



ANNUAL REPORT 2013

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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CEO:	Andres Allikmäe
Auditor:	KPMG Baltics OÜ
Beginning of the reporting period:	1 st of January
End of the reporting period:	31 st of December
Added documents to the annual report:	<ul style="list-style-type: none">• Auditor's report• Profit allocation proposal

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ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

2013 was an anniversary year for AS Harju Elekter – as last autumn 45 years had passed since the beginning of cable production. During that period the Group has become an internationally renowned and acknowledged company. We have come a long way bearing different names under different social regimes. We have been operating under the internationally registered trade mark of AS Harju Elekter since 1983. All these years of activity are united by the common denominator of close co-operation between the employees of the company and our customers and partners.

Looking back at the years that have passed we are pleased to acknowledge that the Group has always been free to operate and make decisions independently. Competitive salaries, a pleasant working environment and good relations between the people working in the company have been the key to our success. We have been innovative and designed and created many essential products. Every year we have earned a profit and that has allowed us to set up proper production premises and invest in modern equipment and technologies in order to survive, continue our business and be competitive. We have also been able to keep the salaries of our employees above the average of the region and keep ahead of inflation. In the light of the anniversary year I have to admit that one of our greatest achievements was the fact that we were able to attract sufficient foreign capital at the end of the 80's to establish several joint ventures in the field of electric equipment and to create more than 2,500 jobs here in the Keila Industrial Park. Today, all these companies belong among the best enterprises of Estonia. I have great hopes for the future and I am sure that when AS Harju Elekter celebrates its 50th Anniversary it will be an even stronger company.

Although the net sales of the Group in 2013 were a bit less than in 2012 a lot of effort was made to reinforce the future transactions. When looking back to 2013 it cannot be overlooked that we have worked effectively in improving substations, winning public procurement for the next 3+1+1 years and in developing a reliable customer base in our most important target markets in Scandinavian countries. From the point of view of the further development of the Group the increase in the net sales in neighbouring countries is our top priority, but the importance of the domestic market should not be underestimated. All development activities of the Group have been focused on ensuring such a balanced development.

Stock prices on the Estonian security market continued to increase in 2013 as did the prices of the shares of AS Harju Elekter increasing within a year by 2.3% amounting to 2.70 euros. The market value of the company was 47.0 million euros as of December 31, 2013. However, in the rapidly changing economic environment the fact that our shares are dividend shares has become even more important than the fluctuation of their price. AS Harju Elekter has paid dividend to its shareholders all the time it has been listed on the stock exchange and the continually high number of shareholders shows that the trustworthiness and the stable dividend policy of the company is highly valued. We promise to maintain this policy.

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

/signature/

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE MANAGING DIRECTOR/CEO

The circle of customers and the area of supply of the Harju Elekter Group have been continually expanding and the company has lost its immunity to fluctuations in the world economy. The success effect of Estonia and the Baltic states as a whole has also receded. We have established ourselves in foreign markets and now we need a totally new way of thinking and decision making that is novel for Estonia, as well as for all the enterprises that keep its economy going. The new economic reality with its restraint nature that has been forming during the recent years has become a norm rather than an exception also in the area of activities of our company. But even this sort of sustainability requires a lot of effort. Values are about to shift. More and more attention should be paid to the actual needs of customers and to working on good customer relations. The value of every person will increase.

The year 2013 was intensive for Harju Elekter Group. It was full of events, important choices and success. Among others was the successful participation of our subsidiary, AS Harju Elekter Elektrotehnika, in the public procurement of substations and this should be continued as it resulted in the conclusion of contracts amounting to a total value of 17 million euros covering the supply of 2000 prefabricated substations during the next three year period (with the possibility to extend the contract for another two years). It is important to mention that the offered technological solutions are provided with the functions of the so-called "smart grid". During the financial year in question the companies of the Group participated actively in different specialised fairs the most important of which was the leading electrical engineering fair, Elfact in Sweden, held in Nordic countries. The strong market position, stable customer basis and traditionally strong economic results of AS Harju Elekter were also noticed outside of Estonia as the Swiss asset management company, CE Asset Management, appointed it the best among Estonian companies and among the TOP5 in the Baltic countries, awarding it with the Corporate Excellence Award.

Although I rate the financial results of the Group in 2013 in every way satisfactory and up to expectations we still have to admit that the Finnish, as well as the Lithuanian segment did not let us pass the sales of the previous year. The consolidated sales volume of Harju Elekter Group decreased by 8.5% amounting to 48.3 million euros and the operating profit decreased by 11.5% amounting to 1.7 million euros. The operating profit before depreciation was only 4.9%. However, thanks to the return from financial investments and holding activities in 2013 the consolidated net profit of the Group increased by 46.8% amounting to 5.2 million euros and the net profit per share increased by 0.30 euros. The amount of investments also increased in 2013 and the versatile business activities of the Group ensured strong cash flows. Our company is practically free from debt using only short-term credit for flexible management of its business. The Group has a very strong balance sheet where basic assets form 77.6% of the value of assets and the owners' equity covers almost 90% of the balance sheet total.

As a socially responsible company we have for years supported technical higher education, promotion of the speciality of electrical engineering, as well as sports and hobbies of youngsters living in the area where we are located. Just as we see our own business model as sustainable, customer friendly and human centred, we also feel the social responsibility and want to participate as one of the opinion leaders in the general development of society.

On behalf of AS Harju Elekter I would like to thank all our customers who have trusted us all these 45 years of action. I would also like to thank our employees and show my respect to our shareholders for their support. I hope that our co-operation with all our partners and stakeholders will continue successfully. We will do our best to ensure that Harju Elekter Group justifies your trust as the manufacturer of electrical equipment and automation solutions and as a direction indicator in the development of electrical engineering solutions.

/signature/

Andres Allikmäe
Managing Director/CEO

MANAGEMENT REPORT

ORGANISATION

MISSION

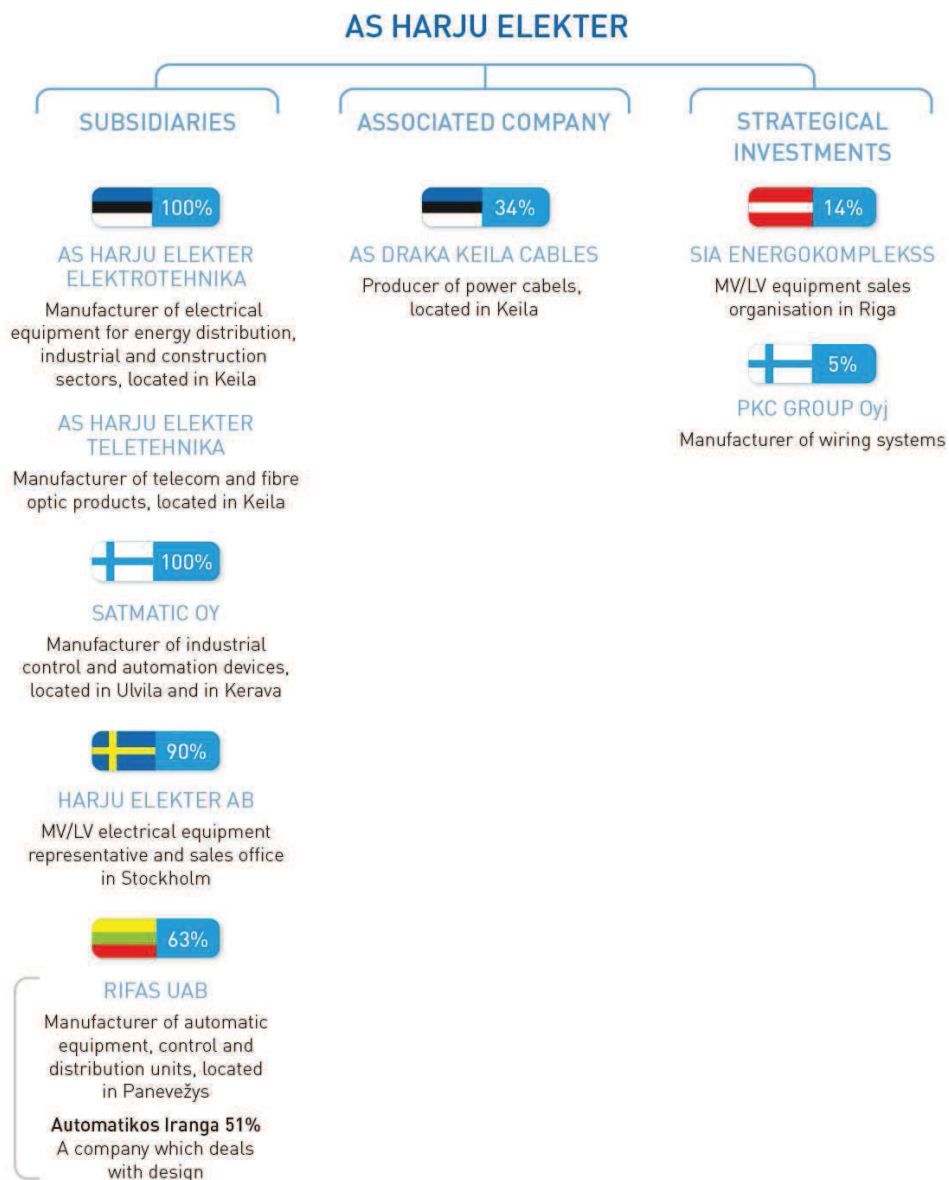
To be well-known and accepted manufacturer of MV/LV electrical equipment and automation solutions in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

