

Annual Report 2017

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 HARJU ELEKTER®

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Information to the Shareholders

Annual General Meeting

**THE AGM OF SHAREHOLDERS
OF HARJU ELEKTER WILL TAKE PLACE
ON MAY 03, 2018 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 € 0.24 per share for the financial year 2017. The list of shareholders who are entiteles to dividends will be closed on May 17, 2017 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on May 22, 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 2018	25.04.2018
Interim Report Q2 2018	25.07.2018
Interim Report Q3 2018	24.10.2018

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.



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Address by the Chairman of the Supervisory Board

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

Endel Palla | Chairman of the Supervisory Board

The first valuable lesson came with the collapse of the regime teaching us to deal with the western world in order to obtain materials, find business partners and investors, as well as searching for new markets after we were denied access to the Eastern markets. The second lesson was given to us during last years when internal Estonian orders dropped almost by half in a year in every single year. The management and sales personnel of AS Harju Elekter Elektrotehnika foresaw it and thanks to

their active sales efforts concluded several major contracts with Finnish customers, generating a positive challenge by doubling turnover. The third lesson was related to the fact that PKC Group left Estonia and eventually the whole PKC Group Oyj was sold which, on one side, deprived us of stable rental income and dividends (approx.1 million euros a year), but on the other hand, allowed us to finance boosting circulating assets and investments.

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

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

As a result of active sale work, the company won several procurement tenders and concluded substantial contracts in Finland which almost doubled the Group's sales revenue in 2017. Although the closure of the PKC Eesti AS plant in the Keila Industrial Park deprived us of a reliable rental income, the spaces that became vacant ideally suited the production lines of AS Harju Elekter Elektrotehnika and 25.8 million euros gained from the sale of shares allowed the financing of investments that contributed to the growth of turnover. As a result, many highly qualified specialists, who had been engaged in PKC Eesti AS, became available and they are now successfully integrated in other companies of the Group. In addition, we have made several investments in the purchase

of new companies: Energo Veritas OÜ, Telesilta Oy and, at the end of the year, Sebab AB and Grytek AB in Sweden. We also invested in land and real estate at the Allika and Keila Industrial Parks, including the renovation of the new plant of AS Harju Elekter Elektrotehnika. The Lithuanian subsidiary, Rifas UAB, has overcome its years of interim decline and made a vigorous breakthrough in export markets. Thus, the previous year was eventful and full of challenges for the whole team starting from workers to middle and top managers.

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

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



Endel Palla
Chairman of the Supervisory Board



Address by the Chairman of the Management Board

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

Andres Allikmäe | Chairman of the Management Board

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

states. Despite this we are doing our best to give our Estonian customers the maximum service.

The largest share of our sales comes from our core business – the provision of electro-technical products and solutions, as well as from our growing presence in the Real estate segment. As to our primary activities, we have entered into the highly promising and growing sector of shipbuilding as well as our core businesses of electrical engineering

and automatic equipment. Finland is the most important market for us, but our share of the Swedish market is also increasing.

Our previous economic results, as well as perspective contracts and investments, gave a very positive impetus to the growth of the share price that rose by 75.4%, increasing it from 2.85 euros to 5.00 euros. The number of shareholders increased to almost 2,500.

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

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

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

These are the keywords that characterise the tasks ahead of us in the best manner.

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

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

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



Andres Allikmäe
Chairman of the Management Board

Organisation

Activities and business philosophy of the Harju Elekter Group

AS Harju Elekter have been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 84% of the products are marketed outside Estonia. Shares of AS Harju Elekter are listed on Nasdaq Tallinn.

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



As at 31.12.2017

HARJU ELEKTER GROUP SUBSIDIARIES



AS HARJU ELEKTER

The Parent company of the Group, focused to managing and coordination of co-operation within the Group's companies and real estate holding. Located in Keila

AS HARJU ELEKTER ELEKTROTEHNIKA

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

AS HARJU ELEKTER TELETEHNIKA

Producer of customer-based sheet metal products and semi-manufactured articles for the electrical engineering and energy sector, located in Keila

ENERGO VERITAS OÜ (80,5%)

A company trading in electrical materials and equipment in Estonia



SATMATIC OY

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

FINNKUMU OY

Finnish leading prefabricated substation manufacturer in Kurikka

TELESILTA OY

Electrical engineering company specializing in electrical contracting for the shipbuilding industry, located in Uusikaupunki

HARJU ELEKTER KIINTEISTÖT OY

Industrial real estate holding company



HARJU ELEKTER AB

Sales office in Stockholm

SEBAB AB*

Engineering company for MV/LV power and distribution solutions for the construction, infrastructure and renewable energy sector, located in Malmö

GRYTEK AB*

Manufacturer of pre-fabricated technical houses in Grytgöl



RIFAS UAB

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

AUTOMATIKOS IRANGA UAB (67%)

A company which deals with design, in Panevežys

STRATEGICAL INVESTMENTS



SKELETON TECHNOLOGIES GROUP OÜ (10%)

Developer and manufacturer of ultra-capacitors



SIA ENERGOKOMPLEKSS (14%)

MV/LV equipment sales organisation in Riga

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

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

Harju Elekter Group's Focal Points of Sustainability

The Group is most of all affected by the views of its owners, staff, customers and suppliers. Communication between them is intense – depending on the nature of the relationship a lot of informing, discussion and feedback is going on (more information about it can be found in the respective chapter of this report). As to the local governments and inhabitants, regulators and surveillance authorities' subjects of discussion are taken up when it is necessary. In co-operation with educational institutions, professional associations and non-governmental organisations the Group deals with subjects that create mutual value. As the Group is of the opinion that taking into account the expectations of stakeholders are a token of a contemporary high-quality management, it is very important

to keep all parties well informed about the Group's methods of management. Considering the topics that have been raised within conventional communication and the feedback of customers and employees, the main factors that influence the success of the Group were highlighted by managers of the Parent company and larger subsidiaries at the end of 2016. To ensure a high quality and reliability of the results, the analysis was carried out by independent advisors.

Responsible management in every focus area is important to the Group in every business segment and in all subsidiaries. The most important focus areas are integrated in a detailed manner, systematically and

purposefully into the strategic and operative management of the Group's companies. The less important factors are also taken into account as basic principles to keep in mind when making management decisions. Therefore, the Annual Report 2017 of the Group gives an overview of the management and productivity of all these areas.

Harju Elekter Group understands that its customers and financiers expect from the whole Group, as well as from each of its companies a comprehensive view of their social and environmental impact and the

implementation of ethical and sustainable customs of trade. The increasing expectations of employees in the participatory and considerate working environment and the ambition to operate more in Nordic markets also demand responsible operation.

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

Focus areas that influence the sustainability of Harju Elekter Group

PRODUCT AND CUSTOMER

- 1 Quality of a product
- 5 Innovation and development
- 6 Customer experience and satisfaction
- 14 Requirements to suppliers and purchasing principles

MANAGEMENT

- 3 Economic results
- 4 Honest and ethical business activities

PERSONNEL

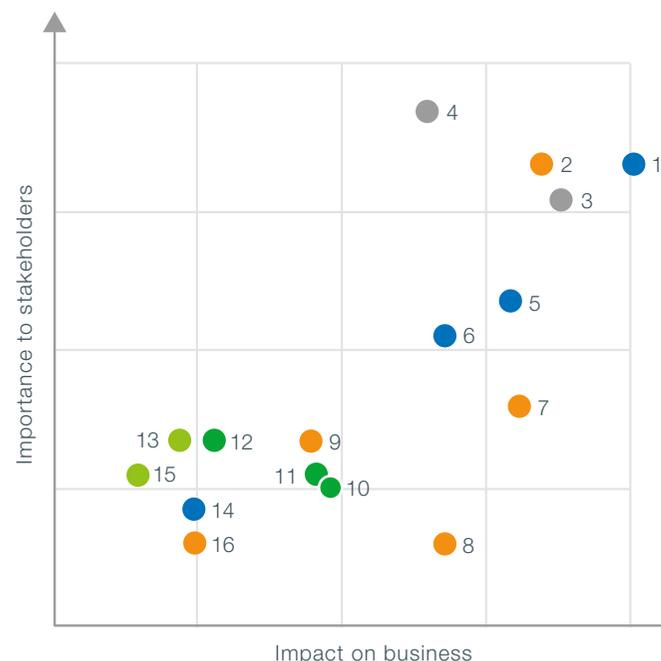
- 2 Occupational health and safety
- 7 Training and development of staff
- 8 Devotion and satisfaction of employees
- 9 Availability of labour force
- 16 Diversity and fair treatment

ENVIRONMENT

- 10 Energy
- 11 Environmental impact of products
- 12 Materials and waste

COMMUNITY

- 13 Contributing to the development of the community
- 15 Community relations and stakeholder involvement



MOTHERSON SUMI SYSTEMS LIMITED
AND THE MANAGEMENT BOARD OF PKC GROUP OYJ SIGNED
A MERGER AGREEMENT ON 19 JANUARY 2017

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

IN JANUARY 2017, THE SUBSIDIARY
AS HARJU ELEKTER ELEKTROTEHNIKA RECEIVED
A LARGE ORDER
FROM KONECRANES, FOR THE SUPPLY OF
86 SPECIAL SUBSTATIONS

TO THE USA. Together with the agreements concluded with Finnish distribution networks companies at the end of 2016, the production of substations in the Estonian and Finnish plants of the Group increased to 3,000 substations annually.

IN MARCH, AS HARJU ELEKTER PURCHASED
AN **80.52%** HOLDING IN **ENERGO VERITAS OÜ**,
A COMPANY TRADING IN ELECTRICAL MATERIALS AND EQUIPMENT.

AS Harju Elekter Trading Group and business activities of Energo Veritas OÜ was combined. As of 1 June, the united business activities continue in Group's subsidiary, under the name of Energo Veritas OÜ.

ON 27 APRIL, THE AGM OF SHAREHOLDERS
OF AS HARJU ELEKTER WAS HELD; it approved
the 2016 annual report and distribution of profit, appointed
A NEW SUPERVISORY BOARD
and approved the remuneration of the members.

ON 2 JUNE, AS HARJU ELEKTER SIGNED
A CONTRACT FOR THE PURCHASE OF
ALL SHARES IN TELESILTA Oy,
AN ELECTRICAL ENGINEERING COMPANY
SPECIALIZING IN ELECTRICAL CONTRACTING FOR
THE SHIPBUILDING INDUSTRY. Telesilta Oy continues
to operate under its own name and brand as a wholly-owned
subsidiary of the Group. The purchase provides new knowledge
and skills in manufacture and installation of the electrical and
automation equipment for ships and opens the door to the promi-
sing Finnish shipbuilding sector.

ON 29 AUGUST, AS STERA SAUE OPENED A NEW FACTORY,
WITH 3,400M² OF PRODUCTION SPACE, IN THE
ALLIKA INDUSTRIAL PARK OWNED
BY AS HARJU ELEKTER. In 2018, AS Harju Elekter will be building
an additional 4,000m², followed by another 3,000m² of new production
space for AS Stera Saue, with the total amount of production space
rented by AS Stera Saue growing to 10,400m².

YEAR
2017
events

In March, AS Harju Elekter received the traditional
EXPORT DEED OF THE YEAR
AWARD FROM KREDEX CREDIT INSURANCE. The company was
recognized thanks to its outstanding contracts with
foreign partners and increased export in 2016.

IN JUNE 2017, THE LITHUANIAN SUBSIDIARY
OF THE GROUP, RIFAS UAB, WAS AWARDED
A PRESTIGIOUS ROLLS-ROYCE AWARD
FOR THE MARITIME PRODUCT AND SERVICE SECTOR
“**INNOVATION AND TECHNO-
LOGY COMPANY OF 2017**”.

