

ANNUAL REPORT 2010

Translation from Estonian original

Business name	AS Harju Elekter
Main business area:	production of electrical distribution systems and control panels; production of sheet metal products; wholesale and mediation of light fittings and electrical appliances; real estate holding; management assistance and services
Commercial registry code:	10029524
Address:	Paldiski Str 31, 76 606 Keila, Estonia
Telephone:	+372 67 47 400
Fax:	+372 67 47 401
E-mail:	he@he.ee
Internet homepage:	www.harjuelekter.ee
CEO:	Andres Allikmäe
Auditor:	KPMG Baltics AS
Beginning of the reporting period:	1 st of January
End of the reporting period:	31 st of December
Added documents to the annual report:	<ul style="list-style-type: none">• Auditor's report• Profit allocation proposal

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ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD**Sales in foreign markets guarantee growth**

The gradual revival and recovery of the economy started during the second half of 2010 and the turnover of the Group exceeded, all in all, the results of 2009. This should be deemed a good achievement considering the overall economic situation. I hope that as a result of our mutual efforts the era of downfall is irreversibly over for the companies belonging to the Group. This is largely thanks to the contribution of the employees of the Group who agreed to reduce working hours and reduced salaries in order to help the Group survive difficult times.

I consider the founding of the Swedish subsidiary, Harju Elekter AB, to have been the most important event for the Group last year. I am sure that any further growth and success of the Group will be based on the prioritization of exports to the Baltic Sea countries and other European Union member states. Therefore, we must be even more precise in meeting set deadlines, as well as to continuously produce and offer high quality products and solutions at competitive prices. However, we should not underestimate the importance of our home market.

Harju Elekter has always considered that an innovative approach to the development and introduction of products, production processes and technologies is extremely important. We have observed the relevant trends and developments and introduced the best practices in the world. Most of our engineers have higher education either in electric construction or automatics and over the years our team has become stronger and stronger.

Taking advantage of favourable building prices during recent years the Group has expanded the production space of all its companies and invested in the technologies that guarantee a readiness for the rapid growth in turnover.

There is no doubt that good business results and sensible actions to promote the business are the reason why the value of our shares has remained high and is continually increasing. The price of the company's shares quoted on one of the most successful stock exchanges in 2010 the NASDAQ OMX Tallinn has increased by more than 45% in a year. The expected increase in the value of our shares and the favourable changes in the Estonian tax law will allow us to further motivate our employees with share options also in the future. Investors should also be assured by the Group's impressive performance at the competition initiated by the Baltic stock exchanges called Baltic Market Award 2010 where Harju Elekter was announced as a nominee in three categories.

The European common currency, the euro, was introduced in Estonia on January 1, 2011. However, I would like to stress that during the whole 18 years period of the existence of the Estonian kroon Harju Elekter always exported more products and services than it imported and so kept a positive currency balance. According to our vision the Group should continuously increase its sales outside of Estonia and so guarantee our positive development in the future.

Harju Elekter belongs among those Estonian large-scale enterprises whose continuous development and stability guarantees high employment rates that are very important for the state. Besides that we feel that by a sustainable development of the company we can contribute to the health of the economy of the whole country.

/signature/

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD**Focusing on our own products and co-operation**

In 2010 the employees of the Group had to make even more effort than ever before in order to stop a downfall in turnover and to continuously make profit. Recognizing the tiniest positive signs and turning small achievements into larger ones was like laying out a jigsaw puzzle. Although most of the Group's turnover came from our main activity, other activities, such as real estate management and financial investment supported us even more than during the years of economic growth. In 2010 the turnover of the Group amounted to 639.7 million kroons which is a little more than a year before.

Active sales and marketing efforts in markets outside of Estonia, supported by efficient engineering and product development, made the largest contribution to the positive business results of the Group. The Group focused more than ever before on the development of products and solutions suitable for Scandinavian markets, especially for Sweden. Because of the keen interest in our products, and in order to extend our opportunities in Sweden, a representation and sales company Harju Elekter AB was founded in Sweden. The activities of the Finnish subsidiary in completing export projects and developing and implementing the electric heating and solar energy solutions for transport sector have been outstanding. The introduction of new business software was finalized in the Estonian companies of the Group but its development will be continued.

Our customers and partners influence the activities and results of the Group more than anything else. Last year the importance of co-operation with our clients, as well as between the companies of the Group became even clearer than before. Once again we had to admit that the diversified business mosaic can only be kept together and driven on by a loyal team that is apt to develop. Hereby I would like to thank and praise all of our employees in Estonia, Finland, Lithuania and Sweden for their intense efforts and excellent contribution.

As a result of our experience and sensible decisions the operating activities of the Group are based today on several synergic pillars. Thanks to the proceeds earned from financial investment the net profit of the Group doubled in 2010 amounting to 36 million kroons. There was a small setback in that the return on sales decreased from 4.5% to 3.7%. However, the Group earned operating profit in every quarter of the year and the profit per share increased up to 2.02 kroons. The Group's cash flows from operating and financing activities were positive. The Group invested 43.2 million kroons in current and non-current assets taking advantage of the favourable market situation.

The business results of the Group have also given a positive impetus to the price of Harju Elekter shares which increased by 45.9% – amounting to 47.25 kroons by the end of 2010.

We are optimistic about the future prospects of the Group. We see the development opportunities of the Group mainly in the prioritised development of our own products, as well as in the extension of the selection of licensed products, in well-targeted and active sales efforts in foreign and export markets, in increasing the productivity of the companies, developing new product segments targeted at energy saving and by reinforcing the organisation. We are convinced that the values of the Group that have taken shape over many years support our business plans and keep motivating us during the forthcoming years.

I would like to thanks our customers, partners, shareholders and the whole team of Harju Elekter for their loyalty and contribution to the development of the Group.

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Andres Allikmäe
Chairman of the Management Board

ORGANISATION

MISSION

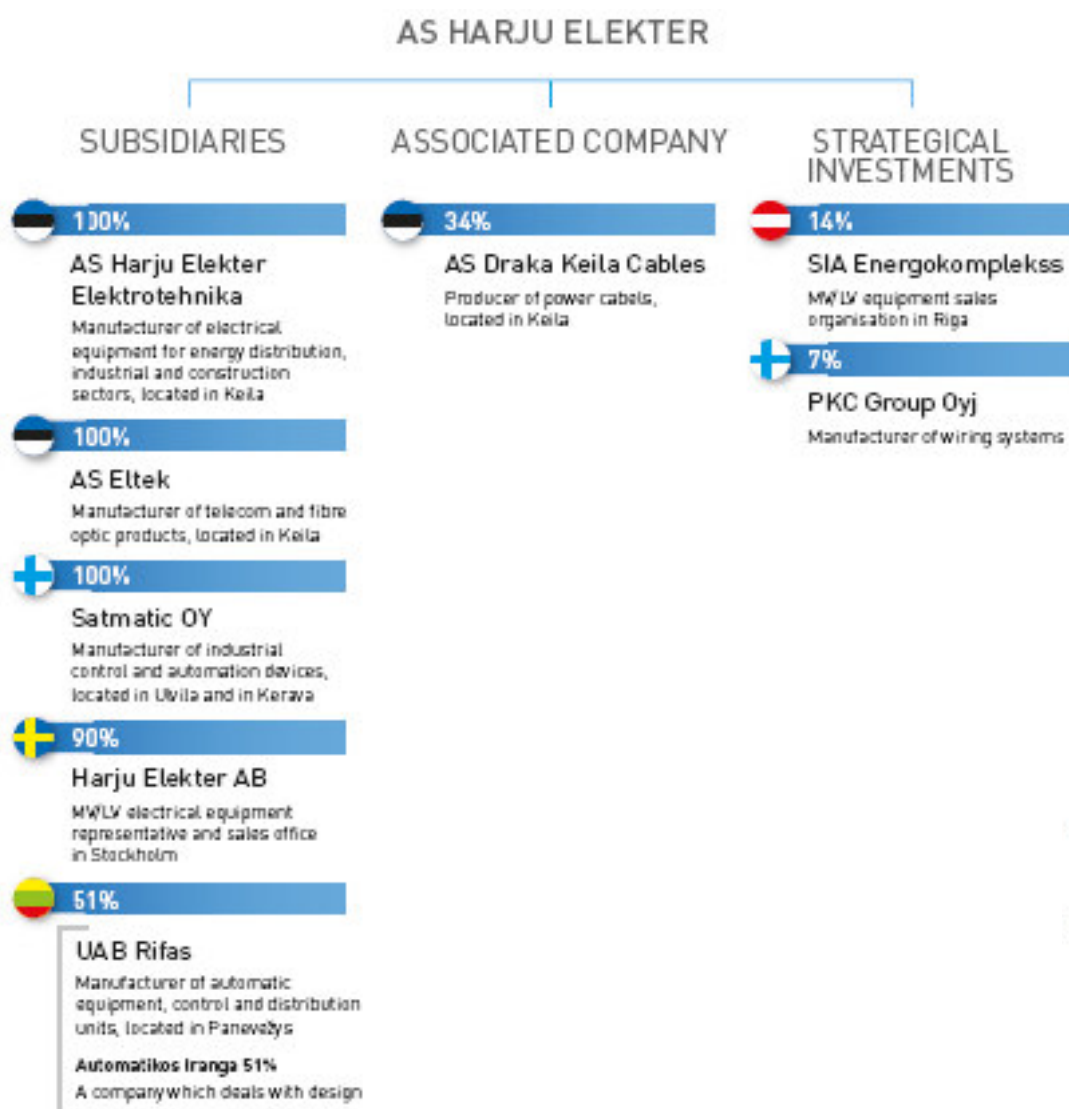
To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

GOAL

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

Harju Elekter has been manufacturing electrical equipment since 1968. The group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 65.7% of the products are marketed outside Estonia.

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART



MANAGEMENT REPORT

OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

By the end of 2010 the state of the global economy was better than expected. The indications of danger caused by the slowdown of the economy that appeared in the summer did not materialise and were actually replaced by achievements, partly thanks to the economic policy focusing on the pragmatic growth of the US and euro zone markets and, on the other hand, thanks to the high level of demand from the Asian countries whose rapid growth also offered good opportunities to the developed countries. Getting crises such as the one in Greece under control should not be underestimated either. However, the prices of primary resources have increased together with the improvement in the situation of the global economy.

Finland and Scandinavia

In 2010 the economies of the Nordic countries and especially the Swedish economy recovered rapidly and became stronger. This economic growth was based on the balanced and sound fiscal systems of these countries, as well as the flexibility of their national currencies which increased their competitiveness. The Finnish export sector gained a lot from the good economic situation in its main trading partners (Germany, Sweden and others) and from the increase in global demand. The growth in domestic private consumption was enhanced by the good state of households, a high sense of security, a fading need for saving and the increase in employment. A gradual growth in production capacities and investment is another positive trend of the year that should be mentioned.

Estonia

Like the Nordic countries Estonia has also recovered from the crisis faster than expected. According to the Statistical Office of Estonia in 2010 Estonian GDP increased 3.1% faster than the year before. Starting from the II quarter of 2010 a gradual upturn in the economy started thanks to intense exports efforts made by the industrial sector and by the second half of the year the average growth of the Estonian economy was around 6% showing that Estonia had managed to take advantage of the recovery in the global economy. The increase in GDP was mainly due to the growth in added value in the energy sector and financial intermediation, while the decrease in added value in construction and non-market services such as public administration, education, health, etc. hindered the increase in GDP. Although the unemployment rate was continually high and the number of working hours decreased, GDP was still growing which refers to the increase in the output per man-hour. Together with the growth in GDP domestic demand started to increase influenced by the increase in stock reserves in the Q2 which was followed by an increase in the household final monetary consumption expenditure in the Q3 of 2010. There is no doubt that the introduction of the euro in Estonia in January 2011 helped to restore the attractiveness of the Estonian economy in the eyes of foreign investors.

The prospects for the increase in exports are continually good, however, in order to ensure steady economic growth the recovery of domestic demand is very important, requiring the reinforcement of feeling of security among consumers, a decrease in unemployment and a fallback in the level of saving. However, bank analysts have highlighted accelerating inflation as one of the risk factors.

Latvia and Lithuania

During 2010 the recovery of Latvia and Lithuania became more extensive. Economic growth has been noticeable in both countries for several consecutive quarters. In Latvia, like in Estonia, exports that almost reached to pre-recession levels have been the main driver of the recovery. Consumption expenditures and investment are also stable. Domestic demand becomes more and more important to ensure continual growth but the situation in labour market is still very fragile and consumption is restricted by the lack of a feeling of security. The slow improvement in the labour market situation, as well as the need to limit the budgetary deficit is the main factors inhibiting economic growth in Latvia.

As for Lithuania a remarkable growth in investment and the increase in stock reserves during the second half of the year, in addition to the restoration of the pre-recession export levels, should be pointed out.

Russia

Although a 20% fall in agricultural production in Russia during the second half of the year was a great disappointment the economy of the country is recovering with the help of vigorously growing investment and domestic consumption. Domestic demand has been supported by a rapid growth in loans, considerably smaller interest rates compared with the time of crisis and the increase in real wages. The growth in the prices of oil and other raw materials had a favourable effect on exports.

YEAR 2010

Finnish subsidiary, Satmatic Oy, was awarded the certificate of „Suomen Vahvimmat 2007-2011” (“Strongest in Finland”) by the Customer Registry of Suomen Asiakastiedo with The main evaluation criterion of the competition is the creditability of companies. The honourable title of Suomen Vahvimmat is given to those companies who for five consecutive years have met the highest Alfa-rating (AAA or AA+) requirements. Only about 10% of Finnish companies have fulfilled such requirements.

The Lithuanian Ministry of the Environment, the Lithuanian Innovation Centre and the Lithuanian Industrial Federation declared the 1.5 MW liquid cooling actuator system developed by the Lithuanian subsidiary UAB Rifas development team as the best product submitted to the competition “Innovation Award 2010” because of its innovative, room-saving design suitable for different segments and applications (at sea, renewable energy, mines, etc.) and for the solution that is suitable for installation in places that are difficult to access.

From 8 to 12 November 2010 the 27th fair of subcontracting “Elmia Subcontractor” took place in Jönköping, Sweden where the subsidiaries of Harju Elekter AS, Harju Elekter Elektrotehnika and Eltek, presented their products at the common display of Estonian companies supported by Enterprise Estonia. Both of these companies continue their efforts in order to develop the contacts made at the fair into well-established customer relations with the help of newly-founded Swedish subsidiary, Harju Elekter AB.

Starting from October 1, 2010 the Estonian companies of the Group have been using a common production management and accounting software programme AX2009. AS Eltek was the last to introduce the programme. The use of Axapta economic software in the Estonian companies of the Group facilitates the identification of cost and time effective solutions, helps to manage the information circulating in the organisation and makes the analysis and use of customer information more efficient. The final goal is to also implement the common software in the companies, operating outside of Estonia.

In 2010 the Lithuanian subsidiary, UAB Rifas, was successful in applying for European Union funds to train its personnel in order to improve the company’s export capacity (EU support covered 80% of the costs), as well as to implement new production technologies and increase its productivity (EU support covered 40% of the costs). The projects will be implemented during Q1 2011.

AS Harju Elekter was declared a nominee for the Baltic Market Award 2010 in three categories: the Best Investor Relations in NASDAQ OMX Tallinn Stock Exchange, the Best Investor Relations in the Baltic Countries and the Best Home Page Contributing to Investor Relations in the Baltic Countries. Over 50 quoted Baltic companies participated in this competition. Each company was evaluated on the basis of more than 120 criteria, including their annual and periodic reports, market comments, the quality of their websites and the opinions of analysts. In October Harju Elekter also participated in the traditional investment fair, Money Compass 2010, organised by NASDAQ OMX Tallinn Stock Exchange in order to contribute to the improvement of awareness of the public about investing and to promote investment. More than 2,000 people visited the fair.

The Finnish subsidiary, Satmatic Oy, which was directly involved in projects using new energy sources, continued developing solar energy based electro-technical equipment. In October 2010 a 30 kW solar

energy station was completed. The station consists of 130 solar panels and is currently installed on the roof of Ulvila factory in Finland. The system generates an estimated 25,000 kWh electric power a year. The electricity produced is used in the lighting and cooling of the factory and to reduce costs during peak hours. The investment cost of the solar station was around 100,000 euros, but part of the project was covered by the funds of the Ministry of Employment and Economic Affairs.

Satmatic Oy developed a model of a heating panel for car parks provided with a remote control system. The remote control system enables long distance pre-management of the heating panel through the internet or by SMS.

In June the Supervisory Board of AS Harju Elekter affirmed the Statute of the Audit Committee of the company and appointed Madis Talgre and Andres Toome as member do the Committee.

A related company of AS Harju Elekter, AS Draka Keila Cables, which is the leading cable manufacturer in the Baltic countries, opened an extension of its factory in June. AS Harju Elekter invested in the production premises of AS Draka Keila Cables and managed the relevant construction works. As a result the production area leased to the related company increased by 3,700m² amounting now to 12,300m², while the open air storage area now amounts to 18,700m².

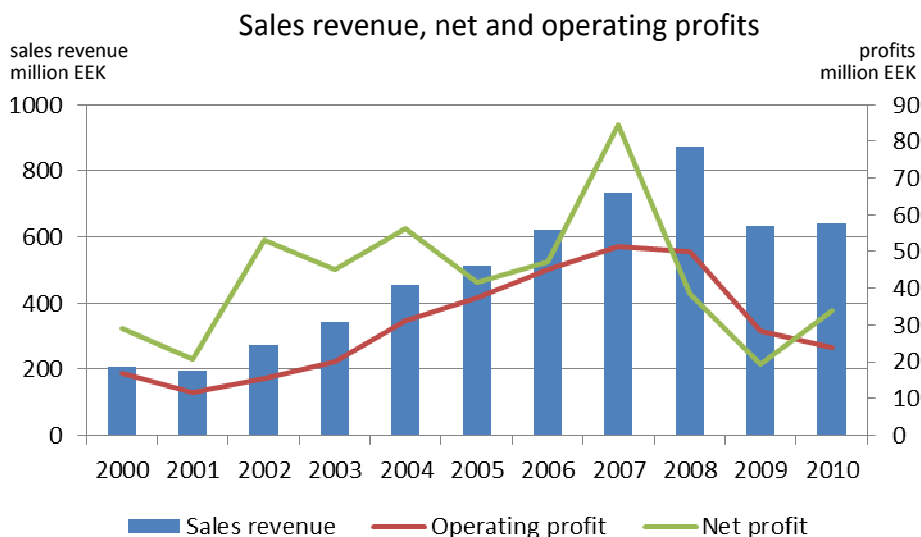
From 3 to 5 February 2010 the subsidiary, Satmatic Oy, participated in the fair called “Sähkö, Tele, Valo ja AV 2010” in order to introduce the company’s wide product range, including the product innovation such as heating panels for car parks, distribution boards and Sivacon switchboard systems. In April the AS Harju Elekter trading group presented its product range at the international construction fair “Eesti Ehitab 2010”.

The annual general meeting of shareholders approved the annual report and profit allocation of Harju Elekter, including a dividend distribution of 80 cents per share, i.e. a total of 13.44 million kroons, based on the good economic results of 2009.

BUSINESS RESULTS

In the 2010 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy, UAB Rifas and Harju Elekter AB (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

AS Harju Elekter holds 7.2% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners’ equity in the Group.



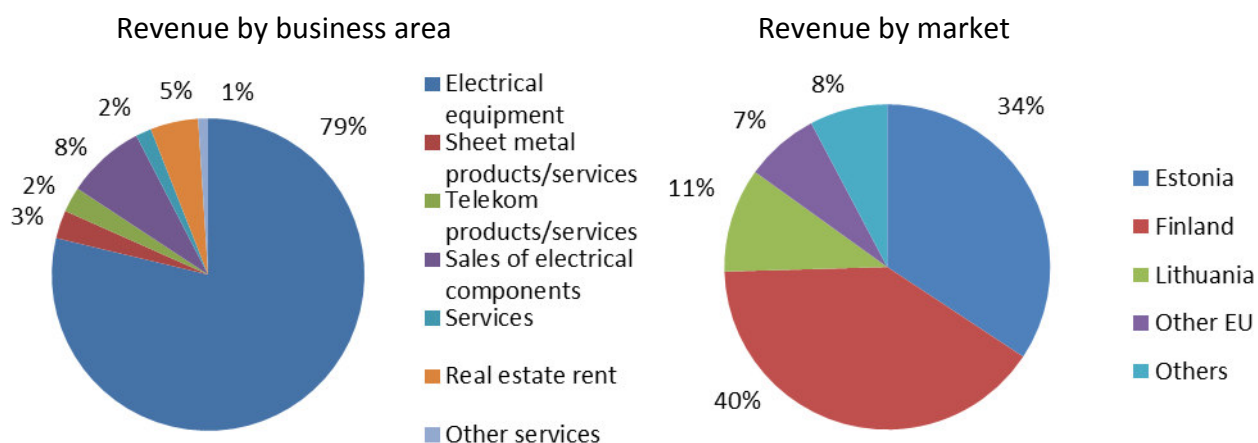
Revenue, earnings and margins

The business results of the Group, during the reporting period, were satisfactory and the operation profitable taking into account the prevailing economic situation and the inertness of the field of activity.

In 2010 the sales revenues of the Group increased by 1.1% compared with the previous year amounting to 639.7 million kroons. The share of Estonian companies in the total consolidated sales revenues was 45% (47%), Finnish companies contributed 41% (36%) and Lithuanian companies 14% (17%).

The main area of activities of the Group is the production and marketing of electric power distribution and transfer equipment and activities related to them and these activities contributed, as usual, the largest part of sales revenues i.e. 90%. The extension of leased premises was the main reason for the increase in sales revenues from real estate investment, while the decrease in the volume of sales caused the decrease in the sales revenues from other non-segmented activities.

As for the markets, once again the Group's home markets (Estonia, Lithuania and Finland) were dominant in 2010 and 85% (90%) of the goods and services were sold there. More than 65% (63%) of the Group's sales revenues were earned outside of Estonia. Although the sales in the Group's home markets was less than in the previous year the Group has been successful in finding new markets and, due to that, increased the share of other markets in the sales revenues of the Group from 10% in 2009 to 15% in 2010. Sales in other European Union countries was doubled and increased by a quarter outside of the European Union. During the reporting period the Group entered the new markets of Portugal, France, the Czech Republic and Malaysia where Group's companies sold products to a total value of 50.2 million kroons. In addition the Group earned sales revenues in Sweden, Latvia and Poland, as well as from Belarus, Ukraine, Russia and Norway.



