

2

0

0

8

Annual Report



INFORMATION TO THE SHAREHOLDERS

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Harju Elekter will take place on April 23 2009, at 10 a.m. at the hall of the Keila Culture Centre, Keskväljak 12, Keila.

The shareholders who are listed in the shareholders' register of Harju Elekter kept by the Central Securities Depository as of April 13, 2009 at 11.59 p.m. are entitled to participate in the AGM.

DIVIDENDS

Following the good economic results, capitalisation and positive growth perspectives, while taking into account the current economic situation, the Management Board of Harju Elekter makes a proposal to pay a dividend of EEK 1.00 per share for the financial year 2008. The list of shareholders who are entitled to dividends will be closed on May 8, 2009 at 11.59. p.m. The dividends will be transferred to the bank accounts of shareholders on May 20, 2009.

THE PUBLICATION OF FINANCIAL REPORTS IN 2009

Harju Elekter will publish its quarterly financial reports in 2009 as follows:

Interim report 1-3/2009	on the week 19
Interim report 1-6/2009	on the week 32
Interim report 1-9/2009	on the week 45

The financial reports will be published in Estonian and in English and will be available with stock exchange announcements on the Harju Elekter home page address: <http://www.harjuelekter.ee>

Contact for investors:

Moonika Vetevool

Corporate communication manager

Phone +372 671 2761

Fax +372 674 7401

moonika.vetevool@he.ee

AS Harju Elekter, Paldiski mnt 31, 76606 Keila, Estonia

CONTENTS

Year 2008	4
Address by the Chairman of the Supervisory Board	6
Address by the Chairman of the Management Board	7
Organisation	8
MANAGEMENT REPORT	
Overview of the Economic Environment	9
Business Results	10
Investments and Development	22
Personnel	23
Risk Management	25
Quality Management and Environmental Policy	26
Shareholders and Shares	27
Social Responsibility and Charity	28
Supervisory Board, Management Board and Auditors	29
Corporate Target for 2009	
Corporate Governance	30
ANNUAL FINANCIAL STATEMENTS	
Statement of Management Responsibility	33
Consolidated Balance Sheet	34
Consolidated Income Statement	35
Consolidated Statement of Cash Flows	36
Consolidated Statement of Changes in Equity	37
Notes to the Consolidated Financial Statements	38
Signatures to the Annual Report of 2008	76
Auditor's Report	77
Profit Allocation Proposal	78
Information about the Supervisory and Management Boards	79
Statistical Summary	81

YEAR 2008

A subsidiary of Harju Elekter, AS Harju Elekter Elektrotehnika, won a tender announced by OÜ Jaotusvõrk, a subsidiary of Eesti Energia, for the purchase of integrated substations, as a result of which a three year supply contract was entered into in June with an estimated value of 300 million kroons. According to the contract, over the next three years Harju Elekter Elektrotehnika will supply OÜ Jaotusvõrk with an average of 400 factory-manufactured integrated 1- or 2-transformer substations each year for the Estonian market.

The implementation of integrated management software (Siemens PCS7) developed by the engineers of the Finnish subsidiary, Satmatic Oy, for the mineral wool plant in Poland, was completed. In addition to process management software, Satmatic supplied and installed various types of electrical equipment in the plant during the project. The total cost of the project was 1 million euros.

Due to an increase in orders and production volumes, the management of the group decided to expand the production area of Satmatic Oy. In November, a contract was signed with the city government of Ulvila and the city government's operator Kiinteistö Oy Sammontie 9 in Ulvila to increase the production area by almost 2,000 sq m. After the completion of the new premises, the total production area of the plant will be 4,215 sq m.

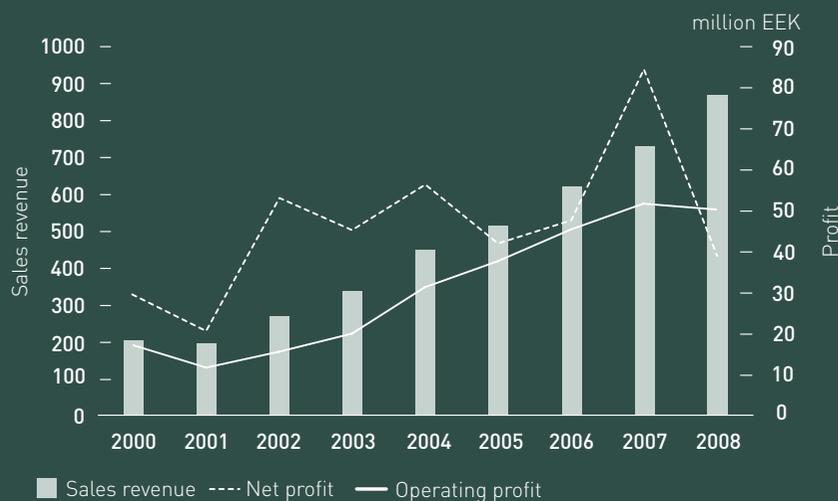
In the last few years, the sales volume of Harju Elekter Elektrotehnika has increased by an average of 16% a year. In order to ensure production capacities and fulfil sales orders on time, the group decided to expand the production area of Harju Elekter Elektrotehnika by 1,500 sq m. After the completion of the new premises in the first quarter of 2009, the total area of production and office premises used by the company will be 10,300 sq m.

Due to the present economic situation as well as the relatively small market in Estonia the management of the group, for economic considerations, decided to close the retail shops in Pärnu and Jõhvi by the end of the year. In future, customers in Pärnu will be served by the Keila electric supplies store and customers in Ida-Viru County by the store located in Tallinn.

In August, UAB Rifas, the Lithuanian subsidiary, opened a new production and office building in Panevėžys, the construction of which was commenced in the first half of 2007. The total cost of the project was 12.5 million kroons.

The achievements of UAB Rifas during the last few years in improving the product range, expanding the production area and modernizing the installation were recognised by the local government of Panevėžys which named Rifas as the most innovative company in the region.

SALES REVENUE, NET AND OPERATING PROFITS



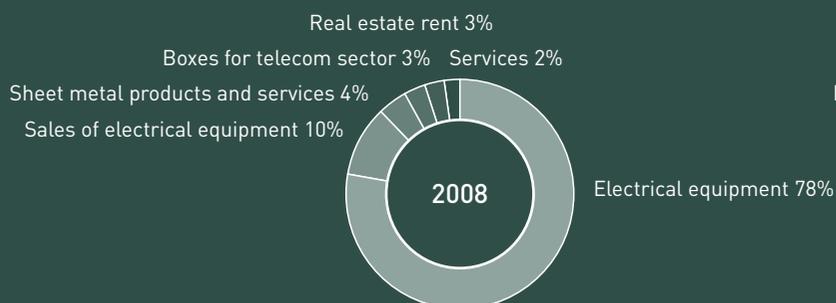
In September, Harju Elekter celebrated its 40th anniversary. Due to right decisions and constant development Harju Elekter has become the leading producer of electrical equipment and materials in the Baltic states.

The annual general meeting of shareholders approved the annual report and profit allocation of Harju Elekter, including a dividend distribution of 2 kroons per share, i.e. a total of 33.6 million kroons, based on the good economic results of 2007.

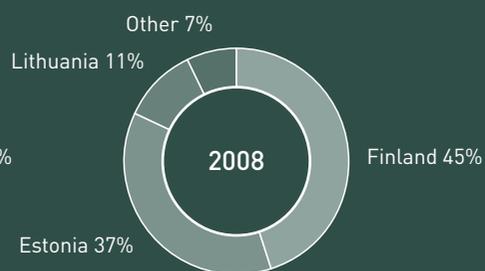
KEY FIGURES	2008	2007	2008/2007 change
(in million kroons)			
Sales revenue	871.6	732.0	19.1%
Operating profit	50.1	51.5	-2.8%
Net profit	38.6	84.5	-54.3%
EEK			
Shareholder's equity per share	23.64	33.89	
EPS	2.29	5.03	
Dividend per share	*1.00	2.00	* management proposal
Return on sales	5.7%	7.0%	
Net profit margin	4.4%	11.5%	
ROA	5.8%	11.4%	
ROE	8.3%	14.8%	
Equity ratio	66.0%	74.0%	
Number of employees at the end of the period	515	486	

* More detailed financial overview is available on page 81.

REVENUE BY BUSINESS AREA



REVENUE BY MARKET





THE SECURITY OF OUR FUTURE LIES IN INDUSTRIAL STRENGTH

Last autumn, we celebrated the 40 year anniversary of the beginning of the production of electrical equipment and materials in Keila

I am proud to say that whatever the system of government we have been able to develop and manufacture products the marketing of which has always proceeded without major difficulties. Today, however, after such an intensive growth period, we are forced to face the world wide recession and accompanying crisis in trust. However, it is not the first time either for me personally or for the entire company that we have had to look for new opportunities due to difficult times. In a way, recession regulates the market; it makes strong companies even stronger and paves the way for their future development. I consider Harju Elekter Group and its team to be on the 'winning side'. Our main chance lies in increasing our exports. Our products are of world-class quality but it is now more important than ever to focus on sales. I can assure you that Harju Elekter has emerged from every downtrend stronger and more viable.

Generally speaking, I do not support the widespread notion of today that expenditure should be cut at any cost because, although when talking about economic development, a reasonable cutting of costs is necessary, it is not the only remedy. Managers of enterprises should rather struggle to increase turnover and avoid decreases in production which, in turn, can only result in a decrease in the revenues of enterprises as well as the state. Similarly, I am not in favour of budgetary cuts that do not help economic development in any way and, in fact, have a contrary effect instead. I believe it is essential to quickly make available and allocate earmarked European funds and that by no means should investments in energy and infrastructure be cut. The issue of government bonds and reintroduction of a corporation tax should be considered in order to channel tax revenues directly into the Estonian economy. I am convinced that as a result of such actions not a single local enterprise would close its doors and that we would not lose foreign investments – on the contrary, the state as well as the Estonian people would gain a lot from this. Although capital has no nationality, the owners of capital have. And there is a big difference between being a master or a servant in your own homeland.

Throughout the years Harju Elekter has invested in its production capacity – technology, personnel and production premises – in order to constantly improve and increase its efficiency and thus guarantee its sustainability. Today, Harju Elekter is a strong manufacturing enterprise that has a solid basis to take advantage of the rise in economic activity which will no doubt follow the current downturn.

Endel Palla
Chairman of the Supervisory Board



INNOVATION AND FLEXIBILITY CREATE NEW POSSIBILITIES

In 2008, in spite of the world economic recession, Harju Elekter Group managed to increase its return on sales by 19.1% to a total amount of 871.6 million kroons and achieve an operating profit of 50.1 million kroons - comparable to that of the previous year. The greatest contribution to growth was made by Harju Elekter Elektrotehnika, Satmatic and Rifas, all of which are involved in the main activity of the group - the production and sales of electrical equipment. Although the year was not an easy one, as markets demonstrated more caution and were more demanding than ever before, we managed to accumulate enough energy and potential to survive the forthcoming difficult times with as small losses as possible owing to the effective sales work, development and opportunities created by the Group. According to the management the Group responded to changing circumstances rapidly and made shrewd business deals which have showed good economic results in the circumstances.

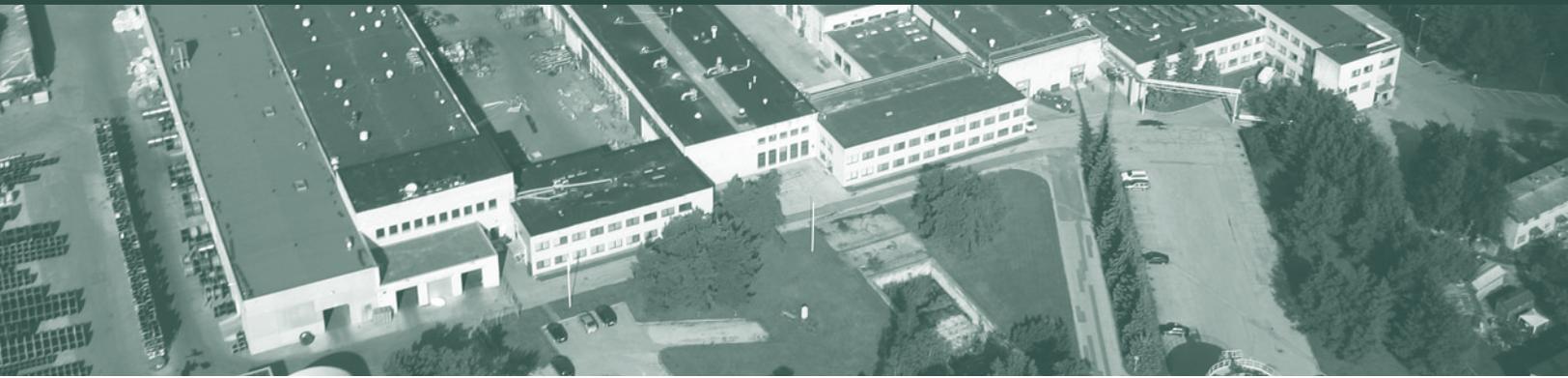
There are times and situations we can do nothing about but then there are situations in which we both can and are even obliged to change. Despite the present downtrend, the magnitude and duration of which is unpredictable even for the best analysts, we see new opportunities. The key issue here is if, and how, we take advantage of these opportunities. We must be cost effective but also ready to invest. We must have development potential and remain far sighted. Thanks to our accumulated resources, skills and experience we are able to operate economically, and thus lay the foundation for new growth. Today the conditions for investing in the expansion of an enterprise are more favourable than they were a year ago or will be in two years time. Whereas in 2008 we invested in the expansion of the production premises and technology of our Estonian enterprises in 2009 we will do the same with our Lithuanian and Finnish enterprises. The success in winning the public procurement tender for the supply of substations and their associated equipment was also an incentive in creating the conditions and opportunities to meet the expectations of our clients. I am pleased to say that such investments support our clients' notion of co-operation in Estonia as well as abroad.

Another key issue is the innovation of our activities. For Harju Elekter Group innovation is not only a technical notion but it means innovative approaches in every field. For us, it means new opportunities in our way of thinking as well as our actions and it gives us courage to make changes and find extraordinary solutions. We encourage the key players in the group, as well as our entire staff, to think and act accordingly. A good example of this is the development and introduction of the new management and accounting software for the Estonian enterprises. We see this as an indispensable tool in the efficient performance of our future tasks. Whereas export development has been an important issue for decades; in 2009 it has now become our priority.

We value our three main partners but, first of all, we would like to thank our clients for their trust and inspiration. We cherish our workers, recognizing not only their contribution and trust but also their display of the readiness and understanding necessary for surviving the difficult times together. And finally, we would like to thank our shareholders who continue to appreciate the assets, opportunities and potential of Harju Elekter.

I wish you all the courage to maintain our vision.

Andres Allikmäe
Chairman of the Management Board



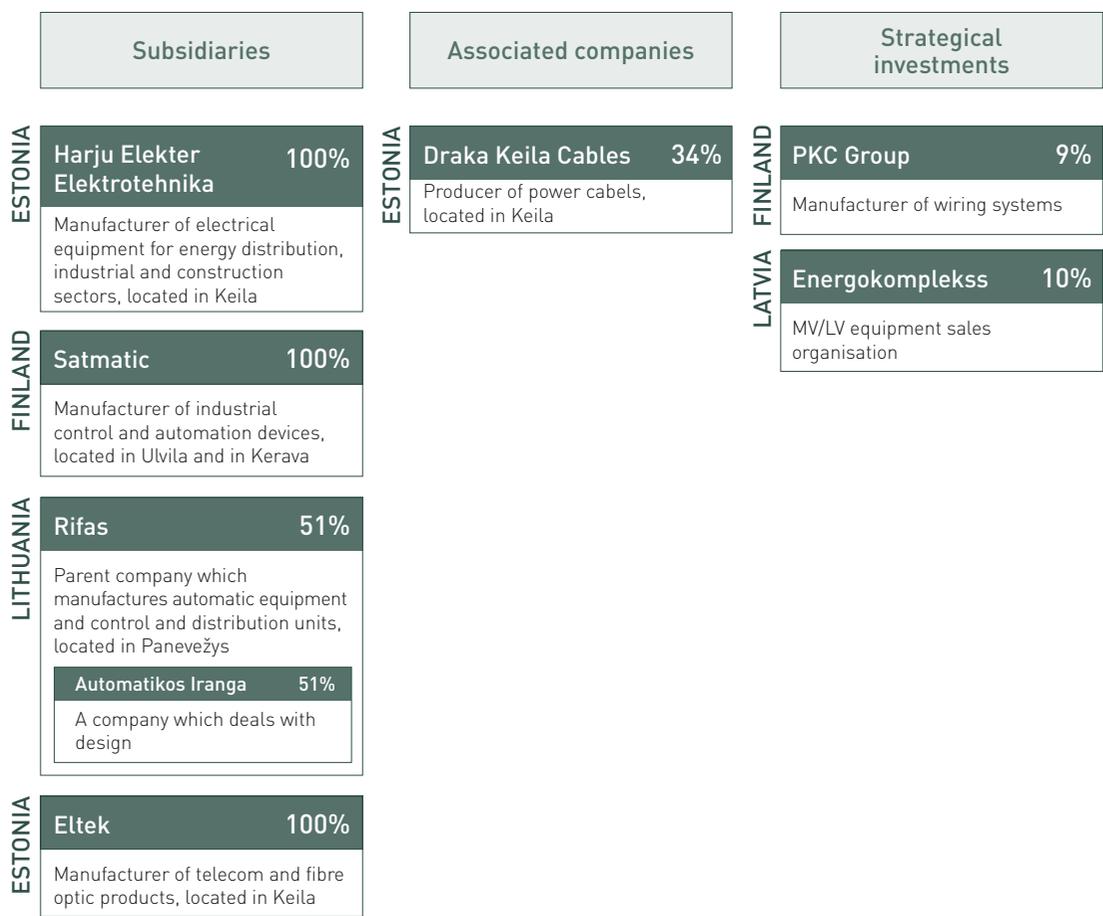
MISSION

To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to customers' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

GOAL

To be successful over a long period of time, to increase the company's capital and generate revenue for the owners, as well as the partners, and to provide motivating work, income and development opportunities for the employees.

AS HARJU ELEKTER



Management report

OVERVIEW OF THE ECONOMIC ENVIRONMENT

In 2008, the cooling of the world economy became both more rapid and deeper. For financial markets, September 2008 was at least as dramatic as August 2007. The bankruptcy of Lehman Brothers, the takeover of Merrill Lynch by the Bank of America and the nationalisation of the AIG insurance company showed that the financial crises brought about by sub-prime loans was not yet over. Even today the depth and duration of the crisis are not yet clear and no one knows for sure if, or when, the coordinated efforts for strengthening global economies will begin to have some effect. Developments in financial markets have mainly influenced the economies of the USA and Great Britain. Of the developing countries Russia is most exposed to negative risks as its economic development depends greatly on the prices of raw materials (especially oil). Because of the uncertainty and distrust in financial markets interest rates remained high until the end of the year when central banks started to decrease the rates. If the debt burden of the US government increases, the dollar might weaken still. A more positive trend was in the widespread decrease of inflation.

Analysts believe that the possibilities for economic growth (recuperation from the present recession) in 2009 are non-existent as it will take more time for the present trend to reverse. The estimated average real growth of GDP will be 0.1%.

BALTIC STATES

The economies of the Baltic states which demonstrated such rapid growth after their accession to the EU supported by the increase of foreign investments and the growth in the real estate sector started to cool off even before the world economic and financial crisis. The world wide negative trends had a strong influence on the economies of small countries. A significant decrease in foreign demand and an increase of risk margins made the continuing growth trend impossible as the world economic and financial crisis strongly influenced the foreign trade partners of the Baltic States. In 2008, the economy decreased by 3.6% in Estonia and 4.6% in Latvia, whereas Lithuania demonstrated a growth rate of 3.1%.

The crisis in confidence and high interest rates brought about limitations on offering loans, which, in turn, resulted in the decrease in investment and domestic consumption. The rise in unemployment and rapid slowdown in the increase in salaries were noticeable in the last quarter of the year. Despite the unfavourable developments in external markets the increase in exports held relatively firm thanks to the competitive advantage of the Baltic states region. Decrease in domestic demand resulted in a rapid decrease in imports, which brought about a lower current account deficit and price stability as well as a decrease in the inflation rate. This latter statistic once again brought up the issue concerning the introduction of the Euro.

Although the short-time economic prospects in the Baltic states are rather gloomy, analysts are of the opinion that future economic development depends on the strength of the economies of the separate countries. When preparing for a new growth period the Estonian economy is supported by its solid foundation of a firm banking system and a flexible business environment and labour market as well as the budgetary reserves accumulated over the years. The primary preconditions for new investments are the structural strength of the economy, the reliability of the monetary system and a stable tax system. In addition, enterprises need the support of the banking sector and loan resources. The recovery in Estonian economic growth depends, above all, on the growth of the international economy.

Despite the unfavourable developments in external markets the increase in exports held relatively firm thanks to the competitive advantage of the Baltic states region

FINLAND

During the last few years the Finnish economy has done relatively well as the GDP has grown, inflation has been low, employment has increased and the fiscal position has been reliable. Although Finland is among the countries with the most rapidly developing economy within the Euro zone, the growth of uncertainty and risks in the world will not pass unnoticed. In 2008, economic growth in Finland was 0.9%. The problems still encountered include a structural labour shortage which, with unemployment remaining relatively high despite the growth in employment, reveals the lack of flexibility in the labour market. The growth in employment together with the increase in income supported the increase in private consumption, keeping domestic demand high. At the end of the year inflation started to decrease. Investment in real estate has decreased, although the growth rate in prices had already started to slow down in 2007.

RUSSIA

In 2008, the Russian economy grew by 7.0% which is a bit less than in the previous year (7.7%). As from July the situation on Russian financial markets has been depressed because of the drop in raw material prices, uncertainty in the steel industry, the war with Georgia and problems in financial markets. As a result the Russian stock market has dropped rapidly – the Russian RTS index has fallen by 57% from its highest level in May. Investor uncertainty has resulted in an outflow of capital. Russia's national currency, the rouble, also weakened against other currencies during the year. Inflation has increased due to the initial very rapid increase in raw material prices followed by a rapid fall and feeble budgetary policy. This is one of the reasons why in the near future unfavourable economic developments are expected to continue in Russia.

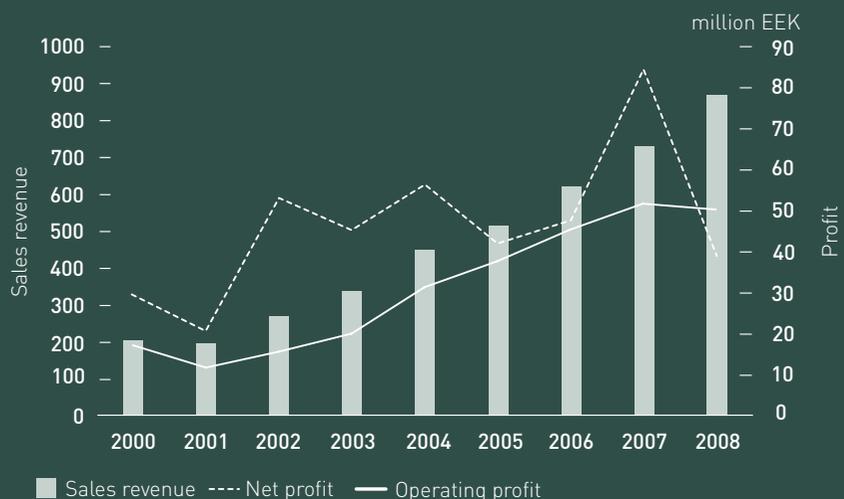
BUSINESS RESULTS

In the annual report of 2008 the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy and UAB Rifas (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

AS Harju Elekter owns 8.9% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and presented in the balance sheet at their market price. The profit/loss caused by the changes in the market price of shares is included directly in the owners' equity. The changes in the market price of shares can have a substantial effect on the value of assets and the owners' equity in the Group. In 2007, the Group sold 220 thousand shares in this company reducing its overall share from 10.1% (31.12.2006) to 8.9% and this had a considerable effect on the consolidated net profit. However no shares were sold in 2008.

