



ANNUAL REPORT 2012

Translation from Estonian original

Business name	AS Harju Elekter
Main business area:	production of electrical distribution systems and control panels; production of sheet metal products; wholesale and mediation of light fittings and electrical appliances; real estate holding; management assistance and services
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CEO:	Andres Allikmäe
Auditor:	KPMG Baltics OÜ
Beginning of the reporting period:	1 st of January
End of the reporting period:	31 st of December
Added documents to the annual report:	<ul style="list-style-type: none">• Auditor's report• Profit allocation proposal

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ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

In 2012 the net sales of the Group continued to grow. The production of electrical equipment in Estonia exceeded the level of the pre-crisis year 2008. The brainwork of engineers and good sales skills have helped to increase the sales outside of Estonia. The Group has entered into new markets all over the world: Australia, North America, the Far East and new countries in Europe.

We have started to think “green”. We use solar power to produce electricity for all our production plants in Estonia, Finland and Lithuania. In Finland we are the market leaders for producing car pre-heating panels for parking lots. The Group is planning to start also the production of “smart” loading panels for electric cars.

No doubt that the annual intra-group innovation competition for developing new products and solutions has had a positive effect on the development of the Group, as well as on the motivation of engineers working here. By addressing the subject of innovation the Group has ensured a higher technical level of the company's products, increased productivity and found new customers.

2012 was a kind of anniversary year for the Group. 20 years ago Harju Elekter founded such joint enterprises as ABB Harju Elekter (15 September), Draka Keila Cables (14 December) and Glamox HE (15 December). All of them have become strong and successful companies operating in the Keila Industrial Park. The vehicle wiring plant, PKC Eesti, founded by the Group has been recognised as the most successful company in Estonia. Ten year ago, on September 19, we bought our Finnish subsidiary, Satmatic Oy. In autumn 2013 forty five years will pass since the beginning of the production of electrical equipment in Keila. This could justifiably be considered as the foundation of the Group. We are proud that thanks to our persistent work we have been able to create in Keila more than 2,000 jobs that altogether turn out production for value that exceeds 300 million euros.

Harju Elekter belongs among these large enterprises whose continuous development and stability ensure high levels of employment. As a large enterprise we feel that it is our responsibility to ensure the sustainable development of the Group in order to contribute to the reinforcement of the country's economy.

Stock prices on the Estonian security market started to increase last year and so did the prices of shares of AS Harju Elekter increasing within a year by 15.8% up to 2.64 euros. During unstable times the fact that our shares are stock dividend shares is even more important than the fluctuation in the prices of shares. AS Harju Elekter has been one of the few publicly traded companies who have paid dividend to its shareholders all the time it has been listed on the stock exchange. The list of shareholders that increases year by year shows that a lot of people value highly the trustworthiness and the stable dividend policy of the company.

The successful operation of AS Harju Elekter as an international Group and manufacturing enterprise has been noticed and recognised. The Harju county governor awarded AS Harju Elekter with the title “Company of the year” and gave the manager of the company the honorary decoration of the county.

On behalf of the Supervisory Board I would like to thank all our customers, partners, shareholders and employees.

/signature/

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE MANAGING DIRECTOR/CEO

The world's diverse and unstable economic situation has accustomed us with the idea of the so called "new reality". Although some regions in the world have shown a swinging growth, it is not a general phenomenon. Most of the specialists are of the opinion that it is difficult to determine trends or estimate possible developments in Europe i.e. on the market that is still extremely important to the world's economy as well as for Estonia. However, perspectives seem quite good and the solutions for these problems are mainly in our own hands. Maybe it is the new reality that we have to get used to and learn to deal with, as well as find new opportunities from it.

The year 2012 was successful for the Harju Elekter Group. The net sales of the Group were the second best of all times increasing by 13% and amounting to 52.8 million euros. The operating profit that was influenced by the instability of markets, as well as customers' decisions driven by the tough competition remained at the same level as in the previous year. However, we were able to increase our consolidated net sales by 22% to 3.6 million euros. The net profit per share increased from 0.17 euros to 0.21 euros. The Group observed and managed cash flows carefully and, therefore, by the end of the year we were practically free of debts. We only used short-term credits to support our operation.

While seeking growth and new business opportunities we have focused more on Scandinavian markets. Thanks to several successful projects we have extended and intensified our geographical scope. Ukraine and Switzerland were entered as new markets. The business was most successful in Sweden, Germany and Belorussia. Our home market remained stable.

The year 2012 was eventful as all other years before that. The Group participated in the construction of the largest integrated biogas plant in the world with the capacity of 140 MW opened in Finland last year. The Group increased substantially its production and sales in the area of renewable and green energy equipment. More electricity for self-consumption was produced on the basis of solar energy which may be moderate in terms of the whole consumption but is still important as a benchmark. The total capacity of the relevant equipment used in the Group amounted to 100 kW. The electrical engineering development carried out in the Keila production centre was consolidated into the Development Centre. This gives a good opportunity to focus more on customer service and innovation activities. In autumn we will celebrate several important events - the 15th anniversary of AS Harju Elekter being listed on the Tallinn Stock Exchange and the 10th anniversary of the merger of the Finnish subsidiary, Satmatic Oy, with the Group. The Group increased its share in its Lithuanian subsidiary to 63%.

Harju Elekter has supported technical higher and vocational education for years. In order to promote professions related to electricity and to improve the professional knowledge and skills of our personnel we have been a long-term sponsor and co-operation partner of the Development Fund of the Tallinn University of Technology and we participate actively in the work of professional and business associations.

The year 2013 is the 45th year of operation of Harju Elekter Group. All these years we have been a direction indicator in the area of production of electrical installations and materials offering its customers the best technical solutions, uncompromising quality and the development supporting their activities. We have learnt a lot from our customers and partners. Constant learning, know-how and continually accumulating experience will ensure our success in the future.

I would like to thank our customers and partners for the co-operation that has been successful for all parties. I would also like to acknowledge and thank all our employees in every company of the Group. My gratitude also goes to the shareholders of AS Harju Elekter for their trust and continuous support and I hope that our co-operation continues to be successful also in the forthcoming years.

/signature/

Andres Allikmäe
Managing Director/CEO

MANAGEMENT REPORT

ORGANISATION

MISSION

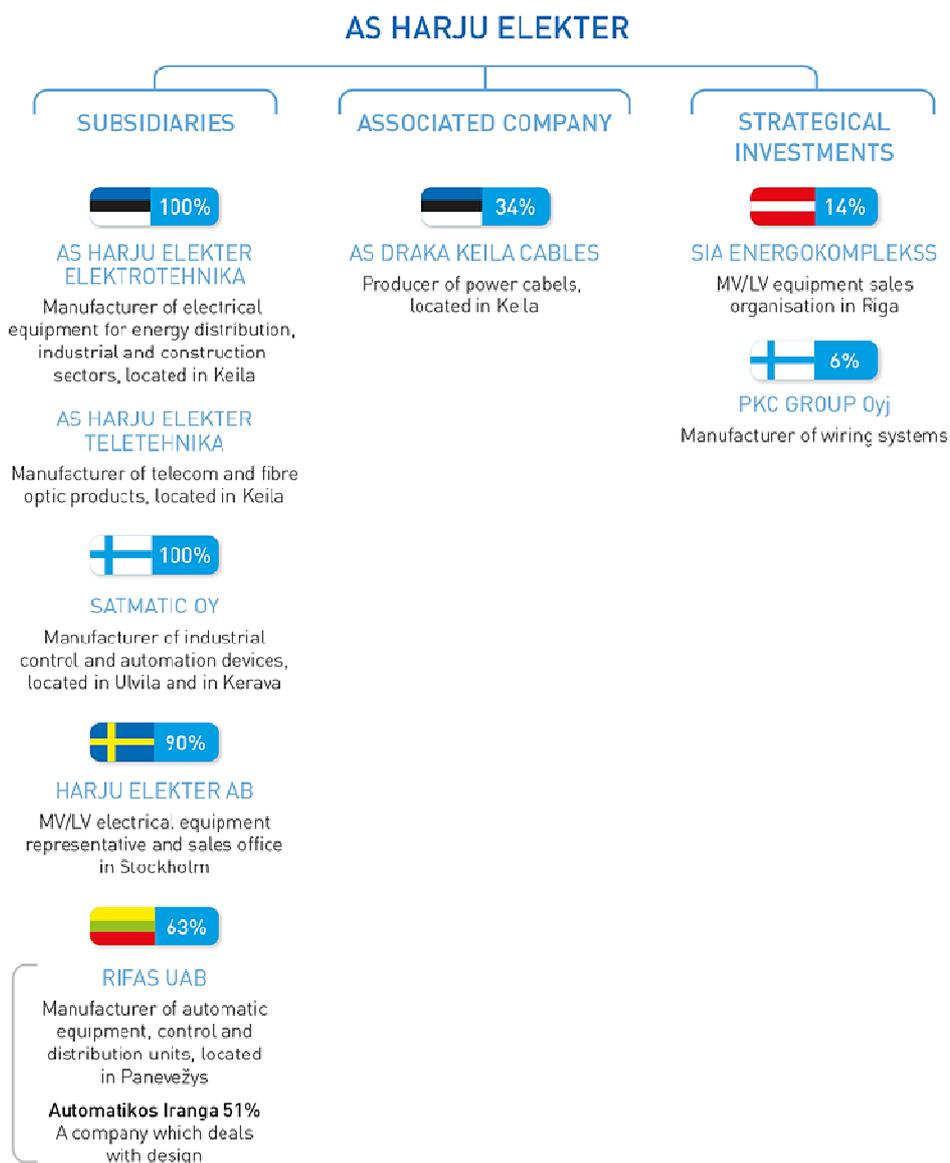
To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

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 have been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 66.4% of the products are marketed outside Estonia.

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART



OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

The world's economic growth slowed down in the second half of 2012. However, the changes were uneven by region. While the economic situation deteriorated in Europe and Japan, the American and Chinese economies seemed to be gaining strength. The overall uncertainty caused by such events as the euro crisis, the budgetary policy problems in the USA, the changes in the administration of China and the situation in the Far East had quite a strong impact. The global weakness had its impact also on the economies of Nordic countries. Consumers were constricted, on one hand, by high employment rate and, on the other hand, by relatively high inflation of 3.5%. The dollar exchange rate and the world market fuel prices remained stable but the prices of metals and agricultural products increased. The year 2012 was successful for financial markets. Nearly all major asset classes and markets show a positive productivity with the only exception of the asset class of raw materials.

Euro-area

The year ended with optimistic feelings for the euro zone – the stories about the sudden collapse of the euro faded away, several institutional achievements were made and a cornerstone for the banking union was laid. Despite the continuation of the slowdown of the economic growth in Europe and the highest unemployment rate ever in Southern Europe the confidence in the economy started to increase in the end of the year thanks to successful measures taken to resolve the EU debt crisis. Several factors referred to the positive effect of the rescue packages – euro exchange rate increased and the interest rates of bonds issued by Southern European countries suffering from economic difficulties declined. The crisis resolution policy of the European Central Bank that was based on the cheap money offer reduced the 6 months Euribor rate within a year from 1.62 to 0.32 percent. The economic recovery has been estimated for Nordic countries and also for the rest of Europe during the second half of the next year but this is preconditioned by the gradual resolution of the depth crisis. According to the preliminary data of the European Central Bank the economic growth of the euro zone in 2012 was 1.5–1.7%.

Latvia, Lithuania, Russia

Bank analysts are of the opinion that the economic growth of more than 3% in the Baltic states is a pleasant surprise within the context of overall slowdown characteristic of Europe and Scandinavian countries. The economies of Scandinavian countries were hindered by the brittle external demand and weaker domestic economy. The problems were made worse by the pressure to the labour costs. The continuation of the overall economic situation in the EU and euro zone deteriorates the economic conditions of our main trade partners – Nordic countries – even more. One positive aspect is that in August 2012 Russia became a member of the World Trade Organisation (WTO) which will hopefully make the trade with Russia more open, better predictable and more stable. Another important change for the whole economic region is that Latvia will become a member of the euro zone in 2013 after complying with all conditions for full membership.

Estonia

Compared with the previous years the economic growth in Estonia showed signs of slowing down in 2012. However, according to the preliminary data it was still the highest in the euro zone amounting to 3.2%. High investment activity, intensive internal consumption and export were the main drivers of the economy. Processing industry contributed a lot in the economic growth although the production was limited by insufficient demand and the decline in orders. According to the data of the Statistical Office exports increased by 4.5% compared with 2011 and the export capacity amounted to the all-time 12.6 billion euros. Imports increased by 8.5% a year amounting to 13.8 billion euros.

The economic growth was encouraged by the increase in the income of population which contributed to the increase in consumption expenditures and ensured the stable internal demand. Insofar as the unemployment rate in Estonia is more or less stable and the wages are growing little by little it can be estimated that internal demand will keep the economy going. The further economic growth will still be dependent on the recovery of the external demand in the west and its continuation in the east.

YEAR 2012

In November AS Harju Elekter Elektrotehnika opened the Development Centre which pools all the engineers from product development and technical departments. The new unit consists of 19 employees. The Development Centre will be an incubator that will provide sales units with innovative products and solutions and offer technical support to production units. The Development Centre includes a laboratory for the development of new prototypes and introducing samples.

In addition to the existing 51% of shares of its Lithuanian subsidiary, UAB Rifas, AS Harju Elekter acquired another 11.7% of its shares increasing its share up to 62.7%. The contract was concluded on 30.11.2012 and the transaction was closed on 5.12.2012.

In September 10 years passed since Satmatic Oy joined the Harju Elekter Group. On 19.09.2002 AS Harju Elekter and Siemens Oy signed a contract of sale by which Harju Elekter acquired 100% of the shares of the subsidiary of Siemens Oy. During the past 10 years the net sales of Satmatic Oy have increased from 7 million to 21 million euros and the number of employees from 52 to 88.

In September 15 years had passed since the listing of AS Harju Elekter on the Tallinn Stock Exchange. During the 15 years as a publicly traded company the Group has become a leading producer of electrical installations and materials in the Baltic Sea area and increased its volume of sale and operating profit by 10 times. The market value and the share price of the company have increased more than three times. AS Harju Elekter has been one of the few publicly traded companies who has every year paid dividend to its shareholders since being listed on the Tallinn Stock Exchange.

In 2012 the largest integrated biogas plant in the world with the capacity of 140 MW was built in Finland, Vaskiluoto. The plant was built by Metso Oy and our Finnish subsidiary Satmatic Oy supplied it as a subcontractor with the relevant solutions and installations. The Estonian subsidiary of the Group, AS Harju Elekter Elektrotehnika, was involved in the same project producing prefabricated distribution substations and control panels for the biogas plant. The construction of this kind of environmentally friendly power stations will be a growing trend in the near future.

After successful audits, the Lithuanian subsidiary, Rifas UAB, was recognised as an official co-operation partner and supplier of such international corporations as ABB and GE Energy.

The Finnish subsidiary Satmatic Oy increased the sales of solar energy equipment and solutions. This is supported, on one hand, by the 25% price drop of solar panels and other renewable energy equipment that has substantially expanded the clientele of such products, and on the other hand, by the increase in efficiency of such equipment and the entry into force of rules governing the energy performance of buildings. The production segment of pre-heating systems of cars for parking lots and loading panels for electric cars where Satmatic Oy has occupied the position of the Finnish market leader is also showing substantial growth.

In 2012 a solar power station with the capacity of 10 kW was taken into use in Keila production unit. 30 solar panels were added to the station operating in the Finnish subsidiary. Together with the previously implemented solar power stations in Finland (30 kW) and Lithuania (50 kW) the total capacity of the renewable power stations installed in the companies of the Group amount now to approx. 100 kW. Most of the produced electricity is used for self-consumption and the excessive energy is channelled into the state energy network.

AS Harju Elekter Elektrotehnika organised a series of seminars for the employees of the operational and development units of our customers. During the seminars mutually beneficial developments were introduced, important subjects were addressed and questions were answered. A total of 10 training days with approx. 200 participants were organised.

The companies of the Group participated in specialised fairs held in Estonia and Finland, as well as in the composition of the Estonian stand in the European leading electrical engineering fair held in Germany.

The Harju county governor awarded AS Harju Elekter with the title “Company of the year” and gave the manager of the company, Andres Allikmäe, the honorary decoration of the county. The chairman of the Supervisory Board and the development manager of the company, Endel Palla, was merited with the Grand Entrepreneur Award at the Year’s Entrepreneur Gala.

BUSINESS RESULTS

5 years statistical summary

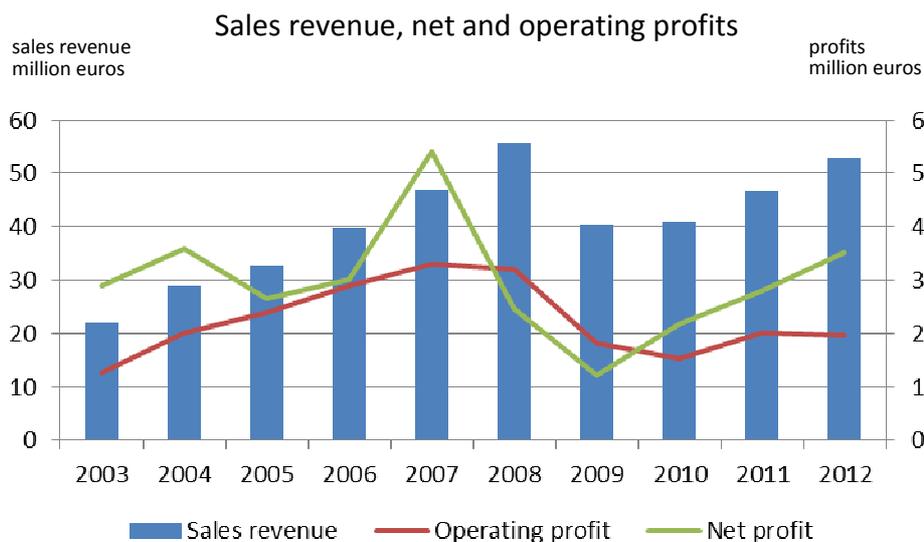
Group	2012	2011	2010	2009	2008
Statement of comprehensive income (million EUR)					
Net sales	52.8	46.7	40.9	40.4	55.7
Operating profit	2.0	2.0	1.5	1.8	3.2
Profit attributable to owners of the Company	3.5	2.8	2.2	1.2	2.5
Statement of financial position at the end of the year (million EUR)					
Total current assets	16.5	15.4	14.4	12.0	15.9
Total fixed assets	43.1	37.5	40.7	27.5	22.5
Total assets	59.6	52.9	55.1	39.5	38.5
Equity attributable to owners of the Company	48.8	40.3	44.0	30.7	25.4
Equity ratio (%)	81.8	76.2	79.8	77.7	66.0
Rates of growth (%)					
Net sales growth	13.1	14.2	1.1	-27.4	19.1
Operating profit growth	-2.7	33.3	-16.1	-43.4	-2.8
Profit attributable to owners of the Company growth	26.8	27.6	76.9	-50.1	-54.3
Assets growth	12.7	-4.0	39.5	2.7	-16.4
Equity attributable to owners of the Company growth	21.1	-8.3	43.1	20.9	-25.5
Performance indicators (%)					
Operating margin	3.7	4.3	3.7	4.5	5.7
Net margin	6.8	6.3	5.6	3.4	4.4
Return of assets (ROA)	6.3	5.1	3.2	3.2	5.8
Return of equity (ROE)	7.9	6.6	4.4	4.4	8.3
Shares (EUR)					
Average number of shares (1000 pc)	17,093	16,800	16,800	16,800	16,800
Equity per share	2.61	2.51	2.22	1.67	1.51
The closing price	2.64	2.28	3.02	2.07	0.99
EPS	0.21	0.17	0.13	0.07	0.15
P/E	12.57	13.41	23.39	28.14	6.76
Dividend per share	^[1] 0.09	0.07	0.06	0.05	0.06
Liquidity ratio					
Current ratio	1.8	1.8	1.8	1.6	1.6
Quick ratio	1.1	1.0	1.1	0.9	0.8
Personnel and remuneration					
Number of employees at the end of the period	452	427	424	452	501
Average number of employees	478	457	440	464	515
Wages and salaries (million euros)	9.1	7.7	7.0	7.3	8.5

Operating margin	= Operating profit/Net sales *100
Net margin	= Profit attributable to owners of the Company /Net sales *100
Equity per share	= Average equity attributable to owners of the Company /Average number of shares
Return of assets (ROA)	= Profit attributable to owners of the Company /Average total assets *100
Return of equity (ROE)	= Profit attributable to owners of the Company /Average owner’s equity *100
Current ratio	= Average current assets/ Average current liabilities
EPS	= Profit attributable to owners of the Company / Average number of shares
P/E	= Share price/EPS
Equity ratio	= Average equity attributable to owners of the Company/Average total assets *100
Quick ratio	= Average liquid assets (current assets – inventories)/ Average current liabilities

^[1] Management proposal

In the 2012 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Harju Elekter AB and Rifas UAB with its subsidiary Automatikos Iranga UAB (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 holds 6.4% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners' equity in the Group.



Earnings and margins

In 2012 the consolidated net sales of the Group increased by 13.1% compared with the previous year amounting to 52.8 million euros. The share of Estonian companies in the total consolidated sales revenues was 45% (2011: 47%), Finnish company contributed 40% (2011: 40%), Lithuanian company 14% (2010: 13%) and Swedish company 1%.

