HARJU ELEKTER

Annual Report 2021

AS HARJU ELEKTER
Consolidated Annual Report 2021

REGISTRY CODE: 10029524

ADDRESS: Paldiski mnt. 31, 76606 KEILA

TELEPHONE: +372 674 7400

AUDITOR: AS PricewaterhouseCoopers

BEGINNING OF FINANCIAL YEAR: 1 January 2021

END OF FINANCIAL YEAR: 31 December 2021

ANNEXES:
- Independent auditor's report
- Profit allocation proposal
- Supplementary annexes

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE3100004250/reports)

www.harjuelekter.com | info.he@harjuelekter.com

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Quarter of a century as a developing listed company

Harju Elekter faced serious challenges in 2021. We continued our fight against the virus and struggled with global supply constraints that disrupted the rhythm of production. We survived unprecedented increases in the prices of materials, transport, and energy, which had a significant impact on the Group's profitability. Thanks to the contributions of our hard-working employees, we managed to meet our customers' expectations and exceed our 2020 turnover, in spite of the difficulties.

We are optimistic about the future, and based on this, we made bold investment decisions in all of our location countries. We see continued progress for the Group, underpinned by the rapid pace of electrification required to meet climate goals. We are involved in the development of electricity grids, electricity generation and storage, and electricity transport. We have good experience in the use of solar energy and the modernisation of electricity distribution networks and substations. Knowledge and skills in energy storage will be an advantage, especially in the field of heat storage systems enabling the use of electricity at night.

For the past 53 years we have been manufacturing electrical equipment in our plants in Keila. We want to continue to be a good employer, a developing Group, as well as a reliable partner for our customers and a good investment for our shareholders.

This year marks the 25th anniversary of the listing of shares of Harju Elekter on the Tallinn Stock Exchange. We are pleased that we have paid dividends to shareholders all these years.

I am happy that I have been able to contribute to the development of Harju Elekter for more than half a century. As I hand over the management to the younger generation, I would like to thank my colleagues, partners, shareholders and wish our international Group continued success.

Endel Palla
Chairman of the Supervisory Board

A crisis year of record turnover and modest profitability

TIIT ATSO
Chairman of the Management Board

2021 was another exceptional year for Harju Elekter. While the first year of the pandemic, 2020, was particularly successful for Harju Elekter, last year was the opposite. A year ago, we continued to service existing contracts, and the crisis brought with it a decent surplus of raw materials. There was also no wage pressure due to falling prices and uncertainty. Even then, based on past experience, it was commented that the crisis would reach us later – and in 2021 we saw it.

The year started with a shortage of raw materials, in particular sheet metal, which led to a rapid increase in prices. The difficulty in acquiring materials and the increase in prices continued throughout the year, with the situation only improving towards the end of the year. The addition of the component shortage in the second half of the year further increased dissatisfaction among customers in connection to product delays. Constant rescheduling led to inefficiencies in production and left a deep imprint on profitability, which cannot be considered a satisfactory level of profitability.

The overall improvement in the economy in 2021 added to the competitive pressure on skilled labour and, in turn, put pressure on wage growth. In the Baltics in particular, this will certainly continue in 2022, where with record inflation and rising housing costs, it is logical that people will want to catch up with Nordic incomes.

On the positive side, Harju Elekter achieved record sales again in 2021, surpassing the 150 million euro mark and reaching 152 million euros, which exceeded the record turnover achieved a year earlier by 4%. In particular, we saw strong growth in the second half of the year, when we started executing new framework agreements in Finland and Sweden, with year-on-year growth of 13% in the third quarter and 24% in the fourth quarter.

We continued to invest in all the countries where we are based to ensure volume growth. In the first half of the year, we completed the expansion of our Lithuanian plant, and decided to concentrate production capacity in Sweden at two sites – in Malmö and Västerås – where we are building modern production facilities. In Finland, we found a way to alleviate the shortage of production space for electric chargers. In Estonia, we continued to invest in our sheet metal production capacity. The development of industrial real estate for external parties also continued, as we started the development of Laohotell III in Allika Industrial Park, which will be completed already in the second quarter of 2022.

> The goals of Harju Elekter for 2022 is to fulfil customer orders with the highest possible quality and on time, and to maintain a strong and well-functioning international Group despite all the supply chain problems caused by the ongoing pandemic and the Russian-Ukrainian War.

The electrification programmes in the Nordic countries, with the increasing electricity consumption resulting from the green revolution, will continue to provide opportunities for growth in the industrial production and project sales. Customer demands for sustainable production are driving the success of companies that are already investing in environmentally and socially responsible production. For Harju Elekter, the green transition is not just about reporting, where we have been increasing and improving the disclosure of our sustainable activities for years, but we are taking real steps to link sustainable practices to our daily operations, and thus also drive business growth.

Despite record high order volumes in the market, the pandemic situation persists, with high raw material prices and a shortage of components. Due to Russia's attack on Ukraine, the availability of raw materials and components is not improving – the first indications even show that the difficult situation is getting worse. Harju Elekter does not succumb to difficulties and emerges from the crisis as a strong and well-capitalised Group by relying on its long-term experience.

TIIT ATSO
Chairman of the Management Board

Management Report

Operations and Business Philosophy

Harju Elekter is an international industrial group with over 50 years of experience, whose main area of activities are engineering, manufacturing and installating of electrical distribution solutions. The customers of Harju Elekter are mostly large electricity distribution network, infrastructure, industrial, maritime, and utility companies in the Nordic countries.

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.

Our solutions are for:

POWER GRID

INDUSTRIAL AUTOMATION

MARINE

BUILDINGS

TELECOM

E-MOBILITY

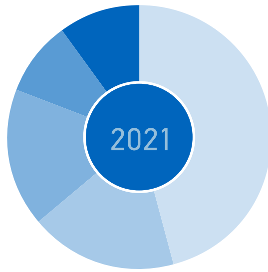
RAIL & INFRA

Harju Elekter has its roots and head office in Estonia, but more than 80% of the group's production is marketed outside Estonia, mostly in domestic markets in Finland and Sweden, where there are local sales and production units. The Group's largest production units are located in Estonia and Lithuania. Export sales from the manufacturing units to other geographical markets complements the local activities.

The goal of Harju Elekter is 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 of 900 people.

The shares of AS Harju Elekter have been listed on the Nasdaq Tallinn Stock Exchange since 1997.

Share of revenue by markets



Finland	46%	(2020: 47%)
Sweden	18%	(2020: 18%)
Estonia	17%	(2020: 16%)
Norway	9%	(2020: 11%)
Others	10%	(2020: 8%)

Main customers

INDUSTRIES

UTILITIES

INFRASTRUCTURE

Mission

As a responsible industrial group, Harju Elekter provides customers and partners with intelligent, high-quality and environmentally 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.

The value chain of the Production segment:

RAW MATERIALS:
- sheet metal
- copper
- electrical components
- electricity and heat

9 production plants
900 employees
in 4 countries

KEY PROCESSES:
- engineering, production
- project management
- installation

PRODUCTS AND SYSTEMS:
primary and secondary substations, medium and low voltage switchgear, solar panels and inverters, electric car chargers, technical buildings relay protection and control systems, frequency converters

CUSTOMERS:
- electricity distribution network
- infrastructure
- industry
- marine sector

Harju Elekter Group

as of 31 December 2021

AS HARJU ELEKTER

Estonia

AS Harju Elekter Elektrotehnika
AS Harju Elekter Teletehnika
Energo Veritas OÜ (80.52%)

Finland

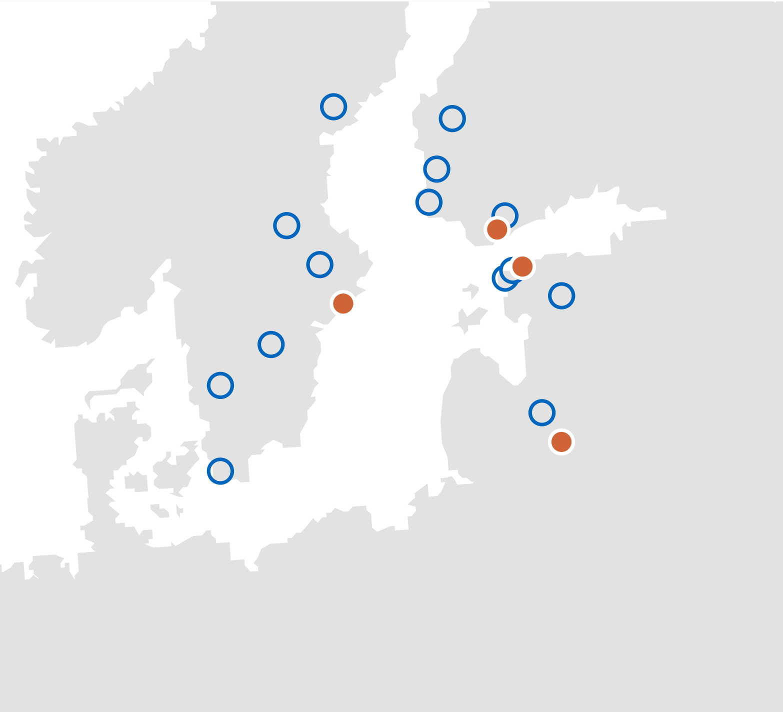
Harju Elekter Oy
Telesilta Oy
Harju Elekter Kiinteistöt Oy

Sweden

Harju Elekter AB
Harju Elekter Services AB

Lithuania

Harju Elekter UAB



The holding of AS Harju Elekter in its subsidiaries

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

ESTONIA

AS HARJU ELEKTER
The Parent company of the Group, focused on coordination of co-operation within the Group's companies and managing industrial real estate holdings. Located in Keila

AS HARJU ELEKTER ELEKTROTEHNIKA
Manufacturer of electrical equipment for energy distribution, industrial and construction sectors, located in Keila

AS HARJU ELEKTER TELETEHNIKA
Producer of customer-based sheet metal products for the electrical engineering and telecom sector, located in Keila

ENERGO VERITAS OÜ (80.52%)
A company trading in electrical materials and equipment in Estonia

FINLAND

HARJU ELEKTER OY*
Manufacturer of electrical equipment for energy, industry and infrastructure sectors, located in Ulvila, Kerava and in Kurikka

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

HARJU ELEKTER KIINTEISTÖT OY
Industrial real estate holding company

LITHUANIA

HARJU ELEKTER UAB
Engineering and contract manufacturing of multidrive, MCC's and distribution systems, located in Panevėžys

SWEDEN

HARJU ELEKTER AB
Engineering company for MV/LV power and distribution solutions for the construction, infrastructure, and renewable energy sector; manufacturer of prefabricated technical houses located in Malmö, Borlänge, Stockholm, Finspång, Borås, Luleå and Västerås

HARJU ELEKTER SERVICES AB
Sales office in Stockholm

Strategical investments
(31.12.2021)

ESTONIA
OÜ SKELETON TECHNOLOGIES GROUP (6.14%)
Developer and manufacturer of ultra-capacitors

LATVIA
SIA ENERGOKOMPLEKSS (14%)
MV/LV equipment sales organisation in Riga

FINLAND
IGL-TECHNOLOGIES Oy (5.5%)
Developer of parking & e-mobility solutions for electric car chargers

* A more detailed overview of the changes in the Group structure can be found on page 11.

Events of 2021

Changes in the Structure of the Group

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 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 infrastructure sectors.

Customer agreements

Harju Elekter concluded an agreement with Caruna Oy, Finland's largest distribution network company, **to manufacture and deliver 1,000 prefabricated substations**. The framework agreement, which runs until 2023, is worth around 14 million euros.

The cooperation with Region Stockholm, which operates the Stockholm metro, continued. Electricity project contracts worth almost 3 million euros were signed for the **refurbishment of the Stockholm metro stations in Albano and Rådhuset.**

The Swedish company of Harju Elekter signed a 15 million worth framework agreement with E.ON Energidistribution AB, the largest distribution network company in Sweden. **According to the agreement, approximately 1,500 substations, manufactured in Estonia, will be supplied over the period of three years.**

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 was signed for a period of three years.

Largest investment

For the purpose of business expansion, it was decided to consolidate the various units of the Swedish operations of Harju Elekter in Västerås and Malmö and to establish new plants in these locations. By the end of 2022, a 6,000 m² production building will be completed in Västerås and a 3,000 m² production building in Malmö. While the new Malmö plant will be leased, Harju Elekter will invest around 10 million euros in the construction of the Västerås plant. This is the largest investment in the history of Harju Elekter. The restructuring of the operations of Harju Elekter in Sweden will allow for more efficient production, lower logistics costs, and better security of supply to customers, which are prerequisites for profitable growth.

Charging of electric vehicles

Harju Elekter introduced a new product family of electric vehicle charging stations to the Finnish market. ElektrA chargers allow electric vehicles both to be charged and heated and are equally suitable for car parks in apartment buildings, shopping centres and commercial buildings.

In addition, the Finnish company of Harju Elekter signed an agreement to acquire a 5.5% stake in the technology company IGL-Technologies Oy, which is a developer and provider of parking and e-mobility solutions. As an event after the reporting date Harju Elekter Oy increased its share in the cooperation partner up to 10%.

Factory expansion

The construction of the stage four extension of the Harju Elekter Lithuanian plant was completed, increasing the office and production premises from 8,765 m² to 16,761 m². The investments of 5.5 million euros in the expansion of the plant will enable Harju Elekter UAB to double the company's revenues.

New production and warehouse complex

The cornerstone was laid to Harju Elekter's new stock office in Allika Industrial Park. It is already the third similar building in the industrial park and is therefore called Laohotell III. The total area of the building, which will be completed in the spring of 2022, is 2,573 m² as of the beginning of the year, all premises are leased.

Sustainabilty in Harju Elekter

- Strategy
- Management
- Product and customer
- Personnel
- Environment
- Social involvement

For Harju Elekter it is important to commit to the creation of a sustainable society, as well as business, living, and natural environment, and understands that this will contribute to the long-term viability of the Group. Expectations for addressing sustainability issues in a broader and targeted manner come from stakeholders important to Harju Elekter, namely from customers, partners, employees and investors, legislators and society at large.

For Harju Elekter, taking sustainability into account means taking responsibility for environmental, social impact, and governance issues (ESG: *Environmental, Social, Governance*).

In line with a mindset that appeals to Harju Elekter, it is responsible for influencing positive change in these areas through investments, leadership, and example.

Strategy

The sustainability ambitions of Harju Elekter are influenced by global targets to reduce climate warming (such as the Paris Agreement) and the green transition. The Group is therefore making sure that its companies are increasingly efficient, environmentally friendly, and involved in the implementation of new innovative technologies.

The Group's core business also contributes to the development of a sustainable society by supporting large-scale electrification with electrical equipment, which contributes to meeting climate targets. On the one hand, grid-connected electrical equipment makes it possible to replace environmentally unfriendly ways of generating energy, while on the other hand, there is a need to replace outdated electrical equipment with new, more environmentally friendly ones. While Harju Elekter cannot guarantee that only green energy will be used in manufactured electrical equipment, the trend is moving towards a more environmentally friendly electricity grid over the next 20 years, thanks to global ambition and demand.

In addition to its core business, Harju Elekter supports sustainable development through other areas of activities. In the real estate segment, the aim is to build increasingly energy-efficient buildings for both our own and our customers' use. The Group also contributes to increasing renewable energy production capacity by building solar parks.

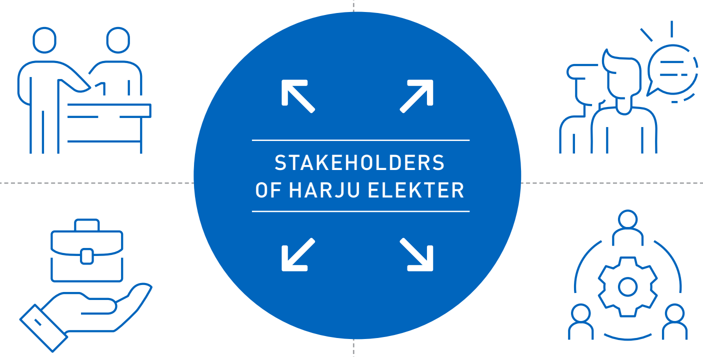
Since 2017, Harju Elekter has followed the GRI (Global Reporting Initiative) principles in its reporting, which help the organisation to emphasise the importance of sustainability and ensure better ESG communication to its stakeholders.

Customers and Partners

- Electricity distribution, infrastructure, industrial, maritime, and utility companies
- Industrial and commercial property tenants
- End-users of electrical equipment
- Construction and real estate companies
- Suppliers and subcontractors
- Parties in the logistics chain
- Funders and analysts
- Supervisory authorities and institutions, public authorities

Society and Local Community

- Local governments
- Regulatory and supervisory authorities
- Cooperation organisations, networks, and professional associations
- Education and research institutions
- Publicity and media



Investors

- Major and minor shareholders

Employees

- Employees of Harju Elekter Group companies
- Potential employees
- Trade unions

In 2021, Harju Elekter focused on the environmental dimension of sustainability, including the use of renewable energy, the reduction of negative environmental impacts of waste, and product life cycle analysis. The social impact dimension included activities targeting stakeholders. The governance dimension focused on employee involvement, promoting cooperation and satisfaction.

The stakeholders of Harju Elekter have been selected according to who has the greatest influence on the organisation's activities and who is most affected by the organisation. In relations with local authorities and residents, regulating and supervisory authorities, issues will be raised mutually on the basis of needs. In cooperation with educational institutions, professional associations, and NGOs, activities will be seen to create value for both sides.

With its stakeholders in mind, Harju Elekter has developed focus themes reflecting the importance of social responsibility issues to interested parties, and the impact and importance of these issues to the Group.

The initial mapping of focus topics, which has been subsequently refined, involved members of the Group's steering group and the heads of the major subsidiaries. In determining the factors most affecting the Group's performance, the issues raised by stakeholders during regular communication and feedback from customers and employees were taken into account. The analysis was led by independent consultants to ensure a high-quality and reliable result.

Harju Elekter focuses on the following:

- providing a high-quality product;
- designing a safe and healthy working environment;
- a fair and ethical business culture and strong financial performance;
- innovation and development in both products and processes;
- excellent customer experience and ensuring high satisfaction rate;
- continuous training and development of employees;
- cooperating with educational institutions and professional associations;
- reducing its ecological footprint;
- cyber-security;
- civic engagement.

The issues identified in the list are part of the strategic and operational management of the Group's companies, and these are taken into account as guiding principles for management decisions. Therefore, the 2021 Annual Report of the Group also provides an overview of the management and performance of all these topics. The key aspects of the sustainability focus areas in the report are reflected in line with the international sustainability reporting framework, the GRI standard, the table of contents of which can be found on the last pages of the report.

We can achieve the reduction of our ecological footprint by using resources efficiently in our processes, our products, as well as our daily activities. Harju Elekter shares the green vision of its stakeholders, which on the one hand inspires the Group's employees, and on the other hand sends a clear message to shareholders about the sustainability of the Harju Elekter Group.

The Group is convinced that a cleaner and more economical future is driven by innovative products and digitalisation of processes. In order to minimise its negative environmental impact and to increase its positive environmental impact, Harju Elekter has defined environmental aspects, carried out an environmental impact assessment according to ISO 14001, and linked environmental activities to the organisation's management system and business processes. In the longer-term strategic perspective, we consider it important to invest in areas that support the Group's activities in both renewable and green electricity distribution, storage, and generation applications.

In 2022, Harju Elekter plans to renew its sustainability strategy to contribute to achieving climate neutrality and to contribute to the UN Sustainable Development Goals (SDGs) through the business activities of Harju Elekter. Based on this, Harju Elekter will reinforce its mission to behave responsibly and establish a framework for achieving these sustainable goals. As the harmonisation of processes and objectives across the Group's companies will play a major role in reducing the ecological footprint, a new position will be created in 2022 to ensure the management of sustainability issues at Group level.

EU Taxonomy for sustainable activities

In 2020, the European Union adopted a classification system that establishes a list of environmentally sustainable activities – the EU Taxonomy regulation.[1] In the 2021 annual report, Harju Elekter Group discloses for the first time the key performance indicators (KPIs) required by the Taxonomy regulation.

The Taxonomy regulation sets out conditions that an economic activity must fulfil to qualify as environmentally sustainable. These conditions aim to establish the means by which an economic activity makes a substantial contribution to the following environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

A list of economic activities that are eligible to make a substantial contribution to these objectives is adopted through delegated acts. As of 31 December 2021, a delegated act for the environmental objectives of climate change mitigation and climate change adaptation has been adopted.[2] The climate delegated act focuses on the following sectors and economic activities as they have the greatest potential to contribute to the climate objectives:

1. Forestry
2. Environmental protection and restoration activities
3. Manufacturing
4. Energy
5. Water supply, sewerage, waste management and remediation
6. Transport
7. Construction and real estate activities
8. Information and communication
9. Professional, scientific and technical activities

Considering Harju Elekter Group's economic activities, the Group discloses taxonomy-related information regarding manufacturing, energy and construction and real estate activities.

Harju Elekter Group discloses taxonomy-related KPIs in accordance with the implementation timeline outlined in the delegated act supplementing reporting obligations.[3] In 2021 annual report, Harju Elekter Group discloses the proportion of taxonomy-eligible and taxonomy-non-eligible economic activities in their total revenue, capital expenditure (CapEx) and operational expenditure (OpEx). Next year, Harju Elekter Group will assess the alignment of taxonomy-eligible activities with the taxonomy regulation and disclose the proportion of taxonomy-aligned activities in the revenue, CapEx and OpEx.

[1] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.
[2] C(2021) 2800 final.
[3] C(2021) 4987 final.

Taxonomy-related activities

	Revenue			CapEx			OpEx		
	NACE code(s)	Absolute revenue (EUR´000)	Proportion of revenue (%)	NACE code(s)	Absolute CapEx (EUR´000)	Proportion of CapEx (%)	NACE code(s)	Absolute OpEx (EUR´000)	Proportion of OpEx
A. Taxonomy-eligible activities									
A.1. Environmentally sustainable activities (Taxonomy-aligned)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.2. Taxonomy-Eligible but not environmentally sustainable **		**30,486**	**20.0%**		**3,964**	**46.0%**		**47**	**2.4%**
incl 3.1 Manufacture of renewable energy technologies	*C27.1.2*	*1,841*	*1.2%*	*C27.1.2*	*0*	*0.0%*	*C27.1.2*	*0*	*0.0%*
incl 3.6 Manufacture of other low carbon technologies	*C27.1.2*	*25,384*	*16.6%*	*C27.1.2*	*0*	*0.0%*	*C27.1.2*	*47*	*2.4%*
incl 4.1 Electricity generation using solar photovoltaic technology	*D35.1.1*	*132*	*0.1%*	*D35.1.1*	*444*	*5.1%*	*D35.1.1*	*0*	*0.0%*
incl 7.1 Construction and real estate activities	-	-	-	*F41.2.0*	*2,275*	*26.4%*	*F41.2.0*	*0*	*0.0%*
incl 7.7 Acquisition and ownership of buildings	*L68.2.0*	*3,129*	*2.0%*	*L68.2.0*	*1,245*	*14.4%*	*L68.2.0*	*0*	*0.0%*
Total (A.1 + A.2)		**30,486**	**20.0%**		**3,964**	**46.0%**		**47**	**2.4%**
B. Taxonomy-non-eligible activities									
Taxonomy-non-eligible activities		**122,271**	**80.0%**		**4,658**	**54.0%**		**1,935**	**97.6%**
B		**122,271**	**80.0%**		**4,658**	**54.0%**		**1,935**	**97.6%**
Total (A+B)		**152,757**	**100.0%**		**8,622**	**100.0%**		**1,982**	**100.0%**

* In accordance with the disclosure obligations, the alignment of the eligible activities was not assessed for 2021 report.
** A.2. includes all Harju Elekter Group's taxonomy-eligible activities. The alignment of these activities with the taxonomy regulation will be disclosed in 2022 annual report.

Specification of disclosures accompanying the KPIs

1. Accounting policy

Harju Elekter Group determined the taxonomy-eligible proportions of revenue, CapEx and OpEx according to the specification of KPIs as outlined in the Annex I of the delegated act supplementing reporting obligations.[4] The specification of denominators and numerators related to revenue, CapEx and OpEx KPIs were used, considering that the KPIs in the 2021 report concern eligibility. The descriptions of activities defined in the climate delegated act Annex I and II[5] were the basis of determining and allocating revenue, CapEx and OpEx to the numerator.

KPI related to revenue – The denominator covers the revenue derived from the Group's regular business activities and that is recognized pursuant to the International Accounting Standard (IAS) 1, paragraph 82(a). As the principal activity, the Group manufactures and sells electricity distribution and control apparatus and other fabricated metal products. In addition, Harju Elekter Group's revenue is related to the project and retail sale of electrical goods, rental of industrial real estate and installation of electrical systems on vessels. The numerator was calculated as the part of the net revenue derived from products or services that, according to the Group's assessment, correspond to the descriptions of the economic activities listed in the climate delegated act.

KPI related to CapEx – The denominator includes Group's investments made in 2021. The Group invested in tangible and intangible assets during the financial year of 2021 and accounted for new lease agreements based on IFRS 16. The numerator equals to the part of CapEx that, according to the Group's assessment, is related to taxonomy-eligible activities. In addition, the numerator includes

[4] C(2021) 4987 final, Annex I, section 1.1. I [5] C(2021) 2800 final.

CapEx that is related to purchases of output from taxonomy-eligible activities or individual measures that enable the target activity to become low-carbon or to lead to greenhouse gas reductions. It was considered that the latter measures must be implemented and operational within 18 months.

KPI related to OpEx – The denominator includes direct non-capitalised development costs. The numerator equals to the part of OpEx that, according to the Group's assessment, is related to taxonomy-eligible economic activities.

2. Assessment of compliance with Regulation (EU) 2020/852

Description of activities and assessment of compliance

Harju Elekter Group determined the list of taxonomy-eligible activities in reference to the description of the activities and corresponding NACE codes specified in the climate delegated act Annex I and II.

Economic activities that are eligible to the technical screening criteria of the climate delegated act can be divided into three groups: low carbon activities, enabling activities and transitional activities. Harju Elekter Group's taxonomy-eligible activities are low carbon and enabling activities.

The Group's eligible activities are the following:

- NACE C27.1.2 that corresponds to the activity 3.1. in the climate delegated act: Manufacturing of renewable energy technologies. By manufacturing substations for solar, wind and hydroelectric power plants, the Group enables the production of renewable energy.
- NACE C27.1.2 that corresponds to the activity 3.6. in the climate delegated act: Manufacture of other low carbon activities. The Group manufactures electric car charging equipment and heating solutions. Another enabling activity is the manufacturing of power distribution solutions that are used for retrofitting water transport.
- NACE D35.1.1 that corresponds to the activity 4.1 in the climate delegated act: Electricity generation using solar photovoltaic technology. The Group produces and sells renewable energy generated using solar panels.
- NACE F41.2.0 that corresponds to the activity 7.1. in the climate delegated act: Construction of new buildings. The Group invests into new energy efficient manufacturing buildings.
- NACE L68.2.0 that corresponds to the activity 7.7 in the climate delegated act: Acquisition and ownership of buildings. The Group develops, manages, and leases out industrial real estate.

Harju Elekter Group did not assess the compliance with the criteria set out in article 3 of the Taxonomy regulation as the disclosure requirements of 2021 concern only the eligibility of the Group's activities.

In order to avoid any double counting in the allocation in the numerator of revenue, CapEx and OpEx KPIs across economic activities, each economic activity was accounted for on a project and order basis. In addition, cross-Group transactions were outlined and considered.

3. Contextual information

Revenue – Harju Elekter Group manufactures electric car charging equipment and heating solutions, develops and leases industrial real estate and derives revenue from renewable electricity generation. As a supporting activity it produces substations and other electricity distribution equipment for solar, wind and hydroelectric power plants and for the production of low carbon emission ships. For the quantitative breakdown of the numerator, see table above (activities 3.1, 3.6, 4.1, 7.7).

CapEx – The CapEx numerator includes direct investments into real estate and solar power plants development. In addition, the CapEx numerator includes costs related to an individual measure that leads to greenhouse gas reduction, namely the construction of a new manufacturing building in Lithuania with energy efficiency level A+ at the time of registration.
For the quantitative breakdown of the numerator see table above (activities 4.1, 7.1, 7.7).

OpEx – The OpEx numerator includes operational expenditure that is related to the development of electric car charging equipment and heating solutions.
For the quantitative breakdown of the numerator see table above (activity 3.6).

Management

The Harju Elekter Group bases its business activities on the following:

- values of the organisation;
- focus topics;
- short and long-term strategic objectives;
- fair and transparent principles of management;
- principles of an integrated management system (quality, health and safety, environment);
- applicable national laws and regulations;
- the company's Articles of Association and Code of Conduct;
- the requirements of Nasdaq Tallinn (as a public company);
- the guidelines of Good Corporate Governance (GGC);
- the principle of equal treatment of shareholders and investors.

Leadership from top management plays an important role in integrating sustainability into business processes. All employees also have an important role to play. In the organisation, each employee is responsible for quality, the environment, and safety at work. Raising people's awareness will be achieved through training and by keeping key issues in focus, supported by training programmes for managers and staff, and by developing an open organisational culture and internal communication.

In 2021, the Group's companies based their sustainability management on the principles of the management system (ISO 9001, ISO 14001, ISO 45001). The guiding principles for sustainability and the action plan will be harmonised across the Group in 2022. It will also set out the arrangements for how sustainability is taken into account in decision-making at the senior management level and which committees are responsible for environmental and social impact issues.

Fair and ethical business practices

Harju Elekter relies on fair, transparent, and ethical management principles in its communication with all stakeholders. The Group has a zero-tolerance policy towards corruption (including bribery, conflict of interest, abuse of position and influence, embezzlement) and unfair competition (including the dissemination of know-how and inside information and its use for personal gain), both for employees and partners.

Certain principles have been agreed upon to prevent, avoid, and mitigate the risks of corruption and unfair competition: for example, in large-scale transactions, an additional decision-maker is involved to avoid conflicts of interest that may arise from, among other things, business, family or other relations. Employees are prohibited from accepting or giving gifts or benefits with the purpose of influencing a customer in a way that is more favourable to themselves or the company. Activities are carried out in accordance with the law, as well as established practices and standards.

Rules, guidelines, and verbal agreements have been established at the management levels of the companies of Harju Elekter to increase transparency and mitigate reputational risks, and thereby maintain the Group's credibility in the market and in its relations with the stakeholders. Key persons must declare their business interests and holders of inside information must comply with the established rules of conduct. In order to ensure that Group employees are aware of the required guidelines and responsibilities, they are introduced to the internal rules of the job upon taking up their positions and regularly undergo area-specific training and internal audits.

Developing an open organisational culture helps to ensure that employees have the information they need to make informed decisions and that management is aware of critical transactions and potential non-compliances involving high economic risks.

In 2021, the Harju Elekter Group:

- did not register any corruption-related incidents, resulting in the dismissal of any employees of the Group's company, the imposition of corresponding fines or the filing of any lawsuits, and the termination or suspension of the renewal of agreements with business partners due to corrupt behaviour;
- did not register any non-compliances with existing regulations (including social, economic, and environmental) in the companies' activities, thus, no fines or non-monetary sanctions were imposed;
- did not register any legal action that was brought against any Group company or employee for non-compliance with the law;
- did not register any cases where companies contributed to political activities either in cash or in kind.

