ANNUAL REPORT 2016

Translation from Estonian original

Business name	AS Harju Elekter
Main business area:	production of electrical distribution systems and control panels; production of sheet metal products; wholesale and mediation of light fittings and electrical appliances; real estate holding; management assistance and services; holding of investments
Commercial registry code:	10029524
Address:	Paldiski Str 31, 76606 Keila, Estonia
Telephone:	+372 67 47 400
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E-mail:	he@he.ee
Internet homepage:	www.harjuelekter.ee
CEO:	Andres Allikmäe
Auditor:	KPMG Baltics OÜ
Beginning of the reporting period:	1st of January
End of the reporting period:	31st of December

Added documents to the annual report:

- The independent auditor's report
- Profit allocation proposal

CONTENTS

ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

The year 2016 was remarkable for the Group. Thanks to committed work and a slightly more favourable economic situation than in the previous year the Group achieved the economic indicators equal to pre-crisis 2008. The drastic slowdown of the building market in Estonia and other Baltic states that followed the economic crisis, which was amplified by the constant remission of investment in grids by our main customer, Eesti Energia, confirmed year by year our belief that focusing on foreign markets and on increasing our sales outside Estonia is our only chance for success.

The above described situation has forced our engineers, salespeople and all other employees to make extraordinary efforts. These efforts have been rewarded by success as the share of foreign markets in our net sales has increased to 78%. Our Finnish subsidiaries Satmatic Oy ja Finnkumu Oy have done very well. Thanks to the joint efforts of the sales team of AS Harju Elekter Elektrotehnika and the whole Group we have established firm preconditions for the next rapid growth. This belief is confirmed by large-scale contracts concluded at the end of the reporting year.

The increase in the number of sales orders will be reinforced by the investments into advanced technology and the extension of production space, but most of all into human resources in order to create, develop and maintain a strong team.

Today, we can declare that AS Harju Elekter has successfully survived difficult times. We have been able to continuously produce profits and pay dividends. We are the only listed company in Estonia who has paid dividends to its shareholders in all the years of its activities.

On behalf of the Supervisory Board I would like to thank all our customers and partners in Estonia as well as abroad, as well as our employees for their wholehearted contribution in making the changes happen and increasing our turnover. I would also like to thank our shareholders for their support.

/signature/

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD

The year 2016 was a period of bold decisions and great changes and rearrangements for us. It was a year when several initiatives were taken that will shape the development of the Group in the forthcoming years. Therefore, we are especially pleased to end the year with good economic results. The Group's all time largest net sales of 61.2 million euros were achieved by more than a 9% growth in the sales volume in the last quarter. Despite the uncertainty of the year we were able to maintain profits to the level of the previous year. The Finnish subsidiaries achieved the most outstanding results within the Group, while Estonian subsidiaries experienced the biggest number of changes and the Lithuanian subsidiary was most volatile to external influences.

Indeed, the growth in Finland and Sweden made us happy but with a view to the future the potential effects of large-scale contracts concluded with Finnish companies at the end of the year is still to come. We have learned to understand the rhythm by which the global economy is changing and fluctuating. It is good to realise that teams of all companies of the Group in every country have new momentum. Many new people have joined us which has given rise to innovative thinking and inspired the key personnel of the companies to perform at a higher level. As a leader of the Group I have noticed a great deal of energy and enterprising spirit shown by our employees. It is rewarding to spread the spirit of cooperation in such a dedicated team.

The understanding that the future success and growth of AS Harju Elekter can only be based on exports and activities outside Estonia has become very firm. This belief should also shape and develop our organisation in the future, define our investment needs and channel our development activities. However, we should not neglect our domestic customers to whom we want to continue to offer products and services of the highest quality.

The development of industrial real estate has shown remarkable growth during the recent years and is about to develop into an important business segment for AS Harju Elekter. The increase in the production and sales volumes of electrical equipment necessitate additional manufacturing capacity, including the development of production space in the Keila Industrial Park. We have successfully launched the development of the Allika Industrial Park where we have made available a production facility for customers/renters and another large production facility and production and storage hall is ready to be handed over to customers. We are actively involved in discussions regarding the introduction of more modern and sustainable energy usage. In addition to developing industrial real estate, whose power supply will rely mainly on solar energy, we are envisaging projects that focus on building large-scale solar energy fields.

Harju Elekter Group is constantly developing and expanding. In addition to the companies belonging to the Group today we are continually looking for new business alliances/consortiums and possible transpositions. By increasing and developing the existing assets we aim to be now and in the future customers' first choice, offering substantial added value to products as well as technological solutions. By earning added value for our shareholders, we hope the economic results of the Group will provide a strong basis for dividend and the formation of the share price. We put much emphasis ensuring that Harju Elekter will be the first choice for our current and future employees, offering them many opportunities and challenges for an interesting career and personal development.

We will work together with our stakeholders and the whole team for a better future! I would also like to thank our customers, employees and shareholders for their excellent co-operation and contributions. I hope that next year when AS Harju Elekter will be celebrating its 50th anniversary we can be proud of our achievements, results and contribution to the development of the society.

/signature/

Andres Allikmäe
Chairman of the Management Board

MANAGEMENT REPORT

ORGANISATION

MISSION

To be well-known and accepted manufacturer of MV/LV electrical equipment and automation solutions in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

GOAL

To be successful over a long period of time, to increase the company's capital and generate revenue for the owners, as well as the partners, and to provide motivating work, income and development opportunities for the employees.

AS Harju Elekter have been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 78% of the products are marketed outside Estonia.

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART

As at 31.12.2016

OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

The global economy has survived the unstable settings and the dominant geopolitical tensions, such as Brexit, the presidential elections in the United States, the *coup d'etat* attempt in Turkey and terrorist attacks in Nice. They have not had a major effect, at least not yet. The employment rate has increased, inflation that had remained at the lowest level for the last decade, has started to rise, and the feel of certainty among entrepreneurs and consumers increased. The United States and China are supporting the global economic growth and economic indicators are gaining strength in Europe. Here, the economic growth is supported by the decrease in unemployment, low interest rates and an expansive monetary and budgetary policy. Economies of Nordic countries are also more stable than before. However, the recovery processes, as well as the future perspectives, are quite uneven in different countries and regions. Although the sanctions established by the US and EU against Russia were still in force, the Russian economy showed signs of recovery when, thanks to the stabilisation of the exchange rate of the rouble and supported by the price of oil, more investments started to come into the country. Thanks to the agreement between oil producing countries to reduce output, the oil barrel price increased from 27 dollars at the beginning of the year to 56 dollars, i.e. it more than doubled, by the end of the year.

Euro area

The year 2016 was all in all relatively successful for the world's third largest economic union as, according to the preliminary data, the economies of the European Union and the euro zone increased respectively by 1.9% and 1.7%. The economic growth that is relying, as before, mainly on consumption, was supported by a healthier and steadier banking system, the increase in real earnings and customer certainty. Interest rates and inflation remained continually very low. However, the economic growth will probably slow down due to the UK's perspective of leaving the European Union.

The economic situation in Nordic countries, the main trade partners of Estonia, gives local exporters a reason to be happy. Sweden, which is Estonia's largest export market, increased its imports by approximately 6% in 2016. Imports to Finland, which is gradually recovering from economic depression, also began to grow. In the beginning of 2016 the exports to Sweden exceeded those to Finland by one quarter, but by the end of the year the export capacity to these countries had almost achieved parity.

Estonia and the Baltic countries

In 2016 the Baltic countries experienced a modest economic growth. If in 2015 Baltic economies were influenced most of all by the decrease of exports to Russia and other CIS countries, then in 2016 the dramatic drop in investment that was brought about by the decrease in payments from EU funds was the key factor that hindered economic growth. The factors supporting economic development are similar in all Baltic countries: domestic demand, EU support, the increase in labour productivity and foreign trade. According to preliminary estimations for 2016 the economic growth in Estonia was 2.1%, in Latvia 2.8% and in Lithuania 3.1%.

During the reporting year several economic indicators in Estonia showed signs of improvement: the production quantity of the industrial sector increased, the growth of exports accelerated, the loan portfolio of business grew at accelerated speed and the feel of certainty among households increased. However, profits of non-financial corporations have been dropping for the third year in a row and their investments for the fourth year. The share of labour costs in companies' turnovers has grown to the highest level since the crisis period following the year 2009, threatening their competitiveness.

YEAR 2016

Swiss CEAMS-CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award. AS Harju Elekter was recognised as the best listed company in Estonia while being the third in the overall Baltic assessment. It was recognised thanks to the continued expansion in Northern Europe, conservative balance sheet, as well as a stable and experienced management team.

Positive recognition was awarded also to the Group's Finnish company Oy Finnkumu, who reached high, 2nd ranking on the list of the Entrepreneurs of South Ostrobothnia.

The AGM of PKC Group Oyj, which gathered on 4 April 2016, decided to pay dividends in the amount of 0.70 euros per share. Dividends were transferred to the shareholders' bank accounts on 15 April 2016. AS Harju Elekter owns 1,094,641 shares. The dividend income of 766 thousand euros is reflected in the profit of Q2 2016. The 15% income tax withheld from the dividends in Finland comprised 115 thousand euros.

At its 5 April 2016 meeting, the Supervisory Board of AS Harju Elekter decided to merge the metal factories of the Group's Estonian subsidiaries, consolidating the sheet metal processing resources, capability and know-how of the entire Group into AS Harju Elekter Teletehnika. The outcome of restructuring is economy in terms of manufacturing as well as labour costs. After the changes, AS Harju Elekter Teletehnika will focus on the manufacturing of sheet metal products and details for the electrical engineering and telecommunications sector. Restructuring was completed at the end of Q3.

AS Harju Elekter granted a loan of 660 thousand euros to Skeleton Technologies Group OÜ. In Q3, an additional round of funding and involvement of investors was arranged and the loan was converted into equity of Skeleton Technologies Group OÜ.

On 14 October 2016, AS Harju Elekter bought the real estate company Kiinteistö Oy Uutvallinkulma. Following the transaction, it will bear the name of Harju Elekter Kiinteistöt Oy. The contract price was 518 thousand euros. The company leases 2,470 sq m of production premises to the Group's Finnish company, Finnkumu Oy. This activity is consistent with the policy of the Group, whereby any production premises used by companies in the Group are owned by the Group.

On 21 October 2016, in Allika Industrial Park, located on the city limits of Tallinn, the cornerstone was laid for two important buildings: HE production and storage facilities and the production and storage building of Stera Technologies Oy – the commercial producer of mechanical and electromechanical devices and components. Prior to that, in April 2016, a preliminary contract was concluded with Stera Technologies Oy for the construction and subsequent leasing of production facilities for the company and procurement conducted to identify a project manager, with "Ehitusfirma Rand and Tuulberg AS" qualifying. The investment volume is 8.2 million euros, which will be covered from own funds and a bank loan. For this purpose, loan agreements in a total amount of 7 million euros, was signed with Swedbank AS. First stage will be ready for delivery to the tenants in the first half of 2017.

Three important substation sales agreements were concluded in Q4 2016 and in Q1 2017, following the reporting date. The most important of these are the agreement signed with Finland's largest distribution network company, Caruna, on 19 December 2016, and the two order letters received from Konecranes, on 10 January 2017, for delivering special-purpose substations to the United States. As a result of the new orders, the production of substations in the Estonian and Finnish plants of the Group will increase from the current 1,100 substations to 2,500 substations per a year.

To ensure smooth fulfilment of the order volumes, it was decided in Q4 2016 to transfer the operations of AS Harju Elekter Elektrotehnika to new production halls – being vacated by AS PKC Eesti – in the Keila Industrial Park. The project will be implemented during Q1–Q3 of 2017.

The Group's subsidiaries are actively participated in the professional fairs in Estonia and Finland: trade fair Energia 2016 in Tampere, which is specialised to energy production, transmission, distribution and accumulation; in SLO autumn fair as well as in the building fair Estbuild in Tallinn.

BUSINESS RESULTS

5 years statistical summary

Group	2016	2015	2014	2013	2012
Statement of profit or loss (million EUR)					
Revenue	61.2	60.7	50.6	48.3	52.8
Operating profit	3.2	3.3	2.2	1.7	2.0
Profit attributable to owners of the Company	3.2	3.2	9.7	5.2	3.5
Statement of financial position at the end of the year (million EUR)					
Total current assets	22.3	19.8	25.1	15.9	16.5
Total non-current assets	51.7	46.7	44.7	55.2	43.1
Total assets	74.0	66.5	69.8	71.1	59.6
Equity attributable to owners of the Company	60.3	58.1	58.5	62.5	48.8
Equity ratio (%)	81.5	87.4	83.8	87.9	81.8
Rates of growth (%, y-o-y)					
Revenue growth	0.8	19.9	4.8	-8.5	13.1
Operating profit growth	-2.9	47.1	27.8	-11.5	-2.7
Profit attributable to owners of the Company growth	0.9	-67.1	87.9	46.8	26.8
Assets growth	11.1	-4.6	-1.8	19.2	12.7
Equity attributable to owners of the Company growth	3.8	-0.7	-6.4	28.1	21.1
Performance indicators (%)					
Operating margin	5.2	5.4	4.4	3.6	3.7
Net margin	5.3	5.3	19.3	10.7	6.8
Return of assets (ROA)	4.6	4.7	13.8	7.9	6.3
Return of equity (ROE)	5.4	5.5	16.0	9.2	7.9
Share (EUR)					
Average number of shares (1000 pc)	17,740	17,551	17,400	17,400	17,093
Equity per share	3.34	3.32	3.48	3.20	2.61
The closing price	2.83	2.63	2.79	2.70	2.64
EPS	0.18	0.18	0.56	0.30	0.21
P/E	15.72	14.61	4.98	9.00	12.57
Dividend per share	[1] 0.18	[2] 0.12	0.15	0.10	0.09
Liquidity ratio					
Current ratio	2.1	2.8	2.8	2.3	1.8
Quick ratio	1.3	1.7	1.9	1.4	1.1
Personnel and remuneration					
Average number of employees	455	472	459	455	452
Number of employees at the end of the period	480	470	483	451	478
Wages and salaries (million euros)	10.6	9.7	9.2	8.6	9.1

Operating margin	= Operating profit/Net sales *100
Net margin	= Profit attributable to owners of the Company /Net sales *100
Equity per share	= Average equity attributable to owners of the Company /Average number of shares
Return of assets (ROA)	= Profit attributable to owners of the Company /Average total assets *100
Return of equity (ROE)	= Profit attributable to owners of the Company /Average owner’s equity *100
EPS	= Profit attributable to owners of the Company / Average number of shares
P/E	= Share price/EPS
Equity ratio	= Average equity attributable to owners of the Company/Average total assets *100
Current ratio	= Average current assets/ Average current liabilities
Quick ratio	= Average liquid assets (current assets – inventories)/ Average current liabilities

[1] Management Board’ proposal

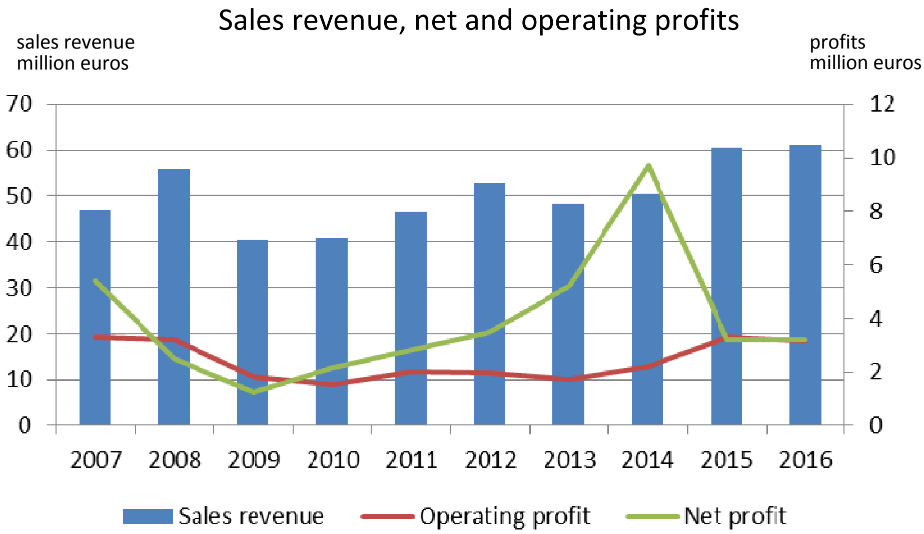
[2] incl 0.07 euros, related payment from reduction of the share capital

In the 2016 annual report the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Harju Elekter Kiinteistöt Oy, Rifas UAB and Automatikos Iranga UAB and Harju Elekter AB (suspended since 1.4.2014) are consolidated line-by-line.

In October AS Harju Elekter acquired 100% of the shares of Harju Elekter Kiinteistöt Oy and the subsidiary Rifas UAB purchased an additional 16% of its subsidiary's Automatikos Iranga UAB shares, increasing its share to 67%. In addition to that AS Harju Elekter acquired after the reporting period in February 2017 an additional 10% of the Swedish subsidiary's Harju Elekter AB shares, increasing its share to 100%.

AS Harju Elekter has a share of 4.5% in the Finnish listed company PKC Group Oyj.

Earnings and margins



In 2016, the consolidated sales revenue reached 61.2 (2015: 60.7) million euros and operating profit 3.2 (2015: 3.3) million euros. The consolidated net profit of the reporting year was 3.2 (2015: 3.3) million euros.

Out of the consolidated revenue 34.2% (2015: 33.9%) was contributed by the Estonian, 57.2% (2015: 52.2%) by the Finnish and 8.5% (2015: 13.9%) by the Lithuanian companies.

As to the markets, once again the Finnish and Estonian markets were dominant with 88.9% (2015: 87.5%) of the Group's products and services sold there.

During the year, 21.9% (2015: 23.5%) of the Group's products and services were sold on the Estonian market. Year on year, supply to the Estonian market decreased by 0.8 (2015: -1.0) million euros or respectively 5.8% and 6.5%. The decline was mainly caused by decreased investments in the energy distribution sector in Estonia starting from 2014, which has resulted in a decrease in sales volumes for medium voltage distribution equipment and substations. A small market as well as low investments in Estonia have given an incentive to find opportunities on other markets.

78.1% of the Group's products and services were sold outside Estonia (76.5% in the reference period). Finland has growing the biggest market of the Group; 67.0% of the Group's products and services were sold on the Finnish market (2015: 64.1%). Sales to the Finnish market grew by 2.1 (2015: 9.4) million euros, year on year. The Finnish market is continually characterised by large investments in the energy distribution sector.

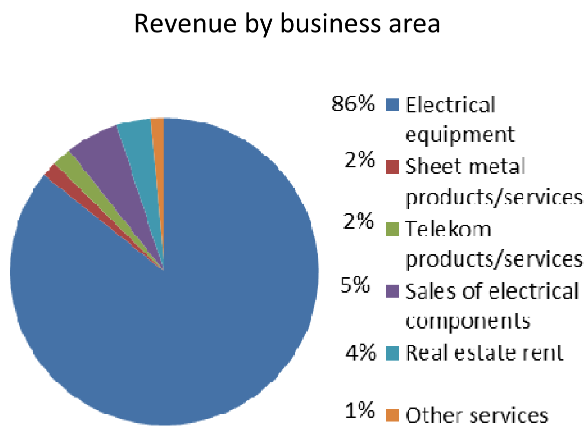
The Lithuanian subsidiary's main focus in sales strategy is on export markets. In the reporting year, the share of foreign markets in the subsidiary's sales revenue was to 89% (2015: 93%). Due to low oil prices and a change in ownership in the main customer of our Lithuanian company, the Group's deliveries towards Norway decreased by 1 million euros or 26.1% in 12 months.

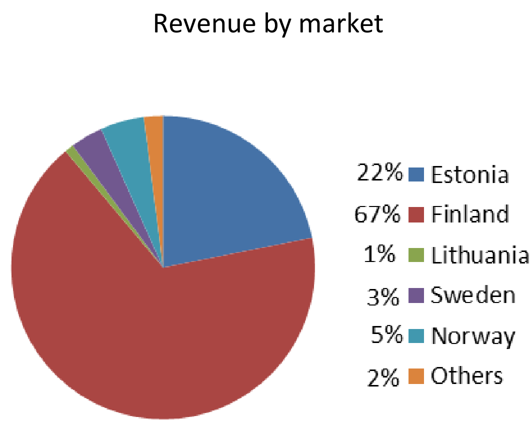
In 2016 the Group continued active work in Sweden in the fields of sales, as well as product development. Net sales earned on the Swedish market increased in twelve months by 0.7 million euros i.e. 47.3%.

Net sales from other markets decreased during the year by 26%, accounting for 1.2 (2015: 1.7) million euros. Brazil, Poland and Ireland were entered as new markets in the reporting year.

The Group's main area of activity is the production and marketing of electric power distribution and transfer equipment. As usual, production made up the largest part of the consolidated revenue, i.e. 91.2%; real estate and other activities accounted for 8.8%.