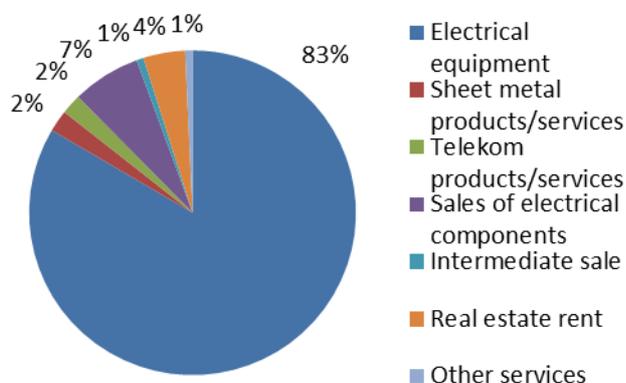
The main area of activities of the Group is the production and marketing of electric power distribution and transfer equipment and activities related to them. These activities contributed, as usual, the largest part of the consolidated net sales i.e. 90% (2011: 90%). The real estate segment and other non-segmented activities gave equally 5% of the sales volume of the Group in 2011 and 2012.

As for the markets, once again the Group's home markets (Estonia, Lithuania, Sweden and Finland) were dominant in 2012 giving 90% (2011: 94%) of the consolidated net sales. Sales volume in the home markets of the Group increased by 8.3% amounting to 47.5 million euros. Sales volume grew most of all in the Finnish (20%) and Swedish (more than 4.5 times) markets. The net sales in the Estonian market remained basically at the level of 2011. The sales in the Lithuanian market decreased by 29%. However, the sales revenue of the Lithuanian segment increased during the financial year by 19% amounting to 7 million euros out of which the sales in the home market amounted to 41% (2011: 67%).

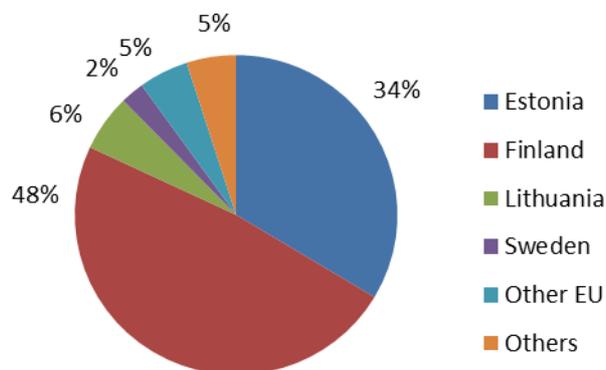
During the year the share of other markets in the consolidated net sales has increased by 4 percentage point amounting to 10%. The sales to other European Union countries increased around two and half times and one and a half times outside the European Union. Germany where an active partner with great potential was found is a fast developing and continually growing market for the Group. During 12 month products and services were sold for 1.8 million euros more than a year before in Germany. This year new markets were entered in Ukraine and Switzerland where the sales of Group's products amounted to one million euros. Deliveries to Russia and Belorussia increased by 0.4 million euros amounting to 0.8 million.

The recovery of the economy has been accompanied by some increase in the demand in the main target markets of the Group. At the same time the competition became tougher in these markets. This, on the other hand, increased the pressure on prices and delivery dates.

Revenue by business area



Revenue by market



The operating costs of the Group increased during the year by a total of 14% amounting to 50.8 million euros, outracing the rate of increase in net sales by 0.9 percentage points. The marketing costs increased more (18%) than any other cost. The rate of growth of general administrative expenses exceeded that of the net sales by 2.5 percentage points. The total increase in operating costs during the accounting period was 0.9 million euros amounting to 6.7 million euros i.e. 12.6% (2011: 12.3%) of the consolidated net sales.

The increase in production and sales volumes in several consecutive years (2011: 14.2%; 2012: 13.1%) has led to the growth in the number of people employed in the Group. By the end of the accounting period 478 people were employed by the Group which is 21 persons more than a year earlier. Compared with the previous year the average number of employees increased during the year by 25 employees amounting to 452. The labour costs increased by 9% up to 11.9 million euros, accounting for 22.5% (2011: 23.3%) of the consolidated net sales.

During the year the amount of 86 (2011: 2) thousand euros of receivables was written down and charged off. The cost of the markdown of reserves was 38 (2011: 30) thousand euros. Depreciation and amortisation during the period amounted to 1.47 (2011: 1.35) million euros

In 2012 the consolidated operating profit before depreciation was 3.44 (2011: 3.38) million euros. The operating profit was 1.97 million euros which was 55,000 euros less than in the previous year. The return on sales before depreciation was 6.5% (2011: 7.2%) and the net return on sales was 3.7% which is 0.6 percentage points less than the year before.

In 2012 the Group earned 854 (2011: 795) thousand euros of dividend profit. The financial income from the sales of 15.4 thousand shares amounted 175 thousand euros. During that period no other profit was made on financial investments. As a whole, the Groups financial income amounted to 1.04 million euros which was 0.24 million more than the year before.

The Group consolidated 1.1 (2011: 0.5) million euros of profit from its affiliated company.

In 2012 the income tax costs amounted to 482 (2011: 318) thousand euros.

The consolidated net profit for 2012 was 3.6 million euros which was 22.2% more than in 2011. The share of the owners of the parent company of the period's net profit accounted for 3.5 million euros, increasing by 26.8% compared to 2011. The net profit per share was 0.21 (2011: 0.17) euros.

Other comprehensive income

The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange decreased during the period of 12 months by 4.00 euros and closed at 15.43 euros. During the reporting period 5.54 (2011: loss 5.52) million euros of profit was earned from the revaluation of financial assets and 0.16 million euros of revaluation profit was earned from the sales of financial assets. The revaluation reserve in the owner's equity increased by 5.38 million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company (Swedish subsidiary Harju Elekter AB) formed an insignificant part of other comprehensive income.

Financial position

The amount of the consolidated balance sheet of the Group as of 31 December 2012 was 59.6 million euros, increasing by 6.7 million euros during the year.

By the end of the year business claims and prepayments amounted to 6.7 million euros, decreasing by 1.2 million euros during the year and inventory amounted to 6.4 million euros, decreasing by 0.3 million euros a year. At the same time the Group's debts to suppliers and other debts and payables remained at the same level. In 2012 the quick ratio increased by 0.1 points up to the level of 1.1, while the current ratio (1.8) remained at the level of the previous year.

In 2012 the amount of the balance sheet increased mainly due to the change in the market price of the PKC Group Oyj shares on the Helsinki Stock Exchange. During the accounting year the Group invested 0.7 million euros in fixed assets compared with the 3.1 million euros of the previous year. All in all, the book value of fixed assets increased by 5.7 million euros amounting to 43.1 million euros during the period of 12 months.

By the end of the year interest-bearing debt obligations amounted to 2.4 million euros, decreasing by 1.4 million euros during the period of 12 months, including the decrease in short-term liabilities by 1.2 million euros (2011: 771 thousand euros). During the 12 month period the total amount of capital rent payments made by the Group amounted to 282 (2011: 272) thousand euros.

The net debt (interest-bearing debt obligations – cash and bank accounts) of the Group has decreased by 4.0 million euros amounting by the end of year to -1.0 million euros. The ratio of net debt to owners' equity was -2.0% (2011: 6.7%).

During the period of one year the owner's equity of the Group increased by 8.1 million euros, amounting to 50.1 million euros by the end of the year.

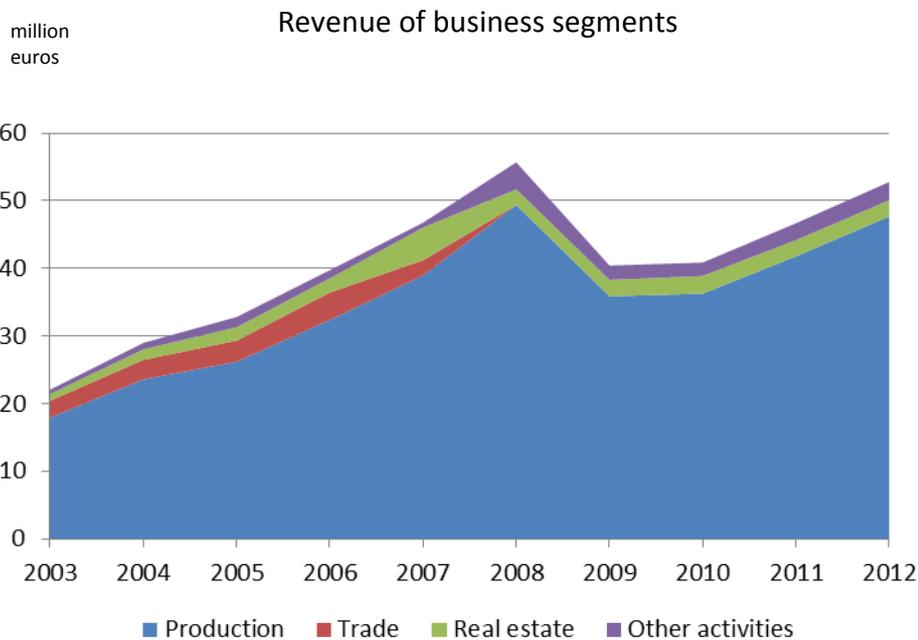
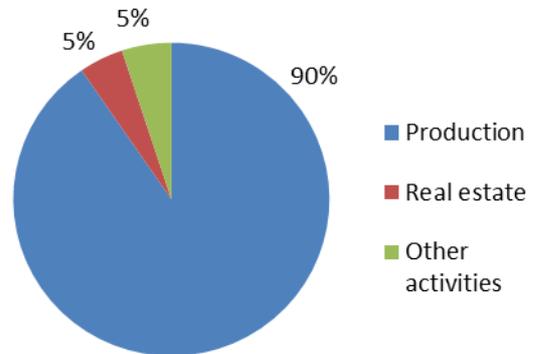
By the end of the reporting period current assets amounted to 28% (2011: 29%) and non-current assets to 72% (2011: 71%), on the other hand, foreign capital accounting for 16% (2011: 21%) and owner's equity for 84% (2011: 79%) of total assets.

In 2012 the net cash from operating activities was 4.6 (2011: 1.2) million euros and net cash used in investing activities was 58 thousand euros (2011: 2.2 million euros). Proceeds from the issue of share capital was 0.66 million euros. The Group paid dividends of 1.2 (2011: 1.1) million euros and finance lease liabilities of 0.28 (2011: 0.27) million euros. The net cash used in financing activities was 2.0 (2011: 0.6) million euros. Cash and cash equivalents increased, during a year, by 2.5 million euros amounting to 3.4 million euros. In the previous years they had decreased by 1.6 million euros amounting to 0.8 million euros.

BUSINESS SEGMENTS

As of 31 December 2012 the Group was active in two fields – production and real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. The share of the trading group operating within the parent company and, of Harju Elekter AB, has during the last four years (including 2012) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

Revenue by business segment

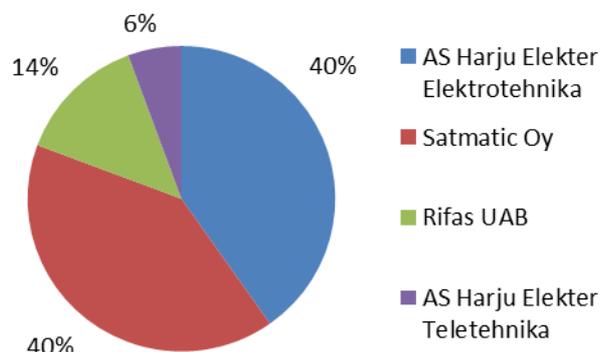


PRODUCTION

The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (Rifas UAB) 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 Harju Elekter Teletehnika in Estonia which manufactures products for the data and telecommunication sector as well as electro-technical sector, also belongs in this segment.

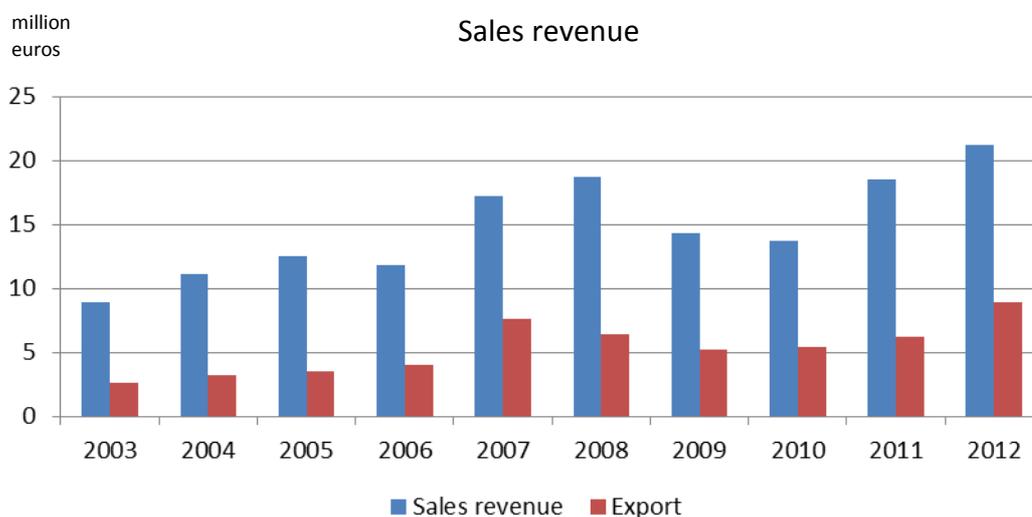
In 2012 production gave 90.4% (2011: 89.6%) of the consolidated sales revenue. The segment's volume of sales increased within a year by 14.1% amounting to 47.7 million euros.

Revenue by company



AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, 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 10,775 m² of production, warehouse and office premises. The average number of employees is 190, incl.33 of them working in sales and production development.



The year 2012 can be considered as a total success for AS Harju Elekter Elektrotehnika. In October the sales figures of 2011 were outpaced and only a week later the all-time turnover record of the company was achieved. In the beginning of December the budgetary estimation of 20 million euros was achieved. All in all the sales revenue of AS Harju Elekter Elektrotehnika increased within the year by 15% amounting to 21.2 (2011: 18.4) million euros, of which 42% (2011: 33.5%) was from sales outside Estonia. Such growth was achieved mainly because of the increase in sales volumes in foreign markets, but also thanks to the increase in the net sales between the companies belonging to the Group. The company sold its products in Finland and Sweden, and through its partners also in Germany, the Netherlands, Spain, USA, the United Arab Emirates, Russia and Belorussia. The sales in the domestic market remained stable.

The majority (93.1%) of sale revenues was earned by the sales of various electrical installations (2011: 92.5%). In 2012 the company got a lot of orders for several new MV and LV products that were sold in foreign markets. The product groups of energy distribution and control engineering are showing intensive growth but prefabricated and distribution substations for the energy sector still formed the largest product group of the company. As a result of effective marketing the share of products with a higher added value in its product portfolio was substantially increased. The number of orders on products involving special solutions tailor-made by the company such as distribution substations and feeder points for wind parks and substations for container cranes used in ports also had a remarkable increase. The provision of the world's largest integrated biogas plant in Finland with prefabricated high capacity distribution substations is another important landmark for the company. The developments in the Swedish, Norwegian and Russian markets should also be seen as a success.

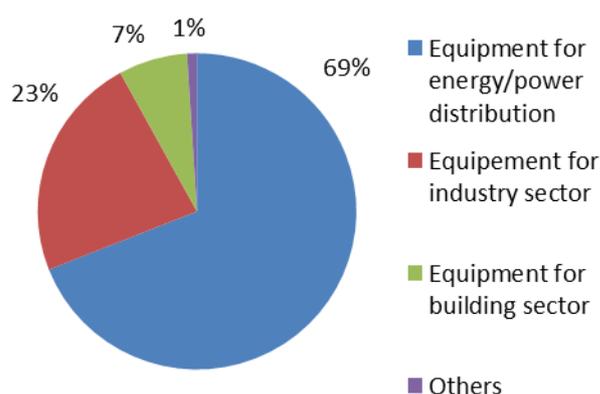
In the end of the 2012 AS Harju Elekter Elektrotehnika opened in Keila Industrial Park a new engineering and development unit – the Development Centre – which pools the engineers from product development and technical departments. The new unit consists of 19 employees and in 2013 it will be complemented by sales engineers. The Development Centre will be an incubator that will provide sales units with innovative products and solutions and offer technical support to production units. The Development Centre includes a laboratory for development of new prototypes and for testing and introducing samples.

According to the requirements of quality standards ISO 9001 and ISO 14001 the recertification of management systems was carried out in the end of the year and in January 2013 certificates for the next three years were issued. In 2012 the company also past several supplier audits carried out by customers.

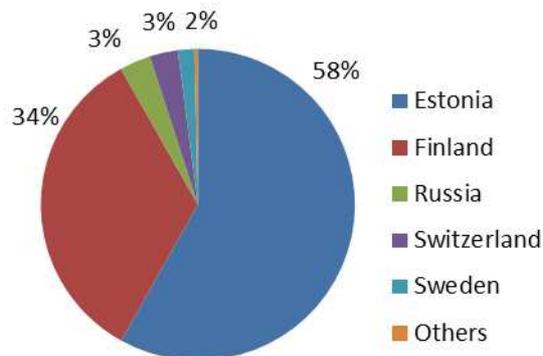
Following the principles of quality management and environmental policy AS Harju Elekter Elektrotehnika continually focused on optimising important processes in the company and on the efficient use of materials and products in order to reduce the resultant waste to a minimum. The introduction of the management system 5S continued. Within the framework of the co-operation contract on engineering studies and research concluded between AS Harju Elekter Elektrotehnika and Tallinn University of Technology the co-operation continued within doctoral studies to develop “smart grid” solutions, including “Optimising the performance of an energy system in order to balance variable load”.

In order to ensure the development and growth of the company active export marketing will be continued in 2013 focusing on finding new markets and customers. In order to enhance competitiveness the activities related to increasing the effectiveness of the main processes in the company and improving the organisation of work and the environment protection will be carefully observed. Additional opportunities are created by reinforcing the co-operation between the companies belonging to the Group.

Revenue by product group



Revenue by market

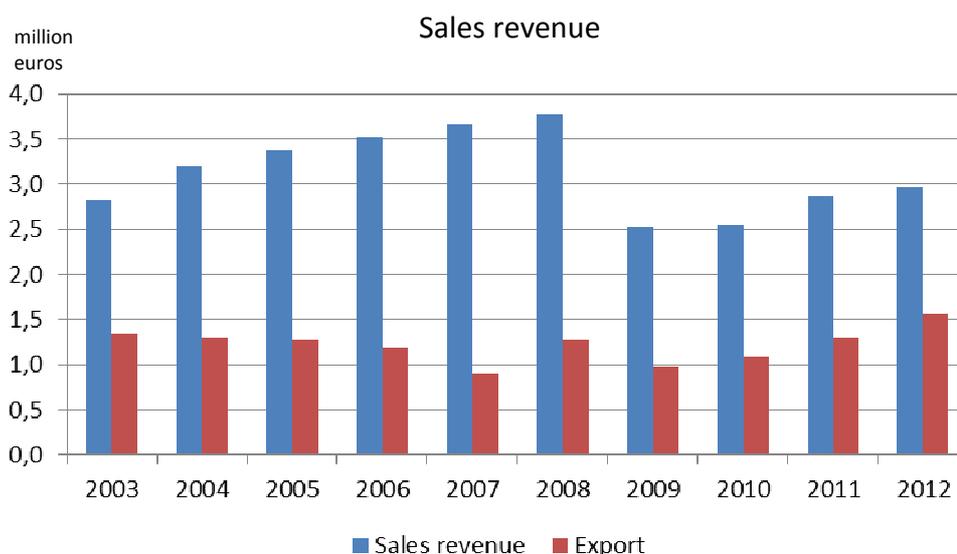


AS Harju Elekter Teletehnika

The main activities of AS Harju Elekter Teletehnika, 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 customer-based 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. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park, and holds licences for designing, installing and maintaining fire and security systems. The factory is located in Keila and the company employs 64 people.

In 2012 sales revenues of AS Harju Elekter Teletehnika amounted to 2.96 million euros, increasing by 3.3% compared with the previous year. In the first half of the year the main target markets of the company in Nordic countries recovered but the competition also got tougher, especially in Finland where the surplus of the production resources of sheet metal increased and that put a strong pressure on prices and delivery dates. In 2012, domestic sale decreased by 12% and sales outside of Estonia increased by 22.5%. Sales outside of Estonia accounted for 52.7% (2011: 44.5%) of sales revenues. Finland was the main export market accounting for 87.6% of the whole export turnover, followed by Germany with 5.6%, Sweden with 2.2%, Lithuania with 2.1%, Norway with 1.3% and Latvia with 1.2%. Cabinets for data communication networks and their fittings were the main export articles.

In the beginning of the year the number of orders started to increase and in the end of the first half of the year the continuation of the increase until the end of the year was estimated. The increase in sales was mainly due to customers related to the telecommunication sector who, despite the unfavourable economic environment continued to make planned investments. The instability prevailing in Europe caused the reduction of sales revenue and less than planned profit from sales in other customer groups. Many customers postponed their large-scale projects and confined themselves to essential investment. The number of small-scale and short-term orders increased complicating the organisation and planning of production. In the second half of the year the sheet metal and telecommunication markets in Nordic countries shirked making companies to implement cost-saving programmes. As a result the volume of orders to the company decreased.

