees of the Group have signed trade union agreements.

The Parent company and the manufacturing companies operating in Estonia have constructive cooperation with Keila Industrial Park Trade Union (KETA). Approximately 33% of the employees of these companies have registered themselves as its members.

In 2019, the collective agreement concluded by the companies and the representatives of the employees was renewed and it applies to all employees. The trade union is an important channel of communication 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 organizing 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 organizing its activities. The employees of the Group's Lithuanian company are voluntarily members of local trade unions, and the employees of the Finnish and Swedish companies belong to local professional associations.

ENVIRONMENTAL MANAGEMENT

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

In essence, the manufacturing of energy distribution and control equipment is a relatively 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 (primarily copper) and waste generation (primarily copper and steel, to a lesser extent also paint residues).

100% of the metal and plastic waste generated in the manufacturing process is recycled and so is the most part of the recyclable cardboard and film waste. When transporting goods between the production plants in Keila, reusable packages are used.

Powder paints are used in paint lines, which is one of the most popular surface processing methods in metal industry as they do not contain solvents and heavy metals, and are thus more eco-friendly.

In 2019 and in prior years, the Group companies did not violate any environmental laws or other legislation.

The Group is prepared to openly discuss any environmental deviations and irregularities in order to advance 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 the environmental management standard ISO 14001 in all manufacturing enterprises of the Group (except for Finnkumu Oy and Energo Veritas OÜ that launched preliminary auditing at the beginning of 2020).

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 optimizing 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 as well as the specialists in the respective fields are responsible for environmental matters.

The environmental awareness and behavior 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 on noticing and making proposals to make transportation, waste management, and the use of materials and energy more reasonable and more environmentally sustainable. In several Estonian and Finnish subsidiaries, the employees are responsible for following 5S principles aimed at increasing productivity which, in addition to creating well-maintained 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 preferring energy-efficient manufacturing methods in its operations and through raising customers' awareness of renewable energy products and sources. Keeping in mind the same goal, more emphasis is laid on the development and sale of charging systems for electrical vehicle 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 group companies themselves choose more environmentally-friendly alternatives of the highest quality, where possible.

The company tries to reduce generation of metal waste via optimization of manufacturing processes. Metal waste is collected with the aim of making maximum use of it in manufacturing. However, depending on the product, up to one fourth 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 Group companies are contractual partners of the non-profit association Eesti Pakendiringlus, the subsidiary Satmatic Oy cooperates with the Finnish producer liability organization RINKI in order to ensure recycling of electronics, copper, cables and other waste.

The Group's Lithuanian subsidiary Harju Elekter UAB gives unused electrical components to the electrical technology students of the Panevėžys College to be used in teaching and learning activities.

Hazardous waste is collected and taken 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 Group companies increased. In 2019, a total of 1,152 (2018: 1,065) tons of waste was generated, incl. 3.7 (2018: 2.0) tons of hazardous waste that was discarded as required. 86% (2018: 89%) of non-hazardous waste was sorted and recycled.

Energy

The Group companies try to reduce the consumption of electricity and heat through smart and sustainable technologies and construction of 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 2019, the Group companies consumed 4,066 (2018: 4,545) MWh of electricity and 3,772 (2018: 5,263) MWh of heat. Approximately 15% (2018: 12%) of the total consumption originated from renewable sources.

To lower the energy need, Harju Elekter Elektrotehnika has reduced the premises in its use and to improve energy efficiency it has also renovated its warehouses.

The subsidiaries in Finland (Finnkumu Oy and Telesilta Oy) use primarily renewable energy when supplying their production plants with electricity. In the financial year, the Swedish companies, SEBAB AB and Grytek AB, used electricity that was 100% generated from renewable energy sources.

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

- In the case of new buildings, it is thoroughly assessed which heating solution is the most suitable one for the given building or production method. 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 are ready for such functionality
- Older building are made more energy efficient by insulating the walls and roofs and their ventilation systems are modernized. In 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

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 in 2018, 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.

In 2019, the solar panels installed on production premises covered 3.8% of electricity need (290 kWh) of AS Harju Elekter Elektrotehnika. In 2019, Satmatic Oy generated energy using their solar panels, 83 kWh, SEBAB AB 107 kWh, Finnkumu Oy 50 kWh and Harju Elekter UAB 80 kWh.

Although use of solar energy 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 source of energy.

SHARE AND SHAREHOLDERS

At 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 Nasdaq. The ticker 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 dividends. All the shareholders of the company are also equal 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 shareholders agreements.

As at 31 December 2019, the share capital of AS Harju Elekter amounted to 11.18 million euros, which is divided into 17.74 million ordinary shares without nominal value. The book value of a share is 0.63 euros.

The stock indices ended the year near highest levels and basically all major stock markets in North America, Europe and Asia demonstrated strong growth. The US stock exchange index S&P 500 increased by 34% in euros which is the best result since 2013. The technology sector was largest growth driver in the US. The European Stoxx 600 index grew by 27%. The Tallinn Stock Exchange OMX Tallinn increased by 10%. Most of the growth occurred in the first month of the year (+7%) while the remaining of the year was mostly stable.

Share price and trading

(EUR)	2019	2018	2017	2016	2015
Average number of shares (pcs)	17,739,880	17,739,880	17,739,880	17,739,880	17,550,851
Highest price	5.20	6.68	5.08	2.94	3.14
Lowest price	4.01	3.89	2.80	2.43	2.49
Closing price	4.21	4.12	5.00	2.83	2.63
Change (%)	2.2	-17.6	76.7	7.6	-5.7
Company's market capitalization (million)	74.68	73.09	88.70	50.20	46.66
Traded shares (pcs)	531,415	1,100,773	1,349,617	947,294	1,086,451
Turnover (in million)	2.35	5.98	5.46	2.45	2.98
Net profit per share	0.14	0.09	1.64	0.18	0.18
P/E ratio	30.07	45.78	⁽⁴⁾ 3.05	15.72	14.61
Dividend per share	⁽¹⁾ 0.18	0.18	0.24	0.18	⁽²⁾ 0.12
Dividend rate (%)	4.3	4.4	4.8	6.4	1.9
Dividend/net profit (%)	129.8	206.6	⁽³⁾ 100.0	100.0	27.8

(1)- Management Board's proposal

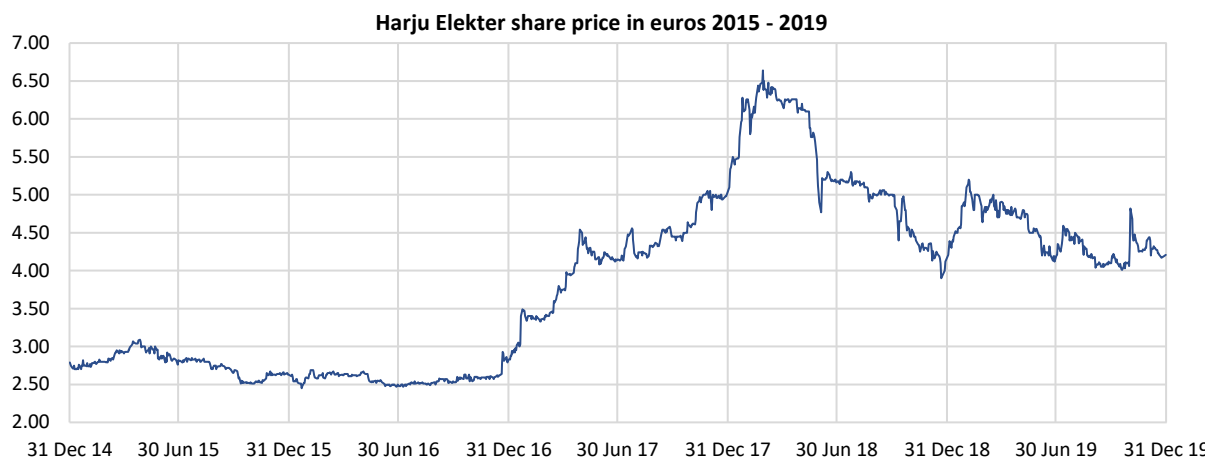
(2)- Incl. 0.07 euros, Share capital reduction payment

(3)- 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

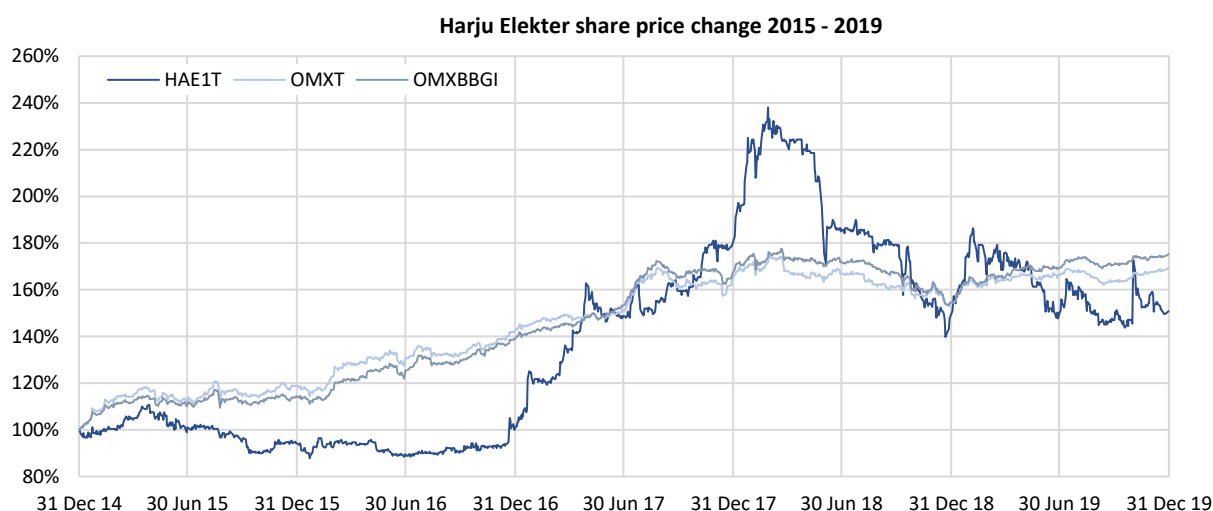
(4)- Takes into account the profit from the extraordinary sale of an investment in 2017

On the last trading day of the year, the share of AS Harju Elekter closed at 4.21 euros, increasing by 2.2% in a year after the 17.6% decline in 2018. As at 31 December 2019, the market value of the company was 74.68 million euros. The volume of transactions fell to 2.35 million euros similarly to the number of shares traded (0.5 million shares in 2019 as compared to 1.1 million shares in 2018). The number of the shareholders of the company continued rising. As at 31 December 2019, the company had 3,434 (31.12.2018: 3,102) shareholders.

The share of AS Harju Elekter (HAE1T) on the Nasdaq Tallinn Stock Exchange 2015–2019

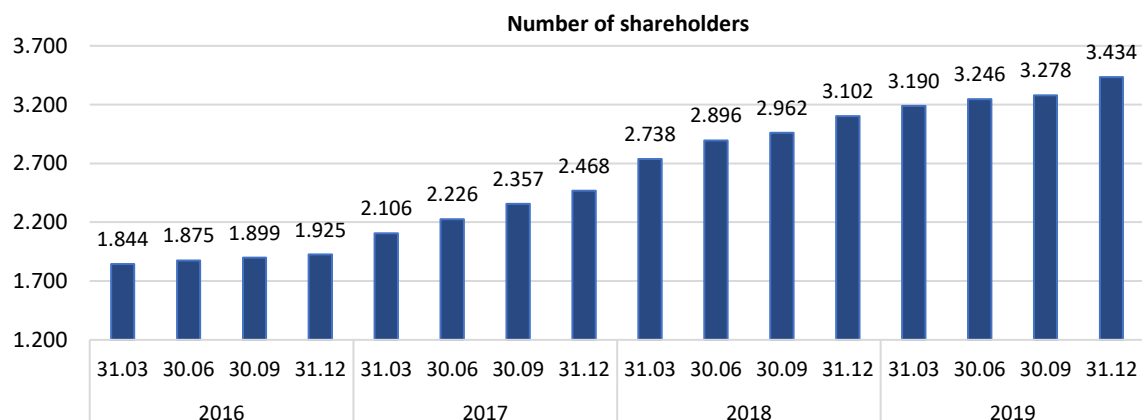


The share of AS Harju Elekter [compared with equity indices](#) 2015–2019



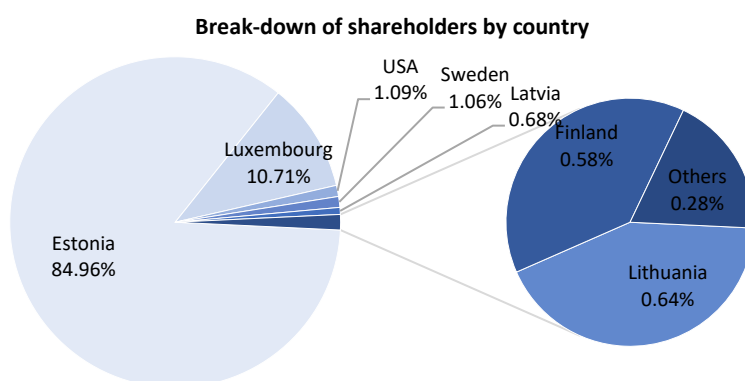
Shareholder structure at 31 December 2019

As at 31 December 2019, AS Harju Elekter had 3,434 shareholders. During the financial year, the number of shareholders increased by 332. 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 15.04%. As at 31 December 2019, the total direct and indirect shareholding of the members of the Supervisory Board and Management Board in the company amounted to 10.78%. The full list of the shareholders of AS Harju Elekter is available on the website of the Nasdaq Tallinn Stock Exchange.



