AS HARJU ELEKTER

Interim report 1-6/2014

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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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:	30th of June 2014

The interim report of Harju Elekter Group on 27 pages

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EXPLANATORY NOTE

Group structure and changes on it

In interim report for 1-6/2014 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.

On 17 June 2014, Satmatic Oy purchased all shares of Finnkumu Oy, Finland's largest pre-fabricated substation producer. This consolidated interim report for 1-6/2014 compromises Finnkumu Oy's statement of financial position as at 30 June 2014 (Note 10).

As of 30 June 2014, AS Harju Elekter has substantial holdings as follows:

Company		Country	30.6.14	31.12.13	30.6.13
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%
Finnkumu OY	Satmatic Oy's subsidiary	Finland	100.0%	0.0%	0.0%
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	4.6%	5.4%	6.3%

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

After the reporting date, AS Harju Elekter sold its 34% holding in AS Draka Keila Cables to the core investor Prysmian Group (Note 11).

Economic environment

Generally positive trends are continuing in the world economy: investments are increasing and trade and unemployment have begun to come down from their all-time peaks; that said, the conflict between Russia and Ukraine is causing uncertainty and weakening the economic environment. Of the developed economies, the United States is recovering fastest, forecast to grow 2.8% this year. Also in the Eurozone overall, economic growth is nearing recovery; however, Estonia's main export partners, especially Finland, have done worse than average. The Eurozone is forecast to grow 1.2% in 2014. Due to the conflict in Ukraine, the Russian economy is suffering great losses: the rouble has shed 10% of its value year on year, entailing a number of problems, from decreased domestic consumption to a higher cost of borrowing. To date, the revenue side of Russia's budget has been bolstered by higher-than-expected oil prices.

Growth-led recovery on the Estonian economy has been slowed by the rapid cooling of the economy in Q1, the slow recovery of foreign markets and the geopolitical risks brought to the forefront by the events in Russia and Ukraine. However, a boost for growth would definitely be delivered by a recovery of export markets, the implementation of funds from the EU's new programming period, and increased investments.

Main events

On 17 June 2014, Satmatic Oy, a subsidiary of AS Harju Elekter in Finland, signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer. After the transaction, Finnkumu Oy will continue to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy. By purchasing Finnkumu Oy, the Group will increase our market share in Finland as well as elsewhere in Scandinavia and increases the product range.

In Q2 negotiations took place about selling minority stake in the associated company of AS Harju Elekter. After the balance date, on 9th of July 2014 AS Harju Elekter and Prysmian Finland Oy concluded a contract according to which AS Harju Elekter sells their 34% holding in AS Draka Keila Cables to the core investor Prysmian Group. The final price of the sales transaction was established at 6.2 million euros. Selling the holding was a strategic decision of Harju Elekter Group, making it possible to put more focus on the management of the enterprises in its main activity area and the expansion to the field of electrical engineering, incl. financing the purchase of Finnkumu Oy. AS Harju Elekter is going to continue close cooperation with AS Draka Keila Cables in the procurements of low voltage and other cable products; similarly long-term rental contracts of production facilities are going to remain in force.

Krediidiinfo AS awarded to AS Harju Elekter the credit rating AAA (excellent) and to its subsidiary AS Harju Elekter Elektrotehnika AA (very good). The rating of Krediidiinfo AS assesses the activities of the company as a whole and represents an aggregate assessment of the company's economic and financial condition as well as the payment patterns. Less than 10% of the Estonian companies have credit rating AAA or AA.

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.

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 customer satisfaction through the cost-effective use of resources was continued.

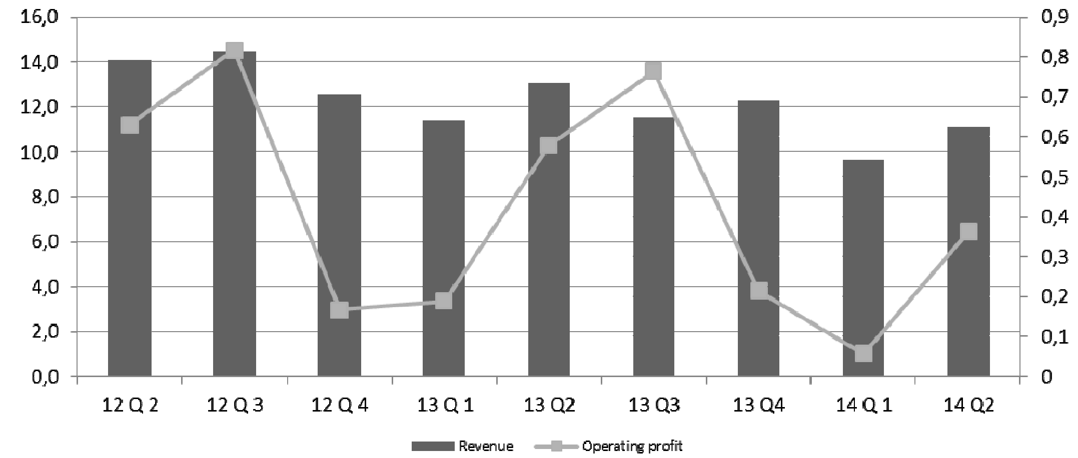
In February, our subsidiary Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV), in Jyväskülä. More than 1000 companies presented their products and services from the 300 stands at the fair, and the fair programme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

