AS HARJU ELEKTER

Interim report 1-6/2018

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 June 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 1-6/2018 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 AB, Rifas UAB and Automatikos Iranga UAB are consolidated line-by-line.

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 June 2018, AS Harju Elekter has substantial holdings as follows:

Company		Country	30.6.18	31.12.17	30.6.17
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%	-
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%	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

According to the economic forecast issued in June by Eesti Pank, the acceleration of the growth of the global economy has ended and growth is also slowing down in developed countries. Risks related to the external environment have somewhat decreased, but there are worries of geopolitical tensions, increasing protectionism and the uncertainty surrounding Brexit. According to the economic forecast issued for the summer by the European Commission, the European economic growth remains stable owing to the supportive monetary policy and the continued decrease of unemployment. Increasing trade tensions, higher oil prices and political uncertainty in some member states are mentioned as sources of threat. Due to the increase in oil prices, the estimated average inflation rate is 1.9% in the EU and 1.7% in the euro zone. According to Estonian Institute of Economic Research (EKI), the growth of GDP on the Group’s biggest market – Finland – should be 2.5% in 2018, being 2.7% in Sweden and 1.9% in Norway.

In their survey of the economic situation of the Q2, EKI announced that the Estonian economic situation remains good. Statistics for the Q1 show that the current year started with 3.6% economic growth, which has been supported by the monetary policy environment and the fiscal policy.

According to EKI, inflation will slow down by the end of the year as the interest rates and stock prices increase. This year's average inflation rate estimated by EKI is 3.1%. The three main economic problems Estonia is facing according to EKI are still limited innovation, a lack of skilled labour and insufficient international competitiveness. According to Eesti Pank, the real growth of GDP in Estonia should be 3.5% in Estonia in 2018.

Main events

In December 2017, AS Harju Elekter signed a contract to acquire all shares of Swedish company SEBAB AB, a provider of sales and technical solutions, and its sister company Grytek AB, a manufacturer of pre-fabricated technical buildings. 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. The transaction completed on 8 January 2018.

In Q1, AS Harju Elekter Elektrotehnika signed a contract with Caruna Oy, the largest electrical utilty company in Finland, to supply LV cable distribution cabinets and metering boards to them in course of 2+1+1 years. According to estimates by Caruna Oy, the expected volume of the contract is at least 5 million euros. Harju Elekter Group already has valid contracts in place with the Caruna Group to supply pre-fabricated substations to Finland.

AS Harju Elekter Elektrotehnika won procurements for the supply of pre-fabricated substations both in Sweden and in Estonia. The framework contract with the largest distribution network enterprise in Sweden E.ON Energidistribution AB was signed in March, based on which more than 2,000 substations will be supplied to Sweden in the 3-year contract period. Also, 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 was signed in March. 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.

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 10,400m^2, the new factory has 16,715m^2 of space. The increase in production capacity, along with the growth in the number of employees to 272, including 40 sales, production and R&D engineers, is sufficient to seamlessly fulfil the current sales volume without any interruptions.

Within the Group, the Q2 saw the continuation of investments into the updating of production and development. AS Harju Elekter Teletehnika increased their production capacity, expanded to bigger manufacturing facilities where various types of software and equipment simplifying the production and a new bending machine were taken into use. As the biggest investment, an automated FMS line was installed, which was delivered by the supplier in full working order at the end of the Q2. The new line has markedly increased the production capacity so far and, by means of automation, also efficiency in both the use of material as well as the settings.

On 3 May 2018, the AGM of shareholders of AS Harju Elekter was held; it approved the 2017 annual report and distribution of profit. At the same meeting, the shareholders appointed AS PricewaterhouseCoopers 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.

In H1, 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, EBR fair in Falun, the international fair Estbuild in Estonia and the Maamess fair in Tartu.

