# AS HARJU ELEKTER
Interim report 1-12/2014

| | |
|---|---|
| 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 |
| Address: | Paldiski mnt.31, 76 606 Keila |
| Telephone: | +372 67 47 400 |
| Fax: | +372 67 47 401 |
| Web-site: | he@he.ee |
| Internet homepage: | www.harjuelekter.ee |
| CEO: | Andres Allikmäe |
| Auditor**:** | KPMG Baltics |
| Beginning of the reporting period: | 1st of January 2014 |
| End of the reporting period: | 31st of December 2014 |

*The interim report of Harju Elekter Group on 28 pages*

# CONTENTS

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

# EXPLANATORY NOTE

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

In interim report for 1-12/2014 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Harju Elekter AB (until 31.3.2014), Satmatic OY, Finnkumu Oy and Rifas UAB are consolidated line-by-line and the results of affiliated company - AS Draka Keila Cables - by the equity method till 30.6.2014.

As of 31 December 2014, AS Harju Elekter has substantial holdings as follows:

| Company | | Country | 31.12.14 | 31.12.13 |
|---|---|---|---|---|
| AS Harju Elekter Teletehnika | subsidiary | Estonia | 100.0% | 100.0% |
| AS Harju Elekter Elektrotehnika | subsidiary | Estonia | 100.0% | 100.0% |
| Satmatic OY | subsidiary | Finland | 100.0% | 100.0% |
| Finnkumu OY | Satmatic Oy’s subsidiary | Finland | 100.0% | 0.0% |
| Harju Elekter AB | subsidiary | Sweden | 90.0% | 90.0% |
| Rifas UAB | subsidiary | Lithuania | 62.7% | 62.7% |
| AS Draka Keila Cables | associated company | Estonia | 0.0% | 34.0% |
| SIA Energokomplekss | financial investment | Latvia | 14.0% | 14.0% |
| PKC Group Oyj | financial investment | Finland | 4.6% | 5.4% |

On 17 June 2014, Satmatic Oy purchased all shares of Finnkumu Oy, Finland’s largest pre-fabricated substation producer. The interim report, prepared as at 31 December 2014, comprises, as of 1 July 2014, the financial statements of Finnkumu Oy.

In July 2014**,** Group sold its 34% holding in AS Draka Keila Cables to the core investor Prysmian Group (Note 11).

The shares of PKC Group Oyj are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners’ equity in the Group.

***Economic environment***

In 2014, the International Bank for Reconstruction and Development cut their forecast for global economic growth, as the US economy and falling oil prices are unable to mitigate the disappointing outlook in Europe and China. Also, the Russian-Ukrainian conflict, along with the sanctions imposed, has had a strong impact on the whole year. Without a doubt, one of the most important events influencing the global economy was the drop in the price of oil from its peak of USD 115 per barrel to nearly USD 60 by the end of the year, while the exchange rate of the euro against the dollar, and the Russian ruble against the euro and the dollar, fell significantly. According to the bank’s preliminary data, global GDP increased by 3% instead of the previously expected 3.4%. Growth expectations in the euro zone were reduced from 1.8% to 1.1%.

Contrary to popular expectations, 2014 did not bring about a revival in the economy of the euro zone. Partially to blame are the Ukrainian crisis and the sanction war with Russia, although the economy was also not helped as intended by the negative interest established for commercial banks by the European Central Bank. Industries were not producing, domestic consumption remained low, and foreign markets had been lost (e.g. Russia for agricultural products and consumer goods, or China for industrial equipment, machine-tools). There were also a number of local issues, such as the announcing of extraordinary elections in Greece, economic stagnation in Italy, or the dangerously high burden of debt in France. The situation is also not good in Germany, the engine of European growth, or any of Estonia’s closest neighbours. Out of Estonia’s most important trade partners, Finland was hit hard by the sanctions, with economic growth barely making it into positive territory in 2014. Sweden's economic growth, however, was significantly faster than that of Finland, and analysts are expecting it to continue.

The drivers of economic growth in the Baltics have been broadly similar: domestic demand, aid from the EU, the increased productivity of the workforce, and foreign trade. The slightly faster growth of Lithuania was largely a positive reaction to the decision to join the euro zone in 2015; in Latvia, growth was supported by adopting the euro as the common currency in 2014. In Q4, the Estonian Institute of Economic Research estimated Estonia's economic growth to be 2% this year, and the growth of the Latvian and Lithuanian economies to be 2.4% and 2.8%, respectively. The forecast for economic growth in Estonia in 2015 is 2%. The main risks to economic development in Estonia are related to the Russian-Ukrainian conflict, as well as the standstill of the Finnish economy and uncertainty in the euro zone.

***Main events***

Since 1.4.2014, the Supervisory Board of AS Harju Elekter decided to suspend 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 2011 - 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. Sales in the Swedish market increased in 2014 compared to the previous year by almost two times.

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 continues 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. On 9th of July 2014 AS Harju Elekter 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. 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.

In September, an invitation to tender was announced in order to find a contractor for a 3100 $m^2$ production building to be built in the Allika Industrial Park, resulting in an agreement signed between AS Harju Elekter and Merko Ehitus Eesti AS. The construction works were launched in October. The construction is to be completed in June 2015, and a preliminary lease contract has also been signed.

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.

Finnish subsidiary Finnkumu Oy was awarded the certificate “Suomen Vahvimmat 2014” by the client register of Suomen Asiakastiedon. The creditworthiness of the company is the main evaluation criterion and the title is awarded to a company that has met the highest requirements of Alfa rating. The number of such companies makes up only 12% of all companies registered in Finland.

Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award. AS Harju Elekter, a fourth year in the row was recognised as the best in Estonia. It was recognised thanks to its market position, stable customer base, good historic economic results and promotion of the general management of the company.

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.

The Group's subsidiaries participated actively in exhibitions: in February, Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV), in Jyväskylä and in Subcontracting Exchibition in Tampere, in September. AS Harju Elekter Elektrotehnika participated in SLO Autumn Exchibition in September and AS Harju Elekter Trade Group presented its products range in the international building fair Estbuild, in April.

