ANNUAL REPORT

(Translation of the Estonian original)

Beginning of financial year: 01.01.2017

End of financial year: 31.12.2017

Business name: ETS NORD AS

Commercial Registry no: 10462380

Address: Peterburi tee 53G

City: Tallinn

County: Harju County

Postcode: 11415

Telephone: +372 6807360

Fax: +372 6807361

E-mail: info@etsnord.ee

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

Table of contents

Management report

ETS NORD AS is a public limited company established in 1998. The company's main activities are designing, manufacturing and sales of ventilation equipment and accessories. The company has sales, production and logistics units in Estonia, Finland, Sweden and Denmark. The Finnish, Swedish and Danish units act as branches of ETS NORD AS.

Notable events in 2017 and 2018

The year 2017 was a successful one for the company, as construction markets were growing in all main markets, in Estonia the growth was 23%, in Finland 8% and in Sweden 7.68% (source: Statistics Estonia). Compared to the year 2016, company's revenue grew 27%. Most notable events in year 2017 were:

1. Activating a branch in Denmark
2. Investments in production equipment due to considerably higher demand
3. Developing of the production planning system

In 2018, the company predicts a continuing growth of demand in all markets, therefore plans are made for the deployment of a new production planning system and making all main processes more effective.

In the beginning of 2018, the company bought the assets of a Danish company K/H Vent A/S. Due to this purchase the company has plans in 2018 to open a second sale and storage unit in Denmark.

Revenue, expenses and profit

In 2017, ETS NORD AS revenue totalled EUR 30.6 million (2016: EUR 24.1 million). ETS NORD AS operating profit was EUR 1.2 million (2016: EUR 1.2 million). Net profit of the company in 2017 amounted to EUR 1.0 million (2016: EUR 1.0 million).

In 2017, interest rates remained low, interest expenses in the reporting period amounted to EUR 78 thousand (2016: EUR 64 thousand). Management does not expect a significant increase in interest rates in the next reporting period. A growth of 0.5% in interest rates would increase the company's interest expenses by EUR 26 thousand.

According to management's judgement, the total amount of company's assets and liabilities nominated in foreign currency at the balance sheet date is marginal; therefore, the company finds the openness to foreign currency exchange risk to be low.

Investments

Investments to non-current assets in the reporting period amounted to EUR 2.6 million (2016: EUR 1.5 million). In both years, most investments were made to machinery and equipment, in 2017 in the amount of EUR 2.1 million and in 2016 in the amount of EUR 0.9 million.

Key financial ratios

	2017	2016
Net revenue (TEUR)	30,575	24,117
Revenue growth (%)	26.8%	13.8%
Operating profit (TEUR)	1,239	1,191
Operating profit margin (%)	4.1%	4.9%
Net profit (TEUR)	998	1,027
Net profit margin (%)	3.3%	4.3%
Current assets (TEUR)	10,219	7,963
Current liabilities (TEUR)	6,592	7,684
Current ratio	1.6	1.0
Average total assets (TEUR)	16,858	13,735
Average equity (TEUR)	6,529	5,870
Return on assets (%)	5.9%	7.5%
Return on equity (%)	15.3%	17.5%

Formulas used in calculating key financial ratios:

Revenue growth (%) = (revenue 2017 – revenue 2016)/ revenue 2016 * 100

Operating profit margin (%) = operating profit/ revenue * 100

Net profit margin (%) = net profit/ revenue * 100

Current ratio (times) = current assets/ current liabilities

Return on assets (%) = net profit / average total assets * 100

Return on equity (%) = net profit / average equity * 100

Personnel

In the reporting period, the company employed, on average, 222 people (2016: 203). Personnel expenses totalled EUR 7.4 million (2016: 5.9 million), which of remuneration of the management board members amounted to EUR 348 thousand (2016: 337 thousand). Members of the management board are paid compensation in the amount of three months’ salary upon termination of their employment contract.

Financial statements

Balance sheet

(in thousands of euros)

	31.12.2017	31.12.2016	01.01.2016	Note
Assets				
Current assets				
Cash and cash equivalents	203	132	147	
Receivables and prepayments	4,717	4,012	2,819	4
Inventories	5,299	3,819	3,416	7
Total current assets	**10,219**	**7,963**	**6,382**	
Non-current assets				
Receivables and prepayments	0	0	116	4
Investment properties	2,550	2,550	2,500	8
Property, plant and equipment	5,948	4,258	3,464	9
Intangible assets	135	93	144	10
Total non-current assets	**8,633**	**6,901**	**6,224**	
Total assets	**18,852**	**14,864**	**12,606**	
Liabilities and equity				
Liabilities				
Current liabilities				
Borrowings	1,279	3,421	1,716	13
Payables and prepayments	5,313	4,263	3,297	14
Total current liabilities	**6,592**	**7,684**	**5,013**	
Non-current liabilities				
Borrowings	5,312	952	1,955	13
Payables and prepayments	118	0	126	14
Total non-current liabilities	**5,430**	**952**	**2,081**	
Total liabilities	**12,022**	**8,636**	**7,094**	
Equity				
Share capital	103	103	103	15
Share premium	1,156	1,156	1,156	
Statutory reserve capital	10	10	10	
Other reserves	13	-11	0	
Retained earnings	4,550	3,943	2,195	
Annual period profit	998	1,027	2,048	
Total equity	**6,830**	**6,228**	**5,512**	
Total liabilities and equity	**18,852**	**14,864**	**12,606**	

The notes set out on pages 10-39 are an integral part of these financial statements.

Income statement
(in thousands of euros)

	2017	2016	Note
Revenue	30,575	24,117	16
Cost of goods sold	-19,620	-14,852	17
Gross profit	**10,955**	**9,265**	
Marketing and distribution expense	-4,764	-3,950	18
General and administrative expense	-5,015	-4,168	19
Other operating income	94	64	
Other operating expenses	-31	-20	
Operating profit	**1,239**	**1,191**	
Interest expense	-78	-64	
Other finance income and costs	-58	-25	
Total financial costs	**-136**	**-89**	
Profit before tax	**1,103**	**1,102**	
Income tax expense	-105	-75	15
Net profit for the financial year	**998**	**1,027**	

The notes set out on pages 10-39 are an integral part of these financial statements.

Statement of comprehensive income

(in thousands of euros)

	2017	2016
Profit for the financial year	**998**	**1,027**
Line items, which can subsequently be classified in the income statement		
Other comprehensive income:		
Unrealised currency translation differences	24	-11
Total other comprehensive income	**24**	**-11**
Comprehensive income for the period	**1,022**	**1,016**

The notes set out on pages 10-39 are an integral part of these financial statements.

Statement of cash flows
(in thousands of euros)

	2017	2016	Note
Cash flows from operating activities			
Operating profit (loss)	1,239	1,191	
Adjustments			
Depreciation and impairment on non-current assets	866	725	9,10
Gain (loss) from sale of non-current assets	-64	4	9
Other adjustments	-26	-49	
Total adjustments	**776**	**680**	
Change in receivables and prepayments related to operating activities	-705	-1,077	4
Change in inventories	-1,480	-403	7
Change in liabilities and prepayments related to operating activities	1,168	796	14
Interest paid	-78	-64	
Corporate income tax paid	-105	-75	15
Total cash flows from operating activities	**815**	**1,048**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-326	-1,066	
Proceeds from sale of property, plant and equipment and intangible assets	98	30	9
Total cash flows from investing activities	**-228**	**-1,036**	
Cash flows from financing activities			
Repayments of borrowings	-381	-361	13
Change in overdraft balance	938	1,094	13
Finance lease principal payments	-653	-464	
Dividends paid	-420	-300	15
Total cash flows from financing activities	**-516**	**-31**	
Total cash flows	**71**	**-19**	
Cash and cash equivalents at the beginning of period	132	147	
Change in cash and cash equivalents	**71**	**-19**	
Effect of exchange rate changes	0	4	
Cash and cash equivalents at the end of period	203	132	

The notes set out on pages 10-39 are an integral part of these financial statements.

