



**2018**  
**IV QUARTER AND 12 MONTHS**  
**CONSOLIDATED UNAUDITED INTERIM REPORT**

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
Commercial registry code:	10029524
Address:	Paldiski mnt.31, 76606 Keila
Telephone:	+372 67 47 400
Fax:	+372 67 47 401
E-mail:	info.he@harjuelekter.com
Internet homepage:	www.harjuelekter.com
CEO:	Andres Allikmäe
Auditor:	AS PricewaterhouseCoopers
Beginning of the financial period:	1 <sup>st</sup> of January 2018
End of the financial period:	31 <sup>st</sup> of December 2018

*The interim report of Harju Elekter Group on 29 pages*

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## MANAGEMENT REPORT

### *Group structure and changes on it*

In interim report for 1-12/2018 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 and Rifas UAB are consolidated line-by-line. In the third quarter, the subsidiary of Rifas 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% 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. 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 31 December 2018, AS Harju Elekter has substantial holdings as follows:

Company		Country	31.12.18	31.12.17
AS Harju Elekter Elektrotehnika	Subsidiary	Estonia	100.0%	100.0%
AS Harju Elekter Teletehnika	Subsidiary	Estonia	100.0%	100.0%
Energo Veritas OÜ	Subsidiary	Estonia	80.52%	80.52%
Satmatic Oy	Subsidiary	Finland	100.0%	100.0%
Finnkumu Oy	Satmatic Oy`s subsidiary	Finland	100.0%	100.0%
Telesilta Oy	Subsidiary	Finland	100.0%	100.0%
Harju Elekter Kiinteistöt Oy	Subsidiary	Finland	100.0%	100.0%
Rifas UAB	Subsidiary	Lithuania	100.0%	100.0%
Automatikos Iranga UAB	Rifas UAB`s subsidiary	Lithuania	-	67.0%
Harju Elekter AB	Subsidiary	Sweden	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%
Skeleton Tehnologies Group OÜ	Financial investment	Estonia	9.8%	9.8%

### *Economic environment*

The IMF estimates that in 2018 and 2019, the global economy will grow by 3.7% and by around 2% in the euro zone. Geopolitical tensions and the deepening protectionism continue to be a concern, which is reflected in particular in confidence indicators that have gone through a major downturn. On the other hand, in developed countries unemployment has been at the lowest level since the 1980s, and wage growth has accelerated in larger economies by one percentage point. This prevents inflation and allows central banks to continue to normalise interest rates at an even slower pace than currently. According to SEB analysts, the global economic situation has not changed significantly compared to the previous year, but the assessment of economic actors to the situation has changed. Donald Trump is still confrontational and unpredictable; in Great Britain, people are unaware about the future due to Brexit; the Chinese economy is shifting from export to an economic model based on domestic consumption. At the end of the year, global stock market corrections were taking place and oil prices turned to growth. Regarding the European economy, the increasing trade tensions, higher oil prices and political uncertainty in some member states are mentioned as sources of threat here as well. SEB analysts estimate that the outlook for Estonia's main trading partners, Finland and Sweden, will remain good, and while the growth rate will slow down slightly, their economic growth should remain over 2%, which is slightly above the euro zone average.

According to Swedbank's January economic forecast, the Estonian economy has grown rapidly with the support of foreign and domestic demand, and this growth has been broad-based. Looking ahead, however, we can see first signs of a slowdown in the growth of external demand, which suggests that Estonia's economic growth and sector confidence have reached its peak. Nevertheless, Estonian Central Bank expects Estonian economy to grow by about 3.5% in 2018 and 2019.

### *Main events*

AS Harju Elekter received a number of acknowledgements and awards at the end of the year. The Estonian Chamber of Commerce and Industry recognised the most competitive companies of Estonia, among which AS Harju Elekter ranked first in the field of industry and energy and second in the group of large enterprises. In Äripäev's list on Estonia's top companies, AS Harju Elekter ranked first among the most successful companies in Harju County and second in the Äripäev TOP 100. The Estonian Electrical Workers' Association's (EETEL) TOP3 included two Group companies: 1st place was awarded to AS Harju Elekter Elektrotehnika and 2nd place went to AS Harju Elekter. The rankings were based on the results of the previous financial year.

Elenia Oy recognised AS Harju Elekter Elektrotehnika in 2018 with the title "Highest Quality Products".

In 2018, the quality managers of Keila Industrial Park concentrated on regular roundtables for the development of quality management to jointly address quality, environmental and occupational safety issues, have an overview, and be aware of opportunities and risk points. The Estonian Quality Association awarded the Quality Deed of the Year 2018 award to the Quality Manager of Keila Industrial Park.

In 2018, AS Harju Elekter Elektrotehnika signed several supply agreements with Finnish, Swedish and Estonian electrical grid companies. The subsidiary signed an agreement with Caruna Oy, the largest electrical distribution company in Finland, to supply Low Voltage cable distribution cabinets and metering boards to them for 2+1+1 years. The expected volume of the contract is 5 million euros. Also, the framework contract signed with Caruna Oy in 2016 was extended by two years until 2020. With E.ON Energidistribution AB, the largest distribution network enterprise in Sweden, a 3-year framework agreement was signed, based on which more than 2,000 substations will be supplied to Sweden during the contract period and with Elektrilevi OÜ a 5-year contract was signed in total amount of 2.25 million euros for the supply of 250 kVA prefabricated substations to Estonia. Moreover, the subsidiary won a tender for the Swedish Ellevio 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 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 Keila 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 for the expansion of its production facilities in Panevėžys. Construction started in September. After the completion of the construction work in first half of 2019, 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 founded a solar power plant in Haapsalu, which is the first of its kind for the company. More than 2,700 panels were installed on a few hectares of land in Haapsalu, giving the plant a capacity of 700 kW. Today, a total of 1,295.6 kW solar panels have been installed by the Group.

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 272, including 40 sales, production and R&D engineers, is sufficient to seamlessly fulfil the current sales volume without any interruptions.

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 prefabricated technical buildings, by AS Harju Elekter, entered into force. SEBAB AB is a marketing and engineering company for LV/MV power and distribution solutions for the construction, infrastructure and renewable energy sector. The acquired companies will continue as 100% subsidiaries of the Group.