The recovery of the economy has been accompanied by an increase in the prices of raw materials. The reporting period is characterised by a dramatic increase in prices in the Baltic and Finnish markets mainly in metal products. Deals are made at any cost, even with minimum cover. Customers go for price and delivery time. As the share of metal in the products of the Group is large the increase in the prices of metal affects, to a certain extent, the expenses and profitability of the Group. The processing of sheet steel has been growing gradually, increasing by more than one fifth this year.

During the year the amount of 0.3 (2009: 1.3) million kroons of receivables was written down and charged off. The cost of the markdown of reserves was 0.3 (2009: 0.3) million kroons. Depreciation and amortisation during the period amounted to 21.6 million kroons (2009: 19.9 million kroons).

The twelve months average number of employees of the Group was 424 (452). Personnel expenses decreased during the year by 2.7% amounting to 142.3 million kroons. During the 12 months 109.9 million kroons were paid out to employees as wages, bonuses and compensation which were 3.9% less than the previous year. The Group has stock-based compensation plans which may be settled by way of own equity instruments upon recognition of which in consolidated financial reports IFRS 2 principles have been applied. The value of services (labour input) to an amount of 1.7 million kroons received for stock is recognised as the period's labour costs (2009: 0.9 million kroons).

Mainly because of the fixed costs (depreciation of basic assets, maintenance costs, heating, electricity, snow cleaning, etc.) the rate of growth in operating costs was faster than the increase in sales revenues affecting the total and operating profit margins. The cost of sales increase by 2.8% amounting to 542.9 million kroons, passing the growth in the consolidated sales revenue of the Group by 1.7 percent point.

The Group has consistently reduced and optimised fixed costs. The administration expenses have been affected the most by the increase in expenditures on the new software AX2009. The software was taken into use in the parent company and in the subsidiary, AS Harju Elekter Elektrotehnika, on 1 October 2009 and in October 2010 another Estonian subsidiary, Eltek, also introduced the new software. Despite that administration expenses have been decreased by 5.9% compared to the same period of the previous year. Distribution costs were also decreased by 4%.

As a whole business expenses have increased by 1.8% compared to the same period of the previous year amounting to 615.7 million kroons and overtaking the growth in consolidated sales revenues by 0.7 percent point.

Operating profit before depreciation was 45.3 (2009: 48.3) million kroons and the return on sales amounted to 7.1% which is 0.5 percent point less than a year before. The operating profit of the Group was 23.8 million kroons and the return on sales 3.7%, while in 2009 the operating profit was 28.3 million kroons and the return on sales 4.5%.

In 2010 the Group sold 80 (2009: 100) thousand shares of PKC Group Oyj. The profit from the sale of shares was 8.2 (2009: 5.0) million kroons. The dividend profit from financial investment was 8.8 million kroons, while in 2009 it was 3.5 million kroons. All in all the net financial profit for the 12 months amounted to 16.3 million kroons which was 8.3 million kroons more than in 2009.

The Group consolidated 961 thousand kroons of profit from its affiliated company. In 2009 the Group has to consolidate 8.2 million kroons of loss from its affiliated company.

In 2010 less dividend were paid than in 2009 and therefore the income tax costs in Estonia decreased by 0.5 million kroons. The decrease in the taxable income abroad meant another 0.7 million kroons less income tax costs. In 2010 the total income tax costs amounted to 5.1 million kroons.

The consolidated net profit for 2010 was 35.9 million kroons which was 65.6% more than in the comparable period. The share of the owners of the parent company of the period's net profit accounted for 34.0 million kroons, increasing by 76.9% compared to 2009. The net profit per share was 2.02 kroons (2009: 1.14 kroons).

Other comprehensive income

The reporting year's unrealised profit from marketable financial assets amounted to 184.9 million kroons, differences in the exchange rate emerging in recalculation of figures of a foreign company (Swedish subsidiary Harju Elekter AB) were 0.1 million kroons and the total consolidated comprehensive income amounted to 220.9 million kroons, which more than doubled the previous year's figure. The share of the owners of the parent company accounted for 219.0 and at beyond non-controlling for 1.9 million kroons from the comprehensive income, while in the comparable period of 2009 the figures were respectively 99.2 and 2.5 million kroons.

Financial position

The amount of the consolidated balance sheet as of 31 December 2010 was 862.3 million kroons, increasing by 244.2 million kroons during 12 months.

By the end of the year business claims and prepayments amounted to 103.3 million kroons, increasing by 30.6 million kroons during the year and inventory amounted to 84.7 million kroons, increasing by 5.2 million kroons a year. Such increase was mainly because of some recovery in the economy and the growth in sales mainly in Finland where sales increased more than 13% a year.

At the same time the Group's debts to suppliers and other debts and payables increased by 5.1 million kroons and amounted to 81.0 million kroons.

The quick ratio (1.1) as well as the solvency ratio (1.8) improved during the accounting period by 0.1 and 0.2 points compared to 2009.

During 12 months the cost of fixed assets increased by 206.4 million kroons up to 636.8 million kroons. This was mainly due to changes in the market prices of financial assets. During the period of 12 months the market price of the PKC Group Oyj share at the Helsinki Stock Exchange increased by 8.77 euros (137.22 kroons) to 15.37 euros (240.49 kroons). The cost of investment in assets and reserves in equity capital increased by 192.1 million kroons with stock revaluation into its fair value. The Group sold 80,000 shares of PKC Group Oyj in the first quarter with a book value of 8.2 million kroons. All in all, the book value of financial assets increased by 183.8 million kroons up to 337.0 million kroons during the period of 12 months.

By the end of the year interest-bearing debt obligations amounted to 52.7 million kroons, increasing by 27.5 million kroons during the period of 12 months. Short-term liabilities increased by 5.9 million kroons; 3.7 million kroons of a long-term loan was repaid during the reporting period. The extension of the production plant of the Finnish subsidiary was completed at the end of 2009. To date Satmatic Oy had been renting its administrative and production premises from the city of Ulvila. The Group decided to purchase the premises from the city on terms of a capital rent for the contract value of 1.9 million euros (29.8 million kroons). The lease payments have been made monthly starting from January 2010. The final payment date will be in January 2020. During the 12 month period the total amount of capital rent payments made by the Group amounted to 4.5 million kroons.

Due to large-scale lease liabilities the net debt (Interest-bearing debt obligations – Cash and bank accounts) of the Group has increased by 30 million kroons amounting by the end of year to 90.2 million kroons. The ratio of net debt to owners' equity was 11%, remaining at the same level as on 31 December 2009.

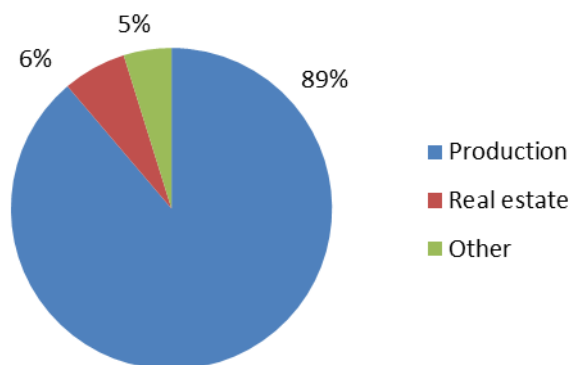
During the period of one year the owner's equity of the Group increased by 208.7 million kroons, amounting to 712.6 million kroons by the end of the year.

By the end of the reporting period current assets amounted to 26% (30%) and non-current assets to 74% (70%), on the other hand, foreign capital accounting for 17% (18%) and owner's equity 83% (82%) of total assets.

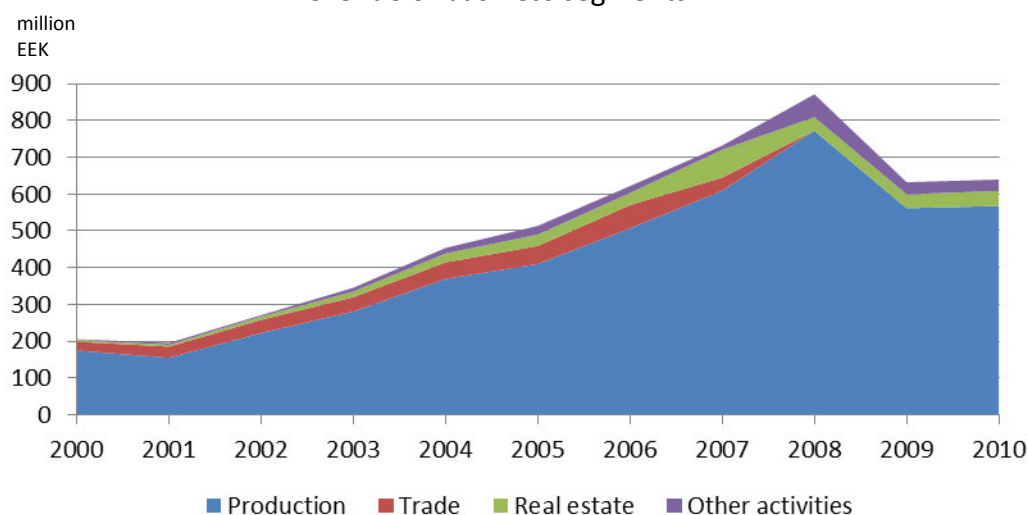
BUSINESS SEGMENTS

At 31 December 2010 the Group was active in two fields, the accompanying risks and rewards of which were very different and both fields of activity had enough weight to form a separate segment. The weight of trade was not large enough and therefore it was presented together with other fields. The share of the trading group operating within the parent company remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

Revenue by business segment



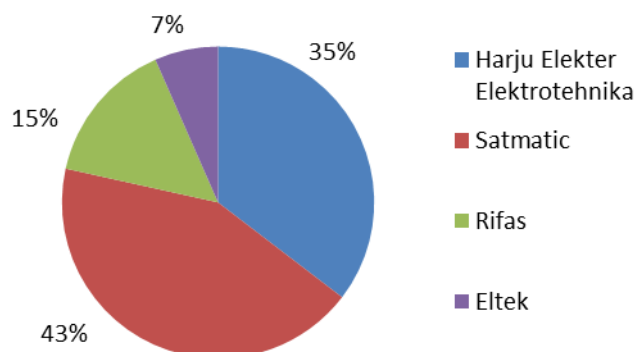
Revenue of business segments



PRODUCTION

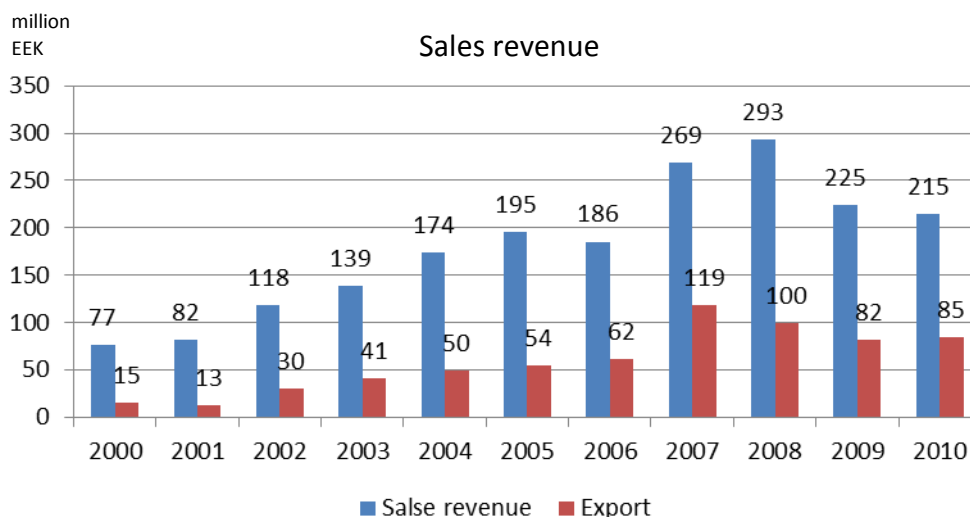
The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (UAB Rifas) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for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

Revenue by company



AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of Harju Elekter Elektrotehnika are located in Keila comprising 10,100 m² of production, warehouse and office premises. The average number of employees is 177, 30 of them working in sales and production development.



In 2010, the sales revenue of Harju Elekter Elektrotehnika was 214.7 million kroons (-4.4%) of which 40% was from sales outside Estonia. The year of economic recovery was characterised by the pressure on prices by customers and the demand for cheaper products that led to certain changes in some product structures. In the case of products sold in foreign markets such changes were not necessary. It was evident that exports were the driver of economic recovery and the growth in production was only based on the increase in exports.

In 2010 the number of new connections for buildings and infrastructure remained low on the home market, keeping down the number of orders for large-scale and more expensive substations. However, the number of orders for simpler and cheaper products increased. As a result the sales revenues decreased, although the number of products sold increased.

In the summer of 2010 the Group founded a Swedish representation and sales organisation, Harju Elekter AB, in order to focus on winning new customers and projects in the target market during the second half of the year. The engineers of Harju Elekter Elektrotehnika developed compact substations meeting the local standards. The II stage of the mine project in Portugal was also successful as the customer received Sivacon 8PT product group low-voltage distribution equipment for the value of 12 million kroons.

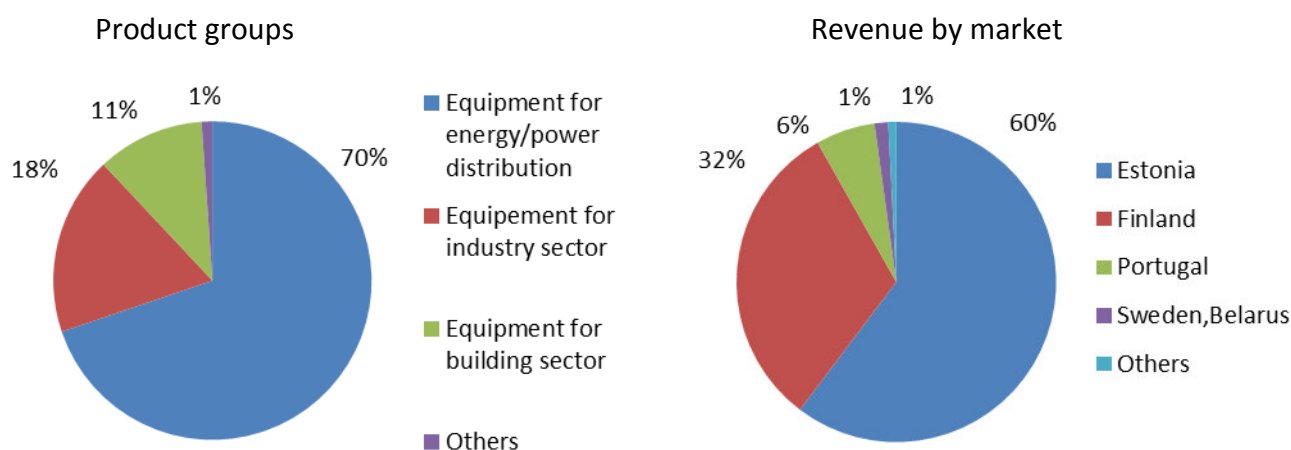
In 2010 the company focused on the adjustment and introduction of additional modules and options of the economic software AX2009 that had been launched in October. During the whole year the production processes were restructured and the structure of product associations were adjusted to the system. Although the process demanded additional time and costs the new economic software simplifies the search for cost and time effective solutions and makes the management of information circulating within the company and analysing customer information more efficient.

Efforts for making use of the grants from the European Union structural funds in carrying out the company's development projects continued. Since 2008 the company has initiated 11 projects with a total cost of 10.4 million kroons. During the period of three years through Enterprise Estonia a total of 1.7 (incl. 0.8 in 2010) million kroons of European Union funds foreseen for the period of 2008-2013 were allocated to support the development projects of Harju Elekter Elektrotehnika. The projects were aimed at personnel development programmes (team work trainings, etc.) and technological investment (for purchasing the Omicron testing solution and sorting and unloading equipment for the automated revolver punching production line). The aim of these development projects is to raise the qualifications

and motivation of workers and to increase the success of the company in export markets by increasing the productive capacity, quality of products and security of provision. One of the projects to be set apart was the creation and filling of the position of a development consultant at Harju Elekter Elektrotehnika. The main task of this foreign specialist is to create new customer relations in the new target markets and increase the share of exports in turnover. In order to improve the export oriented sales work the company also participated in 2010 in fairs in Sweden and Finland.

Following the principles of quality management and environmental policy Harju Elekter Elektrotehnika continually focused in 2010 on the efficient use of essential materials in order to reduce the relevant waste to a minimum. Fire safety training was organised for workers which consisted of a theoretical part as well as a field exercise. According to the requirements of quality standards ISO 9001 and ISO 14001 internal and external audits are carried out at least once a year and every three years a recertification takes place. The next recertification is scheduled to take place in 2013.

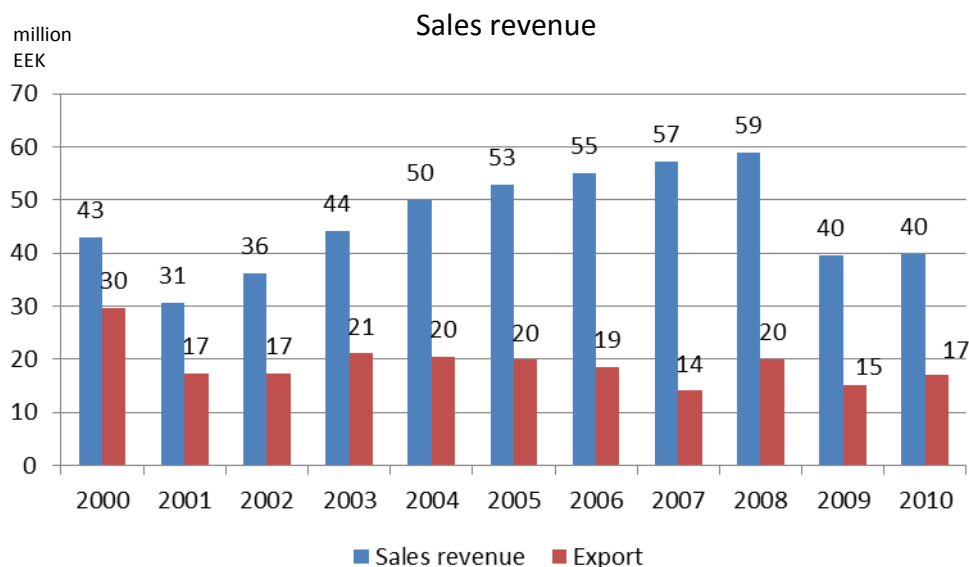
The economic development of the recent years and the introduction of new economic software have required us to specify everyone's tasks, review the organisation and optimise production processes. Consistent efforts to update and expand the product portfolio have resulted in increasing the possibilities of the company to win more sales orders. Considering the professional product portfolio, consistent investment in increasing production capacity, the competence of the employees as well as the good reputation of the company and the trust of our customers it is safe to say that we can look hopefully into the future.



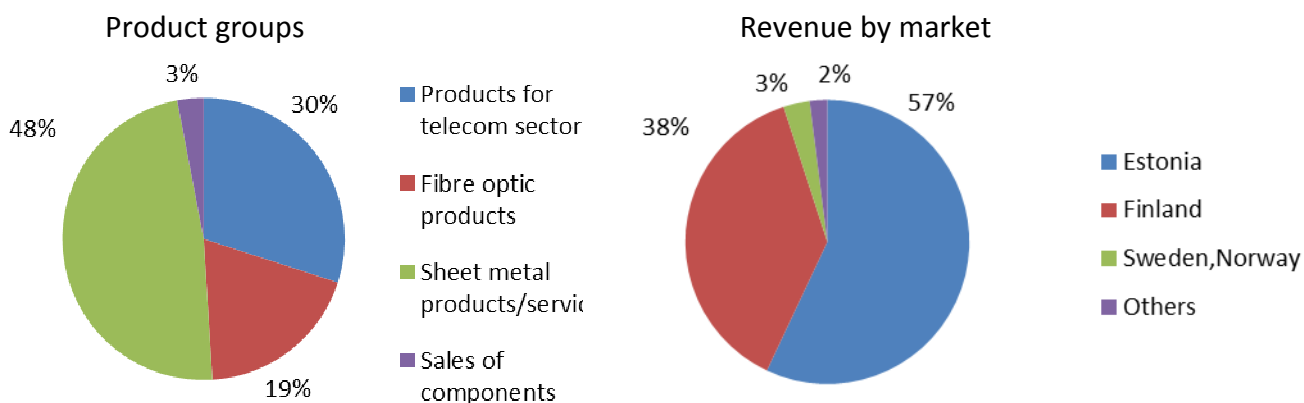
AS Eltek

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

In 2010, sales revenues of AS Eltek amounted to 39.9 million kroons, increasing by 1% compared with the previous year. The whole year was characterised by intense competition on one hand and by the pressure on prices and supply deadlines on the other hand. Although the sales in the domestic market decreased the company was able to obtain new customers and orders from Nordic countries thanks to active sales and marketing activities. The sales outside of Estonia increased within a year by 12.3%.



In 2010 constructive measures, such as reinforcement of the sales team, updating of the wages and motivation system, implementation of part time working time, etc., taken in the second half of 2009 in order to adjust the organisation to the changed economic situation started to show results. In addition active marketing was continued by participating in specialised fairs in Estonia, as well as in Finland, Sweden and Germany displaying common stands of all the companies belonging to the Group. As a result the number of customer inquiries increased and several new co-operation contracts were concluded.

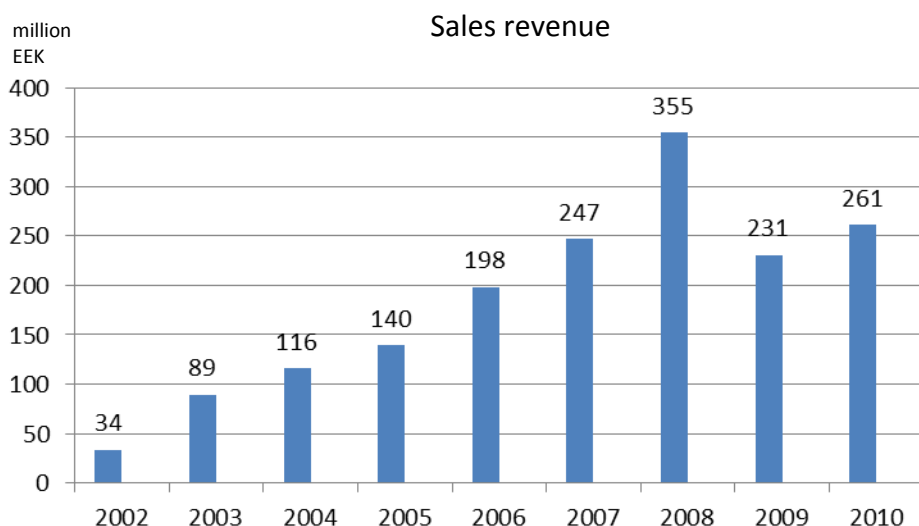


In 2010, one of the most important development projects was the introduction of the new production control, stock accounting and economic software, AX2009, in the company. During the year necessary preparatory work was done and the software was implemented in October. In other Estonian companies of the Group – in the parent company and in AS Harju Elekter Elektrotehnika – the software has been in use since October 2009. The new software is a novel tool for finding cost and time effective solutions, managing and timing organisational information better and analysing and considering client information more effectively. Within the framework of the personnel development programme a training programme for middle management production personnel was launched in order to improve the organisation of production.

