

AS HARJU ELEKTER

Interim report 1-6/ 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
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:	1 st of January 2011
End of the reporting period:	30 th of June 2011

The interim report of Harju Elekter Group on 20 pages

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EXPLANATORY NOTE***Group structure and changes on it***

In interim report for 1-6/ 2011 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries – AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika (former Eltek), Harju Elekter AB, Satmatic Oy and UAB Rifas - are consolidated line-by-line and the results of affiliated company – AS 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 30 June 2011, Harju Elekter has substantial holdings in the following companies:

Company		Country	30.06.11	31.12.10	30.06.10
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%
UAB Rifas	subsidiary	Lithuania	51.0%	51.0%	51.0%
AS DrakaKeila 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	7.0%	7.2%	7.9%

Economic environment

Increasing exports facilitated recovery of Estonian economy through growth of investments and private consumption, probably remaining the key growth driver also for the subsequent years. According to the quarterly overview of the Estonian Institute of Economic Research, the consumers' assessment of economy clearly improved in the first half-year, private consumption also increased with the support of feeling of certainty and moderate growth in earnings. At the same time, price rise expectations have increased, curbing the buying power. Fast recovery of private consumption is also hindered by the weakness of the labour market – high unemployment and continuously uneven demand for labour by economic branches, also the growth of the long-term unemployment and the gap between demand for and supply of labour. Stability of foreign demand and growth of profits, however, increase the exporters' confidence in investing into production capacities in order to support the export potential. The key foreign trade partners of Estonia – Nordic countries, Germany and Russia – continue to have the best prospects for economic growth in the region. At the same time, economic growth in Europe and the rest of the world in the near future may be halted by the high level of raw material prices that is partially influenced by the crisis in the Middle East and North Africa, but also by an increase in interests and less expansive budgetary policy.

Latvian economy also continues to improve – financial markets remain stable and state budget deficit has declined faster than required by the IMF and EU. The domestic economy of the country is on the recovery path, but inflation management is a test case. The main accelerators of inflation include prices of food and energy; domestic price pressure remains moderate. Lithuanian economy has reached a strong growth cycle and the prospect for the year is optimistic, although high structural unemployment, modest rise in wages and accelerating inflation continue to halt growth of domestic demand. Like in Latvia, budgetary position in Lithuania has also improved faster than planned. If Lithuania and Latvia are to adopt the euro in 2014, they should continue consolidation of their budgets.

In summary, the global economy is still in the growth trend despite risks (raw material prices, debt crisis). Slowdown of growth in the USA, which has the largest economy, in the first quarter was hopefully temporary and a solution for the budgetary crisis will be probably found, and the European economy, although with uneven growth, will continue to recover. Growth of developed countries is still supported by Asian economies whose growth will however slow down as expected after the boom that followed the crisis.

Main events

In 2011, Krediidiinfo AS awarded to AS Harju Elekter the credit rating 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. Only 7.6% of the Estonian companies have credit rating AA.

Finnish subsidiary Satmatic Oy was awarded the certificate "Suomen Vahvimmat 2007– 2011" by the client register of Suomen Asiakastiedon. The creditworthiness of the company is the main evaluation criterion. The title of Suomen Vahvimmat is awarded to a company that has met the highest requirements of Alfa rating for five consecutive years. The number of such companies makes up only 10% of all companies registered in Finland.

Bureau Veritas declared the production management of Satmatic Oy to be in conformity with the standards of the international environmental management system ISO 14001:2004. The receipt of the certificate of conformity was important from the aspect of environmental friendliness and business activities of the company, giving the clients assurance that the company is a reliable cooperation partner and manufacturer of environmental-friendly products.

The Group commenced the construction of a production complex of nearly 5000 m² for AS Saajos, manufacturer of fire-resistant and security doors. The construction will be completed by 2012 after which the production premises will be given for a long-term lease to Saajos.

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.