Operating results

KEY INDICATORS

	January - June			Year
	2014	**2013**	**2012**	**2013**
Revenue (EUR'000)	20,753	24,450	25,750	48,288
Gross profit (EUR'000)	3,616	4,066	4,259	8,458
EBITDA (EUR'000)	1,177	1,507	1,727	3,269
EBIT (EUR'000)	418	768	1,005	1,743
Profit for the period (EUR'000)	6,325	2,470	2,105	5,173
incl attributed to Owners of the Company (EUR'000)	6,361	2,403	2,073	5,162
Revenue growth/decrease (%)	-15.1	-5.1	25.4	-8.5
Gross profit growth/decrease (%)	-11.1	-4.6	35.3	-2.3
EBIDTA growth/decrease (%)	-21.9	-12.8	23.6	-4.9
EBIT growth/decrease (%)	-45.5	-23.7	43.5	-11.5
Profit for the period growth/decrease (%)	156.1	17.3	58.4	43.6
incl attributed to Owners of the Company (%)	164.7	15.9	64.8	46.8
Distribution cost to revenue (%)	6.2	5.3	5.3	5.4
Administrative expenses to revenue (%)	9.2	8.1	7.4	8.4
Labour cost to revenue (%)	27.8	23.9	23.7	23.5
Gross margin (Gross profit/revenue) (%)	17.4	16.6	16.5	17.5
EBITDA margin (EBITDA/revenue) (%)	5.7	6.2	6.7	6.8
Operating margin (EBIT/revenue) (%)	2.0	3.1	3.9	3.6
Net margin (Profit for the period/revenue) (%)	30.5	10.1	8.1	10.7
ROE (Profit for the period/average equity) (%)	10.2	4.7	4.9	9.1

Seasonality of business (million euros)



REVENUE

Business at the beginning of this year has started more slowly than in previous years, but there were some improvements in Q2. Revenue increased in the reporting quarter compared to the previous quarter 15%, or 1.4 million euros. Consolidated revenue for the reporting quarter was 11.1 million euros and for the first half of the year 20.8 million euros remaining, nonetheless, 15% below the comparable periods.

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The revenue by business segments:

Segment	Q2 2014	Q2 2013	Q2 2012	6M 2014	6M 2013	6M 2012	Year - 2013
Manufacturing	9,937	11,691	12,950	18,440	21,843	23,362	42,936
Real estate	590	590	561	1,222	1,240	1,222	2,432
Unallocated activities	565	779	568	1,091	1,367	1,166	2,921
Total	**11,092**	**13,060**	**14,079**	**20,753**	**24,450**	**25,750**	**48,289**

89% of sales revenue was earned from the Production segment, and Real Estate together with Unallocated Activities contributed 11% of the consolidated sales volume. The Manufacturing segment is engaged in the manufacturing and sales of electricity distribution and control equipment and in related activities. The revenue from the sales of electrical equipment comprised 91% of the sales volume for Manufacturing and 81% of the consolidated revenue, down by more than 17% both in the reporting quarter and in the first half of the year. Mainly decreasing of sales revenue in the Manufacturing segment caused the drop in the Group’s revenue for this year.

The quarterly sales development by business area:

	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	change y-o-y
Electrical equipment	10,951	9,531	10,157	7,787	9,031	-17.5%
Sheet metal products and services	228	246	246	209	330	44.7%
Boxes for telecom sector and services	301	266	300	226	269	-10.6%
Intermediary sale of electrical products and components	914	857	821	733	777	-15.0%
Rental income	549	549	549	550	550	0.2%
Other services	117	102	215	156	135	15.4%
Total	**13,060**	**11,551**	**12,288**	**9,661**	**11,092**	**-15.1%**

Decreased investments in the energy distribution sector in Estonia this year have resulted in a decrease in the sales volumes for medium voltage distribution equipment and substations. By contrast, the comparable period was extraordinarily successful when it comes to medium voltage equipment. On the Estonian market, enquiries about this equipment have dropped. Requirements for medium voltage equipment have declined as well. As a result, lower-priced brands from Europe, more competitive price-wise, will qualify in procurements. In the first half of the year, 132 fewer substations were sold on the Estonian market, whereas 75 more were sold on the Finnish market compared to the reference period. Furthermore, sales revenue in Estonia for the first half of 2013 included a one-off order of 0.9 million euros. Sales on the Estonian market declined 27% in the reporting quarter and one-fifth in the first half of the year, decreasing the share of the Estonian market in the consolidated revenue by 2.4 percentage points, to 34.6%.

The Finnish export sector remains in recession, and once again we have to recognise the 10% drop in the sales volumes of the technology sector, compared to the first half of 2013. Sales from the Group’s Finnish company in this sector decreased 17.5% in the first half of the year. At the same time, the 6-months sales revenue for the Finnish company has increased 8%, due to the resale of other Group’s companies’ products. Revenue from the resale of products from the Group’s Estonian and Lithuanian companies made up 43% of the revenue for the Finnish company, increasing by 2.3 times to 4.2 million euros, in the first six months. The share of the Finnish market in the consolidated revenue for the first half of the year rose to 50%. The sales revenue earned in Finland grew 2.8% in Q2, with the first six months coming in 8% below the results for the comparable period. The developments on the Finnish market were also contributed to by the Group’s Estonian and Lithuanian companies, which increased sales on the Finnish market by 37.0% in total in the first half of the year, with the revenue earned from clients outside the Group in Finland amounting to 20.8% of the sales volume on the Finnish market for the H1 2014.

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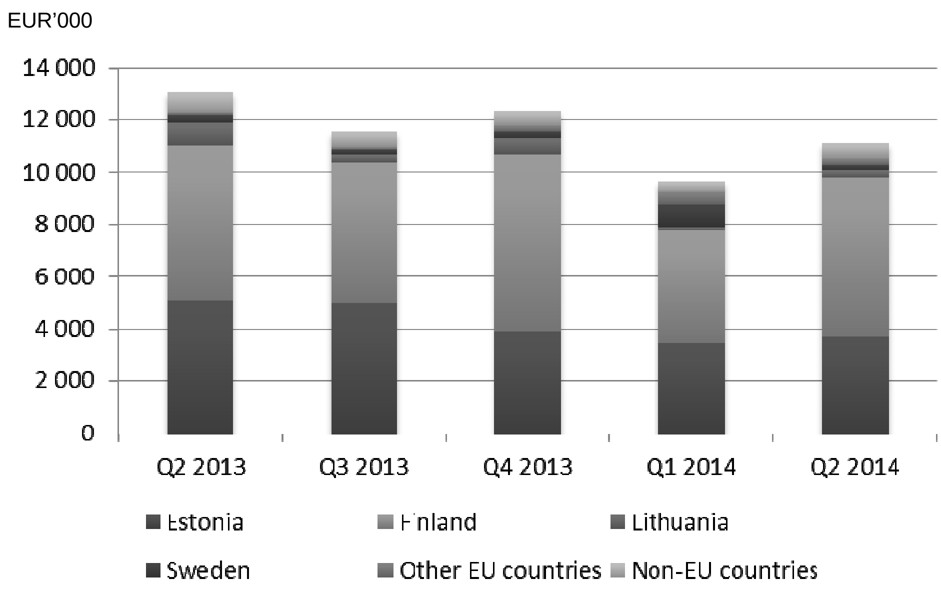
A considerable portion of the consolidated sales revenue, including the decline in the sales of electrical equipment, came from the Lithuanian segment, where revenue decreased by 41% against the comparable period, mainly due to a decrease of 1.2 million euros in the sales from projects. In the first half of the year, sales on the Lithuanian market decreased 80%, generating just 1.8% (H1 2013: 7.3%) of the consolidated revenue. That said, companies in the Lithuanian segment have increased their sales volumes to foreign markets by more than 15%, with exports to Finland increasing from 112,000 euros to 576,000 euros, of which sales to clients outside the Group made up 483,000 euros.

