ANNUAL REPORT 2020

AS Harju Elekter
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Auditor: **AS PricewaterhouseCoopers**
Start of financial year: **1 January 2020**
End of financial year: **31 December 2020**

Annexes:

- Independent auditor’s report
- Profit allocation proposal
- Supplementary annexes

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STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

New challenges and opportunities

In 2020, we focused on shaping a more integrated Group and increasing our profitability. In previous years, we achieved a considerable increase in our revenue whilst giving in profitability, but this year we managed to increase our profit as well. I am pleased to admit that despite the unexpected global health crisis, we managed to maintain the health of our employees, which allowed us to keep production going in our factories and fulfil the orders of all customers.

The world is constantly evolving and so is Harju Elekter. We believe that a strong and unified Harju Elekter is an advantage, which is why we continued integrating the companies acquired in recent years into the Group and introducing a joint trademark. We merged our Swedis company SEBAB AB with Grytek AB and in Finland, Stamatic Oy with its subsidiary Finnkumu Oy. Following the principle of separating property management from production operations, we moved our Finnish property units in Ulvila, Kurikka and Kerava under Harju Elekter Kiinteistöt Oy in order to facilitate management in the Group and guarantee the better comparability of industrial companies.

We appointed new generation managers to manage the Group and our Swedish subsidiary so that fresh ideas can be implemented in Harju Elekter. Since May the Group is managed by our recent member of the management board and CFO Tiit Atso and since the start of 2020 our Swedish unit is managed by Mikael Schwartz Jonsson.

One of the keywords for Harju Elekter in the previous year was making investments. We invested in automation, IT systems and solar power plants to remain competitive and to be progressive in the fields important to us. We also continued investing in property for our production as well as for rental in Estonia.

Innovation is important to us and the annual innovation competition in the Harju Elekter Group was held in order to further it. The competition has motivated our engineers to develop new products that better meet the needs of our customers, to improve our production technology and increase the company's profitability. The changing world and the impending green transformation continues to encourage us to modernise our products, which are the basis and opportunity for our development, as we are operating in the rapidly changing energy sector. We have always coped with new challenges and will cope with them also in the future.

Harju Elekter has paid dividends in all of the 23 years that it has been listed. We want to be a reliable partner to our shareholders and will continue with this tradition also in the future.

On behalf of the supervisory board, I would like to thank all customers, partners and shareholders in Estonia and abroad.

Endel Palla

Chairman of the Supervisory Board

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Our life changed significantly in 2020. Countries, companies and people had to learn to adapt quickly to the changes caused by the corona pandemic and also not to overreact at the same time. Companies had to start spending their resources on the development of various crisis scenarios or to immediately start laying off people. In Harju Elekter, we approached the crisis by the principle of one day at a time and we can now say that this tactic brought us success.

Our main problem in spring was not the discontinuation of orders or lack of work, but issues with the deliveries of materials and components, and temporary obstacles in the transportation of finished goods. At the same time, we needed more than before the help of temporary workers during the peak workload in summer. After learning the lesson taught by the crisis in spring, we were better prepared for the unexpected events in autumn. We are pleased to admit that we have managed to keep our people healthy, maintain their jobs and wages. The strong team spirit and the contribution of our employees are the things that allowed us to reach the best results in our history. A big thank you to everyone at Harju Elekter for this!

Despite the everyday activities required to cope with the health and economic crisis, we did not forget the goals set for 2020 and took several steps towards them. Our focus during the year was mainly on the introduction of management changes and improvement of cooperation between group companies. The changes made in Sweden, Finland and the Group as a whole went well and were a success. The relationships between the companies in the Harju Elekter Group have gradually grown stronger. This is illustrated by joint delivery contracts, participation in joint international projects and procurements, cross-usage of employees and increased exchange of information and best practices. The introduction of common Harju Elekter trademark has improved cooperation both inside and outside the Group. We want to be one and the same Harju Elekter for all of our partners and to offer the best know-how, product selection and solutions irrespective of the location.

Whilst rapid expansion has been our clear goal in previous years, the objective we chose in 2020 was to improve our profitability. Above all, we need to thank our customers who continued with the agreed orders, for the achievement of this goal. A significant contribution was made by the sales team of Harju Elekter, who has worked with determination for years to ensure that our main activities are covered with framework contracts and long-term project orders. Last year, the revenue we achieved is comparable to 2019 and our growth was modest only because several major projects were postponed until the improvement of the economic conditions. We are prepared for their inclusion in the production plans again in the near future, as electrification, the use of hybrid solutions and the introduction of hydrogen technologies will only accelerate due to the ground-breaking year of 2020.

We followed the principle that one must emerge from a crisis stronger than before entering it. Therefore, we made decisions with long-term impact during the development of the health crisis in spring, the most important of which was to continue with the planned investments and no to postpone a single one of them. We successfully completed the Laohotell 2 project in Allika Industrial Park and managed to fill the entire facility with tenants after its completion. We invested in automation and digitalisation – the first industrial robot started working in our sheet metal factory and the implementation of contemporary business software started in all group companies. However, the most important achievement in our opinion is the fourth stage of the expansion of the Lithuanian factory – the final decision about this was made at the height of the health crisis. We believe that we must prepare for the end of the crisis and we cannot be late with our investments.

We achieved the best that could be achieved in such a ground-breaking year. We reacted rapidly to the changes, achieved our main goals in the reshaping of the structure of the Group, participated successfully in new procurements and are convinced that our brave investment decisions have helped us build an even stronger foundation for the coming years.

Tiit Atso
CEO

MANAGEMENT REPORT

ORGANISATION

Operations and business philosophy of the Harju Elekter Group

Harju Elekter is an international industrial group with over 50 years of experience, whose main area of activity is the development and production of electric and automation solutions. The customers of Harju Elekter are mostly large electricity distribution network, infrastructure, industrial and maritime companies in the Nordic countries. An increasingly more significant share of the technical solutions of Harju Elekter is aimed at the renewable energy sector by offering complete packages of solar power stations, electric car charging equipment and other related solutions. The main activities are supported by the contemporary company producing sheet metal details and products.

The business activities of the Group are divided in three main areas:

Production – design, sales, production and after-sales service of electricity distribution, switching and conversion equipment as well as automation, process control and motor control equipment.

Industrial real estate – development of industrial real estate, project management, lease and associated services to lease partners and companies of the Harju Elekter Group.

Other activities – management of financial investments, retail and project-based sales of electrical goods and electrical installation work in shipbuilding.

Harju Elekter is strongly focused on export and business outside Estonia, where almost 90% of the Group’s products are marketed. The shares of AS Harju Elekter have been listed on the Nasdaq Tallinn Stock Exchange since 1997.

Mission

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

Vision

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

Goal

We want to be successful in the long term, adding value for shareholders and being the first choice for our customers and partners, and providing motivating work and development opportunities to our international team.

Values

Development – we are keen to learn and innovative.
We are constantly expanding our know-how to develop advanced products. We valuate innovative proposals and are ready to implement them.

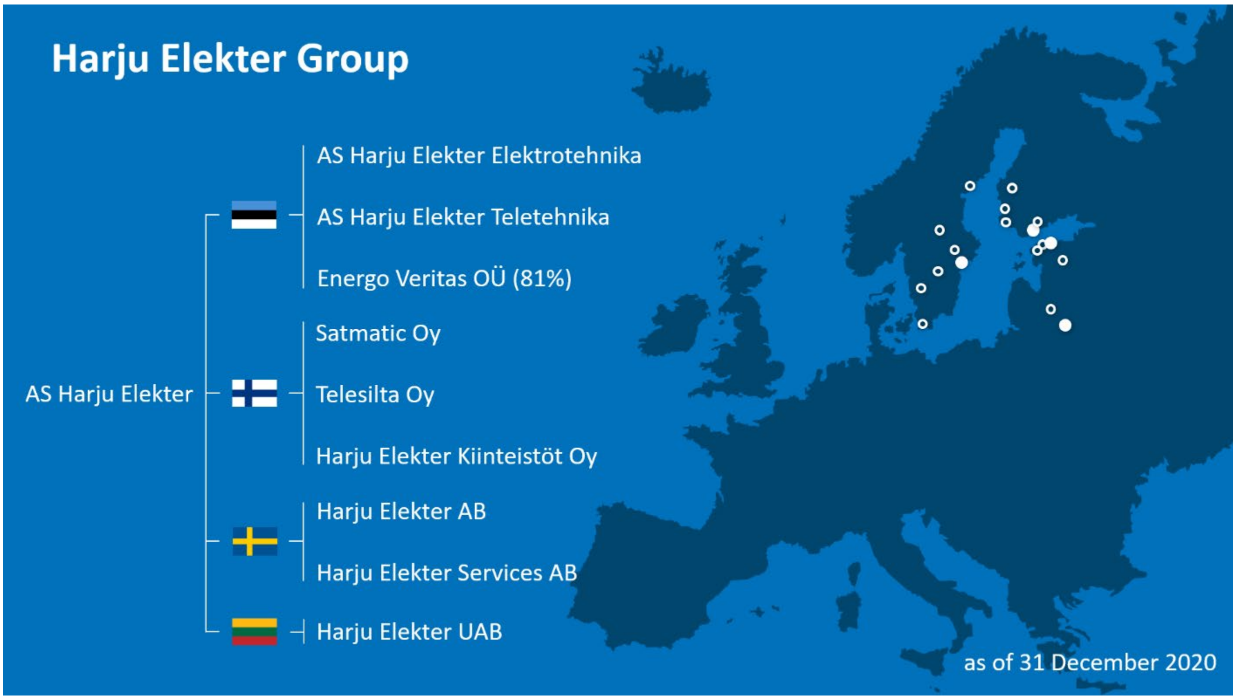
Cooperation – we work as one team

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

Reliability – no bargaining over quality

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

Organisational chart



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

ESTONIA

AS HARJU ELEKTER
The Group's parent company located in Keila, which coordinates and manages the cooperation between the companies of Harju Elekter and management of industrial property.

AS HARJU ELEKTER ELEKTROTEHNIKA
Producer of electrical equipment for the electricity distribution, industrial and construction sectors located in Keila.

AS HARJU ELEKTER TELETEHNIKA
Producer of tailor-made sheet metal products and solutions for the power energy and electronics sector located in Keila.

ENERGO VERITAS OÜ (80.52%)
Sales organisation of electrical materials and equipment in Estonia

FINLAND

SATMATIC OY*
Producer of industrial automation devices in Kerava and Ulvila, and a manufacturer of complete substations in Kurikka

TELESILTA OY
Shipbuilding electrical work company in Uusikaupunki

HARJU ELEKTER KIINTEISTÖT OY*
Industrial property management company

LITHUANIA

HARJU ELEKTER UAB
Company in Panevėžys that specialised in the production of multidrive, MCC and electricity distribution systems for engineering and on the basis of contracts.

SWEDEN

HARJU ELEKTER AB*
Producer of the MV/LV solutions required for the generation and distribution of power and technical buildings for the infrastructure, construction and renewable energy sector in Malmö, Borlänge, Stockholm, Finspång, Borås, Luleå and Västerås.

HARJU ELEKTER SERVICES AB*
Sales organisation in Stockholm

* A detailed overview of the structural changes in the Group is given on pages 8 and 10.

STRATEGIC INVESTMENTS (31 December 2020)

ESTONIA
OÜ SKELETON TECHNOLOGIES GROUP (7.64%)
Developer and manufacturer of ultracapacitors

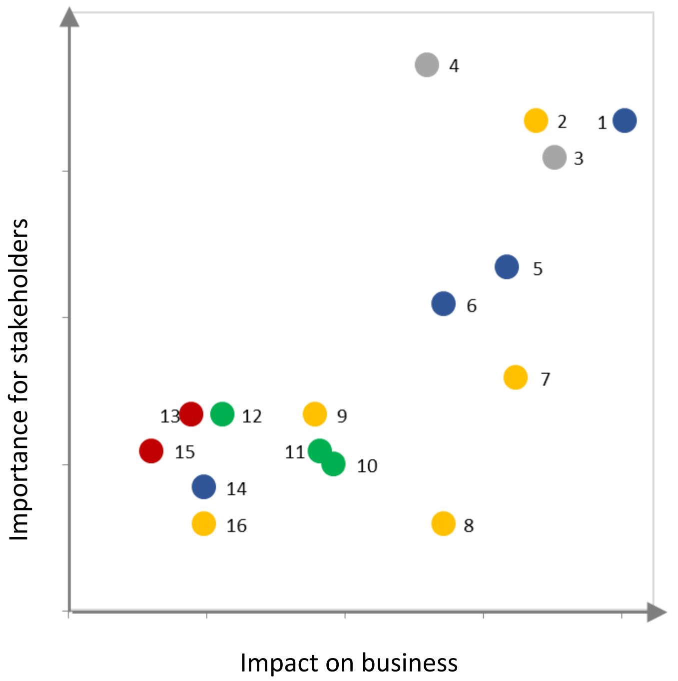
LATVIA
SIA ENERGOKOMPLEKSS (14%)
Sales organisation of medium- and low-voltage equipment in Riga

Harju Elekter Group's sustainability focus topics

Contributing to the creation of a sustainable society, business, living and natural environment is important to Harju Elekter and we understand that it in the long term, it helps the Group to remain viable. The Group values active communication with its stakeholders, i.e. customers, owners, employees, suppliers and the local community. Topics are raised as necessary in communication with the local authorities and residents, regulatory and supervisory authorities. In cooperation with educational institutions, professional associations and non-government organisations, we keep in mind that activities should create value for both parties.

Harju Elekter continues operating transparently and responsibly and proceeds from the overall view in the management of social and environmental impacts and the implementation of ethical and sustainable business practices. Focus topics were developed in 2017, which underline the importance of areas associated with social responsibility to stakeholders and the impact and importance of these topics for the Group.

***Chart**: Focus topics with impact on the sustainability of the Harju Elekter Group*



Product and customer
1 Product quality
5 Innovation and development
6 Customer experience and satisfaction
14 Requirements for suppliers and purchasing principles

Management
3 Financial results
4 Honest and ethical business

Staff
2 Occupational safety and health
7 Training and development of employees
8 Employee commitment and satisfaction
9 Labour availability
16 Diversity and fair treatment

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

Community
13 Contributing to community development
15 Community relations and inclusion of stakeholders

Thus, the Harju Elekter Group focuses on:

- offering a quality product;
- development of a safe and healthy work environment;
- honest and ethical business culture and strong economic performance;
- innovation and development in products and processes;
- good customer experience and guaranteeing high satisfaction;
- constant training and development of employees.
- cooperation with educational institutions and professional associations.

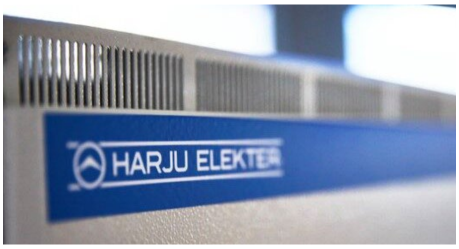
Sustainable and responsible corporate governance is important in all activity segments and subsidiaries. The topics highlighted on the chart are parts of the strategic and operative management of the company, where less important aspects are taken into account in management decisions and underlying principles. Therefore, the Group's annual report for 2020 also includes an overview of the management and performance of all of these topics. The important aspects related to the focus topics of sustainability in the report are covered according to the international sustainable reporting framework, the GRI Standard, the contents of which is disclosed on the last pages of the report.

2020 – EVENTS, RECOGNITIONS

Changes in the structure of the Group

SEBAB AB and Grytek AB, the 100% Swedish subsidiaries of the Harju Elekter Group, merged on 29 October. The legal successor, which until 14 December 2020 operated under the name of SEBAB AB, was renamed Harju Elekter AB. The Swedish subsidiary, which previously operated under the name Harju Elekter AB, was renamed Harju Elekter Services AB. The name of the Swedish subsidiaries was changed in order to harmonize the business names with the trademark used every day. The use of the common Harju Elekter brand helps strengthen the competitiveness of the Group and creates added value and additional opportunities in marketing.

The merger and division of the Finnish subsidiaries of AS Harju Elekter was entered into the Finnish Commercial register. Satmatic Oy merged with itself its wholly owned subsidiaries Finnkumu Oy and Kiinteistö Oy Ulvila Sammontie 9. After the merger, a partial division of Satmatic Oy was carried out, whereby Satmatic Oy transferred the real estate holdings in Ulvila and Kerava to Harju Elekter Kiinteistöt Oy. The main activity of Harju Elekter Kiinteistöt Oy is the management of industrial real estate belonging to the Group.



Changes in the managements of Group companies

At the meeting held on 16 March 2020, the supervisory board of AS Harju Elekter appointed the former member of the management board and CFO Tiit Atso the CEO of the company as of 4 May 2020. The former CEO of the company Andres Allikmäe moved on to the position of business development manager in the executive management of AS Harju Elekter after the expiry of the contract of the member of the management board on 3 May 2020. The management board of AS Harju Elekter continues with two members Tiit Atso (Chairman) and Aron Kuhi-Thalfeldt.

The former CEO Thomas Andersson started working as the Swedish Sales and Marketing Manager on 1 January 2020. Mikael Schwartz Jonsson, who joined the Group on 1 October 2019, became the CEO of the Swedish companies SEBAB AB and Grytek AB on 1 January 2020.

Recognitions

In May, The Finnish business newspaper Kauppalehti awarded Finnkumu Oy with the "Achievers 2020" title. Such acknowledgement is given to companies with a well-established economic activity, stable growth, good results and profitability, strong financial structure, and liquidity to ensure sustainable activity.

The Group's Lithuanian subsidiary Harju Elekter UAB was awarded the title of Exporter of the Year 2019 by the Lithuanian Chamber of Commerce in September. The most important conditions for participation in the competition are that the share of export in the company's revenue must exceed 50% and export must increase by more than 10% in comparison with the previous period. In 2019, Harju Elekter UAB exported 2.3 times more than in 2018.

In November, AS Harju Elekter was ranked among the TOP 101 most valuable companies in Estonia. The ranking was prepared by Prudentia and Nasdaq Tallinn. We were particularly pleased that the Harju Elekter was ranked in the high third place in terms of corporate governance.

Significant events

SEBAB AB, the Swedish subsidiary of Harju Elekter, won three important procurements in the energy distribution sector in the first quarter. Within the scope of the project, the Swedish subsidiaries manufactured two special substations and a battery storage, incl. prefabricated substations, direct current switchboards, control cabinets, MV switchyards. The volumes of projects totalled 5.7 million euros.

AS Harju Elekter Elektrotehnika received a follow-up order for the delivery of the Singapore data warehouse delivered in 2019, which can be deemed the best customer feedback. The performance of various special solutions aimed at data warehouses will continue in cooperation with Siemens.

Two registered immovables with the total area of 14.6 ha were acquired near the Allika Industrial Park in Saue Municipality for possible real estate developments and the establishment of solar power plants.

The companies of the Harju Elekter Group participated in the largest power trade fair in Jyväskylä, Finland, in early February. Sähkö, Tele, Valo & AV brought the professionals of this field together for three days so they could enjoy hundreds of exhibits and the seminar programme. The Harju Elekter companies shared a stand, where they presented a wide selection of the Group’s products and services, including the MCC row cabinet system HECON developed in Harju Elekter for 2,500–4,000 A solutions and the substation models designed to meet the Nordic requirements.

The cornerstone of Laohotell 2 of AS Harju Elekter was laid on 22 May. This is the fifth registered real estate property of Harju Elekter in the 30 ha Allika Industrial Park with 18 registered immovables located next to Paldiski Road in Harku that has been taken in use. The Laohotell was completed in Q4 and 100% of the building, whose total area is 3,877 m^2, is filled with tenants.

Energo Veritas OÜ closed its loss-generating shop in Keila on 31 May and the company started serving its North Estonian customers in the new store at Tuisu 19, Tallinn.

The annual general meeting of shareholders of AS Harju Elekter was held on 30 June, where the annual report for 2019 and profit distribution proposal were approved and the decision was made to pay the shareholders dividends for 2019 in the amount of 0.14 euros per share, 2.5 million euros in total. The dividends were transferred to the bank accounts of the shareholders on 21 July 2020.

The cornerstone of the extension of stage four of the factory of Harju Elekter UAB, the Lithuanian subsidiary of Harju Elekter, was laid in Panevežys on 6 August. The office and production premises of the Lithuanian subsidiary will increase from 8,765 m^2 to 16,761 m^2 after the completion of the construction work. The total cost of the investment is up to 6 million euros. The investments made in the expansion of the plant will allow Harju Elekter UAB to double the company’s income. According to plans, the extension will be completed and taken in use in the second quarter 2021.

On 1 September Finnkumu Oy, the Finnish manufacturing company of Harju Elekter Group, was awarded the joint procurement of Järvi-Suomen Energia Oy and Savon Voima Verkko Oy for the supply of prefabricated substations. The estimated volume of the contract is 18 million euros. Deliveries will take place from 2021 to 2023 with an extension option of four years.

On 21 September SEBAB AB, the Swedish subsidiary of the Harju Elekter Group, entered into an energy project contract with the administrative agency Region Stockholm that is responsible for public transport, on the basis of which the substation of the Slussen underground stop in Stockholm will be thoroughly renovated. The project, which lasts for a year, started in September and the approximate volume of the contract is 3.5 million euros. The reconstruction of the underground station is a part of the extensive reconstruction of the Slussen district in Stockholm, which covers the construction of new structures and the transformation of transport by 2025.

On 22 September Harju Elekter entered into an eight-year framework contract with Elenia Oy, the second largest electricity distribution system operator in Finland. Harju Elekter and Elenia signed the first supply contract for the years 2021-2023, on the basis of which the subsidiaries of Harju Elekter, AS Harju Elekter Elektrotehnika and Satmatic Oy, will produce approximately 2,000 compact substations for Elenia Oy in three years. The approximate volume of the contract is 20 million euros.

Events after the reporting date

The new business name of Satmatic Oy, a 100% Finnish subsidiary of AS Harju Elekter, is Harju Elekter Oy as of 14 January 2021. The name change of the Finnish subsidiary was carried out with the purpose of combining the business names with the brand used daily. Harju Elekter Oy will continue with all existing business lines and offering solutions for the energy, industry, and construction sectors.

On 19 January 2021 Harju Elekter Group concluded an agreement with Caruna Oy, Finland's largest distribution network company. The contract is for the period 2021-2023 and its estimated total volume for next three years is 14 million euros. According to the terms of the frame agreement Harju Elekter's subsidiaries AS Harju Elekter Elektrotehnika and Harju Elekter Oy will manufacture and deliver for Caruna about 1,000 prefabricated substations over a period of three years. For the contract there is an extension option of two years, which will be done after 2023 for each year separately.

On 10 February 2021, Harju Elekter Group's Swedish subsidiary Harju Elekter AB signed a framework agreement with E.ON Energidistribution AB, the largest distribution network company in Sweden. According to the agreement, approximately 1,500 substations will be supplied over the period of three years, and the total volume of the agreement is nearly 15 million euros. The substations will be manufactured in the factory of AS Harju Elekter Elektrotehnika in Estonia.

Energo Veritas OÜ, a subsidiary of Harju Elekter Group, was successful in the tender held by Enefit Connect OÜ for the supply of hermetic transformers. A framework contract with the total volume of 12 million euros will be signed for a period of three years with the possibility of a two-year extension.

The Swedish subsidiary of Harju Elekter Group, Harju Elekter AB, signed electricity project contracts with Region Stockholm, the administrative body responsible for public transport. These contracts will serve as the basis for the upgrading of the electrical systems of the Albano and Rådhuset metro stations in Stockholm by April and September 2022, respectively. The approximate volume of the contracts is 3.1 million euros.

OPERATIONS OF THE GROUP IN 2021

The start of this year was eventful. We managed to win new procurements and enter into framework contracts in Finland and Sweden, which guarantees us significant volumes of work for many years. The renovation of power grids continues in the Nordic countries as they are facing an increase in energy consumption, which is driven by the electrification of railways, roads (charging points) and ports, and the introduction of more environment-friendly ships and vehicles. Price trends indicate that the difference between the daytime and night-time price of power is increasing, which means that consumption and generation must be increasingly smarter. New technologies and storage opportunities, which support balancing the price difference, will come to help here. The development in the sector and the general movement towards environmental friendliness presents numerous opportunities for the areas of activity of Harju Elekter.

Harju Elekter, which develops and produces power and automation solutions suitable for customers, guarantees its sales base load in the upcoming years to the electricity distribution network customers with substation delivery contracts in Estonia, Finland and Sweden, and to Nordic partners in the industrial and maritime sector. Production in the Group is thereby increasingly more linked to the implementation of new innovative technologies, e.g. a new vehicle charging station solution was created in Harju Elekter which will be sold not only in Finland but also in Sweden and Estonia.

The plan is to gradually increase production with the development and production of technology intensive technical buildings, where the customers are mostly companies that provide infrastructure services (including data centres) and energy intensive production companies. Several infrastructure, industrial and shipbuilding projects will also continue in 2021. In the area of industrial real estate, we will continue investing and keep the Group companies as well as external customers in mind for the purposes of giving premises on lease. The fourth stage of the extension of the Lithuanian factory is its final stage by now and we are planning a new building for the Allika Industrial Park. Changes are planned in the Keila Industrial Park, where extensions are needed for the production of increasingly bigger and more complicated technical buildings for data centers. We will also continue building solar parks so that increasingly more of the power used in the factories of Harju Elekter would be produced from renewable sources of energy.

Early in the year, the investment made by Harju Elekter in OÜ Skeleton Technologies Group attracted a lot of attention from the public and was also the reason for large volume of share transactions. Harju Elekter made the investment in relation to long-term strategic goals, because we believe in the development of new energy carriers and the growing need. As the ultracapacitors cannot solve all of the problems related to climate change, but work in accordance with other storage and electrotechnical solutions, we also see opportunities for cooperation between companies in the future. We will let the investors decide how much of the potential of Skeleton should be reflected in the present share price of Harju Elekter, but we proceed from the principle of conservatism and will not assess the profitability before the value can be reliably measured. Harju Elekter is not planning to make any significant risky investments in the near future, but the Group participates in the investment rounds of smaller start-ups to support these companies and their possible success stories. The development teams of the Group keep an eye on start-up and scale-up companies in order to include innovative partners and solutions for the development of our product portfolio where necessary.

FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
Statement of profit or loss (million euros)					
Revenue	146.6	143.4	120.8	102.4	61.2
Gross profit	21.2	18.2	16.0	15.4	10.4
Operating profit	6.5	3.3	2.4	5.4	3.2
Net profit (belonging to owners of parent company)	5.6	2.5	1.5	(2)29.1	3.2
Statement of financial position as at the year end (million euros)					
Total current assets	49.7	48.0	44.0	48.7	22.3
Total non current assets	65.7	59.9	54.2	41.3	51.7
Total assets	115.5	107.9	98.2	90.0	74.0
Equity (belonging to owners of parent company)	73.5	67.1	66.9	69.9	60.3
Equity multiplier (%)	63.0	65.1	72.7	77.7	81.5
Growth rates (% cf previous year)					
Revenue	2.2	18.7	18.0	67.4	0.8
Gross profit	16.3	14.2	4.0	48.2	0.6
Operating profit	100.0	35.6	-55.7	71.1	-2.9
Net profit (belonging to owners of parent company)	126.1	59.1	-94.7	(2)804.9	0.9
Assets	7.0	9.9	9.1	21.6	11.1
Equity (belonging to owners of parent company)	9.6	0.2	-4.2	15.9	3.8
Profitability ratios (%)					
Gross margin	14.5	12.7	13.2	15.0	16.9
Operating margin	4.5	2.3	2.0	5.3	5.2
Net profit margin	3.8	1.7	1.3	28.4	5.3
Return on assets (ROA)	5.0	2.4	1.7	35.5	4.6
Return on equity (ROE)	7.9	3.7	2.3	44.7	5.4
Share (euros)					
Average number of shares (1,000 pcs)	17,740	17,740	17,740	17,740	17,740
Equity per share	3.96	3.78	3.86	3.67	3.34
Closing price of share	5.18	4.21	4.12	5.00	2.83
Net profit per share	0.31	0.14	0.09	1.64	0.18
P/E ratio	16.52	30.07	45.78	(2)3.05	15.72
Dividend per share	(1) 0.16	0.14	0.18	0.24	0.18
Liquidity ratios					
Current ratio	1.4	1.6	2.2	2.4	2.1
Liquidity ratio	0.9	0.9	1.5	1.6	1.3
Personnel and salaries (pcs)					
Average number of employees	780	778	713	567	455
Number of employees at the end of period	784	791	736	630	480
Salaries (million euros)	21.3	21.4	18.6	14.1	10.6

(1)- Management board proposal

(2)- Considers profit from extraordinary sale of investment in 2017

The calculation of ratios is presented in the supplementary annexes to the annual report on page 112.

ECONOMIC ENVIRONMENT OVERVIEW

World economy

The economic environment in 2020 was extremely turbulent. The generally positive and growth-oriented trends and attitudes that prevailed at the beginning of the year were replaced by a negative future outlook in February and March due to the extensive and accelerating spread of the coronavirus. Insecurity and uncertainty created major volatility in stock markets, and for a while, the oil price per barrel turned negative and innumerable restrictions were applied varying by country and region. In the summer and in the second half of the year, the situation somewhat stabilized but was still impacted by the second and third waves of the virus and the related restrictions. According to preliminary estimates, the world economy contracted by 3.5% - 4% in 2020. According to the data of Eurostat, the eurozone economic downturn was in the range of 4.8% - 5.1%.

Despite the turbulent year 2020 and the currently ongoing health crisis, strong economic growth across the globe is forecast for this year and following years. According to the estimates of the International Monetary Fund (IMF), the economic growth may reach up to 5.5% in 2021 and 4.2% in 2022. The recovery and further growth will be very different by region and industry, and will primarily depend on overcoming the health crisis, the key to which is successful vaccination. The European Union and the USA with their monetary policies have been and are expected to be strongly supportive of the recovery, using various aid packages as well as the so-called money printing which in turn has raised the sovereign debt of countries that were already previously at record levels. Today it is very difficult to estimate the total cost of the health crisis related to the coronavirus and its potential impacts in the upcoming years or even for decades.

Nordic and Baltic countries

If the preliminary economic indicators and forecasts concerning the year 2020 will remain in place, then the Nordic and Baltic countries are the countries with the lowest economic downturn indicators in Europe. Countries have had very different responses to dealing with the health crisis that has impacted them all, but the region in general has coped quite well from the point of view of its economy. According to the preliminary data, the gross domestic product of Latvia contracted by 1.2% in the fourth quarter of 2020 as compared to the previous year and in Lithuania, the respective figure was 1.4%. The GDP of the Nordic countries is expected to have contracted by 3%. The strength of the highly advanced Nordic countries in overcoming the crisis lies in their significant support to businesses, strong labor market and domestic consumption.