Subsidiaries of AS Harju Elekter – HE Elektrotehnika, Satmatic and HE Teletehnika (former Eltek) participated in the energy fair Verkosto 2011, held in Finland on February. A stand presented to fair clients substations with a metal casing, which were complemented by construction materials from the other product families. In April, the Harju Elekter Trade Group presented the products, produced by Group's companies, the retail shops and their professional product selection and displayed the products of the companies, represented by the Group, in the international building fair Estbuild 2011.

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. 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.

Operating results**SALES REVENUE**

The financial indicators of the Group in the reporting period demonstrated improvement trends. In Q2, the sales revenue of the Group increased by one third to 11.1 million euros and during the 6 months more than one fifth to 20.5 million euros. Growth was mainly achieved by growth of production capacities.

Sales revenue by segment:

EUR (in thousands) Segment	Growth		Q2		6 months		Share	
	Q/Q	6m/6m	2011	2010	2011	2010	2011	2010
Manufacturing	37.6%	23.6%	9,913	7,207	18,207	14,731	88.7%	87.1%
Real estate	-4.1%	-0.2%	598	623	1,276	1,278	6.2%	7.6%
Unallocated activities	18.4%	17.3%	601	508	1,056	900	5.1%	5.3%
Total	33.3%	21.5%	11,112	8,338	20,539	16,909	100.0%	100.0%

The sales revenue of the production segment increased by more than 37% in the reporting quarter and over 23% within 6 months, traditionally amounting to the largest share – 88.7% (87.1%) of the sales revenue. The sale of miscellaneous electrical installations increased by 45% to 9.2 million euros in the Q2, accounting for 93% of the sales revenue of the reporting quarter, and increased by more than 24% to 16.4 million euros within 6 months, making up 90% of the sales revenue of the production segment.

The economic boom has also led to growth in the sales volumes of the trade segment. The sales of electrical products and components increased by 17.4% within six months compared to the reference period, reaching 976 thousand euros, of which 523 thousand euros was earned in the reporting quarter. This was 34.2% more compared to the reference period. In total, the sales volume of the other segment increased by over 18% in the reporting quarter and over 17% within six months.

Sales revenue by markets:

EUR (in thousands) Markets	Growth		Q2		6 months		Share	
	Q/Q	6m/6m	2011	2010	2011	2010	2011	2010
Estonia	44.0%	29.9%	4,257	2,956	7,610	5,857	37.1%	34.7%
Finland	58.4%	45.9%	5,097	3,218	9,287	6,366	45.2%	37.6%
Lithuania	-2.7%	-0.6%	1,251	1,286	1,940	1,952	9.5%	11.5%
Other EU countries	7.3%	-77.6%	227	212	418	1,864	2.0%	11.0%
Others	-57.9%	47.5%	280	666	1,284	870	6.2%	5.2%
Total	33.3%	21.5%	11,112	8,338	20,539	16,909	100.0%	100.0%

An increase in economic growth in the EU countries 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 – in Q2 more than 58% and during the 6 months 46%. At the same time, the sales of production companies of the Estonian segment to the Finnish market also increased by over 75%. In the reporting quarter, the sales of products and services to the Estonian market amounted to 4.3 million euros, increasing by 44% compared to the reference period and by 7.6 million euros within 6 months, representing growth of over 30% relative to the reference period. Developments in the Lithuanian market have been more modest. Totally, the domestic markets (Estonia, Lithuania and Finland) of the Group's companies prevailed, where 91.8% (83.8%) of the Group's products and services were sold. 63% (65%) of Group products were sold outside of Estonia.

During the reporting quarter, sales revenue from other EU countries totalled 227 (Q2 2010: 212) thousand euros. Within 6 months, goods and services in the total amount of 418 thousand euros were sold to the other EU states, which was by 1.4 million euros less than in the reference period. 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. During the 6 months, sales outside the European Union have increased by more than 47%. Sales volumes to the markets of Norway, Russia, Belarus, and Malaysia have increased.