Performance by geographical markets:

	Growth		Q2	Q2	6 months		Share	Share
Markets	Q/Q	6m/6m	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Estonia	-27.0%	-20.5%	3,711	5,080	7,188	9,037	34.6%	37.0%
Finland	2.8%	-8.0%	6,079	5,916	10,375	11,277	50.0%	46.1%
Lithuania	-68.7%	-79.6%	274	873	366	1,790	1.8%	7.3%
Sweden	-29.4%	177.1%	216	306	1,073	387	5.2%	1.6%
Other EU countries	195.9%	155.3%	219	74	728	285	3.5%	1.2%
Others	-26.9%	-38.9%	593	811	1,023	1,674	4.9%	6.8%
Total	**-15.1%**	**-15.1%**	**11,092**	**13,060**	**20,753**	**24,450**	**100.0%**	**100.0%**

The Group's revenue outside Estonia made up 65.4% in the first half of 2014, rising to 66.5% in the reporting quarter. Increasing the share of foreign markets has been, and also will be in the longer term, one of the strategic objectives for the management of the Group. More than 86% revenue received from the home markets of the Group's companies - Estonia, Finland and Lithuania.

The quarterly sales development by markets



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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, the Group suspended the business operations of its Swedish subsidiary; nonetheless, 1.1 million euros of the Group's products were sold on the Swedish market in the first six months. 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 decreased deliveries by 0.5 million euros in the direction of Eastern Europe. Switzerland and Czech were added as new markets.

OPERATING EXPENSES

	change % y-o-y		1 April – 30 June			1 January – 30 June			year
	Q2	M6	2014	2013	2012	2014	2013	2012	2013
Cost of sales	-14.4	-15.9	9,170	10,716	11,716	17,137	20,384	21,491	39,830
Distribution costs	-8.4	-0.6	646	704	718	1,296	1,304	1,355	2,627
Administrative expenses	-11.1	-4.3	929	1,045	1,043	1,899	1,984	1,918	4,067
Total expenses	**-13.8**	**-14.1**	**10,745**	**12,465**	**13,477**	**20,332**	**23,672**	**24,764**	**46,524**
incl. depreciation of fixed assets	0.6	2.7	374	372	362	759	739	722	1,526
Total labour cost	-5.1	-1.3	2,962	3,121	3,189	5,777	5,855	6,093	11,350
inclusive salary cost	-6.2	-1.9	2,162	2,305	2,339	4,331	4,414	4,619	8,645

Operating expenses decreased 13.8% to 10.7 million euros in the reporting quarter and 14.1% to 20.3 million euros in the first half of the year, at a rate slightly below the sales revenue (15.1%). There was a decrease in operating expenses, with the cost of sales decreasing 14.4% to 9.2 million euros in Q2 and 15.9% to 17.1 million euros in the first six months. Since the cost of sales decreased at a pace that exceeded the sales revenue during the six months, the gross profit margin improved by 0.8 percentage points in comparison to the indicator for the comparable period.

Distribution costs decreased in Q2 by 8.4% to 0.6 million euros and in the first six months by 0.6% to 1.3 million euros. The rate of distribution costs to revenue accounted for 6.2% (H1 2013: 5.3%). Administrative expenses decreased in Q2 by 11.1% to 0.9 million euros and by 4.3% to 1.9 million euros in H1 and the rate of administrative expenses to revenue accounted for 9.2%, having increased by 1.1 percentage points. In Q2, some of the staff was restructured from general administration into sales staff at the Finnish company. In total, distribution and general administrative expenses decreased by 0.17 million euros in Q2 and by 0.09 million euros in the first six months. A fairly large share of these costs is made up of labour costs.

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. That said, the Group has promptly responded to the decrease in sales orders and implemented austerity measures. The average number of employees in the Group decreased by 20 in the reporting quarter and by 21 in the first half of the year. Labour costs decreased in Q2 by 5.1% to 3.0 million euros and in the first six months by 1.3% to 5.8 million euros, respectively. The rate of labour costs to revenue grew from 23.9% in the first half of 2013 to 27.8% in the reporting period.

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EARNINGS AND MARGINS

In the second quarter the gross profit of the Group was 1.9 (Q2 2013: 2.3) million euros. The gross profit margin was 17.3% being 0.7 per cent point lower compering to the same period a year before.

The Group’s operating profit in the reporting quarter was 362 (Q2 2013: 579) thousand euros and EBITDA 736 (Q2 2013: 951) thousand euros. Return of sales for the accounting quarter was 3.3% (Q2 2013: 4.4%) and return of sales before depreciation 6.6% being 0.7 per cent point lower compering to the same period a year before.

In the first half of the year, the gross profit was 3.6 (H1 2013: 4.1) million euros. The gross profit margin was 0.8 per cent point higher compering to the same period a year before and was 17.4%. In the first six months, EBITDA decreased by 0.33 million euros to 1.18 million euros and EBIT by 0.35 million euros to 0.42 million euros. The decrease in operating profit was the result of the decreased proportion of value added products in the product portfolio. For the first half of the year, EBITDA margin was 5.7% (H1 2013: 6.2%) and operating margin was 2.0% (H1 2013: 3.1%).

PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. Dividend income from the shares was 906 (Q2 2013: 948) thousand euros. In the second quarter, also 200,000 shares of PKC Group Oyj were sold and the financial income from selling the shares was 4.6 million euros. In total, investments yielded a profit of 5.5 million euros in the reporting quarter and in the first half of the year. In the comparable periods these figures were 0.9 million euros and 1.4 million euros respectively.

In the reporting quarter, the Group consolidated from the associated company a profit of 491 (Q2 2013: 608) thousand euros and totally in H1 815 (H1 2013: 683) thousand euros.

The consolidated net profit of the Q2 2014 was 5.95 (Q2 2013: 1.75) million euros, of which the share of the owners of the Company was 5.97 (Q2 2013: 1.71) million euros. EPS in the Q2 was 0.34 (Q2 2013: 0.10) euros.

Overall, the consolidated net profit of the H1 2014 was 6.33 million euros, being 2.6 times higher compared to the previous period. The share of the owners of the Company was 6.36 million euros. In H1, EPS was 0.37 (H1 2013: 0.14) euros.

Employees and remuneration

In Q2 2014, the average 444 people worked in the Group − on the average by 20 persons less than in the reference period. In the first half of the year, the average number of employees decreased by 21 to 442.

In the 2nd quarter, employee wages and salaries totalled 2,162 (Q2 2013: 2,305) thousand euros and during the first 6 months 4,331 (H1 2013: 4,414) thousand euros. The average wages per employee per month amounted to 1,633 (H1 2013: 1,591) euros.

	Average number of employees				Number of employees at 30.6.			As at 31.
	Q2 14	Q2 13	6M 14	6M 13	Growth	2014	2013	12.2013
Estonia	292	283	287	282	9	321	312	296
Finland	78	90	79	90	-11	77	88	76
Lithuania	74	89	75	89	-15	73	88	78
Sweden	0	2	1	2	-2	0	2	1
Total	**444**	**464**	**442**	**463**	**-19**	**471**	**490**	**451**

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As at the balance date on 30 June, there were 471 people working in the Group, which were 19 employees less than a year before and 20 employees less than in the beginning of January.

Financial position and cash flows

	Growth y-o-y	6m 2014	30.6. 2014	30.6. 2013	30.6. 2012	31.12. 2013
Current assets	3,327	5,207	21,106	17,779	18,630	15,899
Non-current assets	4,241	-4,306	50,866	46,625	38,326	55,172
TOTAL ASSETS	**7,568**	**901**	**71,972**	**64,404**	**56,956**	**71,071**
Current liabilities	2,011	4,595	10,706	8,695	10,906	6,111
Non-current liabilities	-210	-2	1,139	1,349	1,625	1,141
Equity	5,767	-3,692	60,127	54,360	44,425	63,819
incl attributable to owners of the Company	5,913	-3,600	58,879	52,966	42,722	62,479
Equity ratio (%) (Equity/total assets)*100 (%)	-0.9	-6.3	83.5	84.5	78.0	89.8
Current ratio (Average current assets/ Average current liabilities)	0.2	-0.1	2.2	2.0	1.7	2.3
Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities)	0.0	-0.1	1.3	1.3	0.9	1.4

During 6 months, the amount of the consolidated balance sheet increased by 0.9 million euros and compered to the period under review by 7.6 million euros to 72.0 million euros.

Current assets increased by 3.3 million euros year on year and 5.2 million euros in the first six months, to 21.1 million euros. Last June was purchased a Finnish subsidiary, whose assets and liabilities are included in the consolidated statement of financial position (Note 10) prepared as at 30 June 2014. Of the 6-months growth of 2.2 million euros in trade and other receivables as well as 3.6 million euros in stocks, 1.2 million euros and 1.6 million euros, respectively, were generated by the acquired subsidiary.

Cost of non-current assets decreased by 4.3 million euros in the first six months and grew by 4.2 million euros to 50.9 million euros compared to the reference period. Acquisition of the subsidiary generated 3.3 million euros in goodwill, recognised as intangible assets (Note 2, 10). Most of the changes in the non-current assets derived from value adjustment of long-term financial investments in Helsinki Stock Exchange and the sale of 200,000 shares in Q2. The market price of PKC Group Oyj shares decreased in accounting quarter by 1.71 euros and during first six months totally by 3.27 euros; the share price in Helsinki Stock Exchange in last trading day of June was 20.92 (H1 2013: 18.20) euros. The market price of the share, however, increased by 0.15 and 2.77 euros, respectively, in the comparable period, with the share costing 18.20 euros on the last trading day. The cost of investment in assets and reserves in equity decreased by the loss of 3.6 million euros; within the comparable period increased by the profit of 3.8 million euros. At an extraordinarily high price level, in order to promptly finance the purchase of the Finnish subsidiary, 200,000 shares in PKC Groupi Oyj were sold. The book value of the shares sold was 4.8 million euros. In total, the cost of financial investments decreased by 8.4 million euros in the H1 2014.

During the 6-months period, the Group's investments to fixed assets amounted to 0.753 (H1 2013: 0.256) million euros. Through business combinations, fixed assets totalling 3.3 million euros were acquired (Note 2, 10).

As at the reporting date, the Group's liabilities totalling 11.8 million euros, of which short-term liabilities made up 10.7 million euros. Trade payables and other payables grew the most: 4.1 million euros in the first six months and 1.8 million euros year on year, to 8.5 million euros.

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Short-term liabilities increased by 4.6 million euros in the first half of the year and 2.0 million euros year on year, with liabilities of 1.5 million euros added through business combinations.

Average current assets for the first six months stood at 18.5 (H1 2013: 17.1) million euros, of which liquid assets accounted for 10.9 (H1 2013: 10.5) million euros and short-term liabilities averaged 8.4 (H1 2013: 8.4) million euros. The Group's current ratio for the first six months improved by 0.2 compared to the reference period, being 2.2, and the quick ratio was 1.3, remaining at the level of the comparable period.