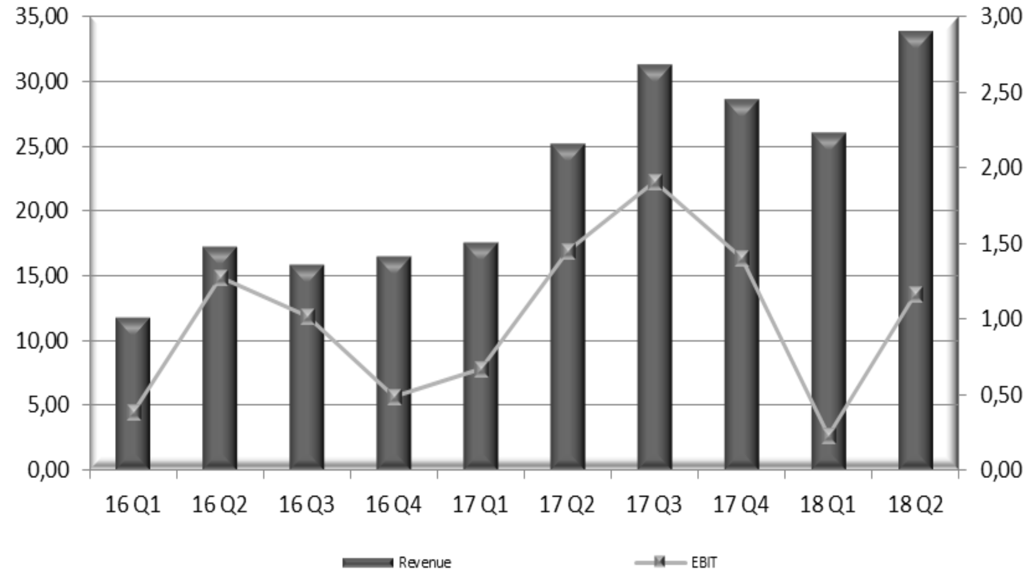
Operating results

In Q2, many orders that were delayed in Q1 continued to be performed. Production and sales for Estonian, Finnish and Lithuanian enterprises began swiftly and the sales revenue has increased in this area significantly. Primarily, sales of substations to Finland increased. H1 as well Q2 began much more modestly for Swedish companies, in the case of which the execution of the new substations contract only began at the end of Q2 and new large orders were also received at the end of the reporting quarter. In Q2, preparation and development costs also continued to increase in order to execute the Swedish and Finnish procurement contracts that had already been won.

KEY INDICATORS

	January - June			Year
	2018	**2017**	**2016**	**2017**
Revenue (EUR'000)	59,837	42,622	28,965	102,668
Gross profit (EUR'000)	8,146	6,476	5,222	15,625
EBITDA (EUR'000)	2,647	2,894	2,486	7,587
EBIT (EUR'000)	1,398	2,123	1,671	5,442
Profit for the period (EUR'000)	1,140	26,389	1,979	29,132
incl attributed to Owners of the Company (EUR'000)	1,180	26,356	1,988	29,129
Revenue growth/decrease (%)	40.4	47.2	5.2	67.8
Gross profit growth/decrease (%)	25.8	24.0	9.3	50.8
EBITDA growth/decrease (%)	-8.5	16.3	16.2	58.8
EBIT growth/decrease (%)	-34.1	26.9	18.7	71.1
Profit for the period growth/decrease (%)	-95.7	1,233.5	25.8	803.6
incl attributed to Owners of the Company (%)	-95.5	1,225.9	27.7	804.9
Distribution cost to revenue (%)	4.3	4.3	5.2	4.0
Administrative expenses to revenue (%)	6.9	5.9	7.1	5.8
Labour cost to revenue (%)	20.4	18.7	20.8	18.2
Gross margin (Gross profit/revenue) (%)	13.6	15.2	18.0	15.2
EBITDA margin (EBITDA/revenue) (%)	4.4	6.8	8.6	7.4
Operating margin (EBIT/revenue) (%)	2.3	5.0	5.8	5.3
Net margin (Profit for the period/revenue) (%)	1.9	61.9	6.8	28.4
ROE (Profit for the period/average equity) (%)	1.7	41.4	3.3	44.7

Seasonality of business (million euros)



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SALES REVENUE

The Group's sales revenue for the reporting quarter was 33.9 (Q2 2017: 25.1) million euros and consolidated sales revenue for 6 months reached to 59.8 (H1 2017: 29.0) million euros. Increase 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 business area:

Business area	Growth Q/Q	Share Q2 2018	Q2 2018	Q2 2017	Q2 2016	Year 2017
Electrical equipment	27.5%	81.4%	27,545	21,611	15,109	82,976
Sheet metal products and services	-29.2%	0.5%	165	233	287	709
Telecom sector products	-19.0%	0.6%	207	255	302	874
Intermediary sale of electrical products	-18.4%	5.7%	1,932	2,368	789	7,473
Rental income	42.0%	1.6%	532	375	558	1,744
Electrical installation service	-	9.4%	3,173	-	-	7,904
Other services	14.5%	0.8%	297	260	163	988
Total	**34.9%**	**100.0%**	**33,851**	**25,102**	**17,208**	**102,668**

The sales revenue increased by 8.7 million euros in the second quarter and by 17.2 million euros in half-years comparison, of which the largest part, 5.9 million euros in the reporting quarter and 10.7 million euros in the 6-month period came from increase in sales of electrical equipment. Important part of the 27.5% growth of the electrical equipment sales came from the purchase of the Swedish subsidiaries.

In the second half of 2017, with the acquisition of a subsidiary in Finland, electrical installation services were added to the Group's services, increasing the sales revenue of 3.2 million euros in the reporting quarter and 6.6 million euros in H1.

The quarterly sales development by markets:

Markets	Growth (+/-)		Quarter 2		6 months		Share 6 months	
	Q/Q	6M/6M	2018	2017	2018	2017	2018	2017
Estonia	-26.3%	-27.4%	3,547	4,812	6,372	8,779	10.7%	20.6%
Finland	38.1%	44.6%	23,700	17,157	41,659	28,814	69.6%	67.6%
Sweden	365.4%	212.2%	2,975	639	4,976	1,594	8.3%	3.7%
Lithuania	-71.9%	-47.0%	153	545	350	661	0.6%	1.6%
Norway	-24.2%	42.1%	1,238	1,635	3,320	2,337	5.5%	5.5%
Others	611.9%	622.5%	2,238	314	3,160	437	5.3%	1.0%
Total	**34.9%**	**40.4%**	**33,851**	**25,102**	**59,837**	**42,622**	**100.0%**	**100.0%**

Due to the low level of investment in the energy distribution sector, sales to the Estonian market in the reporting quarter decreased by 26.3% to 3.5 million euros and accounted for 10.5% of the consolidated sales revenue of the reporting quarter. In H1, sales to the Estonian market decreased by 27.4%, i.e. 2.4 million euros to 6.4 million euros and accounted for 10.7% of the consolidated sales revenue of H1 2018.