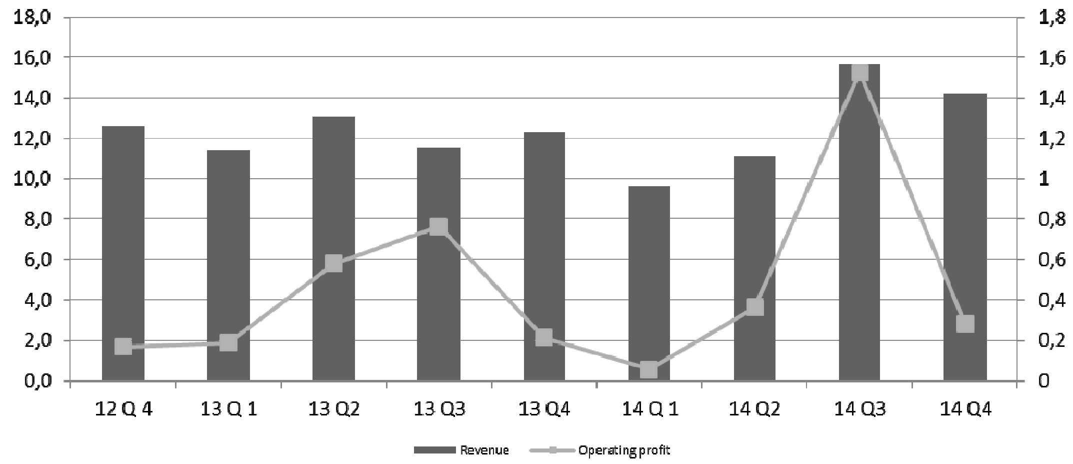
***Operating results***

The interim report, prepared as at 31 December 2014, comprises, as of 1 July 2014, the financial statements of 100% subsidiary Finnkumu Oy (Note 10), acquired this June, which influenced the consolidated financial results of the reporting quarter as well as the results for the 12-month period.

KEY INDICATORS

| | January - December | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Revenue (EUR'000) | 50,606 | 48,288 | 52,801 |
| Gross profit (EUR'000) | 9,081 | 8,458 | 8,653 |
| EBITDA (EUR'000) | 3,741 | 3,269 | 3,439 |
| EBIT (EUR'000) | 2,228 | 1,743 | 1,970 |
| Profit for the period (EUR'000) | 9,778 | 5,173 | 3,603 |
| incl attributed to Owners of the Company (EUR'000) | 9,697 | 5,162 | 3,517 |
| Revenue growth/decrease (%) | 4.8 | -8.5 | 13.1 |
| Gross profit growth/decrease (%) | 7.4 | -2.3 | 11.1 |
| EBIDTA growth/decrease (%) | 14.4 | -4.9 | 1.8 |
| EBIT growth/decrease (%) | 27.8 | -11.5 | -2.7 |
| Profit for the period growth/decrease (%) | 89.0 | 43.6 | 22.2 |
| incl attributed to Owners of the Company (%) | 87.9 | 46.8 | 26.8 |
| Distribution cost to revenue (%) | 5.4 | 5.4 | 5.3 |
| Administrative expenses to revenue (%) | 8.0 | 8.4 | 7.3 |
| Labour cost to revenue (%) | 23.8 | 23.5 | 22.5 |
| Gross margin (Gross profit/revenue) (%) | 17.9 | 17.5 | 16.4 |
| EBITDA margin (EBITDA/revenue) (%) | 7.4 | 6.8 | 6.5 |
| Operating margin (EBIT/revenue) (%) | 4.4 | 3.6 | 3.7 |
| Net margin (Profit for the period/revenue) (%) | 19.3 | 10.7 | 6.8 |
| ROE (Profit for the period/average equity) (%) | 15.8 | 9.1 | 7.8 |

Seasonality of business (million euros)




REVENUE

Revenue increased in the reporting quarter compared to the same period in last year by 15.3% to 14.2 million euros. Consolidated sales revenue for the reporting year reached 50.6 million euros, having increased 4.8% in relation to the comparable period.

The revenue by business segments:

| Segment | Q4 2014 | Q4 2013 | Q4 2012 | 12M 2014 | 12M 2013 | 12M 2012 |
|---|---|---|---|---|---|---|
| Manufacturing | 12,915 | 10,862 | 11,135 | 45,814 | 42,935 | 47,728 |
| Real estate | 605 | 619 | 618 | 2,392 | 2,432 | 2,396 |
| Unallocated activities | 646 | 807 | 812 | 2,400 | 2,921 | 2,677 |
| **Total** | **14,166** | **12,288** | **12,565** | **50,606** | **48,288** | **52,801** |

90.5% of sales revenue was earned from the Production segment, and Real Estate together with Unallocated Activities contributed 9.5% 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 93.6% of the sales volume for Manufacturing and 84.7% of the consolidated revenue. The sale of electrical equipment grew by 21.8% to 12.4 million euros in Q4, and 7.3% to 42.9 million euros in the 12 month period. Both in the reporting quarter as well as the 12 months as whole, substation units continued to hold the top positions in terms of sales revenues. What is positive is that the product segment of specialised substations has strengthened its position significantly.

The quarterly sales development by business area:

| | Q4 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | change y-o-y |
|---|---|---|---|---|---|---|
| Electrical equipment | 10,157 | 7,787 | 9,031 | 13,683 | 12,366 | 21.8% |
| Sheet metal products and services | 246 | 209 | 330 | 171 | 171 | -30.6% |
| Boxes for telecom sector and services | 300 | 226 | 269 | 303 | 241 | -19.6% |
| Intermediary sale of electrical products and components | 821 | 733 | 777 | 878 | 721 | -12.1% |
| Rental income | 549 | 550 | 550 | 533 | 520 | -5.2% |
| Other services | 215 | 156 | 135 | 119 | 147 | -31.2% |
| **Total** | **12,288** | **9,661** | **11,092** | **15,687** | **14,166** | **15.3%** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

Performance by geographical markets:

| | Growth | | Q4 | Q4 | 12 months | | Share | Share |
|---|---|---|---|---|---|---|---|---|
| Markets | Q/Q | y-o-y | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Estonia | 8.4% | -15.3% | 4,244 | 3,916 | 15,183 | 17,936 | 30.0% | 37.1% |
| Finland | 23.3% | 25.8% | 8,336 | 6,758 | 29,480 | 23,441 | 58.2% | 48.5% |
| Lithuania | -51.7% | -60.7% | 284 | 588 | 1,037 | 2,636 | 2.0% | 5.5% |
| Sweden | -39.6% | 84.1% | 165 | 273 | 1,596 | 867 | 3.2% | 1.8% |
| Other EU countries | 16.3% | 89.4% | 243 | 247 | 1,144 | 604 | 2.3% | 1.3% |
| Others | 64.3% | -22.8% | 894 | 506 | 2,166 | 2,804 | 4.3% | 5.8% |
| **Total** | **15.3%** | **4.8%** | **14,166** | **12,288** | **50,606** | **48,288** | **100.0%** | **100.0%** |

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. Because of the requirements for medium voltage equipment have declined as well, lower-priced brands with more competitive price-wise from Europe, will qualify in procurements. The realisation of MV electrical equipment was average in Q4, reaching 230,000 euros; however, for the year as a whole, it was nearly two times less than in 2013. The volume of commissions for energy sector products, as defined in the Public Procurements Contract, is expected to increase in 2015.

Sales on the Estonian market increased 8.4% up to 4.2 million euros in the reporting quarter and declined 15.3% to 15.2 million euros during 12 months. Furthermore, sales revenue in Estonia for the reference period included a one-off order of 0.9 million euros. 30% of the consolidated revenue was earned from the Estonian market, in the comparable period it was 37%. All in all, the Group sold 70% of the products and services from abroad. 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.