As at 30 June 2014, interest-bearing debt obligations amounted to 17.2% of the Group's liabilities and 2.8% of the total assets; as at 30 June 2013 21.4% and 3.3%, respectively. The Group had interest-bearing debt obligations totalling 2.0 (30 June 2013: 2.2) million euros, with the short-term obligations making up 0.9 (30 June 2013: 0.8) million euros.

	6 months			Year
Consolidated cash flow statement	**2014**	**2013**	**2012**	**2013**
Cash flows from operating activities	470	371	1,155	2,547
Cash flows from investing activities	163	1,193	720	539
Cash flows from financing activities	-1,482	-1,821	-1,499	-2,324
Net cash flow	**-849**	**-257**	**376**	**762**

Proceeds from sale of financial investments amounted to 4.8 million euros in the first half of the year and 0.5 million euros in the comparable period and fixed assets invoices were paid in the amount of 0.7 (H1 2013: 0.3) million euros. With the acquisition of the subsidiary, the net cash-flow out was 4.8 million euros (Note 10). PKC Group Oyj paid dividends 0.70 euros per share. In H1, AS Harju Elekter received 906,000 euros in dividends or 42,000 euros less than in the comparable period.

During six months, short-term bank loans increased by 439,000 euros up to 0.8 million euros and 154,000 euros worth of principal amounts of the financial lease were repaid. In the reference period, short-term bank loans decreased by 89,000 euros and 139,000 euros worth of principal amounts of the financial lease were paid. In H1, AS Harju Elekter paid dividends to the shareholders in the amount of 1.8 million euros, 1.6 million euros in the comparable period.

In the first six months, cash-flow from business activities was 0.5 million euros and from investment activities 0.2 million euros, the cash-flow out from financing activities was 1.5 million euros, with the figures being 0.4, 1.2 and -1.8 million euros, respectively, in the comparable period. Cash and cash equivalents decreased by 0.8 million euros to 3.3 million euros, within the comparable period by 0.3 million euros to 3.1 million euros.

AGM

On 8th of May 2014 the AGM was held where attended by 93 shareholders and their authorised representatives who represented the total 11,409,796 votes, being 65.57% of the total votes.

The general meeting approved the 2013 annual report and profit distribution and decided to pay dividends amounting to 0.10 euros per share, totally 1,740 thousand euros. The shareholders registered in the shareholders' registry on 22.5.2014 at 23.59 entitled to dividend. The dividends transferred to the shareholders bank accounts on 27.5.2014.

Supervisory and management boards

In Q2, there were some changes in Supervisory Board of AS Harju Elekter. 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. AGM elected on its 8th May meeting Mr Aare Kirsme to the position of AS Harju Elekter Supervisory

Board member. Since 8th of May, the Supervisory Board has 5 members with the following membership: Mr. Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Mr. Ain Kabal (Hansa Law Offices, legal advisor), Mr. Aare Kirsme (Chairman of the Supervisory Board of AS Harju KEK), Mrs.Triinu Tombak (financial consultant) and Mr. Andres Toome (consultant).

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

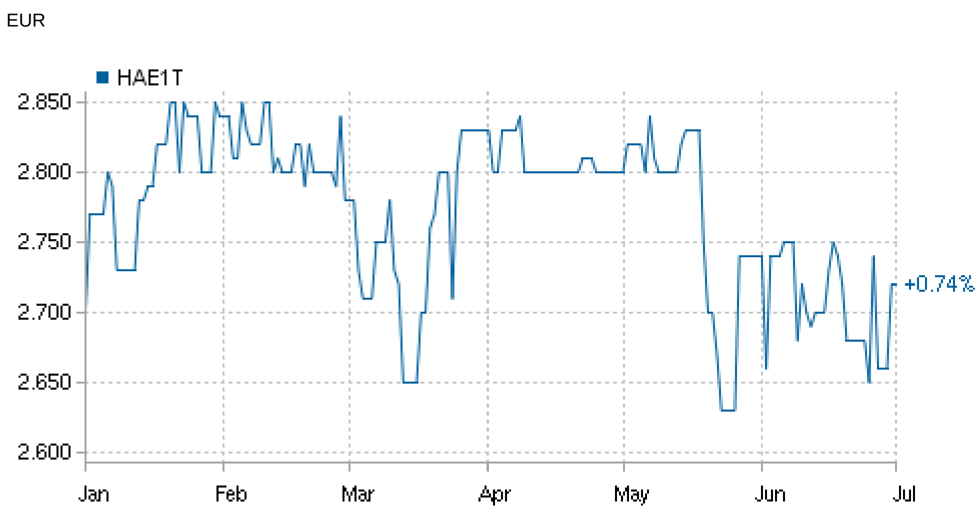
Shares of Harju Elekter and shareholders

As at June 30 2014 AS Harju Elekter had 1,455 shareholders. The number of shareholders decreased during the accounting period by 45 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 8.57% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of securities (www.e-register.ee).

Security trading history:

Price	**2010**	**2011**	**2012**	**2013**	**6M 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	2.72
Traded volume	2,039,910	663,917	759,869	936,162	338,510
Turnover, in million euros	5.40	1.88	1.88	2.48	0.94
Capitalisation, in million euros	50.74	38.30	45.94	46.98	47.33
Average number of the shares	16,800,000	16,800,000	17,093,443	17,400,000	17,400,000
EPS, in euros	0.13	0.17	0.21	0.30	0.37

Share price in Tallinn Stock growth/decrease, 1.1.2014 - 30.6.2014



AS Harju Elekter Interim report 1-6/2014, consolidated (unaudited, in thousand euros)

Shareholders structure by size of holding at 30 June 2014

Holding	**No of shareholders**	**% of all shareholders**	**% of votes held**
> 10%	2	0.14	42.92
1.0 – 10.0%	7	0.47	26.61
0.1 – 1.0 %	57	3.86	16.39
< 0.1%	1,409	95.53	14.08
Total	1,475	100.0	100.0