This acknowledgment was given for innovation
in developing, and the industrial introduction of
a complex electricity distribution and control
system SAVe Cube.

AS HARJU ELEKTER ELEKTROTEHNIKA
WAS ACKNOWLEDGED IN 2017
BY ELENIA OY WITH THE TITLE OF
“**THE BEST SUPPLIER**”.

RIFAS UAB RECEIVED AN AWARD AS
„**THE MOST INNOVATIVE
COMPANY 2017**“ from Panevežys
City Government.

ENDEL PALLA, CHAIRMAN OF THE MANAGEMENT
BOARD OF AS HARJU ELEKTER, WAS AWARDED

**THE DISTINGUISHED SERVICE
MEDAL MENTE ET MANU**,

the highest form of recognition from TUT, for his long-
term fruitful cooperation in the development of curricula
and support for students through programs as well as
scholarships.

**DURING THE YEAR, THE GROUP'S SUBSIDIARIES
PARTICIPATED ACTIVELY IN THE PROFESSIONAL
FAIRS IN ESTONIA, FINLAND AND SWEDEN:**

the largest exhibition of electrical energy and power distribution
in the Nordic Countries – Elfack in Gothenburg; the fairs Verkosto
and Alihankinta in Tampere as well as Teknologia17 exhibition
in Helsinki. Group's Trade unit continued to introduce its products
in the international building fair in Tallinn.

**YEAR
2017**
recognitions
and awards

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

The Group's Activities in 2018

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

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

Due to the dynamic expansion during recent years the Group needs to focus in 2018 on reviewing its management structure, promoting the co-operation between the companies belonging to the Group and creating organisational preconditions necessary for it. This is to be supported by sufficient investments in the personnel and technology, including

the digitalisation of business processes, security and financial accounting. However, the group continues actively to search for, and the initiation of, possible financial investment, merger and transposition projects.

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

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

Events after the reporting date

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

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

On 1 February 2018, AS Harju Elekter Elektrotehnika opened its new factory in Keila Industrial Park. Thanks to several large orders, the Group's subsidiary, manufacturer of LV/MV distribution and control engineering devices, experienced significant growth in its production volume during the year, which resulted in the need to expand the working premises. Their move, which lasted for nearly six months, was completed in December 2017. In comparison with the previous 10,400m², the new factory has 16,715m² of space. The increase in production capacity, along with the growth in the number of employees to 236, including 43 sales, production and R&D engineers, is sufficient to seamlessly fulfil the current sales volume without any interruptions.

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

Business Results

GROUP	2017	2016	2015	2014	2013
Statement of profit or loss (million EUR)					
Revenue	102.4	61.2	60.7	50.6	48.3
Operating profit	5.4	3.2	3.3	2.2	1.7
Profit attributable to owners of the Company	29.1	3.2	3.2	9.7	5.2
Statement of financial position at the end of the year (million EUR)					
Total current assets	48.7	22.3	19.8	25.1	15.9
Total non-current assets	41.3	51.7	46.7	44.7	55.2
Total assets	90.0	74.0	66.5	69.8	71.1
Equity attributable to owners of the Company	69.9	60.3	58.1	58.5	62.5
Equity ratio (%)	77.7	81.5	87.2	83.8	87.9
Rates of growth (% , y-o-y)					
Revenue	67.4	0.8	19.9	4.8	-8.5
Operating profit	71.1	-2.9	47.1	27.8	-11.5
Profit attributable to owners of the Company	804.9	0.9	-67.1	87.9	46.8
Assets	21.6	11.1	-4.6	-1.8	19.2
Equity attributable to owners of the Company	15.9	3.8	-0.7	-6.4	28.1

GROUP	2017	2016	2015	2014	2013
Performance indicators (%)					
Operating margin	5.3	5.2	5.4	4.4	3.6
Net margin	28.4	5.3	5.3	19.3	10.7
Return of assets (ROA)	35.5	4.6	4.7	13.8	7.9
Return of equity (ROE)	44.7	5.4	5.5	16.0	9.2
Share (EUR)					
Average number of shares (1000 pc)	17 740	17 740	17 551	17 400	17 400
Equity per share	3.67	3.34	3.32	3.48	3.20
The closing price	5.00	2.83	2.63	2.79	2.70
EPS	1.64	0.18	0.18	0.56	0.30
P/E	^[3] 3.05	15.72	14.61	4.98	9.00
Dividend per share	^[1] 0.24	0.18	^[2] 0.12	0.15	0.10
Liquidity ratio					
Current ratio	2.4	2.1	2.7	2.8	2.3
Quick ratio	1.6	1.3	1.7	1.9	1.4
Personnel and remuneration					
Average number of employees	567	455	472	459	455
Number of employees at the end of the period	630	480	470	483	451
Wages and salaries (million euros)	14.1	10.6	9.7	9.2	8.6

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

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



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ogether, the companies of Harju Elekter Group employ more than 400 highly qualified skilled workers. Due to the large-scale contracts concluded during the recent years the production of substations in the Estonian and Finnish plants of the Group increased by three times, amounting to 3,000 substations per year. The workers who have the qualification and experience of electrical installations are invaluable to all the companies of the Group.

Overview of the Economic Environment

Global economy

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

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

Euro area and Nordic countries

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

Estonia and the Baltic countries

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

Operating Results

Group structure and changes on it

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

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

Earnings and margins

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

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

In 2017

the consolidated
SALES REVENUE

102.4

million euros
(2016: 61.2)

the consolidated
OPERATING PROFIT

5.4

million euros
(2016: 3.2)

the consolidated
NET PROFIT

29.1

million euros
(2016: 3.2)

Out of the consolidated revenue was contributed by the

 **ESTONIAN** companies
  **FINNISH** companies
  **LITHUANIAN** companies
  **SWEDISH** companies

24.8%

(2016: 34.2%)

66.1%

(2016: 57.3%)

8.7%

(2016: 8.5%)

0.4%

(2016: 0%)

Sales revenue, net and operating profits

million euros



Finland has grown to the biggest and the most important market of the Group; 73.0% of the Group's products and services were sold on the Finnish market (2016: 67.0%).

During the year, sales to the Finnish market grew by 34.0 million euros up to 75.0 million euros. The Finnish market is continually characterised by large investments in the energy distribution sector. The main reason for the growth was the contracts concluded with Finnish network companies at the end of 2016, whose orders began in Q1 of 2017. The acquisition of the new subsidiary Telesilta Oy also made a significant contribution to the growth of the Finnish market, increasing Group's sales revenue by 12.9% during reporting year.

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

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

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

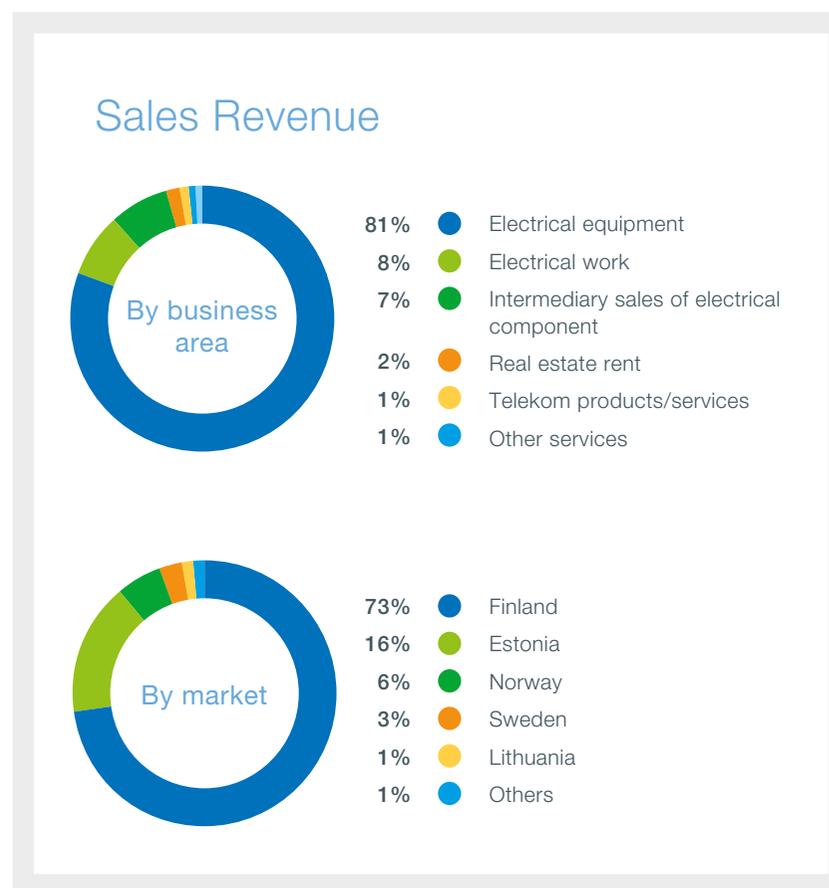
Sales revenue from other markets increased during the year more than 10%, accounting for 1.4 (2016: 1.2) million euros. Portugal, Austria, Slovakia and Indonesia were entered as new markets in the reporting year.

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

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

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

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



The increase in salaries by one third is due to hiring new employees due to the substantial increase in the volume of production. However, it is less than the increase in sales revenue: 67.4%. The average salaries per employee per month amounted to 2,067 euros, increasing by 127 euros in average. The average increase in salaries was influenced by the increase in the share of Finnish employees in the Group, as the level of earnings in Finland is higher than in Estonian and Lithuanian companies.

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

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

Other comprehensive income

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

Financial position and cash flows

At the end of the reporting period the Group's assets, foreign capital and equity divided as following:

CURRENT ASSETS	NON-CURRENT ASSETS	FOREIGN CAPITAL	EQUITY
54%	46%	22%	78%
(2016: 30%)	(2016: 70%)	(2016: 18%)	(2016: 82%)

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

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

During 2017 the Group invested 4.1 million euros in real estate and 3.1 million euros in property, plant and equipment, which was a total of 7.2 million euros, while in the reference year it was respectively 3.1 million euros

and 1.5 million euros, of which 0.9 million euros was spent acquiring property, plant and equipment related to the purchase of a real estate company in Finland.

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

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

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

During the reporting year a total of 19.6 million euros were invested, of which a total of 7.6 million was invested in real estate and property, plant and equipment and intangible assets; 10.0 million euros in other financial investments. The procurement of subsidiaries generated a net cash out-

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

In 2017, the cash flow out due to financing activities increased and amounted to 3.1 million euros, which was 2.6 million euros more than during the reference period. The cash flows of financing activities were influenced by a larger payout to shareholders – AS Harju Elekter paid a dividend of 3.2 (2016: 0.9) million euros and to the reduction of share capital of 1.2 million euros. The General Meeting of Shareholders that took place on 28 April 2016 decided to reduce the share capital by 1.2 million euros by paying shareholders 0.07 euros per share. The payout was made in January 2017. During the reporting year a long-term loan of 2.6 million euros was raised and a total of 0.8 million euros of short- and long-term loans were redeemed, while in 2016 0.1 million euros of long-term loan and 0.6 million euros of short-term loan was raised. Cash and cash equivalents increased by 7.7 million euros to 11.0 million euros in the reporting year and decreased by 2.4 million euros to 3.3 million euros in the comparable period.

