AS HARJU ELEKTER

Interim report 1-9/2018

Business name:	AS Harju Elekter
Main business area:	production of electrical distribution systems and control panels; production of sheet metal products; wholesale and mediation of goods, retail of light fittings and electrical appliances; real estate holding; management assistance and services, holding of investments
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CEO:	Andres Allikmäe
Auditor:	AS PricewaterhouseCoopers
Beginning of the reporting period:	1st of January 2018
End of the reporting period:	30th of September 2018

The interim report of Harju Elekter Group on 29 pages

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EXPLANATORY NOTE

Group structure and changes on it

In interim report for 1-9/2018 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Energo Veritas OÜ, Satmatic Oy, Finnkumu Oy, Telesilta Oy, Harju Elekter Kiinteistöt Oy, Harju Elekter AB, SEBAB AB, Grytek and AB Rifas UAB are consolidated line-by-line. In the third quarter, the subsidiary of Rifase UAB, Automatikos Iranga UAB, was liquidated due to the cessation of activities. The liquidated subsidiary has marginal impact on the consolidated financial statements.

In the first quarter, AS Harju Elekter purchased an 100% holding in Swedish company SEBAB AB, a provider of sales and technical solutions, and its sister company Grytek AB, a manufacturer of pre-fabricated technical buildings. The transaction was completed as at 8 January 2018. The financial indicators of SEBAB AB and Grytek AB are included in consolidated reports as of January 2018.

As of 30 September 2018, AS Harju Elekter has substantial holdings as follows:

Company		Country	30.9.18	31.12.17	30.9.17
AS Harju Elekter Elektrotehnika	Subsidiary	Estonia	100.0%	100.0%	100.0%
AS Harju Elekter Teletehnika	Subsidiary	Estonia	100.0%	100.0%	100.0%
Energo Veritas OÜ	Subsidiary	Estonia	80.52%	80.52%	80.52%
Satmatic Oy	Subsidiary	Finland	100.0%	100.0%	100.0%
Finnkumu Oy	Satmatic Oy`s subsidiary	Finland	100.0%	100.0%	100.0%
Telesilta Oy	Subsidiary	Finland	100.0%	100.0%	100.0%
Harju Elekter Kiinteistöt Oy	Subsidiary	Finland	100.0%	100.0%	100.0%
Rifas UAB	Subsidiary	Lithuania	100.0%	100.0%	100.0%
Automatikos Iranga UAB	Rifas UAB`s subsidiary	Lithuania	-	67.0%	67.0%
Harju Elekter AB	Subsidiary	Sweden	100.0%	100.0%	100.0%
SEBAB AB	Subsidiary	Sweden	100.0%	-	-
Grytek AB	Subsidiary	Sweden	100.0%	-	-
SIA Energokomplekss	Financial investment	Latvia	14.0%	14.0%	14.0%
Skeleton Tehnologies Group OÜ	Financial investment	Estonia	9.8%	9.8%	9.8%

Economic environment

International Monetary Fund (IMF) lowered its forecasts for global economic growth at the beginning of October. The IMF said the global economy will expand 3.7% this year and the next, down by 0.2 percent point from its earlier estimate. Geopolitical tensions and rising protectionism and trade policy continue to raise concerns, and the resulting impact of uncertainty is already revealing itself on a macro-economic level. At the beginning of October, a correction occurred on global stock markets and oil prices are also showing an upturn. The European economy is gradually slowing down. Even here, the increasing trade tensions, higher oil prices and political uncertainty in some member states are mentioned as sources of threat. According to the experts of the Estonian Institute of Economic Research, the Eurozone inflation expectations in 2018 are 1.7%, and in the European Union as a whole, 1.9%. Based on the SEB Pank forecast, the outlook of Estonia’s main trade partners remains good in the near years, however in comparison with the past, the growth will also decelerate here. The economies of bigger export partners, Finland and Sweden, will grow at a pace slightly above 2% in 2019 and 2020.

The opinion of the Estonian Institute of Economic Research experts from September, reveals that the economic situation in Estonia remains good. Statistical data of the first half year indicate that Estonia's economic growth has slowed down compared to the previous year (4.9%) but is still higher than its long-term potential (3%). Economic growth is supported by domestic demand as well as the export of goods and services; at the same time, we can see the first signs of deceleration of growth of external demand. According to Eesti Pank, the real growth of GDP in Estonia should be 3.5% in 2018.

Main events

The Estonian Chamber of Commerce and Industry recognised the most competitive companies of Estonia, where Harju Elekter ranked first in the field of industry and energy and second in large enterprises category. Since 2003, the organisers of the competition wish to recognise the good companies of Estonia, to value their role in society and to promote entrepreneurship. The calculation is based on two years of economic activity indicators: sales revenue, net profit, labour costs, investments in fixed assets, equity, number of employees and sales revenue.

In 2018, AS Harju Elekter Elektrotehnika was signed several supply agreements with Finnish, Swedish and Estonian electrical grid companies. With Caruna Oy, the largest electrical distribution company in Finland, was signed an agreement to supply LV cable distribution cabinets and metering boards to them in course of 2+1+1 years. The expected volume of the contract is 5 million euros. The framework contract was signed with the largest distribution network enterprise in Sweden E.ON Energidistribution AB, based on which more than 2,000 substations will be supplied to Sweden in the 3-year contract period and, the 5-year contract in total amount of 2.25 million euros with Elektrilevi OÜ for the supply of 250 kVA prefabricated substations to Estonia. Moreover, the subsidiary won a tender for the Swedish Ellevio AB O15 substation, the total amount of the 3-year contract is 3 million euros.

Active investing in the modernisation of production and technology of the Group throughout the year culminated in the inauguration of the FMS automated line in the extended plant of the subsidiary, AS Harju Elekter Teletehnika, on 6 September 2018. The activation of the robotised production line increases the factory's capacity to flexibly produce both small and large batches in a single stream, exponentially increasing the factory's productivity and bringing manufacturing within the Group to the smart factory, i.e. Industry 4.0 level. Together with the renovation works, in the course of which the subsidiary's production space increased to nearly 9,000 sq.m, the total cost of investments amounted to 3 million euros.

In Q3, AS Harju Elekter purchased 2.7 hectares of commercial and production land next to Kela Industrial Park in order to develop industrial real estate and expand its business.

In August, Harju Elekter's Lithuanian subsidiary RIFAS UAB concluded a contract with construction company Panevezio Statybos Trestas AB for the expansion of its production facilities in Panevežys. Construction started in September. In 2019, after the completion of the construction work, the office and production area of the Lithuanian subsidiary will increase from 3,500 sq.m to 9,000 sq.m. The extension allows for significant increase of production capacity to provide products and solutions for our customers in shipbuilding and industry segments. The total investments amounted to 3.5 million euros.

AS Harju Elekter Elektrotehnika opened its new factory in Keila Industrial Park in February. Thanks to several large orders, the Group's subsidiary, manufacturer of LV/MV distribution and control engineering devices, experienced significant growth in its production volume during 2017, which resulted in the need to expand the working premises. In comparison with the previous 10,400 sq.m, the new factory has 16,715 sq.m of space. The increase in production capacity, along with the growth in the number of employees to 251, including 40 sales, production and R&D engineers, is sufficient to seamlessly fulfil the current sales volume without any interruptions.

The AGM of shareholders of AS Harju Elekter, was held on 3 May 2018, approved the 2017 annual report and distribution of profit. At the same meeting, the shareholders appointed AS Pricewaterhouse-

Coopers as the auditor of AS Harju Elekter on the years 2018-2020 as well as approved the stock option program of the key persons belonging to the Harju Elekter Group.

On 8 January 2018, a transaction to acquire all of the shares of Swedish company SEBAB AB, a provider of sales and technical solutions, and subsidiary Grytek AB, a manufacturer of factory-made technical buildings, by AS Harju Elekter, entered into force. SEBAB AB is a marketing and engineering company for MV/LV power and distribution solutions for the construction, infrastructure and renewable energy sector. The acquired companies will continue as 100% subsidiaries of the Group.