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

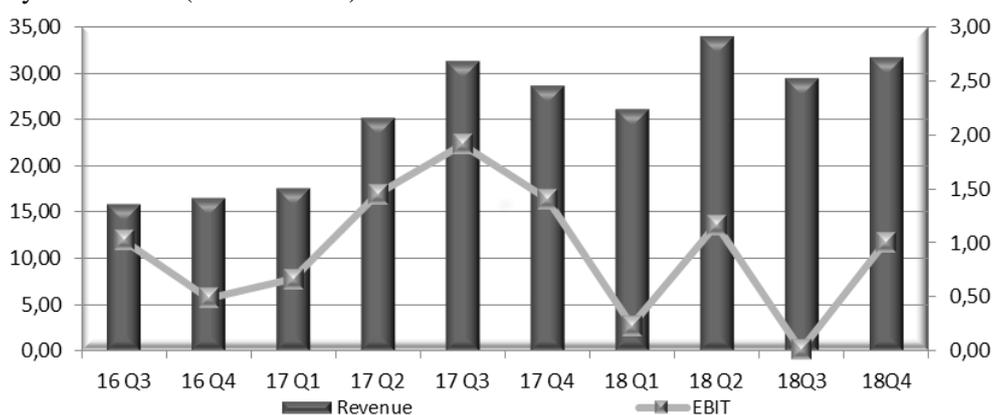
During the year, the Group's subsidiaries participated in the professional fairs in Finland, Sweden and Estonia: the trade fair Sähkö Tele Valo AV 2018 in Jyväskylä, Alihankinta fair in Tampere, EBR fair in Falun, the international fair Estbuild in Estonia and the Maamess fair in Tartu.

### Operating results

In recent years, AS Harju Elekter has made large-scale investments and active sales work to increase its market share in Scandinavia. From the beginning of 2018, two Swedish companies were merged with the Group. As a result, the Group's sales have doubled in the last two years but integrating new subsidiaries into the Group is a long-term process and reaching the desired profitability requires extra time and expenses. The profitability of the financial year was significantly affected by the potential loss of 1.9 million euros related to the shipbuilding electrical work taken into account in the second half of the financial year. The actual amount of the loss will be determined at the end of the negotiations and legal disputes.

The Group's consolidated net profit for the fourth quarter of 2018 was 736 thousand euros and for 12 months 1 514 thousand euros. In coordination with the Supervisory Board, the Group's Management Board proposes to distribute 0.18 euros per share to shareholders in the form of dividends, totaling 3.2 million euros.

#### Seasonality of business (million euros)



## KEY INDICATORS

	1. January - 31. December		
	2018	2017	2016
Revenue (EUR'000)	120,804	102,402	61,167
Gross profit (EUR'000)	15,976	15,359	10,361
EBITDA (EUR'000)	5,001	7,587	4,777
EBIT (EUR'000)	2,413	5,442	3,181
Profit for the period (EUR'000)	1,514	29,132	3,224
incl attributed to Owners of the Company (EUR'000)	1,546	29,129	3,219
<i>Profit for the period without extraordinary income (EUR'000)</i>	<i>1,514</i>	<i>4,293</i>	<i>3,224</i>
Revenue growth/decrease (%)	18.0	67.8	0.8
Gross profit growth/decrease (%)	4.0	50.8	0.6
EBITDA growth/decrease (%)	-34.1	58.8	-0.9
EBIT growth/decrease (%)	-55.7	71.1	-2.9
Profit for the period growth/decrease (%)	-94.8	803.6	1.2
incl attributed to Owners of the Company (%)	-94.7	804.9	0.9
<i>Net profit growth/decrease without extraordinary income (%)</i>	<i>-64.7</i>	<i>33.2</i>	<i>1.2</i>
Distribution cost to revenue (%)	4.4	3.8	5.0
Administrative expenses to revenue (%)	6.8	5.8	6.8
Labour cost to revenue (%)	20.5	18.2	22.0
Gross margin (Gross profit/revenue) (%)	13.2	15.0	16.9
EBITDA margin (EBITDA/revenue) (%)	4.1	7.4	7.8
Operating margin (EBIT/revenue) (%)	2.0	5.3	5.2
Net margin (Profit for the period/revenue) (%)	1.3	28.4	5.3
<i>Net profit margin without extraordinary income (%)</i>	<i>1.3</i>	<i>4.2</i>	<i>5.3</i>
ROE (Profit for the period/average equity) (%)	2.2	44.7	5.4
<i>ROE without extraordinary income (%)</i>	<i>2.2</i>	<i>6.6</i>	<i>5.4</i>

## SALES REVENUE

The Group's revenue for the reporting quarter was 31.7 (Q4 2017: 28.6) million euros, increasing by 10.9% over the comparable period. Consolidated revenue for 12 months increased by 18.4 million euros to 120.8 (2017: 102.4) million euros.

The quarterly sales development by business area:

Business area	Growth Q/Q	Growth Y-O-Y	Q4 2018	Q4 2017	Q4 2016	Year 2018	Year 2017
Electrical equipment	21.3%	17.0%	26,028	21,458	14,175	96,786	82,710
Sheet metal products and services	42.1%	-17.6%	172	121	216	584	709
Telecom sector products	-3.4%	0.6%	171	177	322	879	874
Intermediary sale of electrical products	52.6%	35.2%	2,859	1,873	895	10,106	7,473
Rental income	28.7%	24.5%	596	463	548	2,171	1,744
Electrical installation service	-67.6%	13.0%	1,364	4,207	-	8,933	7,904
Other services	89.3%	36.1%	479	253	252	1,345	988
<b>Total</b>	<b>10.9%</b>	<b>18.0%</b>	<b>31,669</b>	<b>28,552</b>	<b>16,408</b>	<b>120,804</b>	<b>102,402</b>

In the 4th quarter, sales revenue of electrical equipment increased by 4.6 million euros to 26.0 million euros and in year-on-year comparison by 14.1 million euros to 96.8 million euros. More efficient sales to the Swedish and Estonian markets increased the intermediary sale of electrical products in the reporting quarter by 1.0 million euros to 2.9 million euros and in year-on-year comparison by 2.6 million euros to 10.1 million euros.

The sales development by markets:

Markets	Growth (+/-)		Quarter 4		12 months		Share 12 months	
	Q/Q	y-o-y	2018	2017	2018	2017	2018	2017
Estonia	16.4%	-5.8%	4,770	4,097	15,444	16,402	12.8%	16.0%
Finland	-24.6%	1.0%	16,221	21,522	75,458	74,704	62.5%	73.0%
Sweden	888.6%	399.7%	5,131	519	13,522	2,706	11.2%	2.7%
Norway	30.3%	48.5%	3,042	2,335	8,688	5,852	7.2%	5.7%
Lithuania	-59.3%	-70.8%	24	59	401	1,371	0.3%	1.3%
Others	12,305.0%	433.4%	2,481	20	7,291	1,367	6.0%	1.3%
<b>Total</b>	<b>10.9%</b>	<b>18.0%</b>	<b>31,669</b>	<b>28,552</b>	<b>120,804</b>	<b>102,402</b>	<b>100.0%</b>	<b>100.0%</b>

Although sales to the Estonian market in the fourth quarter increased by 16.4% to 4.8 million euros and accounting for 15.1% of the consolidated sales revenue for the reporting quarter (Q4 2017:14.3%), it fell by 5.8% to 15.4 million euros over the year. The main reason for the decline was the continued low level of investment in the energy distribution sector, as well as intense competition.