GOAL

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

AS Harju Elekter have been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 62.8% of the products are marketed outside Estonia.

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART



OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

The world's economic growth slowed down in the second half of 2012 and remained weak all through the 2013. At the same time, the gap between the rates of economic growth in different countries increased. While the economy of the US was doing better than expected the eurozone was still suffering from uncertainty mainly related to the fiscal policy and reforms of the financial sector. The Chinese financial markets were unsettled. However, the political will for market economy reforms increased. The economy in Nordic countries was also influenced by the weakness of the world's economy. Although the economies of the peripheries of Europe are continually weak and the average unemployment rate is still high the currency pair of euro-US dollar gained strength against all other currencies of the world. The year 2013 was also successful for financial markets and the demand for European financial assets increased notably. Almost all larger asset classes and markets demonstrated a positive rate of return, with the only exception of the asset class of raw materials.

Euro-area

The economy of the eurozone recovered in 2013 at the expected pace. The economic recession that had lasted for six successive quarters ended in the second quarter of 2013 but the economic development in different countries was depending largely on the actual implementation of structural reforms, labour market perspectives and competitiveness on global markets. According to the forecast prepared in co-operation between central banks of the eurozone the economic growth within the eurozone as a whole will accelerate during the forthcoming years. The inflation in the eurozone remained at 1.4% and it is expected to slow down due to the weak domestic demand and the drop in prices of fuel and raw material for food. The increase in energy prices is also expected to be minimal due to the drop in the price of oil. The European financial markets were stable for the whole year and the interest rates were low. The Governing Council of the European Central Bank has confirmed that monetary policy interest rates will remain low for a long period.

As to the near future among Nordic countries the Swedish economy has the best chance for growth as the private consumption and the volume of export are expected to increase there. Norway differs from other Nordic countries as the cooling of real estate markets and the small volume of investment has inhibited economic activities. Slow recovery has been predicted for Denmark and the revival of the Finnish economy depends on export markets.

Latvia, Lithuania, Russia

Like in Western Europe the economy recovered also in almost all Central and Eastern European countries. However, there were great differences between countries. The Russian economy went on a downfall facing the end of the year with a practically a zero increase. The weakness of the Russian market, as well as the barriers established against Lithuanian goods at the Russian border caused the abrupt slowdown of economic growth in Lithuania in the third quarter of the year. However, the annual results of the Latvian and Lithuanian economies were good, demonstrating the fastest growth in the region: Latvia 4% and Lithuania 3%. Another important event for our economic region was the joining of Latvia with the eurozone on January 1, 2014. Lithuania is planning to join the eurozone and the OECD on January 1, 2015.

Estonia

In 2013 Estonian economic growth was continually based on domestic demand which was mainly due to the increase in income and consumption of households. The Estonian economy could rely less than expected on exports as during the first half of the year the growth of Estonia's main trade partners was slower than anticipated. Therefore, the Estonian economy was in decline in the first half of 2013 and although the economy recovered by the third quarter of the year the annual growth remained at a modest 1%. Interest rates stayed low and the access to bank loans was good. Nevertheless, the fixed capital formation stopped in 2013, mainly because of there was no need for investment by companies as the existing manufacturing resources were underused. The recovery of export markets should encourage companies to invest more in fixed assets.

YEAR 2013

In September, AS Harju Elekter celebrated its 45th anniversary. In 1968 established company AS Harju Elekter has become the well-known and accepted manufacturer of MV/LV electrical equipment and automation solutions in the Baltics as well as in Scandinavia.

Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award in September. AS Harju Elekter, a third year in the row was recognised as the best in Estonia and TOP5 among the Baltic States (3rd in 2013). 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 September 10 years had passed since UAB Rifas joined Harju Elekter Group. On September 8, 2003 AS Harju Elekter signed a letter of intent to acquire 51% of shares of a Lithuanian company, UAB Rifas. The annual turnover of Rifas was then 7 million Lithuanian litas (2 million euros) and it employed 61 people. Within those 10 years the turnover of Rifas has increased by 5.8 million euros and the number of its employees is now 78 (31.12.2013). The share of AS Harju Elekter has also increased accounting now for 63%.

AS Harju Elekter Elektrotehnika, a subsidiary of AS Harju Elekter, won the public procurement announced by the subsidiary of Eesti Energia, OÜ Elektrilevi, for purchasing unit substations. As a result of successful negotiations, a two 3+1+1-year delivery contracts was signed. A total estimated cost of agreements is 17 million euros. Pursuant to the contract, in the following 3 years, Harju Elekter Elektrotehnika will deliver to OÜ Elektrilevi approximately 2000 unit substations with 1 and 2 transformers, which are manufactured in plants. The supplied automated substations are, due to technological developments, becoming an integral part of the “smart grid”, allowing for the remote management of substations and the monitoring of electricity quality. The substations will be installed, and the deliveries are aimed at the Estonian market.

In third quarter, AS Harju Elekter bought 11 ha of production land on the outskirts of Tallinn, in Allika Industrial Park, with the objective being future industrial real estate development.

In the subsidiaries AS Harju Elekter Teletehnika and Satmatic Oy, the process of implementing the Lean 5S/6S principle of increasing productivity was continued in order to attain maximum customer satisfaction and company profitability through the efficient use of resources and a clear understanding of the costs of the company's activities.

AS Harju Elekter Teletehnika undertook recertification of ISO 9001 and ISO 14001 quality systems and new 3-year certificates were issued. BVC auditors' report of recertification was unqualified.

In 2013 the companies of the Group introduced their range of products and comprehensive solutions at all together seven specialised fairs in Estonia, Finland and Sweden. In Germany the Group participated in a specialised fair in the composition of the joint Estonian stand put together by Enterprise Estonia.