OPERATING EXPENSES

EUR (in thousands)	Growth		Q2		6 months	
	Q/Q	6m/6m	2011	2010	2011	2010
Cost of sales	29.7%	18.8%	9,183	7,079	17,208	14,488
Distribution costs	24.2%	23.1%	542	436	1,035	841
Admin expenses	27.8%	17.0%	819	641	1,561	1,334
Total expenses	29.3%	18.8%	10,544	8,156	19,804	16,663
incl. depreciation of fixed assets	2.8%	0.1%	358	348	697	696
Total labour cost	18.6%	16.1%	2,623	2,212	4,975	4,284
incl salary cost	15.6%	12.0%	1,925	1,665	3,768	3,363

In the second quarter, expenses of the operating activities increased by 29.3%, which was by 4 percentage points lower than the growth rate of sales revenue and expenses increased by 18.8% within six months, which was by 2.7 percentage points lower than the growth rate of sales revenue.

Expenses on staff in Q2 2011 were 2,623 thousand euros, increasing by 18.6% and in H1 2011 4,975 thousand euros, increasing by 16.1%. 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 53 thousand euros received for stock is recognised as labour costs. Within 6 months, a total of 3,768 (3,363) thousand euros was paid in wages and payments to the employees and the average wage per employee was 1,472 (1,311) euros.

The depreciation of fixed assets accounted in Q2 for 358 (Q2 2010: 348) thousand euros and during the 6 months totally 697 (H1 2010: 696) thousand euros of operational expenditures.

EARNINGS AND MARGINS

In the accounting quarter the gross profit of the Group increased by 53.3% and was 1,929 thousand euros and the gross profit margin was 17.4% (Q2 2010: 15.1%). In H1 2011, the gross profit of the Group was 3,331 thousand euros increasing by 37.6% compared to the same period last year. The gross profit margin was 16.2%, increasing by 1.9 per cent point compared to the same period a year before.

Operating profit of Q2 2011 was 540 (Q2 2010: 178) thousand euros and EBITDA was 898 (Q2 2010: 526) thousand euros. Return of sales for the period was 4.9%, which was 2.8 per cent point better compared to the same period last year and return of sales before depreciation was 8.1%, improving by 1.8 per cent point comparing to the Q2 2010. Operating profit of the H1 2011 was 700 thousand euros, which was 2.8 times more than comparing period and EBITDA was 1,397 thousand euros, growth 47.6%. Return of sales before depreciation in H1 was 6.8% (H1 2010: 5.6%) and return of sales for the period 3.4%, which was 1.9 per cent point better than a year before.

In the accounting quarter the Group consolidated from the related company a profit of 79 (Q2 2010: 102) thousand euros and within the 6 months 109 (H1 2010: 57) thousand euros. In the Q2, net financial income increased by 229 thousand euros to 781 thousand euros, but declined by 294 thousand euros to 775 thousand euros within 6 months. In the reporting period, dividend income was received more by 235 thousand euros, totalling 795 thousand euros. At the same time, 80,000 shares in PKC Group Oyj were sold in the Q1 2010 and financial income from selling the shares was 522 thousand euros.

Overall, the consolidated net profit of the Q2 2011 was 1,164 (Q2 2010: 640) thousand euros, of which the share of the owners of the parent company was 1,077 (Q2 2010: 588) thousand euros. EPS of the Q2 was 0.06 (Q2 2010: 0.03) euros. During the first 6 months earnings per share amounted 0.07 euros. The consolidated net profit increased during the first half of the year by 14.2% and was 1,329 thousand euros, of which the share of the owners of the parent company was 1,258 (H1 2010: 1,160) thousand euros.

Employees

Average number of employees	Q2		6 months		Number of employees at 30 June		
	2011	2010	2011	2010	Growth	2011	2010
Estonia	269	270	267	275	12	303	291
Finland	84	83	84	82	1	86	85
Lithuania	67	70	67	70	-3	67	70
Sweden	1	0	1	0	1	1	0
Total	421	423	419	427	11	457	446

In the reporting quarter, on the average 421 people worked in the Group – on the average by two persons less than in the reference period; the average number of employees within 6 months was 419 which is on the average by 8 employees less than in H1 2010. As at the balance day on 30 June, there were 457 people working in the Group, which were 17 employees more than on the beginning of the year and 11 employees more than a year before.