The Group's largest market was Finland, where 51.2% in Q4 and 62.5% in the 12-months period of the Group's products and services were sold (75.4% and 73.0% respectively in 2017). In the quarterly comparison, sales to the Finnish market decreased by 5.3 million euros to 16.2 million euros, half of which was caused of the temporary decline in the orders of grid companies. Compared to the previous year, Finnish sales remained almost at the same level, i.e. 75.5 (2017: 74.7) million euros.

The largest increase in sales revenue was to the Swedish market with a nearly 10-fold increase to 5.1 million euros in the fourth quarter in comparison with the reference period, and a 5-fold increase to 13.5 million euros in the comparison of years. The Swedish market accounted for 16.2% (Q4 2017: 1.8%) of the consolidated sales revenue in fourth quarter and 11.2% (2017: 2.7%) in the reporting year. The growth came from acquisition of Swedish subsidiaries to the Group as well as Group's other 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.

Sales to the Norwegian market increased by 0.7 million euros to 3.0 million euros in the reporting quarter and by 2.8 million euros to 8.7 million euros during the 12 months, forming 9.6% (Q4 2017: 8.2%) of the consolidated sales revenue for the reporting quarter and 7.2% of the consolidated sales revenue for the year (2017: 5.7%).

As the Lithuanian subsidiary earned 98.2% (2017: 87.7%) of the sales revenue of the financial year outside the home market, the share of the Lithuanian market in the Group's sales revenue was minimal, being 0.1% in the reporting quarter and 0.3% in the year.

The largest of the Group's other markets was the Netherlands, which generated 1.3 million euros of sales revenue in the reporting quarter and 3.0 million euros of sales revenue in the accounting year. The Austrian and Danish markets earned an annual revenue of 1.7 million euros and 0.9 million euros respectively.

The sales development by segments:

Segments	Growth (+/-)		Quarter 4			12 months		
	Q/Q	y-o-y	2018	2017	2016	2018	2017	2016
Manufacturing	23.1%	17.2%	26,661	21,657	14,971	99,795	85,154	55,790
Real Estate	48.9%	30.8%	786	528	633	2,605	1,991	2,480
Unallocated activities	-33.7%	20.6%	4,222	6,367	804	18,404	15,257	2,897
<b>Total</b>	<b>10.9%</b>	<b>18.0%</b>	<b>31,669</b>	<b>28,552</b>	<b>16,408</b>	<b>120,804</b>	<b>102,402</b>	<b>61,167</b>

During the reporting quarter 84.2% (Q4 2017: 75.9%) of Group's sale revenue was earned from the Manufacturing segment, Real Estate and Unallocated activities contributed 15.8% (Q4 2017: 24.1%) of the consolidated sales volume. In total, 82.6% (2017: 83.2%) of the consolidated yearly sales revenue was generated from the Manufacturing segment. Sales of electrical equipment provides a biggest part (97%-98%) of the Manufacturing segment's revenue.

The sales revenue of the Real Estate segment increased by 0.3 million euros to 0.8 million euros in the reporting quarter and by 0.6 million euros to 2.6 million euros in comparison of years, mainly due to the increase in rental income as the result of the completion and lease of new production and warehouse facilities in Allika Industrial Park.

The sales revenue of Unallocated activities has decreased by 2.1 million euros to 4.2 million euros in the quarterly comparison and has increased by 3.1 million euros to 18.4 million euros in the 12-months period. Most of the segment's revenue growth was contributed by the intermediate sale of electrical equipment on the Swedish market and by the field of electrical installation works added in the second half of 2017.

#### OPERATING EXPENSES

	Growth (+/-)		Quarter 4			12 months		
	Q/Q	y-o-y	2018	2017	2016	2018	2017	2016
Cost of sales	10.5%	20.4%	26,802	24,248	13,912	104,828	87,043	50,806
Distribution costs	53.3%	36.2%	1,623	1,059	818	5,267	3,866	3,034
Administrative expenses	22.2%	37.5%	2,224	1,820	1,165	8,223	5,981	4,138
<b>Total expenses</b>	<b>13.0%</b>	<b>22.1%</b>	<b>30,649</b>	<b>27,127</b>	<b>15,895</b>	<b>118,298</b>	<b>96,890</b>	<b>57,978</b>
incl. depreciation of fixed assets	-26.2%	20.7%	694	941	407	2,588	2,145	1,596
Total labour cost	20.2%	32.2%	6,711	5,585	3,685	24,720	18,700	13,464
inclusive salary cost	8.9%	31.7%	4,493	4,127	3,167	18,539	14,073	10,597

In the reporting quarter, operating expenses amounted to 30.6 (Q4 2017:27.1) million euros. During the 12-months period, operating expenses increased by 21.4 million euros to 118.3 million euros. The principal part of the cost increase, i.e. 17.8 million euros, has led to an increase in the cost of sales, surpassing the growth rate of sales revenue by 2.4 percentage points, and reducing the gross margin of 12 months by 1.8 percentage points compared to the comparable period.

The Group's sales are increasingly focused on foreign markets, increasing the Group's distribution costs by 0.6 million euros to 1.6 million euros in quarterly comparisons and 1.4 million euros to 5.3 million euros during the reporting year. The rate of distribution costs to revenue accounted for 5.1% (Q4 2017: 3.7%) in the reporting quarter and for 4.4% (2017: 3.8%) in the 12 months.

The increase in orders with special solutions has led along an increase in development costs for upgrading existing products and for developing new product series. 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. In 2018, AS Harju Elekter celebrated its 50th anniversary. One-off expenses for jubilee events are included in general administrative expenses. All this has grown the rate of administrative expenses to reporting quarter revenue to 7.0% (Q4 2017: 6.4%). The reporting year administrative expenses totalled 8.2 million euros, increasing by 2.2 million euros, and the rate of administrative expenses to revenue accounted for 6.8% (2017: 5.8%).

An Increase in staff but also in 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. Labour costs increased by 20.2% up to 6.7 million euros in Q4 and by 32.2% up to 24.7 million euros during the reporting year. The labour costs rate to revenue of the reporting quarter accounted for 21.2% (Q4 2017: 19.6%) and in the 12 months it was 20.5% (2017: 18.2%).

Depreciation of non-current assets decreased by 0.2 million euros to 0.7 million euros in the reporting quarter and increased by 0.4 million euros to 2.6 million euros in 12 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 (Q4 2017: 0.5) million euros and 0.5 (2017: 0.5) million euros in 2018. Depreciation of new production and warehousing facilities in Allika Industrial Park completed at the beginning of 2018 increased the depreciation of fixed assets during the year.

## EARNINGS AND MARGINS

In the reporting quarter, the gross profit of the Group was 4,867 (Q4 2017: 4,304) thousand euros and the gross margin was 15.4% (Q4 2017: 15.1%). In 12 months, the consolidated gross profit was 15,976 (2017: 15,359) thousand euros and the gross margin 13.2% (2017: 15.0%).