There has been a growth in revenue among almost all products and services. 85.8% (2015: 86.0%) of the reporting year revenue originated from the sale of electrical equipment, increasing up to 52.5 (2015: 52.1) million euros. The rental income has increased by 6.9% by a year, amounting to 2.2 million euros.





Cost of products and services sold increased by 0.9% during the year i.e. at an equal rate to the 0.8% increase in net sales. As a result, the consolidated gross profit for the reporting year was 10.4 million euros which is about the same as last year. In comparison to the reference period, the gross profit margin drop by 0.1 percentage points with the year, amounting to 16.9%.

Due to the Group's continuous efforts to increase exports the distribution costs have increased by 14% compared to the previous year. Labour costs have grown the most within distribution costs, mainly because of the restructuring of companies and paying bonuses for good economic results. Almost three-quarter of the increase in marketing costs was generated by the Group's Finnish companies. The share of marketing costs accounted for 5.0% of net sales (2015: 4.4%). On the other hand, general administrative expenses declined by 4.6% compared to the previous year. The ratio of general administrative expenses accounted for 6.8% of the annual net sales, decreasing during the year by 0.4 percentage points.

The number of employees of the Group increased during the year by 10 people, amounting to 480 employees. In the second half of 2015 the optimisation of production was started in the Group's Estonian companies. Until Q3 2016 it involved the reduction of the number of employees, but after the conclusion of several large-scale sales contracts a creation of new jobs was started in the last quarter of the year. Hiring new people is complicated due to the tough competition on the labour market and the increasing wage pressure. In order to hire new and keep the existing employees the review of salary levels was started in the last quarter. During the year the number of employees was reduced only in the Lithuanian company where after a very successful year in 2015 the production output was decreased substantially in 2016. In the 12-month period, labour costs increased by 7.2%, amounting to 13.5

million euros. The ratio of labour costs to sales revenue was 22.0% (2015: 20.7%). In 2016, employee wages and salaries totalled 10.6 (2015: 9.7) million euros. The average wages per employee per month amounted to 1,940 (2015: 1,710) euros. The noticeable increase in salaries is mainly induced by the good economic results of the Group's Finnish companies in 2016 which led to the larger payments of bonuses and provisions (for holidays and bonuses) and, therefore, the overall labour costs of the Group increased.
Overall, the growth rate of operating expenses was similar to the growth of net sales, increasing by 1.1% a year and amounting to 58.0 million euros. In 2016, EBITDA was 4.8 million euros, the same amount as in the reference period. EBIT decreased during the year by 0.1 million euros to 3.2 million euros. Return on sales before depreciation for the 12-month period decreased by 0.1 percentage points, being 7.8%, and return of sales by 0.2 percentage points, being 5.2%.

Dividend income in the reporting period was 0.8 (2015: 0.8) million euros. Income tax expense in 2016 was 0.7 (2015: 0.9) million euros.

The consolidated net profit of the reporting year was 3.2 (2015: 3.3) million euros. EPS was 0.18 euros in both periods.

Other comprehensive income

Other comprehensive profit, earned from the revaluation of financial assets of the shares of Skeleton Technologies Group OÜ, amounted to 1.6 million euros in the reporting year. The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange decreased during the period of 12 moths by 0.42 euros and closed at 15.81 euros (2015: decreased by 1.24 euros to 16.23 euros); -0.5 (2015: -0.4) million euros of revaluation loss were earned from the revaluation of shares of PKC Group Oyj. Overall, other comprehensive income from the revaluation of financial assets was 1.1 million euros in 2016, increasing the revaluation reserve in equity by the same amount.

Financial position and cash flows

At the end of reporting period current assets amounted to 30% (2015: 30%) and non-current assets to 70% (2015: 70%), while foreign capital accounted for 18% (2015: 13%) and equity 82% (2015: 87%) of total assets.

As of 31.12.2016 the value of assets of the Group amounted to 74.0 million euros which is 7.4 million euros more than a year before. Current assets increased during the year by 2.4 million euros, of which inventories 2.6 million euros and cash decreased by 2.4 million euros. The value of non-current assets in the statement of the financial position increased within 12 month by a total of 5.0 million euros, amounting to 51.7 million euros.

During 2016 the Group invested in property, plant and equipment and real estate a total of 4.6 (2015: 2.3) million euros. Three million euros of it was invested into the development of the production space in the Group's Allika Industrial Park and for 0.9 million euros tangible assets were acquired by purchasing a real estate company in Finland.

Due to the revaluation of long-term financial investments into their fair value, the value of financial assets in non-current assets, as well as the revaluation reserve in the owner's equity, increased by 1.1 million euros.

As at 31.12.2016, interest-bearing loans and borrowings formed 14.5% of the Group's liabilities and 2.7% of the cost of assets. As at 31.12.2015, these figures were 14.4% and 1.8% respectively. By the end of the year interest-bearing loans and borrowings amounted to 2.0 (31.12.2015: 1.2) million euros, with short-term obligations making up 0.8 (31.12.2015: 0.3) million euros.

As at the reporting date, the Group's liabilities totalled 13.6 (2015: 8.4) million euros, of which short-term liabilities made up 12.4 (2015: 7.5) million euros or 91% (2015: 89%). The 4.9 million euro increase in current liabilities was mainly caused by the increase in trade payables by 2.7 million euros and a debt to shareholders that amounted to 1.2 million euros (due to the share capital reduction). Non-current liabilities of the Group increased by 0.3 million euros, amounting to 1.2 million euros. The equity of the Group increased by 2.2 million euros, amounting to 60.4 million euros.

In 2016 the cash flows from operating activities amounted to 2.6 million euros and a year before to 4.7 million euros. The increase in trade and other receivables as well as inventories exceeded the trade and other payables by 1.6 million euros during the reporting year, while the year before these changes in operation brought in 0.2 million euros.

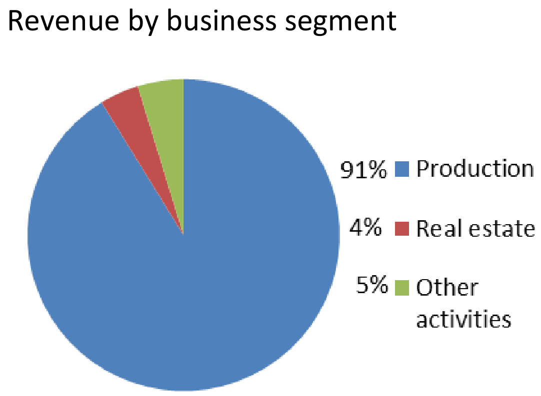
In 2016 the last instalment 0.7 million euros was paid for the shares of Finnkumu Oy and a payment of 0.5 million euros for the acquisition of the real estate company Harju Elekter Kiinteistöt Oy (Note 30) was made. In the reporting year a total of 1.2 (2015: 0.9) million euros were used for the acquisition of subsidiaries. AS Harju Elekter gave Skeleton Technologies Group OÜ 0.7 million euros of irrevocable loans which was later converted into the equity of the company. In 2015 a total of 2.4 million euros was paid for financial investments. PKC Group Oyj paid a dividend of 0.70 euros per share – in 2016 as well as in 2015 a total of 0.7 million euros of net dividends were received. Real estate investments and acquisition of property, plant and equipment influenced cash flows by 3.2 (2015: 2.1) million euros. During the reporting year a total of 4.5 million euros was spent on investment activities, while in 2015 a total of 4.8 million euros was spent on them.

All in all, net cash used in financing activities was 0.5 (2015: 4.2) million euros in 2016. The cash flows of financing activities were influenced by a smaller payout to shareholders – in 2016 AS Harju Elekter paid a dividend of 0.9 (2015: 2.7) million euros. The cash flow out, including the purchase of non-controlling shares, was 0.05 (2015: 1.7) million euros. The payout of 1.2 million euros related to the share capital reduction took place in January 2017. In addition to that a bank overdraft amounting to 0.64 million euros and a long-term loan of 0.12 million euros were used during the reporting year.

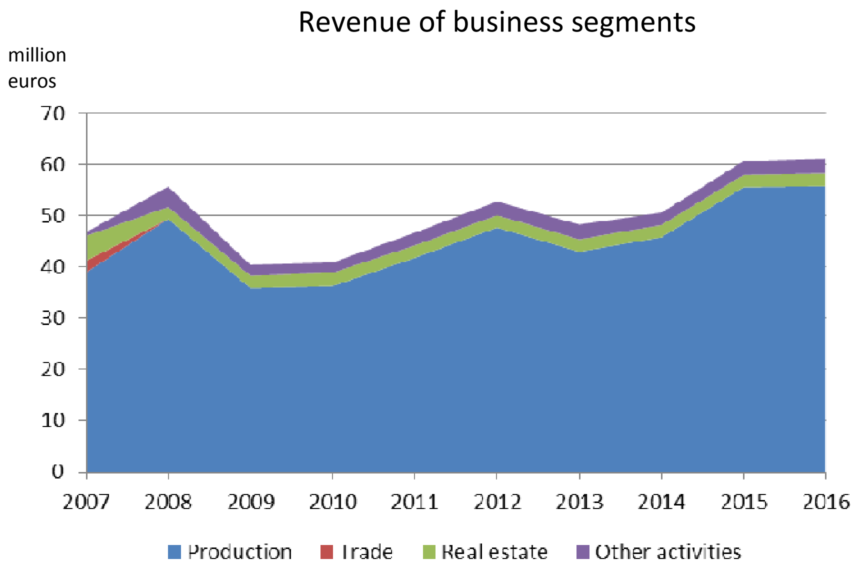
Cash and cash equivalents decreased during the reporting year by 2.4 million euros, amounting to 3.3 million euros, while in 2015 they decreased by 4.2 million euros, amounting to 5.7 million euros.

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

BUSINESS SEGMENTS



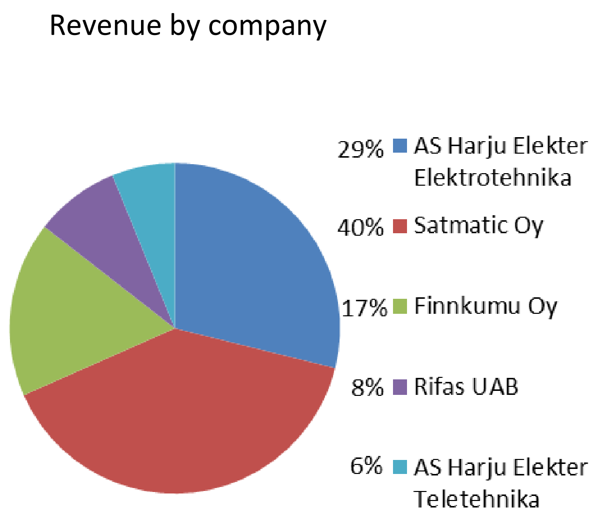
As of 31 December 2016 the Group was active in two fields – production and real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. The share of the trading group operating within the parent company and has during the last years (including 2016) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.



PRODUCTION

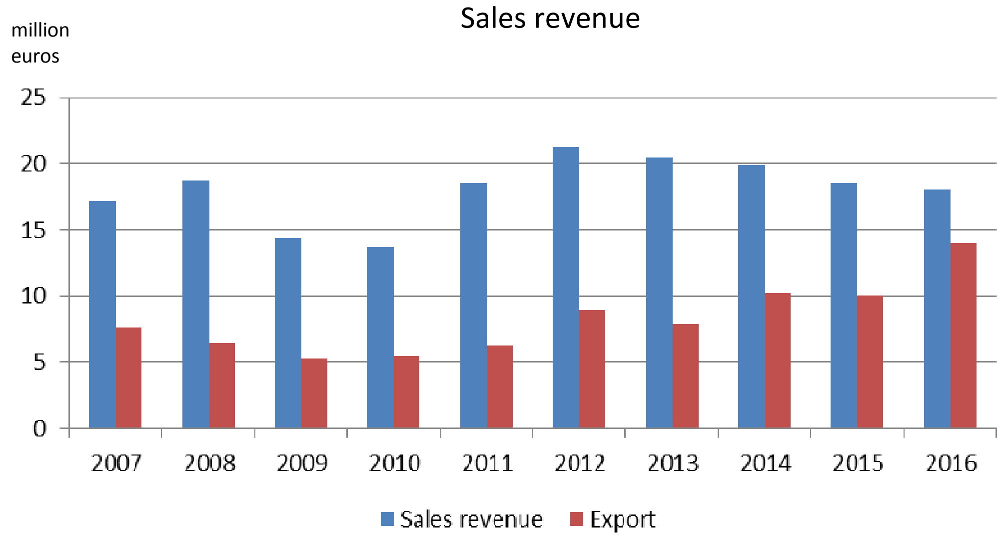
The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy, Finnkumu Oy) and Lithuania (Rifas UAB) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for the energy sector, industry and infrastructure. AS Harju Elekter Teletehnika in Estonia which manufactures products for the electrotechnical sector as well as telecom sector, also belongs in this segment.

In 2016 production gave 91.2% (2015: 91.6%) of the consolidated sales revenue. The segment's volume of sales decreased within a year by 0.4% amounting to 55.8 million euros.

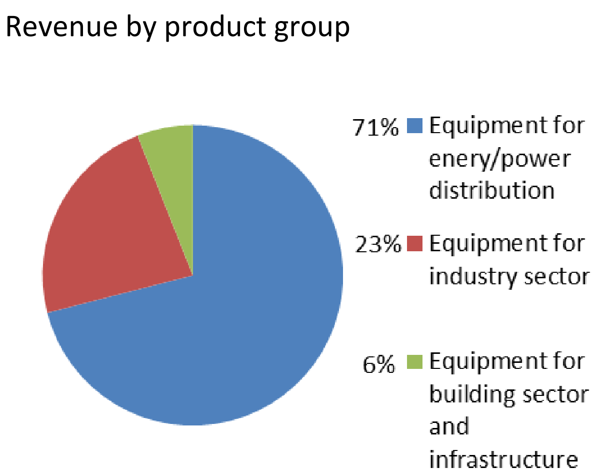


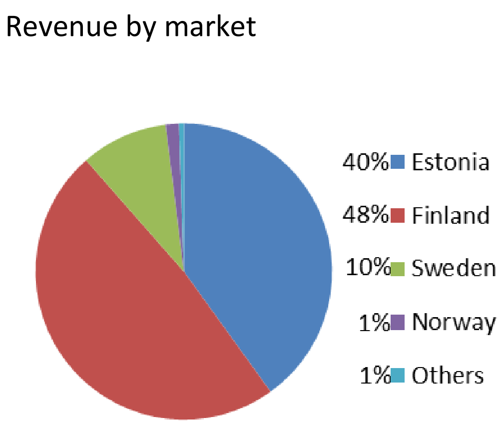
AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of AS Harju Elekter Elektrotehnika are located in Keila comprising 11,000 m^2 of production, warehouse and office premises. The number of employees is 168, incl. one fifth of them working in sales and R&D.



2016 was a breakthrough year for AS Harju Elekter Elektrotehnika and successful from the point of view of taking the development of the company to a new stage. The company concluded two large-scale delivery contracts with Finnish power networks which will multiply the production of sub-stations during the forthcoming years. The company also received a large order for approx. one hundred specific sub-stations for United States ports. During the recent years the company has focused mainly on export markets and co-operation with companies located in the Baltic Sea region. During the reporting year strenuous efforts were made to determine the needs and expectations of customers and to develop suitable products for them. The product portfolio of the company was strengthened by several new product solutions and the co-operation with well-known specialist of different fields gained ground. Production processes were reviewed to carry out contracts and orders and in the beginning of 2017 the company will move to a larger production space that has remained vacant after PKC Eesti AS moved out.





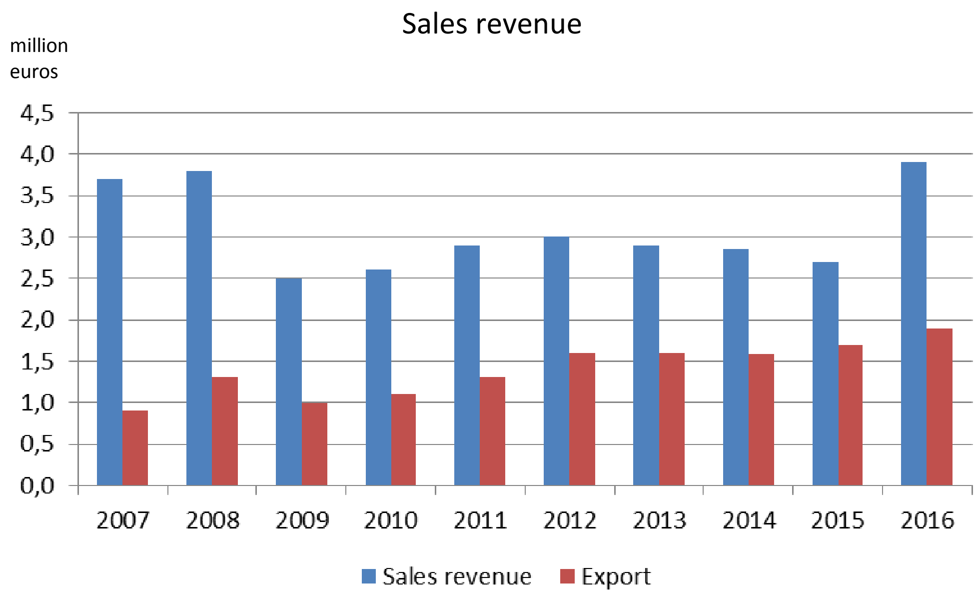
The results of focusing on export markets and successful marketing has yet to be reflected in the company's net sales of 2016 which remained at the same level as in 2015 i.e. at 18.1 (2015: 18.5) million euros. The share of exports in net sales increased to 60% (2015: 54%). However, the efforts related to Swedish and Finnish markets paid off as the annual net sales earned in the Finnish market increased by 0.6 million euros i.e. 7.9% and in the Swedish market by 0.5 million euros i.e. 40.3%. Due to the continual decrease in investment in the Estonian energy distribution sector the supply to the Estonian market declined by 1.2 million euros i.e. 16.8%.

Increasing the production capacity necessary for coping with the growing amount of orders and moving the production to new production halls are the company's biggest challenges for 2017. The company continues to hire and train personnel and it has started reviewing and restructuring its sub-units (incl. the start of the selection process of CRM/SRM software solutions). The development and production activities are extremely important for the successful implementation of new methods and managing increasing production volumes.

AS Harju Elekter Teletehnika

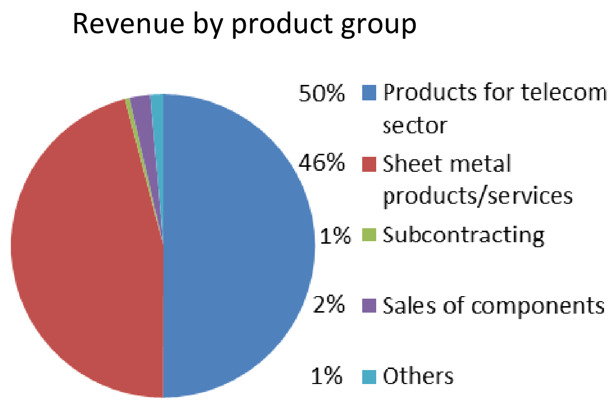
The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include a range of customer-based sheet metal products and semi-manufactured articles are produced for the electrical engineering and energy sectors as well as for the telecom sector. In addition, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park. The factory is located in Keila and the company employs 85 people.

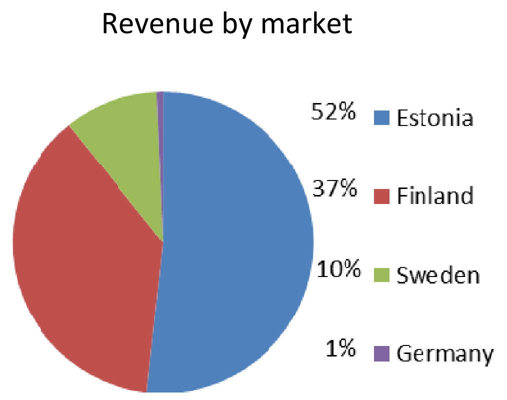
2016 was a year of great changes and setting new focuses for the company. On April 5, 2016 the Supervisory Board of Harju Elekter together with the Boards of its Estonian subsidiaries made a decision to merge the sheet metal factories of AS Harju Elekter Elektrotehnika and AS Harju Elekter Teletehnika, incorporating all resources, capabilities and know-how related to sheet metals into AS Harju Elekter Teletehnika. The aim of the restructuring was to ensure that the company could focus on the production of competitively priced sheet metal products for the Group's companies in Estonian, Finland and Lithuania, as well as for customers not belonging to the Group. A more competitive sheet metal production was established as a result of restructuring by optimising the use of equipment and making the production process more effective. The merger of the factories was carried out during the second and third quarters of 2016 and it had a slight effect on the annual sales volume of the company.



