ANNUAL REPORT 2011

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
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Telephone:	+372 67 47 400
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E-mail:	he@he.ee
Internet homepage:	www.harjuelekter.ee
CEO:	Andres Allikmäe
Auditor:	KPMG Baltics OÜ
Beginning of the reporting period:	1st of January
End of the reporting period:	31st of December

Added documents to the annual report:

- Auditor's report
- Profit allocation proposal

CONTENTS

ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

The Group secured and reinforced its position in the markets

2011 was the first year that the Euro was current in Estonia and it was also the year when the Group reinforced its position in existing markets. All our subsidiaries and related companies were able to increase their net sales and operating profits when compared with the previous year. European and the world banking problems did not affect our company much as most of the trade carried out by the Group takes place within the euro zone. Simultaneously with the economic recovery and the increase in the amount of orders we abandoned our policy of shortened working hours and found extra resources to increase the salaries of our employees. It is encouraging to recognise that people who work for us appreciate the stability of the company and believe in its positive future perspective.

We have gradually started to value more and more the innovativeness and creativity of our employees and that has helped to make the whole company more innovative. There is no doubt that the innovation competition that the company initiated in 2011, and which will became an annual event from now on, has had a lot to do with these changes. The first conclusions have been made and the winners have received the recognition and rewards they deserve. All in all by addressing the subject of innovation we have ensured a higher technical level of the company's own products, increased productivity and allowed us to expand the range of products.

For years, the Group has been successful in developing production real estate. Competent action has allowed us, during recent years, to expand the production premises of almost all the companies in the Group and make investments into the relevant technologies that have led to the rapid increase in net sales. In 2011, a new modern production building of the Group opened in the Keila Industrial Village.

The year 2011 was somewhat modest for investors in the NASDAQ OMX Tallinn Stock Exchange both in terms of the turnover of dealing in shares, as well as in price variation. This was also the case for AS Harju Elekter who, despite good economic results and contrary to the swinging increase in the price of shares in the two previous years, witnessed a decrease in the value of its shares. However, it is worth mentioning that during this whole period AS Harju Elekter has been a publicly traded company, it has been one of the few which has always been profitable and which every year has paid a dividend to its shareholders. We also promise to continue to carry out a reliable and stable dividend policy, as well as option programmes for key personnel of the company in the future.

The successful business management of AS Harju Elekter has also attracted attention also outside of its home markets as CE Asset Management, in co-operation with its Baltic partners, declared it to be the best in Estonia and honoured it with the Corporate Excellence Award. The company earned this acknowledgement thanks to its market position, stable customer base, good economic results and the general management of the company.

I believe that the future development of the Group is continually in the increase of sales outside of Estonia, mainly in neighbouring countries, but also in other European Union countries and in the world generally. However, the importance of the home markets should not be underestimated.

On behalf of the Supervisory Board I would like to thank our customers, partners, shareholders and employees. These are the people who have contributed a lot towards the prosperity of our business.

/signature/

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE MANAGING DIRECTOR/CEO

Today's actions lay the foundation for success in the future

The financial results of AS Harju Elekter in 2011 were as good as expected. After complex but educative years the amount of orders and sales that started to increase quarter by quarter gave us new hope for better years to come. It was the first year that Estonia was integrated into the common European currency. Although it created some uncertainty in the Estonian economy it excluded any currency speculation. The strict budgetary policy and the control over expenditure made it possible to retain stability and even achieve some growth.

Thanks to effective marketing net sales increased in most segments of our activities. The consolidated net sales amounted to 46.7 million euros which is 14.2% more than the year before. The share of those products and services with a higher added value in the product portfolio increased and resulted in an increase in the operating profit of the Group by 33.3%. An increase in the net profit of 28% was achieved without gearing the sales of financial assets. The growth of profitability was ensured by reasonable management, rational control over costs, the increase in the share of products and services with a higher added value but also by a stable income from the rent of industrial real estate. As a whole it is reassuring to recognise that the increase in the operating costs was smaller than the increase in net sales.

Due to the specific qualities of our products we value highly our home markets, as well as any market around the Baltic Sea. However, we have expanded our territory of our operations by delivering our products and solutions also to Australia, Portugal, Abu Dhabi, Norway, Malaysia, Russia, Germany and other places in the world.

Well focused marketing and engineering and mutually profitable co-operation with our partners has allowed us to reinforce the position of the companies belonging to our Group within the business processes of our customers. For years, we have considered that it is important to offer our customers sustainable solutions and earn their trust by it. Today's success adds to the belief that we are on the right track to establishing a strong basis for good co-operation in the future.

Today we focus mainly on the most important areas of the electrical engineering market. The main keywords in our actions today are innovativeness, renewable energy solutions and the wider use of green energy. The solar energy plant that generates a considerable amount of the annual electric power supports the energy balance of our Finnish subsidiary by 30kW and our Lithuanian subsidiary by 50kW. Among other clean solutions that save energy we also offer pre-heating panels for cars and loading points for electric cars, as well as systematic management solutions. The sea and weather proof solutions for wind farms that will be delivered to one of the wind energy networks in Norway in 2012 was declared the winner of the intra-Group innovation competition. It is important that the mental input of our development engineers supports the solutions we are going to offer in the future and meet the expectations of our customers.

In order to make the image of the Group clearer and stronger we aggregated all the Estonian companies belonging to the Group under the one trade mark of Harju Elekter and mapped the values of the Group in 2011. We consider it very important that notions such as co-operation, reliability and development are identified with us.

Our goal as a Group is to develop as a leading producer of electrical installations and materials in the Baltic Sea area. This is possible with close co-operation in which everybody is a winner, including our customers, partners and employees. I would like to express my gratitude to the whole team of AS Harju Elekter for their commitment and active approach to the development of the Group. We have been able to offer our employees stability and security during these complex times and we value highly their readiness to face the future challenges. We are doing only as well as our customers are doing. I would like to thank all our customers for their trust!

I am also glad to confirm to our shareholders that, as the only technology company listed on the Tallinn Stock Exchange, we have been careful with your investment and grateful for your contribution to the development of the company.

/signature/

Andres Allikmäe
Managing Director/CEO

ORGANISATION

MISSION

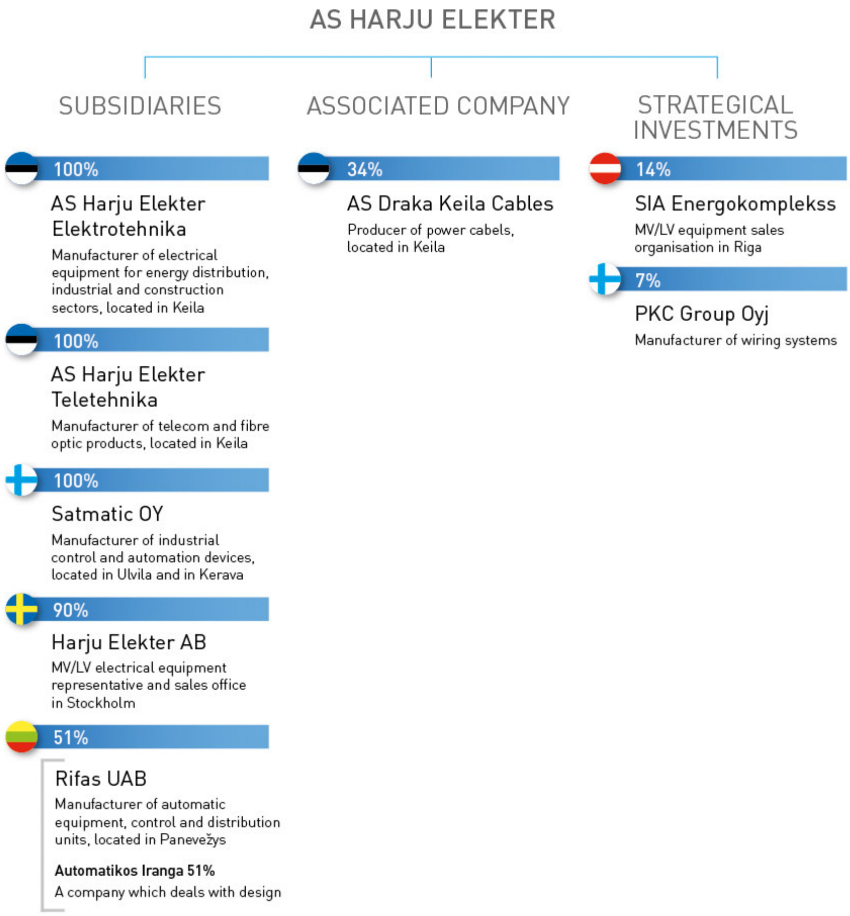
To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

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. 61.4% of the products are marketed outside Estonia.

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART



MANAGEMENT REPORT

OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

The world's economy increased relatively quickly during the fist half of 2011. This was supported by a revival in the international trade as well as by the growth of export income and growing internal demand of the developing economies. This rapid growth raised the prices of raw materials and energy, and increased the global pressure on inflation. The summer brought along the aggravation of the international debt crises. For first time in its history the United States faced the threat of its credit rating being lowered and the markets contested the sustainability of the finance of several countries in the euro zone. Equity markets lost quickly all gains recorded during the first half of the year. The autumn brought along harder financial conditions for banks. The risks related with economic perspectives had substantially increased by the end of the year.

Euro-area

The economic growth in the euro zone retreated after the second quarter of 2011. The economic growth had been supported greatly by Germany and France, while the growth in countries with budgetary problems was slower than average. The expansion of the debt crises and the growing threat of being affected by it reduced the economic certainty in Europe as well as everywhere else in the world. The uncertainly was even intensified by political tensions in several euro zone countries which increase the disbelief in markets in the proposed economic and political solutions. Due to the decrease in consumption and investment resulting from the global uncertainty the main trading partners of Estonia, Sweden and Finland, have also reduced their growth estimation related to export demand and private consumption. According to the preliminary data of the European Central Bank inflation in the euro zone in 2011 was around 2.6-2.8%, while the economic growth was between 1.5 and 1.7%.

Latvia, Lithuania, Russia

The economic growth in Latvia and Lithuania in 2011 was mainly supported by export demand, but internal demand also increased gradually. However, the economies of these countries depended greatly on exports and their economic growth on the behaviour of foreign markets. Despite the unimpressive economic results of the first half of the year the Russian economy started to recover – thriving thanks to the exports of raw materials. The pressure on inflation that has inhibited economic growth in Russia during the last years is also showing signs of alleviation.

Estonia

The Estonian economy has increased well since the autumn of 2011. Its growth was retained by the use of the favourable market situation, as well as the recuperation of the internal demand. The export volume of Estonia showed an impressive increase. Estonian households, as well as companies, bought more durable goods, investment activities recovered and loans were given more willingly. The forceful economic growth was accompanied by an inflation rate that was faster than estimated. This was mainly due to the increase in prices of energy and raw material for food on the world market.

The resistance of the Estonian economy to the deterioration of the external environment has increased thanks to the lessening of the internal imbalance. Due to the fact that the expectations of the Estonian market players are more modest and the debt load of the private sector has decreased, Estonia is less sensitive to stricter financial conditions and change of perspectives. The vulnerability has been reduced also by recovered profitability in companies and that has increased their financial buffer. Better coordination of salaries with productivity has also had a positive effect on the competitiveness of the Estonian economy. Although the high unemployment rate is still an additional burden for the Estonian economy the ongoing creation of jobs will lower these figures quickly.

YEAR 2011

In 2011, there was an innovation competition in the Group, to acknowledge engineers and technicians working on product development and innovation. 9 works were presented to the competition by 18 authors. The jury found unanimously that the best work was the wind farm energy gathering system – Lista Wind Farm – prepared by the engineers of AS Harju Elekter Elektrotehnika. A contract has already been entered into to put it into practice in 2012, in Norway, in the amount of 600,000 euros.

Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award in October. AS Harju Elekter was recognise as the best in Estonia and fourth among the Baltic States. It was recognised thanks to its market position, stable customer base, good historic economic results and promotion of the general management of the company.

In October, AS Harju Elekter participated in the investment fair Rahakompass 2011, the recurrent topic of which was responsible conduct in saving, investment and company management. The business was represented with an advertising display and introduced itself in the panel of short presentations.

In 2011, Krediidiinfo AS awarded to AS Harju Elekter the credit rating AA (very good). The rating of Krediidiinfo AS assesses the activities of the company as a whole and represents an aggregate assessment of the company's economic and financial condition as well as the payment patterns. Only 7.6% of the Estonian companies have credit rating AA.

In autumn, subsidiary Rifas UAB launched the operation of a 50 kW solar power plant, which, due to the favourable repurchase price of electricity, will to cover most of the expenditure incurred to produce electricity at the Lithuanian subsidiary and will enable the testing of various solar energy solutions.

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

The production management of Satmatic Oy as well as Rifas UAB declared to be in conformity with the standards of the international environmental management system ISO 14001:2004. Activities of Rifas UAB also were recognized with the health and safety management system OHSAS 18001 standards.

The Group built a new 5000 sq.m production complex for AS Saajos, manufacturer of fire-proof safety doors. The construction completed in December 2011 and the premises have been given for a long-term lease to the company.

To expand its activities and increase its market share in Sweden, Harju Elekter AB, a subsidiary of AS Harju Elekter, acquired the assets of BGB Power Solutions AB in January. The total cost of the contract was SEK 500,000. On the basis of the contract, Harju Elekter AB acquired assets and a strategic partnership agreement with contractual prices, support services and selling. The deal will be financed from own funds over two years in accordance with the contract.

Subsidiaries AS Harju Elekter Elektrotehnika, Satmatic Oy and AS Harju Elekter Teletehnika participated in the energy fair Verkosto 2011, held in Finland in February. A stand presented to fair clients substations with a metal casing, which were complemented by construction materials from the other product families. In April, the AS Harju Elekter Trade Group presented the products, produced by Group's companies, the retail shops and their professional product selection and displayed the products of the companies, represented by the Group, in the international building fair Estbuild 2011. In October, subsidiary Rifas UAB presented its portfolio of products in Elmia Subcontractor Fair in Sweden.

The supervisory board and management board of AS Harju Elekter adopted a decision to consolidate all of the Group's Estonian companies under the trademark Harju Elekter. The use of a joint logo helps increase the competitiveness of the Group and creates additional benefits and possibilities in marketing activities. Based on this, the supervisory board of subsidiary AS Eltek approved AS Harju Elekter Teletehnika as the new name of the company.

BUSINESS RESULTS

5 years statistical summary

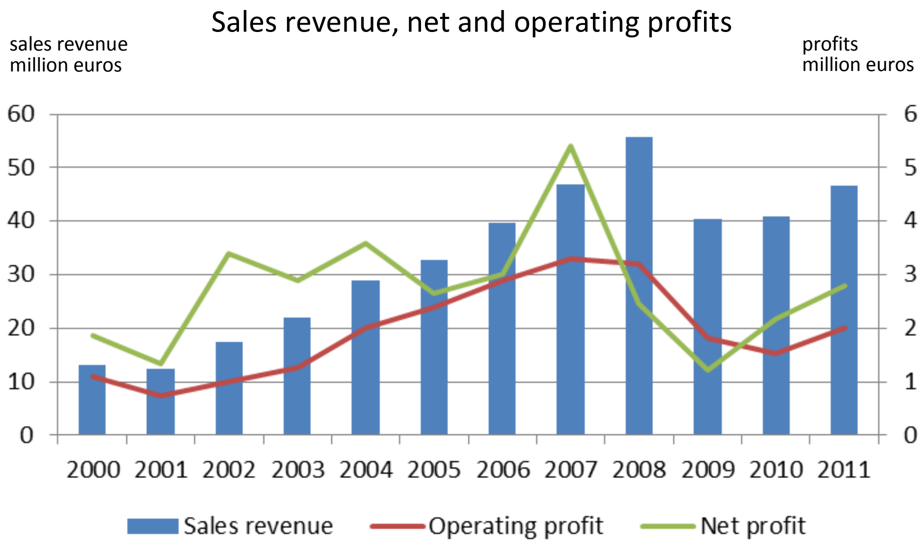
Group	2011	2010	2009	2008	2007
Statement of comprehensive income (million EUR)					
Net sales	46.7	40.9	40.4	55.7	46.8
Operating profit	2.0	1.5	1.8	3.2	3.3
Net profit (belonging to the owners of the parent company)	2.8	2.2	1.2	2.5	5.4
Statement of financial position at the end of the year (million EUR)					
Total current assets	15.4	14.4	12.0	15.9	15.4
Total fixed assets	37.5	40.7	27.5	22.5	30.6
Total assets	52.9	55.1	39.5	38.5	46.0
Owners' equity (belonging to owners of the Parent)	40.3	44.0	30.7	25.4	34.1
Equity ratio (%)	76.2	79.8	77.7	66.0	74.0
Rates of growth (%)					
Growth in net sales	14.2	1.1	-27.4	19.1	17.7
Operating profit growth	33.3	-16.1	-43.4	-2.8	14
Net profit growth(belonging to the owners of the Parent)	27.6	76.9	-50.1	-54.3	78.6
Assets growth	-4.0	39.5	2.7	-16.4	-4.9
Owner's equity growth (belonging to the owners of the Parent)	-8.3	43.1	21.0	-25.5	-12.0
Performance indicators (%)					
Return of sales	4.3	3.7	4.5	5.7	7.0
Net profit margin	6.3	5.6	3.4	4.4	11.5
Return of assets (ROA)	5.1	3.2	3.2	5.8	11.4
Return of equity (ROE)	6.6	4.4	4.4	8.3	14.8
Shares (EUR)					
Average number of shares (1000 pc)	16,800	16,800	16,800	16,800	16,800
Shareholder's equity per share	2.51	2.22	1.67	1.51	2.17
The closing price	2.28	3.02	2.07	0.99	3.01
EPS	0.17	0.13	0.07	0.15	0.32
P/E	13.41	23.39	28.14	6.76	10.58
Dividend per share	[1]0.07	0.06	0.05	0.06	0.13
Liquidity ratio					
Current ratio	1.8	1.8	1.6	1.6	1.6
Quick ratio	1.0	1.1	0.9	0.8	0.8
Personnel and remuneration					
Number of employees at the end of the period	427	424	452	501	442
Average number of employees	457	440	464	515	486
Wages and salaries (million euros)	7.7	7.0	7.3	8.5	7.4

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
EPS	= Net profit/ Average number of shares
P/E	= Share price/EPS
Equity ratio	= Owner's equity (belonging to the owners of the parent company)/Assets*100
Current ratio	= Average current assets/ Average current liabilities
Quick ratio	= Average liquid assets (current assets – inventories)/ Average current liabilities

[1] Proposal of the Management Board

In the 2011 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Harju Elekter AB and Rifas UAB with its subsidiary Automatikos Iranga UAB (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

AS Harju Elekter holdes 6.6% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners' equity in the Group.