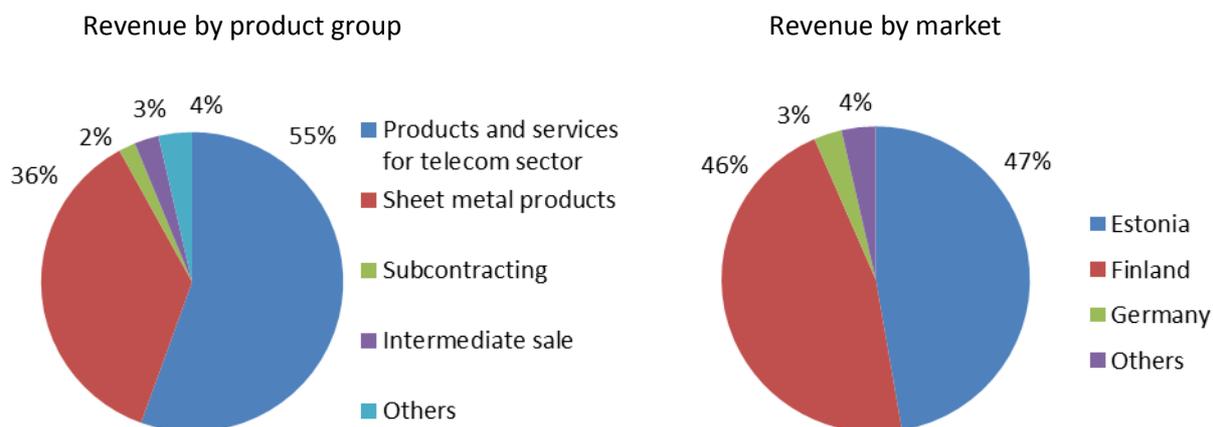


The year 2012 is also characterised by entering new markets and getting acquainted with the needs of new customers. In 2012 AS Harju Elekter Teletehnika made the first steps towards entering the German market where our rack products found, thanks to our partners, their way to the networks of leading telecommunication operators in Germany. We also made the first contacts for delivering our rack products to Norway. Developments in Sweden were also positive as the number of orders filed by our partner company was constantly increasing. Finland is still the main export market for the company. The focus there is on better service of key customers and improving the security of provision.

The company has been working on increasing its productivity for several years and these endeavours continued in 2012 when the production process and production chain was actively developed. The performance and efficiency of working processes was monitored by different indicators and as a result the security of provision improved and the production time shortened. Noticeable achievements were made in the introduction of Lean production principles and reducing the misuse of resources. 5S audits and Lean principles have become an integral part of the production process of the company.

During the renewal of the strategy of AS Harju Elekter Teletehnika the development plan of the company for the years 2012–2017 was prepared. The idea that team work is the basis for a smooth performance of production processes was repeatedly confirmed. In connection with the team work the improvement of intra-group co-operation, such as the co-operation with AS Harju Elekter Elektrotehnika in manufacturing casings for power system control centres and substations and with Satmatic Oy in manufacturing high IP level casings should be mentioned.

The growth of sales turnover and the profit through the increase of efficiency and improvement of the organisation of work will be the key-words for AS Harju Elekter Teletehnika in the near future. The company also aims to increase the share of products with a higher level of integration and added value and the reduction of simple products allowing one or two operations. This is supported by the increase in competence and skills of our employees.

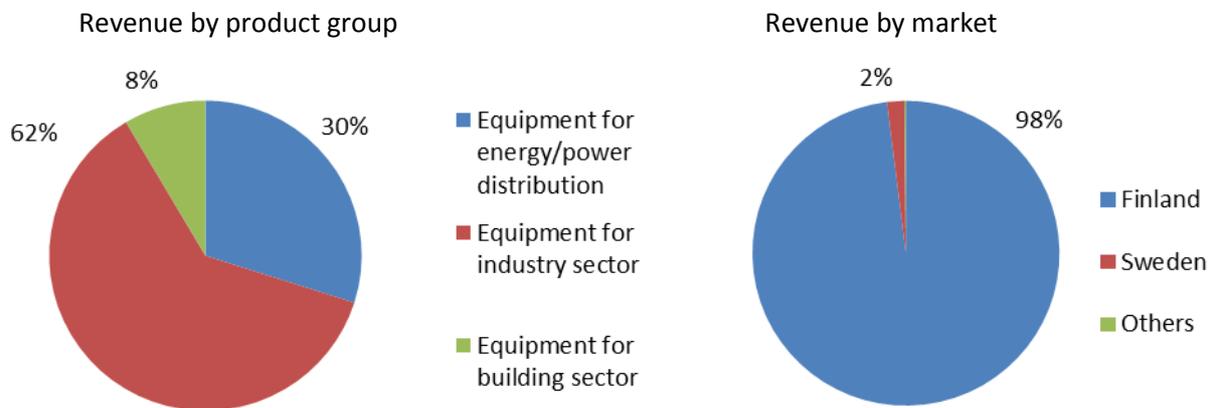
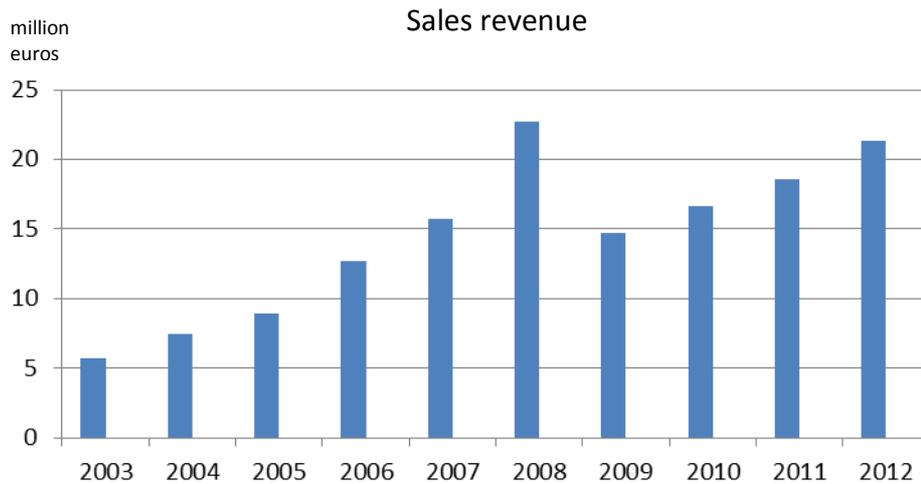


Satmatic OY

Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. Satmatic Oy is also an importer and retailer of the products of the companies belonging to the Group in Finland. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation in Kerava in order to better service businesses and other customers in Helsinki-area. The company hires 88 employees.

Despite the volatile economic environment in the euro zone in 2012 Satmatic Oy was able to increase its sales revenue by 14.5% up to 21.3 million euros. The sales outside Finland either directly or through dealers amounted to 60% of the total sales.

Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure. According to the type of supply two different production models can be differentiated: contract manufacturing and project based product/solution. However, such orders from customer groups orientated to exports create uncertainty accompanied by risk that such orders may be easily moved from Finland to some other country where the production costs are substantially lower and/or the final customer is closer. The energy production and energy distribution sector including different renewable energy solutions and investments in nuclear power stations where orders are either made in the domestic market or the closest neighbouring countries show a remarkable increase.



The activities of the company are based on long-term customer relations where great attention is paid to developing first-rate and professional solutions as well as to mutually offered added value. In 2012 the first products and solutions manufactured by implementing Sivacon S8 working principles were completed. As to project products the moderate increase continued in 2012 and several automation and control cabinets and installations were handed over to customers. One of the most important projects of the year was the development of electric solutions and their provision to the world's largest biogas plant in Vaskiluoto. The sales of car heating switchboards and charging stations also increased. These articles were mainly sold through retail sellers. In 2012 the first charging cabinets provided with portable charging device were sold to customers.

For years Satmatic Oy has consistently invested in meeting quality requirements and environmental management standards. In 2012 more attention was paid to quality assurance, while environmental issues were dealt mostly in connection with everyday work routine and the administration of the production units of the plant. In autumn the recertification of management systems according to quality standards ISO 9001 and ISO 14001 was carried out. It was passed successfully and SGS Fimko issued to the company a relevant certificate for the period of the next three years. In addition to that, the production processes of the company were also audited by UL Inspection Centre who recognised the production procedures of switchboards and final products as suitable for USA and the rest of the American region.

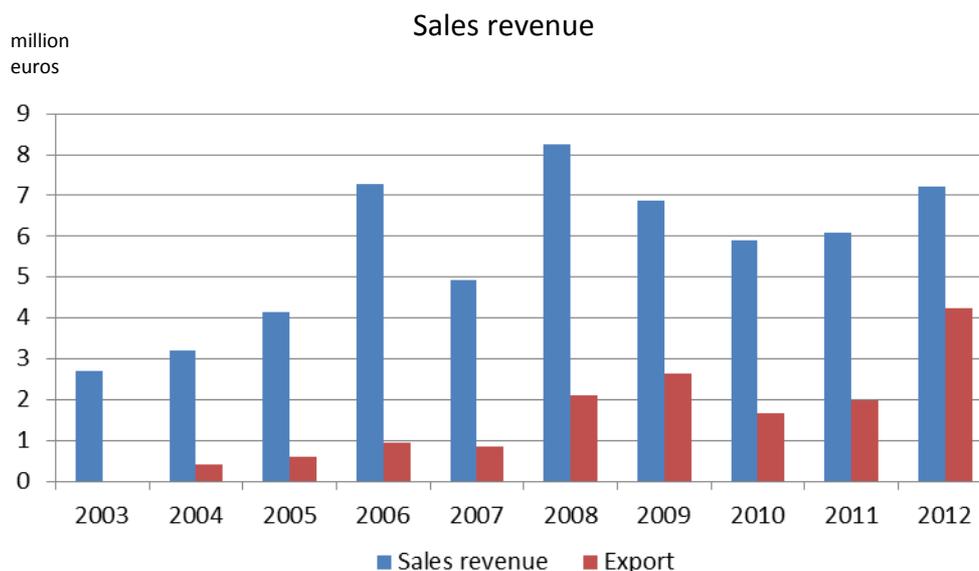
In 2012 the introduction of Lean 5S principles was started in order to make the organisation of production more efficient and the development project TOSI 2013 with the aim to reduce the unnecessary waiting time was started. As a result of long-time efforts all sales orders of the company are now processed electronically and as to purchase orders the needs of providers can be observed.

In 2013, Satmatic Oy will focus on finding new customers and more efficient involvement of wholesaler and retail traders in the sales of substations, distribution and transfer equipment, as well as on increasing on-line sales. The organisation of production will focus on shortening of the delivery period by implementing the development project TOSI 2013 and on the increase of productivity by implementing 5S production principles. In order to increase the sales of renewable products, heating switchboards for car parks and charging systems the products will be made even more customer friendly.

Rifas Group

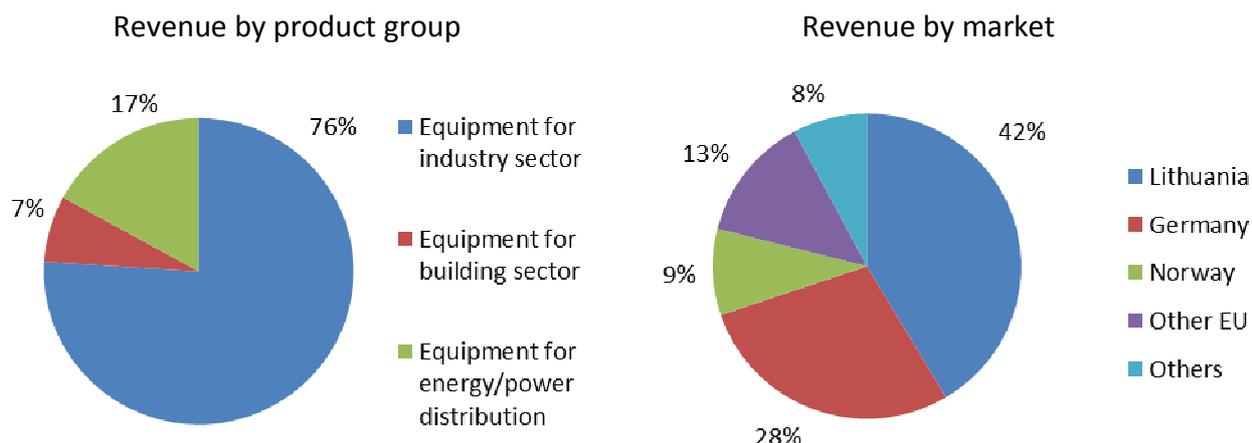
Rifas UAB is a Lithuanian subsidiary of Harju Elekter located in Panevežys. AS Harju Elekter owns 62.7% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter “Rifas”) comprises the Lithuanian manufacturing enterprise, Rifas UAB, and its subsidiary, Automatikos Iranga UAB, which specialises in design. The company hires 89 employees.

In 2012 the sales revenues of Rifas increased by 18.8% amounting to 7.2 million euros. The sales outside Lithuania accounted for 58% (2011: 32%) of the net sales. Although the sales in the domestic market decreased by a quarter the company was able to increase its sales volume in foreign markets. Sweden and Germany were entered as new markets and the latter became the largest export market for the company. Supplies to Norway and Belorussia continued, Switzerland and Ukraine were added as new markets. Sales outside the European Unions increased within a year by 30% and amounted to 1.2 million euros.



Almost two thirds of the sales revenues were earned from the sales of project based products and services, one fourth from the management of contractual projects and a small part from the retail of electric components. Control switchboard formed the largest share of product selection. They were followed by different management systems and panels, as well as energy distribution products.

The year was characterised by active marketing for getting new orders and projects, as well as by numerous meetings and negotiations with current and potential customers for establishing new business opportunities on the existing and new markets. Favourable developments took place on the Norwegian market where the co-operation with the local partner was expanded in order to increase the sales of distribution panels and control panels for frequency converters. After years of hard work and successful audits, the Lithuanian subsidiary, Rifas UAB, was recognised as an official co-operation partner and supplier of such international corporations as ABB and GE Energy.



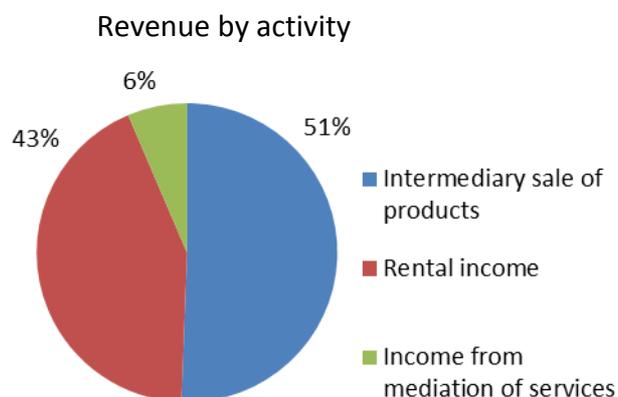
In addition to finding new customers and markets the company also focused on the organisation of the company in 2012. Changes were made in the management: since January 1, 2013 Aidas Šetikas is the chairman of the Management Board of Rifas UAB and several departments got new managers. As a result of these changes the administration of the company was supplemented by several experienced specialists and the competence of managing the internal processes and improving the efficiency of the company increased substantially.

In 2012 standards of environmental management, ISO 14001, occupational health and safety, OHSAS 18001, and the international quality standards, ISO 9001, were introduced in the management of the company. In 2012, the recertification of the management systems according to quality standards ISO 9001 was passed successfully and BVQI issued the company a relevant certificate for the period of the next three years. Company's other investments and developments were mainly connected with acquiring software licences and creating and developing of modern document management system, as well as with preparations for the introduction of the system for measuring the performance of providers (KPI).

For the further development of the company the main focus will be put on the reinforcement of the strategic relationship with existing co-operation partners and on active marketing for finding new customers and projects. Internally the main focus will be on the improvement of business processes and the qualification of the personnel, especially the capabilities of engineers and the instruction of high quality documentation system.

REAL ESTATE HOLDING AND OTHER ACTIVITIES

The sales revenues of the real estate segment (parent company) and other non-segmented activities (parent company and Harju Elekter AB) totalled 9.6% (2011: 10.4%) of the consolidated sales revenue, out of which intermediary sale of products formed 50.6%, rental income 43.0% and income from mediation and rendering of services formed 6.4%.



Real estate holding

The sales revenues of the segment were 2.4 million euros, keeping the level of the previous year. Rental income increased by 5.6% amounting to 2.2 million euros, accounting for 91.0% (2011: 86.2%) of the profit of the segment. Due to the opening of the energy market, part of the clients started to buy electricity on the open market, which was the main reason for the sales revenues from selling of services to decrease more than 100 thousand euros. Rendering public and other services gave 9% (2011: 13.8%) of the sales revenue of the segment.

Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 9.7% amounting to 2.7 million euros and forming 5.1% (2011: 5.2%) of the Group's sales revenues. The main revenue source was the intermediary sale of products. Revenue from the sales of other services was 31 (2011: 18) thousand euros.

AS Harju Elekter

AS Harju Elekter is the parent company of the Group. Its activities are divided into two segments – *Real estate* and *Other activities*. Unallocated activities 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 as well as managing of personnel, IT and communication services and guaranteeing the professional operation of the corporate stores. Stores located in Tallinn, Tartu and Keila sell both products of the Group and related companies and other goods necessary for electrical installation work mainly to retail customers and small and medium sized electrical installation companies.

The business activity of the Parent company gives 8.6% (2011:10%) from the consolidated sales revenues.

Harju Elekter AB

In 2010, the Group founded a representation and sales organisation, Harju Elekter AB, in Sweden. AS Harju Elekter has a share of 90% in the subsidiary while AS Vallin Baltic holds 10% of the share capital. The main activity of the company is the intermediary sale of products. With the establishment of the subsidiary, Harju Elekter AB, the Group increased its presence in the Swedish market and created new opportunities for increasing sales by offering customers a wide selection of products, namely electro-technical products, manufactured by the companies of the Harju Elekter Group.

During the first years of activity, Harju Elekter AB has focused on the mapping of the market; finding out the needs and demands of the customers; bringing the products and solutions of the Group in conformity with local requirements; drawing up advertising materials for products and services; and distributing information. The work has been fruitful and in 2012 the share of the Swedish market in the sales revenue of the Group increased up to 2.4% (2011: 0.6%).

RELATED COMPANY

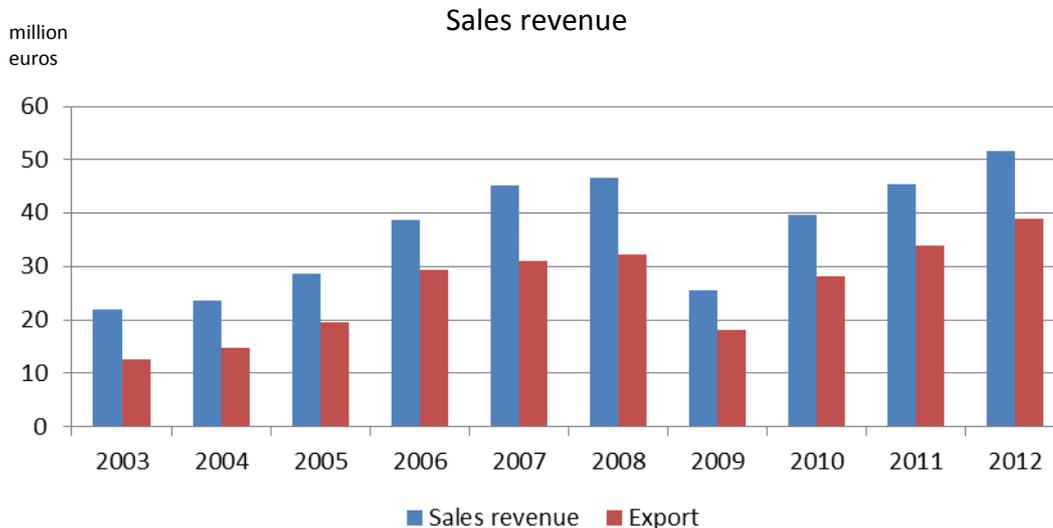
AS Draka Keila Cables

AS Draka Keila Cables is the largest cable manufacturer in the Baltic States. The company's share capital is divided between cable manufacturer Prysmian Group (66%) and AS Harju Elekter (34%). The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, as the representative of the Prysmian Group in the Baltics, markets a wide range of Prysmian Group products. The company hires 93 employees.

The customers of the company include power networks and constructors of power and telecommunication networks. The company sells its products via wholesalers of electric goods, as well as through the retail shops of AS Harju Elekter trading group. A remarkable part of the net sales of the company consists of the sales to other companies of the Group who market the production of the Keila plant in their home markets. The production of the AS Draka Keila Cables is mainly marketed in Estonia, Latvia, Lithuania and Scandinavian countries and to lesser extent in other EU countries, as well as outside of Europe.

The year 2012 was very successful for AS Draka Keila Cables. The company's security of provision exceeded 95%. Surplus spending on materials decreased substantially and the turnover in the Baltic countries and, thanks to the inter-group sales, also in other markets increased. The sales revenue increased by 14% amounting to 51.8 million euros.

In 2012, AS Harju Elekter consolidated a profit from related company in amount of 1.1 (2011: 0.5) million euros. The economic results of the related company are presented in the consolidated financial statement using the equity method.



In the field of production, all the efficiency indicators of the company improved: surplus spending on materials continued to decrease and security of supply as well as productivity per employee improved. In 2012 the company made investments in the amount of 151,000 euros. It invested in the improvement of the efficiency of the plant and the reliability of the machinery as well as in the reduction of surplus spending of materials. In the field of developing the quality system, significant progress was made in reducing incompliance in the production, the number of defective products and claim reports related to service.

In 2013, focus is going to be still on the reduction of surplus spending on materials, improvement in production efficiency and the increase of production capacity through the improvement of the existing machinery.