The process of the merger of the sheet metal factories was quite challenging for the subsidiaries of the Group. The transfer of the production process, the database of product assemblies, and the start-up of the order process did not go smoothly. Today we can look back and say that the company has successfully resolved most of the problems. The Group's Estonian subsidiaries have established a close matter-of-fact co-operation between them. Hopefully it will improve even more and help to increase the synergy within the Group.

Setting a new focus and strategy on the activities of the company had an immediate influence on the net sales of the company. Furthermore, in the spring, the company's economic results were also supported by the upturn of the Finnish telecommunication sector, which had a positive influence on the volume of orders of telecommunication products, as well as by the increased demand for telecommunication products in Sweden in the third quarter. In 2016 the net sales increased by 40.8% compared to 2015, amounting to 3.9 million euros. The share of exports in net sales was 48.4%. The growth of net sales was mainly due to a 93.6% increase in sales on the domestic market. As to the product groups, the largest growth – 116.8% – was achieved in the sales of sheet metal products and that was mainly due to the energy sector orders that were transferred to the company after the merger of sheet metal factories.





One of the achievements worth mentioning were the customer audits carried out during the last months of the year, whereby customers evaluated the functioning of the AS Harju Elekter Teletehnika's processes and its ability to ensure product quality. Feedback from customer audits is crucial, as it helps the company to fully understand the customers' needs and adjust its processes accordingly, in order to offer customers more and higher quality added value. In December regular ISO quality and environmental management recertification audits were carried out. The certification company Bureau Veritas confirmed as a result of its audit that the management systems of AS Harju Elekter Teletehnika complied with the requirements of new ISO9001/2015 and ISO14001/2015 standards. In the last quarter of the year the company was positively recognised by the Labour Inspectorate who awarded it with the "Good Working Environment" title as the best company for occupational safety.

During the last financial year, the company presented its products at several fairs. The feedback gathered during these fairs has helped to improve the functionality of products. However, the most pleasing aspects of the company in 2016 were related to the introduction of products transferred as a result of the merger, the production of prototypes of sub-stations and the improvement of planning accuracy and increasing security of supply. Most of the development activities focused on the correction of product assemblies and bringing them into conformity with requirements. The development of the 5S programme helped to substantially reduce wastage, inefficiency and operations that did not add value.

In 2017 AS Harju Elekter Teletehnika will concentrate on the growth of the production resources for sheet metal by renewable investment in equipment and the introduction of an additional working shift, as well as the possible involvement of agency workers. More attention will be paid to the improvement of productivity and planning accuracy, and on managing price risks during the purchase of sheet metal.

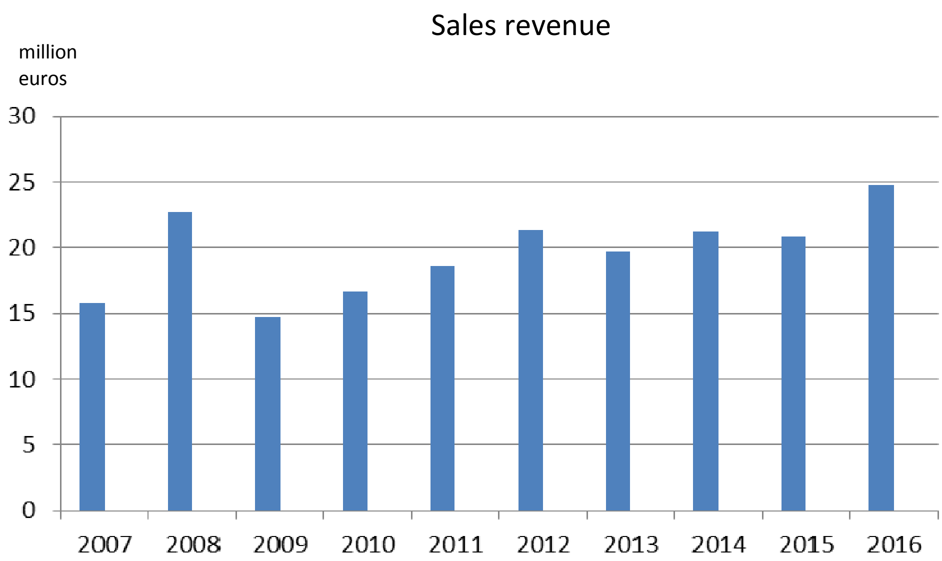
Satmatic Group

Satmatic Group consists Satmatic Oy with headquarters in Ulvila and its subsidiary Finnkumu Oy, located in Kurikka.

In 2016, the Satmatic Group's sales revenue amounted to 35.1 (2015: 31.7) million euros, growing by 10.6% during the year. There are 94 employees working in the Group.

Satmatic Oy

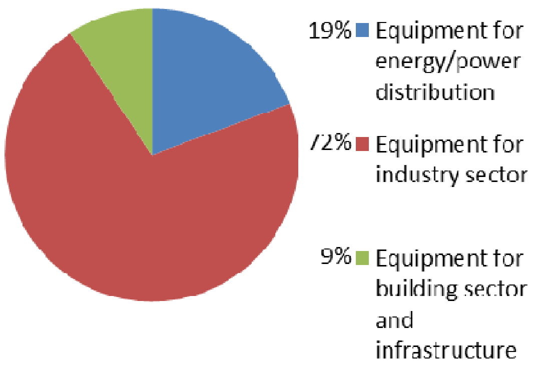
Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. The range of products is wide and the company aims to offer its customers up to 20kV products and solutions. A substantial part of products and solutions of Satmatic Oy are sold outside Finland either directly or through mediators i.e. Finnish exporters. Satmatic Oy is also an importer and retailer of the products of the Harju Elekter Group's companies in Finland. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation in Kerava in order to better service businesses and other customers in Helsinki-area. The company hires 74 employees.



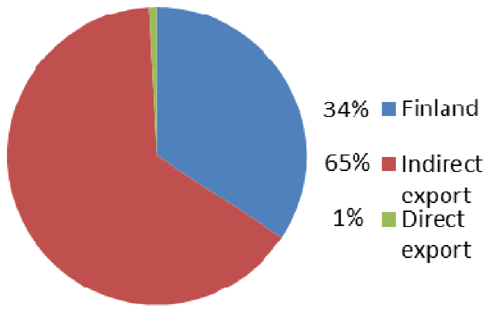
The economic environment in Europe, as well as the stability of the Finnish exports industry was reflected in net sales and in the increased number of orders to Satmatic Oy in 2016. During the reporting year industrial investment started to grow as the construction of several power stations, bio-power stations, LNG terminals and plants was started in Finland. The net sales of the company increased a substantial 18.2% compared with the previous year, amounting to 24.7 (2015: 20.9) million euros. The sales outside Finland – either directly or through mediators – accounted for 66% of net sales.

Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure. According to the type of supply two different production models can be differentiated: contract manufacturing and project based product/solution. Although the Finnish exports sector dropped by approx. 5% and the technology industry exports decreased even more compared to the previous year, the company was able to increase its project-based sales to the industrial sector despite the strong competition, and its sales and sale orders for sub-stations and to the Finnish exports sector as a whole. However, the net sales to the power distribution sector increased at a more moderate pace.

Revenue by product group



Revenue by market



The business activities of the company are based on competitive production which is supported by continuous product development and the automation of production processes. All products without exception must be of the highest quality and, at the same time, have the smallest possible environmental impact. Quality and environmental issues form an inseparable part of the company’s management, sales, development, logistics, production and real estate management.Besides developing first-rate professional products/solutions, attention is also paid to valuing customer relations, as well as to offering mutual added value.

Satmatic Oy pays a lot of attention to climate issues in its everyday business processes. The company has promised to reduce emissions of carbon gases by preferring modes of production that save energy and by increasing the awareness of customers about renewable energy products and sources, as well as by developing and selling more car charging systems for electric cars and contributing by that to the increase in the number of electric vehicles in Finland.

An increase as regards project products continued in the reporting year, therefore additional resources were used for the development. Various electric, control and automation installations were developed at the factory and delivered to customers in the pulp and paper industry, as well as the rock wool, steel and food industries and for offshore, shipbuilding and mining sectors and (electrical) power stations. The main target countries were Sweden, Poland, China, USA and Finland.

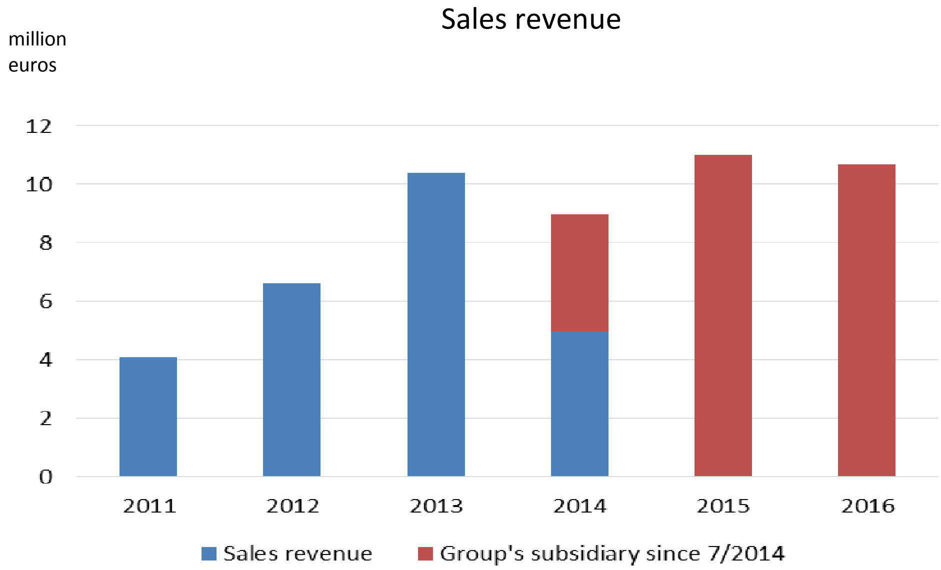
Speedy growth continued with contractual customers and serial products, among which cable machines, packaging lines, storage systems, car heating switchboards, charging stations and electronic assemblies formed the largest product groups.

Pre-fabricated substations and distribution cabinets that are manufactured in the plants of Satmatic Oy and Finnkumu Oy and in the plant of AS Harju Elekter Elektrotehnika are sold to energy distribution sector, mainly to Finnish network operators and power and energy stations. On-grid and off-grid solar energy solutions proved to be the stand-out products in the renewable energy sector. Total capacity of the supplied solutions amounted to 2MW.

In 2017 the company focused on reviewing the existing product portfolio. Growth is expected from the increase in sales of the Group’s products (sub-stations) thanks to the contracts finalised at the end the reporting year. This requires smooth co-ordination of activities within Finland from the company. In addition to that special attention will be paid to the product group of renewable energy products, heating switchboards for car parks and charging systems where the sales and market share will be increased by the further development of products and making them even more customer friendly.

Finnkumu Oy

Finnkumu Oy is a wholly-owned subsidiary of Satmatic Oy and Finnish leading prefabricated substation manufacturer, involved in design, production and sale of electricity distribution devices, mainly substations and distribution cabinets. Finnkumu Oy was founded in 2004 and has belonged to the Harju Elekter Group since 2014. Finnkumu Oy has been successful during the whole period of its existence and the sales revenue of the company has more than doubled during the last 5 years.



The reporting year has been evenly fast-paced for the company, although the busiest period and the largest orders were in the middle of the year. Precise planning of production helped to distribute (production) resources in the manner that ensured timely supply and shorter deadlines, avoiding any delays. Products have become more complex and the process to make them more demanding. The construction of power distribution networks and installation of cables continues at a pace and there are no signs of a decrease in orders from the Finnish power distribution sector.

Despite stiff competition the net sales of Finnkumu Oy were 10.7 (2015: 11.0) million euros which were only 2.2% less than the previous year's all-time record. Besides that the company was able to increase its profitability thanks to the skilful use of production resources and economising in procurements and purchases.

During its long period of existence the company has established a loyal customer base whose orders are fulfilled by a relatively small marketing team. Products are improved jointly and adjusted to the needs of specific projects. The production is organised through a strong and smoothly operating network of sub-contractors who deliver all the necessary details. The completion, final assembly and quality check is carried out by a staff of 20 who are employed at the company's plant in Kurikka.

During the reporting year the production space of the Kurikka Factory was expanded and the production capacity that was working at maximum during the recent years was increased. The investment made creates the prerequisite for an increase in net sales. However, the company's success is based first of all on the production of sub-stations of impeccable quality and their timely delivery to customers. In order to fulfil customers' expectations to shorten delivery time even more, making room for new orders.

The well-targeted and successful operation of the company has attracted wider attention. In 2016 Finnkumu Oy was ranked second among Successful Entrepreneurs of South Ostrobothnia region.

In 2017, Finnkumu will continue to produce high quality pre-fabricated substations and distribution boxes. The success of the company is based on its close customer operation and impeccable quality of products, as well as timely delivery of products.

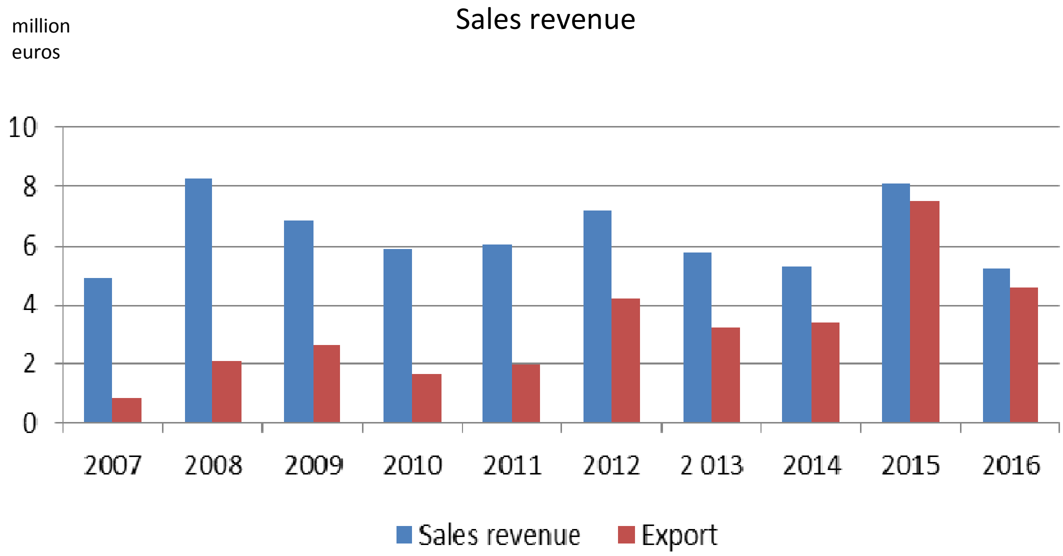
Rifas Group

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

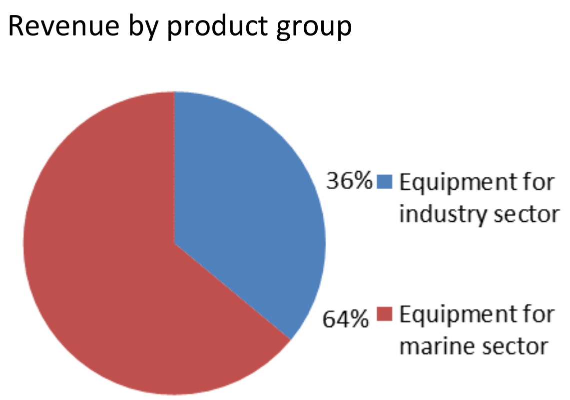
In 2016, the Rifas Group's sales revenue amounted to 5.2 (2015: 8.5) million euros, decreased by 38.7% during the year. There are 91 employees working in the Group.

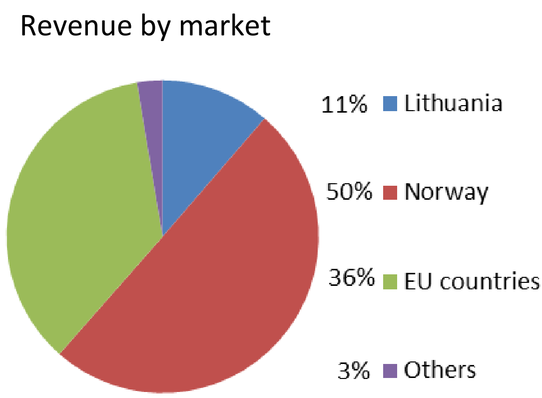
Rifas UAB

Rifas UAB is AS Harju Elekter's 100% owned Lithuanian subsidiary. The main area of activities of the company is the production and marketing of industrial automation equipment, electric power distribution and transfer equipment as well as contract-based products and solutions for marine industry. The company hires 85 employees.



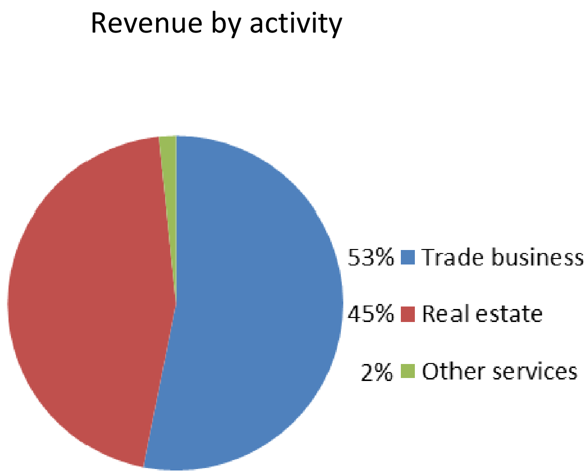
Recent years have been full of changes and difficult for Rifas UAB. This is also reflected in net sales that have been growing and declining as much as 50% by a year. The reporting year was difficult for the company and its sales dropped to 4.8 (2015: 8.1) million euros. The share of foreign markets in the net sales of the company amounted to 87% (2015: 93%). The decline in orders is mainly because of the low price of oil that forced the co-operation partners of the company to freeze or postpone several projects, but also because of the change of ownership of the company's main customer. The loss was slightly compensated by nearly 70% more orders than the previous year from the maritime sector.





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

REAL ESTATE HOLDING AND OTHER ACTIVITIES



The sales revenues of the real estate segment (Parent company) and other non-segmented activities (Parent company's Trade Group) totalled 8.8% (2015: 8.4%) of the consolidated sales revenue, out of which intermediary sale of goods formed 53.2%, rental income 41.2%, intermediary sale of services 4.0%, and income from other products/services formed 1.6%.

AS Harju Elekter

AS Harju Elekter is the Parent company of the Group. Its activities are divided into two segments – *Real estate* and *Other activities.* Unallocated activities include the coordination of co-operation within the Group, management of subsidiaries and related companies through their supervisory and management boards, management of the finances and investments of the Group and management of development and expansion activities as well as managing of personnel, IT and communication services and guaranteeing the professional operation of the corporate stores. Stores located in Tallinn, Tartu and Keila sell both products of the Group and related companies and other goods necessary for electrical installation work mainly to retail customers and small and medium sized electrical installation companies. The business activity of the Parent company gives 8.8% (2015: 8.4%) from the consolidated sales revenues.

Real estate

The sales revenues of the segment were 2.5 million euros, being on the same level comparing to the previous year. Rental income amounted to 2.2 million euros, accounting for 88.8% (2015: 88.1%) of the revenue of the segment. Utilities and other services totalled 11.2% (2015: 11.9%) of the sales revenue of the segment.

Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 5.5% amounting to 2.9 million euros and forming 4.7% (2015: 4.5%) of the Group's sales revenues. The main revenue sources were the intermediary sale of products and the sale of Group's products (electrical equipment).

OTHER FINANCIAL INVESTMENTS

The book value of other long-term financial investments increased within the year by 1.8 million euros, amounting to 22.0 million, while the fair value of financial investments increased due to a revaluation by 1.6 million euros. New financial investments amounted to 0.7 million euros and the market price of quoted securities dropped by 0.5 million euros.

SIA Energokomplekss

SIA Energokomplekss is a sales organisation, founded in 2006. At the beginning the Group's participation in the Latvian company SIA Energokomplekss was 10% and it was increased to 14% in 2009. Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and LV equipment in Latvia.