Earnings and margins

The financial indicators of the Group in the accounting year demonstrated improvement trends.

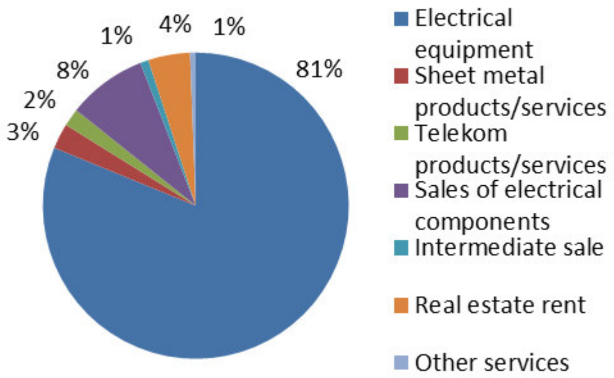
In 2011 the consolidated sales revenue of the Group increased by 14.2% compared with the previous year amounting to 46.7 million euros. The share of Estonian companies in the total consolidated sales revenues was 47% (2010: 45%), Finnish companies contributed 40% (2010: 41%) and Lithuanian companies 13% (2010: 14%).

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% (2010: 89%). The real estate segment (2010: 6%) and other non-segmented activities (2010: 5%) gave equally 5% of the sales volume of the Group.

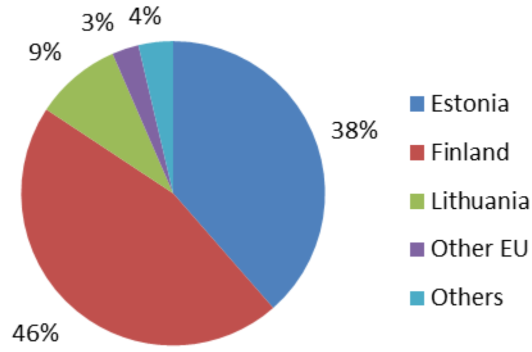
As for the markets, once again the Group's home markets (Estonia, Lithuania and Finland) were dominant in 2011 and 93.5% (2010: 85%) of the goods and services were sold there. Sales volumes grew most of all in the Finnish and Estonian markets with the sales of the Estonian and Lithuanian companies of the Group in the Finnish market increasing by 30% amounting to 6.9 million euros. The sales in the Lithuanian market remained at the level of 2010. However, the sales revenues of the Lithuanian segment have increased during the financial year by 3.6% amounting to 6 million euros out of which the sales in the home market amounted to 67% (2010: 72%). The Lithuanian company substantially increased its sales volumes on the Latvian, Danish, Polish and Norwegian markets. The company also entered for the first time the United States and Brazilian markets.

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

Revenue by business area



Revenue by market



The relatively rapid growth of the world economy in the first half of 2011 increased the price of raw materials and energy and that raised the prices of the purchased services. The operating costs of the Group increased during the year by a total of 13.3% amounting to 44.6 million euros, including the 12.0% increase in the costs related to the products and services sold and more than 20% increase in the marketing and general management costs. All in all the rate of growth of operating costs was 0.9 percentage points lower than the increase0 in consolidated sales revenues.

During the year the labour costs increased by 19.6% amounting to 10.9 million euros. In 2010, a costs savings regime was implemented at the Group, wages were frozen and employees worked temporarily on a part-time basis. Due to the increase in the volume of orders this year the staff turn back to full-time basis as well as new employees has been hired at Group companies and temporary employees were used in the third quarter. The Group has stock-based compensation plans which may be settled by way of our 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 106 thousand euros received for stock is recognised as the period's labour costs (2010: 106 thousand euros).

During the year the amount of 2 (2010: 19) thousand euros of receivables was written down and charged off. The cost of the markdown of reserves was 30 (2010: 24) thousand euros. Depreciation and amortisation during the period amounted to 1.35 (2010: 1.38) million euros.

In 2011 the operating profit before depreciation was 3.38 million euros, increasing by 16.5% compared with the previous financial year and the operating profit was 2.03 million euros which was 0.51 million euros more than in the previous year. The return on sales before depreciation was 7.2% (2010: 7.1%) and the net return on sales was 4.3% which is 0.6 percentage points better than the year before.

In 2011 the Group made 0.24 million euros more dividend profit than a year before. All in all the net financial profit for 2011 amounted to 0.8 million euros. The year before this figure amounted to 1.1 million euros as in 2010 another 80 thousand PKC Group Oyj shares were sold and the financial income from the sales of shares amounted to 0.52 million euros. Financial expenses for the reporting period amounted to 62 (2010: 67) thousand euros.

The Group consolidated 497 (2010: 61) thousand euros of profit from its affiliated company.

In 2011 the income tax costs amounted to 353 (2010: 327) thousand euros. The income tax costs decreased in 2011 by the deferred income tax of 35 thousand euros shown in the consolidated statement. 3 thousand euros of it were due to the temporary differences in the accounting of basic assets and 32 thousand euros tax loss to be carried forward.

The consolidated net profit for 2011 was 2.9 million euros which was 28.5% more than in 2010. The share of the owners of the parent company of the period's net profit accounted for 2.8 million euros, increasing by 27.6% compared to 2010. The net profit per share was 0.17 (2010: 0.13) euros.

Other comprehensive income

The market price of a share of PKC Group Oyj at the Helsinki Stock Exchange decreased during the period of 12 moths by 3.94 euros and closed at 11.43 euros. During the reporting period the unrealised losses emerging from the recalculation of marketable financial assets into their fair value amounted to 5.5 million euros. In 2010 other comprehensive income from financial assets amounted to a total of 11.8 million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company (Swedish subsidiary Harju Elekter AB) formed an insignificant part of other comprehensive income. All in all the consolidated comprehensive loss of the reporting year was 2.6 million euros, while in 2010 the comprehensive income was 14.1 million euros.

Financial position

The amount of the consolidated balance sheet as of 31 December 2011 was 52.9 million euros, decreasing by 2.2 million euros during the year.

By the end of the year business claims and prepayments amounted to 7.9 million euros, increasing by 1.3 million euros during the year and inventory amounted to 6.7 million euros, increasing by 1.2 million euros a year. At the same time the Group's debts to suppliers and other debts and payables increased by 1.1 million euros and amounted to 6.3 million euros. Such increase was mainly because of recovery in the economy and the growth in sales of the Group.

In 2011 the quick ratio decreased by 0.1 points down to the level of 1.0, while the current ratio (1,8) remained at the level of the previous year.

During the year the market price of the PKC Group Oyj shares in the Helsinki Stock Exchange decreased by 3.94 euros. The cost of investment in assets and reserves in equity capital decreased by 5.5 million euros after the stock was revaluated at its fair value. During the accounting year the Group invested 2.5 million euros in real estate, 0.5 million euros in tangible fixed assets and 0.1 million euros in intangible fixed assets, totally 3.1 million euros. All in all, the book value of financial assets decreased by 3.2 million euros dropping to 37.5 million euros during the period of 12 months and this was mainly because of the changes in the market price of financial assets.

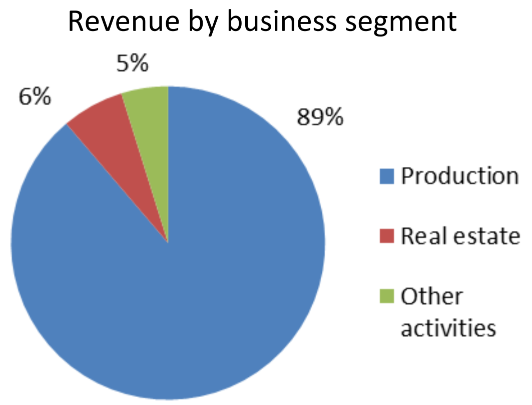
By the end of the year interest-bearing debt obligations amounted to 3.8 million euros, increasing by 447,000 euros during the period of 12 months. Short-term liabilities increased by 771 (2010: 377) thousand euros; 65 (2010: 235) thousand euros of a long-term loan was repaid during the reporting period. During the 12 month period the total amount of capital rent payments made by the Group amounted to 272 (2010: 289) thousand euros.

The net debt (Interest-bearing debt obligations – Cash and bank accounts) of the Group has increased by 2.0 million euros amounting by the end of year to 3.0 million euros. The ratio of net debt to owners' equity was 7.1% (2010: 2.1%).

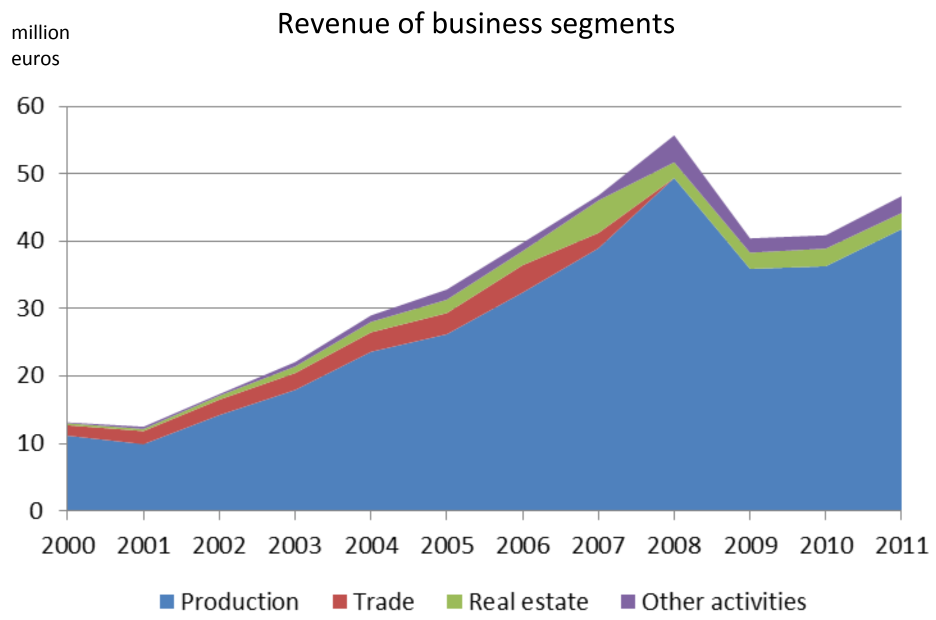
During the period of one year the owner's equity of the Group decreased by 3.5 million euros, amounting to 42.0 million euros by the end of the year.

By the end of the reporting period current assets amounted to 29% (2010: 26%) and non-current assets to 71% (2010: 74%), on the other hand, foreign capital accounting for 21% (2010: 17%) and owner's equity 79% (2010: 83%) of total assets.

BUSINESS SEGMENTS



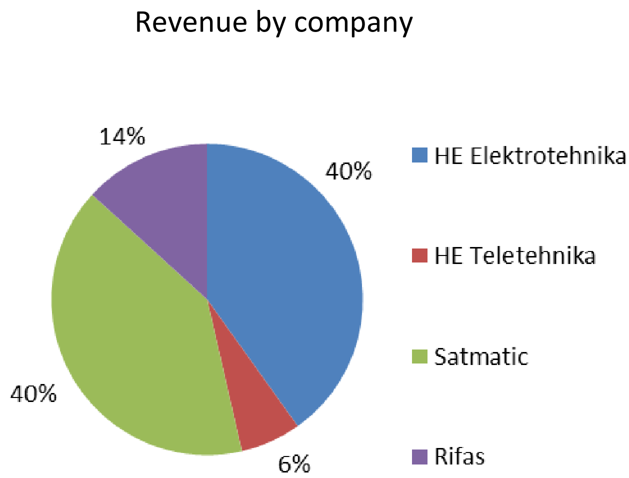
As of 31 December 2011 the Group was active in two fields – production and real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. The share of the trading group operating within the parent company and, of Harju Elekter AB, has during the last four years (including 2011) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.



PRODUCTION

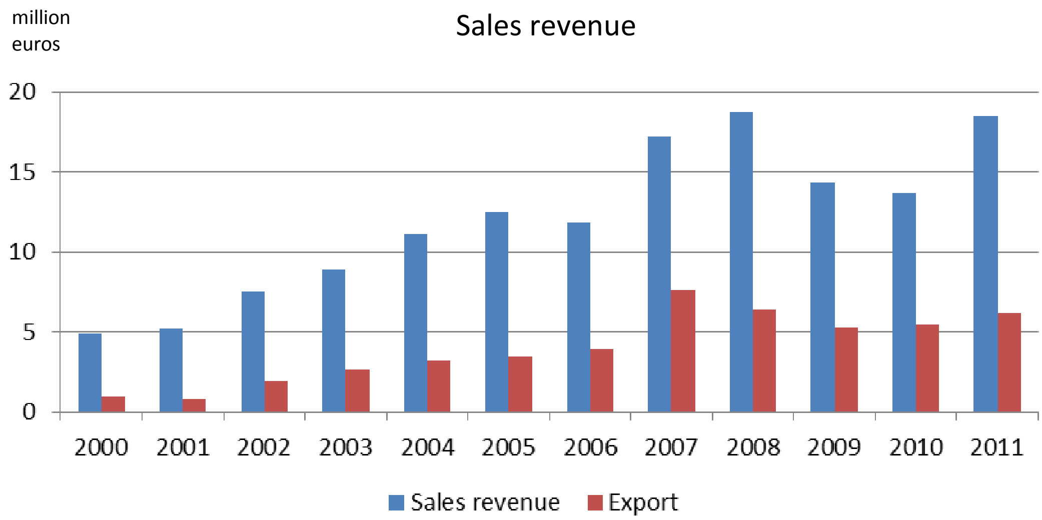
The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (Rifas UAB) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for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

In 2011 production gave 89.6% (2010: 88.8%) of the consolidated sales revenue. The segment's volume of sales increased within a year by 15.3% amounting to 41.8 million euros.



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 m^2 of production, warehouse and office premises. The average number of employees is 187, incl.33 of them working in sales and production development.



Thanks to the recovery in economic growth in Estonia as well as in the countries of location of its main foreign trade partners the sales revenue of AS Harju Elekter Elektrotehnika increased within the year by 34% amounting to 18.5 million euros of which 34% was from sales outside Estonia. The company sold its products in Finland, Germany, Russia, Sweden, and Belorussia as well as to the United Arab Emirates (Abu Dhabi) and Spain.

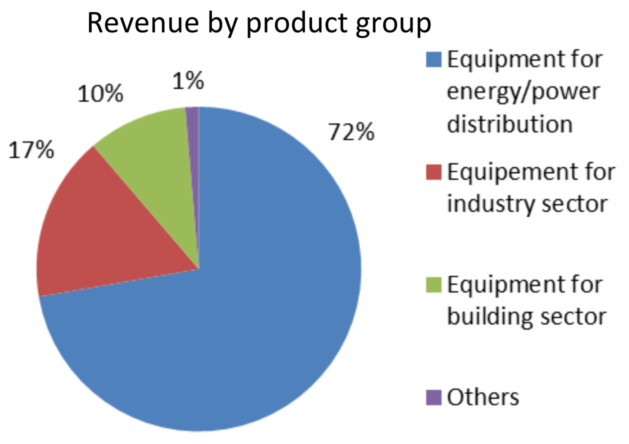
The majority (92.5%) of sale revenues was earned by the sales of various MV/LV distribution units. Parallel to the economic recovery the company was able to increase the share of products with a higher added value in its product portfolio. Prefabricated and distribution substations for the energy sector formed the largest product group of the company. A substantial part of sales revenues was given by the delivery of MV equipment and high capacity 8PT and 8HSO type LV distribution centers for the industrial sector and the sale of up to 63A LV distribution centers to the construction and infrastructure sector.