In the reporting quarter, the Group's operating profit was 1,007 (Q4 2017: 1,404) thousand euros and EBITDA 1,701 (Q4 2017: 2,345) thousand euros. Operating margin for the reporting quarter was 3.2% (Q4 2017: 4.9%) and EBITDA margin was 5.4% (Q4 2017: 8.2%).

In 12-months period, the operating profit of the Group was 2,413 (2017: 5,442) thousand euros and the EBITDA was 5,001 (2017: 7,587) thousand euros. Operating margin for the reporting period was 2.0% (2017: 5.3%) and EBITDA margin was 4.1% (2017: 7.4%). The profitability of the reporting year was significantly affected by the potential loss of 1.9 million euros taken into account in the second half of the accounting year due to the additional costs related to the electrical works of shipbuilding. Integration of the new acquired subsidiaries and preparation of the procurements won has increased the Group's development costs, distribution 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 996 (Q4 2017: 1,234) thousand euros. The calculated income tax expense of the last three months was 260 (Q4 2017: 288) thousand euros. In the reporting quarter, the consolidated net profit was 736 (Q4 2017: 946) thousand euros, of which the share of the owners of the Company was 735 (Q4 2017: 976) thousand euros.

In 12-months period, the consolidated profit before taxes was 2,507 (2017: 30,215) thousand euros and the calculated income tax expense was 993 (2017: 1,083) thousand euros. Overall, the consolidated net profit of the year 2018 was 1,514 (2017: 29,132) thousand euros. The share of the owners of the Company was 1,546 (2017: 29,129) thousand euros. In 2018; EPS was 0.09 (2017: 1.64) euros. In 2017, one-time gain 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 4,293 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 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 salary cost 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 736 people working in the Group, which was 106 persons more than a year earlier. With the acquisition of Swedish subsidiaries, 45 employees were added to the Group in Q1 2018.

In Q4 2018, an average of 727 employees worked in the Group, which was 107 people more than in the comparable period. In 2018, an average of 713 employees worked in the Group, which was 146 people more than in the reference period.

	Average number of employees				Number of employees 31.12.		
	Q4 2018	Q4 2017	12m 2018	12m 2017	Growth	2018	2017
Estonia	397	365	394	348	27	399	372
Finland	134	135	133	113	1	138	137
Lithuania	137	119	135	106	18	138	120
Sweden	59	1	51	0	60	61	1
<b>Total</b>	<b>727</b>	<b>620</b>	<b>713</b>	<b>567</b>	<b>106</b>	<b>736</b>	<b>630</b>

In the reporting quarter, 4,493 (Q4 2017: 4,127) thousand euros and during the 12 months, 18,539 (2017: 14,073) thousand euros were paid to the employees as salaries and fees. In 2018, the average monthly salary per employee of the Group was 2,166 euros, an average increase was 5% compared to the reference period.

### *Financial position and cash flows*

	Growth y-o-y	31.12. 2018	31.12. 2017	31.12. 2016
Current assets	-4,712	44,001	48,713	22,265
Non-current assets	12,888	54,152	41,264	51,703
<b>TOTAL ASSETS</b>	<b>8,176</b>	<b>98,153</b>	<b>89,977</b>	<b>73,968</b>
Current liabilities	8,408	25,544	17,136	12,409
Non-current liabilities	2,760	5,670	2,910	1,167
Equity	-2,992	66,939	69,931	60,392
incl. attributable to owners of the Company	-2,912	66,960	69,872	60,307
Equity ratio (%) (Equity/total assets) *100 (%)	-9.5	68.2	77.7	81.6
Current ratio (Average current assets/ Average current liabilities)	-0.2	2.2	2.4	2.1
Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities)	-0.1	1.5	1.6	1.3

During the 12 months, the amount of the consolidated assets increased by 8.2 million euros to 98.2 million euros.

The current assets decreased by 4.7 million euros to 44.0 million euros in a year. The inventories increased by 4.4 million euros, trade receivables and other receivables by 8.6 million euros, and the cash decreased by 7.9 million euros in a year. In the reporting quarter, management decided to recognise the listed securities acquired in the third quarter of 2017 as a long-term financial asset. At the reporting date the fair value of the reclassified financial assets was 4.7 million euros (note 2).

The Group makes increasingly more investments into automatisations 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 12.9 million euros to 54.2 million euros. During the reporting 12 months, the Group has made a total of 10.6 (2017: 9.1) million euros worth of investments to fixed assets, inclusive acquisitions through business combinations amounted to 1.0 (2017: 1.8) million euros. In 12 months, 2.5 million euros were invested into the ongoing developments in the Allika Industrial Park and in the construction of the Haapsalu solar plant.

As at the reporting date, the Group's liabilities totaled 31.2 million euros, of which short-term liabilities made up 81.8%. During the reporting year, short-term liabilities increased by 8.4 million euros, inclusive trade and other payables increased by 2.1 million euros to 14.9 million euros. Short-term interest-bearing loans and borrowings increased by 5.8 million euros to 6.5 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 31 December 2018, interest-bearing loans and borrowings made up 38.8% of the Group's liabilities and 12.3% of the cost of its assets. The Group had interest-bearing loans and borrowings totaling 12.1 (31.12.2017: 3.5) million euros, of which the short-term obligations made up 6.5 (31.12.2017: 0.6) million euros. In 12 months 2018, the current ratio of the Group was 2.2 (2017: 2.4) and the quick ratio was 1.5 (2017: 1.6).

<i>Consolidated Statement of Cash Flows</i>	12 months		
	2018	2017	2016
Cash flows from operating activities	-3,426	4,560	2,571
Cash flows from investing activities	-5,664	6,284	-4,530
Cash flows from financing activities	1,349	-3,126	-474
<b>Net cash flow</b>	<b>-7,741</b>	<b>7,718</b>	<b>-2,433</b>

In the reporting year, cash flows out from operating activities were 3.4 million euros and yielded money in the amount of 4.6 million euros in the comparable period. 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 5.7 million euros. In the comparable period, cash yielded money in the amount of 6.3 million euros. In the 12 months, a total of 7.9 (2017: 17.6) million euros were paid for investments. Acquisition of business combinations generated a net outflow of 2.9 (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 12 months, cash yielded money in the amount of 1.3 million euros from financing activities. In the comparable period, cash flows out from financing activities were 3.1 million euros. In the year 2018, a short-term loan of 3.6 million euros and long-term loan of 3.5 million euros were taken out. The dividends in the amount of 0.24 per share, totally 4,3 million euros were 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 2.6 million euros was taken out and the share capital was reduced by 1.2 million euros.

Cash and cash equivalents decreased by 7.7 million euros to 3.1 million euros in the reporting 12 months and increased by 7.7 million euros to 11.0 million euros in the comparable period.

### ***Supervisory and Management Boards***

The Supervisory Board of AS Harju Elekter has 5 members with the following membership: Mr. Endel Palla (Chairman and R&D manager of AS Harju Elekter), Mr. Arvi Hamburg (TALTECH, 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 Mr. 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.com](http://www.harjuelekter.com).