Skeleton Technologies Group OÜ

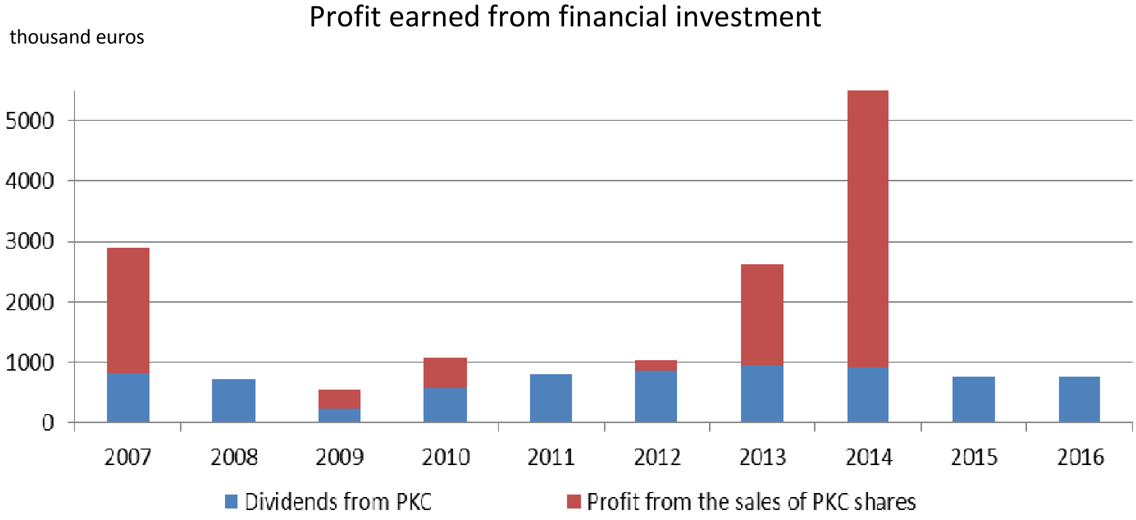
In 2015 AS Harju Elekter, as a strategical investor, acquired a 10% holding in Skeleton Technologies Group OÜ, a company developing and manufacturing ultracapacitors. In the third quarter of the reporting year an additional round of funding and involvement of new investors was carried out which presented an opportunity to give a reliable evaluation to the fair value of AS Harju Elekter holding in Skeleton Technologies Group OÜ. As a result of the revaluation of the holding the value of the financial investment increased by 1.6 million euros. In addition, the loan of 0.7 million euros granted by AS Harju Elekter to Skeleton Tehchnologies Group OÜ was converted into equity capital.

AS Harju Elekter sees the attractiveness of the investment in both an increase of its value as well as the possible participation of the company in the development, production and use of modular systems of ultracapacitors in management and switching systems.

PKC Group Oyj

PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. PKC shares are quoted on the Helsinki Stock Exchange and AS Harju Elekter has 4.5% of PKC shares as at December 31, 2016. The market price of the shares decreased in 2016 by 0.42 euros, which decreased the value of the investment by 0.5 million euros. On the last day of trading the price of a share on the Helsinki Stock Exchange was 15.81 (2015: 16.23) euros. PKC shares are valued in the statement of financial position according to market price and the change in the market price of the shares has a direct influence on the Group's assets.

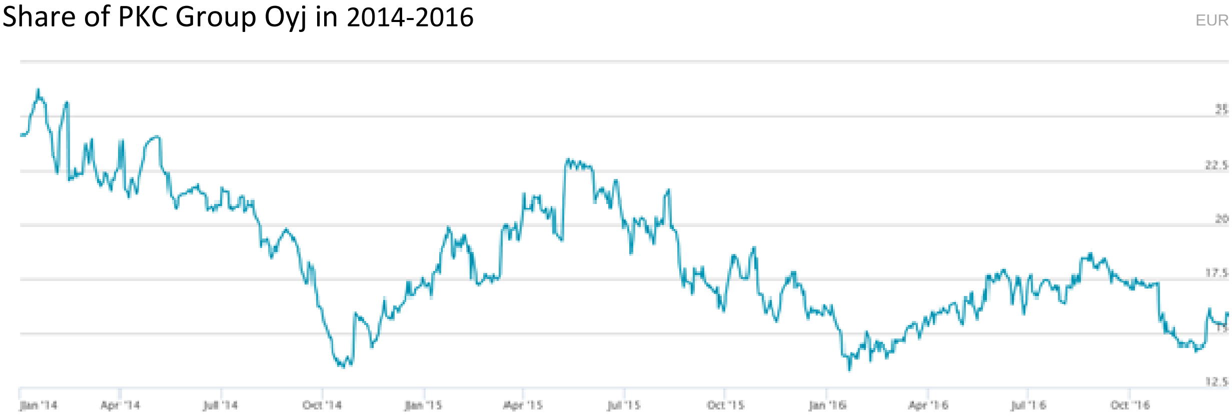
Profit earned from financial investment



In 2016, PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. AS Harju Elekter received dividends in the amount of 0.8 million euros.

After the reporting date, on 19.01.2017, Motherson Sumi Systems Limited and the Board of PKC Group Oyj concluded a merger agreement by which the business activities related to cable insulation of the companies will be merged. The takeover will be carried out by the subsidiary of Motherson Sumi Systems Limited, MSSL Estonia WH OÜ, which has made the shareholders of PKC Group Oyj a takeover offer of 23.55 euros per share. AS Harju Elekter owns 1,094,641 of PKC Group Oyj's shares. The Supervisory Board of the Group has agreed to accept the terms of takeover bid. On 22 March 2017 PKC Group Oyj has announced that the takeover bid has ended successfully. It means that AS Harju Elekter will receive 25.8 million euros.

Share of PKC Group Oyj in 2014-2016



PERSONNEL

The companies of the Harju Elekter Group are located in Estonia, Finland and Lithuania. In 2016, as in previous years, the labour market situation continued to be a problem in the markets where the Group's companies were operating. Structural unemployment common in Estonia and Lithuania has now become a concern in Finland. The situation for the Group's companies is made even more complicated by the unattractive salary levels in the business sector. In Estonia and Lithuania, the employers have difficulties finding high quality labour and it is aggravated by the movement of specialists to other countries. Wage pressure has not eased and it is made even worse by the fact that the productivity has not kept pace with the rise in salaries. According to Korn Ferry Hay Group's wages forecast for 2016 most employees in almost all regions will see, within the next three years, the largest wage increase in their lifetime which is caused by the increased demand for qualified workers combined with low inflation. According to the *Statistics Estonia* the unemployment rate in Estonia was 6.8% in 2016, while the employment rate of 65.6% was among the highest in its history. The decline in the number of inactive people had an important role in the acceleration of the increase in employment.

At the balance date, there were 480 (2015: 470) people working in the Group and the average number of employees was 455 (2015: 472). Employee wages and salaries totalled 10.6 (2015: 9.7) million euros in the year 2016. The average wages per employee per month amounted 1,940 (2015: 1, 712) euros. It is important to note, that the average wage in Finland is a multiple time higher compared to Estonia and Lithuania.

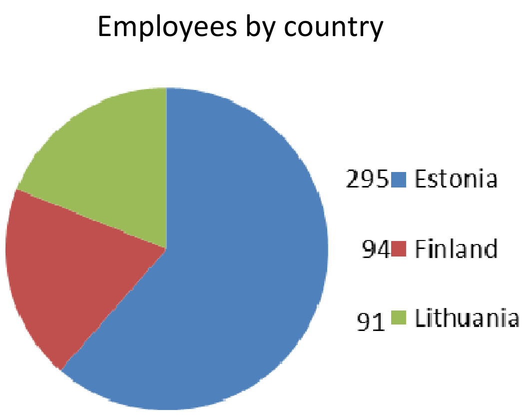
The majority of the Group's employees – 295 people – worked in Estonia, including 42 people who worked in the Parent company. At the end of the year, there were 94 people working in Finland and 91 in Lithuania. From 480 employees working in the Group 363 of them were men and 117 women, 126 of whom have higher education, 301 people have secondary or vocational secondary education and 53 have basic education. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.

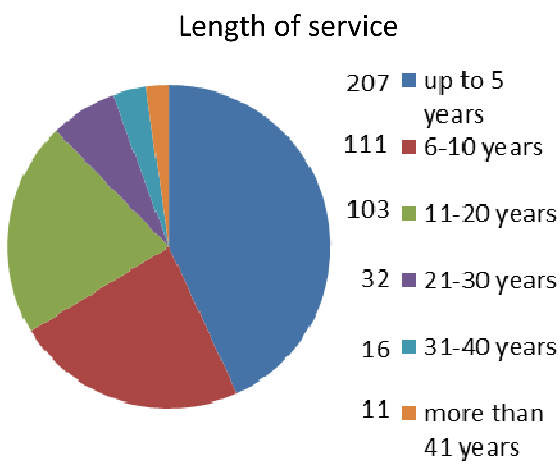
Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. Every second employee has been working in the Group for longer than 5 years.

The average age of the Group's employees has remained stable, and was 41.4 years in the accounting year. To find new competent employees, AS Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes.

Since 2001, AS Harju Elekter has had close co-operative relations with Tallinn University of Technology (TUT), since 2010 as Golden Sponsor. Over the years, altogether 60 Bachelor's or Master's degree students have participated in the scholarship programme.

Harju Elekter Group’s Estonian enterprises carry out several co-operation programmes with the Tallinn Centre of Industrial Education, Tallinn Polytechnic School, TTK University of Applied Sciences, and other schools. Finnish subsidiary continues a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.





The companies of the Group continued to implement the measures that made the functioning of the organisation even more effective. The Group’s Estonian subsidiaries merged their sheet metal factories which entailed changes in the management and organisational structure of both companies. The sudden increase in the number of orders to AS Harju Elekter Elektrotehnika speeded up the hiring process of employees in the second half of the year. During the hiring process several shortcomings in the remuneration system appeared which resulted in substantial changes to the existing system.

Exercises and training courses organised for employees during the year were mainly aimed at improving professional skills and qualifications. In the Estonian production units, activities continued in order to implement the 5S production model to reduce wastage, ineffectiveness and activities that do not add value. The competitiveness of the company was increased with the help of Lean-management according to which the improvement proposals coming from the personnel are treated as valuable development measure. First aid courses are organised regularly for all the employees besides the training that is focused on the development of competences related to the main activities of the Group and professional qualifications of the workers. All employees are continually instructed about the company’s policy on the organisation of waste handling and collecting waste by category.

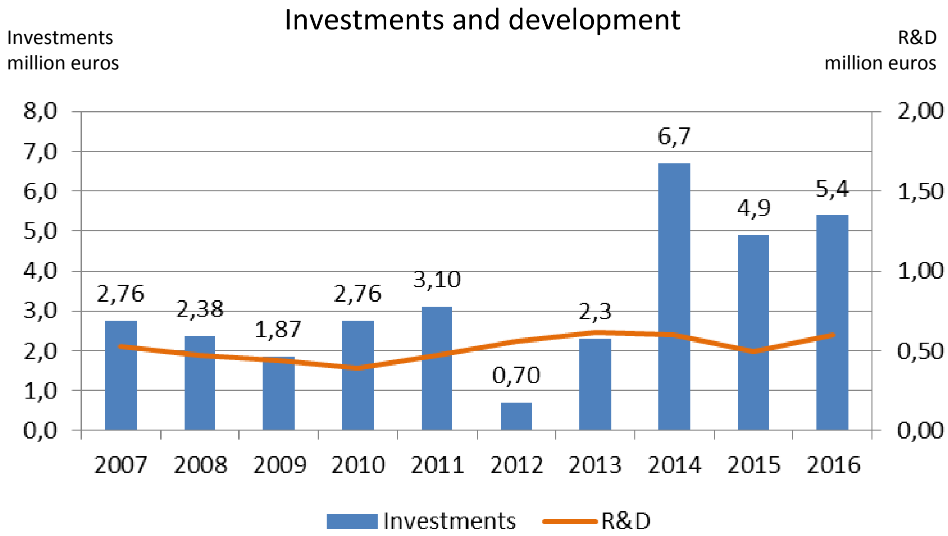
The Group has many possibilities for motivating its personnel:

- A bonus system linked to operating profit and involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- A bonus system linked to length of service;
- Share-option schemes, aiming at involving members of the directing bodies and employees of companies of the Group to motivate them acting in the best interest of the Group. Last time it was implemented in 2015;
- The cross company as well as cross-border employee exchange programmes, promote the rapid development of knowledge and skills within the Group and offer rotation opportunities.

AS Harju Elekter is a responsible and caring employer offering its employees contemporary working and recreation conditions. The Group is involved in constructive co-operation with the Keila Industrial Park trade union, one of the main outcomes of which is collective labour agreement. The stability, social guarantees and motivation scheme offered by AS Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

INVESTMENTS AND DEVELOPMENT

In 2016, the Group investments to fixed assets totalling 5.4 (2015: 4.9) million euros. As a whole the investments can be divided into two categories: half of them aimed to support and ensure the Group's further development and the other half includes renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.



In 2016 several substantial information system developments were implemented. The largest of them was the development of the information system describing the subcontracting process of supplying sheet metal factories and the environment for distributing information about subcontractors. To improve the management of issues related to the strategic development of the business information systems a position of Development Manager of Business Information Systems was created. An electronic orders environment was developed in co-operation with Finnish subsidiaries. The further development of economic software, as well as efforts to integrate the existing software, were carried out at Finnkumu Oy. The development of the management and economic software, the further introduction of additional modules and the development of different business analysis projects were continued at all subsidiaries. More attention was paid to the improvement of security solutions of data communication networks, focusing mainly on the introduction of various information security solutions. During the reporting year the company started the modernisation of the Group's data communication networks and established a cross-company wireless network area that allows more flexible work with mobile working stations. A new video surveillance system was installed in the complex of offices and production spaces of the Group's Estonian companies. Investments in the development of business software made during the reporting year totalled 0.1 (2015: 0.1) million euros and investments in information technology equipment amounted to 0.1 (2015: 0.1) million euros.

According to the development principles of the Group, the Group's companies aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2016 the development costs, at cost price, of the Group amounted to a total of 0.6 (2015: 0.5) million euros, accounting for 1.1% of the Group's sales volume.

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

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

The reporting year was full of changes and very interesting for the Estonian product development team. A substantial part of the Keila Development Centre's production development capacities were targeted to the development of new substation solutions. A substation HEKA1VM 315-1 with a metal enclosure that can be serviced from the outside and a substation HEKA1SM1000-1 with a metal enclosure that can be serviced inside were specially developed for the Finnish market and type tested according to the customer's requirements. The high quality and compatibility with market needs of products was confirmed by winning the Elenia and Caruna public tenders for Finnish power networks. Taking into account the needs of the Swedish market, and in order to participate in Swedish public procurement tenders, special air insulated SS2 type substations HEKA1VM200-1 and HEKA1VM1000-6, as well as a substation with concrete doors, were developed. The design of the substation follows specifically the requirements and preferences of Nordic distribution networks. A wide range of different finishing designs is offered starting with different shades of brick and imitation wood surfaces.

As to low voltage products, the company has been busy developing engineering tools. We have completed LV electrical equipment, HEMP configurator, for pre-fabricated substations which is a useful tool for flawless generation of new assemblies. The work with the development of HEPO (LV electrical equipment used in Harju Elekter's substations) is still going on. In addition to that, the development of the product family of Ellevio LV panels was completed and one of the solutions passed the required tests successfully. For the Norwegian market a LV panel solution suitable for Siemens was developed.

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

The Finnish subsidiaries focused on developments and projects related to renewable energy and offering suitable solutions in this field. Satmatic Oy contributed a lot to the reduction of waiting time in production, by increasing the share of electronic information flow and improving the level of automation of material handling. The reception of goods was also made more efficient. The Finnish subsidiary increased its sales of solar power equipment and services. It continued the development of heating switchboards for car parks and charging systems for electric cars in order to make these products even more customer-friendly.

The Group's subsidiaries are actively participated in the professional fairs in Estonia and Finland: trade fair Energia 2016 in Tampere, which is specialised to energy production, transmission, distribution and accumulation; in SLO autumn fair as well as in the building fair Estbuild in Tallinn.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

A high quality business and management model is one of the assets of the Group. The objective is to develop business processes, practices and systems based on the principle of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play. The Group particularly emphasises the handling of customer feedback so that the necessary information reaches the relevant employees with minimum delay and that corrective and preventive action can be effectively implemented.

The daily business operation and organisation of Group's subsidiaries follows quality and environmental policies based on international standards. Issues related to both quality and the environment, are discussed as an integral part of everyday management, sales, development, manufacturing, logistics and real estate management activities. The production processes of AS Harju Elekter do not have a significant negative impact on the environment. Nevertheless, the companies of the Group monitor and measure their environmental impact according to the environmental policy, organise hazardous waste collection and transfers to waste handling companies. The company's employees have received the relevant training that enables them to take note of problems and make suggestions to ensure that transport, waste management and usage of materials and energy are organised better and in a more environmentally friendly way.

The companies of the Group follow a system developed for the collection of packages and packaging waste and for the recovery of packaging waste in accordance with the requirements of the Packaging Act. The Group is a contractual partner of the non-profit association, Estonian Pack Cycling. The stores of the AS Harju Elekter commerce group organise the collection, recycling and disposal of unusable electronic devices (boilers) in accordance with the Waste Act.

Following the principles of quality management and environmental policy the subsidiaries of the Group continually focused on optimising important work processes and on the efficient use of materials and products in order to reduce the resultant waste to a minimum. Fire safety training was organised for workers which consisted of a theoretical part as well as a field exercise. In addition to that several occupational and electrical safety trainings were organised for workers. The productivity was continually increased in Estonian and Finnish subsidiaries by further elaborating 5S production principles.

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

Internal and external audits are carried out in the Group's companies at least once a year and recertification takes place every three years. Its companies' operations are in accordance with quality and environmental management standards ISO 9001/2008 and ISO 14001, while the Lithuanian subsidiary's operations also comply with OHSAS 18001:2007 standard. As the first company of the Group, AS Harju Elekter Teletehnika, received an acknowledgement on 08.12.2016 that its quality and environmental management systems are in compliance with ISO 9001:2015 and ISO 14001:2015 new standards and new certificates of conformity were issued to it for the period of next three years.

Company	2009	2010	2011	2012	2013	2014	2015	2016
HE Elektrotehnika		↻ ISO9001/ ISO14001 (since 2000.a)			↻		↻ up to 9/2018	
HE Teletehnika			↻ ISO9001/ ISO14001 (since 2002.a)			↻		↻ up to 12/2019
Rifas	↻ ISO9001 (since 2003.a)		ISO14001 OHSAS 18001	↻			↻ up to 9/2018 ja 12/2018	
Satmatic	↻ ISO9001 (since 2003.a)		ISO14001	↻			↻ up to 7/2018	

↻ - recertification

CORPORATE TARGET FOR 2017

In its business the Harju Elekter Group builds on the Group's long-term development strategy. Decisions, whether short or long term, are guided by the Group's aim to be the best known and recognised producer of electrical equipment and automation devices in the Baltic and Scandinavian countries, manufacturing and delivering a highly professional range of products and comprehensive solutions in the segment of MV and LV products, using advanced technology and the best expertise available. The Group's activities derive from the concept of supporting our customers' and partners' interests and preferences in all our actions and decisions. The changing world adds an abundant amount of challenges and choices. We assume that the Group as a whole, its organisation and its subsidiaries are ready to continue their success story within the environment of the recurrent world and changing economic models.

The establishment of further activities and plans of the Group will be built on its strengths related to product development, learnt experience and expectations of customers, aiming to be open and attentive to everything new and changing. The priority of the Group is to focus on the main markets in Scandinavian countries, extend our trade sphere and to establish ourselves in the Group in other markets, by selling our products of industrial automatics and power distribution throughout the rest of the world.

The Group contributes daily to the development of energy-efficient products and technologies and to the involvement of new and innovative projects and fields of activities.

In 2017, the Group will focus on the following:

- Completion of rearrangements in the Keila Industrial Park to move the production of AS Harju Elekter Elektrotehnika to the former premises of PKC Eesti AS.
- Assignment of ongoing projects of the Allika Industrial Park to renters, continuous marketing of the Industrial Park in order to find new renters and initiating new construction projects.
- Use of solar energy and offering the integrated service as a new lines of business.
- Continuous sales and marketing activities in target markets, focusing on public tenders for the Swedish power distribution sector.
- Increasing sales in the Estonian market, focusing on the adjustment of products and product groups targeted to the building sector with the market requirements and making them more competitive.
- Investments in the personnel, technology and industrial real estate.
- Investments in the digitalisation projects related to business development, security and financial accounting.
- A constant improvement and development of the Group as an organisation; increasing the readiness and the capability to respond to possible fast changes in the future.
- Continuation of an active search for, and launching of, financial investment, merger and takeover opportunities.

SHARE AND SHAREHOLDERS

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

The last year was positive to share markets in the world. The upturn was extensive and almost all markets were on the plus side. The most popular share index in the world, S&P 500 increased by 13.4%, amounting to 2,238.8 points by the end of the year. The assembled index OMXBBGI of the Baltic stock exchanges that belong to NASDAQ, the largest stock exchange Groups in the world, increased during the reporting year by 21.6%, amounting to 788.2 points.

2016 brought along some revival in the Nasdaq Tallinn Stock Exchange that celebrated its 20 years anniversary. After an interval of six years an initial public offering (IPO) took place and after an interval of almost 10 years the Tallinn stock exchange index OMXT rose to a new record level. Within a year OMXT increased by 19.6%, amounting to 1,075.50 points which is the largest increase of the index since 2012. The trading activity increased as well. During the year 51,170 transactions with a total value of 159 million euros were made on the stock exchange.

