

Annual Report

2016

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INFORMATION TO THE SHAREHOLDERS

Annual General Meeting

THE AGM OF SHAREHOLDERS
OF HARJU ELEKTER WILL TAKE PLACE
ON APRIL 27, 2017 AT 10 A.M.
AT THE HALL OF THE KEILA CULTURE
CENTRE, KESKVÄLJAK 12, KEILA.

Dividends

The Management Board of Harju Elekter makes a proposal to pay a dividend of € 0.18 per share for the financial year 2016. The list of shareholders who are entitles to dividends will be closed on May 11, 2017 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on May 16, 2017.

The Publication of Financial Reports in 2017

Harju Elekter informs you that in the year 2017, the consolidated financial results of AS Harju Elekter will be published as follows:

Interim Report Q1 2017	26.04.2017
Interim Report Q2 2017	26.07.2017
Interim Report Q3 2017	25.10.2017

After their release through the stock exchange information system all Harju Elekter's announcements are also available on company's internet homepage at www.harjuelekter.ee. For announcements by email, please sign on company's homepage.



Contact for Investors
MOONIKA VETEVOOL
Corporate communication
and investor relations manager
Tel +372 671 2761,
moonika.vetevool@he.ee
AS Harju Elekter, Paldiski str 31,
76606 Keila, Estonia

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 Finkkumu 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.

A stylized, handwritten signature in blue ink, appearing to read 'Endel Palla'.

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.



Andres Allikmäe

Chairman of the Management Board

ORGANISATION

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 > SUBSIDIARIES

As at 31.12.2016



100%

AS HARJU ELEKTER ELEKTROTEHNIKA

Manufacturer of electrical equipment for energy distribution, industrial and construction sectors, located in Keila



100%

AS HARJU ELEKTER TELETEHNIKA

Manufacturer of telecom and fibre optic products, located in Keila



100%

HARJU ELEKTER KIINTEISTÖT OY

Industrial real estate holding company



100%

SATMATIC OY

Manufacturer of industrial control and automation devices, located in Ulvila and in Kerava

Finnkumu Oy 100%

Finnish leading prefabricated substation manufacturer in Kurikka



100%

RIFAS UAB

Manufacturer of automatic equipment, control and distribution units, located in Panevėžys

Automatikos Iranga UAB 67%

A company which deals with design, in Panevėžys



90%

HARJU ELEKTER AB

(Suspended for an unspecified term since 1.4.2014)
Sales office in Stockholm

STRATEGICAL INVESTMENTS



14%

SIA ENERGOKOMPLEKSS

MV/LV equipment sales organisation in Riga



10%

SKELETON TECHNOLOGIES GROUP OÜ

Developer and manufacturer of ultra-capacitors



5%

PKC GROUP Oyj

Manufacturer of wiring systems

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.

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'état 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 approx. 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 the smallest economic growth of recent years. 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.

The future is in renewable energy products and solutions.

The subsidiary Satmatic Oy has delivered various solar power solutions since 2010 and today its installations have a power output of more than 2000 kWp. During the reporting year customers were supplied with various solar power solutions, as well as several large scale solar power stations. The skills and experience of the companies belonging to the Harju Elekter Group make it possible to execute a very wide range of customers' orders, starting from simple products and ending with megawatt capacity solar power stations. Constant product development ensures the use of new technologies and continuous expansion of products.



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	87.2	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

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

GROUP	2016	2015	2014	2013	2012
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	2.7	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

^[1] Management Board' proposal
^[2] incl 0.07 euros, related payment from reduction of the share capital

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

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 Iraga 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 UAB Iraga 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 **61.2** million euros (2015: 60.7)

the consolidated
OPERATING PROFIT **3.2** million euros (2015: 3.3)

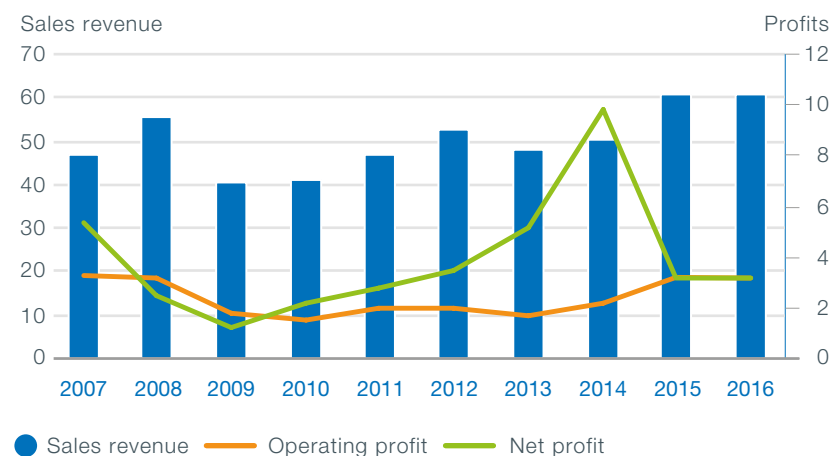
the consolidated
NET PROFIT **3.2** million euros (2015: 3.2)

OUT OF THE CONSOLIDATED REVENUE WAS CONTRIBUTED BY THE

ESTONIAN companies	FINNISH companies	LITHUANIAN companies
34.2% (2015: 33.9%)	57.3% (2015: 52.2%)	8.5% (2015: 13.9%)

Sales Revenue, Net and Operating Profits

million euros



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 revenues was 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%.

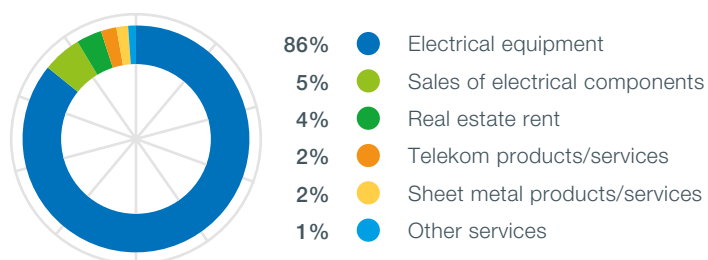
Net sales from other markets decreased during the year by 26%, accounting for 1.2 (2015: 1.7) million euros. Brazil, Poland and Ireland were entered as new markets in the reporting year.