Cyber-security

The Harju Elekter Group has engaged in and considered cyber-security to be important for many years, but in 2021, cyber-security was made a priority to ensure business continuity. As part of this framework, Harju Elekter further increased its proactive activities in protecting business processes to avoid the time and resource-consuming consequences of cyber-attacks. Restoring partially or completely paralysed business processes can take weeks or even months and is costly. As a result of poor cyber-hygiene or a cyber-attack, the compromise of one asset can lead to the takeover of an entire company's digital environment.

Activities in 2021 to promote the Group's cyber-security:

- cyber-hygiene training was conducted in all of the Group's companies, providing employees with information about cyber-threats and how to address them. The training also provided feedback on areas of cyber-security that need more attention and clarification. Cyber-hygiene training will be organised annually in all of the Group's companies;
- the security of the IT infrastructure was enhanced to ensure better resilience in the event of cyber-attacks;
- the protection of emails was further strengthened to ensure the most secure possible email environment for communication and information exchange.

Product and customer

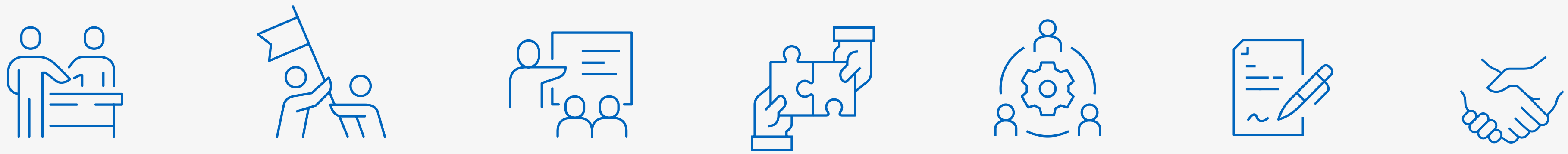
At Harju Elekter, a strong and long-term customer relationship is based on high-quality products, on-time delivery, smooth cooperation, and understanding the customer. In addition, from the customer's point of view, the credibility of the company is important, linked to sustainable operations and a long history.

The products of Harju Elekter are electrification solutions, which include distribution and substations, medium and low voltage switchgear, solar panels and inverters, electric car chargers, technical buildings, as well as relay protection and control systems and frequency converters. In line with the Group's focus themes, the first priority of Harju Elekter is to provide a high-quality product.

From the Group's point of view, a product is of high quality if:

- the product is safe, meets the customer's specifications and is visually correct;
- the product exceeds the customer's expectations and offers added value to the customer;
- the processes involved in the manufacturing of the product comply with applicable legal and regulatory requirements.

The Group considers seven principles to be important in quality management:



Customer focused approach

The focus is to meet the customer's requirements and expectations to increase their satisfaction.

Leadership

Each level manager is responsible for the quality of their own work. In doing so, they will promote continuous improvement in processes and contribute to the achievement of the organisation's objectives.

Involvement of people

In order to manage the Group effectively and efficiently, people are involved at all levels, and motivating and training them contributes to achieving the company's objectives. In addition, employees are encouraged to take responsibility for the quality of their work.

Process-centred approach

The Group manages its activities as interlinked processes that operate as a coordinated system to achieve quality objectives.

Improvement

To exceed customer's expectations and ensure their satisfaction, the Group places a high priority on continuous improvement of its processes.

Evidence-based decision making

The Group makes decisions based on data and the analysis and evaluation of information.

Relationship management

The Group considers the management of relationships with relevant stakeholders to be essential to success. Emphasis is placed on developing suppliers and maintaining excellent communication.

The quality management system for all of the Group's companies is certified according to ISO 9001:2015. The certificate demonstrates the commitment of Harju Elekter to consistently providing products that meet both customers' and applicable legal requirements and to ensure customers' satisfaction.

Quality is an integral part of day-to-day management, sales, development and production activities, logistics, and real estate development. Quality assurance throughout the life cycle of the product is considered important.

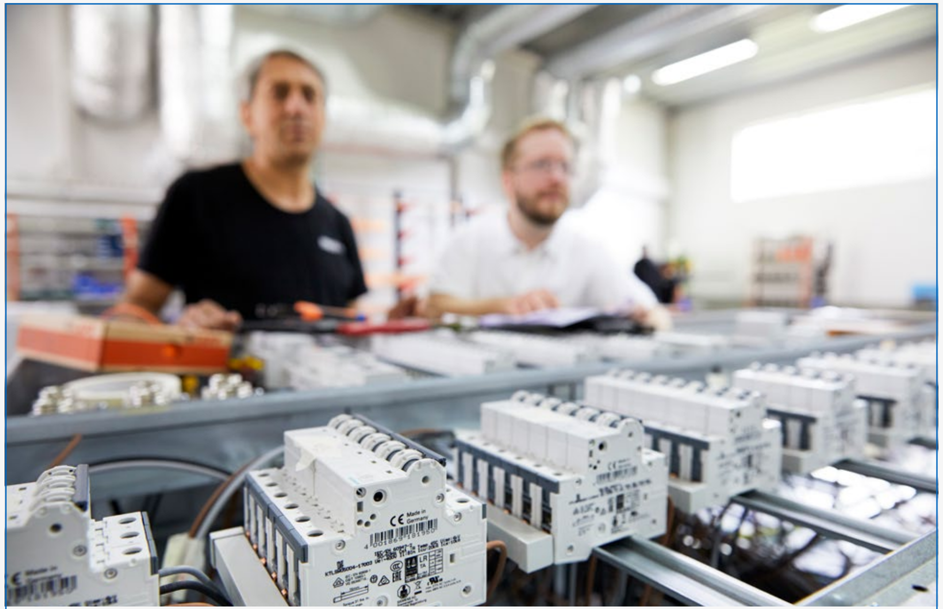
Quality output is achieved through proper supply chain planning, a competent workforce, the establishment of a feedback system, and the implementation of quality control at different stages, which helps to identify defects at the earliest possible stage.

Development activities

According to the development principles of Harju Elekter, the aim of product development is to continuously develop products that meet the needs of customers and improve technology. From a business development perspective, it is important to ensure the production capacity of Harju Elekter through modern production units and efficient production processes. The Group's development costs amounted to 1.98 (2020: 1.77) million euros during the financial year, representing 1.3% of the Group's sales.

At Harju Elekter, product development projects are handled by electrical and mechanical engineers in all the countries of operation. The Group's product development resources for the energy sector are mainly concentrated in Estonia. The Finnish company specialises in the development of products and renewable energy solutions for the industry. The engineering team of Harju Elekter in Lithuania focuses mainly on project and customer-specific turnkey solutions in the maritime and industrial sectors; and in the infrastructure and energy distribution sectors in Sweden.

In product development, the Group's activities are largely driven by customers' demand for innovative solutions. Harju Elekter is committed to keeping up with the general market trends and paying more attention to innovation in the topics related to this field. It is an opportunity to better help customers, meet their expectations, and provide exciting work for our engineers.



The Group's capacity to innovate is expressed in three ways.

- Product development looks for places, both in-house and with customers, where products can be designed smarter or made to work more efficiently. The Group also contributes to applied research and development of new products (e.g. energy storage devices).
- Changes are constantly being made in production to make production more efficient through technological or process innovation.
- Cooperation is carried out in the supply chain to develop and improve structures already in place.

In order to make production more efficient, Harju Elekter paid special attention to the development of production management information systems in 2021, both in terms of implementation and mapping of processes and needs.

To support product development, emphasis was placed on sustainable capacity building. To this end, Harju Elekter made real estate developments, developed solar parks to generate environmentally friendly electricity, and invested in machinery.

In 2021, further developments were made to the new ElektrA electric car charging stations, which were launched on the Finnish market in autumn. The Group also continued to develop electrical equipment for use on board ships at a high-tech level.

The renewal and upgrading of the substation product family continued. In recent years, the Group has focused on development activities in Sweden, and the new substations are designed with the requirements and specificities of the Swedish market in mind. During the year, a number of new environmentally friendly air-insulated and medium-voltage packaged substations were developed and successfully passed type-testing according to the IEC standards. The first deliveries of new equipment to Swedish customers took place in the third quarter of 2021.

The development of factory-built specialised plants and technical buildings continued, with market demand having increased significantly in recent years and growth expected to continue in the coming periods. A large part of the growth in demand is related to the development of data centres, which form the bulk of the specialist substation projects of Harju Elekter. During the year, solutions were delivered for a number of projects in Europe, and orders were received for projects in both Australia and New Zealand, with deliveries due in 2022. In order to meet the increasing demand, the capacity to supply power plants and technical buildings was also increased in 2021 at the Lithuanian plant.

In the context of the global green transition, Harju Elekter and its partners have entered the market for systems to produce green hydrogen. During 2021, several orders were received for the development of frequency converter systems for electrolysers, with the first deliveries taking place in 2022.

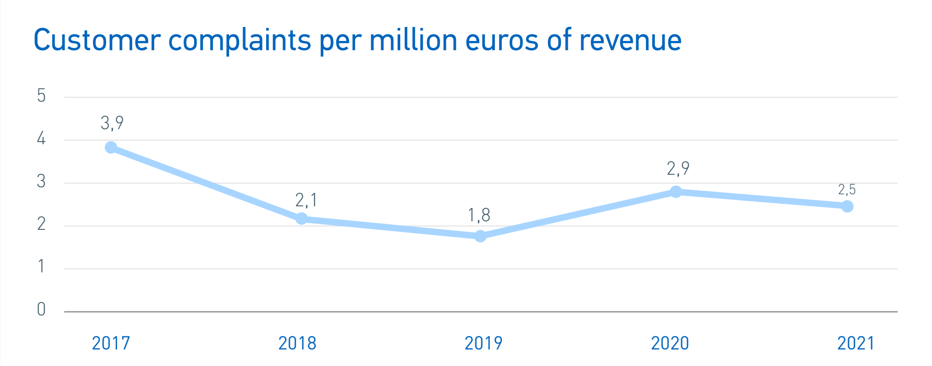
Quality in products and customer relations

1. Customers

Harju Elekter attaches great importance to gathering customers' feedback and suggestions. Although the Group's companies use different methods to collect and analyse feedback from the customers, they all measure overall satisfaction, willingness to recommend, and the extent to which products and engineering solutions meet expectations. The feedback received helps to map the overall attitude of customers towards the company, understand the reasons and draw conclusions. All enquiries from customers are recorded and analysed, and complaints are given special attention.

Compared to the previous period, customers' satisfaction declined due to a decrease in on-time delivery which is a result of the global material shortage. The Group's average satisfaction score was 75 out of 100 (78 in 2020; 80 from 2018–2019). During the reporting year, the share of products meeting the requirements (quality, on-time delivery) ranged from 49% to 100% for all companies in the Group. The Group-wide average was 84% (2020: 90%).

The average number of complaints received from non-Group customers was 2.5 (complaints from customers per million euros of revenue; 2020: 2.9).



2. Suppliers

It is considered good practice at Harju Elekter to organise tenders and consider alternatives when making purchases in order to obtain suitable purchasing conditions. It is important to assess the risks associated with suppliers and not to remain in a situation where the company uses sole suppliers. In the last couple of years, first steps have also been taken towards cross-Group purchasing. Harmonised agreements with suppliers support better supply conditions and a smooth and transparent process.

Suppliers are selected on the basis of their reputation, reliability, quality, delivery conditions, and price. More important than lower cost is the best price-quality ratio. The main partners tend to be permanent, and new ones are sought when the need arises or a new product is launched.

It is important for the Group's companies to maintain good partnerships with suppliers and to provide continuous feedback. It has been a good practice to visit and audit suppliers in order to verify their reliability and to monitor how they are fulfilling orders. Due to COVID-19, several supplier visits were postponed.

The Group's companies carry out periodic supplier assessments. The most important criteria are OTD (On-Time-Delivery) and quality. Feedback will be sent to suppliers and, based on the results, opportunities for improvement will be reviewed together.

In 2021, AS Harju Elekter Elektrotehnika focused on service providers and prepared evaluation criteria for new and existing service providers, on the basis of which a development plan could be drawn up for its partners or existing ones replaced.

Due to the supply chain problems caused by COVID-19, cooperation with suppliers has been more in focus in 2021 than in the previous periods. In order to mitigate problems and find solutions, all companies in the Group placed greater emphasis on monitoring supplier performance, continuous communication, and finding common solutions with suppliers. In order to mitigate the risks, companies increased their stock levels and found alternative suppliers.

A major quality improvement project for AS Harju Elekter Elektrotehnika in 2021 was the review of the supplier complaints process. One part of the improvement was the establishment of a categorisation system to prioritise the most critical quality issues. As a result, suppliers started to put more emphasis on root cause analysis and corrective actions.

3. Audits

3.1 External audits

Audits and inspections by customers, supervisory authorities, product certification companies or licenced manufacturing vendors are carried out on a regular basis within the Group's companies. The regular ISO 9001:2015 audits went very well in all the companies during the reporting year. The strengths highlighted by the auditors were management leadership in improvements, staff competence, and flexibility to meet the customer's needs.

In 2021, non-conformities were not identified in the product quality view of the customer audits.

Certificates obtained in 2021:

- The Lithuanian company of Harju Elekter received the AQAP-2110-2016 certificate, which allows it to participate in NATO procurements, and the RINA certificate.
- The products of the industrial buildings of the Swedish company of Harju Elekter were upgraded to EI60 fire resistance class.

3.2 Internal audits

Internal audits are part of continuous improvement. The purpose of the audit is not to look for shortcomings, but to find compliance and opportunities for improvement. During the audit, the auditor and the auditee are partners in the improvement process.

The Group's subsidiaries carry out internal audits on a scheduled basis, and the team of internal auditors is composed of competent staff with different backgrounds. Internal audit findings are also used as an input to improve the organisation: all observations and non-compliances are recorded and used as a basis for an action plan to address the findings.

4. Quality improvement activities in the Group's companies during the reporting year

The Group's 2021 process improvements to improve service quality:

- The biggest improvement project of the Estonian company AS Harju Elekter Teletehnika was the implementation of the new ERP system Monitor, which plays a major role in the development of the company's processes.
- The Estonian company AS Harju Elekter Elektrotehnika has developed a metric for the cost of poor quality. The aim is to obtain an overview of which problems are causing the highest quality-related costs in a company. In addition, it was decided to prioritise process-based management, with improvement activities continuing in 2022.
- The Finnish company Telesilta Oy undertook the development of its own warehouse.

5. Safety of finished products

For other quality requirements, it is important for the Group's companies **to ensure product safety.**

This is achieved by means of the following four stages:

- Safe use starts with a technical solution developed during the product development phase, which must meet the requirements of specific standards.
- New products must undergo type testing for potential hazards or customer's inspections (the so-called periodic Factory Acceptance Test inspections) before series production or major customisation.
- Each employee is responsible for producing a high-quality product.
- The task of the final inspection is to identify possible defects in products due to human intervention and component defects. As a result, we meet customers' expectations and reduce the company's environmental impact.

In the history of the Group, there have been no known cases in the last few decades where a manufacturing error has occurred in the Group's companies that would have caused a life-threatening situation during the use of a finished product.

The Group has taken out product liability insurance contracts to cover potential losses.

Personnel

According to the human resources strategy of Harju Elekter, **the main guarantee of the company's effective and efficient operation is people with their knowledge, skills, experience, and motivation**.

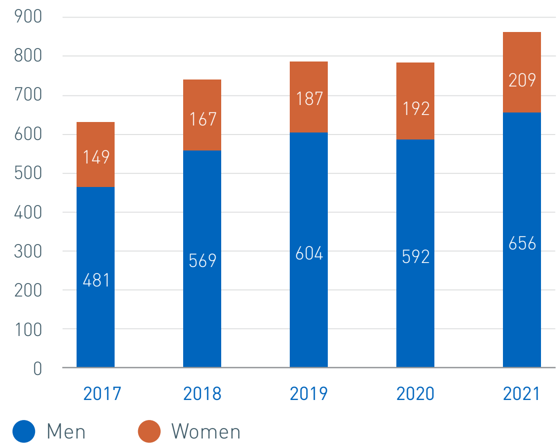
We see our role as creating a supportive working environment and providing good working conditions – we strive to be a valued employer in the eyes of our employees. As a socially responsible company, we value and develop our employees by providing them with new challenges while implementing succession planning activities. Staff development is moving towards professionalism, flexibility, autonomy, and customer-orientedness.

At the end of the reporting period, Harju Elekter employed 865 people, which is 81 more than a year ago. The biggest increases were observed in Lithuania and Estonia. In Lithuania, this was linked to the expansion of the plant and in Estonia to the increase in production volumes. In both cases, changes in work organisation due to COVID-19 played a role. Women accounted for 24% of the Group's workforce. Out of the 16 top managers (Supervisory Board, Management Board, and CEOs), one is a woman.

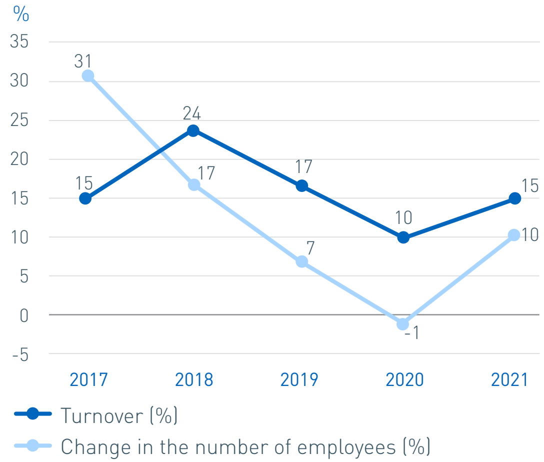
A total of 98% of all employees of Harju Elekter work full-time and 99% have an employment contract of indefinite duration.

In 2021, labour turnover in the companies of Harju Elekter was 15%, which is higher than in 2020 (10%), when it was exceptionally low. Labour turnover increased particularly in Estonia and Sweden. In Estonia, this is linked to a recovery in the labour market compared to the previous year, and in Sweden, to the decision to restructure the company by consolidating the activities of the different locations into two production units.

Number of employees



Turnover and change in the number of employees



Overview of employment as at 31 December 2021:

	Estonia	Finland	Lithuania	Sweden	Total	% of all employees
Total number of employees	381	152	256	76	865	
incl. administrative and engineering staff	128	59	69	34	290	34%
incl. workers	253	93	187	42	575	66%
incl. men	265	132	188	71	656	76%
incl. women	116	18	68	5	209	24%
incl. under the age of 30	60	42	68	17	187	22%
incl. 30-49 year-old	207	73	156	41	477	55%
incl. 50 year-old and older	114	37	32	18	201	23%
Number of top executives at Group companies *	10	3	1	2	16	
incl. men	9	3	1	2	15	94%
incl. women	1	0	0	0	1	6%
incl. 30-49 year-old	6	1	1	1	9	56%
incl. 50 year-old and older	4	2	0	1	7	44%
New employees	70	27	77	19	193	
incl. men	20	3	18	3	44	23%
incl. women	50	24	59	16	149	77%
incl. under the age of 30	20	23	27	6	76	39%
incl. 30-49 year-old	41	3	44	9	97	50%
incl. 50 year-old and older	9	1	6	4	20	11%
Employees left **	54	14	44	10	122	
incl. men	10	3	13	2	28	23%
incl. women	44	11	31	8	94	77%
incl. under the age of 30	15	2	20	3	40	33%
incl. 30-49 year-old	33	9	24	6	72	59%
incl. 50 year-old and older	6	3	0	1	10	8%
Average turnover ***	14%	10%	19%	13%	15%	

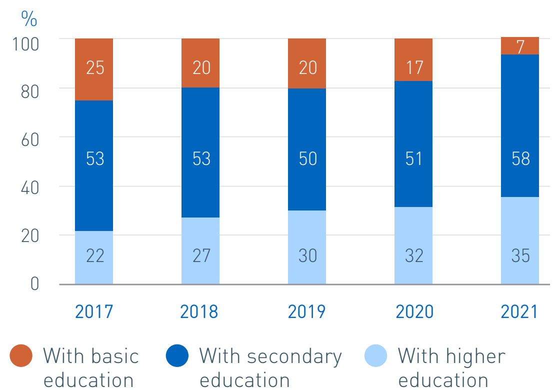
* Some top level executives are part of the management structure of several companies.
** Incl. voluntarily and due to retirement or death.
*** The number of employees who left voluntarily during the year divided by the average number of employees.

Personnel development and succession

Harju Elekter employs people of different ages and education levels who are loyal to the company. The average age of an employee is 40.7 years, and the longest length of service is over 40 years. The successful future of Harju Elekter relies on the cooperation of long-standing professionals in their field and young future leaders. Transferring wisdom and experience from colleague to colleague will ensure that existing strengths continue, and new and innovative practices are introduced.

The Group's staff development activities aim to support the all-round development of employees, to strengthen teams, and to share experience. Harju Elekter encourages the acquisition of additional education, as well as skills and specialised professions alongside work. Annual comparisons show that the share of employees with secondary, secondary vocational, and higher education in the Group has increased at the expense of employees with basic education.

Education of the employee



In line with trends in the labour market, the Group is also seeing a need for employees to be prepared to constantly learn and re-learn, with digital and environmental skills becoming indispensable. Alongside specific professional skills, general skills such as communication, negotiations, and teamwork are increasingly valued.

In order to gather employees' expectations and feedback, Harju Elekter carries out annual performance interviews to identify training needs and to obtain valuable feedback on the company and its management. In 2021, a total of 71% (2020: 76%) of administrative and engineering staff and 59% (2020: 54%) of production staff had performance interviews. All of the Group's companies will continue to develop adaptation training and programmes for new employees, incorporating more Group-wide and responsible business principles. Training for managers has provided them with practical tools to improve management and guidance for smoother cooperation.

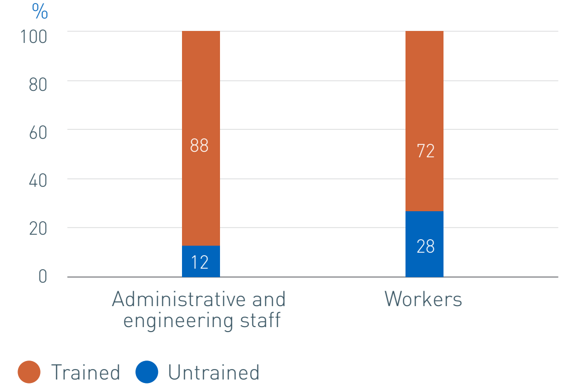
Although no motivation training or large-scale training programmes were carried out in 2021, the average number of training hours for staff has increased slightly. The training was mainly for staff in need of upgrading their professional knowledge. All in all, 88% of administrative and engineering staff and 72% of workers were trained during the year.

Due to the higher-than-average safety risk in production, the transfer of health and safety knowledge is essential. First aid, occupational, fire and electrical safety training was provided to employees of the Group's companies. All staff receive continuous training on waste management to ensure that waste is collected separately.

With the aim of contributing to the next generation of engineering professionals, academic teaching will be supported by sharing practical experience and knowledge. Young people will be offered study trips and work days out, student events and practical work experience. In 2021, a total of 29 (2020: 16) learners and students underwent practical training in the Harju Elekter Group's companies.

The Lithuanian subsidiary of Harju Elekter opened an academy in 2021 to train the company's current and future employees. The academy aims to attract young Lithuanians to the field of engineering and to improve the qualifications of existing staff.

Proportion of employees who participated in training in 2021



Employee satisfaction and motivation

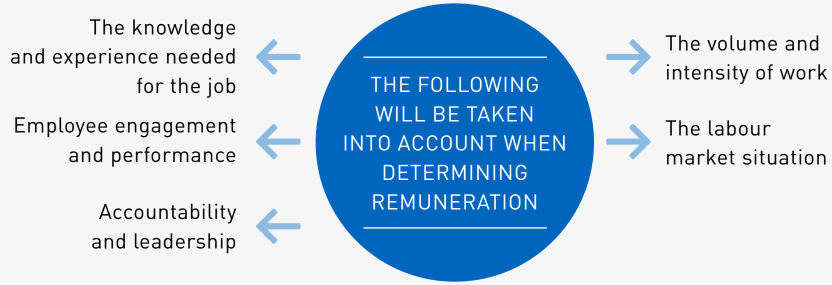
Two-way communication is extremely important in teamwork, which is why employee feedback plays an essential role in the organisational culture of the company. To determine what employees believe, a short Group-wide survey was conducted for the first time in 2021, focusing on measuring satisfaction with work, colleagues, management culture, and development opportunities. The Swedish company did not carry out a satisfaction survey due to re-organisation.

Satisfaction survey results by country

	Estonia	Finland	Lithuania	Weighted average
Satisfaction %	75	84	62	**74**
Response rate %	68	69	53	**66**

The COVID-19 crisis has deepened mental health problems in society. Long periods of time spent in isolation and at home offices, as well as reduced contacts, have made it difficult to work together, made people feel lonely and have led to changes in many aspects of work organisation. In order to support employees, the companies of Harju Elekter have carried out various surveys and seminars, and distributed materials on mental health support. Managers are encouraged to communicate openly with their team members to create a contact where employees can talk to their manager about their concerns. People whose jobs allow it work from a home office combined with office work. Working conditions at a home office are assessed in cooperation with the employee, based on a risk assessment and the home office guidelines.

The Group's remuneration policy aims to ensure that remuneration is fair, motivating, transparent, and in compliance with the law. The broader objective of the remuneration policy is to recruit staff with the skills, competences, and experience to deliver the strategy, to align the interests of employees and shareholders, and to motivate employees. Remuneration systems consist of basic and variable pay, benefits, and employee incentives.

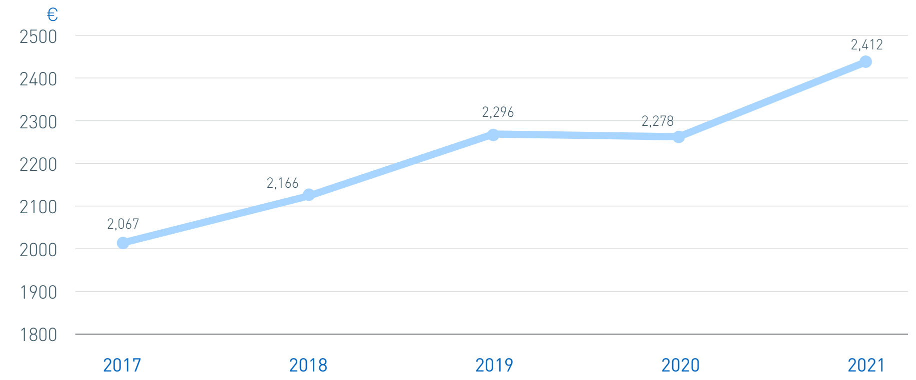


The decision on the level of remuneration has to be objective. Most employees in the company have the opportunity to earn a performance bonus, calculated on the basis of clear and transparent principles.

In the 12 months, a total of 23.9 million (2020: 21.3 million) euros was paid to employees in wages, bonuses, and benefits. The average annual monthly remuneration per employee of the Group was 2,412 (2020: 2,278) euros.

In 2018, shareholders approved a three-year stock option programme for managers and professionals, aimed at aligning the long-term objectives of the Group and its employees. Shared interests help to ensure the sustainable development and growth of the Group in line with its strategy. In 2021, a new two-year stock option programme was approved for the Members of the Management Board and key employees of AS Harju Elekter and its subsidiaries.

Average monthly earnings per employee in the Group



Working environment, occupational safety and health

The processes of AS Harju Elekter Elektrotehnika, Harju Elekter UAB, and Telesilta Oy are certified according to the occupational health and safety standard ISO 45001:2018. The other companies in the Group follow the principles of an internal management system for the work environment and safety.

Harju Elekter provides its employees with modern working and living conditions. Due to the perceived high risks in the area of the working environment, the Group contributes more to improving safety and the working environment than required by law. All of the Group's companies have raised health and safety management to a strategic level.

In cooperation with an occupational health partner, health examinations are carried out on employees in accordance with the procedure established by law at intervals determined by the occupational health physician. The provider also maps mental health risks and prepares health audit reports. For companies, it provides input for an action plan and recommendations for improving employees' health.

Workplace risk assessments in companies evaluate the adequacy of the working environment, potential risks, and compliance with employees' requests. The Group assesses risks itself and with the help of trusted service providers. Carrying out an occupational risk assessment consists of three parts: inspecting the workplace, taking measurements, and interviewing employees to ensure their involvement. Periodic workplace reviews are conducted, changes in the working environment are responded to, and the risks posed by the working environment when new jobs are created are mapped. Based on the results of the risk assessment, a work environment action plan is prepared to ensure a safe and healthy working environment for employees.

The main risks at the production facilities of Harju Elekter are mobile forklifts, manual handling of loads, and sharp metal components in the production area. In order to mitigate the risks, safety manuals have been created, personal protective equipment has been provided to employees, and personnel has been trained regarding safety topics. Safety inspections also play an important role, with observations helping to prevent accidents at work.

At the end of 2021, the Group's Estonian company AS Harju Elekter Elektrotehnika focused on the employees' ergonomics. A two-hour training session was carried out for staff with a computer workstation. Lectures covered office and home office work, as well as risks and tools in greater detail. Everyone who so requested received a half-hour workplace inspection, plus two more extensive ergonomics inspections of the production process. A workplace review provides clarity on the changes needed, both in terms of the employee and the work environment. Follow-up activities are planned for 2022.

Harju Elekter Oy, the Finnish company, also carried out an occupational health project aimed at alleviating musculoskeletal problems and supporting employees' coping at work. Attention was paid to the preservation of skeletal and muscular muscles and the strengthening of overall muscular fitness. The project will continue in 2022.

In 2021, COVID-19 risk mitigation was addressed in order to prevent workplace outbreaks and ensure safety among the employees. To this end, companies applied stricter requirements, as appropriate: wearing protective masks in the workplace, disinfecting surfaces and hands, limiting the number of visitors, and, where possible, directing employees to home offices.

Customer feedback is important for Harju Elekter. AS Harju Elekter Elektrotehnika was audited by Elenia Oy and Caruna Oy during the reporting period. Positive feedback included an increase in the number of near misses recorded over the years, as this shows that workers are more aware of the dangers in the work environment.

Companies systematically monitor indicators related to employees' health and the working environment in order to take preventive action.

In 2021, there were nine recorded accidents at work (2020: 22), none of which were fatal. There were also no cases of occupational diseases. In the Group's companies, the share of working days lost due to accidents at work averaged 0.7% and the share of working days lost due to illness averaged 2.7%, which is higher than in previous periods due to COVID-19.

Work accidents and lost working days

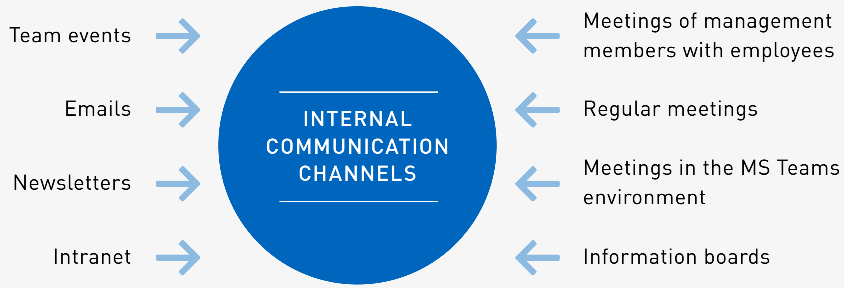
Diversity and fair treatment

Harju Elekter employs people from different cultural, educational, and professional backgrounds. It is important for us to ensure that no one is discriminated against because of their age, gender, religion, origin, disability, marital status or other circumstances. These issues are also established in the Group's Code of Conduct.