Estonia

According to Statistics Estonia, the Estonian economy decreased by 1.2% in the fourth quarter and by 2.9% in 2020. Recurrent periodic restrictions and insecurity have impacted trade, accommodation and catering services as well as manufacturing the most in Estonia. Export and transport connection restrictions and the peak of the coronavirus crisis in spring severely impacted foreign trade in the first half of the year, while it recovered quickly in the second half of the year. Exports for the entire year fell only by 1% as compared to 2019. Domestic private consumption of goods and services decreased by 2.5% in a year, whereby the largest expenditures on recreational activities, traveling and transport were replaced by expenditures on health care, information, communication, home and living costs. For businesses, the wage pressure also eased, while investments decreased or where postponed.

When looking back at the year ended, it can be stated that the Estonian economic environment stayed surprisingly strong – the labor market remained strong, the industrial and financial sector escaped without major losses similarly to the economic crisis of 2008, and the national tax and budgetary policies were quite stable. Under the assumption that once the health crisis subsides, economies reopen and people resume their prior consumption habits, then a quick economic recovery is possible. In respect of 2021, the analysts tend to be somewhat positive about the outlook for the Estonian economy that is expected to surpass the pre-decline level of 2020. For example, according to the estimate of SEB Bank, Estonia is expected to grow by 3.3% in 2021.

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

OPERATING RESULTS

Group structure

In the Annual Report 2020, the financial statements of AS Harju Elekter (the consolidating entity) and its subsidiaries AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Energo Veritas OÜ, Satmatic Oy, Telesilta Oy, Harju Elekter Kiinteistöt Oy, Harju Elekter AB, Harju Elekter Services AB and Harju Elekter UAB are consolidated line by line.

At 29 October 2020, SEBAB AB and Grytek AB, the wholly-owned subsidiaries of Harju Elekter Group were merged and at 14 December 2020, the name of the Swedish subsidiary SEBAB AB was changed to Harju Elekter AB. The Swedish subsidiary that had operated under the name of Harju Elekter AB was renamed Harju Elekter Services AB.

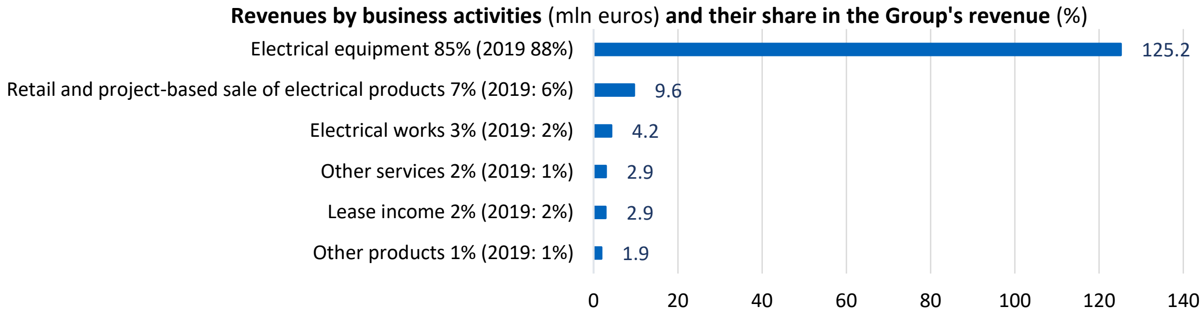
At 31 December 2020, Satmatic Oy merged with its wholly-owned subsidiaries Finnkumu Oy and Kiinteistö Oy Ulvila Sammontie 9. After the merger, a partial division of Satmatic Oy was carried out with Satmatic Oy transferring its real estate properties located in Ulvila and Kerava to Harju Elekter Kiinteistöt Oy. Since 14 January 2021, Satmatic Oy bears the name of Harju Elekter Oy.

Revenue, expenses and profit

The year 2020 turned out to be full of changes and despite being a difficult year, it was a success for Harju Elekter Group. The large-scale investments of the Group over the last several years and active sales work to increase its market share in Scandinavia and the local market have paid off. The sales orders of prior periods and new additions in the financial year led to record revenue and operating profit.

Revenue

The consolidated revenue for 2020 totalled 146.6 (2019: 143.4) million euros. The sale of electrical equipment and sheet metal products and electrical works in shipbuilding where the reference base for 2019 was extremely low due to the completion of large-scale works in the shipbuilding sector, contributed the most to revenue.

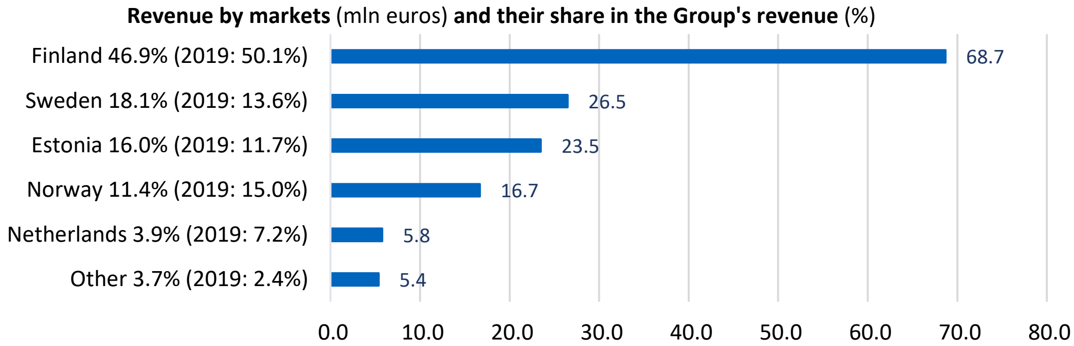


The Group's operations are divided into three segments: Production, Real estate and Other activities. Manufacturing, i.e. the Group's core activity contributes the largest share, 85.6% (2019: 87.1%) and real estate and other non-segmented activities contributed 14.4% (2019: 12.9%) to consolidated revenue. The revenue of the Production segment remained at the same level as last year, totaling 125.6 (2019: 124.8) million euros.

The lease income in the Real estate segment is generated from rental premises in Keila, Allika and Haapsalu Industrial Parks. To help tenants cope during the difficult state of emergency, Harju Elekter temporarily lowered rental prices at the request of its tenants. The reduction in rental prices was offset by the completion of new rental premises in Allika Industrial Park and new tenants in Keila in the fourth quarter. Overall, the revenue of the Real estate segment totalled 3.3 (2019: 3.3) million euros, accounting for 2.2% (2019: 2.3%) of the consolidated revenue.

The revenue of other non-segmented activities increased year-over-year to 17.8 (2019: 15.3) million euros. The revenue from retail and project-based sale of electrical products primarily came from the customers in the electricity and other infrastructure area, as well as construction companies and the public sector, while the revenue of electricity installation works was generated in the shipbuilding sector.

The Group's largest target markets are still Estonia, Finland, Sweden and Norway; hence the Group's sales volumes are greatly impacted by developments in these markets.



In 2020, the Group sold 16.0% of its products and services in the Estonian market, earning revenue of 23.5 (2019: 16.7) million euros. The key growth driver was the framework agreement with Elektrilevi OÜ won in 2019 to build prefabricated compact substations. The Group's sales to other countries accounted for 84.0% in the reporting period and 88.3% in the comparable period.

In year-over-year comparison, the sales to the Finnish market which is the largest and most important market of the Group have decreased by 3.0 million euros to 68.7 million euros. The sales to Finnish electricity network companies, whose orders declined due to the renewal of procurement contracts, contributed the most to the sales volume. In the majority of the new procurements announced, we were successful. The Finnish market contributed 46.9% to the Group's revenue which is 3.2 percentage points less than in the comparable period. The decline in the share of the Finnish market in the Group's revenue was offset by strong sales volume growth in the Swedish and Estonia markets.

Sweden is the Group's second largest market, contributing 18.1% to the Group's consolidated revenue in the financial year. In the financial year, revenue earned in the Swedish market totalled 26.5 million euros which was 7.0 million euros more than in 2019. Growth was driven by higher sales of Estonian substations to the Swedish market as well as the overall higher volume of Swedish orders.

In the financial year, the sales generated in the Norwegian market totalled 16.7 million euros which is 4.9 million euros less than in 2019, contributing 11.4% (2019: 15.0%) to consolidated revenue. The sales drop in the Norwegian market was related to record high orders in the third and fourth quarters of 2019.

Sales to the Dutch market declined year-over-year by 4.5 million euros to 5.8 million euros, contributing 3.9% (2019: 7.2%) to consolidated revenue. Similarly to Norway, decrease in sales in the Netherlands was related to the completion of several large-scale projects and postponement of customer orders.

Revenue from other markets increased by 1.9 million euros to 5.4 million euros in a year and it was primarily impacted by higher sales to the German market. In the financial year, the other markets contributed 3.7% (2019: 2.4%) to consolidated revenue. Of the other markets, the largest were Germany, Denmark and Austria, where sales totalled 1.7 million, 1.3 million and 1.3 million euros, respectively, in 2020.

Expenses

In the financial year, operating expenses increased only by 0.3%, totaling 140.5 (2019: 140.1) million euros. The cost of sales also remained at the same level as in the previous year, totaling 125.4 (2019: 125.2) million euros. However, revenue growth was 2.0 percentage points higher than the growth in the cost of sales, lifting the gross margin by 1.8 percentage points to 14.5% as compared to the comparable period.

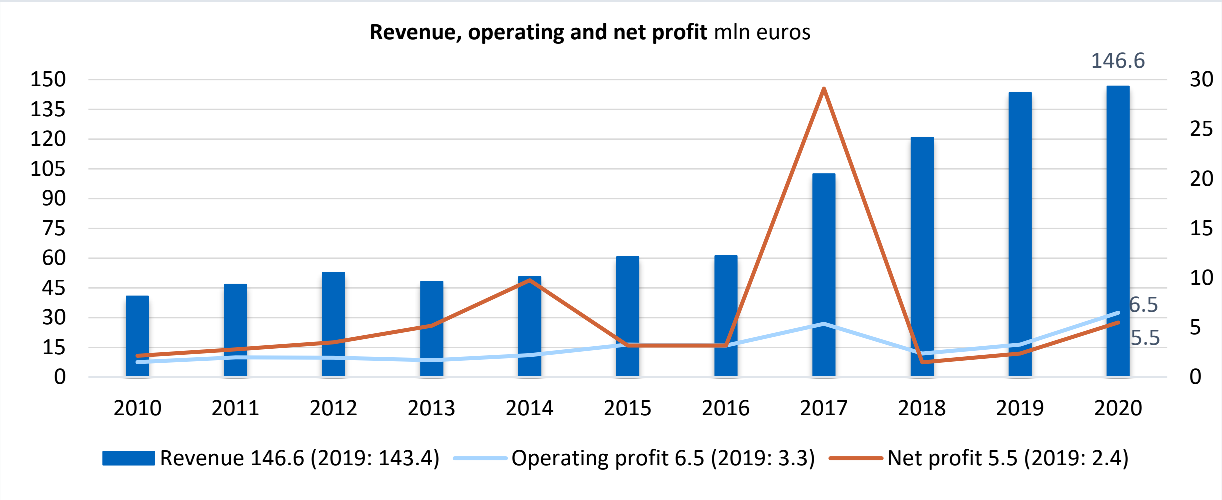
The Group's marketing and administrative expenses increased by 0.2 million euros to 15.1 million euros in a year. The share of marketing expenses in revenue decreased marginally, and totalled 4.2% in the financial year while the share of administrative expenses in the Group's revenue remained at 6.6%.

In 2020, the staff costs totalled 27.3 (2019: 26.5) million euros. Higher staff costs were primarily related to the good performance of the Group companies as well as extraordinary changes made in manufacturing during the difficult year that resulted in higher working time and higher additional pay. In addition, the cost of the share option program in the amount of 263 (2019: 189) thousand euros was included in staff costs for the financial year. In year-over-year comparison, staff costs ratio to revenue remained at the same level, i.e. 18.6%. In the financial year, employee wages and salaries totalled 21.3 (2019: 21.4) million euros. The average monthly salary per employee was 2,278 (2019: 2,296) euros. Stability has been attained in staff costs and number of employees over the last several quarters as a consequence of the investments and structural changes made in previous years. During the peak periods, temporary employees have been hired, thus enabling local youth and students to gain new knowledge and practical experience in the manufacturing sector.

Profit

In the financial year, the consolidated gross profit of Harju Elekter totalled 21,209 (2019: 18,244) thousand euros and the gross margin was 14.5% (2019: 12.7%). Over the 12-month period, the operating margin increased by 2.2 percentage points to 4.5% and the operating profit (EBIT) doubled year-over-year to 6,546 (2019: 3,273) thousand euros.

In 2020, the consolidated net profit increased by 133.5% to 5.5 (2019: 2.4) million euros, of which the share attributable to the owners of the parent company totalled 5.6 (2019: 2.5) million euros. Earnings per share were 0.31 (2019: 0.14) euros. According to the Group's dividend policy, at least one third of the net profit generated in the ordinary course of business is paid out as dividends. When making a proposal to pay dividends, the Management Board takes into account significantly improved operating results as well as higher investments and the financial position. With the approval of the Supervisory Board, the Management Board proposes to the Annual general meeting of Shareholders to pay 0.16 euros per share or a total of 2.8 million euros as dividends, i.e. 51% of the net profit for 2020.



Financial position and cash flows

Financial position

As at the end of the reporting period, current assets accounted for 43.1% (2019: 44.5%) and non-current assets 56.9% (2019: 55.5%) of total assets, while liabilities accounted for 36.4% (2019: 37.9%) and equity 63.6% (2019: 62.1%).

As at 31 December 2020, the Group's assets totalled 115.5 million euros, increasing by 7.6 million euros in a year. In the financial year, the Group's current assets increased by 1.7 million euros to 49.7 million euros, including cash that decreased by 2.0 million euros to 2.8 million euros, trade and other receivables that increased by 4.3 million euros to 27.2 million euros and inventories that decreased by 0.2 million euros to 18.9 million euros. The lower cash balance is related to the dividend payments at 21 July in the total amount of 2.5 million euros, major investments in non-current assets in the financial year as well as sales invoices issued before the end of the reporting period and recognized as receivables.

By 31 December 2020, the cost of non-current assets made up 56.9% or 65.7 (31 December 2019: 59.9) million euros. During the financial year, the Group invested 8.1 (2019: 5.5) million euros in non-current assets, including 3.1 (2019: 0.9) million euros in real estate, 4.6 (2019: 4.2) million euros in property, plant and equipment, and 0.3 (2019: 0.4) million euros in intangible assets. In the financial year, the company launched construction of the fourth stage of the production and office building in Lithuania. In addition, investments were made in manufacturing-related non-current assets, IT developments, construction of Allika Industrial Park and acquisition of new registered immovables.

In the financial year, long-term financial investments increased by 1.4 million euros. The majority of this growth was attributable to the change in the estimated fair value of the ownership share in OÜ Skeleton Technologies Group in the amount of 8.8 million euros. In 2020, the proceeds from the sale of listed securities totalled 1.7 million euros and the value of other securities in the portfolio fell by 519 thousand euros. The changes in fair value of other securities and realized profit in the amount of 80 thousand euros were recognized through other comprehensive income.

As at 31 December 2020, the Group's liabilities totalled 42.1 (2019: 40.9) million euros, of which current liabilities made up 83.1% and 80.5% in the comparable period. In the financial year, current liabilities increased by 2.1 million euros to 35.0 million euros, including trade payables by 2.0 million euros to 4.2 million euros. As at 31 December 2020, interest-bearing liabilities accounted for 45.4% (2019: 46.9%) of the Group's liabilities and 16.5% (2019: 17.8%) of the cost of assets. The Group's interest-bearing liabilities totalled 19.1 (31 December 2019: 19.2) million euros, of which the current portion was 12.1 (31 December 2019: 11.3) million euros and non-current borrowings was 7.0 (31 December 2019: 7.9) million euros. Long-term loans and leases have been used in conjunction with real estate developments in Estonia and Lithuania, and the investment in the automated production equipment. The current and non-current borrowings recognized under IFRS 16 "Leases" decreased by 0.6 million euros to 1.3 million euros. The Group's equity increased by 6.4 million euros to 73.4 million euros, and the share attributable to the owners of the parent company was 73.5 million euros.

Cash flow

In the reporting period, the total cash flow was 7.0 million euros and a year earlier, it was 6.2 million euros.

During the financial year, various investments totalled 8.0 million euros, including 7.9 million euros in real estate properties, property, plant and equipment and intangible assets and 0.1 million euros in financial investments. In 2020, the proceeds from the sale of the securities portfolio were 1.7 (2019: 0.6) million euros. In summary, the cash outflow from investment activities totalled 6.3 million euros and in the comparable period the cash outflow was 5.5 million euros.

In 2020, dividends in the amount of 2.5 million euros were paid for 2019, i.e. 0.14 euros per share which was 0.7 million euros less than in the previous year. Current and non-current loans were taken in amount of 3.2 (2019: 2.9) million euros and 1.1 (2019: 1.0) million euros was paid back. The overdraft facility decreased by 1.1 million euros, while it increased by 3.9 million euros in 2019. In summary, the cash outflow from financing activities was 2.8 million euros.

Over the 12-month period, cash and cash equivalents decreased by 2.0 million euros to 2.8 million euros and in the comparable period, they increased by 1.8 million euros to 4.9 million euros.

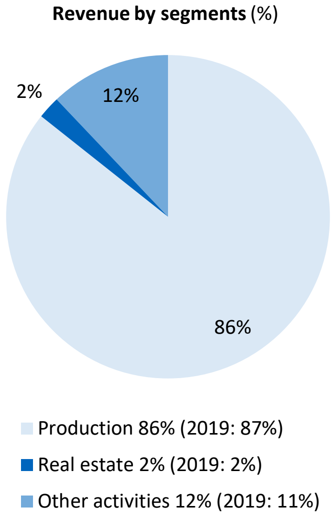
BUSINESS SEGMENTS

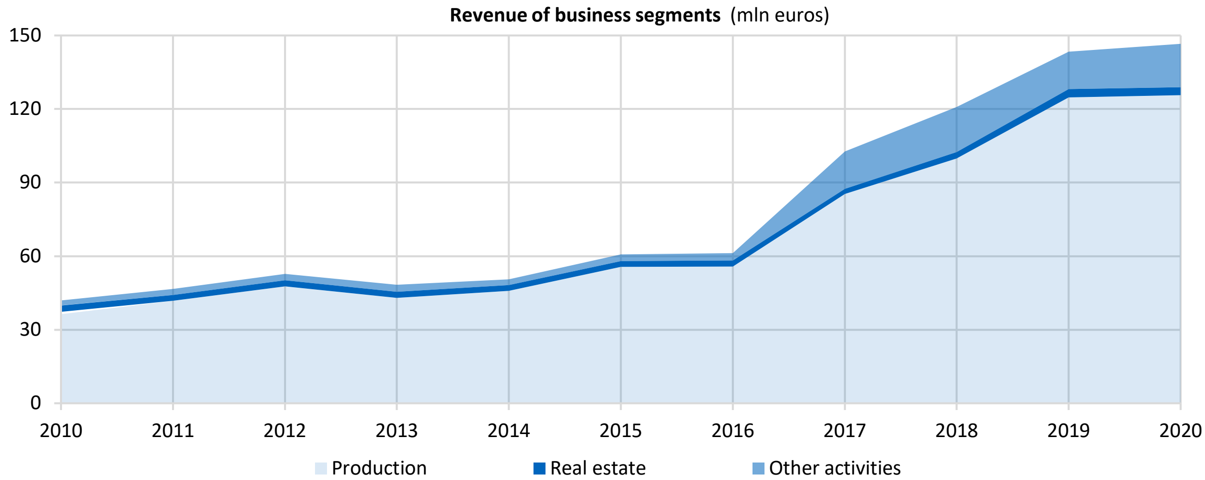
In the financial year ended, the Group operated in two areas which were large enough to form separate segments, and of which the related risks and benefits were significantly different and clearly identifiable. These segments were Production and Real estate.

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

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

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

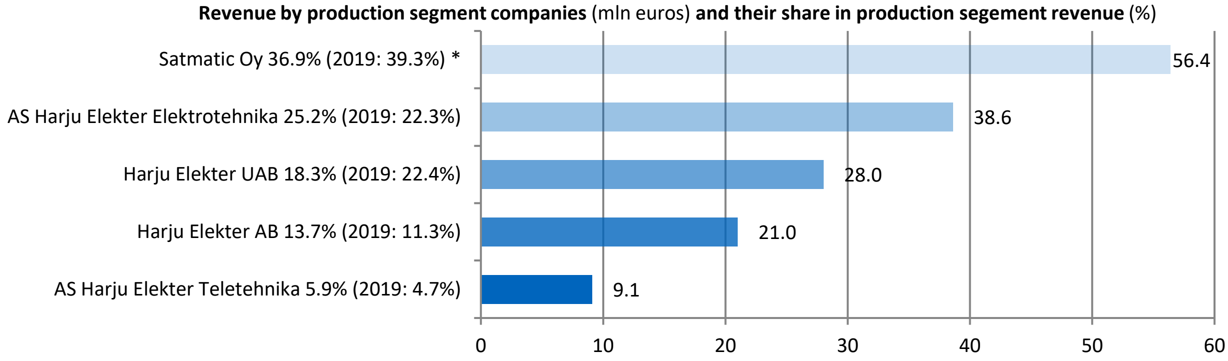




PRODUCTION

The Production segment includes electrical equipment plants in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy), Sweden (Harju Elekter AB, former name: SEBAB AB) and Lithuania (Harju Elekter UAB). The majority of the products manufactured at these plants include medium- and low-voltage electric power distribution equipment (various substations, cable distribution cabinets and metering cabinets), different electricity switching and conversion equipment as well automatic and control boards for energy, manufacturing and marine sectors, and infrastructure. The Production segment also includes AS Harju Elekter Teletehnika (Estonia), a manufacturer of sheet metal products for electrical engineering and telecommunications sectors and Harju Elekter Kiinteistöt Oy, whose core activity is the management of the Group's industrial real estate properties in Finland and used by the companies in the Production segment that has no impact on the Group's consolidated revenue.

In the financial year, there were several structural changes in the Group which impacted the Production segment to a greater or lesser degree: the merger of SEBAB AB and Grytek AB in Sweden, the merger of Finnkumu Oy and Kiinteistöt Oy Ulvila Sammontie 9 with Satmatic Oy and partial division of Satmatic Oy that transferred the real estate units in Ulvila and Kerava to Harju Elekter Kiinteistöt Oy.



* The revenue of Satmatic Oy includes the mediated sales of products from Estonia in the amount of 17.0 million euros.

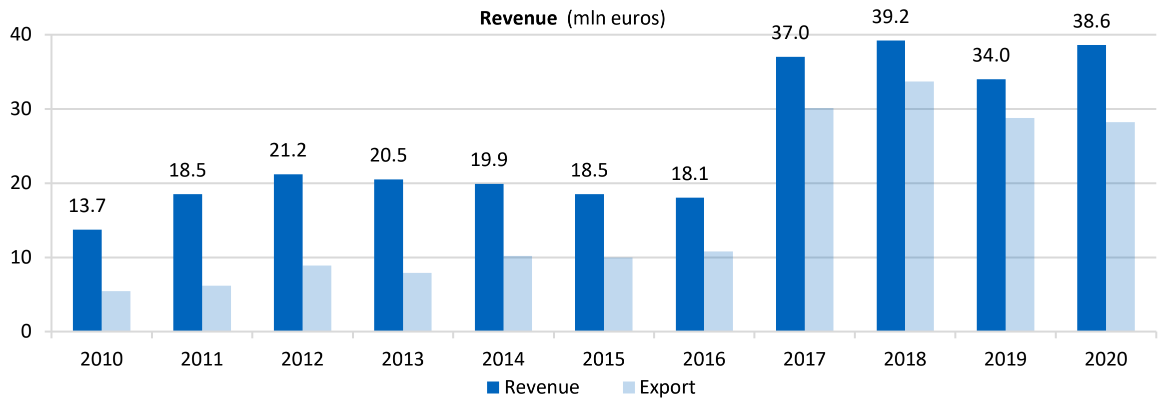
In 2020, the revenue of the Production segment was 131.7 (2019: 129.1) million euros, including revenue from external customers of 125.6 (2019: 124.8) million euros. The Production segment's non-group revenue contributed 85.6% (2019: 87.1%) to consolidated revenue. The Production segment's revenue from external customers increased by 0.6% (2019: 25.1%) year-over-year. The sales growth in the financial year was partly impacted by the significant changes and postponments of the order volumes by the customers that decelerated the growth initially planned for 2020.

AS Harju Elekter Elektrotehnika

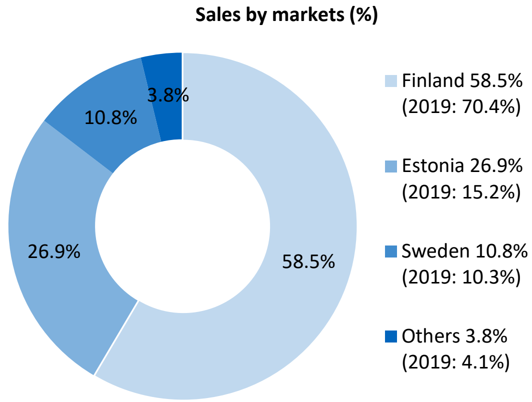
AS Harju Elekter Elektrotehnika, the fully-owned subsidiary of AS Harju Elekter, is a leading developer, producer and distributor of medium- and low-voltage electrical equipment. The company's head office and factory are located in Keila Industrial Park, where the company uses almost 23,100 m^2 of production, office and warehouse premises. At the end of the financial year, 223 (2019: 208) people worked at the company, while one fifth of the staff worked in the sales and product development areas. During the financial year, the company employed 213 (2019: 226) people on average.

While the year 2019 was full of challenges for AS Harju Elekter Elektrotehnika, marked by modest reduction of orders, the year 2020 was again a year of growth. In the financial year, revenue totalled 38.6 (2019: 34.0) million euros which was 13.4% higher than in 2019. Exports made up 73.1% (2019: 84.8%) of the sales volume.

The biggest export target markets are still Finland and Sweden, with the addition of Netherlands as well. The sales volume in the Estonian market and the contribution to the company's revenue has almost doubled as compared to the last reporting period. The growth in the Estonian market's is related to the new 62-month framework agreement concluded with Elektrilevi OÜ in the fourth quarter of 2019 which execution started successfully in 2020.



In 2020, the company continued to invest in securing its production activities and in developing the product portfolio. Several new solutions for compact secondary substations were developed, and development and prototypeing works were carried out. Also, worth highlighting are the new low-voltage connection solutions for solar parks and technical solutions for ensuring security of supply of data centers.



Along with the development of the product portfolio, higher attention was paid to participation in several major tenders in 2020, and as of today, the majority of which have turned out to be successful as of today.

In September 2020, the Group concluded a new framework agreement for eight years with Elenia Oy that is the second largest electricity distribution system operator in Finland. At the beginning of 2021, Harju Elekter Group concluded new agreements with Caruna Oy and with E.ON Energidistribution AB that are one of the largest distribution network operators in Finland and Sweden, respectively. AS Harju Elekter Elektrotehnika played an important role in winning the tenders and executing the contracts, because these products are manufactured in the company's factory located in Keila.

Active sales work as well as high-quality and good cooperation in prior years have opened up new collaboration opportunities with technology partners to undertake more complex and intensive projects. Owing to previous positive experience, partnership continued in the form of new contracts to provide electrification to port cranes as well with providing several new solutions for renewable energy projects.

As for development activities, various new product solutions were simultaneously developed and implemented in manufacturing. The company also focused on increasing the efficiency of various processes and implementing lean production principles. The company plans to continue to support employee development and for that purpose various training sessions were organized to increase sales and management competencies. Addition, the capacity of engineers in planning and design was enhanced. AS Harju Elekter Elektrotehnika successfully passed ISO 9001, ISO 14001 and ISO 45001 quality certificate audits.

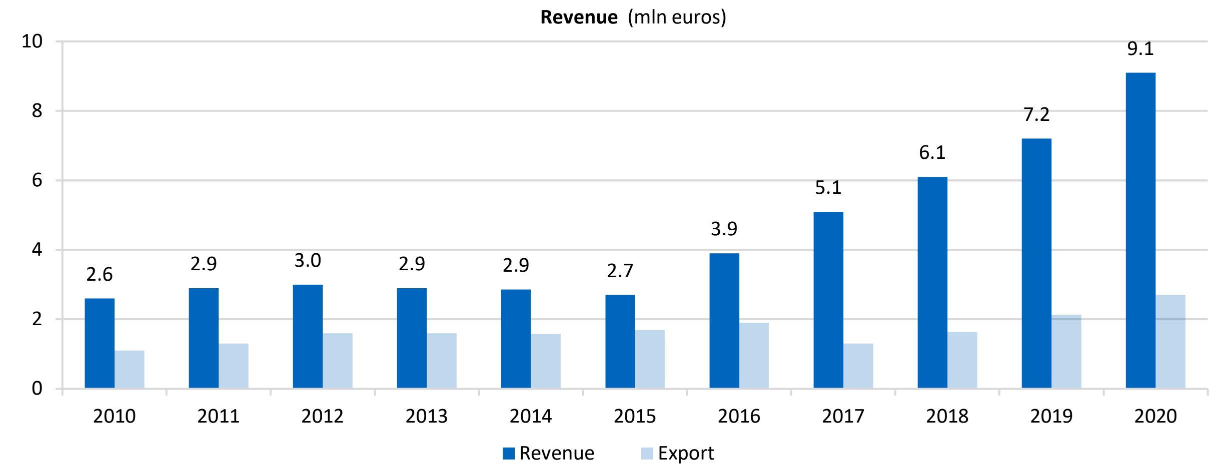
In 2021, AS Harju Elekter Elektrotehnika will continue to fulfil the orders of its key customers and will focus on finding new business opportunities, cost savings and profitability growth. To attain its goals, the company contributes more to improving efficiency that is supported by the transition to the business area based structure. AS Harju Elekter Elektrotehnika will continue to work closely with the other Group companies in local and foreign markets.

AS Harju Elekter Teletehnika

AS Harju Elekter Teletehnika is the fully-owned subsidiary of AS Harju Elekter whose main activity is production of sheet metal products and solutions for the energy and electrical engineering sectors, and provision of subcontracting works to other industrial companies. In addition to the core activity, the company also has its own product family consisting of data network cabinets and components that are developed, marketed and produced for the customers in the telecommunications sector in Estonia and elsewhere in Europe. AS Harju Elekter Teletehnika´s with its production capacity in its 9,000 m^2 factory in Keila is one of the largest manufacturers of thin sheet metal products in the area.

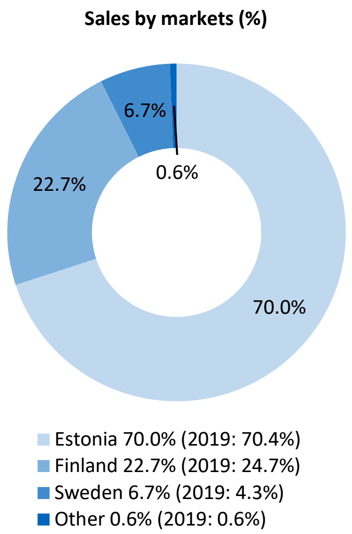
As at the end of 2020, the company employed 91 (2019: 86) people and the average number of employees was 89 (2019: 101) in 2020. About 80% of the employees are directly engaged in the manufacturing process and 20% are office workers.