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%.

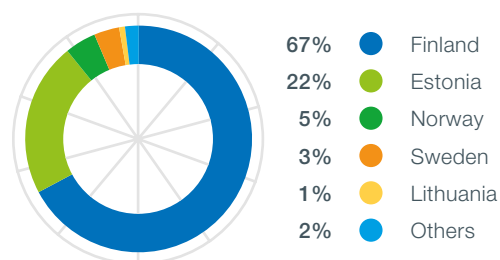
There has been a growth in revenue among almost all products and services. 85.8% (2015: 86.0%) of the reporting year revenue originated from the sale of electrical equipment, increasing up to 52.5 (2015: 52.1) million euros. The rental income has increased by 6.9% by a year, amounting to 2.2 million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

Sales Revenue

By business area



By market



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 company 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 months 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 THE TOTAL ASSETS CONSISTED OF THE FOLLOWING:

CURRENT ASSETS	NON-CURRENT ASSETS	FOREIGN CAPITAL	EQUITY
30%	70%	18%	82%
(2015: 30%)	(2015: 70%)	(2015: 13%)	(2015: 87%)

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 months 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 short-term 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 of 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 was 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.

In 2016 the last payment of 0.7 million euros was made to purchase 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 of investment funds 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.

The Harju Elekter Group won the tender for supplying substations for Caruna, the largest distribution network company in Finland.

According to the 2+1+1 contract concluded on December 19, 2016 more than 1000 pre-fabricated substations a year will be added to the current production capacity of the Estonian and Finnish electrical appliances plants of the Harju Elekter Group which substantially increases the production of substations. This contract will be worth approximately 12 million euros a year.



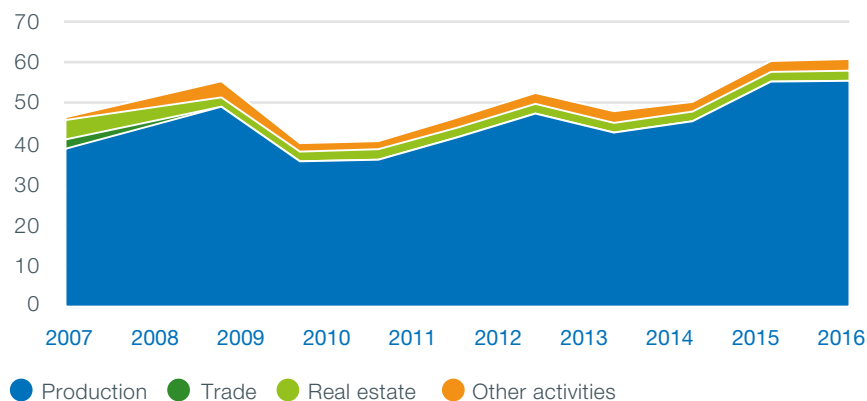
BUSINESS SEGMENTS

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.

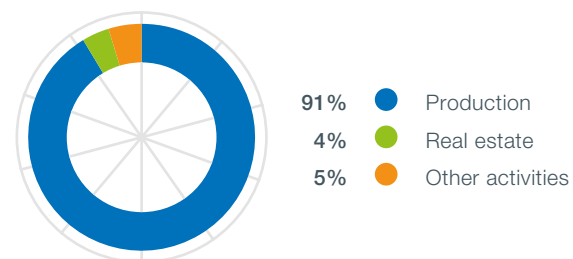
Revenue of Business Segments

million euros



Sales Revenue

By business segment



Production

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

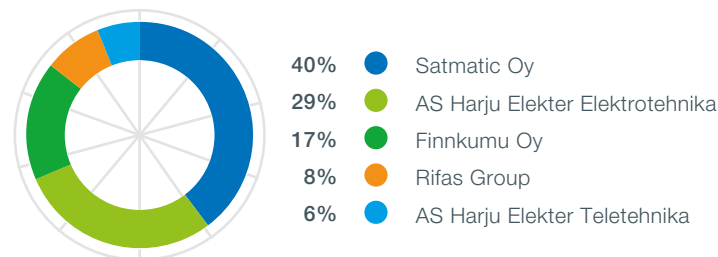
0.4%

55.8 million euros

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

Sales Revenue

By company



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.

AS HARJU ELEKTER ELEKTROTEHNIKA

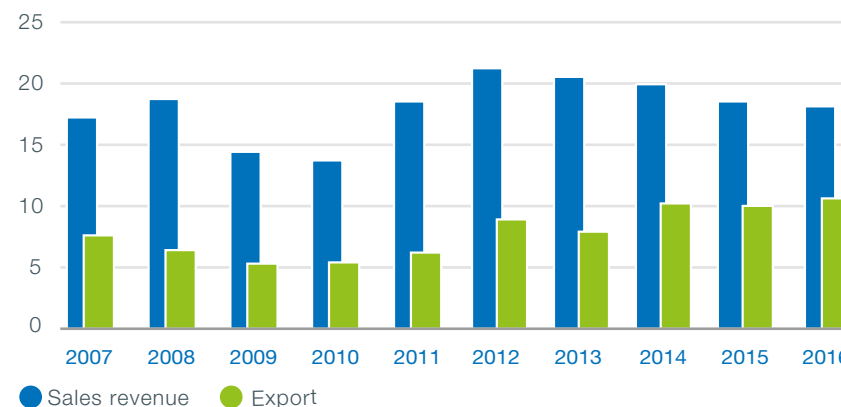
AS HARJU ELEKTER ELEKTROTEHNIKA, WHICH IS FULLY OWNED BY THE GROUP, IS A LEADING MANUFACTURER AND DISTRIBUTOR OF MV/LV DISTRIBUTION UNITS IN BALTIC COUNTRIES.

The headquarters and plant of AS Harju Elekter Elektrotehnika are located in Keila comprising 11,000 m² 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

AS Harju Elekter Elektrotehnika Sales Revenue

million euros



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.