The economic situation in Europe, the weak competitiveness of Finland, and the continuing low in the Finnish export sector are also reflected in the economic results of the Finnish industrial sector for 2014. An increase in the commissions in the electrical energy distribution sector has contributed to an increase in revenues in the Finnish market. Satmatic Oy remained successful among strong competition, especially in the energy distribution sector. Sales to the Finnish market increased, both in the reporting quarter as well as for the whole year, by almost a fourth. In the 12 month period, 58% (2013: 49%) of the Group's products and services were sold to the Finnish market. In the second half of the year, a positive impact on the growth of the Finnish market came from the added sales revenue of Finnkumu Oy – a pre-fabricated substation producer, acquired in June – which provided an increase of 16% in Q4 and a 12-month increase of 17% in the Finnish market. The Group's enterprises in Estonia and Lithuania have also made a big contribution to the activity on the Finnish market. Sales to Finland by the companies in the Estonian segment grew 53%, to 12.6 million euros in the 12 month period, 5.8 million euros of which comprised products realised through Finnish subsidiary. In the reporting period, the companies in the Estonian segment sold 58% more products to Finnish company than in the comparable period. The Lithuanian segment's deliveries in the direction of Finland grew in the reporting year to 1.9 (2013: 0.6) million euros, with intra-segment sales comprising only 4.8%. Sales revenue earned from clients of Estonian and Lithuanian segments, outside the Group in Finland, amounted to 23% of the sales revenue on the Finnish market in the 12 months of the current year.

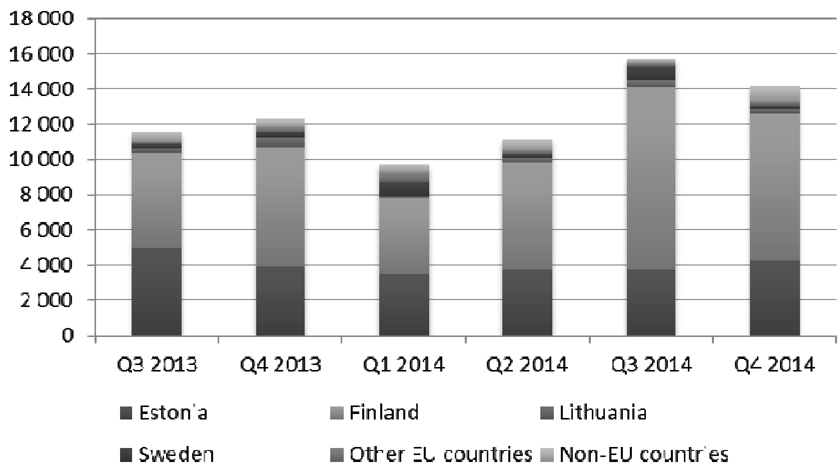
A significant part of the Lithuanian segment revenue makes sales of electrical equipment, which is in 12-months period decreased by 4%. During the reporting year, sales on the Lithuanian market decreased 61% and in the reporting quarter 52%. While the Lithuanian market constituted 44% of the segment's sales revenue in 2013, then this year it has dropped to 19%. At the same time, companies in the Lithuanian segment have increased their sales volumes to foreign markets by 33%, including exports to Finland increased by 1.3 million euros in 2014.

In Q1, the Group suspended the business operations of its Swedish subsidiary. Since 1.4.2014, the responsibility for the Group's Sweden-oriented business activity was taken over by the sales and development teams of AS Harju Elekter Elektrotehnika. Over a period of 12 months, the Group's products have been sold to the Swedish market in the amount of 1.6 million euros, which is almost twice as much as in the comparable period. In Q4, conscious efforts continued to find new cooperation partners in Sweden. The company took part in several procurement competitions. In the reporting quarter, offers for substations were made in the amount of 1.25 million euros on the Swedish market.

Sales revenue from other European Union markets grew to 1.14 million euros during the year. While deliveries in the direction of France decreased by 0.2 million euros in the reporting year, sales volumes grew in the markets of Latvia, Denmark, Germany, Poland, and Portugal, by a total of 0.3 million euros in total. The new market of Slovakia was added in the reporting year. Sales revenue from this market was 0.4 million euros. As a whole, the volume of sales to other European Union countries has increased by 0.5 million euros. The Russian-Ukrainian conflict, along with the sanctions imposed, has had a strong impact on the whole year. Deliveries in the direction of Eastern Europe have decreased by close to 0.6 million euros, to 0.3 million euros. The volume of sales to the US market has grown.

The quarterly sales development by markets

EUR'000




OPERATING EXPENSES AND EARNINGS

| | change % Q4 | y-o-y 12M | 1 October – 31 December 2014 | 2013 | 2012 | 1 January – 31 December 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Cost of sales | 17.6 | 4.3 | 11,944 | 10,157 | 10,632 | 41,525 | 39,830 | 44,148 |
| Distribution costs | 1.0 | 3.6 | 745 | 737 | 658 | 2,720 | 2,627 | 2,801 |
| Administrative expenses | 0.6 | -0.6 | 1,176 | 1,169 | 1,088 | 4,042 | 4,067 | 3,876 |
| **Total expenses** | **14.9** | **3.8** | **13,865** | **12,063** | **12,378** | **48,287** | **46,524** | **50,825** |
| incl. depreciation of fixed assets | -9.6 | -0.8 | 374 | 414 | 373 | 1,513 | 1,526 | 1,469 |
| Total labour cost | 9.6 | 6.0 | 3,208 | 2,926 | 2,975 | 12,027 | 11,350 | 11,860 |
| inclusive salary cost | 11.4 | 6.3 | 2,503 | 2,247 | 2,314 | 9,194 | 8,645 | 9,139 |

Cost of sales increased 17.6% in the reporting quarter and 4.3% in 12-months period, at a rate slightly higher the sales revenue by 2.2 percentage points in reporting quarter and below by 0.5 percentage points in 12-months. Accordingly, the gross profit of the Group in Q4 was 2.2 (Q4 2013: 2.1) million euros and 12-months gross profit of the Group was 9.1 (2013: 8.5) million euros. In the reporting quarter, the gross profit margin was 15.7% being 1.6 percentage points below compering to the same period a year before. During the year, the gross profit margin improved by 0.4 percentage point and was 17.9%.

In the reporting quarter, the number of employees in the Group was an average of 24 more than in the comparable period. Compared to the beginning of the year, the number of employees in the Group has increased by 26, with 18 added to the Group as a result of the acquisition of Finnkumu Oy in Q3. 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. Labour costs increased in 12-months period by 6.0% to 12.0 million euros. The rate of labour costs to revenue formed 23.8% (2013: 23.5%).

Distribution costs of the Group amounted to 2.7 million euros, increasing during 12 months by 3.6%. The rate of distribution costs to revenue accounted for 5.4%, remaining at the 2013 level. Administrative expenses decreased in 12-months period by 0.6% to 4.0 million euros and the rate of administrative expenses to revenue accounted for 8.0%, having decreased by 0.4 percentage points. In Q2, some of the staff was restructured from general administration into sales staff at the Finnish company. In the reporting year, the Group wrote off 103,000 euros in doubtful debts. Distribution cost as well as administrative expenses in the reporting quarter remaining at the same level as in the comparable periods.