In 2008, the consolidated sales revenues of the Group increased by 19.1% amounting to 871.6 million kroons. Revenue growth was supported by good salesmanship and successfully executed large-scale orders which needed both competence and the appropriate production resources. The largest share of sales revenues – 88.3% (83.3%) – was traditionally due to production. As for markets, once again the Group's home markets – mainly Estonia and Finland – were dominant in 2008 as 82% (80%)

SALES REVENUE, NET AND OPERATING PROFITS



In 2008, the consolidated sales revenues of the Group increased by 19.1% amounting to 871.6 million kroons

of the goods and services were sold there. The Lithuanian and Finnish companies of the Group made the largest contribution to the growth of the Group's sales revenues in 2008. The sales by Lithuanian companies to customers, other than those belonging within the Group, increased by 51 million kroons, amounting to 128 million kroons and sales by Finnish companies increased by 108 million kroons, amounting to 355 million kroons.

The cost of sales and services increased 23.2% in the year, amounting to 733.5 million kroons, distribution costs increased by 5.3%, amounting to 38.8 million kroons and administrative expenses increased by 2.1%, amounting to 48.8 million kroons. Due to the increase in the number of employees the labour costs increased during the year by 8.2%, amounting to 172.2 million kroons. An amortisation of assets in the amount of 18.9 (in 2007: 19.4) million kroons, was recognised in costs.

During the financial year, the profitability of the Group was most affected by an increase in competition, which resulted in pressure on sales prices, and a price drop that brought about the markdown in the value of stock reserves in the last quarter of the year. The worsening in the customers' payments situation due to non-settlement of invoiced accounts also had an effect, resulting in bad debts being higher than usual in the financial year and amounting to 1.1 (in 2007: 0.1) million kroons being written down and discounted.

Despite the economic recession the operating profit of the Group remained close to the previous year's level, amounting to 50.1 million kroons, showing a 2.8% decrease. The business profitability of the financial year was 5.7% (in 2007: 7.0%).

The net profit of the Group was most affected by the financial income earned on financial investments. In 2007, a one-time income in the amount of 32.8 million kroons was earned from the sale of financial investments. No financial assets were disposed of during the financial year of 2008. The drop in the market prices of raw materials had the greatest effect on the economic results of the related company, AS Draka Keila Cables. The loss brought about by the reassessment of the value of the reserves and financial instruments was the reason for a consolidated loss of 4.1 million kroons (a profit in 2007: 73 thousand kroons) from the related company in 2008. As a result of the payment of dividends the Estonian companies paid income tax in the amount of 8.5 million kroons, which was 2.1 million kroons more than in 2007. In twelve months, the total income tax expenditure of the Group increased by 3.9 million kroons, amounting to 12.6 million kroons.

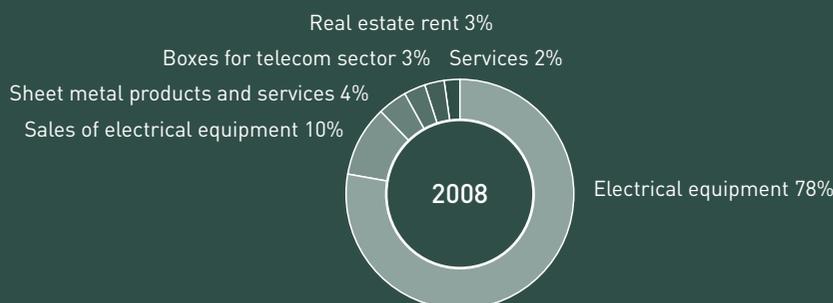
The total net profit of the Group in 2008 was 42.1 (in 2007: 85.9) million kroons, of which the share of the owners of the parent company was 38.6 (in 2007: 84.5) million kroons. The profit per share amounted to 2.29 (in 2007: 5.03) kroons.

The cash flow from operating activities totalled 45.0 (in 2007: 41.6) million kroons. The cash flow from investment activities was -12.9 million kroons while the cash flow from investment activities in the comparable period was 9.8 million kroons. The cash flow from financing activities was -34.9 (in 2007: -31.8) million kroons. In the twelve months cash and cash equivalents decreased by 2.8 million kroons to 23.4 million kroons whereas the increase in the comparable period of 2007 was 19.6 million kroons, amounting to 26.3 million kroons.

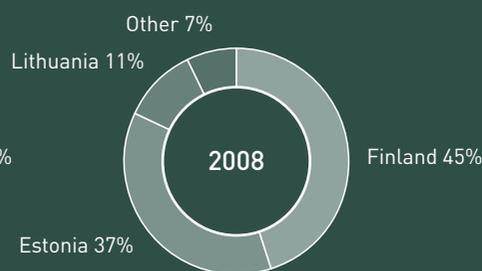
In the year the amount of the consolidated balance sheet decreased by 118.3 million kroons to 602.0 million kroons. The main reason for the decrease in assets was the change in the market price of the shares of PKC Group Oyj. The share price on the Helsinki Stock Exchange decreased during the twelve months by 5.7 euros (89.19 kroons). The difference resulting from reassessment of share values in the total of 140.9 million kroons was recognised directly in the equity as a decrease of reserves. 58.6% (31.12.2007: 66.5%) of the balance sheet total is accounted for by capital assets and 69.6% (31.12.2007: 76.6%) by equity capital.

The Lithuanian and Finnish companies of the Group made the largest contribution to the growth of the Group's sales revenues in 2008

REVENUE BY BUSINESS AREA



REVENUE BY MARKET



Geographical segments

The Group has chosen for accountancy purposes the geographical location of business as the primary segmentation. The operations of the Group fall into three geographical segments according to the location of business opportunities:

- ESTONIA – location of the parent company, AS Harju Elekter, and its subsidiaries AS Harju Elekter Elektrotehnika and AS Eltek
- FINLAND – location of the subsidiary, Satmatic Oy
- LITHUANIA – location of the subsidiary, Rifas UAB

In 2008 the Lithuanian and Finnish segments recorded respectively 64.5% and 43.8% rates of growth which were the largest in the Group



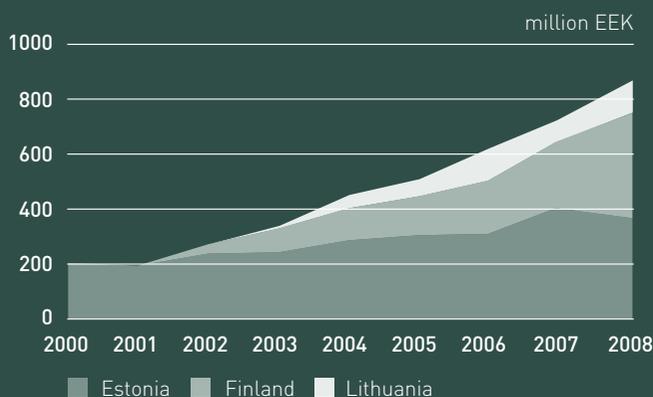
ESTONIA

In 2008, the Estonian segment sold to customers, other than those belonging within the Group, goods and services to a total of 388.7 million kroons, which was 19.6 million kroons less than the year before, while still accounting for 45% of the consolidated sales revenue. The drop of the real estate market has had some effect on the results of the Estonian segment.

Unlike other segments, a major part of the sales revenue of the Estonian segment is made up of the sales to other geographical segments. In the twelve months, the Estonian companies sold their products and services to the Finnish and Lithuanian companies of the Group for a total of 56.1 (in 2007: 25.8) million kroons, which is double that in 2007 and which, in turn, is reflected in the increase of the sales volumes of these segments.

In 2008, the sales revenue of the Estonian segment from clients not belonging within the Group as well as other segments increased by 2.5%, amounting to 444.8 million kroons, including sales to the home market which increased by 8.2%, amounting to 324.1 million kroons; to the Finnish market which increased by 60.8%, amounting to 103.9 million kroons and to the Lithuanian market

REVENUE BY GEOGRAPHICAL SEGMENT



REVENUE BY SEGMENT



Explanation: distribution of revenue of subsidiaries of the Group located in the three countries. Based on the location of the company.

which increased by 51.0%, amounting to 5.3 million kroons. In 2008 goods were sold to other markets for 11.2 million kroons, which was only 19% of the sales volume for 2007 which importantly, however, included a large order from Greece amounting to 50.6 million kroons.

AS HARJU ELEKTER

The main tasks of the management of the Group's parent company, AS Harju Elekter, include the coordination of co-operation within the Group, management of subsidiaries and related companies through their supervisory and management boards, management of the finances and investments of the Group and management of development and expansion activities. The parent company is also responsible for administrative and lease arrangements of production premises and for the professional operation of the corporate stores of Harju Elekter.

The changes in the real estate market in 2008 mainly influenced the parent company. The sales revenue of Harju Elekter was 115.0 (in 2007: 133.1) million kroons and from external customers amounted to 99.0 (in 2007: 117.5) million kroons. Most of the revenue i.e. over 59 (in 2007: 75) million kroons came from Harju Elekter's corporate stores. The wholesale volume by the trade group to small and medium-sized electrical installation companies decreased. Two stores were also closed in the last quarter. The toughening of the credit sales policy also played a certain role. In the year, the sales volume of the trade group decreased by almost 16 million kroons. The revenues gained from the renting of real estate and development were 49.6 million kroons, remaining at the same level as last year and giving 43% (in 2007: 37%) of the sales revenues of the parent company.

AS HARJU ELEKTER ELEKTROTEHNIKA

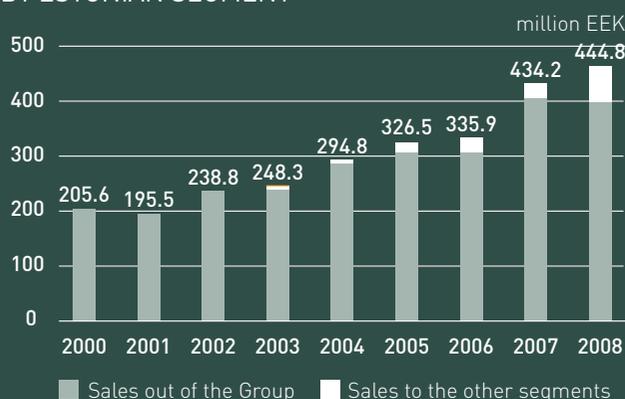
AS Harju Elekter Elektrotehnika (100% subsidiary) is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of Harju Elekter Elektrotehnika are located in Keila comprising 8,800 sq m of production, warehouse and office premises. The company employs 200 employees, 34 of whom work in sales and production development.

In spite of the varying economic environment, 2008 on the whole was a successful year. Sales revenue increased by almost 10%, amounting to 293.1 million kroons. The increase was accounted for by successfully executed large-scale orders mainly in the power distribution sector (MV/LV prefabricated and distribution substations) as well as by an increase in sales to other subsidiaries of the Group in Finland and Lithuania. Sales outside Estonia remained at the same level, amounting to 34% of the turnover.

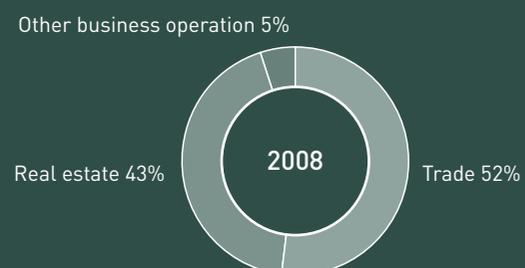
There were no considerable changes in the distribution of sales revenues between different product groups. Nevertheless, sales of equipment to the power distribution sector, which for years has accounted for over half of the sales revenues increased to 67% of the total in 2008 owing to the successful execution of orders placed. Among the most significant events was the sales contract with a subsidiary of Estonian Energy as well as several contracts for selling high nominal current MV/LV distribution systems. Almost 500 prefabricated and distribution substations were sold during the year - 370 of them to the domestic market. The sales of equipment for the industrial sector decreased from 26% connected with large-scale orders to the usual level of 9%. There were no major changes concerning products for the building and infrastructure sector.

In 2008, the development of the company continued together with the growing of competence aiming at the entry into large-scale and knowledge intensive projects. As a result of the efforts of the product development team two new prefabricated substations with sheet metal enclosure successfully passed testing standards and were awarded certificates for compliance. An air insulated medium voltage substation developed for foreign markets received positive feedback from clients. The company developed and

SALES REVENUE
BY ESTONIAN SEGMENT



REVENUE
OF THE PARENT COMPANY



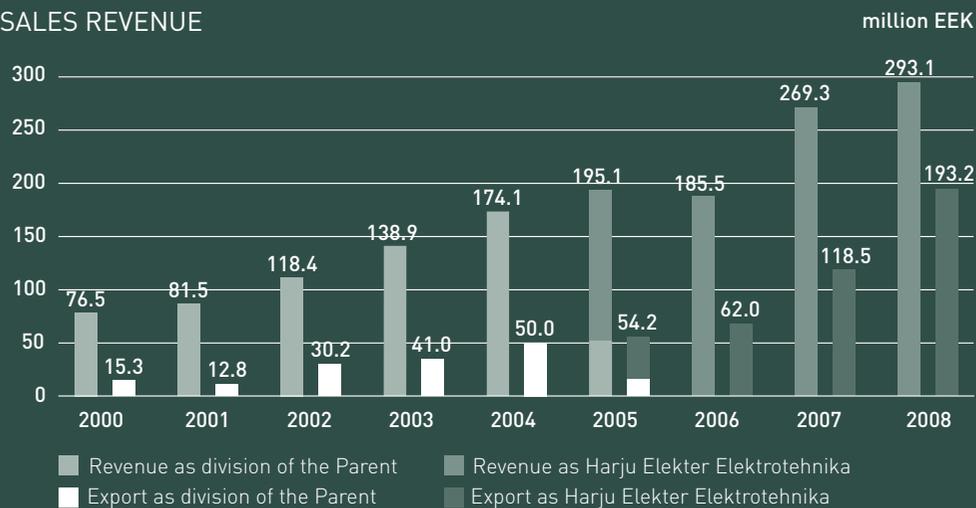
As a result of the efforts of the product development team two new prefabricated substations with sheet metal enclosure successfully passed testing standards and were awarded certificates for compliance

marketed a medium voltage distribution point as a novel product. Safe cable boxes with a high degree of protection that will be brought to market in 2009 were developed to meet the needs of the Scandinavian market. In co-operation with the shipping industry several new switchgears were designed and introduced that will help to speed up electrical installation works in shipyards. A low-current converter and communication box for information technology connections in buildings as well as a series of novel portable temporary boards for field applications were introduced into production.

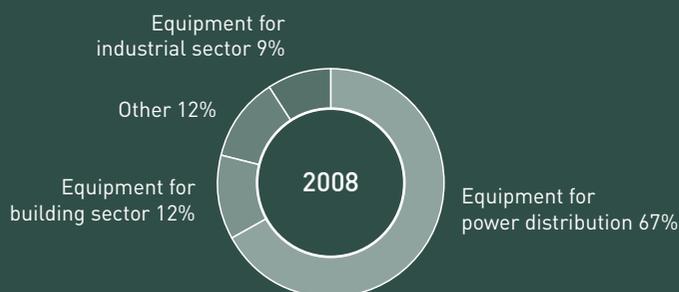
According to the requirements of quality standards ISO9001 and ISO14001 internal and external audits are carried out at least once a year and every three years a recertification by specialists from the international certification organisation BVQI takes place. The next recertification is scheduled to take place in 2010. Harju Elekter Elektrotehnika provided training for 10 of its employees who became internal auditors. 13 employees participated in environmental and quality standard training.

Year by year Harju Elekter Elektrotehnika has become more competitive in Estonian as well as other markets. Earnest efforts to expand the product portfolio have resulted in success in knowledge intensive projects. Considering the professional product portfolio, consistent investments, the increase in production capacity, the competence of employees as well as the good reputation of the company and the trust of clients it is safe to say that in 2009 we continue to look hopefully into the future.

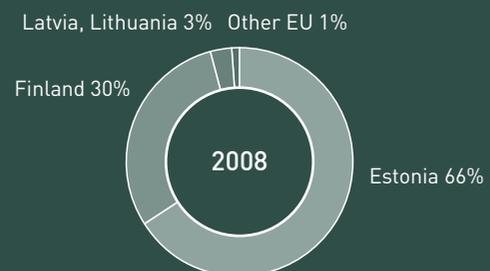
SALES REVENUE



PRODUCT GROUPS



REVENUE BY MARKET



AS ELTEK

The main activities of AS Eltek, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of sheet metal products and semi-manufactured articles are produced for the electrical engineering sector, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. In 2008, the mechanical division of the parent company, which executed special orders for companies in Keila Industrial Park, was affiliated with Eltek. The company also has licences for designing, installing and maintaining fire and security systems.

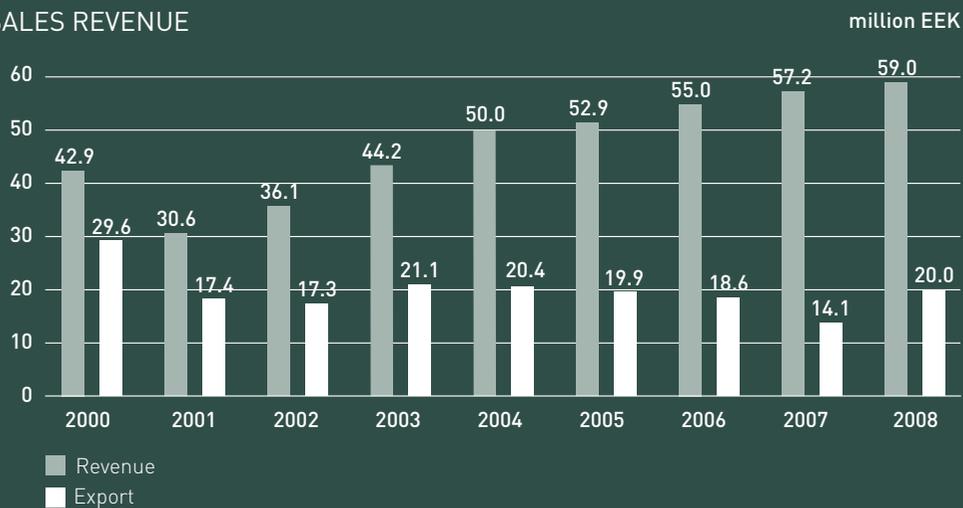
In 2008, sales revenues of Eltek amounted to 59.0 million kroons - of which sales outside Estonia amounted to 34%. Although Finland, Latvia and Lithuania were the largest external markets products were also supplied to Poland, Sweden, Germany and Russia. The increase in sales revenues was mainly related to the 1.6 times increase in the sales volumes of fibre optical products. The distribution of product groups did not change in comparison with the previous year.

In order to guarantee adequate and modern production resources the company has made significant investments both in production technology and production premises during the recent years. For expediting the production cycle and making it more flexible a combined sheet processing machine was purchased comprising stamping and laser cutting facilities. Up to a million kroons was invested in the equipment of the recently affiliated mechanical division. Smaller investments were also made in information technology and for supplementing the programmes of the metal processing centres.

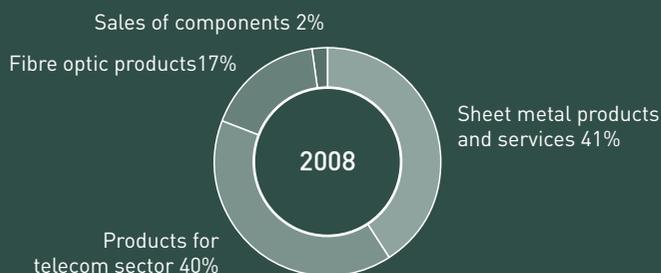
AS Eltek has introduced a quality and environmental management system corresponding to the requirements of international standards ISO9001:2000 and ISO14001:2004. At the beginning of 2008 specialists from the international certification organisation BVQI checked the company's compliance with the requirements of quality systems. The next recertification is scheduled to take place in 2011.

In order to guarantee adequate and modern production resources the company has made significant investments both in production technology and production premises during the recent years

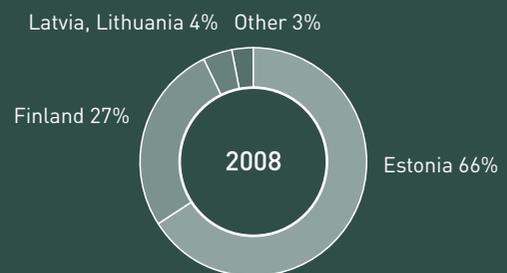
SALES REVENUE



PRODUCT GROUPS



REVENUE BY MARKET



In 2009, the company's aim is to direct all possible resources for making the sales work more efficient. The investments over the recent years have considerably increased production capacity and competitiveness. Therefore, the reinforcing of the sales team is of key importance in order to find new customers and to obtain new orders to fully utilise the existing production capacity. The motivation and training of personnel is also of great importance.

FINLAND

SATMATIC OY

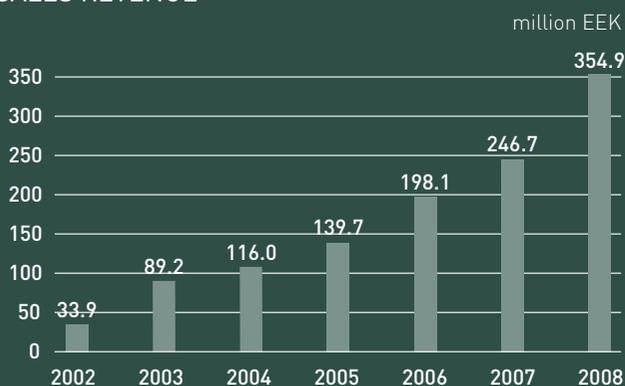
Satmatic Oy, a fully owned subsidiary of Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The activities of the company are based on long-term client relations where great attention is paid to developing first-rate and professional solutions as well as to mutually offered added value. The product range of Satmatic covers the needs of customers from the development of products, programmes and projects to full maintenance service. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation and a factory in Kerava near Helsinki in order to better service businesses and other costumers in Helsinki.

Because of the favourable situation in the Finnish economy during recent years, the growth in the relevant industrial sector, the increase in the number of orders from foreign companies and the establishment of a positive image and reputation for Satmatic Oy the rapid development of the company, based on large-scale projects and orders, has continued. Although the situation in the world economy became more difficult during the year, Satmatic managed to increase sales revenues by 43.8%, amounting to 354.9 million kroons. The rate of increase in sales revenues of the company affiliated with the Group in 2002 has been considerable, the average increase amounting to over 30% during recent years. Most of the sales revenues i.e. 71% (in 2007: 82%) were for the sales of products for the industrial sector. Significant increase in sales volumes has taken place in products for the power and electric energy distribution sector.