BUSINESS RESULTS

5 years statistical summary

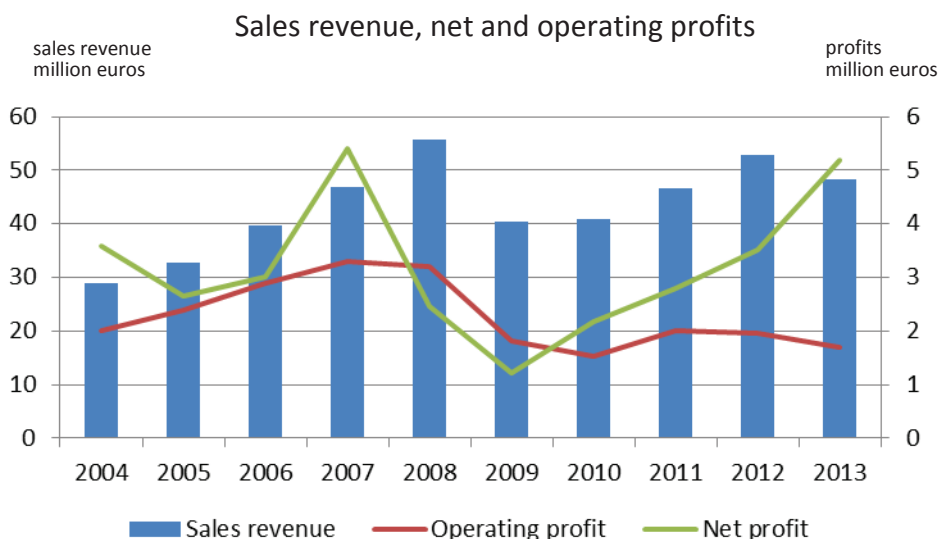
Group	2013	2012	2011	2010	2009
Statement of comprehensive income (million EUR)					
Net sales	48.3	52.8	46.7	40.9	40.4
Operating profit	1.7	2.0	2.0	1.5	1.8
Profit attributable to owners of the Company	5.2	3.5	2.8	2.2	1.2
Statement of financial position at the end of the year (million EUR)					
Total current assets	15.9	16.5	15.4	14.4	12.0
Total fixed assets	55.2	43.1	37.5	40.7	27.5
Total assets	71.1	59.6	52.9	55.1	39.5
Equity attributable to owners of the Company	62.5	48.8	40.3	44.0	30.7
Equity ratio (%)	87.9	81.8	76.2	79.8	77.7
Rates of growth (% , y-o-y)					
Net sales growth	-8.5	13.1	14.2	1.1	-27.4
Operating profit growth	-11.5	-2.7	33.3	-16.1	-43.4
Profit attributable to owners of the Company growth	46.8	26.8	27.6	76.9	-50.1
Assets growth	19.2	12.7	-4.0	39.5	2.7
Equity attributable to owners of the Company growth	28.1	21.1	-8.3	43.1	20.9
Performance indicators (%)					
Operating margin	3.6	3.7	4.3	3.7	4.5
Net margin	10.7	6.8	6.3	5.6	3.4
Return of assets (ROA)	7.9	6.3	5.1	3.2	3.2
Return of equity (ROE)	9.2	7.9	6.6	4.4	4.4
Shares (EUR)					
Average number of shares (1000 pc)	17,400	17,093	16,800	16,800	16,800
Equity per share	3.20	2.61	2.51	2.22	1.67
The closing price	2.70	2.64	2.28	3.02	2.07
EPS	0.30	0.21	0.17	0.13	0.07
P/E	9.00	12.57	13.41	23.39	28.14
Dividend per share	^[1] 0.10	0.09	0.07	0.06	0.05
Liquidity ratio					
Current ratio	2.3	1.8	1.8	1.8	1.6
Quick ratio	1.4	1.1	1.0	1.1	0.9
Personnel and remuneration					
Average number of employees	455	452	427	424	452
Number of employees at the end of the period	451	478	457	440	464
Wages and salaries (million euros)	8.6	9.1	7.7	7.0	7.3

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

^[1] Management Board's proposal

In the 2013 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Harju Elekter AB and Rifas UAB with its subsidiary Automatikos Iranga UAB (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

AS Harju Elekter holds of 5.4% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners' equity in the Group.



Earnings and margins

In 2013 the consolidated net sales of the Group decreased by 8.5% compared with the previous year amounting to 48.3 million euros. The operating profit decreased by 11.5% to 1.74 million euros, but net profit increased by 43.6% to 5.17 million euros.

The share of Estonian companies in the total consolidated sales revenues was 47% (2012: 45%), Finnish company contributed 40% (2012: 40%), Lithuanian company 12% (2012: 14%) and Swedish company 1% (2012: 1%).

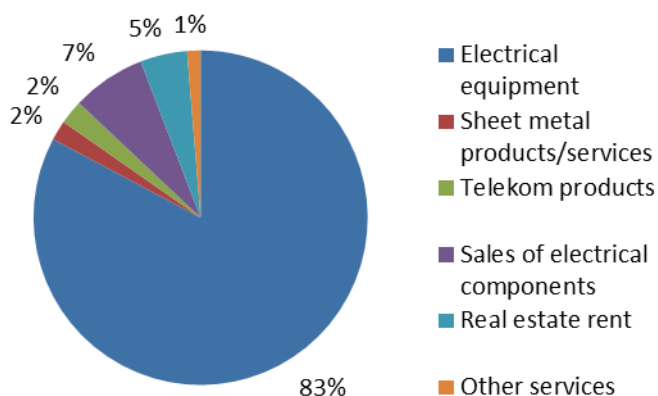
The main area of activities of the Group is the production and marketing of electric power distribution and transfer equipment and activities related to them. These activities contributed, as usual, the largest part of the consolidated net sales i.e. 83%. Sales of electrical components and services gave 7%, the real estate rent 4.5% and other products and services totalled 5.5% of the sales volume of the Group in 2013.

As for the markets, once again the Group's home markets were dominant in 2013. Export markets lost a bit of their importance and their further development is strongly dependent on the activities of our key accounts in foreign countries. Nevertheless, the changed situation also offers new business opportunities. 63% of Group's products and services were sold outside Estonia (66% in 2012) and 93% (90% in 2012) of sales revenue was received from the Group's companies domestic markets (Estonia, Finland, Lithuania, Sweden).

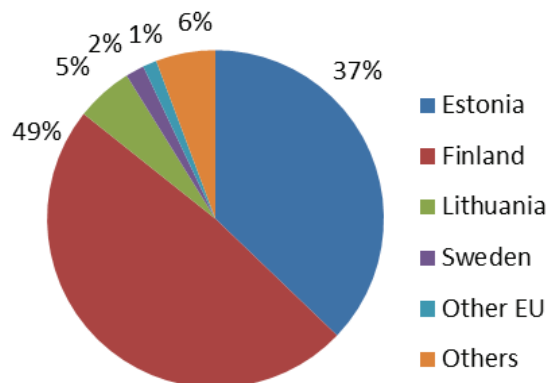
Estonia and Finland are the largest target markets of the Group and, therefore, the volume of sale of the Group is strongly influenced by the situation in these markets. The Finnish economic situation was quite complicated in 2013: in the beginning of the year the Finnish export sector was in decline. The industrial production in Finland decreased by 4.6% compared with the previous period. The sales by the Group in the Finnish market reduced within a year by 8% amounting to 23.4 million euros. However, during the last months of the year some signs of recovery were observed in the Finnish economy. The sales on the Estonian market increased within a year by 1% amounting to 17.9 million euros. In 2013 the Finnish and Estonian markets accounted for 85.6% of the consolidated net sales compared with 81.9% in 2012.

The companies of the Group have mainly concluded long-term contracts with customers on their domestic markets. The operation outside domestic markets is mainly project based or order based and, therefore, constantly changing. Due to the significant decrease in investment in infrastructure in Germany, the Group's volume of sale in that market also decreased by 2.1 million euros. This year our onetime projects in Belgium, Malaysia, Belorussia and Switzerland were completed and new projects started in the US. Supplies to Norway and Russia, that have been constant target markets for the Group, have also increased. The total sales of products of the Group outside the European Union was 2.8 million euros i.e. it increased by 5.5% compared with the previous period.

Revenue by business area



Revenue by market



The operating costs of the Group decreased during the year by a total of 8.5% amounting to 46.5 million euros. At the same time the net sales decreased by 8.5%. The total increase in operating costs during the accounting period was 17 thousand euros amounting to 6.7 million euros i.e. 13.9% (2012: 12.6%) of the consolidated net sales.

