# AS HARJU ELEKTER

Interim report 1-3/ 2011

| | |
|---|---|
| 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 |
| Address: | Paldiski mnt.31, 76 606 Keila |
| Telephone: | +372 67 47 400 |
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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 2011 |
| End of the reporting period: | 31st of March 2011 |

*The interim report of Harju Elekter Group on 19 pages*

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## EXPLANATORY NOTE

***Group structure and changes on it***

In interim report for Q1 2011 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries – Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika (former Eltek), Satmatic and Rifas - are consolidated line-by-line and the results of affiliated company – Draka Keila Cables - by the equity method. The shares of PKC Group Oyj are recognised on the balance sheet on the fair value basis. As of 31 March 2011, Harju Elekter has substantial holdings in the following companies:

| Company | | Country | 31.03.11 | 31.12.10 | 31.03.10 |
|---|---|---|---|---|---|
| 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% | 0.0% |
| Rifas UAB | subsidiary | Lithuania | 51.0% | 51.0% | 51.0% |
| 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 | 7.2% | 7.2% | 7.9% |

***Economic environment***

The Global economy has recovered faster than forecast. Economic growth accelerated in most of the Member States of the European Union at the end of 2010 and the beginning of this year, thus improving the external conditions critical for Estonia's economic and financial system. Estonia's economic condition also continued to improve. Economic growth was mainly supported by strong export. The good capacity of Estonian companies to adjust is confirmed by the fact that export has outpaced demand in the target markets. Domestic demand is also expected to pick up, as indicated by growth in the engagement of production resources, increasing feeling of certainty and decreasing unemployment. The rise in prices has been steep in Estonia, as well as elsewhere in the euro area, over the last few months. It is mainly caused by a rise in the prices of food products and raw materials on the world market, with the role of domestic factors thus far having been far more modest. Bank analysts forecast a rise in base rates as well as the Euribor, which is caused by the wish to restrain fast price increases on the one hand, but also indicates an increase in the loan expenses between the banks on the other hand.

***Main events***

To expand its activities and increase its market share in Sweden, Harju Elekter AB, a subsidiary of AS Harju Elekter, acquired the business of BGB PowerSolutions AB in January 2011. The total cost of the contract was SEK 500,000 that will be financed from own funds over two years in accordance with the contract. On the basis of the contract, Harju Elekter AB acquired assets with the fair value of SEK 105,000 and a strategic partnership agreement with contractual prices, support services and selling rights in the amount of SEK 395,000.

Subsidiaries of AS Harju Elekter – HE Elektrotehnika, Satmatic and HE Teletehnika (former Eltek) participated in the energy fair Verkosto 2011, held in Tampere, Finland, on 2-3 February. A stand presented to fair clients three substations with a metal casing, which were complemented by construction materials from the other product families.

The supervisory board and management board of AS Harju Elekter adopted a decision to consolidate all of the Group's Estonian companies under the trademark Harju Elekter. The use of a joint logo helps increase the competitiveness of the Group and creates additional benefits and possibilities in marketing activities. Based on this, the supervisory board of subsidiary AS Eltek approved AS Harju Elekter Teletehnika as the new name of the company. The registration department of the Harju County Court made a respective entry on 18 April of this year.

***Operating results***

SALES REVENUE

The financial indicators of the Group in the reporting quarter demonstrated improvement trends. Sales revenue increased by 10% to 9,426,000 euros.

Sales revenue by segment:

| Q1 | Growth | EUR (in thousands) | | Structure | |
|---|---|---|---|---|---|
| Segment | Q/Q | **2011** | **2010** | **2011** | **2010** |
| Manufacturing | 10.2% | 8,293 | 7,524 | 88.0% | 87.8% |
| Real estate | 3.5% | 678 | 655 | 7.2% | 7.6% |
| Unallocated activities | 16.0% | 455 | 392 | 4.8% | 4.6% |
| **Total** | **10.0%** | **9,426** | **8,571** | **100.0%** | **100.0%** |

The core business of the Group is the production and sales of electrical distribution systems and control panels as well as other supportive side-activities (hereinafter „Production“), which was traditionally the largest share of sales revenues, 88.0% (87.8%). The sales revenue on production received from customers outside of the Group increased by 10.2% to 8,293 thousand euros. The sales volume of other non-segmented activities has increased the most – by 16%. An upturn in economic activities has also led to growth in the sales volumes of trade. In the reporting quarter, the sales of electrical products and components increased by over 65% compared to the reference period.