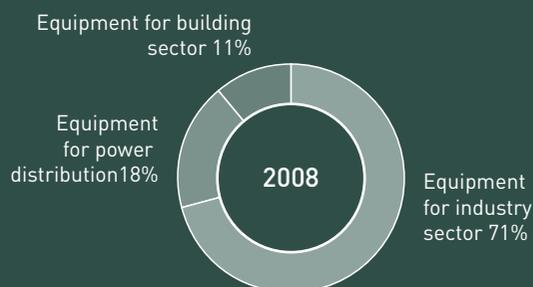
Most of the sales revenues i.e. 71% (in 2007: 82%) were for the sales of products for the industrial sector

The increase in the share of products for the industrial sector in the sales revenues was largely based on the recently established department for designing industrial automation software whose product development engineers successfully completed a large-scale project in a mineral wool plant in Poland. The project involved the development and supply of process control software. During the year other comprehensive solutions were developed and supplied for a number of domestic as well as foreign projects, the largest of which were for a solar panel production line and a nuclear waste packaging line. The department has extended the business areas of the Group from manufacturing equipment to the area of process control software - making it possible for us to offer our clients added value in the form of integrated solutions. The rapid sales increase of products for the energy distribution sector was mainly based on the successful execution of orders for prefabricated substations in the Talvivaara mines.

SALES REVENUE



PRODUCT GROUPS



In 2008, further development of the new online-ordering system was continued. All the necessary procedures were carried out during the year and as a result three new partners were connected with the system. The electronic data processing system has expedited and simplified the handling of orders and the system as a whole has received positive feedback from the customers.

In relation to the increasing orders and production volumes, the management of the Group decided to expand the production areas of the plant of Satmatic Oy. In November, a contract was signed for increasing the production areas in Ulvila by almost 2,000 sq m. Today, Satmatic Oy rents 2,200 sq m of production area, the total area of which after the completion of new premises will be 4,215 sq m. The estimated cost of the investment will be 2.8 million euros. The funding will be guaranteed by Ulvila city government and the construction will be supervised by the city government's operator Kiinteistö. The new production premises are planned to be delivered to Satmatic Oy on September 1, 2009.

When organising work and production processes the company pays great attention to environmental sustainability even during periods of fast growth. The personnel of Satmatic has been trained to follow the requirements for waste handling and package circulation and to reduce energy consumption according to the principles of sustainable development. The organisation of production has been certified to comply with ISO9001 quality requirements by issuing a relative certificate. The next recertification is scheduled to take place at the end of 2009.

Satmatic Oy has good prospects for increasing its sales revenues in 2009 regardless of the unfavourable economic conditions. The company will focus on maintaining the sales level of project based products and increasing the share of project based products in its product portfolio. In order to increase productivity an efficiently operating outsourcing chain must be developed and the sales of products manufactured by the Harju Elekter Group must be expanded. In these conditions of economic recession active sales and marketing efforts must become as important as the quality of the products supplied.

LITHUANIA

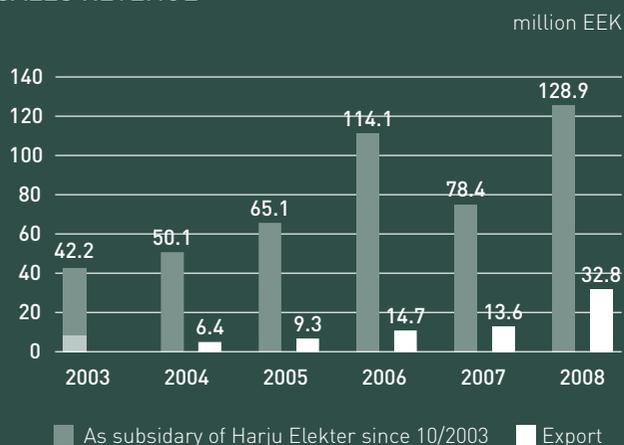
RIFAS GROUP

Rifas is a Lithuanian subsidiary of Harju Elekter locating in Panevežys. Harju Elekter owns 51% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter called "Rifas") comprises the Lithuanian manufacturing enterprise, Rifas UAB, and its subsidiary, UAB Automatikos Iranga which specialises on design.

For Rifas, the year 2008 was very successful. Sales revenues of the company amounted to 128.9 million kroons which corresponds to a yearly increase of 64.5%. Sales on the domestic market increased over 1.5 times and the volume of export market sales more than doubled. During the year sales outside of Lithuania accounted for 25% of the annual sales revenue. Of the foreign markets Norway, Belarus and Latvia continued to play important roles while Denmark emerged as a new market.

For Rifas, the year 2008 was very successful. Sales revenues of the company amounted to 128.9 million kroons which corresponds to a yearly increase of 64.5%

SALES REVENUE



The year was characterised by the winning of several large-scale projects but also by the increase of the total number of projects in domestic as well as foreign markets. Project supplies comprised project management as well as the sales of electrical equipment manufactured in the plant. Denmark became the largest market outside of Lithuania. Orders included the manufacturing and supply of LV control boards for wind generators in wind parks. This large order increased the share of Denmark in exports to 46%. Also the sale of electrical equipment to the shipbuilding sector played an important role in sales revenues.

In 2008, a contract was signed for using European Union funding for modernising the installation in Rifas. Expansion of the production area was also continued. The new production and office building was completed during the first half of the year and it was opened officially in August. The spacious building equipped with modern installations has three storeys and it is located next to the production hall from which there is access to the ground floor. There are meeting halls, administrative, sales and accounting departments as well as offices for technical and engineering personnel and production managers. The total cost of the building was 12.5 million kroons.

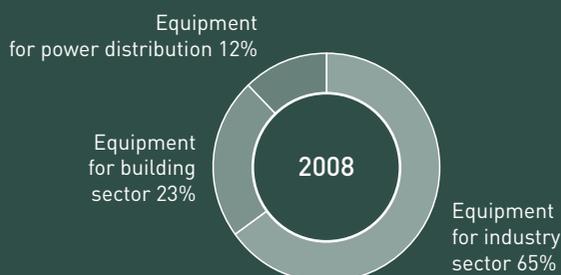
Rifas the most innovative company in the Panevežys region

The increase of production volumes and the adding and introduction of new products to the product line of the company sets high expectations for its employees and, therefore, the special training programme to improve the qualifications of the personnel was continued.

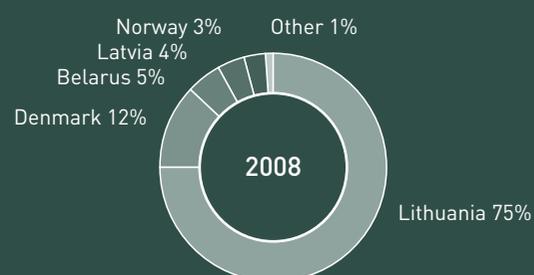
The achievements of the company during the last few years in improving the product range, expanding production areas and in modernizing the installation were recognised by the local government by naming Rifas the most innovative company in the Panevežys region. This title was proof of the company's success and development and recognition of its managers and workers.

In 2009, the company is planning to continue to extend the product line, find new customers and win new projects in domestic as well as foreign markets. This will be supported by increased production capacities, active sales efforts and successfully completed projects. In order to find new markets and customers the company is planning to participate in relevant fairs in the Nordic countries. The company is also planning to increase its export capacity in sales revenues by winning more large-scale foreign orders.

PRODUCT GROUPS



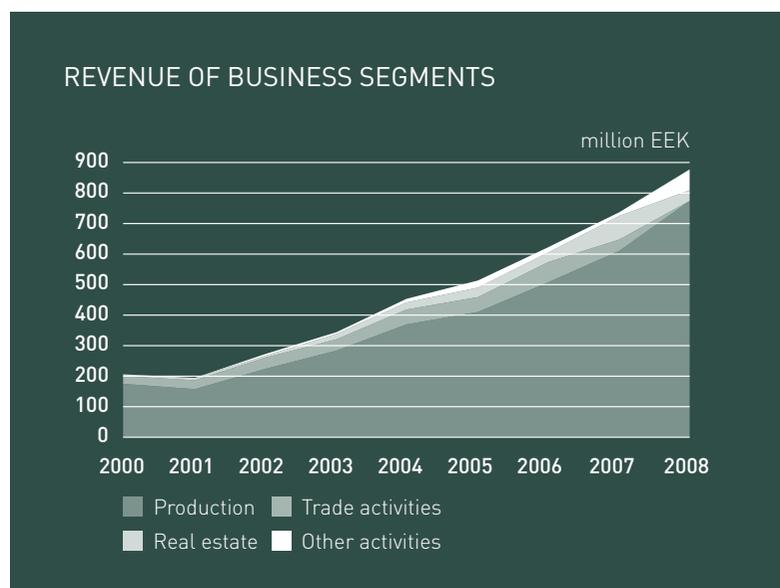
SALES REVENUE BY MARKET



Business Segments

As at 31 December 2008 the Group was active in two business segments where the risks and benefits were so remarkably different that they have to be considered separately: firstly, production and real estate and secondly, all other activities. The turnover from trade outlets, however, was not significant and therefore it has been presented as a part of other fields of activities.

The share of the production segment in consolidated sales revenues increased during the year by 5.0 percentage points, amounting to 88.0%. Owing to the increase in sales volumes of the companies manufacturing electrical equipment in the Group the sales volume of the production segment to clients other than those within the Group increased during the year by 26.2%, amounting to 769.2 million kroons. Sales revenues of the real estate segment remained at the same level as in 2007, increasing by 1.0 million kroons or 2.6%, amounting to 36.5 million kroons. Due to the decline of the real estate and construction markets sales to small and medium-sized electrical installation companies decreased. The sales volume of trade and other activities made up 8% of consolidated sales revenue or 65.8 million kroons, decreasing by one quarter during the year.

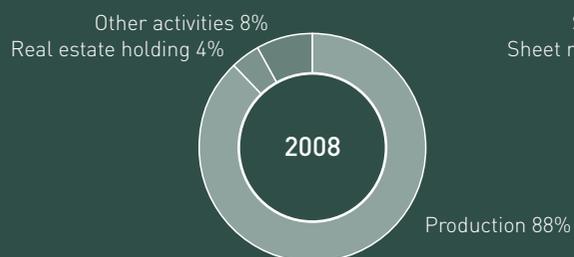


PRODUCTION

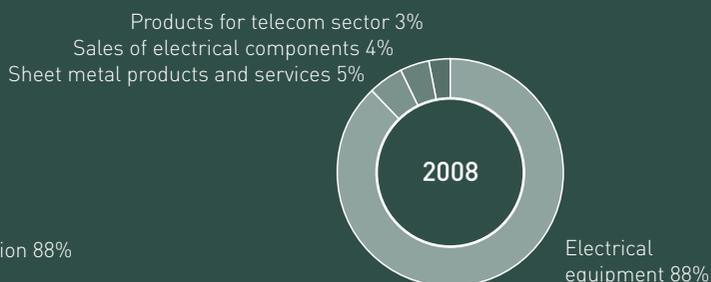
The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (UAB Rifas) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for the energy sector, industry and infrastructure. AS Eltek in Estonia, which manufactures products for the data and telecommunication sector as well as the electro-technical sector, also belongs in this segment.

The largest contribution to the increase of the consolidated sales revenues was made by the Finnish company, the sales revenues of which have considerably increased owing to the large share of large-scale projects. The contribution of the Finnish company in the increase of sales revenues was 102.7 million kroons. The year 2008 was also very successful for the Lithuanian manufacturing enterprise which during the financial year won several significant construction projects for industrial sites, thus entering successfully into the Danish and Norwegian markets. The sales of its industrial production to clients other than those within the Group increased during the year by 52.7 million kroons, amounting to 124.7 million kroons.

REVENUE BY BUSINESS SEGMENT



PRODUCTION SEGMENT REVENUE BY PRODUCT GROUP



Related Companies

As at the end of 2008, the Group had a share of 34% in the related company, Draka Keila Cables. In 2007 the Group sold its share of 33.3% in the related company, AS Saajos Inexa. The economic results of the related company are presented in the consolidated financial statement using the equity method. Due to the rapid drop in prices of raw materials that brought about the markdown of stock reserves at the end of the year a loss of 4.1 million kroons from the affiliated company was consolidated in 2008. In 2007, a total of 73 thousand kroons profit was consolidated from the related companies, out of which 1.5 million kroons was from the AS Saajos Inexa share sales gain and 1.4 million kroons was a loss from the Draka Keila Cables under the equity method.

Draka Keila Cables is the largest cable manufacturer in the Baltic States

Draka Keila Cables is the largest cable manufacturer in the Baltic States. The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, being the representative of Draka Group in the domestic market, markets a wide range of the Draka Group's products.

In 2008, the company operated in an economic environment where rapid increases in the first half year were followed by a quick drop in the prices of raw materials as well as in construction markets in the Baltic states and Scandinavia. Such rapid changes demanded an immediate response and great flexibility by the company.

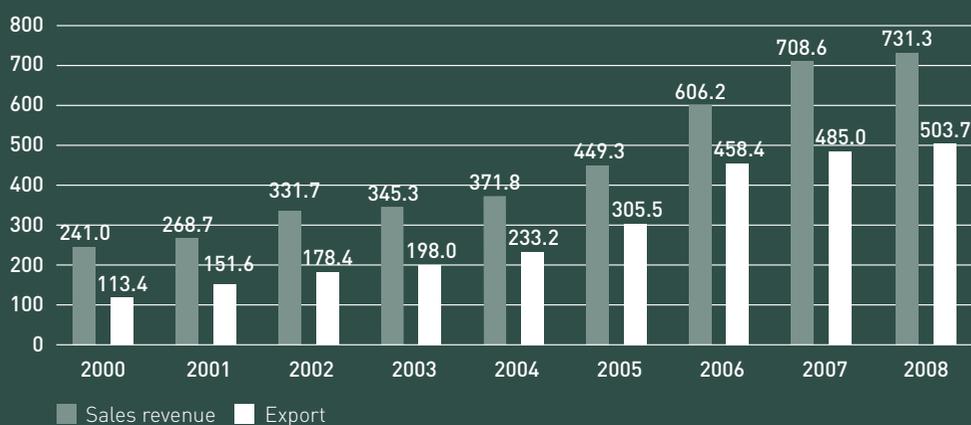
In 2008, the sales revenue of AS Draka Keila Cables was 731.3 million kroons, increasing by 3%, while exports made up 503.7 million kroons. Considering the changed conditions the sales results were satisfactory. The company's market position improved thanks to the expanded product range. The company also managed to adhere to delivery dates and introduce certain procedures for raising the security of supply to a higher level. A significant shortening of delivery dates was another positive change.

In 2008, the company continued to carry out a reorganisation of its production facilities to improve the quality of products and to reduce overall expenditure, as a result of which the overall expenditure on materials was reduced and production efficiency improved.

In 2009, the focus will be on the reorganisation of work to cope with the changed economic environment. In the area of production organisation it is planned to bring the number of shifts into correlation with the changed demand and to improve production processes. It is also planned to introduce some new products to meet market demands. In sales activities the main aim is to constantly improve the quality of customer services. The company will also continue to introduce products of other plants within the Draka Group to local customers.

SALES REVENUE

million EEK



Other Financial Investments

SIA ENERGOKOMPLEKSS

SIA Energokomplekss is a sales organisation, founded in 2006 together with the Latvian leading producer of electrical installations A/S Jauda and other Latvian undertakings. The share of Harju Elekter in the company is 10%. This share in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for medium and low voltage equipment in Latvia and other markets.

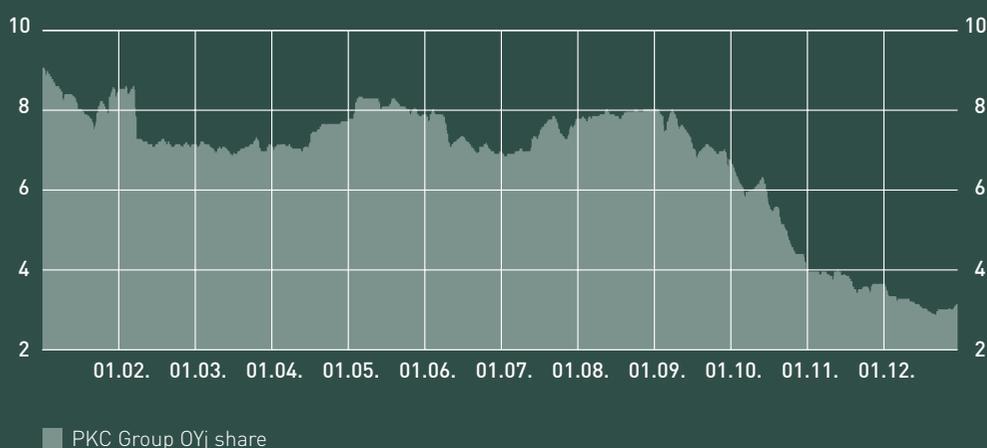
PKC GROUP OYJ

Since 1994 AS Harju Elekter has been the largest shareholder and strategic investor in the Finnish publicly traded company, PKC Group Oyj, which manufactures cable insulation for the automobile, telecommunication and electronics industries. The company has factories in Finland, Estonia, Russia, Brazil, China and Mexico hiring a total of 5,600 employees.

AS Harju Elekter is the main owner of PKC Group Oyj holding a stake of 8.9% as at 31 December 2008. PKC Group shares are quoted on the Helsinki Stock Exchange and are valued in the balance sheet according to market price. The change in the market price of the share may have a substantial influence on the financial indicators of the Group. The market price of the share decreased during the year by 5.70 euros (89.19 kroons) which reduced the value of the investment in the balance sheet to 140.9 million kroons. On the last trading date the price of a share on the Helsinki Stock Exchange was 3.00 euros (in 2007: 8.70 euros).

In 2008 PKC Group Oyj paid a dividend of 0.45 euros (7.04 kroons) per share. The Group's dividend income was 11.1 (in 2007: 12.5) million kroons. As 220 thousand shares were sold in 2007, the profit from the sales of shares amounted to 32.9 million kroons, making the total profit earned from financial investment in 2007 45.3 million kroons.

PKC GROUP OYJ SHARE PRICE ON THE HELSINKI STOCK EXCHANGE IN 2008 EUR



INVESTMENTS AND DEVELOPMENT

In 2008, the Group invested a total of 37.2 million kroons, which is 13.9% less than in 2007

In 2008, the Group invested a total of 37.2 million kroons, which is 13.9% less than in 2007. Investments in real estate made up 5.2 (in 2007: 14.0), in tangible assets 30.9 (in 2007: 28.5) and intangible assets 1.1 (in 2007: 0.7) million kroons.

The investments can be divided into two: the first part is to support and ensure the further development of the Group and the second part of the investment is made in order to ensure the production premises and technologies are of the highest quality and meet contemporary requirements.

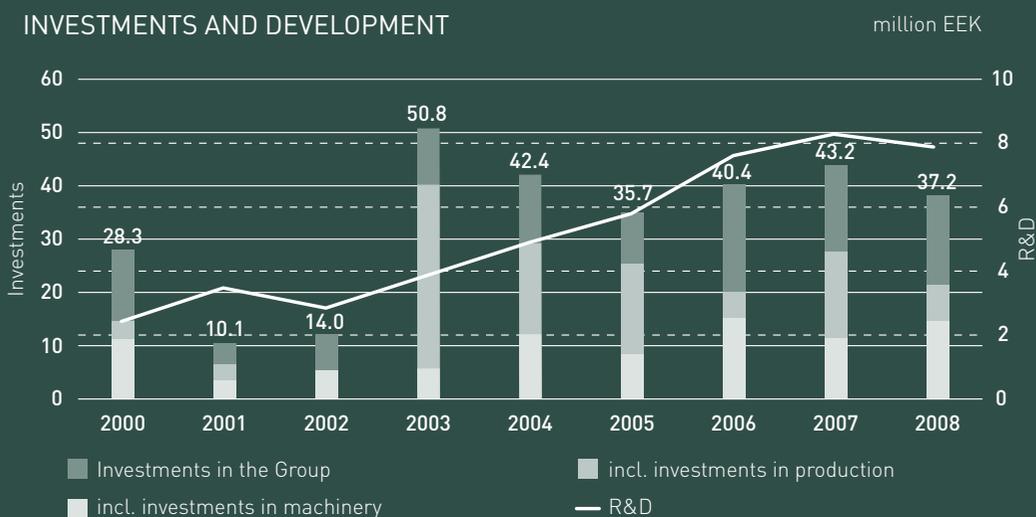
According to the development principles of the Group, Harju Elekter aims to continually modernise and develop new products to meet the needs of its customers and to improve its production technology. The development costs amounted to a total of 7.8 (in

2007: 8.3) million kroons accounting for 0.9% of the Group's turnover. The main product development resources of the Group are concentrated in the subsidiary Harju Elekter Elektrotehnika. In 2008, two new prefabricated substations with sheet metal enclosure successfully passed testing procedures and were awarded a certificate of compliance. A novel air insulated medium voltage substation was developed for foreign markets that received positive feedback from clients. A medium voltage distribution point was developed and marketed as a novel product. Safe cable boxes with a high degree of protection that will be introduced onto the market in 2009 were developed to meet the needs of the Scandinavian market. In co-operation with the shipping industry several new switchgears were designed and introduced that will help to speed up electrical installation works in shipyards. A low-current converter and communication box for information technology connections in buildings as well as a series of novel portable temporary boards for field applications were also introduced into production.

The Finnish subsidiary continued the development and expansion of the project for an online-ordering system. During the year three new clients were connected with the system. The novel electronic data processing system makes the handling of orders quicker and simpler. Today, most of the clients and co-operation partners have already accessed the system.

In 2008, the subsidiary, Satmatic, continued to develop process control software. The product development engineers of the department for designing industrial automation software developed several comprehensive solutions comprising products ranging from process control software to equipment. Integrated solutions were supplied to Finland, Poland, Kazakhstan and beyond.

In order to improve the quality of metal products and details and to expedite the production cycle and make it more flexible the subsidiary, Eltek, purchased a combined sheet processing machine comprising stamping and laser cutting facilities.



In the second half of the year the Lithuanian subsidiary in Panevežys opened a new production and office premises (the total cost of the construction was 12.5 million kroons), and preparatory work for expanding production premises in Estonia (1,500 sq m) and Finland (2,000 sq m) were commenced. In 2008, 14.1 million kroons was spent on machinery and vehicles.

At the beginning of 2008 AS Eltek successfully passed the audits for recertification of the quality management systems ISO9001:2000 and ISO14001. The certificate will be valid until 2011.

PERSONNEL

The number of employees of the Group as on the balance sheet date, 31.12.2008, was 515 (in 2007: 486) and the average number of employees was 501 (in 2007: 442). In the reporting period, wages and salaries amounted to 132.4 million kroons, increasing by 16.2 million kroons in the year which was mainly because of the increase in the number of employees. In all labour costs grew in 2008 by 8.2%, amounting to 172.2 million kroons.

The year 2008 was characterised by rapid changes in the labour market as well as in the economy as a whole. In the first quarter the situation in the labour market was tight with an above average need by the companies of the Group for additional qualified labour. This labour force shortage experienced in the first quarter was followed by a stabilisation period in the labour market that lasted for two quarters when it again became possible to hire qualified workers. At the same time the prolonged pressure for an increase in salaries was starting to alleviate. In the second half of the year the supply of labour exceeded the demand in the labour market and in the last quarter the need for new workers disappeared. The personnel service directed the released resources to personnel development programmes such as employee participation in the modernisation of fundamental values of the company, development programmes for instructors and new workers, internal training schemes, etc.

The average monthly gross salary within the Group was 22 thousand kroons (21 thousand kroons in 2007). Taking into account the increase in personnel and comparing these indicators with each of the countries' averages, this can be considered to be satisfactory.

The majority of the Group's employees – 344 people – worked in Estonia, including 55 people who work in the parent company. At the end of the year, there were 87 people working in Finland and 84 in Lithuania. In Estonia 241 of the employees were men and 103 women, 53 of whom have higher education. 223 people have secondary or vocational secondary education and 68 have basic education. In Finland 70 people have secondary or vocational secondary education and in Lithuania the relevant number is 43. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.



Out of 515 persons working in the Harju Elekter Group almost 300 have worked there for over five years

One of the strengths of Harju Elekter, which in autumn 2008 celebrated its 40th anniversary, is its solid organisational culture. The preservation and development of this culture is enhanced by the high percentage of long-term employees. Out of 515 persons working in the Harju Elekter Group almost 300 have worked there for over five years. Harju Elekter is a stable employer which appreciates the loyalty of its workers.