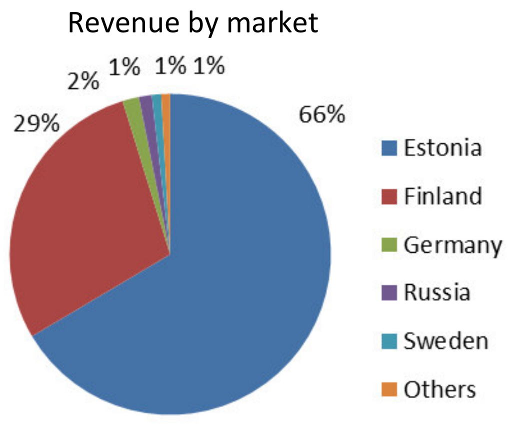
The year 2011 offered complex challenges to the company's product development and mechanics engineers. Due to the market demand the designing capacity for medium voltage equipment and distribution stations was increased. New substation solutions for wind farms were developed. The introduction of a new low voltage distribution unit (Sivacon S8 system) which is produced on the basis of the licence issued by Siemens was started. This resulted with a successful presentation of the relevant S8 type distribution and control panel at the electrical engineering fair held in Finland. Medium voltage primary distribution units were improved, including the development of feeders with the rated current of 2500A. Due to the increase in the production output the capacity of the plant making current rails for distribution units had to be increased and a working station for three dimensional designs had to be added to the design centre. The production of a junction box with a rated current of up to 250A including a failure transmission (telemetry) device was also introduced. Another important product developed and introduced by the engineers of the company was the solution for a substation that can be lifted by transformer. Several new models were added to 63A distribution units manufactured in series for existing and new customers. More good news is that in 2011 the low voltage distribution system (the 8PT series) and its production were recognized as compatible with the Russian GOST. In order to introduce internationally the name of AS Harju Elekter as the provider of renewable energy solutions two portable fuel systems were produced for the Tallinn-Monaco electric cars rally.

Following the principles of quality management and environmental policy AS Harju Elekter Elektrotehnika continually focused on the efficient use of essential materials in order to reduce the resultant waste to a minimum. Fire safety training was organised for workers which consisted of a theoretical part as well as a field exercise. The personnel has also passed the 5S training and started with the introduction of the system. 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. During the year the introduction of additional options of the newly launched MS Dynamics AX software continued.

Within the framework of co-operation in engineering studies and research AS Harju Elekter Elektrotehnika and Tallinn University of Technology concluded an agreement on common intentions to start cooperation within the doctoral studies with the aim to develop solutions suitable for a "smart network", including optimising the functioning of an energy system in order to balance a variable workload.

The economic development of 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 technology, 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.



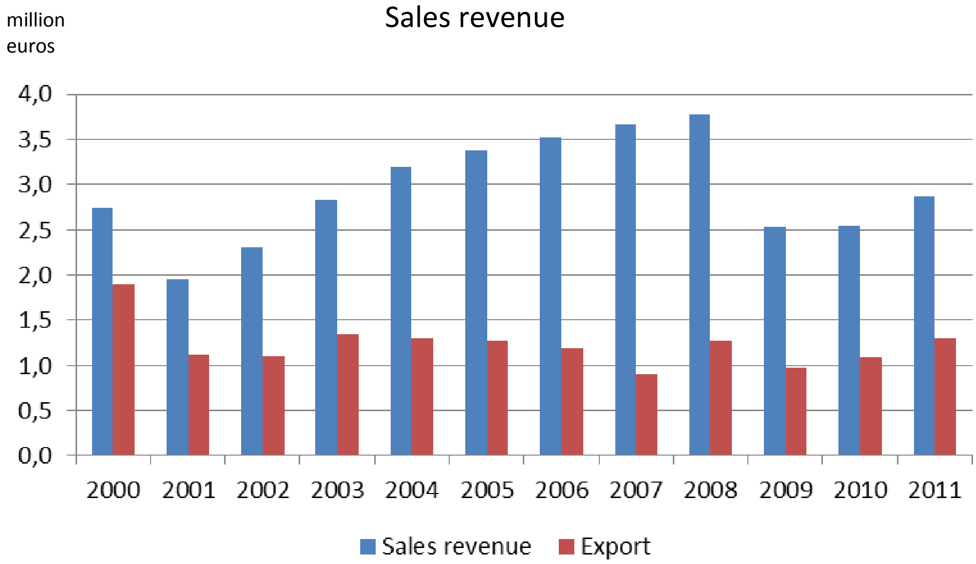


AS Harju Elekter Teletehnika

The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of customer-based sheet metal products and semi-manufactured articles are produced for the electrical engineering sector, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park, and holds licences for designing, installing and maintaining fire and security systems. The factory is located in Keila and the company employs 63 people.

The year 2011 was a year of change for AS Harju Elekter Teletehnika. The changes involved the surrounding business environment as well as the operation of the company. The year started with the introduction of the euro which reinforced the trust of foreign partners in Estonian companies. Some increase in the demand at the main target markets was noticeable during the first half of the year. At the same time competition increased putting more pressure on prices and delivery dates. The increase in sales was mainly due to customers related to the telecommunication sector who, despite the unfavourable economic environment continued to make planned investments. However, many customers postponed all large-scale projects and/or confined themselves to essential investment.

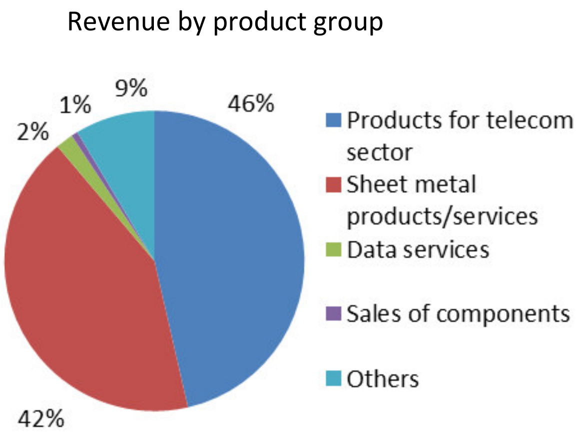
Production planning was made more difficult by the relatively small value of an average order. The increase in prices of materials and raw materials that took place in the second half of the year had an effect on the profitability of the company. In 2011, sales revenues of AS Harju Elekter Teletehnika amounted to 2.87 million euros, increasing by 12.4% compared with the previous year. Domestic sale increased by 9.0 % and sales outside of Estonia by 17.1%. Sales outside of Estonia accounted for 44.5% (2010: 42.7%) of sales revenues.

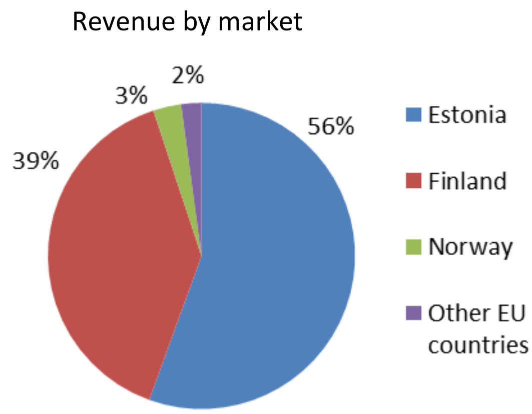


During the year several changes in the customer structure took place. Due to the events in the business environment the share of several long-term key customers decreased. However, many new customers were found thanks to active work in marketing and sales. In spring the name of the company was changed in order to benefit from the common trade mark of the Group when entering into new markets. By the end of the year it was clear that the common brand had increased intra-group synergy and created an advantage in finding new customers. The share of exports in the overall sales turnover of the company increased substantially. Finland is still the main export market for the company and Germany has been added as a new target market. Active sales continued also in Sweden, Norway and France.

During the last months of the year the implementation of the well-known 5S principles was started in order to increase the productivity of the company. The advantages of the system include implicitly and little demand for resources. 5S is actually a tool for reducing the waste of resources. It is important to recognise the value of the product to customers. All the activities that do not add value have to be eliminated and produce is only according to the needs of a customer. Since the beginning of the year the company has operated according to the new 5S standard. Production has become more flexible and has been exempted from excessive items and expenditure of time.

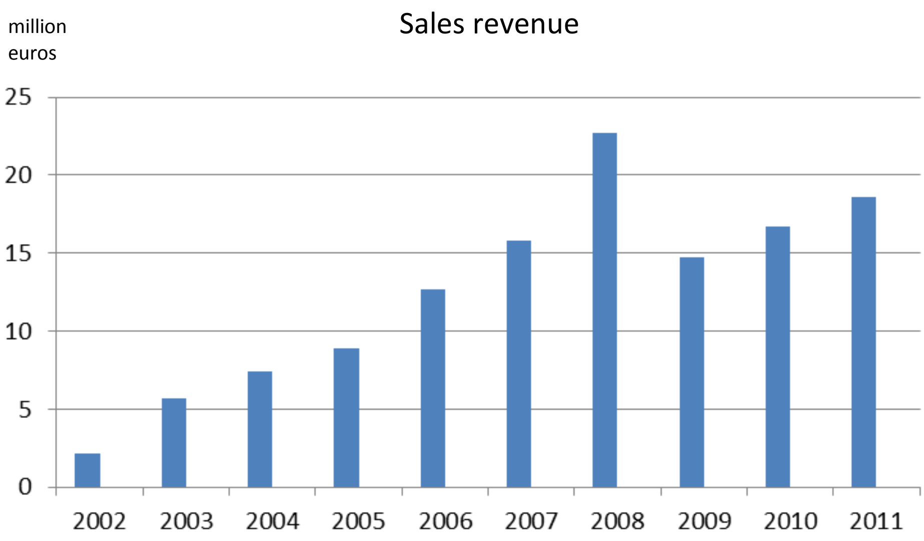
Growth will be the key-word for AS Harju Elekter Teletehnika in the near future. The company aims to increase the sales turnover as well as the profit and do that mainly through effectiveness and improvement of the division of work. The general increase in effectiveness should come from more intense use of machinery and better use of working time. The company also aims to increase the share of products with a higher level of integration and added value and the reduction of simple products allowing one or two operations. The progression in the value chain presumes the improvement of the competence and skills of employees. The capability and success of the sales team is of crucial importance in finding new customers and orders.





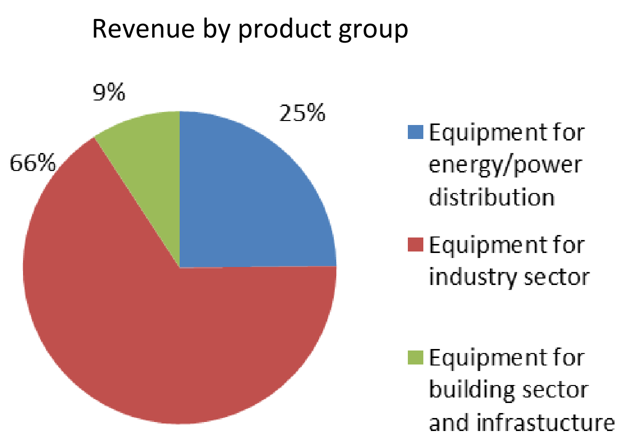
Satmatic OY

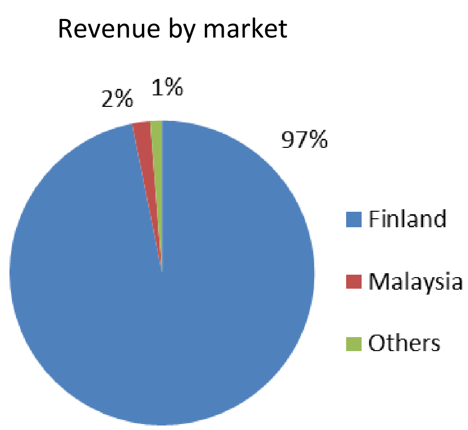
Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. Satmatic Oy is also an importer and retailer of the products of the companies belonging to the Group in Finland. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation in Kerava in order to better service businesses and other customers in Helsinki-area. The company hires 90 employees.



Despite the volatile economic environment in 2011 Satmatic Oy was able to increase its sales revenue by 11.4% i.e. up to 18.6 million euros. The sales outside Finland amounted to 66.5% of the total sales.

The energy production and energy distribution sector which produces mainly for the home market but also for other countries, showed a remarkable increase. The results were also good in sales of heating and loading equipment of vehicles. New opportunities for selling products aimed at the renewable energy sector and nuclear power stations opened up. Project based orders, including solutions and products for renewable energy sector, where Satmatic Oy provided parts related to automatics and electrics, increased substantially during the year. These solutions were sold in Finland but also to China, USA and Malaysia. However, such orders from customer groups orientated to exports create uncertainly accompanied by risk that such orders may be easily moved from Finland to some other country where the (production) costs are substantially lower and/or the final customer is closer.





The 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. In 2011 the company started to implement Sivacon S8 working principles in preparing its products and solutions. During the year a digital remote control device for controlling car heating and loading boards, a vehicle loading device to accelerate 32A loading and WEB/GPRS based control system for street lighting were developed. In 2011 a heating/loading system that can be controlled over the web or by mobile phone was introduced in Oulu Airport as a remarkable technological innovation.

The purposeful and consistent work of Satmatic Oy has drawn wider public attention. In spring 2011 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 which for five consecutive years have met the highest Alfa-rating (AAA or AA+) requirements. Only about 10% of Finnish companies have fulfilled such requirements.

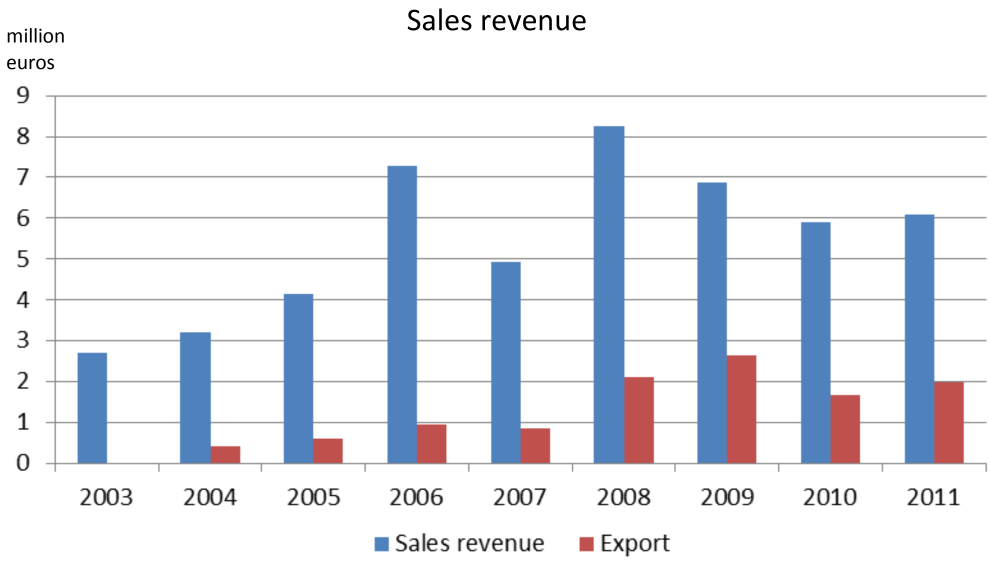
When organising work and production processes Satmatic Oy has always paid great attention to environmental sustainability. The personnel have been trained to follow the requirements for waste handling and package circulation and to reduce energy consumption. The organisation of the management and production of the company meets the requirements of the quality management system ISO 9001. In 2011 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. As a result of long-time efforts almost 100% of the companies purchasing and sales orders are processed electronically.

In 2012 Satmatic Oy will continue active sales and marketing. 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. Satmatic Oy, as one of the companies of Harju Elekter Group, will contribute to the improvement of co-operation between all its companies.

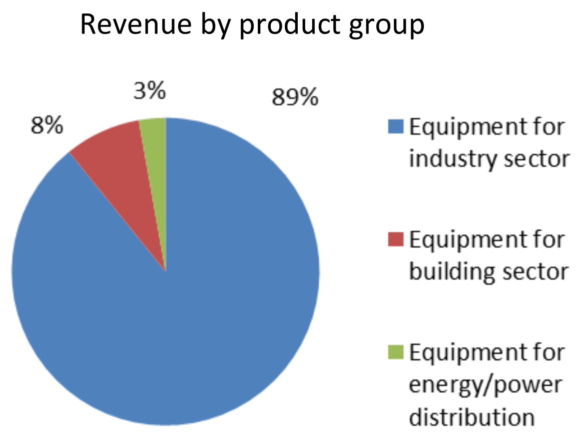
Rifas Group

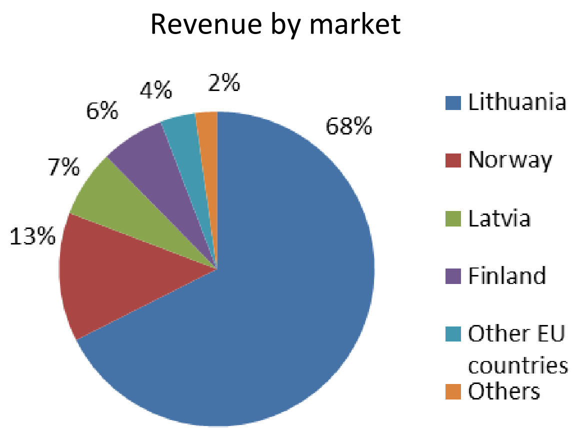
Rifas UAB is a Lithuanian subsidiary of Harju Elekter located in Panevežys. Harju Elekter owns 51% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter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

In 2011 the sales revenues of Rifas amounted to 6 million euros which was 3.6% more than a year before. Although the sales revenues of the subsidiary remained at the same level in Lithuania as they were in 2010 the company was able to increase substantially its sales in foreign markets. The amount of sales increased considerably in Latvia (10%), Finland (15%), Denmark (8 fold) and Norway (58%). Poland, USA and Brazil opened up as new markets for the company. Sales to the East, however, decreased. All in all exports formed 32% (2010: 28%) of total sales of Rifas.