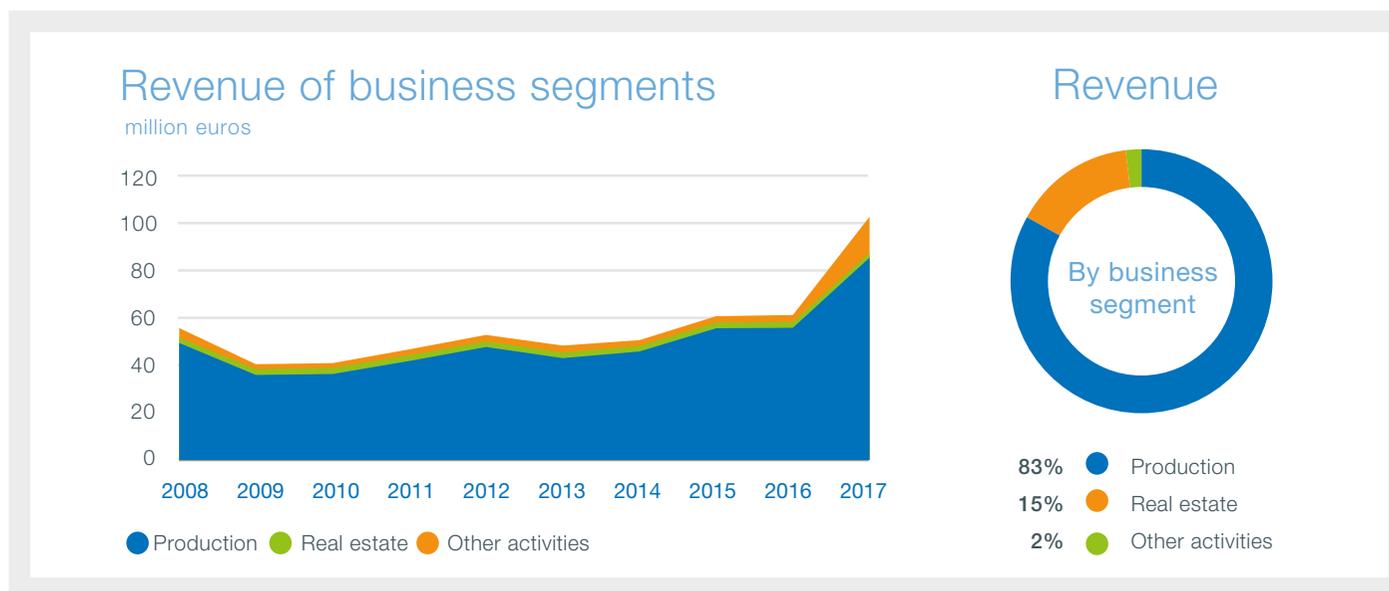
The goals and principles of managing financial risks related to the Group's financial instruments and the risks related to the changes in exchange rates, interest rates and stock exchange rates that may occur during the financial year and during compiling the report are listed and described in Note 5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

Processing of sheet metal and the production of high quality components and casings are an integral part in the manufacturing of electrical and automatic equipment. Totally automatic and semi-automatic sheet metal centres are challenging even for experienced CNC-workbench operators.



Business Segments

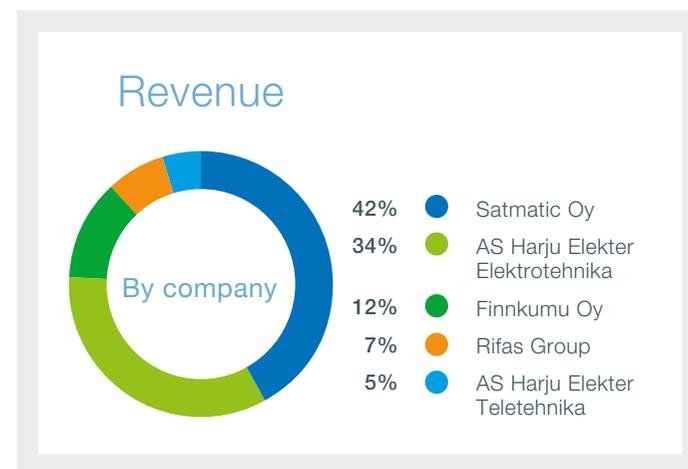
As of 31 December 2017, the Group was active in two fields – Production and Real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. Other activities include areas that are not large enough to form a separate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



Production

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

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



AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries.

In 2017, the headquarters and plant of AS Harju Elekter Elektrotehnika moved in new production halls in Keila comprising nearly 17,000m² of production, warehouse and office premises. The number of employees is 236, incl. one fifth of them working in sales and R&D.

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

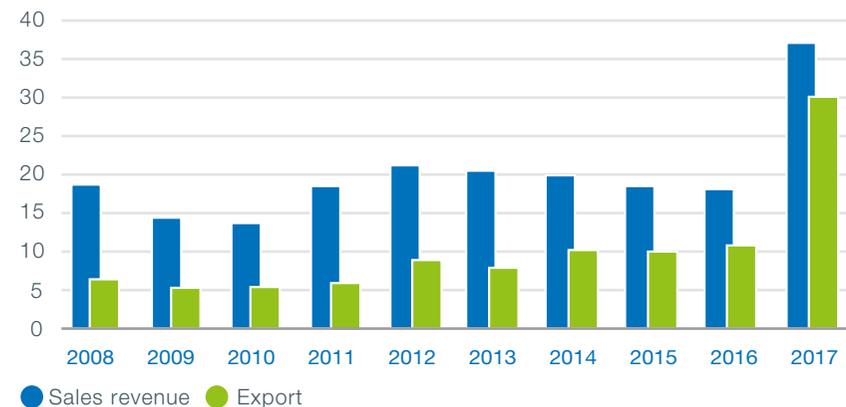
2017 was a breakthrough year for AS Harju Elekter Elektrotehnika and successful from the point of view of taking the development of the company to a new stage. Consistently focusing on foreign markets led to the desired outcomes. Successful completion of vast-scale contracts to supply Finnish electrical power networks were concluded as a result of active sales during the last years to multiply the production of substations.

The additional order of specific substations for the United States ports increased the total sales revenue of the subsidiary of the Group manufacturing LV/MV distribution and control engineering devices by 105%, amounting to 37.1 million euros. In 2017, the share of exports in sales revenue was an all-time record 82%, with the largest markets in Finland (increased by 203%) and Sweden (increased by 43%). The sales in Estonian remained at the same level as in the previous year.

As to line of business, the year 2017 was especially successful for medium voltage line of business where sales revenue doubled thanks to the contract to supply substations to Finland. During the year, 2,068 substations were manufactured at the Keila factory. As to low voltage equipment, active development and sales continued in order to conclude

AS Harju Elekter Elektrotehnika Sales Revenue

million euros

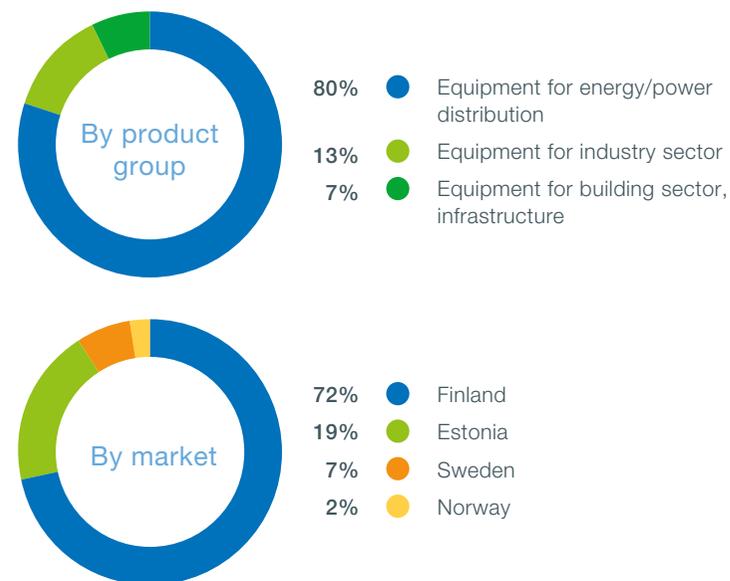


new framework contracts, and this work has resulted, at the end of the year, with winning a major tender awarded to Caruna Oy for the procurement of cable distribution boxes.

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

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

AS Harju Elekter Elektrotehnika Sales Revenue



AS Harju Elekter Teletehnika

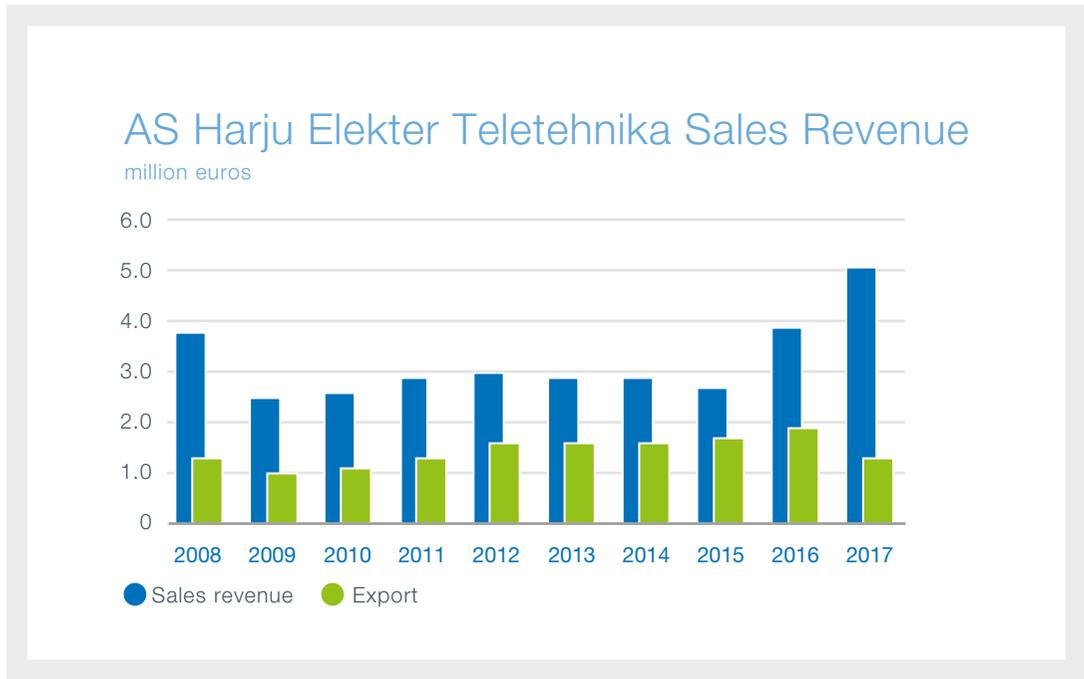
The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include a range of customer-based sheet metal products and semi-manufactured articles are produced for the electrical engineering and energy sectors as well as for the telecom sector.

In addition, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park. The factory is located in Keila and the company employs 91 people.

The year 2017 offered several challenges to the company. The merger of the sheet metal units of the Group's Estonian plants during the previous year and incorporating all resources, capabilities and know-how related to sheet metals into AS Harju Elekter Teletehnika changed substantially the focus and product portfolio of the company. Keeping up with the dramatic increase in demand which was mainly directed to the subsidiary of the Group, AS Harju Elekter Elektrotehnika, and executing all the orders was a huge challenge, especially taking into account the changes in

the product range. The profitability of the company was influenced by the increase in the price of raw materials, lack of labour, and the introduction of additional shifts in the production process. At the end of the year more stress was added by moving the production to more spacious premises without interrupting manufacture.