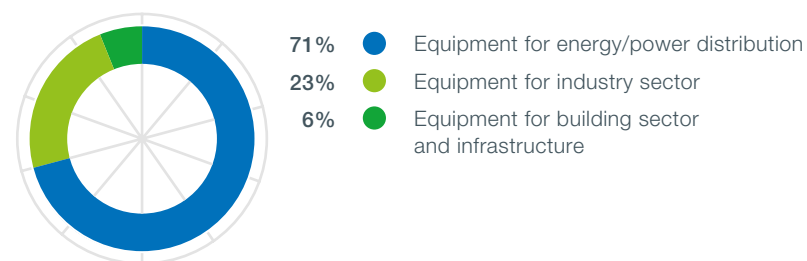
The results of focusing on export markets and successful marketing has yet to be reflected in the company's net sales of 2016 which remained at the same level as in 2015 i.e. at 18.1 (2015: 18.5) million euros. The share of exports in net sales increased to 60% (2015: 54%). However, the efforts related 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

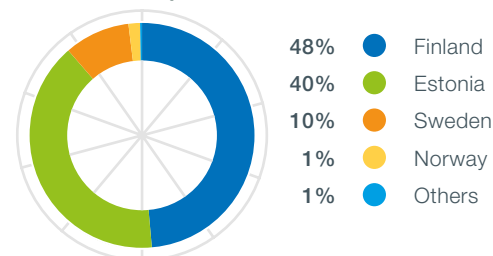
software solutions). The development and production activities are extremely important for the successful implementation of new methods and managing increasing production volumes.

AS Harju Elekter Elektrotehnika Sales Revenue

Revenue by product group



Revenue by market



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.

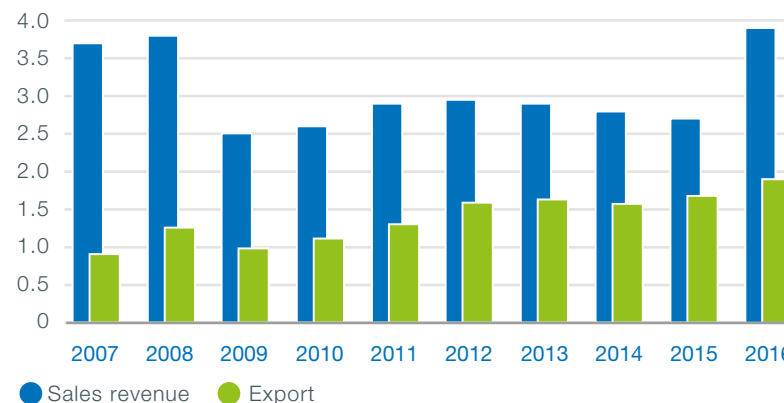
In addition, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park. The factory is located in Keila and the company employs 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 ASi 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.

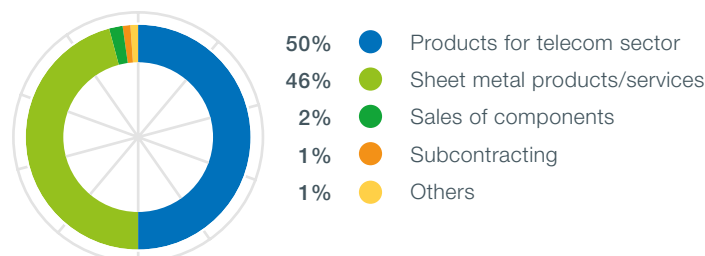
The process of the merger of the sheet metal factories was quite challenging for the subsidiaries of the Group. The transfer of the production

AS Harju Elekter Teletehnika Sales Revenue

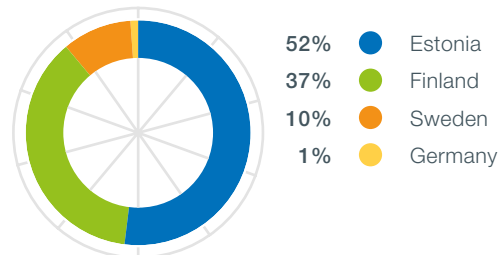
million euros



By product group



By market



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 GRUPP

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.

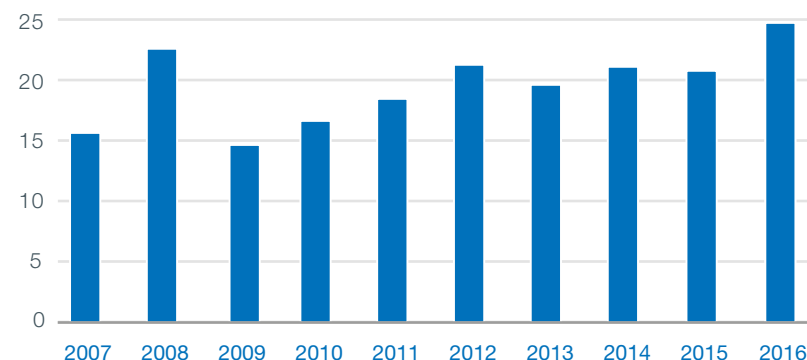
Satmatic Oy

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

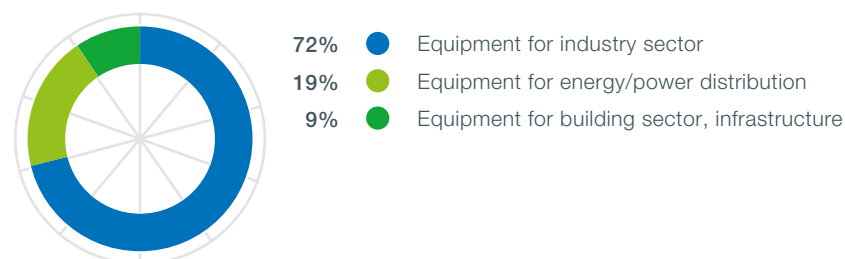
Satmatic Oy Sales Revenue

million euros

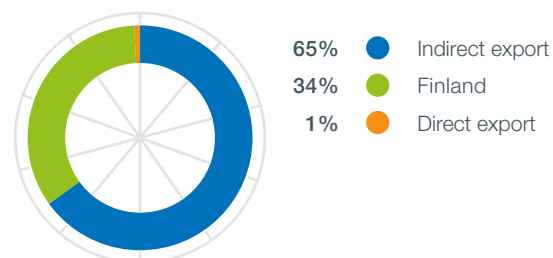


● Sales revenue

By product group



By market



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 substations and to the Finnish exports sector as a whole. However, the net sales to the power distribution sector increased at a more moderate pace.