Sales revenue by markets:

| Q1 | Growth | EUR (in thousands) | | Share | |
|---|---|---|---|---|---|
| Markets | Q/Q | **2011** | **2010** | **2011** | **2010** |
| Estonia | 15.6% | 3,353 | 2,901 | 35.6% | 33.8% |
| Finland | 33.1% | 4,190 | 3,148 | 44.4% | 36.7% |
| Lithuania | 3.5% | 689 | 666 | 7.3% | 7.8% |
| Other EU countries | -88.5% | 191 | 1,652 | 2.0% | 19.3% |
| Others | 391.8% | 1,003 | 204 | 10.7% | 2.4% |
| **Total** | **10.0%** | **9,426** | **8,571** | **100.0%** | **100.0%** |

An increase in economic growth in the EU Member States at the end of 2010, and at the beginning of this year, has resulted in improvement of the economic situation in the domestic markets of the Group. Sales have increased the most to the Finnish market – by one third. At the same time, the sales of production companies of the Estonian segment to the Finnish market also increased by over 78%, of which the sales to clients outside the Group increased by more than one-fourth and the sales of Lithuanian companies to the Finnish market more than doubled. Sales to the Estonian market have increased by over one seventh, with the production and sales of electrical equipment increasing by over 26%. This is largely attributable to growth in orders for substations with a metal casing. While a little more than 60 substations were sold in Q1 2010, then nearly 100 substations have been sold this year. Developments in the Lithuanian market have been more modest. Of the markets, the domestic markets (Estonia, Lithuania and Finland) of the Group’s companies prevailed, where 87.3% (78.3%) of the Group’s products and services were sold. 64% (66%) of Group products were sold outside of Estonia.

During the reporting quarter, sales revenue from other EU countries totalled 191,000 euros (Q1 2010: 1.65 million euros). In Q1 2010 was the sale to the Swedish market alone over 1.3 million euros, which failed to be reached this year. From other EU countries dominated Latvia, France and Sweden.

At the same time, the work towards finding new export markets is continuing. Sales outside the European Union have increased by a factor of five. Sales volumes to the markets of Norway, Russia, Belarus, and Malaysia have increased.

OPERATING EXPENSES

| | Growth | EUR (in thousands) | |
|---|---|---|---|
| Q1 | Q/Q | **2011** | **2010** |
| Cost of sales | 8.3% | 8,025 | 7,409 |
| Distribution costs | 21.8% | 493 | 405 |
| Admin expenses | 7.0% | 741 | 693 |
| **Total expenses** | **8.9%** | **9,259** | **8,507** |
| incl. depreciation of fixed assets | -2.6% | 339 | 348 |
| Total labour cost | 13.5% | 2,353 | 2,072 |
| incl salary cost | 8.5% | 1,843 | 1,699 |

In Q1 2011 the expenses regarding sold products and services increased by 8.3%, distribution costs by 21.8% and administration expenses by 7%, included the distribution costs and administration expenses of the Swedish subsidiary. In conclusion, the operating expenses increased by 8.9%, which were 1.1 percent point lower from the growth rate of the sales revenue.

In the first quarter, there was an average of 418 people working in the Group (Q1 2010:432), included 265 (280) employees in Estonia, 68 (71) employees in Lithuania, 84 (81) employees in Finland and 1 employee in Sweden. As at the balance day on 31 March, there were 437 people working in the Group, which is 3 employees less than on the beginning of the year and 15 employees less than a year before. Expenses on staff in Q1 2011 were 2,353,000 euros, increasing by 13.5%. The Group has stock-based compensation plans which may be settled by way of own equity instruments upon recognition of which in consolidated financial reports IFRS 2 principles have been applied. The value of services (labour input) in the amount of 26,000 euros received for stock is recognised as labour costs in Q1 2010 and Q1 2011. At the same time, the wage costs were increased by 8.5% in the accounting quarter and the average wage per employee was 1,472 (Q1 2010: 1,311) euros.

The depreciation of fixed assets accounted for 339,000 euros (Q1 2010: 348,000 euros) of operational expenditures.