Statement of changes in equity

(in thousands of euros)

	Share capital at nominal value	Share premium	Statutory reserve capital	Other reserves	Retained earnings (accumulated loss)	Total
1.01.2016	**103**	**1,156**	**10**	**0**	**4,243**	**5,512**
Net profit for the financial year	0	0	0	0	1,027	1,027
Dividends declared	0	0	0	0	-300	-300
Other comprehensive income (loss)	0	0	0	-11	0	-11
31.12.2016	**103**	**1,156**	**10**	**-11**	**4,970**	**6,228**
Net profit for the financial year	0	0	0	0	998	998
Dividends declared	0	0	0	0	-420	-420
Other comprehensive income (loss)	0	0	0	24	0	24
31.12.2017	**103**	**1,156**	**10**	**13**	**5,548**	**6,830**

In 2017, unrealised currency translation differences are recognised as changes in other reserves in the amount of EUR 24 thousand (2016: EUR -11 thousand).

Additional information regarding share capital is provided in Note 15.

The notes set out on pages 10-39 are an integral part of these financial statements.

Notes to the financial statements

Note 1 Accounting policies

Principal accounting policies in the preparation of AS ETS NORD (hereafter “company”) financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

General information

ETS NORD AS is a public limited company established in 1998. The company’s main activities are designing, manufacturing and sales of ventilation equipment and accessories. The company has sales, production and logistics units in Estonia, Finland, Sweden and Denmark. The Finnish, Swedish and Danish units act as branches of ETS NORD AS.

The Management Board of the company authorised these financial statements for issue on February 28, 2018. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of the company and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

Accounting policies used in preparing the financial statements

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS). Previously, financial statements were prepared in accordance with the generally accepted accounting principles of Estonia (Estonian GAAP). To the management’s assessment, the implementation of IFRS has not resulted in significant changes to 2017 financial year or pervious financial years.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and pass judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and related assumptions are based on the historical experience and topical information. Actual results may not coincide with these estimates. Significant estimate for the company is the estimation of investment property’s fair value. Refer to note 8 for the significant inputs of the regarding estimation.

Management of the company has prepared the financial statement according to going concern principle. According to management’s judgement, the company has no intentions nor need to cease operations and there is no uncertainty at a balance sheet date of the company’s ability to continue as a going concern.

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in thousands of euros.

Changes in accounting policies or information

The financial statements have been prepared according to consistency and comparability principles, changes of methods and their effects are disclosed in appropriate notes. If there have been any significant changes in financial statement line item presentation or classification methods, previous period figures are adjusted accordingly.

In 2017, the company has adjusted the classification of distribution expense between ‘Cost of goods sold’ and ‘Marketing expenses’. Effects of the changes are presented in the table below (in thousands of euros).

Line item	2017	Change	2017	2016	Change	2016
Cost of goods sold	21,691	-2,071	19,620	16,668	-1,816	14,852
Marketing expenses	2,693	2,071	4,764	2,134	1,816	3,950
Total effect on net profit		0			0	

New international financial reporting standards, amendments to published standards and interpretations of the international financial reporting interpretations committee (IFRIC)

New accounting standards, interpretations and changes

Company has not early adopted the following standards that have been issued but are not yet effective (will become effective for annual periods beginning on or after 1 January 2018):

IFRS 9 „Financial Instruments“ effective for annual periods beginning on or after 1 January 2018. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as fair value through other comprehensive income. Financial assets that do not contain cash flows that are SPPI must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model. There is a ‘three stage’ approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month expected credit loss on initial recognition of financial assets that are not credit impaired (or lifetime expected credit loss for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime expected credit loss rather than 12-month expected credit loss. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The company assesses that IFRS 9 does not have a significant impact to its financial statements as at 1 January 2018 because impairment of receivables has been historically immaterial and cash and deposits are held in credit institutions with high ratings; therefore applying the expected loss model, including assessment of forward-looking information, did not cause material impairment losses. All the financial assets (excluding derivatives) meet SPPI requirement and are held to collect, thus will continue to be measured using the amortised cost method.

IFRS 15 „Revenue from Contracts with Customers“ effective for annual periods beginning on or after 1 January 2018. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Company has assessed that the new standard does not have a material impact to different revenue sources of the company. The management has analysed the possible impact that the aforementioned amendments might have on the company's income statement and concluded that as the company does not sell goods and services under one contract, the amendments do not have a significant impact on the company's financial statements.

IFRS 16 „Leases “ effective for annual periods beginning on or after 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The company assesses that the impact of the change is significant, as the amount of future lease payments is significant (see note 12). As the standard is effective from 1 January 2019, the management is planning to carry out a detailed lease contract analysis in the year 2018 to determine the precise impact of the amendment. Also, the company is planning to evaluate if certain contracts which are currently not accounted as lease agreements, would be in the scope of the new standard, and if so, whether to apply the transition exemption in respect of reassessment of such agreements.

New or revised standards and interpretations issued by the *International Accounting Standard Board* (IASB) that are not yet adopted by the European Union:

IFRIC 22 "Foreign Currency Transactions and Advance Consideration“ effective for annual periods beginning on or after 1 January 2018. The interpretation specifies the recognition of currency changes impact from advances made in foreign currency. The company is currently assessing the impact of the amendments on its financial statements.

IAS 40 „Transfers of Investment Property“ effective for annual periods beginning on or after 1 January 2018. The amendment clarifies stricter policies for transferring assets to, or from, investment properties. The company is currently assessing the impact of the amendments on its financial statements.

The other new or revised standards or interpretations, which are not yet effective, are not expected to have a material impact on the company.

Financial assets

Financial assets comprise of cash and cash equivalents, trade receivables, accrued income and other current and non-current receivables.

Financial assets are recognised in the balance sheet at value date (the date when the company becomes the owner of the financial asset and derecognised when the company has transferred all the significant risks and rewards of ownership to the buyer.)

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are divided into the following groups:

- financial assets at fair value through income statement
- loans and receivables
- held-to-maturity investments
- available-for-sale financial assets.

As at 31 December 2017, 2016 and 2015 the company has not classified any financial assets as held-to-maturity investments, available-for sale financial assets or financial assets at fair value through income statement.

Financial instrument at fair value through profit or loss comprise of finance assets held for trading (asset that is acquired for the purpose of reselling in the near future). Financial assets at fair value through profit or loss are initially recognised at their fair value, attributable transaction costs are recognised in the income statement. Financial assets in the aforementioned category are still recognised at their fair value and the gains and losses arising from changes in their fair value are recognised in the income statement as profit/loss of the period. The fair value of the financial assets at fair value through profit or loss is determined from the quoted market prices at the balance sheet date.

Loans and receivables are initially recognised at fair value, together with transaction costs attributable to the financial asset. After initial recognition, loans and receivables are carried for at amortised cost using the effective interest rate method (less any impairment losses).

The recoverable amount of financial assets carried at amortised cost is the present value of expected future cash flows received from the financial assets, discounted with the effective interest rate fixed on the moment of the initial recognition of the asset. The impairment of financial assets is recognised as expense in the income statement.

Cash and cash equivalents

For the purposes of the balance sheet and the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except for overdraft), demand deposits held in banks, term deposits with maturities of one year or less and money market fund (MMF) units.

Overdrafts are recognised in the balance sheet as non-current borrowings.