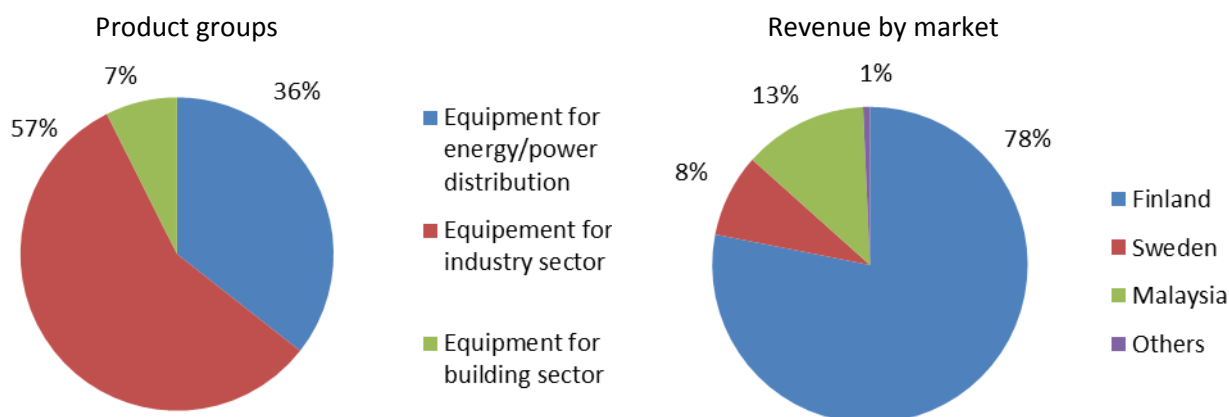
Thanks to the investments made during recent years present production capacity is ready to serve a considerably larger amount of orders. In 2011 the company is planning to start to sell fibre optic products and components of data communication network in addition to Finland also in Sweden and Norway. The capability and success of the sales team is of crucial importance in finding new customers and orders.

Satmatic OY

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



The year 2010 was successful for Satmatic. Despite tough competition the company was able to increase its sales revenues by more than 13% i.e. up to 16.7 million euros (261.3 million kroons). While due to the slowdown of the economy the situation was unstable in the beginning of the year and the volume of orders was still modest, the second half of the year, especially the last few months witnessed an activation of the exports sector. An increase in orders for products for the energy production and energy distribution sector, renewable energy projects, treatment of waste and for nuclear power stations was noticeable, resulting in an increase in the share of these products in the company's product portfolio. A positive increase was also noticeable in project products ordered directly, as well as by exporters. The company's products were exported to Sweden, Turkmenistan, Malaysia and United States.



The purposeful and consistent work of Satmatic has drawn wider public attention. Satmatic Oy was awarded the certificate of „Suomen Vahvimmat 2007-2011” (“Strongest in Finland”) by the Customer Registry of Suomen Asiakastiedo. The main evaluation criterion of the competition is the creditability of companies. The honourable title of Suomen Vahvimmat is given to those companies who for five

consecutive years have met the highest Alfa-rating (AAA or AA+) requirements. Only about 10% of Finnish companies have fulfilled such requirements.

In 2010 renewable energy was a keyword in product development. The company was directly involved in projects using new energy sources and continued developing solar energy based electro-technical equipment. In October a 30 kW solar energy station was completed by Satmatic. The comprehensive solution consists of 130 solar panels and is currently installed on the roof of the Ulvila factory in Finland. The system generates an estimated 25,000 kWh electric power a year. The electricity produced is used in the lighting and cooling of the factory and to reduce costs during peak hours. The investment cost of the solar station was around 100,000 euros, but part of the project was covered by funds from the Ministry of Employment and Economic Affairs. Another important development project completed by Satmatic was a model of a heating panel for car parks provided with a remote control system that enables long distance pre-management of the heating panel through the internet or by SMS. This solution makes the product more attractive and offers customer additional comfort. Thus the rights for production and marketing of heating panels for car parks acquired more than a year ago have given the company the opportunity to further develop the product and reinforce its marketing, substantially increasing the sales and the share of the product group in its product portfolio. The first comprehensive solutions provided with remote control were introduced in the car parks of Oulu Airport in the beginning of 2011.

When organising work and production processes Satmatic has always paid great attention to environmental sustainability. The personnel of Satmatic have been trained to follow the requirements for waste handling and package circulation and to reduce energy consumption. The organisation of the management and production of the company meets the requirements of the international quality management system ISO 9001. In 2009, the company introduced an environmental management handbook and in 2010 certification of the company's business processes in line with international environmental management quality standards ISO 14001 took place, carried out by Bureau Veritas Certification. Satmatic also continued the development of an electronic data processing system to make the handling of orders quicker and simpler, reduced the consumption of paper and received a lot of positive feedback from customers. An audit for certification of electro-technical production processes and products was carried out by SGS Fimko. In addition to that the Finnish electricity generating company, Teollisuuden Voima, named Satmatic Oy its official supplier of products in the nuclear energy sector and Siemens AG named Satmatic Oy as Sivacon's franchise partner.

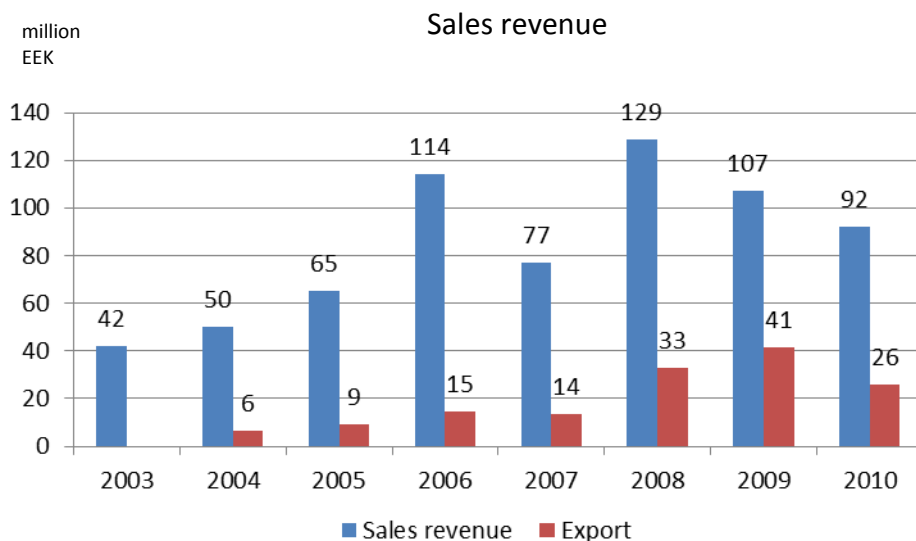
In 2011 Satmatic will continue active sales and marketing, as well prioritised development of project based products targeted to the export sector and the product range for the renewable energy sector. The key to the development of the company is in high productivity, involvement of new customers, as well as in increasing the sales of the Group's products in Finland. The financial and personnel management of the company will continue to focus on the development of electronic data systems and improving the skills of the personnel. Satmatic, as one of the companies of Harju Elekter Group, will contribute to the improvement of co-operation between all its companies.

Rifas Grupp

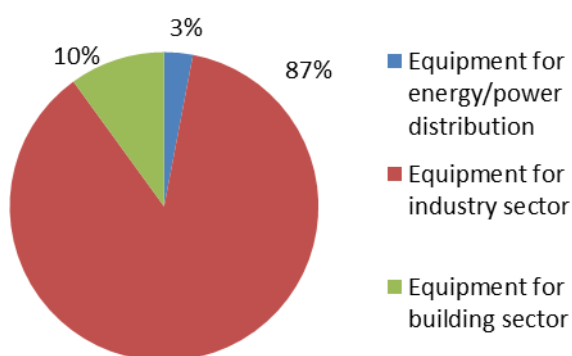
Rifas is a Lithuanian subsidiary of Harju Elekter located in Panevėžys. Harju Elekter owns 51% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter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

In 2010 the sales revenues of Rifas amounted to 92.1 million kroons which was 15% less than the year before. Exports formed 25% of total sales. The economic downturn in general, as well as a decrease in large-scale projects managed by the company had a negative effect on sales. Norway and Belarus were continually the main foreign markets, but in 2010 Finland, France and Latvia opened up as new markets for the company. The year was characterised by active sales work in order to win new orders and projects in existing, as well as new, markets with long-term, as well as new, customers. In November

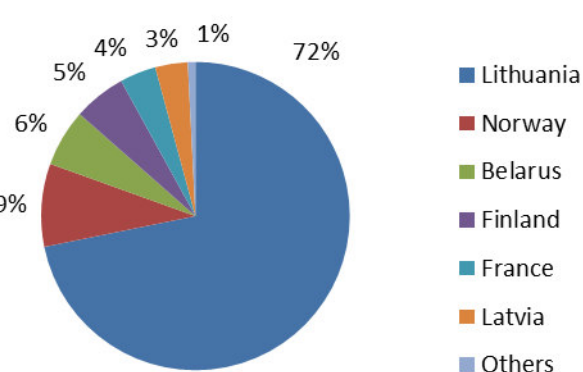
the company participated in the specialised international fair Elmia Subcontracor 2010 in Jönköping, Sweden.



Product groups



Revenue by market



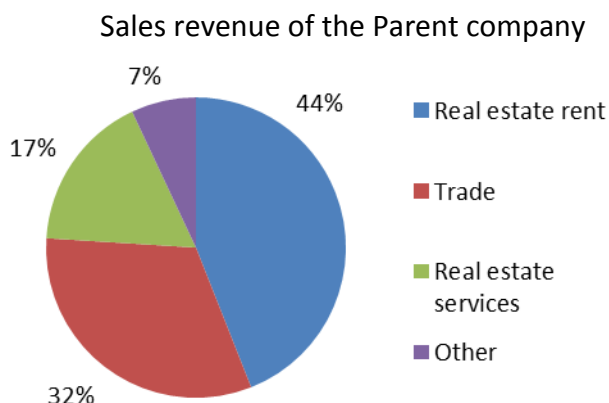
In connection with the introduction of new production premises the modernisation and optimising of the company's production processes was started in 2010 and this was accompanied by higher requirements from the personnel. During the year specific needs were identified and appropriate training programmes were set up. The company applied successfully for European Union funds to train its personnel in order to improve the company's export capacity (EU support covered 80% of the costs), as well as to implement new production technologies and increase its productivity (EU support covered 40% of the costs). The projects will be implemented during the first half of 2011.

During the previous year preparations were made to adjust the company's activities with the international standards of environmental management, ISO 14001 and occupational health and safety, OHSAS 18001. The company's organisation of production has been in line with the international quality standards, ISO 9001, since 2003.

In 2011, the company is planning to continue to extend its product line, locate new customers and win new projects in domestic as well as foreign markets. In order to find new markets the company plans to participate in specialised fairs in Norway, Denmark and the Netherlands. The customers can be assured of the quality of the products and solutions offered by the company on the basis of its previous projects, appropriate production capacity, meeting of supply deadlines and the high quality of the products.

REAL ESTATE HOLDING AND OTHER ACTIVITIES

The activities of the parent company of the Group, AS Harju Elekter, include real estate development, maintenance and rental and related services and mediation of these services. Real estate has been identified as a reportable segment, i.e. Real estate. Lease income forms 72% of segment revenue and related services and mediation of these services 25%. Real estate revenue was 56.1 (in 2009: 51.3) million kroons, out of which sales revenue from external customers amounted to 41.0 (in 2009: 37.6) millions kroons. The increase in revenue was brought about by an increase in leased premises.



Other fields of activity of the parent company do not constitute separate reporting segments and are considered as **other activities**. Unallocated activities include the coordination of co-operation within the Group, management of subsidiaries and related companies through their supervisory and management boards, management of the finances and investments of the Group and management of development and expansion activities as well as managing of personnel, IT and communication services and guaranteeing the professional operation of the corporate stores. Stores located in Tallinn, Tartu and Keila sell both products of the Group and related companies and other goods necessary for electrical installation work mainly to retail customers and small and medium sized electrical installation companies. In 2010, revenue from unallocated activities was 35.7 (in 2009: 36.7) million kroons, out of which sales revenue from external customers amounted to 30.8 (in 2009: 33.2) million kroons. Changes in the real estate market have considerably influenced trading activities. As a consequence the wholesale volume of sales by the trade group to small and medium-sized electrical installation companies decreased considerably.

Totally the business activity of the Parent company gives more than 11% from the consolidated sales revenues.

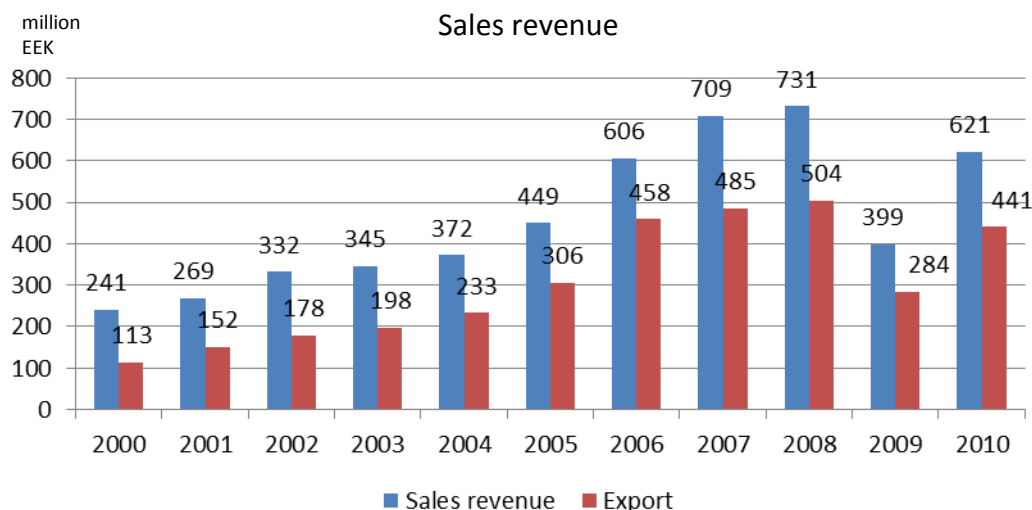
RELATED COMPANY

As at the end of 2010, the Group had a share of 34% in the related company, Draka Keila Cables. The economic results of the related company are presented in the consolidated financial statement using the equity method. A profit 1.0 million kroons from related company was consolidated in 2010. Year before, a total loss of 8.2 million kroons was consolidated from the related company.

AS Draka Keila Cables

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

Power networks and constructors of power and telecommunication networks are the main customers of the company. The company's products are sold to them through wholesalers of electric goods and through the shops of the Harju Elekter trading group. Almost half of the sales revenues of the company come from sales to other companies of the Draka Group who sell the production of their Keila factory in their home markets. The production of AS Draka Keila Cables is marketed in Estonia, Latvia, Lithuania, as well as in Scandinavian countries, Poland and even further afield.



The year 2010 was successful for the company. Sales revenues increased by 55% amounting to 620.8 million kroons and the growth took place in domestic as well as foreign markets. The exports amounted to 71% of the total sales revenue. Sales increased mainly due to the growth in the company's market share. Sales of the telecommunication segment products, as well as the industrial segment projects were carried out successfully. The rise in prices of raw materials also had a role in the growth of sales revenues. The increase in market share was supported by the high quality of the products and services of the company, effective management of storage areas and pleasant customer service. Concurrently with the increasing sales all economic indicators of the company improved.

The company's investment activities in 2010 were aimed at the completion of the plant expansion which resulted in additional production space, installation of two new production lines and introduction of new products. AS Harju Elekter invested in the production premises of AS Draka Keila Cables and managed the relevant construction works. As a result the production area leased to the related company increased by 3,700m² amounting now to 12,300m², while the open air storage area now amounts to 18,700m². The correctness of the investment decision was proved by the fact that, despite the continually difficult economic situation, the sales revenues of the company in the second half of the year were higher than ever before. In addition to the introduction of new products the targets related to higher productivity were achieved which helped to improve the competitiveness of the company. Such changes made the start of sales of the company's products in several new markets possible.

In 2011, the main focus will be on an improvement in productivity and increasing the manufacturing capacity on the basis of improving the existing equipment. As in previous years we hope that increasing the manufacturing capacity and productivity will help us to increase our market share and find new markets.

OTHER FINANCIAL INVESTMENTS

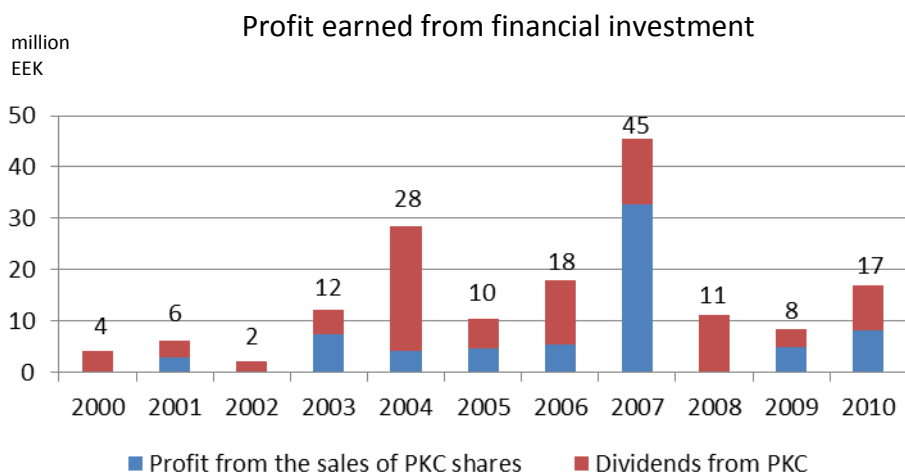
SIA Energokomplekss

SIA Energokomplekss is a sales organisation, founded in 2006. At the beginning the Group's participation in the Latvian company SIA Energokomplekss was 10% and it was increased to 14% in 2009. Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and LV equipment in Latvia.

PKC Group Oyj

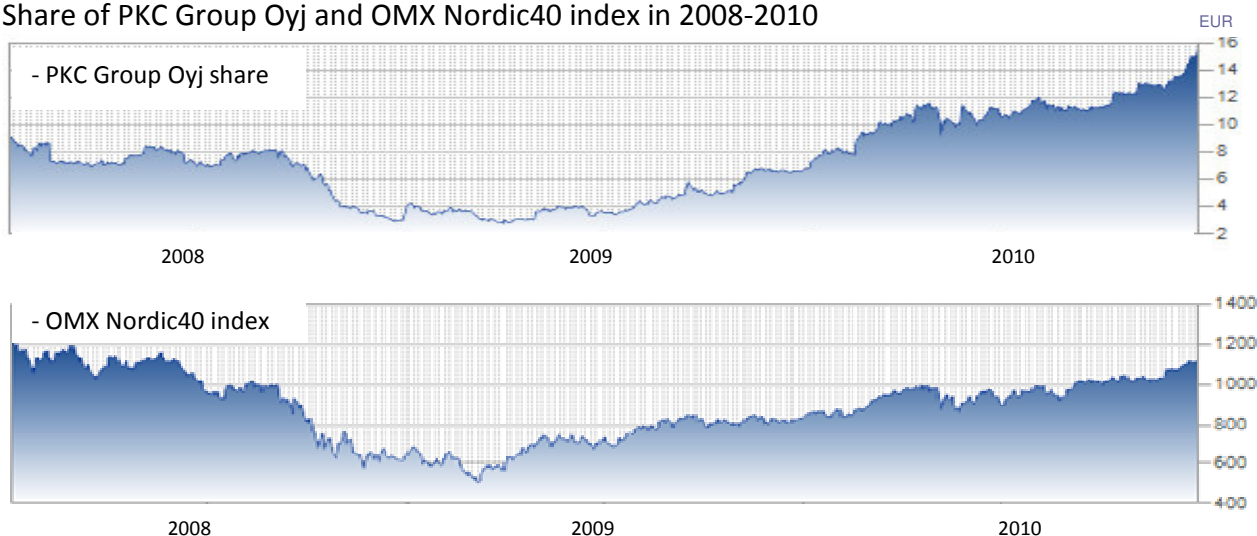
PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries.

PKC Group shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is the main holder of PKC Group Oyj shares with a stake of 7.2% as at December 31, 2010. PKC Group shares are valued in the balance sheet according to market price and any change in the market price of the shares may have a substantial influence on the financial indicators of the Group. The market price of the shares increased in 2010 by 8.77 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 15.37 euros (2009: 6.60 euros). During the period of 12 months the fair (i.e. market) value of financial assets increased by 183.8 million kroons amounting to 337.0 million kroons.



In 2010, the PKC Group Oyj paid a dividend of 0.40 euros (6.26 kroons) per share which is a total of 8.8 million kroons (0.56 million euros), compared to 0.15 euros (2.35 kroons) per share in 2009 i.e. a total of 3.5 million kroons (0.22 million euros). At the beginning of the year the Group sold 80,000 (2009: 100,000) PKC Group Oyj shares, the nonrecurring profit for which amounted to 8.2 (2009: 5.0) million kroons. The total profit earned from the financial investment was 17.0 million kroons, which was 8.5 million kroons more than in 2009.