The decrease in production and sales volumes has led to the shrinkage in the number of people employed in the Group. By the end of the accounting period 451 people were employed by the Group which is 27 persons less than a year earlier. Compared with the previous year the average number of employees increased during the year by 3 employees amounting to 455. The labour costs decreased by 4.3% up to 11.4 million euros, accounting for 23.5% (2012: 22.5%) of the consolidated net sales.

During the year the amount of 155 (2012:86) thousand euros of receivables was written down and charged off. The cost of the markdown of reserves was 23 (2012: 38) thousand euros. Depreciation and amortisation during the period amounted to 1.53 (2012: 1.47) million euros

The consolidated gross margin of the accounting year was 8.46 (2012: 8.65) million euros. The gross profit margin improved by 1.1 percentage point compared with the previous accounting period and amounted to 17.5%. During the period of 12 months the operating profit before depreciation decreased by 4.9% amounting to 3.27 million euros, while the operating profit decreased by 11.5% amounting to 1.74 million euros. The return on sales before depreciation was 6.8% (2012: 6.5%) and the net return on sales was 3.6% (2012: 3.7%).

In 2013 the Group earned 0.95 (2012:0.85) million euros of dividend profit. The financial income from the sales of 90 (2012: 15.4) thousand shares amounted 1.68 (2012: 0.18) million euros. As a whole, the Groups financial income increased by 1.61 million euros to 2.65 million euros.

The Group consolidated 1.30 (2012: 1.12) million euros of profit from its affiliated company.

In 2013 the income tax costs amounted to 475 (2012: 482) thousand euros.

The consolidated net profit for 2013 was 5.17 million euros which was 43.6% more than in 2012. The share of the owners of the Parent company of the period's net profit accounted for 5.16 million euros, increasing by 46.8% compared to 2012. EPS was 0.30 (2012: 0.21) euros.

Other comprehensive income

The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange increased during the period of 12 months by 8.76 euros and closed at 24.19 euros (2012: by 4 euros to 15.43 euros). During the reporting period 11.69 (2012: 5.54) million euros of profit was earned from the revaluation of financial assets and 1.66 (2012: 0.16) million euros of revaluation profit was earned from the sales of financial assets. As a whole, the revaluation reserve in the owner's equity increased by 10.03 (2012: 5.38) million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company (Swedish subsidiary Harju Elekter AB) formed an insignificant part of other comprehensive income.

Financial position

The amount of the consolidated balance sheet of the Group as of 31 December 2013 was 71.1 million euros, increasing by 11.5 million euros during the year.

In 2013 the amount of the balance sheet increased mainly due to the change in the market price of the PKC Group Oyj shares on the Helsinki Stock Exchange. During the accounting year the Group invested 2.32 million euros in fixed assets compared with the 0.84 million euros of the previous year. All in all, the book value of fixed assets increased by 12.0 million euros amounting to 55.2 million euros during the period of 12 months, which was 77.6% (2012: 72.4%) of total assets.

By the end of the year business claims and prepayments amounted to 6.0 million euros, decreasing by 0.7 million euros during the year and inventory amounted to 5.8 million euros, decreasing by 0.6 million euros a year. During 12 months, the trade and other payables decreased 1.6 and total short-term liabilities of the Group by 2.0 million euros, to 6.1 million euros. In 2013 the quick ratio increased by 0.3 points up to the level of 1.4 and the current ratio by 0.5 points up to the level 2.3.

By the end of the year interest-bearing debt obligations amounted to 1.8 million euros, decreasing by 0.6 million euros during the period of 12 months, including the decrease in short-term liabilities by 0.4 (2012:1.2) million euros. During the 12 month period the total amount of capital rent payments made by the Group amounted to 294 (2012: 282) thousand euros.

The net debt (interest-bearing debt obligations – cash and bank accounts) of the Group has decreased by 1.4 million euros amounting by the end of year to -2.4 million euros. The ratio of net debt to owners' equity was -3.8% (2012: -2.0%).

During the period of one year the owner's equity of the Group increased by 13.7 million euros, amounting to 63.8 million euros by the end of the year.

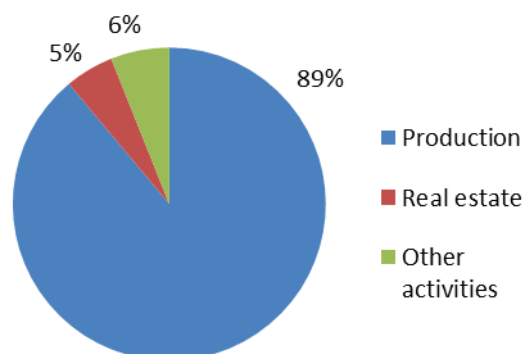
By the end of the reporting period current assets amounted to 22% (2012: 28%) and non-current assets to 78% (2012:72%), on the other hand, foreign capital accounting for 10% (2012: 16%) and owner's equity for 90% (2012: 84%) of total assets.

In 2013 the net cash from operating activities was 2.5 (2012: 4.6) million euros and from investment 0.5 million euros. Net cash used during the same period in investing activities was 58 thousand euros. The Group paid dividends of 1.6 (2012: 1.2) million euros. The net cash used in financing activities was 2.3 (2012: 2.0) million euros. Cash and cash equivalents increased, during a year, by 0.8 million euros amounting to 4.1 million euros. In the previous years they had decreased by 2.5 million euros amounting to 3.4 million euros.

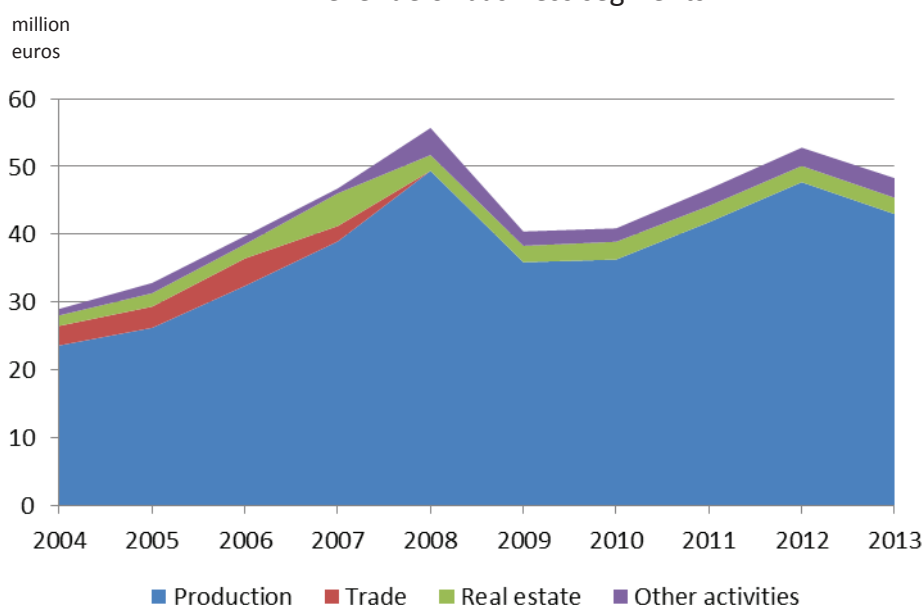
BUSINESS SEGMENTS

As of 31 December 2013 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 five years (including 2013) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

Revenue by business segment



Revenue of business segments

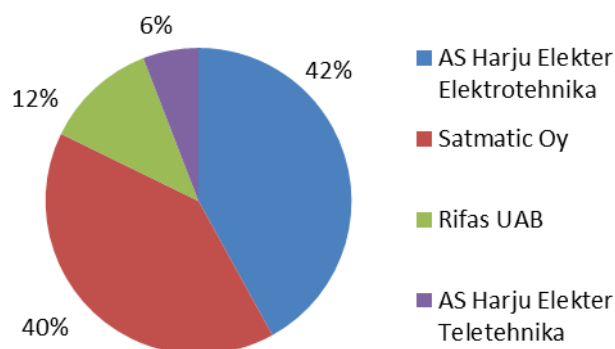


PRODUCTION

The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (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.