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 the 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 2 MW.

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 of 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.

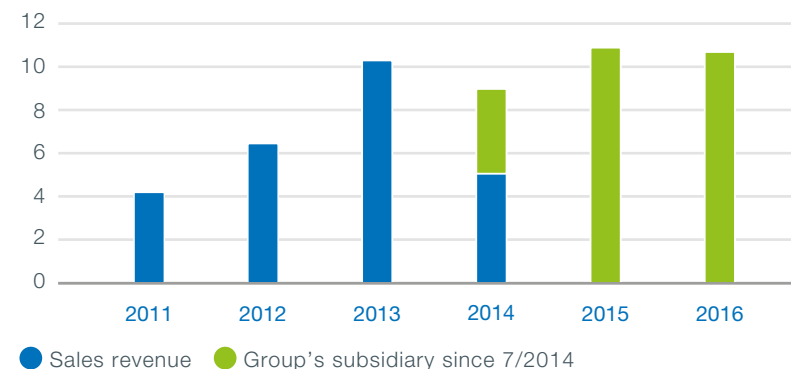
The reporting year has been evenly fast-paced for the company, although the busiest period and the largest orders were in the middle of the year. Precise planning of production helped to distribute (production) resources in the manner that ensured timely supply and shorter deadlines, avoiding any delays. 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.

Finnkumu OY Sales Revenue

million euros



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 substations of impeccable quality and their timely delivery to customers. In order to fulfil customers' expectations we plan 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 Southern Nordic countries.

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 GRUPP

RIFAS GROUP CONSISTS RIFAS UAB WITH HEADQUARTERS IN PANEVĖŽYS 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

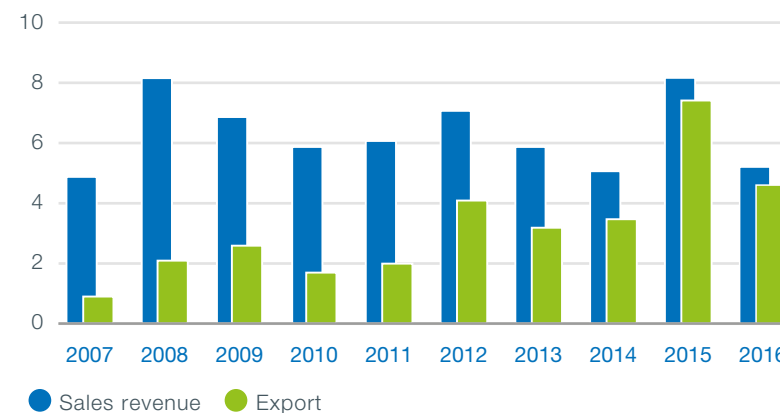
Rifas UAB is AS Harju Elekter's 100% owned Lithuanian subsidiary. The main area of activities of the company is the production and marketing of industrial automation equipment, electric power distribution and transfer equipment as well as contract-based products and solutions for marine industry. The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

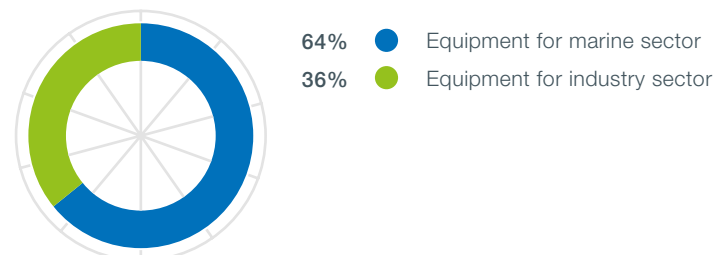
Most of the net sales come from the production and sales of project based products and services and a small part of it from the intermediate sale of electric components. Different frequency converter, electric

Rifas UAB Sales Revenue

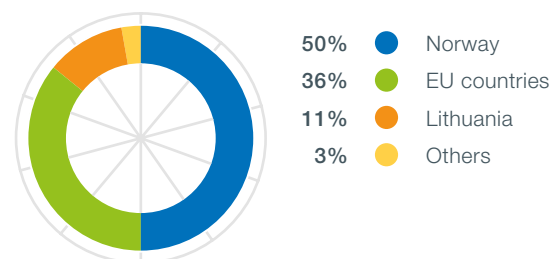
million euros



By product group



By market



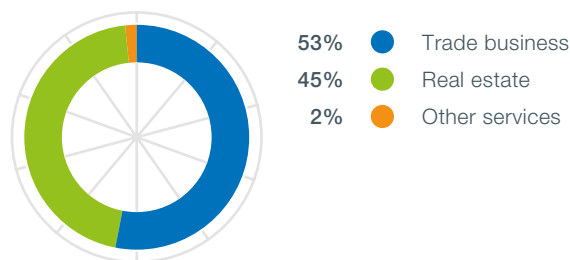
and control boxes for the marine industry have the largest share in the range of products of the company. The engineering capabilities of Rifas UAB offer high quality products to the maritime sector. Customers order mainly project and customer adapted solutions that are not available in standard catalogues. 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%.

Sales Revenue

By activity



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.