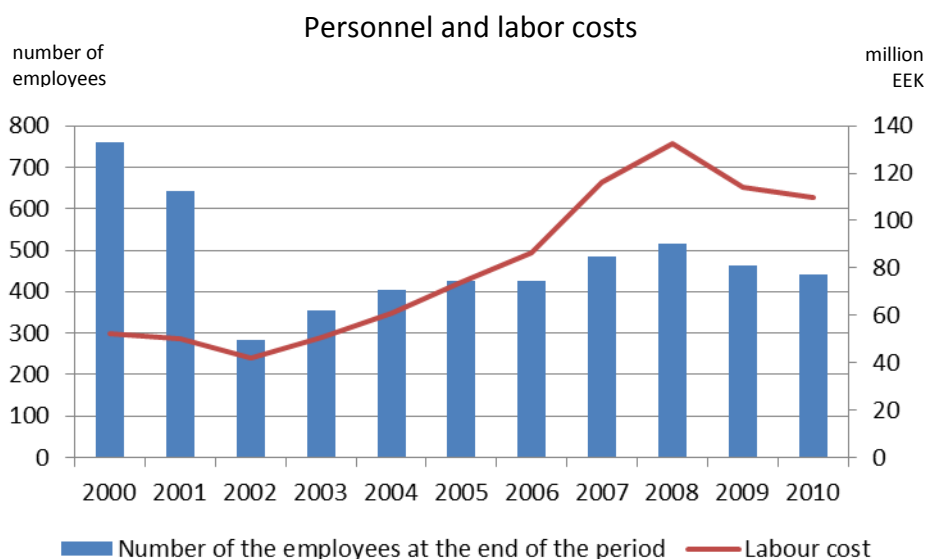
Share of PKC Group Oyj and OMX Nordic40 index in 2008-2010



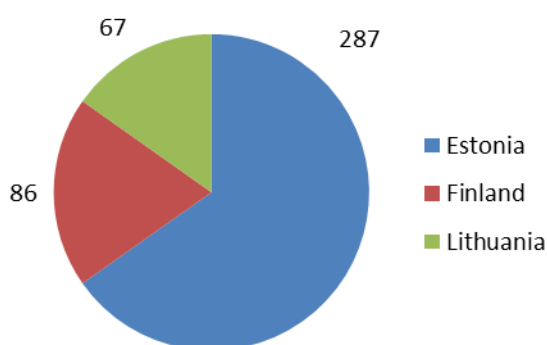
PERSONNEL

In 2010, the average number of employees was 424 (452). As at the balance day on 31 December, there were 440 (2009: 464) people working in the Group, which are 24 employees less than on the beginning of the year. During the year, expenses on staff decreased by 2.7% reaching 142.3 million kroons. The employees were paid totally 109.9 million kroons in salaries, bonuses and compensation, which was 3.9% lower than during the comparable period. The average wage per employee was 21,597 kroons and 21,070 kroons in the compared period.

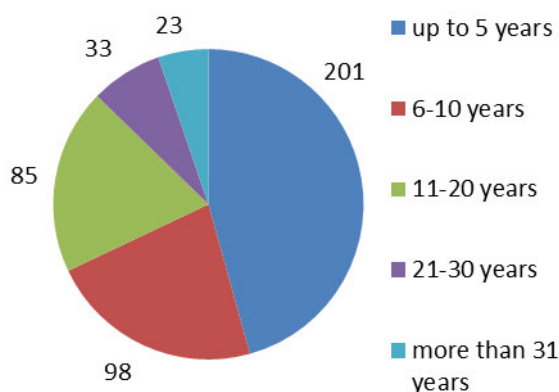
Due to the economic recession a large number of jobs were liquidated within the Group's region of operation during recent years and, therefore the lack of a labour force characteristic of the years of economic growth has been replaced by unemployment. In 2010 the unemployment rate in the Group's domestic markets – Estonia, Finland and Lithuania – was around 10-15%. The main task in the first half of the year was to implement different economy measures in order to reduce personnel and labour costs. Due to optimising labour costs and thanks to a surplus of the labour force the Group managed to reduce wages and working hours and use unpaid holidays in several of its companies. Although, during the second half of the year, the economy stabilised and recovered, the companies of the Group did not rush to create new jobs but tried to work with less people more effectively and keep costs at an optimal level.



Employees by country



Length of service



Despite the high unemployment rate it was difficult to find highly qualified employees as the introduction of new technologies requires the capability for handling much more complex equipment. This was due to the lack of people who have obtained the necessary qualifications, as well as due to the

'non-attractive' wage level offered in this field of activity as a whole. On the other hand, the outflow of qualified specialists, especially from Estonia and Lithuania, was a great problem.

The majority of the Group's employees – 287 people – worked in Estonia, including 47 people who worked in the parent company. At the end of the year, there were 86 people working in Finland and 67 in Lithuania. From 440 employees working in the Group 335 of them were men and 105 women, 101 of whom have higher education, 286 people have secondary or vocational secondary education and 53 have Basic education. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.

Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. Every other employee has worked in the Group for over five years and Harju Elekter is a stable employer which appreciates the loyalty of its workers.

The average age of the Group's employees is 43 years. To find new competent employees, Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes. Harju Elekter is a golden sponsor of Tallinn Technical University. 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. Also Harju Elekter carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and other schools. Finnish subsidiary had a close co-operation with Satakunta Vocational High School, Tampere Technical University and Aalto-University. Besides that in 2010 co-operation in the area of training related to renewable energy was started with SATAEDU.

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

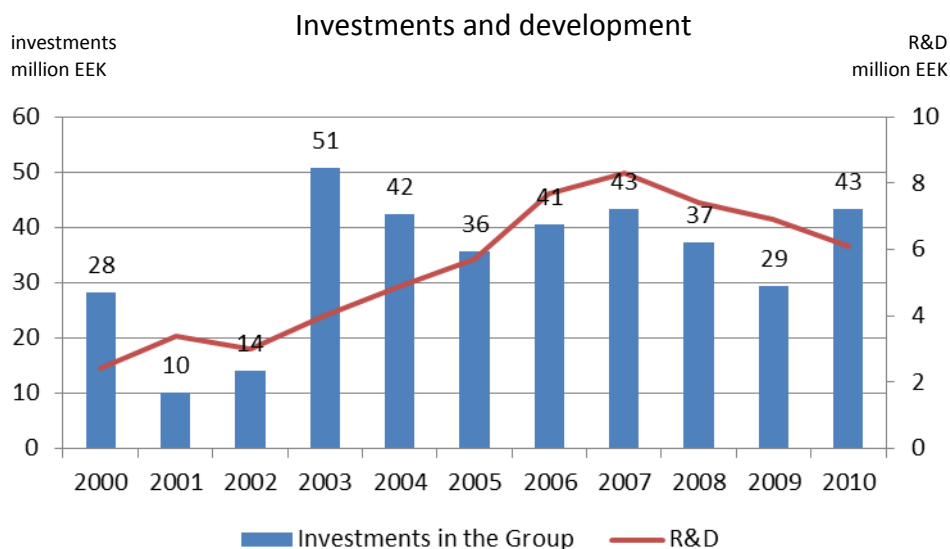
Harju Elekter is a responsible and caring employer offering its employees contemporary working and recreation conditions. The Group is involved in constructive co-operation with the Keila Industrial Park trade union, one of the main outcomes of which is collective labour agreement. The stability, social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

INVESTMENTS AND DEVELOPMENT

In 2010 the Group invested 4.7 (2009: 9.2) million kroons in real estate, 36.4 (2009: 16.3) million kroons in tangible fixed assets and 2.1 (2009: 3.8) million kroons in intangible fixed assets, totally 43.2 million kroons, of which the cost of assets acquired by way of financial lease formed 29.8 million kroons. All in all, in 2010 the investment by the Group exceeded the investment in 2009 by 47.4%.

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

In June 2010 the expansion of the production premises of AS Draka Keila Cables were completed and as a result the production area leased to the related company increased by 3,700m² amounting now to 12,300m², while the open air storage area now amounts to 18,700m². The acquisition cost of the production premises amounted to 12.4 million kroons of which 8.9 million kroons were invested in 2009.



As from October 2009, the new AX2009 business management software has been in use in all of the Harju Elekter Group's Estonian companies. During the reporting year the company focused on identifying, adjusting and introducing new modules and additional options. The ultimate aim is to develop an innovative tool that simplifies the search for cost and time effective solutions and makes the management of information circulating within the company and analysing customer information more efficient.

Work involving grants from the European Union structural funds in the development project of the Group continued. The projects were mainly aimed at developing key activities of the companies, preparing strategies and training the personnel (improvement in qualifications, team work training). With assigned technology grants the production capability of Harju Elekter Elektrotehnika was enhanced through improving technology which resulted in improved quality and security of supply necessary for successful export activities as well as shorter production cycles.

According to the development principles of the Group, Harju Elekter aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2010 the development costs, at cost price, of the Group amounted to a total of 6.1 (2009: 6.9) million kroons, accounting for 1.0% of the Group's sales volume.

The main product development resources of the Group are concentrated in the Estonian subsidiary, Harju Elekter Elektrotehnika. Satmatic Oy specialises in industrial products and the development of renewable energy solutions. The Estonian product development team developed a special solution for a complete station for container cranes in docks. In 2010 the development of a new, maximum 5,000 A nominal current low voltage distribution device was started and the production of medium voltage secondary distribution devices, provided with an extracting power switch, was initiated.

In 2010 the representation and sales organisation of the Group, Harju Elekter AB, was established in Sweden. Harju Elekter Elektrotehnika designed and developed a 250 kVA and a 1,000 kVA substation models meeting the requirements of the Swedish market using environmentally friendly medium voltage equipment with air isolation. In the second half of the year the first batches of the equipment were delivered receiving positive feedback from the customers. The development of new products and solutions and following market demands enables a considerable increase in the product range of the Group and improves the competitiveness of the products in the target market.

The Finnish subsidiary, Satmatic Oy, is focused on a development project related to renewable energy and offering suitable solutions related to it, in 2010 the development team of Satmatic Oy developed a solution for electro-technical equipment based on solar energy. In October 2010 a 30 kW solar energy station that generates an estimated 25, 000 kWh electric power a year was completed. The Finnish team also developed a model of a heating panel for car parks provided with a remote control system.

The organisation of production in all companies of the Group complies with international quality and environmental management standards, ISO 9001 and ISO 14001.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

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

The Estonian subsidiary, Harju Elekter Elektrotehnika, continued the reorganisation of production processes following the principles of quality management and environment friendly operation in order to use essential materials more efficiently and reduce the relevant waste to a minimum. As a result of greater attention paid to the working environment the number of sick leave days decreased.

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.

In 2010, a recertification of the quality and environmental management systems was carried out in the Estonian subsidiaries, AS Harju Elekter Elektrotehnika and AS Eltek, which successfully passed the audits for recertification of the quality management systems ISO 9001/2008 and 14001/2004, carried out by the Bureau Veritas Certification. In other companies of the Group regular annual audits were carried out. The Bureau Veritas Certification also carried out the pre-audit of business processes of the Finnish subsidiary, Satmatic Oy, according to international environmental management quality standards ISO 14001. The Lithuanian subsidiary, Rifas, also started preparations for adjusting the operation of the company with the environmental management quality standards ISO 14001 and the international standards of occupational health and safety, OHSAS 18001. The next recertification in Rifas UAB and Satmatic Oy are scheduled to take place in 2012.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Harju Elekter Elektrotehnika	ISO9001 ISO14001				()			(up to 1/2010)			(up to 1/2013)
Eltek			ISO9001 ISO14001			()			(kuni 1/2011)		(up to 1/2014)
Rifas				ISO9001 LST EN ISO 9001:2001			()			(up to 12/2012)	
Satmatic				ISO9001			()			(up to 10/2012)	ISO14001
Draka Keila Cables	ISO9001 ISO14001			()			()			(up to 3/2012)	

() - resertification

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:

- *Currency risk*: the Group is not exposed to major currency risks, as cross-border transactions are, as a rule, carried out in euros.
- *Price risk* - The Group is exposed to equity securities price risk because of investments held by the Group and classified as financial assets. Fluctuations in the market value of the PKC Group Oyj shares may have a significant impact on the value of the assets of AS Harju Elekter.
- *Interest risks*: proceed from long-term loans. The interest rate risk is mainly due to the possible changes in euribor (Euro Interbank Offered Rate) because some of the Group's loans are connected to euribor. The risk increases if interest rates rise. In order to manage these risks the Group follows the principle that part of the loan agreements are concluded at a fixed rate of interest.
- 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. The company follows strict payment discipline and, if necessary, credit insurance is used. This has made it possible to keep losses deriving from credit risks to under 0.1-0.2 % from sales revenue.
- *Liquidity risk*: Liquidity risk is managed by different financial instruments such as loans and financial leases should the Group be unable to cover necessary costs and investments because of a deficit in the cash flow.

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

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

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

- *Risks associated with the professional skills of personnel*: the Group needs employees with specific specialised training. To that end, the Group co-operates with vocational schools (e.g. Tallinn Construction School, Tallinn Centre of Industrial Education) and institutions of higher education (e.g. Tallinn Technical University (TTU), Tallinn Polytechnic School, Satakunta 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 Panevėžys, Lithuania. The foreign subsidiaries deal with their personnel issues on their own. The personnel services of the Estonian companies are concentrated at the Group level where daily administration as well as constant recruitment is carried out.

- *Personnel turnover:* in 2010, the unstable situation in domestic markets, as well as in the whole world, influenced the labour situation in the Group and in the whole area of its operation. The average fluctuation of manpower within the companies of the Group was 5.7% (2009: 5.5%) during the reporting period. Constant work with the personnel, the quality of internal information management and continuous refining of the goals of the company helps to keep the fluctuation of manpower under control. In addition the Group has developed clear wage and bonus systems and motivation programmes for employees. As an international enterprise the Group gives its employees the opportunity to practice and/or work in rotation and also in its other companies located in other countries.

SOCIAL RESPONSIBILITY AND CHARITY

The environment around us creates, as well as limits, our opportunities to act. During its almost half-century history of operation Harju Elekter has become one of the largest companies in the region and we feel we have to take responsibility for the general development of society as well as the wellbeing of the local community. Over the years four major areas of sponsorship have evolved within the Group.

Bearing of social responsibility

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

Supporting the education of engineers in Estonia

The company works in close co-operation with Estonian educational institutions in order to promote and develop the educating of engineers. Harju Elekter is a golden sponsor of Tallinn Technical University granting every year up to three scholarships for Bachelor's as well as Master's degree students in the field of electricity and mechanics. The Group also carries out several co-operation programs with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. Finnish subsidiary had a close co-operation with Satakunta Vocational High School, Tampere Technical University and Aalto-University

Supporting and inspiring young sportsmen

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

Promoting recreational sport among the employees

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

The total amount of different support programmes in 2010 amounted to 263.4 (2009: 218.2) thousand kroons.

CORPORATE TARGET FOR 2011

Harju Elekter considers that the sources of growth lie with an increase in sales in its current markets and in entering new foreign markets. The main efforts are being focused on finding new markets, projects, customers and co-operation partners in Nordic countries and the EU as a whole. In the following years all the resources of the Group will be directed to making sales work more efficient. The main tasks of the export manager will be to find and develop new markets and guarantee our active presence there. At the same time the Group is looking for attractive companies which could be associated with the Harju Elekter Group - providing our interests coincide.

The use and implementation of up-to-date compatible information systems is the basis for the cooperation between the different companies of the Group. Starting from October 2010 the Estonian companies of the Group have been using a common production management and accounting software programme AX2009. The new software is a useful tool for the identification of cost and time effective solutions, helping to manage the information circulating in the organisation and make the analysis and use of customer information more efficient. The goal for 2011 is to complete the software development in all Estonian companies of the Group and, after that, also implement it in the Group's companies operating outside of Estonia.

The Group directs more and more resources into the development of products meant for end customers, in which lie long-term success and greater profitability. The growing reputation of the Harju Elekter trade mark and the quality of the products offer enhanced opportunities to achieve that. As regards the range of products and services the future aim is to offer a comprehensive service, starting with the development and production of the product and ending with the provision of guarantees and maintenance services. As far as project based works are concerned co-operation and mutual understanding is of vital importance.

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. Modern consumers are more and more oriented at energy efficient metering and monitoring possibilities and product solutions based on green energy. The targets and tasks of product development for the next few years have been drawn up bearing in mind these developments.

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

The Group has made targeted efforts at increasing know-how by concluding license agreements and investing in the personnel which is mainly channelled through in-service training and an improvement in the qualifications of the staff. In order to survive these difficult times closer co-operation between the companies of the Group at every level is crucial for making right decisions and taking the correct measures.

SUPERVISORY AND MANAGEMENT BOARDS, AUDITORS

According to the Articles of Association of Harju Elekter the annual general meeting of shareholders elects and appoints the Supervisory Board of the company. The annual general meeting of AS Harju Elekter in 2007 appointed the five members Supervisory Board for the next five years. In 2010, there were no changes to the Supervisory Board of AS Harju Elekter. The Supervisory Board continues with the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Chairman of Kabal&Partners OÜ), Lembit Kirsme (Chairman of OÜ Kirschmann), Madis Talgre (Chairman of the Management Board, AS Harju KEK) and Andres Toome (Chairman of OÜ Tradematic). As a rule, meetings of the Supervisory Board are attended by all its members. During the reporting year, there was only one member who attended less than half of the meetings. The Supervisory Board elects the Chairman of the Management Board and appoints, on the basis of his proposal, members of the Management Board.

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company and appointed the members of the Supervisory Board – Mr Talgre and Mr Toome as its members.

In 2010, there were no changes to the Management Board which continues with the following membership: Andres Allikmäe as a Chairman and members Karin Padjus (Financial Director) and Lembit Libe (Chief Economist). All members of the Management Board belong to the executive management of the company. The Chairman of the Board receives remuneration in accordance with his contract of service; members of the Management Board receive no special remuneration. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

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

The amount of remuneration and salaries paid to the members of the Supervisory and Management Boards of AS Harju Elekter in 2010 amounted to a total of 3.5 (in 2009: 3.6) million kroons. The Group does not give the members of the Management Board any benefits related to pension. The Chairman of the Management Board has a contract of service specifying social guarantees in case of resignation.

According to the decision of the general meeting of the shareholders (23.4.2009) the audits of AS Harju Elekter for the years 2009–2011 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by UAB Baltijos Auditas in Lithuania and Pyydönniemi Ky in Finland.

SHARE AND SHAREHOLDERS

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

The share capital of Harju Elekter is 168 million kroons which is divided into 16.8 million ordinary shares. The symbol of a Harju Elekter share in NASDAQ OMX is HAE1T. ISIN: EE3100004250. The nominal value of a share is 10 kroons. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to 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.

Key share data

	2006	2007	2008	2009	2010
Number of shares (in thousand)	16,800	16,800	16,800	16,800	16,800
Nominal value (EEK)	10.00	10.00	10.00	10.00	10.00
Closing price (EEK)	64.93	53.20	15.49	32.08	47.25
Market value (in million EEK)	1,090.24	893.76	260.23	544.13	793.85
Earnings per share, EPS (EEK)	2.84	5.03	2.29	1.14	2.02
P/E	23.06	10.58	6.76	25.60	23.39
Dividend per share (EEK)	1.80	2.00	1.00	0.80	0.94
Dividend yield (%)	2.8	3.8	6.5	2.5	2.0
Dividend payout ratio (%)	64.0	39.8	43.6	69.9	46.5

Share price and trading

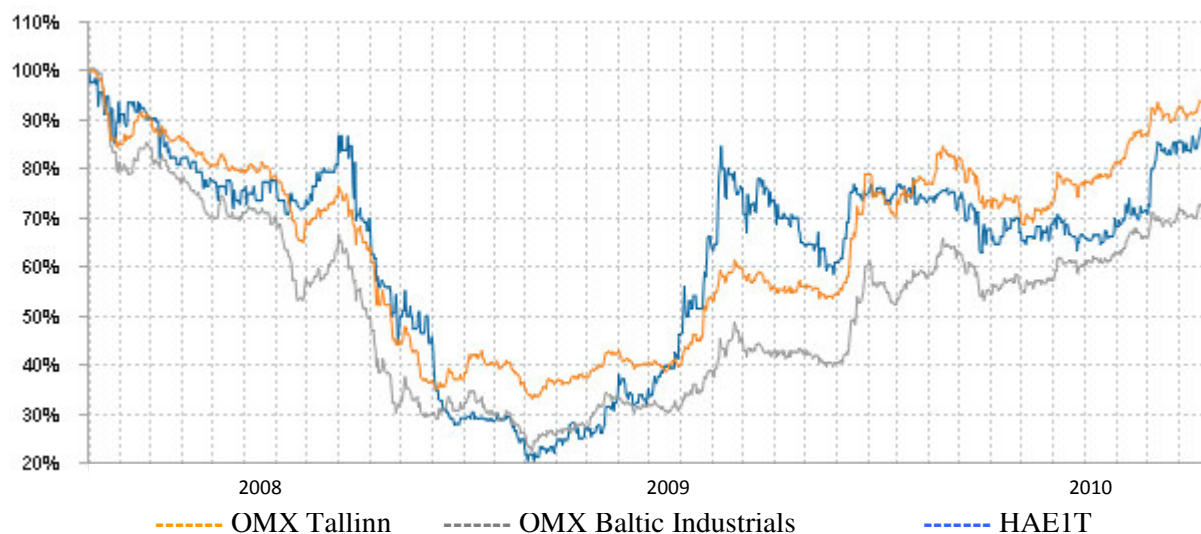
In 2010 the Estonian stock exchange showed the largest increase in its history – the prices of shares of most Estonian publicly traded companies increased and the Tallinn Stock Exchange index OMXT rose by 72.6%. The number of shareholders of most publicly traded companies has also increased and the share of Estonian investors has increased from 34% to 63%. Although the number of stock market transactions increased in 2010 amounting to 101,300 the total turnover on the Tallinn Stock Exchange was the smallest in recent years amounting to just 243.3 million euros (3.81 billion kroons). The record number of transactions and decreased daily turnover dropped the average value of a transaction to near 2,400 euros i.e. 37 thousand kroons. Due to the departure of several companies the total market value of publicly traded companies decreased by 8.9% amounting to 1.68 billion euros by the end of the year.

In 2010 the share price of Harju Elekter increased by 45.9% amounting to 47.25 kroons and, as of December 31, 2010, the market value of the Group was 793.85 million kroons. During the year, trading activity in Harju Elekter shares increased amounting to 2.04 million shares. The number of shareholders has also increased gradually. By the end of the year the company had 1,370 shareholders.

	2006	2007	2008	2009	2010
Highest price (EEK)	69.47	71.97	53.98	46.78	49.13
Lowest price (EEK)	51.63	47.25	14.86	10.48	31.61
Closing price (EEK)	64.93	53.20	15.49	32.08	47.25
Change (%)	+1.22	-18.1	-70.9	+107.0	+45.9
Traded shares	4,549,191	5,787,606	4,634,592	1,559,830	2,039,910
Turnover (in million EEK)	277.51	335.42	178.25	33.51	84.55

A comparison of Harju Elekter share indexes 2008–2010

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



Shareholders structure

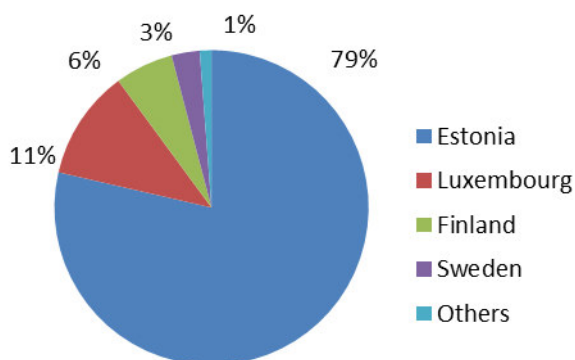
At the end of 2010, Harju Elekter had 1,370 shareholders. The number of shareholders increased during the year by 184 persons.