The year 2020 turned out to be successful for AS Harju Elekter Teletehnika, characterized by strong efficiency growth that is primarily related to internal structural changes and investments made in prior years. In the financial year, revenue increased by 26% (2019: 18%) as compared to the previous year and was 9.1 (2019: 7.2) million euros. Exports contributed 30.0% (2019: 29.6%) to revenue. In terms of product groups, sheet metal products demonstrated the strongest growth. In addition to subcontracting products to the Group companies, the largest export articles were telecommunication products and their components for data networks. The key export markets were Finland and Sweden.



The company's internal and external customers contributed to higher demand without having major impact from the crisis that impacted the world economy. Since customer demand continued to be cyclical throughout the year, additional subcontracting partners and temporary employees were used from one period to the next in order to provide necessary production volumes to the customers. In addition, the turbulent global economic environment created better opportunities to purchase raw materials with more favorable conditions than in prior periods.

In 2020, the company continued to increase efficiency and automation. The largest investments included the robot bending equipment for sheet metal and the new ERP software that was implemented at the end of the financial year. In addition to the investments the company continued to contribute to employee development by providing various professional training courses.



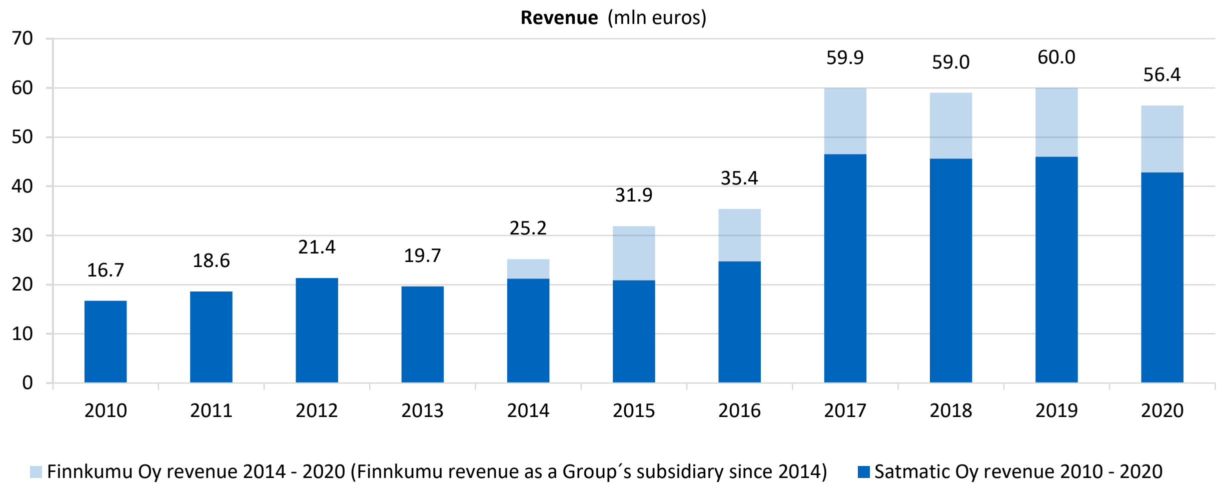
The focus for 2021 will be on increasing sales volumes both in respect of the intra-group as well to external customers. To enhance growth, the goal is to continue making investments in technology, primarily in sheet metal processing equipment and to finalize the launch of the new ERP software which will enable us to increase the current digitalization both inside the company as well as in the entire supply chain. The company will also continue with the development of its own products. In the long run, all of the company's activities are driven by the desire to become the first choice for customers both in terms of in-house and outsourced products/services, and to support customers in their goals.

Satmatic Oy

In the financial year, the key changes made to harmonization of the Group's structure were related to Satmatic Oy, the wholly-owned subsidiary AS Harju Elekter located in Finland and its subsidiaries. At 31 December 2020, Satmatic Oy (headquartered in Ulvila, Finland with factories in Ulvila and Kerava) and Finnkumu Oy (with production units in Kurikka) that had been under joint management since 2019 were merged with Kiinteistöt Oy Ulvila Sammontie 9. The last stage of the structural change that occurred in 2020 involved the partial division of Satmatic Oy at 31 December 2020 and the transfer of the real estate properties in Ulvila and Kerava to Harju Elekter Kiinteistöt Oy. By today, Satmatic Oy has become one the leading industrial automation and electricity distribution and transmission equipment manufacturers in Finland that operates under the new business name of Harju Elekter Oy since January 2021.

At 31 December 2020, the combined revenue of the merged companies Satmatic Oy and Finnkumu Oy for the year 2020 amounted to 56.4 (2019: 60.0) million euros, decreasing by 6% as compared to the previous year. At the end of the reporting period, Satmatic Oy employed 105 (2019: 103) people, while the average number of employees in the reporting period was 109 (2019: 103).

The company's products are targeted at the manufacturing, energy generation and distribution sectors and infrastructure projects, covering the needs of customers from the development of products, programs and projects to provision of maintenance services. The product range is wide, and the product portfolio includes various products and solutions of up to 20 kV. A major share of Satmatic Oy's products and solutions are sold outside Finland, reaching customers mostly through producers and exporters. At the same time, Satmatic Oy is also an importer and distributor of the products of the Estonian subsidiaries in Finland. The mediated sales of the products imported from Estonia to the Finnish market totalled 17.0 (2019: 17.5) million euros.



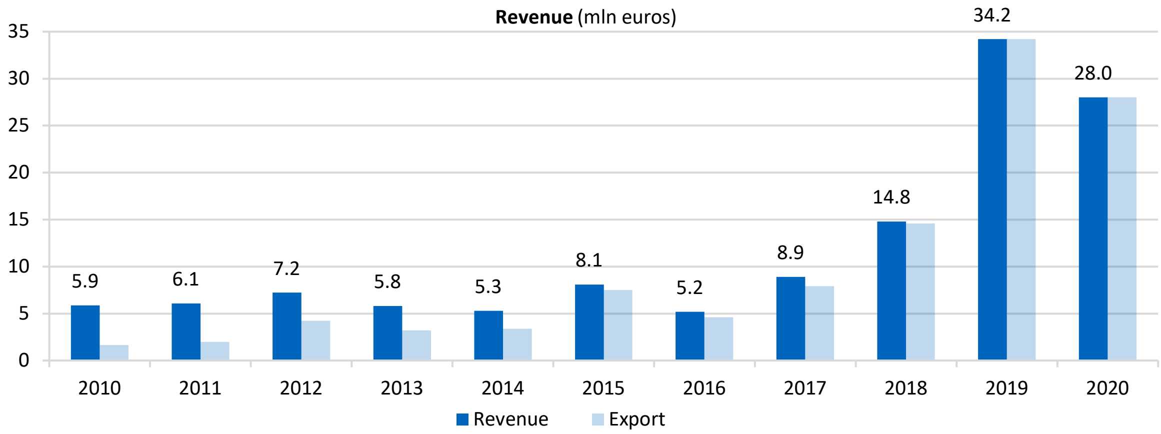
The financial year was challenging for the companies of the Finnish Production segment: there were setbacks in the volume of orders and taking account the constantly changing circumstances complicated planning for production. The price pressure of suppliers in terms of materials and components and competition in major tenders increased. Still, the company managed to maintain strong production volumes and the reduction in the orders of the energy network was offset by stable results in other business areas. The factories' ability to provide production and engineering services continues to be high. Last year, the company developed various electricity, control and power automated equipment and solutions for pulp and paper industries, but also for rock wool, steel and food industries and offshore, shipbuilding, mines and power stations.

The former production unit of Finnkumu Oy in Kurikka with production and office premises of 2500 m^2 is primarily focused on manufacturing compact secondary substations and cable distribution cabinets. It designs, manufactures and supplies equipment for the Finnish power distribution sector. There were no significant changes in the company's customer base or products during the year, and despite uncertainty in the global economy, the operations ran smoothly at Kurikka unit throughout the year. The high-quality substations manufactured at Kurikka unit continue to have a good reputation in Finland. During its years of operation, the company has developed a well-established loyal customer base, whose orders are processed by a small sales team. By working together with customers, the company improves its products and customizes them for specific projects. Similarly to previous years, the company develops its own products, and also collaborates with the other Group companies.

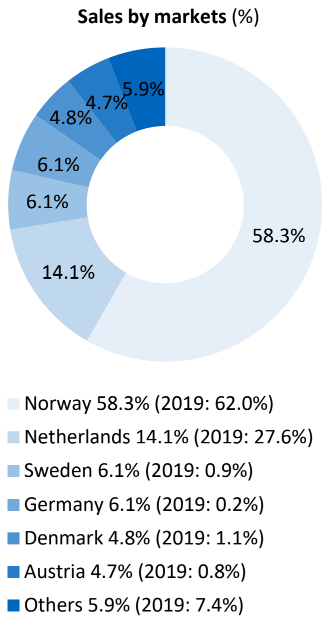
In the future, the activities of Satmatic Oy will continue to be based on contractual manufacturing, project services and supplies to the electricity distribution sector, manufacturing sector and infrastructure. All operations are continuously being developed, using new solutions that increase automation. Somewhat more intense competition can undoubtedly be expected. One of the goals for 2021 is even more efficient co-operation of the units at the merged companies, for the purpose of which the processes will be harmonized with Kurikka production unit and preparations will be made for the potential use of new financial software and certification of Kurikka production unit to comply with ISO 9001 and ISO 14001. Separate focus will be laid on increasing flexibility in order to cope with the economic changes as well as those related to the volumes of customer orders. Daily cooperation with the other Group companies and preparations for the fulfilment of the framework contracts of electricity network companies together with AS Harju Elekter Elektrotehnika will continue.

Harju Elekter UAB

Harju Elekter UAB, the wholly-owned Lithuanian subsidiary of AS Harju Elekter, has been a part of the Group since 2003. The company focuses on the development of different products and solutions and contract manufacturing for system integrators in the marine and industrial sector, providing them with tailor-made power distribution and multidrive systems and solutions. The company's head office is in Panevežys, Lithuania. As at 31 December, the company employed 223 (2019: 251) people and the average number of employees during the financial year was 235 (2019: 207).



In the financial year, the company's revenue was 28.0 (2019: 34.2) million euros. After the sharp increase in 2019 (+131%), revenue declined by 18% as compared to the previous year. The revenue decline was primarily related to the suspension of orders due to volatile economic conditions or their amendment by customers. Almost all of the products of Harju Elekter UAB are exported from the factory located in Panevežys to various countries around the world, the most important ones of which in the financial year were Norway, the Netherland, Sweden and Germany.



Most of the revenue was generated from the development, production and sales of project-based products and services to the marine and shipping industries. Various frequency converter systems and electrical and control panels for the marine sector were the largest contributors in the product range. The supply of quality products to the marine sector is very strongly linked to the company's engineering capabilities, as the orders mainly concern project and customer-specific solutions that are not found in standard catalogues.

In addition to active sales work and expansion of manufacturing, the company places great value on increasing quality and enhancing the efficiency of contract-based manufacturing. In the financial year, the company successfully passed the certification AQAP 2110: 2016 carried out by Bureau Veritas and this will enable Harju Elekter UAB to provide extremely high-quality products to navy vessels in the future. Good cooperation with long-term customers continued and the company actively searched for ways to participate in new tenders. An increasing number of daily work and activities were directed to e-channels – various refresher training courses were organized for employees and due to travel restrictions, sales work and meetings were carried out online. Also, the company started its transition to the ERP software that will be taken into use in the summer of 2021.

The key goals for 2021 include the completion and utilization of the fourth stage of the extension of the production and office building and growth of the company's business volumes.

Harju Elekter AB

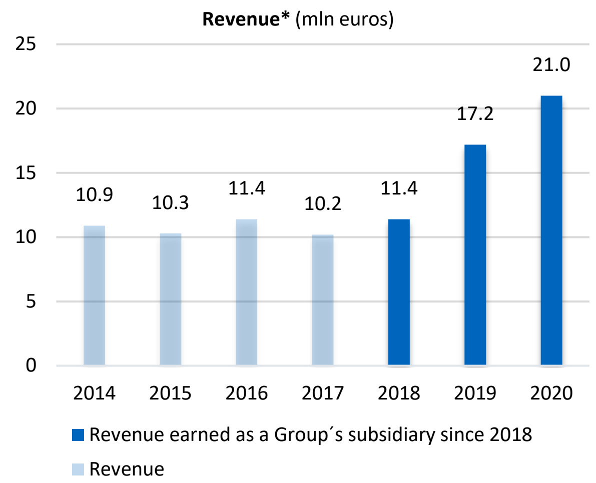
In the financial year, several changes took place at the Group's Swedish subsidiaries. For the purpose of simplifying and harmonizing the management structure of the Group companies, the Group's wholly-owned subsidiaries SEBAB AB and Grytek AB in Sweden were merged. After the merger, the business name of the legal successor of SEBAB AB became Harju Elekter AB for the goal of aligning the business names with the trademark that is used on a daily basis.

The purpose of the structural changes was to simplify and harmonize the management structure of the Group companies. Since 1 January 2020, SEBAB AB and Grytek AB are managed by the new joint CEO. In addition to the merger of the companies and the name change, the work principles of various units have been harmonized to ensure that the company bearing the name of Harju Elekter AB will be efficient and oriented towards growth in the Swedish market.

Harju Elekter AB specializes in energy production and development of medium- and low-voltage solutions for power generation and distribution industries, as well as their delivery to the infrastructure, construction and renewable energy sectors. The company's head office together with the manufacturing, sales and service unit and warehouse is located in Malmö. The company also has branch offices offering engineering solutions in Stockholm and Borlänge, supported by regional units in Borås, Finspång, Västerås and Luleå. As at December 31, the company employed 68 (2019: 59) people and an average of 62 (2019: 63) people worked there in the reporting period.

As a whole the year 2020 turned out to be successful for Harju Elekter AB, the revenue of the combined companies increased by 22% and totalled 21.0 (2019: 17.2) million euros. The company's home market is Sweden that contributed 96% (2019: 100%) to revenue in the financial year.

The financial year was successful in terms of tenders. In January, the company won three tenders for the energy distribution sector's orders, in September the tender of the substations of the Slussen subway in Sweden and at the beginning of 2021 in cooperation with AS Harju Elekter Elektrotehnika, it won the tender of Sweden's largest distribution network company E.ON Energidistribution AB for almost 1500 substations.



* On the graph the revenue for the previous periods of the merged Swedish entiteis SEBAB AB and Grytek AB is summarized

The largest investment concerned the transition to the new joint ERP software to increase the level of digitalization and ensure fast exchange of data and information in the upgraded structure. The new software will be taken into use at the end of the 1st quarter of 2021.

In summary, the year of Harju Elekter AB can be described as very volatile. In 2021, the upgrading and harmonization of intra-company structures and work principles will continue in order to focus on the growth of business volumes and efficiency in the future. The company will focus on various standards and certifications and enhance intra-Group cooperation in the Swedish market.

REAL ESTATE

The activities of the Real estate segment include development, maintenance, leasing of industrial real estate properties, services related to the maintenance of real estate properties and production capacities and intermediation of services. Real estate is classified as a separate segment because the volume of assets is greater than 10% of the volume of the Group's assets. This segment is run by the real estate department of AS Harju Elekter. As at the end of the reporting period, the Real estate segment employed 7 (2019: 7) people.

The Group owns registered immovables in its industrial parks in Estonia (Keila, Allika and Haapsalu), Finland (Ulvila, Kerava, Kurikka) and Lithuania (Panevežys), totaling 69 ha with 106.9 thousand m^2 of production, office and warehouse premises. The premises in Keila, Allika and Haapsalu industrial parks are leased out to external customers.

In the financial year, the revenue of the Real estate segment totalled 5.0 (2019: 4.7) million euros of which external sales was 3.3 (2019: 3.3) million euros, and contributed 2.2% (2019: 2.3%) to consolidated revenue. Lease income contributed 87% (2019: 83%) and utility and other services 13% (2019: 17%) to the revenue of the Real estate segment.

The key event in the financial year was the completion of the building Laohotell 2 with the square area of almost 4,000 m^2 in Allika Industrial Park that was completely rented out to tenants after its completion. In addition, two more registered immovables with the total square area of 14.6 ha were acquired for the purpose of construction of solar power parks as well as potential real estate development projects.

In 2021, real estate developments will continue and due to the interest of tenants, it is planned to start construction a new building Laohotell 3 that follows the concept of current buildings in the warehouse and production plant complex.

OTHER ACTIVITIES

Other activities encompass all other non-segmented operating areas where each area is not large enough to form a separate segment. In the Group, such activities are, for example, management of financial investments, retail and project sale of electrical goods and electricity installation works for shipbuilding. From the Groups' point of view, other activities are less important and none of them forms a separate segment for the purpose of reporting.

In the financial year, external non-segmented revenue totalled 17.8 (2019: 15.3) million euros, growing by 16.3% in a year and sales to other operating segments were 0.1 (2019: 0.6) million euros. Other activities contributed 12.2% (2019: 10.6%) to the consolidated revenue of the Group.

AS Harju Elekter

AS Harju Elekter is the Group's parent company. The company's activities are divided into two parts - Real estate and other activities. In addition to real estate activities, the Parent company coordinates collaboration between the Group companies, oversees strategic management of its subsidiaries through management boards and supervisory boards, manages the Group's cash flows, is involved in investment planning, corporate governance as well as business development, product development, and the provision of different services such as personnel, information technology and communications services. Other operating activities of the Parent company accounted for 0.3% (2019: 0.4%) of the consolidated revenue. As at the end of the reporting period, 16 (2019: 18) people worked at the Parent company (other than in the real estate department).

Telesilta Oy

Telesilta Oy, the wholly-owned subsidiary of AS Harju Elekter, is an electrical works company founded in 1978 in Uusikaupunki, Finland, specializing in the design and manufacturing, installation, commissioning and maintenance of marine electrical systems for the Finnish market. The company offers customized solutions to its customers, with a marginal share of its own products. As at 31 December 2020, the company employed 30 (2019: 30) people and the average number of employees in the reporting period was 29 (2019: 30). Telesilta Oy has been a member of the Group since 2017.

In the financial year, the company's revenue was 4.2 (2019: 3.0) million euros, which increased by 40% as compared to the previous year. Strong sales growth is related to the extremely low reference base in 2019, caused by the completion of several large vessel construction projects in the prior year. In 2020, the company started to execute the contract of the electrical works for the vessels to be built for the Finnish Border Guard. The year was characterized by volatile conditions and suspension or postponement of several large vessel construction projects. The company participated actively in different tenders and focused on upgrading its internal processes.

The goals of Telesilta Oy for 2021 include active sales work and participation in tenders, increasing the level of digitalization and preparations for transition to the new ERP system, and expansion of capacity of electrical works units in the regions of Turku and Rauma.

Energo Veritas OÜ

Energo Veritas OÜ focuses on project-based sales and trading activities. The company has sales offices and stores in Tallinn and Tartu that sell the Group's products, the products of its associated companies and other goods required for electrical installation work to smaller and medium-sized electrical installation companies and retail customers. During the intra-company restructuring that occurred in the financial year, the office was closed in Keila and customer service was transferred to the office in Tallinn. As at 31 December 2020, the company employed 19 (2019: 27) people and the average number of employees in the reporting period was 20 (2019: 25). Energo Veritas OÜ has been part of the Group since 2017 and AS Harju Elekter has a holding of 80.52% in the company.

In 2020, the revenue of Energo Veritas OÜ totalled 8.7 (2019: 8.3) million euros. The new Tallinn sales office and central warehouse contributed significantly to sales growth. Due to the complicated economic environment, the revenue in the reporting period was lower than budgeted and the procurements won in previous periods were in the completion stage (the most significant ones being the procurement of transformers for Elektrilevi OÜ and the Last Mile project). Despite everything, due the company's strong sales work the revenue growth was 5.4% (2019: 19.6%) while the sales margins were under strong pressure throughout the year.

In summary, Energo Veritas OÜ managed to increase its market share and find new customers under complicated conditions and amidst organizational changes. The focus in 2021 will be even more active sales work and participation in procurements, increasing of the company's efficiency and upgrading of the product range.

Harju Elekter Services AB

Harju Elekter AB that was founded in 2010, was renamed as Harju Elekter Services AB during the financial year. This is a sales organization for distribution of the Group's medium-voltage and substation products in Sweden. In 2014 - 2017, the company's operations were temporarily suspended. In February 2017, AS Harju Elekter acquired a 10% minority holding in the company, increasing its shareholding to 100%, and in the autumn of the same year the subsidiary resumed active business. The revenue of Harju Elekter Services AB in 2020 was 4.9 (2019: 4.1) million euros, up 20% (2019: 52%) due to successful electrical equipment solutions offered to customers in the Swedish market in cooperation with the other Group companies. During the reporting period, the company had 1 (2019: 1) employee.

INVESTMENTS, INNOVATION AND DEVELOPMENT ACTIVITY

Investments

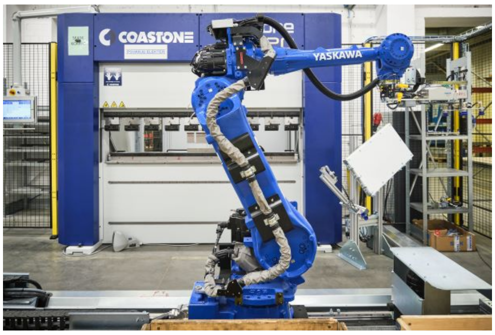
Harju Elekter has consistently invested in development of various business areas and taken care that sufficient renewable investments help ensure sustainable operations of production processes, technological non-current assets, business real estate and IT solutions that support business operations. The Group will continue to invest in financial assets for the purpose of diversification of its business. The long-term strategic goal of Harju Elekter is to contribute to the areas that support the Group's activities with the distribution, storage and production applications of renewable energy and green electricity.

In 2020, the Group invested a total of 8.1 (2019: 5.5) million euros in non-current assets (incl. technology and real estate investments). Investments in various asset groups were by country as follows: 4.0 million euros in Estonia; 0.3 million euros in Finland; 0.1 million euros in Sweden and 3.7 million euros in Lithuania.

Investment activities in 2020

1. Non-current assets used in manufacturing, and IT solutions

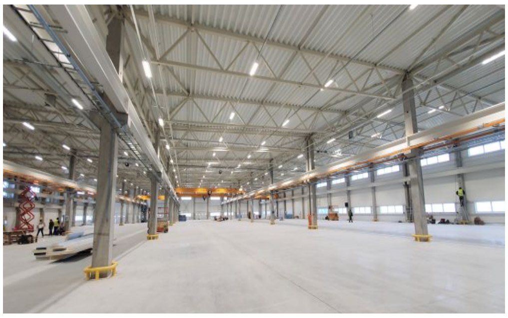
- AS Harju Elekter Teletehnika purchased a bending bench with a robot claw. The industrial robot will ensure uniform quality of sheet metal products, it will be less labour intensive in the long run and while using robotization, will enable engineers to obtain valuable experience and skills for the future.
- AS Harju Elekter Teletehnika implemented and launched work with the new ERP system to support and enhance business processes.
- Satmatic Oy purchased molds for the project Elektra involving a new electric vehicle charging station. Miscellaneous charging equipment with the new and modern design for electric vehicles and electric heaters of passenger cars with smart software enables the company to continue providing competitive solutions for the Finnish market and enter the Swedish market where this segment is gaining momentum.
- Harju Elekter UAB purchased a bending tool for sheet metal, including warehousing equipment. The investment solidifies the Group's ability to process sheet metal and its operability in the Lithuanian subsidiary, enabling to implement last minute changes with its flexibility that is difficult to achieve with subcontracting.
- Harju Elekter UAB purchased a test-transformer that enables to quickly test operability of power electronics at real voltages and provide this service also outside the Group.



Bending bench with a robot claw

2. Real estate

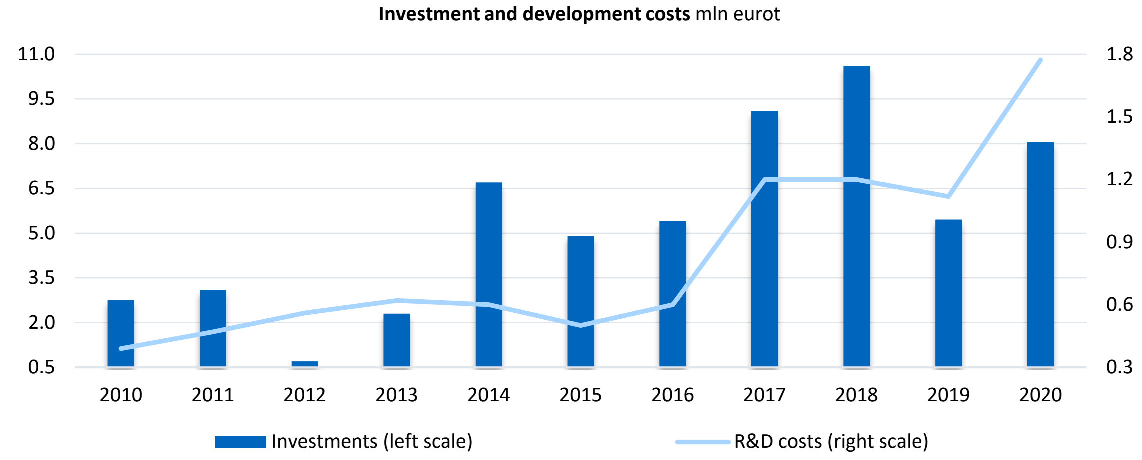
- The company acquired miscellaneous real estate properties for business and production purposes in Estonia and Finland with the total square area of up to 155,610 m^2.
- Laohotell 2 (3,877 m^2) was completed in Allika Industrial Park, Saue rural municipality that was completely leased out as at the year-end.
- The company launched the fourth stage of the factory extension (7,996 m^2) of the Lithuanian subsidiary Harju Elekter UAB to be completed in the second quarter of 2021.


Extension of the Lithuanian factory as at 24 February 2021

3. Renewable energy products

- In the financial year, six separate solar power commercial stations were either built or acquired with the total capacity of 397 kW.

Break-down of investments and development costs, millions of euros in 2010 – 2020



Development activities and innovation

Harju Elekter wishes to be the first choice for its customers in supporting their business goals. For this purpose, the company works intermittently to develop products, processes, supply chain and information technology solutions.

The Group's area of activity is impacted by the global objectives to reduce global warming and the green revolution that has had a strong start, creating both opportunities as well as requirements for learning, developing and testing. By meeting the expectations of the markets and customers, the Group has set an ambitious goal of reducing its own ecological footprint and that of its customers by reducing use of materials and energy consumption both in its processes as well as products. The Group is convinced that a cleaner and more economical future will be propelled by innovative electro-technical products and digitalization of processes. Harju Elekter shares its world view with the stakeholders which on the one hand inspires the Group's employees and on the other hand sends out a clear message to the shareholders of Harju Elekter about the Group's engineering and ecological sustainability.

The Group fosters intra-group innovative product development with the innovation contest which took place for the 10th time in 2020. Of the nine substantial works submitted three received recognition: 1st prize "Special Design Substations – Their Design and Construction" of AS Harju Elekter Elektrotehnika; 2nd prize "Kongsberg Maritime K-Power Drive Project" of Harju Elekter UAB and 3rd prize "Future Chargers Electra" of Satmatic Oy.

Development projects in 2020

In the financial year, focus was laid on factory produced e-house (HEJA) and SKID type applications throughout the Group. For the latter, a model was developed for designing and calculating mechanical statistics. In addition, appropriate process developments were created for manufacturing.


SKID-type applications

In Estonia, development activities were underway at AS Harju Elekter Elektrotehnika to provide services for the substation procurement project of Elektrilevi OÜ. Likewise, the family of

Last Mile fiber optic products was developed for Elektrilevi OÜ that involves production of distribution cabinets as a special solution for the construction of the region's fast Internet network as well as for connection with the termination point. The company continued with the development of the mechanical solution Hecon with low voltage configuration. The low-voltage electrical box solution was tested in accordance with the standards, enabling to prepare miscellaneous engine checking centers as well as designing and manufacturing industrial automated equipment and regular low voltage electricity distribution boxes.

At AS Harju Elekter Teletehnika, partnership solutions for sauna technology products were developed in cooperation with Saunum Grupp AS. Subcontracting was also used to develop various customer-tailored sheet metal products for other customers. In addition, the engineers of AS Harju Elekter Teletehnika developed mechanical goods for substation and telecommunication products of the Group's Finnish and Estonian subsidiaries as a result of which the supplies of intra-group sheet metal details and assemblies increased considerably.

The Group's Estonian and Finnish companies undertook various development as well as prototyping works. Type tests in compliance with the standard IEC 62271-202 – Part 202 for the servicing of procurements in Finland were conducted for Elenia Oy (1^{st} stage supplies between 2021 and 2023) and Caruna Oy (1^{st} stage supplies between 2021 and 2023) at Łukasiewicz Research Network - Institute of Electrical Engineering lab in Poland. The bid and implementation stage of procurements was a good cooperation project for the Estonian and Finnish engineers. In addition, Satmatic Oy is in the middle of the development project concerning electric vehicle charging stations for the Finnish and Swedish markets.

In the financial year, the key development project of Harju Elekter UAB was Kongsberg Maritime K-Power Drive which involved an innovative engineering solution for shipbuilding companies. K-Power Drive is a compact eco-friendly system that uses liquid cooling and has capacity of up to 5700 kW. It has been received well by customers and by today, has been supplied to 15 vessels and off-shore systems.

The IT-solutions that have previously been implemented enabled the Group companies of Harju Elekter to smoothly launch remote work during the state of emergency in spring. During the year, systems and computer networks were further optimized to improve availability of resources and services regardless of the place of work. The entire Estonian server park of the companies of Harju Elekter was moved to a service provider, ensuring sustainable and flexible resource for IT services.

During the year, the company passed the first stage of data warehouse and reporting project for business information management and a technical configuration platform for products launched to simplify provision of technical solutions for customers. In addition to several activities related to safeguarding and developing cyber security, the defense mechanisms of internal networks were standardized and the monitoring capability of information systems was enhanced.

QUALITY IN PRODUCTS AND CUSTOMER RELATIONSHIPS

Quality system

High-quality products, seamless cooperation and understanding the customer form the basis for strong long-term customer relationships at the Group. In addition, the company's credibility arising from sustainable operations and a long history are also important from the customer's point of view.

According to the Group, a product is of high-quality if:

- The product is safe, meets the technical requirements set by customers and has no visual imperfections;
- The product exceeds customer expectations and creates additional value to the customer;
- The processes related to the production of the product are carried out in accordance with the applicable legal and regulatory requirements.