Overall, the growth rate of operating expenses lagged behind that of sales revenue, having increased in the reporting quarter by 15.1%, to 14.9 million euros, in the 12-month period by 3.8%, to 48.3 million euros. Accordingly, the Group's operating profit in the reporting quarter was 0.3 (Q4 2013: 0.2) million euros and EBITDA 0.7 (Q4 2013: 0.6) million euros. Return of sales for the accounting quarter was 2.0% (Q4 2013: 1.7%) and return of sales before depreciation 4.6% being 0.5 per cent point lower compering to the same period a year before. During 12-months period, EBITDA as well EBIT increased both by 0.5 million euros to 3.7 million and to 2.2 million euros, respectively. Return of sales before depreciation for the accounting year improved by 0.6 per cent point and was 7.4% and return of sales by 0.8 per cent point being 4.4%.

PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. Dividend income from the shares was 907 (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 (2013: 1.7) million euros. The profit from financial investment totalled 5.6 million euros in the 12-months period; (2013: 2.6 million euros). During the 12 months, finance income amounted to 5.7 (2013: 2.6) million euros.

In the Q3 2014, the Group sold their 34% holding in AS Draka Keila Cables and the financial income from selling the shares was 1.8 million euros. In the accounting period,, the Group consolidated from the associated company a profit of 0.8 (2013: 1.3) million euros.

The consolidated net profit of the reporting quarter was 253 (Q4 2013: 298) thousand euros. Overall, the consolidated net profit of the reporting year was 9.8 million euros, increasing approximately 4.6 million euros compared to the previous period.  The share of the owners of the Company was 9.7 million euros. EPS in 12 months was 0.56 (2013: 0.30) euros.

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

### *Employees and remuneration*

In Q4 2014, the average 465 people worked in the Group - on the average by 29 persons more than in the reference period. During 12 months, the average number of employees decreased by 4 to 459.

In the Q4, employee wages and salaries totalled 2,503 (Q4 2013: 2,247) thousand euros and during the 12-months period 9,194 (2013: 8,645) thousand euros. The average wages per employee per month amounted to 1,669 (2013: 1,584) euros.

As at the balance date on 31 December, there were 483 people working in the Group, which were 32 employees more than a year before. With the purchase of Finnkumu Oy, the Group gained 18 employees.

| | Average number of employees | | | | Number of employees at 31.12. | | |
|---|---|---|---|---|---|---|---|
| | Q4 2014 | Q4 2013 | 12M 2014 | 12M 2013 | Growth | 2014 | 2013 |
| Estonia | 293 | 275 | 292 | 282 | 15 | 311 | 296 |
| Finland | 93 | 78 | 87 | 86 | 16 | 92 | 76 |
| Lithuania | 79 | 82 | 80 | 85 | 2 | 80 | 78 |
| Sweden | 0 | 1 | 0 | 2 | -1 | 0 | 1 |
| **Total** | **465** | **436** | **459** | **455** | **32** | **483** | **451** |

### *Financial position and cash flows*

| | Growth y-o-y | 31.12. 2014 | 31.12. 2013 | 31.12. 2012 |
|---|---|---|---|---|
| Current assets | 9,242 | 25,141 | 15,899 | 16,472 |
| Non-current assets | -10,521 | 44,651 | 55,172 | 43,137 |
| **TOTAL ASSETS** | **-1,279** | **69,792** | **71,071** | **59,609** |
| Current liabilities | 2,279 | 8,390 | 6,111 | 8,124 |
| Non-current liabilities | 419 | 1,560 | 1,141 | 1,349 |
| Equity | -3,977 | 59,842 | 63,819 | 50,136 |
| incl attributable to owners of the Company | -4,004 | 58,475 | 62,479 | 48,782 |
| Equity ratio (%) (Equity/total assets)*100 (%) | -4.1 | 85.7 | 89.8 | 84.1 |
| Current ratio (Average current assets/ Average current liabilities) | 0.5 | 2.8 | 2.3 | 1.8 |
| Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities) | 0.5 | 1.9 | 1.4 | 1.1 |

During 12-months period, the amount of the consolidated statement of financial position decreased by 1.3 million euros to 69.8 million euros.

Current assets increased by 9.2 million euros year on year to 25.1 million euros. 5.9 million euros growth in current assets resulted from an increase in cash and cash equivalents. In the 12-month period, operating and other claims increased by 1.0 million euros and inventory by 2.3 million euros, including operating claims, which were acquired through business combinations in the amount of 1.0 million euros, and stock in the amount of 1.6 million euros (Note 10).

Cost of non-current assets decreased by 10.5 million euros during the reporting year to 44.7 million euros. 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 2014. The market price of PKC Group Oyj shares increased in accounting quarter by 1.46 euros to17.47 euros. The market price of shares decreased in accounting year by 6.72 euros. During the year 2013 the market price of the share, however, increased by 8.76, with the share costing 24.19

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

euros on the last trading day. The cost of investment in assets and reserves in equity decreased by the loss of 7.4 million euros; within the comparable period increased by the profit of 11.7 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 in May. The book value of the shares sold was 4.8 million euros. In total, the cost of financial investments decreased by 12.2 million euros during 12 months period.

In July 2014, the Group sold their 34% holding in AS Draka Keila Cables. As at the beginning of the year, the book value of the associated company in the statement of financial position was 3.6 million euros. One year ago, it was 3.4 million euros.

During the 12-months period, the Group's investments to fixed assets amounted to 1.9 (2013: 2.3) million euros. Through business combinations, fixed assets totalling 4.9 million euros were acquired (Note 2, 10).

As at the reporting date, the Group's liabilities totalling 9.95 million euros, of which short-term liabilities made up 8.4 million euros. Trade payables and other payables grew the most: 2.6 million to 7.0 million euros. Short-term liabilities increased by 2.3 million euros year on year.

Average current assets for the 12 months stood at 20.5 (2013: 16.2) million euros, of which liquid assets accounted for 13.6 (2013: 10.1) million euros and short-term liabilities averaged 7.2 (2013: 7.1) million euros. The Group's current and quick ratio for the reporting year improved by 0.5 compared to the reference period, being respectively 2.8 and 2.3.

As at the reporting date, the Group had interest-bearing debt obligations totalling 1.1 (31.12.2013: 1.8) million euros, with the short-term obligations making up 0.3 (31.12.2013: 0.7) million euros. As at 31 December 2014, interest-bearing debt obligations amounted to 11.8% of the Group's liabilities and 1.6% of the total assets; as at 31 December 2013 24.2% and 2.5%, respectively.

| | 12 months | | |
|---|---|---|---|
| *Consolidated cash flow statement* | **2014** | **2013** | **2012** |
| Cash flows from operating activities | 2,760 | 2,547 | 4,574 |
| Cash flows from investing activities | 5,580 | 539 | -58 |
| Cash flows from financing activities | -2,451 | -2,324 | -1,983 |
| **Net cash flow** | **5,889** | **762** | **2,533** |

The cash flow from the operating activities for the reporting year was 2.8 million euros and 2.5 million euros in the comparable period.