During the year, the Group's subsidiaries participated actively in the professional fairs in Finland, Sweden and Estonia: the trade fair Sähkö Tele Valo AV 2018 in Jyvaskyla, Alihankinta fair in Tampere, EBR fair in Falun, the international fair Estbuild in Estonia and the Maamess fair in Tartu.

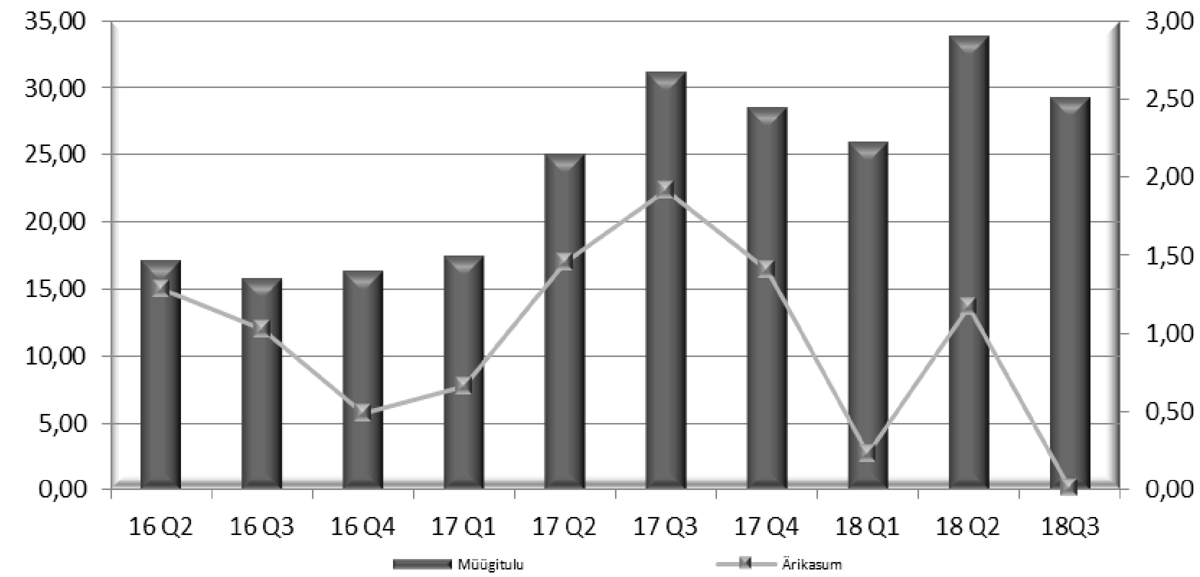
Operating results

AS Harju Elekter has focused on increasing sales and gaining market share in Scandinavia. 9-month sales revenue increased by 21%, but reaching the desired profitability requires additional time and expenses. The fulfillment of contractual orders in the third quarter was hampered by restrictions on electrical work related to fire risk in certain areas Finland. Profitability was substantially affected by the potential loss in the third quarter of 1.5 million euros in connection with the additional costs of shipbuilding electrical works. The actual result will be clear at the end of negotiations and legal disputes.

KEY INDICATORS

	January - September			Year
	2018	**2017**	**2016**	**2017**
Revenue (EUR'000)	89,134	73,850	44,759	102,668
Gross profit (EUR'000)	11,108	11,055	7,852	15,625
EBITDA (EUR'000)	3,300	5,241	3,883	7,587
EBIT (EUR'000)	1,406	4,037	2,694	5,442
Profit for the period (EUR'000)	1,158	28,186	2,849	29,132
incl attributed to Owners of the Company (EUR'000)	1,190	28,153	2,849	29,129
Revenue growth/decrease (%)	20.7	65.0	-1.9	67.8
Gross profit growth/decrease (%)	0.5	40.8	-4.5	50.8
EBITDA growth/decrease (%)	-31.4	34.9	-10.1	58.8
EBIT growth/decrease (%)	-65.2	49.8	-15.7	71.1
Profit for the period growth/decrease (%)	-95.9	889.4	-11.0	803.6
incl attributed to Owners of the Company (%)	-95.8	888.0	-10.9	804.9
Distribution cost to revenue (%)	4.1	3.8	5.0	4.0
Administrative expenses to revenue (%)	6.7	5.6	6.6	5.8
Labour cost to revenue (%)	20.1	17.8	21.8	18.2
Gross margin (Gross profit/revenue) (%)	12.5	15.0	17.5	15.2
EBITDA margin (EBITDA/revenue) (%)	3.7	7.1	8.7	7.4
Operating margin (EBIT/revenue) (%)	1.6	5.5	6.0	5.3
Net margin (Profit for the period/revenue) (%)	1.3	38.2	6.4	28.4
ROE (Profit for the period/average equity) (%)	1.7	43.6	4.8	44.7

Seasonality of business (million euros)



SALES REVENUE

The Group's sales revenue for the reporting quarter was 29.3 (Q3 2017: 31.2) million euros and consolidated sales revenue for 9 months reached 89.1 (9m 2017: 73.9) million euros.

The quarterly sales development by business area:

Business area	Growth Q/Q	Share Q3 2018	Q3 2018	Q3 2017	Q3 2016	Year 2017
Electrical equipment	-4.8%	79.0%	23,140	24,296	13,363	82,976
Sheet metal products and services	-20.8%	0.5%	133	169	256	709
Telecom sector products	13.3%	0.8%	233	206	376	874
Intermediary sale of electrical products	84.6%	13.4%	3,936	2,132	975	7,473
Rental income	18.1%	1.9%	547	463	559	1,744
Electrical installation service	-73.1%	3.4%	995	3,696	-	7,904
Other services	17.2%	1.0%	314	266	265	988
Total	**-6.2%**	**100.0%**	**29,298**	**31,228**	**15,794**	**102,668**

The sales revenue decreased by 1.9 million euros in the third quarter but increased by 15.3 million euros in 9 months comparison. The boost in sales volumes was due to the increase in order volumes and the acquisition of new business combinations in the second half of 2017 and in January 2018.

The quarterly sales development by markets:

Markets	Growth (+/-)		Quarter 3		9 months		Share 9 months	
	Q/Q	9m/9m	2018	2017	2018	2017	2018	2017
Estonia	22.0%	-13.3%	4,302	3,526	10,674	12,305	12.0%	16.7%
Finland	-27.9%	11.4%	17,577	24,367	59,236	53,182	66.5%	72.0%
Sweden	475.3%	283.6%	3,416	594	8,391	2,187	9.4%	3.0%
Lithuania	-95.8%	-71.3%	27	651	377	1,312	0.4%	1.8%
Norway	97.1%	60.5%	2,326	1,180	5,646	3,517	6.3%	4.7%
Others	81.3%	257.0%	1,650	910	4,810	1,347	5.4%	1.8%
Total	**-6.2%**	**20.7%**	**29,298**	**31,228**	**89,134**	**73,850**	**100.0%**	**100.0%**

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In the third quarter, sales to the Estonian market increased by 22.0% to 4.3 million euros and accounted for 14.7% of the consolidated sales revenue of the reporting quarter. Due to the low investment level of the electric power distribution sector, the sale to Estonian market decreased by 13.3%, i.e. 1.6 million euros to 10.7 million euros and accounted for 12.0% of the consolidated sales revenue of 9 months 2018.

The Group’s sales revenue earned outside Estonia accounted for 85.3% (Q3 2017: 88.7%) of consolidated sales revenue in Q3 2018, decreasing by 2.7 million to 25.0 million euros. In 9 months, sales revenue increased by 16.9 million euros to 78.5 million euros and accounted for 88.0% (Q3 2017: 83.3%) of the Group's sales revenue.

The Group's largest market is Finland, where 60.0% in Q3 and 66.5% in 9-months period of the Group's products and services were sold (78.0% and 72.0% respectively in 2017). In the quarterly comparison, sales to the Finnish market has decreased by 6.8 million euros to 17.6 million euros, half of which was caused of the temporary decline in the orders of Finnish grid companies. Compared to nine months, sales in Finland increased to 59.2 million euros, i.e. 6.1 million euros. Half of the growth in the reporting 9 months sales revenue came from the Finnish subsidiary Telesilta Oy, acquired in June 2017, but also large-scale contracts concluded with Finnish grid companies at the end of the years 2016 and 2017 were behind the growth.