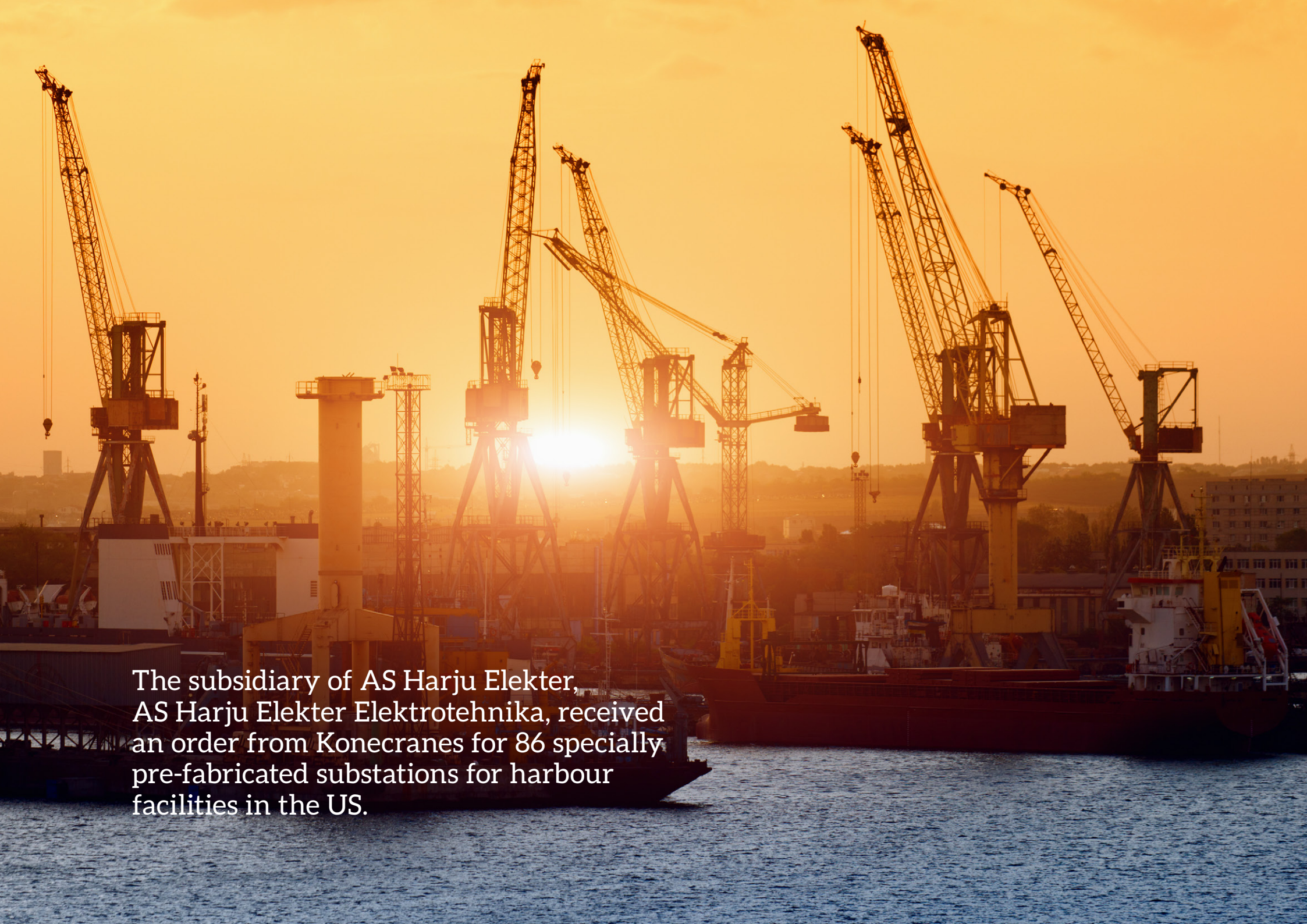
The business activity of the Parent company gives 8.8% (2015: 8.4%) from the consolidated sales revenues.

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).



The subsidiary of AS Harju Elekter, AS Harju Elekter Elektrotehnika, received an order from Konecranes for 86 specially pre-fabricated substations for harbour facilities in the US.

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 Energo-komplekss 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 Technologies 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

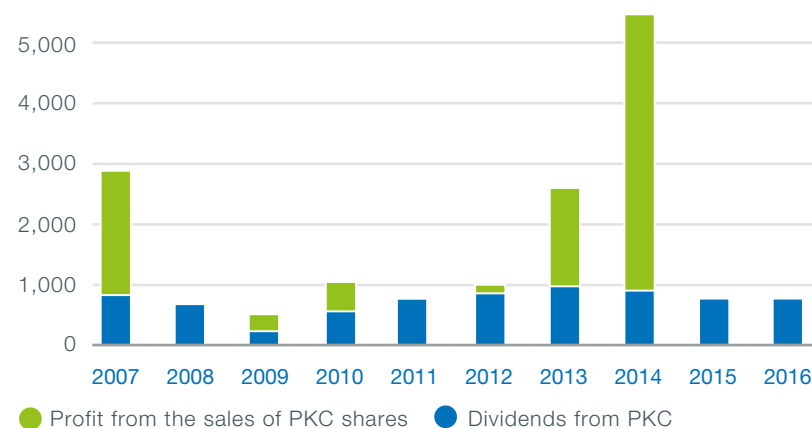
PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. PKC shares are quoted on the Helsinki Stock Exchange and AS Harju Elekter has 4.5% of PKC shares as at December 31, 2016. The market 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.

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.

PKC Group Oyj Profit Earned from Financial Investment

thousand euros



Share of PKC Group Oyj in 2014-2016

eur

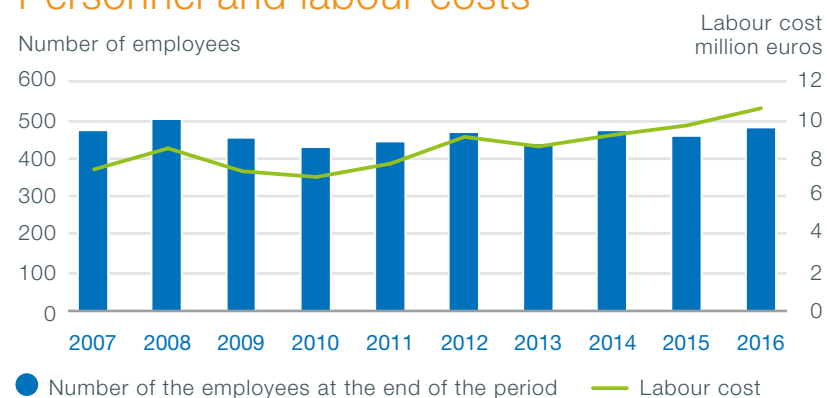


PERSONNEL

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.