In 2017, the sales revenue increased by 32.6% compared with 2016 and amounted to 5.1 million euros. The increase in sales revenue was mainly influenced by the growth of sales by 90.8% on the domestic market (2016: 93.6%). The sales in export markets decreased by 29.3% (2016: increased by 9.2%). The overall share of exports in sales revenue amounted to 25.8% (2016: 48.4%) and this drop was caused by the substantial

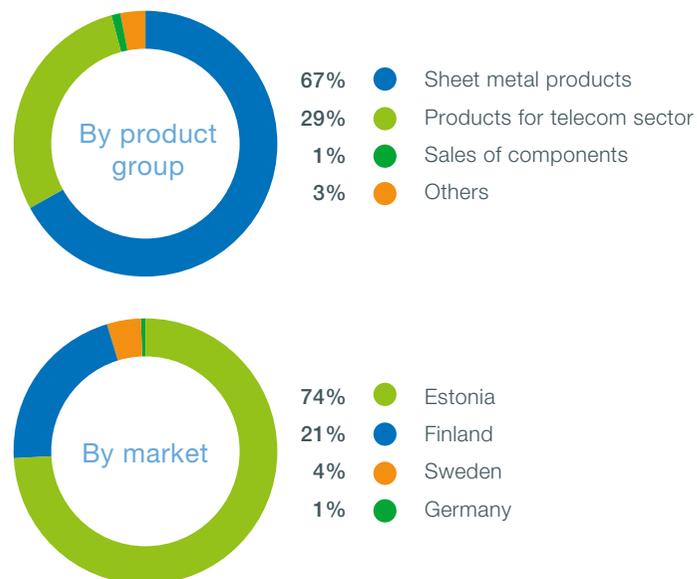


increase in the production output to meet huge demands from sister companies who had won huge substation procurement contracts. The domestic sales within the Group increased for the same reason.

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

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

AS Harju Elekter Teletehnika Sales Revenue



Satmatic Group

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

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

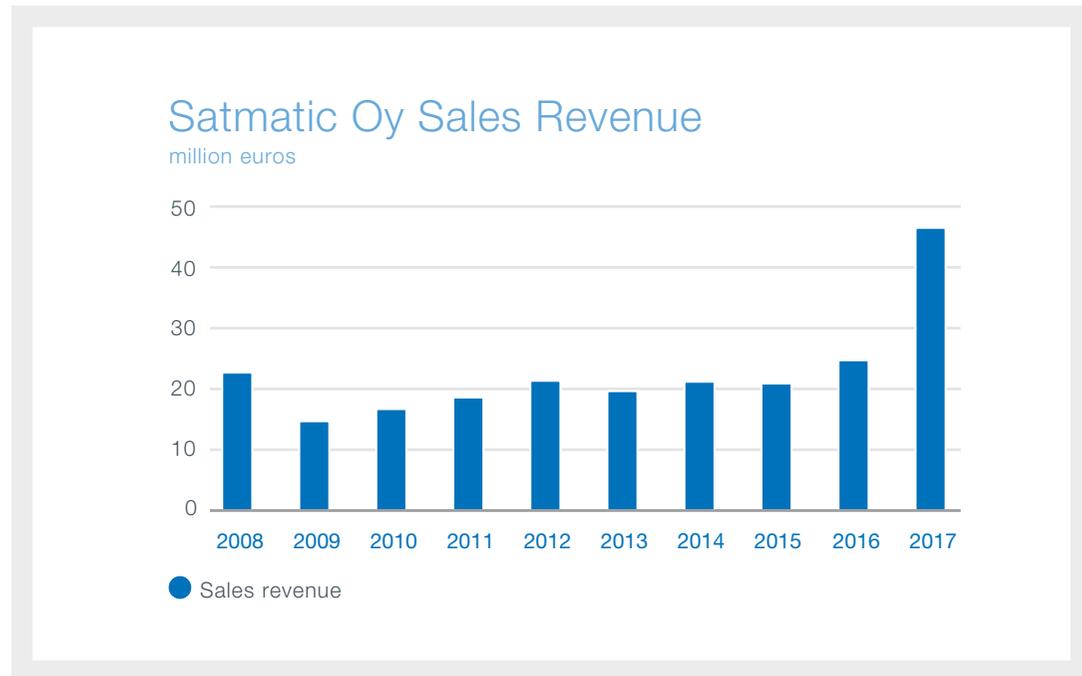
The enhancement of competitiveness during the reporting year increased Finland's export capacity which had a positive influence on the whole industrial sector as well as to Satmatic Group. Contract based production as well as project based supplies of products and services increased. The share of power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

Satmatic Oy

Satmatic Oy, a fully owned subsidiary of AS Harju Elekteer, 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 Elekteer Group's companies in Finland. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation in Kerava in order to better service businesses and other customers in Helsinki-area. The company hires 76 employees.

Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure. According to the type of supply two different production models can be differentiated: contract manufacturing and project based product/solution. The largest threats were related to the instability of customers orientated to exports,



the competitiveness of the Finnish exports sectors and the production capabilities of the countries that are close to final consumers and, have at the same time, lower labour costs. The power production and distribution sector managed by local companies were continually successful during the reporting year. This sector continues its considerable growth, as investments are guaranteed for power distribution sectors, as well as for renewable energy sources (bio, wind, solar, hydrogen) and nuclear power stations.

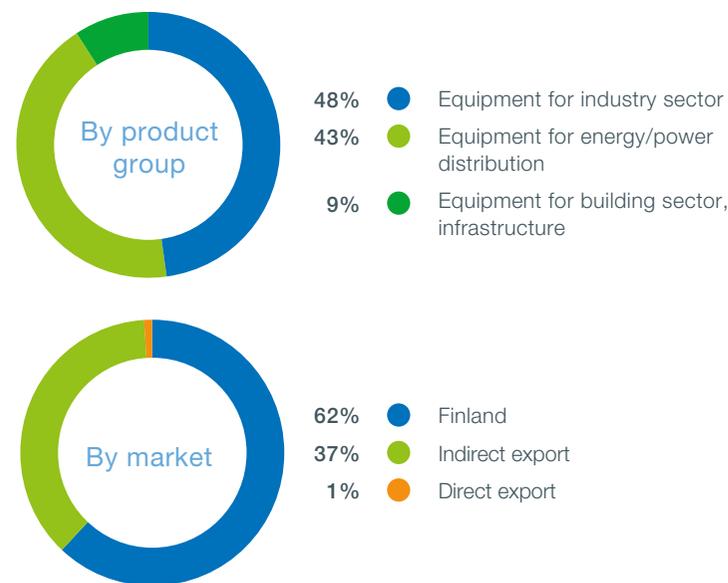
All in all, the sales revenue of the company made a drastic leap upwards, increasing by 88.1% amounting to 46.5 (2016: 24.7) million euros. The sales outside Finland – either directly or through mediators – accounted for 38% of sales revenue and grew 5% compared with the reference year. Exports to the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

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

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

Pre-fabricated substations and distribution cabinets that are manufactured in the plants of Satmatic Oy and Finnkumu Oy and in the plant of AS Harju Elekter Elektrotehnika are sold to energy distribution sector, mainly to Finnish grid operators/companies and power and energy stations. On-grid and off-grid solar energy solutions proved to be the

Satmatic Oy Sales Revenue



stand-out products in the renewable energy sector. Total capacity of the supplied solutions to Finland amounted to 10MW.

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

Finnkumu Oy

Finnkumu Oy is a wholly-owned subsidiary of Satmatic Oy and Finnish leading prefabricated substation manufacturer, involved in design, production and sale of electricity distribution devices, mainly substations and distribution cabinets. Products are addressed to the Finnish market. Finnkumu Oy was founded in 2004 and has belonged to the Harju Elekter Group since 2014. The company uses production and office spaces with an area of 2,500m² in Kurikka and hires 22 employees.

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

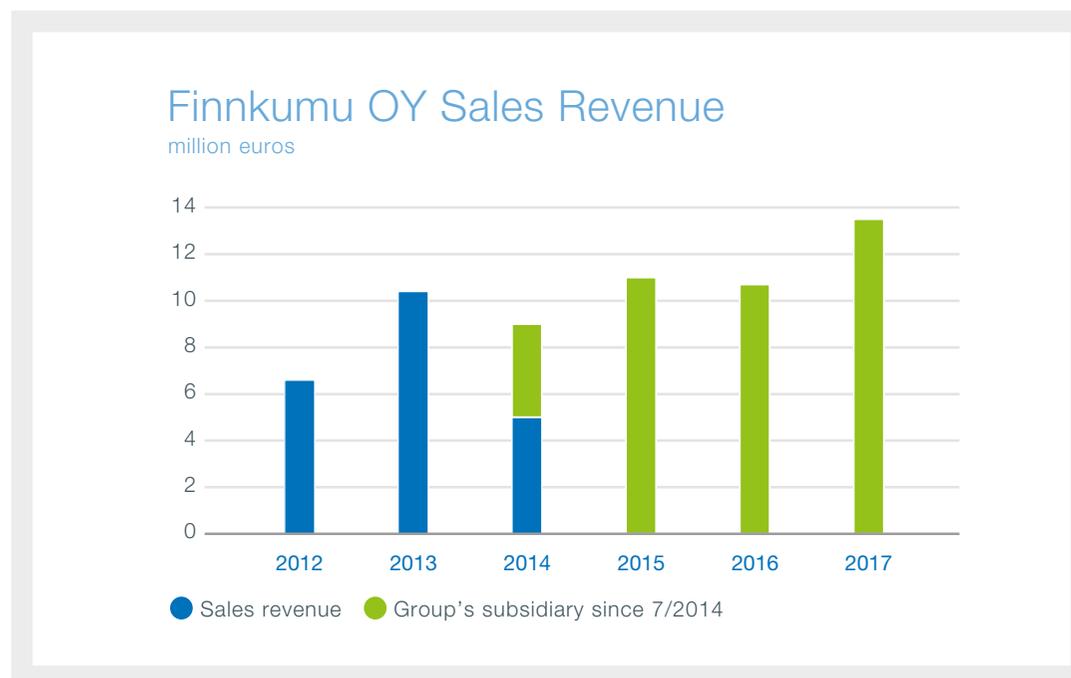
In 2017, the sales revenue of Finnkumu Oy increased by more than a quarter, amounting to 13.5 (2016: 10.7) million euros. At the same time, a competent use of production and labour resources and economising in procurements and purchases led to the improved profitability of the company. The well-targeted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

During its long period of existence, the company has established a loyal customer base whose orders are fulfilled by a relatively small marketing team; products are improved jointly and adjusted to the needs of specific projects. The production is organised through a strong and smoothly

operating network of sub-contractors who deliver all the necessary details. The completion, final assembly and quality check is carried out at the company's plant in Kurikka.

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

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



Rifas Group

Rifas Group consists Rifas UAB with head-quarters in Panevėžys and its subsidiary Automatikos Iranga UAB (67%), specialised in project designing.