In quality management, the Group follows seven important principles:

- **Customer focus** – the key focus is placed on fulfilment of customer requests in order to increase customer satisfaction.
- **Leadership** – the manager at each level is responsible for the quality and occupational safety at his/her stage of work. He/she also promotes continuous improvement of processes and participates in the attainment of the organization's goals.
- **People involvement** – for the efficient and effective management of the Group, people at all levels get involved, and their motivation and training contributes to the attainment of the company's goals. In addition, employees are encouraged to take responsibility for the quality of their work.
- **Process-centered approach** – the Group manages activities as interconnected processes that function as a coherent system to attain quality-related goals.
- **Improvement** – for exceeding customer expectations and ensuring their satisfaction, the Group lays importance on continuous improvement of its processes.
- **Making evidence-based decisions** – The Group makes decisions on the basis of data, analysis and evaluation of information.
- **Relationship management** – the Group considers it important to manage its relations with relevant stakeholders in order to attain success. Emphasis is placed on the development of supplies and maintenance of good communication.

The existing quality management and environmental management standards ISO 9001 and ISO 14001 have been applied in most production companies of the Group (see the table "Management system certificates"). Finnkumu Oy (from 31 December 2020 merged with Satmatic Oy) is preparing for ISO 9001 and ISO 14001 certification that is planned for 2021. AS Harju Elekter Elektrotehnika, Telesilta Oy and Harju Elekter UAB have a certified occupational health and safety management system ISO 45001.

Management system certificates

Certificate	AS Harju Elekter Elektrotehnika	AS Harju Elekter Teletehnika	Energo Veritas OÜ	Satmatic Oy	Telesilta Oy	Harju Elekter UAB	Harju Elekter AB
ISO 9001:2015	x	x	x	x	x	x	x
ISO 14001: 2015	x	x	x	x	x	x	x
ISO 45001: 2018	x				x	x	

Audits are also carried out at the subsidiaries by product certification companies and vendors of licensed products. Satmatic Oy has a valid UL certificate, which is a prerequisite for delivering the company's products to the US market. In addition, Satmatic Oy, Harju Elekter UAB and AS Harju Elekter Elektrotehnika have obtained the SIVACON certificate granted by Siemens. Harju Elekter UAB also has a MSA (Manufacturing Survey Arrangements) certificate granted by DNV GL and in addition, the organization has been certified by Logstrop.

AS Harju Elekter Teletehnika is a member of the Estonian Association for Quality to help increase the awareness of the importance of quality issues and training of employees.

The security of supply varies by company, depending on the nature of the work performed, customer expectations and methodology, and was in the range of 78 - 100% for all Group companies in the financial year. The average indicator at the Group was 90% (2019: 92%).

Quality-related issues are dealt with intrinsically as part of everyday management, sales, development, logistics and real estate management activities. The Group companies consider it important to ensure quality throughout the entire product cycle. A quality output is achieved due to proper supply chain planning, competent staff, creation of a feedback system and application of quality control at various stages in order to identify errors at as early a stage as possible.

Quality improvement

Quality improvement is a continuous process with inputs primarily received from four sources:

1. Customer feedback

The Group companies place great importance on collecting customer feedback and recommendations. The subsidiaries use different measures for collecting and analyzing customer feedback, including measurement of general customer satisfaction, recommendation willingness and the engineering-technical solutions' meeting expectations. The feedback received helps to map out the general attitude of customers towards the company. However, in order to identify the root causes of satisfaction and draw conclusions, customer reclamations and improvement proposals are analyzed..

In 2020, the number of justified customer complaints received from external customers was at the same level as in the previous year: the Group received an average of 2.9 customer complaints per every million euros of revenue. The number of total reclamations decreased at the Lithuanian and Finnish companies but increased at the Group's Estonian companies due to the complex nature of work and volume growth.

The Group pays great attention to customer complaints. Information has to reach the necessary employees with a minimum delay, so that corrective and preventive actions can immediately be implemented. All reclamations are recorded and analyzed. The subsidiaries use different methods for resolving reclamations (e.g. 8D, CAR), but they all have the same purpose – to liquidate the root cause in order to prevent problems from reoccurring.

The subsidiaries monitor and report the costs of disruptions that may arise from defective input materials, internal non-compliance or customers' reclamation to the management and supervisory boards. If costs exceed the target, a root cause analysis will be prepared, if necessary, and corrective measures are applied to reduce costs.

Due to the ongoing and close cooperation with current customers and adherence to customer promises, the average satisfaction score remained at the same level at the Group in 2020, i.e. 78 on a 100-point scale. The average indicator in the customer satisfaction survey was 80 points in the 2018 and 2019.

The Group companies measure customer feedback and satisfaction in different ways.

- AS Harju Elekter Elektrotehnika's customer satisfaction has been growing over the last years. In 2020, it was 67 (2019: 53) points. To achieve this, AS Harju Elekter Elektrotehnika pays special attention to change management and streamlining of internal processes. The goal is to be the first choice for our partners in energy management.
- AS Harju Elekter Teletehnika evaluates customer satisfaction on a quarterly basis. On a 5-point scale, TOP10 customers are asked for feedback on the product range and quality, delivery accuracy and speed, documentation accuracy, price level and availability of contact persons. In 2020, the average satisfaction score was 3.66 points.

- Of the Finnish subsidiaries, Satmatic Oy asks quarterly feedback from all customers regarding the price, quality, security of supply and overall cooperation, and in 2020 the score was 63% (2019: 87%). Telesilta Oy evaluates customer satisfaction based on security of supply and monitors the ratio of working hours spent on warranty works to total project hours. In 2020, the satisfaction score was 94%. Finnkumu Oy also measures customer satisfaction on a quarterly basis and in 2020, it was 87% (2019: 90%). At the beginning of 2021, Satmatic Oy and Finnkumu Oy were merged to become one subsidiary Harju Elekter Oy and its customers are treated as being part of the same information space.
- Harju Elekter UAB uses OTIF to measure customer satisfaction, its value was 95% in 2020.

2. Relations with suppliers and quality of materials

Calling for tenders and measuring different alternatives is considered a good practice within the Group for obtaining appropriate purchase conditions. It is important to evaluate the risks related to suppliers and not to find oneself in a situation where a company uses a single supplier. Over the last couple of years, the first steps have been taken towards group-wide purchasing process. Harmonized contracts with suppliers support attainment of better delivery conditions, and ensure a smooth and transparent process.

For some of the materials or components, the final customer describes in detail which supplier's products to use. If the subsidiaries of the Group are free to choose a supplier, their decision is based on the reputation, record and reliability of the supplier, as well as the quality, supply conditions and the price. The price-quality ratio is more important than a low price. The main suppliers are usually more permanent and new ones are contacted only when there is a need or if a new product appears in the market.

The Group companies find it important to maintain good supplier partnerships and provide ongoing feedback. Visiting and auditing suppliers have become a good practice in order to be convinced of the reliability of suppliers and monitor organization of fulfilment of orders. In 2020, in conjunction with COVID-19, supplier audits and visits were postponed until the next period.

The Group has agreed on specific social and environmental criteria with 31% of its suppliers. Several subsidiaries of the Group arrange periodic evaluations of their suppliers. For example, AS Harju Elekter Elektrotehnika performs quarterly supplier evaluations. The key criteria are OTD (On-Time-Delivery) and quality. Feedback is given to suppliers and depending on the results, development opportunities are reviewed with suppliers. Harju Elekter UAB communicates with its suppliers on a daily basis, but supplier development forms are reviewed once a year in order to update information and resolve problems.

3. Share of defective products in the production process

For detection of errors, quality control measures are applied at various stages for the purpose of identifying them at as early a stage as possible. The detected deficiencies are included in statistics and discussed with the respective stakeholders. For more complex special orders, there are more defects than in serial production. In such cases, ensuring internal quality helps to ensure customer satisfaction and a smaller number of customer complaints.

4. Audits

4.1 External audits

Customers, supervision authorities, product certification companies and license issue companies carry out audits and checks at the Group companies on a regular basis. 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. Due to the health crisis, several customer audits and visits were postponed in 2020 or they were conducted using digital solutions. The audits were successful and within their framework, several recommendations were made to the companies to be used as a useful input for their improvements.

In 2020, Saunum Group AS that visited AS Harju Elekter Teletehnika outlined production capacity and the factory’s good condition as the strengths of Teletehnika. AS Harju Elekter Elektrotehnika was audited by Siemens in Norway that praised the clean and well-organized manufacturing in its audit. They also appreciated the company’s awareness of quality management systems and the analytical capability to outline both well-functioning processes as well as those that need improvement.

In Finland, AQ Trafotek Oy audited Satmatic Oy and was satisfied with stable product quality and security of supply. Elenia Oy audited Finnkumu Oy (since 31 December 2020 merged with Satmatic Oy) and praised their flexibility and customer responsiveness. In Sweden, Harju Elekter AB successfully passed the customer audit of E.ON Energidistribution AB.

In Lithuania, various customers visited Harju Elekter UAB (Siemens AS, GE Power, Thyssenkrupp AG) who also provided positive feedback. Siemens also conducted product certification through SIVACON.

4.2 Internal audits

Internal audits are also part of consistent improvements. The purpose of auditing is not to search for drawbacks but to find compliance and opportunities for improvement. During the audit, the auditor and the auditee are partners in the improvement process.

According to the plan, the Group's subsidiaries conduct internal audits and the team of internal auditors consists of employees with different backgrounds and competencies. Internal audit findings are also used as inputs for improving the organization: all findings and non-compliances are registered and an action plan is determined on their basis to liquidate shortcomings.

Quality enhancement activities in Group companies in the reporting year

Several Group companies implemented special projects in 2020 to improve internal processes related to increasing product quality and satisfaction with services. The processes were automated and digitalized, and the renewal of information systems was launched.

In Finland, Telesilta Oy conducted digitalization and automation of processes and arranged design software training sessions. Finnkumu Oy increased the square area of its yard and changed the size of the loading area so that loading would be quicker and safer. Factory doors were replaced so that unauthorized persons could not get access to the territory. In addition, production was rearranged on smaller lines as a result of which waste was reduced.

In Lithuania, Harju Elekter UAB implemented quality control for metal and copper details so as to identify deficiencies at the initial stage of the supply chain.

In Estonia, AS Harju Elekter Teletehnika started to use the new ERP system in December 2020. Energo Veritas OÜ optimized its central warehouse and laid emphasis on conducting inventory counts.

In the financial year, AS Harju Elekter Elektrotehnika enhanced its cooperation with Siemens as a result of which the project's manufacturing processes and principles were developed ranging from documentation to manufacturing and occupational safety. Major emphasis was placed on communication with suppliers and giving systematic feedback. In autumn 2020, a quality area was established with the mission to ensure continuity of the company's processes to ensure quality in line with customers' expectations at optimal expenditures. In addition, a 10-part ETO (Engineering to Order) training program for engineers was carried out, in the framework of which various standards, and principles for selecting and designing equipment were introduced.

About a dozen quality managers of the companies operating in Keila Industrial Park regularly participate in club meetings of the Estonian Association for Quality. The goal of the initiative specifically targeted at the companies in Keila Industrial Park is to acknowledge and promote quality management. They jointly discuss current topics concerning industrial companies and they try to find improvement projects.

Safety and environmental impact of finished products

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

- The basis for the safe use is created in the stage of product development, which leads to technical solutions that have to meet the requirements established by certain standards.

- Before new products enter a batch production phase or a major special execution phase, they have to pass standard tests to uncover possible risks or inspections by customers (each year several so-called Factory Acceptance Tests are carried out).
- Each employee must ensure production of high-quality products.
- The aim of the final inspection is to identify possible defects in products caused by human factors or possible faults in components, as a result of which we are able to meet customer expectations and reduce the company's environmental impact.

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

The Group has concluded product liability insurance contracts to compensate for potential loss events.

PERSONNEL

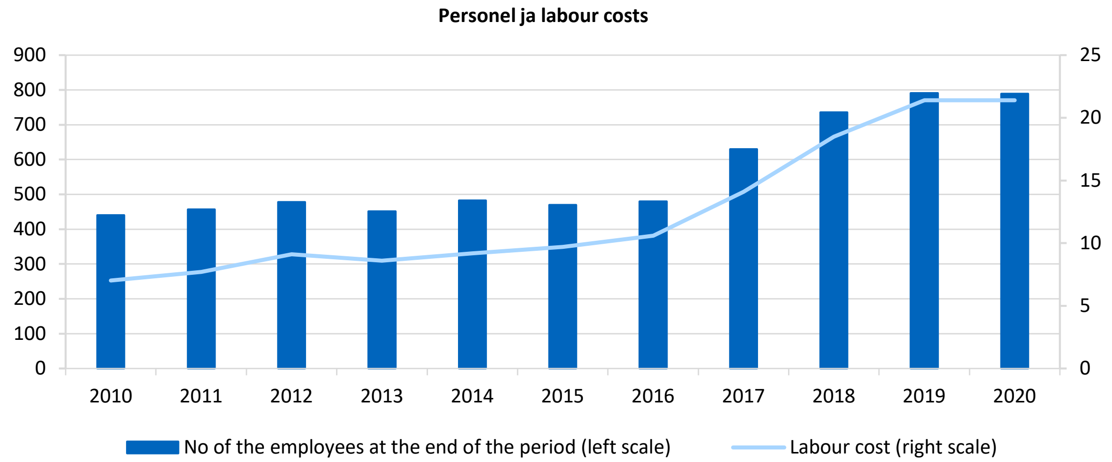
In 2020, the Group focused on mergin the companies and taking into use a joint trademark. Therefore, human resources concentrated on maintaining the quality of management, including change management, harmonization of various management systems and ensuring of high-quality labor. Although the labor market situation put pressure on employee turnover, emphasis was placed on the topic of the employer brand both from the point of view of current and future employees. Therefore, the focus topics in the financial year included development of an employer value proposition and preparations for the single identity for the subsidiaries. In its activities, the management of AS Harju Elekter Elektrotehnika proceeded from the good governance principles previously agreed upon and started necessary activities to apply them. Going forward, it is important to apply a similar practice at the other Group companies. Scarcity of trained specialists and wage pressure continues to be relevant topics.

Preliminary labor market statistics by country in 2020

	Estonia	Finland	Lithuania	Sweden
Labor market participation	71.6%	66.3%	62.6%	73.6%
Employment rate	66.7%	71.6%	57.3%	67.2%
Unemployment rate	6.8%	7.8%	8.5%	8.3%

In 2020, in connection with the global health crisis, the top priority for Harju Elekter and for its companies in every country were the activities related to health promotion of employees and their occupational safety.

The production companies in Estonia replaced their staff and wage software and developed an intranet to simplify activities with the help of digitalization and improve communication. New digital tools in human resources prosessses in Finland were taken into use during the reporting year and they will be further advanced in 2021.



As at 31 December 2020, Harju Elekter employed 784 (2019: 791) people. The biggest change in the number of employees occurred in Lithuania, where 223 (2019: 251) people worked as at 31 December 2020. Almost half of the Group's employees – 356 (2019: 346) people – work in Estonia. The average age in the Group has remained around 40 for years and in the financial year it was 40.5 years. 30% of the Group's employees (235 people) have higher education, 52% (401 people) have secondary and secondary specialized education and 18% (135 people) have basic education. In the financial year, the average number of employees was 780 (2019: 778).

Employee salaries, bonuses and benefits over the 12-month period was 21.3 (2019: 21.4) million euros. In the financial year, the average annual pay per Group employee was 2,278 (2019: 2,296) euros.

The Group is characterized by strong and developed organizational culture. The large percentage of long-term employees also encourages new employees to follow suit and uphold traditions. 34% of the employees have worked in the Group for more than five years. Staff turnover among the employees of the Group companies was 10% (2019: 17%) on average. The turnover by country was as follows: 3% (2019: 16%) in Estonia, 4% (2019: 12%) in Finland, 25% (2019: 29%) in Lithuania and 2% (2019: 5%) in Sweden.

The majority of the Group's employees work under employment contracts entered into for an unspecified term while there were three employment contracts for a specified in the Group as at 31 December 2020. The share of men was 75% (2019: 77%) and that of women was 25% (2019: 23%) in the Group.

The share of the Group's employees working full-time was as follows: 99% in Estonia, 100% in Finland, 100% in Lithuania and 100% in Sweden. The Group companies did not extensively use subcontractors or agency workers.

Overview of employment as at 31 December 2020

	Estonia	Finland	Lithuania	Sweden	Total	% of all employees
Total number of employees	**356**	**136**	**223**	**69**	**784**	
*incl. administrative and engineering staff**	121	58	62	27	**268**	34%
incl. workers	235	78	161	42	**516**	66%
incl. men	249	117	161	65	**592**	76%
incl. women	107	19	62	4	**192**	24%
incl. under the age of 30	54	19	79	21	**173**	22%
incl. 30-49 year-old	197	76	124	35	**432**	55%
incl. 50 year-old and older	105	41	20	13	**179**	23%
Number of top executives at Group companies	**10**	**4**	**1**	**3**	**18**	
incl. men	9	4	1	3	**17**	
incl. women	1	0	0	0	**1**	
New employees	30	9	24	21	**84**	
Employees left**	10	6	58	1	**75**	
Average turnover ***	3%	4%	25%	2%	10%	

* Some top level executives are part of the management structure of several companies.
** Incl. voluntarily and due to retirement or death
*** The number of employees who left voluntarily during the year divided by the average number of employees

New generation of employees

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

Since the lack of qualified labor presents a serious risk to the development of the Group, constructive cooperation with universities and other research institutions continued in 2020 to ensure sufficient availability of employees with certain competencies. In Estonia, close cooperation with Tallinn University of Technology, TTK University of Applied Sciences, Tallinn Industrial Education Centre, Tallinn Polytechnic School and Tallinn Construction School continued. In cooperation with Tallinn University of Technology, up to four scholarships are annually granted to Bachelor's and Master's students of energy or mechanical engineering specializations. Over the years, 73 Bachelor's and Master's students have participated in the scholarship program and 14 of them have been employed by the Group following their studies. Currently, the Group employs six scholarship recipients.

The Finnish subsidiary Satmatic Oy has close ties with technical and professional higher education institutions of the region: Satakunna Apprenticeship Training Centre, Tampere University of Technology and Turku School of Economics.

In 2020, the Lithuanian subsidiary Harju Elekter UAB started a long-term cooperation project for improvement of the employees' electricity-related knowledge, hiring a lecturer from Visaginas Technology and Business Vocational Education and Training Centre to work at the development academy set up at the company.

The Group considers it important to participate in major labor and career fairs. In 2020, it participated in the student fair "The Key to the Future" at Tallinn University of Technology and regional fairs organized by the Unemployment Insurance Fund. The Group also closely collaborates with various schools to provide internship positions.

Employee satisfaction and motivation

At the Estonian companies of Harju Elekter (the Parent company, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika and Energo Veritas OÜ), an employee satisfaction survey is carried out once every two years. In the organization's health survey conducted in spring 2019, 73% (2017: 72%) of the employees participated, the most active of whom were the employees of the Group's parent company.

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

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

In the financial year, satisfaction surveys were carried out at the Group's Finnish companies where 80% of employees participated in the survey. The employee satisfaction measures were as follows: 72% at Satmatic Oy, 80% at Finnkumu Oy (from 31 December 2020 merged with Satmatic Oy) and 72% at Telesilta Oy.

Harju Elekter uses various solutions to enhance employee satisfaction and increase their motivation. The motivation system is upgraded regularly once a year. At the Group level, long-term employees in Estonia can get additional vacation days to be used between December and March.

In raising employee commitment, the crucial factors include leadership and involvement skills of managers, development of teamwork, and provision of feedback and employee recognition

The Group companies have created various motivation systems, for example:

- a bonus system based on operating profit and personal performance that covers all employees. Profit-based bonuses motivate employees to contribute to the performance of the company as a whole;
- stimuli dependent on the length of employment;
- share-option plans aimed at involving members of the management bodies and employees of the Group companies as shareholders of the Group in order to motivate them to contribute to better economic results;
- inter-company and inter-country exchange programs supporting quick gaining of knowledge and experiences at the Group and offering rotation opportunities for employees;
- fostering recreational sports and provision of physiotherapy opportunities;
- additional benefits such as Christmas and summertime events for employees and their children, a day off for the parents whose children start school, celebration of jubilees, allowance in the event of the loss of a close family member, school graduation bonuses and election of the employees of the year.

Many employee satisfaction and motivation related activities and plans had to be postponed until 2021 due to the restrictions arising from the coronavirus. Going forward, intra-group principles and questions are planned to be used for measuring employee satisfaction and commitment in order to obtain a better overview.

Personal development of employees

In 2020, the focus remained on improving the management capacity and quality of the executives of Harju Elekter companies. In addition, emphasis was laid on the topics of mental health, occupational safety, ISO management systems as well as production optimization and effectiveness. In 2020, the Group companies continued with the development of new employee orientation programs.

Each year, the Group companies carry out regular training courses and sessions targeted at improvement of special skills and qualification. Electricity and new equipment (bending robot) related training courses were arranged at the Estonian subsidiaries. Project management training sessions were organized for the employees in Estonia and Lithuania, and in the latter, participants could obtain the certificate “Best Practices for Project Management Success”.

First aid, occupational, fire and electricity safety training sessions were organized for the employees of the Group companies; and training sessions were organized for working environment commissioners to keep up with significant legislative changes. All employees are constantly being instructed in recycling matters so that they would be able to sort waste by type.

In 2020, 52% (2019: 46%) of the Group’s employees participated in training courses, attending 8 (2019: 11) hours per employee on average. Lithuania trained its employees the most, with 19.6 (2019: 3.0) hours on average per employee. In 2020, 56% (2019: 68%) of the company’s executives and specialists attended training courses with average training being 8.7 (2019: 13.6) hours. Employees received 8.2 (2019: 8.4) hours of training on average.

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

Occupational health and safety

Occupational health and safety of the employees and a modern working environment are of utmost importance to the Group. Being a caring and responsible employer, Harju Elekter provides its employees with modern work and non-work conditions that are in compliance with current legislation. Since people perceive high risks in the work environment, the Group invests more in improving occupational health and safety than the law requires. All the subsidiaries of the Group have made the management of occupational health and safety their strategic matter.

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

In the financial year, the Finnish companies launched cooperation with a new health care partner to ensure better quality and results for employee health and well-being.

The Lithuanian subsidiary has concluded accident insurance contracts with its employees that also cover accidents that may happen in their home offices. The companies of Harju Elekter Group also have existing travel insurance policies and in addition, for members of the management boards life insurance policies have been concluded.

To assess compliance with the working environment requirements, potential risks and fulfilment of employee requests, the companies have concluded risk analyses on the basis of which various investments are made into the tools as well as working practice changes. The focus remains on improving the management of occupational safety and other similar practical issues, e.g. hoist-related safety, fire safety and evacuation issues, use of personal protective equipment, etc. In 2020, due to the threat stemming from the virus, personal protective equipment and disinfectants also received special attention, as well as utilization of other preventive safety precautions. All companies enable remote working from home offices to the extent possible and changes were made to work practices to lower illness risk.

The production operations of Harju Elekter UAB, Harju Elekter Elektrotehnika and Telesilta Oy comply with the Occupational Health and Safety Assessment Series ISO 45001In its activities, Harju Elekter AB proceeds from the requirements of ISO 45001 standard.

The companies systematically follow the indicators related to employee health and work environment to adopt preventive measures on their basis.

In 2020, the number of occupational accidents increased in Estonia and Finland, but they represented minor work-related accidents where employees recovered quickly. The Group companies registered 22 (2019: 13) occupational accidents or injuries, including 6 (2019: 1) in Estonia, 1 (2019: 2) in Lithuania, 6 (2019: 1) in Finland and 9 (2019: 9) in Sweden. There were no fatal occupational accidents or any cases of occupational diseases. The share of lost workdays due to occupational accidents at the Group companies was 0.4% (2019: 0.02%) on average and the number of workdays lost due to an illness was 2.4% (2019: 2.0%) on average.

Diversity and fair treatment

At the Group, following the principle of diversity and fair treatment is part of the work organization and the recruitment process of the staff. Therefore, the Group does not distinguish between or select employees based on their gender, religion, nationality or race, but relies on their skills and competencies. 24% (2019: 24%) of the staff of the Group are women while there is one female executive out of 19 top executives (Supervisory Board, Management Board and executives).

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

No discrimination cases were registered in 2020.

Trade unions

Harju Elekter approves its employees’ membership in trade unions and, therefore, 79% of the employees of the Group have signed trade union agreements.

The manufacturing companies operating in Estonia have constructive cooperation with Keila Industrial Park’s Trade Union (KETA). Approximately 30% of the employees of these companies have registered themselves as its members.

In 2020, the collective agreement concluded between the companies and the representatives of the employees was renewed and it applies to all employees. The employees of the Group’s Lithuanian company are voluntary members of local trade unions, and the employees of the Finnish and Swedish companies belong to local professional associations. The trade union is an important channel of exchange of information between the Group’s management and the employees as well as organization of other activities with employees.

ENVIRONMENTAL MANAGEMENT

Harju Elekter Group considers it important to minimize the environmental impact of its operations and enhance the positive environmental impact. For this purpose, the Group companies have defined their environmental aspects, conducted environmental impact assessments and combined the environmental activities with the organization's management system and business processes.

The manufacturing of energy distribution and control equipment is a relatively clean process and does not have any serious harmful impacts or burdens on the natural environment. The company finds that the main environmental aspects include the consumption of electricity and heat on the manufacturing premises, the use of certain materials (primarily copper) and waste generation (primarily copper and steel, to a lesser extent also paint residues) and use of transportation services when transporting products.

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

The Group monitors and applies diligently the principles regulating the use of recyclable and other packaging materials, and reports it to the appropriate institutions as laid down in the procedures.

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

In 2020 and in prior years, the Group companies did not violate any environmental laws or other legislation.

Preventive activities are important for the Group, ensuring that neither environmental deviations nor any violations would occur.

The management of environmental aspects is based on three pillars:

- compliance with environmental laws and other legislation;
- periodic analysis of environmental risks and environmental impact assessment;
- implementation of the environmental management standard ISO 14001 in all the manufacturing enterprises of the Group

Customers who determine the qualities of a finished product and the criteria for the materials to be used in manufacturing play an important role in contributing to the environmental impact. Therefore, environmental awareness and if possible, guiding customers to use green solutions is of importance.

The environmental policy guides the Group companies towards following environmental requirements arising from laws, rules, society and customers. Action plans focus on optimization of processes, use of materials and resources in a more sustainable manner, making work techniques and technologies more efficient and attaining the least possible environmental impact.

The members of the management boards of the Group and subsidiaries as well as the specialists in the respective fields are responsible for environmental matters. The Group aims to achieve that each employee understands how he/she impacts the environment and is able to contribute to reducing his/her footprint. For this purpose, employees undergo training to be able to notice and make proposals for more reasonable organization of transportation, waste management, the use of materials and energy and make them more eco-friendly. In several subsidiaries of the Group, the employees are responsible for following 5S principles aimed at increasing productivity which, in addition to creating well-maintained and systematic workplaces, also support the reduction of a waste of resources.

Environmental impact of the product life cycle

The Group's goal is to create long-lasting and seamlessly working solutions which are reliable and sustainable for customers and the society. The market also presumes that, for example, the lifecycle of substations is at least 40 years. Long-term solutions translate into lower demand for manufacturing of new substations and less harm on the environment. Flexible engineering technical solutions enable to attain additional effects for lengthening the lifecycle of products and solutions.

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 the components of electric equipment are recycled as required. The main negative environmental impact from the use of substations comes from SF6 gas that is used to make switches in medium-voltage equipment, which is still preferred by a large number of customers, especially in Estonia and Finland. More environmentally-friendly alternatives include the use of air insulation or vacuum technology, but these would raise the price of the whole product by about a third and the market is simply not ready for it yet. However, it is possible to lower the price in product development with eco-friendly solutions, for example, if it is possible to make a product with fewer components.

Materials and waste

The main materials used in manufacturing include steel and copper elements, powder paints and various electrical engineering and electronics components. Even though a large portion of the selection of the materials is dictated by customers, the Group companies themselves choose more environmentally-friendly alternatives of the highest quality, where possible.

The company tries to reduce generation of metal waste via optimization of manufacturing processes. The paint lines are able to collect some of the paint residue and reuse it. Most of the packaging is reused as well.

The Group companies are contractual partners of the non-profit association Eesti Pakendiringlus. The subsidiary Satmatic Oy cooperates with the Finnish producer liability organization RINKI in order to ensure recycling of electronics, copper, cables and other waste.

The Group’s Lithuanian subsidiary Harju Elekter UAB gives unused, but safe electrical components to the electrical technology students of the Panevežys College to be used in teaching and learning activities.

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

The quantity of waste at the Group companies increased. In 2020, a total of 1,258 (2019: 1,152) tons of waste was generated, including 16.1 (2019: 3.7) tons of hazardous waste that was discarded as required. The growth of hazardous waste is related to cleaning of paint lines. 85% (2019: 86%) of non-hazardous waste was sorted and recycled.

Energy

The Group companies try to reduce the consumption of electricity and heat through smart and sustainable technologies and construction of energy-efficient buildings. In addition to buildings used by the subsidiaries, the Group considers energy-efficiency important also in the case of industrial real estate that it develops in Keila, Allika and Haapsalu Industrial Parks. An A-class energy label was assigned to the building that was completed most recently, i.e. Laohotell 2.

In 2020, the Group companies consumed 4,568 (2019: 4,066) MWh of electricity and 3,892 (2019: 3,772) MWh of heat. Approximately 12% (2019: 15%) of the total consumption of electricity and heat originated from renewable sources.

In 2020, AS Harju Elekter Elektrotehnika conducted an energy audit to map out the areas that consume energy the most. Activities based on the analysis of the respective results to reduce the energy cost are planned for 2021. In 2020, Harju Elekter AB also focused on energy projects and replaced the lamps in the factory by LED lighting. The replacement of the inner and outer lighting of the various buildings of the Group by more energy-efficient ones has been a long-term project whose purpose is to replace all previous lights by LED lighting solutions.

When developing industrial real estate, AS Harju Elekter follows the principles of environmental sustainability:

- In the case of new buildings, it is thoroughly assessed which heating solution is the most suitable one for the given building or production method. New buildings are built to be more heat-preserving than the requirements prescribe. All new buildings built by Harju Elekter since 2017 are equipped with solar panels on the roof and this principle will also be followed in the future.
- Older building are made more energy-efficient by insulating the walls and roofs and their heat and ventilation systems are modernized.

Such improvements will help to meet the increasing expectations of lessees, place value on environmental conservation and more economical energy consumption.

Generation of renewable energy

Harju Elekter Group pays increasing attention to the generation and use of renewable energy. At the end of 2019, the total installed capacity of the Group's solar power plants was 1,340 kW.

In 2020, the portfolio of the solar power plants of Harju Elekter increased by 397 kW. A Laohotell 2 building was built in Allika Industrial Park, on the roof of which solar panels with the capacity of 73 kW. Additionally several other stand-alone solar power plants with the capacity of up to 324 kW were installed. Thus, by the end of the year, the capacity of the installed solar power stations increased to 1,737 kW.

In 2020, the Group's solar power plants generated a total of 1,225 MWh of electricity.