Financial position and cash flows

The amount of the consolidated balance sheet as of 30 June 2011 was 57,078 (30.6.2010: 47,346) thousand euros, increasing by 1,964 thousand euros during the first six months.

During the Q2 the market price of the PKC Group share increased by 0.14 euros and during the first half of the year by 0.22 euros up to 15.59 euros. The cost of investment in assets and reserves in equity capital increased by the profit of 196 in Q2 (Q2 2010: 195) thousand euros and in H1 2011 totally 308 thousand euros received from stock revaluation. In the comparing period, the book value of financial assets increased during the 6 months by 5.3 million euros.

In H1 2011 the Group invested 1,057 thousand euros in real estate, 294 thousand euros in tangible fixed assets and 67 thousand euros in intangible fixed assets, totally 1,418 thousand euros. During the compared period the Group invested 245 in real estate, 2,051 in tangible fixed assets and 31 thousand euros in intangible fixed assets, totally 2,327 thousand euros, of which 1.9 million was acquired subject to financial lease conditions.

During the first half of the year the cost of fixed assets increased by 1,138 thousand euros up to 41.8 million euros, accounting for 73.3% of the cost of assets (H1 2010: 72.8%).

As of the balance sheet date, the Group's working capital (current assets – current liabilities) amounted to 6,212 thousand euros, declining by 471 thousand euros within 6 months and increasing by 653 thousand euros compared to the reference period. Receivables and prepayments of operating activities increased by 491 thousand euros within 6 months and, in conjunction with growth of sales volumes, inventories increased by 2,257 thousand euros to 7,668 thousand euros. Current liabilities increased by 1,297 thousand euros to 9,027 thousand euros, of which growth of payables of the operating activities accounted for 1,193 thousand euros. Both liquidity ratio (1.0) and current ratio (1.8) improved by 0.1 points compared to the reference period.

During the H1 2011 the liability of the Group increased by 115 thousand euros to 3,482 thousand euros. As a result of the economic boom, the need for additional circulating capital increased.

Therefore, overdraft increased by 289 thousand euros to 1.5 million euros, in the reference period – by 13 thousand euros to 840 thousand euros. Within 6 months, long-term loan was repaid in the amount of 49 (H1 2010: 187) thousand euros and principal payments of financial lease were made in the amount of 138 (H1 2010: 147) thousand euros.

PKC Group Oyj paid dividends in the amount of 795 thousand euros, which was by 235 thousand euros more than in the reference period. At the same time, a total of 590 thousand euros was received from selling financial investments in the previous period. The Group paid the owners dividends in the sum of 1,051 thousand euros, within the comparable period 902 thousand euros.

During the first six months, cash and cash equivalents decreased by 1,919 thousand euros to 478 thousand euros. The cash outflow from business was 411 thousand euros, from investing activities 559 thousand euros and from financing activities 949 thousand euros. Within the comparable period cash and its equivalents decreased by 1,085 thousand euros to 1,193 thousand euros. Cash outflow from business was 481 thousand euros and from investing activities 1,223 thousand euros; cash inflow from financing activity was 619 thousand euros.

Shares of Harju Elekter

EUR	1-6/2011	1-6/2010	1-12/ 2010
Number of the shares, (1000 pc)	16,800	16,800	16,800
Nominal value	0.70	0.64	0.64
High price	3.54	2.73	3.14
Low price	2.66	2.02	2.02
Closing price	2.66	2.28	3.02
Market value (in million)	44.7	38.3	50.7
EPS	0.07	0.07	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 connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, the Supervisory Board assigned a one-member Management Board for the next three-year period, at its meeting on 4 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman.

At the same meeting, the Supervisory Board also removed Lembit Libe and Karin Padjus from their positions as Members of the Management Board. They will continue in their former positions in the company as chief economist and financial director, respectively. The changes effected on 12 May 2011.