The cash flow from investing activities in 2014 was 5.6 million euros and 0.5 million euros in the comparable period. The largest expenditure in the reporting period was the acquisition of the subsidiary. 6.7 million euros was paid to shareholders for the investment; however, at the moment of acquisition, the company had 1.9 million euros in cash, resulting in a total net cash outflow of 4.8 million euros. The largest revenues came from the sale of financial assets (shares of PKC Group Oyj and the associated company), in the total amount of 11.1 million (2013: 1.8 million) euros. PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. In 2014 AS Harju Elekter received dividends in the amount of 910,000 (2013: 950,000) euros.

Financing activities resulted in a net outflow of 2.5 million euros (2013: a net outflow of 2.3 million euros). Dividends distributed in the first half of 2014 totalled 1.8 million euros, 1.6 million euros in the comparable period. During 12-months, 0.3 million euros worth of principal amounts of the financial lease were repaid, as well in 2014 and in 2013.

During the reporting year 2014, cash and cash equivalents increased by 5.9 million euros to 10.0 million euros, within the comparable period decreased by 0.8 million euros to 4.1 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 board*

In 2014, 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

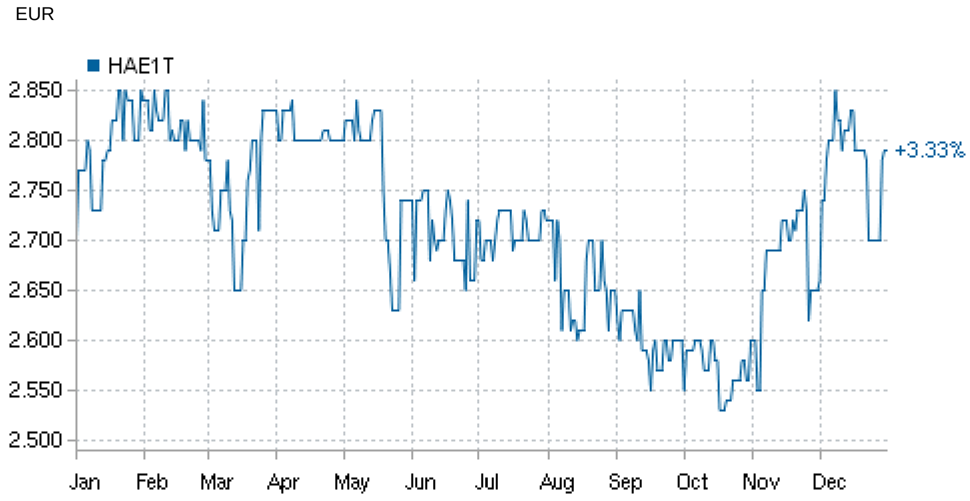
### *Shares of Harju Elekter and shareholders*

Security trading history:

| **Price** | **2010** | **2011** | **2012** | **2013** | **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 | 2.52 |
| Last | 3.02 | 2.28 | 2.64 | 2.70 | 2.79 |
| Traded volume | 2,039,910 | 663,917 | 759,869 | 936,162 | 800,823 |
| Turnover, in million euros | 5.40 | 1.88 | 1.88 | 2.48 | 2.17 |
| Capitalisation, in million euros | 50.74 | 38.30 | 45.94 | 46.98 | 48.55 |
| 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 | 0.56 |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

Share price in Tallinn Stock growth/decrease, 1.1.2014 - 31.12.2014




As at September 30 2014 AS Harju Elekter had 1,473 shareholders. The number of shareholders decreased during the accounting period by 8 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 9.55% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of securities (www.e-register.ee).

Shareholders structure by size of holding at 31 December 2014

| **Holding** | **No of shareholders** | **% of all shareholders** | **% of votes held** |
|---|---|---|---|
| > 10% | 2 | 0.14 | 42.92 |
| 1.0 – 10.0% | 12 | 0.81 | 27.91 |
| 0.1 – 1.0 % | 54 | 3.67 | 15.03 |
| < 0.1% | 1,405 | 95.38 | 14.14 |
| Total | 1,473 | 100.0 | 100.0 |

Shareholders (above 5%) at 31 December 2014

| **Shareholder** | **Holding (%)** |
|---|---|
| HARJU KEK AS | 32.00 |
| ING LUXEMBOURG S.A. | 10.92 |
| Endel Palla | 6.32 |
| Tiina Kirsme | 5.06 |
| Other | 45.70 |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| **ASSETS** | Note | **31.12.2014** | **31.12.2013** |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 9,984 | 4,102 |
| Current financial investments | | 35 | 0 |
| Trade receivables and other receivables | | 6,484 | 5,699 |
| Prepayments | | 455 | 256 |
| Income tax prepayments | | 79 | 41 |
| Inventories | | 8,104 | 5,801 |
| **Total current assets** | | **25,141** | **15,899** |
| **Non-current assets** | | | |
| Deferred income tax asset | | 0 | 7 |
| Investments in associate | 2 | 0 | 3,598 |
| Long-term financial investments | 2 | 19,145 | 31,339 |
| Investment property | 2 | 12,109 | 11,663 |
| Property, plant and equipment | 2 | 7,968 | 8,129 |
| Intangible assets | 2 | 5,429 | 436 |
| **Total non-current assets** | | **44,651** | **55,172** |
| **TOTAL ASSETS** | | **69,792** | **71,071** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Interest-bearing loans and borrowings | 3 | 278 | 654 |
| Trade payables and other payables | | 6,989 | 4,437 |
| Tax liabilities | | 1,072 | 969 |
| Income tax liabilities | | 12 | 15 |
| Short-term provision | | 39 | 36 |
| **Total current liabilities** | | **8,390** | **6,111** |
| Interest-bearing loans and borrowings | 3 | 818 | 1,098 |
| Other non-current liabilities | | 742 | 43 |
| **Non-current liabilities** | | **1,560** | **1,141** |
| **Total liabilities** | | **9,950** | **7,252** |
| **Equity** | | | |
| Share capital | | 12,180 | 12,180 |
| Share premium | | 240 | 240 |
| Reserves | | 19,393 | 31,424 |
| Retained earnings | | 26,664 | 18,635 |
| **Total equity attributable to equity holders of the parent** | | **58,477** | **62,479** |
| Non-controlling interests | | 1,365 | 1,340 |
| **Total equity** | | **59,842** | **63,819** |
| **TOTAL LIABILITIES AND EQUITY** | | **69,792** | **71,071** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

