

2007 Annual Report



INFORMATION TO THE SHAREHOLDERS

Annual general meeting

The annual general meeting of the shareholders of Harju Elekter will take place on April 24 2008, at 12 a.m. at the hall of the Keila Culture Centre, Keskväljak 12, Keila.

The shareholders who are listed in the shareholders' register of Harju Elekter kept by the Central Securities Depository as of April 14, 2008 at 11.59 p.m. are entitled to participate in the AGM.

Dividends

Following the dividend policy of the Group and taking into account the profit and loss statement of 2007 the Management Board of Harju Elekter makes a proposal to the General Meeting of Shareholders to pay a dividend of 2.00 Estonian kroons per share for the financial year of 2007. The list of shareholders who are entitled to dividends will be closed on May 9, 2008 at 11.59. p.m. The dividends will be transferred to the bank accounts of shareholders on May 19, 2008.

The publication of financial reports in 2008

Harju Elekter will publish its quarterly financial reports in 2008 as follows:

Interim report 1-3/2008 on the week 19 Interim report 1-6/2008 on the week 32 Interim report 1-9/2008 on the week 45

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

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Main events of 2007

A subsidiary of Harju Elekter, Harju Elekter Elektrotehnika AS, made a breakthrough into the European market by concluding a sales contract with METKA Metal Constructions of Greece S.A. for LV equipment. Within the framework of the contract Harju Elekter Elektrotehnika manufactured different control boards provided with converters for the Kardia and Mavropigis in Greece for a total value of 3.2 million Euros (50.6 million kroons). The equipment was delivered to the buyer in the second and third quarter of 2007.

The expansion of Harju Elekter trade group continued by opening in Pärnu a fifth store specialising in the sales of electrical materials and appliances. The new store also performs representational functions for Harju Elekter in the region.

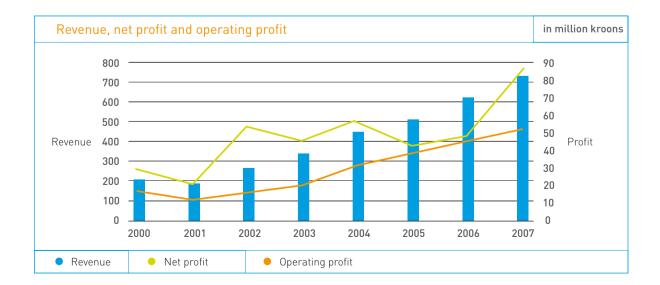
Following the strategic decision of the Harju Elekter Group to focus more on the management of the companies related to the main activity and on the expansion of the electro-technical business the Group's 33% share in the associated company, AS Saajos Inexa, was sold to Oy Saajos International Ltd. Another investor, Inexa A/S, also surrendered its share to the latter. However, the companies work continually in close co-operation in the procurement of fireproof doors, as well as performing long-term lease contracts for production space.

In September 10 years had passed from the date when the shares of Harju Elekter were listed on the Tallinn Stock Exchange. During these ten years on the stock exchange Harju Elekter has become, due to its consistent development, one of the leading producers of electric installations and materials in the Baltic states and its activities have spread to Finland and Lithuania. The sales volume of the Group has increased six times and its operating profit five times. The consistent dividend policy has ensured a steadily increasing dividend income to the owners.

The Estonian Accounting Standards Board has again announced the winners of the "Accounting Flagship" contest. In the category of publicly traded companies and financial institutions, whose financial statements are drawn up in accordance with the IFRS, the 2006 annual report of Harju Elekter achieved second place. The annual report of Harju Elekter was once again declared one of the best among the best.

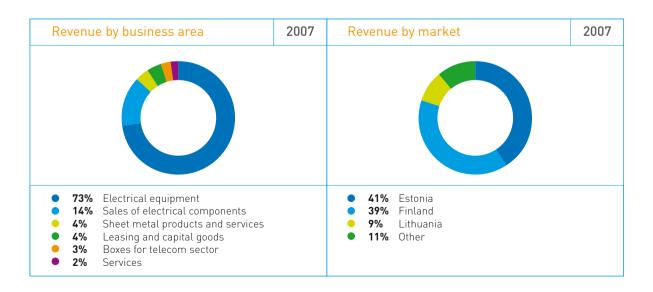
The annual general meeting of shareholders approved the preparation of the allocation of shares (increasing the owner's equity by up to 6 million kroons) in 2010. However, the final decision on the increase of the owner's equity will be made at the annual general meeting of shareholders in 2010.

The annual general meeting of shareholders approved the annual report and profit allocation of Harju Elekter, including a dividend distribution of 1.8 kroons per share i.e. a total of 30.24 million kroons.



KEY FIGURES	2007	2006	2007/2006 change
(in million kroons)			
Sales revenue	732.0	622.1	17.7%
Operating profit	51.5	45.2	14.0%
Net profit (belonging to the owners of the parent company)	84.5	47.3	78.6%
(in Estonian kroons)			
Shareholder's equity per share	33.89	34.46	
EPS	5.03	2.81	
Dividend per share	*2.00	1.80	* management proposal
Return on sales	7.0%	7.3%	
Net profit margin	11.5%	7.6%	
Return on assets (ROA)	11.4%	6.5%	
Return on equity (ROE)	14.8%	8.2%	
Equity ratio	74.0%	79.9%	
Number of employees at the end of the period	486	427	

^{*} More detailed financial overview can be found on page 87.



Long experience and self-confidence will ensure future success



Harju Elekter is one of the oldest manufacturers of electric installations and materials in Estonia. The company, which was founded in 1968, has, during the 40 years of its existence, become an international industrial group. The co-operation with renowned foreign companies such as ABB, Nokia, Glamox, Saajos, PKC Group has led to the foundation of independent and successful industrial companies such as the largest cable factory in the Baltic states, Draka Keila Cables, the manufacturer of lighting equipment, Glamox HE, the ABB low voltage systems plant, the producer of fireproof and safety doors, Saajos, and the manufacturer of cable insulation for automobiles, PKC Eesti. Working together in the oldest industrial park in Estonia, the 48 hectare Keila Industrial Park, it is the largest group of manufacturers of electrical equipment and materials in the Baltic states and employs more than 2,000 specialists and engineers with electro-technical skills. Consistency, experience and skills will ensure the continuation of the Group's development and success into the future.

All through its existence Harju Elekter has cherished innovation, both in preparing and launching new products and product lines, as well as in introducing new production processes and technologies. The developments in the area are constantly monitored and the best practices in the world have been introduced. The engineering service of the company has been staffed according to the needs of electrical installations and automation equipment and during the years it has become stronger and stronger. Today we offer to our customer's substations, LV/MV distribution units, fuse boxes and control boards developed within the Group. We have introduced the production of licensed products of the world's leading technology companies, Siemens and Schneider. We programme our own process management software and carry out relevant projects for the industry. Knowledge and experience is passed from generation to generation generating the competence and consistency which serve as a strong basis for the further development of the company.

The listing of the shares of Harju Elekter on the Tallinn Stock Exchange ten years ago marked an important step in the development of the Group. Feeling responsible to our shareholders and wanting to introduce and explain the activities and objectives of the company, the management and accounting of the Group has been taken to a level that has been repeatedly highlighted by the Estonian Accounting Standards Board as one of the clearest and most informative annual reports issued in Estonia. Such open and honest communication with the public has made Harju Elekter a trustworthy partner and opinion leader in issues related to the development of economic life in Estonia, as well as a stable and attractive investment target for shareholders.

Strategically correct decisions, innovation and self-confidence in the course of four decades have made Harju Elekter a leading international industrial group manufacturing electrical equipment and materials. The ability to use the competence and experience gathered during these years allows us to believe that the future will be as successful as the past.

On behalf of the Supervisory Board I would like to thank our customers, partners, shareholders and every employee of Harju Elekter who have contributed to the successful development of the company.

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Chairman of the Supervisory Board

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Flexible operations in a changing situation have ensured good results



The year 2007 proved to the public, as well as to us, that only flexible companies which are able to make right choices and decisions taking into account the current market situation, can be successful in this rapidly changing world. It is correct to say that Harju Elekter was able to carry out its business plans in the rapidly changing economic environment and this is proved by its good business results.

Last year the Group's sales revenue increased by 18% and operating profit by 14%, while the net profit per share amounted to 5.03 kroons. As a market leader in Estonia our growth depends on sales outside of Estonia. Therefore it is especially satisfying to declare that the share of exports in turnover amounted to 59%. A considerable contribution to this was made by the Group's Estonian subsidiary, Harju Elekter Elektrotehnika, which, at the beginning of 2007, concluded a 53 million kroons contract for the delivery of control boards provided with converters which substantially increased the Group's turnover, as well as ensured its breakthrough into new European markets.

Last year showed that one of the backbones of the success of Harju Elekter is its openness to innovation and progressive approach to the development of new products, as well as to the participation in different projects and procurements. It is important to find and involve different co-operation partners so as to win the bids for mutually interesting projects. The courage to think big and to take well-considered risks in order to participate in large-scale and knowledge intensive projects is also very important.

Lengthy preparatory work for the extension of the range of products started to produce results in 2007 when the share of MV products in the product portfolio increased substantially. In addition, a department for developing industrial automation software was established in the Finnish subsidiary of the Group, whose first order was to develop process control software for the Polish rockwool factory. The extension of the know-how and experience of the Group which has so far been mainly used to manufacture equipment in the area of process control software has increased our business opportunities even more.

The rapid economic growth witnessed during recent years resulted in a complicated situation on the labour market expressed by a lack of engineers and qualified workers on the one hand and by the pressure on salaries on the other hand. Despite of this we were able to motivate our personnel and keep the costs of the labour force and the fluctuation of personnel under control by offering them a good working environment. However, more attention must be paid to the increase of productivity of the Group in order to be continually competitive and ready for the next economic cycle with somewhat more modest growth. We value more than ever the improvement in qualifications of our employees and, therefore, we have started several co-operation programmes with vocational and higher education institutions.

Following the good economic results, capitalization and positive growth perspective the Management Board will propose to pay for the year 2007 a dividend of 2 kroons per share.

In 2008 Harju Elekter celebrates its jubilee as 40 years have passed from the date when the production of electric equipment and materials was started in Keila. Glimpsing back to the past our strategic perspectives are directed firmly to the future. We know what we want and expect from the forthcoming years. Believing in the realisation of our goals and flexibly changing our ways of action we can maintain our position as a stable, developing and highly rated company.

In the name of the Management Board I would like to thank all our customers, partners and employees.

Andres Allikmäe

Chairman of the Management Board

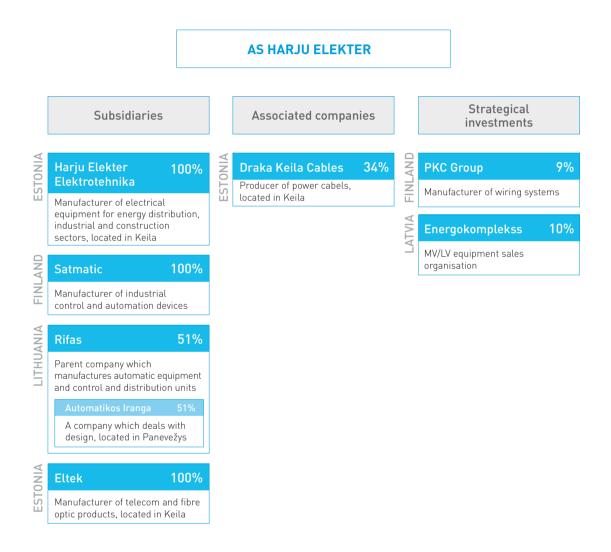
ORGANISATION

MISSION

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

GOAL

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



Harju Elekter has been manufacturing electrical equipment since 1968. The operations of the Group fall into three geographical segments according to the location of business opportunities:

- Estonia location of AS Harju Elekter and the subsidiaries AS Harju Elekter Elektrotehnika and AS Eltek;
- Finland –location of the subsidiary Satmatic Oy;
- Lithuania location of the subsidiary Rifas UAB.

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. 59% of the products are marketed outside Estonia.

Management report

Overview of the Economic Environment

The beginning of 2007 witnessed favourable economic development in Estonia, Baltic States and in the whole of European Union which only started to slow down in the II guarter together with the cooling of the international economy. The junk-loan crisis which broke out in US in August and the pressure in financial markets caused the weakening of the dollar which led to a downfall of the international economy. The peak of one economic cycle was over. The dollar has weakened by approx. 11% a year. As the circle of sufferers and the scope of the losses are not yet clear analysts estimate that the dollar will stand, during the forthcoming months, at the level of 1.5 USD/EUR, affecting the economy of developed countries for some time. From the point of view of consumers the appreciation of energy, raw materials and food prices was also bad news.

Baltic States

In 2007 the fastest economic growth was in Latvia (10.2%), followed by Lithuania (7.2%) and Estonia (7.1%). Although the changes in international financial markets and cooling down of economic growth undoubtedly also influenced developments in the Baltic States they were not yet clearly recognisable in the III quarter. However, their effect was perceptible in the IV quarter. Despite the unfavourable developments in external markets the increase in exports of all three states was surprisingly

firm. Limitations on offering loans and increasing interest rates led to a rather modest growth of investment and consumption. Households were increasingly troubled by appreciation, but also by the fear of losing jobs if economic activity declines and companies start to make their employees redundant. At the end of the year industry started to grow relatively modestly in all three Baltic States bringing along the slowdown in the increase in salaries. However, the openness of the labour market and the lack of a labour force gave employees a strong position in salary negotiations.

Although the near-time economic perspectives in the Baltic States are rather gloomy and the attitude towards development opportunities in this region is more pessimistic analysts are of the opinion that it is quite likely that all three states will pass the current stage of decline of the economic cycle successfully. The flexibility of local companies and firm export perspectives during these difficult times for the international economy allow us to believe in a positive future. Extensive cash flows from EU funds, convergence with wealthier EU countries, continuing structural changes in the economy, a strong financial system and strict budgetary policy are essential factors for long-term economic growth. According to analysts these factors are strongly established in the Baltic States. Consumption is expected to increase in Estonia in the II half of this year and in 2009 in Latvia and Lithuania.

	Economic growth %			CPI %				
		Economic growth %			CPI 70			
	2006	2007	2008	2009	2006	2007	2008	2009
EL25	3.0	2.9	2.0	2.1	2.2	2.3	2.5	2.0
Estonia	11.2	7.1	5.0	6.0	4.5	6.6	6.4	3.7
Latvia	11.9	10.2	6.1	6.6	6.6	10.1	12.5	6.0
Lithuania	7.7	8.8	7.5	6.5	3.8	5.7	8.0	4.8
Finland	4.9	4.4	3.4	2.8				
Russia	6.6	7.7	6.6	5.5				

Finland

The increase in employment and strong internal demand has nurtured economic growth. In 2007 the economic growth was 4.4% which is 0.5% less than a year before but still good for Finland. The slowdown in growth was noticeable in the IV quarter of 2007 and should continue in 2008. Inflation has also accelerated in Finland mainly because the prices of raw materials and consumables on international markets have increased.

Russia

The Russian economy increased in the III quarter of 2007 by 7.6% which is a bit less than the increase in the first six months (7.9%). However, such slowdown was not unexpected – the confusion on international financial markets has caused liquidity problems to Russian banks which have reduced the volume of loans and, therefore, domestic investment has also decreased. The government of Russia has announced

several intended investments in infrastructure and the energy sector. Taking into account the extreme scope of these investments and the high expectations related to the increase in oil prices the near-term prospects for the Russian economy are rather positive.

Forecast on the international economy

According to analysts the possibility that the developed Western economies are moving towards economic stagnation is increasing: in 2008 the economic growth in the United States is expected to slow down considerably (the estimated average real growth of GDP will be 1.4%) which will affect the European Union (the estimated growth in the Euro zone will be approx. 1.6%,). At the same time developing countries should continue with successful economic growth because the increase in the domestic demand will cover most of the losses due to the expected slowdown of exports to wealthier countries.

Business Results

In the annual report of 2007 the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy and Rifas UAB (altogether referred to as "the Group") have been consolidated line by line and the results of the associated company, AS Draka Keila Cables, have been consolidated using the extended equity method. In the third quarter the Group sold its 33.3% share in the associated company, AS Saajos Inexa. The inclusion of the profit and loss of the latter associated company in the consolidated report was ended as of 30.06.2007.

AS Harju Elekter owns 8.9% of the Finnish company, PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and presented in the balance sheet at their market price. The profit/loss caused by the changes in the market price of shares is included directly in the owners' equity. The changes in the market price of shares can have a substantial effect on the value of assets and the owners' equity in the Group. In 2007 the Group sold 220 thousand shares in this company reducing its share from 10.1% [31.12.2006] to 8.9% which had a considerable effect on the consolidated net profit.

In 2007 the consolidated sales revenues of the Group increased by 17.7% amounting to 732.0 million kroons. Revenue growth was supported by good salesmanship and successfully executed large-scale orders which needed competence and appropriate production resources. The largest share of sales revenues – 83.3% – was traditionally given by production. The trade segment gave 10% of the consolidated sales revenue. As for markets, once again the Group's home markets – mainly Estonia and Finland – were dominant in 2007. The Estonian and Finnish companies of the Group made the largest contribution to the growth of the Group's sales revenues in 2007.

Cost of sales and services increased 16.7% in the year, amounting to 595.3 million kroons, distribution costs increased by 35.7%, amounting to 36.9 million kroons and administrative expenses increased by 16.8%, amounting to 40.1 million kroons. Rapid growth in the employment rate, which led to the problem of qualified labour force shortage, promoted the rapid growth of wages. Due to the increase in the number of employees and growth of wages the labour costs increased during the year by 35.5%, amounting to over 159.1 million kroons. Depreciation of fixed assets in the

amount of 19.4 million kroons, which is 17.3% more than the year before, was recognised in costs.

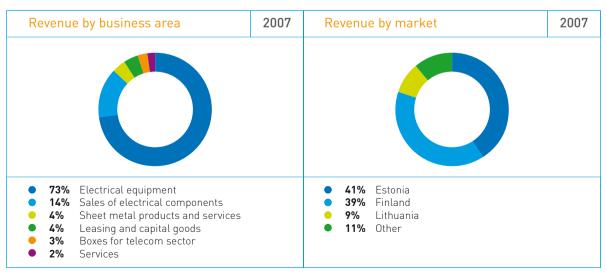
The operating profit of the Group amounted to 51.5 million kroons, increasing in the year by 14.0%. Return on sales remained at the same level of 7%. The consolidated net profit increased from 52.0 million kroons in 2006 to 85.9 million kroons in 2007 due to the profit earned from the sales of the shares of PKC (32.9 million kroons). The share of the owners of the parent company from the net profit was 84.5 million kroons (increase 78.6%). The profit per share amounted to 5.03 kroons (in 2006: 2.81 kroons).