The average age of the Group's employees is 42 years and this figure has remained constant in the past years. To find new competent employees, Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes. Currently nine young engineers have found their way into the Group through the scholarship programme run by the Development Fund of TTU and Harju Elekter.

To motivate its staff, the Group uses a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole. The cross-company as well as cross-border employee exchange programmes will be further developed, which will enable employees to work in the different companies belonging within the Group, promoting the rapid development of knowledge and skills within the Group and offering rotation opportunities.

Harju Elekter is a responsible and caring employer offering its employees contemporary working and recreation conditions. The Group is involved in constructive co-operation with the Keila Industrial Park trade union, one of the main outcomes of which are collective labour agreements. The stability, social guarantees and motivation scheme offered by Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

LENGHT OF SERVICE



EMPLOYEES BY COUNTRY



RISK MANAGEMENT

In its business activities the Group is guided by the principle that reasonable and weighted risks should be taken in such a way that, as a result of a transaction, the company is guaranteed an optimal income-risk ratio and, in the case of negative events, the loss from a transaction is minimal.

To prevent the risks associated with the Group's further growth, internal control procedures have been developed and are monitored by an internal auditor, who regularly reports to the Supervisory and Management Boards.

In order to diminish risks deriving from the operation, the insurance of assets is used among other things. Fixed and current assets for production, as well as production premises, are insured by Harju Elekter. Additionally, personnel and product liability risks connected with business activities are also insured.

As regards FINANCIAL RISKS, the Group follows the following principles:

- Regulations have been developed to manage credit risks – i.e. the risk that customers or transaction partners fail to fulfil their obligations. In order to prevent these risks, the customer's background and solvency are examined before concluding the transaction. Payment discipline is continuously monitored. This has made it possible to keep losses deriving from credit risks to under 1 % (0.12%).
- Currency risk: the Group is not exposed to major currency risks, as cross-border transactions are, as a rule, carried out in euros.
- Interest risks: proceed from long-term loans. The interest rate risk is mainly due to the possible changes in euribor (Euro Interbank Offered Rate) because some of the Group's loans are connected to euribor. The risk increases if interest rates rise. In order to manage these risks the Group follows the principle that part of the loan agreements are concluded at a fixed rate of interest.
- Liquidity risk: Liquidity risk is managed by different financial instruments such as loans and financial leases should the Group be unable to cover necessary costs and investments because of a deficit in the cash flow.

As regards RISKS ASSOCIATED WITH RAW MATERIALS, the Group follows the following principles:

- as regards ferrous metals, long-term contracts are concluded with major suppliers; the companies belonging within the Group have also carried out joint procurements to get a better price;
- for the purchase of electrical components, contracts covering the entire Group have been concluded with major suppliers and joint procurements are carried out to get a better price.

The management of the Group considers PERSONNEL RISKS to be the following:

- risks associated with the professional skills of personnel: the Group needs employees with specific specialised training. To that end, the Group co-operates with vocational schools (e.g. Tallinn Construction School, Tallinn Centre of Industrial Education) and institutions of higher education (e.g. Tallinn Technical University (TTU), Tallinn Polytechnic School, Satakunna Vocational High School). Training days and tours to the company's factories are organised to introduce the company as a future employer. In order to ensure a constant supply of engineers, the company has launched scholarship programmes in collaboration with the Development Fund of TTU for the undergraduate and graduate students of TTU. In addition, training activities are constantly organised within the company;
- risks associated with the geographical location of personnel: the Group's head office and the Estonian factories are located in Keila. There are also factories in Ulvila and Kerava, Finland and Panevežis, Lithuania. The foreign subsidiaries deal with their personnel issues on their own. The personnel services of the Estonian companies are concentrated at the Group level where daily administration as well as constant recruitment is carried out.
- personnel turnover: in 2008, the situation in terms of personnel within the Group was influenced by rapid changes in the world economic situation as well as in the region of operation in general. During the first few months of the year a lack of qualified workers and strong pressure for an increase in salaries dominated, but by the spring the situation stabilised and in the last quarter labour supply exceeded demand. In 2008, the percentage of personnel turnover in the Group was 13.9% (in 2007: 11.8%). It was brought about by the closing of two stores as well as the retirement of several senior workers. Personnel turnover is kept under control by the continuous work done with employees in keeping them informed and up-to-date concerning the company's objectives and guaranteeing the quality of information management within the Group. In addition, the Group has developed clear and attractive wage and bonus systems as well as employee motivation programmes which are continually complemented. As we are an international group, the employees have the opportunity to work in the Group's factories in different countries on the basis of rotation.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

A high quality business and management model is one of the assets of the Harju Elekter Group. The objective is to develop business processes, practices and systems based on the principle of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play. The Group particularly emphasises the handling of customer feedback so that the necessary information reaches the relevant employees with minimum delay and that corrective and preventive action can be effectively implemented.

In 2008, Harju Elekter Elektrotehnika focused on the improvement of internal information exchange and on the reduction of the relative share of nonferrous metal waste. The subsidiary also provided training for its workers as a result of which 10 became internal auditors. Altogether 13 employees participated in the training.

The subsidiary Eltek purchased a new combined automatic sheet processing machine which considerably reduced material waste and was environmentally friendly. The company also successfully passed a specialists check of the international certification organisation BVQI for the company's compliance with the requirements of quality systems, as well as recertification.

In the Finnish subsidiary the focus was on the improvement of production processes for making inter-company and inter-Group co-operation more efficient while taking into account environmental sustainability. Personnel participated in the relevant training to follow the requirements for waste handling and package circulation and to reduce the consumption of energy. Several joint courses and training programmes with the local higher education institution were organised during the year in order to improve the skills of employees.

All the companies of the Group have been awarded the quality and environmental management certificates, ISO9001 and ISO14001

The production processes of Harju Elekter do not have a significant negative impact on the environment. Nevertheless, the companies of the Group monitor and measure their environmental impact according to the environmental policy, organise hazardous waste collection and transfers to waste handling companies. Taking care of the environment is part of the daily routine of all the Group's companies. The companies of the Group follow a system developed for the collection of packages and packaging waste and for the recovery of packaging waste in accordance with the requirements of the Packaging Act. The Group is a contractual partner of the non-profit association, Estonian Pack Cycling. The stores of the Harju Elekter commerce group organise the collection, recycling and disposal of unusable electronic devices (boilers) in accordance with the Waste Act.

	2000	2001	2002	2003	2004	2005	2006	2007	2008-
Harju Elekter Elektrotehnika	ISO9001, ISO14001				●			● up to 1/2010	
Eltek			ISO9001, ISO14001			●			● up to 1/2011
Rifas			ISO9001:2001				● up to 12/2009		
Satmatic			ISO9001				● up to 10/2009		
Draka Keila Cables	ISO9001, ISO14001		●				● up to 3/2009		

● - recertification

SHAREHOLDERS AND SHARES

THE TRADING HISTORY OF HARJU ELEKTER SHARES ¹	2003	2004	2005	2006	2007	2008
Highest price (EEK)	36.51	49.50	85.80	69.47	71.97	53.98
Lowest price (EEK)	14.34	34.94	48.82	51.63	47.25	14.86
Closing price (EEK)	34.94	47.46	64.15	64.93	53.20	15.49
Change (%)	+129.45	+35.82	+35.17	+1.22	-18.1	-70.9
Number of traded shares	1,722,283	1,500,267	2,064,396	4,549,191	5,787,606	4,634,592
Turnover (million EEK)	114.13	180.26	278.96	277.51	335.42	178.25
Market value (million EEK)	566.09	797.35	1,077.72	1,090.24	893.76	260.23

For more information: <http://www.ee.omxgroup.com/>

At the beginning of 2008 a fall in the stock exchange index on the Tallinn Stock Exchange continued and became even more rapid. Although the number of transactions during the first half of the year did not change, the turnover of transactions decreased due to low share prices. In the second half of the year the number of transactions showed a downward trend. In 2008, there were no first issues and no new publicly traded companies were listed.

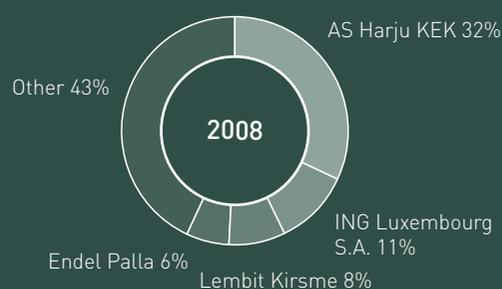
The shares of Harju Elekter have been listed on the Tallinn Stock Exchange since 1997. The share capital of the company is 168 million kroons which is divided into 16.8 million ordinary shares which are uniform and registered. All shares are freely negotiable on the stock exchange. According to the information available to Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit. All the shareholders of the company are equal. Each share confers an equal right to vote. There are no separate restrictions or agreements concerning the right to vote.

OWNERSHIP (31.12.2008)	No of shareholders	Percent	Percent of votes
more than 10%	2	0.2%	43.5%
1.0 - 10.0%	10	1.0%	29.5%
0.1 - 1.0 %	109	10.6%	19.6%
under 0.1%	912	88.3%	7.4%
TOTAL	1,033	100%	100%

SHAREHOLDERS BY COUNTRY



SHAREHOLDERS (MORE THAN 5%)



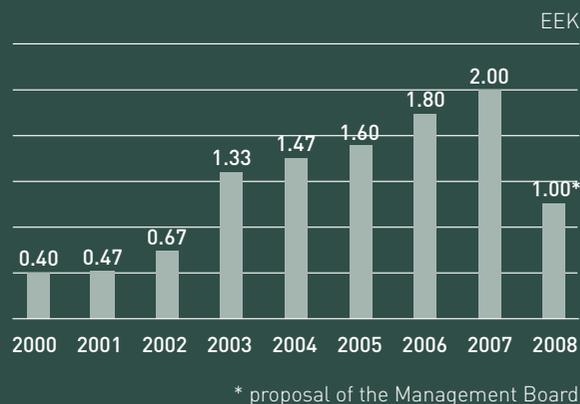
¹ The figures reflect the 2005 bonus issue

As a result of the good economic results, capitalisation and a positive growth perspective while, at the same time, taking into account the current economic situation, the Management Board of Harju Elekter makes a proposal to pay a dividend of EEK 1.00 per share for the financial year 2008.

HISTORY OF HARJU ELEKTER'S SHARES 1.1.-31.12.2008



DIVIDEND PER SHARE



SOCIAL RESPONSIBILITY AND CHARITY

The environment around us creates, as well as limits, our opportunities to act. During its 40 years of operation Harju Elekter has become one of the largest companies in the region and, as a large-scale enterprise, it is ready to take responsibility for the general development of society as well as the well-being of the local community. Over the years four major areas of sponsorship have evolved in the Group.

BEARING OF SOCIAL RESPONSIBILITY

Harju Elekter, as a local large-scale enterprise, is conscious of a certain responsibility for the general development of the region and the well-being of the local community - focusing mainly on children and youth by supporting their educational efforts and spending their leisure time in good surroundings. Therefore, the Group supports kindergartens, as well as young athletes' clubs. The company has concluded long-term sponsorship agreements with Keila Gymnasium, local kindergartens and basketball and football clubs in Keila.

SUPPORTING THE EDUCATION OF ENGINEERS IN ESTONIA

The company works in close co-operation with Estonian educational institutions in order to promote and develop the education of engineers and to offer young electricity and mechanics specialists the possibility to practice or work in the company. Harju Elekter is a golden sponsor of Tallinn Technical University and carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and the Tallinn Construction School.

SUPPORTING AND INSPIRING YOUNG SPORTSMEN

The company has, above all, supported youngsters' sports focusing on long-term and constant sponsorship and taking into account the popularity of the sports. For years the company has sponsored the young sportsmen and youngsters' teams of the Estonian Ski Association and the young athletes of the Estonian Handball Team.

PROMOTING RECREATIONAL SPORT AMONG THE EMPLOYEES

In co-operation with the Harju KEK Athletic Club we do everything we can to facilitate the active and sporting lifestyle of our employees. Healthy workers full of energy are of price-less value to the company.

The total amount of different support programmes in 2008 amounted to 355.5 thousand kroons.

SUPERVISORY BOARD, MANAGEMENT BOARD AND AUDITORS

In 2008, there were no changes to the management 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 the Supervisory Board, AS Harju KEK), Madis Talgre (Chairman of the Management Board, AS Harju KEK) and Andres Toome (consultant). As a rule, meetings of the Supervisory Board are attended by all its members. During the reporting year the only exception was member of the Supervisory Board, Lembit Kirsme, who for medical reasons attended less than half of the meetings. According to the Articles of Association of Harju Elekter the general meeting of shareholders elects and appoints the Supervisory Board of the company. The AGM of ASi Harju Elekter appointed the five member Supervisory Board for the next five years in 2007. The Supervisory Board elects the chairman of the Management Board and appoints, on the basis of his proposal, members of the Management Board.

In 2008, there were no changes to the Management Board which continues with the following membership: Andres Allikmäe as a Chairman and members Karin Padjus (Financial Director) and Lembit Libe (Chief Economist). All members of the Management Board belong to the executive management of the company. The Chairman of the Board receives remuneration in accordance with his contract of service; members of the Management Board receive no special remuneration. The 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 amount of remuneration and salaries paid to the members of the Supervisory and Management Boards of AS Harju Elekter in 2008 amounted to a total of 4.2 million kroons (in 2007: 3.9 million kroons). When the contract of service of a member of the Supervisory or Management Board expires or is prematurely terminated the company has no obligation to pay any other compensation, except for that prescribed by law. The Chairman of the Management Board has a contract of service specifying social guarantees in case of resignation.

According to the decision of the general meeting of the shareholders (20.04.2006) the audits of AS Harju Elekter for the years 2006–2008 are carried out by KPMG Baltics AS, represented by the group of auditors and led by the auditor, Andres Root. Audits in subsidiaries outside of Estonia are carried out by UAB Baltijos Auditas in Lithuania and Pyydönniemi Ky in Finland.

CORPORATE TARGET FOR 2009

Harju Elekter considers that forceful entry into new foreign markets as well as increasing sales in existing markets is the main factor in the growth of sales revenues. The main efforts are focused on finding new projects, customers and co-operation partners in Nordic countries and the EU as a whole. To that end, a new post of export manager will be created within the Group, whose main tasks will be to find and develop new markets and guarantee our active presence there. At the same time the Group is looking for attractive companies which could be associated with the Harju Elekter Group providing our interests coincide and the conditions for association are appropriate.

The current production capacity of the Group is sufficient for entering into new projects

The use and implementation of up-to-date compatible information systems is the basis for the co-operation between the different companies of the Group and the smooth functioning of the whole Group. In 2008, a thorough analysis of information systems was carried out and the development of new production management and accounting software was started in the Estonian companies of the Group. In 2009, it is planned to introduce the new system first in the parent company and Harju Elekter Elektrotehnika and then throughout the whole Group. The aim is to take full advantage of a future tool for finding proper cost and time effective solutions, for better management and timing of the information circulating within the Group and for a better analysis and use of the information received from customers.

Harju Elekter Group has made targeted investments for increasing production capacities through procurement of innovative production technologies and modernising the existing equipment as well as through the expansion of production premises. The current production capacity of the Group is sufficient for entering into new projects.

Expansion from product centred sales to the area of developing software programmes for controlling technological processes and power supply will continue. The goal is to offer clients comprehensive solutions which include electrical equipment, as well as programmes for their control.

The success of the company is ensured by product development which takes into account the needs and demands of customers, a wide range of professional products and sales of our own products. This is strongly facilitated by following and supporting the development plans and guidelines of the sector, customers and co-operation partners. The Group directs more and more resources into the development of products meant for end customers, in which, according to the Management Board of the Group, lie our long-term success and greater profitability. The growing reputation of the Harju Elekter trade mark and the quality of the products offer enhanced opportunities to achieve that.

The investments in the personnel are mainly channelled on in-service training and the improvement of the qualifications of the staff. In order to survive these difficult times closer co-operation between the companies of the Group at every level is another important subject to be dealt with.

As a local large-scale enterprise Harju Elekter is conscious of a certain responsibility for the general development of the region and the well-being of the local community and, therefore, it continues to support the same social areas as before.

CORPORATE GOVERNANCE

As a company Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and the requirements of the Tallinn Stock Exchange. Amending the Articles of Association and approving new ones, changing the amount of share capital, removal of members from the Supervisory Board and the termination of the activities of the company, making decisions on the division, merging and transformation of the company with the precondition that at least 2/3 of the shareholders represented at the general meeting approve such decisions are within the competence of the general meeting of the shareholders. The everyday business activities of the Group are managed by members of the Management Board of the parent company according to their areas of responsibility and those members of the Supervisory Board who are involved in the everyday work of the company. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies. The administration of all the members of the Group is characterised by a lengthy experience of over 10 years.

Bearing in mind that the top management of the company is relatively small in number the need for forming special committees or any other additional management bodies has not yet occurred. The necessary procedures are regulated by rules. Meetings of the Management and Supervisory Board take place according to the agreed regularity and need. For better risk management of the Group an internal audit system has been established which regularly reports to the management of the Group.

The motivation schemes for the management are linked to those schemes for all other employees and are based on the final profit figures.

As a publicly
traded company
AS Harju Elekter
follows the principles
of openness
and equal treatment
of investors

As a publicly traded company AS Harju Elekter follows the principles of openness and equal treatment of investors. The information requested by the rules and regulations of the stock exchange is published regularly on the due dates. Harju Elekter therefore follows the principle of not publishing estimates but communicates and comments only information concerning events which have actually happened.

In order to keep investors and the public informed Harju Elekter administers a home page which includes all stock exchange notices, business reports and an overview of the company's background, products and other important issues. All subsidiaries and associated companies of the Group also have home pages.

A Corporate Governance Code report accepted by the Management Board as well as the Supervisory Board of AS Harju Elekter is available on the company's homepage at www.harjuelekter.ee.

AS HARJU ELEKTER'S CGC REPORT 2008

Pursuant to the Corporate Governance Code (CGC) that was established by the Tallinn Stock Exchange and the Financial Supervision Authority and which entered into force on 1 January 2006, AS Harju Elekter has drawn up a CGC report where the company's management board confirms compliance to CGC requirements or explains reasons for non-compliance. When drawing up the annual report, AS Harju Elekter mostly follows CGC guidelines. However, Harju Elekter does not follow some clauses of the CGC, mainly due to the peculiarity of the company's business area. The abovementioned clauses and explanations of non-compliance are presented below.

CGC 2.2.1

"The chairman of the Supervisory Board concludes a contract of service with the member of the Management Board on the fulfilment of his or her duties."

The Management Board of the company includes employees who are responsible for the company's strategic areas: the chairman of the Management Board – the director general, members of the Management Board: the finance manager and the head economist. The member of the Management Board contract has been concluded with the chairman of the Management Board. Contracts of employment have been concluded with other members of the Management Board. Pursuant to the company's statutes and the regulation on the division of tasks of the Management Board and organisation, the tasks, responsibilities and liability of the Management Board have been set out.

CGC 2.2.7

"The basic salary, performance pay, severance pay, other payable benefits and reward systems of each member of the Management Board, as well as their significant characteristics are presented in a clear and unambiguous form on the issuer's website and in the CGC report. The presented data are considered clear and unambiguous if they directly express the extent of the expenses to the issuer or the extent of the likely expenses as of the day of disclosure."

The pay of a member of the Management Board is only given to the chairman of the management board; other members of the management board receive remuneration according to their position and contract of employment. The rate of pay of a member of the Management Board and the severance pay, as well as the conditions of payment are set out in the contract of service and shall not be disclosed to the public under an agreement between the parties. The rate of the severance pay and payment conditions of other members of the Management Board arise from the Employment Contracts Act.

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative personnel and its total rate is 4.0% of the group's operating profit. The performance pay is distributed according to the basic salary and work performance and the performance pay of the members of the Management Board is approved by the chairman of the Supervisory Board. 90% of the performance pay is paid by quarter; the remaining 10% is paid after the results of the financial year have been determined.

Members of the Management Board are paid an annual bonus of 0.3% of the consolidated net profit in total. The annual bonus is approved by the chairman of the Supervisory Board and is paid after the group's annual statement has been audited.

Additional remuneration for the length of employment is paid to all permanent employees on the basis of their length of employment, including permanent employment in the Harju Elekter Group. The rate of additional remuneration is up to 10% of the basic salary.

CGC 3.2.5

"The rate of the member of the Supervisory Board pay and the payment procedure established by the general meeting shall be presented in the issuer's CGC report, separately pointing out the basic salary and additional remuneration (including severance pay and other payable benefits)."

The shareholders' general meeting of Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 26.04.2007 appointed the membership of the Supervisory Board for the following 5 years, setting 8,000 kroons a month as the pay rate for a member of the Supervisory Board and 25,000 a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working as the company's R&D manager shall be subject to the reward system used in AS Harju Elekter. No severance pay is allotted to members of the Supervisory Board.

CGC 5.3

“Among other things, the issuer’s general strategic trends approved by the Supervisory Board are available for shareholders on the issuer’s website.”

The company’s Management Board believes that strategy is a business secret and should not be made public. However, the general trends and significant topics have been included in the Management Board’s management report published as a mandatory annex to the annual report.

CGC 5.6

“The issuer discloses the times and places of meetings with analysts and of presentations and press conferences for analysts and investors or institutional investors on the issuer’s website. The issuer enables shareholders to participate in these events and makes presentations available on its website. The issuer shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting.”

The company’s activities are always based on the principle of fair treatment of shareholders. Mandatory, significant and price-sensitive information is first disclosed in the system of the Tallinn Stock Exchange and then on the company’s website. In addition, each shareholder has the right to request additional information from the company if necessary and to arrange meetings. The company’s Management Board does not consider it important to keep a time and agenda schedule of meetings with different shareholders. This rule applies to all meetings, including those immediately preceding the disclosure of financial reporting.

CGC 6.2

“Electing the auditor and auditing the annual accounts.”

The general meeting of the shareholders of Harju Elekter of 20.04.2006 elected an auditor for the company for the period 2006–2008; the elected auditor is the auditing company KPMG Baltics AS and the named auditor is Andres Root. Information on the auditor is available at the company’s website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. Pursuant to the guidelines of the Financial Supervision Authority from 24.09.2003 – “On the rotation of the auditors of certain subjects of state financial supervision” – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.

MANAGEMENT’S CONFIRMATION TO THE MANAGEMENT REPORT

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 9 to 32 is an integral part of the Annual Report of AS Harju Elekter Group for 2008 and gives a true and fair view of the trends and results of operations, main risks and doubts of AS Harju Elekter and its subsidiaries as a group.

26th February 2009

/signature/	/signature/	/signature/
Andres Allikmäe Chairman of the Management Board	Lembit Libe Member of the Management Board	Karin Padjus Member of the Management Board

Annual financial statements

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management board hereby takes responsibility for the preparation of the consolidated financial statements of AS Harju Elekter (hereinafter referred to as "the Parent") and its subsidiaries (hereinafter together referred to as "the Group") for 2008, as set out on pages 33 to 75, and confirms that:

- the policies applied in the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the Group and of the results of its operations and its cash flows;
- all significant events that occurred before the date on which the consolidated financial statements were authorised for issue (26 February 2009) have been properly recognised and disclosed; and
- AS Harju Elekter and its subsidiaries are going concerns.