OTHER FINANCIAL INVESTMENTS

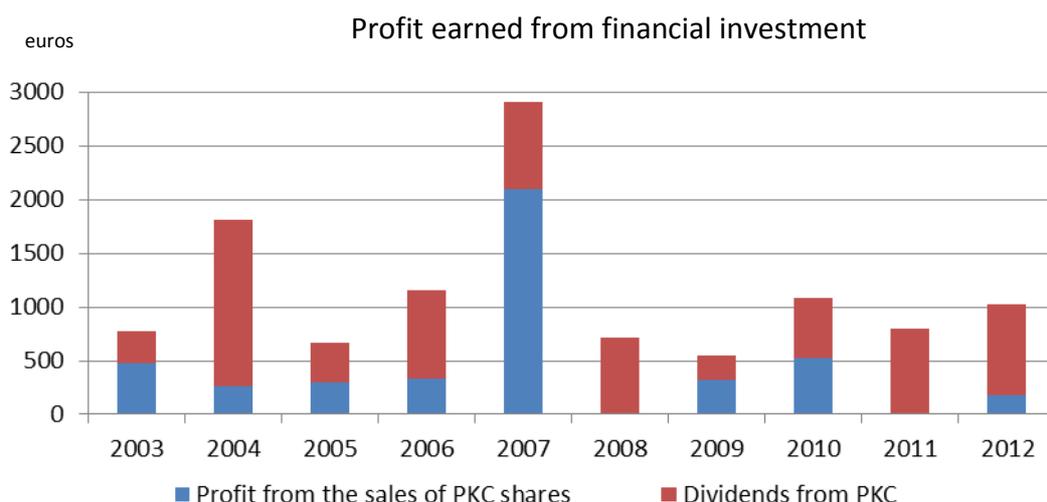
SIA Energokomplekss

SIA Energokomplekss is a sales organisation, founded in 2006. At the beginning the Group's participation in the Latvian company SIA Energokomplekss was 10% and it was increased to 14% in 2009. Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and LV equipment in Latvia. In 2012, the company paid dividends and AS Harju Elekter received dividend profit in the amount of 23.4 (2011: 24.6) thousand euros.

PKC Group Oyj

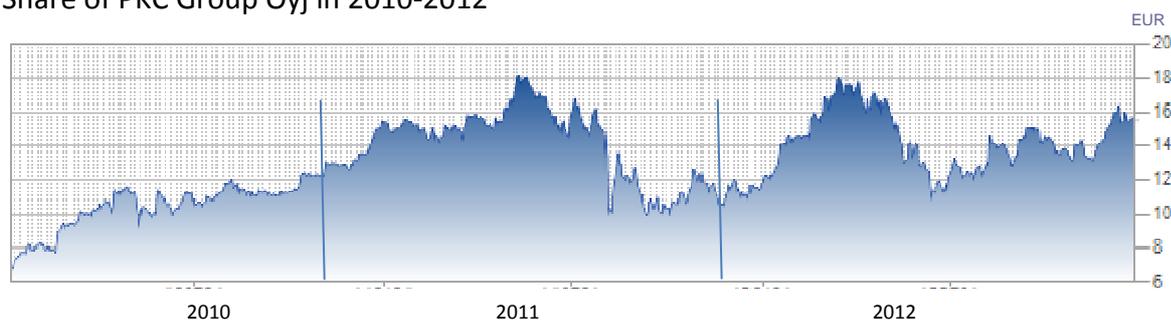
PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. In 2012, sales revenue of PKC was 928.2 million euros and the Group employees 19 thousand people.

PKC shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is one of top-10 holders of PKC shares with a stake of 6.4% as at December 31, 2012. The market price of the shares decreased in 2012 by 4 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 15.43 (2011: 11.43) euros. PKC shares are valued in the balance sheet according to market price and the change in the market price of the shares has a direct influence on the Group's assets. During the period of 12 months the fair (i.e. market) value of financial assets increased by 5.3 million euros up to 21.4 million euros.



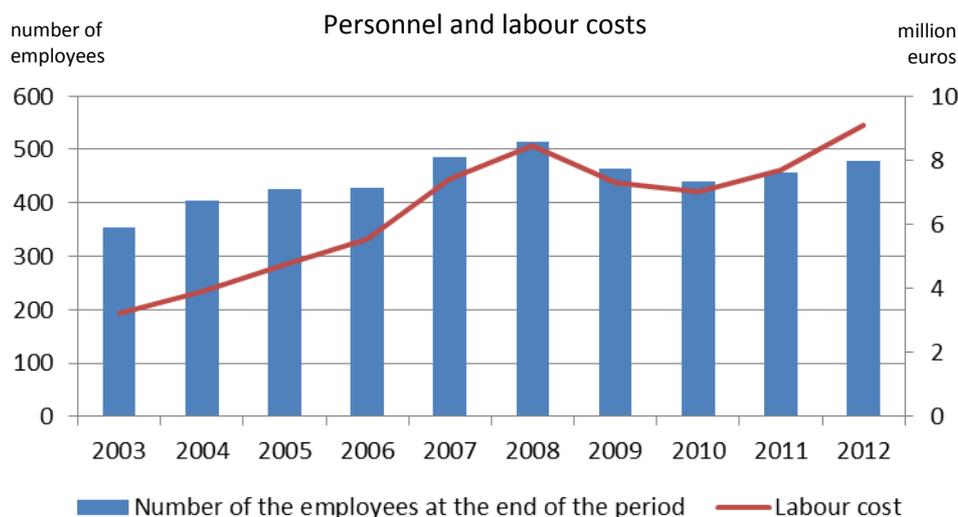
For the financial year of 2011, PKC paid a dividend of 0.60 euros per share which is a total of 0.83 million euros, compared to 0.55 euros per share in 2010, totalling 0.77 million euros. In 2012, the Group sold 15,400 PKC shares, the nonrecurring profit for which amounted to 175,000 euros.

Share of PKC Group Oyj in 2010-2012



PERSONNEL

In 2012 the development of the labour market within the region of operation of the Group has been favourable, employment has been steadily increasing and the unemployment rate has been continually decreasing. However, the entering of new people in the labour market is slower than before. The importance of the lack of labour force and the relatively high structural unemployment as factors hindering production has also grown. The wage level in this branch of activity and the outflow of qualified specialists from the country (especially from Estonia and Lithuania) also makes it difficult to find highly qualified labour. The lack of highly qualified labour has again spotlighted the subject of raising wages.



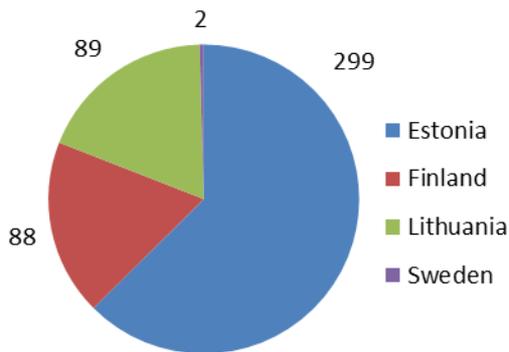
As at the balance day on 31 December, there were 478 (2011: 457) people working in the Group and the average number of employees was 452 (2011: 427). Employee wages and salaries totalled 9.1 (2011: 7.7) million euros in the year 2012. The average wages per employee per month have increased by 12% amounting to 1,684 euros. The biggest increases took place in Finland. It is important to note, that the average wage in Finland and Sweden exceeded those in Estonia and Lithuania by almost triple.

The majority of the Group's employees – 299 people – worked in Estonia, including 45 people who worked in the parent company. At the end of the year, there were 88 people working in Finland, 89 in Lithuania and 2 in Sweden. From 478 employees working in the Group 376 of them were men and 102 women, 100 of whom have higher education, 328 people have secondary or vocational secondary education and 50 have basic education. 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.

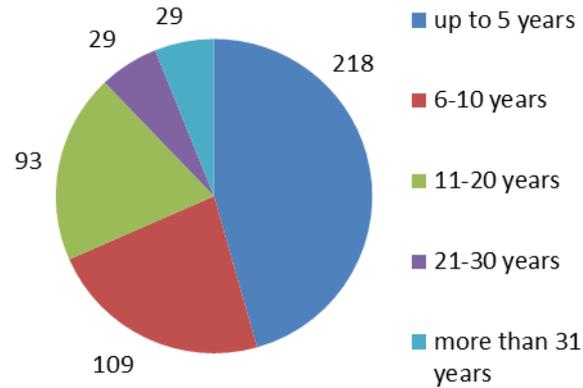
Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. 54.3% of employees have worked in the Group for over five years.

The average age of the Group's employees has remained stable, and was 40.3 years in the accounting year. 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. For over ten years now, AS Harju Elekter has had close co-operative relations with Tallinn Technical University, since 2010 as Golden Sponsor. Over the years, altogether 41 Bachelor's or Master's degree students have participated in the scholarship programme and six young engineers are currently employed by the Group. Also Harju Elekter carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School, TTK University of Applied Sciences, and other schools. Finnish subsidiary continues a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

Employees by country



Length of service



During the reporting period, companies in the Group continued to focus on optimising costs and making their operation more efficient. Field exercises and training organised for employees at companies located in Estonia were aimed at improving professional skills and qualifications and raising the efficiency and reducing spending surplus materials by implementing the 5S-model. Besides that, first aid courses are organised after every three years and special courses introducing the most important amendments to the relevant laws are offered to working environment representatives. All employees are constantly briefed about waste handling and the organisation of the waste sorting in the company.

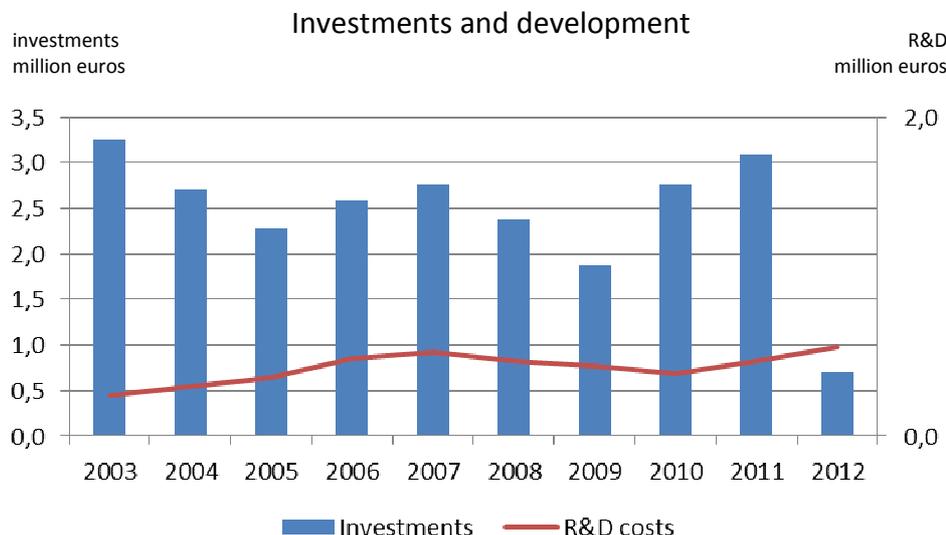
The Group has many possibilities for motivating its personnel:

- 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;
- share-option schemes, aiming at involving members of the directing bodies and employees of companies of the Group as well as members of the boards of related companies as shareholders to motivate them acting in the best interest of the Group;
- the cross company as well as cross-border employee exchange programmes, promote the rapid development of knowledge and skills within the Group and offer 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 is collective labour agreement. 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.

INVESTMENTS AND DEVELOPMENT

In 2012, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 0.7(2011: 3.1) million euros.



As a whole the investments can be divided into two categories: half of them aimed to support and ensure the Group's further development and the other half includes renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.

The development of the AX2009 production management and accounting software programme in Estonian companies of the Group was continued. Although the largest investments related to it were made during the period from 2009–2011, the company continued the identification, adjustment and introduction of new modules and additional options. In 2012 the modules for the management and analysis of security of provision and internal mistakes were introduced. Investments in the development of the economic software made during the accounting year amounted to a total of 74 (2011: 57) thousand euros, while investments in information technology equipment amounted to 18 (2011: 59) thousand euros.

In 2012 new website based on free software connecting all Estonian companies of the Group was created.

Work involving grants from the European Union structural funds in the development projects of the Group continued. The projects were mainly aimed at developing key activities of the companies, preparing strategies and training the personnel (improvement in qualifications, team work training). With assigned technology grants the production capability will continue to be enhanced through improving the technology which resulted in the improved quality and security of supply necessary for successful export activities as well as shorter production cycles. In 2012, assigned grants were received for acquiring machinery and equipment in the amount of 14 (2011: 59) thousand euros, for personnel training in the amount of 4 (2011: 21) thousand euros and for development in the amount of 11 (2011: 19) thousand euros, totalling 29 (2011: 99) thousand euros.

According to the development principles of the Group, Harju Elekter aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2012 the development costs, at cost price, of the Group amounted to a total of 0.56 (2011: 0.47) million euros, accounting for 1.1% of the Group's sales volume.

The main product development resources of the Group are concentrated in the Estonian subsidiary, AS Harju Elekter Elektrotehnika.; Satmatic Oy and Rifas UAB specialise in industrial products and the development of renewable energy solutions.

The year 2012 was diverse and interesting for the Estonian product development team. In the end of the year the company opened in Keila Industrial Park a new engineering and development unit – the Development Centre – which pools the engineers from product development and technical departments of AS Harju Elekter Elektrotehnika. The new unit consists of 19 employees and in 2013 it will be complemented by sales engineers. The Development Centre will be an incubator that will provide sales units with innovative products and solutions and offer technical support to production units. The Development Centre includes a laboratory for development, building and testing of new prototypes and for introducing new product samples.

Due to the market demand AS Harju Elekter Elektrotehnika had to develop special solutions for several standard products. The range of basic products in the product portfolio of the company and the professional skills of engineers working in the Development Centre are adequate for such solutions while flexibility and customer orientated approach adds value to the whole sales procedure. In addition to the development of standard HEKA type substations several special orders were executed such as a substation with a green roof and a substation provided with concrete pillars and park benches for the Swedish market. A feeder point with rustproof casing was specially developed for the Norwegian regions where extreme weather conditions prevail. On the basis of the needs of a customer the development team created substations for container cranes that have already conquered most of the world's ports in America, Australia, Spain, the Netherlands and the United Arab Emirates. The product has been well accepted by customers, as well as by producers. In 2012 the development of universal products was continued by the addition of the totally innovative substation casing with a modular structure. As to large HEJA type substations, the project of Vaskiluoto biogas plant that probably exceeded all the previous projects for its complexity and capacity should be mentioned. Several new switchboards tailored specially to meet the needs and requirements of co-operation partners or certain markets were developed for the market of small-scale standard switchboards.

In 2012 a substantial part of the product development resources of the Keila Development Centre was used to prepare the tender for the state procurement published by the Estonian network operator, Elektrilevi. The outcome of the procurement will be published in the first half of 2013.

Subsidiaries in Finland and Lithuania focused on development projects related to renewable energy and offering suitable solutions related to them. In 2011, a solar power station with the capacity of 50kW was installed on the roof of the Rifas UAB production site and a solar power station with the capacity of 30kW on the Finnish production unit. In 2012 the Finnish solar power station was supplemented with another 30 panels and another solar power station with the capacity of 10kW was built on the roof of the Keila production centre. Satmatic Oy increased the sales of solar energy installations and solutions. The development of heating boards for car parks and charging cabinets continued and resulted with the solution for remote control system for heating boards for car parks. Remarkable step forward was also made in the development of charging cabinets for electric cars where a slow as well as medium-fast charging system for means of transport was created at the request of a customer.

The companies of Harju Elekter Group participated in specialised fairs presenting their production range related to energy distribution networks. In February the company participated in the largest energy sector fair in Finland held in Tampere, and in April, in the composition of the Estonian joint stand, in the electrical engineering fair in Hannover. In addition to that several smaller regional fairs were visited such as the construction fair in Pori, the subcontracting fair in Tampere and SLO electricity fairs in Kuressaare and Tallinn.

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.

The production processes of AS 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 AS Harju Elekter commerce group organise the collection, recycling and disposal of unusable electronic devices (boilers) in accordance with the Waste Act.

During the reporting year subsidiaries past several supplier audits carried out by customers. Following the principles of quality management and environmental policy the company continually focused on optimising important processes and on the efficient use of materials in order to reduce the resultant waste to a minimum. Fire safety training was organised for workers which consisted of a theoretical part as well as a field exercise. Estonian and Finnish subsidiaries continued the introduction of 5S production principles in order to increase the productivity. The Finnish subsidiary also started the development project TOSI 2013 with the aim to reduce the delivery period.

According to the requirements of quality standards ISO 9001 and ISO 14001 the recertification of management systems was carried out in the subsidiary AS Harju Elekter Elektrotehnika and in January 2013 certificates for the next three years were issued. The recertification of management systems according to the quality standard ISO 9001 was also carried out in subsidiaries Satmatic Oy and Rifas UAB and the relevant certificates were issued to them for the next three years. Regular annual audits were carried out in AS Harju Elekter Teletehnika. The next recertification will be carried out in 2014. Consequently, the organisation of production in all the companies of the Group meets the requirements of the international quality and environmental management systems, ISO 9001 and ISO 14001.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
HE Elektrotehnika	ISO9001:ISO14001 (since 2000)				()			up to 1/2013		
HE Teletehnika	ISO9001:ISO14001 (since 2002)		()			()		up to 1/2014		
Rifas	ISO9001			()			()		ISO14001 OHSAS 18001	up to 12/2015
Satmatic	ISO9001			()			()		ISO14001	up to 10/2015
Draka Keila Cables	ISO9001:ISO14001 (since 2000)			()			()			up to 3/2015

() - recertification

SOCIAL RESPONSIBILITY AND CHARITY

The environment around us creates, as well as limits, our opportunities to act. During its almost half-century history of operation Harju Elekter has become one of the largest and most successful companies in Keila and in the region around it and we feel we have to take responsibility for the general development of the society, as well as the wellbeing of the local community. For us, social responsibility means daily considerations how to contribute to making life better in Estonia.

We have always supported financially and in other ways many initiatives that we strongly believe in. We value highly the long-term co-operation that makes the support more efficient. We continue supporting good ideas also in the future. Over the years four major areas of sponsorship have evolved within 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 has concluded long-term sponsorship agreements with the Keila School as well as kindergartens, sport and hobby 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 educating of engineers. Harju Elekter is a golden sponsor of Tallinn Technical University granting every year up to three scholarships for Bachelor's as well as Master's degree students in the field of electricity and mechanics. The Group also carries out several co-operation programs with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. Finnish subsidiary had a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

Supporting and inspiring young sportsmen

The company has, above all, supported youth sports - focusing on long-term and constant sponsorship and taking into account the popularity of the sports. For several years the company has sponsored the young skiers and athletes of Nordic countries combined with the Estonian Ski Association. As from the season 2008/2009 the company has also supported the young skiers, Algo Kärp and Kein Einaste. The youth projects of the Estonian Ski Association are also aimed at the future focusing on the Winter Olympics in Sochi in 2014.

Promoting recreational sport among the employees

In co-operation with the Harju KEK Athletic Club we do everything we can to facilitate an active and sporting lifestyle for our employees. Healthy workers, full of energy, represent a priceless value to the company.

Total amount of different support programmes in 2012 amounted to 19.8 (2011: 15.1) thousand euros.

CORPORATE TARGET FOR 2013

The key to the development of the Group is continually in finding new markets and new customers, as well as in increasing the sales of the Group's products outside of Estonia, especially in neighbouring countries, in other European Union countries and further. In 2013 the Group will focus on finding new projects and involving customers and co-operation partners in Scandinavian countries, especially in Sweden.

The Group's 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. High quality customer relations have a critical role here.

The Group directs more and more resources into the development of products meant for end customers, in which lie long-term success and greater profitability. As regards the range of products and services the future aim is to offer a comprehensive service, starting with the development and production of the product and ending with the provision of guarantees and maintenance services.

The Group continually needs to focus on optimising costs and making the operation of the organisation more efficient. Subsidiaries continue to increase the efficiency by following the Lean production principles and implementing the 5S-model.

Today, consumers are more and more oriented at solutions based on renewable energy that offer energy efficient, individualised metering and monitoring possibilities. The targets and tasks of product development of the Group for the next few years have been drawn up bearing in mind these developments. Finding novel solutions and recognising new opportunities are the priorities of the development and the most important task for the engineering personnel of the Group's companies.

Companies of the Group continue to construct solar power stations and using the energy produced for self-consumption. However, in countries where it is possible the excess energy will be directed to public energy networks. By producing and selling or consuming such energy a substantial amount of resources can be saved.

In order to increase the competitiveness of the Group the co-operation between its subsidiaries gets closer year by year. The Estonian companies belonging to the Group use the same trade mark and co-operate also in marketing, e.g. use the same information channels and presentation material. Closer co-operation between the companies of the Group at every level offers additional opportunities for making flexible use of the Group's resources.

The Group has systematically reinforced its know-how by concluding license agreements, contributing to the improvement of qualifications and professional skills of its employees, etc. Investment in personnel is mainly targeted to the improvement of professional further education and raising their qualifications.

SHARE AND SHAREHOLDERS

The shares of Harju Elekter were first listed on the Tallinn Stock Exchange on September 30, 1997. Tallinn Stock Exchange is part of the largest exchange company in the world, the NASDAQ OMX Group, which was formed in 2008 after the merger of the Baltic and Nordic stock exchange group OMX and the NASDAQ Stock Market. It delivers trading, exchange technology and public company services across six continents, with over 3,900 listed companies.

The share capital of AS Harju Elekter is 12.18 million euros which is divided into equal ordinary shares. The symbol of a AS Harju Elekter share in NASDAQ OMX is HAE1T. ISIN: EE3100004250. The nominal value of a share is 0.70 euros. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to AS 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.