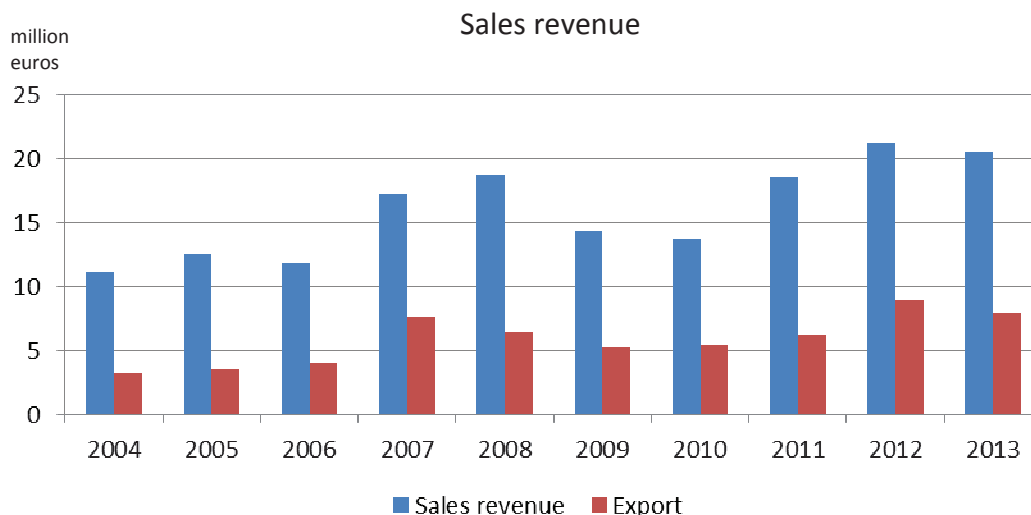
In 2013 production gave 89% (2012: 90%) of the consolidated sales revenue. The segment's volume of sales decreased within a year by 10.0% amounting to 42.9 million euros.

Revenue by company



AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of AS Harju Elekter Elektrotehnika are located in Keila comprising 10,843 m² of production, warehouse and office premises. The average number of employees is 193, incl.40 of them working in sales and R&D.



The year 2013 was very successful for AS Harju Elekter Elektrotehnika. All in all the sales revenue of AS Harju Elekter Elektrotehnika in 2013 was 20.5 (2012: 21.2) million euros which is practically the same as the year before. At the same time, the good work of engineers and the fabrication personnel of the company resulted with the conclusion of substantial public procurement contracts that will ensure a stable flow of orders for the next 3 to 5 years. The sales on foreign markets, including the European Union customers of the Group accounted for 41% of net sales and amounted to 7.9 million euros. The sales on the domestic market remained stable.

The majority (93.9%) of sale revenues was earned by the sales of various electrical installations (2012: 93.1%). As to the product groups distribution substations still held the leading position followed by MV products and serial products. Prefabricated substations with concrete and metal casings manufactured in the AS Harju Elekter Elektrotehnika plant have gained the leading position on the domestic market which is supported by the stable growth of orders for substations in Finland and increasing sales in the Swedish market. The sales of special substations was growing effectively at the end of the year and thanks to the solution developed by engineers of the company and the high quality of the product the perspectives are highly promising for that product too. The sales of MV primary and secondary distribution units to domestic and foreign customers met the expectations. The manufacturing of serial products also evolved positively as the number of orders increased and their submission became more regular and stable.

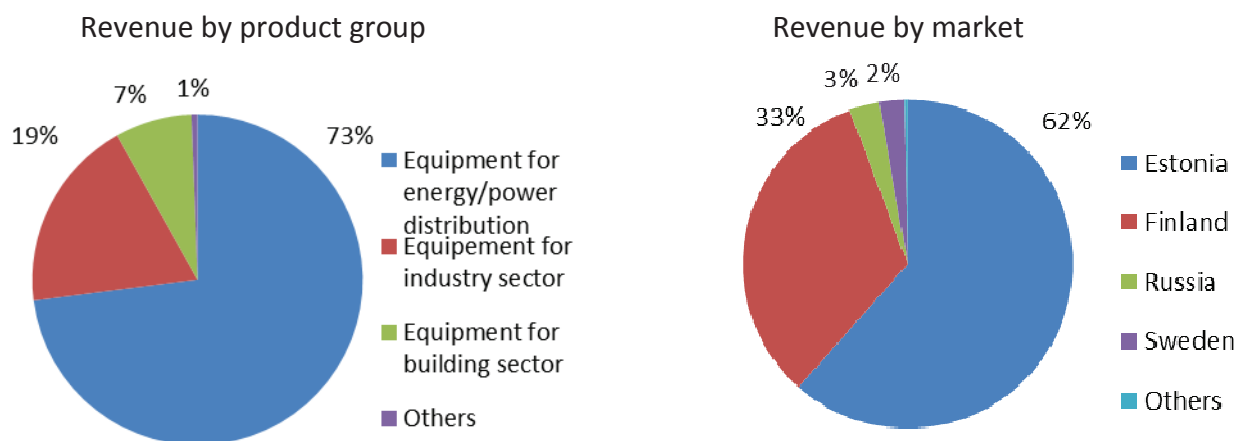
In spring AS Harju Elekter Elektrotehnika participated successfully in the largest power engineering fair in Sweden, Elfack, where the prefabricated substations that were tailor-made according to Scandinavian requirements and needs and cable distribution boxes, Sivacon LV distribution panels and charging and power supply points for electric cars were introduced. Besides that the company's wide product range was introduced at local fairs and special fair days meant for customers. The renewal of the company's homepage making it much more informative should be highlighted among other marketing activities.

In 2013 the company continually focused on optimising important processes in the company and on the efficient use of products. At the same time a lot of attention was paid to optimising supply chains of goods in all stages of production. Shop floor workers as well as managers participated in several occupational and electrical safety courses. In the end of the year a staff qualification system was introduced to better connect the skills and contribution of employees with the fair and motivating salary and show the possibilities for the development and increase of pay. The new qualification system also creates good preconditions for the improvement of productivity.

In order to better understand the expectations and needs of clients the recommendation index monitoring environment was introduced in 2013. This solution offers regular feedback from clients on the quality of the company's main processes. This is a valuable set of information that helps to improve the business processes of the company. The introduction of complementary options of the economic software, MS Dynamics AX, was continued, including the improvement of the registry of electronic purchase invoices and the management reporting environment.

In January 2013 certificates of compliance with the quality and environment standards of ISO 9001 and ISO 14001 were issued to the company for the next three year period. In addition to that several licensors and important customers carried out several audits of production processes of LV/MV distribution units checking thoroughly the compliance of products and technical documents to the established requirements, the production procedures and the quality assurance of products. Audits are informative for both parties and an important cornerstone for future co-operation.

In order to ensure the development and growth of the company active export marketing will be continued in forthcoming years. In order to enhance competitiveness the activities related to increasing the effectiveness of the main processes in the company and improving the organisation of work and the environment protection will be carefully observed. Additional opportunities are created by extending the exciting product range, reinforcing the co-operation between the companies belonging to the Group and continuing the co-operation with higher, specialised and vocational educational institutions.