Personnel and labour costs



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,

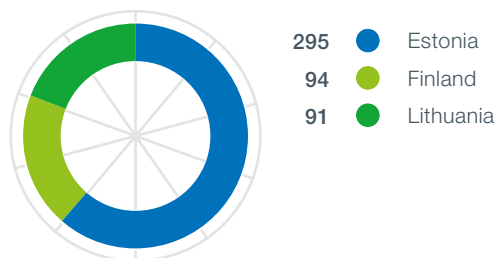
AS Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes.

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.

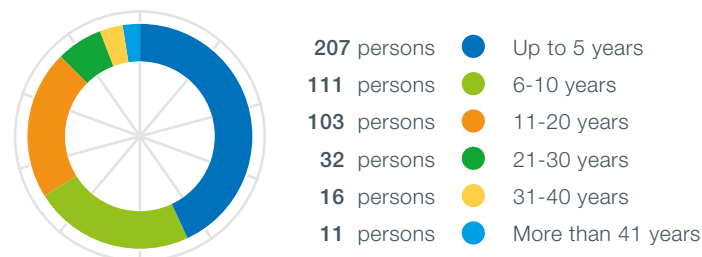
Employees

By country



Length of Service

In Harju Elekter Group



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.

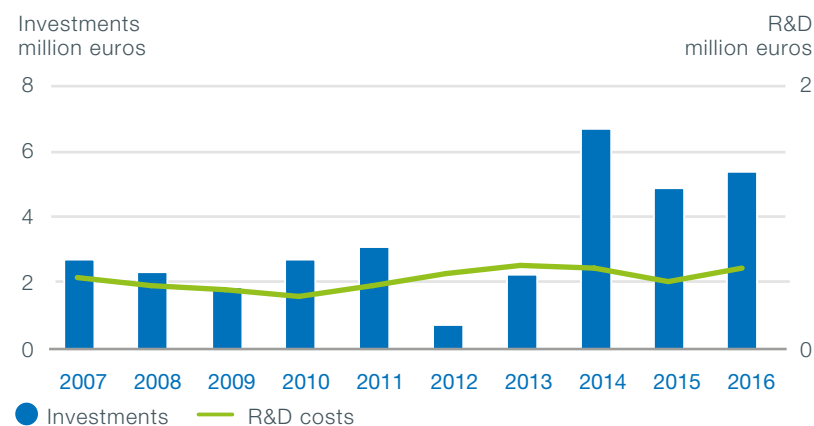
AS Harju Elekter is a responsible and caring employer offering its employees contemporary working and recreation conditions. The Group is involved in constructive co-operation with the Keila Industrial Park trade union, one of the main outcomes of which is collective labour agreement. The stability, 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

Investments and Development



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 aim 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 focussed 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.

Certificates Issued to Harju Elekter Group Companies

	2009	2010	2011	2012	2013	2014	2015	2016
HARJU ELEKTER ELEKTROTEHNIKA		○ ISO9001/ ISO14001 (since 2000. a)			○		○ up to 9/2018	
HARJU ELEKTER TELETEHNIKA			○ ISO9001/ ISO14001 (since 2002. a)			○ up to 1/2017		○ up to 12/2019
RIFAS	○ ISO9001 (since 2003. a)		ISO 14001 OHSAS 18001	○			○ up to 9/2018 ja 12/2018	
SATMATIC	○ ISO9001 (since 2003. a)		ISO14001	○			○ up to 7/2018	
FINNKUMU								

○ – recertification



During the year 2016 Harju Elekter Group's companies have made several significant deliveries for demanding industry sector all over the world.

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 all 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 Tallinn Stock Exchange where Nasdaq has been present for 20 years. 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 28.04.2016 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 18.10.2016. At 31.12.2016, 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

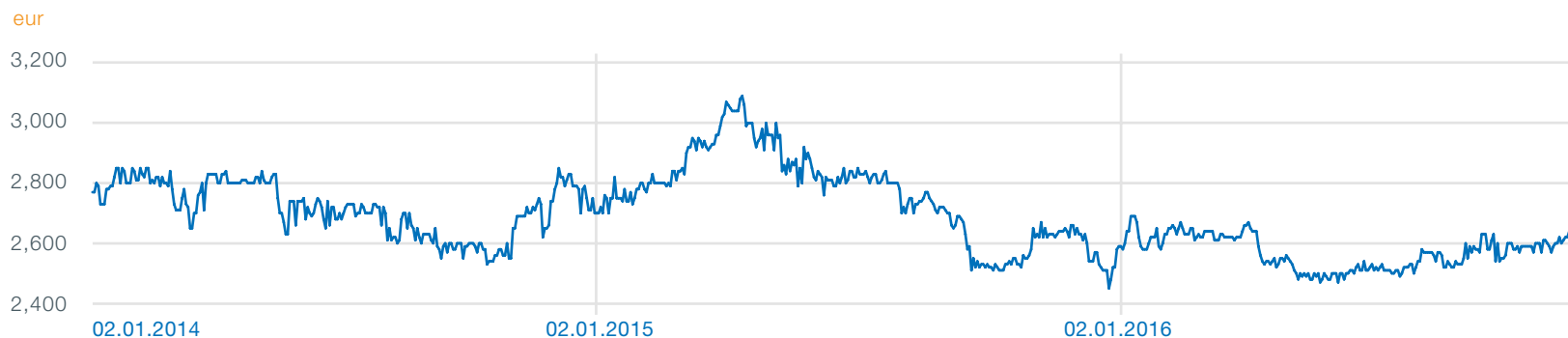
	2016	2015	2014	2013	2012
Number of shares (in thousand)	17,739,880	17,550,851	17,400,000	17,400,000	17,093,443
Book value	-	0.70	0.70	0.70	0.70
Highest price	2.94	3.14	2.85	2.92	2.80
Lowest price	2.43	2.49	2.52	2.46	2.30
Closing price	2.83	2.63	2.79	2.70	2.64
Change (%)	7.6	(5.7)	3.3	2.3	15.8
Market 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