Almost half of the sales revenues were earned from the management of contractual projects and the other half from the sales of project based products and services. Distribution units formed the largest share of product selection. They were followed by different control systems and switchboards.





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. Since the subsidiary is focusing on Swedish and other Nordic countries' markets it participated for the second time in the specialised international fair Elmia Subcontracor in Sweden to present its products and meet potential customers.

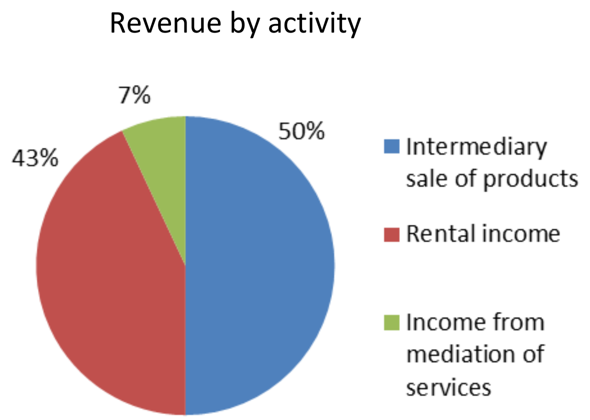
In addition to finding new customers and markets the company was focusing in 2011 on identifying different opportunities in the area of (renewable) energy and developing new innovative solutions. In the third quarter of 2011 Rifas developed and introduced a solar energy power station with a capacity of 50 kW which, due to the favourable repurchase price of electric energy, covers most of the costs of the Lithuanian subsidiary on electric power. This innovative power station also allows to test other solar energy solutions.

In 2011 the internationally accredited certification agency Bureau Veritas recognised that company's activities were in compliance 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. As to other development and training projects the modernisation and optimising of production processes, which had lasted for two years, as well as training programmes for employees for increasing exports and improving the efficiency of new production technologies were completed. The company applied successfully for European Union funds to support these projects.

In 2012, the company is planning to continue to extend its product line, focusing on the development of various renewable energy opportunities and solutions, as well as to locate new customers and win new projects in domestic as well as foreign markets. In order to find new markets the company plans to continue participating in specialised fairs. 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, the meeting of supply deadlines and the high quality of the products.

REAL ESTATE HOLDING AND OTHER ACTIVITIES

The sales revenues of the real estate segment (parent company) and other non-segmented activities (parent company and Harju Elekter AB) totalled 10.4% of the consolidated sales revenue, out of which intermediary sale of products formed 50.2%, rental income 42.6% and income from mediation and rendering of services formed 7.2%.



Real estate holding

The sales revenue of this segment was 2.4 million euros, having decreased by 8.4% compared to the same period a year before. Upon the opening of the energy market, many clients started to buy electricity on the open market, which was the main reason for the sales revenues of the real estate segment decreasing. During the twelve months under review, revenues from the intermediary sale of electricity decreased by 0.2 million euros. To some extent it had also to do with the fact that the fourth quarter was warmer than average. 86.2% of the segment's revenue was formed by rental income, 11.2% by rendering public services and 2.6% by rendering other services. Rental income increased by 1.9% up to 2.1 million euros.

Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 24% amounting to 2.4 million euros and forming 5.2% of the Group's sales revenues. The main revenue source was the intermediary sale of products. The recovery of the economy has also brought along the increase in sales volumes. Revenue from the sales of other services was 17.6 (2010: 129.2) thousand euros.

AS Harju Elekter

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

The business activity of the Parent company gives 10% (2010:11%) from the consolidated sales revenues.

Harju Elekter AB

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

During the first years of activity, Harju Elekter AB has focused on the mapping of the market; finding out the needs and demands of the customers; bringing the products and solutions of the Group in conformity with local requirements; drawing up advertising materials for products and services; and distributing information. In 2011, the subsidiary accounted for 0.3% of the consolidated sales revenue.

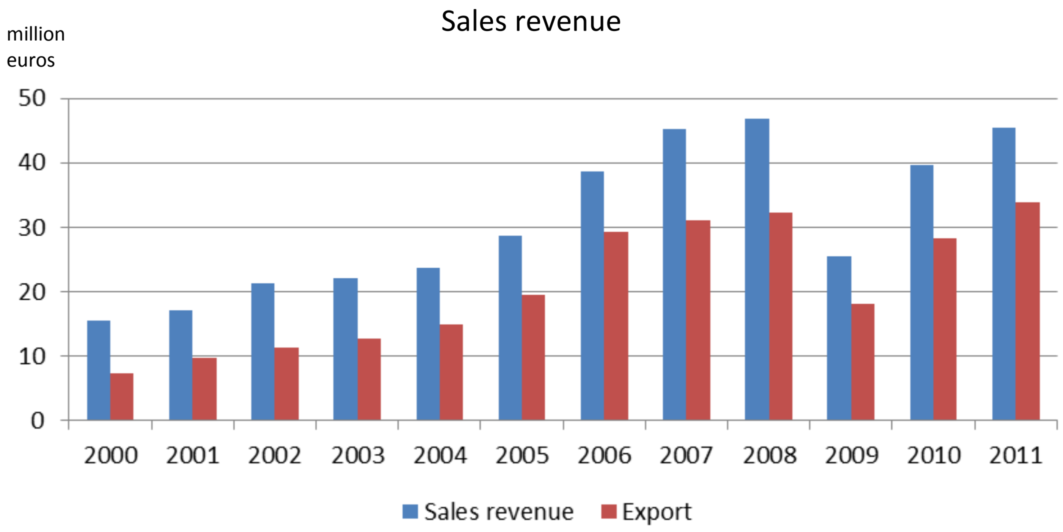
RELATED COMPANY

AS Draka Keila Cables

As at the end of 2011, 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 497 (2010: 61) thousand euros from related company was consolidated in 2011.

AS Draka Keila Cables is the largest cable manufacturer in the Baltic States. The company's share capital is divided between cable manufacturer Prysmian Group (66%) and AS Harju Elekter (34%). The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, as the representative of the Prysmian Group in the Baltics, markets a wide range of Prysmian Group products. The production of the company is mainly marketed in Estonia, Latvia, and Lithuania, as well as in Scandinavian and other EU countries and even further afield.

2011 saw the merger of Draka Holding N.V. and Prysmian S.p.A., as a result of which the largest cable producer in the world, Prysmian Group, was formed. The headquarters of the group is located in Milan, Italy. Prysmian Group is a publicly traded company, the shares of which are quoted on the Milan Stock Exchange. It is represented on every continent with 98 plants and more than 22,000 employees. The group is the market leader in every segment of the industry: production of energy cables, telecommunication cables, special cables and construction cables. As a result of the merger, new markets opened for the products of Keila plant and local customers gained better access to products not produced by Draka. The availability and security of supply will also improve considerably.



For AS Draka Keila Cables, the year 2011 was a successful one. The main goal was to maintain its market position during the merger of the two large groups and this goal was achieved as the sales revenue increased by 14%, amounting to 45.4 million euros, out of which 11.5 million euros accounted for sales on the domestic market and 33.9 million euros for export. The increase in sales revenue was achieved due to the slight increase of market share in the Baltic States as well as the increase of sales within the Group.

In the field of production, all the efficiency indicators of the company improved: surplus spending on materials continued to decrease and security of supply as well as productivity per employee improved.

In 2011, the company made investments in the amount of 334 thousand euros. It invested in the improvement of the efficiency of the plant and the reliability of the machinery as well as in the reduction of surplus spending of materials. In the field of developing the quality system, significant progress was made in relation to the introduction of the OHSAS occupational health and safety management system and the certification thereof by Lloyds Register Quality Assurance.

In 2012, focus is going to be still on the reduction of surplus spending on materials, improvement in production efficiency and the increase of production capacity through the improvement of the existing machinery.

OTHER FINANCIAL INVESTMENTS

SIA Energokomplekss

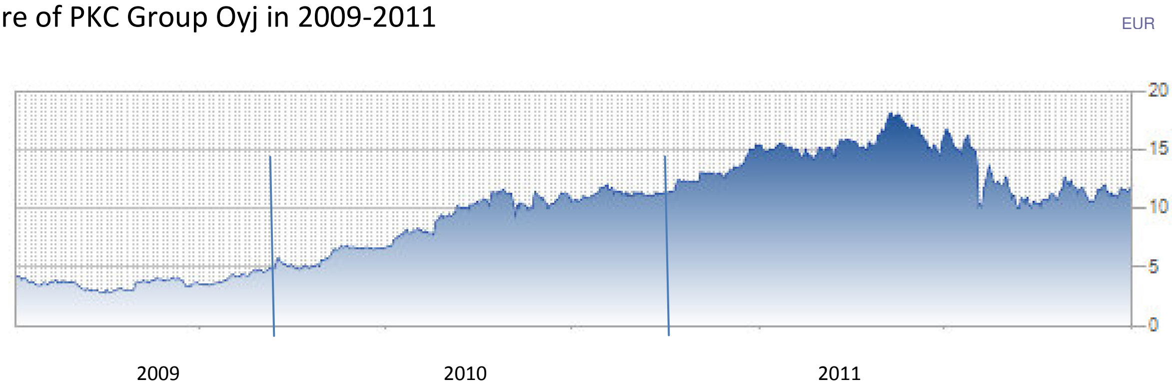
SIA Energokomplekss is a sales organisation, founded in 2006. At the beginning the Group's participation in the Latvian company SIA Energokomplekss was 10% and it was increased to 14% in 2009. Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and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

PKC Group Oyj

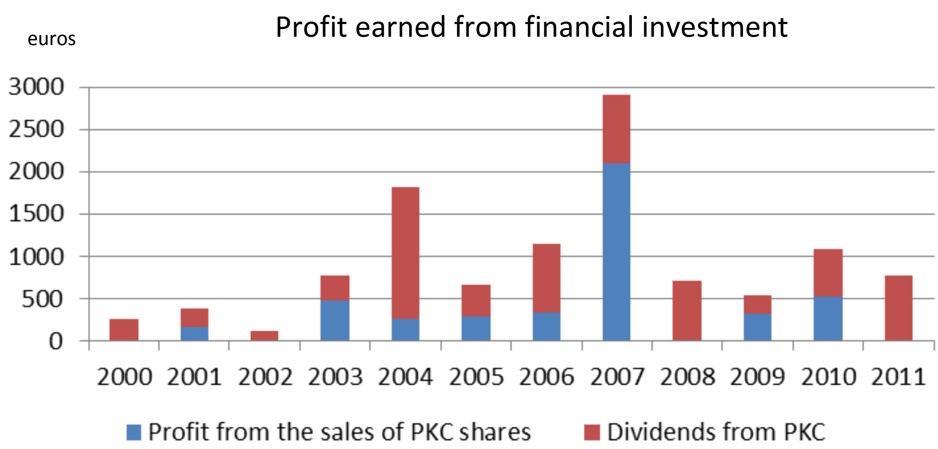
PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. In 2011, PKC acquired the companies in Europe and America, becoming the largest manufacturer of electrical equipment for truck industry in the world. Net sales of PKC were 550.2 million euros and the Group employees 21,528 people at the end of the year.

PKC shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is one of the largest holders of PKC shares with a stake of 6.6% as at December 31, 2011. PKC shares are valued in the balance sheet according to market price. The market price of the shares decreased in 2011 by 3.94 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 11.43 euros (2010: 15.37 euros). During the period of 12 months the fair (i.e. market) value of financial assets decreased by 5.5 million euros. In 2010, the value of the financial assets increased by 12.3 million euros.

Share of PKC Group Oyj in 2009-2011

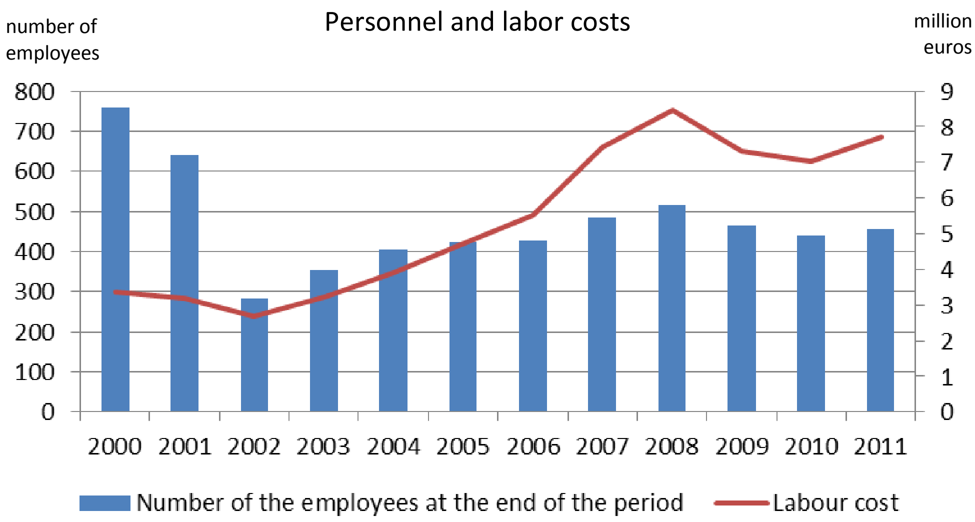


For the financial year of 2010, PKC paid a dividend of 0.55 euros per share which is a total of 0.77 million euros, compared to 0.40 euros per share in 2010, totalling 0.56 million euros. In 2010, PKC sold 80,000 shares, the nonrecurring profit for which amounted to 0.52 million euros.

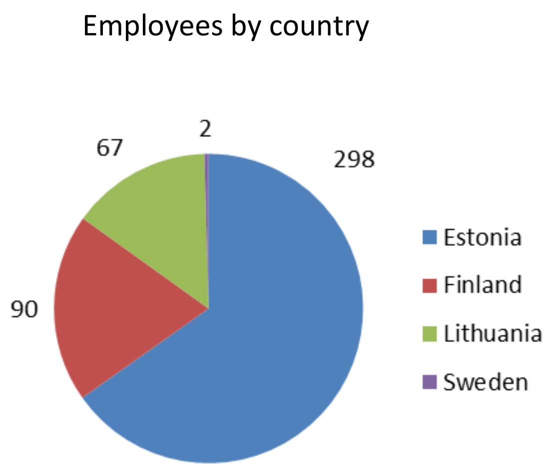


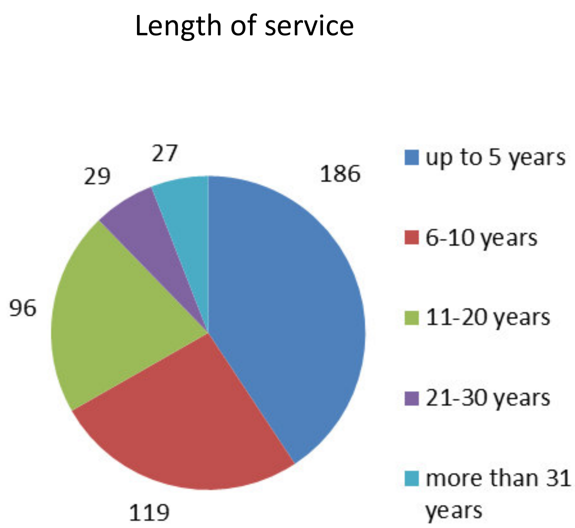
PERSONNEL

The revival in the economy brought along the revival of the labour market within the Group's region of operation. But although the number of orders and production volumes increased, companies focused rather on increasing the production efficiency and postponed the creation of new jobs. Finding and hiring qualified personnel with experience has become more difficult. In spite of the fact that the unemployment rate in the region is still high, there are not enough qualified specialists. The situation is not helped either by the 'non-attractive' wage level offered in this field of activity as a whole or the outflow of qualified specialists, especially from Estonia and Lithuania. The lack of qualified personnel has brought with it the pressure to raise wages. After several years, it was deemed necessary to hire additional workers for the summer period (e.g. trainees).