Foreign currency transactions and financial assets and liabilities denominated in a foreign currency

The functional currency of the company's branches is the currency of their economic environment. The functional currency of the Estonian company and the branch registered in Finland is Euro, Danish branch's functional currency is Danish Krone and the functional currency of Swedish branch is Swedish Krona. The financial statements are presented in thousands of euros. Foreign currency transactions have been translated into the functional currency using the official exchange rate of the European Central Bank or official exchange rate of Central Bank of Denmark or Sweden. Exchange rate differences between the cash transfer date and the transaction date, the currency translation differences are recognised in the income statement. Monetary assets and liabilities denominated in a foreign currency are translated using the official exchange rate of the European Central Bank or official exchange rate of Central Bank of Denmark or Sweden applicable at the end of the reporting period. Any translation gains and losses are recognised in the income statement. Gains and losses on translation of payables and cash and cash equivalents are recognised as finance income and costs in the income statement; other gains and losses from exchange rate changes are recognised as other operating income or operating expenses. Non-monetary financial assets and liabilities carried at fair value, denominated in a foreign currency, are revaluated into functional currency, based on the foreign currency exchange rates of the European Central Bank or exchange rates of the Central Bank of Denmark or Sweden on the date of the evaluation of fair value. Non-monetary financial assets and liabilities, denominated in a foreign currency, which are not recognised at fair value (for example advances, inventories recognised at cost, property, plant and equipment and intangible assets), will not be revaluated on the balance sheet date but will be reflected based on the foreign currency exchange rates of the Central Bank prevailing on the transaction date.

None of the company's branch offices operates in a hyperinflationary economic environment.

Financial statements of foreign branches

For consolidation purposes, the financial statements of foreign branches will be translated from their functional currency to the presentation currency of ETS NORD AS. If the functional currency of the foreign branch is not the same as the presentation currency of ETS NORD AS the following exchange rates will be used to convert the foreign currency:

a) assets and liabilities are translated into euros at the exchange rate of the European Central Bank prevailing at the balance sheet date;
b) income and expenses, cash flows and other changes in equity are translated at the rate at the transaction dates. The differences arising from the conversion of the financial statements will be recognised as other comprehensive profit or loss in the statement of comprehensive income.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recorded at cost.

Receivables and prepayments

Current receivables arising in the company's ordinary course of business are recorded as trade receivables. Trade receivables are carried at amortised cost (i.e. nominal value less necessary allowances).

Impairment of receivables is recognised when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The likelihood of receipt of claims is assessed individually for each customer, if possible. If individual assessment is not possible due to the amount of receivables, only significant receivables are individually assessed. The remainder of the receivables are collectively assessed for impairment using previous years' experience on uncollectible receivables. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

All other receivables (accrued income, loans granted and other current and non-current receivables), except receivables acquired for resale, are measured at amortised cost. Receivables acquired for resale are carried using the fair value method.

Inventories

Inventories are stated at the lower of acquisition cost and net realisable value. Inventories are initially recognised at acquisition cost which consists of purchase costs, production costs and other costs incurred in bringing the inventories to their current condition and location.

In addition to the purchase price, purchase costs also include custom duties, other non-refundable taxes and directly attributable transport, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct raw materials and materials and packing material costs, unavoidable storage costs related to work in progress, direct labour costs), and also a proportional part of general production overheads (depreciation of production buildings and equipment, repair and maintenance costs, salaries of management involved in production activities).

The cost of inventories is accounted for and their book value is calculated by using the FIFO method.

Investment properties

Investment properties are real estate properties (building) that the company owns or leases under operating lease terms for the purpose of earning rental income or benefitting from the increase of the market value, and that are not used for the company's operating activities.

Investment properties are recognised in the balance sheet at fair value.

Property, plant and equipment and intangible assets

Items of property, plant and equipment are initially recognised at its cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Property, plant and equipment are subsequently carried at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the basis of useful lives of items of property, plant and equipment, using the straight-line method.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the disposal of items of property, plant and equipment are included either within other operating income or within other operating expenses in the income statement.

Intangible assets are recognised in the financial statements only if the following terms have been satisfied:

- the asset is controlled by the company;
- it is probable that the company will benefit from the use of the asset in the future;
- acquisition cost of the asset can be reliably measured.

Intangible assets are initially recognised at its cost which consists of the purchase price and other expenditures directly related to the acquisition. Intangible assets are subsequently carried at cost less accumulated depreciation and any impairment losses. Intangible assets are amortised by using the straight-line method during the estimated useful life. Improvement costs of non-current assets, which increase the performance ability of such assets over the initially estimated level and will likely participate in generating future additional income, are capitalised in the balance sheet as non-current assets. Expenditures made with the objective of ensuring and preserving the future income from the asset, are recorded in expenses of the reporting period as incurred.

Assets that are subject to depreciation and amortisation are reviewed for any indication of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For impairment, the recoverable amount is evaluated either for a single asset item or for the smallest possible group of assets for which cash flow can be identified (cash generating unit). The impairment loss is expensed in the income statement.

At the end of every reporting period, it is assessed whether there are circumstances indicating that the impairment loss of assets recognised in previous years no longer exists or it has decreased (except goodwill which for impairment loss is not reversed). If the impairment test indicates that the recoverable amount of an asset or an asset group (cash generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognised in the income statement as a reduction of the impairment loss.

Research and development costs

Development costs are costs that are incurred in applying research findings for the development of specific new products or services. Development costs can capitalised if a plan exists for implementing the project and it is possible to assess the future income generated by the intangible asset. The company does not capitalise development costs, as the product development and research stages cannot be clearly differentiated and it is difficult to reliably estimate the possible future income generated by the intangible asset.

Threshold for recognising assets as items of property, plant and equipment and intangible assets: 959 euros

Useful lives assigned to asset classes (in years)

Assets class	**Useful life**
Buildings and structures	3-11
Production equipment	5-20
Inventory and IT equipment	3-5
Machinery and equipment	3-6
Intangible assets	3-5

Disposal of property, plant and equipment and intangible assets

Gains and losses on disposals of property, plant and equipment and intangible assets are recognised in the income statement under “Other operating income” or “Other operating expenses”.

Impairment of non-financial assets

As at the balance sheet date, the company does not have assets with indefinite useful lives. Assets that are subject to depreciation and amortisation are reviewed for any indication of impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Losses arising from the impairment of assets are recognised in the amount which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the:

- fair value of the asset less costs to sell;
- value in use.

In case it is not possible to determine the fair value of the asset less costs to sell, the asset’s value in use is considered its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or for a group of assets (cash generating unit). A cash generating unit is the smallest separately group of identifiable assets the cash flow generated can be forecast for significant part regardless of cash flow generated from the rest of assets. The impairment loss is expensed immediately in the income statement.

Depending on the results of the impairment test, the previously recognised impairment loss could be partially or completely reversed.

Leases

Leases which transfer all significant risks and rewards, incidental to ownership, to the lessee are classified as finance leases. All other leases are classified as operating leases.

The company as a lessee

Assets and liabilities under finance leases are initially recognised at the lower of the fair value of the leased property and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Financial expenses are allocated over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability. Assets leased under finance leases are depreciated similarly to acquired non-current assets. When the transfer of ownership is not sufficiently certain, the deprecation period is the lower of the asset’s expected useful life or the duration of the lease period.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The company as a lessor

Assets leased out under finance lease terms, are recorded in the balance sheet as receivables in the amount of the net investment made (equal to the present value of the lease payments receivable, plus the non-guaranteed residual value of the leased asset at the end of the lease). Lease payments received from the lessee are allocated between principal repayments and finance income. The finance income is allocated over the lease period using the net investment method, which reflects a constant periodic rate of return. Initial direct expenses related to the conclusion of the lease agreement (commissions and notary fees), that are attributable to the lessor, are taken into account in calculating the effective interest rate and finance lease receivable and are recognised as a reduction of income during the lease period.