Cash flows from operating activities amounted to 41.6 (in 2006: 32.7) million kroons, and from investment activities to 9.7 (in 2006: -18.4) million kroons. The cash flow from investment activities was -31.8 (in 2006: -33.4) million kroons. Cash and cash equivalents increase within a year by 19.6 million kroons, amounting to 26.2 million kroons.

The consolidated balance sheet total decreased within a year by 37.4 million kroons, down to 720.3 million kroons. The continuous increase in the volume of purchase orders caused the increase in the inventories of components and unfinished and finished products, as well as in receivables and liabilities in the balance sheet. The value of current assets in the balance sheet increased by 71.7 million kroons, of which 49.6 million kroons was due to the increase of inventories.

The value of non-current assets decreased by 109.1 million kroos in a year, falling to 479.3 million kroons. The main reason for the decrease in the value of non-current assets was the change in the market price of shares of PKC Group Oyj and the sales of the shares in the first semester of last year. During 12 months the value of the investment in the balance sheet has decreased by total of 126.7 million kroons. In 2007 the group sold 220 thousand shares of PKC Group Oyj. The market price of the share decreased within a year by 3.54 euros (55.39 kroons).







Equipment for energy distribution sector

As for MV/LV power distribution the company manufactures prefabricated outdoor substations, distribution units for substations, cable distribution and fuse boxes. New products are being constantly developed and the existing products are being improved in order to fulfil the expectation of customers.





Geographical Segments

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

Estonia – location of the parent company, AS Harju
Elekter, and its subsidiaries AS Harju Elekter
Elektrotehnika and AS Eltek Eesti;

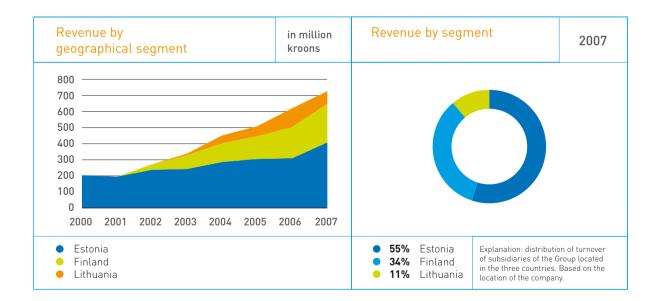
Finland – location of the subsidiary, Satmatic Oy; **Lithuania** –location of the subsidiary, Rifas UAB.

The largest rate of increase in 2007 was in the Estonian (increase 31.5%) and Finnish (increase 24.5%) segments, amounting to 89% of the consolidated sales revenue. Significant increases in revenue due to good salesmanship and successfully executed large-scale orders in Estonia and Finland compensated for the planned decrease in sales revenues in Lithuania.

The Estonian segment sold to customers, other than those belonging within the Group, goods and services for the total of 408.3 million kroons which was 97.9 million kroons more than last year, giving the largest contribution to the increase in the consolidated sales revenue in 2007.

The favourable situation in the Finnish economy, the growth of the respective industrial sector and the increase of the positive image and reputation of the Finnish subsidiary, Satmatic Oy, ensured a continually large volume of purchase orders in the Finnish segment. The amount of sales in the Finnish segment increased by 48.6 million kroons, amounting to 246.7 million kroons.

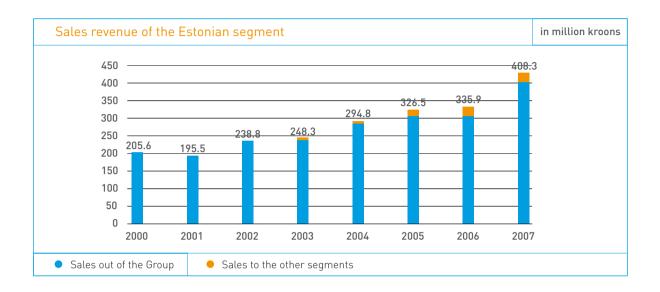
The year 2006 was extraordinary for the Lithuanian subsidiary – in the first quarter of the year two large-scale contracts for the manufacturing and installing of electric equipment as a main contractor was concluded. In order to perform these projects in time high quality subcontractors were used to install the equipment. The influence of these contracts on the sales revenues of 2006 was substantial. The year 2007 can also be considered as successful for the Lithuanian segment. Several important projects were carried out such as the production of LV distribution units, Sivacon 8PT, for a Belorussian company and the provision of equipment for a Singapore shipbuilding company in co-operation with a Norwegian partner. In 2007 the Lithuanian segment contributed 77.0 million kroons to the consolidated sales revenues which was one third less than in 2006 but exceeded the sales revenues of 2005 by 19.0%.



ESTONIA

The sales revenues of the Estonian segment of the Group increased in the year 35.8%, amounting to 408.3 million kroons. The increase of sales revenues by more than one third was largely thanks to a large-scale delivery

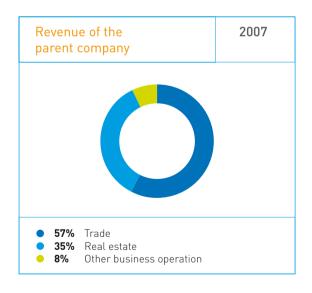
contract concluded at the beginning of the year with the Greek company, METKA, as well as to successful deliveries to Russia through an American company.



AS Harju Elekter

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

In 2007 the sales revenue of the parent company, AS Harju Elekter, from external customers amounted to 117 (in 2006: 102) million kroons. Most of the revenue i.e. 75 million kroons came from Harju Elekter corporate stores. In 2007 the parent company bought real estate in Keila and renovated a production building which was rented to subsidiaries and associated companies. The revenues gained from the renting of real estate and development increased thanks to additional rental space and, to some extent, due to the increase in prices of rented premises by 3 million kroons, amounting



to 35 million kroons and its share in the sales revenues of the parent company increased from 31% to 35%. The share of other services remained at the same level as last year i.e. 8%.

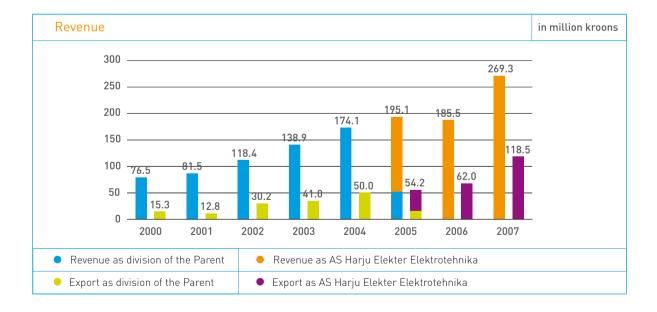
AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika (100% subsidiary) is a leading manufacturer and distributor of MV/LV distribution units in Estonia. The year 2007 was extremely challenging for the company and turned out to be very busy and successful. This is confirmed by the sales revenues of the company which increased by 1.45 times amounting to 269.3 million kroons. Thanks to large-scale projects the sales in external markets increased from 33% of the turnover at the beginning of the year to 44% by the end of the year. Besides traditional external markets Greece and Russia achieved a notable position.

In 2007 the development of the company was characterised by the entry into large-scale knowledge intensive projects and the involvement of co-operation partners. where necessary. On the basis of firm self-confidence and readiness to involve co-operation partners a contract worth over 50 million kroon for the production and sales of control boards with converters with the Greek company, METKA, was signed at the beginning of the year. This is a product which we had manufactured at a lower capacity and smaller quantities. However, the belief in our competence and experience, the availability of the necessary resources and the risk accompanying such a large-scale project fully justified itself. The supplies related to the project were carried out with high quality and timely - preparing the grounds for implementing similar projects for other customers.

A considerable change took place also in the distribution of sales revenues between different product groups. For years two thirds of sales revenues was accounted for by sales of equipment to the power distribution sector. Last year MV/LV prefabricated and distribution substations were once again the main source for the domestic market increase. During last year all together 287 prefabricated and distribution substations were sold on the domestic market which is over one third more than a year before. However, the share of products for the power distribution sector for the sales revenue decreased to 50% because the amount of equipment for the industrial sector increased dramatically from the former 6-7% to 26%. The increase was provided by contractual supplies of LV control boards with converters. There were no major changes concerning products for the building and infrastructure sector.

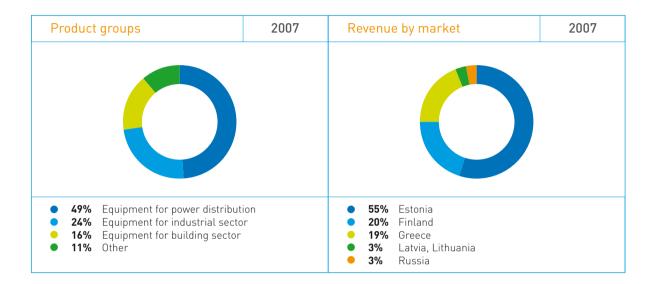
Well-timed investments into the expansion of production space and the improvement of the production capacity certainly contributed to the successful implementation of the above-mentioned projects. In 2007 Harju Elekter Elektrotehnika received a more than 1300m² renovated production hall. At the same time also a new semiautomatic sheet metal processing centre was procured. According to the requirements of quality standards ISO9001 and ISO14001 at least once a year internal and external audits are carried out in the company and after every three years



a recertification by specialists of an international certification organisation BVQI takes place. Successful recertification again in 2007 proved the compliance of the company's organisation of production and environmental management system with the established quality requirements.

During the year Harju Elekter Elektrotehnika became more competitive in Estonian as well as other markets. Long-time efforts to expand our product portfolio have resulted in the first successes such as the above-mentioned large-scale and knowledge intensive projects. According to our professionally constituted product portfolio, expanded production opportunities, the competence of our employees and

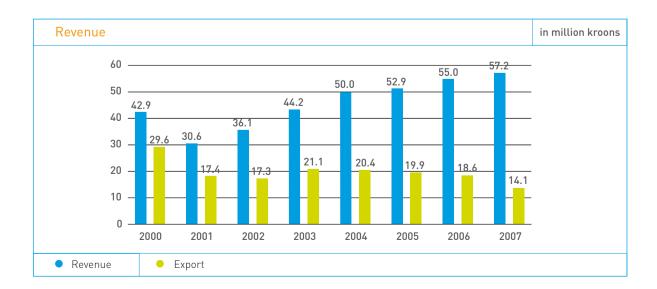
better sales opportunities, increase in sales can be expected in every sector in 2008. The increase in exports is facilitated by the increasing reputation and the high quality of the products of Harju Elekter.



AS Eltek

The main activities of AS Eltek, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of sheet metal products and semi-manufactured articles are produced for the electrical engineering sector.

The year 2007 was rather complicated for the company due to the slowdown of economic growth but also



because of the tight situation of the local labour market. Strong pressure on the increase of labour costs was experienced strongly within the company. On the other hand a lack of qualified labour caused large problems. Changes in the international economy were reflected in the decrease in the number of external orders.

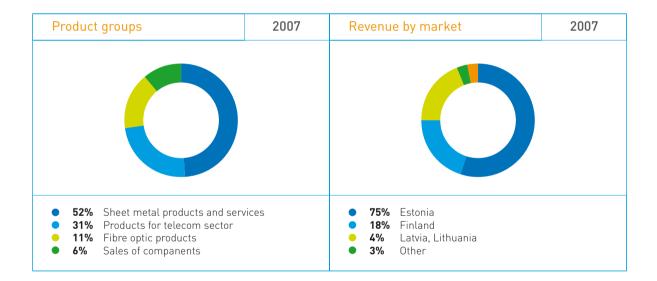
In 2007 sales revenues of the company, however, increased, amounting to 57.2 million kroons, of which sales outside Estonia formed 25%. Finland was the largest external market, followed by Latvia and Lithuania and other EU countries. The distribution of product groups in turnover did not change in comparison with the previous year.

Modern production methods, appropriate production resources and qualified labour are the preconditions for the further development of the company. In order to shorten the production cycle and delivery dates a new sheet metal bending machine was purchased. The working time of the powder paint line was optimised to introduce production methods which save more

energy. In order to save materials and minimise their use the control programme of the sheet metal processing centre was improved.

In the end of 2007 the specialists of an international certification organisation BVQI checked the company's compliance with the requirements of quality standards ISO9001 and ISO1400 and recertified the company.

The management of the company considers the increase in productivity and focusing on the production of goods meant for retail customers as the key factors in the further development of Eltek. In order to do that the technological basis of the company must be strengthened. The company is planning to purchase a laser bench based on novel technology which will generate new technological opportunities if to compare with the current metal processing centres making the production processes more flexible and quicker. It is also very important to ensure the availability of qualified and highly motivated labour and offer them appropriate development opportunities.



FINLAND

Satmatic OY

Satmatic Oy is a Finnish subsidiary fully owned by Harju Elekter. The main activities of the company include the production of automation equipment for the industrial sector and sales of electric power distribution and transfer equipment. The headquarters and the factory of the company are located in Ulvila near Pori. The company has also a sales representation and a factory in Kerava in order to better service businesses and retail costumers in Helsinki.

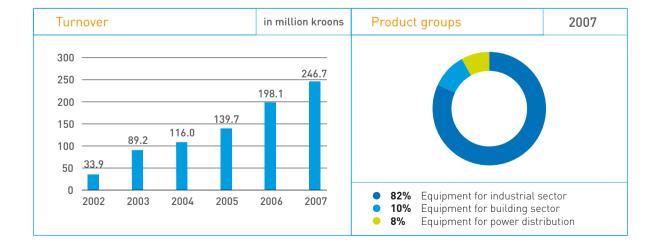
Because of the favourable situation in the Finnish economy during recent years, the growth in the relevant industrial sector, the increase in the number of orders from foreign companies and the establishment of a positive image and reputation for Satmatic Oy the company has made a big step forward in its development. The rate of increase in the company's turnover has been considerable, amounting to 20.4% in 2005, 41.8% in 2006 and 24.5% in 2007 when the sales revenues amounted to 246.7 million kroons. Most of the sales revenues i.e. 82% (in 2006: 79%) was for the sales of products for the industrial sector. Another important product group which has emerged lately is products for the shipbuilding sector.

In 2007 the introduction and further development of the project for online-ordering launched in 2006 was continued. The aim of the novel electronic data processing system is to speed up and simplify the handling of orders. The first electronic direct connections with co-operation partners have already been established and are in use and the positive feedback confirms that we are moving in the right direction. On the basis of the experience gained several new customers and co-operation partners will be connected with the system in 2008.

In 2007 a department for developing industrial automation software was established in Satmatic which extends the business areas of Harju Elekter Group from manufacturing equipment to the area of process control software. Currently four product development engineers are working in the department. The first order of the department was to develop process control software for the Polish rockwool factory.

While organising production and general work processes of the company non-waste technologies are highly rated. The personnel of Satmatic has been trained to follow the requirements for waste handling and package circulation and to reduce the consumption of energy according to the principles of sustainable development. This is certified by the ISO9001 quality certificate issued to the company.

Satmatic Oy has good prospects for increasing its sales revenues in 2008. This is confirmed by the appointment of Satmatic as an official supplier for the Olkiluoto nuclear power station by Teollisuuden Voima. The first orders have already been submitted. In order to strengthen its competitiveness the company is planning to increase its productivity even more and find more opportunities to increase the share of project based products in its product portfolio. Much more attention should be paid to offering solutions for the power distribution sector and expanding the sales of products manufactured by the Harju Elekter Group. All this must be supported by active sales and marketing efforts.



LEEDU

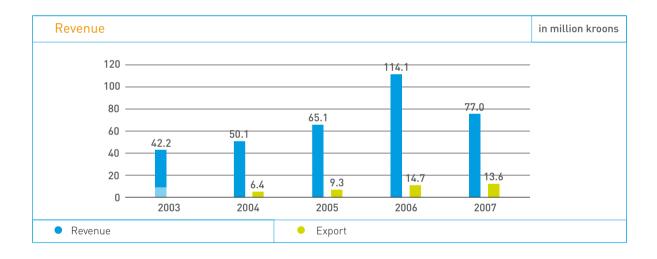
Rifas Group

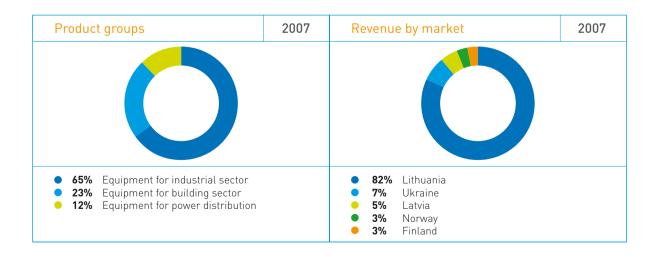
Rifas is a Lithuanian subsidiary of Harju Elekter locating in Panevežys. The Group owns 51% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. Rifas Group (hereinafter called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

The year 2007 can be considered as very successful for Rifas. Sales revenues of the company amounted to 77.0 million kroons which was one third less than in the extraordinary year of 2006 which entailed large-scale contracts concluded as the main contractor, but exceeded the year 2005 by 19.0%. The increase in the volume

of export markets by more than double which gave 21% of the annual sales revenue should be seen as a very positive development. Besides its domestic market Norway, Belorussia, Latvia and Estonia also emerged.

While the year 2006 was characterised by large-scale projects in Lithuania, in 2007 the most successful deliveries were made to foreign companies. Several important projects were carried out, such as the production of LV distribution units Sivacon 8PT for a Belorussian company and the provision of equipment for a Singapore shipbuilding company in co-operation with a Norwegian partner. The share of the product group for the industrial sector in the turnover amounted to 65% (a year before it was 45%). During the year consistent work was done to increase





and improve the production capacity of the factory and the product line of the company. In spring 2007 the construction of new production and office building was started in order to expand the production space. The building should be completed within the first half of this year. In order to shorten delivery dates of MV products and arrange better logistics a contract for delivery of sheet metal products and constructions was concluded with one of the local manufacturers.

The LV prefabricated outdoor substation, HEKA, was under continuous improvement and development and it passed the certification procedures for compliance with requirements related to power networks. In order to introduce its extending and improving product line Rifas participated in the international fair Balttechnika in Vilnius where Sivacon MV systems and

the prefabricated outdoor substation, HEKA, was presented to customers.

The introduction of new knowledge intensive products in the product line of the company sets high expectations from its employees. Therefore, a special training programme was started to improve the qualifications of the personnel.

In 2008 the company is planning to improve and extend the product line and find new customers in domestic as well as foreign markets. This is supported by active sales efforts and successfully completed projects. The company is planning to increase its export capacity up to one third of sales revenues by winning more large-scale foreign orders.