In the recruitment process, it is important to understand not only the candidate's knowledge and skills, but also whether the candidate fits with the organisation's values and the existing team. Recruitment processes are role-based and well thought out, so that each step gives the candidate a chance to get to know the organisation and the people, and the company a potential team member. Competitions to fill vacancies are open to the public; however, vacancies are also advertised internally. Staff is encouraged to continuously develop and the movement of staff between teams is supported. The principle of equal treatment is followed in recruitment and management.

Involvement and internal communication

A variety of possibilities and channels are used to best reach, involve, and listen to employees, as well as establish an open organisational culture.



Business trips and projects and events involving employees from different countries are key to promoting internal communication and cooperation across the Group. Creating a unified and positive culture contributes to the creation of a unified brand of Harju Elekter. In order to increase the unity of Harju Elekter, the aim is to create programmes involving all companies and employees of the Group. In 2022, a cross-Group intranet will be created to facilitate the flow of information and create a common information space.

In 2021, the Best Practice Day was held in Lithuania for the production managers of Harju Elekter and production related people from different countries to promote cooperation and exchange of information. During the event, participants were able to get to know each other and the Lithuanian factory extension, as well as share best practices and learning experiences. Based on the positive feedback, it is planned to continue this form of cooperation in the future.

Harju Elekter accepts trade union membership among its employees. Trade union agreements have been concluded in five companies within the Group.

The production companies operating in Estonia have a constructive cooperation with Keila Tööstusküla Ametiühing (KETA), where around 30% of the employees are registered as members. The obligations and benefits established in a collective agreement apply to all employees, regardless of trade union membership. Employees in the Group's Lithuanian company belong to the local trade union on a voluntary basis, and employees in the Finnish and Swedish companies belong to local professional associations.

The trade union is an important channel for the dissemination of information between the Group's management and employees and for organising other employee-related activities. At the end of the year, the benefits and pay systems in collective agreements were reviewed and updated in the light of the economic environment.

Environment

All of the Group's production companies are ISO 14001:2015 certified.

According to the companies of Harju Elekter, the main environmental aspects of their activities are the consumption of electricity and heat energy in the production facilities, the use of components and materials in products, the generation of waste, and the use of transport services to transport the product. All of the Group's companies comply with environmental requirements imposed by law, regulations, society, and customers. The action plans focus on optimising processes, using materials and resources more sustainably, improving practices and technologies, and minimising potential environmental impact. Preventive action is emphasised to avoid environmental deviations and infringements.

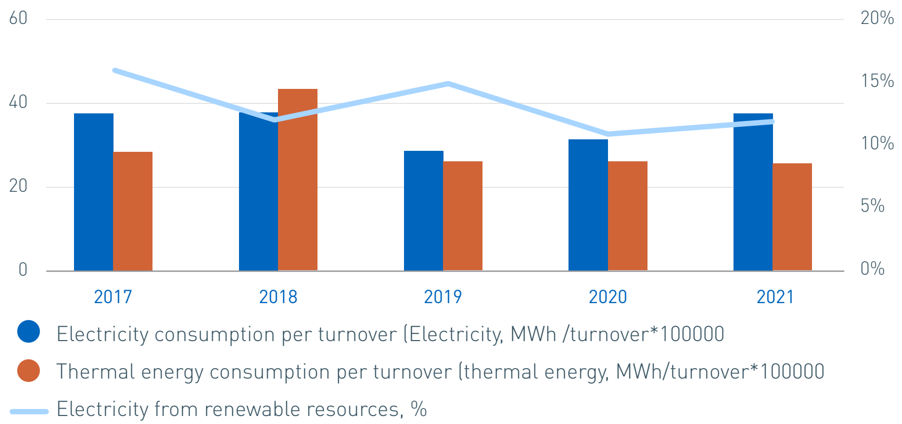
In 2021, as in previous years, there were no violations of environmental laws or regulations at the Group's companies.

Energy

The Group's companies reduce electricity and heat consumption through smart and sustainable technologies and energy-efficient buildings. In addition to the buildings used by the subsidiaries, it is important to also ensure energy efficiency for the industrial real estate under development in the Keila and Allika Industrial Park and Haapsalu.

In 2021, the companies of Harju Elekter consumed 5,683 (2020: 4,568) MWh of electricity and 3,952 (2020: 3,892) MWh of heat. The increase in electricity consumption was linked to the commissioning of new production space, the addition of new equipment, higher production volumes, and an increase in the number of employees.

Energy consumption



In 2021, companies continued to replace outdated fluorescent lamps with LED lighting, and also installed luminaires with motion sensors. Replacing the indoor and outdoor lighting of the Group's various buildings with more energy-efficient lighting has been a long-term activity, with the aim of replacing all previous lighting with LED lighting solutions. The project will also continue in 2022.

The companies of Harju Elekter are making a concerted effort to replace outdated production machines with new, more energy-efficient ones, with the aim of reducing the energy needed to run the equipment.

In the development of industrial real estate, Harju Elekter is guided by the principle of environmental sustainability:

- In the event of new buildings, a thorough assessment will be made of which heating solution is most appropriate for the building or the type of production. New buildings will be constructed to be more thermally efficient than the requirements. All new buildings built by Harju Elekter since 2017 have been equipped with rooftop solar panels, and this principle will continue to be followed.
- Older buildings are being renovated to make them more energy-efficient: walls and roofs are being insulated, heating and ventilation systems are being modernised.

Such improvements will help to better meet tenants' growing expectations, value environmental benefits and more sustainable energy use, and save on running costs.

Renewable energy production

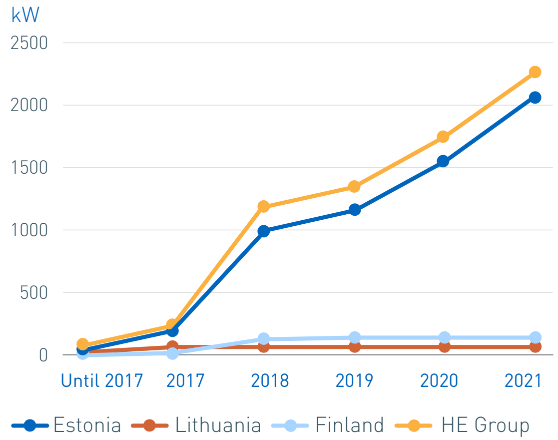
In order to reduce its ecological footprint, Harju Elekter has focused on the production and use of renewable energy. **By investing in solar panels, the Group is both reducing CO_2 emissions and saving on energy costs.**

At the end of 2020, the installed capacity of the Group's solar power plants was 1,737 kW. During the year, the portfolio of solar power plants of Harju Elekter increased by 518 kW, bringing the total renewable energy generation capacity to 2,255 kW.

In 2021, the Group's solar power plants produced a total of 1,733 MWh of electricity, of which 205 MWh was used for own consumption. Over the year, renewable energy production increased from 1,225 MWh to 1,733 MWh, an increase of around 30%.

Around 12% of the electricity and heat consumed by the Group's companies (2020: 12%) came from renewable sources. It is worth highlighting the Swedish company of Harju Elekter, which covered 100% of its electricity consumption with renewable energy.

Capacity of installed solar power



The use of solar energy accounts for an increasing share of the Group's own and tenants' current energy consumption. The Group will continue to integrate solar power plants into new and renovated production buildings. Most of the solar electricity, or 1,528 MWh, was sold directly to the tenants of the buildings or to the grid.

The production company of Harju Elekter, AS Harju Elekter Teletehnika, has a heat recovery system integrated into the building's technical systems, which enabled the company to produce heat from residual heat. In total, this amounted to 65.5 MWh, or 11% of total heat consumption.

Materials and waste

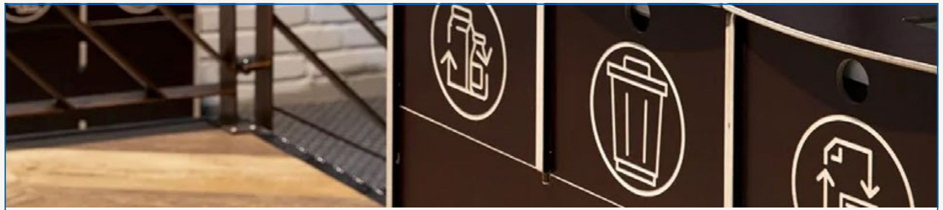
The Group's factories generate production and municipal waste. Production processes generate metal waste (e.g. steel and copper), plastic waste, hazardous waste, and packaging waste (film, carton, cardboard). Municipal waste is generated by non-production activities.

Waste from the operations of Harju Elekter is sorted, and 100% of metal and plastic waste is recycled.

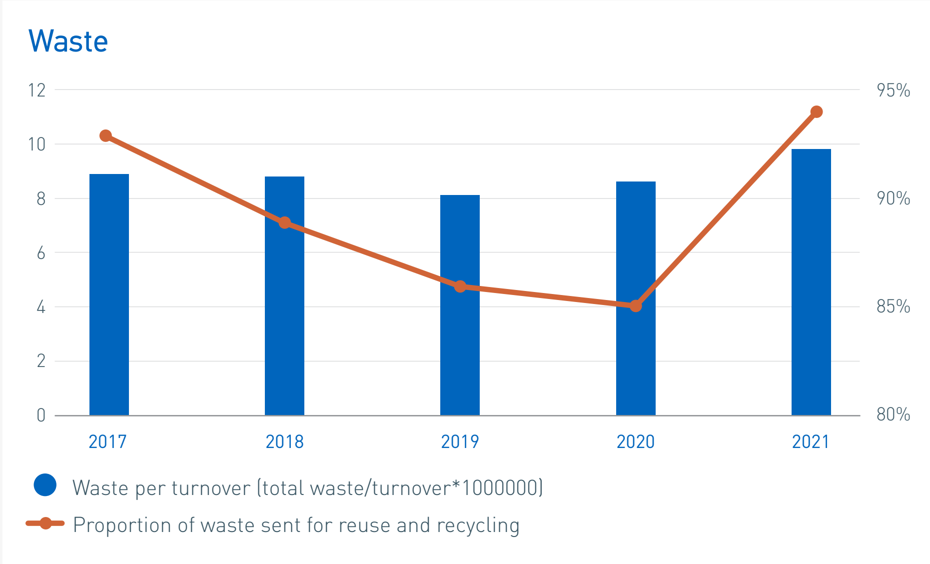
The generation of metal waste is reduced by optimising production processes. **The Group's paint lines use powder paints – one of the most popular surface treatment methods in the metal industry** – as powder paints do not contain solvents or heavy metals and are therefore environmentally friendly. Any leftover paint from the paint lines is collected and recycled.

Most of the packaging materials are recycled both in-house and when the products are dispatched to the customer. Circulating containers are used with some suppliers. In the event of substations, it is common practice to crush concrete used for their construction and reuse it as aggregate in road construction, to divert metal parts for collection, and to treat electrical equipment components in accordance with the requirements for recycling electrical and electronic equipment.

Waste management manuals have been prepared to guide waste sorting, and waste containers and bins have been marked and staff trained. The companies have contractual and reliable partners for waste management, who provide the Group's companies with information on waste statistics.



In 2021, AS Harju Elekter Elektrotehnika applied the green thinking, already long practised in the production of electrical engineering, to the office. Personal waste bins were removed from staff and waste sorting sets were purchased. The aim of the change was to reduce the amount of municipal waste, increase recycling, and raise awareness among staff. Energo Veritas OÜ carried out minor improvement projects and stopped using disposable water bottles in the office and started drinking tap water instead.



The share of hazardous waste decreased compared to the previous periods. All in all, the amount of waste increased as the Group's production volumes grew and the number of people increased.

Environmental impact of the product life cycle

The Group's goal is to create long-lasting, flawless solutions that are reliable and sustainable for customers and society. The market also expects substations to have a lifetime of at least 40 years. Long-life solutions mean less need for new substation generation and also less burden on the environment. Flexible engineering solutions allow small innovations to have an additional effect on extending the lifetime of products and solutions.

The main negative environmental impact of the use of substations is due to SF6 gas, one of the greenhouse gases, used in the switches of medium-voltage equipment, which has an impact on global warming that is tens of thousands of times greater than CO_2. More environmentally friendly alternatives, such as the use of air-insulation or vacuum technology, would increase the overall price of the product by about a third, for which the market and customers are not yet ready. At the same time, environmentally friendly solutions in product development can also reduce costs, for example, if a product can be manufactured with fewer components.

Customers and suppliers

Customers' expectations in the area of sustainability have increased every year. This can be seen from customers' audits, which are increasingly focusing on the environment, in addition to product-specific issues. AS Harju Elekter Elektrotehnika was audited by Elenia Oy and Caruna Oy during the reporting period. For customers, it is important to monitor the carbon footprint through the supply chain and to apply sustainability criteria when selecting and assessing suppliers. Audit findings are taken into account in the preparation of the sustainability action plan.

A total of 55% of the Group's suppliers have agreed on strong social and environmental criteria. Suppliers and service providers will be assessed periodically, including against environmental criteria. For example, the environmental assessment criterion for AS Harju Elekter Elektrotehnika is that the service provider complies with environmental requirements on the company's territory and/or uses environmentally sustainable materials and solutions in its daily work, thus promoting a sustainable way of thinking.

The Group's companies attach great importance to compliance with European directives and the use of environmentally friendly components in their products, and therefore have REACH and RoHS databases in order to be certain of the composition of components.

Social involvement

The Harju Elekter Group is an active and involved member of the community and supports the development of the sector in the countries where its business units and employees are located. The aim of the Group's support activities is to be a lasting partner and, therefore, focus primarily on building and developing long-term partnerships.

In 2020, Harju Elekter formulated two main lines of its sponsorship activities, according to which it will primarily support:

- education and young people's interest in technology;
- local youth sport.

In the framework of education and young people's interest in technology, Harju Elekter will continue various cooperation projects with educational institutions to develop and popularise engineering education among young people. In order to support local youth sports, Harju Elekter will continue to support Keila basketball, and football clubs, as the company values its contribution to the Keila community based on its history and the location of its headquarters.

In total, the volume of scholarships and support programmes for the companies of the Harju Elekter Group in 2021 amounted to 39.5 (2020: 58.6) thousand euros. The amount is lower than in the previous year because of a stricter adherence to the agreed objectives and main trends of sponsorship.

Supporting engineering education

Harju Elekter awards up to four scholarships named after itself to under-graduate or graduate students annually through the Development Fund of Tallinn University of Technology. Since 2001, a total of 76 students have participated in the scholarship programme. In 2021, three scholarships were awarded: two to undergraduate students in electrical engineering and mecha-tronics, and one to graduate students in energy technology and thermal engineering.

The Chairman of the Supervisory Board of Harju Elekter, Endel Palla, also awards a scholarship named after him through the Development Fund of Tallinn University of Technology. In 2021, Palla awarded two scholarships: one to students of electrical engineering and one to students of entrepre-neurial management.

Since 2016, Harju Elekter has been the gold sponsor of the Formula Student Team Tallinn, which brings together students from Tallinn University of Technology and Tallinn University of Applied Sciences. Since 2013, they have maintained an internationally high level of excellence in the design of electrical formulae. In addition to a sporty image, it is also an educational project, aiming to raise the quality of educational practice and engineering education, and to popularise engineering. A new objective has been added to increase environmental sustainability and awareness, and to create competence in the field of electromobility in Estonia, as it competes with zero-emission cars powered by electricity.

Harju Elekter participates in cooperation programmes with regional educational institutions. Where possible, they will help to equip technical and scientific laboratories and contribute to scientific and research projects. Regular student study visits are organised to the Group's companies, and the employees of the companies contribute their knowledge and experience to the development of technology-oriented curricula. In addition to Tallinn University of Technology, Estonian companies have cooperation programmes with Tallinn Vocational Education Centre, Tallinn University of Applied Sciences, Tallinn Polytechnic School, and the Tallinn Construction School. The Lithuanian company of Harju Elekter cooperates continuously with the regional Panevėžys College of Electrical Engineering and Panevėžys Vocational Training Centre, as well as Visaginas Vocational Training Centre of Business and Technology, and the Lithuanian Maritime Academy. The Finnish company of Harju Elekter has close links with technical and vocational colleges in the region: Satakunta University of Applied Sciences and Novia University of Applied Sciences, Tampere University of Technology, and the Turku School of Economics.

Sector development

The Group also considers it important to contribute to society through professional associations and organisations, and focuses knowledge and people's time on issues that stand for fair competition and sustainable and safe product solutions. Organisations help us to keep up to date with the latest information, contribute to a strong business and economic environment, and have our say on amendments to the law. As a member of professional associations, we can have a say in developments in our field and keep up to date with new trends. Harju Elekter, in cooperation with the Estonian Association of Electrical Enterprises (EAEE), continues to raise the issue of electrical safety both in legislation and with the general public. Harju Elekter is a member of the Federation of Estonian Engineering Industry, the Lithuanian Engineering Industry Association LINPRA, the Federation of Finnish Technology Industries, the Finnish Packaging Recycling RINKI Ltd, and other organisations.

Business Review

- Financial summary
- Review of the economic environment
- Operating results
- Business segments

GROUP	2021	2020	2019	2018	2017
STATEMENT OF PROFIT OR LOSS (million euros)					
Revenue	**152.8**	146.6	143.4	120.8	102.4
Gross profit	**17.9**	21.2	18.2	16.0	15.4
Operating profit	**3.2**	6.5	3.3	2.4	5.4
Net profit (belonging to owners of parent company)	**2.6**	5.6	2.5	1.5	[2]29.1
STATEMENT OF FINANCIAL POSITION AS AT THE YEAR END (million euros)					
Total current assets	**63.5**	49.7	48.0	44.0	48.7
Total non current assets	**84.0**	65.7	59.9	54.2	41.3
Total assets	**147.6**	115.5	107.9	98.2	90.0
Equity (belonging to owners of parent company)	**87.0**	73.5	67.1	66.9	69.9
Equity multiplier (%)	**61.0**	63.0	65.1	72.7	77.7
GROWTH RATES (% cf previous year)					
Revenue	**4.2**	2.2	18.7	18.0	67.4
Gross profit	**-15.7**	16.3	14.2	4.0	48.2
Operating profit	**-51.1**	100.0	35.6	-55.7	71.1
Net profit (belonging to owners of parent company)	**-53.3**	126.1	59.1	-94.7	[2]804.9
Assets	**27.8**	7.0	9.9	9.1	21.6
Equity (belonging to owners of parent company)	**18.3**	9.6	0.2	-4.2	15.9

GROUP	2021	2020	2019	2018	2017
PROFITABILITY RATIOS (%)					
Gross margin	**11.7**	14.5	12.7	13.2	15.0
Operating margin	**2.1**	4.5	2.3	2.0	5.3
Net profit margin	**1.7**	3.8	1.7	1.3	28.4
Return on assets (ROA)	**2.0**	5.0	2.4	1.7	35.5
Return on equity (ROE)	**3.2**	7.9	3.7	2.3	44.7
SHARE (EUROS)					
Average number of shares (1,000 pcs)	**17,855**	17,740	17,740	17,740	17,740
Equity per share	**4.50**	3.96	3.78	3.86	3.67
Closing price of share	**7.44**	5.18	4.21	4.12	5.00
Net profit per share	**0.15**	0.31	0.14	0.09	1.64
P/E ratio	**51.13**	16.52	30.07	45.78	[2]3.05
Dividend per share	[1]**0.14**	0.16	0.14	0.18	0.24
LIQUIDITY RATIOS					
Current ratio	**1.3**	1.4	1.6	2.2	2.4
Liquidity ratio	**0.8**	0.9	0.9	1.5	1.6
PERSONNEL AND SALARIES (PCS)					
Average number of employees	**825**	780	778	713	567
Number of employees at the end of period	**865**	784	791	736	630
Salaries (million euros)	**23.9**	21.3	21.4	18.6	14.1

(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 138.

Review of the economic environment

Global economy

Last year was a success for the world economy in the big picture. The economic turbulence and recession caused by the pandemic that hit the world in 2020 was quickly overcome and the economy returned to rapid growth. While the coronavirus vaccines developed at the end of 2020 gave great hope and optimism for economic growth in 2021, the pandemic was not defeated and various countries and regions had to fight several new strains and aftershocks. The very optimistic outlook for rapid economic growth in the first half of the year receded as the year progressed, with the International Monetary Fund (IMF) forecasting global growth of up to 5.9% in 2021, which is somewhat lower than projected at the beginning of 2021. Eurostat expects the growth of the euro area to remain in the range of 3.8–4.0%.

Very broad support programmes were put in place, led by the European Central Bank, the US Federal Reserve's asset purchase programmes, and other support measures to help the economy recover quickly. Combined with low interest rates, they contributed to rapid global consumption growth, as well as boosting public debt levels to record highs. Rapid growth in demand and shortages of raw materials and supplies increased input prices for manufacturing activities worldwide and tightened supply chains. Supply chains were completely disrupted when the container ship Ever Given ran aground in the Suez Canal, causing weeks and months of seemingly unbelievable chaos in the world's largest ports and logistics chains. Also, given the steadily accelerating increase in energy and commodity prices over the year, the World Bank estimates global inflation for 2021 at 5.5%. Within the context of accelerating inflation, the extremely liberal monetary policies pursued in the US and the EU can be expected to be limited.

Nordic and Baltic countries

The Nordic economies have weathered the volatile global economic environment better than average and have shown strong economic growth in 2021, for example, 4.9% in Sweden and 3.8% in Finland. The Nordic economic environment was strong in the run-up to the pandemic and, with public support, the recession of 2020 was quickly overcome. Rapid economic growth, strong demand, and rising prices for materials and raw materials have also pushed inflation up to around 3% per year in the Nordic region. Steadily declining unemployment is starting to hold back further rapid economic growth, but in spite of this, the economies of the region remain strong.

The Baltic economies are very much dependent on what is happening in their surroundings and in the world. Small economies on a global scale are highly adaptable and, as a result, have been able to recover and grow rapidly after the pandemic. According to the IMF, annual economic growth in Latvia and Lithuania reached 5.2% and 4.1%, respectively, in October 2021. Growth is largely driven by strong domestic demand and rising employment rates. As with the global economy, the risks are seen in rising raw material and energy prices, as well as accelerating inflation in general.

Estonia

Similar to the rest of the world, the Estonian economy has also experienced even faster growth in 2021, following the volatile conditions in 2020 and a rapid recovery, reaching 8.6% in the third quarter, according to Statistics Estonia. The strong economic growth is the result of favourable conditions on several fronts: a rapid recovery in strong demand and domestic consumption; accelerated external trade and record-breaking volumes of external trade; and high employment rates. In particular, due to the increase in energy prices, the projected annual inflation accelerated to 4.4% in 2021. High employment rates and inflation are putting downward pressure on wage growth and, together with higher raw material and energy prices, are holding back further growth.

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

Operating results

For Harju Elekter Group, 2021 turned out to be a more complex year compared to the previous periods. The world is witnessing a series of historically, politically, and arguably economically defining changes and events. The belief that we are achieving a balanced world has been replaced by the knowledge that nothing is certain: businesses must always be prepared for the unexpected. The Group's large-scale investments in recent years and its strong historical foundation enabled it to meet the challenges it faced in the reporting year.

Revenue

To summarise 2021, it can be said that the fulfilment of orders depended largely on the global situation, where the availability of materials and components was already severely constrained from the first quarter. The biggest challenges for manufacturing companies came from the availability of missing project-specific components. A number of large orders were pending and production cycles had to be reorganised on an ongoing basis. The orders and sales volumes for the new framework agreements signed by Harju Elekter started to pick up from the second half of the year. Despite the difficult situation, the Group managed to increase its revenue by 4% and achieved the best result in the company's history at 152.8 million euros.

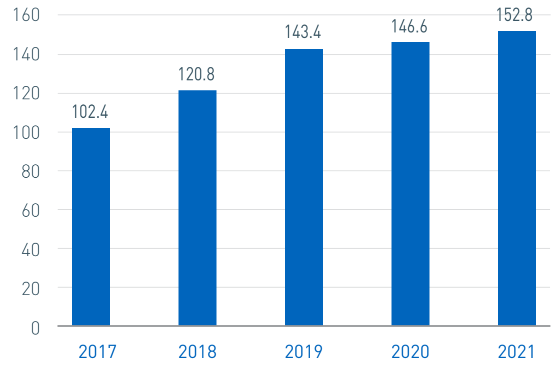
The Group monitors revenues according to six different activities:

- the manufacturing and sale of electrical equipment,
- the retail and project-based sale of electrical products,
- the manufacture and sale of other metal products,
- the rental of industrial real estate,
- electrical installation work in the shipbuilding sector,
- other services.

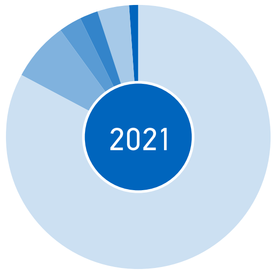
Revenue increased in all activities during the year, but the majority of the growth was in the shipbuilding sector's electricity works and electrical equipment sales. The main reason for this was an increase in the volume of orders for framework agreements in the second half of the year. Revenue from the sale of electrical equipment accounted for 83% of the Group's revenue. The remaining 17% was earned from the sale of metal products, project and retail sale of electrical goods, leasing out industrial real estate, and electrical works in the shipbuilding sector.

Group's revenue

(EUR´000)



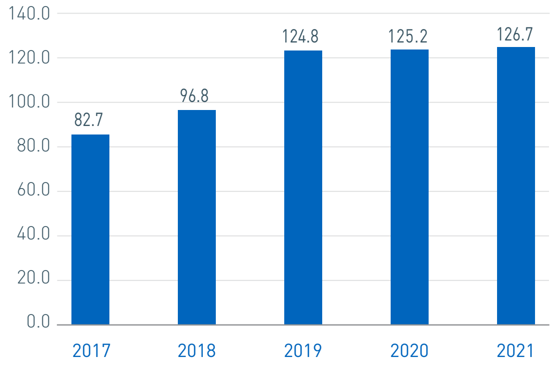
Revenue by business segments



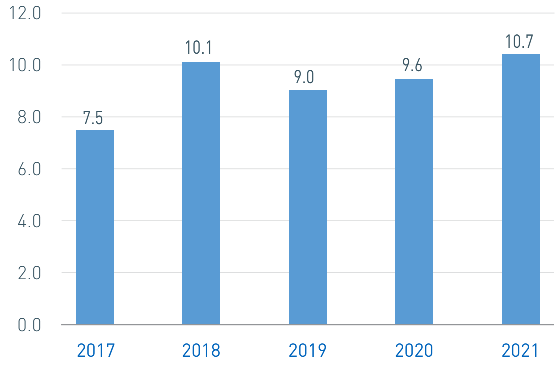
Manufacturing and sale of electrical equipment	**83%**	(2020: 85%)
Retail and project-based sale of electrical products	**7%**	(2020: 7%)
Other products	**3%**	(2020: 2%)
Lease income	**2%**	(2020: 2%)
Electrical works	**4%**	(2020: 3%)
Other services	**1%**	(2020: 1%)

Revenue by business activities in 2017-2021

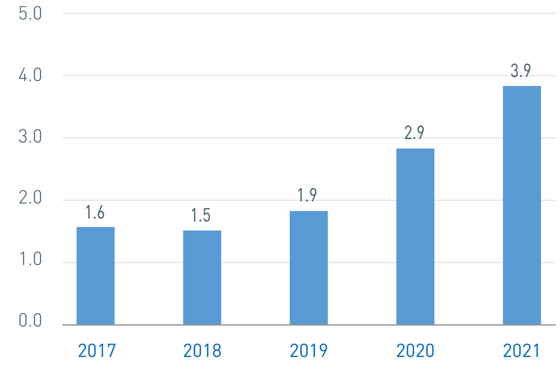
Manufacturing and sale of electrical equipment
(EUR´000)



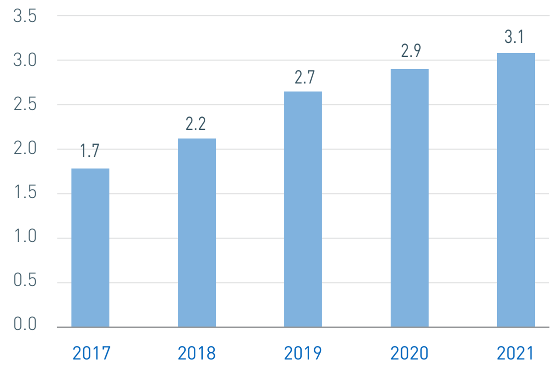
Retail and project-based sale of electrical products
(EUR´000)



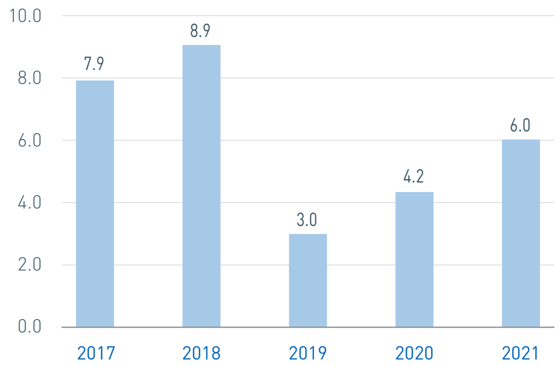
Other products
(EUR´000)



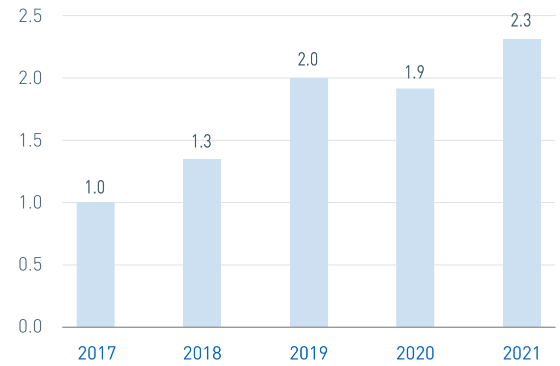
Lease income
(EUR´000)



Electrical works
(EUR´000)



Other services
(EUR´000)



The Group's activities are divided into three segments: production, real estate, and other activities. Production, or the Group's core business, accounted for the largest share of revenue, 87.4% (2020: 85.4%), and real estate and other non-segmental activities together 12.6% (2020: 14.4%). Over the year, the revenue of the production segment grew by 6.3% to 133.5 (2020: 125.6) million euros. For a more detailed overview of the segments for the reporting year, please see the chapter of the Business segments.

The largest target markets of the Group are Estonia, Finland, Sweden, and Norway, which is why the sales volumes of the Group are strongly affected by the events happening on these markets.

In 2021, the Group sold 17% (2020: 16%) of its products and services on the Estonian market, generating revenue of 26.0 million euros. Most of the revenue came from the production and supply of factory-built packaged substations.

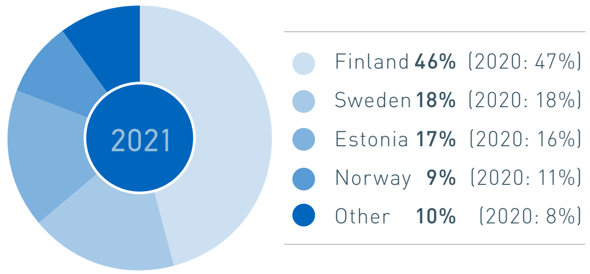
As the Group's largest and most important market, Finland's revenue increased by 2.2 million euros year-on-year to 70.9 million euros. The fulfilment of orders planned at the beginning of the year was delayed until the second half of the year, due to both the cold winter at the beginning of the year and supply constraints resulting from material shortages. In the last quarters, there was an additional problem with the availability of project-specific components, which meant that some new orders from the customers could not be accepted.

Despite a shortage of components, sales of charging and heating systems for electric cars grew strongly. All in all, the Finnish market accounted for 46% of the Group's revenue, i.e. 1 percentage points more than in the comparable period.