Sales to the Swedish market increased more than five times in the third quarter compared to the same period, increasing to 3.4 million euros. In the 9 months comparison, sales to Sweden have increased by 6.2 million euros to 8.4 million euros, accounting for 9.4% (9m 2017: 3.0%) of the total sales revenue. The growth came from acquisition new companies SEBAB AB and Grytek AB to the Group as well as Group’s subsidiaries purposeful work to increase market share in Sweden. In the first quarter, AS Harju Elekter Elektrotehnika signed a 3-year frame agreement with the biggest Swedish grid company E.ON Energidistribution AB, and in the third quarter commenced substation deliveries to Sweden. Altogether, 150 substations have been delivered to Sweden in nine months, being three times more than in the entire year 2017.

In the third quarter, the Group continued active work on the Norwegian-direction. Sales to the Norwegian market increased by 1.1 million euros to 2.3 million euros in the reporting quarter and by 2.1 million euros to 5.6 million euros during the 9 months, accounting for 7.9% and 6.3% of consolidated sales revenue, respectively.

As the sale of the Group’s Lithuanian subsidiary has been directed towards other European countries, the Lithuanian market continues to decline. In 9 months, the Lithuanian subsidiary earned 97.6% (9m 2017: 82.4%) of sales revenue outside the Lithuanian market.

From other markets, the biggest were the Netherlands, Austria and Denmark, where 1.7 million, 1.7 million and 0.8 million euros were earned during 9-months period, respectively.

The quarterly sales development by segments:

Segments	Growth (+/-)		Quarter 3			9 months			12 months
	Q/Q	9m/9m	2018	2017	2016	2018	2017	2016	2017
Manufacturing	-0.1%	15.2%	24,966	24,979	14,400	73,134	63,498	40,819	85,420
Real Estate	15.8%	24.3%	598	517	599	1,818	1,463	1,847	1,991
Unallocated activities	-34.9%	59.6%	3,734	5,732	795	14,182	8,889	2,093	15,257
Total	**-6.2%**	**20.7%**	**29,298**	**31,228**	**15,794**	**89,134**	**73,850**	**44,759**	**102,668**

During the reporting quarter 85.2% (Q3 2017: 80.0%) of revenue was earned from the Manufacturing segment, Real Estate and Unallocated activities contributed 14.8% (Q3 2017: 20.0%) of the consolidated sales volume. During 9-months period, the Manufacturing segment accounted 82.0% (9m 2017: 86.0%) of Group's sales revenue. Sales of electrical equipment provides a biggest part (93%-96%) of the Manufacturing segment’s revenue.

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The sales revenue of the Real Estate segment increased by 0.1 million euros to 0.6 million euros in the reporting quarter and 0.4 million euros to 1.8 million euros in 9 months, compared to the reference periods. The increase in the sales revenue of the Real Estate segment compared to the previous period is related to a long-term major tenant PKC Group Oyj leaving the Group's rental space at the beginning of 2017, which reduced the sales revenue of the reference period. The new production and storage buildings completed in the Allika industrial park in autumn 2017 and rented out to AS Stera Technologies AS and the Laohotell that was taken into use at the beginning of the current year have halted decrease in the sales revenue of the Real Estate segment and increased the rental income of this year.

The sales revenue of Unallocated activities has decreased by 2.0 million euros to 3.7 million euros in the quarterly comparison and has increased by 5.3 million euros to 14.2 million euros in the 9-months period. 70% of the segment's revenue growth was contributed by the field of electrical installation works added in the second half of 2017 and 30% by the intermediate sale of electrical equipment on the Swedish market.

OPERATING EXPENSES

	Growth %		Quarter 3		9 months		Year
	Q/Q	9m/9m	2018	2017	2018	2017	2017
Cost of sales	-1.2%	24.3%	26,335	26,648	78,026	62,795	87,043
Distribution costs	7.0%	29.8%	1,052	983	3,644	2,807	4,132
Administrative expenses	13.4%	44.1%	1,882	1,658	5,998	4,162	5,981
Total expenses	**-0.1%**	**25.7%**	**29,269**	**29,289**	**87,668**	**69,764**	**97,156**
incl. depreciation of fixed assets	49.0%	57.3%	645	432	1,894	1,204	2,145
Total labour cost	13.4%	37.3%	5,817	5,128	18,009	13,114	18,700
inclusive salary cost	18.6%	41.2%	4,766	4,020	14,046	9,945	14,073

In the reporting quarter, operating expenses amounted to 29.3 million euros, remaining on the same level with the comparable period. During the nine months period, operating expenses increased by 17.9 million euros to 87.7 million euros. The principal part of the cost increase, i.e. 15.2 million euros, has led to an increase in the cost of sales, surpassing the growth rate of sales revenue, and reducing the gross margin of 9 months by 2.5 percentage points compared to the comparable period.

The Group's distribution costs increased by 0.1 million euros to 1.1 million euros in Q3 and 0.8 million euros to 3.6 million euros in 9 months. The rate of distribution costs to revenue accounted for 3.6% (Q3 2017: 3.1%) in the reporting quarter and for 4.1% (9m 2017: 3.8%) in the 9 months.

Upsurge in specific orders has brought along an increase in development costs for upgrading the exiting products and for developing a new low-voltage product series and the brand. Recruitment of new specialists and qualifying of the staff resulted in training and new job preparation costs. The higher salary levels of the top managers of the new subsidiaries in Sweden and Finland also affected the costs. All this has grown the rate of administrative expenses to reporting quarter revenue to 6.4% (Q3 2017: 5.3%). The nine-month administrative expenses totalled 6.0 million euros, increasing by 1.8 million euros, and the rate of administrative expenses to revenue accounted for 6.7% (9m 2017: 5.6%).

Increase in staff, salary pressure, but also the share of Finnish and Swedish employees, where the salary level is notably higher than in other Group's companies, has raised the labour costs of the reporting period. Moreover, the number of employees in Group's subsidiaries in Finland and Sweden has also increased, with the wage level being significantly higher than in the Group's other enterprises. Labour costs increased by 13.4% up to 5.8 million euros in Q3 and by 37.3% up to 18.0 million euros during 9-months period. The labour costs rate to revenue of the reporting quarter accounted for 19.9% (Q3 2017: 16.4%) and in the nine months it was 20.1% (9m 2017: 17.8%).

Depreciation of non-current assets increased by 0.2 million euros to 0.6 million euros in the third quarter and 0.7 million euros to 1.9 million euros in 9 months. With the acquisition of the subsidiary

Telesilta Oy in 2017, customer agreements in the amount of 1.2 million euros were recognised as intangible assets, which will be depreciated into costs over the three years. In the reporting quarter, the cost was 0.1 million euros and 0,3 million euros in the 9 months. In addition to the client contracts, depreciation was also increased by the new production and storage buildings completed at the beginning of the year in the Allika industrial park.

EARNINGS AND MARGINS

In the reporting quarter, the gross profit of the Group was 2,963 (Q3 2017: 4,580) thousand euros and the gross profit margin was 10.1% (Q3 2017: 14.7%). In 9 months, the consolidated gross profit was 11,108 (9m 2017: 11,055) thousand euros and the gross profit margin was 12.5% (9m 2017: 15.0%). The decline in profitability was caused by amortisation of customer agreements recorded in 2017; the potential loss in the third quarter of 1.5 million euros in connection with the additional costs of shipbuilding electrical works was taken into account also. The actual result will be clear at the end of negotiations and legal disputes.