In 2020, of the Group's Estonian companies, AS Harju Elekter consumed 5.8 MWh, AS Harju Elekter Elektrotehnika 29 MWh and AS Harju Elekter Teletehnika AS 44 MWh of the electricity generated from sunlight. In the financial year, Satmatic Oy produced 56 MWh and Finnkumu Oy 37 MWh of electricity using solar energy. Harju Elekter AB covered the entire heat energy consumption and 98% of electricity consumption from renewable energy.

Although use of solar energy still accounts for only a small portion of the energy consumption of the Group and its lessees, new buildings to be constructed will be using solar energy as their source of energy. The majority of the solar energy generated, i.e. 1,053 MWh was sold to the electricity network or directly to the tenants of the buildings.

SHARE AND SHAREHOLDERS

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

As at 31 December 2020, the share capital of AS Harju Elekter amounted to 11.18 million euros, which is divided into 17.74 million ordinary shares without nominal value. The book value of a share is 0.63 euros.

The year 2020 turned out to be a year of extraordinary changes in the stock markets – a sharp fall and thereafter, a recovery at record speed. The novel coronavirus (COVID-19) pandemic announced by the World Health Organization (WHO) in the first quarter of the year took the global stock indices into a significant dive. In March 2020, stock indices lost more than 20 per cent of their value. The Tallinn Stock Exchange - OMX Tallinn fell by as much as 24.1%. Since the beginning of April, stock markets started to recover strongly. As at 31 December 2020, the US stock market index S&P 500 closed at 3756.07 points which is a record result, increasing by 16% in a year. The Tallinn Stock Exchange Index OMX Tallinn increased by 5% (2019: 10%) in a year but the fastest growth occurred in the last two months of the year (+15%). However, European stock market Stoxx 600 index fell by 4% in a year. As opposed to the spring of 2020, the virus outbreak in the autumn did not make investors worried, because the recovery will be fast once the virus recedes. Now that vaccinations are underway, the economy is expected to recover strongly in 2021.

Share price and trading

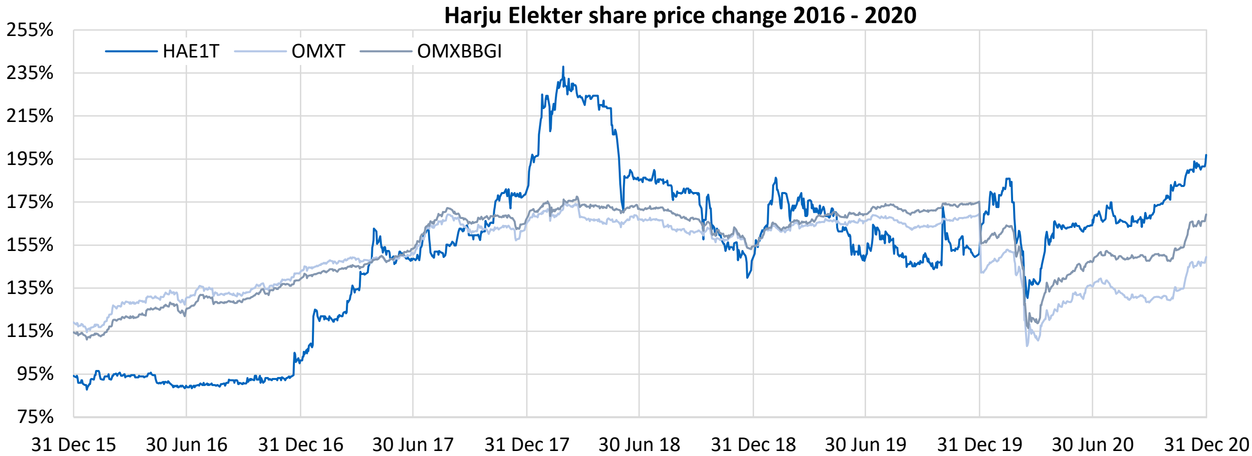
	2020	2019	2018	2017	2016
Average number of shares (pcs)	17,739,880	17,739,880	17,739,880	17,739,880	17,739,880
Opening price (euros)	4.26	4.12	5.00	2.85	2.62
Highest price (euros)	5.26	5.20	6.68	5.08	2.94
Lowest price(euros)	3.20	4.01	3.89	2.80	2.43
Closing price (euros)	5.18	4.21	4.12	5.00	2.83
Change in the closing price (%)	23.0	2.2	-17.6	76.7	7.6
Company's market capitalization (millions)	91.89	74.68	73.09	88.70	50.20
Traded shares (pcs)	1,160,598	531,415	1,100,773	1,349,617	947,294
Turnover (million euros)	4.99	2.35	5.98	5.46	2.45
Net profit per share (euros)	0.31	0.14	0.09	1.64	0.18
P/E ratio (ratio)	16.52	30.07	45.78	(3) 3.05	15.72
Dividend per share (euros)	(1) 0.16	0.14	0.18	0.24	0.18
Dividend rate (%)	3.1	3.3	4.4	4.8	6.4
Dividend/net profit (%)	51.0	100.9	206.6	(2)100.0	100.0

(1)- Management Board's proposal
(2)- From ordinary net profit = the net profit of the owners of the parent company less one-off proceeds from the sale of the shares in PKC Group Oyj
(3)- Takes into account the profit from the extraordinary sale of an investment in 2017

At the last trading day of the year, the share of AS Harju Elekter closed at 5.18 euros, increasing by 23.0% in a year. As at 31 December 2020, the market value of the company was 91.89 million euros. The volume of transactions doubled to 4.99 million euros and so did the number of shares traded (1.2 million shares in 2020 as compared to 0.5 million shares in 2019). The number of the shareholders of the company continued to increase. As at 31 December 2020, AS Harju Elekter had 5,084 shareholders.

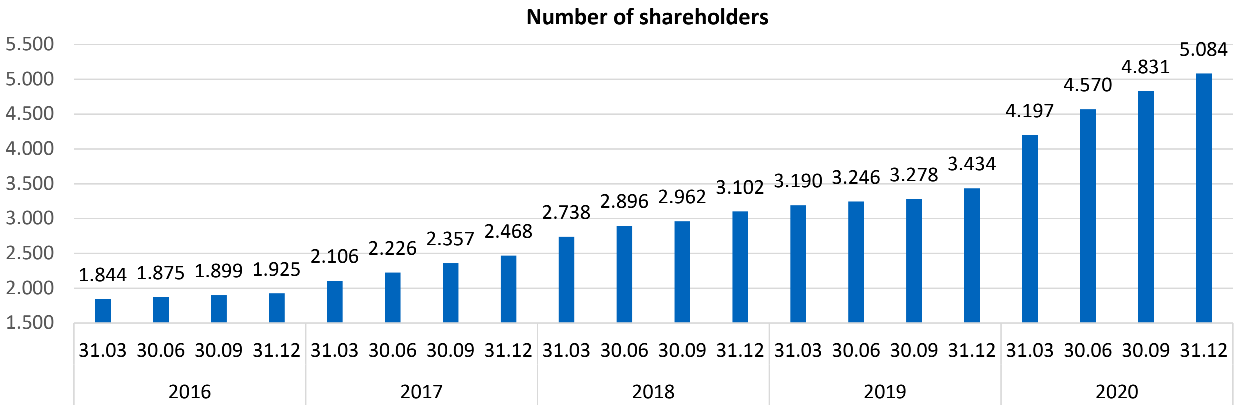
The share price of AS Harju Elekter (euros) on the Nasdaq Tallinn Stock Exchange 31 December 2015 – 31 December 2020 (Nasdaq Tallinn, http://www.nasdaqbaltic.com/)

The share price change of of AS Harju Elekter compared to the changes in share indices in 2016-2020



Structure of shareholders at 31 December 2020

As at 31 December 2020, AS Harju Elekter had 5,084 shareholders. In the financial year, the number of shareholders increased by 1,650. The largest shareholder of AS Harju Elekter is AS Harju KEK which is based on local capital and which owns 31.39% of the company's share capital. Foreign shareholders make up 14.39%. As at 31 December 2020, the members of the company's Supervisory and Management Boards owned either directly or through indirect shareholdings 9.51% of the company's shares. The complete list of the shareholders of AS Harju Elekter is available on the website of the Nasdaq CSD.



Break-down of shareholders by shareholding size and the list of shareholders with holdings greater than 5% as at 31 December 2020:

Shareholding %	Number of shareholders	% of total number	Voting right %
More than 10%	2	0.0	42.1
1.0 - 10.0%	8	0.2	21.6
0.1 - 1.0 %	58	1.1	16.2
Less than 0.1%	5,016	98.7	20.1
Total	**5,084**	**100.0**	**100.0**

Shareholders	Share-holding (%)
AS Harju KEK	31.39
ING Luxembourg S.A.	10.71
Endel Palla	7.04
Shareholders with holdings less than 5%	50.86
Total	**100.00**

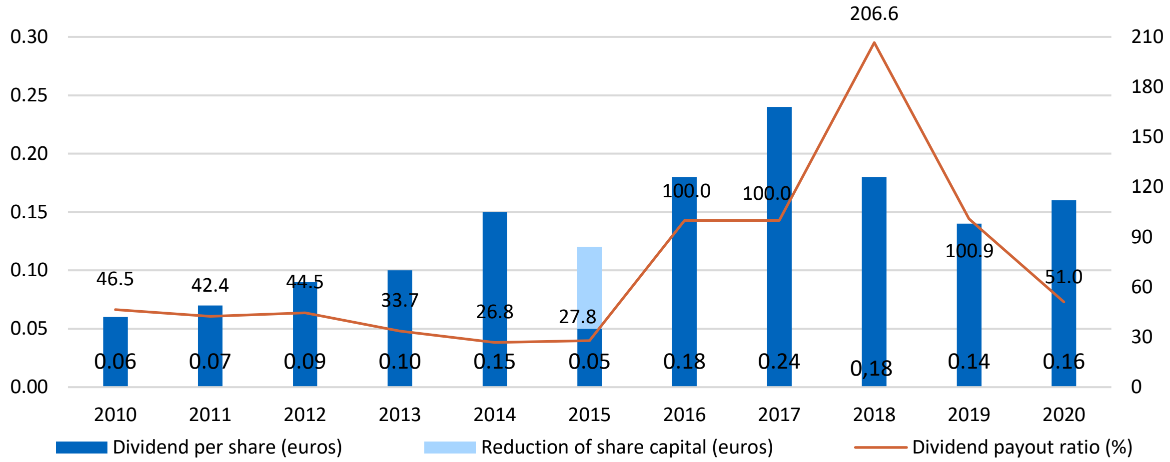
Break-down of shareholders by country, as at 31 December 2020:

Country	Total number of share-holders	Number of share-holders (pcs)			Total number of shares	Number of shares (pcs)			Total % of shares	% of shares		
		Legal	*Private*	*Insti-tutions*		*Legal*	*Private*	*Institutions*		*Legal*	*Private*	*Insti-tutions*
Estonia	4,967	*360*	*4 572*	*35*	15,186,287	*6,375,530*	*8,633,289*	*177,468*	85.6	*35.9*	*48.7*	*1.0*
Luxembourg	1	-	-	*1*	1,899,768	-	-	*1,899,768*	10.7	-	-	*10.7*
Sweden	6	-	*2*	*4*	195,953	-	*472*	*195,481*	1.1	-	*0.0*	*1.1*
USA	6	-	*2*	*4*	191,405	-	*1,510*	*189,895*	1.1	-	*0.0*	*1.1*
Finland	47	-	*46*	*1*	95,509	-	*19,655*	*75,854*	0.5	-	*0.1*	*0.4*
Lithuania	5	-	-	*5*	91,907	-	-	*91,907*	0.5	-	-	*0.5*
Latvia	8	-	*4*	*4*	44,882	-	*4,938*	*39,944*	0.3	-	*0.0*	*0.2*
Germany	8	-	*6*	*2*	16,084	-	*2,625*	*13,459*	0.1	-	*0.0*	*0.1*
Other countries	36	-	*33*	*3*	18,085	-	*12,465*	*5,620*	0.2	-	*0.2*	*0.0*
TOTAL	**5,084**	***360***	***4,665***	***59***	**17,739,880**	***6,375,530***	***8,674,954***	***2,689,396***	**100.0**	***35.9***	***49.0***	***15.1***

Dividends

According to the Group's dividend policy, at least one third of the net profit generated in the ordinary course of business is paid out as dividends. The actual dividends rate, however, depends on the Group's cash flows and future outlook and funding needs.

The Management Board with the approval from the Supervisory Board proposes to the general meeting of Shareholders to pay 0.16 (2019: 0.14) euros per share as dividends, in the total amount of 2.8 (2019: 2.5) million euros.



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

MANAGEMENT PRINCIPLES

In its business operations, the Harju Elekter Group proceeds from the effective national laws and legal standards, the company's articles of association and, as a public company, from the requirements of Nasdaq Tallinn Stock Exchange, the guidelines on the Corporate Governance Code (CGC) and the principles of equal treatment of shareholders and investors.

The Group relies on governance principles, which are honest and transparent in internal communication, customer relationships and relations with third parties. The Group companies did not contribute to political activities with monetary or non-monetary values in 2020.

The Group has zero tolerance towards a conflicts of interest, corruptive behaviour and unfair competition by itsemployees and partners. The rules, guidelines and verbal agreements at management level established in the Group companies help reduce reputational risks and thereby uphold the Group's reliability on the market and in relationships with stakeholders. Key persons are obliged to declare their business interests and operating rules have been established for people in possession of inside information. The internal rules of work are introduced to all employees of the Group upon the commencement of their employment and regular area-based training and internal audits are organised.

Certain principles have been agreed to mitigate the risks arising from conflicts of interest, e.g. another decision-maker must be included in the case of major transactions and the agreement of a manager must be obtained for participation in motivation events organised by customers.

The companies pay great attention to developing an open organisational culture. The Group uses a procedure for holding meetings and exchangeing information in order to inform the company's management about critical transactions that involve high economic risks and possible non-compliances.

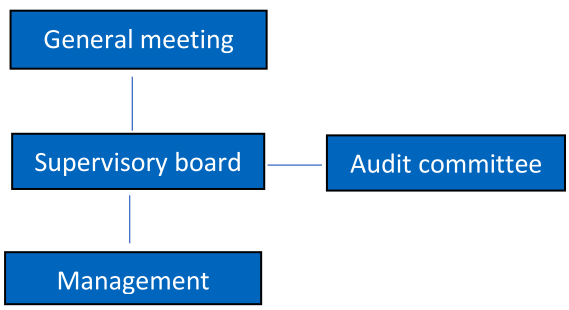
No incidents related to corruption or conflicts of interest were registered in the Group in 2020, which is why no employees were fired, no fines were imposed and no judicial complaints were filed in relation to this. There were also no incidents due to which contracts with business partners were terminated or their renewal was suspended due to corruptive behaviour.

There were no non-compliances with effective regulations (including in the economic, social and natural environment) in the other activities of the Group companies, which is why no fines or non-monetary sanctions were imposed on the Group companies. Also, no Group company or employee was contacted in a court case for non-compliance with laws.

Corporate Governance Report 2020

The Corporate Governance Code is a set of guidelines and advisory rules, which primarily listed companies are expected to follow. Harju Elekter follows the Corporate Governance Code, except of otherwise noted in this report.

AS Harju Elekter is a public limited company whose managing bodies are the general meeting of shareholders, the supervisory board and the management board.



General meeting

Exercise of rights by shareholders

The general meeting of shareholders is the highest managing body of AS Harju Elekter, which is authorised, among others, to amend the articles of association and the share capital, elect and remove members of the supervisory board, appoint the auditor, approve the annual report and distribute profit, and decide on the issues provided for by law.

Each shareholder has the right to participate in the general meeting, speak up on the items presented in the agenda during the general meeting, and submit reasoned questions and make proposals.

Each share of Harju Elekter grants equal voting and dividend rights. All shareholders are equal and there are no separate restrictions and agreements concerning the right to vote. As far as is known to Harju Elekter, the mutual contracts between shareholders include no restrictions on the transfer of securities or other specific rights of control.

Calling a general meeting and information to be published

The annual general meeting takes place once a year not later than within six months after the end of the financial year of the company. A special general meeting is called by the management board in accordance with law. The management board gives notice of an annual general meeting at least three weeks in advance.

Harju Elekter published the notice calling an annual general meeting on 3 June 2020 via the information system of the Nasdaq Tallinn Stock Exchange and on its website, and on 5 June 2020 in *Äripäev.* Shareholders could send questions about the topics on the agenda to the e-mail address given in the notice and read the annual report on the website of Harju Elekter and at the company's location at Paldiski mnt 31, Keila. The shareholders submitted no questions about the topics on the agenda before the general meeting of shareholders in 2020.

Holding a general meeting

The general meeting is authorised to adopt resolutions if over one-half of the votes represented by shares are present thereat. A resolution of the general meeting is adopted if over one-half of the votes represented at the general meeting are in favour of the resolution, unless the law prescribes a greater majority requirement.

The general meeting of shareholders of AS Harju Elekter of 2020 was held on 30 June in the Keila Cultural Centre at Keskväljak 12. The meeting was held in Estonian. All members of the supervisory board and the management board attended the meeting. The auditor did not attend the general meeting. The CEO and the chairman of the supervisory board of Harju Elekter made presentations. 52 shareholders or their authorised representatives attended the meeting and they represented 64.70% of the total number of votes. Harju Elekter does not have the appropriate reliable and technically secure equipment, which is why the general meeting could not be viewed or attended via means of communication.

The general meeting approved the annual report for 2019 and profit distribution proposal and decided to pay the shareholders dividends for 2019 in the amount of 0.14 euros per share, 2.5 million euros in total. The decisions made at the general meeting were published in the information system of the Nasdaq Tallinn Stock Exchange and on the company's website.

Management board

Functions of the management board

The management board is the managing body of AS Harju Elekter that represents the company and directs the everyday activities of the company in accordance with the requirements of law and the articles of association. Each member of the management board may represent the company in all legal acts. The management board is required to act in the most economically purposeful manner and make everyday management decisions independently, proceeding from the best interests of Harju Elekter and the shareholders, and leaving aside their personal interests.

Composition and remuneration of the management board

The management board consists of one to five members. The members of the management board are elected by the supervisory board for a term of three years. To elect a member of the management board, his or her written consent is required. The chair of the management board is appointed by the company's supervisory board.

The long-term CEO of Harju Elekter Andre Allikmäe announced in late 2019 that he would be moving into the position of business development manager in the company's executive management after the expiry of his authorisation as member of the management board on 3 May 2020. The supervisory board of Harju Elekter appointed recent member of the management board and CFO Tiit Atso the new CEO as of 4 May 2020 at the meeting held on 16 March 2020.

The management board of AS Harju Elekter has two members as of 4 May 2020. CEO Tiit Atso is responsible for the general and strategic management, daily business activities and financial issues of the Group. Member of the management board Aron Kuhi-Thalfeldt is responsible for the company's property and energy areas. The members of the management board participate in the work of the managing and control bodies of the Group's subsidiaries.

Remuneration is paid to the members of the management board according to the contract of a member of the management board Performance pay is paid to the members of the management board on the same grounds as to the administrative staff of the parent company. Performance pay is divided on the basis of the basic remuneration and work contribution, whereby the performance pay of a member of the management board is coordinated with the Chairman of the Supervisory Board. Up to 80% of performance pay is paid on a quarterly basis, while the remaining 20% is paid out after the approval of the results of the financial year. The top management, including management board members also receive an annual bonus, which amounts to 1.0% collectively of the consolidated net profit. The annual bonus is approved by the chairman of the supervisory board and it is paid out after the Group's annual accounts have been audited. Members of the management Board are entitled to severance pay up to eight month's remuneration of a management board member.

In 2020, the remuneration paid to the members of the management board including the performance fee for the previous year, social taxes and the contractual severance pay of the resigned member of the management board totalled 509 thousand euros. Harju Elekter does not disclose the remuneration paid to the members of the management board individually, because it believes that this is sensitive information the disclosure of which is unimportant and would not give added value to the shareholders.

As at the end of 2020, the members of the company's management board held a total of 0.06% (2019: 1.33%) of the company's shares directly and via indirect holdings (Note 21.3).

Detailed information about the education, career, participation in the managing bodies of companies and shareholdings in AS Harju Elekter of the members of the management board is given on the company's website www.harjuelekter.com.

Members of the management board as at 31 December 2020:

Tiit Atso, CEO

Aron Kuhi-Thalfeldt, Member of the Management Board

Conflict of interests

The members of the management board abstain from conflicts of interest and follow the requirements of prohibition of competition. The members of the management board must inform the other members of the management board and the chairman of the supervisory board of Harju Elekter of any business propositions made to them, the persons close to or related to them, which are associated with the company's economic activities. The supervisory board decides on the conclusion of transactions with a member of the management board of Harju Elekter or persons close to or related to them that are important for the company and determine the terms and conditions of such transactions.

A member of the management board of Harju Elekter does not demand or accept from third parties money or any other benefits for personal purposes in connection with their work or grant to third parties any unlawful or unreasonable advantages on behalf of the issuer. There were no conflicts of interest or incidents of corruption in 2020.

Supervisory board

Functions of the supervisory board

The supervisory board plans the activities of the Company, organises the management thereof and supervises the activities of the management board. The supervisory board issues orders to the management board for the organisation of the management of the company. The supervisory board decides on the company's development strategy and investment policy, the conclusion of transactions with immovables and the approval of the investment and annual budget prepared by the management board. Meetings of the supervisory board are held when necessary but not less frequently than once every quarter. The supervisory board has a quorum if over a half of the members of the supervisory board are present.

Nine meetings of the supervisory board were held in 2020. Endel Palla, Arvi Hamburg and Triinu Tombak attended all meetings of the supervisory board; Andres Toome and Aare Kirsme attended eight meetings.

Composition and remuneration of the supervisory board

According to the articles of association, the supervisory board of Harju Elekter has three to five members. The members of the supervisory board are elected by the general meeting for a term of five years. On 27 April 2017, the annual general meeting of shareholders elected the following five-member supervisory board for the public limited company for a period of five years: Endel Palla, Arvi Hamburg, Aare Kirsme, Triinu Tombak and Andres Toome. The Chairman of the Supervisory Board is Endel Palla, who has been working for Harju Elekter since 1969. Two of the five members of the supervisory board – Arvi Hamburg and Triinu Tombak – are independent members. The authorities of the members of the supervisory board remain valid until 3 May 2022.

The remuneration of a member of the supervisory board and the chairman of the supervisory board determined by the general meeting of shareholders as of 4 May 2017 is 1,000 euros per month and 1,600 euros per month, respectively. In addition to this, the fee for attending meetings in the amount of 200 euros was determined for members of the supervisory board, which is not paid if the member of the supervisory board attends the meeting by telephone. The members of the supervisory board working in executive management are paid a performance fee on the same basis as to the members of the management board.

In 2020, the remuneration paid to the members of the supervisory board of AS Harju Elekter with the social taxes totalled 110 thousand euros, including 28 thousand euros paid to the Chairman of the Supervisory Board. The Group will not be obliged to pay compensation when the authorisation of the members of the supervisory board expire or are terminated. The Chairman of the Supervisory Board is an exception, as he has the right to receive severance pay in the amount of the development director's salary for six months.

As at the end of 2020, the members of the company's supervisory board held a total of 9.45% (2019: 9.45%) of the company's shares directly and via indirect holdings (Note 21.3).

Detailed information about the education, career, participation in the managing bodies of companies and shareholdings in AS Harju Elekter of the members of the management board is given on the company's website www.harjuelekter.com.

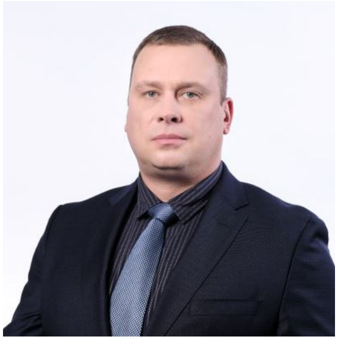
Members of the supervisory board as at 31 December 2020:

Endel Palla, Chairman of the Supervisory Board

Triinu Tombak, Member of the Supervisory Board

Arvi Hamburg, Member of the Supervisory Board

Andres Toome, Member of the Supervisory Board



Aare Kirsme, Member of the Supervisory Board

Conflict of interests

The members of the supervisory board abstain from conflicts of interest and follow the requirements of prohibition of competition. In their activities as a member of the supervisory board, a member of the supervisory board prefers the interests of the issuer to their personal interests or the interests of third parties. Members of the supervisory board do not use commercial offers aimed at the issuer in their personal interests. A member of the supervisory board will not vote at the meetings of the supervisory board if granting consent to the conclusion of a transaction between the member of the supervisory board and Harju Elekter is being decided or if a similar conflict of interest is caused by a transaction of a related party of the member of the supervisory board. There were no such conflicts of interest in 2020. Also, no significant transactions were concluded in 2020 between Harju Elekter and the members of the supervisory board or persons close to or related to them.

Cooperation between the management board and the supervisory board

The management board and the supervisory board cooperate closely for the purpose of the best protection of interests of Harju Elekter. The management board regularly informs the supervisory board of any important matters that concern planning the activities of the Group as well as its business activities and draws particular attention to important changes in the business activities of Harju Elekter. The management board forwards data, incl. financial reports, to the supervisory board in sufficient time prior to supervisory board meetings. The management of the company is governed by relevant laws, the articles of association and the decisions of and the goals set by the meetings of shareholders and the supervisory board.

Diversity policy

Pursuant to subsection 242 (4) of the Estonian Accounting Act, a large company who has issued securities that grant the right to vote and these have been accepted for trading on the regulated securities market of Estonia or another contracting state must describe the diversity policy implemented in the company’s management board and the highest managing body, and the results of its implementation in the reporting year in its corporate governance report. If the diversity policy has not been implemented in the reporting year, the reasons of this must be explained in the corporate governance report.

AS Harju Elekter has not considered it necessary to prepare a document covering diversity policy and people are elected and appointed to the highest managing bodies primarily in consideration of the possible added value that they bring to the management of the Group with their knowledge and skills, and their suitability. Nobody is discriminated against on the grounds of age, gender, religion, origin or other characteristics.

Publication of information

As a listed company, AS Harju Elekter proceeds from the principles of openness and equal treatment of shareholders. The information required in the stock exchange regulations is published regularly in accordance with the deadlines, and the company thereby follows the principle that it will not publish any forecasts – only factual events that have taken place are reported and commented. This information is published in Estonian and English on the websites of the Nasdaq Tallinn Stock Exchange and the company and via the information storage system managed by the Financial Supervision Authority.

In order to quickly inform the shareholders and the public, the company has a website that includes stock exchange notices, economic reports, compositions of the management board and the supervisory board, information on the auditor, an overview of the Group, its history, products and other important information.

Unlike point 5.3 of the CGC, the management board of the company finds that strategy is a trade secret of a company and not subject to disclosure. The general directions and important topics have been outlined in the management report. The company does not find it important to keep a schedule regarding the time and agenda of the meetings of different shareholder according to point 5.6 of the CGC, because the information discussed at the meetings has already been published. The company always proceeds from the principle of equal treatment of shareholders in its activities. Mandatory, important and price-sensitive information is first disclosed in the system of the Nasdaq Tallinn Stock Exchange and then on the websites of the Financial Supervision Authority and the company. Each shareholder also has the right to request additional information from the company and set up meetings. This rules applies in the case of all meetings, also immediately before the disclosure of financial reports.

Financial reporting and auditing

AS Harju Elekter publishes yearly the annual report and quarterly its interim reports. Annual reports are audited and approved by the supervisory board and the general meeting.

A regulation of the European Commission entered into force on 18 June 2019, according to which the issues whose securities have been accepted for trading on the regulated market of a European Union Member State must, as of 1 January 2020, submit their consolidated annual financial reports in the European Single Electronic Format (ESEF). Pursuant to article 4(7) of the Transparency Directive, Member states may permit issuers to submit annual financial reports in the electronic format as of the financial year that starts on 1 January 2021 or later. Member States may postpone the implementation of the ESEF requirements by a year if the Member State informs the European Commission of the respective intention. The resolution on postponement of the implementation of the ESEF has not been adopted in the legislation of Estonia by the time this report is submitted, but the Financial Supervision Authority and the Ministry of Finance have approved the postponement.

According to the resolution of the general meeting of shareholders of 3 May 2018, AS Harju Elekter and its subsidiaries are audited by PricewaterhouseCoopers from 2018-2020, except for Energo Veritas OÜ, which is audited by Baker Tilly Baltics OÜ and Harju Elekter Services AB, which is audited by Allians Revision & Redovising AB.

The information on the auditor is accessible on the company's website. The auditors are remunerated for their work according to contract and the size of the remuneration is not disclosed by agreement of the parties. The next election of the auditor will take place at the annual general meeting in 2021.

During the reporting period, the auditor did not inform the supervisory board of any significant circumstances that have become known to them, which may affect the work of the supervisory board and the management of the issuer. Neither did the auditor inform the supervisory board of any threats to the auditor's independence or professionalism. The auditor gave the audit committee formed by the supervisory board a written overview of the course of the audit of the company in 2020, the observations made and any other important topics that were discussed with the management board of the company.

Additional managing bodies and committees

The necessary procedures in the company are regulated with rules and guidelines, and there has been no practical need for the establishment of additional managing bodies and committees (including remuneration committee, appointment committee).

Audit committee

In 2010 the supervisory board of the public limited company formed an audit committee in relation to obligation arising from the Auditors Activities Act, whose task is to monitor and analyse the processing of financial information, the efficiency of risk management and internal control, the process of auditing the consolidated financial statements, the independence of the audit firm and the auditor who represents the audit firm on the basis of law, and make proposals and recommendations to the supervisory board in the issues stipulated by law. The audit committee is an advisory body subject to supervision by the supervisory board.

The audit committee of AS Harju Elekter has two members. Members of the supervisory board Triinu Tombak (chairman) and Andres Toome belong to the committee since 2012.

SOCIAL INVOLVEMENT

The Harju Elekter Group is an active and concerned member of the community and supports the development of the sector related to its area of activity in countries where the company's business units and employees are located. The objective of the support activities of the Group is to be a permanent partner and it therefore focuses primarily on the establishment and development of long-term cooperation relationships.

In 2020 Harju Elekter phrased the two main direction of its sponsorship activities, according to which the following is primarily supported:

- education and interest of young people in technology; and
- local youth sports.

We support the development of the area of engineering education

Irrespective of the health crisis in the world and Estonia, Harju Elekter continued with various cooperation projects with educational institutions also in 2020 in order to develop and popularise engineering education among young people.

- AS Harju Elekter is a gold sponsor of the Tallinn University of Technology and grants up to four scholarships named after the company to bachelor and master's students every year. 73 students have participated in the scholarship programme since 2001.
- The company participates in granting a scholarship aimed at students with special needs, which is named after M. Aitsam, in cooperation with the Tallinn University of Technology Development Fund and Estonian companies. The Chairman of the Supervisory Board of the company Endel Palla has granted a scholarship named after him for many years.
- AS Harju Elekter has contributed to the professional activities of the students of the Department of Power Engineering (School of Engineering) for more than 10 years. The Formula Student Team Tallinn, which consists of the technology students of Tallinn University of Technology and the Tallinn University of Applied Sciences and participates in international product development competitions, is also supported.
- If possible, AS Harju Elekter participates in furnishing the technology and research laboratories of Tallinn University of Technology and participates in research and development projects.
- Harju Elekter supported the Prototron Junior project in autumn 2020. The product development manager of AS Harju Elekter Elektrotehnika mentored secondary school students in the field of product development within the scope of the project.