Sweden was the Group's second largest market, accounting for 18% (2020: 18%) of revenue in the last two years. Revenue generated in Sweden in the reporting year was 27.6 million euros, or 1.1 million euros more than in 2020. The growth was driven by an increase in the production volumes of substations from the framework agreements signed in early 2021.

Sales to the Norwegian market were at an average annual level. Due to the slow pace of recovery in order intake in the shipping sector, revenue from the Norwegian market decreased by 3.5 million euros to 13.2 million euros compared to 2020. The Norwegian market accounted for 9% (2020: 11%) of revenue in the reporting year.

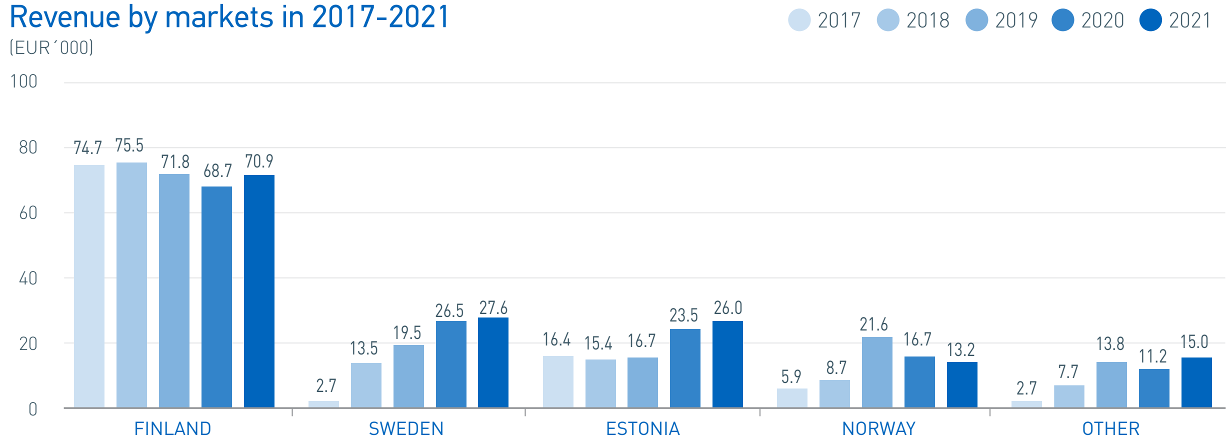
Share of revenue by markets



Revenue from other markets increased by 3.8 million euros to 15.0 million euros year-on-year, mainly driven by higher sales to the German market. This market generated 7.5 (2020: 1.7) million euros in the reporting year. From the Group's other markets, significant sales were also made to the Netherlands, which generated revenue of 5.0 million euros in 2021. Other markets accounted for 10% (2020: 8%).

Revenue by markets in 2017-2021

(EUR´000)



Expenses

Raw material shortages, which started at the beginning of 2021 as a result of the pandemic, significantly higher prices for both materials and services, and accelerating labour cost growth impacted costs and profitability throughout the year. Operating expences increased by 6.6% to 149.8 million (2020: 140.5) euros compared to the previous year. The increase in costs is also linked to reorganisations in production, an increase in the workforce, and wage increases.

The biggest increase in operating expenses was for goods and services sold, which amounted to 134.9 (2020: 125.4) million euros. The Group's distribution costs decreased by 10% compared to the previous year, amounting to 5.3 (2020: 5.8) million euros, representing 3.5% (2020: 4.2%) of the Group's operating expenses and 3.4% (2020: 4.0%) of its revenue. This was mainly due to the efficiency gains from corporate restructuring. General administrative expenses increased by 0.5 million euros during the year to 9.7 million euros. Administrative expenses as a percentage of the Group's operating expenses and revenue remained almost unchanged compared to the previous year, at 6.5% and 6.4%, respectively.

The total labour costs for 2021 amounted to 30.7 (2020: 27.3) million euros, including 0.2 (2020: 0.3) million euros for stock option plans recognised as staff costs. The average monthly remuneration per employee in the reporting year was 2,412 euros, which was 6% higher than in the previous period. Hiring new additional staff accounted for the bulk of the increase in labour costs. In addition, labour costs were impacted by the increase in additional work and the constant readiness to continue the production cycle. Growth in labour costs and average remuneration was affected by wage pressure due to labour shortages in all markets. The increase in the share of Finnish and Swedish employees in the Group and the significantly higher wage levels in the Scandinavian countries also had an impact. Labour costs as a percentage of the Group's revenue were 20.1% (2020: 18.6%) in 2021.

Depreciation of non-current assets was 4.0 million euros in 2021, an increase of 0.2 million euros compared to the comparative period. The year-on-year increase in depreciation is due to the introduction of a number of investments, including the completion of Laohotell II at the end of 2020, and the expansion of the Lithuanian plant.

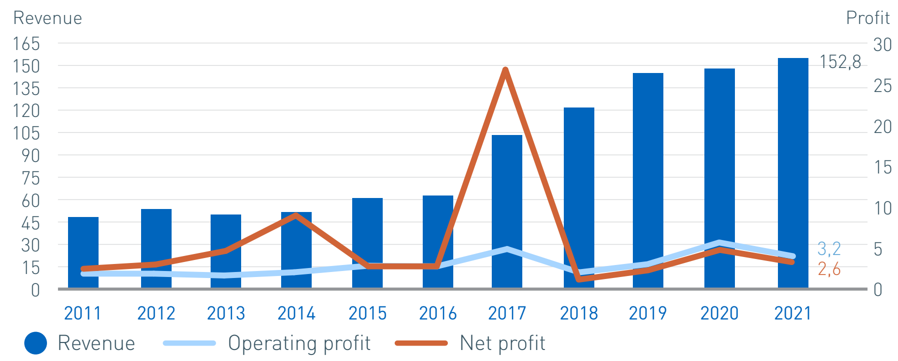
Profit

Expectations of higher profitability in 2021 were not fulfilled. Exceptionally high energy prices, continuing raw material price increases, supply chain disruptions, and rising inflation around the world are all factors that affect employee expenses, as well as the profitability of customers, contracting authorities, and Harju Elekter. The increase in electricity prices had a direct impact on the Group's profitability until the third quarter, when electricity prices were fixed at a reasonable level. This is a short-term solution, which is why Harju Elekter plans to continue investing in buildings and renewable energy production to mitigate energy costs and achieve energy efficiency. The changing world and the green transition ahead will continue to inspire Harju Elekter to modernise its products, which is a success and an opportunity for our development as we work in a rapidly changing energy sector.

The gross profit of Harju Elekter for the year was 17,880 (2020: 21,209) thousand euros. Increase in the prices of raw materials, labour costs, and services, as well as the postponement of planned sales volumes, lowered the gross profit margin for the year by 2.8 percentage points to 11.7 per cent in the comparable period. The operating profit (EBIT) in 2021 was 3,202 (2020: 6,546) thousand euros. The Group's net profit for the year was 2,611 (2020: 5,528) thousand euros and net profit per share 0.15 (2020: 0.31) euros.

Revenue, operating and net profit

mln euros



Other comprehensive income

Gains on revaluations of financial assets and gains on disposals are recognised through other comprehensive income. As at the reporting date, the Group's non-current financial investments amounted to a total of 25.2 (31.12.2020: 11.9) million euros. The total net gain on revaluation of financial assets for the year amounted to 12.3 (2020: 2.9) million euros. The main contributor to the annual increase in the revaluation of financial assets was the estimated change in the fair value of the investment in OÜ Skeleton Technologies Group, which increased by 11.8 million euros to 21.8 million euros (Note 6. Financial investments).

The total proceeds from the partial sale of listed securities amounted to 1.0 million euros in the year, including a realised gain of 0.3 million euros. The fair value of securities increased by 0.5 million euros during the year and decreased by 0.5 million euros in the comparable period.

Financial situation

The Group's assets increased by 32.1 million euros over the year to 147.6 million euros. As at the end of the reporting period, current assets and non-currect assets accounted for 43.1% and 56.9%, respectively, remaining unchanged from a year earlier. Debt and equity as a proportion of the Group's assets stood at 41.1% (2020: 36.4%) and 58.9% (2020: 63.6%), respectively.

The Group's current assets increased by 13.8 million euros to 63.5 million euros during the reporting period, including a decrease in cash of 2.3 million euros to 0.6 million euros, an increase in trade and other receivables of 6.5 million euros to 33.7 million euros, and an increase in inventories of 8.6 million euros to 27.4 million euros. The decrease in cash is mainly due to investments in non-current assets, financial assets and inventories, but also to the dividends paid on 25 May, amounting to a total of 2.8 million euros. Inventories increased both on account of products in progress and finished products, as well as on account of raw materials and supplies. Due to the planned increase in suppliers' prices, materials for known customer projects were purchased and ordered in advance.

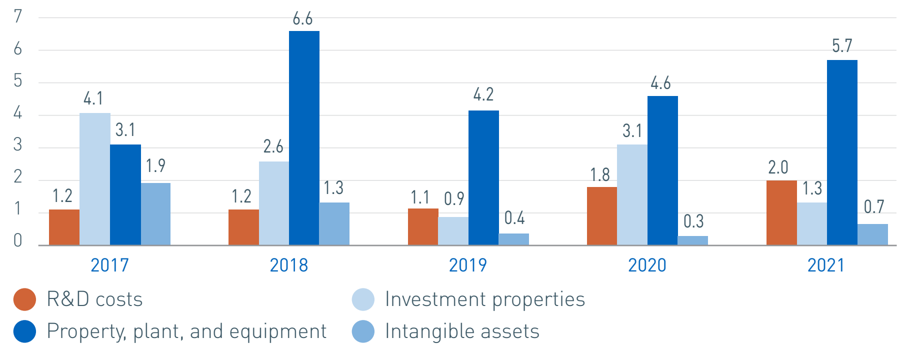
As at the reporting date, the Group had total liabilities of 60.7 (31.12.2020: 42.1) million euros, of which 81.1% were current liabilities. During the year, current liabilities increased by 14.3 million euros to 49.3 million euros, including an increase of 8.7 million euros in trade and other payables and 0.5 million euros in prepayments from customers. Total borrowings increased by 9.3 million euros during the reporting year, amounting to 16.9 (31.12.2020: 12.1) million euros in current borrowings and 11.4 (31.12.2020: 7.0) million euros in non-current borrowings at the end of the period, respectively. Non-current loans and leases have been used to finance investments in real estate and automated production equipment in Estonia and to finance the expansion of a production facility in Lithuania. Current and non-current borrowings recognised under IFRS 16 'Lease agreements' increased by 0.2 million euros to 1.5 million euros. The Group's equity increased by 13.4 million euros to 86.8 million euros, including 87.0 million euros attributable to owners of the parent company.

Investments

Harju Elekter has consistently invested in the development of various business areas and taken care that this ensures the sustainable performance of production processes, technological assets, commercial real estate, and IT solutions supporting business operations. The Group will also continue to invest in financial

Investments and development costs

mln euros



assets to diversify its business. In the longer-term strategic perspective, Harju Elekter considers it important to invest in areas that support the Group's activities in both renewable and green electricity distribution, storage, and generation applications.

The most important investment projects in 2021:

1. In production technology and IT solutions

- The Estonian manufacturing company has started the installation of the SG 1530 EVO CNC sheet metal processing centre, which is expected to be operational in the first quarter of 2022.
- A MECAPRO 3020-PA2 sheet material processing centre was purchased for the Lithuanian company.
- The Lithuanian company expanded its test centre for power electronics.
- Investments were made in IT equipment and production and process management systems in all of the Group's companies.
- All of the Group's companies made renewable investments in tools and technology.

2. In real estate (including in real estate investments and fixed assets)

- In Sweden and Finland, various commercial and industrial properties totalling 22,882 m^2 were acquired.
- The construction of Laohotell III (2,573 m^2) started in Allika Industrial Park, Saue Rural Municipality.
- An extension of the Lithuanian company's factory (8,552 m^2) was commissioned.
- In Finland, a production building (1,140 m^2) for a production line of electric car charging stations was acquired and renovated.
- The construction of a new factory (6,000 m^2) for a Swedish company in Västerås started.

3. In renewable energy and green transition projects

- Eight commercial solar power plants with a total capacity of 518.4 kW were purchased, located in Rapla County and Lääne-Viru County.

4. In financial assets (see Note 6)

- Harju Elekter Oy, a Finland-based subsidiary, acquired a 5.5% stake in the technology company IGL-Technologies Oy. The transaction price was 0.25 million euros.
- In the course of an additional round of financing, AS Harju Elekter invested 1.2 million euros in OÜ Skeleton Technologies Group during the reporting year.

In 2021, the Group invested 7.7 (2020: 8.1) million euros in non-current assets, including 1.3 million euros in real estate investments, 5.7 million euros in property, plant, and equipment, and 0.7 million euros in intangible assets. Investments in different asset groups were split by country: 3.5 million euros in Estonia; 0.4 million euros in Finland; 0.3 million euros in Sweden; and 3.5 million euros in Lithuania.

Cash flows

The increase in trade receivables and inventories exceeded the increase in trade payables by 6.9 million euros in the reporting year. Changes in receivables, inventories, and payables are related to day-to-day operations; however, as at the year-end, the Group had a significantly higher than usual volume of work in progress and finished goods that were not yet available for sale. In addition, during the period under review, materials were purchased for known customer projects, which has further increased the volume of stocks. Cash flow from operating activities was -0.5 million euros in 2021 and 7.0 million euros a year earlier.

The total amount paid for investments in the reporting year was 8.4 (2020: 8.0) million euros, of which 6.6 (2020: 7.9) million euros for investments in real estate, property, plant, and equipment and intangible assets in total and 1.7 million euros (2020: 0.1) for financial investments. In 2021, 1.0 million euros (2020: 1.7) were received from the sale of the securities portfolio and 0.1 million euros (2020: 0.1) from dividends received. In summary, 7.0 million euros were spent on investment activities in the reporting year and 6.3 million euros in the comparable period.

In 2021, dividends of 2.8 million euros, or 0.16 euros per share, were paid for 2020, meaning 0.3 million euros more than a year earlier. A total of 8.1 (2020: 3.2) million euros was borrowed in current and non-current loans and 5.8 (2020: 1.1) million euros was repaid. Overdrafts increased by 6.4 million euros, and decreased by 1.1 million euros in 2020. All in all, the financing activities brought in 5.3 million euros.

Cash and cash equivalents decreased by 2.2 million euros over the year to 0.6 million euros and by 2.0 million euros to 2.8 million euros in the comparable period.

Business segments

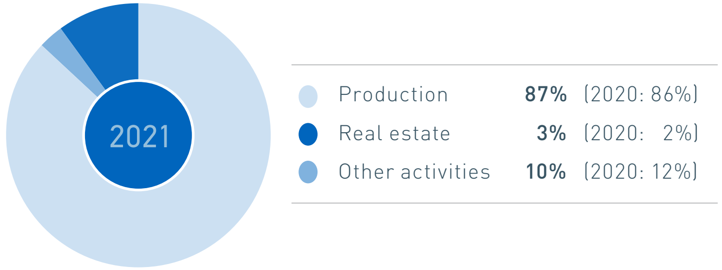
In the past financial year, the Group's activities were carried out in two areas, which were sufficiently large to constitute separately identifiable segments and whose risks and rewards were materially different and clearly identifiable. These segments were production and real estate.

The activities of the production segment are characterised by the design, sale, manufacture, and after-sales service of electricity distribution, switching, and conversion equipment and automation, process control, and industrial control equipment.

The real estate segment includes the development, project management, leasing, and other related services of industrial real estate for leasing partners and the Group's companies.

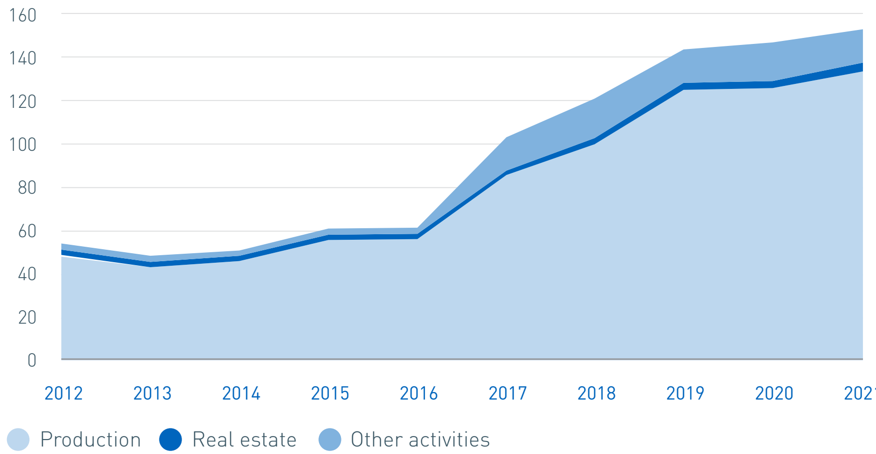
Other activities group together the remaining non-segmented activities, where each activity is not sufficiently significant to constitute a reportable segment. Examples of such activities are financial investment management, retail and project sales of electrical goods, and electrical installation work in shipbuilding.

Revenue by segments



Revenue of business segments

mln euros



Production

The production segment includes electrical equipment plants in Estonia (AS Harju Elekter Elektrotehnika), Finland (Harju Elekter Oy), Sweden (Harju Elekter AB), and Lithuania (Harju Elekter UAB).

The main products of the plants are equipment for medium and low-voltage electricity distribution (various types of substations, distribution and interconnection cabinets), various types of electricity switching and transformation equipment, and automation and control centres for the energy, industrial, marine, and infrastructure sectors. In addition, companies in the production segment also offer a range of design and engineering services.

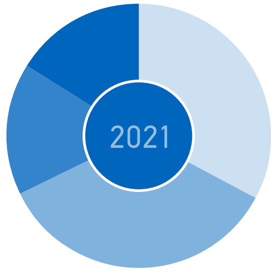
The production segment also includes AS Harju Elekter Teletehnika located in Estonia, which manufactures sheet metal products for the electrotechnical and telecom sector, and Harju Elekter Kiinteistöt Oy located in Finland, which is mainly engaged in the management of industrial real estate in Finland owned by the Group and used by the companies in the production segment, which has no impact on the Group's consolidated revenue.

The revenue of the production segment from external customers for the year was 133.5 (2020: 125.6) million euros.

Despite the shortage of raw materials, supply problems for materials and components, and the volatile environment, the production segment managed to increase its revenue by 6.3% in the year.

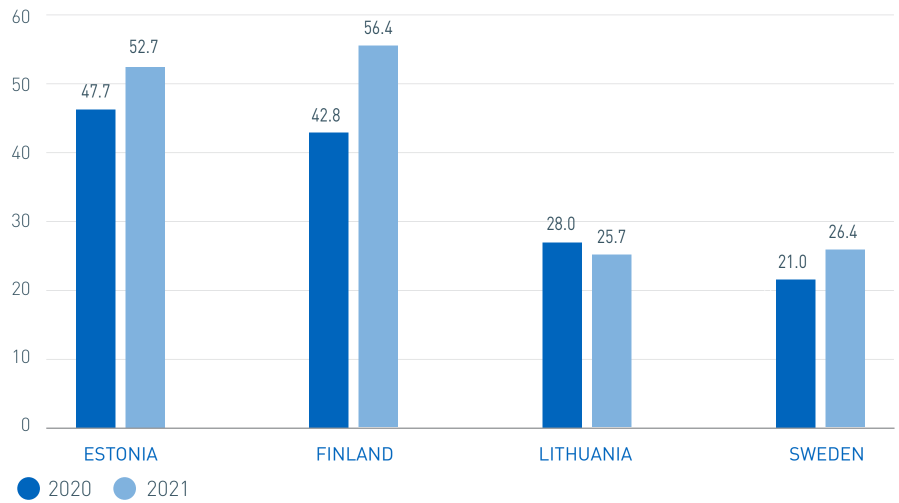
The growth in the production segment was mainly supported by the successful start of the procurement periods for new framework agreements and active sales. Non-Group revenue of the production segment accounted for 87.4% (2020: 85.6%) of consolidated revenue. At the end of the reporting period, the production segment employed a total of 791 (2020: 711) people and an average of 756 (2020: 708) people in the reporting year, of which approximately 70% are production workers and 30% administrative and engineering staff.

Production segment revenue by countries



Unconsolidated revenue of production segment companies by country

mln euros



Production in Estonia

There are two production units in the production segment in Estonia: AS Harju Elekter Elektrotehnika and AS Harju Elekter Teletehnika.

AS Harju Elekter Elektrotehnika is a leading developer, manufacturer, and distributor of medium and low voltage electrical equipment. The company's office and factory are located in Keila Industrial Park, where it has nearly 23,100 m² of production, warehouse, yard, and office space. At the end of the reporting year, the company employed 243 (2020: 223) people, a fifth of them in sales and product development. During the reporting period, the company employed an average of 242 (2020: 213) people.

The main activity of AS Harju Elekter Teletehnika is the production of various sheet metal products for the energy and electrical engineering sector and the provision of subcontracting services to other companies in the industry. In addition to its core business, the company has its own family of products in the form of data network communication cabinets and accessories, which are developed, distributed, and manufactured for customers in the telecommunications sector in Estonia and elsewhere in Europe. The 9,000 m² factory of AS Harju Elekter Teletehnika in Keila is one of the largest manufacturers of thin sheet metal products in the region with its production capacity. As at the end of 2021, the company employed 99 (2020: 91) people, and in 2021 it will employ on average 96 (2020: 89) people. Around 80% of employees are directly involved in production processes and 20% work in the office.

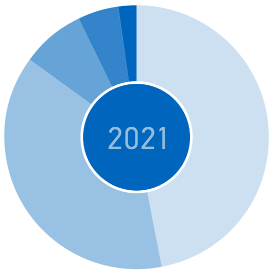
In 2021, the total revenue of Estonian manufacturing companies was 52.7 million euros, increasing 10.5% year-on-year. Both companies in the segment contributed strongly to the growth of revenue. The growth of revenue was largely driven by investments in production technology and product portfolio development made in previous years; new contract awards starting in 2021 to Nordic grid companies for the production of substations, and continuous targeted sales efforts. The year was made more challenging by the complex situation with regard to the availability of materials and components and input prices, which necessitated repeated changes to the initially planned production schedules.

A significant part of the Group's products made in Estonia is sold abroad. In the reporting year, exports accounted for 62.5% (2020: 64.9%) of revenue, and the most important target countries for Estonian companies were the Group's home markets Finland and Sweden. The Group's sales activities in the Nordic countries have been targeted and successful in recent years, and the new procurement contracts that entered into force at the beginning of 2021 are excellent proof of this. The new framework agreements with Caruna Oy and E.ON Energidistribution AB, the largest distribution network operators in Finland and Sweden, respectively, have gotten off to a successful start and will provide work for both Estonian production units for the coming years.

During the reporting year, continuous attention was paid to the production processes in the Estonian production units in order to ensure continued efficient and high-quality production. Internal processes were upgraded in terms of products, suppliers, various partners, quality, and staff. In particular, increased attention was paid to the workers' healthcare. Planning for the modernisation and renewal of production equipment continued. Target-oriented activities in production as well as active sales work and high-quality and excellent cooperation in previous years have opened up new opportunities for cooperation with various technology partners for the realisation of more complex and labour-intensive projects.

Servicing key customers and important framework agreements will continue to be executed in 2022 and the focus will be on eliminating disruptions caused by the supply crisis for components and materials. The search for new business opportunities and cost savings will continue to be main activities. Work is also ongoing to update and plan processes and increase profitability. In order to achieve these goals, the Estonian production units are increasingly focusing on boosting efficiency and closer cooperation with other companies in the Group, both in the domestic and export markets.

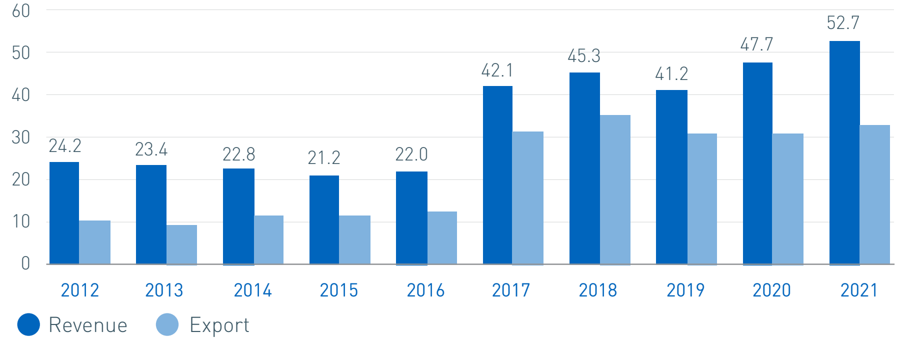
Estonian production companies revenue by markets



Finland	**46.7%**	(2020: 51.7%)
Estonia	**37.5%**	(2020: 35.1%)
Sweden	**8.2%**	(2020: 10.1%)
Netherlands	**5.1%**	(2020: 2.3%)
Others	**2.5%**	(2020: 0.8%)

Revenue of Estonian production companies combined

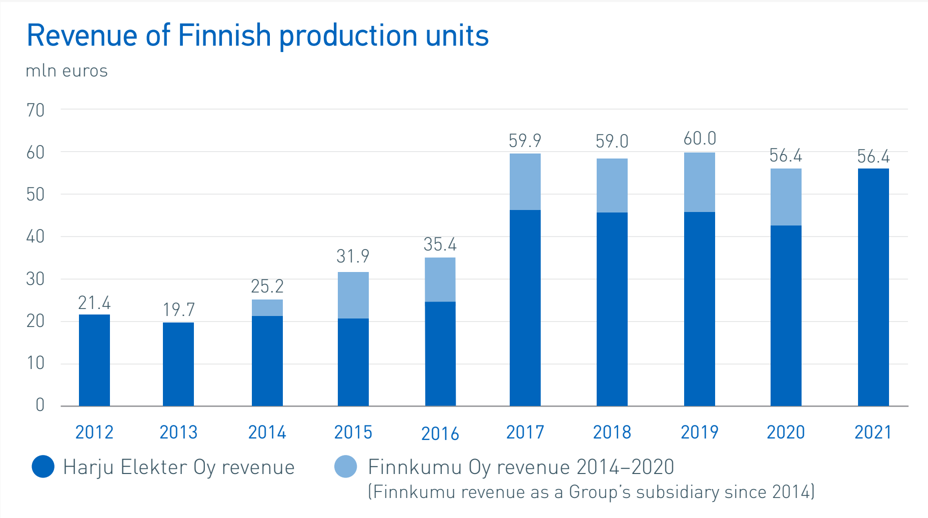
mln euros



Production in Finland

Since the beginning of the reporting year, the Finnish subsidiary has been renamed Harju Elekter Oy. The name change was the final step in the Group's internal structural changes, which started in 2020, by merging the previously separate manufacturing operations in Finland and bringing them under the Group's single name and brand. Today, Harju Elekter Oy has grown to become one of the leading manufacturers of industrial automation and electricity distribution and transmission equipment in Finland. The company is headquartered in Ulvila and has factories in Ulvila, Kerava, and Kurikka.

Revenue of Harju Elekter Oy in total for 2021 was 56.4 (2020: 56.4) million euros. A significant part of the Finnish import segment's production is sold outside Finland and reaches customers mainly through producers and exporters. At the same time, the Finnish subsidiary is an importer and reseller of the Group's Estonian companies' products on the local market. Intermediate sales of products imported from Estonia to Finland amounted to 17.2 (2020: 17.0) million euros.



At the end of the reporting period, a total of 117 (2020: 105) people were employed in the Group's Finnish production units, while the average number of employees during the reporting period was 111 people (2020: 109). Around 60% of the workforce is employed in production and 40% in management, administration, development, and sales. One of the key themes for the year involved employees and their well-being.

The products manufactured in Finland are targeted at the industrial, power generation, and distribution sectors, as well as infrastructure projects, covering customers' needs from the development of products, programmes, and projects to the provision of maintenance services.

The product range is wide and includes a variety of products and solutions up to 20 kV. Product development took a step forward with the launch of the ElektrA electric vehicle chargers in Finland, which also saw a rapid increase in demand. In October, an additional production area of 1,140 m^2 was acquired in Ulvila, close to the current production site, for the production of electric chargers.

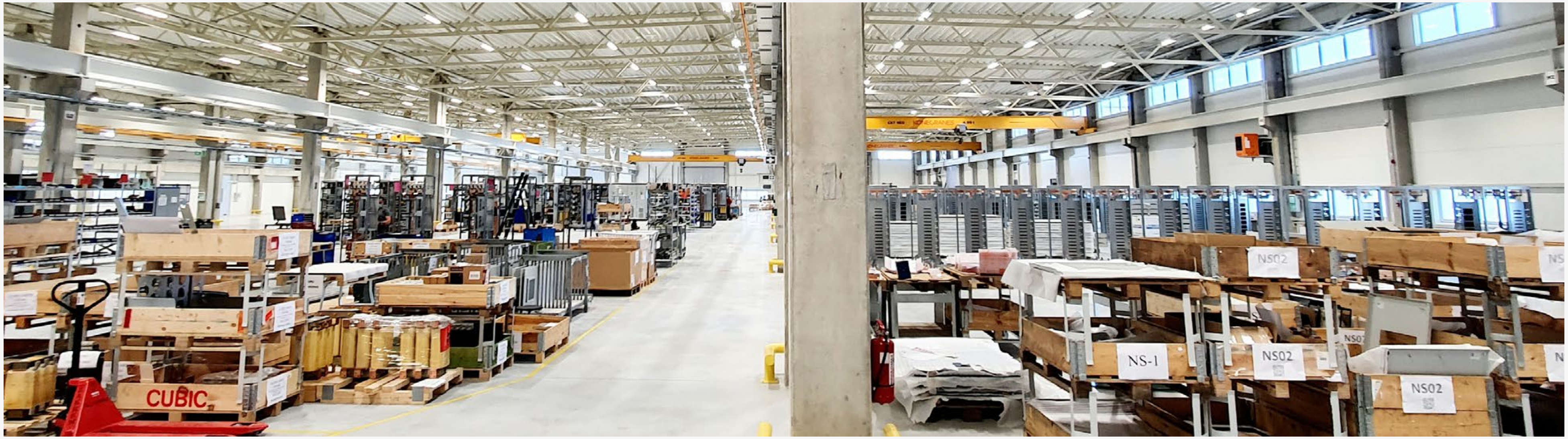
In order to strengthen and develop its product portfolio and cooperation capabilities in the field of e-mobility, Harju Elekter Oy acquired a 5.5% stake in IGL-Technologies Oy, a company developing control systems for parking and electric vehicle charging stations.

The Ulvila and Kerava production units are mainly focused on contractual production, project services and supplies to the electricity distribution, generation, and infrastructure sectors. In these areas, the focus in 2021 was mainly on fulfilling existing customer contracts, which was made difficult by persistent supply constraints for components and materials. Overall production volumes remained unchanged from the previous year. Order volumes increased in the second half of the year, but efficient order fulfilment was still hampered by long supply times for components and materials. As a result, before accepting new customer orders, it was necessary to consider and assess very carefully whether they could be met.

The Kurikka production facility, with 2,500 m^2 of production and office space, is mainly focused on the production of substations and distribution cabinets, including the design, production, and distribution of equipment for the electricity distribution sector in Finland. There were no significant changes in the customer base or in products during the year, but we still managed to slightly exceed the 2020 production volume. The high-quality substations produced at the Kurikka unit continue to enjoy a good reputation in Finland and have developed a solid loyal customer base over a long period of operation.