The Group's sales revenue earned outside Estonia accounted for 89.5% (Q2 2017: 80.8%) in Q2 2018 increasing by 10.0 million to 30.3 million euros. In H1, sales revenue increased by 19.6 million euros to 53.5 million euros and accounted for 89.3% (H1 2017: 79.4%) of the Group's sales revenue.

The Group's largest market is Finland. Both, in the reporting quarter and in the first half of the year, 70.0% of the Group's products and services were sold on the Finnish market (68.3% and 67.6% respectively in 2017). In the quarterly comparison, sales to the Finnish market has increased by 6.5

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million euros to 23.7 million euros and in the first 6 months by 44.6% i.e. 12.9 million euros up to 41.7 million euros. Half of the growth in the reporting quarter 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.

In Q2 2018, the sales to Swedish market has fourfold in quarterly comparison, increasing to 3.0 million euros. In the first half of the year, sales to Sweden have increased by 3.4 million euros to 5.0 million euros, accounting for 8.3% (H1 2017: 3.7%) of the total sales revenue. The growth came from by combining new Swedish companies to the Group and other Group's subsidiaries purposeful work to increase market share in Sweden. AS Harju Elekter Elektrotehnika's participation in several tenders resulted a 3 year frame agreement to deliver substations to E.ON Energidistribution AB. The deliveries of substation start in Q3.

While comparing the quarters, sales to the Norwegian market decreased by 0.4 million euros, but increased in the half-year comparisons by 1.0 million euros to 3.2 million euros and stayed at 5.5% of the consolidated sales revenue.

As the sale of the Group's Lithuanian subsidiary has been directed towards other European countries, the Lithuanian market continues to decline. In H1, The Lithuanian subsidiary earned 96.8% (H1 2017: 83.7%) of sales revenue outside the Lithuanian market. Sales from other markets were majority earned from Austria, Denmark and the Netherlands, where 1.7 million, 0.7 million and 0.5 million euros were earned respectively.

The quarterly sales development by segments:

Segments	Growth (+/-)		Quarter 2			6 months			12 months
	kv/kv	6k/6k	2018	2017	2016	2018	2017	2016	2017
Manufacturing	23.0%	25.0%	27,576	22,412	15,958	48,168	38,519	26,419	85,420
Real Estate	41.2%	28.9%	597	423	606	1,220	947	1,248	1,991
Unallocated activities	150.4%	231.1%	5,678	2,267	644	10,449	3,156	1,298	15,257
Total	**34.9%**	**40.4%**	**33,851**	**25,102**	**17,208**	**59,837**	**42,622**	**28,965**	**102,668**

During the reporting quarter 81.5% (Q2 2017: 89.3%) of revenue was earned from the Manufacturing segment, Real Estate and Unallocated activities contributed 18.5% (Q2 2017: 10.7%) of the consolidated sales volume. In H1, the Manufacturing segment accounted 80.5% (H1 2017: 90.4%) of Group's sales revenues.

The sales revenue of the Real Estate segment increased by 0.2 million euros to 0.6 million euros in the reported quarter and 0.3 million euros to 1.2 million euros in H1, compared to the reference period. The increase in the sales revenue in the Real Estate segment compared to the previous period is related to a long-term major tenant 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 increased by 3.4 million euros to 5.7 million euros in the quarterly comparison and 7.3 million euros to 10.4 million euros in the H1. Electrical installation work, which was added to the Group since second half of 2017, contributed over 90% of the segment's sales revenue growth.

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OPERATING EXPENSES

	Growth %		Quarter 2		6 months		Year
	Q/Q	6m/6m	2018	2017	2018	2017	2017
Cost of sales	36.4%	43.0%	29,049	21,298	51,691	36,147	87,043
Distribution costs	39.2%	42.1%	1,431	1,028	2,592	1,824	4,132
Administrative expenses	65.3%	64.4%	2,187	1,322	4,116	2,504	5,981
Total expenses	**38.1%**	**44.3%**	**32,667**	**23,648**	**58,399**	**40,475**	**97,156**
incl. depreciation of fixed assets	62.2%	62.0%	631	389	1,249	771	2,145
Total labour cost	52.0%	52.7%	6,545	4,307	12,193	7,987	18,700
inclusive salary cost	48.3%	56.6%	4,906	3,308	9,281	5,925	14,073

Compared to the reference period operating expenses increased 38.1%, i.e. 9,0 million euros in the reporting quarter and 44.3% i.e. 17.9 million euros in a half-year comparison. The main reason for the upsurge in costs was the increase in the cost of sales. Cost of sales increased by 7.8 million euros in Q2 2018 and 15.5 million euros in H1 2018, compared to the reference periods, exceeding the growth rate of sales revenue and decreasing the gross profit margin by 1.0 percentage point and 1.6 percentage point respectively, compared to the reference periods.