AS Harju Elekter Teletehnika

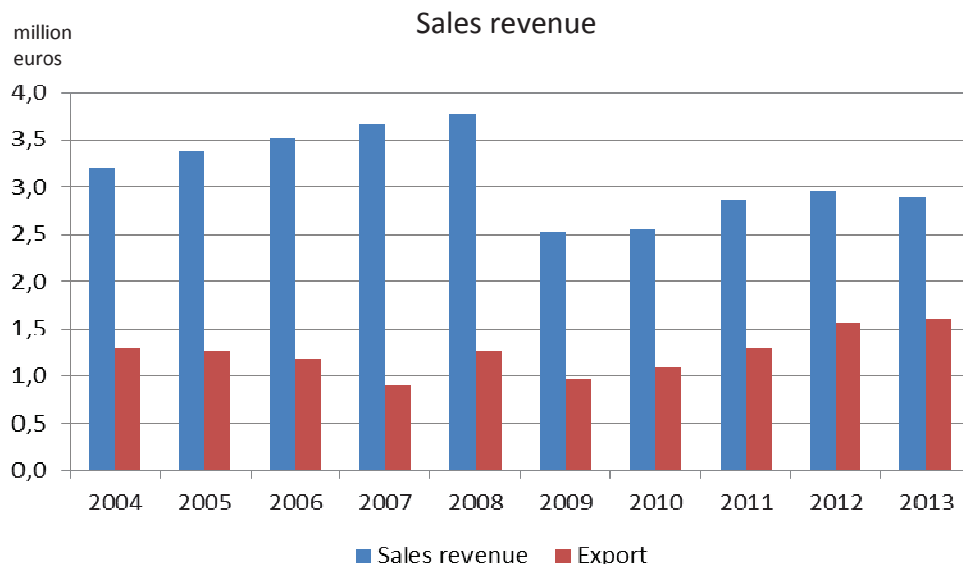
The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of customer-based sheet metal products 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 58 people.

In 2013 sales revenues of AS Harju Elekter Teletehnika amounted to 2.9 million euros remaining at the same level as in the previous year. In the first half of the year the planned sales turnover was hindered by the decrease in demand in Finland which is the main export market of the company. In the second half of the year the Finnish market recovered a bit and this was positively reflected in sales figures. At the same time the redistribution process of markets continued within the leaf metal and telecommunication sector of Nordic countries putting strong pressure upon prices and delivery dates.

As the company is involved in international trade the ups-and-downs on international markets have direct or indirect influence on its operation. In 2013 the share of exports in net sales of the company was 56.3% and Finland was its main foreign market, followed by Germany and Sweden. The sales in foreign markets increased by 3.3%. The increase in sales on foreign markets was mainly due to Finnish

telecommunication segment customers who, despite the unstable economic environment, continued to invest in data communication networks. The sales on the domestic market remained stable.

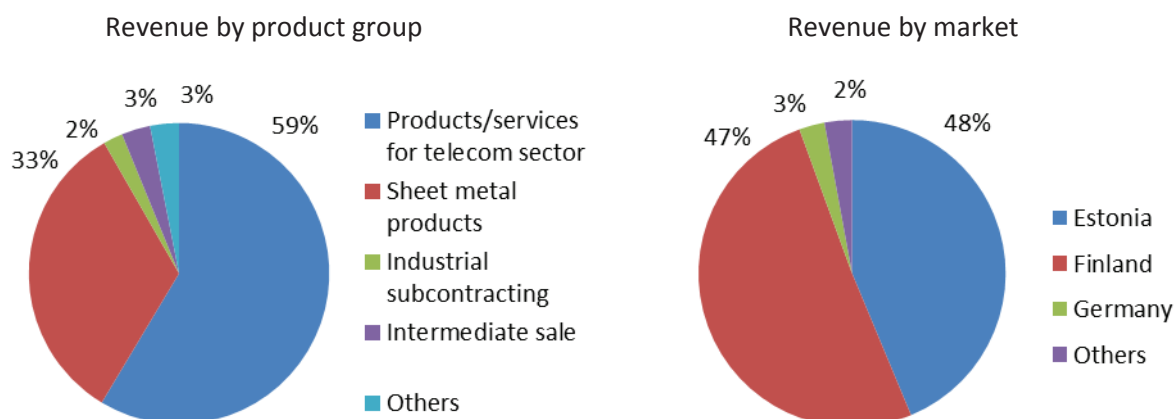
The number of small-scale and short-term orders increased in 2013 complicating the organisation and planning of production. During the accounting year the company developed several new products which are good enough by their nature and quality to compete successfully with leading global trademarks.



In order to introduce its products the company participated in several professional fairs in the Nordic countries (Elfack) and Germany (Productronica) where new contacts with high potential were established and valuable customer feedback was gathered. As a result of active marketing and sales new attractive customers to start the co-operation were found in Finland and Sweden.

Substantial achievements were made in improving production and planning processes and increasing the productivity. In 2013 the introduction and development of Lean production principles were continued and as a result the security of provision improved, the production time shortened and the misuse of resources during the production was reduced. Today 5S audits and Lean approach have become an integral part of the production process of the company.

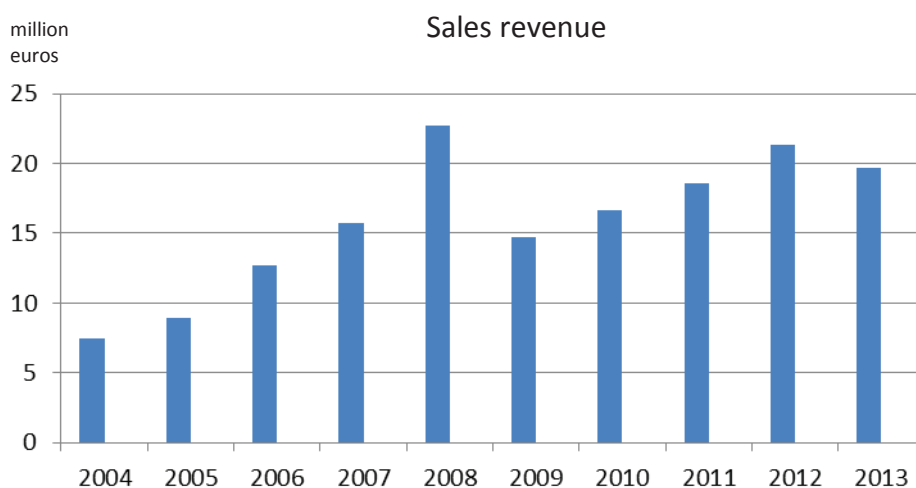
The growth of sales turnover and the profit through the increase of efficiency and improvement of the organisation of work will be the key-words for AS Harju Elekter Teletehnika in the near future. The company also aims to increase the share of products with a higher level of integration and added value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



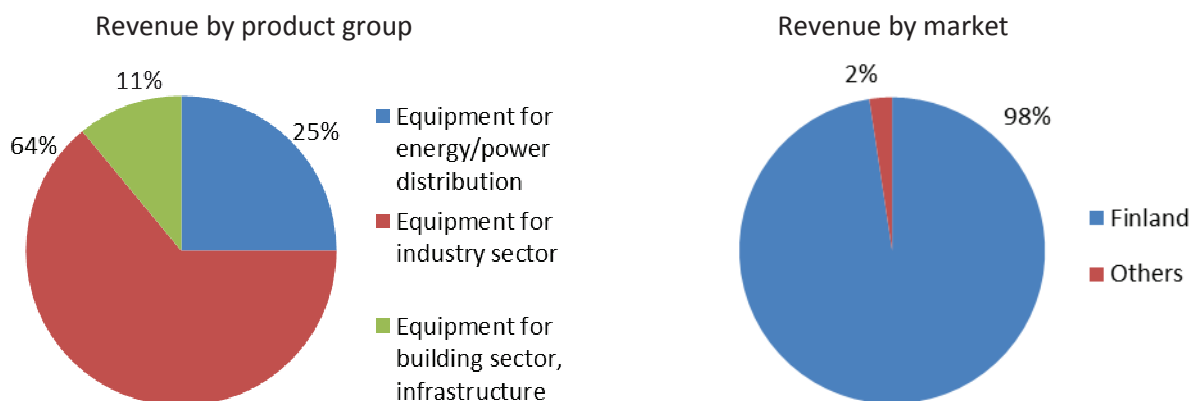
Satmatic OY

Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. The range of products is wide and the company aims to offer its customers up to 20kV products and solutions. A substantial part of products and solutions of Satmatic Oy are sold outside Finland either directly or through mediators i.e. Finnish exporters. 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 76 employees.