Division of shareholders by shareholding size and the list of shareholders with holdings greater than 5% as at 31 December 2019:

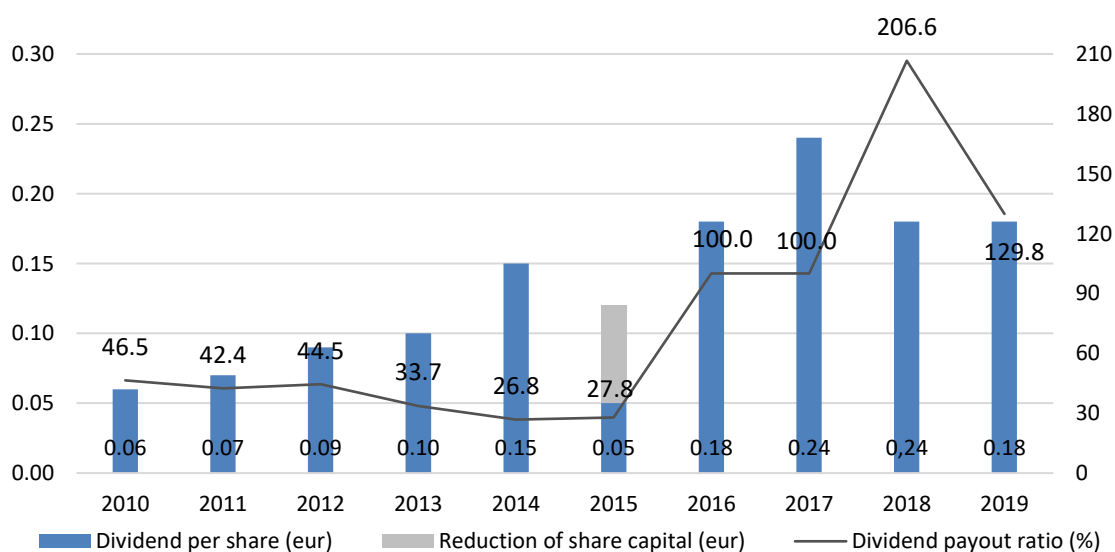
Shareholding %	Number of shareholders	% of total number	Voting right %	Shareholders	Shareholding (%)
More than 10%	2	0.1	42.10	AS Harju KEK	31.39
1.0 - 10.0%	8	0.2	21.62	ING Luxembourg S.A.	10.71
0.1 - 1.0 %	57	1.7	16.64	Endel Palla	7.04
Less than 0,1%	3,367	98.0	19.64	Shareholders with holdings less than 5%	50.86
Total	3,434	100	100.00	Total	100.00



Dividends

According to the Group's dividend policy, at least one third of the net profit generated in the ordinary course of business is paid out as dividends. It has become a good tradition at the Group to redistribute the dividends received on other financial investments. The actual dividends rate, however, depends on the Group's cash flows and future outlook and funding needs.

The Management Board with the approval from the Supervisory Board proposes to the General Meeting of Shareholders to pay 0.18 (2018: 0.18) euros per share as dividends, in the total amount of 3.2 (2018: 3.2) million euros.



Information about the history of dividends and ratios is disclosed in the table *Share price and trading*.

CORPORATE GOVERNANCE AND BASIS FOR PREPARATION OF THE MANAGEMENT REPORT

Upon organizing its business operations, Harju Elekter Group follows the legislation in force in all of 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 sustainability and social responsibility chapters that are based on the Global Reporting Initiative's (GRI) sustainability reporting standard. The Group relies on management principles that ensure maximum integrity and transparency in internal communication, customer relationships and relations with other parties. In 2019, 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 behavior and unfair competition demonstrated by its employees and partners. Internal regulations established at group companies and verbal agreements at the managerial level help 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 sector-specific principles. For instance, Harju Elekter UAB and Satmatic Oy have established guidelines 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 sector-specific training and internal audits are carried out regularly.

In order to mitigate risks arising from conflicts of interest, 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 organized by customers.

In 2019, the Group did not learn of any incidents of corruption and personal conflicts of interest 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 behavior.

The companies pay great attention to developing an open organizational 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 cases of non-compliance to the attention of the management of the company.

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.

There were no cases of non-compliance with current regulations (incl. economic, social or natural environment) in other activities of Group companies and, thus, no fines or non-monetary sanctions were imposed on Group companies. Likewise, no Group company or employee was taken to court for failure to abide by law.

This Annual Report covers the activities of the entire year 2019 and it is a follow-up to the Annual Report 2018. The annual report is prepared each year.

Corporate Governance Code Report 2019

AS Harju Elekter largely follows the guidelines of the CGC, even though these are merely recommendations. However, AS Harju Elekter does not follow some of the requirements of the CGC, but the reason for that lies mainly in the specifics of the company's field of business. The reasons for not following these requirements of the CG are given below. Additionally, further information is provided on the General Meeting of 2019, the Supervisory Board, Management Board and the corporate governance of AS Harju Elekter.

CGC item 1.3.3

Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer). AS Harju Elekter does not have such technical means and therefore it is not possible to participate in or follow the General Meeting via telecommunications equipment.

CGC item 2.2.7

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

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

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

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

CGC item 3.1.3

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

In June 2010, the Supervisory Board of AS Harju Elekter formed an Audit Committee in the company and approved the statutes of the committee because of a requirement arising from the Auditors Activities Act. In 2019, the duties of a committee member were performed by Triinu Tombak and Andres Toome. Information on the Audit Committee has been published on the company website.

CGC item 3.2.5

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

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

CGC item 3.3.2

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

Members of the Supervisory Board refrain from conflicts of interest and follow the requirements of the prohibition on competition. The Supervisory Board and the Management Board cooperate closely, adhering to the law and the articles of association, and keep in mind the interests of shareholders. No such conflicts of interest occurred in 2019.

CGC item 5.3

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

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

CGC item 5.6

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

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

CGC item 6.2

Election of the Auditor and Auditing of the Annual Accounts.

At 3 May 2018, the General Meeting of the shareholders of AS Harju Elekter elected AS PricewaterhouseCoopers as the audit firm for the years 2018-2020. Information about the auditor is available on the company's website. The auditor is remunerated in accordance with the contract concluded with the audit firm and by agreement of the parties the size of the remuneration is not disclosed. The next elections of the auditor will take place at the annual General Meeting of shareholders to be held in 2021.

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 their decisions 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 favor thereof. There are annual and extraordinary General Meetings. The annual General Meeting takes place once a year within six months after the end of the company's financial year. An extraordinary General Meeting is called by the Management Board when the company's net assets have 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 2019 of AS Harju Elekter was held at 2 May in Keila Culture Centre (Keskväljak 12). In total, 83 shareholders or their authorized representatives were present, representing 68.62% 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 2018 and the distribution of profit, deciding to pay dividends to the shareholders for the 2018 financial year at the rate of 0.18 euros per share, which amounts to 3.2 million euros in total.

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 2019, twelve meetings of the Supervisory Board were held. The members of the Supervisory Board participated in most of the meetings of the Supervisory Board.

At 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 at 31 December 2019 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 severance pay amounting to six months' salary of the Chief Development Officer. As at the end of 2019, the total direct and indirect shareholding of the members of the Supervisory Board in the company amounted to 9.5% (2018: 9.5%) (Note 21.3).

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 at 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 authority was extended for the next three years, i.e. until 31 October 2022 by the resolution of the Supervisory Board of AS Harju Elekter in the meeting held at 29 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 severance pay totaling up to ten months' remuneration, while other members of the Management Board are entitled to severance pay of up to eight month's remuneration of a Management Board member.

The Chairman of the Management Board is responsible for organizing 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 operating areas 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 2019, 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 21.3).

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

Additional management bodies and committees

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

In 2010, the Supervisory Board of the company established an Audit Committee as required by the Auditors Activities Act. The Committee monitors and analyzes 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 the 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 promptly, the company has a website containing all the stock exchange announcements, 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 from 3 May 2018, the audits of AS Harju Elekter and its subsidiaries from 2018 to 2020 are carried out by PricewaterhouseCoopers (except for Energo Veritas OÜ, which is audited by Baker Tilly Baltics OÜ).

SOCIAL CONTRIBUTION

Harju Elekter Group wishes to be an active and caring 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 supporting action policy of the Group is to be a stable partner and therefore, the Group primarily focuses on the establishment and development of long-term cooperation.

In 2019, the Group focused on supporting local life, education, sports and culture and contributing to the development of its industry.

We support engineering education

In 2019, 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, 69 students have participated in the scholarship program.
- In cooperation with TalTech's Development Fund and other Estonian companies, the Group participates in awarding M. Aitsam Scholarship targeted at students with special needs. In addition, the Chairman of the Supervisory Board, Endel Palla, has for many years been awarding his own personal scholarship.
- In 2019, AS Harju Elekter also continued its more than decade-long tradition of supporting the organization of the Electrical Engineering Week by the Electrical Engineering Faculty of TalTech. The Group also supported Robotex, the largest robotics event in Europe, and the international product development competition Student Formula targeted at the students of TalTech and the TTK University of Applied Sciences.
- AS Harju Elekter has also participated to the extent possible in fitting 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 analyze 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 Harju Elekter Group and the Group's employees contribute to the development of various engineering curricula with their knowledge and experience.
- In the last financial year, the Group's Estonian subsidiaries continued to be involved in several cooperation programs with the Tallinn Industrial Education Centre, TTK University of Applied Sciences, Tallinn Polytechnic School and Tallinn Construction School.
- Lithuanian subsidiary Harju Elekter UAB collaborates closely with the regional Panevėžys College of Electrical Engineering and Panevėžys vocational training center as well as Visaginas business and technology vocational center and Lithuania Maritime Academy.
- Finnish subsidiary Satmatic Oy has close relationships with the technical and professional schools in its region, i.e. with Satakunta Apprenticeship Training Centre, Tampere University of Technology and Turku School of Economics.
- In 2019, Group companies offered a total of 52 (2018: 54) internships to young people. The Group's subsidiary AS Harju Elekter Elektrotehnika has provided the majority of 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 increasing opportunities for recreational activities. AS Harju Elekter has long-term cooperation with Keila School, Keila Music School and Keila's nursery schools, sports clubs and hobby clubs.

We support and encourage young athletes

To promote sports, AS Harju Elekter has contributed the most to youth sports, aiming at steadily increasing the number of young people practicing sports. The parent company is a long-time supporter of Keila's basketball, volleyball 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 organizations. With its expertise and human resources, the Group contributes to topics that promote 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 both with legislators and the general public.

Companies of the Group are members in the following organizations:

Estonian Chamber of Commerce and Industry (AS Harju Elekter)

Estonian Association of Electrical Enterprises (AS Harju Elekter, AS Harju Elekter Elektrotehnika, Energo Veritas OÜ)

Lithuanian engineering industries association LINPRA (Harju Elekter UAB)

Panevėžys Chamber of Commerce, Industry and Crafts (Harju Elekter UAB)

Finnish Chamber of Commerce (Satmatic Oy)

Technology Industries of Finland (Satmatic Oy)

Cooperative for collection and recycling of Waste Electrical and Electronic Equipment ELKER (Satmatic OY)

Finnish Packaging Recycling RINKI (Satmatic OY)

Finnish Service Sector Employers PALTA (Telesilta OY)

In 2019, the total budget of various scholarships and aid programs granted by Harju Elekter Group amounted to 75.3 (2018: 76.4) thousand euros.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	53
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	54
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	54
CONSOLIDATED STATEMENT OF CASH FLOWS	55
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	57
1 GENERAL INFORMATION	57
2 BASIS OF PREPARATION.....	57
3 CHANGES IN ACCOUNTING POLICIES	58
4 SIGNIFICANT ACCOUNTING POLICIES	60
5 ACCOUNTING ESTIMATES AND JUDGEMENTS	72
6 FINANCIAL RISK MANAGEMENT.....	72
7 CASH AND CASH EQUIVALENTS	77
8 TRADE AND OTHER RECEIVABLES.....	77
9 PREPAYMENTS	77
10 INVENTORIES	77
11 FINANCIAL INVESTMENTS	78
12 INVESTMENT PROPERTIES	79
13 PROPERTY, PLANT AND EQUIPMENT	80
14 LEASES	81
15 INTANGIBLE ASSETS.....	83
16 BORROWINGS.....	84
17 LOAN COLLATERAL AND PLEDGED ASSETS.....	85
18 TRADE AND OTHER PAYABLES	86
19 TAXES	86
20 CONTINGENT LIABILITIES	86
21 SHARE CAPITAL AND RESERVES	87
22 SEGMENT INFORMATION.....	88
23 INFORMATION ON THE PROFIT OR LOSS LINE ITEMS.....	90
24 INCOME TAX AND DEFERRED TAX	91
25 BASIC AND DILUTED EARNINGS PER SHARE	91
26 INFORMATION ON LINE ITEMS IN THE STATEMENT OF CASH FLOWS	92
27 RELATED PARTIES	93
28 SUBSIDIARIES.....	94
29 PRIMARY FINANCIAL STATEMENTS OF THE PARENT COMPANY	96
30 EVENT AFTER THE REPORTING PERIOD	100