**Annual General Meeting**

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 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.

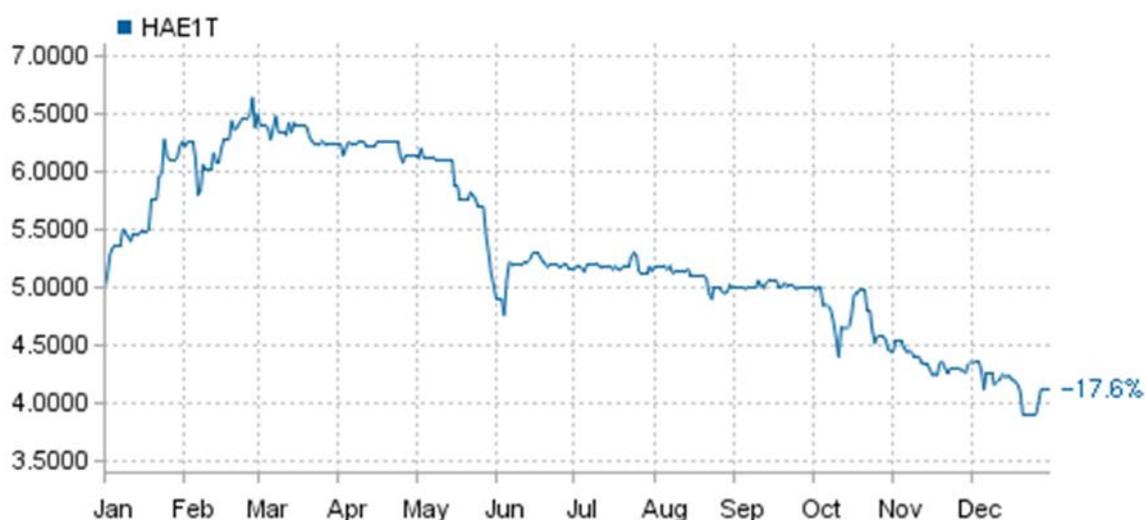
The AGM also appointed AS PricewaterhouseCoopers, register code 10142876 to perform the audit of the company for the years 2018-2020. The auditor will be remunerated according to the agreement.

The fourth item on the agenda of the AGM included the planning of a share option program 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 124 employees, regarding to the subscription rights for 351,925 shares.

**Shares of Harju Elekter and shareholders**

Security trading history:	2014	2015	2016	2017	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	3.89
Closing price	2.79	2.63	2.83	5.00	4.12
Traded shares (pc)	800,823	1,086,451	947,294	1,349,617	1,100,773
Turnover (in million euros)	2.17	2.98	2.45	5.46	5.98
Capitalisation (in million euros)	48.55	46.16	50.20	88.70	73.09
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	0.09

Price of AS Harju Elekter share (in EUR) on Nasdaq Tallinn Stock Exchange between 1 January 2018–31 December 2018 (Nasdaq Tallinn, [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com))



As at 31 December 2018 AS Harju Elekter had 3,102 shareholders. The number of shareholders increased during the accounting quarter by 140 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 31 December 2018, the members of the Supervisory and Management Boards owned in accordance with their direct and indirect ownerships totally 10.8% of AS Harju Elekter shares. The comprehensive list of shareholders is available at the website of the Nasdaq Tallinn ([www.nasdaqbaltic.com](http://www.nasdaqbaltic.com)).

Shareholders structure by size of holding at 31 December 2018:

<b>Holding</b>	<b>No of shareholders</b>	<b>% of all shareholders</b>	<b>% of votes held</b>
> 10%	2	0.1	42.1
1.0 – 10.0%	7	0.2	20.6
0.1 – 1.0 %	63	2.0	18.6
< 0.1%	3,030	97.7	18.7
<b>Total</b>	<b>3,102</b>	<b>100.0</b>	<b>100.0</b>

**Shareholders (above 5%) at 31 December 2018:**

<b>Shareholder</b>	<b>Holding (%)</b>
HARJU KEK AS	31.39
ING LUXEMBOURG S.A.	10.71
Endel Palla	7.04
Shareholders holding under 5%	50.86

## INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<b>ASSETS</b>	Note	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Current assets</b>			
Cash and cash equivalents		3,142	10,992
Short-term financial investments	2	0	9,935
Trade receivables and other receivables		22,218	13,575
Prepayments		1,083	1,118
Income tax prepayments	8	90	56
Inventories		17,468	13,037
<b>Total current assets</b>		<b>44,001</b>	<b>48,713</b>
<b>Non-current assets</b>			
Deferred income tax asset		98	56
Other long-term financial investments	2	9,587	4,684
Investment property	3	19,804	17,881
Property, plant and equipment	4	17,403	11,983
Intangible assets	4	7,260	6,660
<b>Total non-current assets</b>		<b>54,152</b>	<b>41,264</b>
<b>TOTAL ASSETS</b>	<b>6</b>	<b>98,153</b>	<b>89,977</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Interest-bearing loans and borrowings	5	6,470	625
Advances from customers		1,740	1,309
Trade payables and other payables		14,911	12,802
Tax liabilities		2,365	2,106
Income tax liabilities	8	44	270
Short-term provision		14	24
<b>Total current liabilities</b>		<b>25,544</b>	<b>17,136</b>
Interest-bearing loans and borrowings	5	5,635	2,910
Other long-term liabilities		35	0
<b>Non-current liabilities</b>		<b>5,670</b>	<b>2,910</b>
<b>Total liabilities</b>		<b>31,214</b>	<b>20,046</b>
<b>Equity</b>			
Share capital		11,176	11,176
Share premium		804	804
Reserves		2,568	2,844
Retained earnings		52,412	55,048
<b>Total equity attributable to equity holders of the parent</b>		<b>66,960</b>	<b>69,872</b>
Non-controlling interests		-21	59
<b>Total equity</b>		<b>66,939</b>	<b>69,931</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>98,153</b>	<b>89,977</b>

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS**

	Note	1 October– 31 December		1 January – 31 December	
		2018	2017	2018	2017
Revenue	6	31,669	28,552	120,804	102,402
Cost of sales		-26,802	-24,248	-104,828	-87,043
<b>Gross profit</b>		<b>4,867</b>	<b>4,304</b>	<b>15,976</b>	<b>15,359</b>
Distribution costs		-1,623	-1,059	-5,267	-3,866
Administrative expenses		-2,224	-1,820	-8,223	-5,981
Other income		64	10	124	50
Other expenses		-77	-31	-197	-120
<b>Operating profit</b>	6	<b>1,007</b>	<b>1,404</b>	<b>2,413</b>	<b>5,442</b>
Gain on sale of financial assets		0	0	0	24,839
Finance income		16	20	157	30
Finance costs		-27	-190	-63	-96
<b>Profit before tax</b>		<b>996</b>	<b>1,234</b>	<b>2,507</b>	<b>30,215</b>
Income tax expense		-260	-288	-993	-1,083
<b>Profit for the period</b>		<b>736</b>	<b>946</b>	<b>1,514</b>	<b>29,132</b>
<b>Profit attributable to:</b>					
Owners of the Company		735	976	1,546	29,129
Non-controlling interests		1	-30	-32	3
<b>Profit for the period</b>		<b>736</b>	<b>946</b>	<b>1,514</b>	<b>29,132</b>
<b>Earnings per share</b>					
Basic earnings per share (EUR)	7	0.04	0.06	0.09	1.64
Diluted earnings per share (EUR)	7	0.04	0.06	0.09	1.64

