AS HARJU ELEKTER

Interim report 1-3/2014

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
Commercial registry code:	10029524
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Telephone:	+372 67 47 400
Fax:	+372 67 47 401
Web-site:	he@he.ee
Internet homepage:	www.harjuelekter.ee
CEO:	Andres Allikmäe
Auditor**:**	KPMG Baltics
Beginning of the reporting period:	1st of January 2014
End of the reporting period:	31st of March 2014

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EXPLANATORY NOTE

Group structure and changes on it

In interim report for 1-3/2014 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic OY, Harju Elekter AB and Rifas UAB are consolidated line-by-line and the results of affiliated company - AS Draka Keila Cables - by the equity method. As of 31 March 2014, AS Harju Elekter has substantial holdings as follows:

Company		Country	31.3.14	31.12.13	31.3.13
AS Harju Elekter Teletehnika	subsidiary	Estonia	100.0%	100.0%	100.0%
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	100.0%	100.0%	100.0%
Satmatic OY	subsidiary	Finland	100.0%	100.0%	100.0%
Harju Elekter AB	subsidiary	Sweden	90.0%	90.0%	90.0%
Rifas UAB	subsidiary	Lithuania	62.7%	62.7%	62.7%
AS Draka Keila Cables	associated company	Estonia	34.0%	34.0%	34.0%
SIA Energokomplekss	financial investment	Latvia	14.0%	14.0%	14.0%
PKC Group Oyj	financial investment	Finland	5.4%	5.4%	6.3%

The shares of PKC Group Oyj are recognised on the balance sheet on the fair value basis.

Economic environment

According to the experts of the Estonian Institute of Economic Research, the overall economic situation is satisfactory, the outlook positive, and the Economic Climate Index at a long-term medium level. Improvement of the world economic situation, which began in the middle of last year, has become quite broadly based and the economic recovery continues to be led by the economy of the United States. Even so, due to the weakness and political instability of developing markets, potential growth risks should also be taken into consideration in the first half of the year.

The euro zone also continues its slow recovery, led by Germany and supported by the fiscal policy of the euro zone, with Southern European countries also demonstrating mild signs of growth. Nevertheless, economic growth has been uneven and heavily dependent on structural reforms and the labour market, as well as global competitive strength. Major risks are associated with the developing markets and the geopolitical situation. In the Nordic countries, the Swedish economy has the best growth prospects, showing signs of growth in private consumption and an increase in export volumes. Norway stands in contrast to other Nordic countries, since here the stagnation of economic activity was caused by a cooling of the real estate markets and modest investment volumes. The state of the Finnish economy remains complex, with its declining industrial sector awaiting, in a manner similar to Estonia, an upturn in exports.

The risks to the Estonian economy are mainly related to the developments in the world economy and in the euro zone. The biggest risk is the lower long-term growth of foreign markets and decline in investments. The fall in the unemployment rate increases pressure on salary growth, which may jeopardise the competitive position. A slight salary increase, as well as continuously low interest rates and the slowing of inflation, keeps domestic private consumption active. In order to remain competitive, entrepreneurs must also deal with the expansion of their export lines and markets, in addition to the development of productivity, technology and human resources.

Main events

In February, our subsidiary Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV), in Jyväskülä. More than 1000 companies presented their products and services from the 300 stands at the fair, and the fair programme included numerous seminars, lectures and brainstorming sessions. The fair was mainly aimed at contractors, engineers, architects, installers, as well as students.

In the Group's Estonian and Finnish subsidiaries, the process of implementing the Lean 5S/6S principles of increasing productivity and activities in order to increase profitability and customersatisfaction through the cost-effective use of resources was continued.

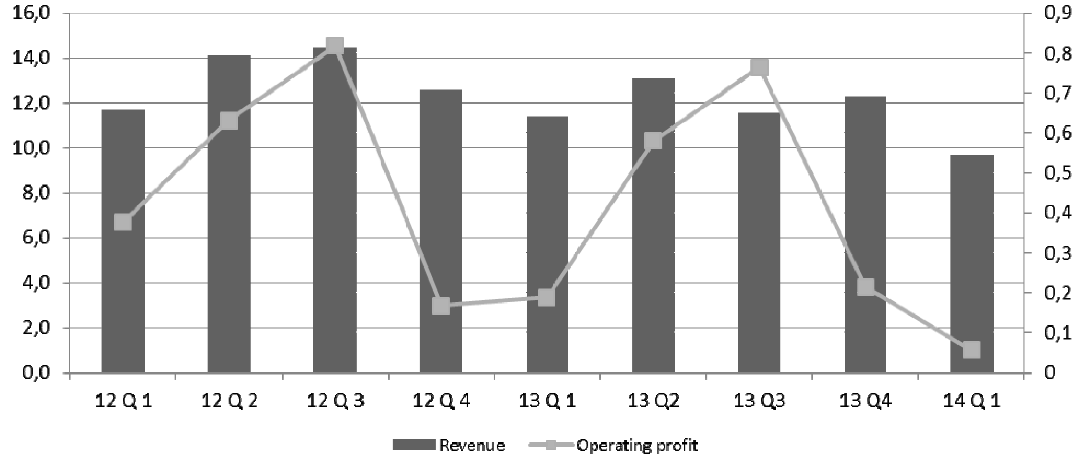
At the 27 February 2014 meeting of the Supervisory Board of AS Harju Elekter, it was decided to reorganise the activities of the Group related to Sweden and suspend, as of 01 April 2014, the activity of Harju Elekter AB for an unspecified term. According to the Group's development strategy, Scandinavia and Sweden continue to be significant target markets, but the reason behind this step was the inefficient and cost-intensive business model used between 2011 and 2013. Responsibility for the Group's Sweden-oriented business activity and the local clients was taken over by the sales and development teams of AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. All unfinished projects were carried over to HE Elektrotehnika, who will continue with active sales activity and participation in tenders.