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR'000)	Note	31.12.2019	31.12.2018
Current assets			
Cash and cash equivalents	7	4,878	3,142
Trade and other receivables	8	22,958	22,218
Prepayments	9	1,166	1,173
Inventories	10	19,010	17,468
Total current assets		48,012	44,001
Non-current assets			
Deferred tax assets	24	472	98
Non-current financial investments	11	10,494	9,587
Investment properties	12	21,259	19,804
Property, plant and equipment	13	20,402	17,403
Intangible assets	15	7,260	7,260
Total non-current assets		59,887	54,152
TOTAL ASSETS	22	107,899	98,153
Liabilities			
Borrowings	16	11,305	6,656
Prepayments from customers		2,212	1,740
Trade and other payables	18	16,448	14,911
Tax liabilities	19	2,959	2,409
Current provisions		34	14
Total current liabilities		32,958	25,730
Borrowings	16	7,901	5,449
Other non-current liabilities	18	64	35
Total non-current liabilities		7,965	5,484
Total liabilities	22	40,923	31,214
Equity			
Share capital	21	11,176	11,176
Share premium	21	804	804
Reserves	21	3,412	2,665
Retained earnings		51,699	52,316
Total equity attributable to owners of the parent company		67,091	66,961
Non-controlling interests		-115	-22
Total equity		66,976	66,939
TOTAL LIABILITIES AND EQUITY		107,899	98,153

The notes on pages 57 to 100 are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(EUR'000)	Note	2019	2018
Revenue	22, 23	143,397	120,804
Cost of sales	23	-125,153	-104,828
Gross profit		18,244	15,976
Distribution costs	23	-5,706	-5,267
Administrative expenses	23	-9,229	-8,223
Other income		255	124
Other expenses		-291	-197
Operating profit	22	3,273	2,413
Finance income		139	157
Finance expenses		-225	-63
Profit before tax		3,187	2,507
Income tax	24	-820	-993
Profit for the period		2,367	1,514
Profit is attributable to:			
Owners of the parent company		2,460	1,546
Non-controlling interests		-93	-32
Earnings per share			
Basic earnings per share (EUR)	25	0.14	0.09
Diluted earnings per share (EUR)	25	0.14	0.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR'000)	Note	2019	2018
Profit for the period		2,367	1,514
Other comprehensive income (-loss)			
<i>Items that subsequently may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations	21.5	-84	-134
<i>Items that subsequently may not be reclassified to profit or loss:</i>			
Gain on available-for-sale financial assets reclassified to profit or loss	11	116	0
Net proceeds from revaluation of financial assets	21.5	642	-295
Total other comprehensive income (-loss) for the period		674	-429
Total comprehensive income (-loss) for the period		3,041	1,085
Total comprehensive income (-loss) for the period is attributable to:			
Owners of the parent company		3,134	1,117
Non-controlling interests		-93	-32

The notes on pages 57 to 100 are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR'000)	Note	2019	2018
Cash flows from operating activities			
Profit for the period		2,367	1,514
<u>Adjustments</u>			
Depreciation, amortization and impairment losses	12,13,15,22,23	3,518	2,588
Profit on sale of non-current assets	26	-51	-20
Share-based payments	27	189	97
Finance income		-139	-157
Finance expenses		225	63
Income tax	24	820	993
<u>Changes</u>			
Changes in trade receivables		-803	-6,293
Change in inventories		-1,543	-2,306
Changes in trade payables		2,637	1,092
Corporate income tax paid	26	-890	-939
Interest paid		-180	-58
Total cash flow (-outflow) from operating activities		6,150	-3,426
Cash flows from investing activities			
Payments for investment properties	26	-1,110	-2,722
Payments for property, plant and equipment	26	-4,191	-4,691
Payments for intangible assets	26	-350	-475
Acquisition of subsidiary, net of cash acquired	28	0	-2,906
Payments for financial assets	11	-730	-99
Proceeds from sale of property, plant and equipment	26	125	66
Proceeds from sale of financial assets	11	578	0
Proceeds from deposits		0	5,000
Interests received		8	16
Dividends received		140	147
Total cash flow (-outflow) from investing activities		-5,530	-5,664
Cash flows from financing activities			
Change in overdraft balance	16	3,902	4,967
Proceeds from borrowings	16	2,913	2,205
Repayments of borrowings	16	-989	-677
Payments of principal or leases	16	-1,275	-605
Acquisition of non-controlling interest		0	-39
Dividends paid	21	-3,193	-4,258
Income tax paid on dividends		-169	-244
Total cash flow (-outflow) from financing activities		1,189	1,349
Total net cash flow (-outflow)		1,809	-7,741
Cash balance at the beginning of the period		3,142	10,992
Change in cash balances		1,809	-7,741
Effects of exchange rate differences		-73	-109
Cash balance at the end of the period	7	4,878	3,142

The notes on pages 57 to 100 are an integral part of the consolidated financial statement

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR'000)	Attributable to owners of the parent company					Non-controlling interests	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total		
Balance at 01 January 2018	11,176	804	2,844	55,048	69,872	59	69,931
Change in accounting policies	-	-	153	-27	126	-	126
Adjusted balance at 01 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
Comprehensive income for the period	0	0	-429	1,546	1,117	-32	1,085
Transaction with owners recognized directly in equity							
Share-based payments (Note 27)	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
Comprehensive income 2019							
Profit for the period	0	0	0	2,460	2,460	-93	2,367
Other comprehensive income	0	0	558	116	674	0	674
Total comprehensive income for the period	0	0	558	2,576	3,134	-93	3,041
Transaction with owners recognized directly in equity							
Share-based payments (Note 27)	0	0	189	0	189	0	189
Dividends	0	0	0	-3,193	-3,193	0	-3,193
Total transactions with owners	0	0	189	-3,193	-3,004	0	-3,004
Balance at 31 December 2019	11,176	804	3,412	51,699	67,091	-115	66,976

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

The notes on pages 57 to 100 are an integral part of the consolidated financial statements

NOTES TO THE 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 December 2019 comprise AS Harju Elekter (hereinafter the "Parent company") and its subsidiaries (together referred to as the "Group" or Harju Elekter).

Subsidiaries of AS Harju Elekter	Core business	Ownership and voting rights	
		31.12.2019	31.12.2018
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 works	100%	100%
Satmatic Oy's subsidiaries			
Finnkumu Oy	Production	100%	100%
Kiinteistö Oy Ulvila Sammontie 9	Management of industrial real estate	100%	-
Lithuania			
HARJU ELEKTER UAB	Production	100%	100%
Sweden			
Harju Elekter AB	Intermediary sales	100%	100%
SEBAB AB	Production	100%	100%
Grytek AB	Production	100%	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 23 March 2020, the Management Board signed the consolidated financial statements for the financial year ended at 31 December 2019. According to the Estonian Commercial Code, the annual report including the consolidated financial statements, prepared by Management Board and approved by Supervisory Board, shall be approved by the annual general meeting of shareholders.

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 (IFRS) as adopted by the European Union.

2.1. Valuation basis

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

The key accounting policies used in the preparation of these consolidated financial statements are disclosed below. These policies have been applied using the consistency and comparability principles while the content and effect of the changes in valuations are disclosed in the respective notes. If the presentation or classification method of financial statement items have been changed, the comparative information of the prior period has also been restated.

2.2. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS 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 available from other sources.

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. The 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.

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 in the preparation of the consolidated financial statements, except for investments in subsidiaries that are accounted for using the cost method in the parent's separate primary financial statements.

3 Changes in accounting policies

3.1. 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 2019.

IFRS 16 Leases

The Group applied IFRS 16 Leases retrospectively as at 1 January 2019, but has not restated comparative information presented for 2018 as permitted under certain transitional rules in the standard. Thus, the comparative information for 2018 is presented, as previously reported, under IAS 17 and related interpretations.

The Group has recognized the right-of-use asset in its initial application for leases that were previously classified as operating leases in accordance with IAS 17. The Group measured the lease liability at the present value of outstanding lease payments, discounted with the alternative interest rate of the lessee as at on the initial application at 1 January 2019. At initial application, the Group used the following weighted average values of the alternative borrowing rate of the lessee: 1.6% for lease of office facilities.

Practical expedients for initial application

As a practical expedient, the Group has decided not to reassess as at the date of initial implementation whether the contract is a lease or contains a lease. Instead, the Group has relied on its previous estimates for contracts that were concluded before the date of transition, applying the requirements of IAS 17 *Leases* and the interpretation IFRIC 4 *Determining whether an Arrangement contains a Lease*.

In applying IFRS 16 for the first time, the Group has used the following simplifications allowed by the standard to leases previously classified as operating leases. In particular, the Group:

- used a single discount rate for leases with similar characteristics;
- did not recognize the requirements of IFRS 16 for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;

- used hindsight when determining the lease term if the contract includes the right to extend or cancel the lease.

For leases that are classified as finance leases in accordance with IAS 17, the carrying amount and lease liability of the right-of-use asset are, as at the date of initial application, the same as the carrying amount and lease liability measured in accordance with IAS 17.

Measurement of the right-of-use asset at initial recognition

As of the date of initial recognition, the Group has assessed the value of the right-of-use asset at an amount equal to the lease liability. Non-current assets acquired under the terms of the finance lease are included.

(EUR'000)

Right-of-use asset at initial recognition	2,118
Non-current assets acquired under a finance lease recognized as at 31 December 2018 (Note 13.2)	4,443
Total amount of the lease liability in the statement of financial position as at the date of initial recognition, i.e. 1 January 2019 (Note 13.1)	6,561

Recognition of lease liabilities at initial recognition

Lease liabilities recognized in the statement of consolidated financial positions at initial recognition are shown below:

(EUR'000)

Discounted using the lessee's alternative rate of interest of 1.6% at initial recognition	2,118
<i>Future minimum lease payments under an operating lease arising from non-cancellable lease agreements as at 31 December 2018</i>	<i>3,017</i>
<i>Current and low-value lease agreements under which lease liabilities are not recognized</i>	<i>-899</i>
Finance lease liabilities recognized as at 31 December 2018	2,690
Total amount of the lease liability in the statement of financial position as at the date of initial recognition, i.e. 1 January 2019	4,808

The Group has made the following adjustments to the consolidated statement of financial position as at 1 January 2019:

- Changes in property, plant and equipment by Group:
 - reclassification of assets acquired under a finance lease 4,443 thousand euros (Note 13.2)
 - addition of right-of-use asset 2,118 thousand euros (Note 13.1)
- Lease liabilities – increase by 2,118 thousand euros (Note 14.2)
- No net impact on profit

3.2. 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 2019 and have not been applied in preparing these financial statements. The Group intends to apply them when they come into effect.

Amendments to the Conceptual Framework for Financial Reporting

Effective for annual reporting periods beginning at or after 1 January 2020.

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The revision has no significant impact on the Group's financial statements.

Definition of material –Amendments to IAS 1 and IAS 8

Effective for annual reporting periods beginning at or after 1 January 2020.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The management estimates that the amendment does not have a major impact on the financial statements because the Group has applied similar accounting policies until now.

The 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 companies.

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 at which control is transferred to the Group and are deconsolidated from the date at 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 similar transactions and events in identical 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:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquiree;
- equity instruments issued by the Group;
- fair value of the asset or liability arising from contingent consideration arrangements; and
- 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 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 profit and loss and the statement of other comprehensive income, profit or loss and each component of other comprehensive income are attributed to owners of the parent and to 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 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 and presentation currency*

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

Realized 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 under *Finance income (-expenses)*.

The financial results and position of all Group companies 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 occurrence. Translation differences are recognized in other comprehensive income and are presented in equity as the 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. Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits at banks, other short-term liquid investments with maturities of three months or less and whose risk of changes in value is insignificant.

4.4. Financial assets

The Group classifies the financial assets into the following measurement categories:

- those to be measured at amortized cost; and
- those to be measured 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 financial assets, other than financial assets at fair value through profit or loss (FVPL), at fair value, including transaction costs that are directly attributable to the acquisition of the financial asset. The 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 financial assets of the Group were classified in the amortized cost category. The assets that are held for collection of contractual cash flows and whose cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income on these assets is recognized in finance 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 made an irrevocable decision to recognize changes in the fair value of equity instruments held for non-trading purposes through the statement of comprehensive income, the changes in fair value are not reclassified to the statement of profit or loss upon derecognition of the instrument. Dividends received from such investments continue to be recognized in the statement of profit and loss under other income.

For 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 determined on the basis of publicly available information and using valuation techniques that include reference to the fair value of another instrument that is substantially the same 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 its 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 4.10.

4.5. Inventories

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

4.6. Investment properties

Investment property is an asset that the Group holds either as an owner or under finance leases as a lessee for the purpose of earning lease income, capital appreciation or both, and which is not used in its own business activities. Investment properties are stated at cost method, i.e. at an acquisition cost less any accumulated depreciation and any impairment losses.

The useful life use for depreciation of similar items of property, plant and equipment is used for depreciation of investment properties (Note 4.7.c).

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

4.7. 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

Items of property, plant and equipment are recognized at an acquisition cost less any accumulated depreciation and any impairment losses. Acquisition cost consists of the purchase price of the asset and other costs directly attributable to the acquisition that are necessary for bringing the asset to its working condition

and location. The acquisition cost of an item of property made for own use consists of material costs, direct labor costs and a proportional share of production overheads and borrowing costs which are related to the acquisition, construction or production of non-current assets.

When an item of property, plant and equipment consists of separately identifiable components that have different useful lives, these components are accounted as separate assets and separate depreciation rates are assigned to them 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 the item of property, plant and equipment when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of an item 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 an item of property, plant and equipment and its identifiable components. 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

4.8. 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 to 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 4.10).

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 attributable to the intangible asset can be estimated.

Capitalized development costs are included with acquisition cost less any accumulated amortization and any impairment losses. Development costs are expensed using a straight-line method over their estimated useful

lives typically not exceeding 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 acquisition cost. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the software and prepare it for use. Other intangible assets acquired are measured at acquisition cost any less accumulated depreciation and any impairment losses. The useful life of an intangible asset arising from the acquired customer contract is equal to the term of contractual rights.

4.9. Non-current assets held for sale

Non-current assets held for sale are items of property, plant and equipment or intangible assets whose sale in the next 12 months is highly probable and 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 at the date when 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.