In the reporting quarter, the Group's distribution costs increased by 0.4 million euros to 1.4 million euros and in H1 0.8 million euros to 2.6 million euros. The rate of distribution costs accounted for 4.2% (Q2 2017: 4.1%) of the sales revenue in the reporting quarter and stayed for 4.3% in the 6-months comparison.

The upsurge in specific orders has led to the need to increase development costs for the renewal of existing products, the development of new product lines and branding. In qualifying newly hired specialists and the current employees, training and new job preparation costs were incurred. The higher salary levels of the top managers of the new subsidiaries in Sweden and Finland also affected the costs. All this has increased administrative expenses by 0.9 million euros in Q2 and has grown the rate of administrative expenses to revenue to 6.5% (Q2 2017: 5.3%). In H1, administrative expenses amounted to 4.1 million euros, an increase of 1.6 million euros and the rate of administrative expenses to revenue was 6.9% (H1 2017: 5.9%).

The labour costs of the reported period have increased due to the need to hire new employees to the Group because of increased production volumes as well as wage pressure arising from the general welfare of the employees. 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. In the reporting quarter, labour costs increased by 52.0% up to 6.5 million euros and by 52.7% up to 12.2 million euros in H1. The rate of labour costs accounted for 19.3% (Q2 2017: 17.2%) of the reporting quarter and for 20.4% (H1 2017: 18.7%) of the first 6-months period sales revenue.

Depreciation of non-current assets increased by 0.2 million euros to 0.6 million euros in the Q2 and 0.5 million euros to 1.2 million euros in the H1. 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 0,2 million euros in the H1. In addition to the depreciation of 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 4,802 (Q2 2017: 3,805) thousand euros and the gross profit margin was 14.2% (Q2 2017: 15.2%). In H1, the consolidated gross profit was 8,146 (H1 2017: 6,476) thousand euros and the gross profit margin was 13.6% (H1 2017: 15.2%). The decline in profitability was caused by the depreciation of client contracts enlisted in 2017, raw material price as well as the significant increase in sales volume in the Swedish market, where margins are lower. According to the London stock exchange the customs tariff change initiated by the USA has brought all metal ore, except for aluminium, into decline. The price change could be reflected in Q3-Q4.

In the reporting quarter, the Group's operating profit was 1,166 (Q2 2017: 1,455) thousand euros and EBITDA 1,797 (Q2 2017: 1,844) thousand euros. Return of sales for the reporting quarter was 3.4% (Q2 2017: 5.8%) and return of sales before depreciation 5.3% (Q2 2017: 7.3%). In H1, the operating profit of the Group was 1,398 (H1 2017 2,123) thousand euros and the EBITDA was 2,647 (H1 2017 2,894) thousand euros. Return of sales for the reporting period was 2.3% (H1 2017 5.0%) and return of sales before depreciation was 4.4% (H1 2017 6.8%). Preparations for new and already won procurements continue, leading to higher development costs, and due to hiring new specialists, increase labour costs. Integrating newly acquired businesses has increased distribution and development costs. The profitability was also affected by one-off expenses due to the move of AS Harju Elekter Teletehnika into new premises.

The profit before taxes for the reporting quarter was 1,497 (Q2 2017: 1,448) thousand euros. The calculated income tax expense of the last 3 months was 459 (Q2 2017: 425) thousand euros. In the reporting quarter, the consolidated net profit was 1,038 (Q2 2017: 1,023) thousand euros, of which the share of the owners of the Company was 1,047 (Q2 2017: 982) thousand euros. In the Q2 2018, EPS was 0.06 euros (Q2 2017: 0.06 euros).

In 6-months period, the profit before taxes was 1,726 (H1 2017: 26,953) thousand euros and the calculated income tax expense was 586 (H1 2017: 564) thousand euros. Overall, the consolidated net profit of the first-half 2018 was 1,140 (H1 2017: 26,389) thousand euros. The share of the owners of the Company was 1,180 (H1 2017: 26,356) thousand euros. In H1, EPS was 0,07 (H1 2017: 1,49) 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 1,550 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 752 people working in the Group, which was 170 persons more than a year earlier. From the beginning of the year, the number of employees has increased by 122 people, including 53 employees were added in the Q2. With the acquisition of SEBAB AB and Grytek AB, 45 employees were added to the Group in Q1 and 7 more in Q2.

In Q2 2018, an average of 713 employees worked in the Group, which was 171 people more than in the comparable period. In H1 2018, an average of 696 employees worked in the Group, which was 180 people more than in the reference period.

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	Average number of employees				Number of employees 30.6.			As at
	Q2 2018	Q2 2017	6m 2018	6m 2017	Growth	2018	2017	31.12.2017
Estonia	397	352	385	328	36	424	388	372
Finland	134	92	131	91	44	136	92	137
Lithuania	138	98	135	97	37	139	102	120
Sweden	44	0	45	0	53	53	0	1
Total	**713**	**542**	**696**	**516**	**170**	**752**	**582**	**630**

In the reporting quarter, 4,906 (Q2 2017: 3,308) thousand euros and 9,281 (H1 2017: 5,925) thousand euros during the first 6 months were paid to the employees as salaries and fees. In the reporting 6 months, the average monthly salary per employee of the Group was 2,221 euros, an average increase of 307 euros compared to the reference period.