26th February 2009

<i>/signature/</i>	<i>/signature/</i>	<i>/signature/</i>
Andres Allikmäe Chairman of the Management Board	Lembit Libe Member of the Management Board	Karin Padjus Member of the Management Board

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER	Note	EEK '000		EUR'000	
		2008	2007	2008	2007
CURRENT ASSETS					
Cash and cash equivalents	5	23,379	26,257	1,494	1,678
Trade receivables and other receivables	6	99,449	84,601	6,356	5,407
Prepayments	7	3,217	1,548	205	99
Including income tax	18	47	717	3	46
Inventories	8	123,351	128,639	7,884	8,222
TOTAL CURRENT ASSETS		249,396	241,045	15,939	15,406
NON-CURRENT ASSETS					
Investments in associate	9	17,907	21,975	1,144	1,404
Other long-term financial investments	10	74,323	215,236	4,750	13,756
Investment property	11	133,737	133,839	8,547	8,554
Property, plant and equipment	12	123,423	104,948	7,889	6,707
Intangible assets	14	3,201	3,269	205	209
TOTAL NON-CURRENT ASSETS		352,591	479,267	22,535	30,630
TOTAL ASSETS		601,987	720,312	38,474	46,036
CURRENT LIABILITIES					
Interest-bearing loans and borrowings	15	41,958	27,942	2,682	1,786
Trade payables and other payables	17	112,395	106,495	7,183	6,806
Tax liabilities	18	11,216	12,008	717	767
Inclusive income tax	18	1,551	672	99	43
Short-term provisions	19	1,294	1,421	83	91
Total current liabilities		166,863	147,866	10,665	9,450
Loans and borrowings	15	16,381	20,382	1,046	1,302
Other non-current liabilities		0	469	0	30
Total non-current liabilities		16,381	20,851	1,046	1,332
TOTAL LIABILITIES		183,244	168,717	11,711	10,782
EQUITY					
Share capital	21	168,000	168,000	10,737	10,737
Share premium		6,000	6,000	384	384
Reserves	21	69,746	207,259	4,457	13,246
Retained earnings		153,445	151,894	9,808	9,708
Total equity attributable to equity holders of the parent		397,191	533,153	25,386	34,075
Minority interest		21,552	18,442	1,377	1,179
TOTAL EQUITY		418,743	551,595	26,763	35,254
TOTAL LIABILITIES AND EQUITY		601,987	720,312	38,474	46,036

See accompanying notes to the consolidated financial statements

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER	Note	EEK '000		EUR'000	
		2008	2007	2008	2007
Revenue	22, 23	871,610	731,985	55,706	46,782
Cost of sales	23	-733,467	-595,320	-46,877	-38,048
GROSS PROFIT		138,143	136,665	8,829	8,734
Distribution costs	23	-38,785	-36,843	-2,479	-2,355
Administrative expenses	23	-48,758	-47,737	-3,117	-3,051
Other income	23	324	589	21	38
Other expenses	23	-860	-1,166	-55	-74
OPERATING PROFIT		50,064	51,508	3,199	3,292
Finance income	23	11,689	45,808	747	2,929
Finance costs	23	-2,995	-2,689	-191	-172
Share of profit of associates	9	-4,068	73	-260	4
PROFIT BEFORE TAX		54,690	94,700	3,495	6,053
Income tax expense	24	-12,629	-8,765	-807	-560
PROFIT FOR THE PERIOD		42,061	85,935	2,688	5,493
Attributable to:					
Equity holders of the parent		38,551	84,456	2,464	5,398
Minority interest		3,510	1,479	224	95
Basic and diluted earnings per share (EEK/EUR)	25	2.29	5.03	0.15	0.32

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER	Note	EEK '000		EUR'000	
		2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating profit		50,064	51,508	3,199	3,292
Adjustments for:					
Depreciation and amortisation	11, 12, 14, 23	18,904	19,373	1,208	1,239
Gain on sale of property, plant and equipment	23	-13	-44	-1	-4
Change in receivables related to operating activity		-15,322	956	-978	61
Change in inventories		5,288	-49,610	338	-3,171
Change in payables related to operating activity		-109	33,292	-7	2,128
Corporate income tax paid	26	-11,080	-11,209	-708	-717
Interest paid	26	-2,780	-2,623	-178	-167
NET CASH FROM OPERATING ACTIVITIES		44,952	41,643	2,873	2,661
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of investment property	11	-5,237	-14,013	-335	-896
Acquisition of property, plant and equipment	12, 26	-18,225	-27,786	-1,165	-1,776
Acquisition of intangible assets	14, 26	-1,108	-725	-71	-46
Proceeds from sale of property, plant and equipment		13	179	1	12
Proceeds from sale of other financial investments		0	39,056	0	2,496
Loans given		-35	-50	-2	-3
Repayment of loans given		35	100	2	6
Interest received	26	528	335	34	22
Dividends received	9, 23	11,125	12,663	711	810
NET CASH USED IN INVESTING ACTIVITIES		-12,904	9,759	-825	625
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	15	14,345	11,200	917	716
Repayment of borrowings	15	-11,364	-10,054	-726	-643
Payment of finance lease principal	15	-3,856	-1,242	-247	-79
Dividends paid		-34,000	-31,706	-2,173	-2,027
NET CASH USED IN FINANCING ACTIVITIES		-34,875	-31,802	-2,229	-2,033
NET CASH FLOWS		-2,827	19,600	-181	1,253
Cash and cash equivalents at beginning of period	5	26,257	6,712	1,678	429
Net increase / decrease		-2,827	19,600	-181	1,253
Effect of exchange rate fluctuations on cash held	23	-51	-55	-3	-4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5	23,379	26,257	1,494	1,678

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EEK '000	Attributable to equity holders of the parent					Minority interest	TOTAL
	Share capital	Share premium	Reserves	Retained earnings	Total		
BALANCE AT 31 DECEMBER 2006	168,000	6,000	331,552	100,078	605,630	18,429	624,059
Profit for 2007	0	0	0	84,456	84,456	1,479	85,935
Income recognised directly in equity	0	0	-126,693	0	-126,693	0	-126,693
Total income for 2007	0	0	-126,693	84,456	-42,237	1,479	-40,758
Dividends	0	0	0	-30,240	-30,240	-1,466	-31,706
Amounts transferred to reserves	0	0	2,400	-2,400	0	0	0
BALANCE AT 31 DECEMBER 2007	168,000	6,000	207,259	151,894	533,153	18,442	551,595
Profit for 2008	0	0	0	38,551	38,551	3,510	42,061
Income recognised directly in equity	0	0	-140,913	0	-140,913	0	-140,913
Total income for 2008	0	0	-140,913	38,551	-102,362	3,510	-98,852
Dividends	0	0	0	-33,600	-33,600	-400	-34,000
Amounts transferred to reserves	0	0	3,400	-3,400	0	0	0
BALANCE AT 31 DECEMBER 2008	168,000	6,000	69,746	153,445	397,191	21,552	418,743
EUR'000							
BALANCE AT 31 DECEMBER 2006	10,737	384	21,190	6,396	38,707	1,178	39,885
Profit for 2007	0	0	0	5,398	5,398	95	5,493
Income recognised directly in equity	0	0	-8,097	0	-8,097	0	-8,097
Total income for 2007	0	0	-8,097	5,398	-2,699	95	-2,604
Dividends	0	0	0	-1,933	-1,933	-94	-2,027
Amounts transferred to reserves	0	0	153	-153	0	0	0
BALANCE AT 31 DECEMBER 2007	10,737	384	13,246	9,708	34,075	1,179	35,254
Profit for 2008	0	0	0	2,464	2,464	224	2,688
Income recognised directly in equity	0	0	-9,006	0	-9,006	0	-9,006
Total income for 2008	0	0	-9,006	2,464	-6,542	224	-6,318
Dividends	0	0	0	-2,147	-2,147	-26	-2,173
Amounts transferred to reserves	0	0	217	-217	0	0	0
BALANCE AT 31 DECEMBER 2008	10,737	384	4,457	9,808	25,386	1,377	26,763

Further information on share capital and reserves can be found in Note 21.
See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

AS Harju Elekter is a company registered in Estonia. These consolidated financial statements for the year ended 31 December 2008 comprise AS Harju Elekter (the "parent company") and its subsidiaries AS Eltek, AS Harju Elekter Elektrotehnika, Satmatic Oy and Rifas UAB (together referred to as the "Group") and the Group's interest in associate AS Draka Keila Cables. AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997; 32.15 percent of its shares are held by AS Harju KEK a company registered in Estonia..

The Management Board approved and signed the consolidated financial statements for the year ended 31 December 2008, on 26 February 2009. According to the Commercial Code of the Republic of Estonia the annual report, comprising the consolidated financial statements, which are drawn up by the Management Board and authorised for issue the Supervisory Board, are approved by the annual general meeting of shareholders.

The main activity of the Group is the production and sales of equipment for power distribution and controls for the energy, construction and industrial sectors. The activities of the Group are described in detail in Note 22 "Information on segments".

1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements of Group are prepared under the historical cost convention, except that available-for-sale investments are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is and future

periods, which the revision affects. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

1.2. Standards, Interpretations and amendments to published Standards

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these financial statements:

- [Amendment to IFRS 2 Share-based Payment \(effective for annual periods beginning on or after 1 January 2009\)](#)

The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The Group has not yet completed its analysis of the impact of the amended Standard.

- [Revised IFRS 3 Business Combinations \(effective for annual periods beginning on or after 1 July 2009\)](#)

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.

The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

- [IFRS 8 Operating Segments \(effective for annual periods beginning on or after 1 January 2009\)](#)

The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currently the Group presents segment information in respect of its geographical and business segments (see Note 22).

The Group is analysing what additional segment information to present. The Standard will have no effect on the profit or loss or equity.

- [Revised IAS 1 Presentation of Financial Statements \(effective for annual periods beginning on or after 1 January 2009\)](#)

The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

- [Revised IAS 23 Borrowing Costs \(effective for annual periods beginning on or after 1 January 2009\)](#)

The revised Standard removes the option to expense borrowing costs and requires the capitalization of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale).

The Group will apply revised IAS 23 to qualifying assets from which capitalisation of borrowing costs commences on or after 1 January 2009. Therefore, there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

- [Amendments to IAS 27, Consolidated and Separate Financial Statements \(effective for annual periods beginning on or after 1 January 2009\)](#)

The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment. Amendments to IAS 27 are not relevant as these are the consolidated financial statements of the Group. The amendments to IAS 27 are not expected to have any impact on the separate financial statements of parent company when adopted as the amendments apply prospectively.

- [Revised IAS 27 Consolidated and Separate Financial Statements \(effective for annual periods beginning on or after 1 July 2009\)](#)

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.

- [Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements \(effective for annual periods beginning on or after 1 January 2009\)](#)

The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The amendments are not relevant to the Group's financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.

- [Amendment to IAS 39, Financial Instruments: Recognition and Measurement \(effective for annual periods beginning on or after 1 July 2009\)](#)

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The Group has not yet completed its analysis of the impact of the amendments to the Standard.

- [IFRIC 13 Customer Loyalty Programmes \(effective for annual periods beginning on or after 1 July 2008\)](#)

The Interpretation explains how entities that grant loyalty award credits to customers who buy goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Group does not expect the Interpretation to have any impact on the consolidated financial statements.

- [IFRIC 15 Agreements for the Construction of Real Estate \(effective for annual periods beginning on or after 1 January 2009\)](#)

IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

IFRIC 15 is not relevant to the Group's financial statements as the Group does not provide real estate construction services or develop real estate for sale.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- [IFRIC 16 Hedges of a Net Investment in a Foreign Operation \(effective for annual periods beginning on or after 1 October 2008\)](#)

The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. The Group has not yet completed its analysis of the impact of the new Interpretation.

- [IFRIC 17 Distributions of Non-cash Assets to Owners \(effective prospectively for annual periods beginning on or after 15 July 2009\)](#)

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

1.3. Basis of consolidation

The consolidated financial statement is drawn up every year on the basis of financial statements of AS Harju Elekter and its subsidiaries for the financial year ending on 31 December. The financial statements of the subsidiaries are prepared for the same period as the consolidated financial statements, applying uniform accounting policies. If a subsidiary applies different accounting policies compared to the consolidated financial statement, the financial statements of the subsidiary are adjusted accordingly for the same transactions carried out under the same conditions.

[\(a\) Subsidiaries](#)

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally as so obtain benefits from its activities, accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given,

equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

[\(b\) Transactions and minority interests](#)

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of entities with minority interests result in gains and losses for the Group that are recorded in the income statement.

[\(c\) Associates](#)

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. If the accounting policies of associates are different from the Group, the financial statements of associates have been amended to ensure consistency with the policies adopted by the Group.

1.4. Foreign currency translation

[\(a\) Functional and presentation currency](#)

For accounting purposes the companies of the Group use the currency applicable to their economic environment. Estonian companies of the Group use the Estonian kroon (EEK), Finnish companies use the euro (EUR) and Lithuanian companies the Lithuanian litas (LTL). The Estonian kroon and the Lithuanian litas are pegged to the euro at a rate of EEK 15.6466 to € 1 and LTL 3.4528 to € 1, respectively.

The consolidated financial statements are presented in thousands of Estonian kroons, which is the Parent company's

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

functional and presentation currency and all the figures have been rounded to the nearest thousand, unless indicated otherwise. In accordance with Tallinn Stock Exchange Rules, the annual financial statements are also presented in euros. As the Estonian kroon is pegged to the euro (see previous paragraph) presentation of the statements does not entail differences in the exchange rate. In the statement the abbreviation EEK'000 means a thousand kroons and abbreviation EUR'000 means a thousand euros.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity.

(c) Financial statements of foreign Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency. The assets and liabilities of foreign operations are translated to Estonian kroons at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign Group companies are translated to Estonian kroons using Eesti Pank's fixed exchange rates: the financial statements of the Finnish company are translated using the Estonian kroon exchange rate against euro (€ 1 = EEK 15.6466) and the financial statements of the Lithuanian company are translated using the Estonian kroon exchange rate against the Lithuanian lita (LTL 1 = EEK 4.53157). Since the Estonian kroon and Lithuanian lita are pegged to the euro, the presentation practice does not give rise to foreign exchange translation differences.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.5. Financial assets

The group classifies its financial assets in the following categories: loans and receivables, and financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in

an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

- Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, except bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. The cash flow statement is prepared using the indirect method.
- Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The difference between carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate is recognised as an impairment loss in the income statement within 'distribution costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated in this category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs.

The Group's investments in equity securities are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity in the fair value reserve, except for impairment losses. The fair value of available-for-sale financial assets is their quoted bid price at the balance sheet date. When available-for-sale financial assets are derecognised, any cumulative gain or loss previously recognised directly in equity is recognised in profit or loss in the income statement. Other financial assets that do not have an active market and whose fair value cannot be measured reliably are presented using the amortised cost method.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 1.10.

1.6. Inventories

Inventories are stated at the lower of cost and net realisable value. As a rule, the Group determines the cost of inventories using the weighted average cost formula. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.7. Investment property

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. After recognition, investment property is measured using the cost model, i.e. the property is stated at cost less any accumulated depreciation and impairment losses.

Investment property is depreciated using the same depreciation rates and useful lives as those assigned to similar items of property, plant and equipment (see below).

1.8. Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Borrowing costs related to the acquisition, construction or production of qualifying assets are recognised in profit or loss as incurred.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete. Then the property is reclassified as investment property.

Where an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are recognised as separate items of property, plant and equipment and assigned depreciation rates that correspond to their useful lives.

(b) Subsequent costs

Parts of some items of property, plant and equipment require replacement or renovation at regular intervals. The costs of such replacements and renovations are recognised in the carrying amount of an item of property, plant and equipment if it is probable that future economic benefits associated with parts of the item will flow to the Group, and the cost of the part of the item can be measured reliably. The carrying amount of a part that is replaced is derecognised. Under the recognition principle provided in the previous paragraph, the costs of the day-to-day servicing of an item of property, plant and equipment are not recognised in the carrying amount of the item. Instead, the costs are expensed as incurred.

(c) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each item and significant part of an item of property, plant and equipment. Land and construction in progress are not depreciated. Group companies use, in all material respects, uniform depreciation rates. The following estimated useful lives are applied:

Asset Group	Useful life
Buildings and structures	10 - 33 years
Production plant and equipment	6 ² / ₃ - 10 years
Other machinery and equipment	4 - 6 ² / ₃ years
Vehicles	5 - 6 ² / ₃ years
Other equipment and fixtures	3 - 6 ² / ₃ years

Estimated useful lives, residual values and depreciation methods are reviewed annually. The effect of any resulting changes is recognised in the current and subsequent periods.

1.9. Intangible assets

Intangible assets (except goodwill) are amortised on a straight-line basis over the estimated useful life. Impairment of intangible assets is evaluated, if any such indication exists, similarly to the evaluation of impairment of tangible assets.

(a) Research and development

Expenditure on development is expenditure made upon the application of research findings when developing new products and services. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred.

Expenditure on development activities whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses. Expenditure on development is written off on a straight-line basis over the estimated useful life but not exceeding 5 years.

(b) Other intangible assets

Other intangible assets are expenditure on licenses and software. Acquired licences are shown at historical cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses. Other intangible assets are written off on a straight-line basis over the estimated useful life but not exceeding 5 years.

1.10. Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (Group of units) and then, to reduce the carrying amount of the other assets in the unit (Group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

The recoverable amount of the receivables carried at adjusted cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses of cash-generating units shall be distributed by decreasing the carrying amount of goodwill allocated to the unit (group of units) and then by proportionally writing down all the assets of the unit (group of units).

An impairment loss in respect of a receivable carried at adjusted cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11. Leases

A lease that transfers all significant risks and rewards of ownership to the lessee is recognised as a finance lease. Other leases are treated as operating leases.

(a) The Group as a lessor

Assets leased out under finance leases are recognised as a receivable at an amount equal to the net investment in the lease. Lease payments receivable are divided into principal repayments and finance income. Finance income is recognised over the lease term on the basis of the effective interest.

Assets leased out under operating leases are presented in the balance sheet according to the nature of the asset, similarly to other items of property, plant and equipment which are carried in the balance sheet. Operating lease payments are recognised as income on a straight-line basis over the lease term.

(b) The Group as a lessee

Assets and liabilities connected with finance leases are initially recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments at the inception of the lease and depreciated over the shorter of the lease term and its useful life. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.12. Financial liabilities

Liabilities that are due to be settled within more than one year of the balance sheet date are classified as non-current liabilities. Liabilities that are due to be settled within twelve months of the balance sheet date are classified as current liabilities.

(a) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(b) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.13. Income tax

(a) Corporate income tax

According to the Estonian Income Tax Act that took effect on 1 January 2000, income tax is not levied on profits earned but dividends distributed. The income tax calculated on dividends is recognised as a liability and an expense when the dividend is declared. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared irrespective of the period for which they are declared or in which they are distributed.

No provision is established for income tax payable on a dividend distribution before the dividend has been declared but information on the contingent liability is disclosed in the Notes to the consolidated financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consolidated financial statements include the Lithuanian and Finnish subsidiaries' current corporate income tax expense (calculated on profits earned), deferred income tax and the dividend tax expense of the Estonian Group companies.

(b) Deferred tax

Under the current Estonian Income Tax Act, there are no differences between the tax bases and carrying amounts of the assets and liabilities of the Estonian Group companies which could give rise to deferred tax assets or liabilities. The profits of the Finnish and Lithuanian Group companies are adjusted for temporary differences and taxed in accordance with the laws of their domicile (see below).

(c) For the Group's foreign subsidiaries

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.14. Employee benefits

(a) Profit-sharing and bonus plans

The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal;

or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

1.15. Provisions

Provisions are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the cash flows expected to be required to settle the obligation using a pre-tax discounting rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.16. Contingent liabilities

Significant commitments and other obligations which may transform into a liability subject to the occurrence of some uncertain future events are disclosed in the notes to the consolidated financial statements as contingent liabilities. Contingent liabilities are not recognised on the balance sheet.

1.17. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

1.18. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or a service within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The primary segment in the Group's reporting is the geographical segment and the secondary segment is the business segment.

1.19. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods – wholesale and retail

The group manufactures and sells electrical distribution systems and control panels and manifold sheet metal products. Sales of goods are recognised when a group entity has delivered products to the buyer, the buyer has full discretion over the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery does not occur until, all significant risks and rewards of ownership have been transferred to the buyer and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the price specified in the sales contracts.

The group operates a chain of retail outlets for electrical appliances. Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(b) Sales of services

Revenue from the rendering of services is recognised when the service has been rendered or, if the service is rendered over an extended period, by reference to the stage of completion of the transaction at the balance sheet date.

(c) Rental income

Rentals earned on investment property are recognised in the income statement on a straight-line basis over the term

of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

1.20. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the parent company by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit or loss attributable to equity holders of the parent company by the weighted average number of shares outstanding during the period, considering the effects of all dilutive potential shares.

1.21. Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

1.22. Related parties

For the purposes of these consolidated financial statements, related parties include:

- AS Harju KEK which owns 32.15 percent of the shares of AS Harju Elekter;
- members of the parent company's management and supervisory boards;
- close family members of the above;
- companies controlled by members of the management and supervisory boards; and
- associated companies.

2 FINANCIAL RISKS MANAGEMENT

2.1. Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The purpose of financial risk management is to manage financial risks.

(a) Currency risk

The Group operates in Estonia (currency EEK), Finland (currency €), and Lithuania (currency LTL). Both Estonian kroon and Lithuanian lit are pegged to the euro.

To hedge currency risks, the Group concludes all major foreign contracts in euro. The Group does not have material

receivables or payables denominated in foreign currencies that are not pegged to euro (see Note 6). All existing long-term loan and finance lease contracts (see Note 15) have been made in euro or the functional currency of the relevant Group company. Therefore, they are treated as liabilities without currency risk.

Trade and other payables are recognised at amortised cost. Items that fall due more than 12 months from the balance sheet date are recognised as long-term liabilities.

Based on the above, the Group is not materially exposed to currency risks and does not use separate instruments to hedge currency risks. Information on foreign exchange gains and losses has been disclosed in Note 23.

2 FINANCIAL RISKS MANAGEMENT (CONTINUED)

(in thousands)	Note	EEK		EUR		LTL		TOTAL	
		EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Cash and cash equivalents	5	10,478	670	9,316	595	3,585	229	23,379	1,494
Trade receivables	6	20,120	1,286	56,310	3,599	20,988	1,341	97,418	6,226
Available-for-sale financial assets	10	0	0	74,323	4,750	0	0	74,323	4,750
TOTAL		30,598	1,956	139,949	8,944	24,573	1,570	195,120	12,470
Current liabilities	15	0	0	39,741	2,541	2,217	141	41,958	2,682
Advances from customers	17	789	50	10,943	699	488	32	12,220	781
Trade payables	17	17,744	1,134	54,536	3,485	450	29	72,730	4,648
Interest payables	17	205	13	0	0	0	0	205	13
Non-current liabilities	15	0	0	11,943	762	4,438	284	16,381	1,046
TOTAL		18,738	1,197	117,163	7,487	7,593	486	143,494	9,170
Opened currency position		11,860	759	22,786	1,457	16,980	1,084	51,626	3,300

(b) Price risk

The group is exposed to equity securities price risk because of investments held by the group and classified as available for sale. Fluctuations in the market value of the PKC Group Oyj shares, which are recognised as other long-term financial investments, may have a significant impact on the value of the assets of AS Harju Elekter. The market price of the share decreased during the year 2008 by 5.70 euros (89.19 kroons). Decrease in assets during the year 2008 totalled to 140.9 million kroons (9.0 million euros). Change in fair value was recognised directly in equity (Note 10).