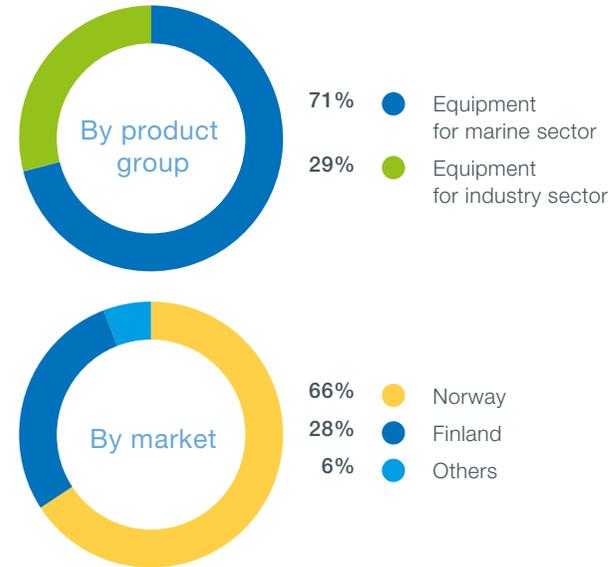
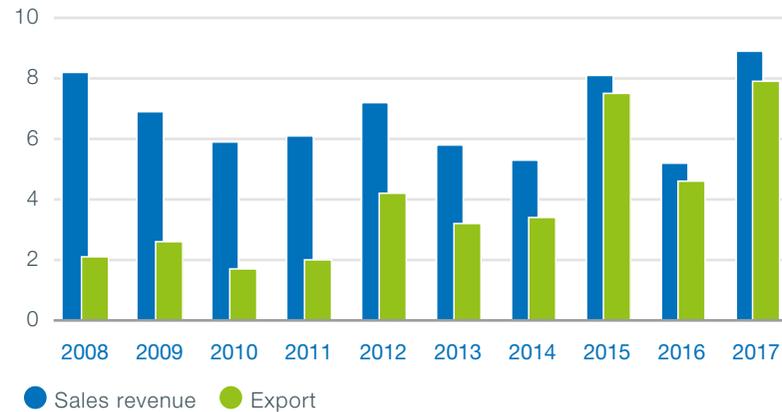
In 2017, Rifas Group's sales revenue increased by 71.0% compared with the previous year, amounting to 8.9 (2016: 5.2) million euros, including the sales revenue of 1.0 (2016: 0.5) million euros of Automatikos Iranga UAB that was earned almost entirely in the Lithuanian market. There are 120 employees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

Rifas UAB

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

Rifas UAB Sales Revenue

million euros



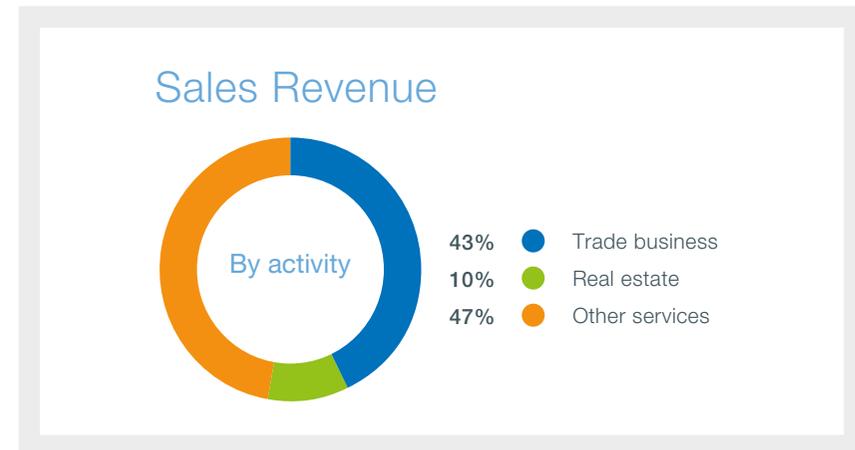
A favourable economic climate and solid economic growth in the main target markets of the company in Scandinavia, and the company's unique skill to offer solutions and products that meet almost all requests of its key customers, increased Rifas UAB sales revenue in 2017 by 65.3%, amounting to 7.8 (2016: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

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

On a daily basis, the company focuses on the improvement of quality and reliability of its product and professional implementation of contract-based production processes. To ensure an increasing flow of orders and constant output and, by that, increasing opportunities in the future, the production space of the Lithuanian subsidiary will be extended in 2018 from the current 2,500m² to 6,500m².

Real estate holding and other activities

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



Real estate

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

Harju Elekter. Rental income reflected in the Group's revenue as well as in income of Real estate segment from the third quarter.

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

AS Harju Elekter

AS Harju Elekter is the Parent company of the Group. Its activities are divided into two segments – Real estate and Other activities. Unallocated activities include the coordination of co-operation within the Group, management of subsidiaries and related companies through their Supervisory and Management Boards, management of the finances and investments of the Group and management of development and expansion activities as well as managing of personnel, IT and communication services and guaranteeing the professional operation of the corporate stores.

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

Other activities

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

Telesilta Oy

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

Telesilta Oy is an electrical engineering company established in 1978, located in Uusikaupunki, Finland. The company specializes in electrical contracting for the shipbuilding industry – everything from planning to installation, implementation and service. In 2017, the sales revenue of the company was 10.1 (2016: 4.5) million euros; of which 7.9 million euros was included into the Group's sales revenue. As of December 31, 2017, the company employed 35 people.

Energo Veritas OÜ

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

With the establishment of a strong trade unit, the Group increases its market share in Estonia, notably expands its offered product range, and creates prerequisites for boosting the sale of the Group's products in Estonia and the Baltic states. Energo Veritas OÜ focuses primarily on project-based trading activity, but its sales offices and stores, selling both products of the Group and related companies and other goods necessary for electrical installation work mainly to retail customers and small and medium sized electrical installation companies, located in Tallinn, Tartu and Keila.

In 2017, the sales revenue of the company was 5.5 (2016: 4.2) million euros. As of December 31, 2017, the company employed 19 people.



The success of the Group has been achieved by strong and flexible product development. The product development resources of the Group directed at the energy sector are concentrated mainly in the subsidiary, AS Harju Elekter Elektrotehnika; Satmatic Oy has specialised in the development of products made for industry and renewable energy solutions, and Rifas UAB mainly on project based or customer based comprehensive solutions.

Investments and Development

In 2017, the Group investments to fixed assets totalling 7.3 (2016: 5.4) million euros. With the acquisition of new subsidiaries, the investments in intangible assets increased by 1.8 million euros. The value of investments during the reporting year amounted to a total of 9.1 million euros.

system. In line with the Group's strategy the administration of the hardware of work stations was outsourced by involving an external partner who offered a full service.

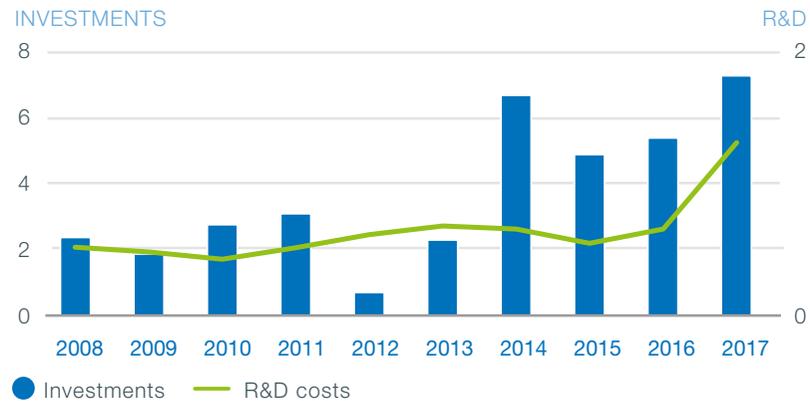
According to the development principles of the Group, the Group's companies aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2017, the development costs, at cost price, of the Group amounted to a total of 1.2 (2016: 0.6) million euros, accounting for 1.2% of the Group's sales volume.

As a whole, the investments can be divided into two categories: half of them aimed to support and ensure the Group's further development and the other half includes renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.

In 2017, several substantial information system developments were implemented with the main aim of automating internal ordering processes between the companies of the Group. The project and post of service software was renewed at the retail points. The Swedish sales organisation introduced a modern sales and account management software. As to the business analysis, several analytical solutions with different focuses were implemented. Due to the expansion of the Group one of the priorities was to include, without delay, the new subsidiaries in the common reporting

Investments and development

million euros



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

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

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

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

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

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

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

Innovation

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

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

The Group is involved in innovation in three ways:

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

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

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

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

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

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

Quality Management: Quality of Products and Customer Relations

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

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

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

Product quality assurance

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

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

Everyday business actions and arrangements of the Group are based on the quality and environmental policy that complies with international

standards. The current ISO 9001 quality management standard is implemented in most of the Group's manufacturing companies, such as: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Rifas UAB. Telesilta Oy and Finnkumu Oy are planning to introduce ISO 9001 in 2018.

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

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

Certificates Issued to Harju Elekter Group Companies

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

○ – recertification

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

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

THE STAGES THAT INFLUENCE PRODUCT QUALITY ASSURANCE IN THE EXAMPLE OF AS HARJU ELEKTER ELEKTROTEHNIKA:

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

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

- THE SHARE OF FAULTY PRODUCTS
- CUSTOMER FEEDBACK
- QUALITY OF MATERIALS
- EXTERNAL AUDITS

1. The share of faulty products

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

2. Customer feedback

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

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

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

- [AS Harju Elekter Elektrotehnika](#) measures net promoter score on a quarterly basis and the compliance of products and technical solutions with customer expectations. The feedback helps to map the overall attitude of customers to the company, but in order to ascertain the roots of customer satisfaction and making conclusion, the reclamations and improvement proposals filed by customers are analysed. The management of the company views the summary of complaints on a weekly basis. In 2017, the average net promoter score was 59 points out of 100.
- [AS Harju Elekter Teletehnika](#) also evaluates its customer satisfaction results once a quarter. A feedback on products range and quality, accuracy and speed of delivery, correctness of documents, price level and accessibility of contact persons is recorded on a scale of 5 points. In 2017, the average was 4 points out of 5.
- [Finnish subsidiaries](#) also ask once a quarter customer feedback on their satisfaction with prices, quality, security of provision and overall co-operation. Satmatic Oy's collected result amounted to 97% and Finnkumu Oy 80% of possible maximum.

3. Relations with suppliers and the quality of materials

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

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

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

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

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

4. External audits

Customers, supervision authorities, product certification companies and licence issue companies carry out audits and checks on the companies

in the Group on a regular basis. Most of the time, companies have passed audits successfully and observations made during them have been useful.

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

Examples

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

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

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

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

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

Safety and environmental impact of finished products

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

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

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

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

Environmental impact of the life span of products

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

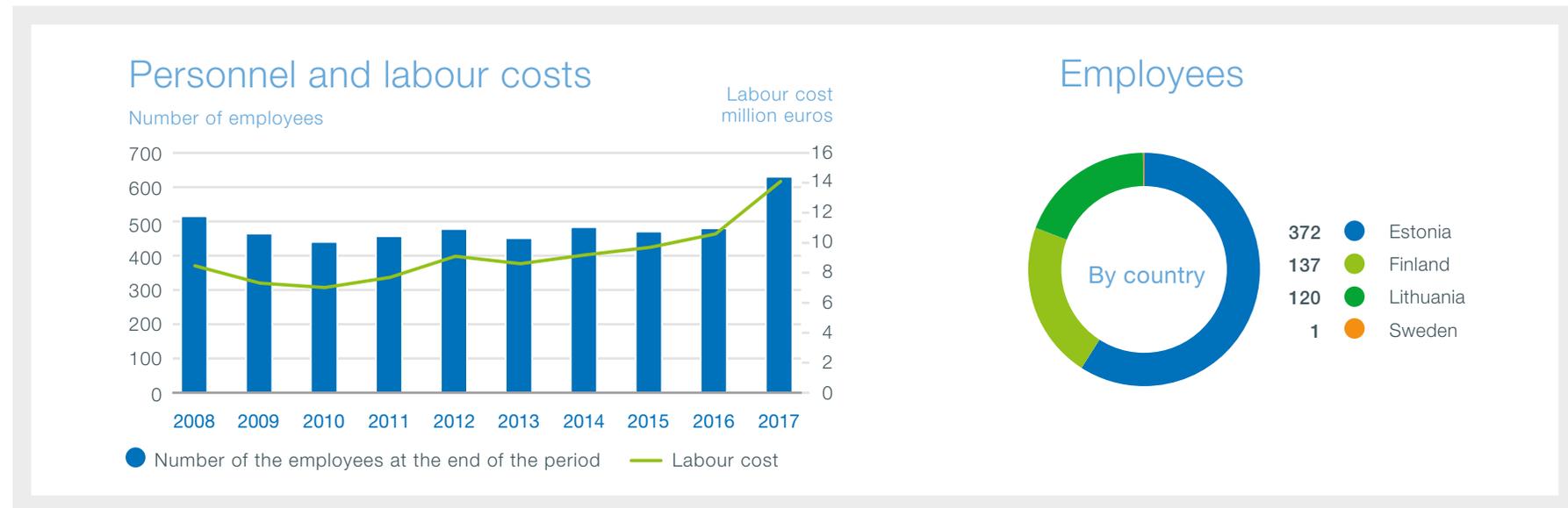
Today Estonian regulations do not require that products have to be provided with utilisation instructions. In the case of substations, it is usual that the concrete used for their construction is crushed and reused as filler in road construction; metal parts are given to purveyance and electric components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

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

Personnel

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

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



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

Most of the Group's employees – 372 people – worked in Estonia. The average age of the Group's employees has remained around 40 years. It was 41.8 years in 2017. 22% (138 persons) working in the Group has

higher education, 53% (334 persons) have secondary education and 25% (158 persons) have basic education.