Financial position and cash flows

	Growth					
	y-o-y	6 months 2018	30.6. 2018	30.6. 2017	30.6. 2016	31.12. 2017
Current assets	3,809	5,023	53,736	49,927	23,687	48,713
Non-current assets	6,460	3,271	44,535	38,075	47,215	41,264
TOTAL ASSETS	**10,269**	**8,294**	**98,271**	**88,002**	**70,902**	**89,977**
Current liabilities	9,544	10,210	27,346	17,801	11,170	17,136
Non-current liabilities	1,219	1,323	4,233	3,014	912	2,910
Equity	-494	-3,239	66,692	67,188	58,820	69,931
incl. attributable to owners of the Company	-426	-3,199	66,673	67,099	58,711	69,872
Equity ratio (%) (Equity/total assets) *100 (%)	-8.4	-9.8	67.9	76.3	83.0	77.7
Current ratio (Average current assets/ Average current liabilities)	-0.1	-0.1	2.3	2.4	2.3	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 6 months, the amount of the Group's assets increased by 8.3 million euros and compared to the reference period by 10.3 million euros up to 98.3 million euros.

During the year, the current assets increased by 3.8 million euros up to 53.7 million euros. The inventories increased by 6.8 million euros up to 19.8 million euros and trade receivables and other receivables by 10.7 million euros up to 24.2 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 2.1 million euros to 6.0 million euros over the last 12 months.

The Group makes increasingly more investments into automatization 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. The cost of the non-current assets in the statement of financial position increased by 6.5 million euros to 44.5 million euros. During the reporting 6 months, the Group has made a total of 4.6 (H1 2017: 4.5) million euros worth of investments to fixed assets, inclusive acquisitions through business combinations amounted to 1.0 (H1 2017: 0.7) million euros and the ongoing developments of Allika Industrial Park in amount of 1.0 (H1 2017: 2.9) million euros.

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As at the reporting date, the Group's liabilities totalled 31.6 million euros, of which short-term liabilities made up 86.6%. Short-term liabilities increased by 9.5 million euros, inclusive trade and other payables increased by 4.9 million euros to 18.2 million euros.

As at 30 June 2018, interest-bearing loans and borrowings made up 25.7% of the Group's liabilities and 8.2% of the cost of its assets; 17.6% and 3.9%, respectively, as at 30 June 2017. The Group had interest-bearing loans and borrowings totalling 8.1 (30.6.2017: 3.5) million euros, of which the short-term obligations making up 3.9 (30.6.2017: 0.6) million euros.

In H1 2018, the current ratio of the Group was 2.3 (H1 2017: 2.4) and the quick ratio stayed on 1.6.

	6 months			Year
Consolidated Statement of Cash Flows	**2018**	**2017**	**2016**	**2017**
Cash flows from operating activities	-6,522	-2,101	675	4,560
Cash flows from investing activities	-1,443	19,890	-875	6,284
Cash flows from financing activities	91	-3,469	-1,035	-3,126
Net cash flow	**-7,874**	**14,320**	**-1,235**	**7,718**

Cash flows out from operating activities were 6.5 (Q2 2017: 2.1) million euros in 6 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 1.4 million euros. In the comparable period, cash yielded money in the amount of 19.9 million euros. In the H1, a total of 3.6 (H1 2017: 4.0) million euros were paid for investments. Acquisition of business combinations generated a net outflow of 2.9 (H1 2017: 1.9) 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 six months, cash yielded money in the amount of 0.09 million euros from financing activities. In the comparable period, cash flows out from financing activities were 3.5 million euros. During the first half of year, a short-term loan of 3.5 million euros and long-term loan of 1.5 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 1.5 million euros was taken out and the share capital was reduced by 1.2 million euros.

Cash and cash equivalents decreased by 7.9 million euros to 3.0 million euros in the reporting year and increased by 14.3 million euros to 17.6 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**	**6M 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	5.16
Traded shares (pc)	800,823	1,086,451	947,294	1,349,617	703,114
Turnover (in million euros)	2.17	2.98	2.45	5.46	4.13
Capitalisation (in million euros)	48.55	46.16	50.20	88.70	91.54
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

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

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As at 30 June 2018 AS Harju Elekter had 2,896 shareholders. The number of shareholders increased during the accounting quarter by 158 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 June 2018, the members of the Supervisory and Management Boards owned in accordance with their direct and indirect ownerships totally 10.66% 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 June 2018:

Holding	**No of shareholders**	**% of all shareholders**	**% of votes held**
> 10%	2	0.07	42.10
1.0 – 10.0%	7	0.24	20.36
0.1 – 1.0 %	62	2.14	19.03
< 0.1%	2,825	97.55	18.51
Total	2,896	100.0	100.0

Shareholders (above 5%) at 30 June 2018:

Shareholder	**Holding (%)**
HARJU KEK AS	31.39
ING LUXEMBOURG S.A.	10.71
Endel Palla	6.90
Shareholders holding under 5%	51.00