AGM of AS Harju Elekter that took place on April 28, 2016 confirmed the new version of the Articles of Association and decided to introduce a no par value shares. AGM also approved the decision to reduce the share capital of the company by 1.2 million euros by decreasing the book value of the shares. The reduction of the share capital was registered in the Commercial Register on October 18, 2016. At December 31, 2016, the share capital of AS Harju Elekter is 11.18 million euros, which is divided into 17.74 million no par value shares. The book value of a share is 0.63 euros. The symbol of an AS Harju Elekter share in NASDAQ is HAE1T. ISIN: EE3100004250. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to AS Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit.

Key share data **EUR**	**2016**	**2015**	**2014**	**2013**	**2012**
Number of shares (in thousand)	17,739,880	17,550,851	17,400,000	17,400,000	17,093,443
Book value	-	0.70	0.70	0.70	0.70
Highest price	2.94	3.14	2.85	2.92	2.80
Lowest price	2.43	2.49	2.52	2.46	2.30
Closing price	2.83	2.63	2.79	2.70	2.64
Change (%)	7.6	-5.7	3.3	2.3	15.8
Market value (in million)	50.20	46.66	48.55	46.98	45.94
Traded shares (pc)	947,294	1,086,451	800,823	936,162	759,869
Turnover (in million)	2.45	2.98	2.17	2.48	1.88
Earnings per share, EPS	0.18	0.18	0.56	0.30	0.21
P/E	15.57	14.61	4.98	9.50	12.57
Dividend per share	*0.18	**0.12	0.15	0.10	0.09
Dividend yield (%)	6.4	1.9	5.4	3.7	3.4
Dividend payout ratio (%)	100.0	27.8	26.6	33.7	44.5

* Management Board’s proposal
** incl 0.07 euros, related payment from reduction of the share capital

In the reporting year, the share price of AS Harju Elekter increased by 7.6% to 2.83 euros and the company's market value as at December 31 was 50.2 million euros. Compared to the previous year, the volume of transactions and the number of shares traded decreased slightly. The number of shareholders of the company continued increasing. At the end of 2016, AS Harju Elekter had 1,925 shareholders.

Share of AS Harju Elekter in Tallinn Stock Exchange 2014-2016

A comparison of AS Harju Elekter share indexes 2014-2016

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

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

Shareholders structure, at December 31, 2016

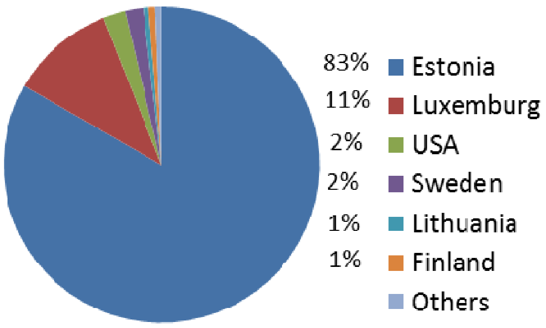
At the end of 2016, AS Harju Elekter had 1,925 shareholders. The number of shareholders increased during the year by 148 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2016 held 31.4% of AS Harju Elekter share capital. Foreign equity participation is 16.7%. Members of the supervisory and management board and persons or companies associated with them hold 10.6% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

Shareholder structure by size of holding

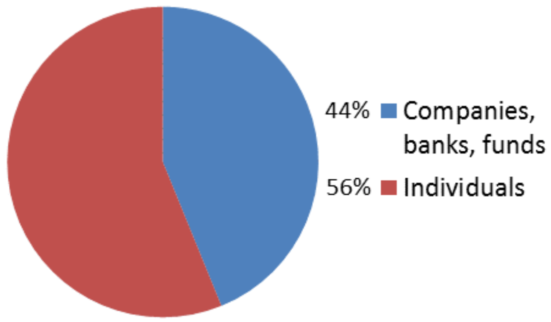
Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.10	42.10
1.0 – 10.0%	9	0.47	23.10
0.1 – 1.0%	70	3.64	19.42
< 0.1%	1,844	95.79	15.38
Total	1,925	100,0	100.0

Shareholders list (> 5%) 31.12.2016	Holding (%)
HARJU KEK AS	31.39
ING LUXEMBOURG S.A.	10.71
Mr Endel Palla	6.56
Shareholders, holding under 5%	51.34

Shareholders by country



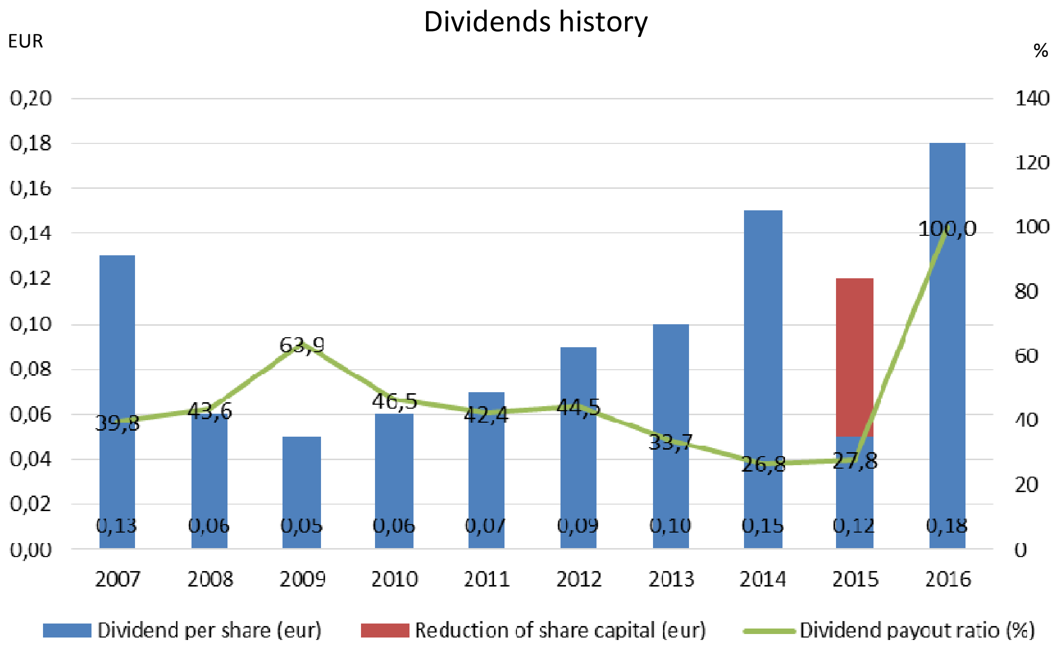
Shareholders by category



Dividends

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

The Management Board proposes to pay a dividend of 0.18 (2015: 0.05) euros per share, totally 3.2 (2015: 0.88) million euros for the financial year 2016. Additionally, for the year 2015, 0.07 euros per share was paid out to shareholders in connection with the reduction of the share capital. Payments were made, according to the law, after three months from the registration of the reduction of the share capital in the Commercial Register i.e. on January 20, 2017.



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

BASIS OF PREPARATION OF THE MANAGEMENT REPORT

AS Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and as a public company, AS Harju Elekter also observes the rules of the Nasdaq Tallinn, the Principles of the Corporate Governance Code and the requirements to treat investors and shareholders equally. During the reporting year the company studied the requirements of sustainability and social responsibility which are based on the guidelines for sustainable reporting G4 of the Global Reporting Initiative (GRI), and started to prepare their integration into the AS Harju Elekter 2017 report. Under the guidance of independent experts and in co-operation with the management and specialist of the company several seminars and workshops have been carried out, topics of focus have been identified and the system of gathering, processing and presenting data for the report of 2017 and beyond has been introduced.

This report gives an overview of activities during the whole of 2016. The report is presented annually and it is a continuation to the annual report of 2015.

Corporate Governance Report 2016

AS Harju Elekter complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2016, the supervisory board, the management board and explains AS Harju Elekter's governance structure and processes.

CGC Article 1.3.3

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Since AS Harju Elekter does not have the required technical equipment and acquisition of such equipment would be costly, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.7

The basic salary, performance pay, severance pay, other payable benefits and reward systems of each member of the Management Board, as well as their significant characteristics are presented in a clear and unambiguous form on the issuer's website and in the CGC report. The presented data are considered clear and unambiguous if they directly express the extent of the expenses to the issuer or the extent of the likely expenses as of the day of disclosure.

The Board's members are remunerated according to the contract of service. The rate of pay of Board's member and the severance pay is set out in the contract of service and shall not be disclosed to the public under an agreement between the parties. The chairman of the Board is entitled to receive a severance payment in the amount of 10 months' and two members in the amount of 4 months' remuneration of a member of the Management Board.

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative. The performance pay is distributed according to the basic salary and work performance and the performance pay of the members of the Management Board is approved by the Chairman of the Supervisory Board. 80% of the performance pay is paid by quarter; the remaining 20% is paid after the results of the financial year have been determined.

Management, incl. Members of the Management Board are paid an annual bonus of 0.4% of the consolidated net profit in total. The annual bonus is approved by the chairman of the Supervisory Board and is paid after the group's annual statement has been audited.

CGC Article 3.1.3

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

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes. In 2016, members of the Supervisory Board of AS Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of consolidated financial statements; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Council in issues provided by law. Details of the Audit Committee and its position in the organisation will be available on the company's website.

CGC Article 3.2.5

The rate of the member of the Supervisory Board pay and the payment procedure established by the general meeting shall be presented in the issuer's CGC report, separately pointing out the basic salary and additional remuneration (including severance pay and other payable benefits).

The shareholders' general meeting of AS Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 3 May 2012 appointed the membership of the Supervisory Board for the following 5 years, setting 750 euros a month as the pay rate for a member of the Supervisory Board and 1,600 euros a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working in company's management shall be subject to the reward system used in AS Harju Elekter (see also CGC explanation for CGC Article 2.2.7). No severance pay is allotted to members of the Supervisory Board. The next elections of the Supervisory Board will take place at the AGM in 2017.

CGC Article 3.3.2

A member of the supervisory council shall promptly inform the chairman of the supervisory council and the management board of any business offer related to the business activity of the issuer made to the member of the supervisory council or a person close or connected to the member of the supervisory council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

Members of the Supervisory Board must avoid any conflict of interest and follow the requirements of prohibition on competition. The Supervisory Board and the Management Board work in close co-operation, acting according to the Articles of Association and in the best interests of the company and its shareholders. In 2016 no conflicts of interests occurred.

CGC Article 5.3

Among *other things, the issuer's general strategic trends approved by the Supervisory Board are available for shareholders on the issuer's website.*

The company's Management Board believes that strategy is a business secret and should not be made public. However, the general trends and significant topics have been included in the Management Report.

CGC Article 5.6

The issuer discloses the times and places of meetings with analysts and of presentations and press conferences for analysts and investors or institutional investors on the issuer's website. The issuer enables shareholders to participate in these events and makes presentations available on its website. The issuer shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting.

The company's activities are always based on the principle of fair treatment of shareholders. Mandatory, significant and price sensitive information is first disclosed in the system of the Tallinn Stock Exchange and then on the company's website. In addition, each shareholder has the right to request additional information from the company if necessary and to arrange meetings. The company's Management Board does not consider it important to keep a time and agenda schedule of meetings with different shareholders. This rule applies to all meetings, including those immediately preceding the disclosure of financial reporting.

CGC Article 6.2

Electing the auditor and auditing the consolidated financial statements.
The general meeting of the shareholders of Harju Elekter of 14 May 2015 elected the auditing company KPMG Baltics OÜ as an auditor for the company for the period 2015−2017. Information on the auditor is available at the company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties.

Governance principles and additional information

A public limited company's AS Harju Elekter governing bodies are the shareholders' general meeting, the Supervisory and the Management Boards. AS Harju Elekter has not established a documented diversity policy. However, people have been elected and appointed to higher ranking management positions, first of all, on the basis of the possible added value that they could offer to the Group with their knowledge and skills, and on the basis of their suitability to the position.

General meeting

The general meeting is the company's highest governing body who have competence for amending the Articles of Association and approving new ones, changing the amount of share capital, removal of members from the Supervisory Board and the termination of the activities of the company, making decisions on the division, merging and transformation of the company with the precondition that at least 2/3 of the shareholders represented at the general meeting approve such decisions. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the company's financial year. An extraordinary general meeting is called by the management board when the company's net assets have declined below the level required by the law or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the company's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined 7 days before at the date of the general meeting.

The annual general meeting of 2016 was held on 28 April at Keskväljak 12 in Keila, Estonia. A total of 64.1% of the voting stock were represented. Presentations were made by the chairman of the management board, chairman of the supervisory board and auditor.

The general meeting approved the 2015 annual report and profit distribution and decided to pay dividends amounting to 0.05 euros per share, totally 0.9 million euros. Also, AGM resolved to introduce a no par value share and approve the new version of AS Harju Elekter articles of association together with the abovementioned changes. The general meeting resolved to reduce the share capital by 1,242 thousand euros, decreasing the book value of the shares: as a result of reduction, the book value of AS Harju Elekter share will decrease to EUR 0.63, from EUR 0.70. Both, the list of shareholders participating in the reduction of share capital as well as the list of shareholders entitled to dividend fixed as at 23.59 on 12 May 2016. The dividends transferred to the shareholders bank accounts on 17 May 2016 and the payment related to reduction of the share capital on 20 January 2017.

Supervisory Board

According to the Articles of Association, AS Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years. The supervisory board plans the activities of the company, organises the management of the company and supervises the activities of the management board. The supervisory board meets according to need but not less frequently than once every three months. A meeting of the supervisory board has a quorum when more than half of the members participate. In 2016, the supervisory board met nine times. All members of the supervisory board attended most of the meetings.

On 3 May 2012, the AGM assigned a five-member Supervisory Board for the next five-year period as follows: Endel Palla (chairman), Ain Kabal, Madis Talgre, Triinu Tombak and Andres Toome. Following the letter of resignation from a member of the Supervisory Board, Madis Talgre, submitted on April 16, 2014 the AGM held on May 8, 2014 approved Aare Kirsme as a new member of the Supervisory Board. Since 8th of May 2014, the Supervisory Board has 5 members with the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Estonian Defence Forces, Head of legal department), Aare Kirsme (Chairman of the Supervisory Board, AS Harju KEK), Triinu Tombak (financial consultant) and Andres Toome (consultant).

Mr Palla has been working in AS Harju Elekter since 1969 (1985 -1999 as managing director) and keeps company's R&D manager position since 1999. Mr Kabal (chairman of Priileib OÜ), is a lawyer, who has experiences in advising Group's companies on legal issues. Mr Toome (chairman of OÜ 30pluss) complements the Board with investment experience since 2007. In 2012 was appointed a member of the Supervisory Board Mrs Tombak, to include more financial knowledge and experience to the Board. Mr Kirsme is a chairman of supervisory board of AS Harju KEK, the biggest shareholder of AS Harju Elekter (holding 31% of the shares of the company on 31.12.2016). Two of the five members of the Supervisory Board – Triinu Tombak and Andres Toome - are independent.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law. Only exception is Chairman of the Supervisory Board, who is entitled to termination benefits that may extend to 6 monthly remuneration of a development manager. At 31 December 2016, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 9.2% (2015: 9.1%) of AS Harju Elekter shares (Note 22).

Management Board

The management board is a governing body which represents and manages the company in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. According to the Articles of Association, Harju Elekter's Management Board may have 1-5 members who are elected by the Supervisory Board for a period of three years. The Supervisory Board appoint also the chairman and the members as well as remove a member of the Management Board. Every member of the Management Board may represent the company in all legal acts.

The company has a three-member Management Board. On 26.10.2016 the Supervisory Board of AS Harju Elekter decided to extend the composition of the Managing Board of the company and to increase it by three members. The Manager of the company, Andres Allikmäe, was appointed as the Chairman of the Managing Board and he will continue work on the basis of the contract of service agreed on the 05.05.2014 and the mandate given to him. In addition to him the CFO of the AS Harju Elekter, Tiit Atso, and the Head of Real Estate and Energy Services, Aron Kuhi-Thalfeldt, were appointed as members of the Managing Board. The mandate of the new members of the Managing Board started on 01.11.2016 and it will end on 31.10.2019. The competence and authorities of members of the Managing Board are regulated by the Commercial Code and the Articles of Association of the company.

The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise. The member of the Board is remunerated according to the contract of service. The chairman of the Board is entitled to receive a severance payment in the amount of 10 months' and two members in the amount of 4 months' remuneration of a member of the Management Board.

The everyday business activities of the Group are managed by the Chairman of the Management Board /CEO. The Chief Financial Officer and the Head of Real Estate and Energy Services of the Group are responsible for managing their domains in the whole Group. The members of the Managing Board participate in the work of the management and control bodies of the Group's subsidiaries.

Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies.

At 31 December 2016, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.3% of AS Harju Elekter shares (Note 22).

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

Additional management bodies and special committees

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

Information management

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

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

Auditors

According to the decision of the general meeting of the shareholders (14.5.2015) the audits of AS Harju Elekter for the years 2015–2017 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by KPMG Baltics UAB in Lithuania and KPMG Oy in Finland.

SOCIAL RESPONSIBILITY AND CHARITY

Social Responsibility Report 2016

The environment around us creates, as well as limits, our opportunities to act. During its almost half-century history of operation AS Harju Elekter has become one of the largest and most successful companies in Keila and in the region around it and we feel we have to take responsibility for the general development of the society, as well as the wellbeing of the local community. For us, social responsibility means daily considerations how to contribute to making life better in Estonia.

We have always supported financially and in other ways many initiatives that we strongly believe in. We value highly the long-term co-operation that makes the support more efficient. We continue supporting good ideas also in the future. Over the years four major areas of sponsorship have evolved within the Group.

Bearing of social responsibility

AS Harju Elekter as a local large-scale enterprise is conscious of a certain responsibility for the general development of the region and the well-being of the local community focusing mainly on children and youth by supporting their educational efforts and spending their leisure time in good surroundings. Therefore, the Group has concluded long-term sponsorship agreements with the Keila School as well as kindergartens, sport and hobby clubs in Keila. The Keila SOS Children's Village is supported with a donation to purchase children's school bags and school supplies.

Supporting the education of engineers in Estonia

The company works in close co-operation with Estonian educational institutions in order to promote and develop the educating of engineers. AS Harju Elekter is a golden sponsor of Tallinn Technical University granting every year up to three scholarships for Bachelor's as well as Master's degree students in the field of electricity and mechanics. The Group also carries out several co-operation programs with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. Finnish subsidiary had a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

Supporting and inspiring young sportsmen

The company has, above all, supported youth sports - focusing on long-term and constant sponsorship and taking into account the popularity of the sports. For several years the company has sponsored the foot- and basketball clubs in Keila. The main target is to work with a large amount of young people, who could represent Estonia in the future.

Promoting recreational sport among the employees

In co-operation with the Harju KEK Athletic Club we do everything we can to facilitate an active and sporting lifestyle for our employees. Healthy workers, full of energy, represent a priceless value to the company.