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. The manager is entitled to receive a severance payment in the amount of 12 months' remuneration of a member of the management board.

The amount of remuneration and salaries paid to the member of the Supervisory and Management Boards of AS Harju Elekter in H1 2011 amounted to a total of 131.9 thousand euros and in the comparable period 115.4 thousand euros. No other transactions were made with members of the Group's directing bodies and the persons connected with them.

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 29th 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, as well as due to the introduction of the euro the conversion of the share capital and the nominal value of shares into euro, and the corresponding changes in the Articles of Association. 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 paid to the shareholders on 24 May 2011.

Key indicators

Accounting period EUR (in thousands)	Q2		6 months		year
	2011	2010	2011	2010	2010
Net sales	11,112	8,338	20,539	16,909	40,885
EBIDTA	898	526	1,397	946	2,898
Operating profit	540	178	700	250	1,519
Net profit for the current period	1,164	640	1,329	1,163	2,295
Incl. equity holders of the parents	1,077	588	1,258	1,160	2,173

At the end of the period	Structure (%)			EUR (in thousands)		
	30.06. 2011	31.12. 2010	30.06. 2010	30.06. 2011	31.12. 2010	30.06. 2010
Total current assets	26.7	26.2	27.2	15,239	14,413	12,881
Total non-current assets	73.3	73.8	72.8	41,839	40,701	34,465
Total assets	100.0	100.0	100.0	57,078	55,114	47,346
Total liabilities	19.1	17.4	20.0	10,896	9,568	9,485
Total equity	80.9	82.6	80.0	46,182	45,546	37,861
Inclusive equity attributable to equity holders of the parent	78.1	79.8	76.9	44,565	43,957	36,402

Growth (%)	Q 2		6 months		year
	2011	2010	2011	2010	2010
Turnover	33.3	-24.1	21.5	-25.2	1.1
EBITDA	70.6	-44.4	47.6	-43.3	-6.0
Operating profit (EBIT)	203.7	-71.7	180.0	-75.9	-16.1
Net profit for the current period	82.0	19.5	14.2	64.5	65.6
incl. equity holders of the parent	83.1	30.2	8.4	87.1	76.9

Performance indicators (%)

Return of sales before depreciation	8.1	6.3	6.8	5.6	7.1
Return of sales (operating profit/turnover *100)	4.9	2.1	3.4	1.5	3.7
Net profit margin (net profit/turnover *100)	10.5	7.7	6.5	6.9	5.6

Employees

Average number of employees	421	423	419	427	424
Number of employees in the end of the period	457	446	457	446	440

INTERIM FINANCIAL STATEMENTS**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	EUR (in thousands)		
		30.06.2011	31.12.2010	30.06.2010
Current assets				
Cash and cash equivalents		478	2,400	1,193
Trade receivables and other receivables		6,957	6,479	5,497
Prepayments		109	123	92
Income tax prepayments		27	0	38
Inventories		7,668	5,411	6,061
Total current assets		15,239	14,413	12,881
Non-current assets				
Investments in associate	2	789	680	676
Other long-term financial investments	2	21,847	21,539	15,057
Investment property	2	9,566	8,711	8,839
Property, plant and equipment	2	9,201	9,350	9,533
Intangible assets	2	436	421	360
Total non-current assets		41,839	40,701	34,465
TOTAL ASSETS		57,078	55,114	47,346
LIABILITIES AND EQUITY				
Liabilities				
Interest-bearing loans and borrowings	3	1,643	1,539	1,030
Trade payables and other payables		6,377	5,178	5,596
Tax liabilities		930	915	554
Income tax liabilities		11	19	40
Short-term provision		66	79	73
Deferred income		0	0	29
Total current liabilities		9,027	7,730	7,322
Interest-bearing loans and borrowings	3	1,839	1,828	2,163
Other non-current liabilities		30	10	0
Non-current liabilities		1,869	1,838	2,163
Total liabilities		10,896	9,568	9,485
Equity				
Share capital		11,760	10,737	10,737
Share premium		0	384	384
Reserves	4	21,701	21,396	14,907
Retained earnings		11,104	11,440	10,374
Total equity attributable to equity holders of the parent		44,565	43,957	36,402
Non-controlling interests		1,617	1,589	1,459
Total equity		46,182	45,546	37,861
TOTAL LIABILITIES AND EQUITY		57,078	55,114	47,346