The future objectives of the Finnish production units are to overcome bottlenecks in the supply of materials and components, to fulfil orders in a timely manner, and to increase sales volumes. It also focuses on monitoring changes in the input prices and improving efficiency.

Production in Lithuania



Harju Elekter UAB, a Lithuanian subsidiary, has been part of the Group since 2003. The company's focus is on the development and contractual manufacturing of products and solutions for system integrators in the marine and industrial sectors, supplying customised power distribution and frequency inverter solutions. The company's headquarters and manufacturing complex are located in Panevėžys, Lithuania. As at 31 December, the company employed 256 (2020: 223) people and an average of 232 (2020: 235) people during the reporting year.

In the reporting year, production segment revenue earned in Lithuania amounted to 25.7 (2020: 28.0) million euros, decreasing 8.2% year-on-year. Following the rapid growth of 2019, revenue has declined in both 2020 and 2021. The decrease in revenue was mainly driven by customers postponing or changing orders in 2020 due to the volatile economic conditions of the pandemic. This was accompanied by unforeseen component supply bottlenecks in 2021. In the reporting year, 99% of the production of the Panevėžys plant was exported worldwide to various destinations, the most important of which were Norway, Germany, the Netherlands, and Finland.

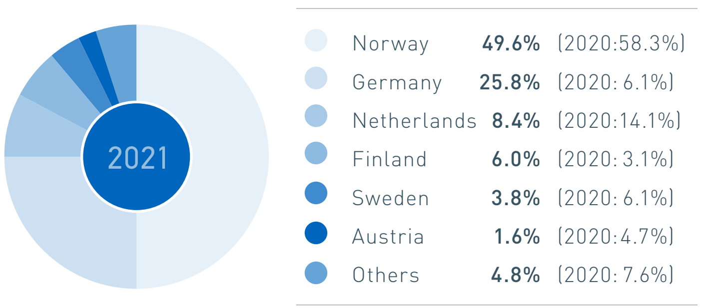
During the reporting year, 2/3 of revenue was generated from the development, production, and sale of project-based products and services to the maritime and shipping sector. The product range was dominated by various frequency converter systems, as well as electrical and control switchboards. The supply of high-quality products to the maritime sector is strongly linked to the company's high level of engineering capability, as orders are mainly for project and customer-specific solutions not found in standard catalogues. During the reporting year, the product portfolio and the range of services offered increased, and the customer portfolio expanded. The sometimes unpredictable availability of components and materials, delivery times and price changes proved to be challenging. During the reporting year, cooperation and planning with a number of major international corporations was launched, with orders expected to be fulfilled in 2022.

An important milestone in 2021 was the completion of another expansion phase of the Panevėžys plant in the second quarter, which increased the office and production space from 8,765 m² to 16,761 m². The investment of 5.5 million euros in the expansion of the plant will double the company's revenues in the future. In connection with the expansion of the plant, investments were made in various production facilities: new sheet metal processing equipment was added and the power electronics test centre was expanded. Preparations for the transition to the new ERP software, which will be implemented in early 2022, have also reached their final stage.

In addition to active sales work and significant investments, the year also saw continued investment in the development of internal processes, the upgrading of staff qualifications, and various social activities. The ISO 27001 certification was successfully completed during the reporting year. Among the social activities, a notable step was the opening of an academy in August 2021 to train the company's current and future employees. The academy aims to attract young Lithuanians to the field of engineering and to improve the qualifications of existing staff.

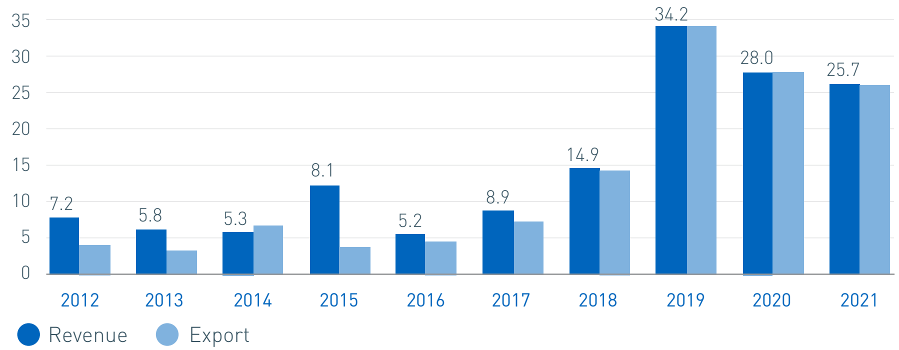
All in all, 2021 was a year of great change for the Lithuanian plant. For the coming years, the main objective, based on added production capacity and strong sales, is to grow business volumes in all target markets and sectors.

Lithuanian revenue by markets



Revenue of Lithuanian production units

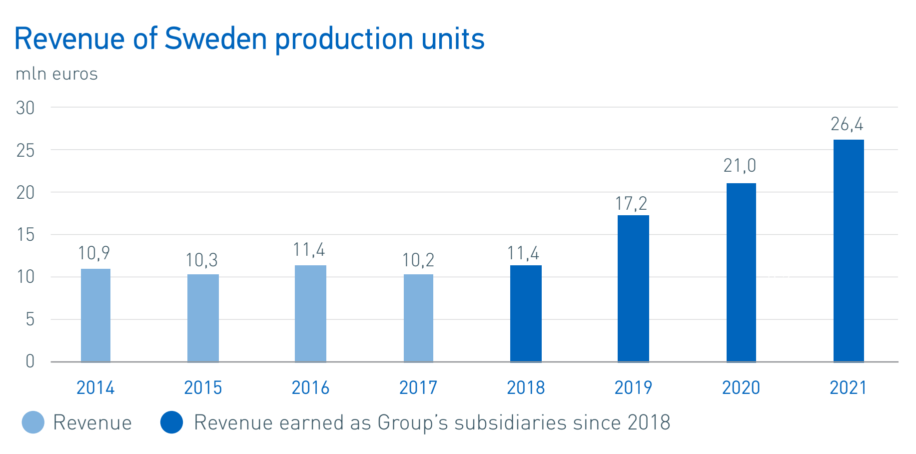
mln euros



Production in Sweden

The production segment in Sweden includes the subsidiary Harju Elekter AB, which specialises in the development and supply of medium and low voltage solutions for power generation and distribution to the infrastructure, construction, and renewable energy sectors. The company is headquartered in Malmö, with production, sales, and service facilities and a warehouse. The company's engineering solutions branches are located in Stockholm and Borlänge, supported by regional offices in Borås, Finspång, Västerås, and Luleå. The company employed 75 (2020: 68) people as at 31 December, and an average of 74 (2020: 62) people during the reporting period.

Revenue for the year in Sweden was 26.4 (2020: 21.0) million euros, increasing by 25.7% compared to last year. It was the third year of rapid growth in a row. The Swedish unit focuses on the Swedish market, where 99.5% (2020: 96.2%)



of products and services were sold. Major successes during the year included wins in the E.ON Energidistribution AB and Region Stockholm tenders. Timely availability of the necessary components and significant price increases have proved to be the main obstacles to the execution of customer contracts.

During the reporting year, several business processes were developed and new employees were recruited. In order to expand the business, it was decided to consolidate the various units of the Swedish subsidiary: the new Västerås plant, which will be owned by Harju Elekter AB, will be completed by 1 November 2022, at the latest, and the new leased premises in Malmö will be planned to be occupied by the end of 2022. The restructuring of the Swedish plants and operations will allow for more efficient production, lower logistics costs and better security of supply for customers, which are prerequisites for future profitable growth in Sweden.

The year 2021 saw the successful completion of the implementation of the new accounting software and the start of several projects to introduce the Group's other products to the Swedish market.

Harju Elekter will continue its targeted sales activities in Sweden and, after the 2020 restructuring, Harju Elekter AB will continue to resell the Group's products in the local market. Intermediated sales of products manufactured in Estonia to the Swedish market amounted to 3.2 (2020: 4.9) million euros in the reporting year.

Completing the structural changes and completing and setting up new plants in Malmö and Västerås will be the main targets for the coming year. In addition, the focus will be on active sales and increasing business volumes.

Real estate

The activities of the real estate segment include the development, maintenance, and rental of industrial real estate; services related to the maintenance of real estate and production capacities; and the provision of services.

Real estate is classified as a separate segment because its assets represent more than 10% of the Group's assets. The segment is managed by the real estate department of AS Harju Elekter. At the end of the reporting year, the real estate department employed six (2020: 7) people.

The Group owns properties in industrial parks in Estonia (Keila, Allika, and Haapsalu), Finland (Ulvila, Kerava, Kurikka), and Lithuania (Panevėžys), totalling 71.5 ha, with 115.4 thousand m^2 of production, office, and warehouse space. The company leases space to external customers in the industrial parks of Keila, Allika, and Haapsalu.

Total operating income of the real estate segment for the reporting year was 5.6 (2020: 5.0) million euros, of which external revenue amounted to 3.8 (2020: 3.3) million euros accounting for 2.5% (2020: 2.2%) of the consolidated revenue. Rental income accounted for 82% (2020: 87%) and utilities and other services for 18% (2020: 13%) of the revenue of the real estate segment. Business activity was stable during the reporting year, with low vacancy rates and no significant changes in the lessees. Non-group revenue for the reporting year has increased primarily due to the fully leased Laohotell II building completed in Allika Industrial Park at the end of 2020. Real estate segment revenue was generated in Estonia during the financial year.

During the reporting period, 1.3 (2020: 3.1) million euros was invested in the real estate segment. In July, AS Harju Elekter increased its portfolio of solar power plants to increase renewable energy production by investing in eight solar power plants with an installed capacity of 64.8 kW.

As there is a market demand for leased space in industrial real estate, the real estate segment will continue to develop its portfolio of buildings. To this end, a construction agreement was signed in April with AS Ehitusfirma Rand ja Tuulberg for the construction of Laohotell III in Allika Industrial Park. Pursuant to the contract, the cost of construction is 2.1 million euros. The third production and warehouse complex of Harju Elekter will be completed by May 2022.

Other activities

The following companies of the Group are included in the segment of other activities: AS Harju Elekter and Energo Veritas in Estonia, Telesilta Oy in Finland, and Harju Elekter Services AB in Sweden.

Total external revenue from other non-segment activities amounted to 15.4 (2020: 17.8) million euros, meaning that it decreased by 13% year-on-year. Sales to other segments of activity amounted to 0.2 (2020: 0.1) million euros. Other activities accounted for 10.1% (2020: 12.4%) of the Group's consolidated revenue.

Estonia

AS Harju Elekter is the parent company of the Group. The company's operations are divided into two: real estate and other activities. In addition to activities related to real estate, the parent company is engaged in the following:

- coordinating cooperation between the companies in the Group;
- strategic management of subsidiaries through the Supervisory Board and Management Boards;
- management of cash flows of the Group;
- investment planning and management;
- business development and development activities;
- supporting the Group's companies in the areas of human resources, information technology, finance, and communication.

The parent company's other activities accounted for 0.3% (2020: 0.3%) of the consolidated revenue. At the end of the reporting period, the parent company employed 16 (2020: 16) people outside the real estate department.

Among other activities, investment management is one of the most important in AS Harju Elekter. The investment portfolio as at 31 December 2021 consists of various listed securities in the amount of 2.9 (2020: 2.8) million euros, an investment of 21.8 (2020: 8.8) million euros in OÜ Skeleton Technologies Group, an investment of 0.2 (2020: 0.3) million euros in SIA Energokomplekss, and investment of 0.25 million euros in IGL-Technologies Oy.

The focus of Energo Veritas OÜ is on project management based sales and trading activities. The company has sales offices / shops in Tallinn and Tartu, through which the sale of products and other goods required for the electrical installation work of the Group and its related companies for small and medium-sized electrical installation companies and retail customers is organised. As at 31 December 2021, the company employed 18 (2020: 19) people and the average number of employees during the reporting period was 17 (2020: 20).

The revenue of Energo Veritas OÜ for 2021 was 9.6 (2020: 8.7) million euros. The new sales office and central warehouse in Tallinn, completed in 2019, and the internal restructuring processes in 2020 continued to contribute strongly to sales growth. The company's strong sales performance contributed to a 9.6% increase in revenue (2020: 5.4%). In March, Energo Veritas OÜ was successful in a tender for the supply of hermetic distribution transformers to Enefit Connect OÜ. A framework agreement with the total volume of 12 million euros was signed for a period of three years with the possibility of a two year extension.

The focus for 2022 will be on even more active sales work, especially in project sales and participation in tenders, increasing the company's efficiency and renewing the product range.

Finland

Telesilta Oy is an electrical engineering company established in 1978 in Uusikaupunki, Finland, **specialising in the design of electrical systems for ships and the manufacture, installation, commissioning, and maintenance of equipment** for the Finnish market. The company offers specific solutions to its customers, with a marginal share of proprietary products. Telesilta Oy has been part of the Group since 2017.

As at 31 December 2021, the company employed 33 (2020: 30) people and the average number of employees during the reporting period was 33 (2020: 29). Revenue for the year was 6.0 (2020: 4.2) million euros, which grew by 45% compared to the previous year. The strong growth in revenue is due to the successful sales work and agreements signed in recent years. The growth has been supported by the expansion of the capacity of the electrical work units in the Turku and Rauma regions, when in 2020 execution of the agreement for electrical work on ships under construction for the Finnish Border Guard started. The goals of Telesilta Oy for 2022 are to efficiently fulfil existing customer agreements and increase production capacity.

Sweden

Harju Elekter Services AB, established in 2010, did not have any significant activities during the year. In 2020, following the restructuring of the Swedish unit, the company ceased to operate as a separate sales unit. During the reporting period, the company had one (2020: 1) employee.

Share and shareholders

ISIN code	Ticker	Number of securities	Share without nominal value,	Date of listing
EE3100004250	HAE1T	18,018,555	book value 0.63 euros	30 September 1997

AS Harju Elekter has been listed on Nasdaq Tallinn since 30 September 1997. All of the company's shares are freely tradable on the stock exchange and each share carries equal voting and dividend rights. The shareholders of Harju Elekter are equal and there are no separate voting restrictions or agreements. To the best of the company's knowledge, there are no restrictions on the transfer of securities or other specific control rights in the shareholders' agreements.

On 19 July 2021, the Supervisory Board of AS Harju Elekter decided to increase the share capital of the company by 175,565.25 euros by issuing new ordinary shares without a nominal value in connection with the exercise of the employee stock option programme. The subscription term was 16 July 2021 and the issue price was 3.49 euros per share. A total of 278,675 ordinary shares were subscribed for at a book value of 0.63 euros per share. On 28 July 2021, the share capital increase was entered in the commercial register, and as a result, the share capital of AS Harju Elekter amounts to 11.35 million euros, divided into 18.0 million ordinary shares without a nominal value.

Share price and trading

Last year was a positive year for investing across global equity markets. The economic recovery that started in the second half of 2020 carried over into 2021, pushing stock markets to record highs. The US and Europe led the global share rally. The most popular share index, the S&P 500, increased 26.9% by ending the year at 4766.18 points. Energy and real estate were the best-performing sectors in the S&P 500 this year, each up more than 40%. The OMXBBGI Baltic bourse index, part of Nasdaq, the world's largest stock exchange group, increased 42.0% in the reporting year to 1568.82 points. Among the Baltic stock exchanges, the Tallinn Stock Exchange index increased the most, by 48.9%, followed by Lithuania with 18.3% and the Riga Stock Exchange index with 12.1%. Share prices of the Tallinn Stock Exchange companies rose on the back of improved financial results for many companies, but the overall rise in the investment popularity also contributed to this. The decision by some banks to abolish transaction fees on Baltic shares and the increased private savings from the II pillar pension payments boosted investment interest. In 2021, several initial public offerings of shares took place and the number of issuers increased.

The share of AS Harju Elekter closed the last trading day of the year at 7.44 euros, increasing by 43.6% over the year. A total of 2.0 (2021: 1.2) million shares were traded, including a tripling of the volume to 15.85 million euros. As at 31 December, the market value of the company on the basis of the share price was 134.06 million euros.

Share price and trading

	2021	2020	2019	2018	2017
Average number of shares (pcs)	17,855,220	17,739,880	17,739,880	17,739,880	17,739,880
Opening price (euros)	5.24	4.26	4.12	5.00	2.85
Highest price (euros)	10.50	5.26	5.20	6.68	5.08
Lowest price(euros)	5.20	3.20	4.01	3.89	2.80
Closing price (euros)	7.44	5.18	4.21	4.12	5.00
Change in the closing price (%)	76.7	23.0	2.2	-17.6	76.7
Company's market capitalization (millions)	134.06	91.89	74.68	73.09	88.70
Traded shares (pcs)	2,048,865	1,160,598	531,415	1,100,773	1,349,617
Turnover (million euros)	15.85	4.99	2.35	5.98	5.46
Net profit per share (euros)	0.15	0.31	0.14	0.09	1.64
P/E ratio (ratio)	51.13	16.52	30.07	45.78	[3] 3.05
Dividend per share (euros)	[1] 0.14	0.16	0.14	0.18	0.24
Dividend rate (%)	1.9	3.1	3.3	4.4	4.8
Dividend/net profit (%)	96.2	51.0	100.9	206.6	[2] 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

The share price of AS Harju Elekter (in euros) on Nasdaq Tallinn Stock Exchange between 31.12.2016–31.12.2021

Nasdaq Tallinn, www.nasdaqbaltic.com

Change in the share price of AS Harju Elekter compared to the change in share indexes between 31.12.2016–31.12.2021

www.nasdaqbaltic.com/statistics/et/charts

Structure of shareholders

As at 31 December 2021, AS Harju Elekter had 9,387 shareholders. During the reporting period, the number of shareholders increased by 4,303. The largest shareholder of AS Harju Elekter is the locally owned AS Harju KEK, which holds 30.9% of the company's share capital. The foreign equity stake is 13.7% (31 December 2020: 14.4%). As at 31 December 2021, the members of the company's Supervisory Board and Management Board held, directly and indirectly, a total of 13.30% of the company's shares (Note 16). The full list of shareholders of AS Harju Elekter is available on the Nasdaq CSD website.

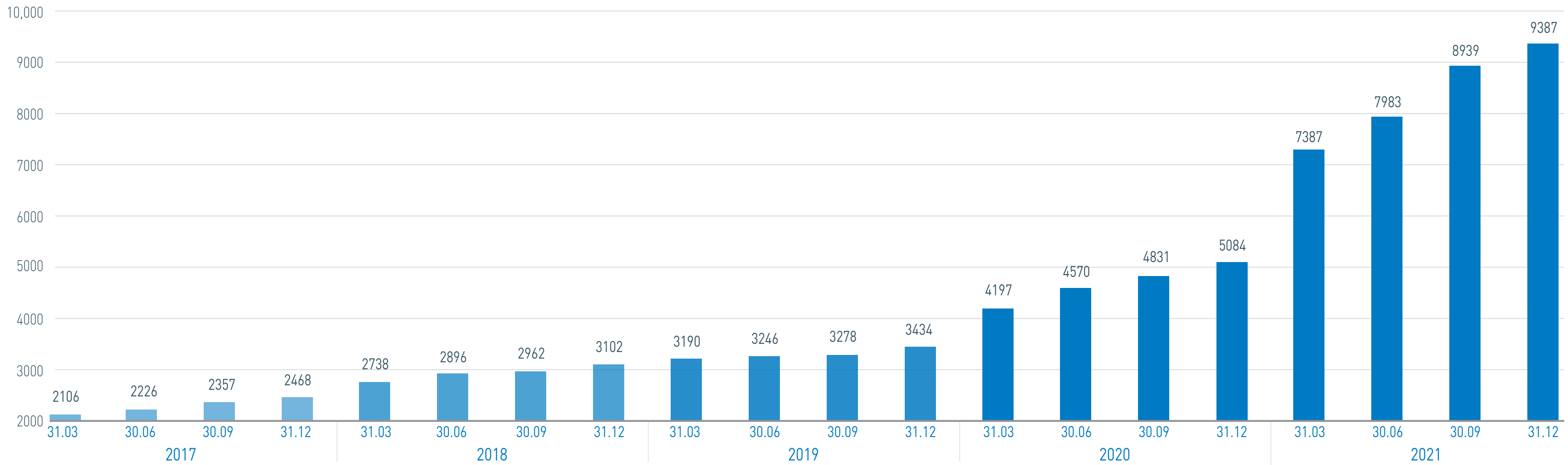
Division of shareholders by shareholding size

Shareholding	Number of shareholders	% of total number	Voting right %
More than 10%	2	0.0	41.4
1.0 – 10.0%	8	0.1	21.0
0.1 – 1.0 %	53	0.6	15.1
Less than 0.1%	9,324	99.3	22.5
Total	**9,387**	**100.0**	**100.0**

List of shareholders over 5%

31 December 2021	Shareholding %
AS Harju KEK	30.90
ING Luxembourg S.A.	10.54
Endel Palla	6.97
Shareholders with holdings less than 5%	51.59
Total	**100.00**

Number of shareholders



Break-down of shareholders by country, as at 31 December 2021:

COUNTRY	Total number of share-holders	Number of shareholders (pcs)			Total number of shares	Number of shares (pcs)			Total % of shares	% of shares		
		Legal	Private	Banks and nominee accounts		Legal	Private	Banks and nominee accounts		Legal	Private	Banks and nominee accounts
Estonia	**9,245**	759	8485	1	**15,533,873**	6,777,959	8,742,910	13,004	**86.3**	37.6	48.6	0.1
Luxembourg	**2**	-	1	1	**1,900,284**	0	516	1,899,768	**10.5**	0.0	0.0	10.5
Sweden	**11**	-	7	4	**251,293**	0	979	250,314	**1.4**	0.0	0.0	1.4
Finland	**57**	-	56	1	**111,186**	18,215	0	92,971	**0.6**	0.1	0.0	0.5
Lithuania	**5**	-	-	5	**96,676**	0	0	96,676	**0.5**	0.0	0.0	0.5
USA	**4**	-	2	2	**42,575**	0	1,510	41,065	**0.2**	0.0	0.0	0.2
Other countries	**63**	-	54	9	**82,668**	0	20,181	62,487	**0.5**	0.0	0.1	0.4
TOTAL	**9,387**	**759**	**8,605**	**23**	**18,018,555**	**6,796,174**	**8,766,096**	**2,456,285**	**100.0**	**37.7**	**48.7**	**13.6**

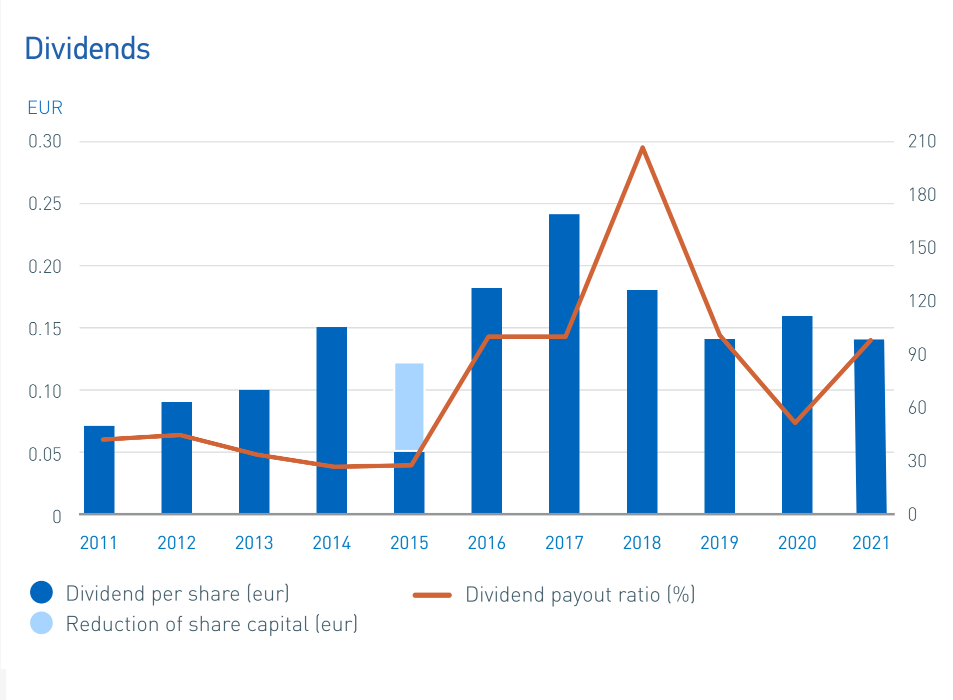
Dividends

According to the Group's dividend policy, at least one third of the ordinary net operating profit is paid as dividends. However, the actual dividend rate will depend on the Group's cash flows and development prospects and the need to finance them.

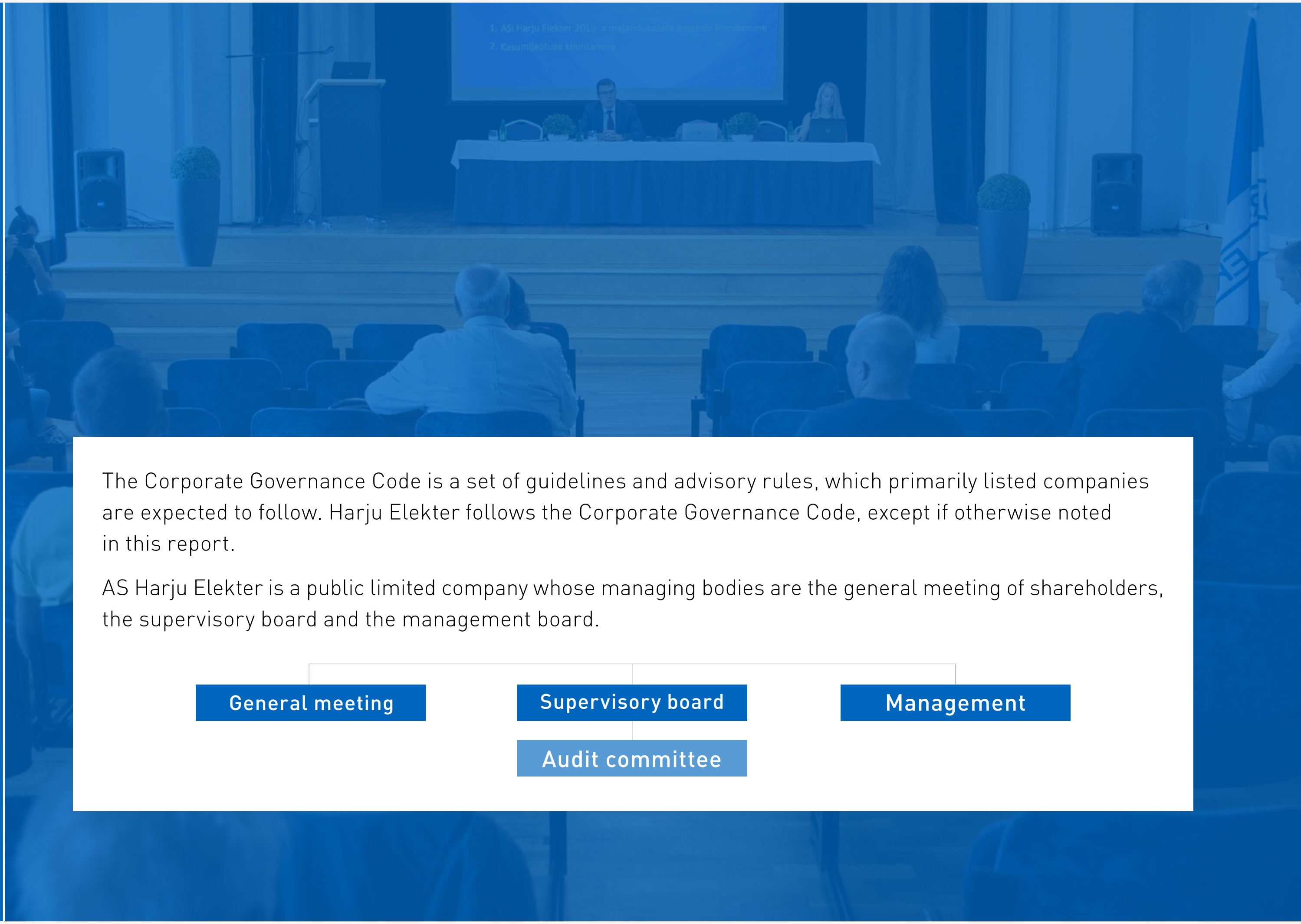
The General Meeting of Shareholders of AS Harju Elekter was held on 29 April 2021, where, among other things, the profit distribution proposal was approved and it was decided to pay dividends of 0.16 euros per share to shareholders for 2020, totalling 2.8 million euros. The dividends were transferred to shareholders' bank accounts on 25 May 2021.

In coordination with the Supervisory Board, the Group's Management Board will propose to pay dividends to the shareholders 0.14 euros per share, totalling 2.5 million euros and representing 96% of consolidated net profit in 2021.

For information on dividend history and ratios, see the share price and trading table.



Corporate Governance Report 2021



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 if 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
Supervisory board
Management
Audit committee

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. A shareholder may attend the general meeting and vote at the meeting in person or through an authorized representative.

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 31 March 2021 via the information system of the Nasdaq Tallinn Stock Exchange, the Financial Supervision Authority and on its website, and on 1 April 2021 in Äripäev. Shareholders could send questions and make different proposals about the topics on the agenda to the e-mail address given in the notice. The annual report and other relevant documents were available on the website of Harju Elekter and in company's office in Keila. The shareholders submitted no questions about the topics on the agenda before the general meeting of shareholders in 2021.

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 2021 was held on 29 April in the conference center of LaSpa, Laulasmaa. To minimize the number of people, present at the general meeting due to the COVID-19 pandemic, shareholders were able, to forward their vote before the general meeting, by e-mail or by post. The shareholders who voted before the general meeting were considered to be participating in the general meeting and the votes represented by the shares owned by the shareholder were included in the quorum of the general meeting. 16 shareholders cast their votes before the meeting

The meeting was held in Estonian. The meeting was chaired by lawyer Ursula Joon, minutes were taken by the group's financial reporting manager Merili Pärnpuu. The CEO and the chairman of the supervisory board of Harju Elekter attended the meeting, and notary Reeli Eelmets, who certified the minutes of the meeting. The auditor did not attend the general meeting. 36 shareholders or their authorised representatives attended the meeting and they represented 59.76% of the total number of votes.

The meeting could also be heard through a webinar, which was attended by 29 participants. The webinar was published on the company's website www.harjuelekter.com as well as on the Nasdaq Baltic youtube.com account.

The general meeting approved the annual report for 2020 and profit distribution proposal and decided to pay the shareholders dividends for 2020 in the amount of 0.16 euros per share, 2.8 million euros in total. An auditor was elected for the next three years, the articles of association were amended and the share option program for 2021-2022 was approved. The decisions made at the general meeting were published in the information system of the Nasdaq Tallinn Stock Exchange, on the Financial Supervision Authority 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 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. The Supervisory Board reviews the basic remuneration of the members of the Management Board once a year. The performance pay for a Member of the Management Board is set at 0.75% of the consolidated operating profit of the Harju Elekter Group. The performance pay is paid in two instalments: (I) 80% of the performance pay of the first half of the year, after the results of the first half become known; (II) performance pay of the second half of the year, together with the previously formed 20% reserve after the audited annual results have become known. The annual performance pay paid to Members of the Management Board is 1.0% of the consolidated net profit. Disbursement of the performance pay of the second half of the year and the annual performance pay is coordinated with the Supervisory Board, and disbursed after the audit of the Group's annual accounts. The amount of performance pay is proportional to the share of basic salary in the basic salary total.