(c) Cash flow and fair value interest rate risk

As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Above all, the Group's exposure to interest rate risk depends on changes in EURIBOR (Euro Interbank Offered Rate) and VILIBOR (Vilnius Interbank Offered Rate) because most of loans taken by the Group (see Note 15) are linked to EURIBOR and VILIBOR. Interest rate risks are managed by concluding loan agreements with a fixed interest rate. On December 31, 2008 the long-term loan balance with a fixed interest rate was 3.9 million kroons (251 thousand euros) and, therefore, the fixing of an interest rate does not substantially affect the fair value of the long-term loans of the Group (Note 15).

The interest rate risk also depends on the economic situation in the country of location of a company belonging within the Group, as well as on changes in the average interest rates of banks. In 2008 the average interest rate of the long-term loan taken by the Group's Lithuanian company was 7.9% which increased the average effective interest rate of the Group by 0.6 percentage point.

The Group has a cash flow risk from changes in interest rates because most loans have floating interest rates. According

to management's assessment, the cash flow risk is not material. Therefore, the Group does not use separate instruments to hedge it. Information on interest expense has been disclosed in Note 23.

At 31 December 2008, if interest rates on currency-denominated borrowings had been 1% higher with all other variables held constant, post-tax profit for the year would have been 250.6 thousand kroons or 16.0 thousand euros (2007: 16.1 thousand kroons or 1.0 thousand euros) lower, mainly as a result of higher interest expense on floating rate borrowings.

(d) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a party is unable to discharge an obligation under financial instruments. Exposure to credit risk is monitored on an ongoing basis. Customers are set individual risk limits based on internal or external ratings. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or major credit cards. There are certain conditions in place where the recovery of debts is commenced through the court.

The maximum amount exposed to credit risk is the value of accounts receivables, less mark downs and deposits with banks and financial institutions. At the balance sheet date, the credit risk was 122 million kroons (8 million euros), compared to 109 million kroons (7 million euros) at 31 December 2007. According to management assessment, the Group does not have any major credit risks that would exceed the allowance sum already recognised.

(e) Liquidity risk

Liquidity risk is a risk covering the inability of the Group to cover its necessary costs and investments due to a cash-flow deficit. Liquidity risk is managed with different financial instruments such as loans and finance leases. At the end of the reporting period the Group had funding available

2 FINANCIAL RISKS MANAGEMENT (CONTINUED)

to the amount of EEK 23.4 million (€ 1.5 million) and debt obligations to the amount of EEK 58.3 million (€ 3.7 million) (Note 15).

2.2. Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.3. Fair value estimation

The fair values of cash, receivables, payables and short-term loans and borrowings do not differ significantly from their carrying amounts because these amounts will be settled within 12 months of the balance sheet date. The fair values of long-term loans and borrowings do not differ significantly from their carrying amounts because their interest rates are regularly reprised to market rates.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date.

3 ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are estimations of useful lives of investment property, property, plant and equipment, recognitions and estimates in respect of provisions, and statement of contingent liabilities.

(a) Trade receivables valuation (Note 6)

Upon valuation of trade receivables, the management relies on its best knowledge taking into consideration historical experience. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable is impaired.

(b) Inventory valuation (Note 8)

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods and merchandise purchased for resale are, upon valuation of raw and other materials, their potential as a source of finished goods and generating income is considered; upon valuation of work in progress, their stage of completion that can reliably be measured is considered.

(c) Useful lives of investment property, property, plant and equipment (Note 1.7, 1.8, 11, 12)

Management has estimated the useful lives of property, plant and equipment based on the volume and conditions of production, historical experience in this area and the perspectives in the future.

(d) Contingent liabilities (Note 1.16, 20)

In estimating the probability of realisation of contingent liabilities the management considers historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

(e) Provisions (Note 19)

According to its sales contracts the Group gives a two-year warranty to products sold by undertaking, during that period, to either repair or replace low quality or flawed products free of charge. Following last year's experience the warranty reserve.

(f) Uncertainty of the economic environment

The ongoing global financial crisis that hit the world in 2007 has drained liquidity in the economy making it increasingly difficult to raise funds in the capital markets. Moreover, in Estonia the slump has spread to the real economy with all the ensuing consequences that have exerted and may continue to exert an adverse impact on the company's operations. In preparing these financial statements management relied on its assessment of how the Estonian and the global economic environment may impact the company's financial performance and financial position. Owing to the instability of the market situation, the effect of further developments in the economic environment may differ materially from management's current assessment.

4 FINANCIAL INSTRUMENTS

4.1. Financial instruments by categories

AT 31 DECEMBER	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
ASSETS					
Cash and cash equivalents	5	23,379	26,257	1,494	1,678
Trade receivables	6	97,418	83,125	6,226	5,313
Available-for-sale financial assets	10	74,323	215,236	4,750	13,756
TOTAL		195,120	324,618	12,470	20,747
LIABILITIES					
Borrowings	15	58,339	48,324	3,728	3,088
Trade payables	17	72,730	62,098	4,648	3,968

4.2. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

TRADE RECEIVABLES (NET) ANALYSED BY DUE DATE AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
Not due:	63,920	69,174	4,085	4,421
Up to 3 months past due	13,810	8,195	883	524
3-6 months past due	16,055	1,013	1,026	65
Over 6 months past due	3,633	4,743	232	303
TOTAL	97,418	83,125	6,226	5,313

5 CASH AND CASH EQUIVALENTS

AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
CASH AND CASH EQUIVALENTS				
Cash in hand	92	150	6	10
Current accounts	23,287	26,107	1,488	1,668
CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS	23,379	26,257	1,494	1,678

Cash and bank analysed by currency AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
Estonian kroon (EEK)	10,478	15,269	670	976
Euro (EUR)	9,316	5,589	595	357
Lithuanian lit (LTL)	3,585	5,399	229	345
TOTAL	23,379	26,257	1,494	1,678

Average deposit interest rates for the financial year were 5.0% (3.5% in 2007).

6 TRADE AND OTHER RECEIVABLES

AT 31 DECEMBER	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
TRADE RECEIVABLES					
Trade receivables		98,158	83,222	6,273	5,319
Provision for impairment of trade receivables		-740	-97	-47	-6
TRADE RECEIVABLES - NET		97,418	83,125	6,226	5,313
Receivables from associates	27	1,970	243	126	16
Miscellaneous receivables		25	36	2	2
Interest receivable		36	0	2	0
Other accrued income		0	1,197	0	76
TOTAL RECEIVABLES		99,449	84,601	6,356	5,407

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
Estonian kroon (EEK)	22,151	18,996	1,416	1,214
Euro (EUR)	56,310	49,582	3,599	3,169
Lithuanian lit (LTL)	20,988	16,023	1,341	1,024
TOTAL	99,449	84,601	6,356	5,407

As of 31 December 2008, trade receivables of 97,418 thousand kroons, 6,226 thousand euros (2007: 83,125 thousand kroons, 5,313 thousand euros) were fully performing.

As of 31 December, trade receivables of 740 thousand kroons (47 thousand euros) and as of 31 December 2007 97 thousand kroons (6 thousand euros) were past due and fully expensed. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable is impaired.

Movements on the group allowance for impairment of trade receivables are as follows:

FOR THE YEAR ENDED 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
At 1 January	-97	-47	-6	-3
Recovery of doubtful items	204	2	13	0
Items expensed as doubtful	-1,082	-97	-69	-6
Doubtful items written off as irrecoverable	235	45	15	3
AT 31 DECEMBER	-740	-97	-47	-6

The creation and release of provision for impaired receivables have been included in 'other distribution costs' in the income statement (Note 23).

The other classes within trade and other receivables do not contain impaired assets.

7 PREPAYMENTS

BALANCE AT 31 DECEMBER	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
Prepaid taxes	18	1,991	766	127	49
Prepaid expenses		1,226	782	78	50
TOTAL PREPAYMENTS		3,217	1,548	205	99

8 INVENTORIES

AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
Raw and other materials	49,565	44,281	3,168	2,830
Work in progress	49,719	56,602	3,178	3,617
Finished goods	15,399	15,752	984	1,007
Merchandise purchased for resale	8,220	11,244	525	719
Prepayments to suppliers	448	760	29	49
TOTAL	123,351	128,639	7,884	8,222
- items carried at net realisable value	1,182	217	76	14
Write-down of inventories to net realisable value	389	1,290	25	82

9 INVESTMENTS IN ASSOCIATE

COMPANY'S NAME	ACTIVITY	LOCATION
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia

<u>Draka Keila Cables AS share</u>	2008	2007
Number of the shares	884	884
Ownership (%)	34.0	34.0
Par value of a share (EEK)	10,000	10,000
Par value of a share (EUR)	639	639

	EEK '000		EUR '000	
	2008	2007	2008	2007
Cost at 31 December	8,840	8,840	565	565
Carrying amount at 01 January	21,975	23,378	1,404	1,494
Loss(-) under the equity method	-4,068	-1,403	-260	-90
CARRYING AMOUNT AT 31 DECEMBER	17,907	21,975	1,144	1,404
Associate's equity at end of period	52,729	64,826	3,370	4,143
Investor's share in equity	17,928	22,041	1,146	1,408
Unrealised gains from transactions with an associate	-21	-66	-2	-4

The shares of the associates are not listed at the stock exchange.

9 INVESTMENTS IN ASSOCIATES (CONTINUED)

FINANCIAL SUMMARY	EEK '000		EUR '000	
	2008	2007	2008	2007
Assets at 31 December	230,817	320,615	14,752	20,491
Liabilities at 31 December	178,088	255,789	11,382	16,348
Revenue for the year ended 31 December	731,272	708,636	46,737	45,290
Profit for the year ended 31 December	-12,097	-4,098	-773	-262

In September 2007 Harju Elekter sold its 33.3% holding in the associated company AS Saajos Inexa. Share of profit of associate was 1,476 thousand kroons (95 thousand euros).

10 OTHER LONG-TERM FINANCIAL INVESTMENTS

BALANCE AT 31 DECEMBER	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
Available-for-sale financial assets		74,165	215,078	4,740	13,746
Other shares		158	158	10	10
TOTAL		74,323	215,236	4,750	13,756

1. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Carrying amount at 01 January		215,078	344,726	13,746	22,032
Sale of shares		0	-35,771	0	-2,286
Realised gain from sale	23	0	32,816	0	2,097
Changes in the fair value reserve	21	-140,913	-126,693	-9,006	-8,097
CARRYING AMOUNT AT 31 DECEMBER		74,165	215,078	4,740	13,746

2. OTHER SHARES

Carrying amount at 01 January		158	158	10	10
Carrying amount at 31 December		158	158	10	10
TOTAL CARRYING AMOUNT AT 31 DECEMBER		74,323	215,236	4,750	13,756

PKC GROUP OYJ SHARE	2008	2007
Number of the shares (1000)	1,580	1,580
Ownership (%)	8.89	8.89
Market price at 31 December (EEK)	46.94	136.13
Market price at 31 December (€)	3.00	8.70

PKC Group Oyj shares are listed on the Helsinki Stock Exchange and have been classified as available-for-sale financial assets and are therefore stated on the balance sheet at their fair value (Note 1.5.b). The fair value of shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised directly in equity as a revaluation reserve (Note 21). Changes in the market value of shares may significantly influence the value of the Group's assets and equity. For the financial year the PKC Group Oyj paid dividends to the amount of 0.45 euros per share (0.45 euros in 2007). Information on PKC shares pledged as loan collateral has been disclosed in Note 16.

Other shares acquired during the reporting period are stated in the balance sheet at acquisition cost.

11 INVESTMENT PROPERTY

Note	EEK '000			EUR '000		
	Land	Buildings	TOTAL	Land	Buildings	TOTAL
BALANCE AT 31 DECEMBER 2006						
Cost	6,117	143,281	149,398	391	9,157	9,548
Accumulated depreciation	0	-22,130	-22,130	0	-1,414	-1,414
CARRYING AMOUNT 31.12.2006	6,117	121,151	127,268	391	7,743	8,134
FOR THE YEAR ENDED 31 DECEMBER						
Additions	2,768	11,245	14,013	177	719	896
Depreciation charge	0	-4,946	-4,946	0	-316	-316
Transfer from property, plant and equipment	12	0	-2,496	0	-160	-160
TOTAL FOR THE PERIOD	2,768	3,803	6,571	177	243	420
BALANCE AT 31 DECEMBER 2007						
Cost	8,885	152,022	160,907	568	9,716	10,284
Accumulated depreciation	0	-27,068	-27,068	0	-1,730	-1,730
CARRYING AMOUNT 31.12.2007	8,885	124,954	133,839	568	7,986	8,554
FOR THE YEAR ENDED 31 DECEMBER						
Additions	0	5,237	5,237	0	335	335
Depreciation charge	0	-4,720	-4,720	0	-302	-302
Transfer to property, plant and equipment	12	0	-619	0	-40	-40
TOTAL FOR THE PERIOD	0	-102	-102	0	-7	-7
BALANCE AT 31 DECEMBER 2008						
Cost	8,885	156,248	165,133	568	9,986	10,554
Accumulated depreciation	0	-31,396	-31,396	0	-2,007	-2,007
CARRYING AMOUNT 31.12.2008	8,885	124,852	133,737	568	7,979	8,547

The Group's investment properties comprise production and office buildings in Keila and Haapsalu (Estonia) where transactions with similar properties are irregular. Due to this and the large number of the properties, determination of the fair value of the investment properties would be costly and might not produce reliable results. Therefore, the Group has not performed such valuations and has not commissioned them from independent experts. According to management estimates, the fair value of the Group's investment properties falls between EEK 130 million and EEK 150 million (between € 8.3 and 9.6 million).

In 2008, the direct maintenance and repair expenses of investment property totalled EEK 3.4 million (€ 0.22 million) compared to EEK 3.8 million (€ 0.24 million) in the reference period. Information on rental income from investment property has been disclosed in Note 13.

12 PROPERTY, PLANT AND EQUIPMENT

12.1. Statement of changes in property, plant and equipment

EEK '000	Note	Land	Buildings	Plant and equipment	Other items	TOTAL
BALANCE AT 31 DECEMBER 2006						
Cost		3,257	51,226	84,517	9,908	148,908
Accumulated depreciation		0	-10,218	-45,251	-6,093	-61,562
CARRYING AMOUNT		3,257	41,008	39,266	3,815	87,346
Construction in progress		0	0	100	0	100
BALANCE AT 31 DECEMBER 2006		3,257	41,008	39,366	3,815	87,446
FOR THE YEAR ENDED 31 DECEMBER						
Additions		0	15,929	10,755	1,834	28,518
Disposals		0	0	-116	-20	-136
Depreciation charge		0	-2,223	-8,854	-2,299	-13,376
Transfer to investment property	11	0	2,496	-2	2	2,496
TOTAL FOR THE PERIOD		0	16,202	1,783	-483	17,502
BALANCE AT 31 DECEMBER 2007						
Cost		3,257	59,777	92,122	9,258	164,414
Accumulated depreciation		0	-9,628	-51,118	-5,926	-66,672
CARRYING AMOUNT		3,257	50,149	41,004	3,332	97,742
Construction in progress		0	7,061	145	0	7,206
BALANCE AT 31 DECEMBER 2007		3,257	57,210	41,149	3,332	104,948
FOR THE YEAR ENDED 31 DECEMBER						
Additions		0	15,361	14,122	1,381	30,864
Depreciation charge for the year		0	-3,028	-8,728	-1,252	-13,008
Transfer from investment property	11	0	619	0	0	619
TOTAL FOR THE PERIOD		0	12,952	5,394	129	18,475
BALANCE AT 31 DECEMBER 2008						
Cost		3,257	64,567	106,000	9,836	183,660
Accumulated depreciation		0	-13,049	-59,575	-6,375	-78,999
CARRYING AMOUNT		3,257	51,518	46,425	3,461	104,661
Construction in progress		0	18,644	118	0	18,762
Balance at 31 December 2008		3,257	70,162	46,543	3,461	123,423

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

EUR '000	Note	Land	Buildings	Plant and equipment	Other items	TOTAL
BALANCE AT 31 DECEMBER 2006						
Cost		208	3,274	5,402	633	9,517
Accumulated depreciation		0	-653	-2,892	-389	-3,934
CARRYING AMOUNT		208	2,621	2,510	244	5,583
Construction in progress		0	0	6	0	6
BALANCE AT 31 DECEMBER 2006		208	2,621	2,516	244	5,589
FOR THE YEAR ENDED 31 DECEMBER						
Additions		0	1,018	688	117	1,823
Disposals		0	0	-8	-1	-9
Depreciation charge		0	-143	-566	-147	-856
Transfer to investment property	11	0	160	0	0	160
TOTAL FOR THE PERIOD		0	1,035	114	-31	1,118
BALANCE AT 31 DECEMBER 2007						
Cost		208	3,820	5,888	592	10,508
Accumulated depreciation		0	-615	-3,267	-379	-4,261
CARRYING AMOUNT		208	3,205	2,621	213	6,247
Construction in progress		0	451	9	0	460
BALANCE AT 31 DECEMBER 2007		208	3,656	2,630	213	6,707
FOR THE YEAR ENDED 31 DECEMBER						
Additions		0	982	903	88	1,973
Depreciation charge for the year		0	-193	-558	-80	-831
Transfer from investment property	11	0	40	0	0	40
TOTAL FOR THE PERIOD		0	829	345	8	1,182
BALANCE AT 31 DECEMBER 2008						
Cost		208	4,127	6,775	628	11,738
Accumulated depreciation		0	-834	-3,808	-407	-5,049
CARRYING AMOUNT		208	3,293	2,967	221	6,689
Construction in progress		0	1,192	8	0	1,200
Balance at 31 December 2008		208	4,485	2,975	221	7,889

At 31 December 2008, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was EEK 15,340 (€ 980) thousand and as at 31 December 2007 EEK 8,411 (€ 538) thousand.

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.2. Assets acquired with finance lease

	EEK '000			EUR '000		
	Cost	Depreciation	Carrying amount	Cost	Depreciation	Carrying amount
AT 31 DECEMBER 2006	4,460	-748	3,712	285	-48	237
Additions	1,057	0	1,057	68	0	68
Depreciation	0	-545	-545	0	-35	-35
Lease discontinued	-190	62	-128	-12	4	-8
AT 31 DECEMBER 2007	5,327	-1,231	4,096	341	-79	262
Additions	10,890	0	10,890	696	0	696
Depreciation	0	-685	-685	0	-44	-44
Lease discontinued	-741	286	-455	-47	18	-29
AT 31 DECEMBER 2008	15,476	-1,630	13,846	990	-105	885

Information on finance lease liabilities and lease terms has been disclosed in Note 15.

12.3. Assets leased out under operating leases

	EEK '000		EUR '000	
	2008	2007	2008	2007
BALANCE AT 31 DECEMBER				
PLANT AND EQUIPMENT				
Cost of items leased out	1,169	1,967	75	126
Accumulated depreciation	-1,169	-1,424	-75	-91
CARRYING AMOUNT AT END OF PERIOD	0	543	0	35

13 OPERATING LEASES

	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
FOR THE YEAR ENDED 31 DECEMBER					
LEASE INCOME					
- on investment property		28,971	27,928	1,851	1,785
- on plant and equipment		171	176	11	11
TOTAL	23	29,142	28,104	1,862	1,796
LEASE EXPENSE					
Office, commercial and production premises		2,225	2,906	142	186
Vehicles		869	901	56	58
Other		513	555	33	36
TOTAL		3,607	4,362	231	280

In the income statement, lease income is recognised in revenue; the expenses and depreciation related to assets that have been leased out are recognised in the cost of sales. The Group leases out its investment and production plant and equipment under operating leases (Note 11).

13 OPERATING LEASES (CONTINUED)

Future lease payments under non-cancellable operating leases are based on contract periods.

FOR THE YEAR ENDED 31 DECEMBER	EEK '000		EUR'000	
	2008	2007	2008	2007
LEASE INCOME				
← 1 year	30,215	28,455	1,931	1,819
1-5 years	57,076	62,268	3,648	3,979
TOTAL LEASE INCOME	87,291	90,723	5,579	5,798
LEASE EXPENSES				
← 1 year	1,046	636	67	41
1-5 years	393	834	25	53
TOTAL LEASE EXPENSES	1,439	1,470	92	94

14 INTANGIBLE ASSETS

	EEK '000			EUR '000		
	Expenditure on development	Other	TOTAL	Expenditure on development	Other	TOTAL
BALANCE AT 31 DECEMBER 2006						
Cost	1,376	5,823	7,199	88	372	460
Accumulated depreciation	-610	-2,994	-3,604	-39	-191	-230
CARRYING AMOUNT 31.12.2006	766	2,829	3,595	49	181	230
FOR THE YEAR ENDED 31 DECEMBER						
Additions	174	551	725	11	35	46
Depreciation charge for the year	-168	-883	-1,051	-11	-56	-67
TOTAL	6	-332	-326	0	-21	-21
BALANCE AT 31 DECEMBER 2007						
Cost	1,550	6,374	7,924	99	407	506
Accumulated depreciation	-778	-3,877	-4,655	-50	-247	-297
CARRYING AMOUNT 31.12.2007	772	2,497	3,269	49	160	209
FOR THE YEAR ENDED 31 DECEMBER						
Additions	306	802	1,108	20	51	71
Depreciation charge for the year	-219	-957	-1,176	-14	-61	-75
TOTAL	87	-155	-68	6	-10	-4
BALANCE AT 31 DECEMBER 2008						
Cost	1,825	7,175	9,000	117	459	576
Accumulated depreciation	-966	-4,833	-5,799	-62	-309	-371
CARRYING AMOUNT 31.12.2008	859	2,342	3,201	55	150	205

Expenditure on development is direct costs related to the production and testing of products. Other intangible assets comprise primarily product manufacturing and software licences.

As at 31 December 2008, the total cost of the Group's fully depreciated intangible assets still in use was EEK 1,152 thousand (€ 74 thousand), compared to EEK 1,280 thousand (€ 82 thousand) at 31 December 2007.

15 INTEREST-BEARING LOANS AND BORROWINGS

15.1. Balance at 31 December

LIABILITIES	EEK '000		EUR '000	
	2008	2007	2008	2007
Short-term bank loans	27,849	16,509	1,780	1,055
Current portion of long-term bank loans	12,066	10,118	771	646
Current portion of lease liabilities	2,043	1,315	131	85
TOTAL CURRENT LIABILITIES	41,958	27,942	2,682	1,786
Long-term bank loans	8,967	19,274	573	1,232
Lease liabilities	7,414	1,108	473	70
TOTAL NON-CURRENT LIABILITIES	16,381	20,382	1,046	1,302
TOTAL INTEREST-BEARING LOANS AND BORROWINGS	58,339	48,324	3,728	3,088
LOANS AND BORROWINGS AT THE BEGINNING OF THE YEAR	48,324	47,340	3,088	3,026
Changes during the period 1.01. – 31.12				
Changes in short-term loans	11,340	6,807	725	435
Received long-term loans	3,005	4,393	192	281
Long-term loan repaid	-11,364	-10,054	-726	-643
New finance lease liabilities	10,890	1,080	696	68
Payment of finance lease principal	-3,856	-1,242	-247	-79
LOANS AND BORROWINGS AT THE END OF THE YEAR	58,339	48,324	3,728	3,088

15.2. Short-term bank loan terms

BALANCE AT 31 DECEMBER								
Base currency	Overdraft limit in base currency		Interest rate		EEK'000		EUR'000	
	2008	2007	2008	2007	2008	2007	2008	2007
EUR	600,000	600,000	1m euribor+0.5%	+0.5%	8,118	9,075	519	580
EUR	1,200,000	800,000	1m euribor+0.4%	+0.4%	13,893	7,434	888	475
EUR	500,000	300,000	1m euribor+0.4%	+0.5%	5,838	0	373	0
TOTAL SHORT-TERM BANK LOANS					27,849	16,509	1,780	1,055

15 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

15.3. Long-term bank loans and terms

BALANCE AT 31 DECEMBER	EEK'000		EUR'000	
	2008	2007	2008	2007
TOTAL LOAN PAYABLE; TERMS; MATURITY DATE				
EUR 850,000; 3 m euribor+0.48%; 2010	3,912	7,041	250	450
EUR 1,530,000; 3 m euribor+0.80% (2007 +0.50%); 2010	7,041	12,674	450	810
EUR 447,382; fixed 4.32%; 2011	3,928	5,284	251	338
LTL 1,565,385; 6m vilibor+1.40% (2007 6.53%); 2012	6,152	4,393	393	280
TOTAL	21,033	29,392	1,344	1,878
including by due dates				
← 1 year	12,067	10,571	771	675
1 - 2 years	5,565	11,091	356	709
2 - 5 years	3,401	7,730	217	494
Interest expense for the year ended 31 December	1,568	1,434	100	92

According to management assessment, the fair value of loans at the balance sheet date does not differ significantly from their book value. In 2008 the weighted average effective interest rate of long-term bank loans was 5.9% compared to 4.6 % in the comparable period.