4.10. 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

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, determined on the basis of a number of possible outcomes,
- 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.
- The Group applies the simplified approach as permitted by IFRS 9 to cash and cash equivalents, deposits, trade receivables and contractual assets without a significant financing component and calculates impairment losses of receivables as lifetime estimated credit losses upon their initial recognition. The Group uses the impairment matrix where impairment losses is calculated for receivables using their various aging buckets (Note 6.3).

(b) Non-financial assets

For property, plant and equipment with unlimited useful lives as well as assets subject to depreciation, 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 time value of money and the risks associated with the asset. When the asset does not generate independent cash flow, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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 the 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 unit (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 same line of the statement of profit and loss of the period where the previous write-down was recognized. As an exception, impairment losses of goodwill are 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 increases 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.

4.11. 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 in the company's statement of financial positions. Operating lease payments are recognized over the lease term as income using the straight-line method.

(b) The Group as the lessee

Accounting principles effective from 1 January 2019

The Group leases office and manufacturing facilities, machinery and equipment and vehicles. At contract inception, the Group determined whether an arrangement is a lease or contains a lease. An arrangement is a lease or contains a lease when the contract gives the right to control the use of a specific asset for a fee over a period of time.

For the Group, the lease term is an uninterrupted period of lease, which includes periods of possible extension of the lease contract if the lessee is reasonably certain that he will exercise the option and periods of possible termination of the lease if the lessee is sufficiently certain that he will not use the option. The lessee reassesses if there is reasonable assurance that he will exercise his right of extension or right of cancellation when there is a material event or change in circumstances that is under the lessee's control and affects the lessee's reasonable assurance that he will exercise any option that was not taken into account in determining the initial lease term, or will not exercise any option that has been taken into account in determining the initial lease term. The Group changes the lease term in the event of a change in the uninterrupted period.

Initial measurement

The lessee recognizes the right-of-use asset and lease liabilities as at the beginning of the lease term.

On initial recognition, the lessee measures the acquisition cost of the right-of-use asset at the beginning of the lease term. The cost of the right-of-use asset includes:

- the amount determined on initial measurement of the lease liability;
- any lease payments made before the commencement of the period, less any lease payment incentives received;
- any initial direct costs of the lessee;
- the estimated cost to the lessee related to the demolition and relocation of the underlying asset, or the restoration of its location or the condition of the underlying asset under the lease terms.

The right-of-use asset is recognized in the statement of financial position in the group *Property, plant and equipment*.

The lessee measures the lease at the commencement of the term at the present value of the outstanding lease payments at that date. Lease payments are discounted at the effective interest rate of the lease, if it can easily be determined. If this rate is not readily determinable, the lessee will use an alternative borrowing rate, which is the rate payable in a similar economic environment for the term and loan security to acquire an asset similar to the right-of-use asset.

In determining the lessee's alternative borrowing rate, the Group has:

- used, where applicable, the interest rate on the loan received from a third party, adjusted to reflect changes in financing conditions from the time the loan was received;
- derived it by using the average of the sector's debt spreads adjusted by the credit risk of the Group;
- adjusted it to take account of the terms of the lease contract, such as the lease term, country, underlying currency and guarantees.

As at the commencement of the lease term, the lease payments to be taken into account for measuring the lease liability include the following payments for the right to use of the underlying asset during the lease term that have not been paid by the beginning of the lease term:

- fixed payments less available rental incentives;
- variable rent payments which are dependent on index or rate and are initially measured using the index or rate in effect at the beginning of the term. Variable rent payments that depend on the index or rate may be, for example, payments linked to the consumer price index, payments linked to a reference interest rate (e.g. LIBOR) or payments based on market rent rates. Some of the Group's leases include variable lease payments;
- amounts expected to be paid by the lessee under the residual value guarantees;
- the price of exercising the right of purchase where the lessee is reasonably certain that he will exercise the right,
- fines payable on termination of the lease if upon determination of the lease term the lessee is presumed to exercise the right to terminate the lease.

Subsequent measurement

After the commencement of the lease term, the lessee measures the right-of-use asset using the cost model. To use the cost model, the lessee measures the right-of-use assets at cost less any accumulated depreciation and any impairment losses, adjusted for any revaluation of the lease liability. If, under a lease contract, ownership of the underlying asset is transferred to the lessee at the end of the lease term, or if in determining the cost of the right-of-use asset it is assumed that the lessee exercises its purchase right to, the lessee accounts for the depreciation of the underlying asset from the commencement of the term until the end of the useful life of the underlying asset. In other cases, the lessee accounts for the depreciation of the right-of-use asset from the beginning of the lease term until the end of the useful life of the underlying asset or until the end of the lease term, whichever comes first.

After the commencement of the lease term the lessee shall measure the lease liability as follows:

- increases the carrying amount in accordance with the interest on the lease liability;
- reduces the carrying amount in accordance with the lease payments made;
- reassesses the carrying amount in accordance with revaluations or modifications to a lease contract or in accordance with substantially modified fixed lease payments.

For each period during the lease term, the interest on the lease liability is the amount that results in the same interest rate for each subperiod on the residual value of the liability. After the commencement of the lease term, the lessee recognizes in the statement of profit and loss interest on the lease liability and variable lease payments that are not included in the lease liability's estimate of the period in which the event or condition giving rise to the lease payment occurs.

In case of a change in lease payments, the lease liability may need to be reassessed. The lessee shall recognize the amount of the revaluation of the lease liability as an adjustment to the right-of-use asset. However, if the

residual value of the right-of-use asset decreases to zero and there is a further decrease in the measurement of the lease liability, the lessee shall recognize the amount of the revaluation in the statement of profit and loss.

To remeasure a lease liability, the lessee shall discount the adjusted lease payments at a revised discount rate if either of the following conditions applies:

- lease term is modified. The lessee shall determine the modified lease payments on the basis of the amended lease term; or
- the assessment of the purchase option of the underlying asset is revised. The lessee shall identify the revised lease payments so as to reflect any change in the amounts due under the lease.

To remeasure a lease liability, the lessee shall discount the revised lease payments if either of the following conditions applies:

- variable amounts expected to be paid by the lessee under the residual value guarantee. The lessee shall determine the revised lease payments so as to reflect any change in the amounts due under the residual value guarantee;
- future lease payments change as a result of changes in the index or rate used to determine those payments (incl., for example, the change in market rates of lease following an analysis of lease rates on the market). The lessee reassesses the lease liability in accordance with those revised lease payments only if there is a change in cash flow (i.e. a lease payment adjustment becomes effective). The lessee shall determine the modified lease payments for the remaining lease term on the basis of the revised contractual payments. For this purpose, the lessee uses the unchanged discount rate, unless the change in the lease payment is due to a change in the floating interest rate.

The Group has decided not to apply the requirements of IFRS 16 to short-term leases and low-value leases. Payments related to short-term leases and low-value leases are recognized as an expense in the statement of profit and loss on a straight-line basis. Current leases are contracts with a term of up to 12 months or less. Low-value leases are leases of IT equipment.

A lessee shall recognize a change in a lease contract as a separate lease if (a) the change increases the scope of lease by adding the right to use for one or more underlying assets; and (b) the lease price increases by an amount corresponding to the separate price of the increase of scale adjusted for the circumstances of the particular contract.

Accounting policies until 31 December 2018

Finance leases are transactions where all significant risks and rewards arising from the asset are transferred to the lessee. The remaining leases are considered as operating leases.

Assets and liabilities arising from finance leases are initially recognized in the statement of financial position as assets and liabilities at the lower of fair value of the leased asset and the present value of the minimum lease payments. Lease payments are divided into finance 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 straight method.

4.12. 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 longer 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.

4.13. Income tax and deferred tax

Income tax is paid on fringe benefits, gifts, donations, costs of reception of guests, 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 entered into force in Estonia at 1 January 2000, it is not the company's profits that are 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. From 1 January 2015, profits distributed as dividends are taxed with the rate of 20/80 on the net amount paid. 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 for. Beginning with 2019, it is possible to apply a more favorable tax rate on dividend payments (14/86). The more favorable tax rate can be applied to a dividend distribution that amounts to up to three preceding years' average dividend distribution that has been taxed at 20/80 rate. 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 income include current (payable) and deferred tax. The corresponding corporate tax rates in these countries are: Finland 20% (2018: 20%), Sweden 22% (2018: 22%) and Lithuania 15% (2018: 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:

- goodwill not deductible for taxation purposes;
- initial recognition of assets or liabilities that affect neither accounting nor taxable income;
- differences related to investments in subsidiaries to the extent that the realization of a temporary difference is not probable 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 an income tax liability.

4.14. 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 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 later than 12 months after the balance sheet date, the liability is discounted.

4.15. 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.

4.16. 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 in the statement of financial position.

4.17. 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 Group company repurchases its equity instruments (treasury shares), the consideration payable, including directly attributable costs (excl. 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, less any directly attributable transaction costs and related income tax effects, is transferred to the equity of the parent's equity holders.

4.18. Mandatory reserve

According to the Estonian Commercial Code, entities form a statutory reserve prescribed by law. At least 1/20 of the 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.

4.19. 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 any direct transaction costs, are recognized in equity as share capital and share premium.

4.20. Segment information

Operating segments are components of the company that engage in business activities from which it may earn revenue and incur expenses; for which separate financial information is available and for which separate budgets are prepared. The company's management regularly reviews segment information in order to determine the allocation of resources between segments and to assess segment performance.

4.21. Revenue from contracts with customers

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of the transaction price. The transaction price is the amount of consideration which the Group is entitled to receive in exchange for 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 goods or services 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 over the products has been transferred, i.e. when the products have been delivered to the clients, the client has full discretion over the distribution and price to sell the products, and there are no unfulfilled obligations 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 expired, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods have been 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 receive 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 the client has been invoiced less than the revenue recognized during the production period, 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 *Customer prepayments*.

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

(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 as a payment schedule when the customer purchases and receives the product from the store. The customer has the right to return a defective product during a period specified by law. 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 returned products are reviewed.

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

(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 by 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 a 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 to management.

In case of fixed-price contracts, the customer pays the fixed amount according to the payment schedule. If the services rendered by the Group exceed the payments received, a contract asset is recognized in the statement of financial position as *Trade and other receivables* (Note 8). If the payments received exceed the services rendered, a contract liability is recognized in the statement of financial position as *Customer prepayments*.

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.

4.22. 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 at the time the Group is rendering the service. Any lease concessions are treated as an integral part of lease income (Note 4.11).

4.23. 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.

4.24. Earnings per share

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

4.25. 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.

4.26. Related parties

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

- AS Harju KEK that 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 children or persons sharing a joint household with a member;
- companies controlled by the members of the Management Board and Supervisory Board.

4.27. 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 that 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.

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 (Notes 4.6, 4.7, 12, 13)

Management has assessed the useful lives of investment property, buildings and equipment based on production volumes and conditions, historical experience in this area and future outlook. Depreciation rates are increased when the useful life turns out to be shorter than initially estimated and technically obsolete assets are written off or impaired.

(b) Fair value of financial investments (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 issue 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 practices, and the company's internal regulations and risk policies. Risk management at a general level involves identifying, measuring and controlling of 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 foreign exchange rates. 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 2019, the Group is affected by the fluctuations of Swedish kronor in relation to euro.

(EUR'000)	31 December 2019			31 December 2018	
	EUR	SEK	NOK	EUR	SEK
Assets	707	12,377	10	602	8,038
Liabilities	-350	-10,797	0	-1,217	-3,806
Net open foreign currency position	357	1,581	10	-615	4,231
Income	186	18,786	0	126	14,038
Expenses	-2,452	-14,975	-373	-769	-13,500
Net open foreign currency position	-2,265	3,811	-373	-643	538

The potential impact of foreign currency fluctuations on comprehensive income is calculated based on the maximum foreign currency fluctuation during the reporting period that has been used in the table below to

assess the effect of a potential change in the exchange rate. For the purposes of sensitivity analysis of the Group's net open foreign currency position, all other inputs were held constant.

Possible impact on total comprehensive income:

<i>(EUR '000)</i>	2019	2018
Impact of SEK exchange rate +7.2% (2018: +9.5%)	-89	-300
Impact of SEK exchange rate -7.2% (2018: -9.5%)	80	363

To mitigate currency risks, the Group concludes as many international agreements as possible and makes most intra-group transactions in euros. The table above shows the Group's foreign currency receivables and liabilities. Based on availability, the funds received from collection of foreign currency receivables will be used to settle liabilities in the same currency. All existing long-term loan and lease agreement are denominated in euros and are therefore treated as liabilities that are 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 2019 and 2018.

(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 Skeleton Technologies Group OÜ in which the Group has a 9.3% holding that is recognized as a non-current financial investment may have a significant impact on the value of the Group's assets. More information on the holding in Skeleton Technologies Group OÜ is provided in Note 11.

Other non-current financial investments include listed securities and a 14.0% holding in SIA Energokomplekss. The fair value of these financial investments increased by a total of 642 (2018: 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 primarily dependent on possible changes in Euribor (Euro Inter-Bank Offered Rate). The Group's interest rates of non-current borrowings as at December 31, 2019 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 instruments were as follows:

<i>EUR '000</i>	Note	31.12.2019	31.12.2018
Fixed rate financial liabilities	16	1,311	302
Floating rate financial liabilities	16	17,895	11,803
Total		19,206	12,105

If interest rates 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 (assuming that all other variables remain constant). The calculation was performed on the same basis also in 2018.

<i>EUR '000</i>	31.12.2019	31.12.2018
Increase by one percentage point	-179	-118
Decrease by one percentage point	179	118

The methods and assumptions used for calculation of market risk have not been changed as compared to the previous period.

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 the 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 scope 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 forecasts. 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, there is no significant credit risk associated with retail customers. The Group has laid down conditions for taking debt recovery to court.