Business Segements

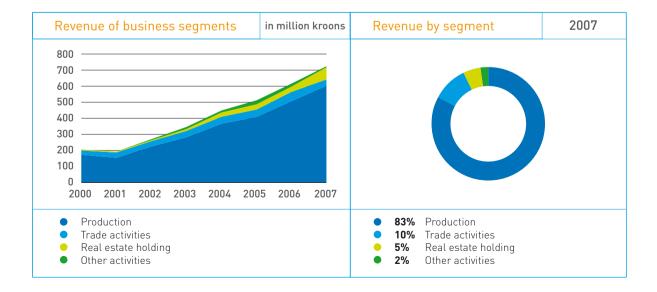
The operation of the Harju Elekter Group can be divided into three business segments: production, trade and real estate and other activities.

Traditionally the largest share of sales revenue – 83.3% (in 2006: 81.5%) – was from production. Last year was successful for production as well as for trade. Sales revenue of the production segment increased due to the increase in sales of products and expansion into the MV sector. The increase of approx. one fifth in the trade sector, where sales revenue amounted to 75.5 million kroons, was supported by lively contraction works in Estonia which, however, cooled down a bit at the end of the year. Availability of loans on favourable terms and the growth in demand among private customers due to

the increase in salaries certainly had a positive effect. The increase in sales revenues of the real estate segment by 2.8 million kroons resulting in an annual total of 35.6 million kroons was mainly due to the increase in rental space. In 2007 the parent company bought a real estate in Keila of which 57% was rented to external customers.

Production

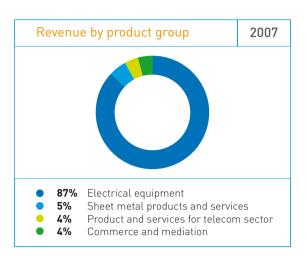
The production segment of the Group includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (UAB Rifas) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and



automatic control boards for the energy sector, industry and infrastructure. AS Eltek in Estonia which manufactures products for the data and telecommunication sector, also belongs in this segment.

The share of the production segment in consolidated sales revenues increased during the year by 1.8 percentage points, amounting to 83.3%.

Due to large-scale contracts and successful deliveries of the industrial sector sales revenue of the production segment increased by 102.7 million kroons, amount to almost 610 million kroons. The majority (87%) of the revenues from industrial production was received from the manufacture and sales of electric equipment, amounting to 531 (in 2006: 430) million kroons.



Trade

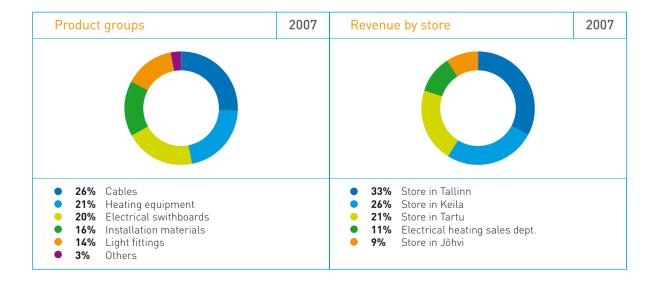
The trade group, which is a part of the Harju Elekter parent company, includes revenues from the five Harju Elekter corporate stores operating in the largest towns of Estonia that sell products of the Group and related companies, as well as other products necessary for electrical installation works, mainly to small and medium-sized electrical installation companies and retail customers.

In autumn 2007 a fifth corporate store selling electric appliances was opened in Pärnu but its influence on the sales volume of the trade group is not yet notable. However, we expect that the store, which is located in the rapidly developing centre of the Pärnu region and at an important junction on a major highway, Via Baltica, will give a substantial contribution to the sales volume of 2008.

Facilitated by the continuous construction boom and high level of domestic demand the sales revenue of the trade

segment increased during the year by 19.1%, amounting to 75.5 million kroons, which made up 10.3% of consolidated sales revenue.

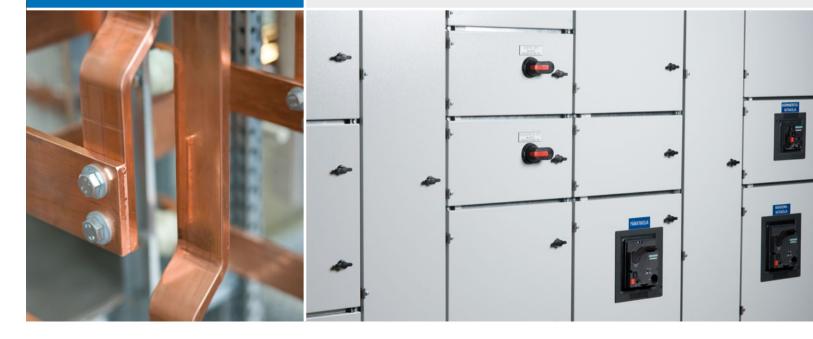
The sale of the trade group was influenced by the rapid growth of the Estonian construction market in 2007. Sales volumes were also positively influenced by the availability of loans on favourable terms and the increase of demand by retail customers stimulated by the growth of salaries. Customers met with approval the moving of the largest store of the trade group in Tallinn at the end of 2006 into the new premises which are now twice as large as before. The exposition of products on display and the issue of goods has improved a lot. The location of the store was also found more attractive than before. All this reinforced the existing customer base and attracted new retail customers.





Equipment for industrial sector

Industry – machines and production processes – requires that distribution equipment ensures uninterrupted working processes and the security of users. The equipment for the industry manufactured by Harju Elekter incorporates safety, productivity, quality and flexibility and takes into account the requirements of different industries.



Related Companies

As at the end of 2007 the Group had a share of 34% in the associated company, Draka Keila Cables. In the third quarter of 2007 the Group sold its share of 33.3% in the associated company, AS Saajos Inexa. The inclusion of the profit and loss of the latter associated company in the consolidated report ended as of 30.6.2007.

The economic results of associated companies are presented together in the consolidated financial statement using the equity method. In 2007 a total of 73 thousand kroons profit was consolidated from the associated company which is 1.65 million kroons less than in 2006.

AS Draka Keila Cables

Draka Keila Cables is the largest cable manufacturer in the Baltic States. The Keila factory is specialised in the production of aluminium power cables. In addition to the companies own products a wide range of Draka Group's products are marketed. During the year 2007 the company operated in an economic environment where the rapid growth in the first half of the year was followed by the fast increase in the raw material prices and the slowdown of the growth the construction sector in that company's main markets (Baltic states and Scandinavia) in the second half of the year.

In 2007 the turnover of the company was 708.6 million kroons, increasing during the year by 17%. Exports amounted to 485.0 million kroons. Although the economic results of the year were generally satisfactory, the insecurity of provision caused by the specialisation process of the factories of the Group which took place a year earlier influenced them to a certain extent.

However, in the second half of the year the results improved considerably thanks to better arrangement of logistics. The specialisation of the factories of the Group on specific product groups entailed an increase in productivity and in the end, also a wider range of products and shorter delivery dates.

In 2007 the production space in the company's factory in Keila was expanded and rearrangement of production was carried out in order to improve the quality of products and to reduce the over expenditure. Two new cable core twisters were purchased in order to increase the production capacity. Sales figures increased thanks to the rearrangements and this also influenced profitability to a certain extent.

In 2008 the main focus will be on maximising the efficiency of production and delivery processes supported by the investment and more rational organisation of production carried out during the previous years.



Other Financial Investments

SIA Energokomplekss

SIA Energokomplekss, founded on 1 September 2006 together with the Latvian leading producer of electrical installations, A/S Jauda, and other Latvian undertakings as a joint venture, is a sales organisation, which makes it possible to participate together in invitations-to-tender for medium and low voltage equipment in Latvia as well as beyond, thus increasing the market share of Harju Elekter. The share of Harju Elekter in the company is 10%.

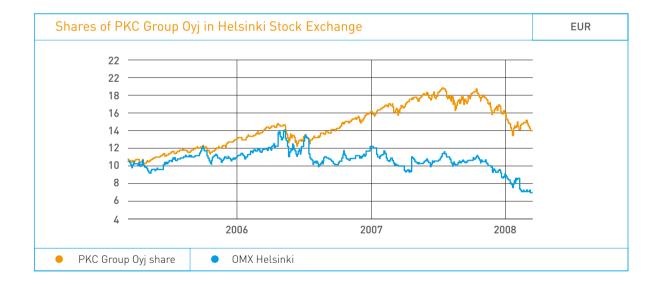
In 2007 the Group sold, on the Latvian market, through SIA Energokomplekss electric equipment to the value of 5.0 (in 2006: 0.9) million kroons.

PKC Group Oyj

Since 1994 AS Harju Elekter has been the largest shareholder and strategic investor of the Finnish publicly traded company, PKC Group Oyj, which manufactures cable insulation for the automobile, telecommunication and electronics industries. The company has factories in Finland, Estonia, Russia, Brazil, China, Canada, Mexico and USA hiring a total of 4,800 employees.

AS Harju Elekter is the main owner of PKC Group Oyj holding a stake of 8.9% as at 31 December 2007. PKC Group shares are quoted on the Helsinki Stock Exchange and are valued in the balance sheet according to market price. The change in the market price of the share may have a substantial influence on the financial indicators of the Group. The market price of share decreased during the year by 3.54 euros (55.39 kroons) which reduced the value of the investment in the balance sheet to 97.2 million kroons. On the last trading date the price of a share on the Helsinki Stock Exchange was 8.70 euros (in 2006: 12.24 euros).

In 2007 PKC Group Oyj paid a dividend of 0.45 euros (7.04 kroons) per share. The group's dividend income was 12.5 million kroons. In addition 220 thousand shares were sold during the last year. The profit from the sales of shares amounted to 32.9 million kroons. In 2007 a total profit of 45.3 (in 2006: 18.0) million kroons was earned from that financial investment.



Investments and Development

In 2007 the Group invested a total of 43.2 million kroons, which is 38.7% more than in 2006. Investments in real estate accounted for 14.0 million kroons (in 2006: 10.4 million), in tangible assets 28.5 million kroons (in 2006: 20.6 million) and intangible assets 0.7 million kroons (in 2006: 3.1 million).

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

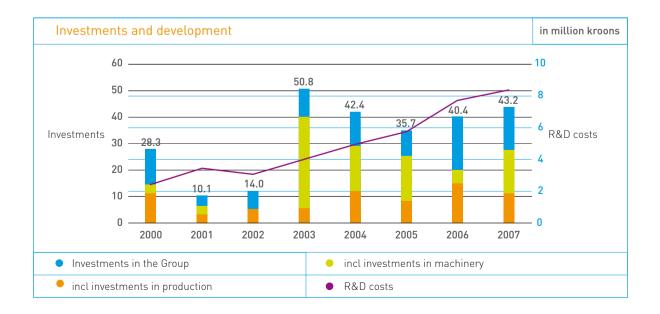
According to the development principles of the Group, Harju Elekter aims to continually modernise and develop new products to meet the needs of its customers and to improve its production technology. The development costs amounted to a total of 8.3 million kroons, increasing during the year by more than 7.8%, and making 1.1% of the Group's turnover. The main product development resources of the Group are concentrated in the subsidiary Harju Elekter Elektrotehnika. In 2007 a large scale contract for production and delivery of control boards provided with converters for a coal mine in Greece was carried out. The developed product may be an important step towards marketing the same type of products to other customers. During the last year the preparations for the certification of the prefabricated outdoor substation, HEKA 1VM03, were completed in order to prove the compliance of the product with the established standards. LV distribution device 8HS and

its derivations were approved by Russian customers in the form of large-scale projects. Due to the large output of distribution panels the design and production of copper bar was taken to another level. The co-operation with the shipbuilding sector was continued. Four new models of cabin fuse boxes were developed for the sector. Preparations for batch production of three new models of distribution boards for small houses were started.

The introduction and further development of the project for online-ordering launched in 2006 in the Finnish subsidiary were continued in 2007. With the full operation of the novel electronic data processing system the handling of orders should become quicker and simpler. The first electronic direct connections with co-operation partners have already been established and the project is planned to be completed during 2008.

In 2007 a department for developing industrial automation software was established in Satmatic which extends the business areas of Harju Elekter Group from manufacturing equipment to the area of process control software. Currently four product development engineers are working in the department. The value of the investment was 3.9 million kroons. The first order for the department was to develop process control software for the Polish rockwool factory.

In order to ensure the necessary production capacity and to improve the quality of metal products and details two new semiautomatic sheet metal processing lines



were purchased for the Estonian subsidiaries. In order to expand production space real estate was bought in Keila in the third quarter of the year. After renovating the premises the Group handed over to AS Harju Elekter Elektrotehnika and Draka Keila Cables 3100 m² new production area and rental space. A total of 14.5 million kroons, of which 2.8 million kroons was for land, was paid for the real estate concerned. The renovation of the buildings cost 8.0 million kroons. 9.3 million kroons were spent on machinery and vehicles in 2007.

In the second half of 2007 the construction of a new production and office building was started in Lithuania

which allows for an extension of the production and an increase of the share of engineering in the companies business activities in the future. The intended completion of the construction works is in the first half of 2008. As of 31 December 2007 the value of the unfinished building in the balance sheet was 2.5 million kroons.

In 2007 in the subsidiary, Harju Elekter Elektrotehnika, and at the beginning of 2008 in Eltek audits for recertification of the quality management systems ISO9001:2000 and ISO14001 were carried out. In other companies of the Group such audits were carried out in 2006. Recertification is carried out every three years.

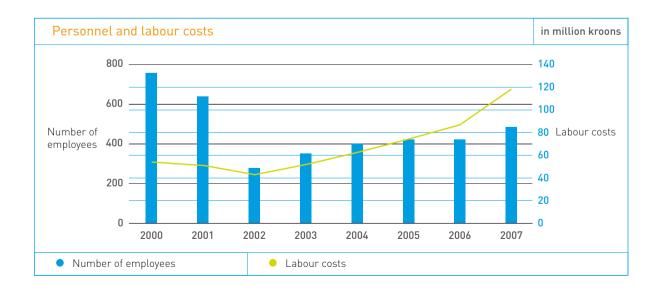
Personnel

In 2007, the average number of employees of the Group was 442 (in 2006: 439). The number of employees of the Group as on the balance sheet date, 31.12.2007, was 486 (in 2006: 427). In the reporting period, wages and salaries amounted to 116.2 million kroons, increasing by approx. 30 million kroons in a year which was mainly because of the increase in the number of employees but also by the increase in salaries. In all labour costs grew in 2007 by 35.5%, amounting to 159.1 million kroons.

The year 2007 was characterised by a tight labour situation where on one hand there was a lack of qualified workers and on the other hand strong pressure for an increase in salaries. At the same time the Estonian subsidiary had an urgent need for extra labour force due to large-scale contract of delivery. However,

the problem was resolved thanks to the good reputation of the Group and a positive working climate within the company. Long-term close co-operation with educational institutions also had a positive impact as several young graduates joined companies of the Group. At the same time the educational institutions used the local companies as their basis for vocational training. Despite the generally complicated situation the turnover of personnel remained relatively low.

The average monthly gross wage in the Group was 21,150 kroons (28.9% increase compared to 2006). Taking into account the increase in personnel and comparing these indicators with each of the countries' averages, they may be considered to be efficient.



The majority of the Group's employees – 337 people – work in Estonia, including 70 people who work in the parent company. At the end of the year, there were 82 people working in Finland and 67 in Lithuania. In the Group 367 of the employees are men and 119 are women – 102 of the total of which have higher education. 302 people have secondary or vocational secondary education and 82 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.

One of the strengths of Harju Elekter is its solid organisational culture. The preservation and development of this culture is enhanced by the high percentage of long-term employees. Totally 138 persons have worked in the Harju Elekter Group for over ten years and 231 persons, that is every second person of them, have worked in the Group for over five years.

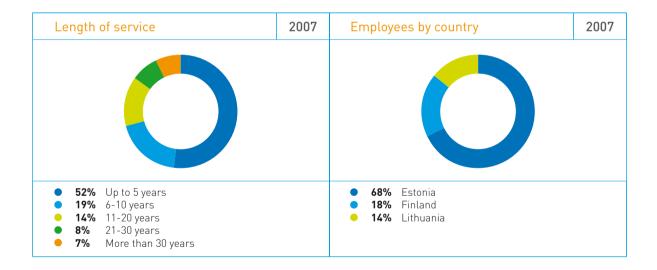
The average age of the Group's employees is 42 years and this figure has remained constant in the past years. To find new competent employees, Harju Elekter co-operates with universities and vocational schools. Currently nine young engineers have found their way

into the Group through the scholarship programme run by the Development Fund of TTU and Harju Elekter.

To motivate its staff, the Group uses a bonus system linked to operating profit, which has proved to be effective over the years. 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.

In order to maintain its reputation as a good employer, Harju Elekter provides its employees with modern working and rest facilities. The Group is involved in constructive co-operation with the trade union of the Keila Industrial Park, one of the main outcomes of which are collective labour agreements. The stability, social guarantees and motivation scheme offered by Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

The employee exchange programme will be further developed in the Group, which will enable employees to work in the different companies belonging to the Group, promoting the rapid development of knowledge and skills within the Group and offering rotation opportunities.



Risk Management

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

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

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

As regards **financial risks**, the Group follows the following principles:

- Regulations have been developed to manage credit
 risks i.e. the risk that customers or transaction
 partners fail to fulfil their obligations. In order to
 prevent these risks, the customer's background
 and solvency are examined before concluding the
 transaction. Payment discipline is continuously
 monitored. This has made it possible to keep losses
 deriving from credit risks to under 0.01 %.
- Currency risk: the Group is not exposed to major currency risks, as cross-border transactions are, as a rule, carried out in euros.
- Interest risks: proceed from long-term loans.

 The interest rate risk is mainly due to the possible changes in euribor (Euro Interbank Offered Rate) because some of the Group's loans are connected to euribor. The risk increases if interest rates rise. In order to manage these risks the Group follows the principle that part of the loan agreements are concluded with a fixed interest rate.
- Liquidity risk: if the Group is unable to cover necessary
 costs and investments because of a deficit in the cash
 flow. Liquidity risk is managed by different financial
 instruments such as loans and financial leases.