Members of the management Board are entitled to severance pay up to eight month's remuneration of a management board member. No severance shall be paid if a member of the Management Board is removed by the Supervisory Board or his/her term of office is not extended due to a breach of the confidentiality and / or non-compete obligation or any other contractual or legal obligation.

Gross remuneration paid to Members of the Management Board in 2021:

EUR	Basic remuneration	Performance pay	Total gross remuneration
Tiit Atso	131	40	171
Aron Kuhi-Thalfeldt	86	33	119

Stock options granted to Members of the Management Board as at 31 December 2021:

	Quantity	Exercise price (EUR)	Subscription time
Tiit Atso	8,000	3.98	15.07.2022
Aron Kuhi-Thalfeldt	8,000	3.98	15.07.2022
Tiit Atso	10,000	4.44	14.07.2023
Tiit Atso	10,000	4.5	25.06.2025
Aron Kuhi-Thalfeldt	10,000	4.5	25.06.2025

As at the end of 2021, the members of the company's management board held a total of 0.14% (2020: 0.06%) of the company's shares directly and via indirect holdings (Note 16).

Members of the management board as at 31 December 2021:

TIIT ATSO
Chairman of the Board

EDUCATION:
Tallinn University of Technology, master of social siences (urban and environmental economics)

CAREER:
2020 – AS Harju Elekter, Chairman of the Board
2016 – 2020 AS Harju Elekter, Chief Financial Officer, Member of the Board
2015 – 2016 AS Harju Elekter, Chief Financial Officer
2014 – 2015 AS Harju Elekter, Chief Economist
2012 – 2014 AS Viru Keemia Grupp, Project Finance Manager

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS:
Chairman of the Supervisory Board: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Energo Veritas OÜ
Member of the Supervisory Board: OÜ Skeleton Technologies Group
Chairman of the Board: Harju Elekter UAB, Telesilta Oy, Harju Elekter AB, Harju Elekter Services AB
Vice-Chairman of the Board: Harju Elekter Oy
Member of the Board: Harju Elekter Kinnteistöt Oy, Holm Capital OÜ, Holm Kinnisvara OÜ

AS of 31.12.2021 Tiit Atso owns 7,500 Harju Elekter shares. He has direct participation 0.04%. He doesn't have indirect holdings.

ARON KUHI-THALFELDT
Member of the Board

EDUCATION:
Tallinn University of Technology, urban and environmental economics

CAREER:
2016 – AS Harju Elekter, member of the board
2007 – AS Harju Elekter, Head of Real estate and Energy Services department
2003 – 2007 AS Harju Elekter, construction and energy services department engineer

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS:
Chairman of the Board: Harju Elekter Kiinteistöt Oy

As of 31.12.2021 Aron Kuhi-Thalfeldt owns 18,029 of Harju Elekter shares. He has direct participation 0.10%. He doesn't have indirect holdings.

Conflict of interest

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. In 2021, no such transactions took place.

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 in 2021.

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.

In 2021, ten meetings of the supervisory board were held, and one resolution of the supervisory board was adopted without convening a meeting. All members of the Supervisory Board took part in the meetings and the adoption of the resolution.

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. The chairman shall be elected from among the members of the Supervisory Board.

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 (chairman), Arvi Hamburg, Aare Kirsme, Triinu Tombak and Andres Toome. 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 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.

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.

Gross remuneration paid to Members of the Supervisory Board in 2021

EUR'000	Basic remuneration	Performance pay	Fee for attending the meeting	Audit committee fee	Total gross remuneration
Endel Palla	31*	12*	4	0	47*
Triinu Tombak	12	0	2	3	17
Aare Kirsme	12	0	2	0	17
Andres Toome	12	0	2	3	19
Arvi Hamburg	12	0	2	0	14

* includes the remuneration of the development director under the employment contract and the performance fee.

Stock options granted to Members of the Supervisory Board as at 31 December 2021:

	Quantity	Exercise price (EUR)	Subscription time
Endel Palla	8,000	3.98	15.07.2022
Triinu Tombak	8,000	3.98	15.07.2022
Aare Kirsme	8,000	3.98	15.07.2022
Andres Toome	8,000	3.98	15.07.2022
Arvi Hamburg	8,000	3.98	15.07.2022
Endel Palla	10,000	4.44	14.07.2023
Triinu Tombak	10,000	4.44	14.07.2023
Aare Kirsme	10,000	4.44	14.07.2023
Andres Toome	10,000	4.44	14.07.2023
Arvi Hamburg	10,000	4.44	14.07.2023

As at the end of 2021, the members of the company's supervisory board held a total of 13.16% (2020: 9.45%) of the company's shares directly and via indirect holdings (note 16).

Members of the supervisory board as at 31 December 2021:

ENDEL PALLA
Chairman of the Board

TRIINU TOMBAK
Member of the Supervisory Board

ANDRES TOOME
Member of the Supervisory Board

EDUCATION:
Tallinn Polytechnic Institute, engineer

CAREER:
1999 – AS Harju Elekter Chairman of the Supervisory Board/Development Manager
1983 – 1999 Harju Elekter, incl. 1991–1999 AS Harju Elekter Managing Director/Chairman of the Board
1969 – 1983 Harju KEK Manager of Electrical Equipment Production Division

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS AND SOCIAL ACTIVITIES:
Member of the Superviosry Board: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, AS Entek
Member of the Board: Harju Elekter Oy, Tallinna Direktorite Klubi

As of 31.12.2021 Endel Palla owns 1,256,500 Harju Elekter shares. He has direct participation 6.97% and indirect participation 4.00%.

EDUCATION:
Tallinn University of Technology, economics and business administration

CAREER:
2014 – TH Consulting OÜ, Managing Director
2013 – 2019 think tank Praxis, member of the Supervisory Board (incl. 2015-2917 Chairman of the Board)
2001 – 2009 World Bank Publishing Department, Consultant, since 2006 Sales Manager of on-line databases and e-Library
1993 – 1998 Estonian Investment Bank, Optiva Bank; Loan Department, Investment Department

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS AND SOCIAL ACTIVITIES:
Member of the Board: Eesti Sulgpalliliit

As of 31.12.2021 Triinu Tombak owns 15,000 of Harju Elekter shares. She has direct participation 0.08%. She doesn't have indirect holdings.

EDUCATION:
Tallinn University of Technology, economics and business administration

CAREER:
1999 – OÜ Tradematic, Managing Director
1992 – 1999 Estonian Bank, Estonian Investment Bank, Optiva Bank and Sampo Bank Estonia, Head of Investment Departeent

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS AND SOCIAL ACTIVITIES:
Member of the Supervisory Board: AS Harju KEK, AS Entek, AS Laagri Vara, OÜ KEK Kinnisvara, Proformex OÜ, OÜ Tarbus Kinnisvara AS Tallinna Olümpiapurjespordi-keskus, Valdmäe Tööstuspark OÜ, Hoiupanga Töötajate Aktsiaselts, H11 OÜ, Baltlink-Valduse Aktsiaselts
Member of the Board: Harju Elekter UAB, Harju Elekter AB, OÜ Tradematic, 30pluss OÜ, Hermes Worldwide OÜ, Ladina Kvartali Kinnisvara OÜ, Osaühing M50, Tradematic KV OÜ, OÜ Sherwood

As of 31.12.2021 Andres Toome owns 37,500 of Harju Elekter shares. He has direct participation 0.21% and indirect participation 0.33%.

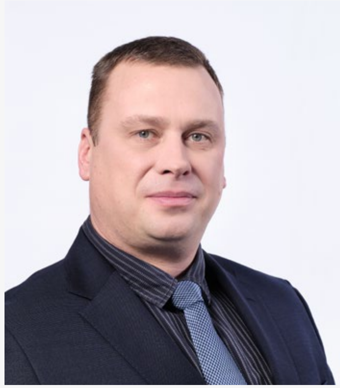
ARVI HAMBURG
Member of the Supervisory Board

EDUCATION:
Tallinn University of Technology, Ph.D of Energy and Geotechnology

CAREER:
2012 – European Engineer
2003 – Chartered electrical engineer, level 8
2018 – Old Town Education College,Technology Teacher
2017 – 2020 Tallinn University of Technology, Visiting Professor
2012 – 2016 Tallinn University of Technology, Professor, Dean of the Faculty of Power Engineering
2006 – 2020 Euroakadeemia, lecturer, Professor
2006 – 2011 Tallinn University of Technology, Visiting Professor
2001 – 2011 Eesti Gaas, Councillor
1992 – 2001 Estonian Ministry of Economy, Deputy Chancellor, General Secretary
1990 – 1992 Estonian Industry and Energy Ministry, Deputy Minister
1987 – 1990 Eesti Energia, Vice President
1986 – 1987 Eesti Energiajärelvalve, Chief Engineer
1966 – 1986 Põhja Kõrgepingevõrgud, since 1982 Deputy Director

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS AND SOCIAL ACTIVITIES
Member of the supervisory board: AS Ecomatic, SA Eesti Teadus- ja Tehnikamuuseumi algatajad, SA TTÜ traditsioonide väärtustamine
Member of the board: Eesti Elektroenergeetika Selts, MTÜ Eesti Klubi, Maailma Energeetika-nõukogu Eesti Rahvuskomitee

As of 31.12.2021 Arvi Hamburg owns 7,500 Harju Elekter shares. He has direct participation 0.04%. He doesn't have indirect holdings.



AARE KIRSME
Member of the Supervisory Board

EDUCATION:
Institute of Justice (since 2001 UT Faculty of Law), law

CAREER:
2012 – AS Harju KEK, Member of the Supervisory Board
2002 – 2011 AS Devest, Lawyer
2000 – 2013 AS Harju KEK, Legal Advisor
1998 – 1999 Maa-amet, Lawyer

PARTICIPATION IN THE MANAGEMENT AND SUPERVISORY BODIES OF BUSINESS ORGANISATIONS AND SOCIAL ACTIVITIES:
Chairman of the supervisory board: OÜ KEK Kinnisvara
Member of the supervisory board: AS Harju KEK, AS EKE, AS Harju Elekter, OÜ Valdmäe Tööstuspark, AS Laagri Vara , H11 OÜ
Member of the board: OÜ Kirschmann, OÜ Devest Kaubandus, Kindluse Kodud OÜ, Helicraft OÜ, Silvertec OÜ

As of 31.12.2021 Aare Kirsme owns 235,750 Harju Elekter shares. He has direct participation in share capital 1.31% and indirect participation 0.21%

Conflict of interest

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 2021. Also, no significant transactions were concluded in 2021 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 24^2 (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, the company and 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 shareholders 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 rule applies in the case of all meetings, also immediately before the disclosure of financial reports.

Financial reporting and auditing

The consolidated accounts of AS Harju Elekter are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The purpose of financial reporting processes is to ensure uniform and reliable reporting of the Group in accordance with legislation and other existing requirements. The reporting processes are performed by the Group's Financial Reporting manager. The principles of reporting are determined by the Group's internal rules, employee job descriptions, and sector-specific guidelines. If necessary, external experts will be involved, and other external audits and inspections will be taken into account in the activities.

The identification of risk areas associated with the processes, as well as the upgrading and development of internal control systems are carried out continuously. The functioning of internal control systems is supervised by the internal auditor of the Group. We constantly monitor changes in legislation and requirements, and analyse the impact of such changes on the internal rules and principles in force within the Group, which will be amended if necessary. Summaries of the audits and consultative work carried out are submitted to the Audit Committee, and the most important observations and recommendations are presented at meetings of the Supervisory Board. At least twice a year, a summary review of internal control activities is presented to the Supervisory Board.

To better assess and manage the company's risks, the Group's companies prepare a budget for the next financial year. Current implementation of approved budgets is monitored and regularly reviewed at meetings of the Supervisory Board.

AS Harju Elekter publishes yearly the annual report and quarterly its interim reports. The annual report approved by the Management Board is audited, approved by the Supervisory Board and by the General Meeting.

According to the resolution of the general meeting of shareholders of 29 April 2021, AS Harju Elekter and its subsidiaries are audited by PricewaterhouseCoopers from 2021-2023, 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. In 2021, the auditor provided the Group companies with contractual services, and other assurance services. The amounts of the fees are disclosed in Note 18 from the financial statements.

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 2021, 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.

Remuneration Report

In this remuneration report of AS Harju Elekter (reporting period 1 January 2021 to 31 December 2021), information is disclosed on the remuneration and benefits paid to the Members of the Management Board of AS Harju Elekter in 2021.

The remuneration of members of the management bodies of AS Harju Elekter (basic and supplementary remuneration) will be determined taking into account the company's practices, strategy, short and long-term objectives, financial performance, and the tasks and responsibilities of each member of the management. Remuneration needs to be competitive to retain professional and competent top managers.

As at 31 December 2021, the Supervisory Board of AS Harju Elekter has approved the principles for determining the remuneration of the members of management bodies. The principles for granting additional remuneration are reviewed annually, and changes are made, if necessary.

The remuneration policy aims to ensure that the long-term objectives and interests of the company are protected and sustainable.

The remuneration report is drawn up for the first time and submitted to the shareholders for approval at the annual general meeting.

This remuneration report forms an integral part of the annual report.

Remuneration of Members of the Management Board

The Members of the Management Board are remunerated pursuant to their contracts. The remuneration of a Member of the Management Board is determined with a decision of the Supervisory Board. The remuneration is reviewed once a year. In 2021, remuneration of the members of the Management Board was adjusted.

The performance pay for a Member of the Management Board is set at 0.75% of the consolidated operating profit of the Harju Elekter Group. The performance pay is paid in two instalments:

1. 80% of the performance pay of the first half of the year, after the results of the first half become known;
2. performance pay of the second half of the year, together with the previously formed 20% reserve after the audited annual results have become known.
   The annual performance pay paid to Members of the Management Board is 1.0% of the consolidated net profit. Disbursement of the performance pay of the second half of the year and the annual performance pay is coordinated with the Supervisory Board, and disbursed after the audit of the Group's annual accounts.

The amount of performance pay is proportional to the share of basic salary in the basic salary total.

The total amount of remuneration (basic and additional) is competitive in Estonia and performance-related. Performance-related pay motivates managers to contribute towards long-term improvements in performance and the achievement of set targets.

Additional benefits cover the car and telephone expenses of the members of the Management Board. No conditions for repayment of the variable performance pay have been established, and as at 31 December 2021, no claims for repayment have been enforced. In 2021, no exceptions have been made to the remuneration principles for determining the remuneration of the members of the Management Board.

Gross remuneration paid to Members of the Management Board in 2021:

EUR'000	Basic remune-ration	Performance pay	Meeting participation remuneration*	Total gross remune-ration
Tiit Atso Chairman of the Management Board	132 74%	39 22%	8 4%	179 100%
Aron Kuhi-Thalfeldt Member of the Management Board	86 71%	33 27%	2 2%	121 100%

In 2021, the Members of the Management Board have received remuneration from foreign subsidiaries of the Harju Elekter Group. *The remuneration is for attending a meeting of the management and supervisory bodies, and is not paid if the Member attends the meeting by telephone or via MS Teams. The Members of the Management Board have not received any remuneration from the Group's Estonian subsidiaries.

Stock options granted to Members of the Management Board as at 31 December 2021:

	Tiit Atso Chairman of the Management Board		Aron Kuhi-Thalfeldt Member of the Management Board	
Stock options granted in 2019	quantity exercise price in EUR time of subscription	8,000 3.98 15 July 2022	quantity exercise price in EUR time of subscription	8,000 3.98 15 July 2022
Stock options granted in 2020	quantity exercise price in EUR time of subscription	10,000 4.44 14 July 2023	quantity exercise price time of subscription	- - -
Stock options granted in 2021	quantity exercise price in EUR time of subscription	10,000 4.50 25 June 2025	quantity exercise price in EUR time of subscription	10,000 4.50 25 June 2025

The terms and conditions of the share option program have been approved by the general meeting of AS Harju Elekter in 2018 and 2021. For the subscription rights to be valid, a Member of the Management Board must have a valid employment and professional relationship with AS Harju Elekter or a company belonging to the Group up to and including the date of subscription, except for in the case of retirement.

There were no changes in members of the management body regarding option transactions.

Changes in the performance and remuneration of AS Harju Elekter in 2017–2021:

	2021	2020	2019	2018	2017
Change in remuneration of Members of the Management Board (%)	-24	28	3	5	109
incl. Tiit Atso from 01 November 2016	*30*	*41*	*3*	*5*	*798*
incl. Aron Kuhi-Thalfeldt from 01 November 2016	*27*	*21*	*11*	*9*	*661*
incl. Andres Allikmäe until 3 May 2020	*-99*	*22*	*-1*	*2*	*12*
Change in average remuneration of employees (%)	6	-1	6	5	7
Change in sales revenue (%)	4.2	2.2	18.7	18	67.4
Change in EBIT (%)	-51.1	100	35.6	-55.7	71.1

Consolidated Financial Statements

Consolidated statement of financial position

EUR´000	Note	31.12.2021	31.12.2020
Current assets			
Cash and cash equivalents	2	574	2,843
Trade and other receivables	3	33,689	27,226
Prepayments	4	1,844	820
Inventories	5	27,437	18,856
Total current assets		**63,544**	**49,745**
Non-current assets			
Deferred tax assets	19	690	514
Non-current financial investments	6	25,222	11,918
Investment properties	7	23,903	23,605
Property, plant and equipment	8	26,654	22,494
Intangible assets	10	7,544	7,199
Total non-current assets		**84,013**	**65,730**
TOTAL ASSETS	17	**147,557**	**115,475**

EUR´000	Note	31.12.2021	31.12.2020
Liabilities			
Borrowings	11	16,912	12,056
Prepayments from customers		4,659	4,182
Trade and other payables	13	24,490	15,837
Tax liabilities	14	3,156	2,871
Current provisions		35	34
Total current liabilities		**49,252**	**34,980**
Borrowings	11	11,426	7,032
Other non-current liabilities	13	33	66
Total non-current liabilities		**11,459**	**7,098**
Total liabilities	17	**60,711**	**42,078**
Equity			
Share capital	16	11,352	11,176
Share premium	16	1,601	804
Reserves	16	18,716	6,709
Retained earnings		55,315	54,858
Total equity attributable to owners of the parent company		**86,984**	**73,547**
Non-controlling interests		-138	-150
Total equity		**86,846**	**73,397**
TOTAL LIABILITIES AND EQUITY		**147,557**	**115,475**

The notes on pages 81 to 124 are an integral part of the consolidated financial statements.

Consolidated statement of profit or loss

EUR´000	Note	2021	2020
Revenue	17,18	152,757	146,614
Cost of sales	18	-134,877	-125,405
Gross profit		**17,880**	**21,209**
Distribution costs	18	-5,259	-5,847
Administrative expenses	18	-9,703	-9,259
Other income		513	707
Other expenses		-229	-264
Operating profit	18	**3,202**	**6,546**
Finance income		129	137
Finance expenses		-353	-379
Profit before tax		**2,978**	**6,304**
Income tax	19	-368	-776
Profit for the period		**2,610**	**5,528**
Profit is attributable to:			
Owners of the parent company		2,598	5,563
Non-controlling interests		12	-35
Earnings per share			
Basic earnings per share (EUR)	20	0.15	0.31
Diluted earnings per share (EUR)	20	0.14	0.31

Consolidated statement of comprehensive income

EUR´000	Note	2021	2020
Profit for the period		**2,610**	**5,528**
Other comprehensive income (-loss)			
Items that subsequently may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	16	-57	112
Items that subsequently may not be reclassified to profit or loss:			
Gain on available-for-sale financial assets reclassified to profit or loss	6	265	80
Net gain on revaluation of financial assets	16	12,269	2,922
Total other comprehensive income (-loss) for the period		**12,477**	**3,114**
Total comprehensive income for the period		**15,087**	**8,642**
Total comprehensive income for the period is attributable to:			
Owners of the parent company		15,075	8,677
Non-controlling interests		12	-35

The notes on pages 81 to 124 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

EUR´000	Note	2021	2020
Cash flows from operating activities			
Profit for the period		2,610	5,528
Adjustments			
Depreciation, amortization and impairment losses	7, 8, 9, 17, 18	4,018	3,794
Profit on sale of non-current assets	21	-25	-21
Share-based payments	22	227	263
Finance income		-129	-137
Finance expenses		353	379
Income tax	19	368	776
Changes			
Changes in trade receivables		-7,443	-3,756
Change in inventories		-8,814	155
Changes in trade payables		9,308	1,232
Corporate income tax paid	21	-616	-916
Interest paid		-345	-302
Total cash flow (-outflow) from operating activities		**-488**	**6,995**
Cash flows from investing activities			
Payments for investment properties	21	-1,057	-3,096
Payments for property, plant and equipment	21	-4,857	-4,566
Payments for intangible assets	21	-698	-300
Payments for financial assets	6	-1,749	-104
Proceeds from sale of investment properties		0	5
Proceeds from sale of property, plant and equipment	21	42	33
Proceeds from sale of financial assets	6	981	1,681
Received interests		8	0
Dividends received		119	91
Other proceeds from investing activities	21	190	0
Total cash flow (-outflow) from investing activities		**-7,021**	**-6,256**

EUR´000	Note	2021	2020
Cash flows from financing activities			
Change in overdraft balance	11	6,414	-1,131
Proceeds from borrowings	11	8,063	3,151
Repayments of borrowings	11	-5,804	-1,112
Payments of principal or leases	11	-1,476	-1,175
Proceeds from the share issue		946	0
Dividends paid	16	-2,838	-2,484
Income tax paid on dividends		-18	-14
Total cash flow (-outflow) from financing activities		**5,287**	**-2,765**
Total net cash flow (-outflow)		**-2,222**	**-2,026**
Cash balance at the beginning of the period		**2,843**	**4,878**
Change in cash balances		-2,222	-2,026
Effects of exchange rate differences		-47	-9
Cash balance at the end of the period	2	**574**	**2,843**

The notes on pages 81 to 124 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

EUR´000	Share capital	Share premium	Reserves	Retained earnings	Total attributable to owners of the parent company	Non-controlling interests	Total equity
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 capital contribution (Note 16)	0	0	0	0	0	0	0
Share-based payments (Note 22)	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**
Comprehensive income 2021							
Profit for the period	0	0	0	2,598	2,598	12	2,610
Other comprehensive income	0	0	12,212	265	12,477	0	12,477
Comprehensive income for the period	**0**	**0**	**12,212**	**2,863**	**15,075**	**12**	**15,087**
Transactions with owners recognised directly in equity							
Share capital contribution (Note 16)	176	797	0	0	973	0	973
Share-based payments (Note 22)	0	0	-205	432	227	0	227
Dividends	0	0	0	-2,838	-2,838	0	-2,838
Total transactions with owners	**176**	**797**	**-205**	**-2,406**	**-1,638**	**0**	**-1,638**
Balance at 31 December 2021	**11,352**	**1,601**	**18,716**	**55,315**	**86,984**	**-138**	**86,846**

Information about share capital and reserves is presented in Note 16.
The notes on pages 81 to 124 are an integral part of the consolidated financial statements.

Notes to consolidated financial statements

1 General information

AS Harju Elekter is listed on the Tallinn Stock Exchange since 30 September 1997. The annual financial statements prepared as at 31 December 2021 cover AS Harju Elekter (hereinafter the "Parent company") and its subsidiaries (together referred to as the "Group" or Harju Elekter, Note 23).

Mandatory elements of the basic taxonomy of the ESEF

Name of reporting entity or other means of identification	AS Harju Elekter
Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period	There were no changes
Domicile of entity	Paldiski mnt 31, Keila, Estonia
Legal form of entity	Public limited company
Country of incorporation	Estonia
Address of entity's registered office	Paldiski mnt 31, Keila, Estonia
Principal place of business	Estonia, Finland, Sweden, Lithuania
Description of nature of entity's operations and principal activities	**Production** – designing, selling, manufacturing, and after-sales servicing of power distribution, switching and converting devices and automation, process control and industrial control equipment.
	Industrial real estate – developing of industrial real estate, project management, renting and the accompanying services to rental partners and to the Harju Elekter Group companies.
	Other operations – financial investment management, retail and project-based sale of electrical products, and electrical installation works in shipbuilding.
Name of parent entity	AS Harju Elekter
Name of ultimate parent of group	AS Harju Elekter

On 23 March 2022, the Management Board signed the consolidated financial statements for the financial year ended at 31 December 2021. 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.

A description of the bases for preparing the accounts, significant accounting principles, accounting estimates and decisions, and the management of financial risks have been provided in the notes in accordance with – Note 25, Note 26 ja Note 27.

2 Cash and cash equivalents

EUR ´000	Note	31.12.2021	31.12.2020
Cash on hand		0	0
Current accounts in banks		574	2,843
Total cash and cash equivalents	27	**574**	**2,843**

3 Trade and other receivables

EUR ´000	Note	31.12.2021	31.12.2020
Trade receivables			
Accounts receivable		22,496	19,937
Loss allowance for trade receivables		-414	-435
Total trade receivables		**22,082**	**19,502**
Contract assets			
Contract assets		11,032	7,357
Loss allowance		-19	-5
Total contract assets		**11,013**	**7,352**
Other receivables			
Other current receivables		33	26
Other accrued income		561	346
Total other receivables		**594**	**372**
Total trade and other receivables	27	**33,689**	**27,226**

As at 31 December 2021, the Group assessed the need for recognition of impairment losses under IFRS 9 (Note 27 Credit risk).

Changes in allowances for receivables

EUR ´000	Trade receivables		Contractual assets	
	2021	2020	2021	2020
Opening balance at 1 January	**-435**	**-332**	**-5**	**-6**
Doubtful receivables written off	-10	-147	-14	0
Collection of doubtful invoices and receivables	31	0	0	1
Doubtful invoices deemed irrecoverable	0	44	0	0
Closing balance at 31 December	**-414**	**-435**	**-19**	**-5**

4 Prepayments

EUR ´000	Note	31.12.2021	31.12.2020
Prepaid taxes	14	1,275	454
Prepaid expenses		569	366
Total prepayments		**1,844**	**820**

5 Inventories

EUR ´000	31.12.2021	31.12.2020
Raw and other materials	18,599	13,298
Work in progress	5,143	3,426
Finished goods	3,200	2,058
Goods purchased for sale	142	30
Prepayments	353	44
Total	**27,437**	**18,856**
Impairment losses of inventories during the reporting period	77	52

6 Financial investments

EUR ´000	31.12.2021	31.12.2020
Listed securities (at fair value through other comprehensive income)	2,898	2,822
Other equity investments (at fair value through other comprehensive income)	22,315	9,089
Other financial assets through profit or loss	9	7
Total	**25,222**	**11,918**

Movements from 1 January to 31 December	Note	2021	2020
1. Financial assets at fair value through other comprehensive income			
Carrying amount at the beginning of the period		11,911	10,486
Acquisitions		1,749	104
Sale of financial assets		-716	-1,601
Change in fair value through other comprehensive income	16	12,269	2,922
Carrying amount at the end of the period		**25,213**	**11,911**
2. Financial assets at fair value through profit or loss			
Carrying amount at the beginning of the period		7	8
Change in fair value through profit or loss		2	-1
Carrying amount at the end of the period		**9**	**7**
Total carrying amount at the end of the period		**25,222**	**11,918**

A total of 981 thousand euros was received from the partial sale of the listed securities in the reporting year. Realized gain on sale of financial assets in the amount of 265 thousand euros was recognized through other comprehensive income. In 2020, 1,681 thousand euros were received from the sale of securities listed on the stock exchange, of which the realized profit was 80 thousand euros. The fair value of securities increased by 545 thousand euros in 2021, decreased by 519 thousand euros in 2020.

As of 31 December 2021, other equity investments include an investment in the shares of OÜ Skeleton Technologies Group in the amount of 21.8 (31 December 2020: 8.8) million euros, in the shares of SIA Energokomplekss in the amount of 0.2 (31 December 2020: 0.3) million euros and in the shares of IGL-Technologies Oy in the amount of 0.25 million euros.

Harju Elekter Oy, a subsidiary of AS Harju Elekter, signed on 28 June 2021 a contract for the acquisition of a 5.5% holding in the technology company IGL-Technologies Oy, engaged in the development of parking, and charging systems for electric vehicle charging stations. The transaction price was 0.25 million euros.

AS Harju Elekter acquired an 10% stake in OÜ Skeleton Technologies Group on 3 June 2015. The company is engaged in the development and production of supercapacitors and is gradually increasing production. The assessment of future cash flows of the OÜ Skeleton Technologies Group includes significant uncertainty. The Group's management assessed the fair value of the holding in the company based on the issue price of the new shares used in the financing rounds, the economic indicators disclosed by OÜ Skeleton Technologies Group, the associated investment risk, and weighted the marketability of instrument. The measurement of fair value is a complex process in the absence of an active market and when this is the case, this kind of measurement involves making assumptions and decisions.
During the additional financing round in the reporting year, AS Harju Elekter invested 1.2 million euros in the company.
The registered holding of AS Harju Elekter has decreased after the investment rounds carried out during the reporting year and after the conversion of KIC InnoEnergy S.E. to the list of shareholders of OÜ Skeleton Technologies Group in October on previously agreed terms. After the latest investment round in the fourth quarter of 2021 the registered holding of AS Harju Elekter in OÜ Skeleton Technologies Group is 6.14% (2020: 7.22%). The fair value of the financial investment during the reporting year increased due to the invested amount of 1.2 million and due to the change in the fair value in the amount of 11.8 million to 21.8 million euros. See Note 27 Financial risk management.

7 Investment properties

EUR '000	Land	Buildings	Construction in progress	Total
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 (Note 17, 21)	0	3,045	58	**3,103**
Depreciation charge	0	-851	0	**-851**
Reclassification from property, plant and equipment (Note 8)	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**
Additions (Note 17, 21)	0	0	1,321	**1,321**
Depreciation charge	0	-970	0	**-970**
Reclassification from property, plant and equipment (Note 8)	0	-53	0	**-53**
Reclassification	0	279	-279	**0**
Total movements in 2021	**0**	**-744**	**1,042**	**298**
As at 31 December 2021				
Cost	4,854	26,525	1,081	**32,460**
Accumulated depreciation	0	-8,557	0	**-8,557**
Carrying amount	**4,854**	**17,968**	**1,081**	**23,903**

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

During the reporting year, the construction of the new Laohotell III in Allika Industrial Park started. A solar power plant with a capacity of up to 100 kW will be installed on the roof of the energy-efficient building to produce electricity locally. The building, which will be completed in spring 2022, will have a total surface area of 2,573 m^2 and a total construction cost of 2.1 million euros.

According to the management's estimate, the fair value of investment property at 31 December 2021 is 35.7 (31 December 2020: 27.4) 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 27), according to the fair value measurement method.

In 2021, the direct maintenance and repair costs of the investment properties amounted to 599 (2020: 417) thousand euros. Information on lease income is provided in Note 9.

As at 31 December 2021, the Group had no commitments to acquire investment properties in subsequent periods.