The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2010 held 32.14% of Harju Elekter's share capital. Members of the supervisory and management board and persons or companies associated with them hold 17.7% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

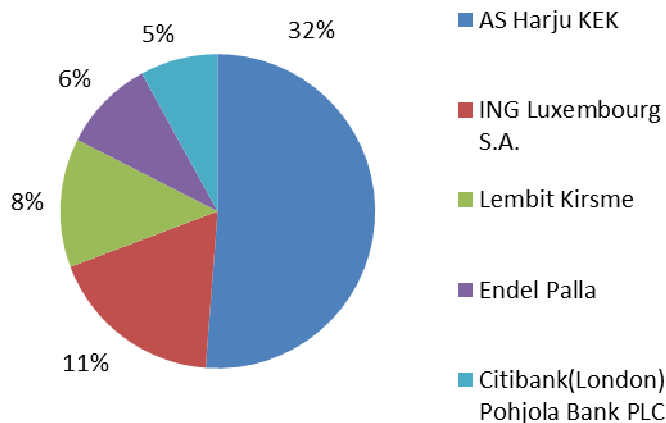
Shareholder structure by size of holding at 31 December 2010

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.2%	43.5%
1.0 – 10.0%	12	0.9%	29.7%
0.1 – 1.0%	117	8.5%	17.9%
< 0.1%	1,239	90.4%	8.9%
Total	1,370	100%	100%

Shareholders by country



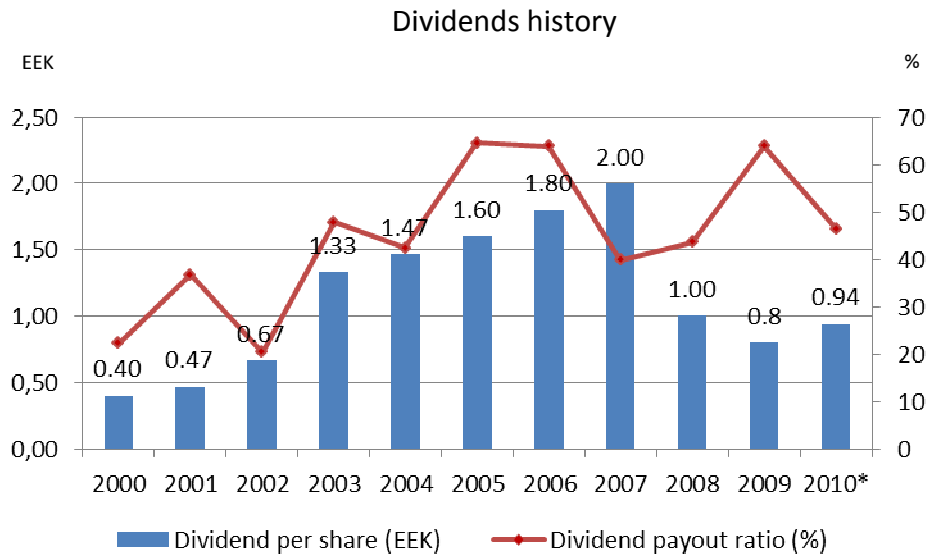
> 5% shareholders



Dividends

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

As a result of strong capitalisation and a positive growth perspective the Management Board proposes to pay a dividend of EEK 0.94 per share, totally 15.77 (2009: 13.44) million kroons for the financial year 2010. This is 46% (2009: 70%) from total net profit.



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

CORPORATE GOVERNANCE

Corporate Governance Report 2010

As a company Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and as a public company, Harju Elekter also observes the rules of the Tallinn Stock Exchange, the Principles of the Corporate Governance Code and the requirements to treat investors and shareholders equally. Accordingly, Harju Elekter complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2010, the supervisory board, the management board and explains Harju Elekter's governance structure and processes.

CGC Article 1.3.3

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

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

CGC Article 2.2.1

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

The Management Board of the company includes employees who are responsible for the company's strategic areas: The Management Board of the company includes employees who are responsible for the company's strategic areas: the Chairman of the Management Board organises the work of the Board and some members of the Board also perform the tasks of Finance Manager and Chief Economist. Only the Chairman of the Board concludes contracts with members of the Board as the Finance Manager and Chief Economist perform, in addition to their statutory tasks as members of the Management Board, also tasks that are not related to their status as members of the Management Board and, therefore, they work on the basis of employment contracts.

CGC Article 2.2.7

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

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

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative personnel and its total rate is 4.0% of the group's operating profit. The performance pay is distributed according to the basic salary and work performance and the performance pay of the members of the Management Board is approved by the chairman of the Supervisory Board. 80% of the performance pay is paid by quarter; the remaining 20% is paid after the results of the financial year have been determined.

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

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

CGC Article 2.3.2

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

In 2010 no such transactions were performed.

CGC Article 3.1.3

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

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes and appointed Madis Talgre and Andres Toome as its members. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Council in issues provided by law. Details of the Audit Committee and its position in the organisation will be available on the company's website starting from April 2011.

CGC Article 3.2.5

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

The shareholders' general meeting of Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 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 kroons 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 (see also CGC explanation for CGC Article 2.2.7). No severance pay is allotted to members of the Supervisory Board.

CGC Article 3.2.6

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

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

CGC Article 3.3.2

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

Members of the Supervisory Board must avoid any conflict of interest and follow the requirements of prohibition on competition. The Supervisory Board and the Management Board work in close co-operation, acting according to the Articles of Association and in the best interests of the company and its shareholders. In 2010 no conflicts of interests occurred.

CGC Article 5.3

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

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

CGC Article 5.6

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

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

CGC Article 6.2

Electing the auditor and auditing the annual accounts.

The general meeting of the shareholders of Harju Elekter of 23.4.2009 elected an auditor for the company for the period 2009–2011; the elected auditor is the auditing company KPMG Baltics OÜ. Information on the auditor is available at the company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. Pursuant to the guidelines of the Financial Supervision Authority from 24.9.2003 – “On the rotation of the auditors of certain subjects of state financial supervision” – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

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

General meeting

The general meeting is the company's highest governing body who have competence for amending the Articles of Association and approving new ones, changing the amount of share capital, removal of members from the Supervisory Board and the termination of the activities of the company, making decisions on the division, merging and transformation of the company with the precondition that at least 2/3 of the shareholders represented at the general meeting approve such decisions. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the company's financial year. An extraordinary general meeting is called by the management board when the company's net assets have declined below the level required by the law or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the company's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined 7 days before at the date of the general meeting.

The annual general meeting of 2010 was held on 29 April at Keskväljak 12 in Keila, Estonia. A total of 9,817,158 shares were represented (58.44% of the voting stock). The meeting approved the company's annual report and profit allocation proposal for 2009 and deemed the decision adopted on the basis of item 4 of the AGM on 26.04.2007 to carry out planned placing in 2010 inexpedient and declared the decisions made under this item invalid. Presentations were made by the chairman of the management board, chairman of the supervisory board and auditor.

Supervisory Board

The supervisory board plans the activities of the company, organises the management of the company and supervises the activities of the management board. The supervisory board meets according to need but not less frequently than once every three months. A meeting of the supervisory board has a quorum when more than half of the members participate. In 2010, the supervisory board met seven times. All members, with one exception, of the supervisory board attended all or most of the meetings.

According to the Articles of Association, Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years. The current supervisory board was elected by the annual general meeting in 2007 and it has five members.

The present members of the supervisory board are Endel Palla (chairman), Ain Kabal, Lembit Kirsme, Madis Talgre ja Andres Toome. Mr Palla has been working in Harju Elekter since 1969 (1985 -1999 as managing director) and keeps today company's R&D manager position. Mr Kabal is a lawyer and chairman in Kabal&Partners OÜ who has long-term experience in advising Group's companies on legal issues. Mr Kirsme is a chairman of OÜ Kirschmann and has long-term experience with knowledge of the Group's business. Mr Talgre is a chairman of AS Harju KEK, the biggest shareholder of Harju Elekter (holding 32.14% of the shares of the company on 31.12.2010). Since 2007 Mr Toome (chairman of OÜ Tradematic) has been a member of the supervisory board. He complements the Board with investment experience. Two of the five members of the Supervisory Board - Ain Kabal and Andres Toome - are independent.

At 31 December 2010, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 15.54% of Harju Elekter shares (note 23).

Management Board

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

The everyday business activities of the Group are managed by members of the Management Board of the parent company according to their areas of responsibility and those members of the Supervisory Board who are involved in the everyday work of the company. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies. The administration of all the members of the Group is characterised by a lengthy experience of over 10 years.

Harju Elekter's Management Board has three members: Andres Allikmäe (chairman), Lembit Libe (chief economist) and Karin Padjus (financial director). On 21 April 2008, the Supervisory Board decided to extend the board members' term of office for another three years. The Management Board of the company includes employees who are responsible for the company's strategic areas: the Chairman of the Management Board organises the work of the Board and some members of the Board also perform the tasks of Finance Manager and Chief Economist.

At 31 December 2010, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 2.13% of Harju Elekter shares (note 23).

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

Additional management bodies and special committees

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

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

Information management

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

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

STATISTICAL SUMMARY

Group	1 EUR=15,6466 EEK	2010	2009	2008	2007	2006
Statement of comprehensive income (1000 EEK)						
Net sales		639.7	632.7	871.6	732.0	622.1
Operating profit		23.8	28.3	50.1	51.5	45.2
Net profit (belonging to the owners of the parent company)		34.0	19.2	38.6	84.5	47.3
Statement of financial position (1000 EEK)						
Total current assets		225.5	187.7	249.4	241.0	169.4
Total fixed assets		636.8	430.4	352.6	479.3	588.4
Total assets		862.3	618.1	602.0	720.3	757.7
Owners' equity (belonging to the owners of the parent company)		687.8	480.5	397.2	533.2	605.6
Equity ratio (%)		79.8	77.7	66.0	74.0	79.9
Rates of growth (%)						
Growth in net sales		1.1	-27.4	19.1	17.7	21.1
Operating profit growth		-16.1	-43.4	-2.8	14.0	20.5
Net profit growth		76.9	-50.1	-54.3	78.6	13.6
Assets growth		39.5	2.7	-16.4	-4.9	8.8
Owner's equity growth (belonging to the owners of the parent company)		43.1	21.0	-25.5	-12.0	9.7
Performance indicators (%)						
Return of sales		3.7	4.5	5.7	7.0	7.3
Net profit margin		5.6	3.4	4.4	11.5	7.6
Return of assets (ROA)		3.2	3.2	5.8	11.4	6.5
Return of equity (ROE)		4.4	4.4	8.3	14.8	8.2
Shares (EEK)						
Average number of shares (1000 pc)		16,800	16,800	16,800	16,800	16,800
Shareholder's equity per share		34.77	26.12	23.64	33.89	34.46
The closing price		47.25	32.08	15.49	53.2	64.93
EPS		2.02	1.14	2.29	5.03	2.81
P/E		23.39	28.14	6.76	10.58	23.06
Dividend per share		¹ 0.94	0.80	1.00	2.00	1.80
Liquidity ratio						
Current ratio		1.8	1.6	1.6	1.6	1.6
Quick ratio		1.1	0.9	0.8	0.8	0.9
Personnel and remuneration						
Number of employees at the end of the period		424	452	501	442	439
Average number of employees		440	464	515	486	427
Wages and salaries (million kroons)		109.9	114.3	132.4	116.2	86.6
Return of sales	= Operating profit/Net sales *100					
Net profit margin	= Net profit/Net sales *100					
Shareholder's equity per share	= Average owner's equity/Average number of shares					
Return of assets (ROA)	= Net profit/Average total assets *100					
Return of equity (ROE)	= Net profit/Average owner's equity *100					
Equity ratio	= Owner's equity (belonging to the owners of the parent company)/Assets*100					
Current ratio	= Current assets/Current liabilities					
Quick ratio	= Liquid assets/Current liabilities					

¹ Proposal of the Management Board

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	EEK '000 2010	2009	EUR'000 2010	2009
Current assets					
Cash and cash equivalents	7	37,556	35,640	2,400	2,278
Trade receivables and other receivables	8	101,376	70,238	6,479	4,489
Prepayments	9	1,917	2,499	123	160
Inventories	10	84,659	79,352	5,411	5,071
Total current assets		225,508	187,729	14,413	11,998
Non-current assets					
Investments in associate	11	10,642	9,681	680	619
Other long-term financial investments	12	337,020	153,172	21,539	9,789
Investment property	13	136,298	137,176	8,711	8,768
Property, plant and equipment	14	146,287	124,575	9,350	7,962
Intangible assets	16	6,592	5,815	421	371
Total non-current assets		636,839	430,419	40,701	27,509
TOTAL ASSETS		862,347	618,148	55,114	39,507
Current liabilities					
Interest-bearing loans and borrowings	17	24,074	18,166	1,539	1,161
Trade payables and other payables	19	81,003	75,890	5,178	4,850
Tax liabilities	20	14,323	9,747	915	624
Income tax	20	296	620	19	39
Short-term provisions	21	1,236	1,157	79	74
Deferred income		0	1,564	0	100
Total current liabilities		120,932	107,144	7,730	6,848
Interest-bearing loans and borrowings	17	28,607	7,016	1,828	448
Provisions	21	160	0	10	0
Total non-current liabilities		28,767	7,016	1,838	448
Total liabilities		149,699	114,160	9,568	7,296
Equity					
Share capital	23	168,000	168,000	10,737	10,737
Share premium		6,000	6,000	384	384
Reserves	23	334,781	149,760	21,396	9,571
Retained earnings		178,997	156,770	11,440	10,020
Equity attributable to owners of the Company		687,778	480,530	43,957	30,712
Non-controlling interests		24,870	23,458	1,589	1,499
Total equity		712,648	503,988	45,546	32,211
TOTAL LIABILITIES AND EQUITY		862,347	618,148	55,114	39,507

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	EEK '000		EUR '000	
		2010	2009	2010	2009
Revenue	24,25	639,708	632,675	40,885	40,435
Cost of sales	25	-542,896	-528,071	-34,697	-33,750
Gross profit		96,812	104,604	6,188	6,685
Distribution costs	25	-29,501	-30,731	-1,885	-1,964
Administrative expenses	25	-43,334	-46,047	-2,770	-2,943
Other income	25	453	1,077	29	69
Other expenses	25	-666	-590	-43	-38
Operating profit		23,764	28,313	1,519	1,809
Finance income	25	17,344	9,160	1,109	585
Finance costs	25	-1,046	-1,204	-67	-77
Share of profit (-loss) of equity-accounted investees	11	961	-8,226	61	-525
Profit before tax		41,023	28,043	2,622	1,792
Income tax expense	26	-5,111	-6,356	-327	-406
Profit from continuing operations		35,912	21,687	2,295	1,386
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	12,23	192,109	83,365	12,278	5,328
Realised gain from sale of financial assets (-)	23	-7,187	-3,351	-459	-214
Foreign current translation differences- foreign operations		110	0	7	0
Other comprehensive income for year, net of tax		185,032	80,014	11,826	5,114
Total comprehensive income for the year		220,944	101,701	14,121	6,500
Profit attributable to:					
Owners of the Company		34,008	19,226	2,173	1,229
Non-controlling interests		1,904	2,461	122	157
Profit for the year		35,912	21,687	2,295	1,386
Total comprehensive income attributable to:					
Owners of the Company		219,029	99,240	13,998	6,343
Non-controlling interests		1,915	2,461	123	157
Total comprehensive income for the year		220,944	101,701	14,121	6,500
Earnings per share					
Basic earnings per share (EEK, EUR)	27	2.02	1.14	0.13	0.07
Diluted earnings per share (EEK, EUR)	27	2.00	1.14	0.13	0.07

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	EEK '000 2010	2009	EUR'000 2010	2009
Cash flows from operating activities					
Operating profit		23,764	28,313	1,519	1,809
<u>Adjustments for:</u>					
Depreciation and amortisation	13,14, 16,25	21,576	19,941	1,379	1,275
Gain on sale of property, plant and equipment	25	-43	-111	-3	-7
Share-based payment transactions		1,659	899	106	57
Change in receivables related to operating activity		-30,557	29,847	-1,953	1,908
Change in inventories		-5,307	43,999	-339	2,812
Change in payables related to operating activity		10,411	-35,127	665	-2,245
Corporate income tax paid	28	-5,435	-7,240	-347	-463
Interest paid	28	-972	-1,130	-62	-72
Net cash from operating activities		15,096	79,391	965	5,074
Cash flows from investing activities					
Acquisition of investment property	28	-6,711	-7,209	-429	-461
Acquisition of property, plant and equipment	28	-6,604	-17,886	-422	-1,143
Acquisition of intangible assets	16	-2,131	-3,844	-136	-246
Acquisition of financial assets		0	-178	0	-11
Proceeds from sale of property, plant and equipment		46	2,313	3	148
Proceeds from sale of other financial investments	12	9,235	6,318	590	404
Interest received	28	421	746	27	48
Dividends received	25	8,762	3,474	560	222
Net cash used in investing activities		3,018	-16,266	193	-1,039
Cash flows from financing activities					
Proceeds from borrowings	17	5,889	0	377	0
Repayment of borrowings	17	-3,682	-31,239	-235	-1,997
Payment of finance lease liabilities	17	-4,515	-2,181	-289	-139
Proceeds from issue of share capital		163	0	10	0
Dividends paid		-14,106	-17,355	-902	-1,109
Net cash used in financing activities		-16,251	-50,775	-1,039	-3,245
Net cash flows		1,863	12,350	119	790
Cash and cash equivalents at beginning of period		35,640	23,379	2,278	1,494
Net increase / decrease		1,863	12,350	119	790
Effect of exchange rate fluctuations on cash held	25	53	-89	3	-6
Cash and cash equivalents at end of period	7	37,556	35,640	2,400	2,278

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EEK '000	Attributable to equity holders of the parent						Non-control- ling interests	TOTAL
	Share capital	Share premium	Reserves	Retained earnings	Total			
At 31.12.2008	168,000	6,000	69,746	153,445	397,191	21,552		418,743
Profit for the year	0	0	0	19,226	19,226	2,461		21,687
Other comprehensive income	0	0	80,014	0	80,014	0		80,014
Comprehensive income 2009	0	0	80,014	19,226	99,240	2,461		101,701
Share-based payment transactions	0	0	0	899	899	0		899
Dividends	0	0	0	-16,800	-16,800	-555		-17,355
At 31.12.2009	168,000	6,000	149,760	156,770	480,530	23,458		503,988
Profit for the year	0	0	0	34,008	34,008	1,904		35,912
Other comprehensive income	0	0	185,021	0	185,021	11		185,032
Comprehensive income 2010	0	0	185,021	34,008	219,029	1,915		220,944
Share-based payment transactions	0	0	0	1,659	1,659	0		1,659
Dividends	0	0	0	-13,440	-13,440	-666		-14,106
Acquisition of non-controlling interests	0	0	0	0	0	163		163
At 31.12.2010	168,000	6,000	334,781	178,997	687,778	24,870		712,648
EUR'000								
At 31.12.2008	10,737	384	4,457	9,808	25,386	1,377		26,763
Profit for the year	0	0	0	1,229	1,229	157		1,386
Other comprehensive income	0	0	5,114	0	5,114	0		5,114
Comprehensive income 2009	0	0	5,114	1,229	6,343	157		6,500
Share-based payment transactions	0	0	0	57	57	0		57
Dividends	0	0	0	-1,074	-1,074	-35		-1,109
At 31.12.2009	10,737	384	9,571	10,020	30,712	1,499		32,211
Profit for the year	0	0	0	2,173	2,173	122		2,295
Other comprehensive income	0	0	11,825	0	11,825	1		11,826
Comprehensive income 2010	0	0	11,825	2,173	13,998	123		14,121
Share-based payment transactions	0	0	0	106	106	0		106
Dividends	0	0	0	-859	-859	-43		-902
Acquisition of non-controlling interests			0	0	0	10		10
At 31.12.2010	10,737	384	21,396	11,440	43,957	1,589		45,546

Further information on share capital and reserves can be found in Note 23.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter is a company registered in Estonia. These consolidated financial statements for the year ended 31 December 2010 comprise AS Harju Elekter (the “parent company”) and its subsidiaries AS Eltek (Estonia 100%), AS Harju Elekter Elektrotehnika (Estonia 100%), Satmatic Oy (Finland 100%), Harju Elekter AB (Sweden 90%) and Rifas UAB (Lithuania 51%) (together referred to as the “Group”) and the Group’s interest in associate AS Draka Keila Cables (Estonia 34%). AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997; 32.14 percent of its shares are held by AS Harju KEK a company registered in Estonia.

The Management Board approved and signed the consolidated financial statements for the year ended 31 December 2010, on 29 March 2011. 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 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 24 “Segment reporting”.

2 Basis of preparation

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the non-consolidated financial statements (i.e. statement of financial position, statement of comprehensive income, cash flow statement and statement of changes in equity), collectively referred to as primary financial statements) of the Parent. The non-consolidated primary financial statements of AS Harju Elekter are disclosed in Note 32 “Primary financial statements of the Parent”. These statements have been prepared using the same accounting methods and measurement bases that were used on the preparation of the consolidated financial statements, except for investments in subsidiaries and associates which are stated at cost in the non-consolidated primary statements of the Parent.

2.1. Statement of compliance

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

2.2. Basis of measurement

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

2.3. Functional and presentation currency

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

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 statements are also presented in euros. As the Estonian kroon is pegged to the euro

2 Basis of preparation (continue)

2.3. Functional and presentation currency (continue)

(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.

2.4. Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is and future periods, which the revision affects. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These principles are applied on the basis of the principle of consistency and comparability. The content of the changes in methodology and their influence has been explained in each of the relevant notes. If the presentation or the method of classification of the entries in the financial statements has been changed the comparable indicators of the previous period have been reclassified accordingly.

2.5. Changes in accounting policies

By the time these statements are published several new international accounting standards and their revisions, as well as interpretations, will have been adopted. The Group must follow these amendments in its statements for periods starting on 1 January 2011 or later. According to the management these amendments will not affect the Group's financial statements substantially, except the revised IAS 27 Consolidated and Separate Financial Statements.