The unstable economic environment in Europe and the decrease in Finnish exports and technology industry by 10% on average were also reflected in Satmatic Oy net sales in 2013 which were a bit less than in previous year, amounting to 19.7 (2012: 21.3) million euros. The sales outside Finland either directly or through mediators account for 63% of net sales.



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



The activities of the company are based on high quality products, long-term customer relations where great attention is paid to developing first-rate and professional solutions as well as mutually offered added value. As to project products the moderate increase continued in 2013 and several automation and control cabinets and installations were handed over to customers. Several electric installations and solutions were developed in the plant for paper, rock wool and steel industries as well as for mines and power stations. Sweden, Russia, Poland, China and USA were the main target countries. The sales increased also in car heating switchboards and the charging stations sector where the products were mainly sold by wholesalers.

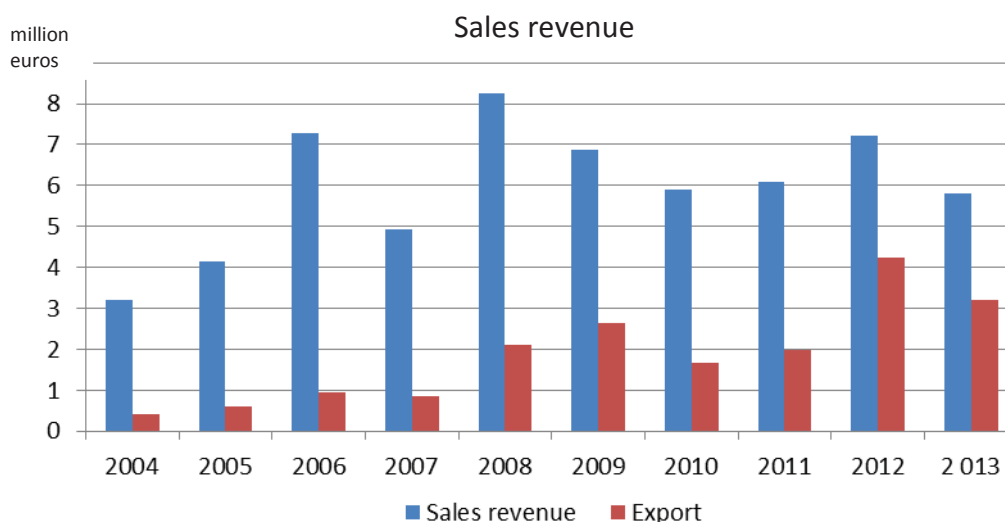
In 2013 the company continued to make the organisation of production more efficient by implementing Lean 6S principles. The planning and design software was also further developed by improving skills of employees and introducing additional options to the programme. For years Satmatic Oy has consistently invested in meeting quality requirements and environmental management standards and every year planned audits are carried out in the company. In 2012 UL Inspection Centre recognised the production procedures of switchboards and final products as suitable for the USA and the rest of the American region and in 2013 the first deliveries were successfully implemented.

In 2014, Satmatic Oy will focus on finding new customers and more efficient involvement of wholesaler and retail traders in the sales of substations, distribution and transfer equipment, as well as on increasing on-line sales. In order to improve the organisation of the company more attention will be paid to intensifying the work of the development department and organising logistics more efficiently. In order to increase the sales of renewable products, heating switchboards for car parks and charging systems the products will be made even more customer friendly.

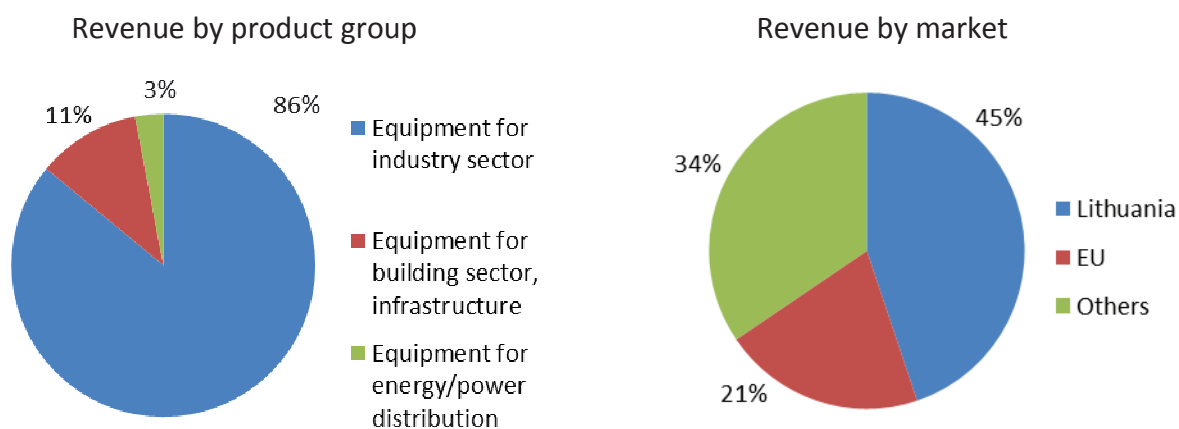
Rifas Group

Rifas UAB is AS Harju Elekter's Lithuanian subsidiary, which located in Panevežys. AS Harju Elekter own 62.7% of shares of the company. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter "Rifas") comprises the Lithuanian manufacturing enterprise, Rifas UAB, and its subsidiary, Automatikos Iranga UAB, which specialises in design. The company hires 78 employees.

In 2013 the sales revenues of Rifas amounted to 5.8 million euros. The decrease in sales revenues was due to the strategic decision to restructure the existing product portfolio of the company according to which the decision was made to withdraw from the general contracting business that had so far accounted for quite a substantial part of the company's sales revenues but entailed high risks, and to focus, for the sake of a sustainable future, on its primary activities: the development, production and sale of MV and LV electric installations. Although the volumes of sale of other product groups increased during the accounting year it was not enough to cover the losses suffered in the business segment given up.



Most of the net sales come from the production and sales of project based products and services and a small part of it from the intermediate sale of electric components. Different frequency converter, electric and control boxes have the largest share in the range of products of the company followed by control systems and panels and energy distribution products.



Since January 1, 2013 Aidas Šetikas has been the chairman of the Management Board of Rifas UAB and several departments have got new managers. With the view to organisational changes the strategy of the company was reviewed and the focal points in the fields of action were specified, and as a result, the main emphasis was put on the efficiency of production processes and the increase in the production capacity mainly in foreign markets. In order to use more effectively the engineer technical resources of the company the decision was made to reduce sales connected to the general contracting project.

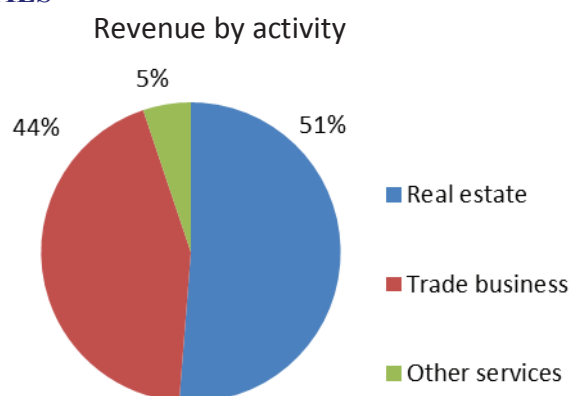
During the year the product range of the company was standardised and new standard products and solutions were developed that should ensure a strong basis for increasing the volume of production in forthcoming years. The first module box systems were completed in close co-operation with a major customer. The production of such systems allows the use of standard solutions with project based products.