In 2012, the NASDAQ OMX Tallinn index OMXT increased by 38.2% to 734.2 points lifting the Tallinn Stock Exchange among the first ten in the world. This was an anticipated recovery of the market after the downfall caused by uncertainty that affected European financial markets in 2011. The companies listed in the Tallinn Stock Exchange did well, their economic results improved and this was reflected in the rise in prices of their shares. The OMX Baltic Benchmark Cap GI increased by 21.8% during the year. However, the turnover of stock exchange transactions has fell to 136 million euros which is even less than in the first year of operation of the Tallinn Stock Exchange i.e. in 1996 when the actual trading lasted only 7 months. In 2012 the average daily turnover of the stock exchange was 0.54 (2011: 0.74) million euros and the average transaction volume was 2,603 (2011: 2,239) euros. The large-scale transaction with Tallink shares and the unsuccessful IPO of Pro Kapital were the most outstanding events of the year in the stock exchange.

Key share data

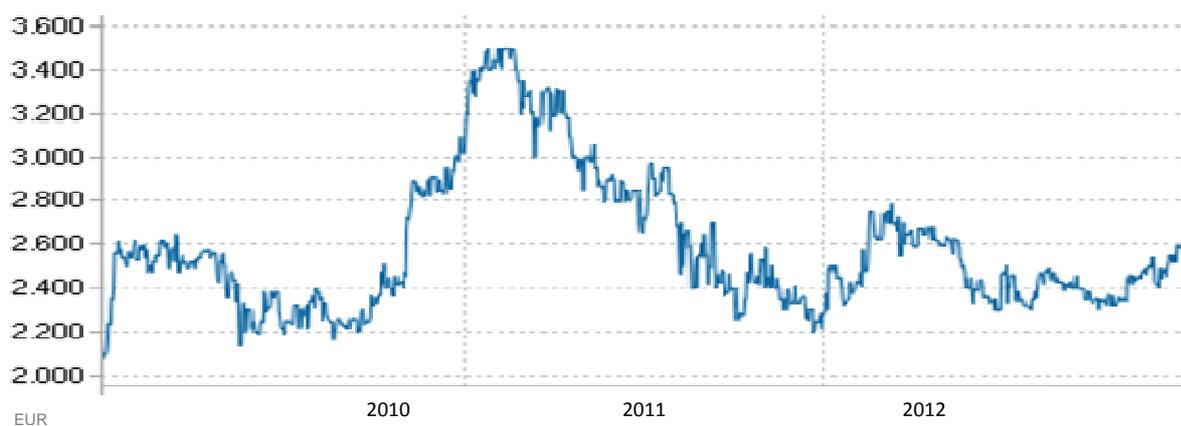
EUR	2012	2011	2010	2009	2008
Number of shares (in thousand)	17,093,443	16,800,000	16,800,000	16,800,000	16,800,000
Nominal value	0.70	0.70	0.64	0.64	0.64
Closing price	2.64	2.28	3.02	2.07	0.99
Market value (in million)	45.94	38.30	50.74	34.78	16.63
Earnings per share, EPS	0.21	0.17	0.13	0.07	0.15
P/E	12.57	13.41	23.39	28.14	6.76
Dividend per share	*0.09	0.07	0.06	0.05	0.06
Dividend yield (%)	3.4	3.1	2.0	2.5	6.5
Dividend payout ratio (%)	44.5	42.4	46.5	69.9	43.6

* Proposal of the Management Board

The share price of AS Harju Elekter increased in 2012 by 15.8% amounting to 2.64 euros and, as of December 31, the market value of the Group was 45.9 million euros. The total amount of transactions was moderate but the number of shares traded increased – 760 thousand shares were involved in transactions. The list of shareholders also increased. At the end of 2012, AS Harju Elekter had 1,507 shareholders.

EUR	2012	2011	2010	2009	2008
Highest price	2.80	3.54	3.14	2.99	3.45
Lowest price	2.30	2.19	2.02	0.67	0.95
Closing price	2.64	2.28	3.02	2.07	0.99
Change (%)	15.8	-23.8	45.9	107.0	-70.9
Traded shares (pc)	759,869	663,917	2,039,910	1,559,830	4,634,592
Turnover (in million)	1.88	1.88	5.40	2.14	11.39

Share of AS Harju Elekter in Tallinn Stock Exchange 2010-2012



A comparison of AS Harju Elekter share indexes 2010–2012

for more information: <http://www.nasdaqomxbaltic.com/market/>

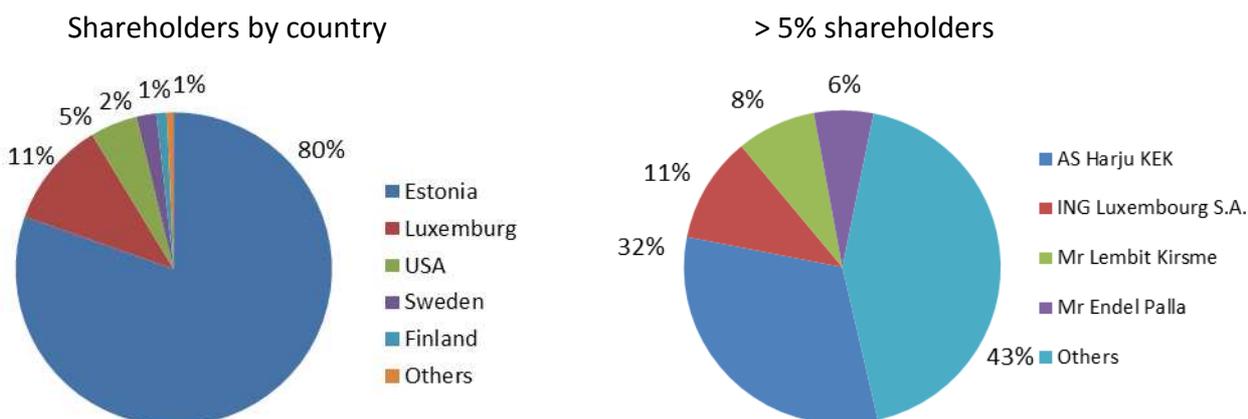


Shareholders structure

At the end of 2012, AS Harju Elekter had 1,507 shareholders. The number of shareholders increased during the year by 65 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2012 held 31.70% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 7.97% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

Shareholder structure by size of holding at 31 December 2012

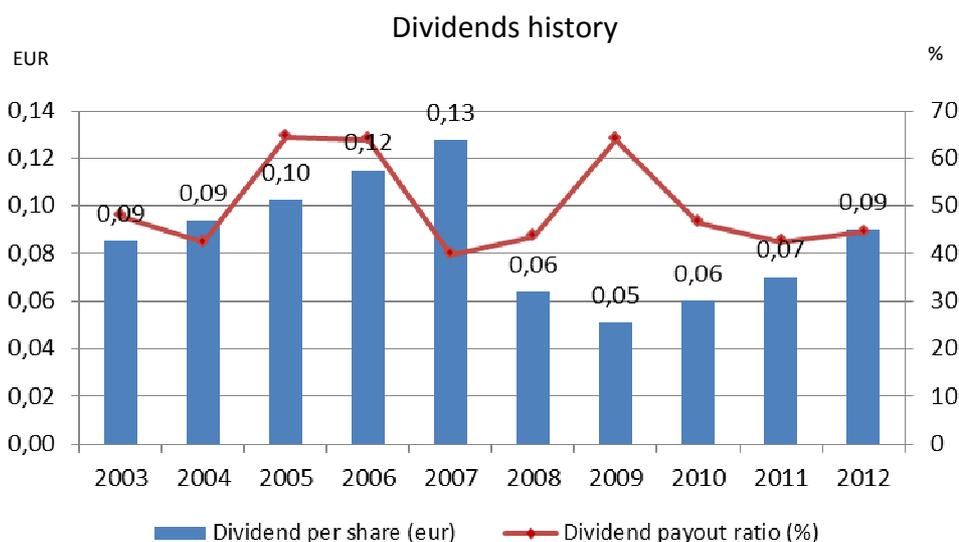
Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.13%	42.61%
1.0 – 10.0%	7	0.46%	27.11%
0.1 – 1.0%	53	3.52%	15.75%
< 0.1%	1,445	95.89%	14.53%
Total	1,507	100.0%	100.0%



Dividends

According to the dividend policy of the Group one third of the financial year's net profit is paid out as dividends. In addition the Group has an established practice of paying out dividends on gains from other financial investments. The actual ratio will be determined based on the Group's cash flows, development prospects and funding needs.

As a result of strong capitalisation the Management Board proposes to pay a dividend of 0.09 euros per share, totally 1.57 (2011: 1.18) million euros for the financial year 2012. This is 44.5% (2011: 42%) from total net profit.



For dividend history and ratios, please refer to the Key share data table.

CORPORATE GOVERNANCE

Corporate Governance Report 2012

As a company Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and as a public company, Harju Elekter also observes the rules of the Tallinn Stock Exchange, the Principles of the Corporate Governance Code and the requirements to treat investors and shareholders equally. Accordingly, Harju Elekter complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2012, the supervisory board, the management board and explains Harju Elekter's governance structure and processes.

CGC Article 1.3.3

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Since Harju Elekter does not have the required technical equipment and acquisition of such equipment would be costly, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 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 has just one member. Managing director/CEO is responsible for the performance of company's strategic areas. He also concludes the contract.

CGC Article 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 given to Managing Director/CEO. The rate of pay of a member of the Management Board and the severance pay is set out in the contract of service and shall not be disclosed to the public under an agreement between the parties. The manager is entitled to receive a severance payment in the amount of 10 months' remuneration of a member of the Management Board.

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative. 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. 80% of the performance pay is paid by quarter; the remaining 20% is paid after the results of the financial year have been determined.

Management, incl. Managing Director/CEO is paid an annual bonus of 0.3% of the consolidated net profit (belonging to the owners of the parent company) 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 (incl. Managing Director/CEO) 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 Article 2.3.2

The supervisory council shall approve transactions that are significant to the issuer and are entered into between the issuer and a member of its management board, or another person connected or close to them, and shall determine the terms of such transactions. Transactions approved by the supervisory

council between the issuer and a member of the management board, or a person connected or close to them, shall be published in the issuer's Corporate Governance Report.

In 2012 no such transactions were performed.

CGC Article 3.1.3

The Supervisory Board shall regularly assess the activities of the Management Board and its implementation of the Issuer's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required. Upon the establishment of committees (audit committee, remuneration committee etc.) by the Supervisory Board, the Issuer shall publish on its website their existence, duties, membership and position in the organization. Upon change of the committee structures, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes. In 2012, members of the Supervisory Board of Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Council in issues provided by law. Details of the Audit Committee and its position in the organisation will be available on the company's website.

CGC Article 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 3 May 2012 appointed the membership of the Supervisory Board for the following 5 years, setting 750 euros a month as the pay rate for a member of the Supervisory Board and 1,600 euros a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working in company's management shall be subject to the reward system used in AS Harju Elekter (see also CGC explanation for CGC Article 2.2.7). No severance pay is allotted to members of the Supervisory Board.

CGC Article 3.2.6

If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.

During the reporting year, there was only one member who attended less than half of the meetings.

CGC Article 3.3.2

A member of the supervisory council shall promptly inform the chairman of the supervisory council and the management board of any business offer related to the business activity of the issuer made to the member of the supervisory council or a person close or connected to the member of the supervisory council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

Members of the Supervisory Board must avoid any conflict of interest and follow the requirements of prohibition on competition. The Supervisory Board and the Management Board work in close co-operation, acting according to the Articles of Association and in the best interests of the company and its shareholders. In 2012 no conflicts of interests occurred.

CGC Article 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 Article 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 Article 6.2

Electing the auditor and auditing the annual accounts.

The general meeting of the shareholders of Harju Elekter of 3 May 2012 elected an auditor for the company for the period 2012–2014; the elected auditor is the auditing company KPMG Baltics OÜ. 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 24.9.2003 – “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.

Governance principles and additional information

A public limited company's AS Harju Elekter governing bodies are the shareholders' general meeting, the Supervisory and the Management Boards.

General meeting

The general meeting is the company's highest governing body who have competence for 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. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the company's financial year. An extraordinary general meeting is called by the management board when the company's net assets have declined below the level required by the law or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the company's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined 7 days before at the date of the general meeting.

The annual general meeting of 2012 was held on 3 May at Keskväljak 12 in Keila, Estonia. A total of 76.11% of the voting stock were represented. The general meeting approved the 2011 annual report and profit distribution, elected and appointed a new supervisory board of five members for the next five-year term and approved the procedure for remuneration of the supervisory board. The general meeting also appointed KPMG Baltics OÜ as an auditor of the company for 2012-2014, and approved the implementation of the private share issue programme (option programme) adopted at a general meeting of shareholders on 23 April 2009. The sixth item on the agenda of the general meeting included the planning of a share option programme for 2012-2015 for the members of the directing bodies, key specialists and engineers of the Group's companies as well as to members of directing bodies of associate companies of AS Harju Elekter, for involving them as shareholders of the company, for the purposes of motivating them to act towards achieving the better financial performance of AS Harju Elekter. Within the planned private placement, up to 600,000 new registered shares will be issued in

2015. The decision on organising the share issue shall be made by the general meeting of shareholders in 2015, provided that the market price of the share exceeds that of the issue price. Presentations were made by the chairman of the management board, chairman of the supervisory board and auditor.

Supervisory Board

The supervisory board plans the activities of the company, organises the management of the company and supervises the activities of the management board. The supervisory board meets according to need but not less frequently than once every three months. A meeting of the supervisory board has a quorum when more than half of the members participate. In 2012, the supervisory board met nine times. All members of the supervisory board attended all or most of the meetings. According to the Articles of Association, Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years.

In connection with the expiration of the authorisation deadline of the Supervisory Board of AS Harju Elekter, the AGM assigned a five-member Supervisory Board for the next five-year period, at its meeting on 3 May 2012. The present members of board are Endel Palla (chairman), Ain Kabal, Madis Talgre, Triinu Tombak and Andres Toome. The Supervisory Board has the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Viru Keemia Grupp AS, Head of Legal Department), Madis Talgre (Chairman of the Management Board, AS Harju KEK), Triinu Tombak (financial consultant) and Andres Toome (consultant).

Mr Palla has been working in Harju Elekter since 1969 (1985 -1999 as managing director) and keeps today company's R&D manager position. Mr Kabal is head of legal department of Viru Keemia Group AS and a lawyer, who has long-term experience in advising Group's companies on legal issues. Mr Talgre is a chairman of AS Harju KEK, the biggest shareholder of Harju Elekter (holding 31.7% of the shares of the company on 31.12.2012). Since 2007 Mr Toome (chairman of OÜ Tradematic) has been a member of the supervisory board. He complements the Board with investment experience. In 2012 was appointed a member of the Supervisory Board Triinu Tombak, to include more financial knowledge and experience to the Board. Two of the five members of the Supervisory Board – Triinu Tombak and Andres Toome - are independent.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law. At 31 December 2012, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 6.8% (2011: 15.7%) of Harju Elekter shares (note 23).

Management Board

The management board is a governing body which represents and manages the company in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. According to the Articles of Association, Harju Elekter's Management Board may have 1-5 members who are elected by the Supervisory Board for a period of three years. The Supervisory Board appoint also the chairman and the members as well as remove a member of the Management Board. Every member of the Management Board may represent the company in all legal acts.

In connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, the Supervisory Board assigned a one-member Management Board for the next three-year period, at its meeting on 4 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman. At the same meeting, the Supervisory Board also removed Lembit Libe and Karin Padjus from their positions as Members of the Management Board. 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 everyday business activities of the Group are managed by the Managing Director/CEO. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies.

At 31 December 2012, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.1% of Harju Elekter shares (note 23).

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

Additional management bodies and special committees

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. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010 the Supervisory Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed the Audit Committee of the company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. In 2012, the members of the Supervisory Board of Harju Elekter – Triinu Tombak and Andres Toome - were appointed as members of the Committee.

Information management

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 of the Group also have home pages.

Auditors

According to the decision of the general meeting of the shareholders (3.5.2012) the audits of AS Harju Elekter for the years 2012–2014 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by Baltijos Auditas UAB in Lithuania and KPMG Oy in Finland.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Note	As at 31 December	
		2012	2011
Current assets			
Cash and cash equivalents	7	3,352	815
Trade and other receivables	8	6,493	7,848
Prepayments	9	232	104
Prepaid income tax	9, 20	0	20
Inventories	10	6,395	6,658
Total current assets		16,472	15,445
Non-current assets			
Deferred income tax assets	26	5	35
Investment in associate	11	2,295	1,177
Other long-term financial investments	12	21,386	16,023
Investment property	13	10,454	10,833
Property, plant and equipment	14	8,546	8,985
Intangible assets	16	451	422
Total non-current assets		43,137	37,475
TOTAL ASSETS		59,609	52,920
Liabilities			
Interest-bearing loans and borrowings	17	1,075	2,245
Trade and other payables	19	5,902	6,268
Other current tax liabilities	20	1,049	758
Income tax liability	20	75	29
Short-term provisions	21	23	17
Total current liabilities		8,124	9,317
Interest-bearing loans and borrowings	17	1,306	1,569
Other liabilities		43	0
Total non-current liabilities		1,349	1,569
Total liabilities		9,473	10,886
Equity			
Share capital	23	12,180	11,760
Share premium	23	240	0
Reserves		21,354	15,881
Retained earnings		15,008	12,672
Equity attributable to owners of the Company		48,782	40,313
Non-controlling interests		1,354	1,721
Total equity		50,136	42,034
TOTAL LIABILITIES AND EQUITY		59,609	52,920

The notes on pages 40 to 81 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000	For the year ended 31 December		
	Note	2012	2011
Revenue	24, 25	52,801	46,674
Cost of sales	25	-44,148	-38,888
Gross profit		8,653	7,786
Distribution costs	25	-2,801	-2,373
Administrative expenses	25	-3,876	-3,352
Other income	25	49	16
Other expenses	25	-55	-52
Operating profit		1,970	2,025
Finance income	25	1,042	806
Finance costs	25	-45	-62
Share of profit of associate	11	1,118	497
Profit before tax		4,085	3,266
Income tax expense	26	-482	-318
Profit for the year		3,603	2,948
Other comprehensive income			
Gain/loss on change in fair value of available-for-sale financial assets	12	5,538	-5,516
Gain/loss on sale of financial assets		-162	0
Foreign currency translation differences – foreign operations		-6	1
Total other comprehensive income for the year		5,370	-5,515
Total comprehensive income for the year		8,973	-2,567
Profit attributable to:			
Owners of the Company		3,517	2,773
Non-controlling interests		86	175
Profit for the year		3,603	2,948
Total comprehensive income attributable to:			
Owners of the Company		8,887	-2,742
Non-controlling interests		86	175
Total comprehensive income for the year		8,973	-2,567
Earnings per share			
Basic earnings per share (EUR)	27	0.21	0.17
Diluted earnings per share (EUR)	27	0.21	0.16

The notes on pages 40 to 81 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	For the year ended 31 December		
	Note	2012	2011
Cash flows from operating activities			
Operating profit		1,970	2,025
<u>Adjustments for:</u>			
Depreciation and amortisation	13,14,16 ,25	1,469	1,353
Gain on sale of property, plant and equipment	25	-6	-1
Share-based payments	30	85	106
Change in trade and other receivables		1,226	-1,351
Change in inventories		263	-1,247
Change in trade and other payables		1	784
Corporate income tax paid	29	-388	-362
Interest paid	29	-46	-59
Net cash from operating activities		4,574	1,248
Cash flows from investing activities			
Acquisition of investment property	29	-100	-2,460
Acquisition of property, plant and equipment	29	-463	-489
Acquisition of intangible assets	29	-168	-73
Acquisition of a subsidiary		-391	0
Proceeds from sale of property, plant and equipment	29	12	2
Proceeds from sale of other financial investments	12	189	0
Interest received	25	9	11
Dividends received	25	854	795
Net cash used in investing activities		-58	-2,214
Cash flows from financing activities			
Proceeds from issue of shares		660	0
Proceeds from other long-term liabilities		43	0
Changes in overdraft balances	17	-1,179	771
Repayment of loans	17	0	-65
Payment of finance lease principal	17	-282	-272
Dividends paid		-1,225	-1,051
Net cash used in financing activities		-1,983	-617
Net cash flow		2,533	-1,583
Cash and cash equivalents at beginning of year		815	2,400
Increase / decrease in cash and cash equivalents		2,533	-1,583
Effect of exchange rate fluctuations on cash held		4	-2
Cash and cash equivalents at end of year	7	3,352	815

The notes on pages 40 to 81 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR'000	Attributable to owners of the Company						TOTAL	Non-controlling interests	TOTAL EQUITY
	Share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings			
At 31 December 2010	10,737	384	1,073	20,316	7	11,440	43,957	1,589	45,546
Profit for the year	0	0	0	0	0	2,773	2,773	175	2,948
Other comprehensive income	0	0	0	-5,516	1	0	-5,515	0	-5,515
Total comprehensive income	0	0	0	-5,516	1	2,773	-2,742	175	-2,567
Increase of share capital	1,023	-384	0	0	0	-639	0	0	0
Share-based payments	0	0	0	0	0	106	106	0	106
Dividends	0	0	0	0	0	-1,008	-1,008	-43	-1,051
At 31 December 2011	11,760	0	1,073	14,800	8	12,672	40,313	1,721	42,034
Profit for the year	0	0	0	0	0	3,517	3,517	86	3,603
Other comprehensive income	0	0	0	5,376	-6	0	5,370	0	5,370
Total comprehensive income	0	0	0	5,376	-6	3,517	8,887	86	8,973
Contribution to share capital	420	240	0	0	0	0	660	0	660
Share-based payments	0	0	0	0	0	85	85	0	85
Increase of capital reserve	0	0	103	0	0	-103	0	0	0
Dividends	0	0	0	0	0	-1,176	-1,176	-49	-1,225
Acquisition of non-controlling interests	0	0	0	0	0	13	13	-404	-391
At 31 December 2012	12,180	240	1,176	20,176	2	15,008	48,782	1,354	50,136

Further information on share capital is presented in note 23.