In the revised Standard IAS 27 the term 'minority interest' has been replaced by 'non-controlling interest' and is defined as 'the equity in a subsidiary not attributable, directly or indirectly, to the parent company'. The revised Standard also amends the accounting procedure for a non-controlling interest, the loss of control of a subsidiary and the allocation of profit or loss and other comprehensive income factors between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard. The change in accounting policy has had no material impact on earnings per share.

3 Significant accounting policies

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

3.1. Basis of consolidation

(a) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

3 Significant accounting policies (comntinue)

3.1. Basis of consolidation (continue)

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

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

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

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

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

(b) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally as so obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The consolidated financial statements comprise the financial statements of AS Harju Elekter and its subsidiaries. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same date. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned by the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated statement of comprehensive income. Non-controlling interests are presented separately within equity in the consolidated statement of financial position separately from equity attributable to equity holders of the Parent, where relevant.

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

3 Significant accounting policies (continue)

3.1. Basis of consolidation (continue)

(d) Transactions eliminated on consolidation

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

3.2. Foreign currency translation

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

(a) 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 profits or losses.

(b) 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 reporting 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 (EUR 1 = EEK 15.6466) and the financial statements of the Lithuanian company are translated using the Estonian kroon exchange rate against the Lithuanian lit (LTL 1 = EEK 4.53157). Since the Estonian kroon and Lithuanian lit are pegged to the euro, the presentation practice does not give rise to foreign exchange translation differences. The income and expenses of Swedish company are translated to Estonian kroon at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the "Translation reserve" in equity.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the comprehensive 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.

3.3. Financial assets

The group classifies its financial assets in the following categories: 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. Loans and receivables are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

3 Significant accounting policies (continue)

3.3. Financial assets (continue)

- *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 statement of financial position. 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.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated in this category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting 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 cost 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 in the other comprehensive income, except for impairment losses. The fair value of available-for-sale financial assets is their quoted bid price at the reporting date. When available-for-sale financial assets are derecognised, any cumulative gain or loss previously recognised directly in equity is recognised in profit or loss in the comprehensive 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 testing of trade receivables is described in Note 3.8.

3.4. Inventories

Inventories are stated at the lower of cost and net realisable value. As a rule, the Group determines the cost of inventories using the weighted average cost formula. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

3.5. Investment property

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

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

3.6. Property, plant and equipment

(a) Recognition and measurement

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

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.

3 Significant accounting policies (continue)

3.6. Property, plant and equipment (continue)

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

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

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

3.7. 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 losses 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 comprehensive 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.

3 Significant accounting policies (continue)

3.7. Intangible assets (continue)

(b) Other intangible assets

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

3.8. Impairment

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The difference between carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate is recognised as an impairment loss in the comprehensive income statement within 'distribution costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the comprehensive income statement. 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 carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each reporting 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 losses.

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

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

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

An impairment loss in respect of a receivable carried at 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.

3 Significant accounting policies (continue)

3.8. Impairment (continue)

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment no longer exists and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9. Leases

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

(a) The Group as a lessor

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

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

(b) The Group as a lessee

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.

3.10. Financial liabilities

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

(a) Loans and borrowings

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

(b) Trade payables

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

3.11. 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.

3 Significant accounting policies (continue)

3.11. Income tax (continue)

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

The consolidated statement of comprehensive income 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 comprehensive 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 reporting 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,
- 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 statement of financial position date.

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

3.12. 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.

3 Significant accounting policies (continue)

3.12. Employee benefits (continue)

(b) Termination benefits

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

3.13. Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow 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 discounting rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

3.14. Contingent liabilities

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

3.15. 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.

3 Significant accounting policies (continue)

3.16. Share-based payments

The Group has share-based payment plans that are settled by equity instruments (Note 23.6.). The fair value of services (work contribution) supplied by the employees to the Group in exchange the shares is recognized as an expense in the comprehensive income statement and “Retained earnings” in equity (from the grant date of option until to vesting date). The fair value of the services received is determined by reference to the fair value (market value) of equity instruments granted to the employees at the grant date.

The sums received from the issue of shares minus direct transaction costs are shown within the owner’s equity under the items of share capital (in nominal value) and share premium.

3.17. Segment reporting

Operational segments i.e. operating areas are the parts of the company that participate in commercial activities and on which the company can earn profit or incur cost. Separate financial data is available on them and their operating profit is regularly reviewed by the management in order to make decisions on operating matters, on allocating resources for segments and to evaluate the performance of segments.

Segment reporting is in compliance with the internal reporting submitted to the management making decisions on operating matters. The operational segments are determined on the basis of the use of internal reports by the management of the Group when it evaluates the performance of the segment and makes decisions on the distribution of resources.

3.18. 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.

(a) Sales of goods – wholesale and retail

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

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

(b) Sales of services

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

(c) Rental income

Rentals earned on investment property are recognised in the revenues 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

3 Significant accounting policies (continue)

3.18. Revenue recognition (continue)

estimated future cash flow discounted at the original effective interest rate of the instrument. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income

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

3.19. Earnings per share

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

3.20. 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.

3.21. Related parties

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

- AS Harju KEK which owns 32.14 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.

4 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.

(a) Trade receivables valuation (Note 8)

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

(b) Inventory valuation (Note 10)

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

4 Accounting estimates and judgments (continued)

(c) Useful lives of investment property, property, plant and equipment (Note 3.5, 3.6, 13, 14)

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. The depreciable cost is increased if the useful life of the property turns out to be shorter than initially estimated. Technically obsolete assets are either written down or written off.

(d) Contingent liabilities (Note 3.14, 22)

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

(e) Provisions (Note 21)

According to its sales contracts the Group gives a two-year warranty to products sold by undertaking, during that period, to either repair or replace low quality or flawed products free of charge. The provision is based on estimates made from historical warranty data associated with similar products and services.

5 Financial risks management

5.1. Financial risk factors

In its everyday activities the Group faces different risks. The management of risk is an important and inseparable part of the operational activities of the company. The capability of the company to identify, measure and control different risks is an important input into the profitability of the whole Group. The management of the Group has defined the risk as a possible negative deviation from the expected financial result. The main risk factors are the market risk (incl. the currency risk, price risk and interest risk), the credit risk, the liquidity risk and operational risks as well as the capital risk.

The risk management of the Group is based on the requirements established by the Tallinn Stock Exchange, the Financial Inspectorate and other regulatory bodies and compliance with the generally recognized accounting standards and good practices, as well as the company's internal regulations and risk policies. Risk management on the general level includes the identification, assessment and control of risks. The Management Board of the parent company has the main role of managing risks and approving risk procedures. The Supervisory Board of the parent company monitors the measures taken by the Management Board to reduce the risks.

5.2 Market risk

(a) Currency risk

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

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

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 25.

5 Financial risks management (continue)

	Lisa	EEK		EUR		LTL		SEK		TOTAL	
(in thousands)		EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Cash and cash equivalents	7	15,068	963	16,255	1,039	4,680	299	1,553	99	37,556	2,400
Trade receivable	8	23,657	1,512	57,499	3,675	20,177	1,289	43	3	101,376	6,479
Available-for-sale financial assets	12	0	0	337,020	21,539	0	0	0	0	337,020	21,539
TOTAL		38,725	2,475	410,774	26,253	24,857	1,588	1,596	102	475,952	30,418
Current liabilities	17	-923	-59	-23,061	-1,474	-90	-6	0	0	-24,074	-1,539
Trade payables	19	-26,168	-1,672	-17,866	-1,143	-10,847	-693	-19	-1	-54,900	-3,509
Other short-term liabilities	19, 20	-14,003	-895	-18,148	-1,161	-2,353	-150	-52	-3	-34,556	-2,209
Non-current liabilities	17	0	0	-28,581	-1,826	-26	-2	0	0	-28,607	-1,828
TOTAL		-41,094	-2,626	-87,656	-5,604	-13,316	-851	-71	-4	-142,137	-9,085
Opened currency position		-2,369	-151	323,118	20,649	11,541	737	1,525	98	333,815	21,333

On 1 January 2011 Estonia adopted the euro as its official currency. The conversion rate has been confirmed by EU Council on 13 July 2010 and is equal to the current official exchange rate 1EUR=15.6466 EEK: therefor no currency risk any longer exists with regard to the exchange rate between EEK and EUR.

As a result of adoption of the euro, from January 2011 the functional currency of the Parent is euro; and the consolidated financial statements of the Group will also be presented in euros.

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified as financial assets. Fluctuations in the market value of the PKC Group Oyj shares, which are recognised as other long-term financial investments, may have a significant impact on the value of the assets of AS Harju Elekter. The market price of a share increased in 2010 by 8.77 euros (137.22 kroons) and in 2009 by 3.60 euros (56.33 kroons). In 2010 the value of investment increased by 192.1 million kroons (12.3 million euros) and in 2009 by 83.4 million kroons (5.3 million euros) within a year.

Profit and loss from reassessment is shown in the other comprehensive income. The information concerning the shares of PKC Group Oyj is presented in Note 12.

(c) Interest rate risk

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

The Group's interest rate risk arises from 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 most of loans taken by the Group (see Note 17) are linked to EURIBOR. The long-term loans and borrowings of the Group as at 31 December 2010 incurred a floating interest rate which was based on the 3 months Euribor; while the short-term loans were based on the 1 month Euribor.

Interest rate risks are managed by concluding loan agreements with a fixed interest rate.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

5 Financial risks management (continued)

5.2 Market risk (continue)

As of 31 December	Note	EEK '000		EUR '000	
		2010	2009	2010	2009
Fixed rate financial liabilities	17	1,014	2,506	65	160
Variable rate financial liabilities	17	51,667	22,676	3,302	1,449
Total		52,681	25,182	3,367	1,609

On December 31, 2010 the long-term loan balance with a fixed interest rate was 1.0 million kroons (65 thousand euros) and, therefore, the fixing of an interest rate does not substantially affect the fair value of the long-term loans of the Group. In 2010 the fixed interest rate of long-term bank loans was 4.3%.

A change of one percentage point in interest rates at the reporting date would have increased (-decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2009.

As of 31 December	EEK '000		EUR '000	
	2010	2009	2010	2009
One percentage point increase	-516	-251	-33	-16
One percentage point decrease	516	251	33	16

5.3. Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a party is unable to discharge an obligation under financial instruments.

Exposure to credit risk is monitored on an ongoing basis. Customers are set individual risk limits based on internal or external ratings. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or major credit cards. There are certain conditions in place where the recovery of debts is commenced through the court.

The maximum amount exposed to credit risk is the value of accounts receivables, less mark downs and deposits with banks and financial institutions.

As of 31. December	Note	EEK '000		EUR '000	
		2010	2009	2010	2009
Cash and cash equivalents	7	37,556	35,640	2,400	2,278
Trade receivables	8	95,712	65,876	6,117	4,210
Kokku		133,268	101,516	8,517	6,488

At the reporting date, the credit risk was 133 million kroons (8.5 million euros), compared to 102 million kroons (6.5 million euros) at 31 December 2009.

According to management assessment, the Group does not have any major credit risks that would exceed the allowance sum already recognised.

5 Financial risks management (continued)

5.4. 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. The Management Board continually monitors cash flow estimates using the availability and sufficiency of financial recourses to meet the commitments undertaken and to fund the strategic objectives of the Group.

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 37.6 million (EUR 2.4 million) and debt obligations to the amount of EEK 52.7 million (EUR 3.4 million) (Note 17).

5.5. 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.

According to the established practice the Group supervises its capital by observing the debt and equity ratio. The debt ratio is calculated as the ratio between the net debt and the total capital. The net debt is obtained when cash and cash equivalents are separated from the total debt (shown in the statement of comprehensive income as short-term and long-term interest bearing liabilities). The total capital is reflected in the consolidated statement of the financial position as the sum of the equity and net debt.

The equity ratio is obtained when equity is divided by the total volume of assets.

Equity ratio of the Group:	EEK '000 31.12.2010	31.12.2009	EUR'000 31.12.2010	31.12.2009
Interest-bearing loans and borrowings (Note 17)	52,681	25,182	3,367	1,609
Cash and cash equivalents (Note 7)	-37,556	-35,640	-2,400	-2,278
Net debt	15,125	-10,458	967	-669
Equity	712,648	503,988	45,546	32,211
Total capital	802,885	564,810	51,313	36,098
Debt to capital ratio	1.9%	-1.9%	1.9%	-1.9%
Total assets	862,347	618,148	55,114	39,507
Equity ratio	83%	82%	83%	82%

5.6. 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 statement of financial position date. The fair values of long-term loans and borrowings do not differ significantly from their carrying amounts because their interest rates are regularly reprised to market rates.

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

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

6 Financial instruments

6.1. Financial instruments by categories

At 31 December	Note	EEK '000 2010	2009	EUR'000 2010	2009
Assets as per statement of financial position					
Cash and cash equivalents	7	37,556	35,640	2,400	2,278
Trade receivables and other receivables	8	101,376	70,238	6,479	4,489
Available-for-sale financial assets	12	337,020	153,172	21,539	9,789
Total		475,952	259,050	30,418	16,556
Liabilities as per statement of financial position					
Borrowings	17	52,681	25,182	3,367	1,609
Trade payables and other payables	19	81,003	75,890	5,178	4,850
Total		133,684	101,072	8,545	6,459

6.2. Accounting classification and fair values of financial instruments

EEK'000	Note	Loans and receiv- ables	Aveilable- for-sale	Other financial liabilities	Total carrying amount	Fair value
At 31 December 2009						
Cash and cash equivalents	7	35,640	0	0	35,640	35,640
Trade receivables and other receivables	8	70,238	0	0	70,238	70,238
Available-for-sale financial assets	12	0	153,172	0	153,172	153,172
Total		105,878	153,172	0	259,050	259,050
Borrowings	17	0	0	-25,182	-25,182	-25,182
Trade payables and other payables	19	0	0	-75,890	-75,890	-75,890
Total		0	0	-101,072	-101,072	-101,072
At 31 December 2010						
Cash and cash equivalents	7	37,556	0	0	37,556	37,556
Trade receivables and other receivables	8	101,376	0	0	101,376	101,376
Available-for-sale financial assets	12	0	337,020	0	337,020	337,020
Total		138,932	337,020	0	475,952	475,952
Borrowings	17	0	0	-52,681	-52,681	-52,681
Trade payables and other payables	19	0	0	-81,003	-81,003	-81,003
Total		0	0	-133,684	-133,684	-133,684

6 Financial instruments (continued)

6.2. Accounting classification and fair values of financial instruments (continued)

EUR'000	Note	Loans and receiv- ables	Available- for-sale	Other financial liabilities	Total carrying amount	Fair value
At 31 December 2009						
Cash and cash equivalents	7	2,278	0	0	2,278	2,278
Trade receivables and other receivables	8	4,489	0	0	4,489	4,489
Available-for-sale financial assets	12	0	9,789	0	9,789	9,789
Total		6,767	9,789	0	16,556	16,556
Borrowings	17	0	0	-1,609	-1,609	-1,609
Trade payables and other payables	19	0	0	-4,850	-4,850	-4,850
Total		0	0	-6,459	-6,459	-6,459
At 31 December 2010						
Cash and cash equivalents	7	2,400	0	0	2,400	2,400
Trade receivables and other receivables	8	6,479	0	0	6,479	6,479
Available-for-sale financial assets	12	0	21,539	0	21,539	21,539
Total		8,879	21,539	0	30,418	30,418
Borrowings	17	0	0	-3,367	-3,367	-3,367
Trade payables and other payables	19	0	0	-5,178	-5,178	-5,178
Total		0	0	-8,545	-8,545	-8,545

6.3. Credit quality of financial assets

Trade receivables (net) analysed by due date	EEK '000		EUR'000	
At 31 December	2010	2009	2010	2009
Not due:	69,960	49,107	4,471	3,138
Up to 3 months past due	15,480	9,700	990	620
3-6 months past due	6,428	4,272	411	273
Over 6 months past due	4,793	2,797	306	179
Total	96,661	65,876	6,178	4,210

7 Cash and cash equivalents

At 31 December	EEK '000		EUR'000	
	2010	2009	2010	2009
Cash in hand	33	63	2	4
Bank balances	37,523	24,577	2,398	1,571
Call deposits	0	11,000	0	703
Cash and cash equivalents in the statement of cash flows	37,556	35,640	2,400	2,278

Cash and cash equivalents by currency:

At 31 December	EEK '000		EUR'000	
	2010	2009	2010	2009
EEK	15,068	19,551	963	1,250
EUR	16,255	6,658	1,039	425
LTL	4,680	9,431	299	603
SEK	1,553	0	99	0
Total	37,556	35,640	2,400	2,278

8 Trade and other receivables

		EEK '000		EUR'000	
At 31 December	Note	2010	2009	2010	2009
Trade receivables					
Trade receivables		96,661	67,750	6,178	4,330
Provision for impairment of trade receivables		-949	-1,874	-61	-120
Trade receivables - net		95,712	65,876	6,117	4,210
Receivables from associates	29	4,856	2,663	310	170
Miscellaneous receivables		48	1,555	3	100
Interest receivable		1	1	0	0
Other accrued income		759	143	49	9
Total receivables		101,376	70,238	6,479	4,489

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

At 31 December	EEK '000		EUR'000	
	2010	2009	2010	2009
EEK	23,657	23,247	1,512	1,486
EUR	57,499	32,663	3,675	2,087
LTL	20,177	14,328	1,289	916
SEK	43	0	3	0
Total	101,376	70,238	6,479	4,489

8 Trade and other receivables (continue)

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	2010	2009	2010	2009
At 1 January	-1,874	-740	-120	-47
Items expensed as doubtful	-298	-1,264	-19	-81
Recovery of doubtful items	9	0	1	0
Doubtful items written off as irrecoverable	1,214	130	77	8
At 31 December	-949	-1,874	-61	-120

The creation and release of provision for impaired receivables have been included in 'other distribution costs' in the comprehensive income statement (Note 25).

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

9 Prepayments

		EEK '000		EUR'000	
At 31 December	Note	2010	2009	2010	2009
Prepaid taxes	20	748	805	48	52
Prepaid expenses		1,169	1,694	75	108
Total prepayments		1,917	2,499	123	160

10 Inventories

	EEK '000		EUR'000	
At 31 December	2010	2009	2010	2009
Raw and other materials	43,727	32,081	2,795	2,050
Work in progress	19,425	30,326	1,241	1,938
Finished goods	16,675	10,922	1,066	698
Merchandise purchased for resale	4,648	5,597	297	358
Prepayments to suppliers	184	426	12	27
Total	84,659	79,352	5,411	5,071
- items carried at net realisable value	997	435	64	28
Write-down of inventories to net realisable value	371	318	24	20

11 Investments in associate

Company's name	Activity	Location
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia

<i>Draka Keila Cables AS share</i>	2010	2009
Number of the shares	884	884
Ownership (%)	34.0	34.0
Par value of a share (EEK)	10,000	10,000
Par value of a share (EUR)	639	639

	EEK '000		EUR'000	
	2010	2009	2010	2009
Cost at 31 December	8,840	8,840	565	565
Carrying amount at 01 January	9,681	17,907	619	1,144
Profit (+) or loss(-) under the equity method	961	-8,226	61	-525
Carrying amount at 31 December	10,642	9,681	680	619
Associate's equity at end of period	31,316	28,521	2,001	1,823
Investor's share in equity	10,647	9,697	680	620
Unrealised gains from transactions with associate	-5	-16	0	-1

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

<i>Financial summary</i>	EEK '000		EUR'000	
	2010	2009	2010	2009
Assets at 31 December	268,583	192,757	17,165	12,319
Liabilities at 31 December	237,267	164,236	15,164	10,496
Revenue for the year ended 31 December	620,786	399,432	39,675	25,528
Profit(+) or loss(-) for the year ended 31 December	2,795	-24,208	178	-1,547

12 Other long-term financial investments

At 31 December	Note	EEK '000		EUR'000	
		2010	2009	2010	2009
Available-for-sale financial assets		336,684	152,836	21,518	9,768
Other shares		336	336	21	21
Total		337,020	153,172	21,539	9,789

1. Available-for-sale financial assets

Carrying amount at 01 January		152,836	74,165	9,768	4,740
Sale of shares		-9,235	-6,318	-590	-404
Realised gain from sale		974	1,624	62	104
Changes in the fair value reserve	23	192,109	83,365	12,278	5,328
Carrying amount at 31 December		336,684	152,836	21,518	9,768

2. Other shares

Carrying amount at 01 January		336	158	21	10
Additions		0	178	0	11
Carrying amount at 31 December		336	336	21	21

Total carrying amount at 31 December		337,020	153,172	21,539	9,789
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<i>PKC Group Oyj share</i>		2010	2009
Number of the shares (1000)		1,400	1,480
Ownership (%)		7.2	8.3
Market price at 31 December (EEK)		240.49	103.27
Market price at 31 December (EUR)		15.37	6.60

PKC Group Oyj shares are listed on the Helsinki Stock Exchange and have been classified as available-for-sale financial assets and are therefore stated on the statement of financial position at their fair value (Note 3.3.b). The fair value of shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised in the other comprehensive income (Note 23). Changes in the market value of shares may significantly influence the value of the Group's assets and equity. Information on PKC shares pledged as loan collateral has been disclosed in Note 18. For the financial year the PKC Group Oyj paid dividends to the amount of 0.40 euros per share (0.15 euros in 2009).

As the fair value of other assets cannot be measured reliably the other shares are stated in the statement of financial position at acquisition cost.

13 Investment property

	EEK '000			EUR'000		
	Land	Buildings	Total	Land	Buildings	Total
At 31 December 2008						
Cost	8,885	156,248	165,133	568	9,986	10,554
Accumulated depreciation	0	-31,396	-31,396	0	-2,007	-2,007
Carrying amount 31.12.2008	8,885	124,852	133,737	568	7,979	8,547
For the year ended 31 December						
Additions	0	9,226	9,226	0	590	590
Depreciation charge	0	-5,787	-5,787	0	-369	-369
Total for the period	0	3,439	3,439	0	221	221
At 31 December 2009						
Cost	8,885	156,855	165,740	568	10,025	10,593
Accumulated depreciation	0	-37,183	-37,183	0	-2,376	-2,376
Carrying amount	8,885	119,672	128,557	568	7,649	8,217
Constructions in progress	0	8,619	8,619	0	551	551
Carrying amount 31.12.2009	8,885	128,291	137,176	568	8,200	8,768
For the year ended 31 December						
Additions	0	4,694	4,694	0	300	300
Depreciation charge	0	-5,572	-5,572	0	-357	-357
Total for the period	0	-878	-878	0	-57	-57
At 31 December 2010						
Cost	8,885	170,035	178,920	568	10,868	11,436
Accumulated depreciation	0	-42,755	-42,755	0	-2,733	-2,733
Carrying amount 31.12.2010	8,885	127,280	136,165	568	8,135	8,703
Construction in progress	0	133	133	0	8	8
At 31 December 2010	8,885	127,413	136,298	568	8,143	8,711

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 at 31 December 2010 falls between EEK 145 and 169 million (between EUR 9.3 and 10.8 million).