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

EUR '000	Note	31.12.2019	31.12.2018
Cash and cash equivalents	7	4,878	3,142
Trade and other receivables	8	22,958	22,218
Total		27,836	25,360

As at 31 December 2019, the Group's exposure to credit risk was 27.8 million euros and as 31 December 2018 it was 25.4 million euros. Management considers that the Group has no significant risk of a credit loss exceeding the amount already recognized.

Of the amount of accounts receivable at 31 December 2019, 1.94 million euros (31 December 2018: 1.96 million euros) had not been collected by 15 March 2020.

(b) Credit quality of financial assets

From 1 January 2018, the Group uses a simplified approach to measure expected credit losses under IFRS 9, applying lifetime expected credit losses to 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 31 December 2019 was immaterial.

To measure expected credit losses, trade receivables and contract assets are grouped according to the shares credit risk characteristics and the aging period. The expected credit loss rates are based on the payment discipline over the last 12 month-period until 31 December 2019, historical credit losses occurred in respective periods and considering the economic growth and market interest rate forecasts.

Based on the principles described above the allowances as at 31 December 2019 and 31 December 2018 were as follows:

	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
<i>EUR '000</i>							
31 December 2018							
Expected loss rate		0.22%	0.74%	2.70%	4.87%	12.40%	
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
31 December 2019							
Expected loss rate		0.13%	0.20%	2.52%	12.31%	71.09%	
Trade receivables	8	14,346	4,132	471	25	409	19,383
Contract assets	8	3,473	0	0	0	0	3,473
Other receivables	8	72	0	0	0	0	72
Total loss allowance		24	8	12	3	291	338

6.4. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial liabilities that are settled by the transfer of cash or another financial asset. The Management Board continuously monitors cash flow forecasts, 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 were concluded, which also help to mitigate potential liquidity risk (Note 16). As at the end of the financial year, the Group had available funds in the amount of 4.9 (2018: 3.1) million euros, borrowings of 19.2 (2018: 12.1) million euros (Note 16), trade and other payables of 16.5 (2018: 14.9) million euros (Note 18), liabilities of 40.9 (2018: 31.2) million euros. In 2019, the Group's short-term debt coverage ratio and liquidity ratio were 1.5 and 0.9 and in 2018, they were 2.2 and 1.5, respectively.

Analysis of the Group's financial liabilities by maturity:

	Note	< 3 months	3-12 months	1-5 years	Total
<i>EUR '000</i>					
31 December 2018					
Borrowings		1,678	5,038	5,524	12,240
Trade payables	18	10,602	0	0	10,602
Other liabilities	18	1,180	0	35	1,215
Total		13,460	5,038	5,559	24,057
31 December 2019					
Borrowings		2,853	8,560	8,065	19,478
Trade payables	18	12,902	0	0	12,902
Other liabilities	18	521	0	64	585
Total		16,276	8,560	8,129	32,965

6.5. Capital management

The Group's goal in capital management 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 so as 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 a common practice, the Group uses the 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 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. For calculation of the equity ratio, equity is divided by total assets.

In accordance with the laws of the country where the parent company is located, minimum requirements for equity limits of companies have been established. According to law, the company's equity capital must be at least one 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.

The Group's equity ratio:

EUR '000	Note	31.12.2019	31.12.2018
Interest-bearing borrowings	16	19,206	12,105
Cash and cash equivalents	7	-4,878	-3,142
Net debt		14,328	8,963
Total equity		66,976	66,939
Total capital		81,304	75,902
Debt to capital ratio		17.6%	11.80%
Total assets		107,899	98,153
Equity ratio		62.07%	68.20%

6.6. Fair value measurement

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 observable 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 that are revalued on the basis of the price of a regulated market but with low liquidity on the stock exchange. As at 31 December 2019 and 2018, the Group did not have any financial instruments at level 2.
- Level 3: Assets and liabilities that are valued using non-observable inputs.

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

The majority of Group's current and non-current borrowings are based on floating interest rates, which change according to the market interest rate. Management estimates that Group's risk rating has not changed considerably as compared to the inception of the borrowings, and Group's interest rates on borrowings correspond to the market. Fair value is determined using the 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 the balance sheet date and are therefore classified as level 1. The fair value of the unlisted financial instruments (Note 11) is determined by the management and is classified as level 3.

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

7 Cash and cash equivalents

EUR '000	Note	31.12.2019	31.12.2018
Cash on hand		13	2
Current accounts in banks		4,866	3,140
Total cash and cash equivalents	6.3	4,878	3,142

8 Trade and other receivables

EUR '000	Note	31.12.2019	31.12.2018
Trade receivables			
Accounts receivable		19,383	17,321
Loss allowance for trade receivables		-332	-87
Total trade receivables		19,051	17,234
Contract assets			
Contract assets		3,473	4,802
Loss allowance		-6	-10
Total contract assets		3,467	4,792
Other receivables			
Other current receivables		72	94
Other accrued income		368	98
Total other receivables		440	192
Total trade and other receivables	6.3	22,958	22,218

As at 31 December 2019, the Group assessed the need for recognition of impairment losses under IFRS 9 (Note 6.3).

Changes in allowances for receivables

EUR '000	Trade receivables		Contract assets	
	2019	2018	2019	2018
Opening balance at 1 January	-87	-232	-10	-4
Changes occurred in 1 January-31 December				
Doubtful receivables written off	-276	-52	0	-6
Collection of doubtful invoices and receivables	3	0	4	0
Doubtful invoices deemed irrecoverable	28	197	-	-
Closing balance at 31 December	-332	-87	-6	-10

9 Prepayments

EUR '000	Note	31.12.2019	31.12.2018
Prepaid tax	19	753	480
Prepaid expenses		413	693
Total prepayments		1,166	1,173

10 Inventories

EUR '000	31.12.2019	31.12.2018
Raw and other materials	10,594	11,747
Work in progress	3,921	1,946
Finished goods	1,866	2,056
Goods purchased for sale	2,406	1,719
Prepayments	223	0
Total	19,010	17,468
Impairment losses of inventories during the reporting period	46	7

11 Financial investments

EUR '000		31.12.2019	31.12.2018
Listed securities (at fair value through other comprehensive income)		5,017	4,712
Other equity investments (at fair value through other comprehensive income)		5,469	4,864
Other financial assets through profit or loss		8	11
Total		10,494	9,587
Changes from 1 January to 31 December	Note	2019	2018
1. Financial assets at fair value through other comprehensive income			
Carrying amount at the beginning of the period		9,576	9,772
Acquisitions		730	99
Sale of financial assets		-462	0
Change in fair value through other comprehensive income	21.5	642	-295
Carrying amount at the end of the period		10,486	9,576
2. Financial assets at fair value through profit or loss			
Carrying amount at the beginning of the period		11	0
Acquisitions		0	12
Change in fair value through profit or loss		-3	-1
Carrying amount at the end of the period		8	11
Total carrying amount at the end of the period		10,494	9,587

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 assets through the statement of comprehensive income. The fair value of financial assets increased in 2019 by 642 thousand euros and in 2018, it decreased by 295 thousand euros. The gain from the sale of securities listed on the stock exchange during the financial year in the amount of 116 thousand euros was recognized through other comprehensive income, the proceeds from the sale of financial assets totaled 578 thousand euros.

Other equity investments as at 31 December 2019 include an investment into the shares of Skeleton Technologies Group OÜ in the amount of 5,267 thousand euros (31 December 2018: 4,662 thousand euros). At June 3, 2015 AS Harju Elekter acquired a 10% holding in Skeleton Technologies Group OÜ, a company that develops and produces ultracapacitors. Skeleton Technologies Group OÜ is gradually increasing its manufacturing capacity and the valuation of future cash flows entails significant uncertainty. The determination of fair value of the shares is a complicated process due to the lack of an active market, and involves making of assumptions and decisions. In 2019, Harju Elekter made an additional investment in the amount of 605 thousand euros. The information available to management is limited and therefore it does not consider it appropriate to change fair value more than the amount of the additional investment. The registered ownership interest of Harju Elekter in Skeleton Technologies Group OÜ is 9.3% as at 31 December 2019. More detailed information about accounting policies is disclosed in Note 5.1.

12 Investment properties

(EUR'000)	Land	Buildings	Construction in progress	Total
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
Additions	0	0	2,637	2,637
Depreciation charge	0	-714	0	-714
Reclassification	0	3,074	-3,074	0
Total movements in 2018	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
Additions	0	0	913	913
Depreciation charge	0	-821	0	-821
Reclassification to investment property (Note 13)	1,363	0	0	1,363
Reclassification	138	688	-826	0
2019 Total movements	1,501	-133	87	1,455
As at 31 December 2019				
Cost	4,626	23,142	209	27,977
Accumulated depreciation	0	-6,718	0	-6,718
Carrying amount	4,626	16,424	209	21,259

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

In the reporting period, investment properties were reclassified due to the leasing of a registered immovable to a third party in 2019.

According to the management's estimate, the fair value of investment property at 31 December 2019 is 28.2 (31 December 2018: 27.8) million euros. The management's estimate is based on the discounted cash flow method, taking into account current lease agreements, 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 2019, the direct maintenance and repair costs of the investment properties amounted to 466 (2018: 402) thousand euros. Information on lease income is provided in Note 14.

As at 31 December 2019, 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

	Non-current assets					Right-of-use assets		Total
	Land	Buildings and facilities	Machinery and equipment	Other equipment and fixtures	Construction in progress and prepayments	Office and manufacturing facilities	Machinery and equipment	
As at 31 December 2017								
Cost	641	11,282	7,438	1,337	1,259	-	-	21,967
Accumulated depreciation	0	-3,579	-5,563	-842	0	-	-	-9,984
Carrying amount	641	7,713	1,875	495	1,259	-	-	11,983
Additions	1,363	47	2,275	190	2,623	-	-	6,498
Addition through acquisition of a subsidiary (Note 28)	0	0	75	25	26	-	-	126
Disposals at book value	0	0	-43	-3	0	-	-	-46
Depreciation charge	0	-488	-507	-158	0	-	-	-1,153
Reclassification	51	1,264	1,007	24	-2,346	-	-	0
Currency translation differences	0	0	-2	-1	-2	-	-	-5
Total movements in 2018	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	0	-	-	-10,817
Carrying amount	2,055	8,536	4,680	572	1,560	-	-	17,403
First-time adoption of IFRS 16 (Notes 3, 22)	0	0	0	0	0	2,118	0	2,118
Reclassification of finance leases (Notes 3, 13.1)	0	-1,359	-3,084	0	0	1,359	3,084	0
Adjusted opening balance at 1 January 2019	2,055	7,177	1,596	572	1,560	3,477	3,084	19,521
Additions	356	53	872	376	2,532	0	0	4,189
Addition of right-of-use assets (Note 22)	0	0	0	0	0	404	86	490
Disposals at book value	0	0	-72	-2	0	0	0	-74
Depreciation charge	0	-742	-446	-218	0	-711	-240	-2,357
Reclassification	0	5,271	28	21	-3,950	-1,321	-49	0
Reclassification to investment property (Note 12)	-1,363	0	0	0	0	0	0	-1,363
Currency translation differences	0	0	-3	-1	0	0	0	-4
Total movements in 2019	-1,007	4,582	379	176	-1,418	-1,628	-203	881
As at 31 December 2019								
Cost	1,048	16,594	7,950	1,847	142	2,522	3,229	33,332
Accumulated depreciation	0	-4,835	-5,975	-1,099		-673	-348	-12,930
Carrying amount	1,048	11,759	1,975	748	142	1,849	2,881	20,402

Beginning with 1 January 2019 when the new standard *Leases* was adopted, the leased assets are shown in a separate column titled *Right-of-use assets*. More detailed information about the changes in accounting policies is disclosed in Note 3.

At the end of the lease term and on acquisition of assets, the right-of-use asset has been reclassified to non-current assets, amounting to 1,321 thousand euros for office and production premises and 49 thousand euros for machinery and equipment in the financial year.

The majority of investments in the amount of 3.2 million euros were made to the manufacturing facility extension of the Lithuanian subsidiary in Panevėžys, construction of the related infrastructure and new production equipment. The other investments were made in the integration of the new flagship store and the central warehouse of the Estonian subsidiary, and development projects of the Group companies and industrial parks.

The acquisition cost of property, plant and equipment written off and sold during the reporting period totaled 317 (2018: 366) thousand euros, including machinery and equipment 289 (2018: 194) thousand euros and other non-current assets 28 (2018: 172) thousand euros. Assets written off were fully depreciated.

As at 31 December 2019, the acquisition cost of fully depreciated property, plant and equipment still in use was 1,740 thousand euros and as at 31 December 2018 it was 1,608 thousand euros. As at 31 December 2019, the Group had no commitments to acquire property, plant and equipment in subsequent periods.

13.2. Property, plant and equipment acquired under a finance lease as at 31 December 2018

Starting from 1 January 2019, when the new standard *Leases* was adopted, the leased assets are shown in a separate column titled *Right-of-use assets* in the table of movements of property, plant and equipment (*Note 13.1*). More detailed information about the changes in accounting policies is disclosed in Note 3.

(EUR'000)	Buildings	Machinery and equipment	Total
Cost	1,905	3,277	5,182
Carrying amount	1,359	3,084	4,443

Information about finance leases payables and their terms in 2018 is disclosed in Note 14.2.

14 Leases

14.1. The Group is the lessor

(EUR'000)	Note	2019	2018
Lease income			
- on investment properties		2,680	2,135
- other		4	33
Total lease income	23	2,684	2,168

In the statement of profit or loss, 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 7 years. Changes in lease terms are renegotiated before the end of the lease term, otherwise lease agreements will extend automatically by one year. Lease agreements are cancellable with a 1-18 month advance notice.