Operating results

KEY INDICATORS

	January - March			Year
	2014	**2013**	**2012**	**2013**
Revenue (EUR'000)	9,661	11,390	11,671	48,288
Gross profit (EUR'000)	1,701	1,721	1,896	8,458
EBITDA (EUR'000)	441	555	735	3,269
EBIT (EUR'000)	56	188	375	1,743
Profit for the period (EUR'000)	371	717	592	5,173
incl attributed to Owners of the Company (EUR'000)	391	698	580	5,162
Revenue growth/decrease (%)	-15.2	-2.4	23.8	-8.5
Gross profit growth/decrease (%)	-1.2	-9.2	35.3	-2.3
EBIDTA growth/decrease (%)	-20.5	-24.5	47.3	-4.9
EBIT growth/decrease (%)	-69.9	-49.8	134.6	-11.5
Profit for the period growth/decrease (%)	-48.3	21.1	261.2	43.6
incl attributed to Owners of the Company (%)	-44.0	20.3	219.0	46.8
Distribution cost to revenue (%)	6.7	5.3	5.5	5.4
Administrative expenses to revenue (%)	10.1	8.2	7.5	8.4
Labour cost to revenue (%)	29.1	24.0	24.9	23.5
Gross margin (Gross profit/revenue) (%)	17.6	15.1	16.2	17.5
EBITDA margin (EBITDA/revenue) (%)	4.6	4.9	6.3	6.8
Operating margin (EBIT/revenue) (%)	0.6	1.7	3.2	3.6
Net margin (Profit for the period/revenue) (%)	3.8	6.3	5.0	10.7
ROE (Profit for the period/average equity) (%)	0.6	1.4	1.3	9.1

Seasonality of business (million euros)



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SALES REVENUE

Business at the beginning of this year has started more slowly than in previous years. In the accounting quarter, the Group's consolidated revenue was 9.7 million euros, which was 15% compared to the reference period.

The quarterly sales development by business area:

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q1 change y-o-y
Electrical equipment	9,331	10,951	9,531	10,157	7,787	-16.5%
Sheet metal products and services	205	228	246	246	209	2.0%
Boxes for telecom sector and services	261	301	266	300	226	-13.4%
Intermediary sale of electrical products and components	855	914	857	821	733	-14.3%
Rental income	546	549	549	549	550	0.7%
Other services	192	117	102	215	156	-18.8%
Total	**11,390**	**13,060**	**11,551**	**12,288**	**9,661**	**-15.2%**

There has been a decline in almost all products and services; only the sale of sheet metal products and services and rental income has remained on the level of the comparable period. More than 80% of the return on sales originated from the sale of electrical equipment. The sale of electrical equipment decreased 16.5% in the reporting quarter, which was also the main reason for the decline in revenue. The biggest contribution to the decline in sales volumes came from the Lithuanian segment, where sales revenue decreased by one half with respect to the comparable period and this was mainly caused by the 700,000 euros decline in revenue received from various projects. This was also the reason why the Lithuanian market has notably shrunk. At the same time, companies in the Lithuanian segment have grown sales volumes to foreign markets by more than 11%, including exports to Finland which increased by 11,600 euros to 447,000 euros, from which the sale to clients outside the Group accounted for 355,000 euros.

The quarterly sales development by markets:

Markets	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q1 change y-o-y
Estonia	3,956	5,080	4,984	3,916	3,477	-12.1%
Finland	5,361	5,916	5,405	6,758	4,296	-19.9%
Lithuania	917	873	258	588	92	-90.0%
Sweden	81	306	208	273	857	958.0%
Other EU countries	251	74	110	247	509	102.8%
Others	823	811	586	506	430	-47.8%
Total	**11,390**	**13,060**	**11,551**	**12,288**	**9,661**	**-15.2%**

64.0% of the Group's products and services were sold in foreign markets, outside Estonia (Q1 2012: 65.3%) and 81% revenues received from the Group's companies home markets - Estonia, Finland, Lithuania. The Finnish industrial sector remains in recession, and once again we have to recognise the 10% drop in the sales volumes of the technology sector, compared to Q1 2013. Finland is the biggest market of the Group; accordingly, the sales volumes of the Group are strongly influenced by the events taking place on this market. In the reporting quarter, 45% of the Group's products and services were sold on the Finnish market (47% in Q1 2013).

The Group's enterprises mainly have long-term contracts with clients on their domestic markets. Operations outside domestic markets are mainly project and commission-based, and are therefore constantly changing. In Q1, a large-scale project was realised, increasing the revenue from the Swedish market by 800,000 euros. A one-off delivery to Slovakia in the amount of 400,000 euros doubled the sales volume to other EU countries. The tense situation in Ukraine has eroded deliveries in the direction of Eastern Europe. Switzerland was added as a new market.