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

Summary, Group's employees as at 31.12.2017

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

* The number of top managers in the Group (i.e. members of Supervisory and Management Board and the executive manager): 22 in Estonia, 15 in Finland and 7 in Lithuania.

** Including those who left willingly, as well as those who were sacked or died

*** The number of employees who left within a year divided with the mean number of employees

New generation of employees

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

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

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

Harju Elekter Group tries to be represented at most of the important labour and career fairs in the region. In 2017, the Group participated in the Tallinn Technical University Career Fair, the career fair Teeviit and regional fairs organised by the Unemployment Insurance Fund.

The Group co-operates with different schools offering traineeship for students.

Job satisfaction and motivation

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

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

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

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

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

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

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

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

The Group uses several incentives to increase the satisfaction and motivation of employees. The motivation system is reviewed and, if possible,

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

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

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

Personal development of employees

Chairman of the Management Board of AS Harju Elekter, **Andres Allikmäe**, has said:

“Business is dynamic and people have to go along with new customers and the development of needs”.

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

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

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

In addition to that several exercises and training were carried out in the companies of the Group to improve professional skills and qualifications

of employees. In the Estonian production units, activities continued in order to implement the 5S production model to reduce wastage, ineffectiveness and activities that do not add value. First-aid, as well as occupational and electrical safety training courses are organised regularly for all the employees. Courses that focus on the most important amendments in laws related to occupational health are organised for working environment representatives. All employees are continually instructed about the company's policy on the organisation of waste handling and collecting waste by category.

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

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

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

In 2017, an average of 69% of workers and 51% of managers/specialists participated in development interviews. The Group aims to continually increase the number of employees who pass such interviews.

Occupational health and safety

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

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

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

The subsidiaries of the Group, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika and Satmatic Oy, use the 5S system to increase the safety of working stations. This system aims, besides

ensuring occupational safety, also to create tidy and systemised working stations and reduce waste, increase productivity and improve the quality of products. Visiting rounds are organised to make sure that the system works. Specially authorised team leads and support persons are made responsible for ensuring that the system works.

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

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

Diversity and fair treatment

The observance of the principle of diversity and fair treatment is a part of the personnel policy and recruitment processes of the Harju Elekter Group and, therefore, the company does not differentiate or choose employees on the basis of their gender, religion or race, but on their skills

and competencies. 24% of the Group's employees are women. Among the top 21 managers (members of the Supervisory Board and Management Boards, and executive managers) of the Group there are two women.

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

In 2017, no discrimination cases were registered.

Trade unions

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

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



Harju Elekter Group is characterised by a solid organisational culture. A large proportion of employees who have worked a long time for the Group, contribute to the continuation of the company traditions, this also applies to new employees. Every second employee has been working in the Group for longer than 5 years. In the Keila Plant people have been employed for generations.

Environmental Management

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

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

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

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

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

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

To ensure the environmental sustainability, it is important to make sure that all employees of the companies belonging to the Group know and abide by the relevant requirements. All employees have been trained to notice and make improvement proposals for more reasonable waste treatment and better use of transport, materials and energy that makes it more environment-friendly. In some of the Estonian and Finnish

THE MANAGEMENT OF ENVIRONMENTAL ASPECTS IS BASED ON THREE PILLARS:

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

subsidiaries employees are obliged to follow the 5S principles that increase and promote tidy and systemised working stations and encouraged to reduce wastage.

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

Materials and waste

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

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

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

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

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

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

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

Energy

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

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

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

- In the case of new structures, a detailed assessment is carried out to find the most suitable heating solution for that building or mode of production. New buildings are insulated to above standard requirements. Buildings constructed in 2017 are provided with solar panels or have the facilities to add them.

- Older buildings are renovated to make them more energy efficient – insulation is added to walls and roofs; ventilation systems are modernised. To meet the wishes of leaseholders, the existing light fittings have been replaced with the more economical LED lamps. During the reporting year 700 fittings were replaced by LED lamps.

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

Production of renewable energy

Harju Elekter Group pays more and more attention to the production and use of renewable energy. As of today, the Group has installed solar panels that give all together 320 kW of energy and more than half of them are located in Estonia. In 2017, solar panels with a capacity of 130 kW were installed in the Allika Industrial Park and some of them also to the Finnish production unit. Although they supply only a small part of the energy used by the Group and its leaseholders, the Group wants to continue to use a reasonable amount of solar energy in its new buildings.

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

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

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

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

Share and Shareholders

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

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

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

At December 31, 2017, the share capital of AS Harju Elekter was 11.18 million euros, which is divided into 17.74 million no par value shares. The book value of a share is 0.63 euros. The symbol of an AS Harju Elekter share in NASDAQ is HAE1T. ISIN: EE3100004250. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to AS Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit.

Key share data

EUR

	2017	2016	2015	2014	2013
Number of shares (in thousand)	17,739,880	17,739,880	17,550,851	17,400,000	17,400,000
Par value of a share	-	-	0.70	0.70	0.70
Highest price	5.08	2.94	3.14	2.85	2.92
Lowest price	2.80	2.43	2.49	2.52	2.46
Closing price	5.00	2.83	2.63	2.79	2.70
Change (%)	76.7	7.6	-5.7	3.3	2.3
Market value (in million)	88.70	50.20	46.66	48.55	46.98
Traded shares (pc)	1,349,617	947,294	1,086,451	800,823	936,162
Turnover (in million)	5.46	2.45	2.98	2.17	2.48
Earnings per share, EPS	1.64	0.18	0.18	0.56	0.30
P/E	****3.05	15.72	14.61	4.98	9.00
Dividend per share	*0.24	0.18	**0.12	0.15	0.10
Dividend yield (%)	4.8	6.4	1.9	5.4	3.7
Dividend payout ratio (%)	***100.0	100.0	27.8	26.8	33.7

* Management Board's proposal

** incl 0.07 euros, related payment from reduction of the share capital

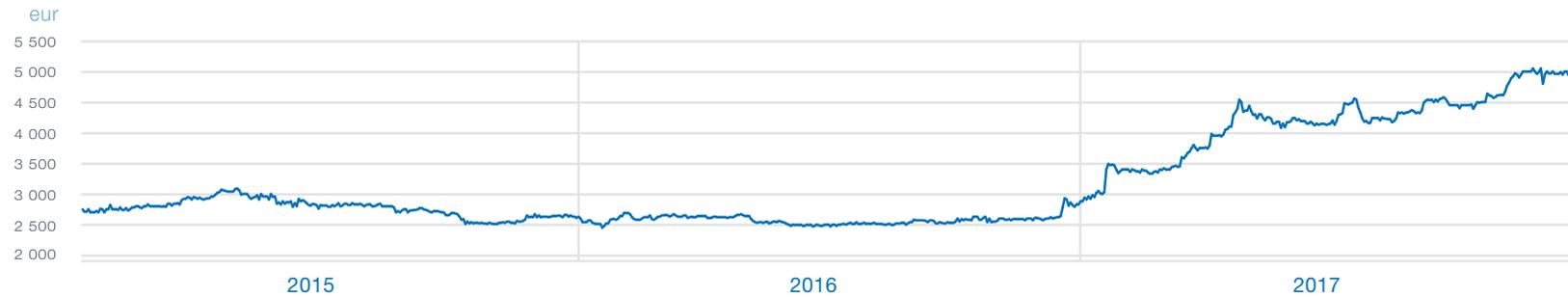
*** from regular activities=Profit attributable to owners of the Company minus extraordinary income from the sale of PKC Group Oyj shares

**** take into account the profit from sales of investment (PKC Group Oyj shares) in 2017

In the reporting year, the share price of AS Harju Elekter increased by 76.7% to 5.00 euros and the company's market value as at December 31 was 88.7 million euros. The volume of transactions more than doubled and the number of traded shares was also one third larger than the

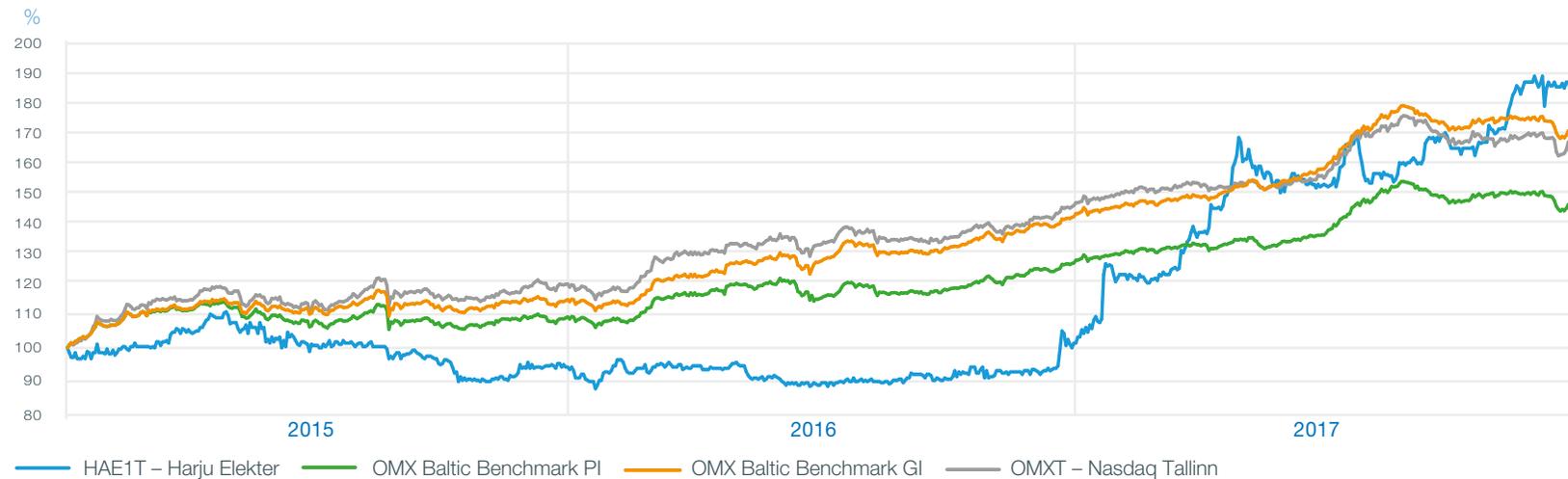
previous year. The number of shareholders of the company continued increasing. At the end of 2017, AS Harju Elekter had 2,468 (2016: 1,925) shareholders.