In the reporting quarter, the Group’s operating profit was 9 (Q3 2017: 1,915) thousand euros and EBITDA 654 (Q3 2017: 2,347) thousand euros. In 9-months period, the operating profit of the Group was 1,406 (9m 2017: 4,037) thousand euros and the EBITDA was 3,300 (9m 2017: 5,241) thousand euros. Return of sales for the reporting period was 1.6% (9m 2017: 5.5%) and return of sales before depreciation was 3.7% (9m 2017: 7.1%). Integration of the new acquired subsidiaries and preparation of the procurements won has increased the Group’s development costs and the labour costs caused by recruitment of new specialists. The profitability was also affected by one-off expenses due to the move of AS Harju Elekter Teletehnika into new premises and re-certification of subsidiaries' quality and environmental management systems.

The profit before taxes for the reporting quarter was 165 (Q3 2017: 2,028) thousand euros. The calculated income tax expense of the last 3 months was 147 (Q3 2017: 230) thousand euros. In the reporting quarter, the consolidated net profit was 18 (Q3 2017: 1,798) thousand euros, of which the share of the owners of the Company was 11 (Q3 2017: 1,798) thousand euros.

In 9-months period, the profit before taxes was 1,891 (9m 2017: 28,980) thousand euros and the calculated income tax expense was 734 (9m 2017: 794) thousand euros. Overall, the consolidated net profit of the first 9 months of 2018 was 1,157 (9m 2017: 28,186) thousand euros. The share of the owners of the Company was 1,190 (9m 2017: 28,153) thousand euros. In 9 months, EPS was 0,07 (9m 2017: 1,59) euros. In 2017, one-time financial income of 24,839 thousand euros was received from the sale of PKC Group Oyj's shares. In the comparable period, the consolidated net profit without extraordinary income was 3,314 thousand euros.

Employees and remuneration

The increase in production volumes due to concluding several large volume sales contracts has continued to create the need to hire new seasonal employees. Hiring new workers and purchasing the new subsidiaries in the second half of 2017 in Finland and in Q1 2018 in Sweden increased the payroll of the reported period as well as the monthly average wages per worker of the Group.

At the end of the reporting period, there were 728 people working in the Group, which was 104 persons more than a year earlier. From the beginning of the year, the number of employees has increased by 98 people. With the acquisition of SEBAB AB and Grytek AB, 45 employees were added to the Group in Q1.

In Q3 2018, an average of 733 employees worked in the Group, which was 115 people more than in the comparable period. In 9 months 2018, an average of 709 employees worked in the Group, which was 159 people more than in the reference period.

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	Average number of employees				Number of employees 30.9.			As at
	Q3 2018	Q3 2017	9m 2018	9m 2017	Growth	2018	2017	31.12.2017
Estonia	411	371	394	342	29	407	378	372
Finland	136	135	133	106	3	131	128	137
Lithuania	133	112	134	102	17	134	117	120
Sweden	53	0	48	0	55	56	1	1
Total	**733**	**618**	**709**	**550**	**104**	**728**	**624**	**630**

In the reporting quarter, 4,766 (Q3 2017: 4,020) thousand euros and during the 9 months, 14,046 (9m 2017: 9,945) thousand euros were paid to the employees as salaries and fees. In the reporting 9 months, the average monthly salary per employee of the Group was 2,203 euros, an average increase of 193 euros compared to the reference period.

Financial position and cash flows

	Growth					
	y-o-y	9 months 2018	30.9. 2018	30.9. 2017	30.9. 2016	31.12. 2017
Current assets	-50	1,827	50,540	50,590	22,447	48,713
Non-current assets	6,446	5,517	46,781	40,335	50,300	41,264
TOTAL ASSETS	**6,396**	**7,344**	**97,321**	**90,925**	**72,747**	**89,977**
Current liabilities	7,236	9,026	26,162	18,926	10,248	17,136
Non-current liabilities	1,432	1,536	4,446	3,014	912	2,910
Equity	-2,272	-3,218	66,713	68,985	62,587	69,931
incl. attributable to owners of the Company	-2,161	-3,137	66,735	68,896	61,470	69,872
Equity ratio (%) (Equity/total assets) *100 (%)	-7.4	-9.2	68.5	75.9	84.7	77.7
Current ratio (Average current assets/ Average current liabilities)	0.0	-0.1	2.3	2.3	2.4	2.4
Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities)	0.0	0.0	1.6	1.6	1.4	1.6

During 9-months period, the amount of the Group's assets increased by 7.3 million euros and by 6.4 million euros up to 97.3 million euros during a year.

Compared to the reference period, current assets decreased by 0,05 million euros and during the 9 months increased by 1,8 million euros up to 50.5 million euros. Increase in inventories and receivables is related to the increase of sales orders and production volumes and the addition of new subsidiaries to the Group over the last 12 months. The cost of finished goods and work in progress in inventories has increased by 1.2 million euros to 5.8 million euros over the last 12 months.

The Group makes increasingly more investments into automatisation and robotising to increase production efficiency. In Q2, the production of the subsidiary was enhanced by a new Finn-Power production line and Amada bending machine. During a year, the cost of the non-current assets in the statement of financial position increased by 6.4 million euros, of which by 5.5 million euros to 46.8 million euros was increased in the 9-months period. During the reporting 9 months, the Group has made a total of 7.5 (9m 2017: 7.2) million euros worth of investments to fixed assets, inclusive acquisitions through business combinations amounted to 1.0 (9m 2017: 1.7) million euros. In 9 months, 2.0 million euros were invested into the current developments in the Allika Industrial Park and in the construction of the Haapsalu solar plant.

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As at the reporting date, the Group's liabilities totalled 30.6 million euros, of which short-term liabilities made up 85.5%. Compared to the reference period, short-term liabilities increased by 7.2 million euros, inclusive trade and other payables increased by 1.5 million euros to 15.9 million euros. Short-term interest-bearing loans and borrowings increased by 4.7 million euros to 5.3 million euros. Increase in short- and long-term interest-bearing loans and borrowings is related to extensive investments in property developments in Estonia and Lithuania.

As at 30 September 2018, interest-bearing loans and borrowings made up 31.8% of the Group's liabilities and 10.0% of the cost of its assets; 14.2% and 3.4%, respectively, in the comparable date. The Group had interest-bearing loans and borrowings totalling 9.7 (30.9.2017: 3.1) million euros, of which the short-term obligations making up 5.3 (30.9.2017: 0.1) million euros.

In 9 months 2018, the current ratio of the Group was 2.3 and the quick ratio was 1.6, staying at the same level as in the previous period.

	9 months			Year
Consolidated Statement of Cash Flows	**2018**	**2017**	**2016**	**2017**
Cash flows from operating activities	-8,346	-212	97	4,560
Cash flows from investing activities	-2,371	13,762	-2,106	6,284
Cash flows from financing activities	1,706	-3,556	-1,108	-3,126
Net cash flow	**-9,011**	**9,994**	**-3,117**	**7,718**

Cash flows out from operating activities were 8.3 (Q3 2017: 0.2) million euros in 9 months. The cash flows from operating activities were most affected by the significant increase in trade receivables and inventories, related to the increased order size.

Cash flows out from investing activities were 2.4 million euros. In the comparable period, cash yielded money in the amount of 13.8 million euros. In the 9 months, a total of 4.7(9m 2017: 10.1) million euros were paid for investments. Acquisition of business combinations generated a net outflow of 2.9 (9m 2017: 2.0) million euros. In April 2018, one-year deposit with a value of 5.0 million euros was released. In Q1 2017, the sale of PKC Group Oyj's shares amounted to 25.8 million euros.

In 9 months, cash yielded money in the amount of 1.7 million euros from financing activities. In the comparable period, cash flows out from financing activities were 3.6 million euros. During the 9 months, a short-term loan of 5.2 million euros and long-term loan of 1.7 million euros were taken out. The dividends in the amount of 4,3 million euros was paid in 2018 for financial year 2017, which were 1.0 million euros more than a year before. In the comparable period, a long-term loan of 2.0 million euros was taken out and the share capital was reduced by 1.2 million euros.

Cash and cash equivalents decreased by 9.1 million euros to 1.9 million euros in the reporting 9 months and increased by 10.0 million euros to 13.3 million euros in the comparable period.