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	1 October– 31 December		1 January – 31 December	
	2018	2017	2018	2017
<b>Profit for the period</b>	<b>736</b>	<b>946</b>	<b>1,514</b>	<b>29,132</b>
<b>Other comprehensive income</b>				
Gain on sale of financial assets (-)	0	0	0	-16,367
Currency translation differences	-295	0	-295	0
Impact of exchange rate changes	-6	0	-134	0
<b>Other comprehensive income for the period</b>	<b>-301</b>	<b>0</b>	<b>-429</b>	<b>-16,367</b>
<b>Total comprehensive income for the period</b>	<b>435</b>	<b>946</b>	<b>1,085</b>	<b>12,765</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Company	434	976	1,117	12,762
Non-controlling interests	1	-30	-32	3
<b>Total comprehensive income for the period</b>	<b>435</b>	<b>946</b>	<b>1,085</b>	<b>12,765</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the period 1 January - 31 December	Note	2018	2017
<b>Cash flows from operating activities</b>			
Profit for the period	6	1,514	29,132
<u>Adjustments for:</u>			
Depreciation and amortization	3.4	2,588	2,145
Gain on sale of property, plant and equipment	8	-20	-12
Share-based payment		97	0
Gain on sale of financial assets		0	-24,839
Finance income		-157	-30
Finance costs		63	96
Income tax expense	8	993	1,083
<u>Changes in:</u>			
Change in receivables related to operating activity		-6,293	-3,643
Change in inventories		-2,306	-2,972
Change in payables related to operating activity		1,092	4,425
Corporate income tax paid	8	-939	-797
Interest paid	8	-58	-28
<b>Net cash from operating activities</b>		<b>-3,426</b>	<b>4,560</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment property	8	-2,722	-4,350
Acquisition of property, plant and equipment	8	-4,691	-3,102
Acquisition of intangible assets	8	-475	-163
Acquisition of subsidiaries, net of cash acquired	9	-2,906	-2,008
Acquisition of financial investments		-99	-9,999
Proceeds from sale of property, plant and equipment	8	66	108
Proceeds from sale of other financial investments		5,000	25,779
Interest received	8	16	8
Dividends received		147	11
<b>Net cash used in investing activities</b>		<b>-5,664</b>	<b>6,284</b>
<b>Cash flows from financing activities</b>			
Changes in short-term loans	5	3,638	-642
Proceeds from borrowings	5	3,534	2,630
Repayment of borrowings	5	-677	-127
Payment of finance lease principal	5	-605	-297
Reduction of share capital		0	-1,241
Acquisition of non-controlling interests		-39	-5
Dividends paid		-4,258	-3,226
Dividends income tax paid		-244	-218
<b>Net cash used in financing activities</b>		<b>1,349</b>	<b>-3,126</b>
<b>Net cash flows</b>		<b>-7,741</b>	<b>7,718</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>10,992</b>	<b>3,278</b>
Changes in cash and cash equivalents		-7,741	7,718
Effect of exchange rate fluctuations on cash held		-109	-4
<b>Cash and cash equivalents at end of period</b>		<b>3,142</b>	<b>10,992</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period 1 January – 31 December	Attributable to owners of the Company							Non- Controlling interests	TOTAL
	Share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings	TOTAL		
<b>At 1 January 2016</b>	<b>11,176</b>	<b>804</b>	<b>1,242</b>	<b>17,969</b>	<b>3</b>	<b>29,113</b>	<b>60,307</b>	<b>85</b>	<b>60,392</b>
<b>Comprehensive income 2017</b>									
Profit for the period	0	0	0	0	0	29,129	29,129	3	29,132
Other comprehensive income for the period	0	0	0	-16,367	-3	3	-16,367	0	-16,367
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-16,367</b>	<b>-3</b>	<b>29,131</b>	<b>12,762</b>	<b>3</b>	<b>12,765</b>
<b>Transaction with the owners of the Company, recognized directly in equity</b>									
Dividends	0	0	0	0	0	-3,193	-3,193	-33	-3,226
Acquisition of non-controlling interest	0	0	0	0	0	-4	-4	4	0
<b>Total transaction with the owners of the Company</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3,197</b>	<b>-3,197</b>	<b>-29</b>	<b>-3,226</b>
<b>At 31 December 2017</b>	<b>11,176</b>	<b>804</b>	<b>1,242</b>	<b>1,602</b>	<b>0</b>	<b>55,048</b>	<b>69,872</b>	<b>59</b>	<b>69,931</b>
<b>At 1 January 2018</b>	<b>11,176</b>	<b>804</b>	<b>1,242</b>	<b>1,602</b>	<b>0</b>	<b>55,048</b>	<b>69,872</b>	<b>59</b>	<b>69,931</b>
Change in accounting policy	-	-	-	153	-	-27	126	-	126
<b>Restated total equity</b>	<b>11,176</b>	<b>804</b>	<b>1,242</b>	<b>1,755</b>	<b>0</b>	<b>55,021</b>	<b>69,998</b>	<b>59</b>	<b>70,057</b>
<b>Comprehensive income 2018</b>									
Profit for the period	0	0	0	0	0	1,546	1,546	-32	1,514
Other comprehensive income for the period	0	0	0	-295	-134	0	-429	0	-429
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-295</b>	<b>-134</b>	<b>1,546</b>	<b>1,117</b>	<b>-32</b>	<b>1,085</b>
<b>Transaction with the owners of the Company, recognized directly in equity</b>									
Share-based payment	0	0	0	0	0	97	97	0	97
Dividends	0	0	0	0	0	-4,258	-4,258	0	-4,258
Acquisition of non-controlling interests	0	0	0	0	0	6	6	-48	-42
<b>Total transaction with the owners of the Company</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4,155</b>	<b>-4,155</b>	<b>-48</b>	<b>-4,203</b>
<b>At 31 December 2018</b>	<b>11,176</b>	<b>804</b>	<b>1,242</b>	<b>1,460</b>	<b>-134</b>	<b>52,412</b>	<b>66,960</b>	<b>-21</b>	<b>66,939</b>

## 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 31.12.2018 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 31 December 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 1-12/2018 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.

#### 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 timing and measurement of the entity's revenues didn't change under IFRS 15.

### 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 (ECL) 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 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
- 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.