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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	**30.6.2018**	**31.12.2017**	**30.6.2017**
Current assets				
Cash and cash equivalents		2,997	10,992	17,598
Short-term financial investments	2	5,251	9,935	0
Trade receivables and other receivables		24,248	13,575	16,113
Prepayments		1,204	1,118	1,372
Income tax prepayments	9	204	56	73
Inventories		19,832	13,037	14,771
Total current assets		**53,736**	**48,713**	**49,927**
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	18,528	17,881	15,934
Property, plant and equipment	4	13,896	11,983	11,301
Intangible assets	4	7,359	6,660	6,119
Total non-current assets		**44,535**	**41,264**	**38,075**
TOTAL ASSETS	6	**98,271**	**89,977**	**88,002**

LIABILITIES AND EQUITY				
Liabilities				
Interest-bearing loans and borrowings	5	3,893	625	178
Advances from customers		1,678	1,088	1,402
Trade payables and other payables		18,239	12,802	13,379
Tax liabilities		3,423	2,106	2,567
Income tax liabilities	9	69	270	193
Short-term provision		44	245	81
Total current liabilities		**27,346**	**17,136**	**17,800**
Interest-bearing loans and borrowings	5	4,198	2,910	3,014
Other long-term liabilities		35	0	0
Non-current liabilities		**4,233**	**2,910**	**3,014**
Total liabilities		**31,579**	**20,046**	**20,814**
Equity				
Share capital		11,176	11,176	11,176
Share premium		804	804	804
Reserves		2,715	2,844	2,847
Retained earnings		51,978	55,048	52,272
Total equity attributable to equity holders of the parent		**66,673**	**69,872**	**67,099**
Non-controlling interests		19	59	89
Total equity		**66,692**	**69,931**	**67,188**
TOTAL LIABILITIES AND EQUITY		**98,271**	**89,977**	**88,002**

AS Harju Elekter Interim report 1-6/2018,consolidated (unaudited, in thousand euros)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

		1 April - 30 June		1 January - 30 June	
	Note	**2018**	**2017**	**2018**	**2017**
Revenue	6	33,851	25,102	59,837	42,622
Cost of sales		-29,049	-21,297	-51,691	-36,146
Gross profit		**4,802**	**3,805**	**8,146**	**6,476**
Distribution costs		-1,431	-1,028	-2,592	-1,824
Administrative expenses		-2,187	-1,322	-4,116	-2,504
Other income		29	28	38	30
Other expenses		-47	-28	-78	-55
Operating profit	6	**1,166**	**1,455**	**1,398**	**2,123**
Finance income	7	342	0	353	24,846
Incl. Gain on sale of financial assets		*0*	*0*	*0*	*24,839*
Finance costs	7	-11	-7	-25	-16
Profit before tax		**1,497**	**1,448**	**1,726**	**26,953**
Income tax expense		-459	-425	-586	-564
Profit for the period		**1,038**	**1,023**	**1,140**	**26,389**
Profit attributable to:					
Owners of the Company		1,047	982	1,180	26,356
Non-controlling interests		-9	41	-40	33
Profit for the period		**1,038**	**1,023**	**1,140**	**26,389**
Earnings per share					
Basic earnings per share (EUR)	8	0.06	0.06	0.07	1.49
Diluted earnings per share (EUR)	8	0.06	0.06	0.07	1.49

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		1 April – 30 June		1 January – 30 June	
For the period 1 January –30 June	Note	**2018**	**2017**	**2018**	**2017**
Profit for the period		**1,038**	**1,023**	**1,140**	**26,389**
Other comprehensive income					
Gain/loss on sale of financial assets (-)		0	0	0	-16,367
Currency translation differences		-22	0	-129	0
Other comprehensive income for the period, net of tax		**-22**	**0**	**-129**	**-16,367**
Total comprehensive income for the period		**1,016**	**1,023**	**1,011**	**10,022**
Total comprehensive income attributable to:					
Owners of the Company		1,025	982	1,051	9,989
Non-controlling interests		-9	41	-40	33
Total comprehensive income for the period		**1,016**	**1,023**	**1,011**	**10,022**

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 30 June	Note	**2018**	**2017**
Cash flows from operating activities			
Profit for the period	6	1,140	26,389
Adjustments for:			
Depreciation and amortization	3.4	1,249	771
Gain on sale of property, plant and equipment	9	-18	-3
Share-based payment		8	
Finance income	7	-353	-24,846
Finance costs	7	25	16
Income tax expense	9	586	564
Changes in:			
Growth/decrease in receivables related to operating activity		-8,417	-6,166
Growth/decrease in inventories		-4,670	-4,201
Growth/decrease in payables related to operating activity		4,529	5,769
Corporate income tax paid	9	-581	-378
Interest paid	9	-20	-16
Net cash from operating activities		**-6,522**	**-2,101**
Cash flows from investing activities			
Acquisition of investment property	9	-1,072	-3,109
Acquisition of property. plant and equipment	9	-2,387	-809
Acquisition of intangible assets	9	-185	-93
Acquisition of subsidiaries, net of cash acquired	10	-2,906	-1,920
Acquisition of financial investments		-99	0
Proceeds from sale of property, plant and equipment	9	57	35
Proceeds from sale of other financial investments		5,000	25,779
Interest received	9	16	7
Dividends received	7	133	0
Net cash used in investing activities		**-1,443**	**19,890**
Cash flows from financing activities			
Growth/decreases in short-term loans	5	3,236	-642
Proceeds from borrowings	5	1,748	2,037
Repayment of borrowings	5	-278	-25
Other non-current liabilities		35	0
Payment of finance lease principal	5	-150	-149
Reduction of share capital		0	-1,241
Acquisition of non-controlling interests		0	-5
Dividends paid		-4,258	-3,226
Dividends income tax paid		-242	-218
Net cash used in financing activities		**91**	**-3,469**
Net cash flows		**-7,874**	**14,320**
Cash and cash equivalents at beginning of period		**10,992**	**3,278**
Net increase / decrease		-7,874	14,320
Effect of growth/decrease rate fluctuations on cash held		-121	0
Cash and cash equivalents at end of period		**2,997**	**17,598**