Shareholders (above 5%) at 30 June 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	31.6.2014	31.12.2013	31.6.2013
Current assets				
Cash and cash equivalents		3,252	4,102	3,087
Available-for-sale financial assets	10	112	0	0
Trade receivables and other receivables		7,912	5,699	7,479
Prepayments		414	256	318
Income tax prepayments		64	41	58
Inventories		9,352	5,801	6,837
Total current assets		**21,106**	**15,899**	**17,779**
Non-current assets				
Deferred income tax asset		7	7	4
Investments in associate	2	4,413	3,598	2,978
Other long-term financial investments	2	22,922	31,339	24,676
Investment property	2	11,566	11,663	10,245
Property, plant and equipment	2	8,184	8,129	8,298
Intangible assets	2	3,774	436	424
Total non-current assets		**50,866**	**55,172**	**46,625**
TOTAL ASSETS		**71,972**	**71,071**	**64,404**

LIABILITIES AND EQUITY				
Liabilities				
Interest-bearing loans and borrowings	3	941	654	847
Trade payables and other payables		8,547	4,437	6,733
Tax liabilities		1,057	969	1,042
Income tax liabilities		136	15	28
Short-term provision		25	36	45
Total current liabilities		**10,706**	**6,111**	**8,695**
Interest-bearing loans and borrowings	3	1,096	1,098	1,306
Other non-current liabilities		43	43	43
Non-current liabilities		**1,139**	**1,141**	**1,349**
Total liabilities		**11,845**	**7,252**	**10,044**
Equity				
Share capital		12,180	12,180	12,180
Share premium		240	240	240
Reserves		23,167	31,424	24,707
Retained earnings		23,292	18,635	15,839
Total equity attributable to equity holders of the parent		**58,879**	**62,479**	**52,966**
Non-controlling interests		1,248	1,340	1,394
Total equity		**60,127**	**63,819**	**54,360**
TOTAL LIABILITIES AND EQUITY		**71,972**	**71,071**	**64,404**

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	1 April – 30 June 2014	1 April – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Revenue	4	11,092	13,060	20,753	24,450
Cost of sales		-9,170	-10,716	-17,137	-20,384
Gross profit		**1,922**	**2,344**	**3,616**	**4,066**
Distribution costs		-646	-704	-1,296	-1,304
Administrative expenses		-929	-1,045	-1,899	-1,984
Other income		26	1	35	18
Other expenses		-11	-17	-38	-28
Operating profit	4	**362**	**579**	**418**	**768**
Finance income	5	5,531	955	5,548	1,417
Finance costs	5	-9	-15	-16	-23
Share of profit of equity-accounted investees	2	491	608	815	683
Profit before tax		**6,375**	**2,127**	**6,765**	**2,845**
Income tax expense	8	-421	-375	-440	-375
Profit for the period		**5,954**	**1,752**	**6,325**	**2,470**
Profit attributable to:					
Owners of the Company		5,970	1,705	6,361	2,403
Non-controlling interests		-16	47	-36	67
Profit for the period		**5,954**	**1,752**	**6,325**	**2,470**
Earnings per share					
Basic earnings per share (EUR)	6	0.34	0.10	0.37	0.14
Diluted earnings per share (EUR)	6	0.34	0.10	0.37	0.14

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1 April – 30 June 2014	1 April – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Profit for the period		**5,954**	**1,752**	**6,325**	**2,470**
Other comprehensive income					
Net growth/decrease in fair value of available-for-sale financial assets	2	-1,610	203	-3,630	3,752
Realised gain from sale of financial assets (-)		-4,616	0	-4,616	-437
Currency translation differences		0	-1	-12	-4
Other comprehensive income for the period, net of tax		**-6,226**	**202**	**-8,258**	**3,311**
Total comprehensive income for the period		**-272**	**1,954**	**-1,933**	**5,781**
Total comprehensive income attributable to:					
Owners of the Company		-256	1,906	-1,896	5,714
Non-controlling interests		-16	48	-37	67
Total comprehensive income for the period		**-272**	**1,954**	**-1,933**	**5,781**

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 30 June	Note	**2014**	**2013**
Cash flows from operating activities			
Operating profit	4	418	768
Adjustments for:			
Depreciation and amortisation	2	759	739
Gain on sale of property, plant and equipment		-5	-14
Share-based payment transactions		36	36
Growth/decrease in receivables related to operating activity		-1,135	-1,072
Growth/decrease in inventories		-1,920	-442
Growth/decrease in payables related to operating activity		2,810	851
Corporate income tax paid	8	-478	-480
Interest paid	5	-15	-15
Net cash from operating activities		**470**	**371**
Cash flows from investing activities			
Acquisition of investment property	8	-108	-8
Acquisition of property. plant and equipment	8	-481	-218
Acquisition of intangible assets	8	-124	-38
Acquisition of subsidiaries, net of cash acquired	10	-4,847	0
Proceeds from sale of property, plant and equipment	8	17	14
Proceeds from sale of other financial investments		4,787	479
Interest received	8	13	16
Dividends received		906	948
Net cash used in investing activities		**163**	**1,193**
Cash flows from financing activities			
Growth/decreases in short-term loans	3	439	-89
Payment of finance lease principal	3	-154	-139
Dividends paid		-1,767	-1,593
Net cash used in financing activities		**-1,482**	**-1,821**
Net cash flows		**-849**	**-257**
Cash and cash equivalents at beginning of period		**4,102**	**3,352**
Net increase / decrease		-849	-257
Effect of exgrowth/decrease rate fluctuations on cash held	5	-1	-8
Cash and cash equivalents at end of period		**3,252**	**3,087**