| | Note | 1 October – 31 December 2014 | 1 October – 31 December 2013 | 1 January – 31 December 2014 | 1 January – 31 December 2013 |
|---|---|---|---|---|---|
| Revenue | 4 | 14,166 | 12,288 | 50,606 | 48,288 |
| Cost of sales | | -11,944 | -10,157 | -41,525 | -39,830 |
| **Gross profit** | | **2,222** | **2,131** | **9,081** | **8,458** |
| Distribution costs | | -745 | -737 | -2,720 | -2,627 |
| Administrative expenses | | -1,176 | -1,169 | -4,042 | -4,067 |
| Other income | | 11 | 8 | 27 | 38 |
| Other expenses | | -30 | -19 | -118 | -59 |
| **Operating profit** | 4 | **282** | **214** | **2,228** | **1,743** |
| Finance income | 5 | 34 | 2 | 5,661 | 2,648 |
| Finance costs | 5 | -12 | -16 | -38 | -46 |
| Share of profit of equity-accounted investees | 2 | 0 | 153 | 2,602 | 1,303 |
| **Profit before tax** | | **304** | **353** | **10,453** | **5,648** |
| Income tax expense | 8 | -51 | -55 | -675 | -475 |
| **Profit for the period** | | **253** | **298** | **9,778** | **5,173** |
| **Profit attributable to:** | | | | | |
| Owners of the Company | | 232 | 327 | 9,697 | 5,162 |
| Non-controlling interests | | 21 | -29 | 81 | 11 |
| **Profit for the period** | | **253** | **298** | **9,778** | **5,173** |
| **Earnings per share** | | | | | |
| Basic earnings per share (EUR) | 6 | 0.01 | 0.02 | 0.56 | 0.30 |
| Diluted earnings per share (EUR) | 6 | 0.01 | 0.02 | 0.56 | 0.30 |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 1 October – 31 December 2014 | 1 October – 31 December 2013 | 1 January – 31 December 2014 | 1 January – 31 December 2013 |
|---|---|---|---|---|---|
| **Profit for the period** | | **253** | **298** | **9,778** | **5,173** |
| **Other comprehensive income** | | | | | |
| Net growth/decrease in fair value of available-for-sale financial assets | 2 | 1,598 | 311 | -7,406 | 11,690 |
| Realised gain from sale of financial assets (-) | | 0 | 0 | -4,616 | -1,660 |
| Currency translation differences | | 2 | 3 | -10 | -1 |
| **Other comprehensive income for the period, net of tax** | | **1,600** | **314** | **-12,032** | **10,029** |
| **Total comprehensive income for the period** | | **1,853** | **612** | **-2,254** | **15,202** |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | | 1,832 | 640 | -2,334 | 15,190 |
| Non-controlling interests | | 21 | -28 | 80 | 12 |
| **Total comprehensive income for the period** | | **1,853** | **612** | **-2,254** | **15,202** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

## CONSOLIDATED STATEMENT OF CASH FLOWS

| For the period 1 January - 31 December | Note | **2014** | **2013** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | 4 | 2,228 | 1,743 |
| Adjustments for: | | | |
| Depreciation and amortisation | 2 | 1,513 | 1,526 |
| Gain on sale of property, plant and equipment | | -10 | -12 |
| Share-based payment transactions | | 72 | 73 |
| Growth/decrease in receivables related to operating activity | | 301 | 772 |
| Growth/decrease in inventories | | -673 | 594 |
| Growth/decrease in payables related to operating activity | | 205 | -1,537 |
| Corporate income tax paid | 8 | -845 | -579 |
| Interest paid | 5 | -31 | -33 |
| **Net cash from operating activities** | | **2,760** | **2,547** |
| **Cash flows from investing activities** | | | |
| Acquisition of investment property | 8 | -672 | -1,650 |
| Acquisition of property. plant and equipment | 8 | -765 | -423 |
| Acquisition of intangible assets | 8 | -257 | -138 |
| Acquisition of subsidiaries, net of cash acquired | 10 | -4,847 | 0 |
| | | 6,200 | 0 |
| Proceeds from sale of other financial investments | | 4,933 | 1,753 |
| Proceeds from sale of property, plant and equipment | 8 | 27 | 16 |
| Proceeds from sale of intangible assets | 8 | 0 | 11 |
| Interest received | 8 | 54 | 22 |
| Dividends received | | 907 | 948 |
| **Net cash used in investing activities** | | **5,580** | **539** |
| **Cash flows from financing activities** | | | |
| Growth/decreases in short-term loans | 3 | -358 | -438 |
| Payment of finance lease principal | 3 | -298 | -294 |
| Dividends paid | | -1,795 | -1,592 |
| **Net cash used in financing activities** | | **-2,451** | **-2,324** |
| **Net cash flows** | | 5,889 | **762** |
| **Cash and cash equivalents at beginning of period** | | **4,102** | **3,352** |
| Net increase / decrease | | 5,889 | 762 |
| Effect of exchange rate fluctuations on cash held | | -7 | -12 |
| **Cash and cash equivalents at end of period** | | **9,984** | **4,102** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

## CONSOLIDATED STATEMENT OF GROWTH/DECREASES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share pre-mium** | **Capital reserve** | **Fair value reserve** | **Trans-lation reserve** | **Retained earnings** | **TOTAL** | **Non-Control-ling 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 | 5,162 | **5,162** | 11 | **5,173** |
| Other comprehensive income the period | 0 | 0 | 0 | 10,030 | -2 | 0 | **10,028** | 1 | **10,029** |
| **Total comprehensive income** | 0 | 0 | 0 | 10,030 | -2 | 5,162 | **15,190** | 12 | **15,202** |
| **Transaction with the owners of the Company, recognised directly in equity** | | | | | | | | | |
| Share-based payments | 0 | 0 | 0 | 0 | 0 | 73 | **73** | 0 | **73** |
| Increase in reserves | 0 | 0 | 42 | 0 | 0 | -42 | **0** | 0 | **0** |
| Dividends | 0 | 0 | 0 | 0 | 0 | -1,566 | **-1,566** | -26 | **-1,592** |
| **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 | 9,697 | **9,697** | 81 | **9,778** |
| Other comprehensive income for the period | 0 | 0 | 0 | -12,022 | -9 | 0 | **-12,031** | -1 | **-12,032** |
| **Total comprehensive income** | 0 | 0 | 0 | -12,022 | -9 | 9,697 | **-2,334** | 80 | **-2,254** |
| **Transaction with the owners of the Company, recognised directly in equity** | | | | | | | | | |
| Share-based payments | 0 | 0 | 0 | 0 | 0 | 72 | **72** | 0 | **72** |
| Dividends | 0 | 0 | 0 | 0 | 0 | -1,740 | **-1,740** | -55 | **-1,795** |
| **At 31 December 2014** | **12,180** | **240** | **1,218** | **18,184** | **-9** | **26,664** | **58,477** | **1,365** | **59,842** |

## NOTES TO INTERIM FINANCIAL STATEMENT

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

AS Harju Elekter is a company registered in Estonia. The interim report prepared as of 31.12.2014 comprises AS Harju Elekter (the "Parent Company") and its subsidiaries AS Harju Elekter Teletehnika, AS Harju Elekter Elektrotehnika, Satmatic Oy, Finnkumu Oy and Rifas UAB (together referred to as the Group) and the Group's interest in associate AS Draka Keila Cables till 30.6.2014. 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 1-12/2014 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation Group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the Group.