Assets leased out under operating lease terms are recognised in the balance sheet in regular circumstances, similar to other assets recognised in the company’s balance sheet.

Leased out assets are depreciated using the depreciation principals applied in the company for assets of the same type. Operating lease payments are recognised as income over the lease period on a straight-line basis. Initial direct expenses related to the conclusion of the lease agreement are recognised in the lessor’s balance sheet as assets (as the same item as the leased asset) and amortised over the lease period proportionally to the recognition of rental income.

Financial liabilities

All financial liabilities (trade payables, loans and borrowings, accrued expenses, debt securities issued and other current and non-current payables) are recognised initially at cost. The cost of a financial liability includes all expenses directly attributable to its acquisition or issue. Thereafter financial liabilities are measured at amortised cost.

As a rule, the amortised cost of current financial liabilities is equal to their nominal value. Therefore, current financial liabilities are reported at the amount payable. The amortised cost of non-current financial liabilities is determined using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the company does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date that are refinanced as long-term after the balance sheet date but before the financial statements are authorised for issue, are recognised as current liabilities. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current liabilities.

Provisions and contingent liabilities

Provisions are recognised in the statement of financial position when the company has a present legal or contractual obligation which has arisen as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the liability can be reliably estimated.

Provisions have been recognised based on the best estimates of the management and the actual costs of these transactions can differ from the provided estimates.

Other possible or existing liabilities, which will probably not require an outflow of resources or for which a reliable estimate of resources is not possible, are disclosed as contingent liabilities in the notes to the financial statements.

Warranty provision

The company gives warranties on products sold. Previous years' experience shows that the company's guarantee costs are insignificant and, accordingly, no warranty provision has been established, except in exceptional cases, when provisions are established according to management's assessment.

Statutory reserve capital

Reserve capital is formed to comply with the requirements of Articles of Association. Reserve capital is formed from annual net profit allocations. During each financial year, at least 1/20 of the net profit shall be entered in reserve capital, until reserve capital reaches 1/10 of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments to shareholders cannot be made from reserve capital.

Revenue

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership of the goods have been transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the company.

Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method.

Revenue from interest is recognised when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of revenue can be measured reliably. Revenue arising from interest is recognised taking into account the effective interest rate, except if the receipt of interest is uncertain. In such cases, interest income is accounted for on a cash basis.

Income from services regarding construction contracts in progress are recognised using the stage of completion method, which among other things requires that the stage of completion of construction contracts can be measured reliably at the balance sheet date. In order to measure the stage of completion the company has introduced a precise, systematic accounting for expenses, forecast and income reporting. The expected final outcome of each construction site is under continuous control; deviations from the budget are analysed and forecast for the final outcome is adjusted, if necessary.

Statement of cash flows

The indirect method has been used for the preparation of the cash flow statement. Cash flows from operating activities are determined by adjusting the net profit for the financial year through elimination of the effect of non-monetary transactions, changes in the balances of assets and liabilities related to operating activities and revenue and expenses related to investing or financing activities. Cash flows from investing and financing activities are reported using the direct method.

Taxation

Corporate income tax in Estonia

Under Estonian laws, corporate profit for the year is not subject to income tax. Because of the specific nature of the taxation system, there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and, therefore, deferred tax assets and liabilities do not arise. In Estonia, instead of taxing the profit, the distribution of retained earnings is subject to income tax of 20/80 of the amount paid out as dividends (effective from 1 January 2015). Income tax payable on dividends is recognised as income tax expense and a liability at the time the dividend is declared, regardless of the period for which the dividend is declared or the period in which the dividend is actually distributed.

As of 1 January 2018, the dividend tax rate will change (depending on the company, the tax rate on dividends paid may decrease to 14/86 of net dividends paid). The management evaluates that the change will not have a significant impact on the subsequent reporting period, the impact might take place starting from 2019.

The contingent liability resulting from possible dividend pay out is not recognised in the balance sheet. The maximum income tax liability that would arise if all of the unrestricted equity were distributed as dividends is disclosed in the notes to the financial statements.

Corporate income tax in other countries

According to local income tax legislation, the profits of branches in Sweden, Denmark and Finland are adjusted for the permanent and temporary differences provided by law.

Income tax rates	**2017**	**2016**	**2015**
Finland	20%	20%	20%
Sweden	22%	22%	22%
Denmark	22%	22%	23.5%

Related parties

Parties are considered to be related if one party has control over the other party or can exercise significant influence over the financial decisions of the other party. For the company the following are considered to be related parties:

- management and supervisory board members, and persons holding significant share (except if the relevant persons cannot exercise significant influence over the entity’s financial decisions);
- immediate family members of management and supervisory board members, and persons holding significant share and entities under their control or significant influence.

Events after the balance sheet date

Significant circumstances that have an adjusting effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements (8 March 2018) but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements.

Note 2 Transition to International Financial Reporting Standards (IFRS)

Impact of IFRS on financial statements

The financial statements of the company for the financial year 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Previously, financial statements were prepared in accordance with the Estonian financial reporting standard. The transition from the Estonian financial reporting standard to IFRS, as adopted by the European Union, has not led to significant changes in classification of balance sheet and income statement line items. In the cash flow statement no changes in presentation has been made compared to financial statements prepared in accordance with the Estonian financial reporting standard.

IFRS 1 requires, with certain exceptions, a retrospective application of the standards and interpretations valid on financial year ended on 31 December 2017. The Company has prepared the IFRS opening balance sheet as at 1 January 2016 and financial statements in subsequent periods until the date of first IFRS reporting according to such versions of standards.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. Significant estimate for the company is the estimation of investment property’s fair value. Refer to note 8 for the significant inputs of the regarding estimation.

Financial statements prepared in accordance with the Estonian financial reporting standard compared to financial statements prepared in accordance with IFRS

In accordance with IFRS 1, the company has to identify possible adjustments for the corresponding period in the balance sheet, income statement, statement of changes in equity and statement of cash flows.

The Company has not identified any significant differences between the previously applied Estonian financial reporting standard and the IFRS that are applicable to the company. Consequently, the reconciliation required by IFRS 1.24 has not been recognised in these financial statements since no adjustments were made for profit or loss, equity or cash flows.

Note 3 Financial risk management

Note 3.1 Financial risks

The operations of the company expose it to several financial risks: credit risk, liquidity risk and market risk (which involves foreign currency exchange risk and interest rate risk of cash flows). The general risk management programme of the company focuses on unpredictability of the financial market and attempts to minimise any possible negative effects on the financial activities of the company. The company's financial instruments include cash for funding operating activities and receivables from debtors and payables to creditors arising in operating activities as well as loans. Management defines risk as a potential deviation from the expected results. The company's risk management is based on internal regulations. All financial assets of the company are in the category of „loans and receivables", all financial liabilities are in the category of "Liabilities at amortised cost" carried at amortised cost.

in thousands of euros	**31.12.2017**	**31.12.2016**	**01.01.2016**
Financial assets			
Cash and cash equivalents	203	132	147
Trade receivables (Note 4)	4,406	3,500	2,622
Other receivables (Note 4)	6	137	118
Total financial assets	**4,615**	**3,769**	**2,887**
Financial liabilities			
Borrowings (Note 13)	6,591	4,373	3,671
Trade payables (Note 14)	2,372	2,035	1,476
Other payables (Note 14)	951	642	617
Total financial liabilities	**9,914**	**7,050**	**5,764**

Note 3.1.1 Credit risk

Company's credit risk is the risk of the inability of its business partners to meet their contractual obligations. The company's credit risk arises from cash and cash equivalents, deposits in banks and financial institutions as well as receivables exposed to risk.