The loans are secured with financial assets (Note 16).

15.4. Finance lease liabilities

PRESENT VALUE OF LEASE PAYMENTS	EEK '000			EUR '000		
	Initial value	Settlement	Present value	Initial value	Settlement	Present value
Balance at 31 December 2006	4,196	-1,611	2,585	268	-103	165
Acquisition	1,080	0	1,080	69	0	69
Payment of finance lease	0	-1,242	-1,242	0	-79	-79
Lease discontinued	-152	152	0	-9	9	0
BALANCE AT 31 DECEMBER 2007	5,124	-2,701	2,423	328	-173	155
Acquisition	10,890	0	10,890	696	0	696
Payment of finance lease	0	-3,856	-3,856	0	-247	-247
Lease discontinued	-667	667	0	-43	43	0
BALANCE AT 31 DECEMBER 2008	15,347	-5,890	9,457	981	-377	604

The base currency of lease contracts is mainly the euro. The 31 December 2008 finance lease liabilities, the base currency of which is Lithuanian litas, amounted to 503 thousand kroons (32 thousand euros), compared to 201 thousand kroons (13 thousand euros) at 31 December 2007.

At 31 December 2008 interest rates of finance lease contracts were 4.1–6.0% (at 31 December 2007 4.1–6.0%). In 2008 the weighted average effective interest rate of finance lease was 5.5 % compared to 4.8 % in the reference period.

15 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

15.5. Finance lease liabilities by due dates

	EEK '000				EUR '000			
	<1 year	1-5 years	> 5 years	TOTAL	<1 year	1-5 years	> 5 years	TOTAL
BALANCE AT 31 DECEMBER 2007								
Minimum amount of lease payments	1,393	1,143	0	2,536	90	72	0	162
Future financing cost	-78	-35	0	-113	-5	-2	0	-7
PRESENT VALUE OF LEASE PAYMENTS	1,315	1,108	0	2,423	85	70	0	155
BALANCE AT 31 DECEMBER 2008								
Min sum of lease payments	2,502	7,508	1,140	11,150	160	480	73	713
Future financing cost	-460	-1,204	-29	-1,693	-30	-77	-2	-109
PRESENT VALUE OF LEASE PAYMENTS	2,042	6,304	1,111	9,457	130	403	71	604

Lease payments are made monthly.

16 LOAN COLLATERAL AND PLEDGED ASSETS

BALANCE AT 31 DECEMBER 2008	Number	Balance of investment loan		Overdraft limit	
	'000	EEK '000	EUR '000	EEK '000	EUR '000
PLEDGED ASSETS					
PKC Group Oyj equity securities	1,066	10,953	700	17,211	1,100

At 31 December 2008, the carrying amount of pledged securities amounted to EEK 50.0 million (€ 3.2 million). The Group pledges the shares in favour of the bank as security for due and punctual fulfilling of all obligations towards the bank undertaken in the loan agreement. According to the pledge agreement Group undertakes to promptly pledge additional shares, if the market value of the pledged shares is not at least 50% more of the outstanding principal of the loan. Further information on PKC Group Oyj shares can be found in Note 10.

17 TRADE AND OTHER PAYABLES

BALANCE AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
TRADE PAYABLES				
Payable for goods and services	70,802	61,919	4,525	3,957
Payable for property, plant and equipment	1,928	179	123	11
TOTAL	72,730	62,098	4,648	3,968
ACCRUED EXPENSES				
Payables to employees	23,955	25,329	1,531	1,619
Interest payable	205	41	13	3
Other	2,978	280	190	18
TOTAL	27,138	25,650	1,734	1,640
Advances from customers	12,220	18,591	781	1,188
Payables to associates	264	60	17	4
Miscellaneous payables	43	96	3	6
TOTAL	112,395	106,495	7,183	6,806

18 TAXES

BALANCE AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
PREPAYMENT				
Value-added tax	1,944	49	124	3
Income tax	47	717	3	46
TOTAL	1,991	766	127	49
LIABILITY				
Value-added tax	1,937	2,835	124	181
Income tax	1,551	672	99	43
Personal income tax	2,694	2,844	172	181
Social security tax	4,101	3,607	262	231
Other taxes	933	2,050	60	131
TOTAL	11,216	12,008	717	767

19 PROVISIONS

	Warranty provision		Other provisions		TOTAL	
	EEK '000	EUR '000	EEK '000	EUR '000	EEK '000	EUR '000
2007						
Balance at 31 December 2006	9	1	91	5	100	6
Provisions made during the year	1,350	86	341	22	1,691	108
Provisions used during the year	-272	-17	-98	-6	-370	-23
BALANCE AT 31 DECEMBER 2007	1,087	70	334	21	1,421	91
2008						
Provisions made during the year	1,294	83	0	0	1,294	83
Provisions used during the year	-1,087	-70	-334	-21	-1,421	-91
BALANCE AT 31 DECEMBER 2008	1,294	83	0	0	1,294	83

The warranty provision is established to cover contingent warranty repair expenses. AS Harju Elekter grants the products sold by Group a two-year warranty period during which it has to repair or replace free of charge substandard and defective products.

20 CONTINGENT LIABILITIES

20.1. Corporate Income tax

BALANCE AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
Consolidated retained earnings	153,445	151,894	9,808	9,708
Max sum of dividends payable to owners	121,222	119,996	7,748	7,669
Income tax payable on dividends	32,223	31,898	2,060	2,039

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the maximum potential income tax liability at 31 December 2008, which would be paid out if all retained earnings were distributed, cannot exceed the distributable profits as of 31 December 2008. Potential income tax liability has been calculated based on the tax rate enacted before 1 January 2008 (for 2007 before 1 January 2007). If the profit allocation proposal to distribute a dividend of EEK 16.8 million (€ 1.07 million) will be approved by the general meeting the income tax liability in the amount of EEK 4.5 million (€ 285 thousand) will be payable.

20 CONTINGENT LIABILITIES (CONTINUED)

20.2. Guarantees

As at 31 December 2008, a letter of guarantee from AS Harju Elekter issued on 8 February 2004 to Nordea Bank Finland Plc Estonian Branch was in force guaranteeing the fulfillment of commitments entered into by AS Draka Keila Cables in a long-term loan agreement concluded between the latter and AS Harju Elekter. The bank loan is due to be repaid on 10 May 2009. As at 31 December 2008, the loan balance on the associate's balance sheet amounted to EEK 2,034 thousand (€ 130 thousand) compared to EEK 6,102 thousand (€ 390 thousand) at 31 December 2007. The Group guarantees the associate's (Note 27) commitments to the extent of its interest in the associate's equity (34%). At 31 December 2008 the maximum guarantee liability of the Group amounted to EEK 692 thousand (€ 44 thousand) compared to EEK 2,075 thousand (€ 133 thousand) at 31 December 2007. The guarantees are not secured with a pledge.

21 CAPITAL AND RESERVES

21.1. Share capital and share premium

BALANCE AT 31 DECEMBER	EEK		EUR	
	2008	2007	2008	2007
Share capital ('000)	168,000	168,000	10,737	10,737
Par value of a share	10	10	0.64	0.64
Number of shares issued ('000) (fully paid)	16,800	16,800	16,800	16,800
Share premium ('000)	6,000	6,000	384	384

Authorised share capital according to the Articles of Association is 20 million shares of EEK 10 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings and to residual assets.

21.2. Dividend per share

Based on the results for 2007, shareholders were distributed a dividend of EEK 33.6 million (€ 2.15 million), i.e. EEK 2.00 (€ 0.128) per share. The dividends were paid out on 19 May 2008.

According to the profit allocation proposal, for 2008 a dividend of EEK 16.8 million (€ 1.07 million), i.e. EEK 1.00 (€ 0.0648) per share will be distributed. The dividend will be recognised when the profit allocation proposal has been approved by the general meeting.

21.3. Shareholders holding over 5 percent of the votes determined by shares

AT 31 DECEMBER	2008	2007
AS Harju KEK	32.15%	32.08%
ING Luxembourg S.A	11.31%	9.96%
Lembit Kirsme	8.33%	8.33%
Endel Palla	5.66%	5.65%
Other	42.55%	43.98%

21.4. Members of the management and supervisory boards of AS Harju Elekter

SUPERVISORY BOARD	Number of shares	Direct ownership	Indirect ownership
Palla, Endel	951,000	5.66%	0.33%
Kirsme, Lembit	1,400,000	8.33%	0.72%
Talgre, Madis	19,000	0.12%	0.00%
Kabal, Ain	3,660	0.02%	0.00%
Toome, Andres	0	0.00%	0.06%
TOTAL	2,373,660	14.13%	1.11%
MANAGEMENT BOARD			
Allikmäe, Andres	185,800	1.11%	0.00%
Padjus, Karin	110,193	0.66%	0.25%
Libe, Lembit	19,500	0.12%	0.00%
TOTAL	315,493	1.89%	0.25%

21 CAPITAL AND RESERVES (CONTINUED)

The number of shares held by shareholders and the ownership interests were determined on 31 December 2008 at 11:59 p.m.

In accordance with Tallinn Stock Exchange Rules, an issuer is obliged to disclose in the annual report information on the number of the issuer's shares belonging to members of its management and supervisory boards (direct interest) and people connected to them (indirect interest) as at the end of the reporting period. Voting stock belonging to a company controlled by a shareholder is also treated as indirect interest. People connected to shareholders include their spouses, minor children and people sharing the household with them.

21.5. Reserves

BALANCE AT 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
Capital reserve	16,800	13,400	1,073	856
Fair value reserve	52,946	193,859	3,384	12,390
TOTAL	69,746	207,259	4,457	13,246

(a) Capital reserve

The Commercial Code requires companies to establish a capital reserve. Each year companies have to transfer to the capital reserve at least 5 percent of their profit for the period until the reserve amounts to 10 percent of share capital. The capital reserve may be used for covering losses and increasing share capital.

As at 31 December 2007 the 10 percent requirement is not fulfilled. During 2008, 3,400 thousand kroons (217 thousand euros) were transferred to the capital reserve and during 2007 2,400 thousand kroons (153 thousand euros).

(b) Changes in the fair value reserve

FOR THE YEAR	EEK '000		EUR '000	
	2008	2007	2008	2007
Balance at 01 January	193,859	320,552	12,390	20,487
Gains on the restatement of financial assets	-140,913	-97,224	-9,006	-6,214
Realised gain from sale of financial assets	0	-29,469	0	-1,883
BALANCE AT 31 DECEMBER	52,946	193,859	3,384	12,390

Harju Elekter has a 8.89 (2007: 8.89) percent interest in PKC Group Oyj, a Finnish company (Note 10). The investment has been classified as available-for sale. Financial assets available-for-sale are stated on the balance sheet at their fair value. Gains and losses arising from changes to the fair value are recognised directly as equity. When the financial assets available-for-sale are sold, the related cumulative gain or loss previously recognised in the fair value reserve will be recognised in the profit or loss statement for the period. In 2007, 220,000 shares in PKC Group Oyj were sold, in 2008 any shares were not sold.

If all the shares in PKC Oyj were sold, the fair value reserve would transform into profit.

22 SEGMENT REPORTING

Segment reporting is presented in respect of the Group's business and geographical segments.

The primary format, geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on the basis of market prices.

22.1. Group's geographical segment report – primary segment

Geographically, the Group's operations may be divided into three segments:

Estonia – the domicile of AS Harju Elekter and its subsidiaries AS Harju Elekter Elektrotehnika and AS Eltek;

Finland – the domicile of the subsidiary Satmatic Oy;

Lithuania – the domicile of the subsidiary Rifas UAB.

22 SEGMENT REPORTING (CONTINUED)

EEK '000	Note	Estonia		Finland		Lithuania		Eliminations		Consolidated	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
INCOME STATEMENT											
Revenue from external customers		388,711	408,324	354,828	246,668	128,071	76,993	0	0	871,610	731,985
Inter-segment revenue		56,073	25,835	45	45	874	1,377	-56,992	-27,257	0	0
TOTAL REVENUE		444,784	434,159	354,873	246,713	128,945	78,370	-56,992	-27,257	871,610	731,985
OPERATING PROFIT		29,636	40,915	11,493	7,016	8,887	3,611	48	-34	50,064	51,508
Net financing income / costs	23									8,694	43,119
Share of profit of associates	9	-4,068	73	0	0	0	0	0	0	-4,068	73
Income tax expense	24	-8,465	-6,412	-2,914	-1,656	-1,250	-697	0	0	-12,629	-8,765
PROFIT FOR THE PERIOD										42,061	85,935
BALANCE											
Segment assets		337,599	349,676	91,792	90,307	84,439	55,599	-4,073	-12,481	509,757	483,101
Investment in associates		17,907	21,975	0	0	0	0	0	0	17,907	21,975
Group's indivisible assets										74,323	215,236
TOTAL ASSETS										601,987	720,312
Segment liabilities		50,209	64,459	43,180	53,647	35,432	14,700	-3,916	-12,414	124,905	120,392
Group's indivisible liabilities										58,339	48,325
TOTAL LIABILITIES										183,244	168,717
CASH FLOWS											
- from operating activities		38,361	47,004	2,634	-14,495	3,615	9,134	342	0	44,952	41,643
- from investing activities		2,334	15,587	-739	-633	-6,144	-7,505	-8,355	2,310	-12,904	9,759
- from financing activities		-41,451	-46,024	-2,165	15,183	728	1,349	8,013	-2,310	-34,875	-31,802
Capital expenditure		30,005	34,574	738	634	6,465	8,048	0	0	37,208	43,256
Depreciation charge for the year		15,697	16,457	940	857	2,267	2,059	0	0	18,904	19,373

22 SEGMENT REPORTING (CONTINUED)

EUR '000	Note	Estonia		Finland		Lithuania		Eliminations		Consolidated	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
INCOME STATEMENT											
Revenue from external customers		24,843	26,097	22,678	15,765	8,185	4,920	0	0	55,706	46,782
Inter-segment revenue		3,584	1,651	3	3	56	88	-3,643	-1,742	0	0
TOTAL REVENUE		28,427	27,748	22,681	15,768	8,241	5,008	-3,643	-1,742	55,706	46,782
OPERATING PROFIT		1,893	2,615	735	448	568	231	3	-2	3,199	3,292
Net financing income / costs	23									556	2,756
Share of profit of associates	9	-260	5	0	0	0	0	0	0	-260	5
Income tax expense	24	-541	-410	-186	-106	-80	-44	0	0	-807	-560
PROFIT FOR THE PERIOD										2,688	5,493
BALANCE											
Segment assets		21,576	22,348	5,867	5,772	5,397	3,553	-260	-797	32,580	30,876
Investment in associates		1,144	1,404	0	0	0	0	0	0	1,144	1,404
Group's indivisible assets										4,750	13,756
TOTAL ASSETS										38,474	46,036
Segment liabilities		3,208	4,120	2,760	3,429	2,265	940	-250	-795	7,983	7,694
Group's indivisible liabilities										3,728	3,088
TOTAL LIABILITIES										11,711	10,782
CASH FLOWS											
- from operating activities		2,452	3,004	168	-926	231	583	22	0	2,873	2,661
- from investing activities		149	997	-47	-40	-393	-480	-534	148	-825	625
- from financing activities		-2,649	-2,941	-138	970	46	86	512	-148	-2,229	-2,033
Capital expenditure		1,919	2,210	47	40	413	515	0	0	2,379	2,765
Depreciation charge for the year		1,003	1,053	60	54	145	132	0	0	1,208	1,239

In presenting information on the basis of geographical segments, segment revenue and assets are based on the geographical location of the assets. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated to it on a reasonable basis.

The Group's unallocated assets comprise the financial assets available-for-sale and other long-term financial investments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

22 SEGMENT REPORTING (CONTINUED)

22.2. Segment revenue based on the geographical location of customers

FOR THE YEAR ENDED 31 DECEMBER	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
EEK '000										
Estonia	324,060	299,469	45	45	880	1,331	-920	-1,422	324,065	299,423
Finland	103,914	64,632	338,771	243,608	672	2,428	-52,674	-23,631	390,683	287,037
Lithuania	5,262	3,484	0	0	96,882	63,354	-3,398	-2,204	98,746	64,634
Other EU countries	11,200	59,100	16,057	3,060	19,838	4,103	0	0	47,095	66,263
Non-EU countries	348	7,474	0	0	10,673	7,154	0	0	11,021	14,628
TOTAL	444,784	434,159	354,873	246,713	128,945	78,370	-56,992	-27,257	871,610	731,985
EUR '000										
Estonia	20,712	19,140	3	3	56	85	-59	-91	20,712	19,137
Finland	6,641	4,130	21,652	15,569	43	155	-3,367	-1,510	24,969	18,344
Lithuania	336	223	0	0	6,192	4,049	-217	-141	6,311	4,131
Other EU countries	716	3,777	1,026	196	1,268	262	0	0	3,010	4,235
Non-EU countries	22	478	0	0	682	457	0	0	704	935
TOTAL	28,427	27,748	22,681	15,768	8,241	5,008	-3,643	-1,742	55,706	46,782

In presenting information on the basis of markets, segment revenue is based on the geographical location of customers.

22.3. Group's business segment report – secondary segment

The annual financial statements reflect the main activity of the Group which is the production and sales of equipment for power distribution and control and associated activities. As at 31 December 2008 the Group was active in the following fields and the accompanying risks and rewards were very different. Each field of activity had enough weight to form a separate segment:

“Manufacturing” – The manufacture and sale of power distribution and control systems as well as data and communications systems and fibre optic cables and various sheet metal products and subcontracting in the area of sheet metal works; research and development; services related to manufacturing and intermediary sale of components.

“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.

BALANCE AT 31 DECEMBER	Revenue from external customers		Assets		Capital expenditure	
	2008	2007	2008	2007	2008	2007
EEK '000						
Manufacturing	769,242	609,551	363,585	328,624	29,829	26,906
Real estate	36,536	35,591	137,994	137,616	5,387	14,013
Unallocated activities	65,832	86,843	26,200	38,836	1,993	2,337
Group's indivisible assets	0	0	74,323	215,236	0	0
TOTAL	871,610	731,985	602,102	720,312	37,209	43,256
EUR '000						
Manufacturing	49,164	38,957	23,237	21,003	1,907	1,720
Real estate	2,335	2,275	8,819	8,795	344	896
Unallocated activities	4,207	5,550	1,675	2,482	128	149
Group's indivisible assets	0	0	4,750	13,756	0	0
TOTAL	55,706	46,782	38,481	46,036	2,379	2,765

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

23 INCOME STATEMENT LINE ITEMS

FOR THE YEAR ENDED 31 DECEMBER	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
REVENUE					
Electrical equipment		678,526	531,046	43,366	33,940
Boxes for telecom sector and services		35,020	32,148	2,238	2,055
Sheet metal products and services		24,300	21,405	1,553	1,368
Intermediary sale of electrical products and components		88,355	102,517	5,647	6,552
Commerce and mediation of services		8,507	9,331	544	596
Rental income	13	29,142	28,104	1,862	1,796
Other services		7,760	7,434	496	475
TOTAL		871,610	731,985	55,706	46,782
COST OF SALES					
Goods and materials		-533,832	-475,546	-34,118	-30,393
Services		-48,107	-28,984	-3,075	-1,852
Personnel expenses (see below)		-119,707	-106,153	-7,651	-6,784
Depreciation and amortisation		-15,551	-15,036	-994	-961
Other		-9,034	-7,056	-577	-452
Change in work in progress and finished goods inventories		-7,236	37,455	-462	2,394
TOTAL		-733,467	-595,320	-46,877	-38,048
DISTRIBUTION COSTS					
Services purchased		-7,343	-6,435	-469	-412
Personnel expenses (see below)		-22,615	-21,125	-1,446	-1,350
Depreciation and amortisation		-897	-911	-57	-58
Other		-7,930	-8,372	-507	-535
TOTAL		-38,785	-36,843	-2,479	-2,355
ADMINISTRATIVE EXPENSES					
Services purchased		-5,911	-5,515	-378	-352
Personnel expenses (see below)		-29,838	-32,059	-1,907	-2,049
Depreciation and amortisation		-2,456	-2,140	-157	-137
Other		-10,553	-8,023	-675	-513
TOTAL		-48,758	-47,737	-3,117	-3,051
Incl. development costs		-7,434	-7,629	-475	-488
PERSONNEL EXPENSES ALLOCATED TO COST OF SALES, DISTRIBUTION AND ADMINISTRATIVE EXPENSES:					
Salaries and other remuneration		-132,402	-116,231	-8,462	-7,429
Social and other taxes on salaries and other remuneration		-38,423	-35,352	-2,456	-2,259
Accruals		-1,335	-7,525	-86	-481
TOTAL		-172,160	-159,108	-11,004	-10,169

23 INCOME STATEMENT LINE ITEMS (CONTINUED)

Note	EEK '000		EUR '000	
	2008	2007	2008	2007
OTHER INCOME				
Gains on sale of property, plant and equipment	13	66	1	5
Interest on arrears and penalty payments received	25	113	2	7
Foreign exchange gain	2	0	0	0
Other	284	410	18	26
TOTAL OTHER INCOME	324	589	21	38
OTHER EXPENSES				
Losses on disposal of property, plant and equipment	0	-22	0	-1
Interest on arrears, penalty payments and similar items paid	-114	-323	-7	-21
Gifts and donations made	-469	-642	-30	-41
Other	-277	-179	-18	-11
TOTAL OTHER EXPENSES	-860	-1,166	-55	-74
FINANCE INCOME				
Interest income	564	329	36	22
Dividend income	11,125	12,663	711	810
Income from sale of financial assets	10	32,816	0	2,097
TOTAL FINANCE INCOME	11,689	45,808	747	2,929
FINANCE COSTS				
Loss incurred by sale of participation	0	0	0	0
Interest expense	-2,944	-2,634	-188	-168
Net loss from foreign exchange differences	-51	-55	-3	-4
TOTAL FINANCE COSTS	-2,995	-2,689	-191	-172

24 INCOME TAX EXPENSE

Theoretical income tax incurred on the Group's profit differs from the actual income tax expense for the reasons stated in the following table.

	Estonia		Finland		Lithuania		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
EEK '000								
Profit (loss) before income tax	35,551	84,912	10,772	6,267	8,367	3,525	54,690	94,700
Income tax rate	0%	0%	26%	26%	15%	18%		
Theoretical income tax expense	0	0	-2,801	-1,630	-1,255	-634	-4,056	-2,264
Income tax expense on dividends	-8,465	-6,412	0	0	0	0	-8,465	-6,412
Effect of non-taxable income	0	0	0	0	77	40	77	40
Effect of non-taxable expenses	0	0	-113	-26	-72	-103	-185	-129
Income tax expense	-8,465	-6,412	-2,914	-1,656	-1,250	-697	-12,629	-8,765
EUR '000								
Profit (loss) before income tax	2,272	5,427	688	401	535	225	3,495	6,053
Income tax rate	0%	0%	26%	26%	15%	18%		
Theoretical income tax expense	0	0	-179	-104	-80	-41	-259	-145
Income tax expense on dividends	-541	-410	0	0	0	0	-541	-410
Effect of non-taxable income	0	0	0	0	5	3	5	3
Effect of non-taxable expenses	0	0	-7	-2	-5	-6	-12	-8
Income tax expense	-541	-410	-186	-106	-80	-44	-807	-560

There are no deferred income tax liabilities in the Lithuanian and Finnish subsidiaries.