The presentation currency is Euro. The consolidated interim financial statement has been drawn up in thousands of Euros and all the figures have been rounded to the nearest thousand, unless indicated otherwise.

### Note 2 Non-current assets

| For the period 1 January – 31 December | Note | **2014** | **2013** |
|---|---|---|---|
| **Investments in associate** | | | |
| At 1 January | | 3,598 | 2,295 |
| Profit under the equity method | | 817 | 1,303 |
| Sale of shares at sales price | 11 | -6,200 | 0 |
| Sales gain | 11 | 1,785 | 0 |
| **At the end of the period** | | **0** | **3,598** |
| **Other long-term financial investments** | | | |
| At 1 January | | 31,339 | 21,386 |
| Sale of shares | | -4,788 | -1,737 |
| Growth/decreases in the fair value reserve | | -7,406 | 11,690 |
| **At the end of the period** | | **19,145** | **31,339** |
| **Investment property** | | | |
| At 1 January | | 11,663 | 10,454 |
| Additions | | 886 | 1,644 |
| Reclassification | | 0 | 6 |
| Depreciation charge | | -440 | -441 |
| **At the end of the period** | | **12,109** | **11,663** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

| For the period 1 January – 31 December | Note | 2014 | 2013 |
|---|---|---|---|
| **Property, plant and equipment** | | | |
| At 1 January | | 8,129 | 8,546 |
| Additions | | 770 | 532 |
| | 10 | 39 | 0 |
| Disposals | | -17 | 0 |
| Reclassification | | 0 | -6 |
| Depreciation charge | | -953 | -943 |
| **At the end of the period** | | **7,968** | **8,129** |
| **Intangible assets** | | | |
| At 1 January | | 436 | 451 |
| Additions | | 253 | 142 |
| Acquisitions through business combinations | 10 | 4,860 | 0 |
| Disposals | | 0 | -15 |
| Depreciation charge | | -120 | -142 |
| **At the end of the period** | | **5,429** | **436** |

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

| | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Liabilities** | | |
| Short-term bank loans | 0 | 358 |
| Current portion of lease liabilities | 278 | 296 |
| **Total current liabilities** | **278** | **654** |
| **Non-current liabilities** | | |
| Lease liabilities | 818 | 1,098 |
| **Total non-current liabilities** | **818** | **1,098** |
| **TOTAL** | **1,096** | **1,752** |

Growth/decreases during the period 1 January – 31 December

| | 2014 | 2013 |
|---|---|---|
| **Loans and borrowings at the beginning of the year** | **1,752** | **2,381** |
| Growth/decreases in short-term loans | -358 | -438 |
| New finance lease | 0 | 103 |
| Payment of finance lease principal | -298 | -294 |
| **Loans and borrowings at the end of the current period** | **1,096** | **1,752** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

**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, Finnkumu Oy and Rifas UAB.
"*Real estate*"– Real estate development, maintenance and rental. Real estate has been identified as a reportable segment because its result and assets are more than 10% of the total result and assets of all segments.
*Unallocated items* – Retail- and wholesale of products necessary for electrical installation works, mainly to retail customers and small- and medium-sized electrical installation companies; management services; design of industrial automation equipment, programming of process control automatic equipment and project management of installation works; construction services and installation of automatic control equipment. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

| For the period 1 January – 31 December | **Manu-facturing** | **Real estate** | **Un-allocated activities** | **Elimi-nations** | **Consoli-dated** |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Revenue from external customers | 45,814 | 2,392 | 2,400 | 0 | 50,606 |
| Inter-segment revenue | 237 | 980 | 413 | -1,630 | 0 |
| **Total revenue** | **46,051** | **3,372** | **2,813** | **-1,630** | **50,606** |
| Operating profit | 1,469 | 1,137 | -306 | -72 | 2,228 |
| Segment assets | 34,118 | 12,516 | 8,491 | -7,473 | 47,652 |
| Indivisible assets | | | | | 22,140 |
| **Total assets** | | | | | **69,792** |
| **2013** | | | | | |
| Revenue from external customers | 42,935 | 2,432 | 2,921 | 0 | 48,288 |
| Inter-segment revenue | 582 | 1,005 | 349 | -1,936 | 0 |
| **Total revenue** | **43,517** | **3,437** | **3,270** | **-1,936** | **48,288** |
| Operating profit | 1,048 | 1,188 | -421 | -72 | **1,743** |
| Segment assets | 23,729 | 11,992 | 4,504 | -666 | 39,559 |
| Indivisible assets | | | | | 31,512 |
| **Total assets** | | | | | **71,071** |

*Revenue by markets*:

| For the period 1 January – 31 December | **2014** | **2013** |
|---|---|---|
| Estonia | 15,183 | 17,936 |
| Finland | 29,480 | 23,441 |
| Lithuania | 1,037 | 2,636 |
| Sweden | 1,596 | 867 |
| Other EU countries | 1,144 | 604 |
| Non-EU countries | 2,166 | 2,804 |
| **Total** | **50,606** | **48,288** |

*Revenue by business area:*

| For the period 1 January – 31 December | **2014** | **2013** |
|---|---|---|
| Electrical equipment | 42,867 | 39,969 |
| Sheet metal products and services | 881 | 925 |
| Boxes for telecom sector and services | 1,039 | 1,129 |
| Intermediary sale of electrical products and components | 3,109 | 3,446 |
| Commerce and mediation of services | 298 | 104 |
| Rental income | 2,153 | 2,192 |
| Other services | 259 | 523 |
| **Total** | **50,606** | **48,288** |

### Note 5 Finance income and costs

| For the period 1 January – 31 December | **2014** | **2013** |
|---|---|---|
| Interest income | 58 | 24 |
| Income from sale of long-term investments | 4,673 | 1,676 |
| Dividend income | 907 | 948 |
| Income from sale of marketable investments (current assets) | 12 | 0 |
| Other | 11 | 0 |
| **Total finance income** | **5,661** | **2,648** |
| Interest expense | -31 | -33 |
| Net loss from foreign exchange differences | -7 | -13 |
| **Total finance costs** | **-38** | **-46** |

### Note 6 Basic and diluted earnings per share

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

*Diluted earnings per share* are calculated by considering the effects of all dilutive potential shares. As at the reporting date on 31.12.2014 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.

| For the period<br>1 January – 31 December | Unit | **2014** | **2013** |
|---|---|---|---|
| Profit attributable to equity holders of the parent | EUR‘000 | 9,697 | 5,162 |
| Average number of shares outstanding | Pc‘000 | 17,400 | 17,400 |
| Basic and diluted earnings per share | EUR | 0.56 | 0.30 |
| 1 October – 31 December | | | |
| Profit attributable to equity holders of the parent | EUR‘000 | 232 | 327 |
| Adjusted number of shares during the period | Pc‘000 | 17,400 | 17,400 |
| Basic and diluted earnings per share | EUR | 0.01 | 0.02 |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

The average market price of the share of 1-12/2014 was 2.72 euros and of 1.10.-31.12.2014 it was 2.67 euros. In the comparable periods, the average market price of the share was 2.72 and 2.64 euros, respectively. Hence, the potential shares did not have any diluting effect.