In the management's estimate, future lease payments under existing lease agreements are classified as follows:

(EUR'000)	2019	2018
Lease income		
< 1 year	2,824	2,596
1-5 years	9,559	9,455
> 5 year	2,680	4,195
Total lease income	15,063	16,246

The amount of future lease payments under non-cancellable operating leases according to contractual maturities:

(EUR'000)	2019	2018
Lease income		
< 1 year	1,722	1,914
1-5 years	52	52
Total lease income	1,774	1,966

14.2. The Group as the lessee

Lease liability

(EUR'000)	Note	Total
Lease payments due under finance leases as at 31 December 2017		615
New lease liabilities	16.1	2,680
Lease payments made	16.1	-605
Lease payments due under finance leases as at 31 December 2018		2,690
Initial recognition due to adoption of IFRS 16*	3	2,118
Reclassification of finance lease liabilities*	3	2,690
Adjusted opening balance at 1 January 2019		4,808
2019		
New lease liabilities	16.1	490
Lease payments	16.1	-1,333
Carrying amount at 31 December 2019		3,965

*In prior periods, only finance leases were included in the consolidated statement of financial position in accordance with IAS 17 *Leases*. Assets were accounted for as items of property, plant and equipment and were included in the Group's borrowings. Starting from 1 January 2019, when the new standard IFRS16 *Leases* was adopted, all non-current lease liabilities are included on the line *Borrowings* in the statement of financial position. More detailed information about the changes in accounting policies is disclosed in Note 3 and 13.2.

The base currency of lease agreements is euro. As at 31 December 2018, the interest rates of finance lease agreements were between 1.1% – 2.07%. In 2018, the weighted average internal interest rate of financial lease liabilities was 0.81%.

The Group's consolidated statement of profit or loss includes the following amounts related to leases:

(EUR'000)	2019
Interest expense (included within finance expenses)	91
Depreciation charge (included within operating expenses)	951
The cost of short-term and low value lease agreements included within operating expenses	370
Total	1,412

Operating lease expenses recognized in the statement of profit or loss in the prior period:

EUR '000	2018
Land	59
Office, commercial and production space	861
Vehicles	191
Other	20
Total	1,131

In 2019, the cash outflow related to leases totaled 1,645 euros

15 Intangible assets

15.1. Movements in intangible assets

EUR'000	Note	Goodwill	Develop- ment costs	Licenses	Customer contracts	Total
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
Additions		0	260	215	0	475
Acquired in the acquisition of subsidiary	28	864	0	0	0	864
Amortization charge		0	-54	-217	-450	-721
Reclassification		0	60	-57	-3	0
Currency translation differences		-18	0	0	0	-18
Total movements in 2018		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
Additions		0	224	131	0	355
Amortization charge		0	-76	-156	-108	-340
Currency translation differences		-15	0	0	0	-15
Total movements in 2019		-15	148	-25	-108	0
As at 31 December 2019						
Cost		6,201	882	1,751	1,230	10,064
Accumulated depreciation		0	-300	-1,491	-1,013	-2,804
Carrying amount		6,201	582	260	217	7,260

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

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

Customer contracts include customer contracts recognized as intangible assets after acquisition of the subsidiary Telesilta Oy in 2017 and open orders from customers in the amount of 541 and 692 thousand euros, respectively.

15.2 Testing the recoverable amount of goodwill

Positive goodwill arose through the acquisition of holdings in subsidiaries.

Goodwill for previous periods in the amount of 6,201 thousand euros arose as follows:

- In 2014 when a 100% holding in production company Finnkumu Oy was acquired;
- In 2017 when a 100% holding in Telesilta Oy, a Finnish company specializing in electrical works for the shipbuilding industry, and an 80.52% holding in electrical equipment and materials sales company Energo Veritas OÜ was acquired;
- At the beginning of 2018 when a 100% holdings in Swedish companies SEBAB AB, technical solutions provider, and Grytek AB that manufactures prefabricated technical houses, were 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 amount of the value of the 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. The cash-generating unit also includes goodwill attributable to it. 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 2020-2023 plus a terminal year;
- The range of discount rates of 7-10% 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 significant inputs and assumptions used and it did not identify any inputs or assumptions that would cause goodwill impairment if changes in a reasonable amount had been made to them.

16 Borrowings

16.1. Balances and changes in borrowings

(EUR '000)	Note	31.12.2019	31.12.2018
Current borrowings			
Current bank loans		8,869	4,967
Repayment of non-current bank loans in the next period		1,112	989
Current loans from related parties	27	199	30
Current lease liabilities	14.2	1,125	670
Total current borrowings		11,305	6,656
Non-current borrowings			
Non-current bank loans		4,582	3,429
Non-current loans from related parties	27	479	0
Non-current lease liabilities	14.2	2,840	2,020
Total non-current borrowings		7,901	5,449
Total borrowings		19,206	12,105

	Note	2 019	2 018
Changes in borrowings			
Opening balance		12,105	3,535
Change in current borrowings		3,902	4,967
Non-current loans from related parties	27	648	30
Non-current loans		2,265	2,175
Repayments of non-current loans		-989	-677
New lease liabilities	14.2	490	2,680
Lease liability (IFRS 16 first-time adoption)	3	2,118	0
Repayment of non-current lease liabilities	14.2	-1,333	-605
Closing balance		19,206	12,105

Additional information on interest rate risk is disclosed in Note 6.2(c).

16.2. Terms of non-current bank loans

As at 31 December (EUR '000)

Base currency	Loan balance		Loan limit		Interest rate	
	2019	2018	2019	2018	2019	2018
SEK	231	115	244	244	3.40%	3.40%
SEK	945	-	945	-	3.17%	-
EUR	0	186	500	500	3-month euribor+1.20%	3-month euribor+1.20%
EUR	610	180	1,000	600	3-month euribor+0.75%	3-month euribor+0.75%
EUR	4,884	3,411	5,000	3,500	3-month euribor+0.65%	3-month euribor+0.65%
EUR	0	-	1,000	-	3-month euribor+1.44%	-
EUR	-	1,075	-	2,500	-	3-month euribor+1.30%
EUR	2,198	-	4,000	-	3-month euribor+1.00%	-
EUR	-	0	-	2,000	-	3-month euribor+0.90%

Information on assets pledged as collateral for 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		Loan limit		Interest rate		Maturity date
	2019	2018	2019	2018	2019		
EUR	135	187	0	0	2.00%		30.09.2022
EUR	2,628	535	2,800	2,800	6-month euribor+1.35%		31.07.2023
EUR	2,932	3,696	3,505	4,635	3-month euribor+0.95%		24.10.2021

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

17 Loan collateral and pledged assets

The carrying amounts of pledged assets:

(EUR '000)	31.12.2019	31.12.2018
*Commercial pledge for movable property	500	500
*Investment properties	14,457	9,042
**Land and buildings	135	330

*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 the Parent company and mortgages on investment properties. The total value of the mortgages is 7.3 million euros. Using the pledged assets as collateral, the Group can use current loans of up to 1.0 million euros. As at the reporting date, a non-current loan of 2.9 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 3.6 million euros. The pledged assets partially secure a long-term loan of up to 2.8 million euros. As at the reporting date, the amount of the outstanding non-current loan was of 2.6 million euros.

**A mortgage on land and buildings in favor of Kurikan Osuuspankki has been set as a pledge for the investment loan. Using the pledged assets as collateral, a loan of 300 thousand euros was taken, with the outstanding balance at the end of reporting period being 135 thousand euros.

18 Trade and other payables

(EUR'000)	Note	31.12.2019	31.12.2018
Trade payables			
Payable for goods and services		12,887	10,393
Payable for property, plant and equipment		3	5
Outstanding payment for investment property		7	204
Payable for intangible assets		5	0
Total trade payables	6.4	12,902	10,602
Other current liabilities			
Payables to employees		3,025	3,129
Payable interest	6.4	5	0
Other accrued expenses	6.4	509	1,013
Other liabilities	6.4	7	167
Total other current liabilities		3,546	4,309
Other non-current liabilities	6.4	64	35
Total other non-current liabilities		64	35
Total trade and other payables		16,512	14,946

19 Taxes

(EUR'000)	Note	31.12.2019	31.12.2018
Value added tax		617	360
Corporate income tax		128	90
Social security tax		8	30
Total prepayment	9	753	480
Value added tax		1,641	1,268
Corporate income tax		217	44
Personal income tax		424	422
Social security tax		555	603
Other taxes		122	72
Total taxes payable		2,959	2,409

20 Contingent liabilities

20.1. Income tax

(EUR'000)	31.12.2019	31.12.2018
Retained earnings	51,699	52,316
Maximum possible dividend distributable to owners	44,205	44,754
Potential income tax expense on dividend distribution	7,494	7,562

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 2019.

The contingent income tax liability is calculated based on the maximum tax rate of 20/80, effective from 1 January 2015. Beginning with 2019, it is possible to apply a more favorable tax rate on dividend payments (14/86). The more favorable tax rate can be applied to a dividend distribution that amounts to up to three preceding years' average dividend distribution that has been taxed at 20/80 rate. Upon the payment of dividends in 2020, the Group is able to use the reduced 14% tax rate on 477 (2018: 319) thousand euros.

20.2. Potential tax risks

The tax authority has neither initiated nor carried out a tax audit or an 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

	Unit	31.12.2019	31.12.2018
Share capital	EUR '000	11,176	11,176
Number of shares (fully paid)	Pcs '000	17,740	17,740
Share premium	EUR '000	804	804

As at 31 December 2019, 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 amounts to 14.0 million euros and minimum to 3.5 million euros.

21.2. Dividends per share

In 2019, according to the profit allocation decision, dividends of 0.18 euros per share were paid for the year 2018 in the total amount of 3.2 million euros. The list of shareholders entitled to receive dividends was specified as at the end of the working day of the settlement system, i.e. 16 May 2019 and dividends were transferred to shareholder bank accounts on 24 May 2019. In the comparable period, dividends of 0.24 euros per share in the total amount of 4.3 million euros were paid for 2017.

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

		Number of shares	Direct shareholding	Indirect shareholding
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%	0.17%
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%	0.87%

The number of shares owned by the shareholders and the percentage of holdings was fixed at 23:59 on 31 December 2019. 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 shareholding) and the number of shares of the issuer belonging to their immediate family members (indirect shareholding) 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 Management Board shall also be considered as indirect shareholding.

21.4. Shareholders holding more than 5% the votes

%	31.12.2019	31.12.2018
AS Harju KEK	31.39	31.39
ING Luxembourg S.A.	10.71	10.71
Endel Palla	7.04	7.04
Shareholders holding under 5%	50.86	50.86
Total	100	100

21.5. Reserves

(EUR'000)	Note	Man- datory reserve	Share option	Revalu- ation reserve	Currency translation differences	Total reserves
Balance at 01 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 payments	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
Balance at 01 January 2019		1,242	97	1,460	-134	2,665
Gain on revaluation of financial assets (+)	11	0	0	642	0	642
Share-based payments	27	0	189	0	0	189
Currency translation differences		0	0	0	-84	-84
Balance at 31 December 2019		1,242	286	2,102	-218	3,412

Revaluation reserve

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

Currency translation reserve

The currency translation reserve 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 100% holdings in Swedish companies SEBAB AB and Grytek AB. The loss arising on currency translation differences due to the recognition of the financial results of the Swedish subsidiaries was 84 (2018: 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.

The consolidated financial statements distinguishes three segments - production, real estate and other activities.

Production - manufacturing and sale of electricity distribution and control equipment as well associated activities. This segment includes the Group's companies AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Harju Elekter UAB, Satmatic Oy, Finnkumu Oy, Harju Elekter Kiinteistöt Oy, Kiinteistö Oy Ulvila Sammontie 9, SEBAB AB and Grytek AB.

Real estate – real estate development, maintenance and leasing, services related to the maintenance of real estate and production capacity and intermediation of services. This segment includes the Parent company.

Other activities - sales of the products of the Group and its related companies as well as 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 results 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 company's cash, other receivables, prepayments, and other financial investments while unallocated liabilities are its borrowings, taxes payable and accrued expenses.