The notes on pages 40 to 81 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter (address: Paldiski mnt 31, Keila, Estonia) is a company registered in Estonia (registry number 10029524). These consolidated financial statements as at and for the year ended 31 December 2012 comprise AS Harju Elekter (the 'Parent company' or the 'Company') and its subsidiaries (together referred to as the 'Group') and the Group's interest in the associate AS Draka Keila Cables (Estonia, 34% interest).

Subsidiaries of AS Harju Elekter As at 31 December	Domicile	Core business	Ownership and voting rights, %	
			2012	2011
AS Harju Elekter Teletehnika	Estonia	Manufacturing	100	100
AS Harju Elekter Elektrotehnika	Estonia	Manufacturing	100	100
Satmatic OY	Finland	Manufacturing	100	100
Harju Elekter AB	Sweden	Retail- and wholesale	90	90
Rifas UAB	Lithuania	Manufacturing	62.7	51
Subsidiary of Rifas UAB				
Automatikos Iranga UAB	Lithuania	Design	51	51

AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997; 31.7% of the Company's shares are held by AS Harju KEK, a company registered in Estonia.

The management board authorised these consolidated financial statements as at and for the year ended 31 December 2012 for issue on 4 April 2013. According to the Commercial Code of the Republic of Estonia, final approval of the annual report including the consolidated financial statements, which have been prepared by the management board and approved by the supervisory board, takes place at the annual general meeting.

The Group's core business is the production and sale of power distribution and control equipment for the energy, construction and manufacturing sectors. The Group's activities are described in detail in note 24 "Segment reporting".

2 Basis of preparation

Under the Estonian Accounting Act, the Parent company's separate primary financial statements (the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are to be disclosed in the notes to the consolidated financial statements. The separate primary financial statements of AS Harju Elekter are disclosed in note 32 "Primary financial statements of the Parent". The separate primary financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements, except that in the Parent's separate primary financial statements investments in subsidiaries and associates are accounted for using the cost method.

2.1. Statement of compliance

The consolidated financial statements of AS Harju Elekter and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except that available-for-sale financial assets are measured at fair value.

2.3. Functional and presentation currency

From 1 January 2011, the functional currency of AS Harju Elekter is the euro. The consolidated financial statements for 2012 are presented in euros.

Group entities keep their books and records in the currency of the primary economic environment in which they operate. Estonian and Finnish Group entities use the euro (EUR), the Swedish entity uses the Swedish krona (SEK) and Lithuanian entities use the Lithuanian litas (LTL). The Lithuanian litas is pegged to the euro at a rate of LTL 3.4528 to EUR 1.

The consolidated financial statements are presented in euros, which is the Parent company's functional and presentation currency. Numerical data is presented in thousands, rounded to the nearest thousand, unless indicated otherwise. The abbreviation EUR'000 stands for a thousand euros.

2.4. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs EU 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 judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognised in the period of the change and any future periods affected by the change. 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 4.

The main accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been applied in consideration of the principles of consistency and comparability. The substance and effects of changes in measurements are explained in relevant notes. If the presentation or method of classification of financial statement line items is changed, comparative prior period figures are reclassified accordingly.

2.5. Changes in accounting policies

In preparing these consolidated financial statements, the Group applied amendments to International Financial Reporting Standards as adopted by the EU, which are effective for annual periods beginning on or after 1 January 2012. The amendments did not have a significant effect on the Group's financial statements.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013, which the Group has not adopted early. According to management's estimates it is not expected that any of these will have a significant effect on the Group's financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities.

3.1. Basis of consolidation

(a) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

For acquisitions, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally at fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(b) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The consolidated financial statements comprise the financial statements of AS Harju Elekter and its subsidiaries. The financial statements of the subsidiaries are prepared for the same period as the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. 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.

Non-controlling interest is the portion of equity in a subsidiary not attributable to the Group. In the consolidated statement of comprehensive income, profit or loss and each component of other comprehensive income are attributed to owners of the Parent and to the non-controlling interests. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to equity holders of the Parent.

(c) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investments in associates include 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 profit or loss for the year, 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.

(d) Transactions eliminated on consolidation

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated but only to the extent that there is no indication of impairment.

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

3.2. Foreign currency translation

(a) Transactions and balances

Foreign currency transactions are translated into the presentation currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of monetary items and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognised in profit or loss.

(b) Financial statements of foreign operations

The results and financial positions of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency. The assets and liabilities of foreign operations are translated into euros at foreign exchange rates ruling at the reporting date.

The income and expenses of the Lithuanian entities are translated into euros using a fixed exchange rate (EUR 1 = LTL 3.4528). Since the Lithuanian litas is pegged to the euro, the translation into the Group's presentation currency does not give rise to any foreign exchange differences. The income and expenses of the Swedish company are translated into euros at exchange rates at the dates of the transactions. Foreign exchange differences are recognised in other comprehensive income and presented within the translation reserve in equity.

When a foreign operation is sold or control is lost, exchange differences that were recorded in equity are recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated into euros at the closing exchange rates.

3.3. Financial assets

The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets on 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 classified current assets, except where the maturity date is more than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

- *Cash and cash equivalents* includes cash on hand, demand deposits, and other short-term highly liquid investments with original maturities of three months or less that are subject to an insignificant risk of changes in value. In the statement of cash flows, cash flows from operating activities are reported using the indirect method.
- *Trade receivables* are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

(b) Available-for-sale financial assets

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

Purchases and sales of financial assets are recognised at the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at cost plus any attributable transaction costs.

The Group's investments in equities are classified as available-for-sale financial assets and are measured at fair value, with any arising gain or loss from a change in fair value recognised in other comprehensive income, except for impairment losses. The fair value of available-for-sale financial assets is their quoted bid price at the reporting date. When available-for-sale financial assets are derecognised, any cumulative gain or loss previously recognised in equity is reclassified to profit or loss for the year.

Other financial assets that do not have an active market and whose fair value cannot be measured reliably are measured using the amortised cost method.

Impairment testing for trade receivables is described in note 3.9.

3.4. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average cost formula. The cost of finished goods and work in progress comprises the costs of design, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

3.5. Investment property

Investment property is property held by the Group as the owner or the lessee under a finance lease to earn rentals or for capital appreciation or both. Investment property is measured using the cost model, i.e. investment property is carried at cost less any accumulated depreciation and any 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 3.6.c).

3.6. Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of production overheads, and borrowing costs related to the acquisition, construction or production of qualifying assets.

Where an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items of property, plant and equipment and are 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 the parts will flow to the Group and their cost 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 are not recognised in the carrying amount of the item. Instead, such costs are expensed as incurred.

(c) Depreciation

Depreciation is charged to expenses 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 entities use, in all material respects, uniform depreciation rates. The following estimated useful lives are applied:

Asset class	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.

3.7. Intangible assets

Intangible assets (except goodwill) are amortised on a straight-line basis over their estimated useful lives. Intangible assets are tested for impairment whenever there is any indication of impairment similarly to items of property, plant and equipment.

(a) Research and development expenditures

Development expenditure is expenditure incurred upon the application of research findings to the development of new products and services. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised as an expense as incurred.

Development expenditure is capitalised, i.e. recognised as an asset only if earlier research findings are applied to a plan or design for the production of a new or substantially improved product or manufacturing process that is both technically and commercially feasible and the Group has sufficient resources to complete the development project. Capitalised expenditure includes the cost of materials, direct labour and an appropriate proportion of production overheads. Other development expenditure is recognised as an expense as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and impairment losses. Development expenditure is charged to expenses on a straight-line basis over its estimated useful life that does not exceed 5 years.

(b) Other intangible assets

Other intangible assets comprise licenses and software. Acquired licences are recognised at cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the software and prepare it for use. Other acquired intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Other intangible assets are charged to expenses on a straight-line basis over their estimated useful lives that do not exceed 5 years.

3.8. Non-current assets held for sale

Non-current assets held for sale are items of property, plant and equipment or intangible assets whose sale in the next 12 months is highly probable, i.e. management is actively marketing the asset for sale at a price that is reasonable in relation to its current fair value.

Non-current assets held for sale are classified as current assets and their depreciation or amortisation is discontinued as of the date they are classified as held for sale. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

3.9. Impairment

At each reporting date the Group assesses whether there is any indication that an asset other than an item of inventory or a deferred tax asset may be impaired. If such indication exists, the asset is tested for impairment by estimating its recoverable amount.

A trade receivable is considered to be impaired when it is reasonable to assume that the Group will not be able to recover the entire amount in accordance with the originally agreed terms and conditions. The difference between carrying amount and the estimated future cash flows discounted at the original effective interest rate is recognised as an impairment loss within distribution costs in the statement of comprehensive income. When a trade receivable proves uncollectible, it is written off against the impairment allowance for trade receivables. Subsequent recoveries of amounts previously written off are recognised by reducing distribution costs in the statement of comprehensive income. The recoverable amount of receivables measured at amortised cost is calculated as the present value of their estimated future cash flows, discounted at the original effective interest rate. Short-term receivables are not discounted.

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 profit or loss.

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 (groups of units) and then, to reduce the carrying amounts of the other assets in the unit (groups 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 permanently 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 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.

An impairment loss in respect of a receivable carried at amortised cost is reversed and the item's carrying amount is increased if the subsequent increase in recoverable amount can be objectively related to an event occurring after the impairment loss was recognised.

An impairment loss recognised for 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 is 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.

3.10. Leases

A lease that transfers substantially all the 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 using the effective interest rate method.

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

(b) The Group as a lessee

Finance leases are recognised as assets and liabilities 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. 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.

3.11. Financial liabilities

Liabilities that are due to be settled within more than one year after the reporting date are classified as non-current liabilities. Liabilities that are due to be settled within 12 months after the reporting date are classified as current liabilities.

(a) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is expensed over the loan term using the effective interest method, except borrowing costs that are eligible for capitalisation.

(b) Trade payables

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

3.12. Income tax and deferred tax

(a) Corporate income tax

According to the Estonian Income Tax Act that took effect on 1 January 2000, corporate 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 recognised 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.

The consolidated statement of comprehensive income includes the Swedish, Lithuanian and Finnish subsidiaries' current corporate income tax (calculated on profits earned), changes in deferred tax assets and liabilities and the dividend tax expense of the Estonian Group entities.

(b) Deferred tax

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

(c) Income tax at the Group's foreign operations

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss 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 or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit,
- temporary differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided for 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 reporting date.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right for this and they relate to income taxes levied by the same authority on the same taxable entity, or on different taxable entities, but it is intended to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

3.13. 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 reporting date are discounted to their present value.

3.14. Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow 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 expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects the 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.

A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (a) the best estimate of the expenditure required to settle the financial obligation at the reporting date and (b) the amount initially recognised less, when appropriate, cumulative amortisation.

3.15. 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 statement of financial position.

3.16. 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 entity repurchases the company's equity instruments (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent 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 Parent company's equity holders.

3.17. Share-based payments

The Group has equity-settled share-based payment plans (note 30). The fair value of services received from the Group's employees in return for shares is recognised as an expense and within retained earnings in equity during the vesting period (from the grant date of the option until the vesting date). The fair value of services received is determined by reference to the fair value of the equity instruments granted to the employees at the grant date. The sums received in exchange for issue of shares minus direct transaction costs are shown within share capital and share premium in equity.

3.18. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available, and whose results are regularly reviewed by the Group's chief operating decision makers to make decisions about resources to be allocated to the segment and to assess its performance.

Segment reporting is in compliance with internal reporting submitted to the Group's chief operating decision makers. Operating segments are determined on the basis of how the chief decision makers use the internal reports to assess the performance of segments and to make decisions about allocation of resources.

3.19. Revenue

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 of value added tax, returns, rebates and discounts and after eliminating intra-Group sales.

(a) Sale of goods – wholesale and retail

The Group manufactures and sells electrical distribution systems and control panels and various metal products. Sale of goods is 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. Revenue is not recognised 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 terms of the sales contract, the time period for rejection has elapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the prices 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 settled in cash or by debit or credit card.

(b) Rendering 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 reporting date.

(c) Rental income

Rentals earned on investment property are recognised in revenue on a straight-line basis over the lease term. 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 becomes impaired, the Group reduces its carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. 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.

3.20. Government grants

The Group uses the net method to account for government grants. Grants related to income are recognised using the matching principle, i.e. the grant is recognised as income over the period necessary to match it with the related costs that it is intended to compensate. The costs related to a government grant are recognised on an accrual basis, i.e. when the underlying transaction affects the Group's net assets. The sums received are recognised as a reduction of the costs they are intended to compensate.

An asset acquired with a government grant is recognised at cost less the amount of government grant received for its acquisition. The cost of an acquired asset is depreciated, i.e. recognised as an expense over its estimated useful life.

3.21. 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.

3.22. Dividend distribution

A 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.

3.23. Related parties

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

- AS Harju KEK that owns 31.7% 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
- associates.

4 Accounting estimates and judgments

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

Estimates and judgments reviewed on an ongoing basis and they are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

(a) Receivables (note 8)

Management measures receivables and assesses them for impairment based on its best knowledge, taking into consideration historical experience. A receivable is considered impaired and written down when it is reasonable to assume that the Group will not be able to collect all amounts due according to the originally agreed terms. Indications of impairment include the debtor's significant financial difficulty, it being probable that the debtor will enter bankruptcy or financial reorganisation, and settlement defaults or delays.

(b) Inventory (note 10)

Management measures inventory based on its best knowledge, taking into consideration historical experience, general background information and assumptions concerning potential future events. In determining the need for writing down inventories, management considers the following factors: in the case of finished goods and merchandise purchased for resale, their sales potential and net realisable value; in the case of raw and other materials, their utility in the manufacture of finished goods and generating income; and in the case of work in progress, their stage of completion that can be measured reliably.

(c) Deferred income tax assets (note 26)

Deferred income tax assets are recognised for the unused prior period tax losses of subsidiaries operating in foreign markets to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Management estimates future taxable profits and the potential utilisation of deferred tax assets based on assumptions and forecasts regarding the development and performance of the market involved. Generation of profit assumes attainment of the Group's strategic goals. At 31 December 2012, the carrying amount of deferred income tax assets measured using the net method amounted to 5 thousand euros (31 December 2011: 35 thousand euros).

(d) Useful lives of investment property and property, plant and equipment (notes 3.5, 3.6, 13 and 14)

Management estimates the useful lives of investment property and property, plant and equipment based on production volumes and conditions, historical experience and future prospects. Depreciation rates are increased if the useful life of an asset proves shorter than originally estimated. Technically obsolete assets are either written down or written off.

(e) Contingent liabilities (notes 3.15 and 22)

Management estimates the probability of realisation of contingent liabilities based on its best knowledge, considering historical experience, general background information and assumptions and conditions concerning the potential future events.

(f) Warranty provisions (note 21)

Under its sales contracts, the Group provides a one-year warranty to products sold by which it undertakes to either repair or replace substandard or defective products during that period free of charge. Management estimates the expenditure required for settling the obligations based on historical warranty expenses for similar products and services.

5 Financial risk management

5.1. Financial risk factors

In its everyday activities, the Group faces different risks. Management of those risks is an important and inherent part of its business activity. The Group's capability to identify, measure and control different risks is an important input for its profitability. The Group's management defines risk as a possible negative deviation from the expected financial result. The main risk factors are market risk (including currency risk, price risk and interest rate risk), credit risk, liquidity risk, operational risk and capital risk.

The Group's risk management is based on the requirements and guidelines of the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, compliance with generally accepted accounting and reporting standards and relevant best practice, and internal regulations and risk management policies. At a general level, risk management includes identification, assessment and control of risks. The Parent company's management board has the key role in managing risks and approving risk procedures. The Parent company's supervisory board monitors the measures taken by the management board for mitigating risks.

5.2 Market risk

(a) Currency risk

The Group operates in Estonia (currency EUR), Finland (currency EUR), Sweden (currency SEK), and Lithuania (currency LTL). The Lithuanian litas is pegged to the euro.

To mitigate currency risks, the Group concludes all major foreign contracts in euros. The Group does not have any material receivables (note 8) or payables denominated in foreign currencies that are not pegged to the euro. All existing long-term loan and finance lease contracts (note 17) have been made in euros or the functional currency of the relevant Group entity. Therefore, they are treated as liabilities without currency risk.

EUR'000	Note	EUR	LTL	SEK	TOTAL
Cash and cash equivalents	7	2,826	435	91	3,352
Trade receivables	8	5,292	1,081	120	6,493
Available-for-sale financial assets	12	21,386	0	0	21,386
TOTAL		29,504	1,516	211	31,231
Current portion of interest-bearing loans and borrowings	17	-1,063	-12	0	-1,075
Trade payables	19	-2,430	-955	-83	-3,468
Other short-term liabilities	19	-1,931	-489	-14	-2,434
Non-current portion of interest-bearing loans and borrowings	17	-1,296	-10	0	-1,306
TOTAL		-6,720	-1,466	-97	-8,283
Net exposure		22,784	50	114	22,948

Based on the above, the Group is not materially exposed to currency risks and, therefore, did not use separate instruments to hedge its currency risks in 2012 or 2011. Information on foreign exchange gains and losses is disclosed in note 25.

(b) Price risk

The Group is exposed to equity price risk through its investments in equity instruments. Fluctuations in the market value of shares in PKC Group Oyj, which are accounted for as other long-term financial investments, may have a significant impact on the value of the Group's assets. The market price of a share in PKC Group Oyj increased by 4.00 euros in 2012 and decreased by 3.94 euros in 2011. In 2012 the value of the investment increased by 5.5 million euros and in 2011 it decreased by 5.5 million euros. Gain/loss on change in fair value was recognised in other comprehensive income. Further information on shares in PKC Group Oyj is presented in note 12.

(c) 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 short-term and long-term loans and borrowings that have floating interest rates. Loans and borrowings with floating interest 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). At 31 December 2012, the Group's long-term loans and borrowings had floating interest rates linked to 3 month Euribor and short-term loans and borrowings had floating interest rates linked to 1 month Euribor (note 17).

The interest rate profile of the Group's interest-bearing loans and borrowings is as follows:

As at 31 December EUR'000	Note	2012	2011
Floating rate loans and borrowings	17	2,381	3,814
Total		2,381	3,814

A change of one percentage point in interest rates as at the reporting date would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2011.

As at 31 December EUR'000	2012	2011
One percentage point increase	-24	-38
One percentage point decrease	24	38

5.3. Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as from credit provided to customers, including outstanding receivables and committed transactions. Credit risk is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation.

Exposure to credit risk is mitigated by monitoring the customers' settlement behaviour and ability to meet commitments on an ongoing basis. Customers are set individual risk limits based on internal and external ratings. Use of and adherence to of credit limits is regularly monitored. Sales to retail customers are settled in cash or by debit or credit cards issued by recognised banks. Therefore, sales to retail customers do not involve credit risk. The Group has established rules, which set out the circumstances in which litigation proceedings should be initiated in order to achieve debt recovery.

The maximum credit risk exposure is the value of trade receivables, less write-downs for impairment, and deposits with banks and financial institutions.

As at 31 December EUR'000	Note	2012	2011
Cash and cash equivalents	7	3,352	815
Trade receivables	8	6,281	7,655
Total		9,633	8,470

At the reporting date, the Group's credit risk exposure was 9.6 million euros (31 December 2011: 8.5 million euros). Although settlement of receivables may be influenced by various economic factors, management is of the opinion that the Group does not have any significant risk of loss that would exceed the impairment allowance already recognised.

5.4. Liquidity risk

Liquidity risk is the risk that the Group will be unable to cover its costs and investments due to a shortfall in cash flow. Management monitors cash flow forecasts on an ongoing basis, reviewing the availability and sufficiency of financial resources required to meet the Group's commitments and to finance the Group's strategic objectives.

Liquidity risk is mitigated with different financial instruments such as loans and finance leases. At the reporting date the Group's free cash totalled 3.4 million euros and loans and borrowings totalled 2.4 million euros (note 17).

5.5. Capital management

In capital management, the main objective is to ensure sustainable development of the Group so as to ensure return 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.

According to established practice, the Group monitors its capital through debt to capital ratio and equity ratio. Debt to capital ratio is the ratio of net debt to total capital. Net debt is found by deducting cash and cash equivalents from total debt (short-term and long-term interest bearing liabilities in the consolidated statement of financial position). Total capital consists of equity recognised in the consolidated statement of financial position plus net debt. Equity ratio is found by dividing total equity by total assets.

Debt to capital ratio and equity ratio

As at 31 December EUR'000	Note	2012	2011
Interest-bearing loans and borrowings	17	2,381	3,814
Cash and cash equivalents	7	-3,352	-815
Net debt		-971	2,999
Total equity		50,136	42,034
Total capital		49,165	45,033
Debt to capital ratio		-2.0%	6.7%
Total assets		59,609	52,920
Equity ratio		84%	79%

The laws of the Parent company's domicile set out minimum requirements to the equity of companies. In line with the law, the equity of a limited company defined as company has to amount to at least half of its share capital and no less than 25 thousand euros. In the reporting period, the Group was in compliance with all legal and prudential requirements to equity.