Supervisory and Management Boards

The Supervisory Board of AS Harju Elekter has 5 members with the fallowing membership: Mr. Endel Palla (Chairman and R&D manager of AS Harju Elekter), Mr. Arvi Hamburg (Tallinn University of Technology, Member of Board of Governors and Visiting Professor), Mr. Aare Kirsme (Member of the Supervisory Board of AS Harju KEK), Mrs. Triinu Tombak (financial consultant, Managing Director of TH Consulting OÜ) and Mr. Andres Toome (consultant, Managing Director of OÜ Tradematic).

Management Board of AS Harju Elekter has three members: Mr. Andres Allikmäe (Chairman and CEO of the Group), Mr. Tiit Atso (CFO of the Group) and Aron Kuhi-Thalfeldt (Head of real estate and energy division). The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

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

AGM

On May 3, 2018, the Annual General Meeting of Shareholders of AS Harju Elekter (AGM) was held, in which 103 shareholders and their authorized representatives participated, representing a total of 12 577 346 votes, being 70,90% of the total votes.

The AGM approved the 2017 annual report and profit distribution and decided to pay dividends amounting to 0.24 euros per share, totally 4.3 million euros. The shareholders registered in the shareholders' registry on 17.5.2018 at 23.59 entitled to dividend. The dividends transferred to the shareholders' bank accounts on May 22, 2018.

The AGM also appointed AS PricewaterhouseCoopers, register code 10142876 to perform the audit of the company on the years 2018-2020. The auditor will be remunerated according to the agreement.

The fourth item on the agenda of the AGM included the planning of a share option programme for the members of the directing bodies, key specialists and engineers of the Group's companies, for involving them as shareholders of the company, for the purposes of motivating them to act towards achieving the better financial performance of AS Harju Elekter. The term of the Option Program is three years, to which the term of realising the stock options is added. The issue price of the shares acquired with the stock option is the average closing price as at 31 December on the NASDAQ Tallinn for the three calendar years, which was 3,49 euros. In June, was issued share options to 125 employees, regarding to the subscription rights for 351,925 shares.

Shares of Harju Elekter and shareholders

Security trading history:	**2014**	**2015**	**2016**	**2017**	**9m 2018**
Opening price	2.77	2.79	2.62	2.85	5.00
Highest price	2.85	3.14	2.94	5.08	6.68
Lowest price	2.52	2.49	2.43	2.80	4.70
Closing price	2.79	2.63	2.83	5.00	5.00
Traded shares (pc)	800,823	1,086,451	947,294	1,349,617	830,608
Turnover (in million euros)	2.17	2.98	2.45	5.46	4.78
Capitalisation (in million euros)	48.55	46.16	50.20	88.70	88.70
Overage number of the shares	17,400,000	17,550,851	17,739,880	17,739,880	17,739,880
EPS	0.56	0.18	0.18	1.64	0.07

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Share price (in euros) in Tallinn Stock growth/decrease, 1 October 2017– 30 September 2018 (Nasdaq Tallinn, www.nasdaqbaltic.com)

As at 30 September 2018 AS Harju Elekter had 2,962 shareholders. The number of shareholders increased during the accounting quarter by 66 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which held 31.39% of AS Harju Elekter's share capital. At 30 September 2018, the members of the Supervisory and Management Boards owned in accordance with their direct and indirect ownerships totally 10.75% of AS Harju Elekter shares. The comprehensive list of shareholders is available at the website of the Estonian Central Securities Register (www.e-register.ee).

Shareholders structure by size of holding at 30 September 2018:

Holding	**No of shareholders**	**% of all shareholders**	**% of votes held**
> 10%	2	0.07	42.10
1.0 – 10.0%	7	0.24	20.45
0.1 – 1.0 %	61	2.06	18.71
< 0.1%	2,892	97.64	18.75
Total	2,962	100.0	100.0

Shareholders (above 5%) at 30 September 2018:

Shareholder	**Holding (%)**
HARJU KEK AS	31.39
ING LUXEMBOURG S.A.	10.71
Endel Palla	6.98
Shareholders holding under 5%	50.92

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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	30.9.2018	31.12.2017	30.9.2017
Current assets				
Cash and cash equivalents		1,868	10,992	13,271
Short-term financial investments	2	5,414	9,935	5,116
Trade receivables and other receivables		22,711	13,575	17,769
Prepayments		1,299	1,118	1,097
Income tax prepayments	9	274	56	113
Inventories		18,974	13,037	13,224
Total current assets		**50,540**	**48,713**	**50,590**
Non-current assets				
Deferred income tax asset		56	56	37
Other long-term financial investments	2	4,696	4,684	4,684
Investment property	3	18,938	17,881	15,983
Property, plant and equipment	4	15,879	11,983	12,598
Intangible assets	4	7,211	6,660	7,033
Total non-current assets		**46,781**	**41,264**	**40,335**
TOTAL ASSETS	6	**97,321**	**89,977**	**90,925**

LIABILITIES AND EQUITY				
Liabilities				
Interest-bearing loans and borrowings	5	5,334	625	92
Advances from customers		1,989	1,088	1,177
Trade payables and other payables		15,943	12,802	14,468
Tax liabilities		2,838	2,106	0
Income tax liabilities	9	18	270	2,724
Short-term provision		40	245	320
Total current liabilities		**26,162**	**17,136**	145
Interest-bearing loans and borrowings	5	4,411	2,910	**18,926**
Other long-term liabilities		35	0	3,014
Non-current liabilities		**4,446**	**2,910**	**3,014**
Total liabilities		**30,608**	**20,046**	**21,940**
Equity				
Share capital		11,176	11,176	11,176
Share premium		804	804	804
Reserves		2,715	2,844	2,846
Retained earnings		52,040	55,048	54,070
Total equity attributable to equity holders of the parent		**66,735**	**69,872**	**68,896**
Non-controlling interests		-22	59	89
Total equity		**66,713**	**69,931**	**68,985**
TOTAL LIABILITIES AND EQUITY		**97,321**	**89,977**	**90,925**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	1 July – 30 September 2018	1 July – 30 September 2017	1 January – 30 September 2018	1 January – 30 September 2017
Revenue	6	29,298	31,228	89,134	73,850
Cost of sales		-26,335	-26,648	-78,026	-62,795
Gross profit		**2,963**	**4,580**	**11,108**	**11,055**
Distribution costs		-1,052	-983	-3,644	-2,807
Administrative expenses		-1,882	-1,658	-5,998	-4,162
Other income		17	9	60	39
Other expenses		-37	-33	-120	-88
Operating profit	6	**9**	**1,915**	**1,406**	**4,037**
Finance income	7	171	120	523	24,966
Incl. Gain on sale of financial assets		*0*	*0*	*0*	*24,839*
Finance costs	7	-15	-7	-38	-23
Profit before tax		**165**	**2,028**	**1,891**	**28,980**
Income tax expense		-147	-230	-734	-794
Profit for the period		**18**	**1,798**	**1,158**	**28,186**
Profit attributable to:					
Owners of the Company		11	1,798	1,190	28,153
Non-controlling interests		7	0	-33	33
Profit for the period		**18**	**1,798**	**1,157**	**28,186**
Earnings per share					
Basic earnings per share (EUR)	8	0.00	0.10	0.07	1.59
Diluted earnings per share (EUR)	8	0.00	0.10	0.07	1.59

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 July – 30 September		1 January – 30 September	
	2018	**2017**	**2018**	**2017**
Profit for the period	**18**	**1,798**	**1,157**	**26,186**
Other comprehensive income				
Gain/loss on sale of financial assets (-)	0	0	0	-16,367
Currency translation differences	-1	0	-129	0
Other comprehensive income for the period, net of tax	**-1**	**0**	**-129**	**-16,367**
Total comprehensive income for the period	**17**	**1,798**	**1,028**	**11,819**
Total comprehensive income attributable to:				
Owners of the Company	10	1,798	1,061	11,786
Non-controlling interests	7	0	-33	33
Total comprehensive income for the period	**17**	**1,798**	**1,028**	**11,819**