(EUR'000)	Note	Produc- tion	Real estate	Other activities	Elimi- nation	Consoli- dated
2018						
Revenue from external customers	23	99,795	2,605	18,404	0	120,804
Inter-segment revenue		3,092	1,395	679	-5,166	
Total 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
<i>incl. cash and cash equivalents</i>						248
<i>incl. financial investments</i>						9,576
<i>incl. other receivables and prepayments</i>						186
Total assets						98,153
Segment liabilities		31,873	329	4,232	-12,905	23,529
Unallocated liabilities						7,685
<i>incl. borrowings</i>						7,254
<i>incl. accrued expenses</i>						129
<i>incl. other</i>						302
Total liabilities						31,214
Investments to non-current 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

(EUR'000)	Note	Produc- tion	Real estate	Other activities	Elimi- nation	Consoli- dated
2019						
Revenue from external customers	23	124,842	3,250	15,305	0	143,397
Inter-segment revenue		4,234	1,404	605	-6,243	
Total segment revenue		129,076	4,654	15,910	-6,243	143,397
Operating profit		3,806	1,609	-1,893	-249	3,273
Segment assets		65,858	22,531	19,004	-11,430	95,963
Unallocated assets						11,936
<i>incl. cash and cash equivalents</i>						1,364
<i>incl. financial investments</i>						10,487
<i>incl. other receivables and prepayments</i>						85
Total assets						107,899
Segment liabilities		39,062	93	5,278	-11,430	33,003
Unallocated liabilities						7,920
<i>incl. borrowings</i>						7,643
<i>incl. accrued expenses</i>						147
<i>incl. other</i>						130
Total liabilities						40,923
Investments to non-current assets	12,13,15	4,181	913	363	0	5,457
Right-of-use assets	13	1,690	0	918	0	2,608
Depreciation and amortization	12,13,15	2,074	821	642	-19	3,518

Revenue by geographic regions (customer location)

(EUR'000)	Note	2019	2018
Estonia		16,741	15,444
Finland		71,783	75,458
Sweden		19,544	13,522
Norway		21,553	8,688
Netherlands		10,259	2,957
Other		3,517	4,735
Total revenue	23	143,397	120,804

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

(EUR'000)	31.12.2019	31.12.2018
Estonia	32,699	32,419
Finland	8,011	7,882
Sweden	2,199	1,039
Lithuania	6,012	3,127
Total value of assets	48,921	44,467

23 Information on the profit or loss line items

Revenue by business activities

(EUR'000)	Note	2019	At a point in time 2019	Over time 2019	2018	At a point in time 2018	Over time 2018
Electrical equipment		124,806	79,529	45,277	96,786	90,987	5,799
Retail and project-based sale of electrical products		8,986	8,986	0	10,106	10,106	0
Other products		1,889	1,889	0	1,463	1,463	0
Electrical works		2,999	0	2,999	8,933	0	8,933
Other services		2,033	0	2,033	1,348	0	1,348
Lease income	14	2,684	-	-	2,168	-	-
Total	22	143,397	90,404	50,309	120,804	102,556	16,080

Expenses

(EUR'000)	Note	2019	2018
Cost of sales			
Goods and materials		-97,580	-77,965
Services purchased		-7,271	-7,834
Personnel expenses (see below)		-18,126	-16,305
Depreciation and amortization		-2,636	-2,132
Other expenses		-2,042	-2,084
Increase in inventories of work in progress and finished goods		2,502	1,492
Total		-125,153	-104,828
Distribution costs			
Services purchased		-1,042	-935
Personnel expenses (see below)		-2,992	-2,931
Depreciation and amortization		-223	-36
Other expenses		-1,449	-1,365
Total		-5,706	-5,267

(EUR'000)	Note	2019	2018
Administrative expenses			
Services purchased		-1,313	-1,426
Personnel expenses (see below)		-5,358	-5,197
Depreciation and amortization		-665	-420
Other expenses		-1,893	-1,180
Total		-9,229	-8,223
- including development costs		-1,119	-1,243
<i>Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:</i>			
Salaries		-21,444	-18,610
Social security and other payroll taxes		-5,111	-6,135
Share-based payments	27	-189	-97
Capitalized personnel expenses		198	373
Change in accrued personnel expenses		70	36
Total		-26,476	-24,433

24 Income tax and deferred tax

Income tax expense

(EUR'000)	2019	2018
Current income tax expense	1,190	1,035
Deferred income tax income (-)/ expense	-370	-42
Income tax expense in the statement of profit and loss	820	993

Income tax expense calculated on the Group's profit differs from actual income tax expense for the reasons explained in the following table. In 2019, the average effective tax rate was 25.7%.

(EUR'000)	2019	2018
Total calculated income tax (Finland 20%, Lithuania 15%, Sweden 22%)	867	673
Adjustments for calculated income tax	-339	-235
Income tax on dividends	169	244
Total	697	682
Change in deferred tax assets recognized off balance sheet	123	311
Total income tax expense	820	993

Deferred tax assets

(EUR'000)	31.12.2019	31.12.2018
Deferred tax assets	472	98

The recovery of deferred tax assets calculated from tax losses depends on 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 generation of profits 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 are calculated by dividing the 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 2019, the Group had 636,275 (31 December 2018: 348,175) potential shares. In accordance with the decision of the general meeting of shareholders held at 3 May 2018, the issue price of shares to be

acquired under a share option plan was set as the average closing price of the previous three calendar years on the NASDAQ Tallinn Stock Exchange as at 31 December 2018. The share price was 3.49 euros in 2018 and 3.98 euros in 2019.

For share based benefits that are subject to IFRS 2 requirements, the share subscription price also includes the cost of services to be provided by employees in the future in exchange for share-based compensation. The value of the service was estimated by an independent expert at 1.55 euros per share in the first issue and 0.73 in the second issue. Thus, under IFRS 2, the subscription price of a share is 5.04 euros in the first issue and 4.71 in the second issue. The potential shares become diluting only after the average market price of their period exceeds these values. In the period from 1 January to 31 December 2019, the average market price of shares for the 2018 issue was 4.41 euros. In the period from 1 July to 31 December 2019, the average market price of shares for the 2019 issue was 4.25 euros. Thus, potential shares had no dilutive effect.

	Unit	2019	2018
Profit attributable to owners of the parent company	EUR '000	2,460	1,546
Average number of shares in the period	Pcs '000	17,740	17,740
Basic earnings per share	EUR	0.14	0.09
Adjusted average number of shares in the period	Pcs '000	17,740	17,740
Diluted earnings per share	EUR	0.14	0.09

26 Information on line items in the statement of cash flows

(EUR'000)	Note	2019	2018
Corporate income tax			
Income tax expense in the statement of profit or loss	24	-820	-993
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability	19	135	-260
Income tax prepayment/liability arising on the acquisition of business combinations	28	0	112
Income tax expense on dividends	24	169	244
Deferred income tax expense/income	24	-370	-42
Currency translation differences		-4	0
Corporate income tax paid		-890	-939
Paid for investment properties			
Acquisitions of investment properties	12	-913	-2,637
Decrease (-)/ increase (+) of liability related to acquisition	18	-197	-85
Paid for investment properties		-1,110	-2,722
Paid for property, plant and equipment			
Additions of property, plant and equipment	13	-4,189	-6,498
Purchased under finance lease		0	1,802
Decrease (-)/ increase (+) of liability related to additions of property, plant and equipment	18	-2	5
Paid for property, plant and equipment		-4,191	-4,691
Paid for intangible assets			
Additions of intangible assets	15	-355	-475
Decrease (-)/ increase (+) of liability related to additions of intangible assets	18	5	0
Paid for intangible assets		-350	-475
Proceeds from sale of property, plant and equipment			
Book values of disposed property, plant and equipment	13	74	46
Profit on disposal of property, plant and equipment		51	20
Proceeds from sale of property, plant and equipment		125	66

27 Related parties

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

Transactions with related parties

(EUR'000)	31.12.2019	31.12.2018
Balances with related parties:		
- Loans from members of the management board of subsidiaries and related company	678	30
- Payables for goods and services	223	325
	2019	2018
Purchase of goods and services from related parties:		
- Lease of property plant and equipment from Harju KEK	104	121
- Purchase of property plant and equipment from Harju KEK	139	0
- Lease payments to a company associated with a member of the management board of a subsidiary	347	464
Sale of goods and services to related parties:		
- Other services to Harju KEK	2	3
Remuneration of the members of the Supervisory and Management Boards:		
- salary, bonuses, additional remuneration	401	400
- social security tax	132	132
Loan movements:		
- Loans received from related parties (Note 16)	648	30

The members of the Management Board receive remuneration in accordance with the employment contracts, in addition are entitled to severance pay: Chairman of the Board for up to 10 month and other members of the Management Board for up to 8 month remuneration of the Management Board member. The Chairman of the Supervisory Board is entitled to receive severance pay totaling 6-month 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

At 3 May 2018, the General Meeting of Shareholders adopted a share option plan 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 so as to improve the Group's financial performance. As part of the option program, AS Harju Elekter issues stock options each year up to two percent (2%) of the total number of the shares of AS Harju Elekter. 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 by the date of the option agreement and the valid employment relationship until the subscription period. In June 2019, 94 option contracts (2018: 124) were concluded with the Group's employees and Board members for the total 339,100 (2018: 351,925) share subscription rights, including 8,000 share subscription rights to each member of the Group's Supervisory Board and the Management Board for the total of 64,000 shares.

The issue price of shares to be acquired for share options was determined on the basis of average closing prices for the period 2015-2017 on the NASDAQ Tallinn Stock Exchange as at 31 December. The share issue price was 3.49 euros in the first and 3.98 euros for the second issue.

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 first issue and 0.73 per second issue. In 2019, the amount of share-based payments recognized as personnel expenses was 189 (2018: 97) thousand euros (Note 21.5 and 23).

The Black-Scholes valuation model was used to estimate fair value. The price is based on the weighted average market price of the share (3.49 euros and 3.98 euros), the expected volatility of the share (30% and 28%), risk-free interest rate (1.75% and 1.50%), 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. In the first quarter of 2017, AS Harju Elekter acquired an 80.52% stake in Energo Veritas OÜ, a company that sells electrical materials and equipment.

28.2. Business combination in 2018

Acquisition of SEBAB AB and Grytek AB

At 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 at 8 January 2018, and the remaining 0.7 million euros (2.2 million SEK) was paid in accordance with the contract in the second quarter 2018. The consolidated financial statements include the results of SEBAB AB and Grytek AB starting with 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, the Group will enter new market segments in Sweden and its 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 performing a purchase analysis that assesses the value of the assets of the new subsidiaries. Assets and liabilities were recognized at fair value at the acquisition date. The purchase analysis is based on the financial information as at 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

<i>(EUR'000)</i>	Note	Acquired net assets
Assets and liabilities		
Cash and cash equivalents		1,055
Trade receivables		2,198
Corporate income tax	26	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
<i>(EUR'000)</i>	Note	Acquired net assets
Net assets		2,983
Cost		3,789
Goodwill	15	806
Cash flows		
Paid for shares in cash		-3,789
Cash and cash equivalents in the acquired company		1,055
Bank overdraft		-172
Total cash impact on the Group		-2,906

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 financial position, statement of comprehensive income, 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

(EUR '000)	31.12.2019	31.12.2018
Cash and cash equivalents	1,364	248
Trade receivables	505	593
Receivable from related parties	7,693	10,979
Other current receivables and prepayments	85	255
Total current assets	9,647	12,075
Investments in subsidiaries	14,324	13,724
Non-current receivables from subsidiaries	6,433	4,111
Other non-current financial investments	10,487	9,577
Investment properties	25,846	24,570
Property, plant and equipment	1,191	2,533
Intangible assets	64	144
Total non-current assets	58,345	54,659
VARAD KOKKU	67,992	66,734
Borrowings	5,413	4,288
Trade payables	112	352
Tax liabilities	147	129
Other liabilities and prepayments from customers	235	424
Total current liabilities	5,907	5,193
Borrowings	2,167	2,931
Other non-current liabilities	64	35
Total non-current liabilities	2,231	2,966
Total liabilities	8,138	8,159
Share capital	11,176	11,176
Share premium	804	804
Reserves	3,345	2,703
Retained earnings	44,529	43,892
Total equity	59,854	58,575
TOTAL LIABILITIES AND EQUITY	67,992	66,734

STATEMENT OF COMPREHENSIVE INCOME

(EUR'000)	2019	2018
Revenue	5,161	4,505
Cost of sales	-2,678	-2,291
Gross profit	2,483	2,214
Other income	34	1
Administrative expenses	-1,797	-2,064
Other expenses	-24	-44
Operating profit	696	107
Revenue from subsidiaries	2,800	3,800
Dividend income available-for-sale financial assets	140	147
Interest income	217	207
Interest expenses	-53	-26
Loss from change of foreign exchange rates	-2	-4
Profit from operating activities	3,798	4,231
Income tax	-84	-119
Profit for the period	3,714	4,112
Profit for the period		
Gain/-loss from revaluation of financial assets	758	-294
Total other comprehensive income/loss for the period	758	-294
Comprehensive income/expense for the period	4,472	3,818

STATEMENT OF CASH FLOWS

(EUR '000)	2019	2018
Cash flows from operating activities		
Profit	3,714	4,112
<u>Adjustments</u>		
Depreciation, amortization and impairment losses	1,529	1,249
Profit on sale of non-current assets	-30	-1
Finance income	-3,157	-4,154
Finance expenses	57	30
Income tax	84	119
<u>Changes</u>		
Changes in trade receivables	226	244
Change in inventories	0	12
Changes in trade payables	-115	44
Interest paid	-51	-24
Total cash flow (-outflow) from operating activities	2,257	1,631
Cash flows from investing activities		
Payments for investment properties	-1,110	-2,723
Payments for property, plant and equipment	-479	-2,478
Payments for intangible assets	-13	-83
Acquisition of subsidiaries	-600	-4,509
Acquisition of financial investments	-830	-99
Proceeds from sale of property, plant and equipment	52	14
Proceeds from sale of financial investments	578	0
Proceeds from deposits	0	5,000
Repayments of loans granted	8,705	7,344
Loans granted	-7,618	-12,973
Interest received	221	205
Dividends received	2,940	3,947
Total cash flow (-outflow) from investing activities	1,846	-6,355
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	29	35
Change in overdraft balance	1,126	3,523
Proceeds from borrowings	0	1,740
Repayments of borrowings	-865	-626
Dividends paid	-3,193	-4,258
Dividend income tax paid	-84	-119
Total cash flow (-outflow) from financing activities	-2,987	295
Total cash flows	1,116	-4,429
Cash and cash equivalents at the beginning of the period	248	4,677
Change in cash and bank accounts	1,116	-4,429
Cash and cash equivalents at the end of the period	1,364	248

STATEMENT OF CHANGES IN EQUITY

(EUR'000)	Share capital	Share premium	Mandatory reserve	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2017	11,176	804	1,242	1,602	44,038	58,862
Change in accounting policies	-	-	-	153	-	153
Adjusted 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 / loss 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 recognized directly in equity						
Dividends paid	0	0	0	0	-4,258	-4,258
Total transactions with the owners of Parent	0	0	0	0	-4,258	-4,258
Balance at 31 December 2018	11,176	804	1,242	1,461	43,892	58,575
Profit for 2019	0	0	0	0	3,714	3,714
Other comprehensive income /-loss for 2019	0	0	0	642	116	758
Total comprehensive income/-loss	0	0	0	642	3,830	4,472
Transactions with the owners of Parent recognized directly in equity						
Dividends paid	0	0	0	0	-3,193	-3,193
Total transactions with the owners of Parent	0	0	0	0	-3,193	-3,193
Balance at 31 December 2019	11,176	804	1,242	2,103	44,529	59,854

(EUR'000)	2019	2018
Adjusted unconsolidated equity as at 31 December	59,854	58,575
Interests under control and significant influence:		
-Carrying amount	-14,324	-13,724
-Carrying amount under the equity method	21,561	22,109
Adjusted unconsolidated equity as at 31 December	67,091	66,960

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.