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CONSOLIDATED STATEMENT OF GROWTH/DECREASES IN EQUITY

	Attributable to owners of the Company								
For the period 1 January – 30 June	**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	1,180	1,180	-40	1,140
Other comprehensive income for the period	0	0	0	0	-129	0	-129	0	-129
Total comprehensive income	**0**	**0**	**0**	**0**	**-129**	**1,180**	**1,051**	**-40**	**1,011**
Transaction with the owners of the Company, recognized directly in equity									
Share-based payment	0	0	0	0	0	8	8	0	8
Dividends	0	0	0	0	0	-4,258	-4,258	0	-4,258
Total transaction with the owners of the Company	**0**	**0**	**0**	**0**	**0**	**-4,250**	**-4,250**	**0**	**-4,250**
At 30 June 2018	**11,176**	**804**	**1,242**	**1,602**	**-129**	**51,978**	**66,673**	**19**	**66,692**
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	26,356	26,356	33	26,389
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**	**26,356**	**9,989**	**33**	**10,022**
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 June 2017	**11,176**	**804**	**1,242**	**1,602**	**3**	**52,272**	**67,099**	**89**	**67,188**

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 30.06.2018 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 Automatikos Iranga UAB (subsidiary of Rifas UAB) (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 June	Note	**2018**	**2017**
Current financial assets		5,251	-
Non-current financial assets		34	22
Available-for-sale equity securities (fair value)		4,662	4,662
Total		**9,947**	**4,684**

For the period 1 January – 30 June	Note	**2018**	**2017**
1. Current financial assets at fair value through profit and loss			
Carrying amount at 1 January		9,935	-
Additions		99	-
Termination of a term deposit		-5,000	-
Gain on change in fair value	7	217	-
At the end of the period		**5,251**	**-**
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		**9,947**	**4,684**

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 307 thousand euros in the reporting quarter, totalling increased 217 thousand euros in the H1. 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 June	2018	2017
At 1 January	17,881	13,273
Additions	996	2860
Depreciation charge	-349	-199
At the end of the period	**18,528**	**15,934**

Note 4 Property, plant and equipment; intangible assets

For the period 1 January – 30 June	Note	2018	2017
1. Property, plant and equipment			
At 1 January		11,983	10,972
Additions		2,387	796
Acquisitions through business combinations	10	126	34
Disposals		-39	-32
Depreciation charge		-553	-469
Impact of exchange rate changes		-8	0
At the end of the period		**13,896**	**11,301**
2. Intangible assets			
At 1 January		6,660	5,431
Additions		185	88
Acquisitions through business combinations	10	864	703
Depreciation charge		-347	-103
Impact of exchange rate changes		-3	0
At the end of the period		**7,359**	**6,119**

Note 5 Interest-bearing loans and borrowings

	30.6.2018	31.12.2017	30.6.2017
Short-term liabilities			
Short-term bank loans	3,236	0	0
Current portion of long-term bank loans	233	511	29
Current portion of lease liabilities	155	114	149
Short-term loans from related parties	269	0	0
Total current liabilities	**3,893**	**625**	**178**
Non-current liabilities			
Long-term bank loans	3,888	2,409	2,400
Lease liabilities	310	501	614
Total non-current liabilities	**4,198**	**2,910**	3,014
TOTAL	**8,091**	**3,535**	**3,192**

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Growth/decreases during the period 1 January – 30 June	Note	2018	2017
Loans and borrowings at the beginning of the year		**3,535**	**1,971**
Growth/decreases in short-term loans		3,236	-642
Received short-term loans from related parties	11	269	0
Received long-term loans		1,479	2,037
Long-term loan repaid		-278	-25
Payment of finance lease principal		-150	-149
Loans and borrowings at the end of the current period		**8,091**	**3,192**