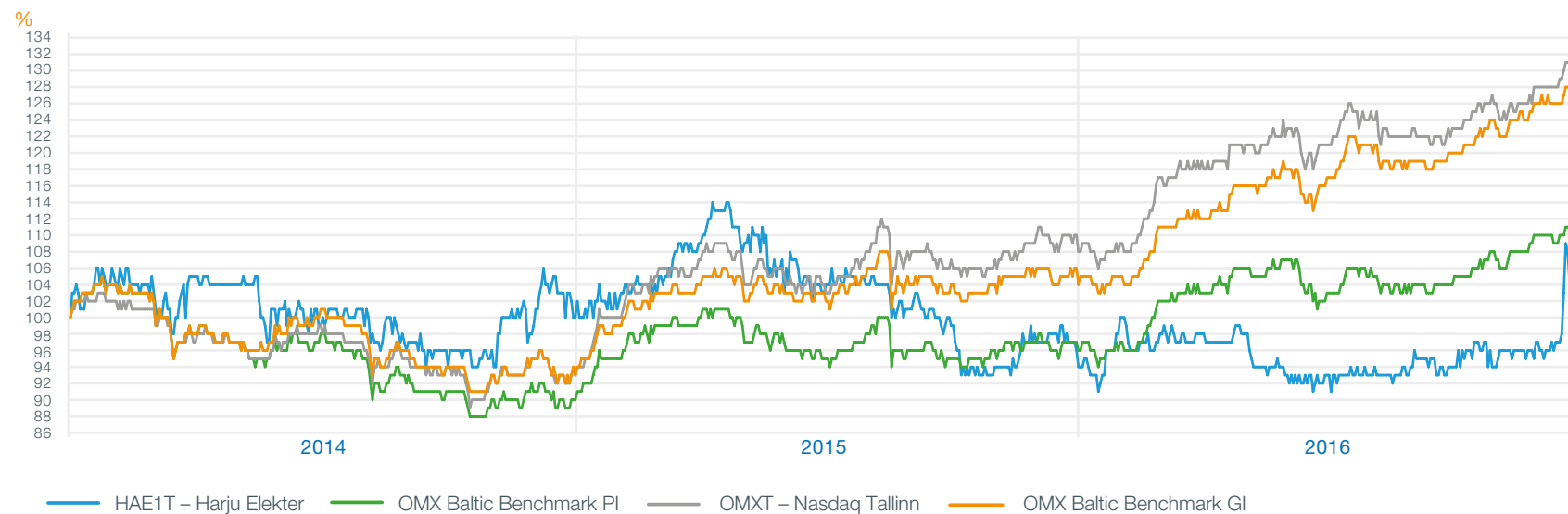
In the reporting year, the share price of AS Harju Elekter increased by 7.6% to 2.83 euros and the company's market value as at December 31 was 50.2 million euros. Compared to the previous year, the volume of transactions and the number of shares traded decreased slightly. The number of shareholders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

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/>



Shareholders structure, at 31 December 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

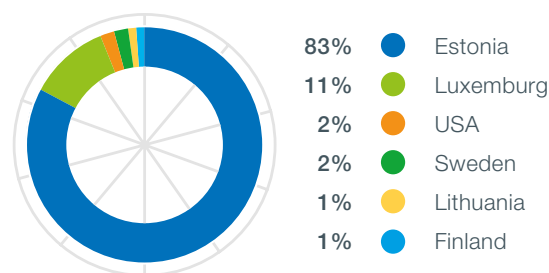
Holding	No of shareholders	% of all shareholders	% of votes held
Üle 10%	2	0.10	42.10
1.0 – 10.0%	9	0.47	23.10
0.1 – 1.0 %	70	3.64	19.42
alla 0.1%	1 844	95.79	15.38
Kokku	1 925	100.0	100.0

> 5% shareholders

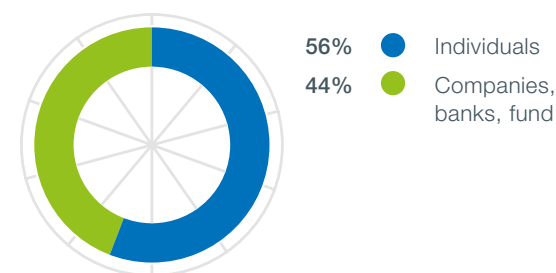
31.12.2016	Holding (%)
Harju KEK AS	31.39
ING Luxembourg S.A.	10.71
Mr Endel Palla	6.56
Shareholders, holding under 5%	51.34

Shareholders

by country



by category

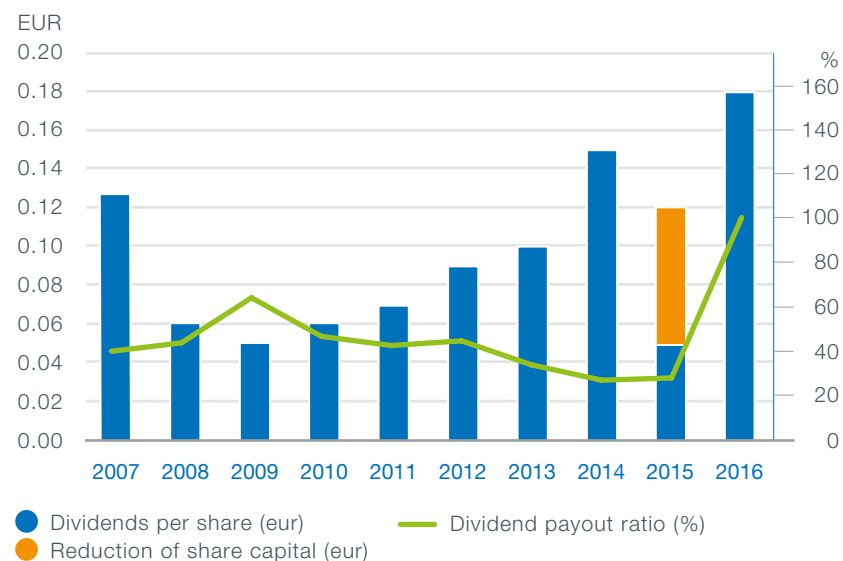


Dividends

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.

Dividends history



For dividend history and ratios, please refer to the Key share data table, page 43.

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 Tallinn Stock Exchange, 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 ASi 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 (belonging to the owners of the Parent company) 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.

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,

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.

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.