EARNINGS AND MARGINS

The gross profit of the Group increased by 20.6% and was 1,401 thousand euros (Q1 2010: 1,162 thousand euros). The gross profit margin of the accounting quarter was 14.9% improving by 1 percent point compared to the same period year before (Q1 2010: 13.6%).

Operating profit in Q1 2011 was 160,000 euros (Q1 2010: 72,000 euros) and EBITDA was 499,000 (Q1 2010: 420,000) euros. Return of sales for the period was 1.7% , which was 0.9 percent point better compared to the same period figure last year and return of sales before depreciation 5.3%, which was 0.4 percent point better.

During the first quarter, 30,000 euros of dividend income was obtained from the related company; in the comparable period there was a loss in amount 45,000 euros. During the reporting period, there was no income earned from the other financial investments, however in Q1 2010 the Group sold 80,000 shares of PKC Group Oyj and the profit from sales of shares was 522,000 euros.

Overall, the consolidated net profit of the Q1 2011 was 164,000 (Q1 2010: 523,000) euros, of which the share of the owners of the parent company was 182,000 (Q1 2010: 572,000) euros. EPS of the Q1 was 0.01 (Q1 2010: 0.03) euros.

***Financial position and cash flows***

The amount of the consolidated balance sheet as of 31 March 2011 was 55,047 (31.3.2010: 46,189) thousand euros, decreasing by 67,000 euros during the first quarter.

During Q1 business claims decreased by 1,314 thousand euros up to 5,165 thousand euros and inventory increased by 1,242 thousand euros up to 6,653 thousand euros. Totally, current assets decreased by 310,000 euros to 14,103 thousand euros. The quick ratio (1.1) as well as the solvency ratio (1.9) stayed the same level with Q1 2010.

During the quarter the market price of the PKC Group share increased by 0.08 euros up to 15.45 euros. The cost of investment in assets and reserves in equity capital increased by the profit of 112,000 euros received from stock revaluation. In the comparing period, the book value of financial assets increased by 5.1 million euros.

In Q1 2011 the Group invested 301,000 euros in real estate, 81,000 euros in tangible fixed assets and 58,000 euros in intangible fixed assets, totally 440,000 euros. During the compared period the Group invested 200,000 euros in real estate, 2,011,000 euros in tangible fixed assets and 15,000 euros in intangible fixed assets.

During the quarter the cost of fixed assets increased by 243,000 euros up to 40.9 million euros, accounting for 74.3% of the cost of assets (Q1 2010: 74.5%).

During the Q1 2011 the liability of the Group decreased by 327,000 euros to 9.2 million euros, which was 16.8% (Q1 2010: 17.9%) from the total assets. In the reporting quarter, supplier payables and other payables increased by 198,000 euros to 5.4 million euros, tax liabilities decreased by 315,000 euros to 600,000 euros. During Q1 short-term liabilities were decreased by 126,000 (Q1 2010: 116,000) euros. Within the first three months, 25,000 (Q1 2010: 163,000) euros worth of a long-term loan and 70,000 (Q1 2010: 75,000) euros worth of principal amounts of the financial lease were repaid. In total, interest-bearing debt obligations in the statement of financial position decreased by 221,000 euros.

Within the first three months, cash equivalents decreased by 225,000 euros up to 2.2 million euros and by 546,000 euros up to 1.7 million euros during the comparable period. In the reporting quarter, cash inflows from operating activities amounted to 350,000 euros, cash outflows from investing activities and financing activities amounted to 354,000 euros and 221,000 euros, respectively. As a result of temporary liquidity issues of customers, business related claims increased by 859,000 euros within the Q1 2010, therefore cash outflows from operating activities amounted to 343,000 euros. As 590,000 euros was obtained from the sale of a financial investment in the comparing period, the positive cash flow from investing activities in the accounting quarter was 151,000 euros. In Q1 2010, there was the negative cash flow from financing activities 354,000 euros.