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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
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	2,403	**2,403**	67	**2,470**
Other comprehensive income the period	0	0	0	3,315	-4	0	**3,311**	0	**3,311**
Total comprehensive income	0	0	0	3,315	-4	2,403	**5,714**	67	**5,781**
Transaction with the owners of the Company, recognised directly in equity									
Share-based payments	0	0	0	0	0	36	**36**	0	**36**
Increase in reserves	0	0	42	0	0	-42	0	0	**0**
Dividends	0	0	0	0	0	-1,566	-1,566	-27	**-1,593**
At 30 June 2013	**12,180**	**240**	**1,218**	**23,491**	**-2**	**15,839**	**52,966**	**1,394**	**54,360**
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	6,361	**6,361**	-36	**6,325**
Other comprehensive income for the period	0	0	0	-8,246	-11	0	**-8,257**	-1	**-8,258**
Total comprehensive income	0	0	0	-8,246	-11	6,361	**-1,896**	-37	**-1,933**
Transaction with the owners of the Company, recognised directly in equity									
Share-based payments	0	0	0	0	0	36	**36**	0	**36**
Dividends	0	0	0	0	0	-1,740	**-1,740**	-55	**-1,795**
At 30 June 2014	**12,180**	**240**	**1,218**	**21,960**	**-11**	**23,292**	**58,879**	**1,248**	**60,127**

NOTES TO INTERIM FINANCIAL STATEMENT

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

AS Harju Elekter is a company registered in Estonia. The interim report prepared as of 30.6.2014 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 1-6/2014 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 – 30 June	Note	2014	2013
Investments in associate			
At 1 January		3,598	2,295
Profit under the equity method		815	683
At the end of the period	11	**4,413**	**2,978**
Other long-term financial investments			
At 1 January		31,339	21,386
Sale of shares		-4,787	-462
Growth/decreases in the fair value reserve		-3,630	3,752
At the end of the period		**22,922**	**24,676**
Investment property			
At 1 January		11,663	10,454
Additions		123	6
Reclassification		0	6
Depreciation charge		-220	-221
At the end of the period		**11,566**	**10,245**

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Note 2 Non-current assets (continued)

For the period 1 January – 30 June	Note	**2014**	**2013**
Property, plant and equipment			
At 1 January		8,129	8,546
Additions		510	212
Acquisitions through business combinations	10	39	0
Disposals		-12	0
Reclassification		0	-6
Depreciation charge		-482	-454
At the end of the period		**8,184**	**8,298**
Intangible assets			
At 1 January		436	451
Additions		120	38
Acquisitions through business combinations	10	3,275	0
Depreciation charge		-57	-64
Currency translation differences[1]		0	-1
At the end of the period		**3,774**	**424**

[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

	30.6.2014	**31.12.2013**	**30.6.2013**
Liabilities			
Short-term bank loans	797	358	707
Current portion of lease liabilities	144	296	140
Total current liabilities	**941**	**654**	**847**
Non-current liabilities			
Lease liabilities	1,096	1,098	1,306
Total non-current liabilities	**1,096**	**1,098**	**1,306**
TOTAL	**2,037**	**1,752**	**2,153**

Growth/decreases during the period 1 January – 30 June

	2014	**2013**
Loans and borrowings at the beginning of the year	**1,752**	**2,381**
Growth/decreases in short-term loans	439	-89
Payment of finance lease principal	-154	-139
Loans and borrowings at the end of the current period	**2,037**	**2,153**

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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 – 30 June	**Manu-facturing**	**Real estate**	**Un-allocated activities**	**Elimi-nations**	**Consoli-dated**
2014					
Revenue from external customers	18,440	1,222	1,091	0	20,753
Inter-segment revenue	146	500	232	-878	0
Total revenue	**18,586**	**1,722**	**1,323**	**-878**	**20,753**
Operating profit	24	590	-158	-38	418
Segment assets	33,911	11,893	2,209	-577	47,436
Indivisible assets					24,536
Total assets					**71,972**
2013					
Revenue from external customers	21,843	1,240	1,367	0	24,450
Inter-segment revenue	301	532	181	-1,014	0
Total revenue	**22,144**	**1,772**	**1,548**	**-1,014**	**24,450**
Operating profit	397	679	-270	-38	768
Segment assets	26,445	10,609	4,017	-1,451	39,620
Indivisible assets					24,784
Total assets					**64,404**

Revenue by markets:

For the period 1 January – 30 June	**2014**	**2013**
Estonia	7,188	9,037
Finland	10,375	11,277
Lithuania	366	1,790
Sweden	1,073	387
Other EU countries	728	285
Non-EU countries	1,023	1,674
Total	**20,753**	**24,450**

Revenue by business area:

For the period 1 January – 30 June	**2014**	**2013**
Electrical equipment	16,819	20,282
Sheet metal products and services	539	433
Boxes for telecom sector and services	495	562
Intermediary sale of electrical products and components	1,509	1,768
Commerce and mediation of services	137	181
Rental income	1,100	1,095
Other services	154	129
Total	**20,753**	**24,450**

Note 5 Finance income and costs

For the period 1 January – 30 June	**2014**	**2013**
Interest income	15	16
Other	11	0
Income from sale of investments	4,616	453
Dividend income	906	948
Total finance income	**5,548**	**1,417**
Interest expense	-15	-15
Net loss from foreign exchange differences	-1	-8
Total finance costs	**-16**	**-23**

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 30.6.2014 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 1-6/2014 as well as of reporting quarter was 2.79 euros. Hence, the potential shares did not have any diluting effect.

For the period 1 January – 30 June	Unit	**2014**	**2013**
Profit attributable to equity holders of the parent	EUR‘000	6,361	2,403
Average number of shares outstanding	Pc‘000	17,400	17,400
Basic and diluted earnings per share	EUR	0.37	0.14
1 April – 30 June			
Profit attributable to equity holders of the parent	EUR‘000	5,970	1,705
Adjusted number of shares during the period	Pc‘000	17,400	17,400
Basic and diluted earnings per share	EUR	0.34	0.10

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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 - June		Year
	2014	**2013**	**2013**
Revenue	15	310	496
Expenses	-58	-408	-630
Result of operating activities	**-43**	**-98**	**-134**

Cash flows from discontinued operation	January - June		Year
	2014	**2013**	**2013**
Net cash used in operating activities	-116	-87	-132
Net cash from investing activities	0	0	0
Net cash from financing activities	0	110	178
Net cash flows for the reporting period	**-116**	**23**	**46**