- Regular study trips are organised to the Estonian companies of the Harju Elekter Group and the company's employees contribute to the development of technological curricula with their knowledge and experience.
- The Estonian companies of the Group continue with its cooperation programmes with the Tallinn Vocational Education Centre, the TTK University of Applied Sciences, the Tallinn Polytechnic School and the Tallinn Construction School.
- The Lithuanian subsidiary Harju Elekter UAB constantly cooperates with the Panevežys Electrotechnical College and the Panevežys Vocational Training Centre, the Visaginas Technology and Business Vocational Education and Training Centre and Lithuanian Maritime Academy.
- The Finnish subsidiary Satmatic Oy has close relations with the technical and vocational collages operating in the region: Satakunna University of Applied Sciences, Tampere Technical University and Turku School of Economics.
- In 2020 the Group companies offered traineeships to 16 (2019: 52) young people. The Group's Estonian subsidiary AS Harju Elekter Elektrotehnika has offered the most traineeships.

We participate actively in the development of local life

AS Harju Elekter feels responsibility for the development of the company's operating region and increasing the welfare of the community. Therefore, the company has set itself the goal to support the studies of the children and young people in the region and to provide them with more leisure opportunities. AS Harju Elekter has long cooperation relations with Keila School, Keila Music School and the nursery schools, sports and hobby clubs of Keila.

We support and encourage young athletes

In terms of supporting sports, AS Harju Elekter has contributed the most to youth sports by increasing the popularity of sports through consistent support. The parent company supports the basketball, volleyball and football clubs of Keila. Youth projects represent support aimed at the future, the purpose of which is to work extensively and consistently with children and young people to contribute to the development of athletes who will be representing Estonia in the future.

We contribute to the development of the sector

It is important to the Group to also develop the society via professional associations and organisations and it contributes with its knowledge and the brain power of its people to the topics that stand for fair competition as well as sustainable and safe product solutions.

AS Harju Elekter and the Estonian Association of Electrical Enterprises (EAEE) continue to raise the issues of electrical safety in legislation as well as in the broader public domain.

The Group companies are members of the following organisations:
Estonian Chamber of Commerce and Industry (AS Harju Elekter)
Estonian Association of Electrical Enterprises (AS Harju Elekter, AS Harju Elekter Elektrotehnika, Energo Veritas OÜ)
Federation of Estonian Engineering Industry (AS Harju Elekter Teletehnika)
Lithuanian Engineering Industries Association LINPRA (Harju Elekter UAB)
Panevežys Chamber of Commerce, Industry and Crafts (Harju Elekter UAB)
Finland Chamber of Commerce (Satmatic Oy)
Federation of Finnish Technology Industries (Satmatic Oy)
Cooperative for Collection and Recycling of Waste electrical and Electronic Equipment ELKER (Satmatic Oy)
Finnish Packaging Recycling RINKI (Satmatic Oy)
Finnish Service Sector Employers PALTA (Telesilta Oy)

The total volume of the scholarships and support programmes of the Harju Elekter Group in 2020 was 58.6 (2019: 75.3) thousand euros.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR´000)	Note	31.12.2020	31.12.2019
Current assets			
Cash and cash equivalents	7	2,843	4,878
Trade and other receivables	8	27,226	22,958
Prepayments	9	820	1,166
Inventories	10	18,856	19,010
Total current assets		**49,745**	**48,012**
Non-current assets			
Deferred tax assets	24	514	472
Non-current financial investments	11	11,918	10,494
Investment properties	12	23,605	21,259
Property, plant and equipment	13	22,494	20,402
Intangible assets	15	7,199	7,260
Total non-current assets		**65,730**	**59,887**
TOTAL ASSETS	22	**115,475**	**107,899**
Liabilities			
Borrowings	16	12,056	11,305
Prepayments from customers		4,182	2,212
Trade and other payables	18	15,837	16,448
Tax liabilities	19	2,871	2,959
Current provisions		34	34
Total current liabilities		**34,980**	**32,958**
Borrowings	16	7,032	7,901
Other non-current liabilities	18	66	64
Total non-current liabilities		**7,098**	**7,965**
Total liabilities	22	**42,078**	**40,923**
Equity			
Share capital	21	11,176	11,176
Share premium	21	804	804
Reserves	21.5	6,709	3,412
Retained earnings		54,858	51,699
Total equity attributable to owners of the parent company		**73,547**	**67,091**
Non-controlling interests		-150	-115
Total equity		**73,397**	**66,976**
TOTAL LIABILITIES AND EQUITY		**115,475**	**107,899**

The notes on pages 60 to 101 are an integral part of the consolidated financial statements

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pwc Initials L.L. Date 23.03.2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(EUR´000)	Note	2020	2019
Revenue	22, 23	146,614	143,397
Cost of sales	23	-125,405	-125,153
Gross profit		**21,209**	**18,244**
Distribution costs	23	-5,847	-5,706
Administrative expenses	23	-9,259	-9,229
Other income		707	255
Other expenses		-264	-291
Operating profit	22	**6,546**	**3,273**
Finance income		137	139
Finance expenses		-379	-225
Profit before tax		**6,304**	**3,187**
Income tax	24	-776	-820
Profit for the period		**5,528**	**2,367**
Profit is attributable to:			
Owners of the parent company		5,563	2,460
Non-controlling interests		-35	-93
Earnings per share			
Basic earnings per share (EUR)	25	0.31	0.14
Diluted earnings per share (EUR)	25	0.31	0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR´000)	Note	2020	2019
Profit for the period		**5,528**	**2,367**
Other comprehensive income (-loss)			
Items that subsequently may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	21.5	112	-84
Items that subsequently may not be reclassified to profit or loss:			
Gain on available-for-sale financial assets reclassified to profit or loss	11	80	116
Net proceeds from revaluation of financial assets	21.5	2,922	642
Total other comprehensive income (-loss) for the period		**3,114**	**674**
Total comprehensive income (-loss) for the period		**8,642**	**3,041**
Total comprehensive income (-loss) for the period is attributable to:			
Owners of the parent company		8,677	3,134
Non-controlling interests		-35	-93

The notes on pages 60 to 101 are an integral part of the consolidated financial statements

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CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR´000)	Note	**2020**	**2019**
Cash flows from operating activities			
Profit for the period		5,528	2,367
Adjustments			
Depreciation, amortization and impairment losses	12, 13, 15, 22, 23	3,794	3,518
Profit on sale of non-current assets	26	-21	-51
Share-based payments	27	263	189
Finance income		-137	-139
Finance expenses		379	225
Income tax	24	776	820
Changes			
Changes in trade receivables		-3,756	-803
Change in inventories		155	-1,543
Changes in trade payables		1,232	2,637
Corporate income tax paid	26	-916	-890
Interest paid		-299	-180
Total cash flow (-outflow) from operating activities		**6,998**	**6,150**
Cash flows from investing activities			
Payments for investment properties	26	-3,096	-1,110
Payments for property, plant and equipment	26	-4,566	-4,191
Payments for intangible assets	26	-300	-350
Payments for financial assets	11	-104	-730
Proceeds from sale of investment properties		5	0
Proceeds from sale of property, plant and equipment	26	33	125
Proceeds from sale of financial assets	11	1,681	578
Interests received		-3	8
Dividends received		91	140
Total cash flow (-outflow) from investing activities		**-6,259**	**-5,530**
Cash flows from financing activities			
Change in overdraft balance	16	-1,131	3,902
Proceeds from borrowings	16	3,151	2,913
Repayments of borrowings	16	-1,112	-989
Payments of principal or leases	16	-1,175	-1,275
Dividends paid	21	-2,484	-3,193
Income tax paid on dividends		-14	-169
Total cash flow (-outflow) from financing activities		**-2,765**	**1,189**
Total net cash flow (-outflow)		**-2,026**	**1,809**
Cash balance at the beginning of the period		**4,878**	**3,142**
Change in cash balances		-2,026	,1,809
Effects of exchange rate differences		-9	-73
Cash balance at the end of the period	7	**2,843**	**4,878**

The notes on pages 60 to 101 are an integral part of the consolidated financial statements

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR´000)	Attributable to owners of the parent company						
	Share capital	Share premium	Reser-ves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2018	**11,176**	**804**	**2,665**	**52,316**	**66,961**	**-22**	**66,939**
Comprehensive income 2019							
Profit for the period	0	0	0	2,460	2,460	-93	2,367
Other comprehensive income	0	0	558	116	674	0	674
Comprehensive income for the period	**0**	**0**	**558**	**2,576**	**3,134**	**-93**	**3,041**
Transactions with owners recognised directly in equity							
Share-based payments (Note 27)	0	0	189	0	189	0	189
Dividends	0	0	0	-3,193	-3,193	0	-3,193
Total transactions with owners	**0**	**0**	**189**	**-3,193**	**-3,004**	**0**	**-3,004**
Balance at 31 December 2019	**11,176**	**804**	**3,412**	**51,699**	**67,091**	**-115**	**66,976**
Comprehensive income 2020							
Profit for the period	0	0	0	5,563	5,563	-35	5,528
Other comprehensive income	0	0	3,034	80	3,114	0	3,114
Comprehensive income for the period	**0**	**0**	**3,034**	**5,643**	**8,677**	**-35**	**8,642**
Transactions with owners recognised directly in equity							
Share-based payments (Note 27)	0	0	263	0	263	0	263
Dividends	0	0	0	-2,484	-2,484	0	-2,484
Total transactions with owners	**0**	**0**	**263**	**-2,484**	**-2,221**	**0**	**-2,221**
Balance at 31 December 2020	**11,176**	**804**	**6,709**	**54,858**	**73,547**	**-150**	**73,397**

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

The notes on pages 60 to 101 are an integral part of the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter (address: Paldiski mnt 31, Keila, Republic of Estonia) is a company registered in Estonia (Commercial Register number: 10029524). The annual financial statements prepared as at 31 December 2020 cover AS Harju Elekter (hereinafter the "Parent company") and its subsidiaries (together referred to as the "Group" or Harju Elekter).

Subsidiaries of AS Harju Elekter	Core business	Ownership and voting rights 31.12.2020	Ownership and voting rights 31.12.2019
Estonia			
AS Harju Elekter Teletehnika	Production	100%	100%
AS Harju Elekter Elektrotehnika	Production	100%	100%
Energo Veritas OÜ	Retail and wholesale	80.52%	80.52%
Finland			
Satmatic Oy	Production	100%	100%
Harju Elekter Kiinteistöt Oy	Management of industrial real estate	100%	100%
Telesilta Oy	Electrical engineering works	100%	100%
Subsidiaries of Satmatic Oy			
Finnkumu Oy	Production	-	100%
Kiinteistö Oy Ulvila Sammontie 9	Management of industrial real estate	-	100%
Lithuania			
Harju Elekter UAB	Production	100%	100%
Sweden			
Harju Elekter AB	Production	100%	100%
Grytek AB	Production	-	100%
Harju Elekter Services AB	Intermediary sales	100%	100%

As at the reporting date, the Group has one subsidiary with non-controlling interests. In the first quarter of 2017, AS Harju Elekter acquired an 80.52% stake in Energo Veritas OÜ, a company that sells electrical materials and equipment.

The merger of the 100% Swedish subsidiaries of the Harju Elekter Group, SEBAB AB and Grytek AB, was entered in the Swedish Commercial Register on 29 October 2020. SEBAB AB became the legal successor of Grytek AB as a result of the merger of the companies. The name of the Swedish subsidiary SEBAB AB was changed to Harju Elekter AB on 14 December 2020 and the Swedish subsidiary that operated under the name Harju Elekter AB until then was renamed Harju Elekter Services AB.

On 31 December 2020, the merger and division of the Finnish subsidiaries of AS Harju Elekter was entered in the Finnish Commercial Register. Satmatic Oy merged its 100% subsidiaries Finnkumu Oy and Kiinteistö Oy Ulvila Sammontie 9. A partial division of Satmatic Oy was carried out after the merger, whereby Satmatic Oy transferred property ownerships in Ulvila and Kerava to Harju Elekter Kiinteistöt Oy. The principal activity of Harju Elekter Kiinteistöt Oy is management of the industrial real estate belonging to the Group. The name of Satmatic Oy as of 14 January 2021 is Harju Elekter Oy.

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

On 23 March 2021, the Management Board signed the consolidated financial statements for the financial year ended at 31 December 2020. According to the Estonian Commercial Code, the annual report including the consolidated financial statements, prepared by Management Board and approved by Supervisory Board, shall be approved by the annual general meeting of shareholders.

2 Basis of preparation

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

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

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

2.1. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that can have a material impact on the application of policies and carrying amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying amounts of assets and liabilities that are not readily available from other sources.

Estimates and underlying assumptions are continually evaluated. The effect of a change in an accounting estimate is recognized in the period of the change and any future periods affected by the change. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

2.2. Primary financial statements of the Parent company

Under the Estonian Accounting Act, the Parent company's separate primary financial statements (the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are to be disclosed in the notes to the consolidated financial statements. The separate primary financial statements of AS Harju Elekter are disclosed in Note 28 Primary financial statements of the Parent company. The separate primary financial statements are prepared using the same accounting policies and measurement bases as those applied in the preparation of the consolidated financial statements, except for investments in subsidiaries that are accounted for using the cost method in the parent's separate primary financial statements.

3 Changes in accounting policies

3.1 Impact of new standards, amendments to existing standards and new interpretations of standards on financial statements

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

The Group has adopted the following new standards and amendments (including any associated amendments to other standards) effective for the first time from 1 January 2020.

IAS 12 12.52A and 12.57A – Change in interpretation of recognition of deferred income tax on investments

Based on the interpretation decision adopted by the International Financial Reporting Interpretations Committee (IFRIC) in June 2020, the principle for deferral of income tax effective in Estonia for the past 20 years does not comply with the interpretation of IAS 12.52A. IAS 12.52A states that if income tax is paid on dividends and not on profit, the income tax expense or liability are not recognised in financial statements before the dividends have been declared. In Estonia, this accounting principle has been applied consistently to the total retained earnings irrespective of whether the retained earnings have accumulated in the parent company or in the Estonian subsidiary. Based on this year's interpretation decision, the principle stipulated in sections 52A and 57A of Standard IAS 12 are applied only to the retained earnings of the parent company and not applied to the retained earnings of Estonian subsidiaries.

According to IAS 12 section 39, an entity must recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except if:

a) the entity is able to control the timing of the reversal of the temporary difference; and
b) it is probable that the temporary difference will not reverse in the foreseeable future.

The amendment is applied retroactively, which means that the income tax liability must be recognised in respect of the retained earnings accumulated in subsidiaries in previous periods.

The management board assessed the impact of the interpretation decision concerning IAS Standard 12, reviewed and analysed the principles of the Group's dividend policy and concluded that there is no retroactive impact on financial statements. The initial balances of the reference and reporting period need no adjustment. In the future, the income tax expense and liability in the case of temporary differences associated with the payment of dividends will be recognised according to the new interpretation, and the effective principles of the Group's internal dividend policy and the subsidiary's capability to pay dividends will be proceeded from.

Amendments to the Conceptual Framework for Financial Reporting

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

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

Definition of material –Amendments to IAS 1 and IAS 8

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

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

3.2 Standards, interpretations and amendments to published standards that are not yet effective

The Group is constantly monitoring the changes to new standards and interpretations of existing standards. The Group intends to analyze the impact of the changes to new standards and apply the amended standards once they have been adopted by the European Union. Currently, no additional new standards or their amendments have been adopted that would become effective in the future.

4 Significant accounting policies

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

4.1. Basis of consolidation

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

The consolidated financial statements comprise the financial statements of AS Harju Elekter and its subsidiaries. The financial statements of the subsidiaries are prepared for the same period as the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events in identical circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

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

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

For each business combination, the Group chooses whether to recognize a non-controlling interest in the acquiree at fair value or in proportion to the non-controlling interests in the acquiree's identifiable net assets.

The Group recognizes the cost of acquiring a business combination, except for the costs of issuing debt or equity securities, as an expense when incurred.

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

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

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

4.2. Foreign currency transactions and balances

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

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

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

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

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

When a foreign operation is partially disposed of or sold, the currency translation differences recognized in equity are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into euros at the exchange rate prevailing at the balance sheet date.

4.3. Cash and cash equivalents

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

4.4. Financial assets

The Group classifies the financial assets into the following measurement categories:
- those to be measured at amortized cost; and
- those to be measured at fair value (either through OCI or through profit or loss).

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

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

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

At initial recognition, the Group measures financial assets, other than financial assets at fair value through profit or loss (FVPL), at fair value, including transaction costs that are directly attributable to the acquisition of the financial asset. The transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

(b) Equity instruments
The Group recognizes equity instruments at fair value. When the Group has made an irrevocable decision to recognize changes in the fair value of equity instruments held for non-trading purposes through the statement of comprehensive income, the changes in fair value are not reclassified to the statement of profit or loss upon derecognition of the instrument. Dividends received from such investments continue to be recognized in the statement of profit and loss under other income.

For listed securities, fair value is based on the closing price of the security at the end of the reporting period. For unlisted securities, fair value is determined on the basis of publicly available information and using valuation techniques that include reference to the fair value of another instrument that is substantially the same at the end of the reporting period and / or discounted cash flow analysis.

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

The valuation of financial assets is described in Note 4.10.

4.5. Inventories

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

4.6. Investment properties

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

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

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

4.7. Property, plant and equipment

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

(a) Recognition and measurement
Items of property, plant and equipment are recognized at an acquisition cost less any accumulated depreciation and any impairment losses. Acquisition cost consists of the purchase price of the asset and other costs directly attributable to the acquisition that are necessary for bringing the asset to its working condition and location. The acquisition cost of an item of property made for own use consists of material costs, direct labor costs and a proportional share of production overheads and borrowing costs which are related to the acquisition, construction or production of non-current assets.

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

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

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

(c) Depreciation
Depreciation is recognized as an expense on a straight-line basis over the estimated useful life of an item of property, plant and equipment and its identifiable components. Land and construction in progress are not depreciated. Group companies use uniform depreciation rates.

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

The following estimated useful lives are applied:

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

4.8. Intangible assets

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

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

Goodwill arising from a business combination is initially recognized at acquisition cost. The useful life of goodwill is indefinite, so goodwill is not amortized but the possible impairment is assessed at each balance sheet date (Note 4.10).

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

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

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

Capitalized development costs are included with acquisition cost less any accumulated amortization and any impairment losses. Development costs are expensed using a straight-line method over their estimated useful lives typically not exceeding 10 years. Depreciation is commenced when the development project is ready for use.

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

4.9. Non-current assets held for sale

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

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

4.10. Impairment of assets

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

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

Expected credit loss is measured based on:
- unbiased and probability-weighted amount, determined on the basis of a number of possible outcomes,
- time value of money and

- reasonable and justified information available at the end of the reporting period, without excessive cost or effort, on past events, current conditions and forecasts of future economic conditions.
- The Group applies the simplified approach as permitted by IFRS 9 to cash and cash equivalents, deposits, trade receivables and contractual assets without a significant financing component and calculates impairment losses of receivables as lifetime estimated credit losses upon their initial recognition. The Group uses the impairment matrix where impairment losses is calculated for receivables using their various aging buckets (Note 6.3).

(b) Non-financial assets
For property, plant and equipment with unlimited useful lives as well as assets subject to depreciation, the existence of circumstances indicating potential impairment of the asset is assessed. If such circumstances occur, the recoverable amount of the asset is assessed and compared with the carrying amount. When assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects both the change in the time value of money and the risks associated with the asset. When the asset does not generate independent cash flow, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

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

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

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

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

4.11. Leases

(a) The Group as the lessor
Assets leased out under operating lease terms are recognized in the statement of financial position as usual, similarly to other assets recognized in the company's statement of financial positions. Operating lease payments are recognized over the lease term as income using the straight-line method.

(b) The Group as the lessee

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

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

Initial measurement

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

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

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

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

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

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

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

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

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

Subsequent measurement

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

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

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

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

In case of a change in lease payments, the lease liability may need to be reassessed. The lessee shall recognize the amount of the revaluation of the lease liability as an adjustment to the right-of-use asset. However, if the residual value of the right-of-use asset decreases to zero and there is a further decrease in the measurement of the lease liability, the lessee shall recognize the amount of the revaluation in the statement of profit and loss.

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

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

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

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

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

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

4.12. Financial liabilities

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

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

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

4.13. Income tax and deferred tax

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

(a) Corporate income tax in Estonia
According to the Income Tax Act entered into force in Estonia at 1 January 2000, it is not the company's profits that are taxed but net dividends paid. Income tax is paid on dividends, fringe benefits, gifts, donations, costs of reception of guests, non-business payments and transfer price adjustments. The effective income tax rate is 20/80 (2019: 20/80) on net dividends paid out. Starting from 2019, it is possible to apply a more favorable tax rate on dividend payments (14/86). The more favorable tax rate can be applied to a dividend distribution that amounts to up to three preceding years' average dividend distribution that has been taxed at 20/80 rate. In calculating the average dividend payment for the three preceding financial years, 2018 is first year to be considered.

(b) Corporate income tax in other countries
The profit of the Group's Finnish, Swedish and Lithuanian subsidiaries is subject to income tax, thus their income tax assets and liabilities, and income tax expense and income include current (payable) and deferred tax. The corresponding corporate tax rates in these countries are: Finland 20% (2019: 20%), Sweden 22% (2019: 22%) and Lithuania 15% (2019: 15%). Taxable profit is calculated from profit before tax, which is adjusted in income tax declarations with temporary or permanent differences based on local tax law requirements.

(c) Deferred tax
Deferred income tax is calculated on all significant temporary differences between the tax bases and the book values of the assets and liabilities. According to IAS 12.52A, no deferred income tax assets or liabilities emerge for a company registered in Estonia, except for the possible deferred income tax liability on the company's investments in subsidiaries, associates, joint ventures and branches. Deferred tax assets are recognized in the entity's statement of financial position when it is probable that it will be reversible in the future. Deferred tax is not recognized for temporary differences arising from:

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

The deferred income tax liability is recognised in the consolidated statement of financial position if the Parent company estimates that the subsidiary's dividend will be paid out in the foreseeable future and the deferred income tax liability is measured to the extent of the intended dividend payment amount, provided that there is enough equity for paying out the dividend as at the reporting date, on the account of which profit will be distributed in the foreseeable future. Deferred tax is determined at the tax rates that have entered into force or are actually in force at the balance sheet date and are expected to be applied to the realization of the deferred tax asset or the payment of an income tax liability.

4.14. Employee benefits

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

(b) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date or an employee accepts voluntary redundancy in exchange for those benefits. The Group recognizes termination benefits when it has made a clear commitment to: terminate the employment with existing employees in accordance with a detailed formal plan that the company cannot withdraw; pay compensation to employees on the basis of an offer to promote voluntary redundancy. If the maturity date of the termination benefit expires later than 12 months after the balance sheet date, the liability is discounted.

4.15. Provisions

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

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

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

4.16. Contingent liabilities

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

4.17. Share capital

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

If any Group company repurchases its equity instruments (treasury shares), the consideration payable, including directly attributable costs (excl. income tax), is deducted from the equity of the owners of the Parent until the shares are cancelled or reissued. Upon re-issuance of these shares, the fee received, less any directly attributable transaction costs and related income tax effects, is transferred to the equity of the parent's equity holders.

4.18. Mandatory reserve

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

4.19. Share-based transactions

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

4.20. Segment information

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

4.21. Revenue from contracts with customers

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

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

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

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

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

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

Payment of the transaction price is due immediately or as a payment schedule when the customer purchases and receives the product from the store. The customer has the right to return a defective product during a period specified by law. Since the number of returned products has remained at the same level for years, it is very likely that there will be no significant cumulative reversal of revenue. At each balance sheet date, the validity of this assumption and the estimated number of returned products are reviewed.

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

(c) Electrical works and other services
Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided by the end of the reporting

period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. Revenue is calculated as the ratio of incurred costs to total expected costs.

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

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

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

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

4.22. Lease income

Lease income from investment property is recognized on a straight-line basis over the lease term, when the client benefits from the service at the time the Group is rendering the service. Any lease concessions are treated as an integral part of lease income (Note 4.11).

4.23. Interest and dividend income

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

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

4.24. Earnings per share

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

4.25. Distribution of dividends

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

4.26. Related parties

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

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

4.27. Subsequent events

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

5 Accounting estimates and judgements

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

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

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

(a) Useful lives of investment property and property, plant and equipment (Notes 4.6, 4.7, 12, 13)
Management has assessed the useful lives of investment property, buildings and equipment based on production volumes and conditions, historical experience in this area and future outlook. Depreciation rates are increased when the useful life turns out to be shorter than initially estimated and technically obsolete assets are written off or impaired.

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

6 Financial risk management

6.1. Financial risk factors

In its day-to-day operations, the Group faces various risks. Management of these risks is an important and integral part of the company's business. The ability of the company to identify, measure and control different risks is an important input to the Group's overall profitability. Risk is defined by the Group's management as a possible negative deviation from the expected financial result. The main risk factors are market risk (including currency risk, price risk and interest rate risk), credit risk, liquidity risk and capital risk.

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

6.2. Market risk

(a) Currency risk
Currency risk is defined as a fluctuation in the fair value or the cash flows of a financial instrument due to the changes in foreign exchange rates. The Group's activities take place in Estonia (currency EUR), Finland (currency EUR), Lithuania (currency EUR) and Sweden (currency SEK). Financial assets and liabilities nominated in euros are not considered to bear any currency risk. With the acquisition of the new subsidiaries in Sweden since 2019, the Group is affected by the fluctuations of Swedish kronor in relation to euro.

(EUR´000)	31.12.2020 EUR	SEK	NOK	USD	31.12.2019 EUR	SEK	NOK	USD
Assets	1,017	11,787	9	0	707	12,377	10	0
Liabilities	-1,334	-9,467	0	0	-350	-10,797	0	0
Open currency position	**-317**	**2,320**	**9**	**0**	**357**	**1,580**	**10**	**0**
Revenue	4,937	20,126	0	0	186	18,786	0	0
Expenses	-5,819	-16,214	-42	-29	-2,452	-14,975	-373	0
Open currency position	**-882**	**3,911**	**-42**	**-29**	**-2,266**	**3,811**	**-373**	**0**

The potential impact of foreign currency fluctuations on comprehensive income is calculated based on the maximum foreign currency fluctuation during the reporting period that has been used in the table below to assess the effect of a potential change in the exchange rate. For the purposes of sensitivity analysis of the Group's net open foreign currency position, all other inputs were held constant.

Possible impact on total comprehensive income:

(EUR´000)	2020	2019
Impact of SEK exchange rate +11.1% (2019: +7.2%)	-85	-89
Impact of SEK exchange rate -11.1% (2019: -7.2%)	29	80

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

Due to the above, management believes that the Group is not exposed to currency risks to a significant extent and therefore no separate instruments have been used in the Group for hedging currency risks in 2020 and 2019.

(b) Price risk

The Group is exposed to the price risk of equity instruments, which arises from the financial investments held by the Group. The fluctuation of the fair value of the 7.64% holding in OÜ Skeleton Technologies Group recognised as non-current financial investments may have a significant impact on the value of the Group's assets. The fair value of the shares of OÜ Skeleton Technologies Group increased by 3.5 million euros to 8.8 million euros during the year 2020. More information on the holding in OÜ Skeleton Technologies Group is provided in Note 11.

Other non-current financial investments include listed securities and a 14.0% holding in SIA Energokomplekss. The fair value of these financial investments decreased by a total of 0.5 million euros in the financial year (2019: increased by 0.6 million euros) (Note 11).

(c) Interest rate risk

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

The Group's interest rate risk arises from current and non-current borrowings, which are based on floating interest rates. Through floating rate financial liabilities, the Group is exposed to cash flow interest rate risk. The Group's interest rate risk is primarily dependent on possible changes in Euribor (Euro Inter-Bank Offered Rate). The Group's interest rates of current and non-current borrowings as at 31 December 2020 are based on 3-month, 6-month and 12-month Euribor (Note16).

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

EUR '000	Note	31.12.2020	31.12.2019
Fixed rate financial liabilities	16.2	1,926	1,311
Variable rate financial liabilities	16.2	17,162	17,895
Total	16.1	**19,088**	**19,206**

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

EUR '000	**31.12.2020**	**31.12.2019**
Increase by one percentage point	-172	-179
Decrease by one percentage point	172	179

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

6.3. Credit risk

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

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

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

To reduce the credit risk, customers' payment discipline and their ability to meet their commitments are monitored daily. Based on internal and external ratings, individual credit limits are set for customers. There is regular monitoring of the use of credit limits. Retail customers pay with known bank's payment cards. The card payment requirement is secured by the Swedbank AS card payment agreement, which guarantees the receipt of card payments within two banking days, thus, there is no significant credit risk associated with retail customers. The Group has laid down conditions for taking debt recovery to court.

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

EUR '000	Note	**31.12.2020**	**31.12.2019**
Cash and cash equivalents	7	2,843	4,878
Trade receivables, contract assets and other receivables	8	27,226	22,958
Total		**30,069**	**27,836**

As at 31 December 2020, the Group's exposure to credit risk was 30.1 million euros and as 31 December 2019 it was 27.8 million euros. Management considers that the Group has no significant risk of a credit loss exceeding the amount already recognized.

Of the amount of accounts receivable at 31 December 2020, 1.68 (31 December 2019: 1.94) million euros had not been collected by 15 March 2020.

(b) Credit quality of financial assets
The Group uses a simplified approach to measure expected credit losses under IFRS 9, applying lifetime expected credit losses to all trade receivables and contract assets. Historical loss rates are adjusted to include both current and future information about the macroeconomic factors, which may have impact on the ability of customers to pay the receivables. Based on the principles described above the impact of impairment losses on the cash and cash equivalents 31 December 2020 was immaterial.

To measure expected credit losses, trade receivables and contract assets are grouped according to the shares credit risk characteristics and the aging period. The expected credit loss rates are based on the payment discipline over the last 12 month-period until 31 December 2020, historical credit losses occurred in respective periods and considering the economic growth and market interest rate forecasts.