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



A comparison of AS Harju Elekter share indexes 2015-2017

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



The stock exchange index OMX Baltic 10 comprises of the ten most liquid and stable companies in the Baltic region. Starting from 2.01.2018 the following companies are listed under this index: AS Harju Elekter,

Klaipėdos nafta, LHV Group, Telia Lietuva, Olympic Entertainment Group, Grindeks, Šiaulių bankas, Tallinna Kaubamaja Grupp, Tallink Grupp and Tallinna Vesi.

Shareholders structure, at December 31, 2017

At the end of 2017, AS Harju Elekter had 2,468 shareholders. The number of shareholders increased during the year by 543 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital, which as at December 31, 2017 held 31.39% of AS Harju

Elekter share capital. Foreign equity participation is 17.0%. Members of the Supervisory and Management Board and persons or companies associated with them hold 10.67% of the shares. The comprehensive list of shareholders is available at the website of the Nasdaq Tallinn <https://nasdaqcsd.com/statistics/et/shareholders>).

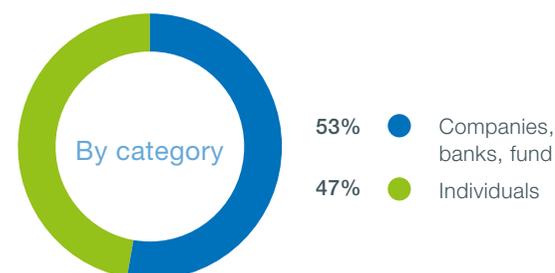
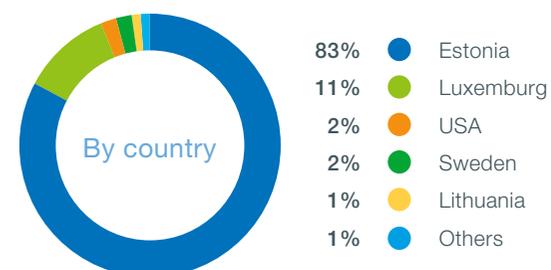
Shareholder structure by size of holding

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

Shareholders list (> 5%)

31.12.2017	Holding (%)
AS Harju KEK	31.39
ING Luxembourg S.A.	10.71
Endel Palla	6.90
Shareholders, holding under 5%	51.00

Shareholders



Dividends

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

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



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

Basis of Preparation of the Management Report

AS Harju Elekter follows the national provisions applicable in all the markets it operates, its own Articles of Association, and as a public company, AS Harju Elekter also observes the rules of the Nasdaq Tallinn Stock Exchange, the Principles of the Corporate Governance Code and the principle of treating its investors and shareholders equally.

The Group has integrated into its 2017 report a part that is subject to the requirements of sustainability and social responsibility which are based on the guidelines for sustainable reporting G4 of the Global Reporting Initiative (GRI). The Group follows the management principles that make relations honest and transparent within the company, with customers and any other parties. In 2017, the companies of the Harju Elekter Group did not contribute to any political activities neither by monetary or non-monetary support.

As to the conflict of interests, corruptive behaviour or unfair competition, zero tolerance is applied by the Group to its employees, as well as external partners. Internal regulations established in the companies of the Group and tacit agreements at management level help to manage risks related to reputation, and maintain the credibility of the Group in

the market, and in relations with stakeholders. This forms a good basis for profitable business.

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

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

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

The company is very conscious of establishing open organisation culture. That is why several changes were made in the organisation of meetings and exchange of information in 2017. The aim of such changes is to

bring all critical transactions connected with high economic risks, as well as possible disparities to the attention of the management.

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

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

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

Corporate Governance Report 2017

AS Harju Elekter complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2017, the Supervisory Board, the Management Board and explains AS Harju Elekter's governance structure and processes.

CGC Article 1.3.3

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the

technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Since AS Harju Elekter does not have the required technical equipment and since acquisition of such equipment is not been under consideration yet, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.7

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

The remuneration of a member of the Management Board and the procedure for its payment is determined by the decision of the Supervisory Board and shall not be disclosed to the public under an agreement between the parties. The Chairman of the Board is entitled to receive a severance payment in the amount of 10 months' and two members in the amount of 8 months' remuneration of a member of the Management Board.

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

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

bonus is approved by the Chairman of the Supervisory Board and is paid after the Group's annual statement has been audited.

CGC Article 3.1.3

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

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the Company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes.

In 2017, members of the Supervisory Board of AS Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. Details of the Audit Committee and its position in the organisation will be available on the company's website.

CGC Article 3.2.5

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

The shareholders' general meeting of AS Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The AGM, which was held on 27 April

2017, appointed the membership of the Supervisory Board for the following 5 years, setting 1,000 euros a month as the pay rate for a member of the Supervisory Board and 1,600 euros a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working in Company's management shall be subject to the reward system used in AS Harju Elekter (see also CGC explanation for CGC Article 2.2.7). In addition to that, 200 euros was set as a payment for the member of the Supervisory Board for participating in a meeting. However, it will not be paid to the member of the Supervisory Board if they participate in the meeting over the phone. No severance pay is allotted to members of the Supervisory Board. The next elections of the Supervisory Board will take place at the AGM in 2022.

CGC Article 3.3.2

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

Members of the Supervisory Board must avoid any conflict of interest and follow the requirements of prohibition on competition. The Supervisory Board and the Management Board work in close co-operation, acting according to the laws and Articles of Association, in the best interests of the Company and its shareholders. In 2017, no conflicts of interests occurred.

CGC Article 5.3

Among other things, the issuer's general strategic trends approved by the Supervisory Board are available for shareholders on the issuer's website. The company's Management Board believes that strategy is a business

secret and should not be made public. However, the general trends and significant topics have been included in the Management Report.

CGC Article 5.6

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

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

CGC Article 6.2

Electing the auditor and auditing the consolidated financial statements.

The general meeting of the shareholders of Harju Elekter of 14 May 2015 elected the auditing company KPMG Baltics OÜ as an auditor for the Company for the period 2015–2017. Information on the auditor is available at the Company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. The next elections of the auditing company will take place at the AGM in 2018.

Governance principles and additional information

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

General meeting

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

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

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

Supervisory Board

According to the Articles of Association, AS Harju Elekter's Supervisory Board has 3-5 members. The members are elected by the general meeting for a period of five years. The Supervisory Board plans the activities of the Company, organises the management of the Company and supervises the activities of the Management Board. The Supervisory Board meets according to need but not less frequently than once every three months. A meeting of the Supervisory Board has a quorum when more than half of the members participate. In 2017, the Supervisory Board met 10 times. All members of the Supervisory Board attended most of the meetings.

On 27 April 2017, the AGM assigned a five-member Supervisory Board for the next five-year period as follows: Endel Palla (chairman) and members Arvi Hamburg, Aare Kirsme, Triinu Tombak and Andres Toome. Mr Palla has been working in AS Harju Elekter since 1969 (1985 -1999 as managing director) and keeps Company's R&D manager position since 1999. The newly elected member of the Supervisory Board, Mr Hamburg, who is a member of the Advisory Board and a visiting professor from the Tallinn Technical University, adds some scientific competence to the Board. Mr Kirsme is a member of Supervisory Board of AS Harju KEK, the biggest shareholder of AS Harju Elekter (holding 31.39% of the shares of the Company on 31.12.2017). Mr Toome (Chairman

of OÜ Tradematic) complements the Board with investment experience since 2007. In 2012 was appointed a member of the Supervisory Board Mrs Tombak (chairman of TH Consulting OÜ), to include more financial knowledge to the Board. Two of the five members of the Supervisory Board – Triinu Tombak and Arvi Hamburg - are independent.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law. Only exception is Chairman of the Supervisory Board, who is entitled to termination benefits that may extend to 6 monthly remuneration of a development manager. At 31 December 2017, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 9.3% (2016: 9.2%) of AS Harju Elekter shares (Note 22).

Management Board

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

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

The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise. The member of the Board is remunerated according to the contract of service. The Chairman of the Board is entitled to receive a severance payment in the amount of 10 months' and two members in the amount of 8 months' remuneration of a member of the Management Board.

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

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

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

Additional management bodies and special committees

The necessary procedures are regulated by rules and the need for additional management bodies has not occurred. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010, the Supervisory

Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed the Audit Committee of the company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of consolidated financial statements; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. In 2012, the members of the Supervisory Board of AS Harju Elekter – Triinu Tombak and Andres Toome - were appointed as members of the Committee.

Information management

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

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

Auditors

According to the decision of the general meeting of the shareholders (14.5.2015) the audits of AS Harju Elekter for the years 2015–2017 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by KPMG Baltics UAB in Lithuania and KPMG Oy in Finland (not included Telesilta Oy, where audit is carried by Nexia Oy).



The Company co-operates closely with educational institutions in order to modernise, develop and promote the education of engineers. AS Harju Elekter is a golden sponsor of Tallinn Technical University. Over the period of 20 years more than 60 students in the field of electrical engineering and mechanic have participated in the scholarship programme.

Since 2015 the company has been supporting the international product development team of technology students and the competition they participate, Student Formula.

Student Formula team
Indrek Peitjärv, Martin Ploom, Riho Koop, Siim Starke, Mihkel Talmar, Kristian Pints, Sandra Särg, Julia Kurg

Social Contribution

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

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

Supporting engineering education

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

- AS Harju Elekter is a golden sponsor of Tallinn Technical University (TTU) every year granting up to four scholarships to Bachelor's and Master's level students. Over the years, 61 students have participated in this scholarship programme.
- In co-operation with the Development Fund of the TTU and other companies, the Group awards the Mihkel Aitsam Scholarship to students with special needs and actively supports the Olev Liik Scholarship.

In addition to that the Chairman of the Supervisory Board, Endel Palla, has for many years been awarding a scholarship under his own name.

- In 2017, AS Harju Elekter also continued the long-standing tradition of supporting electrical engineering week organised by the electrical engineering faculty of the TTU. Besides that, the Group supported the largest robotics event in Europe, Robotex, and gave support to the international product development team of technology students Student Formula.
- AS Harju Elekter has participated, as much as possible, also in furnishing the technology and research laboratories of TTU and participated in research and development projects. One of the most important ones during the recent years was the joint development project which ended with the completion of a prototype of an energy storage device for an energy management sub-station within the framework of a doctoral thesis of an engineer working with TTU and AS Harju Elekter Elektrotehnika. The device was tested in TTU on the real micro-grid test bench and exhibited at the largest electricity and power industry fair in Nordic countries, Elfack.
- Besides supporting different projects, the Estonian companies of the Harju Elekter Group organise regular training visits of engineering faculty students and employees to the companies to contribute to the development of engineering curricula with their knowledge and experience. Thus, for example in 2017 the managers of AS Harju Elekter Elektrotehnika participated as the industrial representatives in the work of the Advisory Committee of Electrical Engineering and Mechatronics, helping to draw up a curricular for the Faculty of Mechanics of the TTU.

In 2017, the Estonian companies of the Group continued to carry out several co-operation programmes with the Tallinn Industrial Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. AS Harju Elekter was also the main sponsor of the Estonian competition

of Vikipeedia Teadusfoto 2017 that is a part of the global scientific photo competition.

The Lithuanian subsidiary, Rifas UAB, continued co-operation with the regional Panevezys Electrical Engineering College, offering the traineeships and supporting the College with study aids.

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

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

Active participation in the development of local life

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

Supporting and inspiring young sportsmen

AS Harju Elekter has, above all, supported youth sports, aiming to increase the popularity of sports by long-term and constant sponsorship.

For several years the Parent company has sponsored the football and basketball clubs in Keila. Youth projects will only bear fruit in the future, and the main aim is to give as many children as possible the chance to experience the sports they like, with the hope that one day such work with children and young people will produce fine sportsmen who can represent Estonia internationally.