Statement of financial position	January - June		Year
	2014	**2013**	**2013**
Cash and cash equivalents	17	110	131
Trade receivables and prepayments	4	160	52
Inventories	0	62	1
Intangible assets	0	23	0
Liabilities	-5	-567	-125
Net assets and liabilities	**16**	**-212**	**59**

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

For the period 1 January – 30 June	Note	**2014**	**2013**
Corporate income tax paid			
Income tax expense		-440	-375
Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+)		-38	-105
Corporate income tax paid		**-478**	**-480**
Interest received			
Interest income	5	15	16
Receivable increase (-)		-2	0
Interest received		**13**	**16**
Paid for investment property			
Additions of investment property	2	-123	-6
Liability decrease (-)/ increase (+) incurred by purchase		15	-2
Acquisition of investment property		**-108**	**-8**
Paid for property, plant and equipment			
Additions of property, plant and equipment	2	-510	-212
Liability decrease (-)/ increase (+) incurred by purchase		29	-6
Acquisition of property, plant and equipment		**-481**	**-218**
Paid for intangible assets			
Additions of intangible assets	2	-120	-38
Liability decrease (-)/ increase (+) incurred by purchase		-4	0
Acquisition of intangible assets		**-124**	**-38**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	2	12	0
Profit on disposal of property, plant and equipment		5	14
Proceeds from sale of property, plant and equipment		**17**	**14**

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 – 30 June	**2014**	**2013**
Purchase of goods and services from related parties:		
- from associates	248	130
- from Harju KEK	157	34
TOTAL	405	164
Inclusive:		
- goods and materials for manufacturing	248	130
- lease of property, plant and equipment	33	33
- purchase of property, plant and equipment	123	0
- other	1	1

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For the period 1 January – 30 June	**2014**	**2013**
Sale of goods and services to related parties:		
- to associates	378	399
- to Harju KEK	2	18
TOTAL	380	417
Inclusive:		
- goods and materials for manufacturing	17	14
- lease of property, plant and equipment	339	339
- other	24	64
Balances with related parties at 30 June		
Receivables with associates: goods and services	156	227
Payables with associates: goods and services	98	60
Remuneration of the management and supervisory boards		
- salaries, bonuses, additional remuneration	101	96
- social security and other taxes on salaries	34	33
TOTAL	135	129

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 first half of the year, 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 six months 2014, the Group recorded 36,000 (36,000 y-o-y) euros as labour costs and share-based benefits under shareholder's equity and retained earnings.

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Note 10 Business combinations

On 17 June 2014, Satmatic Oy (Finland) signed a contract for the purchase of all shares in Finnkumu Oy, Finland’s largest pre-fabricated substation producer. After the transaction, Finnkumu Oy will continue to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy. By purchasing Finnkumu Oy, the Group will increase our market share in Finland as well as elsewhere in Scandinavia and increases the product range. The transaction took effect on 17 June 2014, which is also when accounts were settled. For the purchase transaction, EUR 6,716 thousand was paid. Pursuant to the contract, after the audited annual report is approved, in 2015 an additional 50% of the company’s operating profit in 2014, and in 2016 an additional 40% of the company’s operating profit in 2015 shall be paid to the sellers. The purchase transaction was funded out of the own funds of AS Harju Elekter.

Since the end of the previous financial year there are no significant changes in the Finnkumu’s business activities. We confirm that there are no valid contracts between AS Harju Elekter and Finnkumum Oy, and Finnkumu Oy has no loans or any court or arbitration proceedings involving the commercial undertaking.

Financial summary 2011 - 2013

	2013	2012	2011
Cash and cash equivalents	820	413	512
Securities	374	174	155
Receivables and prepayments	811	935	389
Inventories	1,504	925	532
Non-current assets	43	32	31
Total assets	**3,552**	**2,479**	**1,619**
Current liabilities	**804**	**834**	**327**
Equity	**2,748**	**1,645**	**1,292**
Inclusive share capital	24	24	254
Sales revenue	10,391	6,634	4,126
Operating profit	1,626	884	419
Profit for the period	1,250	664	273
EPS (EUR)	511	271	108
Number of shares	2,448	2,448	2,540
Dividend per share	88	60	45

Influence of purchase to the Group’s assets, liabilities and cash flow at 30.06.2014

Assets and liabilities	Pre-aquisition carryng amount	Total fair value	Recognised value on acquisition
Cash and cash equivalents	1,869	1,869	1,869
Securities	112	112	112
Receivables and prepayments	1,264	1,264	1,264
Inventories	1,630	1,630	1,630
Non-current assets	39	39	39
Trade payables and other payables	-1,337	-1,337	-1,337
Income tax liabilities	-136	-136	-136
Net assets	**3,441**	**3,441**	**3,441**
Purchase price			6,716
Goodwill			3,275

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Cash flow	
Money paid (-)	-6,716
Balance of sums of purchase(+)	1,869
Net cash flow	**-4,847**

If the Group had acquired Finnkumu Oy at the beginning of 2014, Group revenue for 2014 would have been higher by approximately 5,024,000 euros, operating profit by 1,027,000 euros and net profit would have been higher by EUR 1,134,000 euros.

Note 11 Subsequent events

On 9th of July 2014 AS Harju Elekter and Prysmian Finland Oy concluded a contract according to which AS Harju Elekter sells their 34% holding in AS Draka Keila Cables to the core investor Prysmian Group. In the negotiations, the final price of the sales transaction was established at 6.2 million euros. According to the first semi-annual consolidated financial report of AS Harju Elekter, the carrying amount of AS Draka Keila Cables was 4.4 million euros (see Note 2). This means that the presumed profit from the transaction is 1.8 million euros, which will be written under finance income in the Group’s profit report for the third quarter.

Selling the holding was a strategic decision of Harju Elekter Group, making it possible to put more focus on the management of the enterprises in its main activity area and the expansion to the field of electrical engineering. AS Harju Elekter is going to continue close cooperation with AS Draka Keila Cables in the procurements of low voltage and other cable products; similarly long-term rental contracts of production facilities are going to remain in force.

Statement of Management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim financial statements of 1-6/2014 as set out on pages 3 to 27 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“August 2014