As regards **risks associated with raw materials**, the Group follows the following principles:

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

The management of the Group considers **personnel risks** to be the following:

- risks associated with the professional skills of personnel: the Group needs employees with specific specialised training. To that end, the Group co-operates with vocational schools (e.g. Tallinn Construction School, Tallinn Centre of Industrial Education) and institutions of higher education (e.g. Tallinn Technical University (TTU), Tallinn Polytechnic School, Satakunna Vocational High School). Training days and tours to the company's factories are organised to introduce the company as a future employer. In order to ensure a constant supply of engineers, the company has launched scholarship programmes in collaboration with the Development Fund of TTU for the undergraduate and graduate students of TTU. In addition, training activities are constantly organised within the company;
- risks associated with the geographical location of personnel: the Group's head office and the Estonian factories are located in Keila. There are also factories in Ulvila and Kerava, Finland, and Panevežis, Lithuania. The foreign subsidiaries deal with their personnel issues on their own. The personnel services of Estonian companies are concentrated on the Group level where daily administration as well as constant recruitment is carried out. The large-scale contract of delivery (29.3.2007) between Harju Elekter Elektrotehnika and Metka caused, in the II and III quarter, a tight situation in terms of personnel in the Estonian factory. Groups of people were hired but also lots of extra hours were worked. By the end of the year the situation in the factory stabilised and, therefore, there will not be massive recruitments or redundancies;
- personnel turnover: in 2007 the situation in terms of personnel within the Group and the region of operation in general was influenced by the continuing economic growth and increase in consumption which entailed the need for qualified personnel as the production capacities increased. As the availability of labour was restricted it put strong pressure on salaries which was added to the need for extra personnel and extra hours due to large-scale contracts of delivery. In 2007, the percentage of personnel turnover in the Group was 11.8% (in 2006: 10.7%). The turnover is kept under control by the continuous work done with employees, keeping them informed and up-to-date with the company's objectives. In addition, the Group has developed clear and attractive wage and bonus systems as well as employee motivation programmes which are continually complemented. As we are an international group, the employees have the opportunity to work in the Group's factories in different countries on the basis of rotation.

Quality Management and Environmental Policy

The 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 would reach the relevant employees with minimum delay and that corrective and preventive action could be effectively implemented.

In 2007 Harju Elekter Elektrotehnika focused on the improvement of the internal information exchange and on the reduction of the relative share of sheet metal waste. At the same time, Eltek paid more attention to optimising the use of raw materials and energy related to its sustainable product group and, as a result, the use of paint was reduced by 50% and energy by four times. The Finnish subsidiary focused on the improvement of labour division and working processes taking into account the efficiency of inter-company and inter-Group co-operation. The Finnish subsidiary also started several joint courses and training programmes with the

local higher education institution in order to improve the skills of employees.

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

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

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008-
Harju Elekter Elektrotehnika	IS09001 IS014 001				•		• up t	to 1/2010	
Eltek			IS09001 IS014 001			•			• up to 1/2011
Rifas			ISO9001 LST EN ISO 9001:2001			• up to	12/2009		
Satmatic			IS09001			• up to			
Draka Keila Cables	IS09001 IS014 001			•			• up to	3/2009	

- recertification

1 EUR=15.6466 EEK

Social Responsibility and Charity

The environment around us creates, as well as limits, our opportunities to act. During its 40 years of operation four major areas of sponsorship have evolved in Harju Elekter:

We bear social responsibility

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

Our goal is to support the educating of engineer in Estonia

The company works in close co-operation with Estonian educational institutions in order to promote and develop the educating of engineers and to offer young electricity

and mechanics specialist the possibility to practice or work in the company. Harju Elekter is a golden sponsor of the Tallinn Technical University and carries out several co-operation programmes with the Tallinn Vocational Education Centre, the Tallinn Polytechnic School and the Tallinn Construction School.

Eminent results in sports

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

Promoting recreational sport among the employees

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

The total amount of different support programmes in 2007 amounted to 543.4 million knoons.

Shareholders and Shares

The trading history of Harju Elekter shares¹

	2002	2003	2004	2005	2006	2007
Highest price (EEK)	15.22	36.51	49.50	85.80	69.47	71.97
Lowest price(EEK)	9.49	14.34	34.94	48.82	51.63	47.25
Closing price (EEK)	15.23	34.94	47.46	64.15	64.93	53.20
Change (%)	+45.04	+129.45	+35.82	+35.17	+1.22	-18.1
Number of traded shares	330,855	1,722,283	1,500,267	2,064,396	4,549,191	5,787,606
Turnover (million EEK)	11.52	114.13	180.26	278.96	277.51	335.42
Market value (million EEK)	246.72	566.09	797.35	1,077.72	1,090.24	893.76

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

The year 2007 was exceptional for the Tallinn Stock Exchange. For the first time in 8 years the Tallinn Stock exchange witnessed a fall in the stock exchange index at a time when as many stock market transactions were made as during the previous four years all together. The number of stock market transactions had a

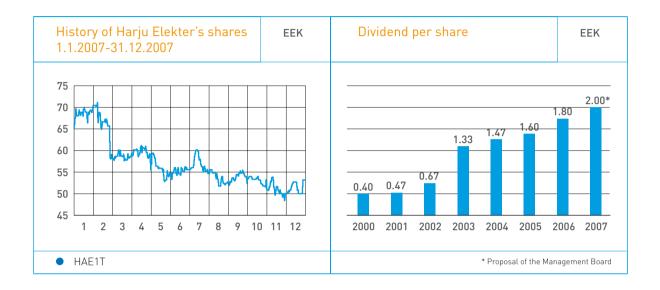
record breaking growth – the number of domestic and cross-border transactions more than doubled last year compared with 2006.

The shares of Harju Elekter have been listed on the Tallinn Stock Exchange since 1997. The share capital

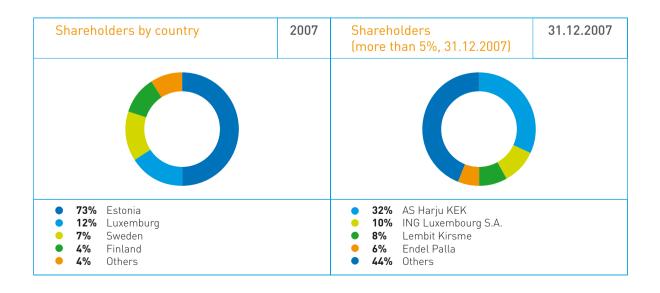
of the company is 168 million kroons which is divided into 16.8 million ordinary shares which are uniform and registered. All shares are freely negotiable on the stock exchange. According to the information available to Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit. All the shareholders of the

company are equal. Each share confers an equal right to vote. There are no separate restrictions or agreements concerning the right to vote.

Following the good economic results, capitalisation and positive growth perspective the Management Board of Harju Elekter makes a proposal to pay a dividend of EEK 2.00 per share for the financial year of 2007.



Ownership (31.12.2007)	Number of shareholders	Percent	Percent of votes
more than 10%	1	0.1%	32.1%
1.0-10.0%	13	1.3%	44.6%
0.1-1.0%	42	4.3%	12.6%
under 0.1%	918	94.3%	10.7%
Total	974	100%	100%





Equipment for building sector and infrastructure

As a reliable partner Harju Elekter offers MV/LV distribution equipment for ports, airports and railway stations, as well as for office buildings, commercial centres and housing.





Corporate Target for 2008

Harju Elekter considers that increasing sales in existing markets and expanding activities in new export markets is the main source for the growth of turnover in the forthcoming years. The main efforts are focused on finding new projects, customers and co-operation partners in the Baltic Sea region and Scandinavian countries. At the same time the group looks for attractive companies which could be associated with the Harju Elekter Group if our interests coincide and the condition for association are appropriate.

Stricter requirements established by the energy market and more efficient state regulation and supervision enhance the use of quality products corresponding to the requirements which have only had a positive influence on the AS Harju Elekter market position. Products for the energy sector are one of the largest and most knowledge intensive product groups of the Group. The success of the company is ensured by product development which takes into account the needs and demands of customers, a wide range of professional products and sales of our own products. This is strongly facilitated by following and supporting the development plans and guidelines of the sector, customers and co-operation partners.

More resources must be invested in the development, production and marketing of the company's own products. The Management Board of the Group considers that the long-term success and larger profitability lies with the development of products meant for retail customers. The growing reputation of the Harju Elekter trade mark and the quality of the products offer better opportunities for that.

The Group envisages as one of its future developments the expansion to the area of developing software programmes for controlling technological processes and power supply. The Group want to offer comprehensive solutions which include electrical equipment, as well as programmes for their control. For that purposes

in 2007 a separate department was formed in the Finnish subsidiary and this year its work will be made even more efficient.

The use and implementation of up-to-date joint or compatible information systems is the basis for the coperation between the different companies of the Group and the smooth functioning of the whole Group. In 2007 a thorough analysis of information systems was carried out and in 2008 the development and introduction of the new information system will be started in the Estonian companies of the Group. The aim is to ensure better management and timing of the information circulating in the Group and better analysis and use of the information received from customers.

In Finland the introduction of an online-ordering system will be completed which will make the handling of orders quicker and simpler. In Lithuania an extension of the factory will be completed which will ensure the appropriate production capacity to meet the existing market demands.

The investments in the personnel are mainly channelled on in-service training and the improvement of the qualifications of the staff. Closer co-operation between the companies of the Group at every level is another important subject to deal with.

In 2008 Harju Elekter celebrates its jubilee as 40 years have passed since its foundation. Due to the company's internal development and use of the positive experience of co-operation partners Harju Elekter has become a well-acknowledged international manufacturer of electric equipment and materials.

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

Supervisory Board, Management Board and Auditors

The general meeting of ASi Harju Elekter which was held on 26.04.2007 appointed the five member Supervisory Board of the Group for the next five years. The Chairman of the Supervisory Board is Endel Palla, who also works as the R&D Manager at AS Harju Elekter. Other members of the Supervisory Board are: Ain Kabal (President of the Estonian Association of SME's); Lembit Kirsme (Chairman of the Supervisory Board, AS Harju KEK); Madis Talgre (Chairman of the Management Board, AS Harju KEK) and a new member Andres Toome (consultant). The former member of the Supervisory Board, Triinu Tombak, resigned for personal reasons.

According to the Articles of Association of Harju Elekter the general meeting of shareholders elects and appoints the Supervisory Board of the company which will elect the chairman of the Management Board and appoints, on the basis of his proposal, members of the Management Board. In 2007 there were no changes in the management of AS Harju Elekter. The Management Board continues with the following membership: Andres Allikmäe as Chairman and members Karin Padjus, the Financial Director, and Lembit Libe, the Chief Economist. All members of the Management

Board belong to the executive management of the company. The Chairman of the Board receives remuneration in accordance with the contract of service; members of the Management Board receive no special remuneration. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor did agreements conclude which state otherwise.

The amount of remuneration and salaries paid to the members of the Supervisory and Management Boards of AS Harju Elekter in 2007 amounted to a total of 3.9 million kroons (in 2006: 3.4 million kroons). When the contract of service of a member of the Supervisory or Management Board expires or is prematurely terminated the company has no obligation to pay any other compensation, except for that prescribed by law. The Chairman of the Management Board has a contract of service specifying social guarantees in case of resignation.

The general meeting of the shareholders elected a group of auditors led by the auditor, Andres Root, of KPMG Baltics, as the Harju Elekter auditors for the years 2006–2008.

Corporate Governance

As a company Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and the requirements of the Tallinn Stock Exchange. Amending the Articles of Association and approving the new one, changing the amount of share capital, removal of members from the Supervisory Board and the termination of the activities of the company, making decisions on the division, merging and transformation of the company with the precondition that at least 2/3 of the shareholders represented at the general meeting approve such decisions are within the competence of the general meeting of the shareholders. The everyday business activities of the Group are managed by members of the Management Board of the parent company according to their areas of responsibility and those members of the Supervisory Board who are involved in the everyday

work of the company. Outside of Estonia the compliance with good corporate governance is ensured by the local managements of the companies. The administration of all the members of the Group is characterised by a lengthy experience of over 10 years.

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

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

As a publicly traded company AS Harju Elekter follows the principle of openness and equal treatment of investors. The information requested by the rules and regulations of the stock exchange is published regularly on 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 its background, products and other important issues. All subsidiaries and associated companies of the Group also have home pages.

AS Harju Elekter's CGC report 2007

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

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

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

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

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

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

Additional remuneration for the length of employment is paid to all permanent employees on the basis of their length of employment, including permanent employment in the Harju Elekter Group. The rate of additional remuneration is 3–10% of the basic salary.

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

The shareholders' general meeting of Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 26.04.2007 appointed the membership of the Supervisory Board for the following 5 years, setting 8,000 kroons a month as the pay rate for a member of the Supervisory Board and 25,000 a month for the

Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working as the company's R&D manager shall be subject to the reward system used in AS Harju Elekter. No severance pay is allotted to members of the Supervisory Board.

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.

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.

6.2. "Electing the auditor and auditing the annual accounts."

The general meeting of the shareholders of Harju Elekter of 20.4.2006 elected an auditor for the company for the period 2006–2008; the elected auditor is the auditing company KPMG Baltics AS and the sworn auditor Andres Root. Information on the auditor is available on 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 guideline 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.

Management's Confirmation to the Management Report

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 11 to 38 is an integral part of the Annual Report of AS Harju Elekter Group for 2007 and gives a true and fair view of the trends and results of operations, main risks and doubts of AS Harju Elekter and its subsidiaries as a group.

27th February 2008

/signature/
Andres Allikmäe
Chairman of the Management Board

/signature/ Lembit Libe Member of the Management Board /signature/ Karin Padjus Member of the Management Board

Annual Financial Statements

Statement of Management Responsibility

The management board hereby takes responsibility for the preparation of the consolidated financial statements of AS Harju Elekter (hereinafter referred to as "the Parent") and its subsidiaries (hereinafter together referred to as "the Group") for 2007, as set out on pages 39 to 83, and confirms that:

- the policies applied in the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the Group and of the results of its operations and its cash flows;
- all significant events that occurred before the date on which the consolidated financial statements were authorised for issue (27 February 2008) have been properly recognised and disclosed; and
- AS Harju Elekter and its subsidiaries are going concerns.

27th February 2008

/signature/

Andres Allikmäe

Chairman of the Management Board

/signature/

Lembit Libe

Member of the Management Board

/signature/

Karin Padjus

Member of the Management Board

Consolidated Balance Sheet

		EEK	,000	EUR'	000
As at 31 December	Note	2007	2006	2007	2006
Current assets					
Cash and cash equivalents	5	26,257	6,712	1,678	429
Trade receivables and other receivables	6	84,601	82,765	5,407	5,290
Prepayments	7	1,548	845	99	54
Including income tax	18	717	2	46	0
Inventories	8	128,639	79,030	8,222	5,050
Total current assets		241,045	169,352	15,406	10,823
Non-current assets					
Investments in associates	9	21,975	25,187	1,404	1,610
Other long-term financial investments	10	215,236	344,884	13,756	22,042
Investment property	11	133,839	127,268	8,554	8,134
Property, plant and equipment	12	104,948	87,446	6,707	5,589
Intangible assets	14	3,269	3,595	209	230
Total non-current assets		479,267	588,380	30,630	37,605
TOTAL ASSETS		720,312	757,732	46,036	48,428
Current liabilities Interest-bearing loans and borrowings	15	27,942	20,772	1,786	1,32
<u> </u>	17	,		,	
Trade payables and other payables Tax liabilities	18	106,495	73,496	6,806 767	4,69
	18	12,008	12,268	-	
Inclusive income tax	19	672	2,401	43 91	15
Short-term provision Total current liabilities	17	1,421	100		
Loans and borrowings	15	147,866 20,382	106,636 26,568	9,450 1,302	6,81
Other non-current liabilities	13	20,362	20,300	·	1,69
		-	-	30	1 72
Total non-current liabilities Total liabilities		20,851	27,037	1,332	1,72
Total Habilities		168,717	133,673	10,782	8,54
Equity					
Share capital	21	168,000	168,000	10,737	10,73
Share premium		6,000	6,000	384	38
Reserves	21	207,259	331,552	13,246	21,19
Retained earnings		151,894	100,078	9,708	6,39
Total equity attributable to equity holders of the p	parent	533,153	605,630	34,075	38,70
Minority interest		18,442	18,429	1,179	1,17
Total equity		551,595	624,059	35,254	39,88
TOTAL LIABILITIES AND EQUITY		720,312	757,732	46,036	48,42

Consolidated Income Statement

		EEK '0	000	EUR'000		
For the year ended 31 December	Note	2007	2006	2007	2008	
Revenue	22, 23	731,985	622,087	46,782	39,759	
Cost of sales	23	-595,320	-509,812	-38,048	-32,580	
Gross profit		136,665	112,275	8,734	7,176	
Distribution costs	23	-36,843	-27,156	-2,355	-1,736	
Administrative expenses	23	-47,737	-39,830	-3,051	-2,546	
Other income	23	589	646	38	41	
Other expenses	23	-1,166	-761	-74	-48	
Operating profit	22	51,508	45,174	3,292	2,887	
Finance income	23	45,808	18,226	2,929	1,164	
Finance costs	23	-2,689	-2,885	-172	-184	
Share of profit of associates	9	73	1,723	4	111	
Profit before tax		94,700	62,238	6,053	3,978	
Income tax expense	24	-8,765	-10,195	-560	-652	
Profit for the period		85,935	52,043	5,493	3,326	
Attributable to:						
Equity holders of the parent		84,456	47,289	5,398	3,022	
Minority interest		1,479	4,754	95	304	
Basic and diluted earnings per share	25	5.03	2.81	0.32	0.18	

1 EUR=15.6466 EEK

Consolidated Statement of Cash Flows

		EEK	'000	EUR'	000
For the year ended 31 December	Note	2007	2006	2007	2006
Cash flows from operating activities					
Operating profit		51,508	45,174	3,292	2,887
Adjustments for:					
Depreciation and amortisation	11, 12, 14, 23	19,373	16,516	1,239	1,056
Gain on sale of property, plant and equipment	23	-44	-374	-4	-24
Change in receivables related to operating activity		956	-20,024	61	-1,280
Change in inventories		-49,610	-9,862	-3,171	-630
Change in payables related to operating activity		33,292	11,312	2,128	723
Corporate income tax paid	18, 24	-11,209	-8,073	-717	-516
Interest paid	17, 23	-2,623	-1,943	-167	-124
Net cash from operating activities		41,643	32,726	2,661	2,092
Cash flows from investing activities					
Acquisition of investment property	11	-14,013	-10,416	-896	-666
Acquisition of property, plant and equipment	12, 26	-27,786	-19,256	-1,776	-1,231
Proceeds from sale of property, plant and equipment		179	475	12	30
Acquisition of intangible assets	14, 26	-725	-3,452	-46	-221
Acquisition of other financial investments	9, 10	0	-158	0	-10
Net cash flows incurred by acquisition of production ur	nit	0	-5,714	0	-365
Proceeds from sale of other financial investments	10	39,056	5,758	2,496	368
Net cash flow from disposal of subsidiary		0	144	0	9
Loans given		-50	-58	-3	-4
Repayment of loans given		100	8	6	1
Interest received	6, 23	335	249	22	16
Dividends received	9, 23	12,663	13,988	810	894
Net cash used in investing activities		9,759	-18,432	625	-1,179
Cash flows from financing activities					
Proceeds from borrowings	15	11,200	7,000	716	447
Repayment of borrowings	15	-10,054	-11,353	-643	-725
Payment of finance lease principal	15	-1,242	-1,555	-79	-99
Dividends paid		-31,706	-27,531	-2,027	-1,760
Net cash used in financing activities		-31,802	-33,439	-2,033	-2,137
Net cash flows		19,600	-19,145	1,253	-1,224
Cash and cash equivalents at beginning of period	5	6,712	25,940	429	1,658
Net increase / decrease		19,600	-19,145	1,253	-1,224
Effect of exchange rate fluctuations on cash held	23	-55	-83	-4	-5
Cash and cash equivalents at end of period	5	26,257	6,712	1,678	429