In 2011, the average number of employees of the Group was 427 (2010:424). As at the balance day on 31 December, there were 457 (2010: 440) people working in the Group, which was 17 employees less than on the beginning of the year. The expenses on staff increased during the year. Employee wages and salaries totalled 7.7 (2010: 7.0) million euros in the year 2011. The average wages per employee per month have increased by 14% amounted 1,502 euros. The biggest increases took place in Finland and Lithuania. In 2011, the wage expenditure of the Swedish subsidiary was added. The average wage in Finland and Sweden exceed those in Estonia and Lithuania by almost triple.





The majority of the Group's employees – 298 people – worked in Estonia, including 47 people who worked in the parent company. At the end of the year, there were 90 people working in Finland, 67 in Lithuania and 2 in Sweden. From 457 employees working in the Group 353 of them were men and 104 women, 105 of whom have higher education, 294 people have secondary or vocational secondary education and 58 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 is its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. 59.3% of employees have worked in the Group for over five years.

The average age of the Group's employees has remained stable or even declined slightly, and was 39.6 years in the accounting year. To find new competent employees, Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes. For ten years now, AS Harju Elekter has had close co-operative relations with Tallinn Technical University and in 2010 the company was awarded the Golden Sponsor title. Over the years, altogether 38 Bachelor's or Master's degree students have participated in the scholarship programme and nine young engineers are currently employed by the Group. Also Harju Elekter carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and other schools. Finnish subsidiary had a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

During the reporting period, companies in the Group continued to focus on optimising costs and making their operation more efficient. Field exercises and training organised for employees at companies located in Estonia were aimed at raising the efficiency and implementing the 5S-model. The subsidiary, AS Harju Elekter Teletehnika, was chosen to participate in the largest export development project in Estonia, Export Revolution, organised by Enterprise Estonia and the Marketing Institute. As a result of the project, the company hired a qualified Sales Manager.

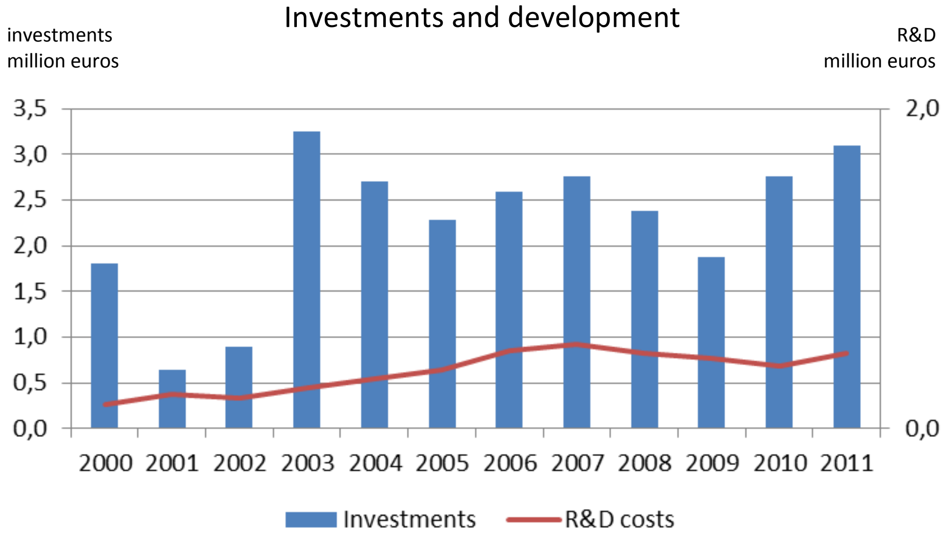
The Group has many possibilities for motivating its personnel:

- a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- share-option schemes, aiming at involving members of the directing bodies and employees of companies of the Group as well as members of the boards of related companies as shareholders to motivate them acting in the best interest of the Group;
- the cross company as well as cross-border employee exchange programmes, promote the rapid development of knowledge and skills within the Group and offer rotation opportunities.

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

INVESTMENTS AND DEVELOPMENT

In 2011 the Group invested 2.5 (2010: 0.3) million euros in real estate, 0.5 (2010: 2.3) million euros in tangible fixed assets and 0.1 (2010: 0.1) million euros in intangible fixed assets, totally 3.1 million euros. In 2011, the investment by the Group exceeded the investment in 2010 by 12.8%.



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

The Group built a new 5000 sq.m large production complex for AS Saajos, manufacturer of fire-proof and safety doors. The construction completed in December 2011 and the production premises have been given for a long-term lease to the company. The acquisition cost of the production premises amounted to 2.24 million euros.

The most extensive and important development project of recent years has been the introduction of the new AX2009 production management and accounting software programme in the parent company as well as its subsidiaries in Estonia, which involved additional investments in servers and production feedback terminals as well as software licenses. Although the largest investments were made in 2009 and 2010, the company focused during the reporting year on identifying, adjusting and introducing new modules and additional options. In 2011, investments in accounting software licenses amounted to 57 thousand euros while investments in information technology equipment amounted to 59 thousand euros.

Work involving grants from the European Union structural funds in the development projects of the Group continued. The projects were mainly aimed at developing key activities of the companies, preparing strategies and training the personnel (improvement in qualifications, team work training). With assigned technology grants the production capability will continue to be enhanced through improving the technology which resulted in the improved quality and security of supply necessary for successful export activities as well as shorter production cycles. In 2011, assigned grants were received for acquiring machinery and equipment in the amount of 59 (2010: 128) thousand euros, for personnel training in the amount of 21 (2010: 89) thousand euros and for development in the amount of 19 (2010: 29) thousand euros, totalling 99 (2010: 246) thousand euros.

According to the development principles of the Group, Harju Elekter aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2011 the development costs, at cost price, of the Group amounted to a total of 0.47 (2010: 0.39) million euros, 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 and Rifas UAB specialise in industrial products and the development of renewable energy solutions.

During the reporting period, the Estonian product development team developed and introduced a new frame system for low voltage distribution panels that serve as a basis for many products. In the second half of the year, the system was used for manufacturing several types of distribution equipment for substations as well as the 19" modular system automation equipment. The development of containerized substations for quay crane power supply also continued. The market for the product is wide and, therefore, they can be seen in many parts of the world. In order to penetrate the Norwegian and Swedish markets, several substation solutions for infrastructure as well as wind parks were developed. Each year the substation market offers more and more challenges in terms of product development and, therefore, the designing capacity in the field was increased by hiring another engineer. Alongside the large development projects several new models of distribution boards were developed for serial production to satisfy the needs of current as well as future customers. At the electro-technical engineering fair in Finland the Group introduced the new Sivacon S8 distribution and control board manufactured under license from Siemens. The NEX medium voltage switchgear equipment for primary applications was complemented by a 2500A system. In co-operation with Ensto, the Group participated in development of loading stations for electric car rally. Increased production volumes also brought along arise in production capacities of copper current rails, for which a 3D designing option was introduced.

Subsidiaries in Finland and Lithuania focused on a development project related to renewable energy and offering suitable solutions related to it. In autumn 2011, a solar energy station with the capacity of 50kW was installed on the roof of the Rifas UAB production site, which covers largely the yearly electricity expenses of the subsidiary due to the favourable buy-back price as well as making it possible to test different solar energy solutions. The year before, a 30kW solar energy station was introduced by Finnish subsidiary, Satmatic Oy. The latter also supplied the first applications manufactured on the basis of the Sivacon S8 system; developed additional time adjustment equipment for new models of heating and loading panels for car parks provided with a remote control system as well as a faster 32A loading option for transport sector loading systems. A novel solution based on GPRS-system was developed for controlling street lighting.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

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

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

In 2011, subsidiaries Satmatic Oy and Rifas UAB underwent an auditing of the companies' business processes in line with international environmental management quality standard, ISO 14001. In addition, Rifas UAB underwent an audit of its occupational health and safety management system in line with OHSAS 18001 international standards. Certificates of conformity were issued in all cases.

Subsidiary AS Harju Elekter Teletehnika successfully passed the audits for recertification of the quality and environmental management systems ISO 9001:2008 and 14001:2004, carried out by the Bureau Veritas Certification. Regular annual audits were carried out at AS Harju Elekter Elektrotehnika. The next recertification in Rifas UAB and Satmatic Oy are scheduled to take place in 2012. Consequently, the organisation of production in all the companies of the Group meets the requirements of the international quality and environmental management systems, ISO 9001 and ISO 14001.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
HE Elektrotehnika	ISO9001 ISO14001				↻			(up to 1/2010)			(up to 1/2013)	
HE Teletehnika			ISO9001 ISO14001			↻			(up to 1/2011)			(up to 1/2014)
Rifas				ISO9001			↻			(up to 12/2012)		ISO14001 OHSAS18001
Satmatic				ISO9001			↻			(up to 10/2012)		ISO14001
Draka Keila Cables	ISO9001 ISO14001			↻			↻			(up to 3/2012)		

↻ - resertification

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 University of Applied Sciences and Tampere Technical University.

Supporting and inspiring young sportsmen

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

Promoting recreational sport among the employees

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

Total amount of different support programmes in 2011 amounted to 15.1 (2010: 16.8) thousand euros.

CORPORATE TARGET FOR 2012

In 2012, the key factor for the future development of the Group lies in the increase of sales outside Estonia, namely in neighbouring countries, but also in other parts of the European Union and the world. Work in finding opportunities for penetrating new foreign markets also continues. Focus is on Nordic as well as European Union markets and projects as well as on finding and involving new customers and co-operation partners. At the same time the Group continues to look for attractive companies which could be, in case of a mutual interest, associated with the Harju Elekter Group. At the same time the importance of the domestic market should not be underestimated.

The focus is also on more dynamic use of symbiotic marketing opportunities between the companies of the Group; on taking advantage of mutual information channels and advertising materials; strengthening of the Harju Elekter trade mark with the aim of increasing the competitiveness of the Group and creating additional benefits and possibilities for marketing activities. As from 2011, all of the Group's Estonian companies operate under the Harju Elekter trademark.

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

The Group wishes to contribute to the operational reliability of the power network on the domestic market. The success of the Group is ensured by product development which takes into account the needs and demands of customers, a wide range of professional products and sales of its own products. This is strongly facilitated by following and supporting the development plans and guidelines of the sector, as well as 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. Finding novel solutions and recognising new opportunities are the priorities of the development and engineering personnel of the Group's companies.

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. Closer co-operation between the companies of the Group at every level and making flexible use of the resources of the Group's companies is also crucial.

SHARE AND SHAREHOLDERS

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

The share capital of AS Harju Elekter is 11.76 million euros which is divided into equal ordinary shares. The symbol of a AS Harju Elekter share in NASDAQ OMX is HAE1T. ISIN: EE3100004250. The nominal value of a share is 0.70 euros. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to AS Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit.

In 2011, the NASDAQ OMX Tallinn index OMXT fell by 23.9% to 531.17 points. During the year, 83,697 transactions were made on the stock exchange, with turnover reaching 187.4 million euros. Although the number of transactions was at the expected level, the turnover of stock exchange transactions remained the lowest in the history of the stock exchange. The average daily turnover of the stock exchange was 0.74 (2010: 0.97) million euros and the average transaction volume was 2,239 (2010: 2,402) euros.

Key share data

EUR	2011	2010	2009	2008	2007
Number of shares (in thousand)	16,800	16,800	16,800	16, 800	16,800
Nominal value	0.70	0.64	0.64	0.64	0.64
Closing price	2.28	3.02	2.05	0.99	3.40
Market value (in million)	38.30	50.74	34.78	16.63	57.12
Earnings per share, EPS	0.17	0.13	0.07	0.15	0.32
P/E	13.41	23.39	28.14	6.76	10.58
Dividend per share	*0.07	0.06	0.05	0.06	0.13
Dividend yield (%)	3.1	2.0	2.5	6.5	3.8
Dividend payout ratio (%)	42.4	46.5	69.9	43.6	39.8

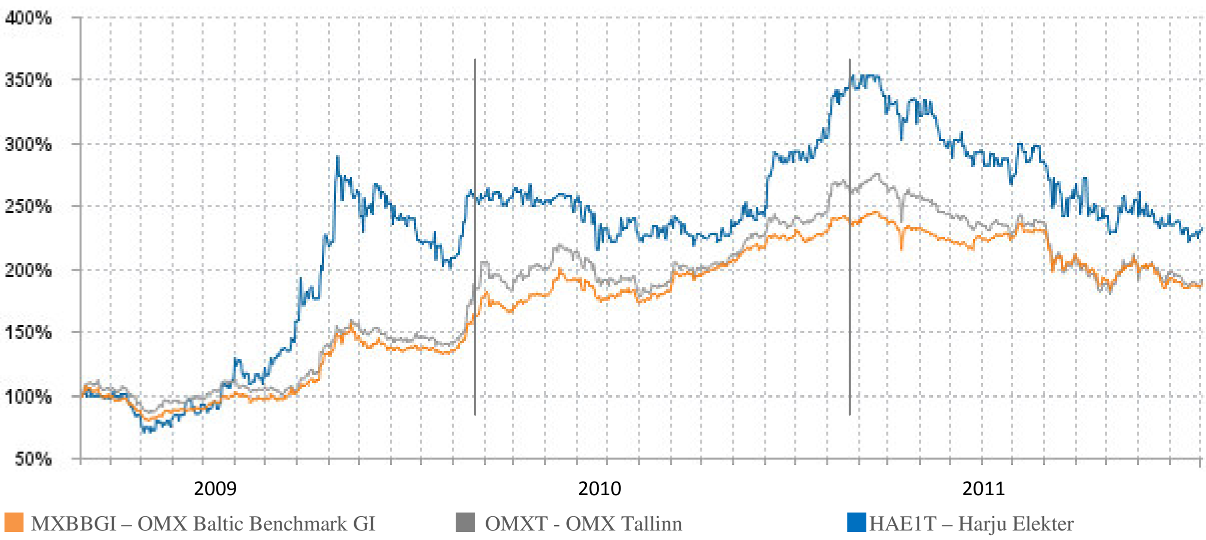
* Proposal of the Management Board

Similar to the Tallinn index, the share price of AS Harju Elekter dropped in 2011 by 23.8% to 2.28 euros and, as of December 31, the market value of the Group was 38.3 million euros. During the year, trading activity in Harju Elekter shares decreased together with the turnover amounting to only 664 thousand shares. The number of shareholders, however, continued to increase. By the end of the year the company had 1,455 shareholders.

EUR	2011	2010	2009	2008	2007
Highest price	3.54	3.14	2.99	3.45	5.0
Lowest price	2.19	2.02	0.67	0.95	3.0
Closing price	2.28	3.02	2.07	0.99	3.01
Change (%)	-23.8	45.9	107.0	-70.9	-18.1
Traded shares (pc)	663,917	2,039,910	1,559,830	4,634,592	5,787,606
Turnover (in million)	1.88	5.40	2.14	11.39	21.00

Share of AS Harju Elekter in Tallinna Stock Exchange 2009-2011

A comparison of AS Harju Elekter share indexes 2009–2011
for more information: http://www.nasdaqomxbaltic.com/market/

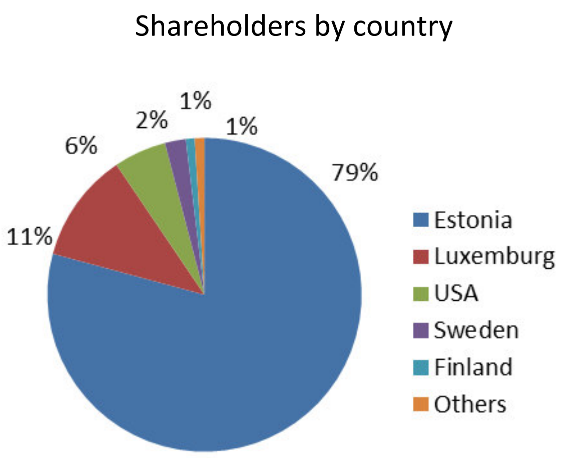


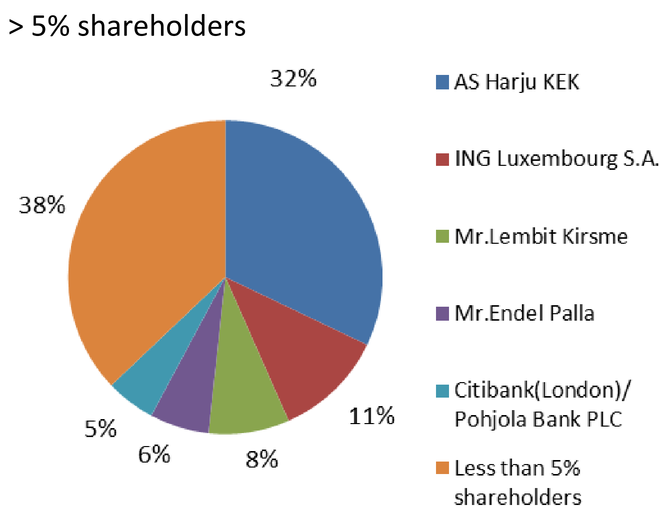
Shareholders structure

At the end of 2011, AS Harju Elekter had 1,455 shareholders. The number of shareholders increased during the year by 12 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2011 held 32.14% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 16.8% 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 2011

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.14%	43.45%
1.0 – 10.0%	8	0.55%	29.11%
0.1 – 1.0%	48	3.29%	14.08%
< 0.1%	1,397	96.02%	13.36%
Total	1,455	100.0%	100.0%

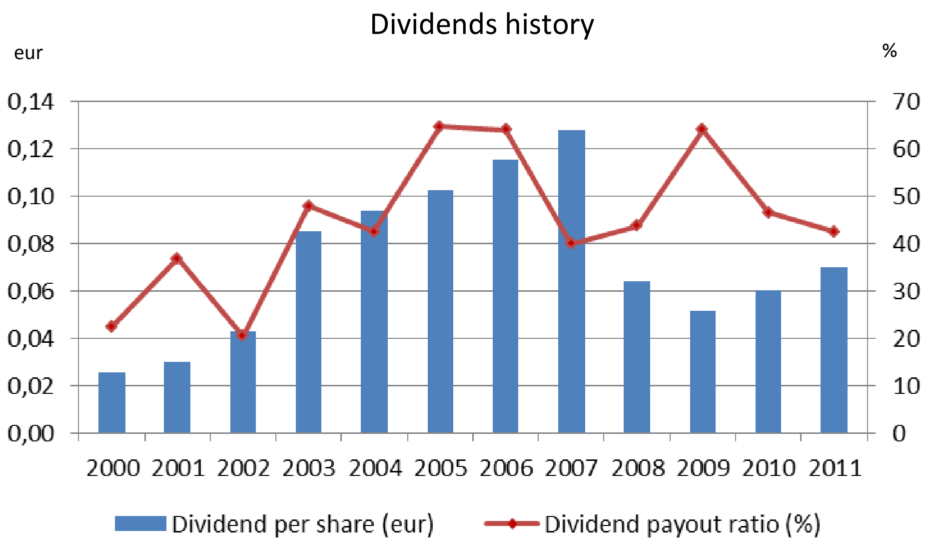




Dividends

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

As a result of strong capitalisation the Management Board proposes to pay a dividend of EUR 0.07 per share, totally 1.18 (2010: 1.05) million euros for the financial year 2011. This is 42% (2010: 46%) from total net profit.