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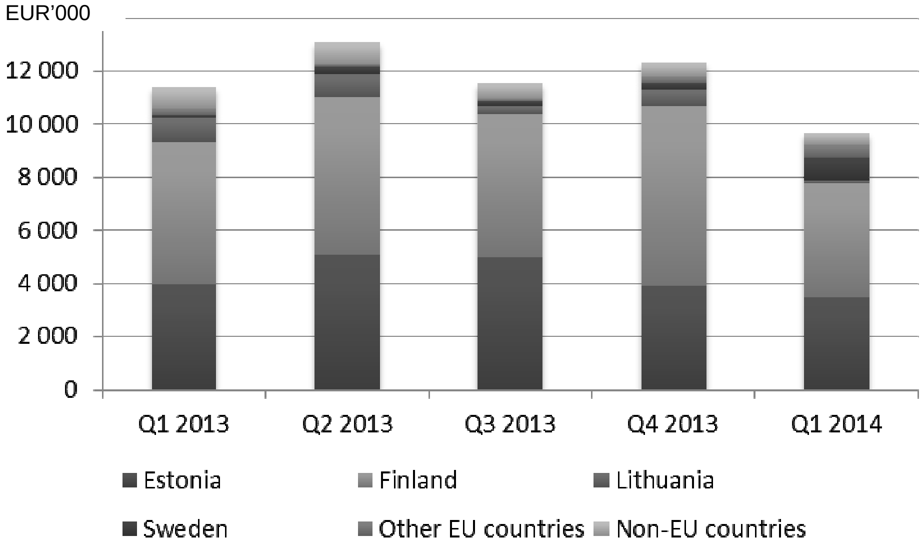
The quarterly sales development by markets



The quarterly sales development by segments:

Segment	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q1 change y-o-y
Manufacturing	10,152	11,691	10,231	10,862	8,504	-16.2%
Real estate	650	590	573	619	631	-2.8%
Unallocated activities	588	779	747	807	526	-10.6%
Total	**11,390**	**13,060**	**11,551**	**12,288**	**9,661**	**-15.2%**

As before, 88% of sales income was earned from the Production segment, and Real Estate together with other areas of activity contributed 12% of the consolidated sales volume.

OPERATING EXPENSES

	Growth Q1 (%)	3 months			year
	y-o-y	2014	2013	2012	2013
Cost of sales	-17.7%	7,960	9,669	9,775	39,830
Distribution costs	8.6%	651	599	637	2,627
Administrative expenses	4.0%	976	939	875	4,067
Total expenses	**-14.5%**	**9,587**	**11,207**	**11,287**	**46,524**
incl. depreciation of fixed assets	4.8%	385	367	360	1,526
Total labour cost	2.9%	2,815	2,734	2,904	11,350
inclusive salary cost	2.9%	2,170	2,108	2,280	8,645

In the reporting quarter, the operating expenses decreased by 14.5%, including the cost of sales by 1.7 million euros or by 17.7% to 8.0 million euros. Since the cost of sales decreased at a pace that exceeded the sales revenue, the gross profit margin improved by 2.5 percentage points in comparison to the indicator for the comparable period.

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In the reporting quarter, the distribution costs increased by 52,000 euros to 651,000 euros, the rate of distribution costs to revenue accounted for 6.7% (Q1 2013: 5.3%). Administrative expenses were 37,000 euros higher than the indicator for the comparable period, and the rate of administrative expenses to revenue accounted for 10.1%, having increased by 1.9 percentage points.

Although the Group had approximately 22 fewer employees in the reporting quarter than they did one year before, the labour and salary costs still increased by 2.9%. In the second half of 2013, the salaries of the Group's employees were adjusted, which was also the main cause of the increase in fixed costs. The rate of labour costs increased to 29.1%, from 24% in Q1 2013, which also brought with it a decrease in the operating profit margin during the reporting quarter.

EARNINGS AND MARGINS

In the first quarter the gross profit of the Group was 1.70 (Q1 2013: 1.72) million euros. The gross profit margin was 17.6% increasing by 2.5 per cent point compering to the same period figure a year before, but being 0.1 per cent point better than in the reporting period ending on 31.12.2013.

The Group's operating profit of Q1 2014 was 56 (Q1 2013: 188) thousand euros and EBITDA 441 (Q1 2013: 555) thousand euros. Return of sales for the accounting quarter was 0.6% (Q1 2013: 1.7%) and return of sales before depreciation 4.6% (Q1 2013: 4.9%).

In the reporting quarter, the finance income amounted to 17,000 euros and 462,000 euros in the comparative period. In the first quarter of the last year, also 30,000 PKC Group Oyj shares were sold and the financial income from selling the shares was 453,000 euros. In the reporting quarter, the Group consolidated from the associated company a profit of 324,000 (Q1 2013: 75,000) euros.

Overall, the consolidated net profit of the Q1 2014 was 371,000 (Q1 2013: 717,000) euros, of which the share of the owners of the Company was 391,000 (Q1 2013: 698,000) euros. EPS in the Q1 was 0.02 (Q1 2013: 0.04) euros.

Employees and remuneration

In Q1 2014, the average 440 people worked in the Group − on the average by 22 persons less than in the reference period. In the first quarter, employee wages and salaries totalled 2,170 (Q1 2013: 2,108) thousand euros. The average wages per employee per month amounted 1,645 (2013 Q1: 1, 520) euros.