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR (in thousands)	Note	1 April - 30 June 2011	1 April - 30 June 2010	1 January - 30 June 2011	1 January - 30 June 2010
Revenue	5	11,112	8,338	20,539	16,909
Cost of sales		-9,183	-7,079	-17,208	-14,488
Gross profit		1,929	1,259	3,331	2,421
Distribution costs		-542	-436	-1,035	-841
Administrative expenses		-819	-641	-1,561	-1,334
Other income		4	5	5	24
Other expenses		-32	-9	-40	-20
Operating profit	5	540	178	700	250
Net financing income/costs	6	781	552	775	1,069
Share of profit of equity-accounted investees	2	79	102	109	57
Profit before tax		1,400	832	1,584	1,376
Income tax expense		-236	-192	-255	-213
Profit for the period		1,164	640	1,329	1,163
Other comprehensive income					
Net change in fair value of available-for-sale financial assets		196	195	308	5,795
Realised gain from sale of financial assets (-)		0	0	0	-459
Currency translation differences		-3	0	-3	0
Other comprehensive income for year, net of tax		193	195	305	5,336
Total comprehensive income for the period		1,357	835	1,634	6,499
Profit attributable to:					
Owners of the Company		1,077	588	1,258	1,160
Non-controlling interests		87	52	71	3
Profit for the period		1,164	640	1,329	1,163
Total comprehensive income attributable to:					
Owners of the Company		1,270	783	1,563	6,496
Non-controlling interests		87	52	71	3
Total comprehensive income for the period		1,357	835	1,634	6,499
Earnings per share					
Basic earnings per share (EUR)	7	0.06	0.03	0.07	0.07
Diluted earnings per share (EUR)	7	0.06	0.03	0.07	0.07

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 30 June	Note	EUR (in thousands)	
		2011	2010
Cash flows from operating activities			
Operating profit	5	700	250
<u>Adjustments for:</u>			
Depreciation and amortisation	2	697	696
Share-based payment transactions		53	53
Change in receivables related to operating activity		-470	-937
Change in inventories		-2,257	-990
Change in payables related to operating activity		1,185	736
Effect of exchange rate fluctuations on cash held	6	-2	-2
Corporate income tax paid	8	-290	-255
Interest paid	8	-27	-32
Net cash from operating activities		-411	-481
Cash flows from investing activities			
Acquisition of investment property	8	-1,053	-375
Acquisition of property, plant and equipment	8	-280	-146
Acquisition of intangible assets	8	-28	-31
Proceeds from sale of other financial investments		0	590
Interest received	6	7	21
Dividends received		795	560
Net cash used in investing activities		-559	619
Cash flows from financing activities			
Changes in short-term loans	3	289	13
Repayment of borrowings	3	-49	-187
Payment of finance lease principal	3	-138	-147
Dividends paid		-1,051	-902
Net cash used in financing activities		-949	-1,223
Net cash flows		-1,919	-1,085
Cash and cash equivalents at beginning of period		2,400	2,278
Net increase / decrease		-1,919	-1,085
Currency translation differences		-3	0
Cash and cash equivalents at end of period		478	1,193