Based on the principles described above the allowances as at 31 December 2020 and 31 December 2019 were as follows:

EUR'000	Note	**Not due**	**Less than 30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
31 December 2019							
Expected loss rate		0.13%	0.20%	2.52%	12.31%	71.09%	
Trade receivables	8	14,346	4,132	471	25	409	19,383
Contract assets	8	3,473	0	0	0	0	3,473
Other receivables	8	72	0	0	0	0	72
Total loss allowance		**24**	**8**	**12**	**3**	**291**	**338**
31 December 2020							
Expected loss rate		0.04%	0.22%	3.70%	4.85%	63.10%	
Trade receivables	8	17,886	1,268	41	75	668	19,937
Contract assets	8	7,357	0	0	0	0	7,357
Other receivables	8	26	0	0	0	0	26
Total loss allowance		**10**	**3**	**2**	**4**	**422**	**440**

6.4. Liquidity risk

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

Liquidity risk is hedged with various financial instruments – bank loans, overdrafts, long-term loan and lease agreements and monitoring of receivables. A overdraft account is used in order to manage the Group's cash flows as efficiently as possible, as it allows the subsidiaries, i.e. the members of the cash pool account, to use the Group's funds within the limit established by the Parent company. Overdraft is used to finance working capital. Long-term loan or lease agreements are used for the acquisition of investments or construction. Funds have been invested in securities for the long-term, which have a liquid secondary market and which can be immediately used to improve liquidity if necessary. As at the end of the financial year, the Group's available funds amounted to 2.8 (2019: 4.9) million euros and total liabilities to 42.1 (2019: 40.9) million euros. The current ratio and liquidity ratio of the Group were 1.4 and 0.9 in 2020 and 1.5 and 0.9 in 2019, respectively.

Analysis of the Group's financial liabilities by maturity:

EUR '000	Note	**<3 months**	**3-12 months**	**1-5 years**	**Total**
31 December 2019					
Borrowings		2,853	8,560	8,065	19,478
Trade payables	18	12,902	0	0	12,902
Other liabilities	18	521	0	64	585
Total		**16,276**	**8,560**	**8,129**	**32,965**
31 December 2020					
Borrowings		3,046	9,139	7,194	19,379
Trade payables	18	11,890	0	0	11,890
Other liabilities	18	345	0	66	411
Total		**15,281**	**9,139**	**7,260**	**31,680**

6.5. Capital management

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

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

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

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

The Group’s equity ratio:

EUR ‘000	Note	**31.12.2020**	**31.12.2019**
Interest-bearing borrowings	16	19,088	19,206
Cash and cash equivalents	7	-2,843	-4,878
Net debt		**16,245**	**14,328**
Total equity		73,398	66,976
Total capital		**89,642**	**81,304**
Debt to capital ratio		18.1%	17.6%
Total assets		115,475	107,899
Equity ratio		63.6%	62.1%

6.6. Fair value measurement

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

- Level 1: Assets and liabilities valued using unadjusted price from the stock exchange or other active regulated market.
- Level 2: Assets and liabilities valued using valuation techniques based on directly or indirectly observable inputs. This category includes, for example, financial instruments that are valued using the prices of similar instruments on an active regulated market or financial instruments that are revalued on the basis of the price of a regulated market but with low liquidity on the stock exchange. As at 31 December 2020 and 2019, the Group did not have any financial instruments at level 2.
- Level 3: Assets and liabilities that are valued using non-observable inputs.

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

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

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

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

6.7. Impact of coronavirus (COVID-19)

The first reports of the new coronavirus (COVID-19) reached the World Health Organization (WHO) from China in December 2019 and by spring 2020 the virus had spread all over the world, causing problems for businesses and affecting general economic activity. On March 11, the WHO declared the coronavirus outbreak a pandemic, and, as a result, many countries declared a state of emergency. Crossing internal and external Schengen borders were temporarily restricted and border controls were restored in Europe to prevent the spread of the coronavirus. At the same time trade and transport continued without restrictions.

The production and business operations of Harju Elekter continued without disruptions at all places of operations. We regularly assessed the probable risk scenarios that could affect our production and supply chain. Risk assessments were reviewed regularly according to the main risks:

- Health of production personnel and prevention of possible sickness
- Availability of materials and components
- Continuation of freight transport
- Monitoring the demand of customers
- Changes in credit ratings and limits
- Working capital adequacy
- Monitoring and analysis of financial investments

The Group has analysed that the one-off direct costs resulting from the coronavirus (COVID-19) total approximately 253 thousand euros. These include costs for purchasing new tools and equipment, implementing measures to prevent the coronavirus from spreading, and extraordinary costs for organizing work. Additionally, agreements on the temporary reduction of rent in the amount of 40 thousand euros were made, to ensure that tenants were able to cope with the complicated emergency situation. The amounts received from the support measures of Scandinavian countries amounted to 230 thousand euros in total. Orders were changed and delayed by customers in a significant extent, which slowed the growth initially planned for 2020. In conclusion, we consider that the emergency situation caused by the coronavirus did not have a significant impact on the Group's business operations and sustainability.

The value of the securities belonging to the Group's portfolio as at 31 December 2020 decreased by 7.4% over the year. The Group believes that the value of the investments made will recover in the future, which is confirmed by the increase in the value of investments in the second half of the year, which amounted to 0.2 million euros.

7 Cash and cash equivalents

EUR '000	Note	31.12.2020	31.12.2019
Cash on hand		0	12
Current accounts in banks		2,843	4,866
Total cash and cash equivalents	6.3	**2,843**	**4,878**

8 Trade and other receivables

EUR '000	Note	31.12.2020	31.12.2019
Trade receivables			
Accounts receivable		19,937	19,383
Loss allowance for trade receivables		-435	-332
Total trade receivables		**19,502**	**19,051**
Contract assets			
Contract assets		7,357	3,473
Loss allowance		-5	-6
Total contract assets		**7,352**	**3,467**
Other receivables			
Other current receivables		26	72
Other accrued income		346	368
Total other receivables		**372**	**440**
Total trade and other receivables	6.3	**27,226**	**22,958**

As at 31 December 2020, the Group assessed the need for recognition of impairment losses under IFRS 9 (Note 6.3).

Changes in allowances for receivables

	Trade receivables		Contractual assets	
EUR '000	2020	2019	2020	2019
Opening balance at 1 January	**-332**	**-87**	**-6**	**-10**
Changes occurred in 1 January to 31 December				
Doubtful receivables written off	-147	-276	0	0
Collection of doubtful invoices and receivables	0	3	1	4
Doubtful invoices deemed irrecoverable	44	28	0	
Closing balance at 31 December	**-435**	**-332**	**-5**	**-6**

9 Prepayments

EUR '000	Note	31.12.2020	31.12.2019
Prepaid taxes	19	454	753
Prepaid expenses		366	413
Total prepayments		**820**	**1,166**

10 Inventories

EUR '000	31.12.2020	31.12.2019
Raw and other materials	13,298	10,594
Work in progress	3,426	3,921
Finished goods	2,058	1,866
Goods purchased for sale	30	2,406
Prepayments	44	223
Total	**18,856**	**19,010**
Impairment losses of inventories during the reporting period	52	46

11 Financial investments

EUR '000		31.12.2020	31.12.2019
Listed securities (at fair value through other comprehensive income)		2,822	5,017
Other equity investments (at fair value through other comprehensive income)		9,089	5,469
Other financial assets through profit or loss		7	8
Total		**11,918**	**10,494**
Movements from 1 January to 31 December	Note	**2020**	**2019**
1. Financial assets at fair value through other comprehensive income			
Carrying amount at the beginning of the period		10,486	9,576
Acquisitions		104	730
Sale of financial assets		-1,601	-462
Change in fair value through other comprehensive income	21.5	2,922	642
Carrying amount at the end of the period		**11,911**	**10,486**
2. Financial assets at fair value through profit or loss			
Carrying amount at the beginning of the period		8	11
Change in fair value through profit or loss		-1	-3
Carrying amount at the end of the period		**7**	**8**
Total carrying amount at the end of the period		**11,918**	**10,494**

The proceeds from the partial sale of securities listed on the stock exchange totalled 1,681 thousand euros in the reporting year, of which the gain from the sale in the amount of 80 thousand euros was recognised through other comprehensive income. The proceeds from the sale of securities listed on the stock exchange totalled 578 thousand euros in 2019, of which the gain from the sale amounted to 116 thousand euros. The fair value of securities decreased by 519 thousand euros in 2020 and increased by 642 thousand euros in 2019.

Other equity investments as at 31 December 2020 include an investment into the shares of OÜ Skeleton Technologies Group in the amount of 8,834 thousand euros (31 December 2019: 5,267 thousand euros) and into the shares of SIA Energokomplekss in the amount of 255 thousand euros (31 December 2019: 202 thousand euros). On June 3, 2015 AS Harju Elekter acquired a 10% holding in OÜ Skeleton Technologies Group, a company that develops and produces ultracapacitors. OÜ Skeleton Technologies Group is gradually increasing its manufacturing capacity and the valuation of future cash flows entails significant uncertainty. The determination of fair value of the shares is a complicated process due to the lack of an active market, and involves making assumptions and decisions. The information available to the Management Board of AS Harju Elekter regarding future scenarios is limited. Therefore, the assessment given is based on the principle of conservatism and considers the financial indicators disclosed by OÜ Skeleton Technologies Group, the associated investment risk, and the assessment of the marketability of the instrument. During 2020, an additional investment round took place, this was also considered in determining the fair value of the financial investment. As of the reporting date, the registered holding of Harju Elekter in OÜ Skeleton Technologies Group is 7.64%. Detailed information about the principles of accounting estimates is given in Note 5.1.

12 Investment properties

(EUR´000)	Land	Buildings	Construction in progress	Total
As at 31 December 2018				
Cost	3,125	21,837	122	**25,084**
Accumulated depreciation	0	-5,280	0	**-5,280**
Carrying amount	**3,125**	**16,557**	**122**	**19,804**
Additions	0	0	913	**913**
Depreciation charge	0	-821	0	**-821**
Reclassification from Property, plant and equipment (Note 13)	1,363	0	0	**1,363**
Reclassification	138	688	-826	**0**
Total movements in 2019	**1,501**	**-133**	**87**	**1,455**
As at 31 December 2019				
Cost	4,626	23,142	209	**27,977**
Accumulated depreciation	0	-6,718	0	**-6,718**
Carrying amount	**4,626**	**16,424**	**209**	**21,259**
Additions	0	3,045	58	**3,103**
Depreciation charge	0	-851	0	**-851**
Reclassification from Property, plant and equipment (Note 13)	0	94	0	**94**
Reclassification	228	0	-228	**0**
Total movements in 2020	**228**	**2,288**	**-170**	**2,346**
As at 31 December 2020				
Cost	4,854	26,302	39	**31,195**
Accumulated depreciation	0	-7,590	0	**-7,590**
Carrying amount	**4,854**	**18,712**	**39**	**23,605**

The Group's investment properties comprise of production and office buildings in Estonia: in Keila, in Saue municipality and in Haapsalu. The construction of Laohotell 2 of AS Harju Elekter in Allika Industrial Park was completed by the end of the reporting year. This is the fifth registered immovable of Harju Elekter in the 30 ha Allika Industrial Park with 18 registered immovables located next to Paldiski Road in Harku that has been taken in use. The building with the total area of 3,877 m^2 was filled with tenants to the extent of 100%. Registered immovables with the total area of 14.6 ha were also acquired near the Allika Industrial Park in Saue Municipality. The properties were acquired for the purpose of building solar power plants as well as possible real estate developments.

The reclassification from property, plant and equipment to investment properties in 2019 and 2020 is related to leasing of the registered immovables to third parties.

According to the management's estimate, the fair value of investment property at 31 December 2020 is 27.4 (31 December 2019: 28.2) million euros. The management's estimate is based on the discounted cash flow method, taking into account current lease agreements, contractual growth rates, the average vacancy rate on the market, and the projected change in the consumer price index. Future cash flows were discounted at 11% discount rate. For investment properties, the condition of the leased property, the term of contracts and the possibility of renting out the property were evaluated. Investment property at fair value is classified at level 3 (Note 6.6), according to the fair value measurement method.

In 2020, the direct maintenance and repair costs of the investment properties amounted to 417 (2019: 466) thousand euros. Information on lease income is provided in Note 14.

As at 31 December 2020, the Group had no commitments to acquire investment properties in subsequent periods

13 Property, plant and equipment

	Non-current assets					Right-of-use assets		Total
	Land	Buildings and struc-tures	Machine-ry and equip-ment	Other fixtures, fittings and tools	Construc-tion in progress and prepay-ments	Office and producti on premises	Machin ery and equip-ment	
As at 31 December 2018								
Acquisition cost	2,055	12,591	10,599	1,415	1,560	-	-	**28,220**
Accumulated depreciation	0	-4,055	-5,919	-843	0	-	-	**-10,817**
Residual value	**2,055**	**8,536**	**4,680**	**572**	**1,560**	**-**	**-**	**17,403**
First implementation of IFRS 16 (Note 22)	0	0	0	0	0	2,118	0	**2,118**
Reclassification of finance leases	0	-1,359	-3,084	0	0	1,359	3,084	**0**
Adjusted opening balance at 1 January 2019	**2,055**	**7,177**	**1,596**	**572**	**1,560**	**3,477**	**3,084**	**19,521**
Additions	356	53	872	376	2,532	0	0	**4,189**
Addition of right-of-use assets (Note 22)	0	0	0	0	0	404	86	**490**
Disposals at book value	0	0	-72	-2	0	0	0	**-74**
Depreciation charge	0	-742	-446	-218	0	-711	-240	**-2,357**
Reclassification	0	5,271	28	21	-3,950	-1,321	-49	**0**
Reclassification as investment property (Note 12)	-1,363	0	0	0	0	0	0	**-1,363**
Change in exchange rates	0	0	-3	-1	0	0	0	**-4**
Total movements in 2019	**- 1,007**	**4,582**	**379**	**176**	**-1,418**	**-1,628**	**-203**	**881**
As at 31 December 2019								
Acquisition cost	1,048	16,594	7,950	1,847	142	2,522	3,229	33,332
Accumulated depreciation	0	-4,835	-5,975	-1,099	0	-673	-348	-12,930
Carrying amount	**1,048**	**11,759**	**1,975**	**748**	**142**	**1,849**	**2,881**	**20,402**
Additions	116	42	926	152	3,406	0	0	**4,642**
Addition of right-of-use assets (Note 22)	0	0	0	0	0	150	0	**150**
Disposals at book value	-8	0	-6	-17	0	0	0	**-31**
Depreciation charge	0	-778	-663	-195	0	-723	-211	**-2,570**
Reclassification	0	-8	223	51	-71	0	-195	**0**
Reclassification as investment property (Note 12)	0	-94	0	0	0	0	0	**-94**
Change in exchange rates	0	0	2	7	0	-14	0	**-5**
Total movements in 2020	**108**	**-838**	**482**	**-2**	**3,335**	**-587**	**-406**	**2,092**
As at 31 December 2020								
Acquisition cost	1,156	17,033	7,587	1,907	3,477	2,598	2,910	36,668
Accumulated depreciation	0	-6,112	-5,130	-1,161	0	-1,336	-435	-14,174
Carrying amount	**1,156**	**10,921**	**2,457**	**746**	**3,477**	**1,262**	**2,475**	**22,494**

Beginning with 1 January 2019 when the new standard Leases was adopted, the leased assets are shown in a separate column titled Right-of-use assets. At the end of the lease term and on acquisition of assets, the right-of-use asset has been reclassified to non-current assets, amounting in 2019 to 1,321 thousand euros for office and production premises and 49 thousand euros for machinery and equipment.

Construction of the fourth stage of the extension of the production and office building of the Lithuanian subsidiary in Panevežys started in 2020, as a result of which the size of the office and production premises will increase from 8,765 m^2 to 16,761 m^2. The total cost of the investment is up to 6 million euros. The Group also invested in technological equipment used for production and acquired a registered immovable in Finland.

The acquisition cost of property, plant and equipment written off and sold during the reporting period totalled 255 (2019: 317) thousand euros, including machinery and equipment 174 (2019: 289) thousand euros and other non-current assets 81 (2019: 28) thousand euros.

As at 31 December 2020, the acquisition cost of fully depreciated property, plant and equipment still in use was 4,152 thousand euros and as at 31 December 2019 it was 1,740 thousand euros. As at 31 December 2019, the Group had no commitments to acquire property, plant and equipment in subsequent periods.

14 Leases

14.1. The Group as the lessor

(EUR´000)	Note	**2020**	**2019**
Lease income			
- on investment properties		2,864	2,680
- other		2	4
Total lease income	23	**2,866**	**2,684**

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

Investment property lease agreements have been concluded as a rule for the term of 1 to 7 years. Changes in lease terms are renegotiated before the end of the lease term, otherwise lease agreements will extend automatically by one year or become a lease for an unspecified term. Lease agreements are cancellable from 1 to 18 month advance notice.

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

(EUR´000)	**2020**	**2019**
Lease income		
< 1 year	2,983	2,824
1-5 years	8,947	9,559
> 5 years	1,495	2,680
Total lease income	**13,425**	**15,063**

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

(EUR´000)	**2020**	**2019**
Lease income from non-cancelleable contracts		
< 1 year	1,867	1,722
1-5 years	0	52
Total lease income	**1,867**	**1,774**

14.2. The Group as the lessee

Lease liability

(EUR´000)	Note	Total
Lease payments due under finance leases as at 31 December 2018		**2,690**
Initial recognition due to adoption of IFRS 16*		2,118
Reclassification of finance lease liabilities*		2,690
Adjusted opening balance at 1 January 2019		**4,808**
2019		
New lease liabilities	16.1	490
Lease payments	16.1	-1,333
Carrying amount at 31 December 2019		**3,965**
2020		
New lease liabilities	16.1	149
Lease payments	16.1	-1,175
Carrying amount at 31 December 2020		**2,939**

Expenses related to lease contracts

(EUR´000)	Note	2020	2019
Interest expense (included within finance expenses)		45	91
Depreciation charge (included within operating expenses)	13	934	951
The cost of short-term and low value lease agreements included within operating expenses		382	370
Total		**1,361**	**1,412**

In 2020, the cash outflow related to leases totalled 1,553 (2019: 1,645) thousand euros.

15 Intangible assets

15.1. Movements in intangible assets

(EUR´000)	Goodwill	Development costs	Licences	Customer contracts	Total
As at 31 December 2018					
Cost	6,216	658	1,620	1,230	9,724
Accumulated amortization	0	-224	-1,335	-905	-2,464
Carrying amount	**6,216**	**434**	**285**	**325**	**7,260**
Additions	0	224	131	0	355
Amortization charge	0	-76	-156	-108	-340
Currency translation differences	-15	0	0	0	-15
Total movements in 2019	**-15**	**148**	**-25**	**-108**	**0**
As at 31 December 2019					
Cost	6,201	882	1,751	1,230	10,064
Accumulated amortization	0	-300	-1,491	-1,013	-2,804
Carrying amount	**6,201**	**582**	**260**	**217**	**7,260**
Additions	0	8	305	0	313
Amortization charge	0	-149	-116	-108	-373
Currency translation differences	-1	0	0	0	-1
Reclassification	0	6	-6	0	0
Total movements in 2020	**-1**	**-135**	**183**	**-108**	**-61**
As at 31 December 2020					
Cost	6,200	699	1,910	1,230	10,039
Accumulated amortization	0	-252	-1,467	-1,121	-2,840
Carrying amount	**6,200**	**447**	**443**	**109**	**7,199**

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

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

Customer contracts include customer contracts recognized as intangible assets after acquisition of the subsidiary Telesilta Oy in 2017 and open orders from customers in the amount of 541 and 689 thousand euros.

As at 31 December 2020, the acquisition cost of fully amortized intangible assets still in use was 1,121 thousand euros.

15.2 Testing the recoverable amount of goodwill

Positive goodwill arose through the acquisition of holdings in subsidiaries.

Goodwill in the amount of 6,200 thousand euros arose as follows:

- In 2014 when a 100% holding in production company Finnkumu Oy was acquired; the company was merged with Satmatic Oy on 31 December 2020.
- In 2017 when a 100% holding in Telesita Oy, a Finnish company specializing in electrical works for the shipbuilding industry, and an 80.52% holding in electrical equipment and materials sales company Energo Veritas OÜ was acquired;
- At the beginning of 2018 when a 100% holdings in Swedish companies SEBAB AB, technical solutions provider, and Grytek AB that manufactures prefabricated technical houses, were acquired. On 29 October 2020, Grytek AB was merged with SEBAB AB, whose new business name is Harju Elekter AB.

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

General assumptions for determining value in use

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

- The forecast period is 2021-2024 plus a terminal year;
- The range of discount rates of 7-10% was used to calculate discounted cash flows;
- Terminal growth rate of 2% was used;
- Annual revenue growth of 10% on average was used.

Potential impact of changes in estimates

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

16 Borrowings

16.1. Balances and changes in borrowings

(EUR´000)	Note	31.12.2020	31.12.2019
Current borrowings			
Current bank loans	16.2	7,738	8,869
Repayment of non-current bank loans in the next period	16.3	3,191	1,112
Other current loans		27	199
Current lease liabilities	14.2	1,100	1,125
Total current borrowings		**12,056**	**11,305**
Non-current borrowings			
Non-current bank loans	16.3	4,461	4,582
Other non-current loans		732	479
Non-current lease liabilities	14.2	1,839	2,840
Total non-current borrowings		**7,032**	**7,901**
Total borrowings		**19,088**	**19,206**

Changes in borrowings	Note	2020	2019
Opening balance		**19,206**	**12,105**
Change in current borrowings		-1,131	3,902
Non-current loans		3,070	2,265
Repayments of non-current loans		-1,112	-989
Other loans		81	648
New lease liabilities	14.2	149	490
Lease liability (IFRS 16 first-time adoption)		0	2,118
Repayment of non-current lease liabilities	14.2	- 1,175	- 1,333
Closing balance		**19,088**	**19,206**

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

16.2. Terms of non-current bank loans

As at 31 December *(EUR´000)*

Base currency	Loan balance 2020	Loan balance 2019	Loan limit 2020	Loan limit 2019	Interest rate 2020	Interest rate 2019
SEK	-	232	-	244	-	3.40%
SEK	1,844	945	2,000	945	3.10%	3.17%
EUR	-	610	1,000	1,000	3-month euribor+0.75%	3-month euribor+0.75%
EUR	2,930	4,884	5,000	5,000	3-month euribor+0.65%	3-month euribor+0.65%
EUR	-	-	1,000	1,000	3-month euribor+1.44%	3-month euribor+1.44%
EUR	755	2,198	4,000	4,000	3-month euribor+1.00%	3-month euribor+1.00%
EUR	2,209	-	2,500	-	6-month euribor+1.40%	-
Total	**7,738**	**8,869**	**15,500**	**12,189**		

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

16.3. Terms of non-current bank loans

As at 31 December *(EUR´000)*

Base currency	Loan balance 2020	Loan balance 2019	Loan limit 2020	Loan limit 2019	Interest rate 2020	Repayment
EUR	82	135	0	0	2.00%	30.09.2022
EUR	2,167	2,931	3,505	3,505	3-month euribor+0.95%	24.10.2021
EUR	2,333	2,628	2,800	2,800	6-month euribor+1.35%	31.07.2023
EUR	2,030	-	2,030	-	6-month euribor+1.90%	13.03.2025
EUR	786	-	4,200	-	12-month euribor+1.75%	28.04.2025
EUR	254	0	500	500	3-month euribor+1.20%	
Total	**7,652**	**5,694**	**13,035**	**6,805**		

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

17 Loan collateral and pledged assets

The carrying amounts of pledged assets:

(EUR´000)	**31.12.2020**	**31.12.2019**
Commercial pledge for movable property	500	500
Investment properties	13,494	14,457
Land and buildings	537	565

The Group has entered into current loan and investment loan agreements with Swedbank AS. Loans are secured by a commercial pledge on the movable property of the Parent company and mortgages on investment properties. The total value of the mortgages is 9.9 million euros. Using the pledged assets as collateral, the Group can use current loans of up to 1.0 million euros. As at the reporting date, a non-current loan of 4.2 million euros was in use.

The Group has entered into a non-current investment loan agreement with AB SEB bankas. Loans are secured by a mortgage on the real estate in Lithuania in the amount of 3.6 million euros. The pledged assets partially secure a long-term loan of up to 2.8 million euros As at the reporting date, the amount of the outstanding non-current loan was of 2.3 million euros.

A mortgage on land and buildings in favor of Kurikan Osuuspankki has been set as a pledge for the investment loan. Using the pledged assets as collateral, a loan of 300 thousand euros was taken, with the outstanding balance at the end of reporting period being 82 thousand euros

18 Trade and other payables

(EUR´000)	Note	**31.12.2020**	**31.12.2019**
Trade payables			
Payable for goods and services		11,781	12,887
Payable for property, plant and equipment		77	3
Payable for investment property		14	7
Payable for intangible assets		18	5
Total trade payables	6.4	**11,890**	**12,902**
Other current liabilities			
Payables to employees		3,602	3,025
Payable interest	6.4	6	5
Other accrued expenses	6.4	94	509
Other liabilities	6.4	245	7
Total other current liabilities		**3,947**	**3,546**
Other non-current liabilities	6.4	66	64
Total other non-current liabilities		**66**	**64**
Total trade and other payables		**15,903**	**16,512**

19 Taxes

(EUR´000)	Note	31.12.2020	31.12.2019
Value added tax		314	617
Corporate income tax		133	128
Social security tax		3	8
Other taxes		4	0
Total prepayment	9	**454**	**753**
Value added tax		1,421	1,641
Corporate income tax		109	217
Personal income tax		486	424
Social security tax		633	555
Other taxes		222	122
Total taxes payable		**2,871**	**2,959**

20 Contingent liabilities

20.1. Income tax

(EUR´000)	31.12.2020	31.12.2019
Retained earnings	54,858	51,699
Maximum possible dividend distributable to owners	43,997	44,205
Potential income tax expense on dividend distribution	**10,861**	**7,494**

The maximum possible income tax liability has been calculated under the assumption that the net dividend and the related income tax liability cannot exceed retained earnings as at 31 December 2020.

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

20.2. Potential tax risks

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

21 Share capital and reserves

21.1. Share capital and share premium

	Unit	31.12.2020	31.12.2019
Share capital	EUR '000	11,176	11,176
Number of shares (fully paid)	Pcs '000	17,740	17,740
Share premium	EUR '000	804	804

As at 31 December 2020, the number of ordinary shares with no par value of AS Harju Elekter was 17,739,880. According to the articles of association, the maximum authorized share capital amounts to 14.0 million euros and minimum to 3.5 million euros.

21.2. Dividends per share

In 2020, according to the profit allocation decision, dividends of 0.14 euros per share were paid for the year 2019 in the total amount of 2.5 million euros. The list of shareholders entitled to receive dividends was specified as at the end of the working day of the settlement system, i.e. 14 July 2020 and dividends were transferred to shareholder bank accounts on 21 July 2020. In the comparable period, dividends of 0.18 euros per share in the total amount of 3.2 million euros were paid for 2018.

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

		Number of shares	Direct shareholding	Indirect shareholding
Palla, Endel	Chairman of the Supervisory Board	1,249,000	7.04%	0.36%
Kirsme, Aare	Member of the Supervisory Board	228,250	1.29%	0.17%
Toome, Andres	Member of the Supervisory Board	30,000	0.17%	0.34%
Tombak, Triinu	Member of the Supervisory Board	15,000	0.08%	0.00%
Kuhi-Thalfeldt, Aron	Member of the Management Board	11,000	0.06%	0.00%
Total		**1,533,250**	**8.64%**	**0.87%**

The number of shares owned by the shareholders and the percentage of holdings was fixed at 23:59 on 31 December 2020. In accordance with the requirements of the Nasdaq Tallinn Stock Exchange rules, the issuer is obliged to present in its annual report information on its members of the management board and supervisory board (direct shareholding) and the number of shares of the issuer belonging to their immediate family members (indirect shareholding) as at the end of the financial year. The votes represented by the shares of a company controlled by a member of the Group's Supervisory Board or Management Board shall also be considered as indirect shareholding.

21.4. Shareholders holding over 5% of votes attached to shares

%	31.12.2020	31.12.2019
AS Harju KEK	31.39	31.39
ING Luxembourg S.A.	10.71	10.71
Endel Palla	7.04	7.04
Shareholders holding under 5%	50.86	50.86
Total	**100.00**	**100.00**

21.5. Reserves

(EUR´000)	Note	Man-datory reserve	Share option	Revalu-ation reserve	Currency translation differences	Total reserves
Balance at 31 December 2018		**1,242**	**97**	**1,460**	**-134**	**2,665**
Gain on revaluation of financial assets (+)	11	0	0	642	0	642
Share-based payments	27	0	189	0	0	189
Currency translation differences		0	0	0	-84	-84
Balance at 31 December 2019		**1,242**	**286**	**2,102**	**-218**	**3,412**
Gain on revaluation of financial assets (+)	11	0	0	2,922	0	2,922
Share-based payments	27	0	263	0	0	263
Currency translation differences		0	0	0	112	112
Balance at 31 December 2020		**1,242**	**549**	**5,024**	**-106**	**6,709**

Revaluation reserve

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

Currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the financial statements of a foreign subsidiary into the presentation currency of the Group. The gain arising on currency translation differences due to the recognition of the financial results of the Swedish subsidiaries was 112 thousand euros (2019: loss in amount of 84 thousand euros).

22 Segment information

The Management Board of the parent company AS Harju Elekter monitors the Group's internal reports in order to assess effectiveness and make decisions regarding resources. The Management Board has determined business segments based on these reports.