	Average number of employees Q1			Number of employees at 31.3.			As at 31.
	Growth	2014	2013	Growth	2014	2013	12.2013
Estonia	3	283	280	6	302	301	296
Finland	-10	80	90	3	79	89	76
Lithuania	-14	76	90	-3	75	91	78
Sweden	-1	1	2	0	1	2	1
Total	**-22**	**440**	**462**	**6**	**457**	**483**	**451**

As at the balance day on 31 March, there were 457 people working in the Group, which were 26 employees less than a year before and 6 employees more than in the beginning of January.

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Financial position and cash flows

	Growth y-o-y	Growth Q1 2014	31.03. 2014	31.03. 2013	31.03. 2012	31.12. 2013
Current assets	-777	1,444	17,343	18,120	16,109	15,899
Non-current assets	7,453	-1,685	53,487	46,034	45,129	55,172
TOTAL ASSETS	**6,676**	**-241**	**70,830**	**64,154**	**61,238**	**71,071**
Current liabilities	-1,283	1,430	7,541	8,824	9,193	6,111
Non-current liabilities	-208	0	1,141	1,349	1,585	1,141
Equity	8,167	-1,671	62,148	53,981	50,460	63,819
incl attributable to owners of the Company	8,250	-1,621	60,858	52,608	48,727	62,479
Equity ratio (%) (Equity/total assets)*100 (%)	3.6	-2.1	87.7	84.1	82.4	89.8
Current ratio (Average current assets/ Average current liabilities)	0.4	0.1	2.4	2.0	1.7	2.3
Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities)	0.2	0.1	1.5	1.3	0.9	1.4

During 3 months, the amount of the consolidated balance sheet decreased by 0.2 million euros and compered to the period under review increased by 6.7 million euros, and as of 31 March 2014, was 70.8 million euros.

During 3 months, the cost of fixed assets decreased by 1.7 million euros and compared to the accounting quarter increased by 7.5 million euros to 53.5 million euros. Most of the changes in the fixed assets derived from value adjustment of long-term financial investments in Helsinki Stock Exchange. The market price of PKC Group Oyj shares decreased in accounting quarter by 1.56 (Q1 2013 increased by 2.62) euros and the share price in Helsinki Stock Exchange in last trading day of March was 22.63 (Q1 2013: 18.05) euros. The cost of investment in assets and reserves in equity capital decreased by the loss of 2.0 million euros; within the comparable period increased by the profit of 3.6 million euros.

During the 3-months period, the Group’s investments to real estate, tangible fixed assets and intangible fixed assets totalling 0.397 (Q1 2013: 0.102) million euros.

Business claims and prepayments grew by 0.35 million euros to 6.3 million euros and inventory by 1.01 million euros, to 6.8 million euros in the reporting quarter. In three months the business debts increased by 1.50 million euros, to 7.0 million euros and total short-term liabilities of the Group by 1.43 million euros, to 8.7 million euros.

The Group’s 3-month current ratio improved by 0.4, compared to the reference period, being 2.4, and the quick ratio by 0.2, being 1.5.

The Group’s debt ratio was 12.3%, being 2.1 percentage points more compared to the beginning of the year; however, by 3.6 percentage points less compared to y-o-y. As at the balance date, interest-bearing liabilities accounted for 19.4% of the Group’s liabilities and 3.8% of the cost of assets; as at 31.03.2013 – 23.7% and 2.4%, respectively.

The Group had a total of interest-bearing debt obligations of 1.7 (31.3.2013: 2.2) million euros, of which current portion amounted 0.58 (31.3.2013: 0.65) million euros. During 3 months, short-term bank loans were reduced by 13,000 euros to 0.35 million euros and 59,000 euros worth of principal amounts of the financial lease were repaid. In the reference period, short-term bank loans were increased by 97,000 euros and 69,000 euros worth of principal amounts of the financial lease were paid.

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	3 months			Year
	2014	**2013**	**2012**	**2013**
Cash flows from operating activities	523	266	1,712	2,547
Cash flows from investing activities	-368	383	39	539
Cash flows from financing activities	-72	28	-1,346	-2,324
Net cash flow	**83**	**677**	**405**	**762**

During the quarter under review, fixed asset invoices were paid in the amount of 0.4 (Q1 2013: 0.1) million euros. During the accounting period, cash and cash equivalents increased by 83,000 euros to 4.2 million euros; within the comparable period by 677,000 euros to 4.0 million euros.

Subsequent events

The general meeting of shareholders of PKC Group Oyj, held on 3 April 2014, decided to pay dividends amounting to 0.70 euros per share. AS Harju Elekter owns 1,294,641 of PKC Group Oyj shares. The dividend income of 906,000 euros is reflected in the profit for Q2 of 2014. The 15% income tax on dividends, withheld in Finland, accounted for 136,000 euros and accordingly, the cash flow from investment activity accounted for 770,000 euros. Dividends were transferred to the bank accounts of shareholders on 15 April 2014.

On 16 April, the management board of AS Harju Elekter sent out invitations to its shareholders on convening a regular meeting of shareholders in the Keila Kultuurikeskus, on 8 May 2014.

Satmatic Oy, the Group's subsidiary in Finland, has started negotiations with Finnkumu Oy, Finland's largest pre-fabricated substation producer. Successful negotiations will increase market share in Finland and may also lead to the acquisition of the company's shares.