Contributing in the development of the sector

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

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

The companies of the Group are members of the following organisations:

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

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

GRI Contents

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

The report covers the environmental, social and responsible governance, responsible management and market behaviour issues that are most important from the point of view of the Company’s activities and

influence and expectations of stakeholders. The table with GRI content presented below includes data on the activities of the Parent company, AS Harju Elekter, and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Telesilta Oy, Rifas UAB, Automatikos Iranga UAB, unless otherwise noted. OÜ Energo Veritas and Harju Elekter AB are included in the report only with the data on the personnel. Each company has collected the data and presented it based on a common methodology.

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
FOUNDATION (GRI 101: 2016)				
GENERAL DISCLOSURES (GRI 102: 2016)				
Organizational profile				
	102-1	Name of the organization		AS Harju Elekter
	102-2	Activities, brands, products, and services	p 8, 9, 25	
	102-3	Location of headquarters		Keila (Estonia)
	102-4	Location of operations	p 9	Estonia, Finland, Sweden, Lithuania, Latvia
	102-5	Ownership and legal form	p 57, 60	
	102-6	Markets served	p 19-21	
	102-7	Scale of the organization	p 16, 19-23	The nature of activities and products differs by company and, therefore, they are presented on the basis of sales revenue.
	102-8	Information on employees and other workers	p 46-47	The share of employees who have permanent employment contracts in the main places of operation: men 95%, women 97%, EST 95%, FIN 95%, LTL 99%. The share of full-time workers: men 98%, women 93%, EST 95%, FIN 100%, LTL 99%

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
	102-9	Supply chain		To produce the main products of the Group, i.e. the production of electric distribution and control equipment (1) the products are designed according to the initial task; (2) necessary components are purchased from suppliers or produced by subsidiaries of the Group; (3) products are complemented; (4) tested and (5) sent or taken to the customer's site.
	102-10	Significant changes to the organization and its supply chain	p 12-15, 60	
	102-11	Precautionary Principle or approach	p 54-55	
	102-12	External initiatives	p 40, 62-65	
	102-13	Membership of associations	p 70	
Strategy				
	102-14	Statement from senior decision-maker	p 4-7	
Ethics and integrity				
	102-16	Values, principles, standards, and norms of behaviour	p 8, 10-11, 62	
Governance				
	102-18	Governance structure	p 65-67	
Stakeholder engagement				
	102-40	List of stakeholder groups	p 10	
	102-41	Collective bargaining agreements	p 52	
	102-42	Identifying and selecting stakeholders		The relations with stakeholders who are influence by the activities of the Group and whose activities influence the Group most of all, are most important for the Group. The main stakeholders have been identified over the years through the work and communication and within the framework of analysis of priority subjects that was carried out in the end of 2016 with the participation of the management of the Group.
	102-43	Approach to stakeholder engagement	p 10-11, 42-44, 48-49, 52, 69-70	
	102-44	Key topics and concerns raised	p 10-11	

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Reporting practice				
	102-45	Entities included in the consolidated financial statements	p 19, 71	
	102-46	Defining report content and topic Boundaries	p 10-11	
	102-47	List of material topics	p 11	
	102-48	Restatements of information		No restatements
	102-49	Changes in reporting		This is the first GRI report for the Group
	102-50	Reporting period	p 63	
	102-51	Date of most recent report		This is the first GRI report for the Group. Audited Annual Report of Harju Elekter Group of 2016 was published on 28.3.2017
	102-52	Reporting cycle	p 63	
	102-53	Contact point for questions regarding the report		Tiit Atso, tiit.atso@he.ee
	102-54	Claims of reporting in accordance with the GRI Standards	p 71	
	102-55	GRI content index	p 71-76	
	102-56	External assurance		The GRI report has not been certified by any third parties.
SUSTAINABILITY FOCUS ASPECT				
Product quality				
Management approach (GRI 103:2016)	103-1 until 103-3		p 40-45	
	non-GRI	Customer complaints	p 43	
	non-GRI	Products delivered to customers on time in accordance with required conditions	p 40	
Customer experience				
Management approach (GRI 103:2016)	103-1 until 103-3		p 43	
	non-GRI	Customer satisfaction	p 43	

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Innovations				
Management approach (GRI 103:2016)	103-1 until 103-3		p 37-39	
	non -GRI	Investments and development costs	p 37	
	non -GRI	Innovation and development projects	p 39	
Environmental impact of product				
Management approach (GRI 103:2016)	103-1 until 103-3		p 45, 55-56	
	non -GRI	Renewable energy production	p 56	
Economic performance (GRI 201: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 19-23, 61	
	201-1	Direct economic value generated and distributed	p 16, 19-23, 61, 70	
Anti-corruption (GRI 205: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 62	
	205-3	Confirmed incidents of corruption and actions taken	p 62	
Energy (GRI 302: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 54-56	
	302-1	Energy consumption within the organization	p 55-56	Electric and thermal energy are reported as the main forms of energy consumed.
Effluents and waste (GRI 306: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 55	
	306-2	Waste by type and disposal method	p 55	
Environmental compliance (GRI 307: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 54-55	
	307-1	Non-compliance with environmental laws and regulations	p 54	The share of recycled waste is based on the amount of sorted waste that was handed over to the waste treatment facilities.

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Supplier environmental assessment (GRI 308: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 42	
	308-2	Negative environmental impacts in the supply chain and actions taken		The companies of the Group have informed 90-100% of their suppliers about their expectations relating to environmental impact management. A higher risk level connected with the use of fuel has been ascertained in the case of one supplier.
Employment (GRI 401: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p k 46-49	
	401-1	New employee hires and employee turnover	p 47	Data is given with the granularity that the companies of the Group have considered important.
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p 48-49	Presented by the description of the motivation system of employees.
	non -GRI	Interns	p 69-70	
	non -GRI	Employee level of education	p 47	
	non -GRI	Employee satisfaction and feedback	p 48-49	
Occupational health and safety (GRI 403: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 51	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	p 51	Data is given with the granularity that the companies of the Group have considered important. The companies of the Group do not employ many sub-contractors.
Training and education (GRI 404: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 50	
	404-1	Average hours of training per year per employee	p 50	Data is given with the granularity that the companies of the Group have considered important.
	404-3	Percentage of employees receiving regular performance and career development reviews	p 50	Data is given with the granularity that the companies of the Group have considered important.
	non-GRI	Employee participation at trainings	p 50	

GRI Standard	Disclosure number	Disclosure title	Location	Explanation
Diversity and equal opportunity (GRI 405: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 51-52	
	405-1	Diversity of governance bodies and employees	p 46-47, 51-52	Data is given with the granularity that the companies of the Group have considered important.
Non-discrimination (GRI 406: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 51-52	
	406-1	Incidents of discrimination and corrective actions taken	p 51-52	
Local communities (GRI 413: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 11, 69-70	
	413-1	Operations with local community engagement, impact assessments, and development programs	p 11, 69-70	
Supplier social assessment (GRI 414: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 42	
	414-2	Negative social impacts in the supply chain and actions taken		The companies of the Group have informed 90-100% of their suppliers about their expectations relating to social impact management. No substantial actual or possible negative impacts were ascertained.
Public policy (GRI 415: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 62-63	
	415-1	Political contributions	p 62	
Customer health and safety (GRI 416: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 45	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p 45	
Socio-economic compliance (GRI 419: 2016)				
Management approach (GRI 103:2016)	103-1 until 103-3		p 62-63	
	419-1	Non-compliance with laws and regulations in the social and economic area	p 63	

Information about the Supervisory and Management Boards

As at 4/2018



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:
Member of the Supervisory Board: AS Harju Elekter Elektrotehnika,
AS Harju Elekter Teletehnika, AS Laagri Vara, AS Entek
Member of the Management Board: Satmatic OY, Rifas UAB
Endel Palla owns 1,224,000 of Harju Elekter shares.
He has direct participation 6.90% and indirect participation 0.36%.



ARVI HAMBURG (19.12.1948)
Member of the Supervisory Board

Education: Tallinn University of Technology, Ph.D of Energy and Geotechnology
Career: 1966 – 1986 Põhja Kõrgepingevõrgud, since 1982 Deputy direktor
1968 – 1987 Eesti Energiajärelvalve, Chief Engineer
1987 – 1990 Eesti Energia, Vice President
1990 – 1992 Estonian Industry and Energy Ministry, Deputy Minister
1992 – 2001 Estonian Ministry of Economy, Deputy Chancellor, General Secretary
2001 – 2011 Eesti Gaas, councillor
2006 – 2011 TUT, a guest lecturer
2012 – 2016 TUT, Professor, Dean of the Faculty of Power Engineering
2003 – Chartered electrical engineer, level 8
2012 – European Engineer (EUR ING)
2016 – TUT, Visiting Professor, Member of Board of Governors
Participation in the management bodies of business organisations and social activities: Member of the Supervisory Board of AS Exomatic, President of Estonian Association of Civil Engineers, Head of the Energy Council of Estonian Academy of Sciences, Member of the of the Estonian National Committee in World Energy Council, Estonian Association for the Club of Rome member
Arvi Hamburg doesn't own Harju Elekter shares.



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, member of the Supervisory Board
Participation in the management bodies of business organisations:
Ch of the Supervisory Board: AS Laagri Vara, OÜ KEK Kinnisvara
Member of the Supervisory Board: AS Harju KEK, AS KMV,
AS Harju Elekter, OÜ Valdmäe tööstuspark
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 0.20%.

> SUPERVISORY BOARD

As at 4/2018



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:

Ch of the Supervisory Board: OÜ Proformex

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

Member of the Management Board: OÜ Tradematic, 30plus OÜ, Hermes Worldwide OÜ,

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

Triinu Tombak owns 15,000 of Harju Elekter shares.

She has direct participation 0.08%. She doesn't have indirect holdings.

MANAGEMENT BOARD

As at 4/2018



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

Ch of the Management Board: Rifas UAB, Harju Elekter AB, Harju Elekter Kiinteistöt Oy, Sebab AB, Grytek AB

Member of the Management Board: Satmatic Oy, Finnkumu Oy, Telesilta Oy

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 Energo Veritas OÜ, AS Harju Elekter Elektrotehnika, Skeleton Technologies Group OÜ, Floorin AS
Member of the Management Board: Satmatic Oy, Finnkumu Oy, Rifas UAB, Harju Elekter Kiinteistöt Oy, Telesilta Oy, Sebab AB, Grytek AB

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.

HEADS OF SUBSIDIARIES

As at 1/2018



JAN OSA

AS Harju Elekter Elektrotehnika
Managing Director



ALVAR SASS

AS Harju Elekter Teletehnika
Managing Director



KRISTO REINHOLD

Energo Veritas OÜ
Managing Director



SIMO PUUSTELLI

Satmatic Oy, Finnkumu Oy, Telesilta Oy
Chairman of the Managing Board
Harju Elekter Kiinteistöt Oy
Managing Director



RAINER NURKKALA

Satmatic Oy
Managing Director



MAIRE KORPI

Finnkumu Oy
Managing Director



KARI LAULAJAINEN

Telesilta Oy
Managing Director



TOMAS PRŪSAS

Rifas UAB
Managing Director

SENIOR EXECUTIVES

As at 1/2018



KAAREL ALLIKMÄE
IT manager

TAIMI KAULER
HR manager

MERILI PÄRNPUU
Financial reporting
manager

MOONIKA VETEVOOL
Corporate communication
and IR manager

Please find the year 2017 audited annual report of AS Harju Elekter here
http://www.harjuelekter.ee/sites/default/files/public/pdfid/he_annualreport2017_eng.pdf

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