In 2010, the direct maintenance and repair expenses of investment property totalled EEK 3.4 million (EUR 0.22 million) compared to EEK 3.4 million (EUR 0.22 million) in the reference period. Information on rental income from investment property has been disclosed in Note 15.

14 Property, plant and equipment

14.1. Statement of changes in property, plant and equipment

EEK '000	Land	Buildings	Plant and equipment	Other items	Total
At 31 December 2008					
Cost	3,257	64,567	106,000	9,836	183,660
Accumulated depreciation	0	-13,049	-59,575	-6,375	-78,999
Carrying amount	3,257	51,518	46,425	3,461	104,661
Construction in progress	0	18,644	118	0	18,762
At 31 December 2008	3,257	70,162	46,543	3,461	123,423
For the year ended 31 December					
Additions	0	8,925	4,229	3,125	16,279
Disposals	0	-1,901	-291	-11	-2,203
Depreciation charge	0	-2,891	-8,781	-1,252	-12,924
Total for the period	0	4,133	-4,843	1,862	1,152
At 31 December 2009					
Cost	3,257	87,954	108,477	12,589	212,277
Accumulated depreciation	0	-13,659	-67,130	-7,266	-88,055
Carrying amount	3,257	74,295	41,347	5,323	124,222
Construction in progress	0	0	353	0	353
At 31 December 2009	3,257	74,295	41,700	5,323	124,575
For the year ended 31 December					
Additions	0	30,126	5,320	919	36,365
Disposals	0	0	-3	0	-3
Depreciation charge for the year	0	-4,473	-8,758	-1,419	-14,650
Reclassification	0	0	40	-40	0
Total for the period	0	25,653	-3,401	-540	21,712
At 31 December 2010					
Cost	3,257	118,080	112,436	13,014	246,787
Accumulated depreciation	0	-18,132	-75,362	-8,251	-101,745
Carrying amount	3,257	99,948	37,074	4,763	145,042
Construction in progress	0	0	1,225	20	1,245
At 31 December 2010	3,257	99,948	38,299	4,783	146,287

14 Property, plant and equipment (continued)

EUR'000	Land	Buildings	Plant and equipment	Other items	Total
At 31 December 2008					
Cost	208	4,127	6,775	628	11,738
Accumulated depreciation	0	-834	-3,808	-407	-5,049
Carrying amount	208	3,293	2,967	221	6,689
Construction in progress	0	1,192	8	0	1,200
At 31 December 2008	208	4,485	2,975	221	7,889
For the year ended 31 December					
Additions	0	570	270	200	1,040
Disposals	0	-121	-19	-1	-141
Depreciation charge	0	-185	-561	-80	-826
Total for the period	0	264	-310	119	73
At 31 December 2009					
Cost	208	5,621	6,933	805	13,567
Accumulated depreciation	0	-872	-4,291	-465	-5,628
Carrying amount	208	4,749	2,642	340	7,939
Construction in progress	0	0	23	0	23
At 31 December 2009	208	4,749	2,665	340	7,962
For the year ended 31 December					
Additions	0	1,925	340	59	2,324
Depreciation charge for the year	0	-286	-560	-90	-936
Reclassification	0	0	3	-3	0
Total for the period	0	1,639	-217	-34	1,388
At 31 December 2010					
Cost	208	7,547	7,186	832	15,773
Accumulated depreciation	0	-1,159	-4,817	-527	-6,503
Carrying amount	208	6,388	2,369	305	9,270
Construction in progress	0	0	79	1	80
At 31 December 2010	208	6,388	2,448	306	9,350

At 31 December 2010, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was EEK 30,791 (EUR 1,968) thousand and as at 31 December 2009 EEK 17,667 (EUR 1,129) thousand.

14 Property, plant and equipment (continued)

14.2. Assets acquired with finance lease

	EEK'000			EUR'000		
	Cost	Depreciation	Carrying amount	Cost	Depreciation	Carrying amount
At 31 December 2008	15,476	-1,630	13,846	990	-105	885
Additions	263	0	263	17	0	17
Depreciation	0	-1,465	-1,465	0	-94	-94
Lease discontinued	-2,641	1,439	-1,202	-170	93	-77
At 31 December 2009	13,098	-1,656	11,442	837	-106	731
Additions	29,807	0	29,807	1,905	0	1,905
Depreciation	0	-2,073	-2,073	0	-132	-132
Lease discontinued	-1,230	483	-747	-79	31	-48
At 31 December 2010	41,675	-3,246	38,429	2,663	-207	2,456

Information on finance lease liabilities and lease terms has been disclosed in Note 17.

14.3. Assets leased out under operating leases

	EEK '000		EUR'000	
At 31 December	2010	2009	2010	2009
Plant and equipment				
Cost of items leased out	301	301	19	19
Accumulated depreciation	-97	-38	-6	-2
Carrying amount at end of period	204	263	13	17

The Group leases out its investment property (Note 13) and production plant and equipment under operating leases.

15 Operating leases

		EEK '000		EUR'000	
For the year ended 31 December	Note	2010	2009	2010	2009
Lease income					
- on investment property		31,660	29,796	2,024	1,904
- on plant and equipment		37	125	2	8
TOTAL	25	31,697	29,921	2,026	1,912
Lease expense					
Office, commercial and production premises		1,397	1,873	89	120
Vehicles		1,018	817	65	52
Other		312	885	20	57
TOTAL		2,727	3,575	174	229

In the comprehensive 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.

15 Operating leases (continued)

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

	EEK '000		EUR'000	
For the year ended 31 December	2010	2009	2010	2009
Lease income				
< 1 year	32,225	28,615	2,060	1,829
1-5 years	83,185	82,315	5,316	5,261
Total lease income	115,410	110,930	7,376	7,090
Lease expenses				
< 1 year	938	353	60	23
1-5 years	1,397	673	89	43
Total lease expenses	2,335	1,026	149	66

16 Intangible assets

	EEK '000			EUR'000		
	Expendi- ture on deve- lopment	Other	TOTAL	Expendi- ture on deve- lopment	Other	TOTAL
At 31 December 2008						
Cost	1,825	7,175	9,000	117	459	576
Accumulated depreciation	-966	-4,833	-5,799	-62	-309	-371
Carrying amount 31.12.2008	859	2,342	3,201	55	150	205
For the year ended 31 December						
Additions	81	3,763	3,844	5	241	246
Depreciation charge for the year	-230	-1,000	-1,230	-15	-65	-80
Total	-149	2,763	2,614	-10	176	166
At 31 December 2009						
Cost	1,906	10,928	12,834	122	698	820
Accumulated depreciation	-1,196	-5,823	-7,019	-77	-372	-449
Carrying amount 31.12.2009	710	5,105	5,815	45	326	371
For the year ended 31 December						
Additions	368	1,763	2,131	23	113	136
Depreciation charge for the year	-226	-1,128	-1,354	-14	-72	-86
Total	142	635	777	9	41	50
At 31 December 2010						
Cost	2,274	10,814	13,088	145	691	836
Accumulated depreciation	-1,422	-5,074	-6,496	-91	-324	-415
Carrying amount 31.12.2010	852	5,740	6,592	54	367	421

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

16 Intangible assets (continued)

As at 31 December 2010, the total cost of the Group's fully depreciated intangible assets still in use was EEK 250 thousand (EUR 16 thousand), compared to EEK 2,058 thousand (EUR 132 thousand) at 31 December 2009.

17 Interest-bearing loans and borrowings

17.1. At 31 December

	EEK '000		EUR'000	
	2010	2009	2010	2009
Liabilities				
Short-term bank loans	18,836	12,947	1,204	827
Current portion of long-term bank loans	1,014	3,682	65	235
Current portion of lease liabilities	4,224	1,537	270	99
Total current liabilities	24,074	18,166	1,539	1,161
Long-term bank loans	0	1,014	0	65
Lease liabilities	28,607	6,002	1,828	383
Total non-current liabilities	28,607	7,016	1,828	448
Total interest-bearing loans and borrowings	52,681	25,182	3,367	1,609
Loans and borrowings at the beginning of the year	25,182	58,339	1,609	3,728
Changes during the period 1.01. – 31.12				
Changes in short-term loans	5,889	-14,902	377	-953
Long-term loan repaid	-3,682	-16,337	-235	-1,044
New finance lease liabilities	29,807	263	1,905	17
Payment of finance lease principal	-4,515	-2,181	-289	-139
Loans and borrowings at the end of the year	52,681	25,182	3,367	1,609

17.2. Short-term bank loan terms

At 31 December

Base currency	Overdraft limit in base currency		Interest rate		EEK'000		EUR'000	
	2010	2009			2010	2009	2010	2009
EUR'000	600	600	1m euribor+0.5%	+0.5%	7,974	2,981	510	190
EUR'000	1,200	1,200	1m euribor+0.4%	+0.4%	10,003	5,462	639	349
EUR'000	33	33	Nordea basic rate +1.75%	+1.75%	859	205	55	13
EUR'000	500	500	1m euribor+0.4%	+0.4%	0	4,299	0	275
Total short-term bank loans					18,836	12,947	1,204	827

17 Interest-bearing loans and borrowings (continued)**17.3. Long-term bank loans and terms**

	EEK'000		EUR'000	
At 31 December	2010	2009	2010	2009
Total loan payable; terms; maturity date				
EUR'000 850; 3 m euribor+0.48%; 2010	0	782	0	50
EUR'000 1,530; 3 m euribor+0.80% (2009+0.80%); 2010	0	1,408	0	90
EUR'000 447.4; fixed 4.32%; 2011	1,014	2,506	65	160
Total	1,014	4,696	65	300
including by due dates				
< 1 year	1,014	3,682	65	235
1 - 2 years	0	1,014	0	65
Interest expense for the year ended 31 December	80	350	5	22

According to management assessment, the fair value of loans at the reporting date does not differ significantly from their book value. In 2010 the weighted average effective interest rate of long-term bank loans was 4.4% compared to 4.3 % in the reference period.

The loans are secured with financial assets (Note 18).

17.4. Finance lease liabilities

	EEK '000			EUR'000		
<i>Present value of lease payments</i>	Initial value	Settle-ment	Present value	Initial value	Settle-ment	Present value
At 31 December 2008	15,347	-5,890	9,457	981	-377	604
Acquisition	263	0	263	17	0	17
Payment of finance lease	0	-2,181	-2,181	0	-139	-139
Lease discontinued	-5,589	5,589	0	-357	357	0
At 31 December 2009	10,021	-2,482	7,539	641	-159	482
Acquisition	29,807	0	29,807	1,905	0	1,905
Payment of finance lease	0	-4,515	-4,515	0	-289	-289
Lease discontinued	-481	481	0	-31	31	0
At 31 December 2010	39,347	-6,516	32,831	2,515	-417	2,098

The base currency of lease contracts is mainly the euro. The 31 December 2010 finance lease liabilities, the base currency of which is Lithuanian litas, amounted to 116 thousand kroons (7 thousand euros), compared to 292 thousand kroons (19 thousand euros) at 31 December 2009.

At 31 December 2010 interest rates of finance lease contracts were 1.4–9.9% (at 31 December 2009 1.5–5.9%).

In 2010 the weighted average effective interest rate of finance lease was 1.6 % compared to 3.2 % in the reference period.

17 Interest-bearing loans and borrowings (continued)

17.5. Finance lease liabilities by due dates

	EEK '000				EUR'000			
	<1 year	1-5 years	> 5 years	Total	<1 year	1-5 years	> 5 years	Total
At 31 December 2009								
Minimum amount of lease payments	1,632	6,216	0	7,848	104	398	0	502
Future financing cost	-95	-214	0	-309	-6	-14	0	-20
Present value of lease payments	1,537	6,002	0	7,539	98	384	0	482
At 31 December 2010								
Minimum amount of lease payments	4,731	18,025	12,327	35,083	302	1,152	788	2,242
Future financing cost	-508	-1,340	-404	-2,252	-32	-86	-26	-144
Present value of lease payments	4,223	16,685	11,923	32,831	270	1,066	762	2,098

Lease payments are made monthly.

18 Loan collateral and pledged assets

At 31 December 2010	Number	Balance of investment loan		Overdraft limit	
Pledged assets	'000	EEK '000	EUR'000	EEK '000	EUR'000
PKC Group Oyj equity securities	846	1,014	65	17,211	1,100

At 31 December 2010, the carrying amount of pledged securities amounted to EEK 203.5 million (EUR 13.0 million). The Group pledges the shares in favour of the bank as security for due and punctual fulfilling of all obligations towards the bank undertaken in the loan agreement. According to the pledge agreement Group undertakes to promptly pledge additional shares, if the market value of the pledged shares is not at least 50% more of the outstanding principal of the loan. Further information on PKC Group Oyj shares can be found in Note 12.

19 Trade and other payables

	EEK '000		EUR'000	
At 31 December	2010	2009	2010	2009
Trade payables				
Payable for goods and services	54,888	41,721	3,509	2,667
Payable for property, plant and equipment	12	58	0	3
Payable for investment property	0	2,017	0	129
Total	54,900	43,796	3,509	2,799
Accrued expenses				
Payables to employees	18,142	18,250	1,160	1,166
Interest payable	22	5	1	0
Other	844	2,498	54	160
Total	19,008	20,753	1,215	1,326
Advances from customers	6,166	9,667	394	618
Payables to associates	215	56	14	3
Miscellaneous payables	714	1,618	46	104
Total	81,003	75,890	5,178	4,850

20 Taxes

	EEK '000		EUR'000	
At 31 December	2010	2009	2010	2009
Prepayment				
Value-added tax	748	805	48	52
Total	748	805	48	52
Liability				
Value-added tax	7,187	2,815	459	180
Income tax	296	620	19	39
Personal income tax	2,508	2,298	160	147
Social security tax	3,842	4,099	246	262
Other taxes	786	535	50	35
Total	14,619	10,367	934	663

21 Provisions

2009	Warranty provision		Other provisions		Total	
	EEK '000	EUR'00	EEK '000	EUR'00	EEK '000	EUR'00
		0		0		0
At 31 December 2008	1,294	83	0	0	1,294	83
Provisions made during the year	1,302	83	248	16	1,550	99
Provisions used during the year	-1,439	-92	-248	-16	-1,687	-108
At 31 December 2009	1,157	74	0	0	1,157	74
2010						
Provisions made during the year	1,146	73	0	0	1,146	73
Provisions used during the year	-907	-58	0	0	-907	-58
At 31 December 2010	1,396	89	0	0	1,396	89

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

22 Contingent liabilities

22.1. Corporate Income tax

	EEK '000		EUR'000	
At 31 December	2010	2009	2010	2009
Consolidated retained earnings	178,997	156,770	11,440	10,020
Max sum of dividends payable to owners	141,408	123,848	9,038	7,916
Income tax payable on dividends	37,589	32,922	2,402	2,104

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the maximum contingent income tax liability cannot exceed the distributable profits as of 31 December 2010.

22 Contingent liabilities (continued)

Contingent income tax liability has been calculated based on the tax rate enacted before 1 January 2010 (for 2009 before 1 January 2009). If the profit allocation proposal to distribute a dividend of EEK 15.8 million (EUR 1,008 thousand) will be approved by the general meeting the income tax liability in the amount of EEK 4.2 million (EUR 268 thousand) will be payable.

23 Capital and reserves

23.1. Share capital and share premium

At 31 December	EEK		EUR	
	2010	2009	2010	2009
Share capital ('000)	168,000	168,000	10,737	10,737
Par value of a share	10	10	0.64	0.64
Number of shares issued ('000) (fully paid)	16,800	16,800	16,800	16,800
Share premium	6,000	6,000	384	384

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

23.2. Dividend per share

Based on the results for 2009, shareholders were distributed a dividend of EEK 13.4 million (EUR 859 thousand), i.e. EEK 0.80 (EUR 0.0511) per share. The dividends were paid out on 26 May 2010. Based on the results for 2008, shareholders were distributed a dividend of EEK 16.8 million (EUR 1.07 million), i.e. EEK 1.00 (EUR 0.0648) per share.

According to the profit allocation proposal, for 2010 a dividend of EUR 1,008 thousand (EEK 15,772 thousand), i.e. EUR 0.06 (EEK 0.939) per share will be distributed. The dividend will be recognised when the profit allocation proposal has been approved by the general meeting.

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

	2010	2009
AS Harju KEK	32.14%	32.14%
ING Luxembourg S.A	11.31%	11.31%
Lembit Kirsme	8.33%	8.33%
Endel Palla	5.95%	5.95%
CITIBANK(LONDON)/POHJOLA BANK PLC	5.02%	0.07%
Others	37.25%	42.20%

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

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 (see below).

23 Capital and reserves (continued)

23.4. Members of the management and supervisory boards of AS Harju Elekter (continue)

	Number of shares	Direct ownership	Indirect ownership
Supervisory board			
Palla, Endel	1,000,100	5.95%	0.33%
Kirsme, Lembit	1,400,000	8.33%	0.72%
Talgre, Madis	21,000	0.13%	0.00%
Kabal, Ain	3,660	0.02%	0.00%
Toome, Andres	0	0.00%	0.06%
Total	2,424,760	14.43%	1.11%
Management board			
Allikmäe, Andres	186,800	1.11%	0.00%
Padjus, Karin	110,193	0.66%	0.25%
Libe, Lembit	17,760	0.11%	0.00%
Total	314,753	1.88%	0.25%

The number of shares held by shareholders and the ownership interests were determined on 31 December 2010 at 11:59 p.m.

23.5. Reserves

	EEK '000		EUR '000	
At 31 December	2010	2009	2010	2009
Capital reserve	16,800	16,800	1,073	1,073
Fair value reserve	317,882	132,960	20,317	8,498
Translation reserve	99	0	6	0
Total	334,781	149,760	21,396	9,571
<i>(a) Changes in the fair value reserve</i>				
	EEK '000		EUR '000	
For the year	2010	2009	2010	2009
At 01 January	132,960	52,946	8,498	3,384
Gains on the restatement of financial assets	192,109	83,365	12,278	5,328
Realised gain from sale of financial assets	-7,187	-3,351	-459	-214
At 31 December	317,882	132,960	20,317	8,498

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

23.6. Share-based payments

The Annual General Meeting of the shareholders held on April 23, 2009 decided to organize the issue of shares to both employees of the Group and to members of the managing bodies of the companies related to the Group by issuing up to 600 thousand new nominal shares. The issue will take place from

23 Capital and reserves (continued)

23.6. Share-based payments (continued)

1 June to 15 June 2012. The subscription right of this issue of shares is guaranteed to those employees who have concluded the relevant preliminary contract and have an employment or service contract concluded with the Group valid until the last day of the period of subscription for the shares. During the period for the conclusion of preliminary contracts, from 8 June to 19 June 2009, subscription rights for 578.4 thousand shares was registered. The established subscription price of shares for the period from 4 May to 29 May 2009 is the average daily stock exchange price of the share of AS Harju Elekter on the Tallinn Stock Exchange in euros (EUR) plus ten percent (+10 %). Thus the issue price of the share amounted to 1.10 euros (17.21 kroons). The regular meeting of the shareholders will make the decision on organizing the issue of shares in 2012 provided that the market price of the share exceeds the issue price.

IFRS 2 principles are used to present the subscription rights. In 2010 1,659 thousand kroons (106 thousand euros) was shown as the cost of labour and the increase in retained earnings within the equity, the second half of 2009 899 thousand kroons (57 thousand euros).

In order to assess the services provided (labour input) of employees for shares the Group used the fair value of subscription at the time of conclusion of a preliminary contract. The value determined by an independent expert was 0.55 euros (8.61 kroons) per subscription right for one share. The Black-Scholes evaluation model was used to determine the fair value of the share. In order to determine the price the weighted average market price of a share, the estimated volatility of the share and the duration of the period between the conclusion of a preliminary contract and the estimated moment of subscription for shares were taken into account.

24 Segment reporting

The Management Board of the parent company of the Group, AS Harju Elekter, is the highest decision maker in operational matters. The Management Board of the parent company reviews internal reports of the Group in order to evaluate the performance of the company and make decisions on the distribution of resources. The Management Board determines the business segments on the basis of these reports.

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

“Manufacturing” – The manufacture and sale of power distribution and control systems as well as services related to manufacturing and intermediary sale of components. The entities in this business segment are AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy and Rifas UAB.

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

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

The Group evaluates the performance of operating segments on the basis of revenue and operating profit. The Management Board also uses the EBITDA margin in its external reports. On the basis of the assessment given by the management of the parent company translations between segments are carried out in conventional market conditions that do not differ substantially from the conditions for

24 Segment reporting (continued)

transactions with third parties. The assets of the production segment include the direct assets of the segment and the assets attributed to it. The assets of the real estate segment and other activities consist mainly of trade receivables, inventories and non-current assets related to these activities. The Group's indivisible assets consist of the cash of the parent company, various receivables, prepayments and other financial investments.

The liabilities of the production segment include the direct liabilities of the segment and the liabilities attributed to it. The liabilities of the real estate segment and other activities consist mainly of payables for goods, services and property related to these activities, advances from customers and prepayments from profits of future periods. The Group's indivisible liabilities consist of the Group's interest-bearing loans and borrowings, tax liabilities and accrued expenses.