As at 31 December 2017, the company is open to credit risk in the amount of EUR 4,615 thousand, as at 31 December 2016 in the amount of EUR 3,769 thousand and as at 1 January 2016 in the amount of EUR 2,887 thousand.

Cash and cash equivalents

The company approves banks and financial institutions with the credit rating of "A" as its long-term collaboration partners, however, for short period banks without a credit rating are also approved.

in thousands of euros	**31.12.2017**	**31.12.2016**	**01.01.2016**
Credit rating "A"	203	132	147
Total	**203**	**132**	**147**

The credit rating is derived from the website of Fitch Ratings.

Cash balance as at 31 December 2017 was EUR 1 thousand (31 December 2016: EUR 2 thousand; 1 January 2016: EUR 0 thousand).

Receivables

Pursuant to the company's credit policy, no security is required from wholesale customers to ensure collection of receivables, but focus is laid on monitoring deliveries, balances of trade receivables and compliance with payment terms on a continuous basis. For riskier clients, complete or partial prepayment, credit limits and shorter payment terms are applied.

As a rule, sales to retail customers occur in cash, using prepayments or bank credit cards, therefore there is no credit risk related to sale to retail customers except for risk related to banks and financial institutions that the company has approved as its business partners.

As at the balance sheet date, the company was not aware of any major risks related to trade receivables, which had been deemed as uncollectible. The company monitors the financial position of its current and potential partners and their ability to meet the obligations they have assumed.

in thousands of euros	**31.12.2017**	**31.12.2016**	**01.01.2016**
Not overdue	3,444	2,968	2,381
Overdue	962	532	241
incl. 1-45 days overdue	*926*	*513*	*233*
incl. 46-90 days overdue	*36*	*9*	*8*
incl. more than 91 days overdue	*0*	*10*	*0*
Total trade receivables	**4,406**	**3,500**	**2,622**

In the reporting period, the company has written down overdue invoices in the amount of EUR 29 thousand, allowances are made based on each customer's credit risk. Refer to note 4 for further information regarding allowances. Receivables that are not overdue have not been written down as continuous analysis of customer's payment behaviours and historical customer relationships have not given management any indications for additional allowances for receivables. As at the compilation of the annual report, the amount of outstanding receivables (both overdue and not overdue), recognised in the balance sheet as at 31 December 2017, amount to EUR 153 thousand.

Note 3.1.2 Liquidity risk

Liquidity risk is a potential loss arising from limited or insufficient monetary funds necessary for the meeting of obligations arising from the company's operations. Management constantly monitors cash flow forecasts, evaluating the existence and availability of the company's monetary resources to meet the obligations assumed and to fund the company's strategic goals.

Analysis of financial liabilities by maturity as at 31 December 2017:

in thousands of euros	**Undiscounted cash flows**			
	Balance at 31.12.2017	**1-12 months**	**1-5 years**	**Total**
Borrowings (Note 13)	6,591	1,371	5,322	6,693
Trade payables (Note 14)	2,372	2,372	0	2,372
Other payables (Note 14)	951	833	118	951
Total	**9,914**	**4,576**	**5,440**	**10,016**

Analysis of financial liabilities by maturity as at 31 December 2016:

in thousands of euros	**Undiscounted cash flows**			
	Balance at 31.12.2016	**1-12 months**	**1-5 years**	**Total**
Borrowings (Note 13)	4,373	3,455	976	4,431
Trade payables (Note 14)	2,035	2,035	0	2,035
Other payables (Note 14)	642	642	0	642
Total	**7,050**	**6,132**	**976**	**7,108**

Analysis of financial liabilities by maturity as at 1 January 2016:

in thousands of euros	Undiscounted cash flows			
	Balance at 01.01.2016	**1-12 months**	**1-5 years**	**Total**
Borrowings (Note 13)	3,671	1,758	1,991	3,749
Trade payables (Note 14)	1,476	1,476	0	1,476
Other payables (Note 14)	617	491	126	617
Total	**5,764**	**3,725**	**2,117**	**5,842**

For determining cash flows for interest bearing borrowings, which are based on floating interest rate, the spot interest rate has been used. The unused limit of company´s overdraft facilities as at 31 December 2017 was EUR 438 thousand (as at 31 December 2016: EUR 675 thousand; as at 1 January 2016: EUR 1,067 thousand). Principal repayments of long-term bank loans will be based on the payment schedule included in the loan agreements.

Note 3.1.3 Market Risk

Interest rate risk of cash flows

The interest rate risk of the company's cash flows is mainly related to long-term debt obligations with a floating interest rate.

The company is exposed to cash flow risk affected by interest rate changes, because the loan has a variable interest rate – the sensitivity analysis for fluctuation in interest rates is presented below. The management estimates that the cash flow risk related to changes in interest rates is not material, therefore financial instruments are not used to hedge risks.

The interest rate risk of the company depends mainly on possible changes in euribor (*Euro Interbank Offered Rate)* and Danske Bank EUR Prime Estonia. The Danske Bank EUR Prime Estonia interest rate has remained unchanged at 0.05% since 15 January 2016, interest rates for loans and leases are tied to 6-month euribor. As at 31 December 2017, 6-month euribor was -0.271% (31 December 2016: 6-month euribor -0.220%; 1 January 2016: 6-month euribor -0.041%). Although the euribor is negative, in newer lease agreements it is set to 0%, therefore the continued decline of euribor does not have an interest expense reducing effect.

The dates for fixing interest rates on the basis of changes in euribor are the 25th day of February and August in case of long-term loans and leases.

As at 31 December 2017, the total carrying amount of the borrowings was EUR 6,584 thousand. As at 31 December 2016 EUR 4,366 thousand and as at 1 January 2016 EUR 3,667 thousand.

If the current interest rates of the borrowings would change 0.5%, the effect on the net profit for the year 2017 would be EUR 26 thousand (2016: EUR 20 thousand).

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the company may incur a significant loss as a result of fluctuations in foreign currency exchange rates. Company's foreign currency exchange risk from export-import transactions is low because most of the contracts have been concluded in euros. In the financial year, the company collected in currencies not directly or indirectly tied to the Euro.

The company's foreign currency positions and sensitivity analysis at 31 December 2017:

Amounts in thousands of euros	EUR	SEK	DKK	USD	CHF	TOTAL
Cash and cash equivalents	188	0	15	0	0	203
Trade receivables (Note 4)	4,135	0	271	0	0	4,406
Other receivables (Note 4)	6	0	0	0	0	6
Total financial assets	**4,329**	**0**	**286**	**0**	**0**	**4,615**
Borrowings (Note 13)	6,591	0	0	0	0	6,591
Trade payables (Note 14)	2,281	23	49	19	0	2,372
Other payables (Note 14)	943	6	2	0	0	951
Total financial liabilities	**9,815**	**29**	**51**	**19**	**0**	**9,914**
Net foreign currency positions	**-5,486**	**-29**	**235**	**-19**	**0**	**-5,299**
Strengthening or weakening of foreign currency against EUR, %		6%	0	15%	0	
Effect on net profit (loss) EUR		-2	0	-3		-5

The company's foreign currency positions and sensitivity analysis at 31 December 2016:

Amounts in thousands of euros	EUR	SEK	DKK	USD	CHF	TOTAL
Cash and cash equivalents	110	0	22	0	0	132
Trade receivables (Note 4)	3,446	0	54	0	0	3,500
Other receivables (Note 4)	137	0	0	0	0	137
Total financial assets	**3,693**	**0**	**76**	**0**	**0**	**3,769**
Borrowings (Note 13)	4,373	0	0	0	0	4,373
Trade payables (Note 14)	2,000	14	20	0	1	2,035
Other payables (Note 14)	642	0	0	0	0	642
Total financial liabilities	**7,015**	**14**	**20**	**0**	**1**	**7,050**
Net foreign currency positions	**-3,322**	**-14**	**56**	**0**	**-1**	**-3,281**
Strengthening or weakening of foreign currency against EUR, %		9%	1%	12%	5%	
Effect on net profit (loss) EUR		-1	0	0	0	-1