5.6. Determination of fair value (note 6)

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 after the reporting date. The fair values of long-term loans and borrowings do not differ significantly from their carrying amounts because their interest rates are regularly re-priced to market rates.

The carrying values of trade receivables and trade payables less any impairment losses are assumed to approximate their fair values. The fair value of financial liabilities is estimated for disclosure purposes 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 their quoted market prices at the reporting date.

6 Financial instruments

6.1. Financial instruments in the statement of financial position

As at 31 December EUR'000	Note	2012	2011
Financial assets			
Cash and cash equivalents	7	3,352	815
Trade and other receivables	8	6,493	7,848
Available-for-sale financial assets	12	21,386	16,023
Total		31,231	24,686
Financial liabilities			
Interest-bearing loans and borrowings	17	2,381	3,814
Trade and other payables	19	5,902	6,268
Total		8,283	10,082

6.2. Fair values of financial instruments by category

EUR'000	Note	Loans and receivables	Available -for-sale	Other financial liabilities	Carrying amount	Fair value
At 31 December 2012						
Cash and cash equivalents	7	3,352	0	0	3,352	3,352
Trade and other receivables	8	6,493	0	0	6,493	6,493
Available-for-sale financial assets	12	0	21,386	0	21,386	21,386
Total		9,845	21,386	0	31,231	31,231
Interest-bearing loans and borrowings	17	0	0	-2,381	-2,381	-2,381
Trade and other payables	19	0	0	-5,902	-5,902	-5,902
Total		0	0	-8,283	-8,283	-8,283
At 31 December 2011						
Cash and cash equivalents	7	815	0	0	815	815
Trade receivables and other receivables	8	7,848	0	0	7,848	7,848
Available-for-sale financial assets	12	0	16,023	0	16,023	16,023
Total		8,663	16,023	0	24,686	24,686
Interest-bearing loans and borrowings	17	0	0	-3,814	-3,814	-3,814
Trade and other payables	19	0	0	-6,268	-6,268	-6,268
Total		0	0	-10,082	-10,082	-10,082

6.3. Credit quality of financial assets

Ageing of trade receivables

As at 31 December	EUR'000	2012	2011
Not past due		5,405	7,065
Up to 3 months past due		568	390
3 to 6 months past due		70	67
Over 6 months past due		300	194
Total		6,343	7,716

7 Cash and cash equivalents

As at 31 December	EUR'000	2012	2011
Cash on hand		6	5
Current accounts		2,946	807
Short-term deposit		400	3
Cash and cash equivalents		3,352	815

Cash and cash equivalents by currency:

As at 31 December	EUR'000	2012	2011
EUR		2,826	571
LTL		435	141
SEK		91	103
Total		3,352	815

8 Trade and other receivables

As at 31 December	EUR'000	Note	2012	2011
Trade receivables				
Trade receivables			6,343	7,716
Allowance for impairment			-62	-61
Trade receivables net of impairment allowance			6,281	7,655
Receivables from associates		30	209	132
Miscellaneous receivables			0	2
Other accrued income			3	59
Total receivables			6,493	7,848

Carrying amounts of the Group's trade and other receivables by currency

As at 31 December	EUR'000	2012	2011
EUR		5,292	6,408
LTL		1,081	1,433
SEK		120	7
Total		6,493	7,848

A receivable is written down when it is reasonable to assume that the Group will not be able to recover the entire amount in accordance with the originally agreed terms and conditions. Indications of impairment of a receivable include the debtor's significant financial difficulty, it being probable that the debtor will enter bankruptcy, and settlement defaults or delays (receivable is over 180 days past due).

Movements in allowance for impairment of receivables

For the year ended 31 December	EUR'000	2012	2011
At 1 January		-61	-61
Items expensed as doubtful		-86	-2
Recovery of doubtful items		0	2
Doubtful items written off as irrecoverable		85	0
At 31 December		-62	-61

Expenses from impairment of receivables are recognised in other distribution costs in the statement of comprehensive income (note 25).

Other classes within trade and other receivables do not contain impaired items.

9 Prepayments

As at 31 December	EUR'000	Note	2012	2011
Prepaid taxes		20	78	29
Prepaid expenses			154	95
Total prepayments			232	124

10 Inventories

As at 31 December	EUR'000	2012	2011
Raw and other materials		3,271	3,480
Work in progress		1,460	1,783
Finished goods		1,184	992
Merchandise purchased for resale		480	403
Total		6,395	6,658
Items written down to net realisable value		262	204
Expenses from write-down of inventories during the year		38	30

11 Investment in associate

Company's name	Core business	Domicile	
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia	
<i>Draka Keila Cables AS share</i>		2012	2011
Number of the shares		884	884
Ownership (%)		34.0	34.0
Par value of a share at 31 December (EUR)		639	639
EUR'000		2012	2011
Cost at 31 December		565	565
Carrying amount at 1 January		1,177	680
Share of profit under the equity method		1,118	497
Carrying amount at 31 December		2,295	1,177
Associate's equity at the end of year		6,752	3,466
Investor's share in equity		2,296	1,178
Unrealised gain		-1	-1
<i>Financial information on the associate</i>			
Assets at 31 December		11,478	13,296
Liabilities at 31 December		4,726	9,830
Revenue for the year ended 31 December		51,746	45,404
Profit for the year ended 31 December		3,286	1,464

The associate's shares are not listed on the stock exchange.

12 Other long-term financial investments

EUR'000	At 31 December	
	2012	2011
Available-for-sale equity securities	21,365	16,002
Other shares	21	21
Total	21,386	16,023

1. Available-for-sale equity securities

Carrying amount at 1 January	16,002	21,518
Sale of shares at sales price	-189	0
Sales gain	14	0
Gain on change in fair value	5,538	-5,516
Carrying amount at 31 December	21,365	16,002

2. Other shares

Carrying amount at 1 January	21	21
Carrying amount at 31 December	21	21

Total carrying amount at 31 December	21,386	16,023
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	2012	2011
<i>PKC Group Oyj share</i>		
Number of the shares (1000)	1,385	1,400
Ownership (%)	6.4	6.6
Market price at 31 December (EUR)	15.43	11.43

PKC Group Oyj's shares are listed on the Helsinki Stock Exchange. The shares have been classified as available-for-sale financial assets and are therefore stated in the statement of financial position at fair value (note 3.3.b). The fair value of the shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised in other comprehensive income. Changes in the market value of shares may significantly influence the value of the Group's assets and equity. Information on PKC Group Oyj's shares pledged as loan collateral is disclosed in note 18. In 2012, PKC Group Oyj paid dividends of 0.60 euros per share (2011: 0.55 euros per share).

As the fair value of other shares cannot be measured reliably, they are measured at cost.

13 Investment property

EUR'000	Land	Buildings	Total
At 31 December 2010			
Cost	568	10,868	11,436
Accumulated depreciation	0	-2,733	-2,733
Carrying amount	568	8,135	8,703
Construction in progress	0	8	8
Total	568	8,143	8,711
Movements in 2011			
Additions	253	2,252	2,505
Depreciation charge	0	-383	-383
Total	253	1,869	2,122
At 31 December 2011			
Cost	821	13,034	13,855
Accumulated depreciation	0	-3,022	-3,022
Carrying amount	821	10,012	10,833
Movements in 2012			
Additions	0	61	61
Depreciation charge	0	-440	-440
Total	0	-379	-379
At 31 December 2012			
Cost	821	13,095	13,916
Accumulated depreciation	0	-3,462	-3,462
Carrying amount	821	9,633	10,454

The Group's investment properties are of a specialised nature, comprising production and office buildings in Keila and Haapsalu (Estonia), where transactions with similar properties are irregular or there are no similar properties. 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 commissioned valuations from independent experts. According to management's estimates, at 31 December 2012 the fair value of the Group's investment properties was 12.5 million euros.

In 2012, direct property maintenance and repair costs totalled 0.24 million euros (2011: 0.22 million euros). Information on rental income is disclosed in note 15.

14 Property, plant and equipment

14.1. Movements in property, plant and equipment

EUR'000	Land	Buildings	Plant and equipment	Other items	Total
At 31 December 2010					
Cost	208	7,547	7,186	832	15,773
Accumulated depreciation	0	-1,159	-4,817	-527	-6,503
Carrying amount	208	6,388	2,369	305	9,270
Construction in progress	0	0	79	1	80
Total	208	6,388	2,448	306	9,350
Movements in 2011					
Additions	0	39	372	96	507
Depreciation charge for the year	0	-287	-505	-79	-871
Disposals	0	0	0	-1	-1
Reclassification	0	-5	83	-78	0
Total	0	-253	-50	-62	-365
At 31 December 2011					
Cost	208	7,574	7,669	808	16,259
Accumulated depreciation	0	-1,439	-5,277	-564	-7,280
Carrying amount	208	6,135	2,392	244	8,979
Construction in progress	0	0	6	0	6
Total	208	6,135	2,398	244	8,985
Movements in 2012					
Additions	0	177	134	175	486
Depreciation charge for the year	0	-284	-521	-114	-919
Disposals	0	0	-6	0	-6
Reclassification	0	0	-5	5	0
Total	0	-107	-398	66	-439
At 31 December 2012					
Cost	208	7,896	6,617	895	15,616
Accumulated depreciation	0	-1,906	-4,619	-585	-7,110
Carrying amount	208	5,990	1,998	310	8,506
Construction in progress	0	38	2	0	40
Total	208	6,028	2,000	310	8,546

At 31 December 2012, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was 2,609 thousand euros (31 December 2011: 2,207 thousand euros).

14.2. Property, plant and equipment acquired with finance lease

EUR'000	Cost	Depreciation	Carrying amount
At 31 December 2010	2,663	-207	2,456
Additions	13	0	13
Depreciation	0	-145	-145
Lease discontinued	-74	54	-20
At 31 December 2011	2,602	-298	2,304
Additions	28	0	28
Depreciation	0	-121	-121
Lease discontinued	-15	17	2
At 31 December 2012	2,615	-402	2,213

Information on finance lease liabilities and lease terms is disclosed in note 17.

14.3. Property, plant and equipment leased out under operating leases

EUR'000	At 31 December	
	2012	2011
Plant and equipment		
Cost of items leased out	17	19
Accumulated depreciation	-7	-6
Carrying amount at end of period	10	13

The Group has leased out production plant and equipment under operating leases.

15 Operating leases

EUR'000	Note	For the year ended 31 December	
		2012	2011
Lease income			
- on investment property		2,178	2,062
- on plant and equipment		2	2
Total	25	2,180	2,064
Lease expense			
Land		35	32
Office, commercial and production premises		74	62
Vehicles		113	87
Other		4	4
Total		226	185

In the statement of comprehensive income, 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.

Future lease payments under non-cancellable operating leases

As at 31 December	EUR'000	2012	2011
Lease income			
< 1 year		2,160	2,126
1-5 years		3,482	4,035
> 5 years		2,958	3,097
Total lease income		8,600	9,258
Lease expenses			
< 1 year		87	100
1-5 years		156	215
Total lease expenses		243	315

16 Intangible assets

EUR'000	Development expenditure	Licenses	Other	TOTAL
At 31 December 2010				
Cost	145	691	0	836
Accumulated amortisation	-91	-324	0	-415
Carrying amount	54	367	0	421
Movements in 2011				
Additions	20	36	44	100
Amortisation charge for the year	-15	-76	-8	-99
Total	5	-40	36	1
At 31 December 2011				
Cost	166	719	44	929
Accumulated amortisation	-107	-392	-8	-507
Carrying amount	59	327	36	422
Movements in 2012				
Additions	5	135	0	140
Amortisation charge for the year	-33	-70	-7	-110
Effect of movements in foreign exchange rates	0	-0	-1	-1
Total	-28	65	-8	29
At 31 December 2012				
Cost	170	848	43	1,061
Accumulated amortisation	-139	-456	-15	-610
Carrying amount	31	392	28	451

Development expenditure comprises direct costs related to the production and testing of products. Other intangible assets include mainly product manufacturing licences and software.

17 Interest-bearing loans and borrowings

17.1. Interest-bearing loans and borrowings at 31 December

EUR'000	2012	2011
Current interest-bearing loans and borrowings		
Short-term bank loans	796	1,975
Current portion of lease liabilities	279	270
Total current interest-bearing loans and borrowings	1,075	2,245
Non-current portion of lease liabilities	1,306	1,569
Total non-current interest-bearing loans and borrowings	1,306	1,569
Total interest-bearing loans and borrowings	2,381	3,814
Interest-bearing loans and borrowings at beginning of the year	3,814	3,367
Changes during the year		
Increase (+)/decrease (-) in short-term loans	-1,179	771
Settlement of long-term bank loan	0	-65
Acquisition of new finance lease liabilities	28	13
Settlement of non-current finance lease liabilities	-282	-272
Interest-bearing loans and borrowings at end of the year	2,381	3,814

17.2. Details of short-term bank loans

At 31 December

Base currency	Loan limit in base currency		Interest rate			
	2012	2011	2012	2011	2012	2011
EUR'000	600	600	1 month euribor+0.5%	+0.5%	275	544
EUR'000	1,200	1,200	1 month euribor+0.4%	+0.4%	521	1,085
EUR'000	33	33	Nordea base rate +1.75%	+1.75%	0	0
EUR'000	500	500	1 month euribor+0.4%	+0.4%	0	346
Total short-term bank loans					796	1,975

Information on assets pledged as loan collateral is presented in note 18.

17.3. Finance lease liabilities

Present value of lease payments

EUR'000	Original cost	Settlement	Present value
At 31 December 2010	2,515	-417	2,098
Acquisition of new lease liabilities	13	0	13
Finance lease payments made	0	-251	-251
Lease discontinued	-38	17	-21
At 31 December 2011	2,490	-651	1,839
Acquisition of new lease liabilities	28	0	28
Finance lease payments made	0	-282	-282
At 31 December 2012	2,518	-933	1,585

In most lease contracts the base currency is the euro. At 31 December 2012, finance lease liabilities whose base currency was the Lithuanian litas, amounted to 22 thousand euros, (31 December 2011: 12 thousand euros).

At 31 December 2012, the interest rates of finance lease contracts were in the range of 1.4% to 3.1% (31 December 2011: 1.4% to 9.9%). In 2012, the weighted average effective interest rate of finance lease liabilities was 1.7 % (2011: 1.6 %).

17.4. Finance lease liabilities by maturities

EUR'000	<1 year	1-5 years	> 5 years	Total
At 31 December 2011				
Minimum amount of lease payments	303	1,082	597	1,982
Future finance charges	-33	-85	-25	-143
Present value of lease payments	270	997	572	1,839
At 31 December 2012				
Minimum amount of lease payments	308	1,003	407	1,718
Future finance charges	-29	-78	-26	-133
Present value of lease payments	279	925	381	1,585

Lease payments are made monthly.

18 Loan collateral and pledged assets

Pledged assets	As at 31 December EUR'000	Overdraft limit	
		2012	2011
Shares in PKC Group Oyj			
830,638 shares		1,134	1,100

At 31 December 2012, the carrying amount of shares pledged as loan collateral amounted to 12.8 million euros. The shares are pledged to the bank until all obligations to the bank have been fully settled. According to the pledge agreement, the Group has the obligation to immediately pledge additional shares, if the market value of the pledged shares decreases and does not exceed the outstanding loan principal by at least 50%. Further information on PKC Group Oyj's shares can be found in note 12.

19 Trade and other payables

As at 31 December	EUR'000	2012	2011
Trade payables		3,411	4,271
Accrued expenses			
Payables to employees		1,378	1,519
Interest payable		1	2
Other		143	157
Total		1,522	1,678
Advances from customers		858	216
Payables to associates (for goods and services)		56	1
Miscellaneous payables		55	102
Total		5,902	6,268

Trade payables

As at 31 December	EUR'000	2012	2011
Trade payables			
Payable for goods and services		3,405	4,194
Payable for property, plant and equipment		0	5
Payable for investment property		6	45
Payable for intangible assets		0	27
Total		3,411	4,271

20 Taxes

As at 31 December	EUR'000	2012	2011
Prepaid taxes			
Value added tax		76	9
Prepaid income tax		0	20
Social security tax		2	0
Total		78	29
Tax liabilities			
Value added tax		556	263
Income tax liability		75	29
Personal income tax		183	178
Social security tax		285	292
Other taxes		25	25
Total		1,124	787

21 Provisions

EUR'000	Warranties provision		Other provisions		TOTAL	
	2012	2011	2012	2011	2012	2011
At 1 January	5	89	12	0	17	89
Provisions made during the year	34	18	15	12	49	30
Provisions used during the year	-31	-102	-12	0	-43	-102
At 31 December	8	5	15	12	23	17

Warranties provisions are recognised to cover expected warranty expenses. Under the sales agreements, the Group grants products sold a one-year warranty during which it has to repair or replace substandard and defective products free of charge.

22 Contingent liabilities

22.1. Corporate income tax

As at 31 December	EUR'000	2012	2011
Consolidated retained earnings		15,008	12,672
Maximum possible dividend		11,856	10,011
Income tax payable on the maximum possible dividend		3,152	2,661

The maximum possible income tax liability has been calculated under the assumption that the net dividend and the related income tax liability cannot exceed retained earnings as at 31 December 2012.

The contingent income tax liability has been calculated based using the tax rate effective from 1 January 2012 (2011: from 1 January 2010). If the annual general meeting approves the management board's proposal to distribute a dividend of 1,566 thousand euros, there will arise an income tax liability of 416 thousand euros.

23 Capital and reserves

23.1. Share capital and share premium

As at 31 December	Unit	2012	2011
Share capital	EUR'000	12,180	11,760
Par value of a share	EUR	0.70	0.70
Number of shares issued (fully paid)	'000	17,400	16,800
Share premium	EUR'000	240	0

The annual general meeting that convened on 3 May 2012 decided to implement the option programme approved by the annual general meeting on 23 April 2009 for members of the governing bodies and employees of companies belonging to AS Harju Elekter Group and members of the management board of the associate.

The shares could be subscribed for from 1 June to 15 June 2012 by all those that had previously signed a share subscription agreement. All 600 thousand shares with a 0.70 euro par value each that were to be issued were subscribed for. The shares were paid for concurrently with subscription. The issue price of the shares was 1.10 euros. By 15 June 2012, the Company had received for the shares 660 thousand euros including share premium of 240 thousand euros. After the share issue, the share capital of AS Harju Elekter amounts to 12,180 thousand euros and is made up of 17.4 million ordinary shares. According to the articles of association, the maximum authorised number of shares is 20 million. The shares that were subscribed for in June entitle the holders to dividends from 2012.

The increase in share capital was entered in the Commercial Registry on 6 July 2012.

23.2. Dividend per share

Based on the profit allocation proposal, in 2012 the Company paid for 2011 a dividend of 0.07 euros per share, i.e. 1,176 thousand euros in aggregate. The dividends were paid out on 22 May 2012. In the previous year, the Company paid for 2010 a dividend of 0.06 euros per share, i.e. 1,008 thousand euros in aggregate.

According to the profit allocation proposal, the Company will pay for 2012 a dividend of 0.09 euros per share, i.e. 1,566 thousand euros in aggregate. The dividend will be recognised when the profit allocation proposal has been approved by the annual general meeting.

23.3. Shareholders holding over 5% of the votes determined by shares

As at 31 December	2012	2011
AS Harju KEK	31.70%	32.14%
ING Luxembourg S.A	10.92%	11.31%
Lembit Kirsme	8.10%	8.33%
Endel Palla	6.06%	6.11%
CITIBANK(LONDON)/POHJOLA BANK PLC	4.54%	5.10%
Others	38.68%	37.01%

23.4. Interests of members of the management and supervisory boards of AS Harju Elekter

		Number of shares	Direct ownership	Indirect ownership
Palla, Endel	Chairman of the supervisory board	1,053,828	6.06%	0.34%
Talgre, Madis	Member of the supervisory board	31,000	0.18%	0.00%
Kabal, Ain	Member of the supervisory board	13,660	0.08%	0.00%
Toome, Andres	Member of the supervisory board	10,000	0.06%	0.06%
Tombak, Triinu	Member of the supervisory board	10,000	0.06%	0.00%
Allikmäe, Andres	Managing director/CEO	196,800	1.13%	0.00%
Total		1,315,288	7.57%	0.40%

The number of shares held by shareholders and their ownership interests were determined on 31 December 2012 at 11:59 p.m. In accordance with the rules of the Tallinn Stock Exchange, an issuer has to disclose in the annual report the number of the issuer's shares that are held by members of its management and supervisory boards (direct interest) and people connected to them (indirect interest) as at the end of the financial year. Voting power 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.

24 Segment reporting

The management board of the Group's Parent company, AS Harju Elekter, reviews the Group's internal reports to assess the Group's performance and to make decisions about allocation of resources. The management board has determined the Group's operating segments on the basis of these reports.

Two segments – manufacturing and real estate – are distinguished in the consolidated financial statements.

Manufacturing – The segment is involved in the manufacture and sale of power distribution and control equipment and systems as well as associated activities. The entities of this segment are AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, UAB Rifas and Satmatic Oy.

Real estate – The segment is involved in real estate development, maintenance and rental, services related to managing real estate and production capacities and intermediation of services. Real estate has been identified as a reportable segment because the value of its assets exceeds the aggregate value of the assets of all segments by 10%.