Consolidated Statement of Changes in Equity

	Attr	ibutable to e	equity holde	rs of the par	rent		
EEK '000	Share capital	Share premium	Reserves	Retained earnings	Total	Minority interest	TOTAL
Balance at 31 December 2005	168,000	6,000	296,126	82,069	552,195	16,138	568,333
Profit for 2006	0	0	0	47,289	47,289	4,754	52,043
Income recognised directly in equity	0	0	33,026	0	33,026	0	33,026
Total income for 2006	0	0	33,026	47,289	80,315	4,754	85,069
Dividends	0	0	0	-26,880	-26,880	-651	-27,531
Amounts transferred to reserves	0	0	2,400	-2,400	0	0	(
Disposal of a subsidiary	0	0	0	0	0	-1,812	-1,812
Balance at 31 December 2006	168,000	6,000	331,552	100,078	605,630	18,429	624,059
Profit for 2007	0	0	0	84,456	84,456	1,479	85,935
Income recognised directly in equity	0	0	-126,693	0	-126,693	0	-126,693
Total income for 2007	0	0	-126,693	84,456	-42,237	1,479	-40,758
Dividends	0	0	0	-30,240	-30,240	-1,466	-31,706
Amounts transferred to reserves	0	0	2400	-2,400	0	0	C
Balance at 31 December 2007	168,000	6,000	207,259	151,894	533,153	18,442	551,595
EUR'000							
Balance at 31 December 2005	10,737	384	18,926	5,245	35,292	1,031	36,323
Profit for 2006	0	0	0	3,022	3,022	305	3,32
Income recognised directly in equity	0	0	2,111	0	2,111	0	2,11
Total income for 2006	0	0	2,111	3,022	5,133	305	5,438
Dividends	0	0	0	-1,718	-1,718	-42	-1,76
Amounts transferred to reserves	0	0	153	-153	0	0	(
Disposal of a subsidiary	0	0	0	0	0	-116	-11
Balance at 31 December 2006	10,737	384	21,190	6,396	38,707	1,178	39,885
Batance at 51 Beccmber 2000	10,707	004	21,170	0,070	00,707	1,170	07,000
Profit for 2007	0	0	0	5,398	5,398	95	5,493
Income recognised directly in equity	0	0	-8,097	0	-8,097	0	-8,09
Total income for 2007	0	0	-8,097	5,398	-2,699	95	-2,60
Dividends	0	0	0	-1,933	-1,933	-94	-2,02
Amounts transferred to reserves	0	0	153	-153	0	0	
Balance at 31 December 2007	10,737	384	13,246	9,708	34,075	1,179	35,25

Notes to the Consolidated Financial Statements

General information

AS Harju Elekter is a company registered in Estonia. These consolidated financial statements for the year ended 31 December 2007 comprise AS Harju Elekter (the "parent company") and its subsidiaries AS Eltek, AS Harju Elekter Elektrotehnika, Satmatic Oy and Rifas UAB (together referred to as the "Group") and the Group's interest in associate AS Draka Keila Cables. AS Harju Elekter has been listed at Tallinn Stock Exchange since 30 September 1997; 32.08 percent of its shares is held by AS Harju KEK.

According to the Commercial Code of the Republic of Estonia the annual report, comprising the consolidated financial statements, which are drawn up by the Management Board and approved by the Supervisory Board, are authorised by the annual general meeting of shareholders.

The Management Board approved and signed the consolidated financial statement for the year ending on 31 December 2007, on 27 February 2008.

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

1 | Significant accounting policies

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

1.1. Basis of preparation

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Group companies apply uniform accounting policies.

1.2. Changes in accounting policies

(a) Standards, amendment and interpretations effective in 2007

- IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of financial statements Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.
- IFRIC 8, "Scope of IFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.
- IFRIC 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to

be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

• IFRIC 11, "IFRS 2 – Group and treasury share transactions", was early adopted in 2007. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, "Insurance contracts";
- IFRIC 7, "Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies"; and IFRIC 9, "Re-assessment of embedded derivatives";
- IFRIC 9, "Re-assessment of embedded derivatives".

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IAS 1, (Amendment), "Presentation of Financial Statements' costs" (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income.
- IAS 23, (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.
- IAS 27, (Amendment) "Consolidated and Separate

Financial Statements" (effective from 1 July 2009). The Company has not yet completed its analysis of the impact of the revised Standard.

- IAS 32, "Financial Instruments: Presentation" and IAS 1, "Presentation of Financial Statements" 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009).
- IFRS 2, (Amendment) "Share Based Payments: Vesting Conditions and Cancellations" (effective from 1 January 2009). The Company has not yet completed its analysis of the impact of the revised Standard.
- IFRS 3, (Amendment) "Business Combinations" (effective from 1 July 2009). The Company has not yet completed its analysis of the impact of the revised Standard.
- IFRS 8, "Operating segments" (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.
- IFRIC 14, "IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

• IFRIC 12, "Service concession arrangements" (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing,

operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

• IFRIC 13, "Customer loyalty programmes" (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

1.3. Basis of consolidation

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

(a) Subsidiaries

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

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

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

(c) Associates

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.4. Foreign currency translation

(a) Functional and presentation currency

1 EUR=15.6466 EEK

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

(b) Transactions and balances

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

(c) Financial statements of foreign Group companies

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

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

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

1.5. Financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets

were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

The Group's investments in equity securities are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity in the fair value reserve, except for impairment losses. The fair value of available-for-sale financial assets is their quoted bid price at the balance sheet date. When available-for-sale financial assets are derecognised, any cumulative gain or loss previously

recognised directly in equity is recognised in profit or loss in the income statement.

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

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

1.6. Inventories

Inventories are stated at the lower of cost and net realisable value. As a rule, the Group assigns the cost of inventories using the weighted average cost formula. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of raw materials.

1.7. Investment property

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

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

1.8. Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

Where an item of property, plant and equipment consists of significant parts that have different useful lives,

the parts are recognised as separate items of property, plant and equipment and assigned depreciation rates that correspond to their useful lives.

(b) Subsequent costs

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

(c) Depreciation

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

Asset Group	Useful life
Buildings and structures	10 - 33 years
Production plant and equipment	$6^{2}/_{3}$ - 10 years
Other machinery and equipment	4 - 6 ² / ₃ years
Vehicles	5 - 6 ² / ₃ years
Other equipment and fixtures	$3 - 6^2/_3$ years

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

1.9. Intangible assets

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

(a) Research and development

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

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

(b) Other intangible assets

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

1.10. Impairment

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

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

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

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

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax 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 adjusted cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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

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

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

1.11. Leases

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

(a) The Group as a lessor

Assets leased out under finance leases are recognised as a receivable at an amount equal to the net investment

in the lease. Lease payments receivable are divided into principal repayments and finance income. Finance income is recognised over the lease term.

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

(b) The Group as a lessee

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

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

1.12. Financial liabilities

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

(a) Borrowings

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

(b) Trade payables

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

1.13. Income tax

(a) Corporate income tax

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

in the period in which the dividends are declared irrespective of the period for which they are declared or in which they are distributed.

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

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

(b) Deferred tax

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

(c) For the Group's foreign subsidiaries:

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

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

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

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

1.14. Employee benefits

(a) Profit-sharing and bonus plans

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Share-based compensation

The group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1.15. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. 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 rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.16. Contingent liabilities

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

1.17. Share capital

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

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

1.18. Segment reporting

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

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

1.19. Revenue recognition

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

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

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

(a) Sales of goods - wholesale and retail

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

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

(b) Sales of services

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

(c) Rental income

Rentals earned on investment property are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(d) Interest income

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

impaired loans is recognised using the original effective interest rate.

(e) Dividend income

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

1.20. Earnings per share

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

1.21. Dividend distribution

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

1.22. Related parties

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

- AS Harju KEK which owns 32.08 percent of the shares of AS Harju Elekter;
- members of the parent company's management and supervisory boards;
- close family members of the above,
- companies controlled by members of the management and supervisory boards; and
- associated companies.

2 Financial risks management

2.1. Financial risk factors

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

(a) Currency risk

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

To hedge currency risks, the Group concludes all major foreign contracts in euro. The Group does not have material receivables or payables denominated in foreign currencies that are not pegged to euro.

All existing long-term loan and finance lease contracts (see Note 15) have been made in euro or the functional currency of the relevant Group company. Therefore, they are treated as liabilities without currency risk.

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

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

(b) Price risk

The group is exposed to equity securities price risk because of investments held by the group and classified on the consolidated balance sheet as available for sale. Fluctuations in the market value of the PKC Group Oyj shares, which are recognised as other long-term financial investments, may have a significant impact on the value of the assets of AS Harju Elekter. The group is not exposed to commodity price risk.

(c) Cash flow and fair value interest rate risk

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

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Above all, the Group's exposure to interest rate risk depends on changes in EURIBOR (Euro Interbank Offered Rate) because all loans taken by the Group (see Note 15) are linked to EURIBOR. Interest rate risks are managed by concluding loan agreements with a fixed interest rate. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

According to the estimate of the management of the Group the fair value of long-term borrowings with a fixed interest rate does not differ substantially from their carrying amount. The fixed interest rate was 4.3% but the average effective interest rate of the Group in 2007 was 4.6% and in 2006. 3.6% (Note 15).

The interest rate risk also depends on the economic situation in the domicile of each Group company and on changes in the banks' average interest rates.

The Group has a cash flow risk from changes in interest rates because most loans have floating interest rates. According to management's assessment, the cash flow risk is not material. Therefore, the Group does not use separate instruments to hedge it. Information on interest expense has been disclosed in Note 23.

At 31 December 2007, if interest rates on currency-denominated borrowings had been 1% higher with all other variables held constant, post-tax profit for the year would have been 16.1 thousand kroons or 1.0 thousand euros (2006: 21.7 thousand kroons or 1.4 thousand euros) lower, mainly as a result of higher interest expense on floating rate borrowings.

(d) Credit risk

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

There are certain conditions in place where the recovery of debts is commenced through the court.

The maximum amount exposed to credit risk is the value of accounts receivables, less mark downs. At the balance sheet date, the credit risk was 83 million kroons (5 million euros), compared to 79 million kroons (5 million euros) at 31 December 2006. According to management assessment, the Group does not have any major credit risks that would exceed the allowance sum already recognised.

(e) Liquidity risk

Liquidity risk is a risk covering the inability of the Group to cover its necessary costs and investments due to a cash-flow deficit. Liquidity risk is managed with different financial instruments such as loans and finance leases. At the end of the reporting period the Group had funding available to the amount of EEK 26.3 million (£ 1.7 million) and debt obligations to the amount of EEK 48.3 million (£ 3.1 million) (Note 15).

2.2. Capital risk management

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

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

2.3. Fair value estimation

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

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

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

3 Accounting estimates and judgments

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

the process of applying the accounting policies.

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

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

(a) Useful lives of investment property, property, plant and equipment

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

(b) Contingent liabilities

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

4 Financial instruments

4.1. Financial instruments by categories

	EEK '000		EUR '000	
Balance at 31 December	2007	2006	2007	2006
Assets as per balance sheet				
Cash and cash equivalents	26,257	6,712	1,678	429
Trade receivables	83,222	78,699	5,319	5,030
Available-for-sale financial assets	215,236	344,884	13,756	22,042
Total	324,715	430,295	20,753	27,501
Liabilities as per balance sheet				
Borrowings	48,324	47,340	3,088	3,026

4.2. Credit quality of financial assets

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

Trade receivables	EEK '000		EUR '000	
At 31 December	2007	2006	2007	2006
Counterparties without external credit rating:				
Gr1: new customers (less than 6 months)	410	740	26	47
Gr2: existing customers (more than 6 months)	68,661	63,900	4,388	4,084
Gr3: existing customers (more than 6 months)	14,054	14,012	899	896
Total	83,125	78,652	5,313	5,027

Gr2 - this part of existing customers with no defaults in the past.

5 Cash and cash equivalents

	EEK '000		EUR '000			
Balance at 31 December	2007	2006	2007	2006		
Cash and cash equivalents						
Cash in hand	150	126	10	8		
Current accounts	26,107	6,586	1,668	421		
Cash and cash equivalents in the statement of cash flows	26,257	6,712	1,678	429		

Effective deposit average interest rates for the accounting year were 3.5% (2.5% in 2006).

Gr3 – this part of existing customers with some defaults in the past, but all defaults were fully recovered.

6 Trade and other receivables

As of 31 December the trade and other receivables have been assessed in fair value (see as follows).

	-				
		EEK '000		EUR '000	
At 31 December No	ote	2007	2006	2007	2006
Trade receivables					
Trade receivables		83,222	78,699	5,319	5,030
Provision for impairment of trade receivables		-97	-47	-6	-3
Trade receivables - net		83,125	78,652	5,313	5,027
Receivables from associates	27	243	2,926	16	187
Miscellaneous receivables		36	68	2	4
Interest receivable		0	6	0	0
Other accrued income		1,197	1,113	76	72
Total receivables		84,601	82,765	5,407	5,290

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

	EEK '000		EUF	R '000
At 31 December	2007	2006	2007	2006
Estonian kroon (EEK)	18,996	28,495	1,214	1,821
Euro (EUR)	49,582	30,063	3,169	1,922
Lithuanian lit (LTL)	16,023	24,207	1,024	1,547
Total	84,601	82,765	5,407	5,290

As of 31 December 2007, trade receivables of 83,125 thousand kroons, 5,313 thousand euros (2006: 78,652 thousand kroons, 5,027 thousand euros) were fully performing.

Trade receivables that are less than six months past due are not considered impaired. As of 31 December, trade receivables of 97 thousand kroons (6 thousand euros) and as of 31 December 2006 43 thousand kroons (3 thousand euros) were past due but not impaired. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable is impaired.

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

	EEK '000		EUR	'000
For the year ended 31 December	2007	2006	2007	2006
At 1 January	-47	-18	-3	-1
Recovery of doubtful items	2	13	0	1
Items expensed as doubtful	-97	-43	-6	-3
Doubtful items written off as irrecoverable	45	1	3	0
At 31 December	-97	-47	-6	-3

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

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

7 Prepayments

	EEK '000		EUR '000	
Balance at 31 December	2007	2006	2007	2006
Prepaid taxes	766	144	49	9
Prepaid expenses	782	701	50	45
Total prepayments	1,548	845	99	54

8 Inventories

	EEK '000		EUR '000		
Balance at 31 December	2007	2006	2007	2006	
Raw and other materials	44,281	32,079	2,830	2,050	
Work in progress	56,602	24,633	3,617	1,574	
Finished goods	15,752	10,272	1,007	656	
Merchandise purchased for resale	11,244	11,802	719	754	
Prepayments to suppliers	760	244	49	16	
Total	128,639	79,030	8,222	5,050	
- items carried at net realisable value	217	95	14	6	
Expenses from write-down to net realisable value for the					
year ended 31 December.	1,290	216	82	14	

9 Investments in associates

	Ownership (%)			
Company's name Activity		Location	2007	2006
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia	34.0	34.0
Saajos Inexa AS	Manufacture of fire doors	Estonia	0.0	33.3

Group sold its holding in Saajos Inexa AS. The significant influence over the associate lasted until 30 June 2007. The consolidated annual financial statement reflects the proportional share of the Group in the losses of the associate during the financial year, calculated using the equity method up to the above-mentioned date. The shares of the associates are not listed at the stock exchange.

	EEK '000		EUR	.000
Balance at 31 December	2007	2006	2007	2006
Draka Keila Cables AS	21,975	23,378	1,404	1,494
Saajos Inexa AS	0	1,809	0	116
Total investments in associates	21,975	25,187	1,404	1,610

1 EUR=15.6466 EEK

9 Investments in associates (continued)

	Draka Keila Cables		Saajos	Saajos Inexa		
	2007	2006	2007	2006		
Number of shares at 31 December	884	884	0	200,000		
Par value of a share (EEK)	10,000	10,000	0	10		
Par value of a share (EUR)	639	639	0	0.64		
EEK '000						
	0.070	0.070	0	0.000		
Cost at 31 December	8,840	8,840	0	2,000		
Carrying amount at 01 January	23,378	23,297	1,809	1,476		
Dividends paid	0	-1,309	0	0		
Sale of shares	0	0	-3,285	0		
Sales gain	0	0	1,686	0		
Profit(+)/loss(-)under the equity method	-1,403	1,390	-208	333		
Carrying amount at 31 December	21,975	23,378	0	1,809		
Associate's equity at end of period	64,826	68,924	0	5,457		
Investor's share in equity	22,041	23,434	0	1,820		
Unrealised gains from transactions with associate	-66	-56	0	-11		
Financial summary						
Assets at 31 December	320,615	252,838	0	19,411		
Liabilities at 31 December	255,789	183,913	0	13,954		
Revenue for the year ended 31 December	708,636	606,159	31,096	55,668		
Profit for the year ended 31 December	-4,098	4,053	-654	947		
EUR '000						
Cost at 31 December	565	565	0	128		
Carrying amount at 01 January	1,494	1,489	116	94		
Dividends paid	0	-84	0	С		
Sale of shares	0	0	-210	0		
Sales gain	0	0	108	0		
Profit(+)/loss(-)under the equity method	-90	89	-14	22		
Carrying amount at 31 December	1,404	1,494	0	116		
Associate's equity at end of period	4,143	4,405	0	349		
Investor's share in equity	1,408	1,498	0	116		
Unrealised gains from transactions with associate	-4	-4	0	0		
Financial summary	I			I		
Assets at 31 December	20,491	16,159	0	1,241		
Liabilities at 31 December	16,348	11,754	0	892		
Revenue for the year ended 31 December	45,290	38,741	1,987	3,558		
Profit for the year ended 31 December	-262	259	-42	63		

10 Other long-term financial investments

	EEK '000		EUR '000		
Note	2007	2006	2007	2006	
	215,078	344,726	13,746	22,032	
	158	158	10	10	
	215,236	344,884	13,756	22,042	
	344,726	312,103	22,032	19,947	
	Note	Note 2007 215,078 158 215,236	Note 2007 2006 215,078 344,726 158 158 215,236 344,884	Note 2007 2006 2007 215,078 344,726 13,746 158 158 10 215,236 344,884 13,756	

Carrying amount at 31 December		215,078	344,726	13,746	22,032
Changes in the fair value reserve	21	-126,693	33,026	-8,097	2,111
Realised gain from sale	23	32,816	5,213	2,097	333
Sale of shares		-35,771	-5,616	-2,286	-359
Carrying amount at 01 January		344,726	312,103	22,032	19,947

2. Other shares

Carrying amount at 31 December		158	158	10	10
Sales gain	23	0	109	0	7
Sale of shares		0	-142	0	-9
Additions through the joint venture		0	33	0	2
Additions		0	158	0	10
Carrying amount at 01 January		158	0	10	0

Total carrying amount at 31 December	215,236	344,884	13,756	22,042
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PKC Group OYj share	2007	2006
Number of shares (1000)	1,580	1,800
Ownership (%)	8.89	10.12
Market price at 31 December (EEK)	136.13	191.67
Market price at 31 December (€)	8.70	12.24

PKC Group Oyj shares have been classified as available-for-sale financial assets and are therefore stated on the balance sheet at their fair value. The fair value of shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised directly in equity as a revaluation reserve (Note 21). Changes in the market value of shares may significantly influence the value of the Group's assets and equity.