The company's foreign currency positions and sensitivity analysis at 1 January 2016:

Amounts in thousands of euros	EUR	SEK	DKK	USD	CHF	TOTAL
Cash and cash equivalents	131	16	0	0	0	147
Trade receivables (Note 4)	2,622	0	0	0	0	2,622
Other receivables (Note 4)	118	0	0	0	0	118
Total financial assets	**2,871**	**16**	**0**	**0**	**0**	**2,887**
Borrowings (Note 13)	3,671	0	0	0	0	3,671
Trade payables (Note 14)	1,474	2	0	0	0	1,476
Other payables (Note 14)	617	0	0	0	0	617
Total financial liabilities	**5,762**	**2**	**0**	**0**	**0**	**5,764**
Net foreign currency positions	**-2,891**	**14**	**0**	**0**	**0**	**-2,877**
Strengthening or weakening of foreign currency against EUR, %		6%	0	0	0	
Effect on net profit (loss) EUR		1	0	0	0	1

The company has not acquired any hedging instruments to hedge the currency risk.

Note 3.2 Capital management

In capital risk management, the company's main goal is to ensure the company's sustainability of operations in order to generate returns to its shareholders and benefits to other stakeholders, thereby maintaining the optimal capital structure to lower the cost of capital. In order to preserve or improve the capital structure, the company can regulate the dividends payable to shareholders, reimburse the paid in capital, issue new shares or sell assets to lower its liabilities. The management monitors capital on the basis of the debt to capital ratio. This ratio is calculated as net debt divided by total capital. The company finances business activities in terms of both loan capital and equity.

One of the loan agreements of the company specifies special conditions (total equity divided by total capital), the non-fulfilment of which may prompt the creditor to demand premature payment of the loan. As at the balance sheet date, the financial indicators of the company are compatible with the special conditions set by the loan agreements.

in thousands of euros	**31.12.2017**	**31.12.2016**	**01.01.2016**
Total assets	18,852	14,864	12,606
Total equity	6,830	6,228	5,512
Equity to assets ratio	36%	42%	44%

As at 31 December 2017, 31 December 2016 and 1 January 2016 the company's equity complied with the requirements of the Commercial Code.

Note 3.3 Fair value

Trade receivable, trade payable and short-term loans are recorded in adjusted acquisition cost and since trade receivable, trade payable and short-term loans are short-term, management estimates that their carrying amounts are close to their fair values.

The fair values of long-term loans and borrowings (except overdraft) do not significantly differ from their carrying value because the floating interest rates of loans correspond to fluctuation of the interest rates prevailing in the market. The risk margin of loans is dependent on the ratio of total debt and EBITDA, therefore the performance of the company's operations is reflected in the risk margin (Level 3).

Considering the previous information, the management estimates that the fair values of long-term liabilities do not materially differ from their carrying amounts.

Note 4 Receivables and prepayments

(in thousands of euros)

	31.12.2017	Repayment period		Note
		Up to 12 months	1 - 5 years	
Trade receivables	4,406	4,406	0	5
Receivables from customers	4,421	4,421	0	5
Allowance for doubtful receivables	-15	-15	0	5
Prepaid taxes and receivables for reclaimed taxes	86	86	0	6
Other receivables	6	6	0	
Prepayments	219	219	0	
Total receivables and prepayments	**4,717**	**4,717**	**0**	

	31.12.2016	Repayment period		Note
		Up to 12 months	1 - 5 years	
Trade receivables	3,500	3,500	0	5
Receivables from customers	3,530	3,530	0	5
Allowance for doubtful receivables	-30	-30	0	5
Prepaid taxes and receivables for reclaimed taxes	167	167	0	6
Other receivables	137	137	0	
Prepayments	208	208	0	
Total receivables and prepayments	**4,012**	**4,012**	**0**	

	01.01.2016	Repayment period		Note
		Up to 12 months	1 - 5 years	
Trade receivables	2,622	2,622	0	5
Receivables from customers	2,634	2,634	0	5
Allowance for doubtful receivables	-12	-12	0	5
Prepaid taxes and receivables for reclaimed taxes	130	130	0	6
Other receivables	118	2	116	
Prepayments	65	65	0	
Total receivables and prepayments	**2,935**	**2,819**	**116**	

Note 5 Trade receivables

(in thousands of euros)

	31.12.2017	31.12.2016	01.01.2016	Note
Receivables from customers	4,421	3,530	2,634	4
Allowance for doubtful receivables	-15	-30	-12	4
Total trade receivables	**4,406**	**3,500**	**2,622**	
Allowance for doubtful receivables				
Allowance for doubtful receivables at the beginning of period	-30	-12	-5	
Allowance for doubtful receivables recognised	-29	-30	-12	
Irrecoverable receivables	44	12	5	
Allowance for doubtful receivables at the end of period	**-15**	**-30**	**-12**	

Note 6 Tax prepayments and liabilities

(in thousands of euros)

	31.12.2017		31.12.2016		01.01.2016	
	Prepayment	Liability	Prepayment	Liability	Prepayment	Liability
Value added tax	84	742	61	507	130	406
Personal income tax	0	152	0	114	0	105
Income tax on fringe benefits	0	6	0	2	0	3
Social security tax	0	215	0	169	0	155
Contributions to mandatory funded pension	0	6	0	10	0	4
Unemployment insurance premiums	0	9	0	7	0	7
Prepayments account balance	2	0	106	0	0	0
Total tax prepayments and liabilities	**86**	**1,130**	**167**	**809**	**130**	**680**

Tax prepayments and liabilities are also disclosed in notes 4 and 14.

Possible contingent liabilities due to tax revisions.

The tax authorities may at any time inspect the books and records of the Company within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. The management of the Company is not aware of any circumstances, which may give rise to a potential material liability for the company in this respect.

Note 7 Inventories

(in thousands of euros)

	31.12.2017	31.12.2016	01.01.2016
Raw materials	1,543	963	777
Work in progress	63	51	60
Finished goods	2,200	1,331	1,328
Goods purchased for resale	1,440	1,472	1,251
Prepayments to suppliers	53	2	0
Total inventories	**5,299**	**3,819**	**3,416**

During 2017 inventories in the amount of EUR 26 thousand were written off (2016: EUR 62 thousand; 2015: EUR 66 thousand) (Note 17).

Note 8 Investment properties

(in thousands of euros)

Fair value method	
31.12.2014	0
Acquisitions	53
Profit (loss) from changes in fair value	1,280
Reclassification	1,167
01.01.2016	**2,500**
Profit (loss) from changes in fair value	50
31.12.2016	**2,550**
Profit (loss) from changes in fair value	0
31.12.2017	**2,550**

	2017	2016	2015
Rental income from investment properties	243	239	40
Direct administrative costs of investment properties	0	0	7

As at 31 December 2017, the discounted cash flow method is used to determine the fair value of the investment properties. Discount rate used for the valuation is 10% (2016: 10%) and total generated cash flow amounts to EUR 2,741 (2016: 2,741) thousand.

Expertise of independent professional valuer is used to determine the fair value.