8 Property, plant and equipment

EUR ´000	Non-current assets					Right-of-use assets		Total
	Land	Buildings and structures	Machinery and equipment	Other fixtures, fittings and tools	Construction in progress and prepayments	Office and production premises	Machinery and equipment	
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
Residual value	**1,048**	**11,759**	**1,975**	**748**	**142**	**1,849**	**2,881**	**20,402**
Additions (Note 21)	116	42	926	152	3,406	0	0	4,642
Addition of right-of-use assets (Note 17)	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 7)	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**
Additions	105	28	830	480	4,085	0	213	5,741
Addition of right-of-use assets (Note 17)	0	0	0	0	0	880	0	880
Disposals at book value	0	0	-17	0	0	0	0	-17
Depreciation charge	0	-800	-714	-278	0	-705	-217	-2,714
Reclassification	138	5,774	279	78	-6,269	0	0	0
Reclassification from inventories	0	0	0	233	0	0	0	233
Reclassification as investment property (Note 7)	0	53	0	0	0	0	0	53
Change in exchange rates	0	0	-3	-12	0	-1	0	-16
Total movements in 2021	**243**	**5,055**	**375**	**501**	**-2,184**	**174**	**-4**	**4,160**
As at 31 December 2021								
Acquisition cost	1,399	22,761	8,070	2,606	1,293	3,478	3,123	42,730
Accumulated depreciation	0	-6,785	-5,238	-1,359	0	-2,042	-652	-16,076
Carrying amount	**1,399**	**15,976**	**2,832**	**1,247**	**1,293**	**1,436**	**2,471**	**26,654**

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 the acquisition of the asset in 2021, the right-to-use asset was reclassified as non-current asset. Depreciation expenses related to leases are within operating expenses (Note 9).

At the end of the first half of the year, the construction of the fourth stage of the extension of the production and office building of the Lithuanian subsidiary Harju Elekter UAB in Panevėžys was completed, resulting in an increase in office and production space from 8,765 m^2 to 16,761 m^2. The total cost of the investment was 5.5 million euros, of which 2.5 million euros is reflected in this year's investments. In addition, construction of the Laohotell III production and warehouse complex in Allika Industrial Park was started, and investments were made in production technology assets and solar power plants. At the end of 2021, the installed capacity of the Group's solar power plants was 1,737 kW. During the year, the portfolio of solar power plants of Harju Elekter increased by 518 kW, bringing the total renewable energy generation capacity to 2,255 kW.

The acquisition cost of property, plant and equipment written off and sold during the reporting period totalled 796 (2020: 255) thousand euros, including machinery and equipment 592 (2020: 174) thousand euro, other non-current assets 77 (2020: 81) thousand euros and renovation of buildings 128 (2020: 0) thousand euros.

As at 31 December 2021, the acquisition cost of fully depreciated property, plant and equipment still in use was 4,061 (31.12.2020: 4,152) thousand euros. As at 31 December 2021, the Group had no commitments to acquire property, plant and equipment in subsequent periods.

9 Leases

The Group as the lessor

EUR '000	Note	2021	2020
Lease income			
- on investment properties		3,129	2,864
- other		2	2
Total lease income	18	**3,131**	**2,866**

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. Information on direct maintenance and repair costs of the investment properties is provided in Note 7.

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	2021	2020
Lease income		
< 1 year	3,246	2,983
1-5 years	7,828	8,947
> 5 years	434	1,495
Total lease income	**11,508**	**13,425**

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

EUR '000	2021	2020
Lease income from non-cancelleable contracts		
< 1 year	2,189	1,867
1-5 years	939	0
Total lease income	**3,128**	**1,867**

The Group as the lessee

Lease liability

EUR ´000	Note	Total
Carrying amount at 31 December 2019		**3,965**
2020		
New lease liabilities	11	149
Lease payments	11	-1,175
Carrying amount at 31 December 2020		**2,939**
2021		
New lease liabilities	11	2,031
Lease payments	11	-1,476
Currency translation differences		22
Carrying amount at 31 December 2021		**3,516**

Expenses related to lease contracts

EUR ´000	Note	2021	2020
Interest expense (included within finance expenses)		41	45
Depreciation charge (included within operating expenses)	8	922	934
The cost of current and low value lease agreements included within operating expenses		284	382
Total		**1,247**	**1,361**

In 2021, the cash outflow for the lease of cars, machinery and equipment and premises was 1,760 (2020: 1,553) thousand euros.

10 Intangible assets

Movements in intangible assets

EUR ´000	Goodwill	Development costs	Licences	Customer contracts	Total
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 (Note 21)	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**
Additions (Note 21)	0	185	495	0	680
Amortization charge	0	-94	-131	-109	-334
Currency translation differences	-1	0	0	0	-1
Reclassification	0	87	-87	0	0
Total movements in 2021	**-1**	**178**	**277**	**-109**	**345**
As at 31 December 2021					
Cost	6,199	871	2,289	1,230	10,589
Accumulated amortization	0	-246	-1,569	-1,230	-3,045
Carrying amount	**6,199**	**625**	**720**	**0**	**7,544**

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. In the reporting year, 0.5 million euros were invested in software. Customer contracts include customer contracts recognized as intangible assets after acquisition of the subsidiary Telesilta Oy in 2017 and open orders from customers which are fully depreciated at the end of the reporting year.

As at 31 December 2021, the acquisition cost of fully amortized intangible assets still in use was 1,022 (31 December 2020: 1,121) thousand euros.

Testing the recoverable amount of goodwill

Positive goodwill arose through the acquisition of holdings in subsidiaries. Goodwill in the amount of 6,199 thousand euros arose as follows:

- In 2014 when a 100% holding in production company Finnkumu Oy was acquired; the company was merged with Harju Elekter 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. The following inputs were used in estimating goodwill arising on the acquisition of subsidiaries:

- The forecast period is 2022-2025 plus a terminal year;
- The range of discount rates of 7-14% were used to calculate discounted cash flows;
- Terminal growth rate of 2% was used;
- Average predicted annual growth in revenue is in the range 10-25% per annum.

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.

11 Borrowings

Balances and changes in borrowings

EUR ´000	Note	31.12.2021	31.12.2020
Current borrowings			
Current bank loans		14,152	7,738
Repayment of non-current bank loans in the next period		1,485	3,191
Other current loans		14	27
Current lease liabilities	9	1,261	1,100
Total current borrowings		**16,912**	**12,056**
Non-current borrowings			
Non-current bank loans		9,171	4,461
Other non-current loans		0	732
Non-current lease liabilities	9	2,255	1,839
Total non-current borrowings		**11,426**	**7,032**
Total borrowings		**28,338**	**19,088**

Changes in borrowings	Note	2021	2020
Opening balance		**19,088**	**19,206**
Change in current borrowings		6,414	-1,131
Non-current loans		8,063	3,070
Repayments of non-current loans		-5,804	-1,112
Other loans		-746	81
New lease liabilities	9	2,031	149
Repayment of non-current lease liabilities	9	-1,476	-1,175
Impact of exchange rate changes		22	0
Closing balance		**28,338**	**19,088**

Additional information on interest rate risk is disclosed in Note 27.

Terms of current bank loans

As at 31 December (EUR´000)

Base currency	Loan balance		Loan limit		Interest rate	
	2021	2020	2021	2020	2021	2020
SEK	2,420	1,844	2,439	2,000	3.10%	3.10%
EUR	2,483	-	3,500	1,000	3-month euribor+0.75%	3-month euribor+0.75%
EUR	1,386	2,930	2,500	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	3,830	755	5,000	4,000	3-month euribor+1.00%	3-month euribor+1.00%
EUR	914	-	2,000	-	3-month euribor+1.05%	-
EUR	3,119	2,209	3,500	2,500	6-month euribor+1.40%	6-month euribor+1.40%
Total	**14,152**	**7,738**	**15,500**	**15,500**		

Information on assets pledged as collateral for bank loans is provided in Note 12.

Terms of non-current bank loans

As at 31 December (EUR´000)

Base currency	Loan balance		Loan limit		Interest rate	Repayment
	2021	2020	2021	2020	2021	
EUR	28	82	300	300	2.00%	30.09.2022
EUR	-	2,167	-	3,505	3-month euribor+0.95%	24.10.2021
EUR	2,039	2,333	2,800	2,800	6-month euribor+1.35%	30.11.2023
EUR	4,404	-	6,051	-	6-month euribor+1.35%	11.08.2026
EUR	295	-	300	-	12-month euribor+1.50%	05.11.2026
EUR	-	2,030	-	2,030	6-month euribor+1.90%	13.03.2025
EUR	3,500	786	4,200	4,200	12-month euribor+1.75%	28.04.2025
EUR	390	-	1,000	-	3-month euribor+1.05%	
EUR	-	254	-	500	3-month euribor+1.20%	
Total	**10,656**	**7,652**	**14,651**	**13,335**		

Information on assets pledged as collateral for bank loans is provided in Note 12.

12 Loan collateral and pledged assets

The carrying amounts of pledged assets:

EUR ´000	31.12.2021	31.12.2020
Commercial pledge for movable property	814	500
Investment properties	13,060	13,494
Land and buildings	9,180	5,934

The Group has entered into current loan and investment loan agreements with Swedbank AS. The loans are secured by a commercial pledge in favour of Swedbank AS on movable property of the parent company and mortgages on real estate investments, amounting to 12.24 million euros. Using the pledged assets as collateral, the Group can use current loans of up to 2.0 million euros. As at the reporting date, a non-current loan of 4.4 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 8.0 million euros. The pledged assets partially secure a non-current loan of up to 7.0 million euros. As at the reporting date, the amount of the outstanding non-current loan was of 5.5 million euros.

In order to cover the current loan, the Group has set up a mortgage on the Finnish building in favour of Nordea Bank in the amount of 435 thousand euros. Secured by the pledged assets, the Group has the option to use a current loan of up to 1.0 million euros. There was no loan outstanding at the reporting date.

The Group entered into a loan agreement for 300 thousand euros for the acquisition of Finnish real estate. The loans are secured by a mortgage in favour of OP Yrityspankki Oy on a building for 0.5 million euros. The balance of the non-current loan as at the reporting date was 295 thousand euros.

13 Trade and other payables

EUR '000	Note	31.12.2021	31.12.2020
Trade payables			
Payable for goods and services		19,918	11,781
Payable for property, plant and equipment	21	0	77
Payable for investment property	21	278	14
Payable for intangible assets	21	0	18
Total trade payables	27	**20,196**	**11,890**
Other current liabilities		,	,
Payables to employees		3,645	3,602
Payable interest	27	9	6
Other accrued expenses	27	204	94
Other liabilities	27	436	245
Total other current liabilities		**4,294**	**3,947**
Other non-current liabilities	27	33	66
Total other non-current liabilities		**33**	**66**
Total trade and other payables		**24,523**	**15,903**

14 Taxes

EUR '000	Note	31.12.2021	31.12.2020
Value added tax		1,095	314
Corporate income tax	21	176	133
Social security tax		3	3
Other taxes		1	4
Total prepayment	4	**1,275**	**454**
Value added tax		1,676	1,421
Corporate income tax	21	63	109
Personal income tax		531	486
Social security tax		694	633
Other taxes		192	222
Total taxes payable		**3,156**	**2,871**

15 Contingent liabilities

Income tax

EUR '000	31.12.2021	31.12.2020
Retained earnings	55,315	54,858
Maximum possible dividend distributable to owners	44,195	43,997
Potential income tax expense on dividend distribution	**11,120**	**10,861**

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 2021.

The contingent income tax liability is calculated based on the maximum tax rate of 20/80. 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 2021, the Group is able to use the reduced 14% tax rate on 158 (2020: 477) thousand euros.

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.

16 Share capital and reserves

Share capital and share premium

	Unit	31.12.2021	31.12.2020
Share capital	EUR ´000	11,352	11,176
Number of shares (fully paid)	Pcs ´000	18,019	17,740
Share premium	EUR ´000	1,601	804

On 19 July 2021, the Supervisory Board of AS Harju Elekter decided to increase the share capital of the company by 175,565.25 euros by issuing new ordinary shares without nominal values in connection with the exercise of the employee stock option plan. The subscription term was 16 July 2021, and the issue price was 3.49 euros per share. A total of 278,675 ordinary shares were subscribed for at a book value of 0.63 euros per share. The total proceeds from the share issue amounted to 973 thousand euros of which the share premium was 797 thousand euros. Following the share capital increase, the share capital of AS Harju Elekter amounts to 11,352 thousand euros divided into 18.1 million ordinary shares without a nominal value. The shares issued will give entitlement to dividends from 2021. The maximum allowed share capital under the Articles of Association is 20.0 million euros and the minimum 5.0 million euros.

Dividends per share

In 2021, according to the profit allocation decision, dividends of 0.16 euros per share were paid for the year 2020 in the total amount of 2.8 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. 18 May 2021 and dividends were transferred to shareholder bank accounts on 25 May 2021. In the comparable period, dividends of 0.14 euros per share in the total amount of 2.5 million euros were paid for 2019.

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

		Number of shares	Direct share-holding	Indirect share-holding
Palla, Endel	Chairman of the Supervisory Board	1,256,500	6.97%	4.00%
Kirsme, Aare	Member of the Supervisory Board	235,750	1.31%	0.21%
Toome, Andres	Member of the Supervisory Board	37,500	0.21%	0.33%
Tombak, Triinu	Member of the Supervisory Board	15,000	0.08%	0.00%
Hamburg, Arvi	Member of the Supervisory Board	7,500	0.04%	0.00%
Atso, Tiit	Chairman of the Management Board	7,500	0.04%	0.00%
Kuhi-Thalfeldt, Aron	Member of the Management Board	18,029	0.10%	0.00%
Total		**1,577,779**	**8.76%**	**4.54%**

The number of shares owned by the shareholders and the percentage of holdings was fixed at the end of the working day on 31 December 2021. 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.

Shareholders holding over 5% of votes attached to shares

%	31.12.2021	31.12.2020
AS Harju KEK	30.90	31.39
ING Luxembourg S.A.	10.54	10.71
Endel Palla	6.97	7.04
Shareholders holding under 5%	51.59	50.86
Total	**100.00**	**100.00**

Reserves

EUR ´000	Note	Mandatory reserve	Share option	Revaluation reserve	Currency translation differences	Total reserves
Balance at 31 December 2019		**1,242**	**286**	**2,102**	**-218**	**3,412**
Gain on revaluation of financial assets (+)	6	0	0	2,922	0	2,922
Share-based payments	18, 22	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**
Gain on revaluation of financial assets (+)	6	0	0	12,269	0	12,269
Share-based payments	18, 22	0	227	0	0	227
Exercise of stock options		0	-432	0	0	-432
Currency translation differences		0	0	0	-57	-57
Balance at 31 December 2021		**1,242**	**344**	**17,293**	**-163**	**18,716**

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 OÜ Skeleton Technologies Group, 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 (Note 25). The gain arising on currency translation differences due to the recognition of the financial results of the Swedish subsidiaries was 57 thousand euros (2020: gain in amount of 112 thousand euros).

17 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 - 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, Harju Elekter 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 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, intersegment transactions take place under normal market conditions and do not differ significantly from the terms of the transactions with third parties.

Unallocated assets are other receivables, prepayments, and other financial investments while unallocated liabilities are its borrowings, taxes payable and accrued expenses.

EUR ´000	Note	Production	Real estate	Other activities	Elimination	Consolidated
2020						
Revenue from external customers	18	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	26,684	22,056	-15,664	103,441
Unallocated assets						12,034
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	7, 8, 10	4,477	3,103	478	0	8,058
Right-of-use assets	8	150	0	0	0	150
Depreciation and amortization	7, 8, 10	2,070	851	894	-21	3,794

EUR ´000	Note	Production	Property	Other activities	Elimination	Consolidated
2021						
Revenue from external customers	18	133,507	3,801	15,449	0	152,757
Revenue from other segments		583	1,759	185	-2,527	
Total segment revenue		**134,090**	**5,560**	**15,634**	**-2,527**	**152,757**
Operating profit		**1,296**	**2,022**	**-461**	**345**	**3,202**
Assets of the segment		88,534	26,384	28,317	-20,703	122,532
Unallocated assets						25,025
incl. financial investments						*24,953*
incl. other receivables and prepayments						*72*
Total assets						**147,557**
Liabilities of the segment		60,581	452	8,403	-20,703	48,733
Unallocated liabilities						11,978
incl. borrowings						*11,664*
incl. accrued expenses						*188*
incl. other						*126*
Total liabilities						**60,711**
Investments to non-current assets	7, 8, 10	5,787	1,321	634	0	7,742
Right-of-use assets	8	105	0	775	0	880
Depreciation and amortization	7, 8, 10	2,222	970	849	-23	4,018

18 Information on the profit or loss line items

Revenue by business activities

EUR´000	Note	2021	*At a point in time 2021*	*Over time 2021*	2020	*At a point in time 2020*	*Over time 2020*
Electrical equipment		126,656	*89,222*	*37,435*	125,184	*82,040*	*43,144*
Retail and project-based sale of electrical products		10,658	*10,658*	*0*	9,624	*9,624*	*0*
Other products		3,946	*3,946*	*0*	2,899	*2,899*	*0*
Electrical works		6,047	*495*	*5,552*	4,186	*0*	*4,186*
Other services		2,319	*0*	*2,319*	1,855	*0*	*1,855*
Lease income	9	3,131	*0*	*0*	2,866	*0*	*0*
Total	17	**152,757**	***104,321***	***45,306***	**146,614**	***94,563***	***49,185***

Revenue by geographical regions (location of customer)

EUR´000	Note	2021	2020
Estonia		25,993	23,490
Finland		70,918	68,739
Sweden		27,611	26,532
Norway		13,195	16,701
Germany		7,482	1,747
Netherlands		4,975	5,740
Other countries		2,583	3,665
Total revenue	17, 18	**152,757**	**146,614**

Operating expenses

EUR´000	Note	2021	2020
Cost of sales			
Goods and materials		-100,875	-91,485
Services purchased		-10,589	-11,317
Personnel expenses	18	-20,756	-17,604
Depreciation and amortization		-3,263	-2,848
Other expenses		-2,677	-1,985
Increase in inventories of work in progress and finished goods		3,283	-166
Total		**-134,877**	**-125,405**
Distribution costs			
Services purchased		-1,154	-1,371
Personnel expenses	18	-3,512	-3,635
Depreciation and amortization		-233	-269
Other expenses		-360	-572
Total		**-5,259**	**-5,847**
Administrative expenses			
Services purchased		-2,514	-2,083
Personnel expenses	18	-6,382	-6,101
Depreciation and amortization		-522	-677
Other expenses		-285	-398
Total		**-9,703**	**-9,259**
- including development costs		*-1,982*	*-1,773*

Personnel expenses

EUR´000	Note	2021	2020
Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:			
Salaries		-23,863	-21,327
Social security and other payroll taxes		-5,918	-5,046
Share-based payments	16, 22	-227	-263
Capitalized personnel expenses		4	0
Change in accrued personnel expenses		-646	-704
Total		**-30,650**	**-27,340**
Incl average number of employees:			
A person employed under the employment contract		810	765
A person providing service under the law of obligations, except for a self-employed person		6	6
A member of a management or controlling body of a legal person		9	9
Total		**825**	**780**

Fees paid to audit companies

According to the resolution of the general meeting of shareholders of 29 April 2021, AS Harju Elekter and its subsidiaries are audited by AS PricewaterhouseCoopers from 2021-2023, except for Energo Veritas OÜ, which is audited by Baker Tilly Baltics OÜ and Harju Elekter Services AB, which is audited by Allians Revision & Redovisning AB.

EUR´000	2021	2020
Audit fees	119	115
Fees for review service	6	31
Fees for other assurance services	2	3
Fees for related services	1	0
Fees for other business activities, including fees for tax advisory services	1	2
Total	**129**	**151**

This year, several new auditor's verification obligations for listed companies have been added, which derive from the following regulations:

- Based on section 135[3] of the Securities Market Act, issuers of shares are required to disclose the remuneration of the management of the listed company in a remuneration report.
- The European Single Electronic Format (ESEF) was introduced by Commission Delegated Regulation (EU) 2018/815. Issuers are required to prepare annual reports in XHTML format and to mark-up IFRS consolidated financial statements in the iXBRL mark-up language and taxonomy.
- Based on section 95 of the Auditors Activities Act, the requirements for the audit of the management report were supplemented.

The fees for the additional audit will be recognised as expenses of 2022.

19 Income tax and deferred tax

Income tax expenses

EUR´000	2021	2020
Current income tax expense	545	785
Deferred income tax income (-)/ expense	-177	-9
Income tax expense in the statement of profit and loss	**368**	**776**

Income tax expense calculated on the Group's profit differs from actual income tax expense for the reasons explained in the following table. In 2021, the average effective tax rate was 12.4% (2020: 12.3%).

EUR´000	2021	2020
Total calculated income tax (Finland 20%, Lithuania 15%, Sweden 22%)	426	1,041
Adjustments for calculated income tax	-17	-316
Income tax on dividends (Note 21)	18	14
Total	**427**	**739**
Change in deferred tax assets recognized off balance sheet	-59	37
Total income tax expense (Note 21)	**368**	**776**

Deferred income tax assets

EUR´000	31.12.2021	31.12.2020
Deferred income tax assets	690	514

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.

20 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 2021, the Group had 763,968 (31 December 2020: 952,393) potential shares (Note 22). 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. From the 2018 round, 278,675 shares were converted in the reporting quarter.

The resolution of the general meeting of shareholders held on 29 April 2021 approved the new 2021–2022 share option programme, under which the members of the Management Boards and key personnel of AS Harju Elekter and its subsidiaries are entitled to receive share options. The issue price of the shares to be acquired on the basis of the option is the average of the closing prices of the shares for the calendar years of 2018, 2019, and 2020 on the Nasdaq Tallinn Stock Exchange as of 31 December, i.e., 4.50 euros per share.

As to share-based compensation to which IFRS 2 requirements apply, the subscription price of shares will continue to include the cost of the services provided by employees for the share-based compensation. The value of the service was estimated by an independent expert at 1.55 euros per share in the 2018 round, 0.73 euros in the 2019 round, 0.55 euros in the 2020 round and 3.55 euros in the 2021. Thus, the share subscription prices within the meaning of IFRS 2 are 5.04 euros, 4.71 euros, 4.99 euros and 8.05 euros. The potential shares will only become dilutive after their average market price for the period exceeds these values. During the period from 1 January to 31 December 2021, the average market price of the shares was 7.73 euros. In the period 1 July to 31 December 2021 the average market price of the current year shares was 8.00 euros.

	Unit	2021	2020
Profit attributable to owners of the parent company	EUR ´000	2,598	5,563
Average number of shares in the period	Pcs ´000	17,855	17,740
Basic earnings per share	EUR	0.15	0.31
Adjusted average number of shares in the period	Pcs ´000	17,963	17,740
Diluted earnings per share	EUR	0.14	0.31

21 Information on line items in the statement of cash flows

EUR´000	Note	2021	2020
Corporate income tax			
Income tax expense in the statement of profit or loss	19	-368	-776
Decrease (+)/increase (-) in prepayment and decrease (-)/increase	14	-89	-113
(+) in liability	19	18	14
Income tax expense on dividends		-176	-42
Deferred income tax expense/income		-1	1
Currency translation differences		**-616**	**-916**
Corporate income tax paid			
Paid for investment properties			
Acquisitions of investment properties	7	-1,321	-3,103
Decrease (-)/ increase (+) of liability related to acquisition	13	264	7
Paid for investment properties		**-1,057**	**-3,096**
Paid for property, plant and equipment			
Additions of property, plant and equipment		-4,970	-4,642
Decrease (-)/ increase (+) of liability related to additions of property, plant and equipment	13	-77	74
Other proceeds from investing activities		190	0
Currency translation differences		0	2
Paid for property, plant and equipment		**-4,857**	**-4,566**
Paid for intangible assets			
Additions of intangible assets	10	-680	-313
Decrease (-)/ increase (+) of liability related to additions of intangible assets	13	-18	13
Paid for intangible assets		**-698**	**-300**
Proceeds from sale of property, plant and equipment			
Book values of disposed property, plant and equipment		17	12
Profit on disposal of property, plant and equipment		25	21
Proceeds from sale of property, plant and equipment		**42**	**33**

22 Related parties

The related parties of AS Harju Elekter are Members of the Management Board and the Supervisory Board of the Group, their close associates, and companies significantly influenced or controlled by the aforementioned persons. Also AS Harju KEK which owns 30.90% of the shares of AS Harju Elekter. The Group's management comprises members of the Parent company's Supervisory and Management Boards.

Transactions with related parties

EUR´000	31.12.2021	31.12.2020
Balances with related parties:		
- Payables for goods and services	93	47
- Payables to Management and Supervisory Boards	15	17

	2021	2020
Purchase of goods and services from related parties:		
– Lease of property plant and equipment from AS Harju KEK	118	101
– Purchase of other services from AS Entek	599	506
Sale of goods and services to related parties:		
– Sale of other services to AS Harju KEK and AS Entek	3	4
– Sale of goods to AS Entek	3	10
Remuneration of the members of the Supervisory and Management Boards:		
– salary, bonuses, benefits (incl. severance pay) and other remuneration	413	498
– social security tax	133	160

The members of the Management Board receive remuneration in accordance with the contract and are also entitled to receive a severance payment: up to 8 months of the remuneration of the Member of the Management Board. The chairman of the Supervisory Board has the right to receive severance pay in the amount of 6 months' salary of the development director. Members of the Management Board have no rights related to pension. During the year 2021, no other transactions were made with members of the Group's directing bodies and the persons connected with them. More detailed information on the remuneration and benefits paid to the Members of the Management Board of AS Harju Elekter can be found in the Remuneration Report.

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. 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.

During the financial year, options granted in June 2018 were exercised. The subscription period for the shares was 16 July 2021. A total of 96 current and former employees of Harju Elekter participated in the share issue related to the exercise of the stock option programme, subscribing for a total of 278,675 shares for 972,575.75 euros.

The resolution of the general meeting of shareholders held on 29 April 2021 approved the new 2021–2022 share option programme, under which the members of the Management Boards and key personnel of AS Harju Elekter and its subsidiaries are entitled to receive share options. The issue price of the shares to be acquired on the basis of the option is the average of the closing prices of the shares for the calendar years of 2018, 2019, and 2020 on the Nasdaq Tallinn Stock Exchange as of 31 December, i.e., 4.50 euros per share. The term of the option programme is two years, plus the term for exercising the options. The exercise period is 36 and 48 months after the written option contract is signed. Thereby, the Supervisory Board of AS Harju Elekter has the right to issue options with different terms, if necessary.

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 (labour input) to be received from the employees at the time of entering into the contracts. The value of the service was estimated by an independent expert at 1.55 euros per share in the 2018 round, 0.73 euros in the 2019 round, 0.55 euros in the 2020 round and 3.55 euros in the 2021. In 2021, the amount of share-based payments recognized as personnel expenses was 227 (2020: 263) thousand euros (Note 16 and 18).

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, 4.44 and 4.5 euros), the expected volatility of the share (30%, 28%, 30% and 32%), risk-free interest rate (1.75%, 1.50%, 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).

	Market price	Fair value of the service	Subscription price in accordance with IFRS 2	Year of expiry	Number of contracts	Number of shares potentially issued
As at 31 December 2017					**0**	**0**
Quantity issued during the period (2018)	3.49	1.55	5.04	2021	124	351,925
Quantity canceled during the period (2018)					-8	-33,750
As at 31 December 2018					**116**	**318,175**
Quantity issued during the period (2019)	3.98	0.73	4.71	2022	94	339,100
Quantity canceled during the period (2018)					-6	-13,000
Quantity canceled during the period (2019)					-2	-8,000
As at 31 December 2019					**202**	**636,275**
Quantity issued during the period (2020)	4.44	0.55	4.99	2023	66	347,468
Quantity canceled during the period (2018)					-5	-12,000
Quantity canceled during the period (2019)					-3	-12,000
Quantity canceled during the period (2020)					-2	-7,350
As at 31 December 2020					**258**	**952,393**
Quantity issued during the period (2021)	4.50	3.55	8.05	2025	20	135,750
Quantity canceled during the period (2018)					-9	-14,500
Quantity canceled during the period (2019)					-8	-16,900
Quantity canceled during the period (2020)					-5	-14,100
Quantity realised during the period (2018)					-96	-278,675
As at 31 December 2021					**160**	**763,968**

Information on Basic and diluted earnings per share is provided in Note 20.

23 Subsidiaries

Name of the Subsidiaries	Ownership and voting rights %		Location	Core business	Segments	Equity (EUR´000)	
	31.12.2021	31.12.2020				31.12.2021	31.12.2020
AS Harju Elekter Teletehnika	100%	100%	Estonia	Production	Production	503	1,039
AS Harju Elekter Elektrotehnika	100%	100%	Estonia	Production	Production	6,678	6,071
Energo Veritas OÜ	80.52%	80.52%	Estonia	Retail and wholesale	Other activities	79	15
Harju Elekter Oy	100%	100%	Finland	Production	Production	8,677	9,710
Harju Elekter Kiinteistöt Oy	100%	100%	Finland	Management of industrial real estate	Production	3,042	2,963
Telesilta Oy	100%	100%	Finland	Electrical engineering works	Other activities	611	256
Harju Elekter UAB	100%	100%	Lithuania	Production	Production	3,889	5,040
Harju Elekter AB	100%	100%	Sweden	Production	Production	2,823	875
Harju Elekter Services AB	100%	100%	Sweden	Intermediary sales	Production	86	321

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. As of 14 January 2021, the Finnish subsidiary Satmatic Oy is named Harju Elekter Oy.

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

EUR´000	31.12.2021	31.12.2020
Estonia	36,499	34,482
Finland	7,953	7,894
Sweden	2,000	1,942
Lithuania	11,649	8,980
Total	**58,101**	**53,298**

24 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.

Statement of financial position

EUR´000	31.12.2021	31.12.2020
Cash and cash equivalents	126	1,889
Trade receivables	556	415
Receivables from Group companies	13,484	8,634
Other current receivables and prepayments	74	123
Total current assets	**14,240**	**11,061**
Investments in subsidiaries	15,224	14,324
Non-current receivables from subsidiaries	7,083	5,641
Other non-current financial investments	24,953	11,911
Investment properties	27,826	27,794
Property, plant and equipment	1,839	1,387
Intangible assets	172	184
Total non-current assets	**77,097**	**61,241**
TOTAL ASSETS	**91,337**	**72,302**
Borrowings	7,863	5,684
Trade payables	443	219
Payables to Group companies	30	225
Tax liabilities	126	126
Other liabilities and prepayments from customers	382	430
Total current liabilities	**8,844**	**6,684**
Borrowings	3,768	1,705
Other non-current liabilities	33	66
Total non-current liabilities	**3,801**	**1,771**
Total liabilities	**12,645**	**8,455**
Share capital	11,352	11,176
Share premium	1,601	804
Reserves	18,535	6,267
Retained earnings	47,204	45,600
Total equity	**78,692**	**63,847**
TOTAL LIABILITIES AND EQUITY	**91,337**	**72,302**

Statement of comprehensive income

EUR´000	2021	2020
Revenue	5,560	5,035
Cost of sales	-2,875	-2,484
Gross profit	**2,685**	**2,551**
Other income	85	73
Administrative expenses	-1,716	-1,841
Other expenses	-19	-20
Operating profit	**1,035**	**763**
Revenue from subsidiaries	2,839	2,450
Dividend income from available-for-sale financial assets	119	91
Interest income	259	212
Interest expenses	-54	-31
Loss from change of foreign exchange rates	-3	4
Profit from operating activities	**4,195**	**3,489**
Income tax	-18	-14
Profit for the period	**4,177**	**3,475**
Other comprehensive income/loss		
Gain/-loss from revaluation of financial assets	12,533	3,002
Total other comprehensive income/loss for the period	**12,533**	**3,002**
Comprehensive income/expense for the period	**16,710**	**6,477**

Statement of cash flows

EUR´000	2021	2020
Cash flows from operating activities		
Profit	4,177	3,475
Adjustments		
Depreciation, amortization and impairment losses	1,428	1,313
Profit on sale of non-current assets	-1	0
Finance income	-3,217	-2,763
Finance expenses	56	37
Income tax	18	14
Changes		
Changes in trade receivables	-1,372	35
Changes in trade payables	-2	155
Interest paid	-51	-30
Total cash flow (-outflow) from operating activities	**1,036**	**2,236**
Cash flows from investing activities		
Payments for investment properties	-1,062	-3,096
Payments for property, plant and equipment	-561	-223
Payments for intangible assets	-78	-163
Contribution to the subsidiary 's additional reserve capital	-900	0
Acquisition of financial investments	-1,490	-104
Proceeds from sale of financial investments	981	1,681
Repayments of loans granted	5,024	7,544
Loans granted	-10,024	-7,629
Interest received	248	170
Dividends received	2,958	2,541
Total cash flow (-outflow) from investing activities	**-4,904**	**721**

EUR´000	2021	2020
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	946	32
Change in overdraft balance	4,034	-1,455
Proceeds from borrowings	4,561	2,255
Repayments of borrowings	-4,578	-766
Dividends paid	-2,838	-2,484
Dividend income tax paid	-18	-14
Total cash flow (-outflow) from financing activities	**2,107**	**-2,432**
Total cash flows	**-1,761**	**525**
Cash and cash equivalents at the beginning of the period	**1,889**	**1,364**
Change in cash and bank accounts	-1,761	525
Effects of exchange rate differences	-2	0
Cash and cash equivalents at the end of the period	**126**	**1,889**

Statement of changes in equity

EUR´000	Share capital	Share premium	Mandatory reserve	Revaluation reserve	Retained earnings	Total
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**
Profit for 2021	0	0	0	0	4,177	4,177
Other comprehensive income /-loss for 2021	0	0	0	12,268	265	12,533
Total comprehensive income/-loss	**0**	**0**	**0**	**12,268**	**4,442**	**16,710**
Transactions with the owners of Parent recognized directly in equity						
Share capital contribution	176	797	0	0	0	973
Dividends paid	0	0	0	0	-2,838	-2,838
Total transactions with the owners of Parent	**176**	**797**	**0**	**0**	**-2,838**	**-1,865**
Balance at 31 December 2021	**11,352**	**1,601**	**1,242**	**17,293**	**47,204**	**78,692**

EUR´000	2021	2020
Adjusted unconsolidated equity as at 31 December	**78,692**	**63,847**
Interests under control and significant influence:		
- Carrying amount	-15,224	-14,324
- Carrying amount under the equity method	23,516	24,024
Adjusted unconsolidated equity as at 31 December	**86,984**	**73,547**

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.