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR (in thousands)	Attributable to equity holders of the parent					Non-control- ling interests	TOTAL
	Share capital	Share premium	Reserves	Retained earnings	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	1,160	1,160	3	1,163
Other comprehensive income	0	0	5,336	0	5,336	0	5,141
Comprehensive income for the period	0	0	5,336	1,160	6,496	3	6,499
Share-based payment transactions	0	0	0	53	53	0	53
Dividends			0	-859	-859	-43	-902
At 30.6.2010	10,737	384	14,907	10,374	36,402	1,459	37,861
At 31.12.2010	10,737	384	21,396	11,440	43,957	1,589	45,546
Profit for the period	0	0	0	1,258	1,258	71	1,329
Other comprehensive income	0	0	305	0	305	0	305
Comprehensive income for the period	0	0	305	1,258	1,563	71	1,634
Increase of share capital	1,023	-384	0	-639	0	0	0
Share-based payment transactions	0	0	0	53	53	0	53
Dividends	0	0	0	-1,008	-1,008	-43	-1,051
At 30.6.2011	11,760	0	21,701	11,104	44,565	1,617	46,182

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 30.6.2011 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 DrakaKeila 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 1-6/2011 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 – 30 June	EUR (in thousands)	
	2011	2010
Investments in associate		
At 1 January	680	619
Profit under the equity method	109	57
At the end of the period	789	676
Other long-term financial investments		
At 1 January	21,539	9,789
Sale of shares	0	-528
Changes in the fair value reserve	308	5,796
At the end of the period	21,847	15,057
Investment property		
At 1 January	8,711	8,768
Additions	1,057	245
Depreciation charge	-202	-174
At the end of the period	9,566	8,839
Property, plant and equipment		
At 1 January	9,350	7,962
Additions	294	2,051
Depreciation charge	-443	-480
At the end of the period	9,201	9,533
Intangible assets		
At 1 January	421	371
Additions	67	31
Depreciation charge	-52	-42
At the end of the period	436	360
Total non-current assets	41,839	34,465

Note 3 Interest-bearing loans and borrowings

EUR (in thousands)	30.06.2011	31.12.2010	30.06.2010
Liabilities			
Short-term bank loans	1,493	1,204	840
Current portion of long-term bank loans	16	65	48
Current portion of lease liabilities	134	270	142
Total current liabilities	1,643	1,539	1,030
Long-term bank loans	0	0	65
Lease liabilities	1,839	1,828	2,098
Total non-current liabilities	1,839	1,828	2,163
TOTAL	3,482	3,367	3,193

Changes during the period 1 January – 30 June

EUR (in thousands)	2011	2010
Loans and borrowings at the beginning of the year	3,367	1,609
Changes in short-term loans	289	13
Long-term loan repaid	-49	-187
New finance lease	13	1,905
Payment of finance lease principal	-138	-147
Loans and borrowings at the end of the current period	3,482	3,193

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	5,336	0	5,336
At 30.06.2010	1,073	13,834	0	14,907
At 31.12.2010	1,073	20,316	7	21,396
Other comprehensive income	0	308	-3	305
At 30.06.2011	1,073	20,624	4	21,701

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 UAB Rifas.

“*Real estate*”–Real estate development, maintenance and rental. Real estate has been identified as a reportable segment because its result and assets are more than 10% of the total result and assets of all segments.

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

For the period 1 January – 30 June

EUR (in thousands) 2010	Manu- facturing	Real estate	Un- allocated activities	Elimi- nations	Consoli- dated
Revenue from external customers	14,731	1,278	900	0	16,909
Inter-segment revenue	103	490	170	-763	0
Total revenue	14,834	1,768	1,070	-763	16,909
Operating profit	-338	633	-19	-26	250
Segment assets	21,451	9,439	1,399	0	32,289
Indivisible assets					15,057
Total assets					47,346
2011					
Revenue from external customers	18,207	1,276	1,056	0	20,539
Inter-segment revenue	164	493	147	-804	0
Total revenue	18,371	1,769	1,203	-804	20,539
Operating profit	296	603	-142	-57	700
Segment assets	23,721	9,905	2,124	-455	35,295
Indivisible assets					21,783
Total assets					57,078

Revenue by markets:

For the period EUR (in thousands)	1 January – 30 June	
	2011	2010
Estonia	7,610	5,857
Finland	9,287	6,366
Lithuania	1,940	1,952
Ohter EU countries	418	1,864
Non-EU countries	1,284	870
Total	20,539	16,909

Revenue by business area:

For the period EUR (in thousands)	1 January – 30 June	
	2011	2010
Electrical equipment	16,365	13,162
Sheet metal products and services	500	592
Boxes for telecom sector and services	427	420
Intermediary sale of electrical products and components	1,793	1,209
Commerce and mediation of services	268	313
Rental income	1,033	1,018
Other services	153	195
Total	20,539	16,909

Note 6 Net financing income/costs

For the period EUR (in thousands)	1 January – 30 June	
	2011	2010
Interest income	7	21
Interest expense	-25	-32
Dividend income	795	560
Net loss from foreign exchange differences	-2	-2
<i>Marketable investments:</i>		
Income from sale of investments	0	522
TOTAL	775	1,069

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 30.6.2011 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.

The average market price of the share of 1-6/2011 was 3.11 (1-6/2010: 2.49) euros and in the second quarter it was 2.96 (Q2/2010: 2.44) euros. The issue of shares would account for 954 thousand euros. In order to obtain the same amount 306.4 thousand (954/3.11) new shares at the average market price of 6 months would be issued and 322.0 thousand new shares at the average market price of the reporting quarter would be issued. The difference between the number of dilutive potential shares and the number of shares issued at the market price which is 272.0 thousand shares (578.4-306.4) in H1 2011 and 256.4 thousand shares (578.4-322.0) in the reporting quarter could be interpreted as shares granted free of charge and the average number of shares has been adjusted by that number.

For the period 1 January – 30 June	Unit	2011	2010
Profit attributable to equity holders of the parent	EUR'000	1,258	1,160
Average number of shares outstanding	Pc'000	16,800	16,800
Basic earnings per share	EUR	0.07	0.07
Adjusted number of shares during the period	Pc'000	17,072	16,995
Diluted earnings per share	EUR	0.07	0.07
For the period 1 April - 30 June			
Profit attributable to equity holders of the parent	EUR'000	1,077	588
Average number of shares outstanding	Pc'000	16,800	16,800
Basic earnings per share	EUR	0.06	0.03
Adjusted number of shares during the period	Pc'000	17,056	16,987
Diluted earnings per share	EUR	0.06	0.03

Note 8 Cash flow statement line items

For the period		1 January – 30 June	
EUR (in thousands)	Note	2011	2010
Corporate income tax paid			
Income tax expense		-255	-213
Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+)		-35	-42
Corporate income tax paid		-290	-255
Interest paid			
Interest expense		-25	-32
Liability decrease incurred by purchase		-2	0
Interest paid		-27	-32
Paid for investment property			
Additions of investment property	2	-1,057	-245
Liability decrease (-)/ increase (+) incurred by purchase		4	-130
Acquisition of investment property		-1,053	-375
Paid for property plant and equipment			
Additions of property plant and equipment	2	-294	-2,051
Acquired with finance lease		13	1,905
Liability decrease (-)/ increase (+) incurred by purchase		1	0
Acquisition of property plant and equipment		-280	-146
Paid for intangible assets			
Additions of intangible assets	2	-67	-31
Liability decrease (-)/ increase (+) incurred by purchase		39	0
Acquisition of intangible assets		-28	-31

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 EUR (in thousands)	1 January – 30 June	
	2011	2010
Purchase of goods and services from related parties:		
- from associates	200	88
- from Harju KEK	35	36
TOTAL	235	124
<i>Inclusive:</i>		
- goods and materials for manufacturing	200	88
- lease of property, plant and equipment	33	33
- other	2	3
 Sale of goods and services to related parties:		
- to associates	386	182
- to Harju KEK	2	1
TOTAL	388	183
<i>Inclusive:</i>		
- goods and materials for manufacturing	20	13
- lease of property, plant and equipment	343	142
- other	25	28
 Balances with related parties at 30 June		
Receivables with associates: goods and services	213	240
Payables with associates: goods and services	75	21

Statement of Management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim financial statements of 1-6/2011 as set out on pages 3 to 20 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
Member of the Board

„3rd“ of August 2011