Total amount of different support programmes in 2016 amounted to 24.4 (2015: 21.5) thousand euros.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Note	As at 31 December 2016	2015
Current assets			
Cash and cash equivalents	5,7	3,278	5,711
Trade and other receivables	8	8,480	6,678
Prepayments	9	771	278
Prepaid income tax	19	24	28
Inventories	10	9,712	7,148
Total current assets		**22,265**	**19,843**
Non-current assets			
Deferred income tax assets	25	37	57
Long-term financial investments	11	21,990	20,188
Investment property	12	13,273	12,990
Property, plant and equipment	13	10,972	8,010
Intangible assets	15	5,431	5,491
Total non-current assets		**51,703**	**46,736**
TOTAL ASSETS		**73,968**	**66,579**
Liabilities			
Interest-bearing loans and borrowings	16	804	296
Advances from customers		857	389
Trade and other payables	18	8,283	5,654
Payables to shareholders	22	1,242	0
Other current tax liabilities	19	1,075	944
Income tax liability	19	133	146
Short-term provisions	20	15	34
Total current liabilities		**12,409**	**7,463**
Interest-bearing loans and borrowings	16	1,167	912
Total non-current liabilities		**1,167**	**912**
Total liabilities		**13,576**	**8,375**
Equity			
Share capital	22	11,176	12,418
Share premium	22	804	804
Reserves	22	19,214	18,047
Retained earnings		29,113	26,817
Equity attributable to owners of the Company		**60,307**	**58,086**
Non-controlling interests		85	118
Total equity		**60,392**	**58,204**
TOTAL LIABILITIES AND EQUITY		**73,968**	**66,579**

The notes on pages 46 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
EUR'000	Note	**2016**	**2015**
Revenue	23, 24	61,167	60,656
Cost of sales	24	-50,806	-50,357
Gross profit		**10,361**	**10,299**
Distribution costs	24	-3,034	-2,657
Administrative expenses	24	-4,138	-4,337
Other income	24	76	70
Other expenses	24	-84	-99
Operating profit		**3,181**	**3,276**
Finance income	24	775	822
Finance costs	24	-24	-36
Profit before tax		**3,932**	**4,062**
Income tax expense	25	-708	-876
Profit for the year		**3,224**	**3,186**
Profit attributable to:			
Owners of the Company		3,219	3,190
Non-controlling interests		5	-4
Earnings per share			
Basic earnings per share (EUR)	26	0.18	0.18
Diluted earnings per share (EUR)	26	0.18	0.18

The notes on pages 46 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the year ended 31 December	
EUR'000	Note	**2016**	**2015**
Profit for the year		**3,224**	**3,186**
Other comprehensive income			
Items that subsequently might be classified to profit or loss:			
Gain/loss on change in fair value of available-for-sale financial assets	11	1,142	-1,357
Foreign currency translation differences – foreign operations		1	0
Total other comprehensive income for the year		**1,143**	**-1,357**
Total comprehensive income for the year		**4,367**	**1,829**
Comprehensive income attributable to:			
Owners of the Company		4,362	1,844
Non-controlling interests		5	-15

The notes on pages 46 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	Note	For the year ended 31 December 2016	2015
Cash flows from operating activities			
Profit for the period		3,224	3,186
Adjustments for:			
Depreciation and amortisation	12,13,15,23,24	1,596	1,543
Gain on sale of property, plant and equipment	24	-31	-25
Share-based payments	24	0	36
Finance income	24	-775	-822
Finance costs	24	24	36
Income tax expense	25	708	876
Changes in:			
Change in trade and other receivables		-2,301	-20
Change in inventories		-2,564	956
Change in trade and other payables		3,315	-692
Corporate income tax paid	28	-601	-361
Interest paid		-24	-33
Net cash from operating activities		**2,571**	**4,680**
Cash flows from investing activities			
Acquisition of investment property	28	-2,539	-1,565
Acquisition of property, plant and equipment	28	-662	-523
Acquisition of intangible assets	28	-142	-207
Acquisition of a subsidiary, net of cash acquired	30	-1,224	-856
Acquisition of other financial investments	11	-660	-2,400
Proceeds from sale of property, plant and equipment	28	34	30
Proceeds from sale of financial investments	11	0	36
Interest received	28	12	42
Dividends received		651	651
Net cash used in investing activities		**-4,530**	**-4,792**
Cash flows from financing activities			
Growth/decreases in short-term loans	16	642	0
Proceeds from borrowings	16	129	0
Repayment of borrowings	16	-12	0
Payment of finance lease principal	16	-296	-347
Acquisition of non-controlling interests	30	-50	-1,651
Receipts from contribution into share capital		0	766
Dividends paid	22	-887	-2,654
Dividends income tax paid		0	-272
Net cash used in financing activities		**-474**	**-4,158**
Net cash flow		**-2,433**	**-4,270**
Cash and cash equivalents at beginning of year	7	**5,711**	**9,984**
Increase / decrease in cash and cash equivalents		-2,433	-4,270
Effect of exchange rate fluctuations on cash held		0	-3
Cash and cash equivalents at end of year	7	**3,278**	**5,711**

The notes on pages 46 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

The notes on pages 46 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015	**Attributable to owners of the Company**								
EUR'000	**Share capital**	**Share premium**	**Capital reserve**	**Fair value reserve**	**Translation reserve**	**Retained earnings**	**TOTAL**	**Non-Controlling interests**	**TOTAL**
t 31.December 2014	**12,180**	**240**	**1,218**	**18,184**	**-9**	**26,664**	**58,477**	**1,365**	**59,842**
Comprehensive income 2015									
Profit for the period	0	0	0	0	0	3,190	**3,190**	-4	**3,186**
Other comprehensive income	0	0	0	-1,357	11	0	**-1,346**	-11	**-1,357**
Total comprehensive income for the year	**0**	**0**	**0**	**-1,357**	**11**	**3,190**	**1,844**	**-15**	**1,829**
Transaction with the owners of the Company, recognised directly in equity									
Increase of share capital	238	564	0	0	0	0	**802**	0	**802**
Share-based payments	0	0	0	0	0	36	**36**	0	**36**
Dividends	0	0	0	0	0	-2,610	**-2,610**	-44	**-2,654**
Acquisition of non-controlling interest	0	0	0	0	0	-463	**-463**	-1,188	**-1,651**
Total transaction with the owners of the Company	**238**	**564**	**0**	**0**	**0**	**-3,037**	**-2,235**	**-1,232**	**-3,467**
At 31 December 2015	**12,418**	**804**	**1,218**	**16,827**	**2**	**26,817**	**58,086**	**118**	**58,204**

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

The notes on pages 46 to 91 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter (address: Paldiski mnt 31, Keila, Estonia) is a company registered in Estonia (registry number 10029524). These consolidated financial statements as at and for the year ended 31 December 2016 comprises AS Harju Elekter (the ‘Parent company’ or the ‘Company’) and its subsidiaries (together referred to as the ‘Group’).

Subsidiaries of AS Harju Elekter	**Domicile**	**Core business**	**Ownership and voting rights, %**	
As at 31 December			**2016**	**2015**
AS Harju Elekter Teletehnika	Estonia	Manufacturing	100	100
AS Harju Elekter Elektrotehnika	Estonia	Manufacturing	100	100
Harju Elekter Kiinteistöt Oy (note 30)	Finland	Administration of Manufacturing Real Estate	100	0
Satmatic Oy	Finland	Manufacturing	100	100
Harju Elekter AB	Sweden	Retail- and wholesale	90	90
Rifas UAB (note 30)	Lithuania	Manufacturing	100	100
Subsidiary of Satmatic Oy				
Finnkumu Oy (note 30)	Finland	Manufacturing	100	100
Subsidiary of Rifas UAB				
Automatikos Iranga UAB (note 30)	Lithuania	Project designing	67	51

AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997; 31.4% of the Company’s shares are held by AS Harju KEK, a company registered in Estonia.

The management board authorised these consolidated financial statements as at and for the year ended 31 December 2016 for issue on 23 March 2017. According to the Commercial Code of the Republic of Estonia, final approval of the annual report including the consolidated financial statements, which have been prepared by the management board and approved by the supervisory board, takes place at the annual general meeting.

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

2 Basis of preparation

Under the Estonian Accounting Act, the Parent company’s separate primary financial statements (the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are to be disclosed in the notes to the consolidated financial statements. The separate primary financial statements of AS Harju Elekter are disclosed in note 32 “Primary financial statements of the Parent”. The separate primary financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements, except that in the Parent’s separate primary financial statements investments in subsidiaries and associates are accounted for using the cost method.

2.1. Statement of compliance

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

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except that available-for-sale financial assets and year 2015 the notional part of commitment related to the acquisition value of Finnkumu Oy are measured at fair value.

2.3. Functional and presentation currency

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

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

2.4. Use of estimates and judgements

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

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

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

2.5. Changes in accounting policies

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

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016.

The amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.
- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) has been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

The first time implementation of this interpretation did not influence substantially the financial statement of the Group

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Effective for annual periods beginning on or after 1 January 2016.

Revenue-based depreciation banned for property, plant and equipment

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

New restrictive test for intangible assets

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue.

The first time implementation of this interpretation did not influence substantially the financial statement of the Group, as the Group does not apply revenue-based methods of amorti-sation/depreciation.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Effective for annual periods beginning on or after 1 February 2015.

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, an entity is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The first time implementation of this interpretation did not influence substantially the financial statement of the Group, since the Group does have any defined benefit plans that involve contributions from employees or third parties.

Amendments to IAS 27 Equity Method in the Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2016.

The amendments to IAS 27 allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The first time implementation of this interpretation did not influence substantially the financial statement of the Group, as the Group intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost.

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 2016 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments (2014)

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

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

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

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

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

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

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

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

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

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

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

The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss model.

IFRS 15 Revenue from contracts with customers

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

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

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

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

The Group has not yet fully completed its initial assessment of the potential impact of IFRS 15 however, Group does not expect that the new Standard, when initially applied, will have material impact on the financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 16 Leases

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

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

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

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

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

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

The Group does not expect that the new standard, when initially applied, will have material impact on the financial statements because the entity is not party to a contractual arrangement that would be in the scope of IFRS 16.

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

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

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

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and

- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

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

Amendments to IAS 7

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

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

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements.

Amendments to IAS 40 Transfers of Investment Property

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

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

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

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

3 Significant accounting policies

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

3.1. Basis of consolidation

(a) Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

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

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

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

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

3.2. Foreign currency translation

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

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

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

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

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

3.3. Financial assets

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

The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale financial assets.

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

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

Impairment testing for trade receivables is described in note 3.9.

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

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

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

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

3.4. Inventories

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

3.5. Investment property

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

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

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

3.6. Property, plant and equipment

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

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

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

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

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

The following estimated useful lives are applied:

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

3.7. Intangible assets

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

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

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

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

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

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

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

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

(c) Other intangible assets
Other intangible assets comprise licenses and software. Acquired licences are recognised at cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the software and prepare it for use. Other acquired intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Other intangible assets are charged to expenses on a straight-line basis over their estimated useful lives that do not exceed 5 years.

3.8. Non-current assets held for sale

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

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

3.9. Impairment

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

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

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

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

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

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

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

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

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

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

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

3.10. Leases

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

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

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

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

3.11. Financial liabilities

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

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

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

3.12. Income tax and deferred tax

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

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

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

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

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

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

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

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

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

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

3.13. Employee benefits

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

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

3.14. Provisions

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

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

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

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

3.15. Contingent liabilities

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

3.16. Share capital

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

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

3.17. Share-based payments

Year 2015 the Group has equity-settled share-based payment plans. The fair value of services received from the Group's employees in return for shares is recognised as an expense and within retained earnings in equity during the vesting period (from the grant date of the option until the vesting date). The fair value of services received is determined by reference to the fair value of the equity instruments granted to the employees at the grant date. The sums received in exchange for issue of shares minus direct transaction costs are shown within share capital and share premium in equity.

3.18. Segment reporting

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

3.19. Revenue

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

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

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

(b) Rendering of services

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

(c) Rental income

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

(d) Interest income

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

(e) Dividend income

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

3.20. Government grants

The Group uses the net method to account for government grants. Grants related to income are recognised using the matching principle, i.e. the grant is recognised as income over the period necessary to match it with the related costs that it is intended to compensate. The costs related to a government grant are recognised on an accrual basis, i.e. when the underlying transaction affects the Group's net assets. The sums received are recognised as a reduction of the costs they are intended to compensate.

An asset acquired with a government grant is recognised at cost less the amount of government grant received for its acquisition. The cost of an acquired asset is depreciated, i.e. recognised as an expense over its estimated useful life.

3.21. Earnings per share

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

3.22. Dividend distribution

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

3.23. Related parties

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

- AS Harju KEK that owns 31.39% of the shares of AS Harju Elekter;
- members of the Parent company's management and supervisory boards;
- close family members of the above;
- companies controlled by members of the management and supervisory boards.

4 Accounting estimates and judgments

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

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

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

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

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

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

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

(a) Subsidiaries (note 30)
The Group has reported the acquisition of the subsidiary Harju Elekter Kiinteistöt Oy as acquisition of fixed assets. Since the acquired company was not involved in separately identifiable business activities, the clauses of IFRS 3 standard “Business combinations” that regulate the reporting about business combinations, have not been applied when reporting about the acquisition of the company. The main asset of the acquired company is its investment property (which is being leased to the subsidiary of the Group, Finnkumu Oy) and, therefore, the acquisition of the company has been reported in compliance with IAS 16 as an acquisition of fixed assets.

5 Financial risk management

5.1. Financial risk factors

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

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

5.2 Market risk

(a) Currency risk

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

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

Based on the above, the Group is not materially exposed to currency risks and, therefore, did not use separate instruments to hedge its currency risks in 2016 or 2015. Information on foreign exchange gains and losses is disclosed in note 24.

EUR'000	Note	EUR	USD	SEK	2016 TOTAL	EUR	USD	SEK	2015 TOTAL
Cash and cash equivalents	7	3,120	141	17	3,278	5,696	-	15	5,711
Trade receivables	8	8,447	-	33	8,480	6,677	-	1	6,678
Available-for-sale financial assets	11	21,969	-	0	21,969	17,767	-	0	17,767
TOTAL		**33,536**	**141**	**50**	**33,727**	**30,140**	**-**	**16**	**30,156**
Current portion of interest-bearing loans and borrowings	16	-804	-	0	-804	-296	-	0	-296
Trade payables	18	-6,150	-	-3	-6,153	-3,409	-	-1	-3,410
Other short-term liabilities	18	-2,120	-	-10	-2,130	-2,242	-	-2	-2,244
Non-current portion of interest-bearing loans and borrowings	16	-1,167	-	0	-1,167	-912	-	0	-912
TOTAL		**-10,241**	**-**	**-13**	**-10,254**	**-6,859**	**-**	**-3**	**-6,862**
Net exposure		**23,295**	**141**	**37**	**23,473**	**23,281**	**-**	**13**	**23,294**

(b) Price risk

The Group is exposed to equity price risk through its investments in equity instruments. Fluctuations in the market value of shares in PKC Group Oyj, which are accounted for as other long-term financial investments, may have a significant impact on the value of the Group's assets. The market price of a share in PKC Group Oyj decreased by 0.42 euros in 2016 and 1.24 euros in 2015. In 2016 the value of the investment decreased by 0.5 million euros and in 2015 by 1.4 million euros. Gain on change in fair value was recognised in other comprehensive income. Further information on shares in PKC Group Oyj is presented in note 11.

A public takeover bid of 23,55 EUR per share has been made to PKC Group Oyj after the reporting date (note 31).

(c) Interest rate risk

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

The Group's interest rate risk arises from short-term and long-term loans and borrowings that have floating interest rates. Loans and borrowings with floating interest rates expose the Group to cash flow interest rate risk. Above all, the Group's exposure to interest rate risk depends on changes in Euribor (Euro Interbank Offered Rate). At 31 December 2016, the Group's long-term loans and borrowings had floating interest rates linked to 3 month Euribor and short-term loans and borrowings had floating interest rates linked to 1 month Euribor and 6 month Euribor (note 16).

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

As at 31 December	EUR'000	Note	**2016**	**2015**
Floating rate loans and borrowings		16	1,971	1,208
Total			**1,971**	**1,208**

An average change of one percentage point in interest rates as during the reporting period would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2015.

As at 31 December	EUR'000	**2016**	**2015**
One percentage point increase		-20	-12
One percentage point decrease		20	12

5.3. Credit risk

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

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

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

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

From the carrying amount of trade receivables as at 31 December the outstanding part as at 15 March 2017 is 0.6 million euros.

As at 31 December	EUR'000	Note	**2016**	**2015**
Cash and cash equivalents		7	3,278	5,711
Trade receivables		8	8,442	6,675
Total			**11,720**	**12,386**

At the reporting date, the Group's credit risk exposure was 11.7 million euros (31 December 2015: 12.4 million euros). Although settlement of receivables may be influenced by various economic factors, management is of the opinion that the Group does not have any significant risk of loss that would exceed the impairment allowance already recognised.

5.4. Liquidity risk

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

Liquidity risk is mitigated with different financial instruments such as loans and finance leases. Short-term and long-term loan agreements have concluded during the reporting period to mitigate the possible liquidity risk (note 16). At the reporting date the Group's free cash totalled 3.3 million euros and loans and borrowings totalled 2.0 million euros (note 16), trade payables and other short-term liabilities totalled 8.3 million euros (note 18), total liabilities 13.6 million euros. The Group's current ratio and the quick ratio for the year 2016 were respectively 2.1 and 1.3 and for the year 2015 respectively 2.7 and 1.7

5.5. Capital management

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

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

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

Debt to capital ratio and equity ratio:

As at 31 December EUR'000	Note	**2016**	**2015**
Interest-bearing loans and borrowings	16	1,971	1,208
Cash and cash equivalents	7	-3,278	-5,711
Net debt		-1,307	-4,503
Total equity		60,392	58,204
Total capital		59,085	53,700
Debt to capital ratio		**-2.2%**	**-8.4%**
Total assets		73,968	66,579
Equity ratio		81.6%	87.4%

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

5.6. Determination of fair value (note 6)

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

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

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

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

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

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

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

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

6 Financial instruments

6.1. Fair values of financial instruments by category (Note 5.6)

		Carrying amount					
At 31 December 2016 EUR'000	Note	Loans and recei-vables	Available for sale financial assets	Liabilities at fair value	Other financial liabilities	TOTAL	Fair value
Cash and cash equivalents	7	3,278	0	0	0	3,278	-
Trade and other receivables	8	8,480	0	0	0	8,480	-
Available-for-sale financial assets (fair value; listed)	11	0	17,307	0	0	17,307	17,307
Available-for-sale financial assets (fair value; unlisted)	11	0	4,662	0	0	4,662	4,662
Available-for-sale financial assets (cost method)	11	0	21	0	0	21	-
Total financial assets		**11,758**	**21,990**	**0**	**0**	**33,748**	**21,969**
Interest-bearing loans and borrowings	16	0	0	0	-1,971	-1,971	-1,971
Trade payables	18	0	0	0	-6,153	-6,153	-
Other payables	18	0	0	0	-2,130	-2,130	-
Total financial liabilities		**0**	**0**	**0**	**-10,254**	**-10,254**	**-1,971**

At 31 December 2015 EUR'000	Note	Carrying amount Loans and recei-vables	Available for sale financial assets	Liabilities at fair value	Other financial liabilities	TOTAL	Fair value
Cash and cash equivalents	7	5,711	0	0	0	5,711	-
Trade and other receivables	8	6,678	0	0	0	6,678	-
Available-for-sale financial assets (cost method)	11	0	2,421	0	0	2,421	-
Available-for-sale financial assets (fair value)	11	0	17,767	0	0	17,767	17,767
Total financial assets		**12,389**	**20,188**	**0**	**0**	**32,577**	**17,767**
Interest-bearing loans and borrowings	17	0	0	0	-1,208	-1,208	-1,208
Payable for subsidiary`s shares	18,30	0	0	-713	0	-713	-713
Trade payables	18	0	0	0	-3,410	-3,410	-
Other payables	18	0	0	0	-1,531	-1,531	-
Total financial liabilities		**0**	**0**	**-713**	**-6,149**	**-6,862**	**-1,921**

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

6.2. Credit quality of financial assets

Ageing of trade receivables

As at 31 December	EUR’000	**Note**	**2016**	**2015**
Not past due			7,315	5,989
Up to 3 months past due			789	554
3 to 6 months past due			231	48
Over 6 months past due			313	315
Total		**8**	**8,648**	**6,906**

7 Cash and cash equivalents

As at 31 December	EUR’000	**2016**	**2015**
Cash on hand		4	4
Current accounts		3,274	5,707
Cash and cash equivalents		**3,278**	**5,711**

8 Trade and other receivables

As at 31 December	EUR'000	2016	2015
Trade receivables			
Trade receivables		8,648	6,906
Allowance for impairment		-206	-231
Total trade receivables		**8,442**	**6,675**
Other short-term receivables		17	0
Other accrued income		21	3
Total receivables		**8,480**	**6,678**

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

Movements in allowance for impairment of receivables

For the year ended 31 December	EUR'000	2016	2015
At 1 January		-231	-211
Items expensed as doubtful		-5	-41
Recovery of doubtful items		30	1
Doubtful items written off as irrecoverable		0	20
At 31 December		**-206**	**-231**

Expenses from impairment of receivables amounted to 5,000 euros and are recognised in other distribution costs in the statement of profit or loss in 2016. In 2015, 7,000 euros was recognised as the distribution costs and 34,000 euros as cost of sales.

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

9 Prepayments and prepaid income tax

As at 31 December	EUR'000	Note	2016	2015
Prepaid taxes		19	373	139
Prepaid expenses			422	167
Total prepayments			**795**	**306**

10 Inventories

As at 31 December	EUR'000	2016	2015
Raw and other materials		5,660	4,176
Work in progress		2,553	1,674
Finished goods		897	826
Merchandise purchased for resale		602	472
Total		**9,712**	**7,148**
Items written down to net realisable value		146	49
Expenses from write-down of inventories during the year		64	124

11 Other long-term financial investments

As at 31 December EUR'000	2016	2015
Available-for-sale equity securities (fair value)		
PKC Group Oyj shares	17,306	17,767
Skeleton Technologies Group OÜ share	4,663	0
Available-for-sale financial assets (cost method)	21	2,421
Total	**21,990**	**20,188**
Changes during the year		
1. Available-for-sale equity securities (fair value)		
Carrying amount at 1 January	17,767	19,124
Additions	660	0
Reclassification	2,400	0
Gain on change in fair value	1,142	-1,357
Carrying amount at 31 December	**21,969**	**17,767**
2. Available-for-sale financial assets (cost method)		
Carrying amount at 1 January	2,421	21
Additions	0	2,400
Reclassification	-2,400	0
Carrying amount at 31 December	**21**	**2,421**
Total carrying amount at 31 December	**21,990**	**20,188**

PKC Group Oyj share	**2016**	**2015**
Number of the shares (1000)	1,095	1,095
Ownership (%)	4.5	4.5
Market price at 31 December (EUR)	15.81	16.23
Carrying amount of PKC Group Oyj shares at 31 December	17,306	17,767

PKC Group Oyj's shares are listed on the Nasdaq Helsinki Stock Exchange. The shares have been classified as available-for-sale financial assets and are therefore stated in the statement of financial position at fair value (note 3.3.b). The fair value of the shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised in other comprehensive income. Changes in the market value of shares may significantly influence the value of the Group's assets and equity. Information on PKC Group Oyj's shares pledged as loan collateral is disclosed in note 17 In 2016, PKC Group Oyj paid dividends of 0.70 euros per share (2015: 0.70 euros per share), the dividend income was 766,000 (2015: 766,000) euros. See Note 24.