25 BASIC AND DILUTED EARNINGS PER SHARE

	Unit	EEK		EUR	
		2008	2007	2008	2007
Profit attributable to equity holders of the parent	'000	38,551	84,456	2,464	5,398
Average number of shares outstanding during the period	'000	16,800	16,800	16,800	16,800
Basic and diluted earnings per share		2.29	5.03	0.15	0.32

26 CASH FLOW STATEMENT LINE ITEMS

FOR THE YEAR ENDED 31 DECEMBER	Note	EEK '000		EUR '000	
		2008	2007	2008	2007
CORPORATE INCOME TAX PAID					
Income tax expense	24	-12,629	-8,765	-807	-560
Prepayment decrease (+)/ increase (-), liability decrease (-)/ increase (+)	18	1,549	-2,444	99	-157
CORPORATE INCOME TAX PAID		-11,080	-11,209	-708	-717
INTEREST PAID					
Interest expense	23	-2,944	-2,634	-188	-168
Liability decrease (-)/ increase (+) incurred by purchase	17	164	11	10	1
INTEREST PAID		-2,780	-2,623	-178	-167
PAID FOR PROPERTY, PLANT AND EQUIPMENT					
Additions of property, plant and equipment	12	-30,864	-28,518	-1,973	-1,823
Acquired with finance lease	12	10,890	1,057	696	68
Liability decrease (-)/ increase (+) incurred by purchase	17	1,749	-325	112	-21
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		-18,225	-27,786	-1,165	-1,776
PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT					
Book value of disposed property, plant and equipment	12	0	136	0	9
Profit on disposal of property, plant and equipment		13	43	1	3
PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT		13	179	1	12
INTEREST RECEIVED					
Interest income	23	564	329	36	22
Interest receivable decrease (+)/ increase (-)	6	-36	6	-2	0
INTEREST RECEIVED		528	335	34	22

27 TRANSACTIONS WITH RELATED PARTIES

Related parties

The related parties of AS Harju Elekter include associated company AS Draka Keila Cables; members of the management and supervisory boards and their close family members; and AS Harju KEK which owns 32.15 percent of the shares of AS Harju Elekter.

Transactions with related parties

FOR THE YEAR ENDED 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
PURCHASE OF GOODS AND SERVICES FROM RELATED PARTIES:				
- from associates	9,853	14,563	630	930
- from Harju KEK	761	588	49	38
TOTAL	10,614	15,151	679	968
<u>Inclusive:</u>				
- goods and materials for manufacturing	9,854	14,548	630	930
- lease of property, plant and equipment	700	536	45	34
- other	60	67	4	4
SALE OF GOODS AND SERVICES TO RELATED PARTIES:				
- to associates	10,586	12,175	677	778
- to Harju KEK	85	221	5	14
TOTAL	10,671	12,396	682	792
<u>Inclusive:</u>				
- goods and materials for manufacturing	364	828	23	53
- lease of property, plant and equipment	6,292	6,685	403	427
- management services	2,713	2,713	173	173
- other	1,302	2,170	83	139
PURCHASE OF ASSETS FROM HARJU KEK				
- land	0	2,768	0	177
- buildings	0	11,882	0	759
TOTAL	0	14,650	0	936
REMUNERATION TO MANAGEMENT AND SUPERVISORY BOARDS				
- salaries, bonuses, additional remuneration	4,196	3,789	268	242
- fringe benefits	69	143	4	9
TOTAL	4,265	3,932	272	251
BALANCES WITH RELATED PARTIES				
Receivables with associates: goods and services	1,970	243	126	16
Payables with associates: goods and services	264	60	17	4

The Group does not give the members of the Management Board any benefits related to pension. Chairman of the Management Board has the right to receive severance pay. No other transactions with members of the Group's governing bodies and people connected to them were carried out.

Guarantees and pledges

The Group guarantees the long-term bank loans of the associate which is due to be settled on 10 May 2009 (Note 20).

28 FINANCIAL INFORMATION OF PARENT COMPANY

The financial information of parent company comprises of separate principal reports of parent company, disclosure of which is required by Estonian Accounting Law.

The primary financial statements of the Parent Company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries and associates are reported at cost in the unconsolidated financial statements of Parent Company.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER	EEK '000		EUR '000	
	2008	2007	2008	2007
REVENUE , inclusive:				
Sales of electrical equipment and components	59,619	75,728	3,810	4,840
Rental income from real estate	49,631	49,362	3,172	3,155
Management activities	5,703	7,988	365	510
TOTAL	114,953	133,078	7,347	8,505
Cost of sales	-74,483	-90,268	-4,760	-5,769
GROSS PROFIT	40,470	42,810	2,587	2,736
Other income	125	1,114	8	71
Distribution expenses	-10,385	-9,760	-664	-624
Administrative expenses	-16,806	-18,231	-1,074	-1,165
Other expenses	-610	-707	-39	-45
OPERATING PROFIT	12,794	15,226	818	973
Income from subsidiaries	6,755	3,949	432	253
Income from associates	0	1,286	0	82
Income from available-for-sale financial assets				
-Dividend income	11,125	12,663	711	810
-Income from sale	0	32,816	0	2,097
Interest income	629	335	40	21
Interest expense	-1,193	-1,207	-76	-77
Foreign exchange loss	-12	-14	-1	-1
PROFIT BEFORE TAX	30,098	65,054	1,924	4,158
Corporate income tax expense	-7,136	-5,910	-456	-378
PROFIT FOR THE PERIOD	22,962	59,144	1,468	3,780

BALANCE SHEET	EEK '000		EUR '000	
	2008	2007	2008	2007
BALANCE AT 31 DECEMBER				
ASSETS				
Cash and cash equivalents	1,225	8,541	78	546
Trade receivables	6,912	10,215	442	652
Receivables from related parties	3,449	10,435	220	667
Other receivables and prepayments	627	363	40	23
Inventories	7,706	9,448	493	604
TOTAL CURRENT ASSETS	19,919	39,002	1,273	2,492
Investments in subsidiaries	44,459	44,459	2,841	2,841
Investments in associates	8,840	8,840	565	565
Other investments	74,323	219,786	4,750	14,047
Investment property	168,524	166,040	10,771	10,612
Property, plant and equipment	15,324	10,213	980	653
Intangible assets	1,395	1,092	89	70
TOTAL NON-CURRENT ASSETS	312,865	450,430	19,996	28,788
TOTAL ASSETS	332,784	489,432	21,269	31,280
LIABILITIES				
Loans	14,601	8,762	933	560
Trade payables	6,478	6,489	414	415
Payables to related parties	0	69	0	4
Tax liabilities	1,466	2,364	94	151
Other payables and advances received	4,463	5,658	285	362
Total current liabilities	27,008	23,342	1,726	1,492
Non-current portion of loans	2,191	10,953	140	700
TOTAL LIABILITIES	29,199	34,295	1,866	2,192
EQUITY				
Share capital	168,000	168,000	10,737	10,737
Share premium	6,000	6,000	383	383
Reserves	69,745	207,259	4,457	13,246
Retained earnings	59,840	73,878	3,826	4,722
TOTAL EQUITY	303,585	455,137	19,403	29,088
TOTAL LIABILITIES AND EQUITY	332,784	489,432	21,269	31,280

STATEMENT OF CASH FLOWS	EEK '000		EUR '000	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit	12,794	15,226	818	973
Adjustments for				
Depreciation, amortisation and impairment losses	8,269	8,142	528	521
Gain / loss on sale of property, plant and equipment	0	-24	0	-2
Other non-monetary expenses	11	258	1	17
Change in receivables related to operating activity	2,783	9,228	178	590
Change in inventories	1,742	631	111	40
Change in payables related to operating activity	-4,097	-330	-262	-21
Corporate income tax paid	-7,136	-5,910	-456	-378
Interest paid	-1,024	-1,202	-66	-77
NET CASH FROM OPERATING ACTIVITIES	13,342	26,019	852	1,663
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment and intangible assets	-15,129	-25,097	-967	-1,604
Proceeds from sale of property, plant and equipment	744	27	48	2
Acquisition of financial assets	0	0	0	0
Proceeds from sale of financial assets	0	39,056	0	2,496
Loans given	-35	-13,757	-2	-879
Repayment of loans given	11,753	2,038	751	130
Interest received	665	303	42	19
Dividends received	17,880	16,612	1,143	1,062
NET CASH USED IN / FROM INVESTING ACTIVITIES	15,878	19,182	1,015	1,226
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans received	5,838	0	373	0
Repayment of loans received	-8,762	-8,762	-560	-560
Payment of finance lease liabilities	0	0	0	0
Dividends paid	-33,600	-30,240	-2,147	-1,933
NET CASH USED IN FINANCING ACTIVITIES	-36,524	-39,002	-2,334	-2,493
NET CASH FLOWS	-7,304	6,199	-467	396
Cash and cash equivalents at beginning of period	8,541	2,356	546	151
Net increase	-7,304	6,199	-467	396
Effect of exchange rate fluctuations on cash held	-12	-14	-1	-1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,225	8,541	78	546

STATEMENT OF CHANGES IN EQUITY	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL	
EEK '000							
BALANCE AT 31 DECEMBER 2006	168,000	6,000	11,000	320,552	47,374	552,926	
Profit for the period	0	0	0	0	59,144	59,144	
Income recognised directly in equity	0	0	0	-126,693	0	-126,693	
Total income for 2007	0	0	0	-126,693	59,144	-67,549	
Dividends	0	0	0	0	-30,240	-30,240	
Capitalisation issue	0	0	2,400	0	-2,400	0	
BALANCE AT 31 DECEMBER 2007	168,000	6,000	13,400	193,859	73,878	455,137	
Profit for the period	0	0	0	0	22,962	22,962	
Income recognised directly in equity	0	0	0	-140,914	0	-140,914	
Total income for 2008	0	0	0	-140,914	22,962	-117,952	
Dividends	0	0	0	0	-33,600	-33,600	
Transfer to capital reserve	0	0	3,400	0	-3,400	0	
BALANCE AT 31 DECEMBER 2008	168,000	6,000	16,800	52,945	59,840	303,585	
EUR '000							
BALANCE AT 31 DECEMBER 2006	10,737	383	703	20,487	3,028	35,338	
Profit for the period	0	0	0	0	3,780	3,780	
Income recognised directly in equity	0	0	0	-8,097	0	-8,097	
Total income for 2007	0	0	0	-8,097	3,780	-4,317	
Dividends	0	0	0	0	-1,933	-1,933	
Capitalisation issue	0	0	153	0	-153	0	
BALANCE AT 31 DECEMBER 2007	10,737	383	856	12,390	4,722	29,088	
Profit for the period	0	0	0	0	1,468	1,468	
Income recognised directly in equity	0	0	0	-9,006	0	-9,006	
Total income for 2008	0	0	0	-9,006	1,468	-7,538	
Dividends	0	0	0	0	-2,147	-2,147	
Transfer to capital reserve	0	0	217	0	-217	0	
BALANCE AT 31 DECEMBER 2008	10,737	383	1,073	3,384	3,826	19,403	
AT 31 DECEMBER							
				EEK'000		EUR'000	
				2008	2007	2008	2007
UNCONSOLIDATED EQUITY			303,585	455,137		19,403	29,088
Interests under control and significant influence:							
-carrying amount			-53,299	-53,299		-3,406	-3,406
-carrying amount under the equity method			147,020	131,315		9,396	8,393
RESTATED UNCONSOLIDATED EQUITY			397,306	533,153		25,393	34,075

SIGNATURES TO THE ANNUAL REPORT OF 2008

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2008.

26th February 2009

/signature/ Andres Allikmäe Chairman of the Management Board	/signature/ Lembit Libe Member of the Management Board	/signature/ Karin Padjus Member of the Management Board
---	---	--

Supervisory board:

The supervisory board has reviewed the annual report prepared by the management board (pp. 9-75), including an activity report and annual financial statements, and has approved its presentation to the general meeting of the shareholders.

1st April 2009

/signature/ Endel Palla Chairman of the Supervisory Board	/signature/ Ain Kabal Member of the Supervisory Board	/signature/ Madis Talgre Member of the Supervisory Board	/signature/ Andres Toome Member of the Supervisory Board
--	--	---	---



KPMG Baltics AS
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Harju Elekter

We have audited the accompanying consolidated financial statements of AS Harju Elekter, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 33 to 75.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Harju Elekter as of 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 27 March 2009

KPMG Baltics AS

/signature/

Andres Root
Authorized Public Accountant

/signature/

Indrek Alliksaar
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EEK '000	EUR '000
Retained earnings of preceding periods	114,894	7,344
Profit for 2008	38,551	2,464
Total distributable profits at 31 December 2008	153,445	9,808

The management board proposes that profits be allocated as follows:

Dividend distribution (EEK 1.00 / € 0.064 per share)	16,800	1,074
Retained earnings after allocations	136,645	8,734

26th February 2009

/signature/	/signature/	/signature/
Andres Allikmäe Chairman of the Management Board	Lembit Libe Member of the Management Board	Karin Padjus Member of the Management Board

INFORMATION ABOUT THE SUPERVISORY AND MANAGEMENT BOARDS

ENDEL PALLA (19.06.1941)

Chairman of the Supervisory Board

Education Tallinn University of Technology, engineer

Career

1969 – 1985 Harju KEK, manager of electrical equipment production division
1985 – 1999 Harju Elekter, included 1991 – 1999 AS Harju Elekter CEO/Ch of the Management Board
since 1999 Ch of the Supervisory Board of AS Harju Elekter

Participation in the management bodies of business organisations

AS Eltek, AS Harju Elekter Elektrotehnika – Ch of the Supervisory Board; AS Draka Keila Cables – Deputy of the Chairman of the Supervisory Board; AS Harju KEK, AS Kelmo, AS Laagri-Vara – member of the Supervisory Board; Satmatic Oy – Ch of the Management Board; PKC Group Oyj, Rifas UAB – member of the Management Board

Endel Palla owns 951,000 of Harju Elekter shares. He has direct participation 5.66% and indirect participation 0.33%.

AIN KABAL (10.06.1962)

Member of the Supervisory Board

Education University of Tartu, lawyer

Career

1985 – 1989 Forensic Science Laboratory, specialist
1990 – 1992 EKE International, lawyer
1993 – 2001 BCLO Law Office OÜ, manager
2001 – 2003 Sorainen Law Offices, consultant

2004 – 2006 Hansa Law Offices OÜ, partner
2001 – Kabal & Partners OÜ and OÜ Investkonsult manager

Participation in the management bodies of business organisations

Investkonsult OÜ – manager
Lincona Konsult AS – Ch of the Supervisory Board

Ain Kabal owns 3,660 Harju Elekter shares. He has direct participation in share capital 0.02%. He doesn't have indirect holdings.

LEMBIT KIRSME (1.01.1941)

Member of the Supervisory Board

Education Tallinn University of Technology, engineer

Career

1965 – 1970 Factory Punane RET, engineer
1970 – 1977 Agricultural Electrical Appliances Plant Estron, engineer
1977 – 1984 Harju KEK, engineer
1984 – 1985 Special Construction Technological Company, engineer
1985 – 1991 ETE Harju Elekter, manager

1991 – 2006 Devest AS, manager
1999 – Harju KEK AS, Ch of the Supervisory Board

Participation in the management bodies of business organisations

Harju KEK AS, Laagri Vara AS – Ch of the Supervisory Board; Haret AS, Entek AS, KMV AS, Harju Elekter AS, EKE Invest AS – member of the Supervisory Board; Satmatic Oy – member of the Management Board.

Lembit Kirsme owns 1,400,000 of Harju Elekter shares. He has direct participation 8.33% and indirect participation 0.72%.

MADIS TALGRE (17.04.1960)

Member of the Supervisory Board

Education Tallinn University of Technology, engineer

Career

1983 – 1987 Põlva KEK, engineer
1987 – 1990 Põlva KEK, production manager
1990 – 1999 Põlva KEK, manager
1999 – Harju KEK, manager

Participation in the management bodies of business organisations

Põlva Koit AS, AS Harju KEK subsidiaries – Ch of the Supervisory Board; AS Harju Elekter, EKE Invest AS and its subsidiaries, Liimpuit AS – member of the Supervisory Board; Laagri Vara AS – member of the Management Board

Madis Talgre owns 19,000 Harju Elekter shares. He has direct participation in share capital 0.12%. He doesn't have indirect holdings.

ANDRES TOOME (9.01.1972)

Member of the Supervisory Board

Education Tallinn University of Technology, economics and business administration

Career

1992 – 1999 Estonian Bank, Estonian Investment Bank, Optiva Bank and Sampo Bank Estonia, head of investment dept.
1999 – OÜ Tradematic, manager

Participation in the management bodies of business organisations

AS Lynn Group, AS Tallinna Olümpiapurjespordikeskus – member of the Supervisory Board; OÜ Tradematic, OÜ Jaama Kinnisvara, OÜ Norber Grupp, Ladina Kavartali Kinnisvara OÜ, OÜ M50 – member of the Management Board.

Andres Toome has direct participation in company's share capital 0.00% and indirect participation 0.06%.

Totally, the members of the Supervisory Board owned 2,373,660 shares, which is in accordance with their direct involvement in the holding 14.13% and 1.11% indirect ownership.

ANDRES ALLIKMÄE (7.02.1957)

Chairman of the Management Board

Education Tallinn University of Technology, engineer

Career

1982 – 1991 Harju Elekter, engineer and head of department
1991 – 1999 Managing director of AS Harju Elekter Cable
Harnesses Factory
1999 – Chairman of the Board and Managing director
of AS Harju Elekter

Participation in the management bodies of business organisations

AS Harju Elekter Elektrotehnika, AS Eltek, AS Draka Keila Cables, AS Saajos – member of the Supervisory Board; Rifas UAB, Satmatic OY – member of the Management Board

Andres Allikmäe owns 185,800 of Harju Elekter shares. He has direct participation 1.11%. He doesn't have indirect holdings.

LEMBIT LIBE (21.02.1946)

Member of the Management Board

Education Tallinn Polytechnic School, Construction Economics and Organization

Career

1982 – 1991 Harju Elekter, chief economist and head of department
1991 – 1991 Hanko, chief accountant
1991 – AS Harju Elekter, chief economist

Participation in the management bodies of business organisations

AS Eltek, AS Harju Elekter Elektrotehnika – member of the Supervisory Board.

Lembit Libe owns 19,500 of Harju Elekter shares. He has direct participation 0.12%. He doesn't have indirect holdings.

KARIN PADJUS (1.06.1948)

Member of the Management Board

Education Tartu University, accountant

Career

1979 – 1985 KEK, deputy of chief accountant
1985 – 2007 Harju Elekter, chief accountant
2007 – AS Harju Elekter, financial director

Participation in the management bodies of business organisations

AS Eltek, AS Harju Elekter Elektrotehnika – member of the Supervisory Board.

Karin Padjus owns 110,193 of Harju Elekter shares. She has direct participation 0.66% and indirect participation 0.25%.

Totally, the members of the Management Board owned 315,493 shares, which is in accordance with their direct involvement in the holding 1.89% and 0.25% indirect ownership.

STATISTICAL SUMMARY

Group	1 EUR=15,6466 EEK	2008	2007	2006	2005	2004
Consolidated income statement (1000 EEK)						
Turnover		871.6	732.0	622.1	513.9	453.8
Operating profit		50.1	51.5	45.2	37.5	31.2
Net profit ³ (belonging to the owners of the Parent)		38.6	84.5	47.3	41.7	56.2
Consolidated balance as of the end of year (1000 EEK)						
Total current assets		249.4	241.0	169.4	163.6	142.1
Total fixed assets		352.6	479.3	588.4	532.8	498.5
Total assets		602.0	720.3	757.7	696.4	640.6
Owners equity (belonging to the owners of the Parent)		397.2	533.2	605.6	552.2	521.0
Equity ratio (%)		66.0	74.0	79.9	79.3	81.3
Rates of growth (%)						
Growth in net sales		19.1	17.7	21.1	13.3	32.6
Operating profit growth		-2.8	14.0	20.5	20.2	56.7
Net profit growth		-54.3	78.6	13.6	-25.9	25.0
Assets growth		-16.4	-4.9	8.8	8.7	32.6
Owners equity growth (belonging to the owners of the Parent)		-25.5	-12.0	9.7	6.0	33.9
Performance indicators (%)						
Return on sales		5.7	7.0	7.3	7.3	6.9
Net profit margin		4.4	11.5	7.6	8.1	12.0
Return on assets		5.8	11.4	6.5	6.2	10.0
Return on equity		8.3	14.8	8.2	7.8	12.0
Shares (EEK)⁴						
Average number of shares (1000 pc)		16,800	16,800	16,800	16,401	16,200
Shareholders' equity per share		23.64	33.89	34.46	31.94	27.75
The closing price		15.49	53.2	64.93	64.15	47.46
EPS		2.29	5.03	2.81	2.48	3.43
P/E		6.76	10.58	23.06	25.87	13.85
Dividend per share		⁵ 1.00	2.00	1.80	1.60	1.47
Liquidity ratio						
Current ratio		1.6	1.6	1.6	1.7	1.8
Quick ratio		0.8	0.8	0.9	0.9	1.0
Personnel and remuneration						
Number of employees at the end of the period		515	486	427	425	405
Average number of employees		501	442	439	412	378
Wages and salaries (million kroons)		132.4	116.2	86.6	73.9	61.2

Return on sales	= operating profit/net sales*100
Net profit margin	= net profit (belonging to the owners of the Parent)/net sales*100
Shareholders' equity per share	= Average owners equity/average number of shares
Return on assets	= net profit/ Average total assets *100
Return on equity	= net profit/ Average owners equity *100
Equity ratio	= owners equity(belonging to the owners of the Parent)/assets*100
Current ratio	= current assets/ current liabilities
Quick ratio	= liquid assets/current liabilities

³ Net profits of the previous periods have been corrected due to changes in the accounting principles

⁴ The indicators have been corrected retroactively taking into account the bonus issue in May 2005

⁵ Proposal of the Management Board

AS HARJU ELEKTER

Paldiski mnt 31, 76606 Keila, Estonia
Tel +372 674 7400
Fax +372 674 7401
he@he.ee
www.harjuelekter.ee

AS Harju Elekter Elektrotehnika

Paldiski mnt 31, 76606 Keila, Estonia
Tel +372 674 7449
Fax +372 674 7441
mail@he.ee
www.harjuelekter.ee/elektrotehnika

AS Eltek

Paldiski mnt 31, 76606 Keila, Estonia
Tel +372 674 7495
Fax +372 674 7499
eltek@eltek.ee
www.eltek.ee

UAB Rifas

Tinklu Str. 35 R, LT-35115 Panevėžys, Lithuania
Tel +370 (45) 58 2728
Fax +370 (45) 58 2729
info@rifas.lt
www.rifas.lt

Satmatic OY

Sammontie 9, FIN-28400 Ulvila, Finland
Tel +358 (2) 537 9800
Fax +358 (2) 537 9810
satmatic@satmatic.fi
www.satmatic.fi

AS Draka Keila Cables

Paldiski mnt 31, 76606 Keila, Estonia
Tel +372 674 7466
Fax +372 674 7468
info@draka.ee
www.drakakeila.ee