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) and members Mr. Ain Kabal (Hansa Law Offices, legal advisor), Mr. Madis Talgre (up to 8th of May 2014), Mrs.Triinu Tombak (financial consultant) and Mr. Andres Toome (consultant). Mr Madis Talgre, a member of the Supervisory Board of AS Harju Elekter presented to the company an application for his resignation from the position of AS Harju Elekter Supervisory Board member, effective as of 8th of May 2014.

There were no changes in one-member Management Board of AS Harju Elekter. The Managing Director/CEO is Mr Andres Allikmäe. 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

Shares of Harju Elekter and shareholders

As at March 31 2014 AS Harju Elekter had 1,488 shareholders. The number of shareholders decreased during the accounting period by 12 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which held 32.0% of AS Harju Elekter's share capital. Members of the supervisory and management boards hold 8.46% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of securities (www.e-register.ee).

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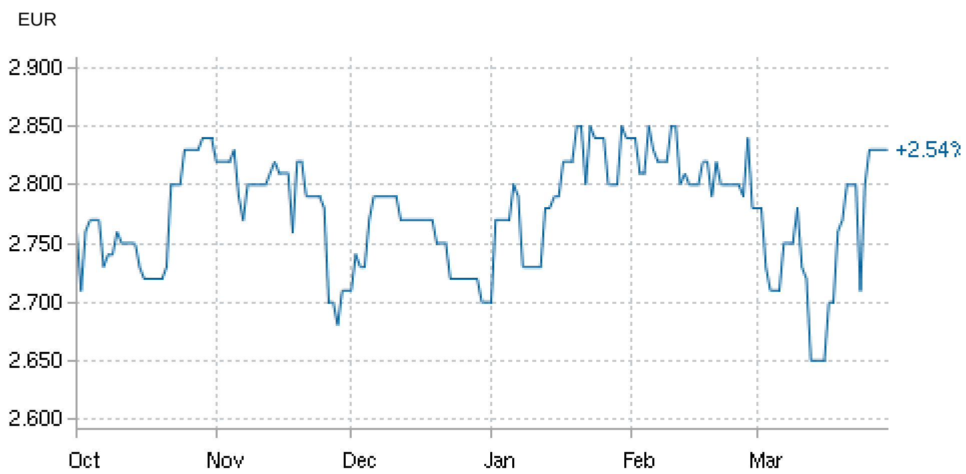
Security trading history:

Price	**2010**	**2011**	**2012**	**2013**	**3M 2014**
Open	2.05	3.10	2.30	2.64	2.77
High	3.14	3.54	2.80	2.92	2.85
Low	2.02	2.19	2.30	2.46	2.61
Last	3.02	2.28	2.64	2.70	2.83
Traded volume	2,039,910	663,917	759,869	936,162	137,252
Turnover, million	5.40	1.88	1.88	2.48	0.38
Capitalisation, million	50.74	38.30	45.94	46.98	49.24
Overage number of the shares	16,800,000	16,800,000	17,093,443	17,400,000	17,400,000
EPS	0.13	0.17	0.21	0.30	0.02

Share price in Tallinn Stock growth/decrease, 1.10.2013 - 31.3.2014



Shareholders structure by size of holding at 31 March 2014

Holding	**No of shareholders**	**% of all shareholders**	**% of votes held**
> 10%	2	0.14	42.92
1.0 – 10.0%	7	0.47	26.24
0.1 – 1.0 %	63	4.23	17. 01
< 0.1%	1,416	95.16	13.83
Total	1,488	100.0	100.0

Shareholders (above 5%) at 31 March 2014

Shareholder	**Holding (%)**
HARJU KEK AS	32.00
ING LUXEMBOURG S.A.	10.92
Lembit Kirsme	8.10
Endel Palla	6.32
Other	42.66

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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	**31.3.2014**	**31.12.2013**	**31.3.2013**
Current assets				
Cash and cash equivalents		4,186	4,102	4,032
Trade receivables and other receivables		5,928	5,699	7,053
Prepayments		363	256	284
Income tax prepayments		54	41	6
Inventories		6,812	5,801	6,745
Total current assets		**17,343**	**15,899**	**18,120**
Non-current assets				
Deferred income tax asset		6	7	5
Investments in associate	2	3,922	3,598	2,370
Other long-term financial investments	2	29,319	31,339	24,472
Investment property	2	11,676	11,663	10,355
Property, plant and equipment	2	8,066	8,129	8,387
Intangible assets	2	498	436	445
Total non-current assets		**53,487**	**55,172**	**46,034**
TOTAL ASSETS		**70,830**	**71,071**	**64,154**