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

CORPORATE GOVERNANCE

Corporate Governance Report 2011

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

CGC Article 2.2.7

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

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

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

Managing Director/CEO is paid an annual bonus of 0.3% of the consolidated net profit (belonging to the owners of the parent company) in total. The annual bonus is approved by the chairman of the Supervisory Board and is paid after the group's annual statement has been audited.

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

CGC Article 2.3.2

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

In 2011 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.

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 26.4.2007 appointed the membership of the Supervisory Board for the following 5 years, setting 8,000 kroons (511 euros) a month as the pay rate for a member of the Supervisory Board and 25,000 kroons (1,598 euros) 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 2011 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

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

General meeting

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

The annual general meeting of 2011 was held on 29 April at Keskväljak 12 in Keila, Estonia. A total of 12,088,885 shares were represented (71.96% of the voting stock). The meeting approved the company's annual report and profit allocation proposal for 2010. In conjunction with the changeover to euro, the AGM also gave the approval to amendment to the Articles of Association and increase the share capital as well as conversion of share capital and shares from kroons to euros. 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 2011, 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.

In 2011, there were no changes to the Supervisory Board. The present members of board are Endel Palla (chairman), Ain Kabal, Lembit Kirsme, Madis Talgre and 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 head of legal department of Viru Keemia Group AS and a lawyer, who has long-term experience in advising Group's companies on legal issues. Mr 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 31.12.2011). 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.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law.

At 31 December 2011, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 15.7% (2010: 15.5%) of Harju Elekter shares (note 23).

Management Board

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

In connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, the Supervisory Board assigned a one-member Management Board for the next three-year period, at its meeting on 4 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman. At the same meeting, the Supervisory Board also removed Lembit Libe and Karin Padjus from their positions as Members of the Management Board. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

The everyday business activities of the Group are managed by the Managing Director/CEO. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies.

At 31 December 2011, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.11% of Harju Elekter shares (note 23).

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

Additional management bodies and special committees

Bearing in mind that the top management of the company is relatively small in number the need for forming special committees or any other additional management bodies has not yet occurred. The necessary procedures are regulated by rules. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010 the Supervisory Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed the Audit Committee of the company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. 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.

Auditors

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 Baltijos Auditas UAB in Lithuania and KPMG Oy in Finland.

ANNUAL FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Note	As at 31 December 2011	2010
Current assets			
Cash and cash equivalents	7	815	2,400
Trade receivables and other receivables	8	7,848	6,479
Prepayments	9	104	123
Income tax	9,20	20	0
Inventories	10	6,658	5,411
Total current assets		**15,445**	**14,413**
Non-current assets			
Deferred income tax asset	26	35	0
Investments in associate	11	1,177	680
Other long-term financial investments	12	16,023	21,539
Investment property	13	10,833	8,711
Property, plant and equipment	14	8,985	9,350
Intangible assets	16	422	421
Total non-current assets		**37,475**	**40,701**
TOTAL ASSETS		**52,920**	**55,114**
Liabilities			
Interest-bearing loans and borrowings	17	2,245	1,539
Trade payables and other payables	19	6,268	5,178
Tax liabilities	20	758	915
Income tax	20	29	19
Short-term provisions	21	17	79
Total current liabilities		**9,317**	**7,730**
Interest-bearing loans and borrowings	17	1,569	1,828
Provisions	21	0	10
Total non-current liabilities		**1,569**	**1,838**
Total liabilities		**10,886**	**9,568**
Equity			
Share capital	23	11,760	10,737
Share premium	23	0	384
Reserves	23	15,881	21,396
Retained earnings		12,672	11,440
Equity attributable to owners of the Company		**40,313**	**43,957**
Non-controlling interests		1,721	**1,589**
Total equity		**42,034**	**45,546**
TOTAL LIABILITIES AND EQUITY		**52,920**	**55,114**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000	Note	For the year ended 31 December 2011	2010
Revenue	24,25	46,674	40,885
Cost of sales	25	-38,888	-34,697
Gross profit		**7,786**	**6,188**
Distribution costs	25	-2,373	-1,885
Administrative expenses	25	-3,352	-2,770
Other income	25	16	29
Other expenses	25	-52	-43
Operating profit		**2,025**	**1,519**
Finance income	25	806	1,109
Finance costs	25	-62	-67
Share of profit (-loss) of equity-accounted investees	11	497	61
Profit before tax		**3,266**	**2,622**
Income tax expense	26	-318	-327
Profit from continuing operations		**2,948**	**2,295**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	12,23	-5,516	12,278
Realised gain from sale of financial assets (-)	23	0	-459
Foreign current translation differences- foreign operations		1	7
Other comprehensive income for year, net of tax		**-5,515**	**11,826**
Total comprehensive income for the year		**-2,567**	**14,121**
Profit attributable to:			
Owners of the Company		2,773	2,173
Non-controlling interests		175	122
Profit for the year		**2,948**	**2,295**
Total comprehensive income attributable to:			
Owners of the Company		-2,742	13,998
Non-controlling interests		175	123
Total comprehensive income for the year		**-2,567**	**14,121**
Earnings per share			
Basic earnings per share (EUR)	27	0.17	0.13
Diluted earnings per share (EUR)	27	0.16	0.13

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	Note	For the year ended 31 December 2011	2010
Cash flows from operating activities			
Operating profit		2,025	1,519
Adjustments for:			
Depreciation and amortisation	13,14, 16,25	1,353	1,379
Gain on sale of property, plant and equipment	25	-1	-3
Share-based payment transactions		106	106
Change in receivables related to operating activity		-1,351	-1,953
Change in inventories		-1,247	-339
Change in payables related to operating activity		784	665
Corporate income tax paid	29	-362	-347
Interest paid	29	-59	-62
Net cash from operating activities		**1,248**	**965**
Cash flows from investing activities			
Acquisition of investment property	29	-2,460	-429
Acquisition of property, plant and equipment	29	-489	-422
Acquisition of intangible assets	29	-73	-136
Proceeds from sale of property, plant and equipment	29	2	3
Proceeds from sale of other financial investments	12	0	590
Interest received	25	11	27
Dividends received	25	795	560
Net cash used in investing activities		**-2,214**	**193**
Cash flows from financing activities			
Proceeds from borrowings	17	771	377
Repayment of borrowings	17	-65	-235
Payment of finance lease liabilities	17	-272	-289
Proceeds from issue of share capital		0	10
Dividends paid		-1,051	-902
Net cash used in financing activities		**-617**	**-1,039**
Net cash flows		**-1,583**	**119**
Cash and cash equivalents at beginning of period		**2,400**	**2,278**
Net increase / decrease		-1,583	119
Effect of exchange rate fluctuations on cash held		-2	3
Cash and cash equivalents at end of period	7	**815**	**2,400**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR'000	Share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
	Attributable to equity holders of the parent								
At 31.12.2009	**10,737**	**384**	**1,073**	**8,498**	**0**	**10,020**	**30,712**	**1,499**	**32,211**
	,	,	,	,	,	,	,	,	,
Profit for the year	0	0	0	0	0	2,173	**2,173**	122	**2,295**
Other comprehensive income	0	0	0	11,818	7	0	**11,825**	1	**11,826**
Comprehensive income 2010	0	0	0	11,818	7	2,173	**13,998**	123	**14,121**
Share-based payment transactions	0	0	0	0	0	106	**106**	0	**106**
Dividends	0	0	0	0	0	-859	**-859**	-43	**-902**
Acquisition of non-controlling interests	0	0	0	0	0	0	**0**	10	**10**
At 31.12.2010	**10,737**	**384**	**1,073**	**20,316**	**7**	**11,440**	**43,957**	**1,589**	**45,546**
		,				,	,		,
Profit for the year	0	0	0	0		2,773	**2,773**	175	**2,948**
Other comprehensive income	0	0	0	-5,516	1	0	**-5,515**	0	**-5,515**
Comprehensive income 2011	0	0	0	-5,516	1	2,773	**-2,742**	175	**-2,567**
Increase of share capital	1,023	-384	0	0	0	-639	**0**	0	**0**
Share-based payment transactions	0	0	0	0	0	106	**106**	0	**106**
Dividends	0	0	0	0	0	-1,008	**-1,008**	-43	**-1,051**
		,				,	,		,
At 31.12.2011	**11,760**	**0**	**1,073**	**14,800**	**8**	**12,672**	**40,313**	**1,721**	**42,034**

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 (the Parent Company) (address: Paldiski Str 31, Keila, Estonia) is a company registered in Estonia (registration number 10029524). These consolidated financial statements for the year ended 31 December 2011 comprise AS Harju Elekter (the "parent company") and its (together referred to as the "Group") and the Group's interest in associate AS Draka Keila Cables (Estonia 34%).

Subsidiaries of	Location	Area of operation	Ownership and voting rights %	
AS Harju Elekter			31.12.2011	31.12.2010
AS Harju Elekter Teletehnika	Estonia	Manufacturing	100	100
AS Harju Elekter Elektrotehnika	Estonia	Manufacturing	100	100
Satmatic OY	Finland	Manufacturing	100	100
Harju Elekter AB	Sweden	Retail- and wholesale	90	90
Rifas UAB	Lithuania	Manufacturing	51	51
Subsidiary of Rifas UAB				
Automatikos Iranga UAB	Lithuania	Projection	51	51

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 2011, on 2 April 2012. 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 31 "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 Basis of preparation (continue)

2.3. Functional and presentation currency

On 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its currency, replacing the Estonian kroon. Consequently, the functional currency of AS Harju Elekter since 1 January 2011 is Euro. Change in the functional currency has been accounted for prospectively. The parent company and its Estonian subsidiaries have translated the balances on their accounts as of 1 January 2011 by applying the currency rate of 15.6466 kroon/euro.

2011 consolidated financial statements have been presented in euros. Comparative figures presented in the financial statements have been translated from Estonian kroons to euros using the conversion rate of 15.6466 kroon/euro. As the exchange rate has been the same during previous periods, no currency differences arose in translation.

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

The consolidated financial statements are presented in thousands of euros, 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 the statement the 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 4.

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 measurements 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 implemented several new changes in international accounting standards. The Group must follow these amendments in its statements for periods starting on 1 January 2011 or later. These amendments did not affect the Group’s financial statements substantially.

Certain new or revised standards and interpretations have been issued that are mandatory for the Group’s annual periods beginning on or after 01.01.2012, and which the Group has not early adopted. According to the management estimates these amendments will not affect the Group’s financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by 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 polisies of an entity so as to otain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisions 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 acquree; 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 aquity sequrities, 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 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.

3 Significant accounting policies (comntinue)

3.1. Basis of consolidation (continue)

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.

(d) Transactions eliminated on consolidation
Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in the consolidated financial statements. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 comprehensive income statement.

(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 euros at foreign exchange rates ruling at the reporting date.

The revenues and expenses of the Lithuanian company are translated using the Lithuanian litt exchange rate against the euro (EUR 1 = LTL 3.4528). Since the Lithuanian litas 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 euro 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.

3 Significant accounting policies (continue)

3.3. Financial assets (continue)

(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.

- *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 of the financial year.

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 Significant accounting policies (continue)

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.

(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 deprecation 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 as an expense in profit or loss at the time they are 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

3 Significant accounting policies (continue)

3.7. Intangible assets (continue)

comprehensive income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Expenditure on development is written off on a straight-line basis over the estimated useful life but not exceeding 5 years.

(b) Other intangible assets
Other intangible assets are expenditure on licenses and software. Acquired licences are shown at historical cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation 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 'distribution 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 permanently impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

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

An impairment loss in respect of a receivable carried at 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

3 Significant accounting policies (continue)

3.8. Impairment (continue)

loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

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

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 Significant accounting policies (continue)

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.

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 Swedish, Lithuanian and Finnish subsidiaries' current corporate income tax expense (calculated on profits earned), changes in deferred tax assets and liabilities 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, Swedish 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 Significant accounting policies (continue)

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.

(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 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 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.

Revenue from the contracts in progress, the cost of which exceeds EUR 200 thousand, is recognised as revenue by reference to the stage of completion of the contract (see Note 3.19) in accordance with IAS 11 '*Construction 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.

3 Significant accounting policies (continue)

3.18. Revenue recognition (continue)

(d) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. 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. Sales contracts in progress

Income and expenses of sales contracts in progress have been matched under the stage of completion method. The stage of completion is determined on the basis of the relationship between the actual costs incurred by the balance sheet date and the estimated costs of the contract. The actual costs of the contract consist of direct and overhead costs of the production.

If invoices submitted to the customer by the balance sheet date are either higher or lower than the income calculated under the stage of completion method, then the difference is recognised as a liability or as a receivable in the statement of financial position.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and in full.

3.20. Government grants

The company uses the net method to express government grants. The principle of balance between of costs and benefits is followed when showing the government grants of operating costs. Costs related to the project are shown using the accrual method i.e. they are shown when the influence of any economic transaction on the net assets of the company is actually taking place. The acquired sums are shown then as a reduction of the respective cost.

The company uses the net method for government grants of assets. Acquired assets are registered in the balance sheet at their acquisition cost minus the amount that has been received by government grants to support the acquisition of assets. The costs of acquired assets are depreciated in the overall costs during the period of their useful life.

3.21. Earnings per share

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

3.22. Dividend distribution

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 Significant accounting policies (continue)

3.23. 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.

(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 depreciation rates are 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.

4 Accounting estimates and judgments (continued)

(f) Revenue under the stage of completion method

Revenue from sales contracts in progress is recognised under the stage of completion method (Note 3.19), which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted.

As of 31.12.2011 five projects were still not completed. On the basis of the stage of completion method the sales revenues of 2011 show that the total value of the projects was 889 thousand euros, the total costs amounted to 783 thousand euros and the profit was 106 thousand euros. During the reporting period 464 thousand euros was received as prepayments, and trade receivables related to these projects in the financial statement amount to 425 (889-464) thousand euros.

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 EUR), Finland (currency EUR), Sweden (currency SEK), and Lithuania (currency LTL). The Lithuanian litas 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.

On 1 January 2011 Estonia adopted the euro as its official currency, with the result disappeared from kroon to the euro currency exchange rate risk. 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 euro.

5 Financial risks management (continue)

5.2 Market risk (continue)

EUR'000	Note	EUR	LTL	SEK	TOTAL
Cash and cash equivalents	7	571	141	103	815
Trade receivable	8	6,408	1,433	7	7,848
Available-for-sale financial assets	12	16,023	0	0	16,023
TOTAL		**23,002**	**1,574**	**110**	**24,686**
Current liabilities	17	-2,239	-6	0	-2,245
Trade payables	19	-3,625	-640	-6	-4,271
Other short-term liabilities	19	-1,809	-152	-36	-1,997
Non-current liabilities	17	-1,563	-6	0	-1,569
TOTAL		**-9,236**	**-804**	**-42**	**-10,082**
Opened currency position		**13,766**	**770**	**68**	**14,604**

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the. 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 decreased in 2011 by 3.94 euro and in 2010 increased by 8.77 euro. In 2011 the value of investment decreased by 5.5 million euro and in 2010 increased by 12.3 million euro 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 2011 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.