**Shares of Harju Elekter**

| EUR | **1-3/2011** | **1-3/2010** | **1-12/ 2010** |
|---|---:|---:|---:|
| Number of the shares, (1000 pc) | 16,800 | 16,800 | 16,800 |
| Nominal value | 0.64 | 0.64 | 0.64 |
| High price | 3.54 | 2.73 | 3.14 |
| Low price | 2.73 | 2.02 | 2.02 |
| Closing price | 3.30 | 2.49 | 3.02 |
| Market value (in million) | 55.4 | 41.8 | 50.7 |
| EPS | 0.01 | 0.03 | 0.13 |

***Supervisory and management boards***

The annual general meeting of AS Harju Elekter in 2007 appointed the five members Supervisory Board for the next five years. There were no changes to the Supervisory Board of AS Harju Elekter. The Supervisory Board continues with the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Chairman of Kabal&Partners OÜ), Lembit Kirsme (Chairman of OÜ Kirschmann), Madis Talgre (Chairman of the Management Board, AS Harju KEK) and Andres Toome (consultant).

In Q1 2011 there were no changes to the Management Board which continues with the following membership: Andres Allikmäe as a Chairman and members Karin Padjus (Financial Director) and Lembit Libe (Chief Economist). All members of the Management Board belong to the executive management of the company. The Chairman of the Board receives remuneration in accordance with his contract of service; members of the Management Board receive no special remuneration. The Group does not give the members of the Management Board any benefits related to pension. Chairman of the Management Board has the right to receive severance pay. No other transactions with members of the Group's governing bodies and people connected to them were carried out.

The amount of remuneration and salaries paid to the member of the Supervisory and Management Boards of AS Harju Elekter in Q1 2011 amounted to a total of 61,000 euros and in the comparable period 64,000 euros.

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

***AGM***

On 29$^{th}$ of April 2011 was held the AGM where attended by 77 shareholders and their authorised representatives who represented the total of 71.96 % of the total votes. The general meeting approved the annual report of 2010 and profit distribution. On the basis of a decision the owners are paid dividends for 2010 at the rate of 0.06 euros per share in the total amount of 1 million euros. The dividends will be paid to the shareholders on 24 May 2011.

***Key indicators***

| EUR (in thousands) | **1-3/ 2011** | **1-3/ 2010** | **2010** |
|---|---|---|---|
| **Accounting period** | | | |
| Net sales | 9,426 | 8,571 | 40,885 |
| EBIDTA | 499 | 420 | 2,898 |
| Operating profit | 160 | 72 | 1,519 |
| Net profit for the current period | 164 | 523 | 2,295 |
| Incl. equity holders of the parents | 182 | 572 | 2,173 |
| **At the end of the period** | | | |
| Total current assets | 14,103 | 11,775 | 14,413 |
| Total non-current assets | 40,944 | 34,414 | 40,701 |
| **Total assets** | **55,047** | **46,189** | **55,114** |
| Total liabilities | 9,241 | 8,288 | 9,568 |
| Total equity | 45,806 | 37,901 | 45,546 |
| Inclusive equity attributable to equity holders of the parent | 44,277 | 36,451 | 43,957 |

| **Performance indicators** (%) | | | |
|---|---|---|---|
| Growth in revenue | 10.0 | -26.2 | 1.1 |
| EBITDA growth | 18.9 | -41.9 | -6.0 |
| Operating profit (EBIT) growth | 121.4 | -82.4 | -16.1 |
| Growth in net profit for the current period | -68.7 | 203.7 | 65.6 |
| Net profit growth (Equity holders of the parent) | -68.3 | 239.8 | 76.9 |
| Return of sales (operating profit/revenue *100) | 1.7 | 0.8 | 7.1 |
| Net profit margin (net profit /net sales *100) | 1.9 | 6.7 | 3.7 |
| Owners’ equity margin (equity / balance sheet total *100) | 83.2 | 82.1 | 82.6 |
| **Employees** | | | |
| Average number of employees on the current period | 418 | 432 | 424 |
| Number of employees at the end of the period | 437 | 452 | 440 |

# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | EUR (in thousands) | | |
|---|---|---|---|---|
| **ASSETS** | Note | **31.03.2011** | **31.12.2010** | **31.03.2010** |
| **Current assets** | | | | |
| Cash and cash equivalents | | 2,175 | 2,400 | 1,731 |
| Trade receivables and other receivables | | 5,165 | 6,479 | 5,390 |
| Prepayments | | 99 | 123 | 118 |
| Income tax prepayments | | 11 | 0 | 20 |
| Inventories | | 6,653 | 5,411 | 4,516 |
| **Total current assets** | | **14,103** | **14,413** | **11,775** |
| **Non-current assets** | | | | |
| Investments in associate | 2 | 710 | 680 | 574 |
| Other long-term financial investments | 2 | 21,651 | 21,539 | 14,861 |
| Investment property | 2 | 8,921 | 8,711 | 8,883 |
| Property, plant and equipment | 2 | 9,209 | 9,350 | 9,731 |
| Intangible assets | 2 | 453 | 421 | 365 |
| **Total non-current assets** | | **40,944** | **40,701** | **34,414** |
| **TOTAL ASSETS** | | **55,047** | **55,114** | **46,189** |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Interest-bearing loans and borrowings | 3 | 1,318 | 1,539 | 868 |
| Trade payables and other payables | | 5,376 | 5,178 | 4,458 |
| Tax liabilities | | 600 | 915 | 476 |
| Income tax liabilities | | 19 | 19 | 46 |
| Short-term provision | | 70 | 79 | 74 |
| Deferred income | | 0 | 0 | 74 |
| **Total current liabilities** | | **7,383** | **7,730** | **5,996** |
| Interest-bearing loans and borrowings | 3 | 1,828 | 1,828 | 2,292 |
| Other non-current liebilities | | 30 | 10 | 0 |
| **Non-current liabilities** | | **1,858** | **1,838** | **2,292** |
| **Total liabilities** | | **9,241** | **9,568** | **8,288** |
| **Equity** | | | | |
| Share capital | | 10,737 | 10,737 | 10,737 |
| Share premium | | 384 | 384 | 384 |
| Reserves | 4 | 21,508 | 21,396 | 14,712 |
| Retained earnings | | 11,648 | 11,440 | 10,618 |
| **Total equity attributable to equity holders of the parent** | | **44,277** | **43,957** | **36,451** |
| Non-controlling interests | | 1,529 | 1,589 | 1,450 |
| **Total equity** | | **45,806** | **45,546** | **37,901** |
| **TOTAL LIABILITIES AND EQUITY** | | **55,047** | **55,114** | **46,189** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| 1 January – 31 March | Note | EUR (in thousands) 2011 | 2010 |
|---|---|---|---|
| Revenue | 5 | 9,426 | 8,571 |
| Cost of sales | | -8,025 | -7,409 |
| **Gross profit** | | **1,401** | **1,162** |
| Distribution costs | | -493 | -405 |
| Administrative expenses | | -741 | -693 |
| Other income | | 1 | 19 |
| Other expenses | | -8 | -11 |
| **Operating profit** | 5 | **160** | **72** |
| Net financing income/costs | 6 | -7 | 517 |
| Share of profit (-loss) of equity-accounted investees | 2 | 30 | -45 |
| **Profit before tax** | | **183** | **544** |
| Income tax expense | | -19 | -21 |
| **Profit for the period** | | **164** | **523** |
| **Other comprehensive income** | | | |
| Net change in fair value of available-for-sale financial assets | | 112 | 5,600 |
| Realised gain from sale of financial assets (-) | | 0 | -459 |
| **Other comprehensive income for year, net of tax** | | **112** | **5,141** |
| **Total comprehensive income for the year** | | **276** | **5,664** |
| **Profit attributable to:** | | | |
| Owners of the Company | | 182 | 572 |
| Non-controlling interests | | -18 | -49 |
| **Profit for the period** | | **164** | **523** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 294 | 5,713 |
| Non-controlling interests | | -18 | -49 |
| **Total comprehensive income for the year** | | **276** | **5,664** |
| **Earnings per share** | | | |
| Basic earnings per share (EUR) | 7 | 0.01 | 0.03 |
| Diluted earnings per share (EUR) | 7 | 0.01 | 0.03 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| For the period 1 January - 31 March | Note | EUR (in thousands) 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | 5 | 160 | 72 |
| Adjustments for: | | | |
| Depreciation and amortisation | 2 | 339 | 348 |
| Share-based payment transactions | | 26 | 26 |
| Change in receivables related to operating activity | | 1,337 | -859 |
| Change in inventories | | -1,242 | 556 |
| Change in payables related to operating activity | | -229 | -436 |
| Corporate income tax paid | 8 | -30 | -34 |
| Interest paid | | -11 | -16 |
| **Net cash from operating activities** | | **350** | **-343** |
| **Cash flows from investing activities** | | | |
| Acquisition of investment property | 8 | -257 | -330 |
| Acquisition of property. plant and equipment | 8 | -82 | -106 |
| Acquisition of intangible assets | 8 | -19 | -15 |
| Proceeds from sale of other financial investments | | 0 | 590 |
| Interest received | | 4 | 12 |
| **Net cash used in investing activities** | | **-354** | **151** |
| **Cash flows from financing activities** | | | |
| Changes in short-term loans | 3 | -126 | -116 |
| Repayment of borrowings | 3 | -25 | -163 |
| Payment of finance lease principal | 3 | -70 | -75 |
| **Net cash used in financing activities** | | **-221** | **-354** |
| **Net cash flows** | | **-225** | **-546** |
| **Cash and cash equivalents at beginning of period** | | **2,400** | **2,278** |
| Net increase / decrease | | -225 | -546 |
| Effect of exchange rate fluctuations on cash held | | 0 | -1 |
| **Cash and cash equivalents at end of period** | | **2,175** | **1,731** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| EUR (in thousands) | **Share capital** | **Share premium** | **Reserves** | **Retained earnings** | **Total** | **Non-control-ling interests** | **TOTAL** |
| **At 31.12.2009** | **10,737** | **384** | **9,571** | **10,020** | **30,712** | **1,499** | **32,211** |
| Profit for the period | 0 | 0 | 0 | 572 | **572** | -49 | **523** |
| Other comprehensive income | 0 | 0 | 5,141 | 0 | **5,141** | 0 | **5,141** |
| Comprehensive income for the period | 0 | 0 | 5,141 | 572 | **5,713** | -49 | **5,664** |
| Share-based payment transactions | 0 | 0 | 0 | 26 | **26** | 0 | **26** |
| **At 31.3.2010** | **10,737** | **384** | **14,712** | **10,618** | **36,451** | **1,450** | **37,901** |
| **At 31.12.2010** | **10,737** | **384** | **21,396** | **11,440** | **43,957** | **1,589** | **45,546** |
| Profit for the period | 0 | 0 | 0 | 182 | **182** | -18 | **164** |
| Other comprehensive income | 0 | 0 | 112 | 0 | **112** | 0 | **112** |
| Comprehensive income for the period | 0 | 0 | 112 | 182 | **294** | -18 | **276** |
| Share-based payment transactions | 0 | 0 | 0 | 26 | **26** | 0 | **26** |
| Dividends | 0 | 0 | 0 | 0 | **0** | -42 | **-42** |
| **At 31.3.2011** | **10,737** | **384** | **21,508** | **11,648** | **44,277** | **1,529** | **45,806** |