LIABILITIES AND EQUITY				
Liabilities				
Interest-bearing loans and borrowings	3	582	654	1,103
Trade payables and other payables		6,151	4,437	6,773
Tax liabilities		761	969	883
Income tax liabilities		15	15	49
Short-term provision		32	36	16
Total current liabilities		**7,541**	**6,111**	**8,824**
Interest-bearing loans and borrowings	3	1,098	1,098	1,306
Other non-current liabilities		43	43	43
Non-current liabilities		**1,141**	**1,141**	**1,349**
Total liabilities		**8,682**	**7,252**	**10,173**
Equity				
Share capital		12,180	12,180	12,180
Share premium		240	240	240
Reserves		29,394	31,424	24,464
Retained earnings		19,044	18,635	15,724
Total equity attributable to equity holders of the parent		**60,858**	**62,479**	**52,608**
Non-controlling interests		1,290	1,340	1,373
Total equity		**62,148**	**63,819**	**53,981**
TOTAL LIABILITIES AND EQUITY		**70,830**	**71,071**	**64,154**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the period 1 January –31 March	Note	**2014**	**2013**
Revenue	4	9,661	11,390
Cost of sales		-7,960	-9,669
Gross profit		**1,701**	**1,721**
Distribution costs		-651	-599
Administrative expenses		-976	-939
Other income		9	17
Other expenses		-27	-12
Operating profit	4	**56**	**188**
Finance income	5	17	462
Finance costs	5	-8	-8
Share of profit of equity-accounted investees	2	324	75
Profit before tax		**389**	**717**
Income tax expense	8	-18	0
Profit for the period		**371**	**717**
Profit attributable to:			
Owners of the Company	6	391	698
Non-controlling interests		-20	19
Profit for the period		**371**	**717**
Earnings per share			
Basic earnings per share (EUR)	6	0.02	0.04
Diluted earnings per share (EUR)	6	0.02	0.04

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period 1 January –31 March	Note	**2014**	**2013**
Profit for the period		**371**	**717**
Other comprehensive income			
Net growth/decrease in fair value of available-for-sale financial assets	2	-2,020	3,550
Realised gain from sale of financial assets (-)		0	-437
Currency translation differences		-12	-3
Other comprehensive income for the period, net of tax		**-2,032**	**3,110**
Total comprehensive income for the period		**-1,661**	**3,827**
Total comprehensive income attributable to:			
Owners of the Company		-1,639	3,808
Non-controlling interests		-22	19
Total comprehensive income for the period		**-1,661**	**3,827**

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 31 March	Note	**2014**	**2013**
Cash flows from operating activities			
Operating profit	4	56	188
Adjustments for:			
Depreciation and amortisation	2	385	367
Gain on sale of property, plant and equipment		0	-12
Share-based payment transactions		18	18
Growth/decrease in receivables related to operating activity		-334	-617
Growth/decrease in inventories		-1,011	-350
Growth/decrease in payables related to operating activity		1,448	712
Corporate income tax paid	8	-31	-32
Interest paid	5	-8	-8
Net cash from operating activities		**523**	**266**
Cash flows from investing activities			
Acquisition of investment property	8	-107	-11
Acquisition of property. plant and equipment	8	-177	-76
Acquisition of intangible assets	8	-87	-26
Proceeds from sale of property, plant and equipment		0	12
Proceeds from sale of other financial investments		0	479
Interest received	8	3	5
Net cash used in investing activities		**-368**	**383**
Cash flows from financing activities			
Growth/decreases in short-term loans	3	-13	97
Payment of finance lease principal	3	-59	-69
Net cash used in financing activities		**-72**	**28**
Net cash flows		**83**	**677**
Cash and cash equivalents at beginning of period		**4,102**	**3,352**
Net increase / decrease		83	677
Effect of exgrowth/decrease rate fluctuations on cash held	5	1	3
Cash and cash equivalents at end of period		**4,186**	**4,032**

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CONSOLIDATED STATEMENT OF GROWTH/DECREASES IN EQUITY

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Capital reserve**	**Fair value reserve**	**Translation reserve**	**Retained earnings**	**TOTAL**	**Non-Controlling interests**	**TOTAL EQUITY**
At 31 December 2012	**12,180**	**240**	**1,176**	**20,176**	**2**	**15,008**	**48,782**	**1,354**	**50,136**
Comprehensive income									
Profit for the period	0	0	0	0	0	698	**698**	19	**717**
Other comprehensive income the period	0	0	0	3,113	-3	0	**3,110**	0	**3,110**
Total comprehensive income	0	0	0	3,113	-3	698	**3,808**	19	**3,827**
Transaction with the owners of the Company, recognised directly in equity									
Share-based payments	0	0	0	0	0	18	**18**	0	**18**
At 31 March 2013	**12,180**	**240**	**1,176**	**23,289**	**-1**	**15,724**	**52,608**	**1,373**	**53,981**
At 31 December 2013	**12,180**	**240**	**1,218**	**30,206**	**0**	**18,635**	**62,479**	**1,340**	**63,819**
Comprehensive income									
Profit for the period	0	0	0	0	0	391	**391**	-20	**371**
Other comprehensive income for the period	0	0	0	-2,020	-10	0	**-2,030**	-2	**-2,032**
Total comprehensive income	0	0	0	-2,020	-10	391	**-1,639**	-22	**-1,661**
Transaction with the owners of the Company, recognised directly in equity									
Share-based payments	0	0	0	0	0	18	**18**	0	**18**
Dividends	0	0	0	0	0	0	**0**	-28	**-28**
At 31 March 2014	**12,180**	**240**	**1,218**	**28,186**	**-10**	**19,044**	**60,858**	**1,290**	**62,148**

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 31.3.2014 comprises AS Harju Elekter (the "Parent Company") and its subsidiaries AS Harju Elekter Teletehnika, AS Harju Elekter Elektrotehnika, Satmatic Oy and Rifas UAB (together referred to as the Group) and the Group's interest in associate AS Draka Keila Cables. AS Harju Elekter has been listed at Tallinn Stock Exgrowth/decrease since 30 September 1997; 32.0% 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 31.12.2013. The interim report has been prepared under the historical cost convention, as modified by the revaluations of investment property, which are presented at fair value as disclosed in the accounting policies presented in the 2013 annual report.