Note 9 Property, plant and equipment

(in thousands of euros)

	Buildings and facilities	Machinery and equipment	Other property, plant and equipment	Unfinished projects and prepayments	Total
01.01.2016					
Cost	327	5,497	375	8	6,207
Accumulated depreciation	-170	-2,363	-210	0	-2,743
Carrying amount	**157**	**3,134**	**165**	**8**	**3,464**
Acquisitions	58	1,067	100	277	1,502
Depreciation	-42	-576	-56	0	-674
Disposals	0	-34	0	0	-34
Reclassifications	115	0	0	-115	0
Other changes	0	-1	1	0	0
31.12.2016					
Cost	500	6,458	435	170	7,563
Accumulated depreciation	-212	-2,868	-225	0	-3,305
Carrying amount	**288**	**3,590**	**210**	**170**	**4,258**
Acquisitions	20	2,382	146	4	2,552
Depreciation	-55	-697	-68	0	-820
Disposals	0	-34	0	0	-34
Reclassifications	0	193	-23	-170	0
Write-offs	0	-1	0	0	-1
Unrealised exchange rate differences	0	-7	0	0	-7
31.12.2017					
Cost	520	8,715	519	4	9,758
Accumulated depreciation	-267	-3,289	-254	0	-3,810
Carrying amount	**253**	**5,426**	**265**	**4**	**5,948**

Disposed property, plant and equipment at selling price

	2017	2016	2015
Machinery and equipment	98	30	8
Transportation	0	26	2
Other machinery and equipment	98	4	6
Total	**98**	**30**	**8**

In 2017, the company has acquired machinery and equipment under terms of finance lease in the amount of EUR 2,314 thousand (2016: 434 thousand; 2015: 712 thousand). Gains from disposals of non-current assets amounted to EUR 64 thousand in 2017 (2016: loss in the amount of EUR 4 thousand, 2015: loss in the amount of EUR 13 thousand). These amounts have been subtracted by any expenses related to the disposal of non-current assets, which the company did not have in 2017 (2016: none, 2015: EUR 4 thousand).

Note 10 Intangible assets

(in thousands of euros)

	Other intangible assets	Prepayments	Total
01.01.2016			
Cost	290	0	290
Accumulated depreciation	-146	0	-146
Carrying amount	**144**	**0**	**144**
Amortisation	-51	0	-51
31.12.2016			
Cost	282	0	282
Accumulated depreciation	-189	0	-189
Carrying amount	**93**	**0**	**93**
Acquisitions	54	34	88
Amortisation	-46	0	-46
31.12.2017			
Cost	334	34	368
Accumulated depreciation	-233	0	-233
Carrying amount	**101**	**34**	**135**

Note 11 Finance lease
(in thousands of euros)

The company as a lessee

	31.12.2017	Repayment period		Interest rate	Currency	Repayment date
		Up to 12 months	1 - 5 years			
Machinery and equipment	3,073	854	2,219	*	EUR	25.12.2022
Buildings and facilities	27	27	0	*	EUR	25.12.2018
Total finance lease liabilities	**3,100**	**881**	**2,219**			
	31.12.2016	**Repayment period**		**Interest rate**	**Currency**	**Repayment date**
		Up to 12 months	**1 - 5 years**			
Machinery and equipment	1,386	461	925	*	EUR	25.12.2021
Buildings and facilities	53	26	27	*	EUR	25.12.2018
Total finance lease liabilities	**1,439**	**487**	**952**			
	01.01.2016	**Repayment period**		**Interest rate**	**Currency**	**Repayment date**
		Up to 12 months	**1 - 5 years**			
Machinery and equipment	1,390	391	999	*	EUR	25.07.2019
Buildings and facilities	79	26	53	*	EUR	25.12.2018
Total finance lease liabilities	**1,469**	**417**	**1,052**			

*interest rate = 6-month euribor + risk margin.

Note 12 Operating lease
(in thousands of euros)

The company as a lessor

	2017	2016
Operating lease income	271	312

The company subleases office, warehouse and production premises and production machinery leased under operating lease terms. The investment property recognised in the balance sheet is also leased out under operating lease terms (Note 8).

The company as a lessee

	2017	2016
Operating lease expenses	1,545	1,526
Future lease payments under non-cancellable operating leases		
Up to 12 months	1,497	1,465

1-5 years	5,355	5,980

The company leases production, warehouse and office premises under operating lease terms. In addition, motor vehicles and warehouse and office equipment have been leased under operating lease terms.

Note 13 Borrowings

(in thousands of euros)

	31.12.2017	Repayment period		Interest rate	Currency	Repayment date
		Up to 12 months	1 - 5 years			
Credit cards	7	7	0		EUR	31.12.2018
Overdraft	2,962	0	2,962	**	EUR	15.04.2019
Bank loans	522	391	131	*	EUR	15.04.2019
Finance lease liabilities	3,100	881	2,219			
Total borrowings	**6,591**	**1,279**	**5,312**			
	31.12.2016	**Repayment period**		**Interest rate**	**Currency**	**Repayment date**
		Up to 12 months	**1 - 5 years**			
Credit cards	7	7	0		EUR	31.12.2017
Overdraft	2,024	2,024	0	**	EUR	31.12.2017
Bank loans	903	903	0	*	EUR	31.12.2017
Finance lease liabilities	1,439	487	952			
Total borrowings	**4,373**	**3,421**	**952**			
	01.01.2016	**Repayment period**		**Interest rate**	**Currency**	**Repayment date**
		Up to 12 months	**1 - 5 years**			
Credit cards	4	4	0		EUR	31.12.2016
Overdraft	933	933	0	**	EUR	31.12.2016
Bank loans	1,265	362	903	*	EUR	15.04.2017
Finance lease liabilities	1,469	417	1,052			
Total borrowings	**3,671**	**1,716**	**1,955**			

Carrying amount of assets pledged as collateral

	31.12.2017	31.12.2016	01.01.2016
Buildings and facilities	2,803	2,838	2,657
Machinery and equipment	5,426	3,590	3,134
Other property, plant and equipment	265	210	165
Inventories	5,299	3,819	3,416
Total	**13,793**	**10,457**	**9,372**

	31.12.2017	Change	31.12.2016	Change	01.01.2016
Credit cards	7	0	7	3	4
Bank loans	522	-381	903	-362	1,265
Overdraft	2,962	938	2,024	1,091	933
Finance lease liabilities	3,100	1,661	1,439	-30	1,469
additional finance lease agreements	-	2,314	-	434	-
finance lease repayments	-	-653	-	-464	-
Total borrowings	**6,591**		**4,373**		**3,671**

* interest rate = 6-month Euribor + risk margin

** interest rate = Danske EUR Prime Estonia + risk margin

The overdraft and investment loan received from A/S Danske Bank Estonia has been secured by a commercial pledge of I-VII order, set on a movable property as at 31 December 2017 in the amount of EUR 3 million (31 December 2016: EUR 3 million; 1 January 2016: EUR 3 million).

Mortgage for the benefit of A/S Danske Bank Estonia has been set on the registered immovable as at 31 December 2017 in the amount of EUR 1.6 million (31 December 2016: EUR 1.6 million; 1 January 2016: EUR 1.6 million).

Note 14 Payables and prepayments

(in thousands of euros)

	31.12.2017	Repayment period		Note
		Up to 12 months	1 - 5 years	
Trade payables	2,372	2,372	0	
Payables to employees	968	968	0	
Tax liabilities	1,130	1,130	0	6
Other payables	951	833	118	
Prepayments received	10	10	0	
Total payables and prepayments	**5,431**	**5,313**	**118**	
	31.12.2016	**Repayment period**		**Note**
		Up to 12 months	**1 - 5 years**	
Trade payables	2,035	2,035	0	
Payables to employees	772	772	0	
Tax liabilities	809	809	0	6
Other payables	642	642	0	
Prepayments received	5	5	0	
Total payables and prepayments	**4,263**	**4,263**	**0**	
	01.01.2016	**Repayment period**		**Note**
		Up to 12 months	**1 - 5 years**	
Trade payables	1,476	1,476	0	
Payables to employees	644	644	0	
Tax liabilities	680	680	0	6
Other payables	617	491	126	
Prepayments received	6	6	0	
Total payables and prepayments	**3,423**	**3,297**	**126**	

As at 31 December 2017 other payables comprise of interest payables in the amount of EUR 3 thousand (2016: EUR 3 thousand; 2015: EUR 3 thousand), payables to customers from customer contracts in the amount of EUR 756 thousand (2016: EUR 498 thousand; 2015: EUR 460 thousand) and other accrued expenses in the amount of EUR 192 thousand (2016: EUR 141 thousand; 2015: EUR 154 thousand).