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 30 September	Note	2018	2017
Cash flows from operating activities			
Profit for the period	6	1 157	28,186
Adjustments for:			
Depreciation and amortization	3.4	1 894	1,204
Gain on sale of property, plant and equipment	9	-20	-9
Share-based payment		53	0
Finance income	7	-520	-24,966
Finance costs	7	35	23
Income tax expense	9	734	794
Change in receivables and liabilities related to contracts recognised under the stage of completion method		-1 398	- 1,191
Changes in:			
Growth/decrease in receivables related to operating activity		-5 588	-6,252
Growth/decrease in inventories		-3 813	-3,158
Growth/decrease in payables related to operating activity		7	5,677
Corporate income tax paid	9	-850	-497
Interest paid	9	-37	-23
Net cash from operating activities		**-8 346**	**-212**
Cash flows from investing activities			
Acquisition of investment property	9	-1 368	-3,169
Acquisition of property. plant and equipment	9	-2 996	-1,825
Acquisition of intangible assets	9	-215	-127
Acquisition of subsidiaries, net of cash acquired	10	-2 906	-2,008
Acquisition of financial investments		-99	-4,999
Proceeds from sale of property, plant and equipment	9	64	101
Proceeds from sale of other financial investments		5 000	25,779
Interest received	9	16	10
Dividends received	7	133	0
Net cash used in investing activities		**-2 371**	**13,762**
Cash flows from financing activities			
Growth/decreases in short-term loans	5	3 400	-642
Proceeds from borrowings	5	3 517	2,037
Repayment of borrowings	5	-474	-38
Other non-current liabilities		35	0
Payment of finance lease principal	5	-233	-222
Reduction of share capital		0	-1,242
Acquisition of non-controlling interests		-39	-5
Dividends paid		-4 258	-3,226
Dividends income tax paid		-242	-218
Net cash used in financing activities		**1 706**	**-3,556**
Net cash flows		**-9,011**	**9,994**
Cash and cash equivalents at beginning of period		**10,992**	**3,278**
Net increase / decrease		-9 011	9,994
Effect of growth/decrease rate fluctuations on cash held		-113	-1
Cash and cash equivalents at end of period		**1 868**	**13,271**

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CONSOLIDATED STATEMENT OF GROWTH/DECREASES IN EQUITY

For the period 1 January – 30 September	Attributable to owners of the Company								
	Share capital	**Share premium**	**Capital reserve**	**Fair value reserve**	**Translation reserve**	**Retained earnings**	**TOTAL**	**Non-Controlling interests**	**TOTAL**
At 31 December 2017	**11,176**	**804**	**1,242**	**1,602**	**0**	**55,048**	**69,872**	**59**	**69,931**
Comprehensive income 2018									
Profit for the period	0	0	0	0	0	1 190	1 190	-33	1 157
Other comprehensive income for the period	0	0	0	0	-129	0	-129	0	-129
Total comprehensive income	**0**	**0**	**0**	**0**	**-129**	**1 190**	**1 061**	**-33**	**1 028**
Transaction with the owners of the Company, recognized directly in equity									
Share-based payment	0	0	0	0	0	53	53	0	53
Dividends	0	0	0	0	0	-4,257	-4,257	0	-4,257
Acquisition of non-controlling interests	0	0	0	0	0	6	6	-48	-42
Total transaction with the owners of the Company	**0**	**0**	**0**	**0**	**0**	**-4,198**	**-4,198**	**0**	**-4,198**
At 30 September 2018	**11,176**	**804**	**1,242**	**1,602**	**-129**	**52 040**	**66 735**	**-22**	**66 713**
At 31 December 2016	**11,176**	**804**	**1,242**	**17,969**	**3**	**29,113**	**60,307**	**85**	**60,392**
Comprehensive income 2017									
Profit for the period	0	0	0	0	0	28,153	28,153	33	28,186
Other comprehensive income for the period	0	0	0	-16,367	0	0	-16,367	0	-16,367
Total comprehensive income	**0**	**0**	**0**	**-16,367**	**0**	**28,153**	**11,786**	**33**	**11,819**
Acquisition of non-controlling interest	0	0	0	0	0	-4	-4	4	0
Dividends	0	0	0	0		-3,193	-3,193	-33	-3,226
Total transaction with the owners of the Company	**0**	**0**	**0**	**0**	**0**	**-3,197**	**-3,197**	**-29**	**-3,226**
At 30 September 2017	**11,176**	**804**	**1,242**	**1,602**	**3**	**54,069**	**68,896**	**89**	**68,985**

NOTES TO INTERIM FINANCIAL STATEMENT

Note 1 Accounting methods and valuation principles used in the consolidated interim report

AS Harju Elekter is a company registered in Estonia. The interim report prepared as of 30.09.2018 comprises AS Harju Elekter (the "Parent Company") and its subsidiaries AS Harju Elekter Teletehnika, AS Harju Elekter Elektrotehnika, Energo Veritas OÜ, Harju Elekter Kiinteistöt Oy, Satmatic Oy, Finnkumu Oy (subsidiary of Satmatic Oy), Telesilta Oy, Harju Elekter AB, SEBAB AB, Grytek AB, Rifas UAB and the subsidiary of Rifas UAB, Automatikos Iranga UAB (until 30.6.2018) (together referred to as the Group). AS Harju Elekter has been listed at Tallinn Stock Exchange since 30 September 1997; 31.39% of its shares are held by AS Harju KEK.

The consolidated interim financial statements of AS Harju Elekter and its subsidiaries have been prepared in accordance with International Reporting Standards (IFRS EU) as adopted by the European Union. This consolidated interim report is prepared in accordance with the requirements for international accounting standard IAS 34 "Interim Financial Reporting" on condensed interim financial statements. The interim report is prepared on the basis of the same accounting methods as used in the annual report concerning the period ending on 31 December 2017. The interim report should be read in conjunction with the Group's annual report of 2017, which is prepared in accordance with International Financial Reporting Standards (IFRS).

According to the assessment of the Management Board, the interim report for 1-6/2018 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation Group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the Group.

The presentation currency is euro. The consolidated interim financial statement has been drawn up in thousands of euros and all the figures have been rounded to the nearest thousand, unless indicated otherwise.

Changes in significant accounting policies

AS Harju Elekter has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. The application of IFRS 15 and IFRS 9 did not have any material effect on the Group's financial statements as at 01.01.2018 and no adjustments to the equity have been made as of that date.

IFRS 15, „Revenue from Contracts with Customers "

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Harju Elekter Group has adopted IFRS 15 using modified retrospective approach which requires that the cumulative effect of initially applying this standard is recognised in retained earnings at the date of initial application (i.e. 1 January 2018) and the information presented for 2017 is restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. There were no

adjustments as the impact of IFRS 15 to the retained earnings as at 1 January 2018 was not material, therefore no adjustments to the equity have been made.
The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services.

(a) Sale of goods – wholesale and retail
The Group manufactures and sells electrical distribution systems and control panels and various metal products. Sale of goods is recognised when a Group entity has delivered products to the buyer, the buyer has full discretion over the products and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Revenue is not recognised until all significant risks and rewards of ownership have been transferred to the buyer and either the buyer has accepted the products in accordance with the terms of the sales contract, the time period for rejection has elapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the prices specified in the sales contracts.

The Group operates a chain of retail outlets for electrical appliances. Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually settled in cash or by debit or credit card.

The assessment of the probability of returning goods is based on prior experience. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a client's right to the returned goods. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

(b) Rendering of services
Revenue from the rendering of services is recognised when the service has been rendered or during the period, based on the percentage of completion of the product at balance date. The percentage of completion method is applied to the project products if customers are entitled to make substantial changes in them during the whole production process and if there is no alternative use of the property and the Group is entitled to receive remuneration for work performed until the premature termination of the contract. The cost method is applied in order to determine the percentage of completion.

(c) Rental income
Rentals earned on investment property are recognised in revenue on a straight-line basis over the lease term.

Variable fees arising from the agreement are only recorded in the transaction price (as sales revenue), if there is a high probability that it will not be cancelled later. The assessment is based on the estimated value or the most likely amount and this is assessed at each reporting date.