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

EUR'000	Note	31.12.2011	31.12.2010
Fixed rate financial liabilities	17	0	65
Variable rate financial liabilities	17	3,814	3,302
Total		**3,814**	**3,367**

A change of one percentage point in interest rates at the reporting date would have increased (-decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2010.

5 Financial risks management (continued)

5.2 Market risk (continue)

EUR'000	31.12.2011	31.12.2010
One percentage point increase	-38	-33
One percentage point decrease	38	33

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.

EUR'000	Note	31.12.2011	31.12.2010
Cash and cash equivalents	7	815	2,400
Trade receivables	8	7,655	6,117
Total		**8,470**	**8,517**

At the reporting date, the credit risk was 8.5 million euro, compared to 8.5 million euro at 31 December 2010.

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

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 EUR 0.8 million and debt obligations to the amount of EUR 3.8 million (Note 17).

5.5. Capital risk management

The main objective of the Group upon managing capital risk is to ensure the sustainability of the Group 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).

5 Financial risks management (continued)

5.5. Capital risk management (continued)

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:

EUR'000	Note	**31.12.2011**	**31.12.2010**
Interest-bearing loans and borrowings	17	3,814	3,367
Cash and cash equivalents	7	-815	-2,400
Net debt		2,999	967
Equity		42,034	45,546
Total capital		45,033	46,513
Debt to capital ratio		**6.7%**	**2.1%**
Total assets		52,920	55,114
Equity ratio		79%	83%

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

EUR'000	Note	**31.12.2011**	**31.12.2010**
Assets as per statement of financial position			
Cash and cash equivalents	7	815	2,400
Trade receivables and other receivables	8	7,848	6,479
Available-for-sale financial assets	12	16,023	21,539
Total		**24,686**	**30,418**
Liabilities as per statement of financial position			
Borrowings	17	3,814	3,367
Trade payables and other payables	19	6,268	5,178
Total		**10,082**	**8,545**

6.2. Accounting classification and fair values of financial instruments

EUR'000	Note	Loans and receiv-ables	Aveilable -for-sale	Other financial liabilities	Total carrying amount	Fair value
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**
At 31 December 2011						
Cash and cash equivalents	7	815	0	0	815	815
Trade receivables and other receivables	8	7,848	0	0	7,848	7,848
Available-for-sale financial assets	12	0	16,023	0	16,023	16,023
Total		**8,663**	**16,023**	**0**	**24,686**	**24,686**
Borrowings	17	0	0	-3,814	-3,814	-3,814
Trade payables and other payables	19	0	0	-6,268	-6,268	-6,268
Total		**0**	**0**	**-10,082**	**-10,082**	**-10,082**

6.3. Credit quality of financial assets

Trade receivables (net) analysed by due date:

EUR'000	**31.12.2011**	**31.12.2010**
Not due:	7,065	4,471
Up to 3 months past due	390	990
3-6 months past due	67	411
Over 6 months past due	194	306
Total	**7,716**	**6,178**

7 Cash and cash equivalents

EUR'000	At 31 December 2011	2010
Cash in hand	5	2
Bank balances	807	2,398
Call deposits	3	0
Cash and cash equivalents in the statement of cash flows	**815**	**2,400**

Cash and cash equivalents by currency:

EUR'000	At 31 December 2011	2010
EEK	0	963
EUR	571	1,039
LTL	141	299
SEK	103	99
Total	**815**	**2,400**

8 Trade and other receivables

EUR'000	Note	At 31 December 2011	2010
Trade receivables			
Trade receivables		7,716	6,178
Provision for impairment of trade receivables		-61	-61
Trade receivables - net		**7,655**	**6,117**
Receivables from associates	30	132	310
Miscellaneous receivables		2	3
Other accrued income		59	49
Total receivables		**7,848**	**6,479**

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

EUR'000	At 31 December 2011	2010
EEK	0	1,512
EUR	6,408	3,675
LTL	1,433	1,289
SEK	7	3
Total	**7,848**	**6,479**

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.

8 Trade and other receivables (continue)

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

EUR'000	For the year ended 31 December	
	2011	**2010**
At 1 January	-61	-120
Items expensed as doubtful	-2	-19
Recovery of doubtful items	2	1
Doubtful items written off as irrecoverable	0	77
At 31 December	**-61**	**-61**

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

EUR'000		At 31 December	
	Note	**2011**	**2010**
Prepaid taxes	20	29	48
Prepaid expenses		95	75
Total prepayments		**124**	**123**

10 Inventories

EUR'000	At 31 December	
	2011	**2010**
Raw and other materials	3,480	2,795
Work in progress	1,783	1,241
Finished goods	992	1,066
Merchandise purchased for resale	396	297
Prepayments to suppliers	7	12
Total	**6,658**	**5,411**
- items carried at net realisable value	204	64
Write-down of inventories to net realisable value	30	24

11 Investments in associate

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

Draka Keila Cables AS share	**2011**	**2010**
Number of the shares	884	884
Ownership (%)	34.0	34.0
Par value of a share (EUR)	639	639

EUR'000	**2011**	**2010**
Cost at 31 December	565	565
Carrying amount at 01 January	680	619
Profit (+) under the equity method	497	61
Carrying amount at 31 December	**1,177**	**680**
Associate's equity at the end of period	3,466	2,001
Investor's share in equity	1,178	680
Unrealised gains from transactions with associate	-1	0

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

Financial summary

EUR'000	**2011**	**2010**
At 31 December		
Assets	13,296	17,165
Liabilities	9,830	15,164
Revenue for the year ended 31 December	45,404	39,675
Profit(+) or loss(-) for the year ended 31 December	1,464	178

12 Other long-term financial investments

EUR'000		At 31 December	
	Note	**2011**	**2010**
Available-for-sale financial assets		16,002	21,518
Other shares		21	21
Total		**16,023**	**21,539**

1. Available-for-sale financial assets

Carrying amount at 01 January		21,518	9,768
Sale of shares		0	-590
Realised gain from sale		0	62
Changes in the fair value reserve	23	-5,516	12,278
Carrying amount at 31 December		**16,002**	**21,518**

2. Other shares

Carrying amount at 01 January	21	21
Carrying amount at 31 December	**21**	**21**
Total carrying amount at 31 December	**16,023**	**21,539**

PKC Group OYj share	**2011**	**2010**
Number of the shares (1000)	1,400	1,400
Ownership (%)	6.6	7.2
Market price at 31 December (EUR)	11.43	15.37

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 0.55 euro per share (0.40 euro in 2010).

In 2011, PKC Group Oyj carried out a privately placed issue of 1.25 million new shares that amounted to 5.9% of the share capital of the company. As a result the share of AS Harju Elekter was reduced by 0.6 percentage points. The shares are not quoted on the Helsinki Stock Exchange and trading in them is forbidden. New shares will be listed on the Stock Exchange within 180 days from 1 October 2011.

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

EUR'000	Land	Buildings	Total
At 31 December 2009			
Cost	568	10,025	10,593
Accumulated depreciation	0	-2,376	-2,376
Carrying amount	**568**	**7,649**	**8,217**
Constructions in progress	0	551	551
Carrying amount 31.12.2009	**568**	**8,200**	**8,768**
For the year ended 31 December			
Additions	0	300	300
Depreciation charge	0	-357	-357
Total for the period	**0**	**-57**	**-57**
At 31 December 2010			
Cost	568	10,868	11,436
Accumulated depreciation	0	-2,733	-2,733
Carrying amount	**568**	**8,135**	**8,703**
Construction in progress	0	8	8
At 31 December 2010	**568**	**8,143**	**8,711**
For the year ended 31 December			
Additions	253	2,252	**2,505**
Depreciation charge	0	-383	**-383**
Total for the period	**253**	**1,869**	**2,122**
At 31 December 2011			
Cost	821	13,034	**13,855**
Accumulated depreciation	0	-3,022	**-3,022**
Carrying amount 31.12.2011	**821**	**10,012**	**10,833**

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 2011 falls between EUR 10.3 and 12.5 million.

In 2011, the direct maintenance and repair expenses of investment property totalled EUR 0.22 million compared to 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

EUR'000	Land	Buildings	Plant and equipment	Other items	Total
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 2010					
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**
For the year ended 31 December 2011					
Additions	0	39	372	96	507
Depreciation charge for the year	0	-287	-505	-79	-871
Disposals	0	0	0	-1	-1
Reclassification	0	-5	83	-78	0
Total for the period	**0**	**-253**	**-50**	**-62**	**-365**
At 31 December 2011					
Cost	208	7,574	7,669	808	16,259
Accumulated depreciation	0	-1,439	-5,277	-564	-7,280
Carrying amount	**208**	**6,135**	**2,392**	**244**	**8,979**
Construction in progress	0	0	6	0	6
At 31 December 2011	**208**	**6,135**	**2,398**	**244**	**8,985**

At 31 December 2011, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was EUR 2,207 thousand and as at 31 December 2010 EUR 1,968 thousand.

14 Property, plant and equipment (continued)

14.2. Assets acquired with finance lease

EUR'000	Cost	Depreciation	Carrying amount
At 31 December 2009	**837**	**-106**	**731**
Additions	1,905	0	**1,905**
Depreciation	0	-132	**-132**
Lease discontinued	-79	31	**-48**
At 31 December 2010	**2,663**	**-207**	**2,456**
Additions	13	0	**13**
Depreciation	0	-145	**-145**
Lease discontinued	-74	54	**-20**
At 31 December 2011	**2,602**	**-298**	**2,304**

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

14.3. Assets leased out under operating leases

EUR'000	At 31 December	
	2011	**2010**
Plant and equipment		
Cost of items leased out	19	19
Accumulated depreciation	-6	-6
Carrying amount at end of period	**13**	**13**

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

15 Operating leases

EUR'000		For the year ended 31 December	
	Note	**2011**	**2010**
Lease income			
- on investment property		2,062	2,024
- on plant and equipment		2	2
TOTAL	25	**2,064**	**2,026**
Lease expense			
Land		32	0
Office, commercial and production premises		62	89
Vehicles		87	65
Other		4	20
TOTAL		**185**	**174**

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.

	EUR'000	
For the year ended 31 December	**2011**	**2010**
Lease income		
< 1 year	2,126	2,060
1-5 years	4,035	5,316
> 5 years	3,097	0
Total lease income	**9,258**	**7,376**
Lease expenses		
< 1 year	100	60
1-5 years	215	89
Total lease expenses	**315**	**149**

16 Intangible assets

EUR'000	**Expenditure on development**	**Other**	**TOTAL**
At 31 December 2009			
Cost	122	698	820
Accumulated depreciation	-77	-372	-449
Carrying amount 31.12.2009	**45**	**326**	**371**
For the year ended 31 December 2010			
Additions	23	113	136
Depreciation charge for the year	-14	-72	-86
Total	**9**	**41**	**50**
At 31 December 2010			
Cost	145	691	836
Accumulated depreciation	-91	-324	-415
Carrying amount 31.12.2010	**54**	**367**	**421**
For the year ended 31 December 2011			
Additions	20	80	100
Depreciation charge for the year	-15	-84	-99
Total	**5**	**-4**	**1**
At 31 December 2011			
Cost	166	763	929
Accumulated depreciation	-107	-400	-507
Carrying amount 31.12.2011	**59**	**363**	**422**

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

As at 31 December 2011 the total cost of the Group's fully depreciated intangible assets still in use was EUR 68 thousand, compared to EUR 16 thousand at 31 December 2010.

17 Interest-bearing loans and borrowings

17.1. At 31 December

EUR'000	**2011**	**2010**
Liabilities		
Short-term bank loans	1,975	1,204
Current portion of long-term bank loans	0	65
Current portion of lease liabilities	270	270
Total current liabilities	**2,245**	**1,539**
Lease liabilities	1,569	1,828
Total non-current liabilities	**1,569**	**1,828**
Total interest-bearing loans and borrowings	**3,814**	**3,367**
Loans and borrowings at the beginning of the year	**3,367**	**1,609**
Changes during the period 1.01. – 31.12		
Changes in short-term loans	771	377
Long-term loan repaid	-65	-235
New finance lease liabilities	13	1,905
Payment of finance lease principal	-272	-289
Loans and borrowings at the end of the year	**3,814**	**3,367**

17.2. Short-term bank loan terms

At 31 December

Base currency	Overdraft limit in base currency		Interest rate		EUR'000	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
EUR'000	600	600	1m euribor+0.5%	+0.5%	544	510
EUR'000	1,200	1,200	1m euribor+0.4%	+0.4%	1,085	639
EUR'000	33	33	Nordea basic rate +1.75%	+1.75%	0	55
EUR'000	500	500	1m euribor+0.4%	+0.4%	346	0
Total short-term bank loans					**1,975**	**1,204**

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

17.3. Finance lease liabilities

Present value of lease payments

EUR'000	**Initial value**	**Settlement**	**Present value**
At 31 December 2009	**641**	**-159**	**482**
Acquisition	1,905	0	1,905
Payment of finance lease	0	-289	-289
Lease discontinued	-31	31	0
At 31 December 2010	**2,515**	**-417**	**2,098**
Acquisition	13	0	13
Payment of finance lease	0	-251	-251
Lease discontinued	-38	17	-21
At 31 December 2011	**2,490**	**-651**	**1,839**

17 Interest-bearing loans and borrowings (continued)

17.3. Finance lease liabilities (continued)

The base currency of lease contracts is mainly the euro. The 31 December 2011 finance lease liabilities, the base currency of which is Lithuanian litas, amounted to 12 thousand euro, compared to 7 thousand euro at 31 December 2010.

At 31 December 2011 interest rates of finance lease contracts were 1.4–9.9% (at 31 December 2010 1.4–9.9%). In 2010 the weighted average effective interest rate of finance lease was 1.6 % compared to 1.6 % in the reference period.

17.4. Finance lease liabilities by due dates

EUR'000	<1 year	1-5 years	> 5 years	Total
At 31 December 2010				
Minimum amount of lease payments	302	1,152	788	2,242
Future financing cost	-32	-86	-26	-144
Present value of lease payments	**270**	**1,066**	**762**	**2,098**
At 31 December 2011				
Minimum amount of lease payments	303	1,082	597	1,982
Future financing cost	-33	-85	-25	-143
Present value of lease payments	**270**	**997**	**572**	**1,839**

Lease payments are made monthly.

18 Loan collateral and pledged assets

Pledged assets	AS at 31	**Balance of investment loan**		**Overdraft limit**	
PKC Group Oyj equity securities	December	**2011**	**2010**	**2011**	**2010**
846,000 shares	EUR'000	0	65	1,100	1,100

At 31 December 2011, the carrying amount of pledged securities amounted to EUR 9.7 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

EUR'000	**31.12.2011**	**31.12.2010**
Trade payables	**4,271**	**3,509**
Accrued expenses		
Payables to employees	1,519	1,160
Interest payable	2	1
Other	157	54
Total	**1,678**	**1,215**
Advances from customers	216	394
Payables to associates	1	14
Miscellaneous payables	102	46
Total	**6,268**	**5,178**

19 Trade and other payables (continued)

EUR'000	At 31 December 2011	2010
Trade payables		
Payable for goods and services	4,194	3,509
Payable for property, plant and equipment	5	0
Payable for investment property	45	0
Payable for intangible assets	27	0
Total	**4,271**	**3,509**

20 Taxes

EUR'000	At 31 December 2011	2010
Prepayment		
Value-added tax	9	48
Income tax	20	0
Total	**29**	**48**
Liability		
Value-added tax	263	459
Income tax	29	19
Personal income tax	178	160
Social security tax	292	246
Other taxes	25	50
Total	**787**	**934**

21 Provisions

	Warranty provision		Other provisions		TOTAL	
EUR'000	2011	2010	2011	2010	2011	2010
At 1 January	**89**	**74**	**0**	**0**	**89**	**74**
Provisions made during the year	18	73	12	0	30	73
Provisions used during the year	-102	-58	0	0	-102	-58
At 31 December	**5**	**89**	**12**	**0**	**17**	**89**

The warranty provision is established to cover contingent warranty repair expenses. AS Harju Elekter grants the products sold by Group a one-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

EUR'000	At 31 December	
	2011	**2010**
Consolidated retained earnings	12,672	11,440
Max sum of dividends payable to owners	10,011	9,038
Income tax payable on dividends	2,661	2,402

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 2011.

Contingent income tax liability has been calculated based on the tax rate enacted before 1 January 2011 (for 2010 before 1 January 2010). If the profit allocation proposal to distribute a dividend of EUR 1,176 thousand will be approved by the general meeting the income tax liability in the amount of EUR 313 thousand will be payable.

23 Capital and reserves

23.1. Share capital and share premium

At 31 December	Unit	**2011**	**2010**
Share capital	EUR'000	11,760	10,737
Par value of a share	EUR	0.70	0.64
Number of shares issued (fully paid)	Pc'000	16,800	16,800
Share premium	EUR'000	0	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. In 2011 the par value of a share was increased up to EUR 0.70 The share capital increased by 1,023 thousand euros of which 384 thousand was due to the share premium of the euro and 639 thousand due to profits retained.