On June 3, 2015 AS Harju Elekter acquired a 10% holding in Skeleton Technologies Group OÜ, a company that develops and produces ultracapacitors. The determination of fair value of shares is a complicated process because of the lack of an active market, requiring assumptions and decisions that have substantial influence to their value. Skeleton Technologies Group OÜ is a company who ramps up its production and whose future cash flows are largely unpredictable. In August 2016 a new investor was involved and in the course of an additional round of funding AS Harju Elekter invested in the company 660,000 euros. The management of the Group assessed the fair value of ownership interest in the company on the basis of the price of new shares issued in the previous round of funding. The share of AS Harju Elekter decreased after the round of investment, dropping to 9.84%, while the recalculation of ownership interest increased the value of the financial investment by 1.6 million euros. The rounds of funding of investee that took place in 2016 and the ones that are planned for the future, as well as the events that occurred after the round of funding, show that the value of the investment had not substantially changed as of December 31, 2016.

12 Investment property

EUR'000	Land	Buildings	Total
At 31 December 2014			
Cost	2,582	13,114	**15,696**
Accumulated depreciation	0	-4,343	**-4,343**
Carrying amount	**2,582**	**8,771**	**11,353**
Construction in progress	0	756	**756**
Total	**2,582**	**9,527**	**12,109**
Movements in 2015			
Additions	0	1,366	**1,366**
Depreciation charge	0	-472	**-472**
Reclassification	**0**	-13	**-13**
Total	**0**	**881**	**881**
At 31 December 2015			
Cost	2,582	15,155	**17,737**
Accumulated depreciation	0	-4,811	**-4,811**
Carrying amount	**2,582**	**10,344**	**12,926**
Construction in progress	0	64	**64**
Total	**2,582**	**10,408**	**12,990**
Movements in 2016			
Additions	0	3,111	**3,111**
Depreciation charge	0	-509	**-509**
Reclassification	0	-2,319	**-2,319**
Total	**0**	**283**	**283**
At 31 December 2016			
Cost	2,582	10,967	**13,549**
Accumulated depreciation	0	-3,331	**-3,331**
Carrying amount	**2,582**	**7,636**	**10,218**
Construction in progress	0	3,055	**3,055**
Total	**2,582**	**10,691**	**13,273**

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

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

The fair value of investment property calculated on the basis of cost method remains, according to the estimations of the management, between 16.5–18.5 million euros. An independent external expert was involved in the evaluation. The estimation of the management is based on the discounted cash flow method that takes into account the valid lease agreements, the growth rate established by them, the average vacancy rate in the market and the estimated change in the consumer price index. Future cash flows were discounted by 11%. As to investment property the state of the real estate that is subject to a commercial lease, the duration of contracts and the prospect of renting it out were evaluated. Subject to the method of fair value evaluation the investment property and its fair value has been classified to level 3 (Note 5.6).

In 2016 investment property direct maintenance and repair costs were 217 (2015: 199) thousand euros. The information on income from rent is presented in Note 14.

As of 31.12.2016 the Group's contractual obligations for the acquisition of investment property in subsequent periods amounted to 3.5 (31.12.2015: 0.0) million euros.

13 Property, plant and equipment

13.1. Movements in property, plant and equipment

EUR'000	Note	Land	Buildings	Plant and equipment	Other items	Total
At 31 December 2014						
Cost		208	8,257	7,071	964	**16,500**
Accumulated depreciation		0	-2,510	-5,298	-783	**-8,591**
Carrying amount		**208**	**5,747**	**1,773**	**181**	**7,909**
Construction in progress		0	23	36	0	**59**
Total		**208**	**5,770**	**1,809**	**181**	**7,968**
Movements in 2015						
Additions		69	46	647	198	**960**
Disposals		0	0	-3	-2	**-5**
Depreciation charge for the year		0	-318	-493	-115	**-926**
Reclassification		0	37	0	-24	**13**
Total		**69**	**-235**	**151**	**57**	**42**
At 31 December 2015						
Cost		277	8,336	7,439	1,058	**17,110**
Accumulated depreciation		0	-2,828	-5,483	-820	**-9,131**
Carrying amount		**277**	**5,508**	**1,956**	**238**	**7,979**
Construction in progress		0	26	5	0	**31**
Total		**277**	**5,534**	**1,961**	**238**	**8,010**
Movements in 2016						
Additions		181	182	187	125	**675**
Additions through acquisition of subsidiaries	30	183	668	0	0	**851**
Disposals		0	0	-3	0	**-3**
Depreciation charge for the year		0	-323	-446	-111	**-880**
Reclassification		0	2,319	0	0	**2,319**
Total		**364**	**2,846**	**-262**	**14**	**2,962**
At 31 December 2016						
Cost		641	11,337	7,317	1,118	**20,413**
Accumulated depreciation		0	-3,124	-5,621	-866	**-9,611**
Carrying amount		**641**	**8,213**	**1,696**	**252**	**10,802**
Construction in progress		0	167	3	0	**170**
Total		**641**	**8,380**	**1,699**	**252**	**10,972**

As at 31 December 2016 the Group had no contractual obligations related to the acquisition of property, plant and equipment in subsequent periods.

At 31 December 2016, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was 3,380 (31 December 2015: 3,808) thousand euros.

During the reporting period, the total cost of the Group's property, plant and equipment that were written off and sold was 356,000 euros, included plant and equipment were 291,000 euros and other items 65,000 euros. The written off items of property, plant and equipment were fully depreciated.

13.2. Property, plant and equipment acquired with finance lease

EUR'000	Buildings	Plant and equipment	Total
At 31 December 2015			
Cost	1,905	562	**2,467**
Carrying amount	1,541	499	**2,040**
At 31 December 2016			
Cost	1,905	468	**2,373**
Carrying amount	1,481	402	**1,883**

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

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

	At 31 December	
EUR'000	**2016**	**2015**
Plant and equipment		
Cost of items leased out	17	17
Accumulated depreciation	-14	-12
Carrying amount at end of period	**3**	**5**

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

14 Operating leases

For the year ended 31 December EUR'000	Note	**2016**	**2015**
Lease income			
- on investment property		2,214	2,071
- on plant and equipment		2	2
Total	24	**2,216**	**2,073**
Lease expense			
Land		35	35
Office, commercial and production premises		95	83
Vehicles		154	150
Other		9	14
Total		**293**	**282**

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

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

Future lease payments under non-cancellable operating leases

As at 31 December	EUR'000	2016	2015
Lease income			
< 1 year		1,539	2,203
1-5 years		4,706	4,802
> 5 years		3,648	4,746
Total lease income		**9,893**	**11,751**
Lease expenses			
< 1 year		106	116
1-5 years		210	133
Total lease expenses		**316**	**249**

15 Intangible assets

EUR'000	Note	Goodwill	Development expenditure	Licenses	TOTAL
At 31 December 2014					
Cost		4,860	170	1,224	6,254
Accumulated amortisation		0	-158	-667	-825
Carrying amount		**4,860**	**12**	**557**	**5,429**
Movements in 2015					
Additions		0	107	100	207
Amortisation charge for the year		0	-13	-132	-145
Total		**0**	**94**	**-32**	**62**
At 31 December 2015					
Cost		4,860	277	1,324	6,461
Accumulated amortisation		0	-171	-799	-970
Carrying amount		**4,860**	**106**	**525**	**5,491**
Movements in 2016					
Additions		0	28	119	147
Amortisation charge for the year		0	-27	-180	-207
Total		**0**	**1**	**-61**	**-60**
At 31 December 2016					
Cost		4,860	305	1,443	6,608
Accumulated amortisation		0	-198	-979	-1,177
Carrying amount		**4,860**	**107**	**464**	**5,431**

Development expenditure comprises direct costs related to the production and testing of products. Other intangible assets include mainly product manufacturing licences and software.

The Group has no intangible assets with an indefinite useful life other than goodwill.

Impairment testing for cash-generating unit containing goodwill

The Group has acquired goodwill to the amount of 4,860,000 euros by the acquisition of 100% holding in subsidiary Finnkumu Oy in 2014. Goodwill is related to the cash-generating capabilities of the subsidiary. Therefore, for the purpose of impairment testing, goodwill is allocated to subsidiary which represents the lowest level within the Group at which goodwill is monitored for internal management purposes (cash-generating units). The value in use of the subsidiary was determined using the discounted cash flow method and it was compared with the carrying amount of the investment including goodwill.

General assumptions for determining value in use

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

- The forecast period was 2017-2020 plus the terminal year.
- Discounted cash flows were determined on the basis of the discount rate of 14.7%.
- The year growth rate of 1% was used in the impairment test.

Potential impact of changes in estimates

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

16 Interest-bearing loans and borrowings

16.1. Interest-bearing loans and borrowings at 31 December

EUR'000	Note	**2016**	**2015**
Current interest-bearing loans and borrowings			
Short-term bank loans		642	0
Current portion of long-term bank loans		54	0
Current portion of lease liabilities		108	296
Total current interest-bearing loans and borrowings		**804**	**296**
Non-current portion of long-term bank loans		363	0
Non-current portion of lease liabilities		804	912
Total non-current interest-bearing loans and borrowings		**1,167**	**912**
Total interest-bearing loans and borrowings		**1,971**	**1,208**
Interest-bearing loans and borrowings at beginning of the year		**1,208**	**1,096**
Changes during the year			
Increase (+)/decrease (-) in short-term loans		642	0
Received long-term loans		129	0
Received long-term loans through acquisition of subsidiaries	30	300	0
Repayment of borrowings		-12	0
Acquisition of new finance lease liabilities		0	459
Settlement of non-current finance lease liabilities		-296	-347
Interest-bearing loans and borrowings at end of the year		**1,971**	**1,208**

16.2. Details of short-term bank loans

At 31 December (EUR'000)

Base currency	Balance		Loan limit		Interest rate
	2016	**2015**	**2016**	**2015**	**2016**
EUR	452	-	1,100	1,100	1month euribor+0.4%
EUR	-	-	600	600	1month euribor+1.0%
EUR	-	-	33	33	Nordea base rate +1.75%
EUR	-	-	250	500	6 month euribor+2.5%
EUR	190	-	2,000	-	3 month euribor+1.3%

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

16.3. Details of long-term bank loans

At 31 december (EUR'000)

Base currency	Balance		Loan limit		Interest rate	Repayment
	2016	**2015**	**2016**	**2015**	**2016**	period
EUR	288	-	0	-	2.0%	30.09.2022
EUR	129	-	3,150	-	3 month euribor+0.95%	24.10.2021
EUR	0	-	1,750	-	3 month euribor+1.1%	24.10.2021

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

16.4. Finance lease liabilities

Present value of lease payments

EUR'000	Present value
At 31 December 2014	**1,096**
Finance lease payments made	-347
New lease liabilities	459
At 31 December 2015	**1,208**
Finance lease payments made	-296
At 31 December 2016	**912**

In most lease contracts the base currency is the euro. At 31 December 2016, the interest rates of finance lease contracts were in the range of 1.5% to 1.6% (31 December 2015: 0.5% to 1.6%). In 2016, the weighted average effective interest rate of finance lease liabilities was 1.5 % (2015: 1.4 %).

16.5. Finance lease liabilities by maturities

EUR'000	<1 year	1-5 years	Total
At 31 December 2015			
Minimum amount of lease payments	341	982	1,323
Future finance charges	-45	-70	-115
Present value of lease payments	**296**	**912**	**1,208**
At 31 December 2016			
Minimum amount of lease payments	310	625	935
Future finance charges	-12	-11	-23
Present value of lease payments	**298**	**614**	**912**

Lease payments are made monthly.

17 Loan collateral and pledged assets

As at December 31

Pledged assets		2016	2015
Shares in PKC Group Oyj	Number of shares	693,638	693,638
	Carrying amount of shares EUR'000	10,966	11,258

The shares are pledged to the bank until all obligations to the bank have been fully settled. According to the pledge agreement, the Group has the obligation to immediately pledge additional shares, if the market value of the pledged shares decreases and does not exceed the outstanding loan principal by at least 50%. The Group is able to use a short-term loan of 1.1 million euros as collateral pledged assets. As at the reporting date the Group did not use any short-term bank loans.

At 31 December

Pledged assets in residual value	2016	2015
*Commercial pledge set to movable property	500	-
*Investment properties	3040	-
**Land and buildings	370	-

*The Group has concluded a short-term and long-term investment loan agreements with Swedbank AS. The Parent company's movable property has been encumbered with commercial pledge for the benefit of Swedbank AS and investment property has encumbered with morgages. The value of mortgages are set to 7.3 million euros. Thanks to the properties secured by pledges and mortgages the Group has the opportunity to use a short-term loan of up to 2.0 million euros and long-term loan of up to 4.9 million euros. As of the reporting date 0.64 million euros of short-term loan and 0.1 million of long-term loans secured by commercial pledge and mortgages had been taken into use (note 16).

**The Group has encumbered some land and a building with a mortgage for the benefit of Osuuspankki in order to cover an investment loan. Secured by the pledged property the Group took a long-term loan of 300,000 euros. As of the reporting date the remaining loan was 288,000 euros (note 16).

18 Trade and other payables

As at 31 December EUR'000	Note	**2016**	**2015**
Trade payables		**6,153**	**3,410**
Other short-term liabilities			
Miscellaneous payables		5	4
Payable for subsidiary's shares	30	0	713
Payables to employees		1,935	1,361
Other accrued expenses		190	166
Total		**2,130**	**2,244**
Total trade and other payables		**8,283**	**5,654**

Trade payables

As at 31 December EUR'000	**2016**	**2015**
Trade payables		
Payable for goods and services	5,558	3,405
Payable for property, plant and equipment	13	0
Payable for investment property	577	5
Payable for intangible assets	5	0
Total	**6,153**	**3,410**

19 Taxes

As at 31 December EUR'000	Note	**2016**	**2015**
Prepaid taxes			
Value added tax		346	107
Prepaid income tax		24	28
Social security tax		3	4
Total	9	**373**	**139**
Tax liabilities			
Value added tax		477	488
Income tax liability		133	146
Personal income tax		236	194
Social security tax		345	242
Other taxes		17	20
Total		**1,208**	**1,090**

20 Provisions

(EUR '000)	Warranties provision	Other provisions	TOTAL
At 1 January	**30**	**4**	**34**
Provisions made during the year	66	0	66
Provisions used during the year	-81	-4	-85
At 31 December	**15**	**0**	**15**

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

21 Contingent liabilities

21.1. Corporate income tax

As at 31 December (EUR'000)	2016	2015
Consolidated retained earnings	29,113	26,817
Maximum possible dividend	25,422	23,339
Income tax payable on the maximum possible dividend	3,691	3,478

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 2016.

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

22 Capital and reserves

22.1. Share capital and share premium

As at 31 December	Unit	2016	2015
Share capital	EUR'000	11,176	12,418
Par value of a share	EUR	-	0.70
Number of shares issued (fully paid)	Pc'000	17,740	17,740
Share premium	EUR'000	804	804

The general meeting of shareholders of AS Harju Elekter decided on 28 April to pay out 0.07 cents per share to shareholders, reducing the share capital of AS Harju Elekter by 1,242 thousand euros to 11,176 thousand euros. The entry on the reduction of share capital has made on 18 October 2016 in the Commercial Register. The payments to shareholders were made on 20 January 2017, therefore the amount 1,242 thousand euros is recorded as Payables to shareholders as at 31 December 2016 in the statement of financial position. According to Article 359 (1) of the Commercial Code, a petition for entry of the reduction of share capital in the commercial register will not be submitted earlier than three months after publication of the reduction of share capital notice.

As at 31.12.2016 the number of ordinary shares (without par value) of AS Harju Elekter amounted to 17,739,880.

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

22.2. Dividend per share

Based on the profit allocation proposal, in 2016 the Company paid for 2015 a dividend of 0.05 euros per share, i.e. 887,000 euros in aggregate. The dividends were paid out on 17 May 2016. In the previous year, in 2015 the Company paid for 2014 a dividend of 0.15 euros per share, i.e. 2,610,000 euros in aggregate.

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

As at 31 December	**2016**	**2015**
AS Harju KEK	31.39%	31.39%
ING Luxembourg S.A	10.71%	10.71%
Endel Palla	6.56%	6.39%
Shareholders holding under 5%	51.34%	51.51%

22.4. Interests of members of the management and supervisory boards of AS Harju Elekter

		Number of shares	**Direct ownership**	**Indirect ownership**
Palla, Endel	Chairman of the supervisory board	1,164,000	6.56%	0.36%
Kirsme, Aare	Member of the supervisory board	228,250	1.29%	0.38%
Kabal, Ain	Member of the supervisory board	6,749	0.04%	0.00%
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 managing board	225,000	1.27%	0.00%
Kuhi-Thalfeldt, Aron	Member of the managing board	11,000	0.06%	0.00%
Total		**1,679,999**	**9.47%**	**1.08%**

The number of shares held by shareholders and their ownership interests were determined on 31 December 2016 at 11:59 p.m. In accordance with the rules of the Nasdaq Tallinn Stock Exchange, an issuer has to disclose in the annual report the number of the issuer's shares that are held by members of its management and supervisory boards (direct interest) and people connected to them (indirect interest) as at the end of the financial year. Voting power belonging to a company controlled by a member of the management or supervisory board is also treated as indirect interest. People connected to shareholders include their spouses, minor children and people sharing the household with them.

22.5. Reserves

As at 31 December (EUR '000)	**2016**	**2015**
Capital reserve	1,242	1,218
Fair value reserve	17,969	16,827
Translation reserve	3	2
Total	**19,214**	**18,047**

Capital reserve

The Estonian Commercial Code requires companies to create a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. According to profit allocation decision the capital reserve was increased by 24,000 euros to 1,242,000 euros.

Fair value reserve

The fair value reserve compromises gain or loss from a change in fair value of available-for-sale financial assets. 2016 the fair value reserve increased by 1,142,000 (2015: 1,357,000) euros. Increase involved a decrease of 460,000 euros in revaluation of PKC Group Oyj shares and increase of 1,602,000 euros in revaluation of holding in Skeleton Technologies Group OÜ.