Further information on reserves can be found in Note 4.

# 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 31.3.2011 comprises AS Harju Elekter (the “parent company”) and its subsidiaries AS Harju Elekter Teletehnika (former Eltek), AS Harju Elekter Elektrotehnika, Satmatic Oy, Harju Elekter AB 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 Exchange since 30 September 1997; 32.14% 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 31.12.2010. 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 2010 annual report.

According to the assessment of the management board, the interim report for 1-3/2011 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 | EUR (in thousands) 2011 | 2010 |
|---|---|---|
| **Investments in associate** | | |
| At 1 January | 680 | 619 |
| Profit/loss(-)under the equity method | 30 | -45 |
| **At the end of the period** | **710** | **574** |
| | | |
| **Other long-term financial investments** | | |
| At 1 January | 21,539 | 9,789 |
| Sale of shares | 0 | -528 |
| Changes in the fair value reserve | 112 | 5,600 |
| **At the end of the period** | **21,651** | **14,861** |
| | | |
| **Investment property** | | |
| At 1 January | 8,711 | 8,768 |
| Additions | 301 | 200 |
| Depreciation charge | -91 | -85 |
| **At the end of the period** | **8,921** | **8,883** |
| | | |
| **Property, plant and equipment** | | |
| At 1 January | 9,350 | 7,962 |
| Additions | 81 | 2,011 |
| Depreciation charge | -222 | -242 |
| **At the end of the period** | **9,209** | **9,731** |
| | | |
| **Intangible assets** | | |
| At 1 January | 421 | 371 |
| Additions | 58 | 15 |
| Depreciation charge | -26 | -21 |
| **At the end of the period** | **453** | **365** |
| | | |
| **Total non-current assets** | **40,944** | **34,414** |