23.2. Dividend per share

Based on the results for 2010, shareholders were distributed a dividend EUR 1,008 thousand, i.e. EUR 0.06 per share. The dividends were paid out on 24 May 2011. Based on the results for 2009, shareholders were distributed a dividend of EUR 859 thousand, i.e. EUR 0.05 per share.

According to the profit allocation proposal, for 2011 a dividend of EUR 1,176 thousand, i.e. EUR 0.07 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

As at 31 December	**2011**	**2010**
AS Harju KEK	32.14%	32.14%
ING Luxembourg S.A	11.31%	11.31%
Lembit Kirsme	8.33%	8.33%
Endel Palla	6.11%	5.95%
CITIBANK(LONDON)/POHJOLA BANK PLC	5.10%	5.02%
Others	37.01%	37.25%

23 Capital and reserves (continued)

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

		Number of shares	Direct ownership	Indirect ownership
Palla, Endel	Chairman of the Supervisory	1,026,366	6.11%	0.35%
Kirsme, Lembit	Member of the Supervisory Board	1,400,000	8.33%	0.72%
Talgre, Madis	Member of the Supervisory Board	21,000	0.13%	0.00%
Kabal, Ain	Member of the Supervisory Board	3,660	0.02%	0.00%
Toome, Andres	Member of the Supervisory Board	0	0.00%	0.06%
Allikmäe, Andres	Managing Director/CEO	186,800	1.11%	0.00%
Total		**2,637,826**	**15.70%**	**1.13%**

The number of shares held by shareholders and the ownership interests were determined on 31 December 2011 at 11:00 p.m..

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

23.5. Changes in the fair value reserve

EUR'000		For the year	
	Note	**2011**	**2010**
At 1 January		20,317	8,498
Gains on the restatement of financial assets	12	-5,516	12,278
Realised gain from sale of financial assets		0	-459
At 31 December		**14,801**	**20,317**

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 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 euro (EUR) plus ten percent (+10 %). Thus the issue price of the share amounted to 1.10 euro. 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 2011 EUR 106 thousand was shown as the cost of labour and the increase in retained earnings within the equity and EUR 106 thousand in compared period.

23 Capital and reserves (continued)

23.6. Share-based payments (continued)

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 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 Harju Elekter Teletehnika, 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 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.

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

24 Segment reporting (continued)

2010 EUR'000	Note	Manu-facturing	Real estate	Un-allocated activities	Elimi-nations	Consoli-dated
Revenue from external customers	25	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	13,14,16	2,370	300	90	0	**2,760**
Depreciation charge for the year	13,14,16	894	356	130	-1	**1,379**
(Note 13,14,16)						
2011						
Revenue from external customers	25	41,833	2,400	2,441	0	46,674
Inter-segment revenue		484	951	269	-1,704	0
Total revenue		**42,317**	**3,351**	**2,710**	**-1,704**	**46,674**
Operating profit		1,245	1,827	-941	-106	**2,025**
Segment assets		24,043	11,107	2,132	-385	36,897
Indivisible assets						16,023
Total assets						**52,920**
Segment liabilities		10,052	136	455	-385	10,258
Indivisible liabilities						628
Total liabilities						**10,886**
Capital expenditure	13,14,16	497	2,505	110	0	**3,112**
Depreciation charge for the year	13,14,16	845	383	126	-1	**1,353**

24 Segment reporting (continued)

For the year ended 31 December	Note	EUR'000 2011	2010
REVENUE BY MARKETS			
Estonia		17,997	14,019
Finland		21,347	16,464
Lithuania		4,283	4,244
Ohter EU countries		1,330	2,997
Non-EU countries		1,717	3,161
Total	25	**46,674**	**40,885**

25 Income statement line items

For the year ended 31 December	Note	EUR'000 2011	2010
Revenue by business area			
Electrical equipment		37,887	32,198
Sheet metal products and services		1,251	1,194
Boxes for telecom sector and services		868	1,064
Intermediary sale of electrical products and components		3,916	3,324
Commerce and mediation of services		406	662
Rental income	15	2,064	2,026
Other services		282	417
Total	24	**46,674**	**40,885**
Cost of sales			
Goods and materials		-29,160	-27,826
Services		-1,725	795
Personnel expenses (see below)		-7,155	-6,104
Depreciation and amortisation		-1,102	-1,117
Other		-288	-116
Change in work in progress and finished goods inventories		542	-329
Total		**-38,888**	**-34,697**
Distribution costs			
Services purchased		-333	-323
Personnel expenses (see below)		-1,594	-1,212
Depreciation and amortisation		-36	-40
Other		-410	-310
Total		**-2,373**	**-1,885**

25 Income statement line items (continued)

For the year ended 31 December	2011	2010
ADMINISTRARIVE EXPENSES		
Services purchased	-329	-378
Personnel expenses (see below)	-2,143	-1,781
Depreciation and amortisation	-215	-222
Other	-665	-389
Total	**-3,352**	**-2,770**
- incl. development costs	-470	-390
Personnel expenses allocated to cost of sales, distribution and administrative expenses:		
Salaries and other remuneration	-7,699	-7,021
Social and other taxes on salaries and other remuneration	-2,398	-2,066
Share-based payment transactions	-106	-106
Accruals	-689	96
Total	**-10,892**	**-9,097**
Other income		
Gains on sale of property, plant and equipment	1	3
Interest on arrears and penalty payments received	10	21
Other	5	5
Total	**16**	**29**
Other expenses		
Interest on arrears, penalty payments and similar items paid	-7	-6
Gifts and donations made	-26	-29
Other	-19	-8
Total	**-52**	**-43**
Finance income		
Interest income	11	27
Dividend income	795	560
Income from sale of financial assets	0	522
Total	**806**	**1,109**
Finance costs		
Interest expense	-60	-63
Net loss from foreign exchange differences	-2	-4
Total	**-62**	**-67**

26 Income tax

Income tax expense

EUR'000	2011	2010
Income tax expense	353	327
Deferred income tax (income -)	-35	0
Income tax in the statement of comprehensive income	**318**	**327**

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

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

2011 EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit (loss) before income tax	2,674	338	357	-103	3,266
Income tax rate	0%	26%	15%	26.3%	
Theoretical income tax expense	0	88	53	-27	114
Income tax expense on dividends	231	0	0	0	231
Utilisation of tax losses carried forward	0	0	-6	0	-6
Effect of non-taxable income	0	0	-46	0	-46
Effect of non-taxable expenses	0	27	6	0	33
Changes in deferred tax assets	0	-3	0	-5	-8
Income tax	**231**	**115**	**7**	**0**	**353**
Deferred income tax (income -)	**0**	**-3**	**0**	**-32**	**-35**

Income tax by regions for the year ended at 31 December 2010

2010 EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit (loss) before income tax	2,123	218	295	-14	2,622
Income tax rate	0%	26%	15%	26.3%	
Theoretical income tax expense	0	57	44	0	101
Income tax expense on dividends	201	0	0	0	201
Effect of non-taxable income	0	0	-13	0	-13
Effect of non-taxable expenses	0	29	9	0	38
Income tax	**201**	**86**	**40**	**0**	**327**

Deferred income tax asset at 31 December 2011

EUR '000	Finland	Sweden	Total
At 1 January	0	0	0
Non-current portion of deferred tax asset	3	32	35
At 31 December, inclusive	**3**	**32**	**35**
on property, plant and equipment	3	0	3
on tax loss carry-forwards	0	32	32

26 Income tax (continued)

The recovery of the deferred income tax asset arising from tax loss carry-forwards is dependent on future taxable profits at subsidiaries that have to exceed the existing losses to be carried forward. An analysis of expected future profits was carried out when preparing the financial statements. The presumption of profit is dependable on attainment of each respective company strategic goals. The deferred tax asset resulting from losses carried forward is recognised to the extent that the realisation of the related tax benefit through the future profits is probable.

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 31.12.2011 the Group had 578.4 thousand dilutive potential shares. In accordance with the decision of the General Meeting of Shareholders held on 23 April 2009 the price of a share was established at the level of 1.10 euros. As to the share-based payments regulated by IFRS 2 requirements the subscription price of shares covers the costs of services that employees provide in the future for the share-based payments. The value of service for each issued share determined by an independent expert was 0.55 euros. Thus the subscription price per each share within the meaning of IFRS 2 is 1.65 euros and the potential shares become dilutive only after their average market price of the period exceed 1.65 euros.

The average market price of the share in 2011 was 2.84 euros and 2.65 euros in compared period. The issue of shares would account for 954,360 euros. In order to obtain the same amount 336,631 (954,360 /2.84) new shares at the average market price would be issued and 360,260 in compared period. The difference between the number of dilutive potential shares and the number of shares issued at the market price which is 241,769 thousand shares (578,400 -336,631) could be interpreted as shares granted free of charge (2010: 218,140) and the average number of shares has been adjusted by that number.

	Unit	**2011**	**2010**
Profit attributable to equity holders of the parent	EUR ‘000	2,773	2,173
Average number of shares during the period	Pc ’000	16,800	16,800
Basic earnings per share	EUR	0.17	0.13
Adjusted number of shares during the period	Pc ’000	17,042	17,018
Diluted earnings per share	EUR	0.16	0.13

28 Government grants

EUR’000	**2011**	**2010**
Government grants for acquisition of property, plant and equipment	**59**	**139**
Incl. plant and equipment	59	128
intangible assets	0	11
Government grants for operating expenses	**40**	**107**
Incl. training costs	21	89
development costs	19	18
Total	**99**	**246**

29 Cash flow statement line items

		EUR'000	
For the year ended 31 December	Note	**2011**	**2010**
Corporate income tax paid			
Income tax expense	26	-318	-327
Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+)	20	-10	-20
Deferred income tax (income -)		-34	0
Corporate income tax paid		**-362**	**-347**
Interest paid			
Interest expense	25	-60	-63
Liability decrease (-)/ increase (+) incurred by purchase	19	1	1
Interest paid		**-59**	**-62**
Paid for investment property			
Additions of investment property	13	-2,505	-300
Liability decrease (-)/ increase (+) incurred by purchase	19	45	-129
Acquisition of investment property		**-2,460**	**-429**
Paid for property, plant and equipment			
Additions of property, plant and equipment	14	-507	-2,324
Acquired with finance lease	14	13	1,905
Liability decrease (-)/ increase (+) incurred by purchase	19	5	-3
Acquisition of property, plant and equipment		**-489**	**-422**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	14	1	0
Profit on disposal of property, plant and equipment		1	3
Proceeds from sale of property, plant and equipment		**2**	**3**
Paid for intangible assets			
Additions of intangible assets	16	-100	-136
Liability decrease (-)/ increase (+) incurred by purchase	19	27	0
Acquisition of intangible assets		**-73**	**-136**

30 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

	EUR'000	
For the year ended 31 December	**2011**	**2010**
Purchase of goods and services from related parties:		
- from associates	436	246
- from Harju KEK	343	68
Total	779	314
Inclusive:		
- goods and materials for manufacturing	436	246
- lease of property plant and equipment	65	65
- property, plant and equipment	275	0
- other	3	3
Sale of goods and services to related parties:		
- to associates	765	891
- to Harju KEK	3	2
Total	768	893
Inclusive:		
- goods and materials for manufacturing	43	27
- lease of property plant and equipment	685	616
- other	40	250
Balances with related parties		
Receivables with associates: goods and services	132	310
Payables with associates: goods and services	1	14

Remunerations and compensations

Remuneration to management and supervisory boards		
- salaries, bonuses, additional remuneration	198	221
- fringe benefits	11	8
Total	209	229
Share-based payment transactions		
- to management of associates	2	2
- to management of Harju KEK	7	7
- to management and supervisory board of Harju Elekter	15	15
Total	24	24

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

30 Related parties (continued)

In connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, the Supervisory Board assigned a one-member Management Board for the next three-year period, at its meeting on 4 May 2011. The Group does not give the members of the Management any benefits related to pension. The manager is entitled to receive a severance payment in the amount of 10 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.

31 Primary financial statements of the Parent

STATEMENT OF FINANCIAL POSITION

EUR'000	**31.12.2011**	**31.12.2010**
Cash and cash equivalents	203	1,070
Trade receivables	406	343
Receivables from related parties	589	593
Other receivables and prepayments	45	27
Inventories	338	269
Total current assets	**1,581**	**2,302**
Investments in subsidiaries	2,935	2,935
Investments in associates	565	565
Other investments	16,023	21,539
Investment property	13,383	11,385
Property plant and equipment	389	389
Intangible assets	278	298
Total non-current assets	**33,573**	**37,111**
TOTAL ASSETS	**35,154**	**39,413**
Liabilities		
Loans	346	0
Trade payables	399	370
Tax liabilities	78	110
Other payables and advances received	206	165
Total current liabilities	**1,029**	**645**
Total liabilities	**1,029**	**645**
Equity		
Share capital	11,760	10,737
Share premium	0	383
Reserves	15,874	21,390
Retained earnings	6,491	6,258
Total equity	**34,125**	**38,768**
TOTAL LIABILITIES AND EQUITY	**35,154**	**39,413**

31 Primary financial statements of the Parent (continued)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	EUR'000 2011	2010
Revenue	5,899	5,867
Cost of sales	-3,498	-3,434
Gross profit	**2,401**	**2,433**
Other income	4	4
Distribution expenses	-358	-341
Administrative expenses	-1,023	-935
Other expenses	-33	-30
Operating profit	**991**	**1,131**
Income from subsidiaries	274	309
Income from available-for-sale financial assets		
-Dividend income	795	560
-Income from sale	0	522
Interest income	11	10
Interest expense	-2	-2
Foreign exchange loss	0	-1
Profit before tax	**2,069**	**2,529**
Corporate income tax expense	-188	-147
Profit for the period	**1,881**	**2,382**
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	-5,516	11,819
Total comprehensive income for the period	**-3,635**	**14,201**

31 Primary financial statements of the Parent (continued)

STATEMENT OF CASH FLOWS

	EUR'000 2011	2010
Cash flows from operating activities		
Operating profit	991	1,131
Adjustments for		
Depreciation amortisation and impairment losses	632	613
Change in receivables related to operating activity	234	-203
Change in inventories	-69	41
Change in payables related to operating activity	-12	-32
Corporate income tax paid	-188	-147
Interest paid	-2	-3
Net cash from operating activities	**1,586**	**1,400**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-2,561	-519
Acquisition of financial assets	0	-94
Proceeds from sale of financial assets	0	590
Loans given	-308	0
Interest received	9	10
Dividends received	1,069	869
Net cash used in / from investing activities	**-1,791**	**856**
Cash flows from financing activities		
Proceeds from borrowings	346	0
Repayment of loans received	0	-415
Dividends paid	-1,008	-859
Net cash used in financing activities	**-662**	**-1,274**
Net cash flows	**-867**	**982**
Cash and cash equivalents at beginning of period	**1,070**	**89**
Net increase	-867	982
Effect of exchange rate fluctuations on cash held	0	-1
Cash and cash equivalents at end of period	**203**	**1,070**

31 Primary financial statements of the Parent (continued)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
EUR'000						
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**
Profit for the period	0	0	0	0	1,881	1,881
Other comprehensive income	0	0	0	-5,516	0	-5,516
Comprehensive income 2011	0	0	0	-5,516	1,881	-3,635
Increase of share capital	1,023	-383	0	0	-640	0
Dividends	0	0	0	0	-1,008	-1,008
At 31.12.2011	**11,760**	**0**	**1,073**	**14,801**	**6,491**	**34,125**

EUR'000	**2011**	**2010**
Restated unconsolidated equity at 31 December	**34,125**	**38,768**
Interests under control and significant influence:		
-carrying amount	-3,500	-3,500
-carrying amount under the equity method	9,688	8,689
Restated unconsolidated equity at 31 December	**40,313**	**43,957**

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

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

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2011 as set out on pages 37-83 and that:

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

Andres Allikmäe	Managing Director/CEO	/signature/	2nd April 2012

SIGNATURES TO THE ANNUAL REPORT OF 2011

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2011.

Andres Allikmäe	Managing Director/CEO	/signature/	2nd April 2012

The supervisory board has reviewed the annual report prepared by the management board (pp. 6-83) including an activity report and annual financial statements and has approved its presentation to the general meeting of the shareholders.

Endel Palla	Chairman of the Supervisory	/signature/	10th April 2012
Ain Kabal	Member of the Supervisory Board	/signature/	10th April 2012
Madis Talgre	Member of the Supervisory Board	/signature/	10th April 2012
Andres Toome	Member of the Supervisory Board	/signature/	10th April 2012

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Independent Auditors' Report

(Translation from the 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 2011, 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 37 to 83.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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 the consolidated financial position of the Company as at 31 December 2011, 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.

9 April 2012

KPMG Baltics OÜ
Licence No 17

/Signature/

Andris Jegers
Authorized Public Accountant
Licence No 171

PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EUR '000
Retained earnings of preceding periods	9,899
Profit for 2011	2,773
Total distributable profits at 31 December 2010	12,672

The management board proposes that profits be allocated as follows:

Dividend distribution (EUR 0.07 per share)	1,176
Transfer to capital reserve	103
Retained earnings after allocations	11,393

/signature/

Andres Allikmäe
Managing Director/CEO

2nd April 2012