Other activities – The segment is involved in selling products of the Group and companies related to the Group as well as other goods necessary for electrical installation works mainly to retail customers and small- and medium-sized electrical installation companies and in providing management services. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

2012	EUR'000	Note	Manu- facturing	Real estate	Other activities	Elimi- nations	Consoli- dated
Revenue from external customers		25	47,728	2,395	2,678	0	52,801
Inter-segment revenue			464	1,003	300	-1,767	0
Total revenue			48,192	3,398	2,978	-1,767	52,801
Operating profit			1,280	1,140	-367	-83	1,970
Segment assets			22,402	10,886	3,303	-812	35,779
Unallocated assets							23,830
Total assets							59,609
Segment liabilities			9,330	179	423	-812	9,120
Unallocated liabilities							353
Total liabilities							9,473
Capital expenditure		13, 14, 16	461	61	165	0	687
Depreciation charge for the year		13, 14, 16	887	440	143	-1	1,469
2011							
Revenue from external customers		25	41,833	2,400	2,441	0	46,674
Inter-segment revenue			484	951	269	-1,704	0
Total revenue			42,317	3,351	2,710	-1,704	46,674
Operating profit			1,245	1,827	-941	-106	2,025
Segment assets			24,043	11,107	2,132	-385	36,897
Unallocated assets							16,023
Total assets							52,920
Segment liabilities			10,052	136	455	-385	10,258
Unallocated liabilities							628
Total liabilities							10,886
Capital expenditure		13, 14, 16	497	2,505	110	0	3,112
Depreciation charge for the year		13, 14, 16	845	383	126	-1	1,353

The Group assesses the performance of its operating segments on the basis of revenue and operating profit. In external reporting, the management board also uses the EBITDA margin. Based on the assessment of the Parent company's management board, inter-segment transactions are carried out on ordinary market terms that do not differ substantially from the terms agreed in transactions conducted with third parties.

The assets of the Manufacturing segment include the direct assets of the segment and those allocated to it. The assets of the Real estate segment and Other activities segment consist mainly of trade receivables, inventories and non-current assets. Unallocated assets comprise the Parent company's (Estonia) cash, other receivables, prepayments and other financial investments.

The liabilities of the Manufacturing segment include the direct liabilities of the segment and those allocated to it. The liabilities of the Real estate segment and Other activities segment consist mainly of payables for goods, services and non-current assets related to these activities, advances from customers and deferred income. Unallocated liabilities consist of the Parent company's (Estonia) interest-bearing loans and borrowings, tax liabilities and accrued expenses.

Capital expenditure comprises acquisitions of investment properties (note 13), property, plant and equipment (note 14) and intangible assets (note 16).

For the year ended 31 December	EUR'000	Note	2012	2011
REVENUE BY MARKET				
Estonia			17,744	17,997
Finland			25,525	21,347
Lithuania			3,024	4,283
Sweden			1,246	270
Other EU countries			2,639	1,060
Non-EU countries			2,623	1,717
Total		25	52,801	46,674

25 Further information on income statement line items

For the year ended 31 December	EUR'000	Note	2012	2011
REVENUE BY BUSINESS ACTIVITY				
Electrical equipment			44,079	37,887
Sheet metal products and services			1,143	1,251
Telecom products and services			1,057	868
Intermediary sale of electrical products and components			3,586	3,916
Commerce and mediation of services			372	406
Rental income		15	2,180	2,064
Other services			384	282
Total		24	52,801	46,674
COST OF SALES				
Goods and materials			-32,933	-29,160
Services			-1,730	-1,725
Personnel expenses (see below)			-7,583	-7,155
Depreciation and amortisation			-1,172	-1,102
Other costs			-711	-288
Change in work in progress and finished goods inventories			-19	542
Total			-44,148	-38,888

For the year ended 31 December	2012	2011
DISTRIBUTION COSTS		
Services purchased	-482	-333
Personnel expenses (see below)	-1,916	-1,594
Depreciation and amortisation	-33	-36
Other	-370	-410
Total	-2,801	-2,373
ADMINISTRATIVE EXPENSES		
Services purchased	-546	-329
Personnel expenses (see below)	-2,362	-2,143
Depreciation and amortisation	-264	-215
Other	-704	-665
Total	-3,876	-3,352
- Of which development costs	-556	-470
<i>Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:</i>		
Salaries and other remuneration	-9,142	-7,699
Social security and other taxes on salaries and other remuneration	-2,557	-2,398
Share-based payments	-85	-106
Accruals	-77	-689
Total	-11,861	-10,892
OTHER INCOME		
Gains on sale of property, plant and equipment	6	1
Interest on arrears and penalty payments received	6	10
Other	37	5
Total	49	16
OTHER EXPENSES		
Interest on arrears, penalty payments and similar items paid	-11	-7
Gifts and donations made	-28	-26
Other	-16	-19
Total	-55	-52
FINANCE INCOME		
Interest income	9	11
Dividend income	854	795
Net income from foreign exchange differences	4	0
Income from sale of financial assets	175	0
Total	1,042	806
FINANCE COSTS		
Interest expense	-45	-60
Net loss from foreign exchange differences	0	-2
Total	-45	-62

26 Income tax and deferred tax

Income tax expense

EUR'000	2012	2011
Income tax expense	454	353
Deferred income tax expense/income	28	-35
Income tax expense in the statement of comprehensive income	482	318

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

Income tax by regions for the year ended at 31 December 2012

EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit (loss) before income tax	3,522	405	264	-106	4,085
Income tax rate	0%	24.5%	15%	26.3%	
Theoretical income tax expense	0	99	40	-28	111
Income tax expense on dividends	274	0	0	0	274
Utilisation of tax losses carried forward	0	0	0	28	28
Effect of tax exempt income	0	0	-10	0	-10
Effect of non-deductible expenses	0	28	19	0	47
Change in recognised deferred tax assets	0	-1	0	33	32
Income tax expense	274	126	49	33	482
Change in unrecognised deferred tax assets	0	0	0	61	61

Income tax by regions for the year ended at 31 December 2011

EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit (loss) before income tax	2,674	338	357	-103	3,266
Income tax rate	0%	26%	15%	26.3%	
Theoretical income tax expense	0	88	53	-27	114
Income tax expense on dividends	231	0	0	0	231
Utilisation of tax losses carried forward	0	0	-6	0	-6
Effect of tax exempt income	0	0	-46	0	-46
Effect of non-deductible expenses	0	27	6	0	33
Change in recognised deferred tax assets	0	-3	0	-5	-8
Income tax expense	231	112	7	-32	318

The change in deferred tax assets in 2012 resulted mostly from a change in the estimate of the extent to which the assets can be utilised in the future.

Deferred income tax assets at 31 December 2012

EUR '000	Lithuania	Finland	Sweden	Total
Non-current portion of deferred tax assets	4	1	0	5
Of which on property, plant and equipment	0	1	0	1
Of which on tax loss carry-forwards	4	0	0	4

Deferred income tax assets at 31 December 2011

EUR '000	Lithuania	Finland	Sweden	Total
Non-current portion of deferred tax asset	0	3	32	35
Of which on property, plant and equipment	0	3	0	3
Of which on tax loss carry-forwards	0	0	32	32

The recovery of the deferred income tax assets arising from tax loss carry-forwards depends on the subsidiaries' future taxable profits which at the reporting date exceed the existing losses to be carried forward. An analysis of the subsidiaries' expected future profits was carried out on preparing the financial statements. Generation of profit assumes attainment of each subsidiary's strategic targets. Deferred tax assets were recognised to the extent that it is probable that they can be utilised in the future.

The Group does not recognise deferred tax assets of 61 thousand euros (31 December 2011: nil euros) in its statement of financial position. The deferred tax asset resulted from tax losses of 220 thousand euros that can be carried forward and used to reduce future tax liabilities. Tax losses of 220 thousand that can be carried forward will expire within ten years after the reporting date.

27 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by considering the effects of all dilutive potential shares. As at the reporting date the Group had 434.96 thousand potential ordinary shares. In accordance with the decision of the annual general meeting that convened on 3 May 2012, the price of a share was fixed at 2.36 euros. In the case of share-based payments, which are regulated by IFRS 2, the subscription price of the shares also includes the cost of services receivable from the employees for the share-based payments. An independent expert determined that the value of the services was 0.50 euros per each share to be issued. Thus, within the meaning of IFRS 2, the subscription price per each share is 2.86 (2.36+0.50) euros and the potential shares will become dilutive only after their average market price for the period exceeds 2.86 euros.

The average market price of the share was 2.48 euros in 2012 and 2.84 euros in the comparative period. Hence, the potential shares did not have a dilutive effect.

	Unit	2012	2011
Profit attributable to owners of the Parent	EUR '000	3,517	2,773
Average number of shares during the period	'000	17,093	16,800
Basic earnings per share for owners of the Parent	EUR	0.21	0.17
Adjusted number of shares during the period	'000	17,093	17,042
Diluted earnings per share	EUR	0.21	0.16

28 Government grants

EUR'000	2012	2011
Government grants related to assets	14	59
Of which for acquisition of plant and equipment	14	59
Government grants related to income	14	40
Of which for covering training costs	4	21
Of which for covering development costs	10	19
Total	28	99

Assets acquired with a grant are recognised at cost less the amount of the government grant received in support of their acquisition. Grants related to income are recognised as a reduction of the costs they are intended to compensate (note 3.20).

29 Further information on line items in the statement of cash flows

For the year ended 31 December	EUR'000	Note	2012	2011
Corporate income tax paid				
Income tax expense in the statement of comprehensive income		26	-482	-318
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability		20	66	-10
Deferred income tax expense/income			28	-34
Corporate income tax paid			-388	-362
Interest paid				
Interest expense in the statement of comprehensive income		25	-45	-60
Decrease (-)/increase (+) in interest liabilities		19	-1	1
Interest paid			-46	-59
Paid for investment property				
Acquisitions		13	-61	-2,505
Decrease (-)/increase (+) in acquisition-related liability		19	-39	45
Paid for investment property			-100	-2,460
Paid for property, plant and equipment				
Acquisitions of property, plant and equipment		14	-486	-507
Acquired with finance lease		14	28	13
Decrease (-)/increase (+) in acquisition-related liability		19	-5	5
Paid for property, plant and equipment			-463	-489
Proceeds from sale of property, plant and equipment				
Carrying amount of property, plant and equipment sold		14	6	1
Gain on sale of property, plant and equipment			6	1
Proceeds from sale of property, plant and equipment			12	2
Paid for intangible assets				
Acquisitions of intangible assets		16	-140	-100
Decrease (-)/increase (+) in acquisition-related liability		19	-27	27
Effect of movements in exchange rates			-1	0
Paid for intangible assets			-168	-73

30 Related parties

The related parties of AS Harju Elekter are associated company AS Draka Keila Cables, members of the Group's management and their close family members, and AS Harju KEK which owns 31.7% of the shares in AS Harju Elekter. The Group's management comprises members of the Parent company's supervisory and management boards. The management board has one member and the supervisory board has five members.

Transactions with related parties

For the year ended 31 December	EUR'000	2012	2011
Purchase of goods and services from related parties:			
- from the associate		474	436
- from Harju KEK		67	343
Total		541	779
<i>Of which:</i>			
- goods and materials		474	436
- lease of property plant and equipment		65	65
- other services		2	3
- purchase of non-current assets		0	275
Sale of goods and services to related parties:			
- to the associate		722	765
- to Harju KEK		5	3
Total		727	768
<i>Of which:</i>			
- goods and materials		18	43
- lease of property plant and equipment		680	685
- other services		29	40
Balances with related parties			
Receivables from the associate for goods and services		209	132
Payables to the associates for goods and services		56	1
Remuneration of the management and supervisory boards			
- salaries, bonuses, additional remuneration		192	198
- fringe benefits		15	11
Total		207	209
Share-based payments			
- to management of the associate		1	2
- to management of Harju KEK		3	7
- to members of the management and supervisory boards of AS Harju Elekter		17	15
Total		21	24

The managing director/CEO is not entitled to any pension benefits from the Group. The managing director/CEO is entitled to termination benefits that may extend to his 10-fold monthly board member remuneration.

During the option programme implemented in June 2012, each member of the management and supervisory boards of AS Harju Elekter (except for Triinu Tombak) subscribed for 10 thousand shares, i.e. 50 thousand shares in aggregate. The annual general meeting that convened on 3 May 2012 announced a new option programme for the years 2012 to 2015. Each member of the management and supervisory boards was issued an option for the subscription of up to 20 thousand shares, i.e. 120 thousand shares in aggregate.

Share-based payments

The annual general meeting that convened on 23 April 2009 decided to arrange a share issue (direct offering) for the Group's employees and members of the governing bodies of the Group and companies related to the Group during the period 1 June to 15 June 2012. During the issue, the Group issued 600 thousand new registered shares with a par value of 0.70 euros. The issue price of the shares was the average price of the AS Harju Elekter share on the Tallinn Stock Exchange during the period 4 May to 29 May 2009 measured in euros (EUR) plus ten percent (+10%) of that price. Accordingly, the issue price of a share was 1.10 euros. The subscription rights were recognised in accordance with the principles of IFRS 2. The Group measured the value of the services received from the employees in return for the shares based on the fair value of the subscription rights at the date the preliminary agreements were signed. An independent expert determined that the value was 0.55 euros per right to subscribe for one share. In 2012 the expense of share-based payments recognised as personnel expenses amounted to 49 thousand euros.

The annual general meeting that convened on 3 May 2012, decided to arrange a share issue (direct offering) for the Group's employees and members of the governing bodies of the Group and companies related to the Group in 2015. Participants may subscribe for the shares provided they have signed a preliminary agreement and have an effective employment or service relationship during the subscription period until the date of subscription of the shares (inclusive). During the signature of preliminary agreements (18 June to 29 June 2012) subscription rights were registered in respect of 434,960 shares.

The issue price of the shares was the average price of the AS Harju Elekter share on the Tallinn Stock Exchange during the period 1 June to 15 June 2012 measured in euros (EUR). Accordingly, the issue price of a share was 2.36 euros.

The subscription rights were recognised in accordance with the principles of IFRS 2. The Group measured the value of the services received from the employees in return for the shares based on the fair value of the subscription right at the date the preliminary agreements were signed. An independent expert determined that the value was 0.50 euros per right to subscribe for one share. In 2012 the expense of share-based payments recognised as personnel expenses amounted to 36 thousand euros. Together with the 2009 option programme concluded in June 2012, share-based payments for the year totalled 85 thousand euros (2011: 106 thousand euros).

Fair value was determined using the Black-Scholes pricing model. The variables used included the weighted average market price of the share (2.36 euros), the expected volatility of the share (35%), the risk-free interest rate (1%), the expected dividend and the length of time between the conclusion of the preliminary agreements and the planned date of subscription (3 years).

31 Acquisition of an additional stake in the subsidiary UAB Rifas

In accordance with an agreement signed on 30 November 2012, AS Harju Elekter acquired an additional 11.7% stake in the subsidiary UAB Rifas for 391 thousand euros, increasing its ownership interest to 62.7%. The carrying amount of the non-controlling interest was 404 thousand euros. The difference between cost and carrying amount of 13 thousand euros was recognised in equity, as an increase in retained earnings.

If certain conditions specified in the agreement realise in 2013 and 2014, the Parent company may have to pay an additional 84 thousand euros in 2014 and 2015, which will be recognised in equity as a reduction of retained earnings. Management considers the probability of realisation of the obligation remote.

UAB Rifas was established in 1991 and its core business is the manufacture and distribution of industrial automation equipment and electricity distribution and transmission equipment. UAB Rifas has a 51% interest in a subsidiary, Automatikos Iranga UAB, engaged in the provision of design services.

32 Primary financial statements of the Parent

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the Parent company's separate primary financial statements (i.e. statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) (note 2).

PARENT COMPANY'S STATEMENT OF FINANCIAL POSITION

EUR '000	As at 31 December	
	2012	2011
Cash and cash equivalents	850	203
Trade receivables	412	406
Receivables from related parties	1,190	589
Other receivables and prepayments	53	45
Inventories	333	338
Total current assets	2,838	1,581
Investments in subsidiaries	3,326	2,935
Investments in associates	565	565
Other long-term financial investments	21,386	16,023
Investment property	13,021	13,383
Property, plant and equipment	411	389
Intangible assets	300	278
Total non-current assets	39,009	33,573
TOTAL ASSETS	41,847	35,154
Liabilities		
Loans and borrowings	0	346
Trade payables	345	399
Payables to related parties	107	0
Tax liabilities	117	78
Other payables and advances received	197	206
Total current liabilities	766	1,029
Other long-term liabilities	44	0
Total liabilities	810	1,029
Equity		
Share capital	12,180	11,760
Share premium	240	0
Reserves	21,353	15,874
Retained earnings	7,264	6,491
Total equity	41,037	34,125
TOTAL LIABILITIES AND EQUITY	41,847	35,154

PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

EUR'000	For the year ended 31 December	
	2012	2011
Revenue	5,845	5,899
Cost of sales	-3,370	-3,498
Gross profit	2,475	2,401
Other income	6	4
Distribution costs	-352	-358
Administrative expenses	-1,215	-1,023
Other expenses	-33	-33
Operating profit	881	991
Income from subsidiaries	344	274
Income from available-for-sale financial assets		
-Dividend income	854	795
-Income from sale of investments	175	0
Interest income	13	11
Interest expense	-2	-2
Foreign exchange gain	8	0
Profit before tax	2,273	2,069
Income tax expense	-221	-188
Profit for the year	2,052	1,881
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	5,376	-5,516
Total comprehensive income for the year	7,428	-3,635

PARENT COMPANY'S STATEMENT OF CASH FLOWS

EUR'000	2012	2011
Cash flows from operating activities		
Operating profit	881	991
Adjustments for		
Depreciation, amortisation and impairment losses	703	632
Gain on sale of property, plant and equipment	-4	0
Change in receivables	-116	234
Change in inventories	5	-69
Change in payables	69	-12
Corporate income tax paid	-221	-188
Interest paid	-2	-2
Net cash from operating activities	1,315	1,586
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-431	-2,561
Acquisition of a subsidiary	-391	0
Proceeds from sale of financial assets	189	0
Proceeds from sale of property, plant and equipment	6	0
Loans provided	-431	-308
Interest received	11	9
Dividends received	1,198	1,069
Net cash from/used in investing activities	151	-1,791
Cash flows from financing activities		
Proceeds from issue of share capital	660	0
Other long-term liabilities	43	0
Proceeds from borrowings	0	346
Repayment of loans received	-346	0
Dividends paid	-1,176	-1,008
Net cash used in financing activities	-819	-662
Net cash flows	647	-867
Cash and cash equivalents at beginning of year	203	1,070
Increase/decrease in cash and cash equivalents	647	-867
Cash and cash equivalents at end of year	850	203

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
EUR'000						
At 31 December 2010	10,737	383	1,073	20,317	6,258	38,768
Profit for the year	0	0	0	0	1,881	1,881
Other comprehensive income	0	0	0	-5,516	0	-5,516
Total comprehensive income	0	0	0	-5,516	1,881	-3,635
Increase of share capital	1,023	-383	0	0	-640	0
Dividends	0	0	0	0	-1,008	-1,008
At 31 December 2011	11,760	0	1,073	14,801	6,491	34,125
Profit for the year	0	0	0	0	2,052	2,052
Other comprehensive income	0	0	0	5,376	0	5,376
Total comprehensive income	0	0	0	5,376	2,052	7,428
Contribution to share capital	420	240	0	0	0	660
Increase of capital reserve	0	0	103	0	-103	0
Dividends	0	0	0	0	-1,176	-1,176
At 31 December 2012	12,180	240	1,176	20,177	7,264	41,037
EUR'000					2012	2011
Adjusted unconsolidated equity at 31 December					41,037	34,125
Interests under control and significant influence:						
- Carrying amount					-3,891	-3,500
- Carrying amount under the equity method					11,636	9,688
Adjusted unconsolidated equity at 31 December					48,782	40,313

According to the Estonian Accounting Act, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

The Management Board confirms that management report as set out on pages 5-37 gives a true and fair view of the key events occurred in the reporting period and their impact on the financial statements contains a description of key risks and uncertainties of the remaining period of the financial year and provides an overview of important transactions with the related parties.

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2012 as set out on pages 38-83 and that:

- the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standard as adopted in the European Union;
- the financial statements give a true and fair view of the financial position, the results of the operations and the cash flows of the Parent and the Group;
- Tallinna Kaubamaja AS and its subsidiaries are going concerns.

Andres Allikmäe Managing Director/CEO /signature/ 4th April 2013

SIGNATURES TO THE ANNUAL REPORT OF 2012

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2012.

Andres Allikmäe Managing Director/CEO /signature/ 4th April 2013

The supervisory board has reviewed the annual report prepared by the management board (pp. 5-83) including an activity report and annual financial statements and has approved its presentation to the general meeting of the shareholders.

Endel Palla Chairman of the Supervisory /signature/ 10th April 2013

Ain Kabal Member of the Supervisory Board /signature/ 10th April 2013

Madis Talgre Member of the Supervisory Board /signature/ 10th April 2013

Triinu Tombak Member of the Supervisory Board /signature/ 10th April 2013

Andres Toome Member of the Supervisory Board /signature/ 10th April 2013



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Independent Auditors' Report *(Translation from the Estonian original)*

To the shareholders of AS Harju Elekter

We have audited the accompanying financial statements of AS Harju Elekter ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 83.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider 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 financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 4 April 2013

/Signature/

Andris Jegers
Authorized Public Accountant, Licence No 171

/Signature/

Indrek Alliksaar
Authorized Public Accountant, Licence No 446

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Licence No 17
Narva mnt 5
Tallinn 10117

PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EUR '000
Retained earnings of prior periods	11,491
Profit for 2012	3,517
Total distributable profits at 31 December 2012	<u>15,008</u>

The management board proposes that profits be allocated as follows:

Dividend distribution (EUR 0.09 per share)	1,566
Transfer to capital reserve	42
Retained earnings after allocations	13,400

/signature/

Andres Allikmäe
Managing Director/CEO

4 April 2012