Information about the Supervisory and Management Boards



Endel Palla (19.06.1941)
Chairman of the Supervisory Board

Education: Tallinn University of Technology (TUT), engineer

Career: 1969–1983 Harju KEK, production manager
1983–1999 Harju Elekter, included 1991–1999 AS Harju Elekter CEO/Ch of the Management Board
1999– Ch of the Supervisory Board of AS Harju Elekter

Participation in the management bodies of business organisations:

Ch of the Supervisory Board: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika

Member of the Supervisory Board: AS Harju KEK, AS Laagri Vara, AS KMV, AS Entek, OÜ KEK Kinnisvara

Ch of the Management Board: Satmatic Oy

Member of the Management Board: Rifas UAB, Finnkumu Oy

Endel Palla owns 1,164,000 of Harju Elekter shares.
He has direct participation 6.56% and indirect participation 0.36%.



Ain Kabal (10.06.1962)
Member of the Supervisory Board

Education: University of Tartu, lawyer

Career: 2001–Kabal & Partners OÜ, manager
2005–2007 Small Business Association (EVEA), president
2009–2011 Estonian Green Party, general secretary
2011–2014 Viru Keemia Group AS, head of legal dept
2014– Intus Hoiu-laenuühistu, member of the management board

Participation in the management bodies of business organisations:

Manager: Kabal & Partners OÜ, Priileib OÜ

Social activities:

Harju County Entrepreneurship and Development Consultancy, member of the Council

Ain Kabal owns 6,749 of Harju Elekter shares.
He has direct participation 0.04%. He doesn't have indirect holdings.



Aare Kirsme (8.11.1975)
Member of the Supervisory Board

Education: UT Law Institute, Faculty of Law

Career: 1998–1999 Estonian Land Board, lawyer
2000–2013 AS Harju KEK, legal consultant
2002–2011 AS Devest, lawyer
2012– AS Harju KEK, Ch of the Supervisory Board

Participation in the management bodies of business organisations:

Ch of the Supervisory Board: AS Harju KEK, AS Entek, AS KMV, AS Laagri Vara, OÜ KEK Kinnisvara

Member of the Supervisory Board: AS EKE Invest, AS Harju Elekter, OÜ Jõhvi Pargi Arendus, OÜ Merix Consulting
Member of the Management Board: OÜ Kirschmann, OÜ Devest Kaubandus, OÜ Silvertec

Aare Kirsme owns 228,250 of Harju Elekter shares.
He has direct participation 1.29% and indirect participation 0.38%.



Andres Toome (9.01.1972)
Member of the Supervisory Board

Education: Tallinn University of Technology (TUT), economics

Career: 1992–1999 Estonian Bank, Estonian Investment Bank, Optiva Bank and Sampo Bank Estonia, head of investment dept. 1999– OÜ Tradematic, manager

Participation in the management bodies of business organisations:
Member of the Supervisory Board: AS Tallinna Olümpiapurjespordikeskus
Member of the Management Board: OÜ Tradematic, OÜ Norber Grupp, 30pluss OÜ, OÜ M50, Hermes Worldwide OÜ, OÜ Proformex

Andres Toome owns 30,000 of Harju Elekter shares.
He has direct participation 0.17% and indirect participation 0.34%.



Triinu Tombak (7.01.1971)
Member of the Supervisory Board

Education: Tallinn University of Technology (TUT), economics

Career: 1993–1998 Estonian Investment Bank, Optiva Bank. Loan dept., investment dept. 2001–2009 World Bank. Publishing dept., consultant, since 2006 sales manager of online databases and e-Library 2014–TH Consulting OÜ, manager

Social activities:
2013– Praxis Center for Policy Studies, member of the Supervisory Board, since 2014 chairman

Triinu Tombak owns 15,000 of Harju Elekter shares.
She has direct participation 0.08%. She doesn't have indirect holdings.



Andres Allikmäe (7.02.1957)
Chairman of the Management Board

Education: Tallinn University of Technology (TUT), engineer

Career: 1982–1991 Harju Elekter, engineer and head of department
1991–1999 Managing director of AS Harju Elekter Cable Harnesses Factory
1999– Member of the Board and CEO of AS Harju Elekter

Participation in the management bodies of business organisations:

Member of the Supervisory Board: AS Harju Elekter Elektrotehnika,
AS Harju Elekter Teletehnika
Ch of the Management Board: Rifas UAB
Member of the Management Board: Satmatic Oy, Finnkumu Oy,
Harju Elekter Kiinteistöt Oy, Harju Elekter AB

Social activities:

2007– Estonian Association of Electrical Enterprises (EAEE),
member of the Management Board

Andres Allikmäe owns 225,000 of Harju Elekter shares.
He has direct participation 1.27%. He doesn't have indirect holdings.



Tiit Atso (11.12.1982)
Member of the Management Board

Haridus: Tallinn University of Technology (TUT)

Karjäär: 2012–2014 AS Viru Keemia Grupp, project finance
manager
2014–2015 AS Harju Elekter, chief economist
2015– AS Harju Elekter, CFO of the Group

Participation in the management bodies of business organisations:

Member of the Supervisory Board: AS Harju Elekter Teletehnika,
AS Harju Elekter Elektrotehnika, Skeleton Technologies Group OÜ,
Floorin AS
Member of the Management Board: Satmatic Oy, Rifas UAB,
Harju Elekter Kiinteistöt Oy

Tiit Atso doesn't own Harju Elekter shares.



Aron Kuhi-Thalfeldt (5.09.1981)
Member of the Management Board

Education: Tallinn University of Technology (TUT)

Career: 2003–2007 AS Harju Elekter, Construction and Energy Services
dept engineer
2007– AS Harju Elekter, Head of Real estate and Energy Services dept

Participation in the management bodies of business organisations:
member of the Management Board – Harju Elekter Kiinteistöt Oy

Aron Kuhi-Thalfeldt owns 11,000 of Harju Elekter shares. He has direct
participation 0.06%. He doesn't have indirect holdings.

Please find the year 2016 audited annual report of AS Harju Elekter here
http://www.harjuelekter.ee/sites/default/files/public/pdfid/he_annualreport2016_eng.pdf

AS HARJU ELEKTER
Paldiski str 31
76606 Keila, ESTONIA
Tel +372 674 7400
he@he.ee
www.harjuelekter.ee