For the financial year the PKC Group Oyj paid dividends to the amount of 0.45 euros per share (0.45 euros in 2006). Information on PKC shares pledged as loan collateral has been disclosed in Note 16.

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

1 EUR=15.6466 EEK

11 Investment property

		EEK '000	EEK '000			
Note	Land	Buildings	TOTAL	Land	Buildings	TOTAL
Balance at 31 December 2005						
Cost	5,015	136,771	141,786	320	8,742	9,062
Accumulated depreciation	0	-18,161	-18,161	0	-1,161	-1,161
Carrying amount 31.12.2005	5,015	118,610	123,625	320	7,581	7,901
For the year ended 31 December						
Additions	1,102	9,314	10,416	71	595	666
Depreciation charge	0	-4,616	-4,616	0	-295	-295
Transfer from property, plant and equipment 12	0	-2,157	-2,157	0	-138	-138
Total for the period	1,102	2,541	3,643	71	162	233
Balance at 31 December 2006						
Cost	6,117	143,281	149,398	391	9,157	9,548
Accumulated depreciation	0	-22,130	-22,130	0	-1,414	-1,414
Carrying amount 31.12.2006	6,117	121,151	127,268	391	7,743	8,134
For the year ended 31 December						
Additions	2,768	11,245	14,013	177	719	896
Depreciation charge	0	-4,946	-4,946	0	-316	-316
Transfer to property, plant and equipment 12	0	-2,496	-2,496	0	-160	-160
Total for the period	2,768	3,803	6,571	177	243	420
Balance at 31 December 2007						
Cost	8,885	152,022	160,907	568	9,716	10,284
Accumulated depreciation	0	-27,068	-27,068	0	-1,730	-1,730
Carrying amount 31.12.2007	8,885	124,954	133,839	568	7,986	8,554

The Group's investment properties comprise production and office buildings in Keila and Haapsalu (Estonia) where transactions with similar properties are irregular. Due to this and the large number of the properties, determination of the fair value of the investment properties would be costly and might not produce reliable results. Therefore, the Group has not performed such valuations and has not commissioned them from independent experts. According to management estimates, the fair value of the Group's investment properties falls between EEK 140 million and EEK 160 million (between EUR 8.9 and 10.2 million).

12 Property, plant and equipment

12.1. Statement of changes in property, plant and equipment

EEK '000	Note	Land	Buildings	Plant and equipment	Other items	TOTAL
Balance at 31 December 2005	Note	Lanu	Duituings	equipinent	items	TOTAL
Cost		1,022	39,005	75,404	8,977	124,408
Accumulated depreciation		1,022 N	-8,402	-40,611	-5,715	-54,728
Carrying amount		1,022	30,603	34,793	3,262	69,680
Construction in progress		0	678	373	0	1,051
Balance at 31 December 2005		1,022	31,281	35,166	3,262	70,731
		1,022	0.,20.	30,130	0,202	70,701
For the year ended 31 December						
Additions		670	5,638	12,559	1,781	20,648
Additions through business combinations		1,565	4,543	116	35	6,259
Disposals through business combinations		0	-731	-652	-13	-1,396
Disposals		0	0	-96	-5	-101
Depreciation charge		0	-1,880	-7,727	-1,245	-10,852
Transfer to investment property	11	0	2,157	0	0	2,157
Total for the period		2,235	9,727	4,200	553	16,715
Cost Accumulated depreciation		3,257 0	51,226 -10,218	84,517 -45,251	9,908 -6,093	148,908 -61,562
·		Ü	·			
Construction in progress		3,257	41,008	39,266	3,815	87,346
Balance at 31 December 2006		3,257	41,008	39,366	3,815	87,446
For the year ended 31 December		·				·
Additions		0	15,929	10,755	1,834	28,518
Disposals		0	0	-116	-20	-136
Disposals related to changes in estimates		0	0	-350	-936	-1,286
Depreciation charge for the year		0	-2,223	-8,854	-2,299	-13,376
1 1 1 7	11	0	2,496	-2	2	2,496
Total for the period		0	16,202	1,783	-483	17,502
Balance at 31 December 2007						
Cost		3,257	59,777	92,122	9,258	164,414
Accumulated depreciation		0	-9,628	-51,118	-5,926	-66,672
Carrying amount		3,257	50,149	41,004	3,332	97,742
Construction in progress		0	7,061	145	0	7,206
Balance at 31 December 2007		3,257	57,210	41,149	3,332	104,948

12 Property, plant and equipment (continued)

EUR '000	Note	Land	Buildings	Plant and equipment	Other items	TOTAL
Balance at 31 December 2005						
Cost		65	2,493	4,820	574	7,952
Accumulated depreciation		0	-537	-2,596	-365	-3,498
Carrying amount		65	1,956	2,224	209	4,454
Construction in progress		0	43	24	0	67
Balance at 31 December 2005		65	1,999	2,248	209	4,521
For the year ended 31 December						
Additions		43	360	803	114	1,320
Additions through business combinations		100	290	7	2	399
Disposals through business combinations		0	-46	-42	-1	-89
Disposals		0	0	-6	0	-6
Depreciation charge		0	-120	-494	-80	-694
Transfer to investment property	11	0	138	0	0	138
Total for the period		143	622	268	35	1,068
Balance at 31 December 2006 Cost Accumulated depreciation		208	3,274 -653	5,402 -2,892	633 -389	9,517 -3,934
Carrying amount		208	2,621	2,510	244	5,583
Construction in progress Balance at 31 December 2006		208	2, 621	2,516	0 244	5, 589
For the year ended 31 December Additions		0	1,018	688	117	1,823
Disposals		0	0	-8	-1	-9
Depreciation charge for the year		0	-143	-566	-147	-856
Transfer from investment property	11	0	160	0	0	160
Total for the period		0	1,035	114	-31	1,118
Balance at 31 December 2007 Cost		208	3,820	5,888	592	10,508
Accumulated depreciation		0	-615	-3,267	-379	-4,261
Carrying amount		208	3,205	2,621	213	6,247
Construction in progress		0	451	9	0	460

At 31 December 2007, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was EEK 8,411 (EUR 538) thousand and as at 31 December 2006 EEK 5,330 (EUR 341) thousand.

12 Property, plant and equipment (continued)

12.2. Assets acquired with finance lease

		EEK'000		EUR'000		
	Cost	Depreci- ation	Carrying amount	Cost	Depreci- ation	Carrying amount
At 31 December 2005	7,971	-2,288	5,683	509	-146	363
Additions	1,293	0	1,293	83	0	83
Depreciation	0	-762	-762	0	-49	-49
Lease discontinued	-4,804	2,302	-2,502	-307	147	-160
At 31 December 2006	4,460	-748	3,712	285	-48	237
Additions	1,057	0	1,057	68	0	68
Depreciation	0	-545	-545	0	-35	-35
Lease discontinued	-190	62	-128	-12	4	-8
At 31 December 2007	5,327	-1,231	4,096	341	-79	262

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

12.3. Assets leased out under operating leases

	EEK '000		EUR '000	
Balance at 31 December	2007	2006	2007	2006
Plant and equipment				
Cost of items leased out	1,967	1,193	126	76
Accumulated depreciation	-1,424	-844	-91	-54
Carrying amount at end of period	543	349	35	22

13 Operating leases

		EEK '000		EUR '000	
For the year ended 31 December	Note	2007	2006	2007	2006
Lease income					
- on investment property		27,928	26,577	1,785	1,699
- on plant and equipment		176	180	11	11
TOTAL	23	28,104	26,757	1,796	1,710
Lease expense					
Office, commercial and production premises		2,906	2,658	186	170
Vehicles		901	827	58	53
Other		555	275	36	18
TOTAL		4,362	3,760	280	241

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

13 Operating leases (continued)

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

	EEK	EEK '000		2'000
For the year ended 31 December	2007	2006	2007	2006
Lease income				
← 1 year	28,455	27,068	1,819	1,730
1-5 years	62,268	89,343	3,979	5,710
→ 5 years	0	5,130	0	328
Total lease income	90,723	121,541	5,798	7,768
Lease expenses				
← 1 year	636	598	41	38
1-5 years	834	845	53	54
Total lease expenses	1,470	1,443	94	92

14 Intangible assets

		EEK '000			EUR '000	EUR '000		
	Expenditure on develop- ment	Other	TOTAL	Expenditure on develop- ment	Other	TOTAL		
Balance at 31 December 2005								
Cost	901	3,259	4,160	59	208	267		
Accumulated depreciation	-408	-2,192	-2,600	-27	-140	-167		
Carrying amount 31.12.2005	493	1,067	1,560	32	68	100		
For the year ended 31 December								
Additions	475	2,610	3,085	30	167	197		
Disposals in carrying amount	0	-2	-2	0	0	0		
Depreciation charge for the year	-202	-846	-1,048	-13	-54	-67		
Total	273	1,762	2,035	17	113	130		
Balance at 31 December 2006								
Cost	1,376	5,823	7,199	88	372	460		
Accumulated depreciation	-610	-2,994	-3,604	-39	-191	-230		
Carrying amount 31.12.2006	766	2,829	3,595	49	181	230		
For the year ended 31 December								
Additions	174	551	725	11	35	46		
Depreciation charge for the year	-168	-883	-1,051	-11	-56	-67		
Total	6	-332	-326	0	-21	-21		
Balance at 31 December 2007								
Cost	1,550	6,374	7,924	99	407	506		
Accumulated depreciation	-778	-3,877	-4,655	-50	-247	-297		
Carrying amount 31.12.2007	772	2,497	3,269	49	160	209		

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

14 Intangible assets (continued)

As at 31 December 2007, the total cost of the Group's fully depreciated intangible assets still in use was EEK 1,280 thousand (€ 82 thousand), compared to EEK 1,147 thousand (€ 73 thousand) at 31 December 2006.

15 Interest-bearing loans and borrowings

15.1. Balance at 31 December

13. 1. Datance at 31 December				
	EEK	'000	EUR '	000
	2007	2006	2007	2006
Liabilities				
Short-term bank loans	16,509	9,702	1,055	620
Current portion of long-term bank loans	10,118	10,054	646	643
Current portion of lease liabilities	1,315	1,016	85	65
Total current liabilities	27,942	20,772	1,786	1,328
	·			
Long-term bank loans	19,274	24,999	1,232	1,597
Lease liabilities	1,108	1,569	70	101
Total non-current liabilities	20,382	26,568	1,302	1,698
Total interest-bearing loans and borrowings	48,324	47,340	3,088	3,026
Loans and borrowings at the beginning of the year	47,340	51,896	3,026	3,317
Changes during the period 1.01. – 31.12				
Changes in short-term loans	6,807	-2,167	435	-138
Received long-term loans	4,393	7,000	281	447
Long-term loan repaid	-10,054	-9,186	-643	-587
New finance lease liabilities	1,080	1,352	68	86
Payment of finance lease principal	-1,242	-1,555	-79	-99
Loans and borrowings at the end of the year	48,324	47,340	3,088	3,026

15.2. Short-term bank loan terms

Balance at 31 December

Base currency	Overdra in base o	aft limit currency	Interest rate		EEK	1000	EUR	3.000
	2007	2006	2007	2006	2007	2006	2007	2006
EUR	600,000	600,000	1m euribor+0.4%	+0.4%	9,075	1,782	580	114
EUR	800,000	400,000	1m euribor+0.5%	+0.5%	7,434	4,322	475	276
EUR	0	75,000		+1.5%	0	700	0	45
EEK	6,000,000	6,000,000	fixed 5.5%	4.5%	0	2,898	0	185
Total short-term bank loans			16,509	9,702	1,055	620		

15 Interest-bearing loans and borrowings (continued)

15.3. Long-term bank loans and terms

	EEK	EEK.000		3,000
Balance at 31 December	2007	2006	2007	2006
Total loan payable; terms; maturity date				
EUR 850,000; 3 m euribor+0.48%; 2010	7,041	10,170	450	650
EUR 1,530,000; 3 m euribor+0.50%; 2010	12,674	18,307	810	1,170
EUR 447,382; fixed 4.32%; 2011	5,284	6,576	338	420
LTL 1,800,000; 6.53%; 2012	4,393	0	280	0
Total	29,392	35,053	1,878	2,240
including by due dates				
← 1 year	10,571	10,054	675	642
1 - 2 years	11,091	10,118	709	647
2 - 5 years	7,730	14,881	494	951
Interest expense for the year ended 31 December	1,434	1,349	92	86

According to management assessment, the fair value of loans at the balance sheet date does not differ significantly from their book value. In 2007 the weighted average effective interest rate of long-term bank loans was 4.6% compared to 3.8% in the reference period.

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

15.4. Finance lease liabilities

13.4. Finance lease tiabilities								
	EEK '000			EUR '000				
Present value of lease payments	Initial value	Settle- ment	Present value	Initial value	Settle- ment	Present value		
Balance at 31 December 2005	6,787	-3,999	2,788	434	-256	178		
Acquisition	1,352	0	1,352	86	0	86		
Payment of finance lease	0	-1,542	-1,542	0	-98	-98		
Lease discontinued	-3,943	3,930	-13	-232	231	-1		
Balance at 31 December 2006	4,196	-1,611	2,585	288	-123	165		
Acquisition	1,080	0	1,080	65	0	65		
Payment of finance lease	0	-1,242	-1,242	0	-75	-75		
Lease discontinued	-152	152	0	-12	12	0		
Balance at 31 December 2007	5,124	-2,701	2,423	341	-186	155		

The base currency of lease contracts is mainly the euro. The 31 December 2007 finance lease liabilities, the base currency of which is Lithuanian litas, amounted to 201 thousand kroons (13 thousand euros), compared to 294 thousand kroons (19 thousand euros) at 31 December 2006.

At 31 December 2007 interest rates of finance lease contracts were 4.1–6.0% (at 31 December 2006 3.3–5.3%). In 2007 the weighted average effective interest rate of finance lease was 4.8 % compared to 3.6% in the reference period.

15 Interest-bearing loans and borrowings (continued)

15.5. Finance lease liabilities by due dates

	EEK '000			EUR '000		
Balance at 31 December 2006	←1 year	1-5 years	Total	←1 year	1-5 years	TOTAL
Minimum amount of lease payments	1,099	1,625	2,724	70	104	174
Unrealised financing cost	-83	-56	-139	-5	-4	-9
Present value of lease payments	1,016	1,569	2,585	65	100	165
Balance at 31 December 2007						
Min sum of lease payments	1,393	1,143	2,536	90	72	162
Unrealised financing cost	-78	-35	-113	-5	-2	-7
Present value of lease payments	1,315	1,108	2,423	85	70	155

Lease payments are made monthly.

16 Loan collateral and pledged assets

Balance at 31 December 2007	Number	Balance of investment loan		0	verdraft limit
Pledged assets	,000	EEK '000	EUR '000	EEK '000	EUR '000
PKC Group Oyj equity securities	836	24,999	1,598	16,509	1,055

At 31 December 2007, the carrying amount of pledged securities amounted to EEK 113.8 million (EUR 7.3 million). The Group pledges the shares in favour of the bank as security for due and punctual fulfilling of all obligations towards the bank undertaken in the loan agreement. According to the pledge agreement Group undertakes to promptly pledge additional shares, if the market value of the pledged shares is not at least 50% more of the outstanding principal of the loan.

17 Trade and other payables

	EEK '000		EUR	.000
Balance at 31 December	2007	2006	2007	2006
Trade payables				
Payable for goods and services	61,919	52,517	3,957	3,356
Payable for property, plant and equipment	179	504	11	32
Total	62,098	53,021	3,968	3,388
Accrued expenses				
Payables to employees	25,329	15,957	1,619	1,020
Interest payable	41	33	3	2
Other	280	1,189	18	76
Total	25,650	17,179	1,640	1,098
Advances from customers	18,591	1,955	1,188	125
Payables to associates	60	1,266	4	81
Miscellaneous payables	96	75	6	5
Total	106,495	73,496	6,806	4,697

18 Taxes

	EEK	'000	EUR '000		
Balance at 31 December	2007	2006	2007	2006	
Prepayment					
Value-added tax	49	142	3	9	
Income tax	717	2	46	0	
Total	766	144	49	9	
Liability					
Value-added tax	2,835	4,303	181	275	
Income tax	672	2,401	43	154	
Personal income tax	2,844	2,050	181	131	
Social security tax	3,607	3,117	231	199	
Other taxes	2,050	397	131	25	
Total	12,008	12,268	767	784	

19 Provisions

	Warranty	provision	Other pr	ovisions	TOTAL		
2006	EEK '000	EUR '000	EEK '000	EUR '000	EEK '000	EUR '000	
Balance at 1 January 2006	30	2	63	4	93	6	
Provisions made during the year	44	3	90	5	134	8	
Provisions used during the year	-65	-4	-62	-4	-127	-8	
Balance at 31 December 2006	9	1	91	5	100	6	
2007							
Provisions made during the year	1,350	86	341	22	1,691	108	
Provisions used during the year	-272	-17	-98	-6	-370	-23	
Balance at 31 December 2007	1,087	70	334	21	1,421	91	

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

20 Contingent liabilities

20.1. Corporate Income tax

	EEK	'000	EUR '000		
Balance at 31 December	2007	2006	2007	2006	
Consolidated retained earnings	151,894	100,078	9,708	6,396	
Max sum of dividends payable to owners	119,996	78,061	7,669	4,989	
Income tax payable on dividends	31,898	22,017	2,039	1,407	

20 Contingent liabilities (continued)

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the maximum potential income tax liability at 31 December 2007, which would be paid out if all retained earnings were distributed, cannot exceed the distributable profits as of 31 December 2007. Potential income tax liability has been calculated based on the tax rate enacted before 1 January 2008 (for 2006 before 1 January 2007).