Note 15 Share capital

(in thousands of euros)

	31.12.2017	31.12.2016	01.01.2016
Share capital	103	103	103
Number of shares (pcs)	172,000	172,000	172,000
Nominal value of shares	0.60	0.60	0.60

In 2017, dividends were declared in the amount of EUR 420 thousand (2016: EUR 300 thousand; 2015: EUR 100 thousand), on which income tax was calculated in the amount of EUR 105 thousand (2016: EUR 75 thousand; 2015: EUR 25 thousand). In 2017, total dividends paid amounted to EUR 420 thousand, in 2016 to EUR 300 thousand and in 2015 to EUR 195 thousand.

As at 31 December 2017, the retained earnings of the Company amounted to EUR 5,548 thousand (31 December 2016: EUR 4,970 thousand; 1 January 2016: EUR 4,243 thousand). As at the balance sheet date, it is possible to pay out EUR 4,438 thousand as dividends, at a maximum (31 December 2016: EUR 3,976 thousand; 1 January 2016: EUR 3,394 thousand). Payment of dividends would be accompanied by income tax of 20/80 (31 December 2016: 20/80; 1 January 2016: 20/80) on the paid net dividend amount of EUR 1,110 thousand (31 December 2016: EUR 994 thousand; 1 January 2016: EUR 849 thousand).

Note 16 Revenue

(in thousands of euros)

	2017	2016
Revenue by geographical location		
Revenue from European Union countries		
Finland	19,141	16,108
Estonia	7,933	6,741
Sweden	2,583	1,118
Denmark	690	95
Netherlands	78	0
Latvia	33	33
Poland	13	0
Italy	13	0
Lithuania	0	21
Germany	5	0
Other European Union countries	5	1
Total revenue from European Union countries	**30,494**	**24,117**
Revenue from outside of European Union countries		
Norway	53	0
Russia	28	0
Total revenue from outside of European Union countries	**81**	**0**
Total revenue	**30,575**	**24,117**
Revenue by operating activities		
Sale of self-manufactured ventilation equipment	24,123	18,953
Sale of purchased ventilation equipment	5,197	3,978
Income from leases and utility services	285	366
Waste management	328	232
Services	642	588
Total revenue	**30,575**	**24,117**

Note 17 Cost of goods sold

(in thousands of euros)

	2017	2016	Note
Raw materials	-10,909	-7,449	
Goods purchased for resale	-3,241	-2,663	
Personnel expense	-3,061	-2,616	20
Leases and rental charges	-585	-577	12
Depreciation and amortisation expense	-506	-434	9,10
Packaging material expense	-329	-233	
Service purchased for production	-204	-82	
Repair and maintenance costs	-161	-103	
Energy	-106	-103	
Miscellaneous office expense	-86	-81	
Utility costs	-79	-69	
Transportation expense	-43	-49	
Discount and write-off of inventories	-26	-62	7
Services purchased for resale	-25	-98	
Impairment of assets	-16	0	9
Other	-243	-233	
Total cost of goods sold	**-19,620**	**-14,852**	

Note 18 Marketing and distribution expense

(in thousands of euros)

	2017	2016	Note
Distribution expense	-2,226	-1,920	
Personnel expense	-1,584	-1,103	20
Miscellaneous office expense	-147	-199	
Travel expenses	-140	-109	
Advertising costs	-117	-133	
Leases and rental charges	-100	-85	12
Depreciation and amortisation expense	-77	-63	9,10
Impairment of assets	-1	-1	9
Other marketing expense	-283	-271	
Other	-89	-66	
Total marketing and distribution expense	**-4,764**	**-3,950**	

Note 19 General and administrative expense
(in thousands of euros)

	2017	2016	Note
Personnel expense	-2,738	-2,135	20
Leases and rental charges	-770	-736	12
Depreciation and amortisation expense	-266	-228	9,10
Miscellaneous office expense	-217	-162	
Packaging material expense	-146	-52	
Services purchased	-121	-136	
Transportation expense	-110	-89	
Utility costs	-84	-62	
Research and development expense	-74	-98	
Energy	-68	-56	
Repair and maintenance costs	-52	-35	
Travel expense	-39	-58	
Doubtful receivables expense	-24	-24	
Other	-306	-297	
Total general and administrative expense	**-5,015**	**-4,168**	

Note 20 Personnel expense
(in thousands of euros)

	2017	2016
Wages and salaries	-5,760	-4,546
Social security taxes	-1,210	-1,007
Pension costs	-413	-301
Total personnel expense	**-7,383**	**-5,854**
Average number of employees in full time equivalent units	222	203

Personnel expenses are distributed between cost of goods sold, marketing and distribution expenses and general and administrative expenses. See also notes 17, 18 and 19.

Note 21 Related parties

(in thousands of euros)

Balances with related parties by group

	31.12.2017		31.12.2016		01.01.2016	
	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Associates	130	31	99	0	65	0
Management and executive board members and substantial private owners and companies under their control or significant influence	62	10	66	8	73	11

Purchases and sales

	2017		2016	
	Purchases	Sales	Purchases	Sales
Associates	0	738	0	563
Management and executive board members and substantial private owners and companies under their control or significant influence	110	713	127	326
Substantial owners as corporate bodies and companies under their control or significant influence	0	0	4	0

Remuneration and other material benefits expense relating to key management personnel

	2017	2016
Calculated remuneration	358	337

Sales to related parties consist of self-manufactured and purchased equipment sales. Purchases to related parties consist of purchased services.

As at 31 December 2017 (also as at 31 December 2016 and as at 1 January 2016), no allowances have been made regarding receivables against related parties.

Upon termination of employment, termination benefits totalling up to 3-month remuneration will be paid to the members of the Management Board.

Note 22 Events after the balance sheet date

The Company has purchased assets of KH Vent A/S in Denmark after balance sheet date in the amount of EUR 328 thousand. Management is assessing if the purchase should be recognised under IFRS as a business combination or acquisition of assets.

Signatures to the 2017 annual report

ETS NORD AS (Commercial Registry No: 10462380) annual report for the period of 1 January 2017 – 31 December 2017 has been approved by:

Signer's name	Signer's position	Date and Signature
Ene Saluste	Member of the Management board	08.03.2018 /signed/
Urmas Hiie	Member of the Management board	08.03.2018 /signed/
Markku Olavi Mattila	Member of the Management board	08.03.2018 /signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS ETS NORD AS

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AS ETS NORD AS (the Company) as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We audited the Company's financial statements that comprise:

- the balance sheet as at 31 December 2017;
- the income statement and statement of other comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of 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 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.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information contained in the annual report in addition to the financial statements and our auditor's report thereon.

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

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

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

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

AS PricewaterhouseCoopers

/signed/	/signed/
Tiit Raimla Vandeaudiitor, litsents nr 287	Jüri Koltsov Vandeaudiitor, litsents nr 623

9. märts 2018

---

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

This independent auditor's report (translation of the Estonian original) should only be used with an annual report initialled for identification purposes by AS PricewaterhouseCoopers.