According to the assessment of the management board, the interim report for 1-3/2014 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.

Note 2 Non-current assets

For the period 1 January – 31 March	**2014**	**2013**
Investments in associate		
At 1 January	3,598	2,295
Profit under the equity method	324	75
At the end of the period	**3,922**	**2,370**
Other long-term financial investments		
At 1 January	31,339	21,386
Sale of shares	0	-464
Growth/decreases in the fair value reserve	-2,020	3,550
At the end of the period	**29,319**	**24,472**
Investment property		
At 1 January	11,663	10,454
Additions	123	5
Reclassification	0	6
Depreciation charge	-110	-110
At the end of the period	**11,676**	**10,355**

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Note 2 Non-current assets (continued)

For the period 1 January – 31 March	**2014**	**2013**
Property, plant and equipment		
At 1 January	8,129	8,546
Additions	184	71
Reclassification	0	-6
Depreciation charge	-247	-224
At the end of the period	**8,066**	**8,387**
Intangible assets		
At 1 January	436	451
Additions	90	26
Depreciation charge	-28	-33
Currency translation differences[1]	0	1
At the end of the period	**498**	**445**

[1]Amount of currency translation differences comes from conversion of acquisition cost of assets, accumulated depreciation and movements of assets during the reporting period.

Note 3 Interest-bearing loans and borrowings

	31.3.2014	**31.12.2013**	**31.3.2013**
Liabilities			
Short-term bank loans	345	358	893
Current portion of lease liabilities	237	296	210
Total current liabilities	**582**	**654**	**1,103**
Non-current liabilities			
Lease liabilities	1,098	1,098	1,306
Total non-current liabilities	**1,098**	**1,098**	**1,306**
TOTAL	**1,680**	**1,752**	**2,409**

Growth/decreases during the period 1 January – 31 March

	2014	**2013**
Loans and borrowings at the beginning of the year	**1,752**	**2,381**
Growth/decreases in short-term loans	-13	97
New finance lease	0	0
Payment of finance lease principal	-59	-69
Loans and borrowings at the end of the current period	**1,680**	**2,409**

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Note 4 Segment reporting

Two segments, manufacturing and real estate, 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 and intermediary sale of components. The entities in this business segment are AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy and Rifas UAB.

"*Real estate*"– Real estate development, maintenance and rental. 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.

Unallocated items – Retail- and wholesale of products necessary for electrical installation works, mainly to retail customers and small- and medium-sized electrical installation companies; management services; design of industrial automation equipment, programming of process control automatic equipment and project management of installation works; construction services and installation of automatic control equipment. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

For the period 1 January – 31 March	**Manu-facturing**	**Real estate**	**Un-allocated activities**	**Elimi-nations**	**Consoli-dated**
2014					
Revenue from external customers	8,503	632	526	0	9,661
Inter-segment revenue	80	270	148	-498	0
Total revenue	**8,583**	**902**	**674**	**-498**	**9,661**
Operating profit	-118	286	-93	-19	56
Segment assets	25,818	12,011	4,297	-769	41,357
Indivisible assets					29,473
Total assets					**70,830**
2013					
Revenue from external customers	10,152	650	588	0	11,390
Inter-segment revenue	142	297	109	-548	0
Total revenue	**10,294**	**947**	**697**	**-548**	**11,390**
Operating profit	-19	204	26	-23	188
Segment assets	25,533	10,771	4,118	-880	39,542
Indivisible assets					24,612
Total assets					**64,154**

Revenue by markets:

For the period 1 January – 31 March	**2014**	**2013**
Estonia	3,477	3,956
Finland	4,296	5,362
Lithuania	92	917
Sweden	857	81
Other EU countries	509	251
Non-EU countries	430	823
Total	**9,661**	**11,390**

Revenue by business area:

For the period 1 January – 31 March	**2014**	**2013**
Electrical equipment	7,787	9,331
Sheet metal products and services	209	205
Boxes for telecom sector and services	226	261
Intermediary sale of electrical products and components	733	855
Commerce and mediation of services	90	115
Rental income	550	546
Other services	66	77
Total	**9,661**	**11,390**

Note 5 Finance income and costs

For the period 1 January – 31 March	**2014**	**2013**
Interest income	5	5
Net loss from foreign exgrowth/decrease differences	1	3
Other	11	0
Income from sale of investments	0	454
Total finance income	**17**	**462**
Interest expense	-8	-8
Total finance costs	**-8**	**-8**

Note 6 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 31.3.2014 the Group had 434.96 thousand dilutive potential shares. In accordance with the decision of the General Meeting of Shareholders held on 3 may 2012 the price of a share was established at the level of 2.36 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 0.50 euros. Thus the subscription price per each share within the meaning of IFRS 2 is 2.86 (2.36+0.50) euros and the potential shares become dilutive only after their average market price of the period exceed 2.86 euros.

The average market price of the share of 1-3/2014 was 2.79 euros and 2.65 euros in the comparative period. Hence, the potential shares did not have any diluting effect.

For the period 1 January – 31 March	Unit	**2014**	**2013**
Profit attributable to equity holders of the parent	EUR‘000	391	698
Average number of shares outstanding	Pc‘000	17,400	17,400
Basic earnings per share	EUR	0.02	0.04
Adjusted number of shares during the period	Pc‘000	17,400	17,400
Diluted earnings per share	EUR	0.02	0.04

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Note 7 Suspension of the activities of the subsidiary in Sweden

In February 2014 the Group’s management decided to reorganise the Group’s Sweden-oriented activities, as of 1 April 2014, the activities of Swedish subsidiary Harju Elekter AB was suspended for an unspecified term. The reason behind this step was the inefficient and cost-intensive business model that was implemented between 2011 and 2013.