20.2. Guarantees

As at 31 December 2007, a letter of guarantee from AS Harju Elekter issued on 8 February 2004 to Nordea Bank Finland Plc Estonian Branch was in force guaranteeing the fulfillment of commitments entered into by AS Draka Keila Cables in a long-term loan agreement concluded between the latter and AS Harju Elekter. The bank loan is due to be repaid on 10 May 2009. As at 31 December 2007, the loan balance on the associate's balance sheet amounted to EEK 6,102 thousand (€ 390 thousand) compared to EEK 10,170 thousand (€ 650 thousand) at 31 December 2006. The Group guarantees the associate's (Note 27) commitments to the extent of its interest in the associate's equity (34%). At 31 December 2007 the maximum guarantee liability of the Group amounted to EEK 2,167 thousand (€ 138 thousand) compared to EEK 3,666 thousand (€ 234 thousand) at 31 December 2006. The guarantees are not secured with a pledge.

21 Capital and reserves

21.1. Share capital

		EEK	EUR		
Balance at 31 December	2007	2006	2007	2006	
Share capital ('000)	168,000	168,000	10,737	10,737	
Par value of a share	10	10	0.64	0.64	
Number of shares issued ('000) (fully paid)	16,800	16,800	16,800	16,800	

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

21.2. Dividend per share

Based on the results for 2006, shareholders were distributed a dividend of EEK 30.2 million (EUR 1.9 million), i.e EEK 1.80 (EUR 0.115) per share. The dividends were paid out on 21 May 2007.

According to the profit allocation proposal, for 2007 a dividend of EEK 33.6 million (EUR 2.15 million), i.e. EEK 2.00 (EUR 0.128) per share will be distributed. The dividend will be recognised when the profit allocation proposal has been approved by the general meeting.

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

Balance at 31 December	2007	2006
AS Harju KEK	32.08%	30.17%
ING Luxembourg S.A	9.96%	10.02%
Lembit Kirsme	8.33%	8.30%
Endel Palla	5.65%	5.65%
Others	43.98%	45.86%

21 Capital and reserves (continued)

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

Supervisory board	Number of shares	Direct ownership	Indirect ownership
Palla, Endel	950,000	5.65%	0.33%
Kirsme, Lembit	1,400,000	8.33%	0.72%
Talgre, Madis	18,000	0.11%	0.00%
Kabal, Ain	3,660	0.02%	0.00%
Toome, Andres	0	0.00%	0.06%
Total	2,371,660	14.11%	1.11%

Management board

Allikmäe, Andres	185,000	1.10%	0.00%
Padjus, Karin	110,193	0.66%	0.25%
Libe, Lembit	19,500	0.12%	0.00%
Total	314,693	1.88%	0.25%

The number of shares held by shareholders and the ownership interests were determinated on 31 December 2007 at 11:59 p.m.

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

21.5. Reserves

	EE	K '000	EUR '000		
Balance at 31 December	2007	2006	2007	2006	
Capital reserve	13,400	11,000	856	703	
Fair value reserve	193,859	320,552	12,390	20,487	
Total	207,259	331,552	13,246	21,190	

(a) Capital reserv

The Commercial Code requires companies to establish a capital reserve. Each year companies have to transfer to the capital reserve at least 5 percent of their profit for the period until the reserve amounts to 10 percent of share capital. The capital reserve may be used for covering losses and increasing share capital. In 2005, a bonus issue was made which increased share capital from EEK 56 million to EEK 168 million. As a result, the 10 percent requirement is not fulfilled. During 2007, 2,400 thousand kroons (153 thousand euros) were transferred to the capital reserve. The management board has proposed that EEK 3.4 million (EUR 217 thousand) of the profit for the period be transferred to the capital reserve.

(b) Changes in the fair value reserve

(2, onling of many tall of tal										
	EE	K '000	EUR '000							
For the year	2007	2006	2007	2006						
Balance at 01 January	320,552	287,526	20,487	18,376						
Gains on the restatement of financial assets	-97,224	37,739	-6,214	2,412						
Realised gain from sale of financial assets	-29,469	-4,713	-1,883	-301						
Balance at 31 December	193,859	320,552	12,390	20,487						

21 Capital and reserves (continued)

Harju Elekter has a 8.89 (2006: 10.12) percent interest in PKC Group Oyj, a Finnish company. (Note 10). The investment has been classified as available-for sale. Financial assets available-for-sale are stated on the balance sheet at their fair value. Gains and losses arising from changes to the fair value are recognised directly as equity. When the financial assets available-for-sale are sold, the related cumulative gain or loss previously recognised in the fair value reserve will be recognised in the profit or loss statement for the period. In 2007, 220,000 shares in PKC Group Oyj were sold.

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

(c) Share based compensation reserve

On April 26, 2007 the general meeting of AS Harju Elekter decided to schedule an allocation of shares in September 2010 for members of the Management Board and employees of companies belonging to AS Harju Elekter Group. Preliminary contracts for participation in the issue of shares were concluded from June 1 to June 15, 2007 for a total of 420 thousand shares. A preliminary contract concluded with an employee and an employment contract valid during the period of subscription give him/her the right to participate in the planned subscription for shares if the ordinary general meeting of the shareholders in 2010 adopts the decision to increase the share capital.

An independent expert determined that 16.95 EEK (1.08 EUR) per share is the fair price for the subscription right. In order to determine the fair price the Black-Scoles evaluation model was used based on the weighed average price of a share which was 56.81 EEK (3.63 EUR), the period of validity of preliminary contracts (3 years), the interest rate of 5% and the estimated volatility of 34%.

As of December 31, 2007 preliminary contracts for the subscription for 420 thousand shares were valid. According to the information available to the management not a single person, who had concluded a preliminary contract will use their subscription right in September 2010 and, therefore no share based compensation has been accounted for in 2007, neither has the relevant reserve been established. In line with the IFRS 2 principles the estimates of the number of expected realisations of the right of subscription are corrected on each balance sheet date, reflecting the effect of the corrections in the statement of income and correcting the reserve in the shareholders' equity.

22 Segment reporting

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

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

22.1. Group's geographical segment report - primary segment

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

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

Finland - the domicile of the subsidiary Satmatic Oy;

Lithuania – the domicile of the subsidiary Rifas UAB.

22 Segment reporting (continued)

		Esto	nia	Finl	and	Lithu	ania	Elimin	ations	Consol	idated
EEK '000	Vote	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Income statement					·						
Revenue from external customers		408,324	310,453	246,668	198,063	76,993	113,571	0	0	731,985	622,087
Inter-segment revenue		25,835	25,536	45	77	1,377	499	-27,257	-26,112	0	0
Total revenue		434,159	335,989	246,713	198,140	78,370	114,070	-27,257	-26,112	731,985	622,087
Operating profit		40,915	27,803	7,016	4,827	3,611	12,538	-34	6	51,508	45,174
Net financing income / costs	23									43,119	15,341
Share of profit of associates	9	73	1,723	0	0	0	0	0	0	73	1,723
Income tax expense	24									-8,765	-10,195
Profit for the period										85,935	52,043
Balance											
Segment assets		349,676	290,402	90,307	50,746	55,599	51,470	-12,481	-4,957	483,101	387,661
Investment in associates		21,975	25,187	0	0	0	0	0	0	21,975	25,187
Group's indivisible assets										215,236	344,884
Total assets										720,312	757,732
Segment liabilities		64,459	48,537	53,647	27,583	14,700	15,169	-12,414	-4,957	120,392	86,332
Group's indivisible liabilitie	es									48,325	47,341
Total liabilities										168,717	133,673
Cash flows											
- from operating activitie	S	47,004	26,518	-14,495	4,611	9,134	1,704	0	-107	41,643	32,726
- from investing activities	5	15,587	-15,482	-633	-6,903	-7,505	-1,904	2,310	5,857	9,759	-18,432
- from financing activities	S	-46,024	-28,767	15,183	2,523	1,349	-1,445	-2,310	-5,750	-31,802	-33,439
Capital expenditure		34,574	30,385	634	7,487	8,048	2,536	0	0	43,256	40,408
Depreciation charge for the year		15,170	13,613	858	986	2,059	1,917	0	0	18,087	16,516

22 Segment reporting (continued)

	Esto	onia	Finl	and	Lithu	ıania	Elimin	ations	Consol	idated
EUR '000 Note	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Income statement										
Revenue from external customers	26,097	19,842	15,765	12,658	4,920	7,259	0	0	46,782	39,759
Inter-segment revenue	1,651	1,632	3	5	88	32	-1,742	-1,669	0	0
Total revenue	27,748	21,474	15,768	12,663	5,008	7,291	-1,742	-1,669	46,782	39,759
Operating profit	2,615	1,777	448	309	231	801	-2	0	3,292	2,887
Net financing income / costs 2	3								2,757	980
Share of profit of associates	4	111	0	0	0	0	0	0	4	111
Income tax expense 24								-560	-652	
Profit for the period								5,493	3,326	
Balance										
Segment assets	22,348	18,560	5,772	3,243	3,553	3,290	-797	-317	30,876	24,776
Investment in associates	1,404	1,610	0	0	0	0	0	0	1,404	1,610
Group's indivisible assets									13,756	22,042
Total assets									46,036	48,428
Segment liabilities	4,120	3,102	3,429	1,763	940	969	-795	-317	7,694	5,517
Group's indivisible liabilities									3,088	3,026
Total liabilities									10,782	8,543
Cash flows										
- from operating activities	3,004	1,695	-926	295	583	109	0	-7	2,661	2,092
- from investing activities	997	-989	-40	-441	-480	-122	148	373	625	-1,179
- from financing activities	-2,941	-1,839	970	161	86	-92	-148	-367	-2,033	-2,137
Capital expenditure	2,210	1,942	40	479	515	162	0	0	2,765	2,583
Depreciation charge for the year	970	870	54	63	132	123	0	0	1,156	1,056

22 Segment reporting (continued)

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

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

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

22.2. Segment revenue based on the geographical location of customers

	Esto	onia	Finl	and	Lithu	ıania	Elimin	ations	Conso	idated
EEK'000	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
For the year ended 31 December										
Estonia	299,469	254,116	45	78	1,331	748	-1,422	-577	299,423	254,365
Finland	64,632	69,002	243,608	197,038	2,428	0	-23,631	-21,140	287,037	244,900
Lithuania	3,484	5,375	0	0	63,354	99,414	-2,204	-4,395	64,634	100,394
Other EU countries	59,100	5,148	3,060	251	4,103	4,767	0	0	66,263	10,166
Non-EU countries	7,474	2,348	0	773	7,154	9,141	0	0	14,628	12,262
Total	434,159	335,989	246,713	198,140	78,370	114,070	-27,257	-26,112	731,985	622,087
EUR'000										
Estonia	19,140	16,241	3	5	85	48	-91	-37	19,137	16,257
Finland	4,130	4,410	15,569	12,593	155	0	-1,510	-1,351	18,344	15,652
Lithuania	223	344	0	0	4,049	6,354	-141	-281	4,131	6,417
Other EU countries	3,777	329	196	16	262	305	0	0	4,235	650
Non-EU countries	478	150	0	49	457	584	0	0	935	783
Total	27,748	21,474	15,768	12,663	5,008	7,291	-1,742	-1,669	46,782	39,759

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

22 Segment reporting (continued)

22.3. Group's business segment report - secondary segment

The annual financial statements reflect the main activity of the Group which is the production and sales of equipment for power distribution and control and associated activities. As at 31 December 2007 the Group was active in the following fields and the accompanying risks and rewards were very different. Every field of activity had enough weight to form a separate segment:

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

"Trade" – retail- and wholesale of products necessary for electrical installation works, mainly to retail customers and small- and medium-sized electrical installation companies;

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

Unallocated items – management services; design of industrial automation equipment, programming of process control automatic equipment and project management of installation works; construction services and installation of automatic control equipment. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

	Revenue from external customers		Ass	sets	Capital expenditure		
Balance at 31 December	2007	2006	2007	2006	2007	2006	
EEK '000							
Manufacturing	609,551	506,931	328,624	250,406	26,906	27,727	
Real estate	35,591	32,848	137,616	132,240	14,013	10,416	
Trade	75,545	63,456	16,695	16,568	1,079	941	
Unallocated activities	11,298	18,852	22,141	13,634	1,258	1,324	
Group's indivisible assets	0	0	215,236	344,884	0	0	
Total	731,985	622,087	720,312	757,732	43,256	40,408	
EUR '000							
Manufacturing	38,957	32,399	21,003	16,004	1,720	1,772	
Real estate	2,275	2,099	8,795	8,452	896	666	
Trade	4,828	4,056	1,067	1,059	69	60	
Unallocated activities	722	1,205	1,415	871	80	85	
Unallocated activities Group's indivisible assets	722 0	1,205 0	1,415 13,756	871 22,042	80	85 0	

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

	EEK	.000	EUR '000		
For the year ended 31 December Note	2007	2006	2007	200	
REVENUE	ı				
Electrical equipment	531,046	429,840	33,940	27,47	
Boxes for telecom sector and services	32,148	31,473	2,055	2,01	
Sheet metal products and services	21,405	22,109	1,368	1,41	
Intermediary sale of electrical products and components	102,517	92,398	6,552	5,90	
Commerce and mediation of services	9,331	6,920	596	44	
Rental income 13	28,104	26,757	1,796	1,71	
Other services	7,434	12,590	475	80	
Total	731,985	622,087	46,782	39,75	
COST OF SALES					
Goods and materials	-475,546	-384,100	-30.393	-24,54	
Services	-28,984	-37,451	-1,852	-2,3	
Personnel expenses (see below)	-106,153	-75,437	-6.784	-4,8	
Depreciation and amortisation	-15,036	-13,323	-961	-8	
Other	-7,056	-4,204	-452	-2	
Change in work in progress and finished goods inventories	37,455	4,703	2,394	3	
Total	-595,320	-509,812	-38,048	-32,5	
DISTRIBUTION COSTS Services purchased	-6,435	-6,525	-412	-4	
Personnel expenses (see below)	-21,125	-16,326	-1,350	-1,04	
Depreciation and amortisation	-911	-831	-58	-!	
Other	-8,372	-3,474	-535	-2	
Total	-36,843	-27,156	-2,355	-1,7	
ADMINISTRATIVE EXPENSES					
Services purchased	-5,515	-6,405	-352	-4	
Personnel expenses (see below)	-32,059	-25,630	-2,049	-1,6	
Depreciation and amortisation	-2,140	-2,362	-137	-1	
Other	-8,023	-5,433	-513	-3	
Total	-47,737	-39,830	-3,051	-2,5	
Incl. development costs	-7,629	-5,123	-488	-3	
ersonnel expenses allocated to cost of sales, distribution and	administrati	ve expenses:			
Salaries and other remuneration	-116,231	-86,620	-7,429	-5,5	
Social and other taxes on salaries and other remuneration	-35,352	-26,884	-2,259	-1,7	
Accruals	-7,525	-3,889	-481	-2	
Total	-159,108	-117,393	-10,169	-7,5	

23 Income statement line items (continued)

	EEK	'000	EUR	'000
Note	2007	2006	2007	2006
OTHER INCOME				
Gains on sale of property, plant and equipment	66	396	5	25
Interest on arrears and penalty payments received	113	43	7	3
Other	410	207	26	13
Total other income	589	646	38	41
OTHER EXPENSES				
Losses on disposal of property, plant and equipment	-22	-22	-1	-1
Interest on arrears, penalty payments and similar items paid	-323	-123	-21	-8
Foreign exchange losses	0	-24	0	-2
Gifts and donations made	-642	-355	-41	-23
Other	-179	-237	-11	-14
Total other expenses	-1,166	-761	-74	-48
FINANCE INCOME				
Interest income	329	225	22	14
Dividend income	12,663	12,679	810	810
Income from sale of investments 10	32,816	5,322	2,097	340
Total finance income	45,808	18,226	2,929	1,164
FINANCE COSTS				
Loss incurred by sale of participation	0	-862	0	-55
Interest expense	-2,634	-1,940	-168	-124
Net loss from foreign exchange differences	-55	-83	-4	-5
Total finance costs	-2,689	-2,885	-172	-184

24 Income tax expense

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

	Esto	Estonia		Finland		ıania	Consolidated	
EEK '000	2007	2006	2007	2006	2007	2006	2007	2006
Profit (loss) before income tax	84,912	46,022	6,267	4,576	3,525	11,640	94,704	62,238
Income tax rate	0%	0%	26%	26%	18%	19%		
Theoretical income tax expense	0	0	-1,630	-1,190	-634	-2,212	-2,264	-3,402
Income tax expense on dividends	-6,412	-6,765	0	0	0	0	-6,412	-6,765
Effect of non-taxable income	0	0	0	284	40	31	40	315
Effect of non-taxable expenses	0	0	-26	-78	-103	-317	-129	-395
Tax losses	0	0	0	0	0	52	0	52
Income tax expense	-6,412	-6,765	-1,656	-984	-697	-2,446	-8,765	-10,195

1 EUR=15.6466 EEK

24 Income tax expense (continued)

	Esto	Estonia		Finland		Lithuania		Consolidated	
EUR '000	2007	2006	2007	2006	2007	2006	2007	2006	
Profit (loss) before income tax	5,427	2,942	401	292	225	744	6,053	3,978	
Income tax rate	0%	0%	26%	26%	18%	19%			
Theoretical income tax expense	0	0	-104	-76	-41	-141	-145	-217	
Income tax expense on dividends	-410	-433	0	0	0	0	-410	-433	
Effect of non-taxable income	0	0	0	18	3	2	3	20	
Effect of non-taxable expenses	0	0	-2	-5	-6	-20	-8	-25	
Tax losses	0	0	0	0	0	3	0	3	
Income tax expense	-410	-433	-106	-63	-44	-156	-560	-652	

In accordance with the Estonian Income Tax Act which took effect on 1 January 2000, in Estonia income tax is not levied on profits earned but on dividends distributed. There are no deferred income tax liabilities in the Lithuanian and Finnish subsidiaries.

25 Basic and diluted earnings per share

		EEK '000		EUR	,000
	Unit	2007	2006	2007	2006
Profit attributable to equity holders of the parent	,000	84,456	47,289	5,398	3,022
Average number of shares outstanding during the period	.000	16,800	16,800	16,800	16,800
Basic and diluted earnings per share		5.03	2.81	0.32	0.18

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

Diluted earnings per share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding, both adjusted for the effects of all dilutive potential shares. At 31 December 2007, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

26 Cash flow statement line items

		EEK '000		EUR	,000
For the year ended 31 December	Note	2007	2006	2007	2006
Income tax expense	24	-8,765	-10,195	-560	-652
Prepayment decrease (+)/ increase (-), liability decrease (-)/ increase (+)	18	-2,444	2,122	-157	136
Corporate income tax paid		-11,209	-8,073	-717	-516
Book value of disposed property, plant and equipment	12	136	101	9	6
Profit on disposal of property, plant and equipment		43	374	3	24
Proceeds from sale of property, plant and equipment		179	475	12	30
Additions of property, plant and equipment	12	-28,518	-20,648	-1,823	-1,320
Acquired with finance lease	12	1,057	1,293	68	83
Liability decrease (-)/ increase (+) incurred by purchase	17	-325	99	-21	6
Acquisition of property, plant and equipment		-27,786	-19,256	-1,776	-1,231
Additions of intangible assets	14	-725	-3,085	-46	-197
Liability decrease (-)/ increase (+) incurred by purchase	17	0	-367	0	-24
Acquisition of intangible assets		-725	-3,452	-46	-221

27 Transactions with related parties

Related parties

The related parties of AS Harju Elekter include associated companies AS Draka Keila Cables and AS Saajos Inexa (up to June 30. 2007); members of the management and supervisory boards and their close family members; and AS Harju KEK which owns 32.08 percent of the shares of AS Harju Elekter.