IFRS 9 Financial Instruments

This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

EUR'000	IAS 39	IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	10,992	10,992
Trade and other receivables	Loans and receivables	Amortised cost	13,575	13,575
Available-for-sale financial assets through profit or loss	Available for sale financial assets	Fair value through profit or loss	9,935	9,957
Available-for-sale financial assets through other comprehensive income	Available for sale financial assets	Fair value through other comprehensive income	4,662	4,662
Available-for-sale financial assets (cost method)	Available for sale financial assets	Fair value through profit or loss	22	0
Total financial assets			**39,186**	**39,186**

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

Under IFRS 9, loss allowances are measured from initial recognition of the financial assets, on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances as follows:

- for trade receivables at an amount equal to lifetime ECLs;
- for cash and cash equivalents that are determined to have low credit risk at the reporting date at an amount equal to 12-month ECLs

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- for all other financial assets at an amount of 12-month ECLs, if the credit has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, with some exemptions. Changes in accounting policies did not have a material impact on the Group's financial statements on the adoption at 1 January 2018.

A number of other new standards are effective from 1 January 2018, but they do not have a material effect on the Group's financial statements.

Note 2 Financial investments

As at 30 September	Note	**2018**	**2017**
Current financial assets		5,414	5,116
Non-current financial assets		34	22
Available-for-sale equity securities (fair value)		4,662	4,662
Total		**10,110**	**9,800**

For the period 1 January – 30 September	Note	**2018**	**2017**
1. Current financial assets at fair value through profit and loss			
Carrying amount at 1 January		9,935	-
Additions		99	4,999
Termination of a term deposit		-5,000	-
Gain on change in fair value	7	380	117
At the end of the period		**5,414**	**5,116**
2. Non-Current financial assets at fair value through profit and loss			
Carrying amount at 1 January		22	22
Acquisitions through business combinations		13	-
Loss on change in fair value	7	-1	-
At the end of the period		**34**	**22**
3. Available-for-sale equity securities (fair value)			
Carrying amount at 1 January		4,662	21,969
Sale of shares at sales price		0	-17,307
At the end of the period		**4,662**	**4,662**
Total carrying amount at the end of the period		**10,110**	**9,800**

In April 2017, the Group opened a one-year term deposit from LHV Bank for a value of 5.0 million euros. The deposit term ended on April 13, 2018.

In Q3 2017, the Group placed 5 million euros into liquid equities listed on the Helsinki stock exchange. The fair value of the short-term financial assets increased by 163 thousand euros in the reporting quarter, totalling increased 380 thousand euros in the 9 months. The change in fair value was reflected in the profit of the reporting period.

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Note 3 Investment property

For the period 1 January – 30 September	2018	2017
At 1 January	17,881	13,273
Additions	1,583	2,645
Reclassification	0	399
Depreciation charge	-526	-334
At the end of the period	**18,938**	**15,983**

Note 4 Property, plant and equipment; intangible assets

For the period 1 January – 30 September	Note	2018	2017
1. Property, plant and equipment			
At 1 January		11,983	10,972
Additions		4,662	2,797
Acquisitions through business combinations	10	126	34
Disposals		-44	-92
Reclassification		0	-399
Depreciation charge		-842	-714
Impact of exchange rate changes		-6	0
At the end of the period		**15,879**	**12,598**
2. Intangible assets			
At 1 January		6,660	5,432
Additions		215	123
Acquisitions through business combinations	10	864	1,634
Depreciation charge		-526	-156
Impact of exchange rate changes		-2	0
At the end of the period		**7,211**	**7,033**

Note 5 Interest-bearing loans and borrowings

	30.9.2018	31.12.2017	30.9.2017
Short-term liabilities			
Short-term bank loans	4,943	0	0
Current portion of long-term bank loans	37	511	16
Current portion of lease liabilities	72	114	76
Short-term loans from related parties	282	0	0
Total current liabilities	**5,334**	**625**	**178**
Non-current liabilities			
Long-term bank loans	4,101	2,409	2,400
Lease liabilities	310	501	614
Total non-current liabilities	**4,411**	**2,910**	**3,014**
TOTAL	**9,745**	**3,535**	**3,106**

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Growth/decreases during the period 1 January – 30 September	Note	**2018**	**2017**
Loans and borrowings at the beginning of the year		**3,535**	**1,971**
Growth/decreases in short-term loans		4,943	-642
Received short-term loans from related parties	11	282	0
Received long-term loans		1,692	2,037
Long-term loan repaid		-474	-38
Payment of finance lease principal		-233	-221
Loans and borrowings at the end of the current period		**9,745**	**3,106**

Note 6 Segment reporting

Three segments- Manufacturing, Real Estate and Other activities are distinguished in the consolidated financial statements.

Manufacturing – The manufacture and sale of power distribution and control systems as well as services related to manufacturing. The entities in this business segment are AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Rifas UAB, Automatikos Iranga UAB (until 30.6.2018), Harju Elekter Kiinteistöt Oy, Satmatic Oy, Finnkumu Oy, SEBAB AB ja Grytek AB.

Real Estate – Real estate development, maintenance and rental, services related to managing real estate and production capacities and intermediation of services. Real estate has been identified as a reportable segment because its result and assets are more than 10% of the total result and assets of all segments. The entity in this business segment is Parent company.

Other activities – The segment is involved in selling products of the Group and companies related to the Group as well as other goods necessary for electrical installation works mainly to retail customers and small- and medium-sized electrical installation companies and in providing management services as well as electrical installation works for the shipbuilding. The entities in these activities are Parent company and Group’s companies Energo Veritas OÜ, Harju Elekter AB and Telesilta Oy. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

The Group assesses the performance of its operating segments on the basis of revenue and operating profit. Based on the assessment of the Parent company’s Management Board, inter-segment transactions are carried out on ordinary market terms that do not differ substantially from the terms agreed in transactions conducted with third parties.

Unallocated assets comprise the Parent company’s cash, other receivables, prepayments and other financial investments.

Unallocated liabilities consist of the Parent company’s (Estonia) interest-bearing loans and borrowings, tax liabilities and accrued expenses.

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For the period 1 January – 30 September	Note	Manu-facturing	Real Estate	Other activities	Elimi-nations	Consoli-dated
2018						
Revenue from external customers		73,134	1,818	14,182	0	89,134
Inter-segment revenue		1,914	1,062	642	-3,618	
Total revenue		**75,048**	**2,880**	**14,824**	**-3,618**	**89,134**
Operating profit		**2,655**	**920**	**-2,129**	**-40**	**1,406**
Finance income	7					523
Finance costs	7					-38
Profit before tax						**1,891**
Income tax						-734
Profit for the period						**1,157**
Segment assets		63,620	19,297	14,619	-16,559	80,977
Indivisible assets						16,344
Total assets						**97,321**
Capital expenditure	3.4	4,431	1,583	1,434	0	7,450
Depreciation charge for the year	3.4	817	526	566	-15	1,894
2017						
Revenue from external customers		67,194	1,463	5,193	0	73,850
Inter-segment revenue		289	871	419	-1,579	
Total revenue		**67,483**	**2,334**	**5,612**	**-1,579**	**73,850**
Operating profit		**4,052**	**376**	**-408**	**17**	**4,037**
Finance income	7					24,966
Finance costs	7					-23
Profit before tax						**28,980**
Income tax						-794
Profit for a period						**28,186**
Segment assets		54,422	16,332	15,586	-10,469	75,872
Indivisible assets						15,053
Total assets						**90,925**
Capital expenditure	3.4	2,159	2,645	2,429	0	**7,233**
Depreciation charge for the year	3.4	707	333	181	-17	**1,204**

Revenue by markets:

For the period 1 January – 30 September	**2018**	**2017**
Estonia	10,674	12,305
Finland	59,236	53,182
Sweden	8,391	2,187
Lithuania	377	1,312
Norway	5,646	3,517
Other countries	4,810	1,347
Total	**89,134**	**73,850**

Revenue by business area:

For the period 1 January – 30 September	**2018**	**2017**
Electrical equipment	70,758	61,251
Sheet metal products and services	412	589
Telecom sector products and services	707	697
Intermediary sale of electrical products	7,248	5,600
Rental income	1,575	1,282
Electrical installation service	7,570	3,696
Other services	864	735
Total	**89,134**	**73,850**