25 Basis of preparation and significant accounting policies

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 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.

In accordance with the requirements of International Financial Reporting Standards, management accounting estimates must be used in the preparation of the financial statements. It also requires management to make decisions related to the selection and application of accounting policies. The areas where the weight or complexity of estimates is higher, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 26.

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 24 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.

Changes in accounting policies for the reporting period

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 2021.

COVID-19-Related Rent Concessions – Amendments to IFRS 16

Effective for annual periods beginning on or after 1 June 2020.

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. However, the economic challenges posed by COVID-19 lasted longer than expected. The amendment, issued on 31 May 2021, extended the date of the practical remedy from 30 June 2021 to 30 June 2022. Management estimates that the changes will have no impact on the financial statements, as the Group's companies did not have any lease incentives due to COVID-19 in the given period.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2021 that would be expected to have a material impact to the Group.

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. Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2022, and which the Group has not early adopted.

Classification of liabilities as current or non-current – Amendments to IAS 1
Effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU.

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1
The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the COVID-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

The Group is analysing the potential impact of the above-mentioned amendments to IAS 1 on its financial statements and will disclose the effect of the amendment when implemented.

"Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41"
Effective for annual periods beginning on or after 1 January 2022.

The amendment to **IAS 16** prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to **IAS 37** clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to **IFRS 9** addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies **IFRS 16** was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The amendments have no significant impact on the Group's financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies

Effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU.

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidnce on how to apply the concept of materiality to accounting policy disclosures.

The implementation of the amendments will not have a material impact on the consolidated financial statements.

Amendments to IAS 8: Definition of Accounting Estimates
Effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU. The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The implementation of the amendments will not have a material impact on the consolidated financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12
Effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU. The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions.

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group is analysing the potential impact of the above-mentioned amendments to IAS 12 on its financial statements and will disclose the effect of the amendment when implemented.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation

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. Information on the subsidiaries of AS Harju Elekter, their shareholdings, and voting rights is presented in Note 23.

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.

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.

Foreign currency transactions and balances

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.

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).

Recognition of transactions and balances of subsidiaries located in foreign countries

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.

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.

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.

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.

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 „Impairment of assets".

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 labour 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.

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 (Depreciation).

The Group discloses the fair value of investment property in Note 7 of the financial statements.

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.

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 labour 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.

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.

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

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.

Goodwill
Goodwill is recognized according to the accounting policies described in "Basis of consolidation".

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 ("Impairment of assets").

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.

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.

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.

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.

Financial assets

The Group estimates expected credit losses on debt instruments carried at adjusted cost on the basis of the future information. The impairment methodology applied depends on whether there is a significant increase in credit risk. The measurement of expected credit losses takes into account an unbiased and probability-weighted amount; the time value of money; as well as reasonable and justified information about the past events, the current conditions, and the projections of the future economic conditions.

For cash and cash equivalents, deposits, loans and advances to clients and contractual assets that do not have a significant financing component, the Group applies the simplified approach permitted by IFRS 9 and accounts for the allowance for doubtful debts as an expected credit loss over the life of the receivable on the initial recognition of the receivable. The Group uses a write-down matrix where the write-down is calculated on the basis of the requirements for different maturity periods ("Creditworthiness of financial assets").

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.

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.

Leases

When a contract is entered into, the Group assesses whether it is a lease contract or whether it contains a lease relationship. A contract is a lease contract or contains lease relations where the contract gives the right to control the use of specified assets for a specified period in return for payment. In assessing whether a contract gives the right to control and use the assets, the Group relies on the requirements of IFRS 16 'Leases'.

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.

The Group as the lessee
The Group leases office and production space, machinery and equipment, and vehicles, as well as recognises the right-of-use assets and lease obligations at the commencement of the lease term. The Group considers the lease term to be the uninterrupted period of the lease, which includes periods of potential renewal of the lease if the lessee is reasonably certain to exercise the option and periods of potential termination of the lease if the lessee is reasonably certain not to exercise the option. The Group amends the lease term in the event of a change in the uninterrupted lease term.

On initial recognition, the Group measures the leased assets (the 'right-of-use assets') at cost, which comprises the initial amount of the lease obligation. The initial amount of the lease obligation is adjusted for advances paid, direct costs incurred, and restoration costs. The amount received is net of any rental incentives received. The right-of-use assets are included in the statement of financial position under 'Property, plant and equipment'.

Right-of-use assets are depreciated using the straight-line method from the commencement date of the lease to the end of the lease term. If, under a lease contract, ownership of assets is transferred to the Group at the end of the lease term, or if the cost of assets is determined on the assumption that the lessee will exercise the right to purchase, the Group depreciates the right-of-use assets from the commencement of the lease term to the end of the useful life of the underlying assets. In the event of impairment losses, the right-of-use assets will be reduced. The right-of-use assets is also adjusted for certain revaluations of the lease obligation.

The lease obligation is measured initially at the present value of the unpaid lease payments at the beginning of the lease term. Lease payments include the following:

- fixed payments (net of any lease incentives receivable);
- variable lease payments (depending on index or rate);
- guaranteed residual value (the expected value of the amount to be paid);
- buy-out price (if realisation of the purchase is reasonably certain); and
- penalties in the event of termination of lease (if the termination is sufficiently certain).

The lease obligation is discounted at the internal rate of return. If the appropriate rate cannot be easily determined, the Group uses an alternative borrowing interest rate, which is the interest rate that would be payable in the event of a similar economic environment, period, and loan collateral to obtain assets similar to the right-of-use assets.

The lease obligation is recalculated if there is a change in future lease payments resulting from an index or rate, if there is a change in the estimate of the amount of the residual value guaranteed or if the Group changes its estimate of whether to exercise the options to buy out the assets, extend or terminate the lease. The lease obligation is also remeasured when the fixed payments change.

The Group has chosen not to apply the requirements of IFRS 16 to current lease contracts and such lease contracts that have a low underlying value. Payments related to current lease contracts and lease contracts for which the value of the underlying assets is low are recognised as an expense in the income statement on a straight-line basis. Current lease contracts are contracts with a lease term of 12 months or less. Low-value lease contracts are lease contracts of IT equipment.

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.

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.

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.

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.

Corporate income tax in Estonia
In accordance with the laws of the Republic of Estonia, no tax is levied in Estonia on a company's annual profit. The liability for corporation tax arises on the distribution of profits and is recognised as an expense when dividends are declared. In addition, you pay income tax on fringe benefits, gifts, donations, entertainment expenses, non-business payments, and transfer pricing adjustments.

The effective income tax rate is 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.

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% (2020: 20%), Sweden 20.6% (2020: 22%) and Lithuania 15% (2020: 15%). Taxable profit is calculated from profit before tax, which is adjusted in income tax declarations with temporary or permanent differences based on local tax law requirements.

Deferred tax

The deferred income tax liability is recognized in the 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 measurable to the extent of the intended dividend payment amount, provided that for the payment of the dividend, as at the reporting date there is enough equity on the account of which profit will be distributed in the foreseeable future. Deferred income tax amount is determined using 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 deferred income tax liability.

Employee benefits

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.

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.

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.

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.

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.

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.

Share-based transactions

The Group operates the option programmes based on share-based payments (Note 22). In the provision of services received by employees, options to acquire shares in AS Harju Elekter are issued. The fair value of services is determined by reference to the fair value of equity instruments granted to employees at the date of the grant. From the issue of the option until the start of the period in which the shares are issued, the fair value of the service is recognised as a labour cost and in equity under 'Reserves'. At the end of each reporting period, the Group estimates the number of options to be exercised. If the options are exercised, the Group will issue new shares. The proceeds received for the issue of shares, net of direct transaction costs, are recognised in equity under share capital and share premium. When the options are exercised, the amount recognised as a reserve for labour costs is recognised in equity under 'Retained earnings'.

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.

Revenue from contracts with customers

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured on the basis of the fee established in the contract with the customer. The Group recognises revenue when it fulfils a contractual obligation to deliver goods or services to the client. The Group has transferred the goods or services to the client at the moment the client acquires control of the goods or services. Control can be handed over either at a specific point in time or over time.

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 customers, the customer has full discretion over the distribution and price to sell the products, and there are no unfulfilled obligations that could affect the customer'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 customer, and either the customer 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 customer'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 customer has been invoiced less than the revenue recognized during the production period, the contract asset is recognized in the statement of financial position as Trade and other receivables (Note 3). 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 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.

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.

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.

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. 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.

Lease income

Lease income from investment property is recognized on a straight-line basis over the lease term, when the customer 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 (The Group as the lessor).

Interest and dividend 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.

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

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.

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.

Related parties

For the purposes of the consolidated financial statements the related parties are:
- AS Harju KEK that owns 30.90% 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; and
- companies controlled by the members of the Management Board and Supervisory Board of the Parent company.

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.

26 Accounting estimates and decisions

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.

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

Useful lives of investment property and property, plant and equipment (Notes 7, 8, 25)

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.

Fair value of financial investments (Note 6)

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.

27 Financial risk management

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;
- 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.

Market risk

Market risk is the risk arising from changes in the markets to which the Group is exposed. The main market risks in the Group's business are currency risk, price risk and interest rate risk.

Currency risk

Currency risk is the risk that the fair value or cash flows of financial instruments will be volatile in the future due to changes in foreign exchange rates. Most of the Group's operations are carried out in the currencies of the economic environment in which the Group operates: euros (EUR) in Estonia, Finland, and Lithuania and Swedish kronor (SEK) in Sweden. The Group's foreign exchange risk arises from the translation of the Swedish subsidiary's functional currency into the Group's functional and presentation currency. Financial assets and liabilities denominated in euros (EUR) are considered to be free of foreign exchange risk.

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 non-current loan and lease agreements are denominated in euros and are therefore treated as liabilities that are not subject to currency risk.

EUR´000	31.12.2021					31.12.2020				
	EUR	SEK	NOK	PLN	USD	EUR	SEK	NOK	PLN	USD
Assets	41	12,903	0	0	0	1,017	11,787	9	0	0
Liabilities	-1,557	-7,706	0	0	0	-1,334	-9,467	0	0	0
Open currency position	**-1,516**	**5,197**	**0**	**0**	**0**	**-317**	**2,320**	**9**	**0**	**0**
Revenue	2,069	27,271	0	0	0	4,937	20,126	0	0	0
Expenses	-5,758	-19,279	-407	-82	-21	-5,819	-16,214	-42	0	-29
Open currency position	**-3,689**	**7,992**	**-407**	**-82**	**-21**	**-882**	**3,912**	**-42**	**0**	**-29**

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	2021	2020
Impact of SEK exchange rate +4.39% (2020: +11.1%)	-28	-85
Impact of SEK exchange rate -4.39% (2020: -11.1%)	78	29

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 2021 and 2020.

Price risk

The Group's activities are heavily dependent on the raw materials and resources required to manufacture its products. Raw material markets in the year under review are characterised by high price increases and shortages of material, caused by the market and global situation, where supply is regulated by individual suppliers.

In addition to commodity price risk, the Group is exposed to equity instrument price risk arising from changes in the fair value of investments held by the Group. The fluctuation of the fair value of the 6.14 % 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 11.8 million euros to 21.8 million euros during the year 2021 and by 3.5 million euros to 8.8 million euros in 2020. More information on the holding in OÜ Skeleton Technologies Group is provided in Note 6.

Other non-current financial investments include listed securities, 14.0% holding in SIA Energokomplekss and a 5.5% holding in IGL-Tehnologies Oy. The fair value of these financial investments increased by a total of 0.5 million euros in the financial year and decreased by 0.5 million euros in 2020 (Note 6).

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 2021 are based on 3-month, 6-month and 12-month Euribor (Note 11).

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

EUR '000	Note	2021	2020
Fixed rate financial liabilities	11	2,462	1,926
Variable rate financial liabilities	11	25,876	17,162
Total	11	**28,338**	**19,088**

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	2021	2020
Increase by one percentage point	-259	-172
Decrease by one percentage point	259	172

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

Credit risk

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, 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 customer (private or public company), the geographical location of the customer, 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 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	2021	2020
Cash and cash equivalents	2	574	2,843
Trade receivables, contract assets and other receivables	3	33,689	27,226
Total		**34,263**	**30,069**

As at 31 December 2021, the Group's exposure to credit risk was 34.3 million euros and as 31 December 2020 it was 30.1 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 2021, 0.9 (31 December 2020: 1.68) million euros had not been collected by 15 March 2022.

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 2021 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 2021, 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 2021 and 31 December 2010 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 2020							
Expected loss rate		0.04%	0.22%	3.70%	4.85%	63.10%	
Trade receivables	3	17,886	1,268	41	75	667	19,937
Contract assets	3	7,357	0	0	0	0	7,357
Other receivables	3	26	0	0	0	0	26
Total loss allowance		**10**	**3**	**2**	**4**	**422**	**440**
31 December 2021							
Expected loss rate		0.17%	0.30%	3.71%	6.68%	75.70%	
Trade receivables	3	19,004	2,849	90	70	483	22,496
Contract assets	3	11,032	0	0	0	0	11,032
Other receivables	3	33	0	0	0	0	33
Total loss allowance		**51**	**8**	**3**	**5**	**366**	**433**

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, non-current loan and lease agreements and monitoring of receivables. An 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. Non-current 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 0.6 (31 December 2020: 2.8) million euros and total liabilities to 60.7 (31 December 2020: 42.1) million euros. The current ratio and liquidity ratio of the Group were 1.3 and 0.8 in 2021 and 1.4 and 0.9 in 2020, respectively.

Analysis of the Group's financial liabilities by maturity:

EUR '000	Note	<3 months	3-12 months	1-5 years	Total
31 December 2020					
Borrowings		3,046	9,139	7,194	19,379
Trade payables	13	11,890	0	0	11,890
Other liabilities	13	345	0	66	411
Total		**15,281**	**9,139**	**7,260**	**31,680**

EUR '000	Note	<3 months	3-12 months	1-5 years	Total
31 December 2021					
Borrowings		4,321	12,963	11,905	29,189
Trade payables	13	20,196	0	0	20,196
Other liabilities	13	649	0	33	682
Total		**25,166**	**12,963**	**11,938**	**50,067**

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	31.12.2021	31.12.2020
Interest-bearing borrowings	11	28,338	19,088
Cash and cash equivalents	2	-574	-2,843
Net debt		**27,764**	**16,245**
Total equity		86,846	73,398
Total capital		**89,642**	**89,642**
Debt to capital ratio		24.22%	18.1%
Total assets		147,557	115,475
Equity ratio		58.9%	63.6%

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 2021 and 2020, 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 2), trade and other receivables (Note 3), trade payables and other current liabilities (Note 13) are current, 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 6) 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 6) 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 7, which is assessed at each balance sheet date based the fair value method at level 3.

Effects of the coronavirus (COVID-19)

The coronavirus (COVID-19) pandemic that began in 2019 has not subsided by the time of the adoption of this report. During the reporting year, there were periods when the rapid spread of the virus disrupted the Group's day-to-day operations, but did not cause long-term production stoppages in any of the units. By the end of the year, the medical system was again under severe pressure due to high infection rates and the new Omicron variant, leading the government to establish new coronavirus restrictions. The Estonian and Nordic economies recovered surprisingly quickly from the coronavirus wave. Unemployment in Estonia is close to pre-pandemic levels, and a growing number of companies are struggling to find workers.

In the Harju Elekter Group's business operations in 2021, the coronavirus pandemic mainly affected manufacturing companies. The biggest challenges started in early 2021 with a shortage of raw materials, of sheet metal in particular, which led to a rapid increase in prices. A number of large orders were pending and production cycles had to be reorganised on an ongoing basis. In the second half of the year, a shortage of components occurred. The difficulty in acquiring materials and the increase in prices continued throughout the year, with the situation gradually improving only towards the end of the year. Employee health was also a focus throughout the year.

The Group estimates that the changes in the economy caused by the coronavirus will not have a significant impact on Harju Elekter's business and its continuity. All factors affecting the business are regularly monitored and risk assessments are carried out as part of the Group's normal policy.

28 Events after the reporting date

Strategic investment

Harju Elekter Oy is increasing its holding in IGL-Technologies Oy from 5.5% to 10%. The transactions will be carried out in two parts, the first of which took effect in February 2022 and the second will take effect during the first half of the year. The cost of the additional investment is approximately 234,000 euros. The Finnish subsidiary of Harju Elekter Group, Harju Elekter Oy, has collaborated with IGL-Technologies OY successfully for more than ten years and has installed over 30,000 electric vehicle charging stations in Finland alone. In addition, more than 50 charging stations have been established in the Baltics, 10 of which have been added to Estonia. The role of Harju Elekter in the partnership has been the development, production, and sales of charging equipment hardware and the provision of technologically suitable software and operation of equipment at IGL.

New customer agreement

The Lithuanian subsidiary of Harju Elekter Group, Harju Elekter UAB, signed a contract on 1 March 2022 with U.S. Steel Corporation (Exploratory Ventures LLC) to produce low voltage drives and MCC systems to control 1,500 motors that will be used in new Big River Steel facility in Arkansas. The beginning of production and supplies are scheduled for this year. Production and deliveries will take place until April 2023. The approximate volume of the contract is 10 million euros.

The impact of the Ukraine-Russia war

On 24 February 2022, Russia launched a large-scale military offensive against Ukraine. As a result, the European Union, the United States, the United Kingdom, and other countries have imposed a series of sanctions on Russia and Belarus. The Group treats the situation caused by the military conflict, increased geopolitical tensions and sanctions, and the potential effects thereof, as a non-adjusting event after the reporting date. The potential financial impacts will be reflected in the Group's reporting in 2022. The current situation is uncertain and rapidly changing, and therefore it is not possible to give a quantitative estimate of the potential impact on the Group.

We have mapped the Group's links with sanctioned and military conflict areas, and assessed the likely risk scenarios that could affect our production and supply chains. The Group has no assets or significant contractual partners in sanctioned countries. Risk assessments are reviewed regularly, but we consider the following as the main risks today:

- **Purchases of materials: t**he Group buys sheet metal and various components originating from Russia, Belarus or Ukraine in insignificant amounts, mainly through intermediaries or directly, for the production of electrical equipment. Today, we are actively seeking alternative suppliers to replace the necessary materials and ensure the timely completion of all related projects. During the reporting period, the aim has been to further increase inventory levels, to anticipate potential supply problems.
- **Rising prices of materials and components:** we have seen pressure from suppliers to increase the prices of components and materials, as large volumes of materials from sanctioned regions are disappearing from the market. The Group actively monitors the market, looks for the best prices across the region, and has already increased its inventory of critical materials and components in previous years.
- **Workforce availability:** due to a shortage of skilled labour, it is difficult to find replacements for workers leaving today. Several dozen Ukrainian workers are employed in the Group's various production units. All staff are being actively talked to, supported, and offered different kinds of help when needed.
- **The decrease in the value of listed companies' securities:** geopolitical tensions and economic sanctions are also affecting the stock markets, which have seen a marked increase in volatility. The securities listed on the stock exchange are a long-term investment which can immediately be realised to improve liquidity, if necessary. The value of the securities portfolio has decreased by 7.5%. compared to the reporting date.

Based on the analyses carried out at the time of preparation of the report and the current situation, we do not expect the economic changes caused by the war to have a material impact on the business continuety of the Group's operations.

Management Board's Confirmation of the Consolidated Annual Report

The Management Board confirms that the management report, corporate governance report and remuneration report as set out on pages 7 to 75 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 2021 as set out on pages 76 to 124 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	/ Signed digitally /	23 March 2022
Aron Kuhi-Thalfeldt Member of the Management Board	/ Signed digitally /	23 March 2022

Independent auditor's report

To the Shareholders of aktsiaselts 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 aktsiaselts Harju Elekter (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group´s consolidated financial performance and 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 24 March 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss and 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 the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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Independence

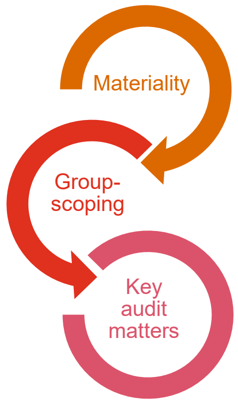
We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries 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 the period from 1 January 2021 to 31 December 2021 we have provided to the Company and its subsidiaries general tax services.

Our audit approach

Overview



- Overall group audit materiality is EUR 1,500 thousand, which represents approximately 1% of Group's consolidated revenue.
- A full scope audit was carried out by the Group audit team or under our supervision by other firms in the PwC network in all major Group companies, which accounted for 94% of the Group's assets and 94% of the Group's revenue. In addition, we performed specific audit procedures in the subsidiary where statutory audit was conducted by non-PwC component auditor.
- Revenue recognition.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

Overall Group audit materiality	The overall Group audit materiality is EUR 1,500 thousand.
How we determined it	Overall Group materiality represents approximately 1% of Group's consolidated revenue.
Rationale for the materiality benchmark applied	We have applied this benchmark, as we consider revenue to be a key performance indicator that determines the Group's value and is monitored by the Group's management, investors, analysts and creditors.

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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 (for further information, refer to Notes 25 "Basis of preparation and significant accounting policies", 17 "Segment reporting" and 18 "Explanation of items in the profit and loss account"). In 2021, the Group has recognised revenue of EUR 153 million. Revenue consists mainly of sales of electrical equipment and products in the amount of EUR 137 million and revenue from electrical works and other services in the amount of EUR 8 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). 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.	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 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.

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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 has a number of subsidiaries, which are disclosed in note 23 to the financial statements. A full scope audit was performed by us or under our instruction by other firms in the PwC network at Group entities covering 94% of the Group's assets and 94% of the Group's revenue, and under our instruction by another independent audit firm at an entity covering 4% of the Group's assets and 6% of the Group's revenue. The remaining Group entities were immaterial and, accordingly, we performed selected audit procedures on them that related to certain balances or disclosures.

Where the work was performed component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's financial statements as a whole.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report, the Corporate Governance Report 2021, the Remuneration Report (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, including the Management report.

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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 of the Securities Market Act.

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Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act; and
- the Remuneration Report has been prepared in accordance with Article 135³ of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. 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.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based on our agreement by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of aktsiaselts Harju Elekter for the year ended 31 December 2021 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Parent Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and the Supervisory Board

The Management Board of the Parent Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

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Members of the Supervisory Board are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;

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- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of aktsiaselts Harju Elekter for the financial year ended 31 December 2018. Our appointment has been renewed by shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for aktsiaselts Harju Elekter of 4 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 aktsiaseltsile Harju Elekter can be extended for up to the financial year ending 31 December 2038.

AS PricewaterhouseCoopers

/signed digitally/

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

/signed digitally/

Kristiina Veermäe
Auditor's certificate no.596

24 March 2022
Tallinn, Estonia

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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 2021	52,716,658
Net profit for 2021	2,598,173
Total distributable profit as at 31 December 2021	55,314,831

The Management Board proposes to distribute profit as follows:

	EUR
As dividends (0.14 euros per share)	2,522,598
Balance of retained earnings after profit distribution	52,792,233

Tiit Atso / Signed digitally / 23 March 2022
Chairman of the Management Board

Signatures of the Members of the Supervisory Board to the Annual Report of 2021

The Supervisory Board has reviewed the annual report prepared by the Management Board (pp. 7-124), which consists of management report, corporate governance report, remuneration report and financial statements, and approved it for submission to the general meeting of shareholders.

Endel Palla Chairman of the Supervisory Board	/ Signed digitally /	29 March 2022
Arvi Hamburg Member of Supervisory Board	/ Signed digitally /	29 March 2022
Aare Kirsme Member of Supervisory Board	/ Signed digitally /	29 March 2022
Triinu Tombak Member of Supervisory Board	/ Signed digitally /	29 March 2022
Andres Toome Member of Supervisory Board	/ Signed digitally /	29 March 2022

Supplementary annexes

Formulas to calculate ratios

Formulas used to calculate the ratios set out on pages 40 and 61:

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, Harju Elekter 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	p. 1	
	102-2	Activities, trademarks, products and services	p. 7-12, 22-23, 42-59	
	102-3	Location of head office	p. 2	Keila (Estonia)
	102-4	Location of operations	p. 10	
	102-5	Ownership and legal form	p. 60-63	
	102-6	Markets served	p. 44, 51-57	
	102-7	Scale of the organization	p. 10, 40, 42-47	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. 26-32	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Organizational profile				
	102-9	Supply chain	p. 10, 24, 48	"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. 5-6, 11-12, 24 42-47, 60-63	
	102-11	Precautionary Principle or approach in environmental issues	p. 14-16, 33-37	
	102-12	External initiatives	p. 13-16, 19, 21-25, 32, 33, 38-39, 64-73	
	102-13	Membership of associations	p. 39	
Strategy				
	102-14	Statement from Chairman of the Supervisory Board and Chairman of the Management Board	p. 4-6	
Ethics and integrity				
	102-16	Values, principles, standards, and behavioral norms	p. 9, 19-20	
Governance				
	102-18	Governance structure	p. 65-67	
Stakeholder engagement				
	102-40	List of stakeholders	p. 14-15	
	102-41	Collective bargaining agreements	p. 32	
	102-42	Identification and selections of stakeholders	p. 14-15	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.

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Stakeholder engagement				
	102-43	Approach to stakeholder engagement	p. 14-15, 21, 23-25, 27-32, 37, 38-39, 60, 65	
	102-44	Key topics and concerns raised	p. 14-15	As the expectations of external stakeholders are generally similar, they have been summarized in the matrix of focus topics that impact sustainability.
Reporting practice				
	102-45	Entities included in the consolidated financial statements	p. 81, 99	
	102-46	Defining report content and scope of topics	p. 15	
	102-47	List of material topics	p. 15	
	102-48	Restatement of information of previous reports		No restatements
	102-49	Changes in reporting		No changes
	102-50	Reporting period	p. 1, 81	
	102-51	Date of most recent report		Audited Annual Report of Harju Elekter Group for 2020 was published at 31 March 2021
	102-52	Reporting cycle	p. 2	
	102-53	Contact point for questions regarding the report		Merili Pärnpuu, merili.parnpuu@harjuelekter.com
	102-54	Compliance with the GRI standard	p. 135	
	102-55	GRI content index	p. 136-141	
	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. 21-25	In 2022 there will harmonizing of Sustainable policy and strategy.
	non-GRI	Customer complaints	p. 23	
	non-GRI	Products delivered to customers on time in accordance with required specifications	p. 21, 23	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Customer experience				
"Management approach (GRI 103:2016)"	103-1 to 103-3		p. 21-22	
	non-GRI	Customer satisfaction	p. 23	
Innovation				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 22-23	
	non-GRI	Investments and development costs	p. 22-23	
	non-GRI	Development projects	p. 22-23	
Environmental impact of products				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 33-37	
	non-GRI	Renewable energy production	p. 35	
Economic performance (GRI 201: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3			
	201-1	Direct economic value generated and distributed	40, 42-47, 68-73, 77-79	
Anti-corruption activities (GRI 205: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 20	
	205-3	Confirmed incidents of corruption and actions taken	p. 20	
Energy consumption (GRI 302: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 34-35	
	302-1	Energy consumption within the organization	p. 34-35	
Waste and wastewater (GRI 306: 2020)				
Management approach (GRI 103:2016)	103-1 to 103-3		33, 36	
	306-3	Waste amount and types	36	
	306-4	Amount of recycled and reused waste and types	36	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Environmental compliance (GRI 307: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 33	
	307-1	Non-compliance with environmental laws and regulations	p. 33	
Supplier environmental assessment (GRI 308: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 37	
	308-1	Negative environmental impacts in the supply chain and corrective measures	p. 37	
Employment (GRI 401: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 26-32	
	401-1	New employee hires and employee turnover	p. 26	
	401-2	Employee benefits and incentives	p. 29	Presented by the description of the motivation system of employees. Benefits and incentives are for contract employees.
	non-GRI	Interns	p. 38	
	non-GRI	Employee level of education	p. 27-28	
	non-GRI	Employee satisfaction and feedback	p. 29	
Occupational health and safety (GRI 403: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3, 403-1, 403-2		p. 30-31	
	403-9	Injuries at work	p. 31	
Training and education (GRI 404: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 27-28	
	404-1	Average hours of training per year per employee	p. 27-28	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. 27-28	Data is provided with a detail that the Group companies have considered important.
	non-GRI	Employee participation in training courses	p. 27-28	

GRI standard	Disclosure no	Disclosure title	Page no	Key explanations
Diversity and equal opportunities (GRI 405: 2016)				
Management approach (GRI 103:2016)		103-1 kuni 103-3	p. 31	
	405-1	Diversity of governance bodies and the entire staff	p. 27, 66-71	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. 31	
	406-1	Incidents of discrimination and corrective actions taken	p. 31	
Local communities (GRI 413: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 14-15, 38-39	
	413-1	Activities with local community engagement, impact assessments, and development programs	p. 14-15, 38-39	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. 37	
	414-1	Negative social impacts in the supply chain and actions taken	p. 37	
Public policy (GRI 415: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 13-16, 19, 64-65	
	415-1	Political contributions	p. 20	
Customer health and safety (GRI 416: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 25	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p. 25	
Socio-economic compliance (GRI 419: 2016)				
Management approach (GRI 103:2016)	103-1 to 103-3		p. 20	
	419-1	Non-compliance with laws and regulations in the social and economic area	p. 20	

AS HARJU ELEKTER
Paldiski mnt 31,
+372 76606 Keila, Estonia
info.he@harjuelekter.com
www.harjuelekter.com