2007 4,563 588 5,151 4,548 536 67 221 2,175 2,396 828 6,685	13,017 282 13,299 12,834 215 250 13,173 33 13,206	930 98 968 930 34 4 14 778 792	832 18 850 820 14 16 842 2 844
588 5,151 4,548 536 67 221 2,175 2,396	282 13,299 12,834 215 250 13,173 33 13,206	38 968 930 34 4 14 778 792	820 14 16 842 2 844
588 5,151 4,548 536 67 221 2,175 2,396	282 13,299 12,834 215 250 13,173 33 13,206	38 968 930 34 4 14 778 792	820 14 16 842 2 844
5,151 4,548 536 67 221 2,175 2,396	13,299 12,834 215 250 13,173 33 13,206	968 930 34 4 14 778 792	850 820 14 16 842 2 844
4,548 536 67 221 2,175 2,396	12,834 215 250 13,173 33 13,206	930 34 4 14 778 792	820 14 16 842 2 844
536 67 221 2,175 2,396	215 250 13,173 33 13,206	34 4 14 778 792	14 16 842 2 844
536 67 221 2,175 2,396	215 250 13,173 33 13,206	34 4 14 778 792	842 2 844
221 2,175 2,396	250 13,173 33 13,206	14 778 792	842 2 844
221 2,175 2 2,396 828	13,173 33 13,206	14 778 792	842 2 844
2,175 2,396 828	33 13,206	778 792 53	844
2,175 2,396 828	33 13,206	778 792 53	2 844
2,396 828	13,206 1,463	792 53	844
828	1,463	53	
	,		94
	,		94
6,685	/ 01 /		
	6,814	427	435
2,713	3,697	173	236
2,170	1,232	139	79
2,768	1,562	177	100
1,882	8,938	759	571
4,650	10,500	936	671
3,789	3,259	242	208
143	95	9	6
3,932	3,354	251	214
2/2	2.027	1/	105
243	2.926	16	187
	3,932	1,882 8,938 4,650 10,500 3,789 3,259 143 95	1,882 8,938 759 4,650 10,500 936 3,789 3,259 242 143 95 9 3,932 3,354 251

The Group does not give the members of the Management Board any benefits related to pension. Chairman of the Management Board has the right to receive severance pay. As of December 31, 2007 members of management and supervisory boards had 80 thousand options for the subscription shares in 2010. No other transactions with members of the Group's governing bodies and people connected to them were carried out.

27 Transactions with related parties (continued)

Guarantees and pledges

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

28 Financial information of parent company

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

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

Sales revenue in Parent Company's income statement has been classificated in accordance with the Commercial Code [§4 section 6].

INCOME STATEMENT		EEK	.000	EUR	'000
For the year ended 31 December	EMTAK code	2007	2006	2007	2006
Revenue, inclusive:					
Sales of electrical equipment and components	4669	75,728	63,631	4,840	4,067
Rental income from real estate	6820	53,206	47,017	3,400	3,005
Management activities	7010	4,144	5,842	265	373
Total		133,078	116,491	8,505	7,445
Cost of sales		-90,268	-75,427	-5,769	-4,821
Gross profit		42,810	41,064	2,736	2,624
·		,	,	,	,
Other income		1,114	259	71	17
Distribution expenses		-9,760	-8,399	-624	-537
Administrative expenses		-18,231	-14,784	-1,165	-945
Other expenses		-707	-565	-45	-36
Operating profit		15,226	17,575	973	1,123
Income from subsidiaries		3,949	2,278	253	146
Income from associates		1,286	1,309	82	84
Income from available-for-sale financial assets	6				
-Dividend income		12,663	12,674	810	810
-Income from sale		32,816	5,213	2,097	333
Interest income		335	163	21	10
Interest expense		-1,207	-1,180	-77	-75
Foreign exchange loss		-14	-9	-1	-1
Profit before tax		65,054	38,023	4,158	2,430
Corporate income tax expense		-5,910	-6,235	-378	-398
Profit for the period		59,144	31,788	3,780	2,032

28 Financial information of parent company (continued)

	EEK	EEK '000		EUR '000		
Balance at 31 December	2007	2006	2007	2006		
Assets						
Cash and cash equivalents	8,541	2,356	546	151		
Trade receivables	10,215	7,010	652	448		
Receivables from related parties	10,435	15,617	667	998		
Other receivables and prepayments	363	362	23	23		
Inventories	9,448	10,095	604	645		
Total current assets	39,002	35,440	2,492	2,265		
Investments in subsidiaries	44,459	44,460	2,841	2,841		
Investments in associates	8,840	10,840	565	693		
Other investments	219,786	344,884	14,047	22,042		
Investment property	166,040	152,074	10,612	9,719		
Property, plant and equipment	10,213	7,554	653	483		
Intangible assets	1,092	1,246	70	80		
Total non-current assets	450,430	561,058	28,788	35,858		
Liabilities						
Liabilities	8.762	8.762	560	560		
Loans	8,762 6,489	8,762 9,007	560 415	560 576		
Loans Trade payables	8,762 6,489	8,762 9,007 712		576		
Loans	6,489	9,007	415	560 576 46 124		
Loans Trade payables Payables to related parties Tax liabilities	6,489	9,007	415	576 46 124		
Loans Trade payables Payables to related parties	6,489 69 2,364	9,007 712 1,944	415 4 151	576 46 124 219		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received	6,489 69 2,364 5,658	9,007 712 1,944 3,432	415 4 151 362	576 46 124 219 1,525		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities	6,489 69 2,364 5,658 23,342	9,007 712 1,944 3,432 23,857	415 4 151 362 1,492	576 46 124 219 1,525 1,260		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans	6,489 69 2,364 5,658 23,342 10,953	9,007 712 1,944 3,432 23,857 19,715	415 4 151 362 1,492 700	576 46 124 219 1,525 1,260		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans Total liabilities	6,489 69 2,364 5,658 23,342 10,953	9,007 712 1,944 3,432 23,857 19,715	415 4 151 362 1,492 700	576 46 124 219 1,525 1,260 2,785		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans Total liabilities Equity	6,489 69 2,364 5,658 23,342 10,953 34,295	9,007 712 1,944 3,432 23,857 19,715 43,572	415 4 151 362 1,492 700 2,192	576 46 124 219 1,525 1,260 2,785		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans Total liabilities Equity Share capital	6,489 69 2,364 5,658 23,342 10,953 34,295	9,007 712 1,944 3,432 23,857 19,715 43,572	415 4 151 362 1,492 700 2,192	576 46 124 219 1,525 1,260 2,785		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans Total liabilities Equity Share capital Share premium	6,489 69 2,364 5,658 23,342 10,953 34,295	9,007 712 1,944 3,432 23,857 19,715 43,572	415 4 151 362 1,492 700 2,192 10,737 383	576 46 124 219 1,525 1,260 2,785 10,737 383 21,190		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans Total liabilities Equity Share capital Share premium Reserves	6,489 69 2,364 5,658 23,342 10,953 34,295 168,000 6,000 207,259	9,007 712 1,944 3,432 23,857 19,715 43,572 168,000 6,000 331,552	415 4 151 362 1,492 700 2,192 10,737 383 13,246	576 46		
Loans Trade payables Payables to related parties Tax liabilities Other payables and advances received Total current liabilities Non-current portion of loans Total liabilities Equity Share capital Share premium Reserves Retained earnings	6,489 69 2,364 5,658 23,342 10,953 34,295 168,000 6,000 207,259 73,878	9,007 712 1,944 3,432 23,857 19,715 43,572 168,000 6,000 331,552 47,374	415 4 151 362 1,492 700 2,192 10,737 383 13,246 4,722	576 46 124 219 1,525 1,260 2,785 10,737 383 21,190 3,028		

28 Financial information of parent company (continued)

	EEK '000		EUR '000		
STATEMENT OF CASH FLOWS	2007	2006	2007	2006	
Cash flows from operating activities					
Operating profit	15,226	17,575	973	1,123	
Adjustments for		-			
Depreciation, amortisation and impairment losses	8,142	7,235	521	463	
Gain / loss on sale of property, plant and equipment	-24	-6	-2	0	
Other non-monetary expenses	258	0	17	0	
Change in receivables related to operating activity	9,228	1,040	590	66	
Change in inventories	631	-916	40	-58	
Change in payables related to operating activity	-330	4,757	-21	304	
Corporate income tax paid	-5,910	-6,236	-378	-399	
Interest paid	-1,202	-1,179	-77	-75	
Net cash from operating activities	26,019	22,270	1,663	1,424	
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets	-25,097	-17,311	-1,604	-1,106	
Proceeds from sale of property, plant and equipment	27	47	2	3	
Acquisition of financial assets	0	-6,416	0	-410	
Proceeds from sale of financial assets	39,056	5,616	2,496	359	
Loans given	-13,757	0	-879	0	
Repayment of loans given	2,038	0	130	0	
Interest received	303	187	19	12	
Dividends received	16,612	16,261	1,062	1,039	
Net cash used in / from investing activities	19,182	-1,616	1,226	-103	
Cash flows from financing activities Loans received	0	0	0	0	
	0.7/0	0 7/0	0	0	
Repayment of loans received	-8,762	-8,762 0	-560	-560 0	
Payment of finance lease liabilities	0	ŭ	1 022	_	
Dividends paid	-30,240	-26,880	-1,933	-1,718	
Net cash used in financing activities	-39,002	-35,642	-2,493	-2,278	
Net cash flows	6,199	-14,988	396	-957	
Cash and cash equivalents at beginning of period	2,356	17,353	151	1,109	
Net increase	6,199	-14,988	396	-957	
Effect of exchange rate fluctuations on cash held	-14	-9	-1	-1	

28 Financial information of parent company (continued)

STATEMENT OF CHANGES IN EQUITY	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL		
EEK '000								
Balance at 31 December 2005	168,000	6,000	8,600	287,526	44,866	514,992		
Profit for the period	0	0	0	0	31,788	31,788		
Income recognised directly in equity	0	0	0	33,026	0	33,026		
Total income for 2006	0	0	0	33,026	31,788	64,814		
Dividends	0	0	0	0	-26,880	-26,880		
Capitalisation issue	0	0	2,400	0	-2,400	0		
Balance at 31 December 2006	168,000	6,000	11,000	320,552	47,374	552,926		
Profit for the period	0	0	0	0	59,144	59,144		
Income recognised directly in equity	0	0	0	-126,693	0	-126,693		
Total income for 2007	0	0	0	-126,693	59,144	-67,549		
Dividends	0	0	0	0	-30,240	-30,240		
Transfer to capital reserve	0	0	2,400	0	-2,400	0		
Balance at 31 December 2007	168,000	6,000	13,400	193,859	73,878	455,137		
EUR '000								
Balance at 31 December 2005	10,737	383	550	18,377	2,867	32,914		
Profit for the period	0	0	0	0	2,033	2,033		
Income recognised directly in equity	0	0	0	2,110	0	2,110		
Total income for 2006	0	0	0	2,110	2,033	4,143		
Dividends	0	0	0	0	-1,719	-1,719		
Capitalisation issue	0	0	153	0	-153	0		
Balance at 31 December 2006	10,737	383	703	20,487	3,028	35,338		
Profit for the period	0	0	0	0	3,780	3,780		
Income recognised directly in equity	0	0	0	-8,097	0	-8,097		
Total income for 2007	0	0	0	-8,097	3,780	-4 317		
Dividends	0	0	0	0	-1,933	-1,933		
Transfer to capital reserve	0	0	153	0	-153	0		
Balance at 31 December 2007	10,737	383	856	12,390	4,722	29,088		

	EEK'000		EUR'000	
	2007 2006		2007	2006
Unconsolidated equity at 31. December	455,137	552,926	29,088	35,338
Interests under control and significant influence:				
-carrying amount	-53,299	-55,299	-3,406	-3,534
-carrying amount under the equity method	131,315	108,003	8,393	6,903
Restated unconsolidated equity at 31 December	533,153	605,630	34,075	38,707

Signatures to the Annual Report of 2007

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2007.

27th February 2008

/signature/

Andres Allikmäe

Chairman of the Management Board

/signature/

Lembit Libe

Member of the Management Board

/signature/

Karin Padjus

Member of the Management Board

The supervisory board has reviewed the annual report prepared by the management board (pp. 11-83), including an activity report and annual financial statements, and has approved its presentation to the general meeting of the shareholders.

26th March 2008

/signature/

Endel Palla

Chairman of the Supervisory

/signature/

Ain Kabal

Member of the Supervisory Board

/signature/

Madis Talgre

Member of the Supervisory Board

/signature/

Andres Toome

Member of the Supervisory Board



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Harju Elekter

(This report is a translation of Estonian original)

We have audited the accompanying consolidated financial statements of AS Harju Elekter, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 39 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Basis for a qualified opinion

On analyzing share-based payments, the management of AS Harju Elekter came to the conclusion that none of the persons who had signed a preliminary agreement granting the right to subscribe shares would exercise their subscription rights and, therefore, the company does not have any expenses from share-based payments (Note 21). Under the resolution of the general meeting and the preliminary agreements, the sole vesting condition for exercising the right to subscribe the shares is an effective employment or service relationship with a company belonging to the Group or an associate of AS Harju Elekter. Accordingly, share-based payments have to be measured by taking into account this restriction only. Measuring share-based payments by reference to other circumstances such as a subsequent decline in the value of the right granted due to a change in market conditions is not in accordance with IFRS 2.

In our opinion, the management of AS Harju Elekter has not measured share-based payment transactions in accordance with the principles of IFRS 2. As a result, the personnel expenses of AS Harju Elekter are understated by 1.0-1.2 million kroons and the profit for the period is overstated by the same amount. The misstatements do not have any impact on the company's equity as a whole because the recognition of share-based payments in personnel expenses would have increased the company's retained earnings or reserves.

Qualified opinion

In our opinion, except for the effect on the consolidated financial statements of the matter described in the preceding paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of AS Harju Elekter as of 31 December 2007, 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, 25 March 2008

KPMG Baltics AS

/signature/

Andres Root Authorized Public Accountant /signature/

Indrek Alliksaar Authorized Public Accountant

Profit Allocation Proposal

Profits attributable to equity holders of AS Harju Elekter:	EEK '000	EUR '000
Retained earnings of preceding periods	67,438	6,686
Profit for 2007	84,456	3,022
Total distributable profits at 31 December 2007	151,894	9,708

The management board proposes that profits be allocated as follows:

Dividend distribution (EEK 2.00 / € 0.128 per share)	33,600	2,147
Transfer to capital reserve	3,400	217
Retained earnings after allocations	114,894	7,344

27th February 2008

/signature/

Andres Allikmäe

Chairman

of the Management Board

/signature/

Lembit Libe

Member

of the Management Board

/signature/

Karin Padjus

Member

of the Management Board

Statistical Summary

Group	1 EUR=15.6466 EEK	2007	2006	2005	2004	2003
Consolidated income statement (million E	EK)					
Turnover		732.0	622.1	513.9	453.8	342.3
Operating profit	51.5	45.2	37.5	31.2	19.9	
Net profit ¹ (belonging to the owners of the	e Parent)	84.5	47.3	41.7	56.2	45.1
Consolidated balance as of the end of yea	r (million EEK)					
Total current assets		241.0	169.4	163.6	142.1	109.8
Total fixed assets		479.3	588.4	532.8	498.5	373.3
Total assets		720.3	757.7	696.4	640.6	483.1
Owners equity (belonging to the owners of	f the Parent)	533.2	605.6	552.2	521.0	389.2
Equity ratio (%)		74.0	79.9	79.3	81.3	80.6
Rates of growth [%]						
Growth in net sales		17.7	21.1	13.3	32.6	26.2
Operating profit growth		14.0	20.5	20.2	56.7	28.5
Net profit growth		78.6	13.6	-25.9	25.0	-15.0
Assets growth		-4.9	8.8	8.7	32.6	73.9
Owners equity growth (belonging to the ov	vners of the Parent)	-12.0	9.7	6.0	33.9	73.3
Performance indicators [%]						
Return on sales		7.0	7.3	7.3	6.9	5.8
Net profit margin		11.5	7.6	8.1	12.0	13.0
Return on assets		11.4	6.5	6.2	10.0	46.1
Return on equity		14.8	8.2	7.8	12.0	57.2
Shares (EEK) ²						
Average number of shares (1000 pc)		16,800	16,800	16,401	16,200	16,200
Shareholders' equity per share		33.89	34.46	31.94	27.75	18.94
The closing price		53.2	64.93	64.15	47.46	34.94
EPS		5.03	2.81	2.48	3.43	2.78
P/E		10.58	23.06	25.87	13.85	12.56
Dividend per share		³ 2.00	1.80	1.60	1.47	1.33
Liquidity ratio						
Current ratio		1.6	1.6	1.7	1.8	1.6
Quick ratio		0.8	0.9	0.9	1.0	0.9
Personnel and remuneration						
Number of employees at the end of the pe	eriod	486	427	425	405	353
Average number of employees		458	439	412	378	302
Wages and salaries (million kroons)		116.2	86.6	73.9	61.2	50.7

Return on sales = operating profit/net sales*100

Net profit margin = net profit (belonging to the owners of the Parent)/net sales*100

Shareholders' equity per share = Average owners equity/average number of shares

Return on assets = net profit/ Average total assets *100

Return on equity = net profit/ Average owners equity *100

Equity ratio = owners equity(belonging to the owners of the Parent)/assets*100

Current ratio = current assets/ current liabilities

Quick ratio = liquid assets/current liabilities

¹Net profits of the previous periods have been corrected due to changes in the accounting principles

² The indicators have been corrected retroactively taking into account the bonus issue in May 2005

 $^{^{\}rm 3}\,\mbox{Proposal}$ of the Management Board

Supervisory Board



Chairman of the Supervisory Board

Endel Palla (1941) R&D Manager at AS Harju Elekter Members of the Supervisory Board

Ain Kabal (1962) President of the Estonian Association of SME's **Lembit Kirsme** (1941) Chairman of the Supervisory Board, AS Harju KEK Madis Talgre (1960) Managing Director, AS Harju KEK Andres Toome (1972) Consultant

Management Board



Chairman of the Management Board

Andres Allikmäe (1957) CEO of Harju Elekter Members of the Management Board

Karin Padjus (1948) Financial Director **Lembit Libe** (1946) Chief Economist



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