After the reorganisation, responsibility for the Group’s Sweden-oriented business activities and the local clients will be taken over by the sales and development teams of Harju Elekter’s subsidiary AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. All unfinished projects will be carried over to AS Harju Elekter Elektrotehnika, who will continue with active sales and participation in tenders. After the reorganisation, the main focus will be put on efficient development and sales.

Result of discontinued operation	January - March		Year
	2014	**2013**	**2013**
Revenue	18	69	496
Expenses	-57	-111	-630
Result of operating activities	**-39**	**-42**	**-134**

Cash flows from discontinued operation	January - March		Year
	2014	**2013**	**2013**
Net cash used in operating activities	-83	-33	-132
Net cash from investing activities	1	0	0
Net cash from financing activities	0	0	178
Net cash flows for the reporting period	**-82**	**-33**	**46**

Statement of financial position	January - March		Year
	2014	**2013**	**2013**
Cash and cash equivalents	50	54	131
Trade receivables and prepayments	3	70	52
Inventories	0	132	1
Intangible assets	0	27	0
Liabilities	-32	-186	-125
Net assets and liabilities	**21**	**97**	**59**

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

For the period 1 January – 31 March	Note	**2014**	**2013**
Corporate income tax paid			
Income tax expense		-18	0
Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+)		-13	-32
Corporate income tax paid		**-31**	**-32**
Interest received			
Interest income	5	5	5
Receivable increase (-)		-2	0
Interest received		**3**	**5**
Paid for investment property			
Additions of investment property	2	-123	-5
Liability decrease (-)/ increase (+) incurred by purchase		16	-6
Acquisition of investment property		**-107**	**-11**
Paid for property, plant and equipment			
Additions of property, plant and equipment	2	-184	-71
Liability decrease (-)/ increase (+) incurred by purchase		7	-5
Acquisition of property, plant and equipment		**-177**	**-76**
Paid for intangible assets			
Additions of intangible assets	2	-90	-26
Liability decrease (-)/ increase (+) incurred by purchase		-3	0
Acquisition of intangible assets		**-87**	**-26**

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Note 9 Transactions with related parties

The related party of AS Harju Elekter includes associated company AS Draka Keila Cables, members of the management and supervisory boards and their close family members and AS Harju KEK which owns 32.0% of the shares of AS Harju Elekter. The Group's management comprises members of the Parent company's supervisory and management boards. The management board has one member and the supervisory board has five members.

Group has purchased goods and services from and sold goods and services to related parties as follows:

For the period 1 January – 31 March	**2014**	**2013**
Purchase of goods and services from related parties:		
- from associates	103	148
- from Harju KEK	139	16
TOTAL	242	164
Inclusive:		
- goods and materials for manufacturing	103	148
- lease of property, plant and equipment	16	16
- purchase of property, plant and equipment	123	0
Sale of goods and services to related parties:		
- to associates	188	201
- to Harju KEK	1	6
TOTAL	189	207
Inclusive:		
- goods and materials for manufacturing	7	6
- lease of property, plant and equipment	170	170
- other	12	31
Balances with related parties at 31 March		
Receivables with associates: goods and services	154	238
Payables with associates: goods and services	44	84
Remuneration of the management and supervisory boards		
- salaries, bonuses, additional remuneration	55	43
- social security and other taxes on salaries	18	14
TOTAL	73	57

The member/Chairman of the Management Board receives remuneration in accordance with the contract and is also entitled to receive a severance payment in the amount of 10 months' remuneration of a member of the management board. The member/Chairman of the Management Board has no rights related to pension. During the quarter, no other transactions were made with members of the Group's directing bodies and the persons connected with them.

Share-based payments

In 2012, option contracts were concluded with the group's employees and the members of the directing bodies of group-related companies. Each member of the management and supervisory boards was issued an option for the subscription of up to 20 thousand shares, i.e. 120 thousand shares in aggregate.

During the conclusion period of preliminary contracts, from 18 June to 29 June 2012, the subscription rights for a total of 434,960 shares were registered. The issue price of the shares was determined to be the average price of the share of AS Harju Elekter in euros on the Tallinn Stock Exchange during the trading days of 01.06.-15.06.2012. Thus, the issue price of the share amounted to 2.36 euros.

IFRS 2 principles are used to record the subscription rights for shares. In evaluating the services (labour input) received from the employees for the shares, the Group used the fair value of the subscription right at the moment of concluding the preliminary contracts, the value of which was estimated at 0.50 euros per subscription right by an independent expert. Fair value was assessed using the Black-Scholes pricing model. In determining the price, the weighted average market price of the share (2.36 euros), estimated volatility of the share (35%), risk-free interest rate (1%), forecasted dividends and the length of period between the conclusion of preliminary contracts and the planned subscription moment of shares (3 years) has been taken into account.

In Q1 2014, the Group recorded 18,000 (18,000 y-o-y) euros as labour costs and share-based benefits under shareholder’s equity and retained earnings.

Statement of Management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim financial statements of 1-3/2014 as set out on pages 3 to 23 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
„6th“ May 2014