30 Event after the reporting period

Effect of the coronavirus (COVID-19)

The first reports of the new coronavirus (COVID-19) reached the World Health Organization (WHO) from China in December 2019 and the virus is now spreading around the world, causing problems for businesses and affecting general economic activity. On March 11, the WHO declared the coronavirus outbreak a pandemic, and, as a result, many countries have declared a state of emergency. Crossing internal and external Schengen borders has temporarily been restricted and border controls have been restored in Europe to prevent the spread of the coronavirus. At the same time, states and governments assure that trade and transport will continue unrestricted.

The Group treats the outbreak as a non-adjusting event after the reporting date. Due to the uncertain and rapidly evolving situation, we consider it impossible to make realistic quantitative estimates of the potential impact of the outbreak on the Group. Production and business operations are continue at all our locations and if the situation changes, it will be notified separately by a stock exchange announcement. Potential financial effects are recognized in the Group's reports for 2020.

We have assessed probable risk scenarios that may affect our production and supply chain. We review risk assessments regularly, and today see the following main risks:

- Health and potential sickness of the production personnel: In order to prevent infection, the administrative staff is working at home offices, and customer meetings and travel are prohibited. Production has been isolated, disinfection has been improved and only those directly involved in the production have access to production. The use of common facilities is prohibited. In the event of sickness, people can take a disability certificate, which is supported by the state up to 70% from the first day of illness. To replace the workforce, we are in close contact with labor hire companies and are looking for temporary workforce. People have the opportunity to work full-time or part-time in any shift.
- Availability of materials: To ensure availability of materials and components, we are mapping out intra-Group resources between subsidiaries. We are in constant contact with our suppliers and at the moment, we are not aware of any major supply difficulties. To reduce risks, we increase inventory levels for certain materials and components. Deliveries in connection with the closure of the Polish border have been re-organized through Denmark and Sweden, and the shipping lines between Germany and Latvia as well as between Germany and Estonia have been launched.
- Trade: To ensure smooth functioning of trade with the customers in the key target markets, i.e. Scandinavia, the government has made significant efforts to ensure that this will be achieved. Therefore, the trade is currently operating without interruption.
- Demand: We are in constant contact with our customers whose demand has remained intact until now. This is supported by the fact that the vast majority of them are related to field work and the construction of previously planned infrastructure and therefore there are currently no plans to suspend investments. There are several ongoing procurements for the following periods.
- Current assets: We believe that we have sufficient financial reserves to meet our liabilities, increase our stock levels if necessary and continue our previously agreed investments. In case of default of customers, we will review their credit ratings and credit limits. Most of the Group's customers are large network companies and multinational corporations.
- Securities of listed companies: Securities of listed companies are long-term investments that can be immediately be used to improve liquidity. The value of the securities portfolio has decreased by 30% in comparison with the reporting date.

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

The Management Board confirms that the management report as set out on pages 5 to 51 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 2019 as set out on pages 52 to 100 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 concern.

Andres Allikmäe Chairman of the Management Board



23 March 2020

Tiit Atso Member of the Management Board



23 March 2020




Aron Kuhi-Thalfeldt Member of the Management Board








23 March 2020

SIGNATURES OF THE MEMBERS OF THE SUPERVISORY BOARD TO THE ANNUAL REPORT OF 2019

The Management Board has prepared the consolidated financial statements and annual accounts of AS Harju Elekter for 2019.

Andres Allikmäe	Chairman of the Management Board		23 March 2020
Tiit Atso	Member of the Management Board		23 March 2020
Aron Kuhi-Thalfeldt	Member of the Management Board		23 March 2020

The Supervisory Board has reviewed the annual report prepared by the Management Board (pp. 5-100), which consists of management report and financial statements, and approved it for submission to the general meeting of shareholders.

Endel Palla	Chairman of the Supervisory Board		27 March 2020
Arvi Hamburg	Member of Supervisory Board		27 March 2020
Aare Kirsme	Member of Supervisory Board		27 March 2020
Triinu Tombak	Member of Supervisory Board		27 March 2020
Andres Toome	Member of Supervisory Board		27 March 2020



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 ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2019, 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 dated 23 March 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 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

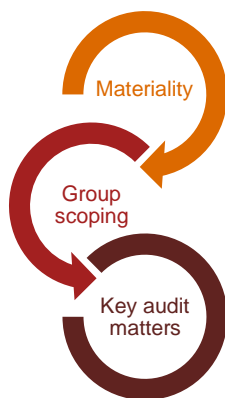


accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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 § 59¹ of the Auditors Activities Act of the Republic of Estonia. During 2019, we have provided to the Group tax services.

Our audit approach

Overview



Overall group audit materiality is EUR 1.4 million, which represents 1% of consolidated revenue.

A full scope audit was performed by us and, under our instructions, other PwC network entities for all material Group entities covering 93% 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.

- 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 1.4 million
How we determined it	Around 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
<p><i>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')</i></p> <p>In 2019, the Group has recognised revenue of EUR 143 million. Revenue consists mainly of sales of electrical equipment and products in the amount of EUR 134 million and revenue from electrical works and other services in the amount of EUR 10 million.</p> <p>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).</p> <p>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.</p> <p>Revenue recognition requires significant time and resource to audit due to its magnitude and is therefore considered to be a key audit matter.</p>	<p>When auditing revenue recognition we performed the following tests:</p> <ul style="list-style-type: none"> • 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 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 Group 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 93% 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. The other information comprises the Statement of the Chairman of the Supervisory Board, the Statement of the Chairman of the Management Board, the Management report, the Share and Shareholders, the Corporate Governance and Bases for preparation of the Management Report, the Social Contribution and the Supplementary Annexes (but does not include 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 and the total period of our uninterrupted audit engagement has lasted for two years. 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

A handwritten signature in blue ink, appearing to read 'E. Jansen-Diener'.

Eva Jansen-Diener
Certified auditor in charge, auditor's certificate no.501

A handwritten signature in blue ink, appearing to read 'K. Veermäe', enclosed within a large, horizontal oval shape.

Kristiina Veermäe
Auditor's certificate no.596

23 March 2020

** 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.*

PROFIT ALLOCATION PROPOSAL

Retained earnings attributable to equity holders of AS Harju Elekter:

	EUR
Retained earnings for prior periods	49,238,503
Profit for 2019	2,460,606
Total distributable profit as at 31 December 2019	51,699,109

The Management Board proposes to distribute profit as follows:

As dividends (0.18 euros per share)	3,193,178
Balance of retained earnings after profit distribution	48,505,931



Andres Allikmäe
Chairman of the Management Board

23 March 2020

SUPPLEMENTARY ANNEXES

FORMULAS TO CALCULATE RATIOS

Formulas used to calculate the ratios set out on pages 11 and 42:

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
Liquidity ratio	= Average liquid assets (current assets - inventories) / Current liabilities (average)
Company's market capitalization (million)	= Closing price * Number of shares
Dividend rate %	= Dividend per share / Closing price
Dividend / net profit %	= Dividend per share / Net profit (attributable to owners of the parent company)

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 behavior issues that are most important from the point of view of the Group’s activities and influence and expectations of stakeholders. The table with GRI content presented below includes data on the activities of the Parent company and its subsidiaries AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Telesilta Oy, Harju Elekter 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	Page no	Key explanations
Foundation (GRI 101: 2016)				
General disclosures (GRI 102: 2016)				
Organizational profile				
	102-1	Name of organization		AS Harju Elekter
	102-2	Activities, trademarks, products and services	p 1, 6, 17-25, 57	
	102-3	Location of head office		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, 57	The nature of activities and products differ by the company and, therefore, they are presented on the basis of revenue instead of the number of units produced.
	102-8	Information on employees	p 34-35	
	102-9	Supply chain	p 6, 17, 31	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) dispatched or taken to the customer’s site.
	102-10	Significant changes occurred in the reporting period	p 4, 8-9, 13-16, 26-28, 42-44	
	102-11	Precautionary Principle or approach in environmental issues	p 39	Covered by corporate environmental policies.
	102-12	External initiatives	p 29-33, 38, 39, 45-49, 50-51	
	102-13	Membership of associations	p 51	
Strategy				
	102-14	Statement from Chairman of the Supervisory Board and Chairman of the Management Board	p 3-4	The Chairmen's addresses do not include the issue of sustainability and its importance for the Group.
Ethics and integrity				
	102-16	Values, principles, standards, and behavioral norms	p 5, 45	
Governance				
	102-18	Governance structure	p 47-48	Social and environmental issues are the responsibility of the members of the Management Board of the Group and those of their subsidiaries as well as the specialists in their respective areas.
Stakeholder engagement				
	102-40	List of stakeholders	p 6-7	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
	102-41	Collective bargaining agreements	p 38	
	102-42	Identification and selections of stakeholders	p 6-7	The relations with stakeholders who are influenced by the activities of the Group and whose activities influence the Group most of all, are the most important ones 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, 34-38, 50-51	
	102-44	Key topics and concerns raised	p 6-7	As the expectations of external stakeholders are generally similar, they have been summarized in the matrix of focus topics that impact sustainability. The chapters of this report outline the principles for dealing with the topics that are of the greatest interest to the stakeholders. The issues raised by employees are analyzed within the company, incl. satisfaction with surveys, and development activities are planned in accordance with the proposals received.
Reporting practice				
	102-45	Entities included in the consolidated financial statements	p 13, 57	
	102-46	Defining report content and scope of topics	p 6-7	
	102-47	List of material topics	p 7	
	102-48	Restatement of information of previous reports		No restatements
	102-49	Changes in reporting		No changes
	102-50	Reporting period	p 1, 57	
	102-51	Date of most recent report		Audited Annual Report of Harju Elekter Group of 2018 was published at 2 April 2019
	102-52	Reporting cycle	p. 45	
	102-53	Contact point for questions regarding the report		Tiit Atso, tiit.atso@harjuelekter.com
	102-54	Compliance with the GRI standard	p. 112	
	102-55	GRI content index	p 112-115	
	102-56	External assurance		The GRI report has not been certified by any third parties
SUSTAINABILITY FOCUS TOPICS				
Product quality				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 29-33	
	non-GRI	Customer complaints	p 30-31	
	non-GRI	Products delivered to customers on time in accordance with required specifications	p 29	
Customer experience				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 30-31	
	non-GRI	Customer satisfaction	p 31	
Innovation				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 26-28	
	non-GRI	Investments and development costs	p 26	
	non-GRI	Innovation and development projects	p 26-28	
Environmental impact of products				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 32-33, 39-41	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
	non-GRI	Renewable energy production	p 40-41	
Economic performance (GRI 201: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 11, 13-16, 46	
	201-1	Direct economic value generated and distributed	p 11, 13-16, 44, 46, 91-92	
Anti-corruption activities (GRI 205: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 45	
	205-3	Confirmed incidents of corruption and actions taken	p 45	
Energy consumption (GRI 302: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 39-41	
	302-1	Energy consumption within the organization	p 40-41	Electricity and heat as the main types of energy consumed
Waste and wastewater (GRI 306: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 39-40	
	306-2	Waste by type and disposal method	p 39-40	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 approach (GRI 103: 2016)	103-1 to 103-3		p 39	
	307-1	Non-compliance with environmental laws and regulations	p 39	
Supplier environmental assessment (GRI 308: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 32-33	
	308-2	Negative environmental impacts in the supply chain and corrective measures	p 32-33	
Employment (GRI 401: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 34-38	
	401-1	New employee hires and employee turnover	p 35	
	401-2	Employee benefits and incentives	p 36-37	Presented by the description of the motivation system of employees.
	non-GRI	Interns	p 50	
	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 to 103-3, 403-1, 403-2, 403-7		p 37	
	403-9	Injuries at work	p 37	Data is provided with the detail that the group companies have considered important. In most cases, the group companies do not hire subcontractors.

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Training and education (GRI 404: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 36-37	
	404-1	Average hours of training per year per employee	p 36-37	Data is provided with a detail that the group companies have considered important.
	404-3	Percentage of employees receiving regular performance and career development reviews	p 36-37	Data is provided with a detail that the group companies have considered important.
	non-GRI	Employee participation in training courses	p 36-37	
Diversity and equal opportunities(GRI 405: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 37-38	
	405-1	Diversity of governance bodies and the entire staff	p 35, 38, 48	Data is provided with a detail that the group companies have considered important.
Non-discrimination (GRI 406: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 37	
	406-1	Incidents of discrimination and corrective actions taken	p 37	
Local communities (GRI 413: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 6-7, 50-52	
	413-1	Activities with local community engagement, impact assessments, and development programs	p 6-7, 50-51	The group companies assess their impact and plan activities in local communities on an ongoing basis in their everyday work (incl. introducing innovations and making decisions on the basis of feedback and proposals received from the community), separate impact assessments have not been performed.
Supplier social assessment (GRI 414: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 31-32	
	414-1	Negative social impacts in the supply chain and actions taken	p 31	
Public policy (GRI 415: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 45	
	415-1	Political contributions	p 45	
Customer health and safety (GRI 416: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 32	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p 32	
Socio-economic compliance (GRI 419: 2016)				
Management approach (GRI 103: 2016)	103-1 to 103-3		p 45	
	419-1	Non-compliance with laws and regulations in the social and economic area	p 45	