In accordance with the amendment to IFRS 9, it is not permitted to recognise the equity instrument at its acquisition cost. When applying the new accounting principles, the Group estimated the fair value of SIA Energokomplekss to be 175 thousand euros by adjusting the value of financial assets by 153 thousand euros at the beginning of the accounting year. As at 1 January 2018, when IFRS 9 were initially applied receivables were written down by 27 thousand euros. In summary, equity was adjusted by 126 thousand euros at 1 January 2018.

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	Note	Measurement category		Carrying amount		Difference
		IAS 39	IFRS 9	IAS 39	IFRS 9	
<b>CURRENT ASSETS</b>						
Cash and cash equivalents		Amortised cost	Amortised cost	10,992	10,992	0
Short-term financial investments	2	Fair value through profit or loss	Amortised cost	5,000	5,000	0
Trade and other receivables		Amortised cost	Amortised cost	13,575	13,548	-27
<b>Total debt instruments</b>				<b>29,567</b>	<b>29,540</b>	<b>-27</b>
Short-term financial investments	2	Fair value through profit or loss	Fair value through other comprehensive income (FVOCI)	4,935	4,935	0
<b>Total equity instruments</b>				<b>4,935</b>	<b>4,935</b>	<b>0</b>
<b>NON-CURRENT ASSETS</b>						
Other long-term financial investments		Available-for-sale financial assets (cost method)	Fair value through other comprehensive income (FVOCI)	22	175	153
Other long-term financial investments	2	Available-for-sale equity securities (fair value)	Fair value through other comprehensive income (FVOCI)	4,662	4,662	0
<b>Total equity instruments</b>				<b>4,684</b>	<b>4,837</b>	<b>153</b>
<b>TOTAL</b>				<b>39,186</b>	<b>39,312</b>	<b>126</b>

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 31 December	Note	2018	2017
Current financial assets at fair value through profit and loss		0	9,935
Non-current financial assets at fair value through profit and loss		11	0
Non-current financial assets at cost		0	22
Non-current financial assets at fair value through other comprehensive income			
Investment in securities		4 712	0
Skeleton Technologies Group OÜ share		4 662	4,662
SIA Energokomplekss share		202	0
<b>Total</b>		<b>9 587</b>	<b>14,619</b>

For the period 1 January – 31 December	Note	2018	2017
<b>1. Current financial assets at fair value through profit and loss</b>			
Carrying amount at 1 January		9,935	-
Additions		0	9,999
Reclassification		-4,935	-
Termination of a term deposit		-5,000	-
Loss on change in fair value	7	0	-64
<b>At the end of the period</b>		<b>0</b>	<b>9,935</b>
<b>2. Non-Current financial assets at fair value through profit and loss</b>			
Carrying amount at 1 January		-	-
Acquisitions through business combinations		14	-
Loss on change in fair value	7	-3	-
<b>At the end of the period</b>		<b>11</b>	<b>0</b>
<b>3. Non-current financial assets at cost</b>			
Carrying amount at 1 January		22	22
Reclassification	1	-22	0
<b>At the end of the period</b>		<b>0</b>	<b>22</b>
<b>4. Non-current financial assets at fair value through other comprehensive income</b>			
Carrying amount at 1 January		4,662	21,969
Change in accounting policy	1	175	0
Reclassification		4,935	0
Additions		99	0
Sale of shares		0	-17,307
Loss on change in fair value		-295	0
<b>At the end of the period</b>		<b>9,576</b>	<b>4,662</b>
<b>Total carrying amount at the end of the period</b>		<b>9,587</b>	<b>14,619</b>

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 invested 5 million euros in securities of listed companies. In the reporting quarter, management decided to recognise them as long-term financial assets, including a change in fair value through the statement of comprehensive income. The fair value of financial assets decreased by 701 thousand euros in the reporting quarter and by 322 thousand euros in 12 months.

### Note 3 Investment property

For the period 1 January – 31 December	2018	2017
At 1 January	17,881	13,273
Additions	2,637	4,065
Reclassification	0	1,033
Depreciation charge	-714	-490
<b>At the end of the period</b>	<b>19,804</b>	<b>17,881</b>

**Note 4 Property, plant and equipment; intangible assets**

For the period 1 January – 31 December	Note	2018	2017
<b>1. Property, plant and equipment</b>			
At 1 January		11,983	10,972
Additions		6,498	3,088
Acquisitions through business combinations	9	126	34
Disposals		-46	-95
Reclassification		0	-1,033
Depreciation charge		-1,153	-983
Impact of exchange rate changes		-5	0
<b>At the end of the period</b>		<b>17,403</b>	<b>11,983</b>
<b>2. Intangible assets</b>			
At 1 January		6,660	5,431
Additions		475	158
Acquisitions through business combinations	9	864	1,743
Depreciation charge		-721	-672
Impact of exchange rate changes		-18	0
<b>At the end of the period</b>		<b>7,260</b>	<b>6,660</b>

**Note 5 Interest-bearing loans and borrowings**

	31.12.2018	31.12.2017
<b>Short-term liabilities</b>		
Short-term bank loans	4,953	0
Current portion of long-term bank loans	817	511
Current portion of lease liabilities	670	114
Short-term loans from related parties	30	0
<b>Total current liabilities</b>	<b>6,470</b>	<b>625</b>
<b>Non-current liabilities</b>		
Long-term bank loans	3,615	2,409
Lease liabilities	2,020	501
<b>Total non-current liabilities</b>	<b>5,635</b>	<b>2,910</b>
<b>TOTAL</b>	<b>12,105</b>	<b>3,535</b>

Changes during the period 1 January – 31 December	Note	2018	2017
<b>Loans and borrowings at the beginning of the year</b>			
Changes in short-term loans		4,953	-642
Received short-term loans from related parties	10	30	0
Received long-term loans		2,189	2,630
Long-term loan repaid		-677	-127
Acquisition of new finance lease liabilities		2,680	0
Payment of finance lease principal		-605	-297
<b>Loans and borrowings at the end of the current period</b>		<b>12,105</b>	<b>3,535</b>

**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.

For the period 1 January – 31 December	Note	<b>Manu- facturing</b>	<b>Real Estate</b>	<b>Other activities</b>	<b>Elimi- nations</b>	<b>Consoli- dated</b>
<b>2017</b>						
Revenue from external customers		85,154	1,991	15,257	0	102,402
Inter-segment revenue		835	1,233	551	-2,619	
<b>Total revenue</b>		<b>86,143</b>	<b>3,224</b>	<b>15,808</b>	<b>-2,619</b>	<b>102,402</b>
<b>Operating profit</b>		<b>5,709</b>	<b>280</b>	<b>-567</b>	<b>20</b>	<b>5,442</b>
Segment assets		48,528	18,975	11,906	-8,823	70,586
Indivisible assets						19,391
<i>Incl. Cash and cash equivalents</i>						4,677
<i>Incl. Other financial investments</i>						14,619
<i>Incl. Other receivables and prepayments</i>						
<b>Total assets</b>						<b>89,977</b>
Capital expenditure	3.4	3,385	3,665	2,039	0	<b>9,089</b>
Depreciation charge for the year	3.4	963	490	721	-29	<b>2,145</b>