**Note 3 Interest-bearing loans and borrowings**

| EUR (in thousands) | **31.03.2011** | **31.12.2010** | **31.03.2010** |
|---|---|---|---|
| **Liabilities** | | | |
| Short-term bank loans | 1,078 | 1,204 | 711 |
| Current portion of long-term bank loans | 40 | 65 | 72 |
| Current portion of lease liabilities | 200 | 270 | 85 |
| **Total current liabilities** | **1,318** | **1,539** | **868** |
| | | | |
| Long-term bank loans | 0 | 0 | 65 |
| Lease liabilities | 1,828 | 1,828 | 2,227 |
| **Total non-current liabilities** | **1,828** | **1,828** | **2,292** |
| **TOTAL** | **3,146** | **3,367** | **3,160** |

Changes during the period 1 January - 31 March

| EUR (in thousands) | **2011** | **2010** |
|---|---|---|
| **Loans and borrowings at the beginning of the year** | **3,367** | **1,609** |
| Changes in short-term loans | -126 | -116 |
| Long-term loan repaid | -25 | -163 |
| New finance lease | 0 | 1,905 |
| Payment of finance lease principal | -70 | -75 |
| **Loans and borrowings at the end of the current period** | **3,146** | **3,160** |

**Note 4 Reserves**

| EUR (in thousands) | **Capital reserve** | **Fair value reserve** | **Translation reserve** | **TOTAL** |
|---|---|---|---|---|
| At 31.12.2009 | 1,073 | 8,498 | 0 | 9,571 |
| Other comprehensive income | 0 | 5,141 | 0 | 5,141 |
| **At 31.03.2010** | **1,073** | **13,639** | **0** | **14,712** |
| | | | | |
| At 31.12.2010 | 1,073 | 20,316 | 7 | 21,396 |
| Other comprehensive income | 0 | 112 | 0 | 112 |
| **At 31.03.2011** | **1,073** | **20,428** | **7** | **21,508** |

**Note 5 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.

EUR (in thousands)

For the period 1 January – 31 March

| **2010** | **Manu-facturing** | **Real estate** | **Un-allocated activities** | **Elimi-nations** | **Consoli-dated** |
|---|---|---|---|---|---|
| Revenue from external customers | 7,524 | 655 | 392 | 0 | 8,571 |
| Inter-segment revenue | 55 | 268 | 84 | -407 | 0 |
| **Total revenue** | **7,579** | **923** | **476** | **-407** | **8,571** |
| Operating profit | -184 | 295 | -39 | 0 | 72 |
| Segment assets | 17,661 | 9,314 | 1,707 | -211 | 28,471 |
| **2011** | | | | | |
| Revenue from external customers | 8,293 | 678 | 455 | 0 | 9,426 |
| Inter-segment revenue | 39 | 275 | 62 | -376 | 0 |
| **Total revenue** | **8,332** | **953** | **517** | **-376** | **9,426** |
| Operating profit | -11 | 270 | -71 | -28 | 160 |
| Segment assets | 21,843 | 9,328 | 2,525 | -291 | 33,405 |

*Revenue by markets*:

| For the period | 1 January – 31 March | |
|---|---|---|
| EUR (in thousands) | **2011** | **2010** |
| Estonia | 3,353 | 2,901 |
| Finland | 4,190 | 3,148 |
| Lithuania | 689 | 666 |
| Ohter EU countries | 191 | 1,652 |
| Non-EU countries | 1,003 | 204 |
| **Total** | **9,426** | **8,571** |

*Revenue by business area:*

| For the period | 1 January – 31 March | |
|---|---|---|
| EUR (in thousands) | **2011** | **2010** |
| Electrical equipment | 7,152 | 6,789 |
| Sheet metal products and services | 264 | 270 |
| Boxes for telecom sector and services | 256 | 206 |
| Intermediary sale of electrical products and components | 997 | 603 |
| Commerce and mediation of services | 173 | 174 |
| Rental income | 516 | 495 |
| Other services | 68 | 34 |
| **Total** | **9,426** | **8,571** |

**Note 6 Net financing income/costs**

| For the period | 1 January – 31 March | |
|---|---|---|
| EUR (in thousands) | **2011** | **2010** |
| Interest income | 3 | 12 |
| Interest expense | -10 | -16 |
| Net loss from foreign exchange differences | 0 | -1 |
| *Marketable investments:* | | |
| Income from sale of investments | 0 | 522 |
| **TOTAL** | **-7** | **517** |