Note 7 Finance income and costs

For the period 1 January – 30 September	Note	**2018**	**2017**
Interest income		4	10
Finance income from sale of PKC Group Oyj’s shares		0	24,839
Gain from the liquidation of a subsidiary		3	0
Dividend income		133	0
Net gain on change in fair value of short-term financial investments	2	379	117
Gain from foreign exchange differences		4	0
Total finance income		**523**	**24,966**
Interest expense		-38	-23
Total finance costs		**-38**	**-23**

Note 8 Basic and diluted earnings per share

Basic earnings per share have been calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by considering the effects of all dilutive potential shares. As at the reporting date on 30.9.2018, the Group had 351,925 dilutive potential shares. In accordance with the decision of the General Meeting of Shareholders held on May 3, 2018, the price of a share was established at the level of 3.49 euros. As to the share-based payments regulated by IFRS 2 requirements the subscription price of shares covers the costs of services that employees provide in the future for the share-based payments. The value of service for each issued share determined by an independent expert was 1.55 euros. Thus, the subscription price per each share within the meaning of IFRS 2 is 5.04 (3.49+1.55) euros and the potential shares become dilutive only after their average market price of the period exceed 5.04 euros. The average market price of the share of 1-9/2018 was 5.12 euros and in the third quarter it was 5.10 euros.

For the period 1 January – 30 September	Unit	**2018**	**2017**
Profit attributable to equity holders of the parent	EUR‘000	1,180	28,153
Average number of shares outstanding	Pc‘000	17,740	17,740
Basic earnings per share	EUR	0.07	1.59
Adjusted number of shares during the period	Pc‘000	17,742	17,740
Diluted earnings per share	EUR	0.07	1.59

For the period 1 April – 30 September	Unit	**2018**	**2017**
Profit attributable to equity holders of the parent	EUR‘000	11	1.797
Average number of shares outstanding	Pc‘000	17,740	17,740
Basic earnings per share	EUR	0.06	0.10
Average number of shares outstanding	Pc‘000	17,744	17,740
Diluted earnings per share	EUR	0.00	0.10

Note 9 Further information on line items in the statement of cash flows

For the period 1 January – 30 September	Note	**2018**	**2017**
Corporate income tax paid			
Income tax expense		-734	-794
Prepayment decrease (+)/ increase (-), liability decrease (-)/ increase (+)		-470	98
Acquired liability through business combinations		112	-18
Income tax expense on dividends		242	218
Corporate income tax paid		**-850**	**-497**
Interest paid			
Interest expense	7	-38	-23
Liability increase (-)		1	0
Interest paid		**-37**	**-23**
Interest received			
Interest income	7	4	10
Receivable increase (-)		12	0
Interest received		**16**	**10**
Paid for investment property			
Additions of investment property	3	-1,583	-2,645
Liability decrease (-)/ increase (+) incurred by purchase		215	-524
Acquisition of investment property		**-1,368**	**-3,169**
Paid for property, plant and equipment			
Additions of property, plant and equipment	4	-4,662	-2,797
Liability decrease (-)/ increase (+) incurred by purchase		1,666	972
Acquisition of property, plant and equipment		**-2,996**	**-1825**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	4	44	92
Profit on disposal of property, plant and equipment		20	9
Proceeds from sale of property, plant and equipment		**64**	**101**
Paid for intangible assets			
Additions of intangible assets	4	-215	-123
Liability decrease (-)/ increase (+) incurred by purchase		0	-4
Acquisition of intangible assets		**-215**	**-127**

Note 10 Business combinations

On 12 December 2017, AS Harju Elekter signed a contract to acquire all the shares of Swedish company SEBAB AB, a provider of automation and electrotechnical solutions, and its sister company Grytek AB, a manufacturer of pre-fabricated technical buildings, from the company Tnåa AB. The final purchase transaction price for the two companies was 3.8 million euros (SEK 37.5 million), of which 3.1 million euros (SEK 30.1 million) was paid on 8 January 2018, and the remaining part of 0.7 (SEK 2.2 million) million euros was paid in accordance with the agreement in the second quarter. The financial results of SEBAB AB and Grytek AB will be included in the consolidated reports of Harju Elekter as of 1 January 2018.

Harju Elekter Group has been active on the Swedish market since 2010, delivering substations and industrial automation solutions to Swedish clients. As a result of this transaction, new prospective market segments will be entered in Sweden, and the Group's product portfolio will be expanded. Concurrently, Harju Elekter Group's capability to offer its Swedish clients more complete technical solutions and turn-key projects as well as service support will increase.

AS Harju Elekter recognizes for the acquisition of the new subsidiaries in accordance with IFRS 3, carrying out a purchase price allocation which included measuring the value of the assets of the new subsidiary's group. Assets are carried at fair value at the acquisition date. The purchase price allocation was carried out based on financial information as at 31 December 2017, i.e. reliable financial information closest to the date of acquisition.

The Group is still measuring the fair values of assets and liabilities acquired in the business combination and has not completed identifying and measuring the fair values of all assets accounted for off the statement of financial position.

The acquisition of business combinations gave rise to goodwill of 0.8 million euros which was the difference between the contractual transaction price and the fair value of the net assets acquired.

Influence of purchase to the Group's assets, liabilities and cash flow

Assets and liabilities (EUR '000)	Note	Recognised value on acquisition
Cash and cash equivalents		1,055
Trade receivables		2,198
Income tax prepayments		112
Other short-term receivables and prepayments		410
Inventories		2124
Financial investments		14
Property, plant and equipment	4	126
Intangible assets	4	58
Interest-bearing loans and borrowings		-172
Trade payables and other payables		-2,942
Net assets		**2,983**
Purchase price		3,789
Goodwill	4	806
Cash flow		
Money paid (-)		-3,789
Balance of sums of purchase (+)		1,055
Interest-bearing loans and borrowings		-172
Net cash flow		**-2,906**

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Note 11 Transactions with related parties

The related party of AS Harju Elekter includes, members of the Management and Supervisory Boards and their close family members and AS Harju KEK which owns 31.39% of the shares of AS Harju Elekter. The Group’s management comprises members of the Parent company’s Supervisory and Management Boards.

For the nine months, the Group has made transactions with related parties as follows:

For the period 1 January – 30 September	**2018**	**2017**
Purchase of goods and services from related parties:		
- from Harju KEK lease of property, plant and equipment	81	51
Sale of goods and services to related parties:		
- to Harju KEK other services	1	4
Received loans from related parties		
- Loans from Board Members of subsidiaries	30	0
- Loans from companies related to Board Members of subsidiaries	252	0

Remuneration of the Management and Supervisory Boards		
- salaries, bonuses, additional remuneration	322	295
- social security and other taxes on salaries	107	98
TOTAL	429	393

The members of the Management Board receive remuneration in accordance with the contract and are also entitled to receive a severance payment: Chairman in the amount of 10 months and other members 8 months remuneration of a member of the Management Board. The Chairman of the Supervisory Board is entitled to termination benefits that may extend to 6 monthlies remuneration of a development manager. Members of the Management Board have no rights related to pension. During the reporting quarter and 9 months period, no other transactions were made with members of the Group's directing bodies and the persons connected with them.

Statement of Management responsibility

The Management Board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim financial statements of 1-9/2018 as set out on pages 3 to 29 and confirms that to the best of its knowledge, information and belief that:

- the management report presents true and fair view of significant events that took place during the accounting period and their impact to financial statements; and includes the description of major risks and doubts for the parent company and consolidate companies as a Group; and reflects significant transactions with related parties;

- the accounting principles and presentation of information used in preparing the interim financial statements are in compliance with the International Financial Reporting Standards as adopted by the European Union;

- the interim financial statements give a true and fair view of the assets, liabilities, financial position of the Group and of the results of its operations and its cash flows; and

- AS Harju Elekter and its subsidiaries are going concerns.

/signature/
Andres Allikmäe
Managing director/ CEO
„24th“October 2018