EEK'000 2009	Manu- facturing	Real estate	Un- allocated activities	Elimi- nations	Consoli- dated
Revenue from external customers	561,806	37,634	33,235	0	632,675
Inter-segment revenue	2,764	13,665	3,472	-19,901	0
Total revenue	564,570	51,299	36,707	-19,901	632,675
Operating profit	12,399	17,287	-1,401	28	28,313
Segment assets	299,245	146,538	17,978	-1,029	462,732
Indivisible assets					155,416
Total assets					618,148
Segment liabilities	98,079	2,892	5,493	-3,016	103,448
Indivisible liabilities					10,712
Total liabilities					114,160
Capital expenditure	15,260	9,226	4,863	0	29,349
Depreciation charge for the year (Note 13,14,16)	12,477	5,787	1,701	-24	19,941
2010					
Revenue from external customers	567,916	41,013	30,779	0	639,708
Inter-segment revenue	2,938	15,108	4,899	-22,945	0
Total revenue	570,854	56,121	35,678	-22,945	639,708
Operating profit	7,139	19,290	-2,261	-404	23,764
Segment assets	349,114	147,878	16,235	-4,642	508,585
Indivisible assets					353,762
Total assets					862,347
Segment liabilities	144,058	2,811	3,044	-4,524	145,389
Indivisible liabilities					4,310
Total liabilities					149,699
Capital expenditure	37,078	4,694	1,425	-7	43,190
Depreciation charge for the year (Note 13,14,16)	13,993	5,571	2,027	-15	21,576

24 Segment reporting (continued)

EUR'000 2009	Manu- facturing	Real estate	Un- allocated activities	Elimi- nations	Consoli- dated
Revenue from external customers	35,906	2,405	2,124	0	40,435
Inter-segment revenue	177	873	222	-1,272	0
Total revenue	36,083	3,278	2,346	-1,272	40,435
Operating profit	793	1,105	-91	2	1,809
Segment assets	19,125	9,366	1,149	-66	29,574
Indivisible assets					9,933
Total assets					39,507
Segment liabilities	6,268	185	351	-193	6,611
Indivisible liabilities					685
Total liabilities					7,296
Capital expenditure	975	590	311	0	1,876
Depreciation charge for the year (Note 13,14,16)	797	371	109	-2	1,275
2010					
Revenue from external customers	36,297	2,621	1,967	0	40,885
Inter-segment revenue	187	966	313	-1,466	0
Total revenue	36,484	3,587	2,280	-1,466	40,885
Operating profit	456	1,233	-144	-26	1,519
Segment assets	22,312	9,451	1,038	-296	32,505
Indivisible assets					22,609
Total assets					55,114
Segment liabilities	9,207	180	195	-289	9,293
Indivisible liabilities					275
Total liabilities					9,568
Capital expenditure	2,370	300	90	0	2,760
Depreciation charge for the year (Note 13,14,16)	894	356	130	-1	1,379

Capital expenditure includes investment properties (Note 13), property, plant and equipment (Note 14) and intangible assets (Note 16) acquisitions.

24 Segment reporting (continued)

For the year ended 31 December	EEK '000		EUR '000	
	2010	2009	2010	2009
REVENUE				
<i>Revenue by markets</i>				
Estonia	219,342	232,741	14,019	14,875
Finland	257,612	270,055	16,464	17,260
Lithuania	66,404	66,475	4,244	4,249
Other EU countries	46,894	23,443	2,997	1,498
Non-EU countries	49,456	39,961	3,161	2,553
Total	639,708	632,675	40,885	40,435

25 Income statement line items

For the year ended 31 December	Note	EEK '000		EUR'000	
		2010	2009	2010	2009
Revenue					
<i>Revenue by business area</i>					
Electrical equipment		503,783	498,937	32,198	31,888
Sheet metal products and services		18,680	19,577	1,194	1,251
Boxes for telecom sector and services		16,649	17,738	1,064	1,134
Intermediary sale of electrical products and components		52,015	49,950	3,324	3,192
Commerce and mediation of services		10,359	9,206	662	588
Rental income	15	31,697	29,921	2,026	1,912
Other services		6,525	7,346	417	470
Total		639,708	632,675	40,885	40,435
Cost of sales					
Goods and materials		-435,382	-360,463	-27,826	-23,038
Services		12,442	-22,897	795	-1,463
Personnel expenses (see below)		-95,509	-98,278	-6,104	-6,281
Depreciation and amortisation		-17,467	-16,461	-1,117	-1,052
Other		-1,832	-6,102	-116	-390
Change in work in progress and finished goods inventories		-5,148	-23,870	-329	-1,526
Total		-542,896	-528,071	-34,697	-33,750
Distribution costs					
Services purchased		-5,047	-5,088	-323	-325
Personnel expenses (see below)		-18,955	-18,851	-1,212	-1,205
Depreciation and amortisation		-629	-664	-40	-42
Other		-4,870	-6,128	-310	-392
Total		-29,501	-30,731	-1,885	-1,964

25 Income statement line items (continued)

	EEK '000		EUR '000	
For the year ended 31 December	2010	2009	2010	2009
ADMINISTRATIVE EXPENSES				
Services purchased	-5,905	-5,863	-378	-374
Personnel expenses (see below)	-27,874	-30,116	-1,781	-1,925
Depreciation and amortisation	-3,480	-2,816	-222	-181
Other	-6,075	-7,252	-389	-463
Total	-43,334	-46,047	-2,770	-2,943
- incl. development costs	-6,104	-6,944	-390	-444
<i>Personnel expenses allocated to cost of sales, distribution and administrative expenses:</i>				
Salaries and other remuneration	-109,860	-114,270	-7,021	-7,303
Social and other taxes on salaries and other remuneration	-32,320	-34,287	-2,066	-2,191
Share-based payment transactions	-1,659	-899	-106	-57
Accruals	1,501	2,211	96	140
Total	-142,338	-147,245	-9,097	-9,411
Other income				
Gains on sale of property, plant and equipment	46	124	3	8
Interest on arrears and penalty payments received	335	679	21	43
Other	72	274	5	18
Total	453	1,077	29	69
Other expenses				
Losses on disposal of property, plant and equipment	-3	-13	0	-1
Interest on arrears, penalty payments and similar items paid	-92	-38	-6	-3
Losses from foreign exchange differences	-2	-3	0	0
Gifts and donations made	-442	-437	-29	-28
Other	-127	-99	-8	-6
Total	-666	-590	-43	-38
Finance income				
Interest income	421	711	27	45
Dividend income	8,762	3,474	560	222
Income from sale of financial assets	8,161	4,975	522	318
Total	17,344	9,160	1,109	585
Finance costs				
Interest expense	-989	-1,115	-63	-71
Net loss from foreign exchange differences	-57	-89	-4	-6
Total	-1,046	-1,204	-67	-77

26 Income tax expense

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

	Estonia		Finland		Lithuania		Sweden	Consolidated	
EEK '000	2010	2009	2010	2009	2010	2009	2010	2010	2009
Profit (loss) before income tax	33,219	16,871	3,404	4,317	4,616	6,855	-216	41,023	28,043
Income tax rate	0%	0%	26%	26%	15%	20%	26.3%		
Theoretical income tax expense	0	0	-885	-1,123	-692	-1,371	0	-1,577	-2,494
Income tax expense on dividends	-3,139	-3,688	0	0	0	0	0	-3,139	-3,688
Effect of non-taxable income	0	0	0	9	199	92	0	199	101
Effect of non-taxable expenses	0	0	-448	-89	-146	-186	0	-594	-275
Income tax expense	-3,139	-3,688	-1,333	-1,203	-639	-1,465	0	-5,111	-6,356

EUR'000	2010	2009	2010	2009	2010	2009	2010	2010	2009
Profit (loss) before income tax	2,123	1,078	218	276	295	438	-14	2,622	1,792
Income tax rate	0%	0%	26%	26%	15%	20%	26.3%		
Theoretical income tax expense	0	0	-57	-72	-44	-87	0	-101	-159
Income tax expense on dividends	-201	-236	0	0	0	0	0	-201	-236
Effect of non-taxable income	0	0	0	1	13	6	0	13	7
Effect of non-taxable expenses	0	0	-29	-6	-9	-12	0	-38	-18
Income tax expense	-201	-236	-86	-77	-40	-93	0	-327	-406

There are no substantial deferred income tax liabilities in the foreign subsidiaries and, therefore, as of 31.12.2010, they are not recognised in the financial statement.

27 Basic and diluted earnings per share

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

Diluted earnings per share are calculated by considering the effects of all dilutive potential shares. As at the reporting date on 31.12.2010 the Group had 578.4 thousand dilutive potential shares. In accordance with the decision of the General Meeting of Shareholders held on 23 April 2009 the price of a share was established at the level of 1.10 euros (17.21 kroons). As to the share-based payments regulated by IFRS 2 requirements the subscription price of shares covers the costs of services that employees provide in the future for the share-based payments. The value of service for each issued share determined by an independent expert was 0.55 euros (8.61 kroons). Thus the subscription price per each share within the meaning of IFRS 2 is 1.65 euros (25.82 kroons) and the potential shares become dilutive only after their average market price of the period exceed 1.65 euros (25.82 kroons).

The average market price of the share in 2010 was 41.45 kroons (2.65 euros) and 32.78 kroons (2.10 euros) in compared period. The issue of shares would account for 14,932 thousand kroons (954 thousand euros). In order to obtain the same amount 360,260 (14,932 /41.45) new shares at the average market price would be issued and 455,537 in compared period. The difference between the number of dilutive potential shares and the number of shares issued at the market price which is

27 Basic and diluted earnings per share (continued)

218,140 thousand shares (578,400 -360,260) could be interpreted as shares granted free of charge and the average number of shares has been adjusted by that number.

	Unit	EEK '000		EUR'000	
		2010	2009	2010	2009
Profit attributable to equity holders of the parent	'000	34,008	19,226	2,173	1,229
Average number of shares during the period	'000	16,800	16,800	16,800	16,800
Basic earnings per share		2.02	1.14	0.13	0.07
Adjusted number of shares during the period	'000	17,018	16,867	17,018	16,867
Diluted earnings per share		2.00	1.14	0.13	0.07

28 Cash flow statement line items

	Note	EEK '000		EUR'000	
For the year ended 31 December		2010	2009	2010	2009
Corporate income tax paid					
Income tax expense	26	-5,111	-6,356	-327	-406
Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+)	20	-324	-884	-20	-57
Corporate income tax paid		-5,435	-7,240	-347	-463
Interest paid					
Interest expense	25	-989	-1,115	-63	-71
Liability decrease (-)/ increase (+) incurred by purchase	19	17	-15	1	-1
Interest paid		-972	-1,130	-62	-72
Paid for investment property					
Additions of investment property	13	-4,694	-9,226	-300	-590
Liability decrease (-)/ increase (+) incurred by purchase	19	-2,017	2,017	-129	129
Acquisition of investment property		-6,711	-7,209	-429	-461
Paid for property plant and equipment					
Additions of property plant and equipment	14	-36,365	-16,279	-2,324	-1,040
Acquired with finance lease	14	29,807	263	1,905	17
Liability decrease (-)/ increase (+) incurred by purchase	19	-46	-1,870	-3	-120
Acquisition of property plant and equipment		-6,604	-17,886	-422	-1,143
Proceeds from sale of property plant and equipment					
Book value of disposed property plant and equipment	14	3	2,203	0	141
Profit on disposal of property plant and equipment		43	110	3	7
Proceeds from sale of property plant and equipment		46	2,313	3	148
Interest received					
Interest income	25	421	711	27	45
Interest receivable decrease (+)/ increase (-)	8	0	35	0	3
Interest received		421	746	27	48

29 Related parties

The related parties of AS Harju Elekter include associated company AS Draka Keila Cables; members of the management and supervisory boards and their close family members; and AS Harju KEK which owns 32.14 percent of the shares of AS Harju Elekter.

Transactions with related parties

	EEK '000		EUR'000	
For the year ended 31 December	2010	2009	2010	2009
Purchase of goods and services from related parties:				
- from associates	3,845	4,928	246	315
- from Harju KEK	1,063	1,089	68	70
Total	4,908	6,017	314	385
<i>Inclusive:</i>				
- goods and materials for manufacturing	3,845	4,915	246	314
- lease of property plant and equipment	1,023	1,062	65	68
- other	40	40	3	3
Sale of goods and services to related parties:				
- to associates	13,940	10,883	891	696
- to Harju KEK	35	0	2	0
Total	13,975	10,883	893	696
<i>Inclusive:</i>				
- goods and materials for manufacturing	428	233	27	15
- lease of property plant and equipment	9,637	7,227	616	462
- management services	1,709	2,713	109	174
- other	2,201	710	141	45
Balances with related parties				
Receivables with associates: goods and services	4,856	2,663	310	170
Payables with associates: goods and services	215	56	14	3
Remunerations and compensations				
Remuneration to management and supervisory boards				
- salaries, bonuses, additional remuneration	3,451	3,649	221	233
- fringe benefits	126	96	8	6
Total	3,577	3,745	229	239
Share-based payment transactions				
- to management of associates	29	16	2	1
- to management of Harju KEK	115	62	7	4
- to management and supervisory board of Harju Elekter	229	124	15	8
Total	373	202	24	13

Further information on share-based payment transactions can be found in Note 23.6.

29 Related parties (continued)

The Group does not give the members of the Management Board any benefits related to pension. The Chairman of the Management Board has the right to receive severance pay equal to up to 12 months' remuneration of a member of the Management Board. No other transactions with members of the Group's governing bodies and people connected to them were carried out.

30 Group Entities and changes in the Group

Group entities	Country of incorporation	Parent company	Interest As of 31.12.2010	Interest As of 31.12.2009
AS Eltek	Estonia	AS Harju Elekter	100.0%	100.0%
AS Harju Elekter Elektrotehnika	Estonia	AS Harju Elekter	100.0%	100.0%
Satmatic OY	Finland	AS Harju Elekter	100.0%	100.0%
Harju Elekter AB	Sweden	AS Harju Elekter	90.0%	0.0%
Rifas UAB	Lithuania	AS Harju Elekter	51.0%	51.0%
Automatikos Iranga UAB	Lithuania	Rifas UAB	51.0%	51.0%

On 15 June 2010, the constituting act of Harju Elekter AB, a subsidiary of AS Harju Elekter, was signed in Stockholm. The company was entered in the commercial register on 16 August. The share capital of the new subsidiary is 1 million Swedish krona, whereof 90% belongs to AS Harju Elekter. The establishment of subsidiary Harju Elekter AB increases the presence and sales on the Swedish market, which provides our customers with a wide range of products, especially electrotechnical ones, manufactured by the companies in Harju Elekter Group.

31 Events after the Reporting Date

To expand its activities and increase its market share in the Kingdom of Sweden, Harju Elekter AB, a subsidiary of AS Harju Elekter, acquired the business of BGB Power Solutions AB in January 2011. The total cost of the contract was 500,000 Swedish kroons, which will be financed from own funds and in accordance with the contract within two years.

On the basis of the contract Harju Elekter AB obtained assets for the fair value of 105 thousand Swedish krona, as well as the strategic partnership contract including contractual prices, support services and right of sales to the extent of 395 thousand Swedish krona. Due to the insignificance of the acquired business the management of AS Harju Elekter considers that the publication of more detailed information is not necessary.

32 Primary financial statements of the Parent**STATEMENT OF FINANCIAL POSITION**

At 31 December	EEK '000		EUR'000	
	2010	2009	2010	2009
Cash and cash equivalents	16,742	1,397	1,070	89
Trade receivables	5,370	5,413	343	346
Receivables from related parties	9,281	5,601	593	358
Other receivables and prepayments	423	866	27	55
Inventories	4,207	4,843	269	310
Total current assets	36,023	18,120	2,302	1,158
Investments in subsidiaries	45,927	44,459	2,935	2,841
Investments in associates	8,840	8,840	565	565
Other investments	337,020	153,172	21,539	9,790
Investment property	178,136	181,000	11,385	11,568
Property plant and equipment	6,089	6,808	389	435
Intangible assets	4,647	4,531	298	290
Total non-current assets	580,659	398,810	37,111	25,489
TOTAL ASSETS	616,682	416,930	39,413	26,647
Liabilities				
Loans	0	6,490	0	415
Trade payables	5,784	6,783	370	433
Payables to related parties	0	24	0	2
Tax liabilities	1,726	1,155	110	74
Other payables and advances received	2,583	4,645	165	297
Total current liabilities	10,093	19,097	645	1,221
Total liabilities	10,093	19,097	645	1,221
Equity				
Share capital	168,000	168,000	10,737	10,737
Share premium	6,000	6,000	383	383
Reserves	334,682	149,760	21,390	9,571
Retained earnings	97,907	74,073	6,258	4,735
Total equity	606,589	397,833	38,768	25,426
TOTAL LIABILITIES AND EQUITY	616,682	416,930	39,413	26,647

32 Primary financial statements of the Parent (continued)**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December	EEK '000		EUR'000	
	2010	2009	2010	2009
Revenue	91,799	88,006	5,867	5,624
Cost of sales	-53,736	-50,307	-3,434	-3,215
Gross profit	38,063	37,699	2,433	2,409
Other income	70	292	4	19
Distribution expenses	-5,337	-5,909	-341	-378
Administrative expenses	-14,621	-15,460	-935	-988
Other expenses	-470	-407	-30	-26
Operating profit	17,705	16,215	1,131	1,036
Income from subsidiaries	4,832	8,715	309	557
Income from available-for-sale financial assets				
-Dividend income	8,762	3,474	560	222
-Income from sale	8,161	4,975	522	318
Interest income	156	69	10	4
Interest expense	-35	-256	-2	-16
Foreign exchange loss	-19	-9	-1	-1
Profit before tax	39,562	33,183	2,529	2,120
Corporate income tax expense	-2,288	-2,149	-147	-137
Profit for the period	37,274	31,034	2,382	1,983
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	184,922	80,014	11,819	5,114
Total comprehensive income for the period	222,196	111,048	14,201	7,097

32 Primary financial statements of the Parent (continued)**STATEMENT OF CASH FLOWS**

	EEK '000		EUR'000	
	2010	2009	2010	2009
Cash flows from operating activities				
Operating profit	17,705	16,215	1,131	1,036
Adjustments for				
Depreciation amortisation and impairment losses	9,585	8,869	613	567
Gain / loss on sale of property plant and equipment	-7	-7	0	0
Change in receivables related to operating activity	-3,187	-893	-204	-57
Change in inventories	636	2,862	41	183
Change in payables related to operating activity	-504	-10	-32	-1
Corporate income tax paid	-2,288	-2,149	-146	-137
Interest paid	-41	-271	-3	-17
Net cash from operating activities	21,899	24,616	1,400	1,574
Cash flows from investing activities				
Acquisition of property plant and equipment and intangible assets	-8,122	-15,959	-519	-1,020
Proceeds from sale of property plant and equipment	0	225	0	14
Acquisition of financial assets	-1,468	-178	-94	-11
Proceeds from sale of financial assets	9,235	6,318	590	404
Interest received	156	72	10	4
Dividends received	13,594	12,188	869	779
Net cash used in / from investing activities	13,395	2,666	856	170
Cash flows from financing activities				
Repayment of loans received	-6,490	-10,301	-415	-658
Dividends paid	-13,440	-16,800	-859	-1,074
Net cash used in financing activities	-19,930	-27,101	-1,274	-1,732
Net cash flows	15,364	181	982	12
Cash and cash equivalents at beginning of period	1,397	1,225	89	78
Net increase	15,364	181	982	12
Effect of exchange rate fluctuations on cash held	-19	-9	-1	-1
Cash and cash equivalents at end of period	16,742	1,397	1,070	89

32 Primary financial statements of the Parent (continued)**STATEMENT OF CHANGES IN EQUITY**

EEK '000	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
At 31.12.2008	168,000	6,000	16,800	52,946	59,839	303,585
Profit for the period	0	0	0	0	31,034	31,034
Other comprehensive income	0	0	0	80,014	0	80,014
Comprehensive income 2009	0	0	0	80,014	31,034	111,048
Dividends	0	0	0	0	-16,800	-16,800
At 31.12.2009	168,000	6,000	16,800	132,960	74,073	397,833
Profit for the period	0	0	0	0	37,274	37,274
Other comprehensive income	0	0	0	184,922	0	184,922
Comprehensive income 2010	0	0	0	184,922	37,274	222,196
Dividends	0	0	0	0	-13,440	-13,440
At 31.12.2010	168,000	6,000	16,800	317,882	97,907	606,589
EUR'000						
At 31.12.2008	10,737	383	1,073	3,384	3,826	19,403
Profit for the period	0	0	0	0	1,983	1,983
Other comprehensive income	0	0	0	5,114	0	5,114
Comprehensive income 2009	0	0	0	5,114	1,983	7,097
Dividends	0	0	0	0	-1,074	-1,074
At 31.12.2009	10,737	383	1,073	8,498	4,735	25,426
Profit for the period	0	0	0	0	2,382	2,382
Other comprehensive income	0	0	0	11,819	0	11,819
Comprehensive income 2010	0	0	0	11,819	2,382	14,201
Dividends	0	0	0	0	-859	-859
At 31.12.2010	10,737	383	1,073	20,317	6,258	38,768
EUR'00						
	EEK'000				0	
	2010	2009	2010	2009		
Unconsolidated equity at 31 December	606,589	397,833	38,768	25,426		
Interests under control and significant influence:						
-carrying amount	-54,767	-53,299	-3,500	-3,406		
-carrying amount under the equity method	135,956	135,996	8,689	8,692		
Restated unconsolidated equity at 31 December	687,778	480,530	43,957	30,712		

SIGNATURES TO THE ANNUAL REPORT OF 2010

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2010.

Andres Allikmäe	Chairman of the Management Board	/signature/	19 th March 2011
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Lembit Libe	Member of the Management Board	/signature/	19 th March 2011
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Karin Padjus	Member of the Management Board	/signature/	19 th March 2011
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Supervisory board:

The supervisory board has reviewed the annual report prepared by the management board (pp. 6-88) including an activity report and annual financial statements and has approved its presentation to the general meeting of the shareholders.

Endel Palla	Chairman of the Supervisory	/signature/	6 th April 2011
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Ain Kabal	Member of the Supervisory Board	/signature/	6 th April 2011
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Madis Talgre	Member of the Supervisory Board	/signature/	6 th April 2011
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Andres Toome	Member of the Supervisory Board	/signature/	6 th April 2011
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KPMG Baltics OÜ
Narva mnt 5,
Tallinn 10117
Estonia

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

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

To the shareholders of AS Harju Elekter

We have audited the accompanying consolidated financial statements of AS Harju Elekter ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 39-88.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects consolidated financial position of the Company as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 6 April 2011

KPMG Baltics OÜ
Licence No 17
Narva mnt. 5
Tallinn 10117

/Signature/
Andris Jegers
Authorized Public Accountant,
licence No 171

/Signature/
Indrek Alliksaar
Authorized Public Accountant,
licence No 446

PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EEK '000	EUR '000
Retained earnings of preceding periods	144,989	9,267
Profit for 2010	34,008	2,173
Total distributable profits at 31 December 2010	178,997	11,440

The management board proposes that profits be allocated as follows:

Dividend distribution (EEK 0.94 / EUR 0.06 per share)	15,772	1,008
Retained earnings after allocations	163,225	10,432

Andres Allikmäe Chairman of the Management Board /signature/ 29th March 2011

Lembit Libe Member of the Management Board /signature/ 29th March 2011

Karin Padjus Member of the Management Board /signature/ 29th March 2011