**Note 7 Basic and diluted earnings per share**

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

*Diluted earnings per share* are calculated by considering the effects of all dilutive potential shares. As at the reporting date on 31.3.2011 the Group had 578.4 thousand dilutive potential shares. In accordance with the decision of the General Meeting of Shareholders held on 23 April 2009 the price of a share was established at the level of 1.10 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 0.55 euros. Thus the subscription price per each share within the meaning of IFRS 2 is 1.65 euros and the potential shares become dilutive only after their average market price of the period exceed 1.65 euros.

| For the period | | January – 31 March | |
|---|---|---|---|
| | Unit | **2011** | **2010** |
| Profit attributable to equity holders of the parent | EUR‘000 | 182 | 572 |
| Average number of shares outstanding | Pc‘000 | 16,800 | 16,800 |
| Basic earnings per share | EUR | 0.01 | 0.03 |
| Adjusted number of shares during the period | Pc‘000 | 17,081 | 16,965 |
| Diluted earnings per share | EUR | 0.01 | 0.03 |

The average market price of the share of 1-3/2011 was 3.21. euros (1-3/2010 2.51 euros). The issue of shares would account for 954 thousand euros. In order to obtain the same amount 297.8 thousand (954/3.21) new shares at the average market price. The difference between the number of dilutive potential shares and the number of shares issued at the market price which is 280.6 thousand shares (578.4-297.8) in 1-3/2011 could be interpreted as shares granted free of charge and the average number of shares has been adjusted by that number.

## Note 8 Cash flow statement line items

| For the period | | 1 January – 31 March | |
|---|---|---|---|
| EUR (in thousands) | Note | **2011** | **2010** |
| **Corporate income tax paid** | | | |
| Income tax expense | | -19 | -21 |
| Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+) | | -11 | -13 |
| **Corporate income tax paid** | | **-30** | **-34** |
| **Paid for investment property** | | | |
| Additions of investment property | 2 | -301 | -200 |
| Liability decrease (-)/ increase (+) incurred by purchase | | 44 | -130 |
| **Acquisition of investment property** | | **-257** | **-330** |
| **Paid for property plant and equipment** | | | |
| Additions of property plant and equipment | 2 | -81 | -2,011 |
| Acquired with finance lease | | 0 | 1,905 |
| Liability decrease (-)/ increase (+) incurred by purchase | | -1 | 0 |
| **Acquisition of property plant and equipment** | | **-82** | **-106** |
| **Paid for intangible assets** | | | |
| Additions of intangible assets | 2 | -58 | -15 |
| Liability decrease (-)/ increase (+) incurred by purchase | | 39 | 0 |
| **Acquisition of intangible assets** | | **-19** | **-15** |

**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 32.14% of the shares of AS Harju Elekter.

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

| For the period | 1 January – 31 March | |
|---|---|---|
| EUR (in thousands) | **2011** | **2010** |
| **Purchase of goods and services from related parties:** | | |
| - from associates | 61 | 36 |
| - from Harju KEK | 16 | 16 |
| TOTAL | 77 | 52 |
| *Inclusive:* | | |
| - goods and materials for manufacturing | 61 | 36 |
| - lease of property. plant and equipment | 16 | 16 |
| **Sale of goods and services to related parties:** | | |
| - to associates | 188 | 165 |
| - to Harju KEK | 2 | 0 |
| TOTAL | 190 | 165 |
| *Inclusive:* | | |
| - goods and materials for manufacturing | 14 | 0 |
| - lease of property. plant and equipment | 172 | 142 |
| - other | 4 | 23 |
| **Balances with related parties at 31 March** | | |
| Receivables with associates: goods and services | 256 | 144 |
| Payables with associates: goods and services | 36 | 14 |

# Statement of Management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim financial statements of 1-3/2011 as set out on pages 3 to 19 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.

| | | | |
|---|---|---|---|
| Andres Allikmäe | Chairman of the Board | /signature/ | „4.“ May 2011 |
| Lembit Libe | Member of the Board | /signature/ | „4.“ May 2011 |
| Karin Padjus | Member of the Board | /signature/ | „4.“ May 2011 |