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

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

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

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

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

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

(EUR´000)	Note	Produc-tion	Real estate	Other activities	Elimi-nation	Consoli-dated
2020						
Revenue from external customers	23	125,557	3,292	17,765	0	146,614
Revenue from other segments		6,122	1,743	118	-7,983	
Total segment revenue		**131,679**	**5,035**	**17,883**	**-7,983**	**146,614**
Operating profit		**5,929**	**1,712**	**-872**	**-223**	**6,546**
Assets of the segment		70,365	24,795	22,056	-15,664	101,552
Unallocated assets						13,923
incl. cash and cash equivalents						*1,889*
incl. financial investments						*11,911*
incl. other receivables and prepayments						*123*
Total assets						**115,475**
Liabilities of the segment		41,675	186	8,029	-15,664	34,226
Unallocated liabilities						7,852
incl. borrowings						*7,456*
incl. accrued expenses						*269*
incl. other						*127*
Total liabilities						**42,078**
Investments to non-current assets	12,13,15	4,477	3,103	478	0	8,058
Right-of-use assets	13	150	0	0	0	150
Depreciation and amortization	12,13,15	2,070	851	894	-21	3,794

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Initials L.L. Date 23.03.2021

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

23 Information on the profit or loss line items

23.1. Revenue by business activities

(EUR´000)	Note	**2020**	*At a point in time 2020*	*Over time 2020*	**2019**	*At a point in time 2019*	*Over time 2019*
Electrical equipment		125,184	*82,040*	*43,144*	124,806	*79,529*	*45,277*
Retail and project-based sale of electrical products		9,624	*9,624*	*0*	8,986	*8,986*	*0*
Other products		2,899	*2,899*	*0*	1,889	*1,889*	*0*
Electrical works		4,186	*0*	*4,186*	2,999	*0*	*2,999*
Other services		1,855	*0*	*1,855*	2,033	*0*	*2,033*
Lease income	14	2,866	*0*	*0*	2,684	*0*	*0*
Total	22	**146,614**	***94,563***	***49,185***	**143,397**	***90,404***	***50,309***

23.2. Revenue by geographical regions (location of customer)

(EUR´000)	Note	**2020**	**2019**
Estonia		23,490	16,741
Finland		68,739	71,783
Sweden		26,532	19,544
Norway		16,701	21,553
Netherlands		5,740	10,259
Other countries		5,412	3,517
Total revenue	23	**146,614**	**143,397**

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

(EUR´000)	31.12.2020	31.12.2019
Estonia	34,482	32,699
Finland	7,894	8,011
Sweden	1,942	2,199
Lithuania	8,980	6,012
Total	**53,298**	**48,921**

23.4. Operating expenses

(EUR´000)	Note	2020	2019
Cost of sales			
Goods and materials		-91,485	-97,580
Services purchased		-11,317	-7,271
Personnel expenses	23.5	-17,604	-18,126
Depreciation and amortization		-2,848	-2,636
Other expenses		-1,985	-2,042
Increase in inventories of work in progress and finished goods		-166	2,502
Total		**-125,405**	**-125,153**
Distribution costs			
Services purchased		-1,371	-1,042
Personnel expenses	23.5	-3,635	-2,992
Depreciation and amortization		-269	-223
Other expenses		-572	-1,449
Total		**-5,847**	**-5,706**
Administrative expenses			
Services purchased		-2,083	-1,313
Personnel expenses	23.5	-6,101	-5,358
Depreciation and amortization		-677	-665
Other expenses		-398	-1,893
Total		**-9,259**	**-9,229**
- including development costs		*-1,773*	*-1,119*

23.5. Personnel expenses

(EUR´000)	Note	2020	2019
Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:			
Salaries		-21,327	-21,444
Social security and other payroll taxes		-5,046	-5,111
Share-based payments	27	-263	-189
Capitalized personnel expenses		0	198
Change in accrued personnel expenses		-704	70
Total		**-27,340**	**-26,476**

24 Income tax and deferred tax

Income tax expenses

(EUR´000)	2020	2019
Current income tax expense	785	1,190
Deferred income tax income (-)/ expense	-9	-370
Income tax expense in the statement of profit and loss	**776**	**820**

Income tax expense calculated on the Group's profit differs from actual income tax expense for the reasons explained in the following table. In 2020, the average effective tax rate was 12.3% (2019: 25.7%).

(EUR´000)	**2020**	**2019**
Total calculated income tax (Finland 20%, Lithuania 15%, Sweden 22%)	1,041	867
Adjustments for calculated income tax	-316	-339
Income tax on dividends	14	169
Total	**739**	**697**
Change in deferred tax assets recognized off balance sheet	37	123
Total income tax expense	**776**	**820**

Deferred income tax assets

(EUR´000)	**31.12.2020**	**31.12.2019**
Deferred income tax assets	514	472

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

25 Basic and diluted earnings per share

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

Potentially issued shares are taken into account for the calculation of *diluted earnings per share*. As at 31 December 2020, the Group had 952,393 (31 December 2019: 636,275) potential shares. In accordance with the decision of the general meeting of shareholders held at 3 May 2018, the issue price of shares to be acquired under a share option plan was set as the average closing price of the previous three calendar years on the NASDAQ Tallinn Stock Exchange as at 31 December 2018. The share price was 3.49 euros in 2018, 3.98 euros in 2019 and 4.44 euros in 2020.

For share based benefits that are subject to IFRS 2 requirements, the share subscription price also includes the cost of services to be provided by employees in the future in exchange for share-based compensation. The value of the service was estimated by an independent expert at 1.55 euros per share in the first issue in 2018, 0.73 in the second issue in 2019 and 0.55 in the third issue in 2020. Thus, under IFRS 2, the subscription price of a share is 5.04 euros in the first issue, 4.71 in the second issue and 4.99 in the third issue. The potential shares become diluting only after the average market price of their period exceeds these values. In the period from 1 January to 31 December 2019, the average market price of shares for the 2018 and 2019 issue was 4.30 euros. In the period from 15 June to 31 December 2020, the average market price of shares for the 2020 issue was 4.65 euros. Thus, potential shares had no dilutive effect.

	Unit	**2020**	**2019**
Profit attributable to owners of the parent company	EUR '000	5,563	2,460
Average number of shares in the period	Pcs '000	17,740	17,740
Basic earnings per share	EUR	0.31	0.14
Adjusted average number of shares in the period	Pcs '000	17,740	17,740
Diluted earnings per share	EUR	0.31	0.14

26 Information on line items in the statement of cash flows

(EUR´000)	Note	2020	2019
Corporate income tax			
Income tax expense in the statement of profit or loss	24	-776	-820
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability	19	-113	135
Income tax expense on dividends	24	14	169
Deferred income tax expense/income	24	-42	-370
Currency translation differences		1	-4
Corporate income tax paid		**-916**	**-890**
Paid for investment properties			
Acquisitions of investment properties	12	-3,103	-913
Decrease (-)/ increase (+) of liability related to acquisition	18	7	-197
Paid for investment properties		**-3,096**	**-1,110**
Paid for property, plant and equipment			
Additions of property, plant and equipment	13	-4,642	-4,189
Decrease (-)/ increase (+) of liability related to additions of property, plant and equipment	18	74	-2
Currency translation differences		2	
Paid for property, plant and equipment		**-4,566**	**-4,191**
Paid for intangible assets			
Additions of intangible assets	15	-313	-355
Decrease (-)/ increase (+) of liability related to additions of intangible assets	18	13	5
Paid for intangible assets		**-300**	**-350**
Proceeds from sale of property, plant and equipment			
Book values of disposed property, plant and equipment		12	74
Profit on disposal of property, plant and equipment		21	51
Proceeds from sale of property, plant and equipment		**33**	**125**

27 Related parties

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

27.1. Transaction with related parties

(EUR´000)	31.12.2020	31.12.2019
Balances with related parties:		
- Payables for goods and services	47	223

	2020	2019
Purchase of goods and services from related parties:		
- Lease of property plant and equipment from AS Harju KEK	101	104
- Purchase of property plant and equipment from AS Harju KEK	0	139
- Purchase of other services from AS Entek	506	592
Sale of goods and services to related parties:		
- Sale of other services to AS Harju KEK and AS Entek	4	5
- Sale of goods to AS Entek	10	29

(EUR´000)	2020	2019
Remuneration of the members of the Supervisory and Management Boards:		
- salary, bonuses, benefits (incl. severance pay) and other remuneration	486	401
- social security tax	160	132

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

27.2. Share-based compensation

At 3 May 2018, the General Meeting of Shareholders adopted a share option plan for the key individuals of the Group, including management team members, leading specialists and engineers, to involve them as shareholders of the company to motivate them to act so as to improve the Group’s financial performance. As part of the option program, AS Harju Elekter issues stock options each year up to two percent (2%) of the total number of the shares of AS Harju Elekter. The maturity of the option program is three years plus the maturity date of the share options. Participation in the Share Issue is subject to a prior agreement, a contract fee of ten (0.10) euro cents per share option paid by the date of the option agreement and the valid employment relationship until the subscription period. In June 2020, 67 option contracts (2019: 94, 2018: 124) were concluded with the Group’s employees and Board members for the total 347,468 (2019: 339,100; 2018: 351,925) share subscription rights, including 10,000 share subscription rights to the members of the Group’s Supervisory Board and the Management Board for the total of 60,000 shares.

The issue price of shares to be acquired for share options was determined on the basis of average closing prices for the period 2015-2017 on the NASDAQ Tallinn Stock Exchange as at 31 December. The share issue price was 3.49 euros for the first, 3.98 euros for the second and 4.44 euros for the third issue.

The principles of IFRS 2 have been applied to the recognition of share subscription rights. The Group used the fair value of the option for the services (labor input) to be received from the employees at the time of entering into the contracts. An independent expert assessed the value of the service at 1.55 euros per first issue, 0.73 per second and 0.55 per third issue. In 2020, the amount of share-based payments recognized as personnel expenses was 263 (2019: 189; 2018: 97) thousand euros (Note 21.5 and 23).

The Black-Scholes valuation model was used to estimate fair value. The price is based on the weighted average market price of the share (3.49, 3.98 and 4.44euros), the expected volatility of the share (30%, 28% and 30%), risk-free interest rate (1.75%, 1.50% and 1.50%), the expected dividends and the length of the period between the conclusion of the preliminary contracts and the planned share subscription (3 years).

28 Primary financial statements of the parent company

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

STATEMENT OF FINANCIAL POSITION

(EUR´000)	**31.12.2020**	**31.12.2019**
Cash and cash equivalents	1,889	1,364
Trade receivables	415	505
Receivables from Group companies	8,634	7,693
Other current receivables and prepayments	123	85
Total current assets	**11,061**	**9,647**
Investments in subsidiaries	14,324	14,324
Non-current receivables from subsidiaries	5,641	6,433
Other non-current financial investments	11,911	10,487
Investment properties	27,794	25,846
Property, plant and equipment	1,387	1,191
Intangible assets	184	64
Total non-current assets	**61,241**	**58,345**
TOTAL ASSETS	**72,302**	**67,992**
Borrowings	5,684	5,413
Trade payables	219	112
Payables to Group companies	225	0
Tax liabilities	126	147
Other liabilities and prepayments from customers	430	235
Total current liabilities	**6,684**	**5,907**
Borrowings	1,705	2,167
Other non-current liabilities	66	64
Total non-current liabilities	**1,771**	**2,231**
Total liabilities	**8,455**	**8,138**
Share capital	11,176	11,176
Share premium	804	804
Reserves	6,267	3,345
Retained earnings	45,600	44,529
Total equity	**63,847**	**59,854**
TOTAL LIABILITIES AND EQUITY	**72,302**	**67,992**

STATEMENT OF COMPREHENSIVE INCOME

(EUR´000)	**2020**	**2019**
Revenue	5,035	5,161
Cost of sales	-2,484	-2,678
Gross profit	**2,551**	**2,483**
Other income	73	34
Administrative expenses	-1,841	-1,797
Other expenses	-20	-24
Operating profit	**763**	**696**
Revenue from subsidiaries	2,450	2,800
Dividend income from available-for-sale financial assets	91	140
Interest income	212	217
Interest expenses	-31	-53
Loss from change of foreign exchange rates	4	-2
Profit from operating activities	**3,489**	**3,798**
Income tax	-14	-84
Profit for the period	**3,475**	**3,714**
Other comprehensive income/loss		
Gain/-loss from revaluation of financial assets	3,002	758
Total other comprehensive income/loss for the period	**3,002**	**758**
Comprehensive income/expense for the period	**6,477**	**4,472**

STATEMENT OF CASH FLOWS

(EUR´000)	**2020**	**2019**
Cash flows from operating activities		
Profit	3,475	3,714
Adjustments		
Depreciation, amortization and impairment losses	1,313	1,529
Profit on sale of non-current assets	0	-30
Finance income	-2,763	-3,157
Finance expenses	37	57
Income tax	14	84
Changes		
Changes in trade receivables	35	226
Changes in trade payables	155	-115
Interest paid	-30	-51
Total cash flow (-outflow) from operating activities	**2,236**	**2,257**
Cash flows from investing activities		
Payments for investment properties	-3,096	-1,110
Payments for property, plant and equipment	-223	-479
Payments for intangible assets	-163	-13
Acquisition of subsidiaries	0	-600
Acquisition of financial investments	-104	-830
Proceeds from sale of property, plant and equipment	0	52
Proceeds from sale of financial investments	1,681	578
Repayments of loans granted	7,544	8,705
Loans granted	-7,629	-7,618
Interest received	170	221
Dividends received	2,541	2,940
Total cash flow (-outflow) from investing activities	**721**	**1,846**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	32	29
Change in overdraft balance	-1,455	1,126
Proceeds from borrowings	2,255	0
Repayments of borrowings	-766	-865
Dividends paid	-2,484	-3,193
Dividend income tax paid	-14	-84
Total cash flow (-outflow) from financing activities	**-2,432**	**-2,987**
Total cash flows	**525**	**1,116**
Cash and cash equivalents at the beginning of the period	**1,364**	**248**
Change in cash and bank accounts	525	1,116
Cash and cash equivalents at the end of the period	**1,889**	**1,364**

STATEMENT OF CHANGES IN EQUITY

(EUR´000)	Share capital	Share premium	Manda-tory reserve	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2018	**11,176**	**804**	**1,242**	**1,461**	**43,892**	**58,575**
Profit for 2019	0	0	0	0	3,714	3,714
Other comprehensive income /-loss for 2019	0	0	0	642	116	758
Total comprehensive income/-loss	**0**	**0**	**0**	**642**	**3,830**	**4,472**
Transactions with the owners of Parent recognized directly in equity						
Dividends paid	0	0	0	0	-3,193	-3,193
Total transactions with the owners of Parent	**0**	**0**	**0**	**0**	**-3,193**	**-3,193**
Balance at 31 December 2019	**11,176**	**804**	**1,242**	**2,103**	**44,529**	**59,854**
Profit for 2020	0	0	0	0	3,475	3,475
Other comprehensive income /-loss for 2020	0	0	0	2,922	80	3,002
Total comprehensive income/-loss	**0**	**0**	**0**	**2,922**	**3,555**	**6,477**
Transactions with the owners of Parent recognized directly in equity						
Dividends paid	0	0	0	0	-2,484	-2,484
Total transactions with the owners of Parent	**0**	**0**	**0**	**0**	**-2,484**	**-2,484**
Balance at 31 December 2020	**11,176**	**804**	**1,242**	**5,025**	**45,600**	**63,847**

(EUR´000)	**2020**	**2019**
Adjusted unconsolidated equity as at 31 December	**63,847**	**59,854**
Interests under control and significant influence:		
-Carrying amount	-14,324	-14,324
-Carrying amount under the equity method	24,024	21,561
Adjusted unconsolidated equity as at 31 December	**73,547**	**67,091**

According to the Estonian Accounting Act, the amount from which a public limited company may make payments to shareholders is as follows: adjusted non-consolidated equity less share capital, share premium and reserves.

According to the Commercial Code, the parent company, which prepares the consolidated annual report, adopts the decision to distribute profit on the basis of the consolidated reports of the Group. It is not permitted to distribute profit based on consolidated reports to the extent that it would reduce the net assets of the parent company to the level below the total sum of share capital and reserves, the payment of which to shareholders is not permitted by law or the Articles of Association.

29 Events after the reporting date

The new business name of Satmatic Oy, a 100% subsidiary of AS Harju Elekter, as of 14 January 2021 is Harju Elekter Oy. The name was changed in order to harmonize the business names with the trademark used every day. Harju Elekter Oy continues with all of its businesses and still offers solutions to the energy, industrial and construction sectors.

On 19 January 2021, the Harju Elekter Group entered into a contract with Caruna Oy, the biggest distribution company in Finland. The framework contract was entered into for the years 2021-2023 and its approximate volume for the next three years is *ca* 14 million euros. Pursuant to the framework contract, AS Harju Elekter Elektrotehnika and Harju Elekter Oy will produce and deliver *ca* 1,000 distribution and compact substations to Caruna in three years. The contact can be extended by two follow-up years until 2025 and the extension decision will be made after 2023 separately for each year.

On 10 February 2021 Harju Elekter AB, a subsidiary of Harju Elekter, entered into a framework contract with the biggest Swedish distribution network company E.ON Energidistribution AB for the delivery of *ca* 1,500 substations in three years. The approximate volume of the contract is 15 million euros. The substations will be manufactured in the Estonian plant of AS Harju Elekter Elektrotehnika.

Energo Veritas OÜ, a subsidiary of Harju Elekter Group, was successful in the tender held by Enefit Connect OÜ for the supply of hermetic transformers. A framework contract with the total volume of 12 million euros will be signed for a period of three years with the possibility of a two-year extension.

The Swedish subsidiary of Harju Elekter Group, Harju Elekter AB, signed electricity project contracts with Region Stockholm, the administrative body responsible for public transport. These contracts will serve as the basis for the upgrading of the electrical systems of the Albano and Rådhuset metro stations in Stockholm by April and September 2022, respectively. The approximate volume of the contracts is 3,1 million euros.

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

The Management Board confirms that the management report as set out on pages 5 to 54 gives a true and fair view of the key events that occurred during the reporting period and their impact on the financial statements contains a description of the key risks and uncertainties, and reflects material transactions with related parties.

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2020 as set out on pages 55 to 101 and that:

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

Tiit Atso	Chairman of the Management Board	23. March 2021
Aron Kuhi-Thalfeldt	Member of the Management Board	23. March 2021

SIGNATURES OF THE MEMBERS OF THE SUPERVISORY BOARD TO THE ANNUAL REPORT OF 2020

The Management Board has prepared the consolidated financial statements and annual accounts of AS Harju Elekter for 2020.

Tiit Atso	Chairman of the Management Board	23 March 2021
Aron Kuhi-Thalfeldt	Member of the Management Board	23 March 2021

The Supervisory Board has reviewed the annual report prepared by the Management Board (pp. 5-101), which consists of management report and financial statements, and approved it for submission to the general meeting of shareholders.

Endel Palla	Chairman of the Supervisory Board	30 March 2021
Arvi Hamburg	Member of Supervisory Board	30 March 2021
Aare Kirsme	Member of Supervisory Board	30 March 2021
Triinu Tombak	Member of Supervisory Board	30 March 2021
Andres Toome	Member of Supervisory Board	30 March 2021

Independent auditor's report

To the Shareholders of AS Harju Elekter

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Harju Elekter ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, and the Group's consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 23 March 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

AS PricewaterhouseCoopers
Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Translation note:

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

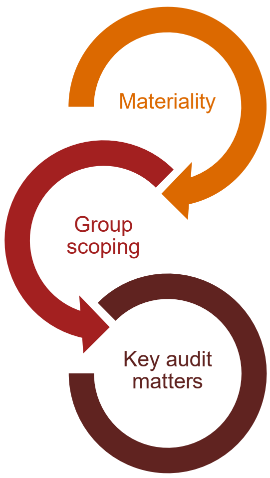
Independence

We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia. During 2020, we have provided to the Group tax services and other assurance services.

Our audit approach

Overview



Overall group audit materiality is EUR 1.5 million, which represents approximately 1% of consolidated revenue.

A full scope audit was performed by us and, under our instructions, other PwC network entities for all material Group entities covering 93% of Group's assets and 91% of Group's revenues. For a subsidiary audited by non-PwC auditors, we determined the level of involvement needed to be able to report on the financial statements as a whole. Furthermore, we performed additional audit procedures for the remaining balances.

- Revenue recognition

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

Overall Group audit materiality	EUR 1.5 million
How we determined it	Approximately 1% of consolidated revenue
Rationale for the materiality benchmark applied	We have applied this benchmark, as we consider the Group's ability to generate revenue to be key determinant of the Group's value and a key metric used by management, investors, analysts and creditors.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (refer to Note 4 'Significant accounting policies', Note 22 'Segment information' and Note 23 'Information on the profit or loss line items') In 2020, the Group has recognised revenue of EUR 147 million. Revenue consists mainly of sales of electrical equipment and products in the amount of EUR 135 million and revenue from electrical works and other services in the amount of EUR 12 million. While majority of the Group's revenue transactions are non-complex, some judgment and management estimates are needed for a proper accounting in certain areas, especially measuring the progress towards satisfaction of performance obligations of projects where revenue is recognised over time (mainly applicable to production of specific electrotechnical equipment and delivery of electrical works).	When auditing revenue recognition we performed the following tests: • We obtained understanding of the sales process and evaluated the effectiveness of control environment and procedures. • We assessed if the Group had appropriately applied the guidance in the revenue recognition standard IFRS 15, including for revenue recognised over time. • We obtained confirmation letters from the largest customers for both annual revenue and year-end receivable balance. • We assessed the correctness of revenue bookings, by agreeing selected transactions in the accounting systems to supporting evidence, such as invoices, agreements and subsequent cash receipts. • Regarding revenue recognised over time, we examined the procedures and management estimates to ensure that revenue recognised

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To measure the progress, the management assesses at each balance sheet date the relation of costs incurred to total estimated costs necessary to complete the contract as well as possible changes in the contract fee.

Revenue recognition requires significant time and resource to audit due to its magnitude and is therefore considered to be a key audit matter.

corresponds to the selected underlying agreements and progress of the project. In addition, we examined whether all conditions to recognise revenue were met.

- We obtained the list of manual journal entries impacting revenue and checked the underlying supporting evidence.
- We examined the correctness and sufficiency of the information disclosed in the financial statements about recognition of revenue.

How we tailored our Group audit scope

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

The Group comprises of a number of subsidiaries that are further disclosed in Note 1. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms for entities covering 93% of the Group's assets and 91% of the Group's revenues, and, under our instructions, by an external independent audit firm covering 3% of the Group's assets and 6% of the Group's revenues. The remaining components of the Group were immaterial, therefore we only performed selected audit procedures on these components relating to specified account balances or disclosures.

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

Other information

The Management Board is responsible for the other information. The other information comprises the Statement of the Chairman of the Supervisory Board, the Statement of the Chairman of the Management Board, the Management report, the Share and Shareholders, the Management Principles, the Social Involvement and the Supplementary Annexes (but does not include the consolidated financial statements and our auditor's report thereon).

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

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

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

The European Single Electronic Format (ESEF) reporting requirements pursuant to Commission Delegated Regulation (EU) 2018/815

These annual consolidated financial statements of the Company and the Group for the year ended 31 December 2020 have not been prepared in accordance with ESEF reporting requirements.

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Appointment and period of our audit engagement

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

AS PricewaterhouseCoopers

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

Kristiina Veermäe
Auditor's certificate no.596

23 March 2021

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PROFIT ALLOCATION PROPOSAL

Retained earnings attributable to equity holders of AS Harju Elekter:

	EUR
Retained earnings for prior periods as at 31 December 2020	49,295,046
Net profit for 2020	5,563,389
Total distributable profit as at 31 December 2020	54,858,435

The Management Board proposes to distribute profit as follows:

As dividends (0.16 euros per share)	2,838,381
Balance of retained earnings after profit distribution	52,020,054

Tiit Atso
Chairman of the Management Board

23 March 2021

SUPPLEMENTARY ANNEXES

FORMULAS TO CALCULATE RATIOS

Formulas used to calculate the ratios set out on pages 12 and 43:

Equity ratio	= Average Equity (attributable to owners of the Parent company) / Average assets * 100
Gross profit margin	= Gross profit / Revenue * 100
Operating margin	= Operating profit / Revenue * 100
Net margin	= Net profit (attributable to owners of the parent company) / Revenue * 100
Return of assets (ROA)	= Net profit (attributable to owners of the parent company)/Average assets*100
Return of equity (ROE)	= Net profit (attributable to owners of the parent company)/Average equity (attributable to owners of the parent company) *100
Equity per share	= Equity (average, attributable to owners of the parent company)/Number of shares (average of the period)
Earnings per share	= Net profit (attributable to owners of the parent company / Average number of shares
P/E ratio	= Share closing price/Earnings per share
Current ratio	= Average current assets / Average current liabilities
Liquidity ratio	= Average liquid assets (current assets - inventories) / Current liabilities (average)
Company's market capitalization (million)	= Closing price * Number of shares
Dividend rate %	= Dividend per share / Closing price
Dividend / net profit %	= Dividend per share / Net profit (attributable to owners of the parent company)

CONTENTS OF THE GLOBAL REPORTING INITIAVE REPORT (GRI)

Since 2017, the Group has based its annual report on the standards of internationally highly recognised and widely used the Global Reporting Initiative (GRI) at the "Core" level. The topics proceeding from the GRI requirements have been integrated into the rest of the report as an integrated part of it.

The report covers the environmental, social and responsible governance, responsible management and market behavior issues that are most important from the point of view of the Group's activities and influence and expectations of stakeholders. The table with GRI content presented below includes data on the activities of the Parent company and its subsidiaries AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, OÜ Energo Veritas, Satmatic Oy, Telesilta Oy, Harju Elekter UAB, Harju Elekter AB, unless otherwise noted. Harju Elekter Services AB is included in the report only with the data on the personnel. Data have been collected and presented by each company under common methodology and with the level of detail that the Group companies collect on the basis of materiality.

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Foundation (GRI 101: 2016)				
General disclosures (GRI 102: 2016)				
Organizational profile				
	102-1	Name of organization		AS Harju Elekter
	102-2	Activities, trademarks, products and services	p. 5, 6, 8-10, 18-26, 60	
	102-3	Location of head office	p. 1	Keila (Estonia)
	102-4	Location of operations	p. 6	Estonia, Finland, Sweden, Lithuania, Latvia
	102-5	Ownership and legal form	p. 43-45	
	102-6	Markets served	p. 15, 19-26	
	102-7	Scale of the organization	p. 6, 12, 14-17, 60	The nature of activities and products differ by the company and, therefore, they are presented on the basis of revenue instead of the number of units produced.
	102-8	Information on employees	p. 35-39	
	102-9	Supply chain	p. 6, 18, 32	To produce the main products of the Group, i.e. the production of electric distribution and control equipment (1)the products are designed according to the initial task; (2)necessary components are purchased from suppliers or produced by subsidiaries of the Group; (3) products are complemented; (4) tested and (5) dispatched or taken to the customer's site.
	102-10	Significant changes occurred in the reporting period	p. 4, 8-9, 14-17, 27-29, 43-45	
	102-11	Precautionary Principle or approach in environmental issues	p. 40	Covered by corporate environmental policies.
	102-12	External initiatives	p. 30-34, 39, 40, 46-52, 53-54	
	102-13	Membership of associations	p. 53	
Strategy				
	102-14	Statement from Chairman of the Supervisory Board and Chairman of the Management Board	p. 3-4	The Chairmen's addresses do not include the issue of sustainability and its importance for the Group.
Ethics and integrity				
	102-16	Values, principles, standards, and behavioral norms	p. 5, 46	
Governance				
	102-18	Governance structure	p. 47-48	Social and environmental issues are the responsibility of the members of the Management Board of the Group and those of their subsidiaries as well as the specialists in their respective areas.

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Stakeholder engagement				
	102-40	List of stakeholders	p. 7	
	102-41	Collective bargaining agreements	p. 39	
	102-42	Identification and selections of stakeholders	p. 7	The relations with stakeholders who are influenced by the activities of the Group and whose activities influence the Group most of all, are the most important ones for the Group. The main stakeholders have been identified over the years through the work and communication and within the framework of analysis of priority subjects that was carried out in the end of 2016 with the participation of the management of the Group.
	102-43	Approach to stakeholder engagement	p. 7, 28, 31-33, 37-39,45, 53-54	
	102-44	Key topics and concerns raised	p. 7	As the expectations of external stakeholders are generally similar, they have been summarized in the matrix of focus topics that impact sustainability. The chapters of this report outline the principles for dealing with the topics that are of the greatest interest to the stakeholders. The issues raised by employees are analyzed within the company, incl. satisfaction with surveys, and development activities are planned in accordance with the proposals received.
Reporting practice				
	102-45	Entities included in the consolidated financial statements	p. 14, 60	
	102-46	Defining report content and scope of topics	p. 7	
	102-47	List of material topics	p. 7	
	102-48	Restatement of information of previous reports		No restatements
	102-49	Changes in reporting		No changes
	102-50	Reporting period	p. 1, 60	
	102-51	Date of most recent report		Audited Annual Report of Harju Elekter Group for 2019 was published at 27 March 2020
	102-52	Reporting cycle	p. 46	
	102-53	Contact point for questions regarding the report		Merili Pärnpuu, merili.parnpuu@harjuelekter.com
	102-54	Compliance with the GRI standard	p. 111	
	102-55	GRI content index	p. 113-116	
	102-56	External assurance		The GRI report has not been certified by any third parties
SUSTAINABILITY FOCUS TOPICS				
Product quality				
Management approach (GRI 103: 2016)	103-1 to 103-3		p. 30-34	
	non-GRI	Customer complaints	p. 31	
	non-GRI	Products delivered to customers on time in accordance with required specifications	p. 29	
Customer experience				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 31-32	
	non-GRI	Customer satisfaction	p. 32	
Innovation				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 28-29	
	non-GRI	Investments and development costs	p. 27	
	non-GRI	Development projects	p. 28-29	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Environmental impact of products				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 33-34, 40,41	
	non-GRI	Renewable energy production	p. 42	
Economic performance (GRI 201: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 12, 14-17, 48-50, 56-59	
	201-1	Direct economic value generated and distributed	p. 12, 14-17, 45, 50-51, 94	
Anti-corruption activities (GRI 205: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 46	
	205-3	Confirmed incidents of corruption and actions taken	p. 46	
Energy consumption (GRI 302: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 41-42	
	302-1	Energy consumption within the organization	p. 41-42	Electricity and heat as the main types of energy consumed.
Waste and wastewater (GRI 306: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 41	
	306-2	Waste by type and disposal method	p. 41	Sorted / unsorted waste is handed by waste management companies, which ensure that waste is recycled, incinerated or properly treated. The share of recycled waste is based on the amount of sorted waste transferred to the waste management companies.
Environmental compliance (GRI 307: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 40	
	307-1	Non-compliance with environmental laws and regulations	p. 40	
Supplier environmental assessment (GRI 308: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 33-34	
	308-2	Negative environmental impacts in the supply chain and corrective measures	p. 33-34	
Employment (GRI 401: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 35-39	
	401-1	New employee hires and employee turnover	p. 36	
	401-2	Employee benefits and incentives	p. 37	Presented by the description of the motivation system of employees.
	non-GRI	Interns	p. 53	
	non-GRI	Employee level of education	p. 36-67	
	non-GRI	Employee satisfaction and feedback	p. 38	
Occupational health and safety(GRI 403: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3, 403-1, 403-2, 403-7		p. 38-39	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
	403-9	Injuries at work	p. 39	Data is provided with the detail that the Group companies have considered important. In most cases, the Group companies do not hire subcontractors.
Training and education (GRI 404: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 38	
	404-1	Average hours of training per year per employee	p. 38	Data is provided with a detail that the Group companies have considered important.
	404-3	Percentage of employees receiving regular performance and career development reviews	p. 38	Data is provided with a detail that the Group companies have considered important.
	non-GRI	Employee participation in training courses	p. 38	
Diversity and equal opportunities (GRI 405: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 39	
	405-1	Diversity of governance bodies and the entire staff	p. 36, 39, 47-49	Data is provided with a detail that the Group companies have considered important.
Non-discrimination (GRI 406: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 39	
	406-1	Incidents of discrimination and corrective actions taken	p. 39	
Local communities (GRI 413: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 7, 53-54	
	413-1	Activities with local community engagement, impact assessments, and development programs	p. 7, 53-54	The Group companies assess their impact and plan activities in local communities on an ongoing basis in their everyday work (incl. introducing innovations and making decisions on the basis of feedback and proposals received from the community), separate impact assessments have not been performed.
Supplier social assessment (GRI 414: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 32-33	
	414-1	Negative social impacts in the supply chain and actions taken	Lk 32	
Public policy (GRI 415: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 46	
	415-1	Political contributions	p. 46	
Customer health and safety (GRI 416: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 33-34	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p. 33-34	
Socio-economic compliance (GRI 419: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 46	
	419-1	Non-compliance with laws and regulations in the social and economic area	p. 46	