## 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**

| For the period 1 January – 31 December | **2014** | **2013** |
|---|---|---|
| Revenue | 15 | 496 |
| Expenses | -58 | -630 |
| **Result of operating activities** | **-43** | **-134** |

**Cash flows from discontinued operation**

| For the period 1 January – 31 December | | |
|---|---|---|
| Net cash used in operating activities | -115 | -132 |
| Net cash from investing activities | 0 | 0 |
| Net cash from financing activities | 0 | 178 |
| **Net cash flows for the reporting period** | **-115** | **46** |

**Statement of financial position**

| As at 31 December | | |
|---|---|---|
| Cash and cash equivalents | 16 | 131 |
| Trade receivables and prepayments | 3 | 52 |
| Inventories | 0 | 1 |
| Intangible assets | 0 | 0 |
| Liabilities | -3 | -125 |
| **Net assets and liabilities** | **16** | **59** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

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

| For the period 1 January – 31 December | Note | **2014** | **2013** |
|---|---|---|---|
| **Corporate income tax paid** | | | |
| Income tax expense | | -675 | -475 |
| Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+) | | -41 | -101 |
| Acquired liability through business combinations | 10 | -136 | 0 |
| Deferred income tax expense(-)/income | | 7 | -3 |
| **Corporate income tax paid** | | **-845** | **-579** |
| **Interest received** | | | |
| Interest income | 5 | 58 | 24 |
| Receivable increase (-) | | -4 | -2 |
| **Interest received** | | **54** | **22** |
| **Paid for investment property** | | | |
| Additions of investment property | 2 | -886 | -1,644 |
| Liability decrease (-)/ increase (+) incurred by purchase | | 214 | -6 |
| **Acquisition of investment property** | | **-672** | **-1,650** |
| **Paid for property, plant and equipment** | | | |
| Additions of property, plant and equipment | 2 | -770 | -532 |
| Liability decrease (-)/ increase (+) incurred by purchase | | 5 | 103 |
| **Acquisition of property, plant and equipment** | | **-765** | **-429** |
| **Paid for intangible assets** | | | |
| Additions of intangible assets | 2 | -253 | -142 |
| Liability decrease (-)/ increase (+) incurred by purchase | | -4 | 4 |
| **Acquisition of intangible assets** | | **-257** | **-138** |
| **Proceeds from sale of property, plant and equipment** | | | |
| Book value of disposed property, plant and equipment | 2 | 17 | 0 |
| Profit on disposal of property, plant and equipment | | 10 | 16 |
| Receivable increase (-) | | 0 | 0 |
| **Proceeds from sale of property, plant and equipment** | | **27** | **16** |
| **Proceeds from sale of intangible assets** | | | |
| Book value of disposed intangible assets | 2 | 0 | 15 |
| Profit on disposal of intangible assets | | 0 | -4 |
| **Proceeds from sale of intangible assets** | | **0** | **11** |

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

## Note 9 Transactions with related parties

The related party of AS Harju Elekter includes members of the management and supervisory boards and their close family members, AS Harju KEK which owns 32.0% of the shares of AS Harju Elekter and until 30.6.2014 associated company AS Draka Keila Cables (see Note 11). The Group's management comprises members of the Parent company's supervisory and management boards. The management board has one member and the supervisory board has five members.

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

| For the period 1 January – 31 December | **2014** | **2013** |
|---|---|---|
| **Purchase of goods and services from related parties:** | | |
| - from associates | 248 | 479 |
| - from Harju KEK | 192 | 1,686 |
| TOTAL | 440 | 2,165 |
| *Inclusive:* | | |
| - goods and materials for manufacturing | 248 | 479 |
| - lease of property, plant and equipment | 65 | 47 |
| - purchase of land | 126 | 1,638 |
| - other | 1 | 1 |

| For the period 1 January – 31 December | **2014** | **2013** |
|---|---|---|
| **Sale of goods and services to related parties:** | | |
| - to associates | 378 | 774 |
| - to Harju KEK | 3 | 19 |
| TOTAL | 381 | 793 |
| *Inclusive:* | | |
| - goods and materials for manufacturing | 17 | 26 |
| - lease of property, plant and equipment | 339 | 678 |
| - other | 25 | 89 |
| **Balances with related parties at 31 December** | | |
| Receivables with associates: goods and services | 0 | 154 |
| Payables with associates: goods and services | 0 | 42 |
| **Remuneration of the management and supervisory boards** | | |
| - salaries, bonuses, additional remuneration | 215 | 185 |
| - social security and other taxes on salaries | 71 | 61 |
| TOTAL | 286 | 246 |

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 reporting 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 2014, the Group recorded 72,000 (73,000 y-o-y) euros as labour costs and share-based benefits under shareholder's equity and retained earnings.

### 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. Finnkumu Oy continues to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy. By purchasing Finnkumu Oy, the Group increased its market share in Finland as well as elsewhere in Scandinavia and increased the product range. The transaction took effect on 17 June 2014, which was also when accounts were settled. For the purchase transaction, EUR 6,716 thousand was paid. Pursuant to the contract, after the audited annual report was 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 were no significant changes in the Finnkumu's business activities. We confirm that there were no valid contracts between AS Harju Elekter and Finnkumu Oy, and Finnkumu Oy had no loans or any court or arbitration proceedings involving the commercial undertaking.

**AS Harju Elekter** Interim report 1-12/2014, consolidated (unaudited, in thousand euros)

**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 31.12.2014**

| **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 | | | 8,300 |
| Goodwill | | | 4,860 |

| **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 1,134,000 euros.

## Note 11 The sale of shares in associated company

On 9th of July 2014 AS Harju Elekter and Prysmian Finland Oy concluded a contract according to which AS Harju Elekter sold 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. This means that the presumed profit from the transaction is 1.8 million euros (see Note 2), 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 1-12/2014 as set out on pages 3 to 28 and confirms that to the best of its knowledge, information and belief that:

- the management report presents true and fair view of significant events that took place during the accounting period and their impact to financial statements; and includes the description of major risks and doubts for the parent company and consolidate companies as a Group; and reflects significant transactions with related parties;

- the accounting principles and presentation of information used in preparing the interim financial statements are in compliance with the International Financial Reporting Standards as adopted by the European Union;

- the interim financial statements give a true and fair view of the assets, liabilities, financial position of the Group and of the results of its operations and its cash flows; and

- AS Harju Elekter and its subsidiaries are going concerns.

/signature/
Andres Allikmäe
Managing director/ CEO
„25th“February 2015