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, 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 June	Note	Manu-facturing	Real Estate	Other activities	Elimi-nations	Consoli-dated
2018						
Revenue from external customers		48,168	1,220	10,449	0	59,837
Inter-segment revenue		1,078	659	378	-2,115	
Total revenue		**49,246**	**1,879**	**10,827**	**-2,115**	**59,837**
Operating profit		**1,454**	**-70**	**15**	**-1**	**1,398**
Finance income	7					353
Finance costs	7					-25
Profit before tax						**1,726**
Income tax						-586
Profit for the period						**1,140**
Segment assets		66,794	18,996	11,777	-16,259	81,308
Indivisible assets						16,963
Total assets						**98,271**
Capital expenditure	3.4	3,500	996	59	0	4,555
Depreciation charge for the year	3.4	534	349	376	-10	1,249
2017						
Revenue from external customers		38,519	947	3,156	0	42,622
Inter-segment revenue		208	569	270	-1,047	
Total revenue		**38,727**	**1,516**	**3,426**	**-1,047**	**42,622**
Operating profit		**2,144**	**350**	**-382**	**11**	**2,123**
Finance income	7					24,846
Finance costs	7					-16
Profit before tax						**26,953**
Income tax						-564
Profit for a period						**26,389**
Segment assets		53,453	16,253	21,463	-9,993	81,176
Indivisible assets						6,826
Total assets						**88,002**
Capital expenditure	3.4	1,039	2,860	582	0	4,481
Depreciation charge for the year	3.4	469	199	117	-14	771

Revenue by markets:

For the period 1 January – 30 June	2018	2017
Estonia	6,372	8,779
Finland	41,659	28,814
Sweden	4,976	1,594
Lithuania	350	661
Norway	3,320	2,337
Other countries	3,160	437
Total	**59,837**	**42,622**

Revenue by business area:

For the period 1 January – 30 June	**2018**	**2017**
Electrical equipment	47,618	36,956
Sheet metal products and services	278	420
Telecom sector products and services	474	491
Intermediary sale of electrical products	3,312	3,468
Rental income	1,028	819
Electrical installation service	6,575	-
Other services	552	468
Total	**59,837**	**42,622**

Note 7 Finance income and costs

For the period 1 January – 30 June	Note	**2018**	**2017**
Interest income		4	7
Finance income from sale of PKC Group Oyj’s shares		0	24,839
Dividend income		133	0
Net gain on change in fair value of short-term financial investments	2	216	0
Total finance income		**353**	**24,846**
Interest expense		-19	-16
Net loss from foreign exchange differences		-6	0
Total finance costs		**-25**	**-16**

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 30.6.2018, 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. During the period 16 -30 June 2018, the average market price of the share was 5.21 euros.

For the period 1 January – 30 June	Unit	**2018**	**2017**
Profit attributable to equity holders of the parent	EUR‘000	1,180	26,355
Average number of shares outstanding	Pc‘000	17,740	17,740
Basic earnings per share	EUR	0.07	1.49
Adjusted number of shares during the period	Pc‘000	17,741	17,740
Diluted earnings per share	EUR	0.07	1.49
For the period 1 April – 30 June			
Profit attributable to equity holders of the parent	EUR‘000	982	982
Average number of shares outstanding	Pc‘000	17,740	17,740
Basic earnings per share	EUR	0.06	0.06
Average number of shares outstanding	Pc‘000	17,741	17,740
Diluted earnings per share	EUR	0.06	0.06

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

For the period 1 January – 30 June	Note	**2018**	**2017**
Corporate income tax paid			
Income tax expense		-586	-564
Prepayment decrease (+)/ increase (-), liability decrease (-)/ increase (+)		-349	11
Acquired liability through business combinations		112	-43
Income tax expense on dividends		242	218
Corporate income tax paid		**-581**	**-378**
Interest paid			
Interest expense	7	-19	-16
Liability increase (-)		-1	0
Interest paid		**-20**	**-16**
Interest received			
Interest income	7	4	7
Receivable increase (-)		12	0
Interest received		**16**	**7**
Paid for investment property			
Additions of investment property	3	-996	-2,860
Liability decrease (-)/ increase (+) incurred by purchase		-76	-249
Acquisition of investment property		**-1,072**	**-3,109**
Paid for property, plant and equipment			
Additions of property, plant and equipment	4	-2,387	-796
Liability decrease (-)/ increase (+) incurred by purchase		0	-13
Acquisition of property, plant and equipment		**-2,387**	**-809**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	4	39	32
Profit on disposal of property, plant and equipment		18	3
Proceeds from sale of property, plant and equipment		**57**	**35**
Paid for intangible assets			
Additions of intangible assets	4	-185	-88
Liability decrease (-)/ increase (+) incurred by purchase		0	-5
Acquisition of intangible assets		**-185**	**-93**

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 sales and technical 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
Other short-term receivables and prepayments		522
Inventories		2124
Financial investments		14
Property, plant and equipment	4	126
Intangible assets	4	58
Interest-bearing loans and borrowings	5	-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 six months, the Group has made transactions with related parties as follows:

For the period 1 January – 30 June	**2018**	**2017**
Purchase of goods and services from related parties:		
- from Harju KEK lease of property, plant and equipment	58	44
Sale of goods and services to related parties:		
- to Harju KEK other services	1	1
Received loans from related parties		
- Loans from Board Members of subsidiaries	20	0
- Loans from companies related to Board Members of subsidiaries	249	0

Remuneration of the Management and Supervisory Boards		
- salaries, bonuses, additional remuneration	217	193
- social security and other taxes on salaries	72	64
TOTAL	289	257

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 6 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 1-6/2018 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
„25th“July 2018