Translation reserve

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

23 Segment reporting

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

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

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

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

Other activities – The segment is involved in selling products of the Group and companies related to the Group as well as other goods necessary for electrical installation works mainly to retail customers and small- and medium-sized electrical installation companies and in providing management services. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

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

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

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

2016 EUR'000	Note	**Manu-facturing**	**Real estate**	**Other activities**	**Elimi-nations**	**Consoli-dated**
Revenue from external customers	24	55,791	2,480	2,896	0	61,167
Inter-segment revenue		144	978	402	-1,524	0
Total revenue		**55,935**	**3,458**	**3,298**	**-1,524**	**61,167**
Operating profit		**2,502**	**1,112**	**-241**	**-192**	**3,181**
Finance income						775
Finance costs						-24
Profit before tax						**3,932**
Income tax expense						-708
Profit for the year						**3,224**
Segment assets		39,599	13,725	3,869	-7,270	49,923
Unallocated assets						24,045
Total assets						**73,968**
Segment liabilities		17,525	665	399	-7,270	11,319
Unallocated liabilities						2,257
Total liabilities						**13,576**
Capital expenditure	11,12,13,15	1,509	3,113	822	0	**5,444**
Depreciation charge for the year	12,13,15	862	509	238	-13	**1,596**

2015						
Revenue from external customers	24	55,555	2,353	2,748	0	60,656
Inter-segment revenue		252	961	345	-1,558	0
Total revenue		**55,807**	**3,314**	**3,093**	**-1,558**	**60,656**
Operating profit		**2,651**	**954**	**-297**	**-32**	**3,276**
Finance income/-costs						806
Finance costs						-36
Net-income from subsidiary	30					16
Profit before tax						**4,062**
Income tax expense						-876
Profit for the year						**3,186**
Segment assets		33,440	13,304	4,678	-7,432	43,990
Unallocated assets						22,589
Total assets						**66,579**
Segment liabilities		15,022	0	426	-7,432	8,016
Unallocated liabilities						359
Total liabilities						**8,375**
Capital expenditure	11,12,13,15	850	1,391	2,692	0	**4,933**
Depreciation charge for the year	12,13,15	875	471	200	-3	**1,543**

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

Revenues by geographic (location of customers) region

For the year ended 31 December	EUR'000	Note	2016	2015
Estonia			13,371	14,198
Finland			41,004	38,875
Sweden			2,104	1,428
Norway			2,863	3,873
Lithuania			592	610
Other			1,233	1,672
Total		24	**61,167**	**60,656**

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

For the year ended 31 December	EUR '000	2016	2015
Estonia		20,424	17,912
Finland		7,754	6,952
Lithuania		1,498	1,627
Total assets		**29,676**	**26,491**

24 Further information on statement of profit or loss line items

For the year ended 31 December	EUR'000	Note	2016	2015
REVENUE BY BUSINESS ACTIVITY				
Electrical equipment			52,476	52,135
Sheet metal products and services			986	843
Telecom products and services			1,236	1,108
Intermediary sale of electrical products and components			3,416	3,686
Commerce and mediation of services			440	242
Rental income		14	2,216	2,073
Other services			397	569
Total		23	**61,167**	**60,656**
COST OF SALES				
Goods and materials			-40,451	-38,658
Services			-1,202	-1,522
Personnel expenses (see below)			-8,660	-8,046
Depreciation and amortisation			-1,225	-1,181
Other costs			-802	-771
Change in work in progress and finished goods inventories			1,534	-179
Total			**-50,806**	**-50,357**
DISTRIBUTION COSTS				
Services purchased			-453	-464
Personnel expenses (see below)			-2,072	-1,753
Depreciation and amortisation			-22	-13
Other			-487	-427
Total			**-3,034**	**-2,657**

For the year ended 31 December	EUR'000	Note	2016	2015
ADMINISTRATIVE EXPENSES				
Services purchased			-552	-578
Personnel expenses (see below)			-2,732	-2,756
Depreciation and amortisation			-349	-349
Other			-505	-654
Total			**-4,138**	**-4,337**
- Of which development costs			-626	-497
Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:				
Salaries and other remuneration			-10,597	-9,695
Social security and other taxes on salaries and other remuneration			-2,990	-2,872
Share-based payments			0	-36
Other provisions			123	48
Total			**-13,464**	**-12,555**
OTHER INCOME				
Gains on sale of property, plant and equipment			31	25
Interest on arrears and penalty payments received			4	0
Other			41	45
Total			**76**	**70**
OTHER EXPENSES				
Interest on arrears, penalty payments and similar items paid			-8	-8
Net loss from foreign exchange differences			-19	-7
Gifts and donations made			-32	-29
Other			-25	-55
Total			**-84**	**-99**
FINANCE INCOME				
Interest income			9	39
Income from sale of financial assets		11	0	1
Dividend income		11	766	766
Change in fair value of the conditional acquisition cost of subsidiary		30	0	16
Total			**775**	**822**
FINANCE COSTS				
Interest expense			-24	-33
Net loss from foreign exchange differences			0	-3
Total			**-24**	**-36**

25 Income tax and deferred tax

Income tax expense

EUR'000	2016	2015
Income tax expense	688	933
Deferred income tax expense/income	20	-57
Income tax expense in the statement of profit or loss	**708**	**876**

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

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

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

Income tax by regions for the year ended at 31 December 2015

EUR '000	Estonia	Finland	Lithuania	Total
Profit (loss) before income tax	351	3,007	704	4,062
Tax calculated at the tax rate	0%	20%	15%	
Theoretical income tax expense	0	601	106	707
Income tax expense on dividends	242	0	0	242
Withholding income tax expense on dividends	145	0	0	145
Effect of tax exempt income	0	-200	-21	-221
Effect of non-deductible expenses	0	19	41	60
Deffered income tax on tax loss	0	0	-57	-57
Income tax expense	**387**	**420**	**69**	**876**

Deferred income tax assets at 31 December

EUR '000	2016	2015
Non-current portion of deferred tax assets	37	57
Of which on tax loss carry-forwards	37	57

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

26 Basic and diluted earnings per share

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

Diluted earnings per share are calculated by considering the effects of all dilutive potential shares. At 31 December 2016, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

	Unit	2016	2015
Profit attributable to owners of the Parent	EUR ‘000	3,219	3,190
Average number of shares during the period	Pc’000	17,740	17,551
Basic earnings per share for owners of the Parent	EUR	0.18	0.18
Adjusted number of shares during the period	Pc’000	17,740	17,551
Diluted earnings per share	EUR	0.18	0.18

27 Government grants

EUR’000	2016	2015
Government grants related to income	**0**	**17**
Of which for covering administrative costs	0	17
Government grants related to assets	**0**	**22**
Of which for acquisition of software	0	22
Total	**0**	**39**

Assets acquired with a grant are recognised at cost less the amount of the government grant received in support of their acquisition. Grants related to income are recognised as a reduction of the costs they are intended to compensate (note 3.20).

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

For the year ended 31 December (EUR’000)	Note	2016	2015
Corporate income tax paid			
Income tax expense in the statement of profit or loss	25	-708	-876
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability	19	-9	185
Income tax liability arising on the acquisition of a subsidiary	30	-19	0
Income tax expense on dividends		115	387
Deferred income tax expense/income	25	20	-57
Corporate income tax paid		**-601**	**-361**
Paid for investment property			
Additions of investment property	12	-3,111	-1,366
Liability decrease (-)/ increase (+) incurred by purchase	18	572	-209
Acquisition of investment property		**-2,539**	**-1,575**
Paid for property, plant and equipment			
Additions of property, plant and equipment	13	-675	-960
Acquired with finance lease	13	0	459
Liability decrease (-)/ increase (+) incurred by purchase	18	13	-12
Acquisition of property, plant and equipment		**-662**	**-513**
Paid for intangible assets			
Additions of intangible assets	15	-147	-207
Liability decrease (-)/ increase (+) incurred by purchase	18	5	0
Acquisition of intangible assets		**-142**	**-207**

For the year ended 31 December (EUR'000)	Note	**2016**	**2015**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	13	3	5
Profit on disposal of property, plant and equipment	24	31	25
Proceeds from sale of property, plant and equipment		**34**	**30**
Interest received			
Interest income	24	9	39
Receivable increase (-)		3	3
Interest received		**12**	**42**

29 Related parties

The related parties of AS Harju Elekter are members of the Group's management and their close family members, and AS Harju KEK which owns 31.4% of the shares in AS Harju Elekter. The Group's management comprises members of the Parent company's supervisory and management boards. The management board has three members and the supervisory board has five members.

Transactions with related parties

For the year ended 31 December **(EUR'000)**	**2016**	**2015**
Purchase of goods and services from related parties:		
- from Harju KEK	105	93
Total	105	93
Of which:		
- lease of property plant and equipment	105	80
- purchase of non-current assets	0	13
Sale of goods and services to related parties:		
- to Harju KEK	4	5
Total	4	5
Of which:		
- other services	4	5
Remuneration of the management and supervisory boards		
- salaries, bonuses, additional remuneration	235	213
- social security and other taxes on salaries	78	71
Total	313	284
Share-based payments		
- to members of the management and supervisory boards of AS Harju Elekter	0	10

Members of the Management Board have no rights related to pension. The members of the Management Board receive remuneration in accordance with the contract and are also entitled to receive a severance payment: Chairman in the amount of 10 months' and other members 4 months' remuneration of a member of the management board. The Chairman of the Supervisory Board is entitled to termination benefits that may extend to 6 monthly remuneration of a development manager.

30 Subsidiaries

Subsidiaries with non-controlling interest

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

As at 31 December	Domicile	Ownership 2016	Ownership 2015	Area of activity
Automatikos Iranga UAB	Lithuania	51%	32%	Project designing
Harju Elekter AB	Sweden	90%	90%	Retail- and wholesale

The operation of Harju Elekter AB was stopped on 1.4.2014 and, therefore, the assets, liabilities, income and costs of the company are insignificant and the financial indicators related to share beyond the Group's control are not made public.

The following table contains unconsolidated financial indicators of subsidiaries with minority interest:

	Automatikos Iranga UAB	
Statement of financial position (EUR'000)	**2016**	**2015**
Current assets	603	242
Non-current assets	29	38
Total assets	**632**	**280**
Current liabilities	378	42
Total liabilities	**378**	**42**
Retained earnings	**242**	**226**
Non-controlling interests	*84*	*117*
Statement of profit or loss (EUR'000)		
Revenue	460	380
Net profit for the period	16	13
incl. Non-controlling interests	*5*	*6*
Statement of cash flows		
Cash flows from operating activities	203	78
Cash flows from financing activities	0	-14
Net cash flows	**203**	**64**

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

Acquisition of subsidiaries

Finnkumu Oy

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

The acquisition cost of the shares worked out to be 8,300,000 euros, of which 6,716,000 euros was paid in 2014. Under the contract, the rest of the amount had to be paid in two instalments: in 2015, 50% of the company's 2014 operating profit and in 2016, 40% of the company's 2015 operating profit.

In 2015, Satmatic Oy paid the first instalment 856,000 euros and in 2016 the second instalment 713,000 euros.

Harju Elekter Kiinteistöt Oy

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

The contract price worked out to be 518 thousand euros. The acquisition of the company has been recorded as the acquisition of fixed assets under IAS 16 and not as a business combination to be recorded under IFRS 3, as the acquired company did not include a separately identifiable business activity.

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

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

Acquisition of an additional share in the Lithuanian subsidiary Rifas UAB in 2015

In April 2015 AS Harju Elekter bought a holding of 37% in their Lithuanian subsidiary Rifas UAB, becoming the sole owner of the company. The difference between the carrying value of the non-controlling holding and the amount paid for it is accounted for in the equity capital.

	2015
Carrying amount of non-controlling interest acquired	1,188
Consideration paid for non-controlling interest	-1,651
Total recognised in equity	**-463**

31 Events after the reporting date

Following the reporting date, Motherson Sumi Systems Limited and the management board of PKC Group Oyj signed a merger agreement on 19 January 2017, according to which the wrapping band operations of Motherson Sumi Systems Limited and PKC Group Oyj will be merged. The merger is being carried out by MSSL Estonia WH OÜ, subsidiary of Motherson Sumi Systems Limited, which has submitted a takeover bid to the shareholders of PKC Group Oyj at the price of EUR 23.55 per share. AS Harju Elekter owns 1,094,641 shares of PKC Group Oyj. The period of the takeover bid is from 6 February 2017 to 21 March 2017. The Supervisory Board of the Group has agreed to accept the terms of takeover bid. On 22 March 2017 PKC Group Oyj has announced that the takeover bid has ended successfully.

In February 2017, AS Harju Elekter acquired the remaining 10% of shares in Harju Elekter AB, obtaining a 100% ownership after the transaction.

32 Primary financial statements of the Parent

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

PARENT COMPANY'S STATEMENT OF FINANCIAL POSITION

As at 31 December (EUR'000)	**2016**	**2015**
Cash and cash equivalents	71	1,371
Trade receivables	937	705
Receivables from related parties	1,830	1,752
Other receivables and prepayments	288	64
Inventories	534	445
Total current assets	**3,660**	**4,337**
Investments in subsidiaries	5,291	4,762
Long-term receivables from related parties	5,436	5,682
Other long-term financial investments	21,990	20,188
Investment property	18,119	15,474
Property, plant and equipment	659	544
Intangible assets	256	279
Total non-current assets	**51,751**	**46,929**
TOTAL ASSETS	**55,411**	**51,266**
Liabilities		
Interest-bearing loans and borrowings	646	0
Trade payables	1,052	419
Payables to shareholders	1,242	0
Tax liabilities	80	147
Other payables and advances received	174	214
Total current liabilities	**3,194**	**780**
Interest-bearing loans and borrowings	125	0
Total non-current liabilities	**125**	**0**
Total liabilities	**3,319**	**780**
Equity		
Share capital	11,176	12,418
Share premium	804	804
Reserves	19,212	18,046
Retained earnings	20,900	19,218
Total equity	**52,092**	**50,486**
TOTAL LIABILITIES AND EQUITY	**55,411**	**51,266**

PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December (EUR'000)	**2016**	**2015**
Revenue	6,717	6,401
Cost of sales	-4,018	-3,916
Gross profit	**2,699**	**2,485**
Other income	25	15
Distribution costs	-457	-383
Administrative expenses	-1,366	-1,385
Other expenses	-42	-73
Operating profit	**859**	**659**
Income from subsidiaries	950	1,063
Dividend income from available-for-sale financial assets	766	766
Interest income	134	170
Interest expense	-1	-5
Profit before tax	**2,708**	**2,653**
Income tax expense	-115	-387
Profit for the year	**2,593**	**2,266**
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	1,142	-1,357
Total other comprehensive income for the period	**1,142**	**-1,357**
Total comprehensive income for the year	**3,735**	**909**

PARENT COMPANY'S STATEMENT OF CASH FLOWS

For the year ended 31 December (EUR'000)	2016	2015
Cash flows from operating activities		
Profit for the period	2,593	2,266
Adjustments for:		
Depreciation, amortisation and impairment losses	882	821
Gain on sale of property, plant and equipment	0	-3
Finance income	-1,850	-1,999
Finance costs	1	5
Income tax expense	115	387
Changes in:		
Growth/decrease in receivables related to operating activity	-542	-30
Growth/decrease in inventories	-89	-62
Growth/decrease in payables related to operating activity	-61	131
Interest paid	-1	-5
Net cash from operating activities	**1,048**	**1,511**
Cash flows from investing activities		
Acquisition of investment property	-2,705	-1,601
Acquisition of property, plant and equipment	-254	-252
Acquisition of intangible assets	-74	-52
Acquisition of subsidiaries	-528	0
Acquisition of other financial investments	-660	-2,400
Proceeds from sale of property, plant and equipment	1	5
Repayment of loans provided	2,311	1,822
Loans provided	-2,033	-1,800
Interest received	109	182
Dividends received	1,601	1,714
Net cash from/used in investing activities	**-2,232**	**-2,382**
Cash flows from financing activities		
Growth/decreases in short-term loans	642	0
Proceeds from borrowings	129	0
Acquisition of non-controlling interests	0	-1,650
Dividends paid	-887	-2,610
Dividends income tax paid	0	-272
Receipts from contribution into share capital	0	766
Net cash used in financing activities	**-116**	**-3,766**
Net cash flows	**-1,300**	**-4,637**
Cash and cash equivalents at beginning of year	**1,371**	**6,008**
Increase/decrease in cash and cash equivalents	-1,300	-4,637
Cash and cash equivalents at end of year	**71**	**1,371**

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

EUR'000	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
At 31 December 2014	**12,180**	**240**	**1,218**	**18,185**	**19,562**	**51,385**
Profit for the year 2015	0	0	0	0	2,266	2,266
Other comprehensive income	0	0	0	-1,357	0	-1,357
Total comprehensive income	**0**	**0**	**0**	**-1,357**	**2,266**	**909**
Transaction with the owners of the Company, recognised directly in equity						
Increase of share capital	238	564	0	0	0	802
Dividends	0	0	0	0	-2,610	-2,610
Total transaction with the owners of the Company	**238**	**564**	**0**	**0**	**-2,610**	**-1,808**
At 31 December 2015	**12,418**	**804**	**1,218**	**16,828**	**19,218**	**50,486**
Profit for the year 2016	0	0	0	0	2,593	2,593
Other comprehensive income	0	,0	0	1,142	0	1,142
Total comprehensive income	**0**	**0**	**0**	**1,142**	**2,593**	**3,735**
Transaction with the owners of the Company, recognised directly in equity						
Increase of capital reserve	0	0	24	0	-24	0
Reduction of share capital	-1,242	0	0	0	0	-1,242
Dividends	0	0	0	0	-887	-887
Total transaction with the owners of the Company	**0**	**0**	**24**	**0**	**-911**	**-2,129**
At 31 December 2016	**11,176**	**804**	**1,242**	**17,970**	**20,900**	**52,092**

EUR'000	2016	2015
Adjusted unconsolidated equity at 31 December	**52,092**	**50,486**
Interests under control and significant influence:		
- Carrying amount	-5,291	-4,762
- Carrying amount under the equity method	13,506	12,362
Adjusted unconsolidated equity at 31 December	**60,307**	**58,086**

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

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

MANAGEMENT BOARD’S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

The Management Board confirms that management report as set out on pages 5-39 gives a true and fair view of the key events occurred in the reporting period and their impact on the financial statements contains a description of key risks and uncertainties and provides an overview of important transactions with the related parties.

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2016 as set out on pages 40-91 and that:

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

Andres Allikmäe	Chairman of the Management Board	/signature/	23rd March 2017

SIGNATURES TO THE ANNUAL REPORT

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2016.

Andres Allikmäe	Chairman of the Management Board	/signature/	23rd March 2017

The supervisory board has reviewed the annual report prepared by the management board (pp. 5-92) including an activity report and annual financial statements and has approved its presentation to the general meeting of the shareholders.

Endel Palla	Chairman of the Supervisory	/signature/	28th March 2017
Ain Kabal	Member of the Supervisory Board	/signature/	28th March 2017
Aare Kirsme	Member of the Supervisory Board	/signature/	28th March 2017
Triinu Tombak	Member of the Supervisory Board	/signature/	28th March 2017
Andres Toome	Member of the Supervisory Board	/signature/	28th March 2017

Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of Harju Elekter AS

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Harju Elekter AS (Group) as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

We have audited the consolidated financial statements of Harju Elekter AS, as set out on pages 40 to 91. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016,
- the consolidated statements of profit or loss and other comprehensive income for the year then ended,
- the consolidated cash flows for the year then ended,
- the consolidated changes in equity for the year then ended, and
- the notes, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Independence

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

Audit scope

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

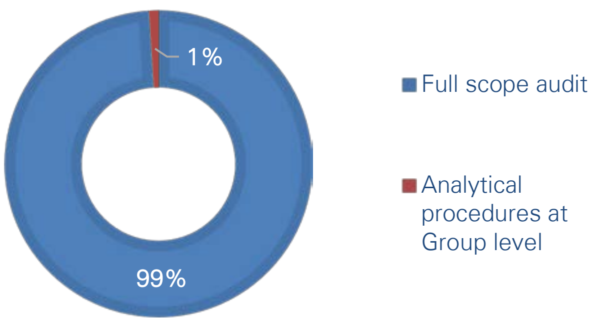
Of the Group's 9 components, we determined 6 components to be significant group entities and we subjected those components to a full scope audit. These components include Harju Elekter AS, Harju Elekter Elektrotehnika AS, Harju Elekter Teletehnika AS, Satmatic Oy, Finnkumu Oy and Rifas UAB.

We have conducted an audit of one or more account balances or disclosures in the financial information of Automatikos Iranga UAB located in Lithuania and conducted a review of financial information for the remaining account balances and disclosures. We have used the results of statutory audits of financial statements of Harju Elekter Kiinteistöt Oy to provide audit evidence for the Group audit. For Harju Elekter AB, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within it.

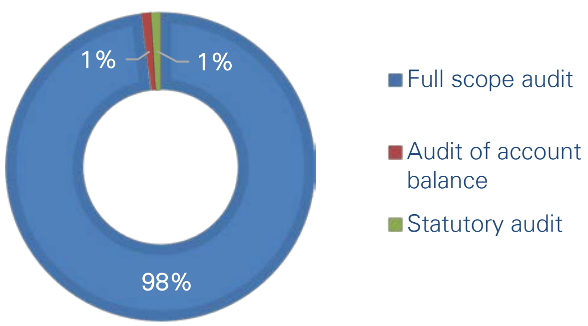
We also performed procedures over the consolidation process at Group level.

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

Consolidated revenue



Consolidated assets



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

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

Key Audit Matters

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

Measuring the fair value of the investment in Skeleton Technologies Group OÜ	
Refer to Note 11 to the consolidated financial statements for further information.	
The key audit matter	**How the matter was addressed in our audit**
The Group's financial assets include an investment in Skeleton Technologies Group OÜ (hereafter Skeleton) which are measured at fair value. In the absence of an active market, measuring the fair value of an investment is a complex process which requires making assumptions and judgements, which have a significant impact on value. Skeleton is a company in the process of starting up its production operations and its future cash flows are hard to forecast. Therefore, the Group's management estimated the fair value of the investment by reference to the issue price of new shares in Skeleton's latest funding round. Due to the above circumstances, we considered measuring the fair value of the investment in Skeleton to be a key audit matter.	We conducted in this area, among others, the following audit procedures: We involved our own valuation specialists, who assisted us at considering the appropriateness of the fair value measurement model and also at challenging the key assumptions made by management. We compared key assumptions used in the valuation of the investment to actual transaction data related to the most recent funding round that took place in August 2016. In doing so: • we analysed whether the most recent funding round provides reliable information for valuation purposes, • we identified the parties who participated in the most recent funding round, in particular, whether these parties were related parties; • we considered the the size of unrelated parties' involvement in the most recent funding round, • we compared external data about the relevant industry available at the date of the most recent funding round to data available at the year-end. We evaluated the appropriateness of the disclosures made in the financial statements, including the disclosures of the key assumptions and judgements, as well as their compliance with the disclosure requirements.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Tallinn, 23 March 2017

Indrek Alliksaar
Certified Public Accountant, Licence No 446

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PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EUR
Retained earnings of prior periods	25,894,937
Profit for 2016	3,218,644
Total distributable profits at 31 December 2016	29,113,581
The management board proposes that profits be allocated as follows:	
Dividend distribution (EUR 0.18 per share)	3,193,178
Retained earnings after allocations	25,920,403

Andres Allikmäe Chairman of the Management Board /signature/ 23rd March 2017