For the period 1 January – 31 December	Note	Manu- facturing	Real Estate	Other activities	Elimi- nations	Consoli- dated
<b>2018</b>						
Revenue from external customers		99,795	2,605	18,404	0	120,804
Inter-segment revenue		3,092	1,395	679	-5,166	
<b>Total revenue</b>		<b>102,887</b>	<b>4,000</b>	<b>19,083</b>	<b>-5,166</b>	<b>120,804</b>
<b>Operating profit</b>		<b>4,553</b>	<b>1,290</b>	<b>-3,235</b>	<b>-195</b>	<b>2,413</b>
Segment assets		58,426	20,674	21,948	-12,905	88,143
Indivisible assets						10,010
<i>Incl. Cash and cash equivalents</i>						248
<i>Incl. Other financial investments</i>						9,576
<i>Incl. Other receivables and prepayments</i>						
<b>Total assets</b>						<b>98,153</b>
Capital expenditure	3.4	5,829	2,637	2,134	0	<b>10,600</b>
Depreciation charge for the year	3.4	1,136	714	758	-20	<b>2,588</b>

*Revenue by markets:*

For the period 1 January – 31 December	2018	2017
Estonia	15,444	16,402
Finland	75,458	74,704
Sweden	13,522	2,706
Lithuania	401	1,371
Norway	8,688	5,852
Other countries	7,291	1,367
<b>Total</b>	<b>120,804</b>	<b>102,402</b>

*Revenue by business area:*

For the period 1 January – 31 December	2018	2017
Electrical equipment	96,786	82,710
Sheet metal products and services	584	709
Telecom sector products and services	879	874
Intermediary sale of electrical products	10,106	7,473
Rental income	2,171	1,744
Electrical installation service	8,933	7,904
Other services	1,345	988
<b>Total</b>	<b>120,804</b>	<b>102,402</b>

**Note 7 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 31.12.2018, the Group had 348,175 dilutive potential shares. In accordance with the decision of the General Meeting of Shareholders, 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 1-12/2018 was 4.44 euros and in the 4<sup>th</sup> quarter it was 4.69 euros. Hence, the potential shares did not have any diluting effect.

For the period 1 January – 31 December	Unit	2018	2017
Profit attributable to equity holders of the parent	EUR'000	1,546	29,129
Average number of shares outstanding	Pc'000	17,740	17,740
Basic earnings per share	EUR	0.09	1.64
Adjusted number of shares during the period	Pc'000	17,740	17,740
Diluted earnings per share	EUR	0.09	1.64
<b>For the period 1 October – 31 December</b>			
Profit attributable to equity holders of the parent	EUR'000	735	976
Average number of shares outstanding	Pc'000	17,740	17,740
Basic earnings per share	EUR	0.04	0.06
Average number of shares outstanding	Pc'000	17,740	17,740
Diluted earnings per share	EUR	0.04	0.06

#### Note 8 Further information on line items in the statement of cash flows

For the period 1 January – 31 December	Note	2018	2017
<b>Corporate income tax paid</b>			
Income tax expense		-993	-1,083
Prepayment decrease (+)/ increase (-), liability decrease (-)/ increase (+)		-260	105
Acquired liability through business combinations	10	112	-18
Income tax expense on dividends		244	218
Deferred income tax expense (+)/income (-)		-42	-19
<b>Corporate income tax paid</b>		<b>-939</b>	<b>-797</b>
<b>Paid for investment property</b>			
Additions of investment property	3	-2,637	-4,065
Liability decrease (-)/ increase (+) incurred by purchase		-85	-285
<b>Acquisition of investment property</b>		<b>-2,722</b>	<b>-4,350</b>
<b>Paid for property, plant and equipment</b>			
Additions of property, plant and equipment	4	-6,498	-3,088
Acquired with finance lease		1,802	0
Liability decrease (-)/ increase (+) incurred by purchase		5	-14
<b>Acquisition of property, plant and equipment</b>		<b>-4,691</b>	<b>-3,102</b>
<b>Proceeds from sale of property, plant and equipment</b>			
Book value of disposed property, plant and equipment	4	46	95
Profit on disposal of property, plant and equipment		20	13
<b>Proceeds from sale of property, plant and equipment</b>		<b>66</b>	<b>108</b>
<b>Paid for intangible assets</b>			
Additions of intangible assets	4	-475	-158
Liability decrease (-)/ increase (+) incurred by purchase		0	-5
<b>Acquisition of intangible assets</b>		<b>-475</b>	<b>-163</b>

**Note 9 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. 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 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**

<b>Assets and liabilities</b> (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
<b>Net assets</b>		<b>2,983</b>
Purchase price		3,789
Goodwill	4	806
<b>Cash flow</b>		
Money paid (-)		-3,789
Balance of sums of purchase (+)		1,055
Interest-bearing loans and borrowings		-172
<b>Net cash flow</b>		<b>-2,906</b>

**Note 10 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 – 31 December	2018	2017
<b>Purchase of goods and services from related parties:</b>		
- from Harju KEK lease of property, plant and equipment	121	106
- lease of property, plant and equipment from a member of the subsidiary's Management Board	464	-
<b>Sale of goods and services to related parties:</b>		
- to Harju KEK other services	3	4
<b>Loans received from related parties</b>		
- from a Board Member of subsidiaries	30	0
<b>Balances with related parties</b>		
- Loans from Board Members of subsidiaries	30	0
- Payables for goods and services	325	0
<b>Remuneration of the Management and Supervisory Boards</b>		
- salaries, bonuses, additional remuneration	400	395
- social security and other taxes on salaries	132	131
<b>TOTAL</b>	<b>532</b>	<b>526</b>

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 12 months period, no other transactions were made with members of the Group's directing bodies and the persons connected with them.

**Share-based payments**

In June 2018, 124 option contracts were concluded with the Group's employees and the members of the directing bodies of Group-related companies. The subscription rights were registered in respect of 351,925 shares, incl. each member of the Group Management and Supervisory Board was issued an option for the subscription of up to 7.5 thousand shares, i.e. 52.5 thousand shares in aggregate.

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 the case of share-based payments, which are regulated by IFRS 2, the subscription price of the shares also includes the cost of services receivable from the employees for the share-based payments. An independent expert determined that the value of the services was 1.55 euros per each share to be issued (see note 7). As at the reporting date, the Group had 348,175 potential ordinary shares. In Q4 2018, the expense of share-based payments recognised as personnel expenses amounted to 44 thousand euros. In the reporting year, it amounted to 97 thousand euros, incl. the share of the Management Board and Supervisory Board members was 15 thousand euros.

## Statement of Management responsibility

The Management Board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim financial statements of 1-12/2018 as set out on pages 3 to 28 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  
27<sup>th</sup> February 2019