In 2013 the introduction of the new business and accounting software, ERP, was started and although this is a multiannual project some positive developments in the management of supply change are already noticeable. At the end of the year the preparations for the introduction of modules of planning the production capacity and project management were started and in 2014 they will be complemented by the introduction of financial and management accounting modules.

For the further development of the company the main focus will be put on the reinforcement of the strategic relationship with existing co-operation partners and on active marketing for finding new customers and projects.

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 11.1% (2012: 9.6%) of the consolidated sales revenue, out of which merchandise formed 41.9%, intermediary sale of Group's products (electrical equipment) 11.8%, rental income 40.9% and income from mediation and rendering of services formed 5.4%.



Real estate holding

The sales revenues of the segment were 2.4 million euros, increasing by 1.5% comparing to the previous year. Rental income increased by 0.6% amounting to 2.2 million euros, accounting for 90.1% (2012: 91.0%) of the profit of the segment. Due to the opening of the energy market, part of the clients started to buy electricity on the open market, which was the main reason for the sales revenues from selling of services to decrease more than 100 thousand euros. Rendering public and other services gave 9.9% (2012: 9.0%) of the sales revenue of the segment.

Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 9.1% amounting to 2.92 million euros and forming 6.0% (2012: 5.1%) of the Group's sales revenues. The main revenue sources were the intermediary sale of products and the sale of Group's products (electrical equipment). Revenue from the sales of other services was 49 (2012: 31) 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 9.6% (2012: 8.6%) from the consolidated sales revenues.

Harju Elekter AB

Harju Elekter AB is a representation and sales organisation of the Group founded in 2010 in Sweden. AS Harju Elekter has a share of 90% in the subsidiary. The main activity of the company is the intermediary sale of the Group's products and services. During the three years of its existence Harju Elekter AB has established a well-functioning customer base. Although the volume of sales increased year by year the relatively high costs did not allow the achievement of the desired business outcome.

The company's sales revenue in 2013 was 703,000 euros (2012: 532,000 euros), making up 1.4% and 1.0% of the consolidated sales revenue, respectively. The financial year resulted in a loss of 190 (2012: 140) thousand euros. As at 31.12.2013, Harju Elekter AB's balance sheet total in the Group's assets was 0.25%, making up 184,000 euros (31.12.2012: 342, 000 euros).

On February 27, 2014 the Supervisory Board of AS Harju Elekter decided to suspend indefinitely the operation of the Swedish subsidiary, Harju Elekter AB, starting from April 1, 2014. This decision was made because of the ineffectiveness and costliness of the business model used during the period from 2011 to 2013. After the reorganisation of work in the sales and development teams of AS Harju Elekter Elektrotehnika, they and the Group's partner agents in Sweden will be responsible for the business activities and customers in Sweden.

RELATED COMPANY

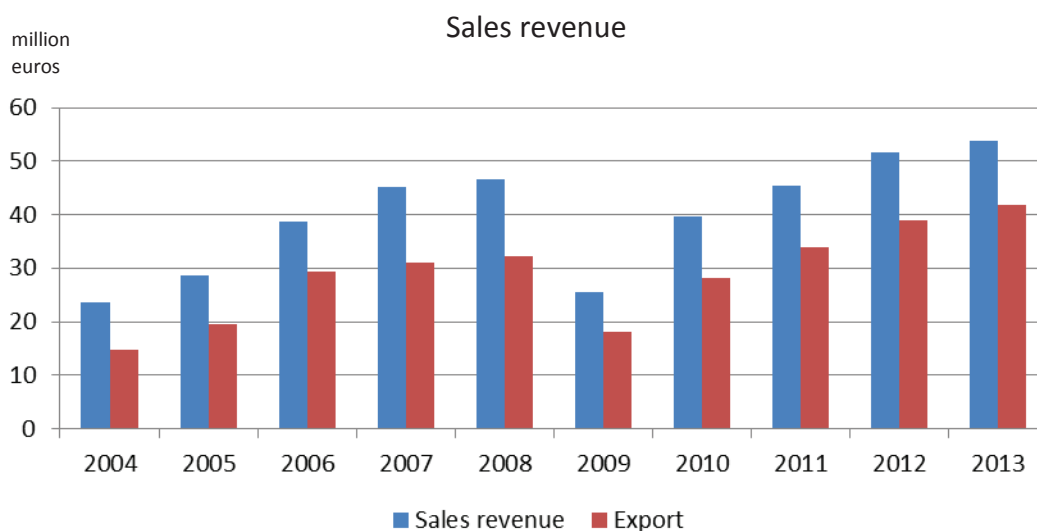
AS Draka Keila Cables

AS Draka Keila Cables is the largest cable manufacturer in the Baltic States. The company's share capital is divided between cable manufacturer Prysmian Group (66%) and AS Harju Elekter (34%). The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, as the representative of the Prysmian Group in the Baltics, markets a wide range of Prysmian Group products. The company hires 100 employees.

The customers of the company include power networks and constructors of power and telecommunication networks. The company sells its products via wholesalers of electric goods, as well as through the retail shops of AS Harju Elekter trading group.

2013 was successful for AS Draka Keila Cables. The company's security of provision exceeded 95%. Surplus spending on materials decreased substantially and the turnover in the Baltic countries and, thanks to the inter-group sales, also in other markets increased. The sales revenue increased by 4% amounting to 53.8 million euros.

In 2013, AS Harju Elekter consolidated a profit from related company in amount of 1.3 (2012: 1.1) million euros.



In the field of production, all the efficiency indicators of the company improved. The company made investments in the amount of 100,000 euros. It invested in the improvement of the efficiency of the plant and the reliability of the machinery as well as in the reduction of surplus spending of materials.

In 2014, 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

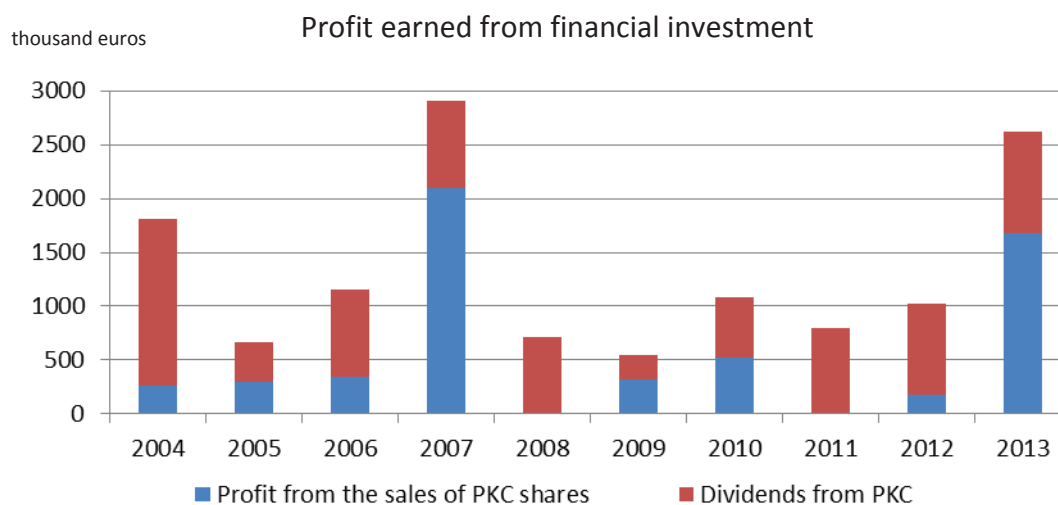
SIA Energokomplekss

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. The total dividends of the company designated for 2012 was 217 thousand lats (308 thousand euros) of which the share of AS Harju Elekter was 43 thousand euros. Dividends were not paid out in 2013. In 2012 the Group earned 23.4 and in 2011 24.6 thousand euros of dividend profit.

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 2013, sales revenue of PKC was 884.0 million euros and the Group employees 19 thousand people.

PKC shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is one of the biggest shareholders of PKC shares with a stake of 5.4% as at December 31, 2013. The market price of the shares decreased in 2013 by 8.76 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 24.19 (2012: 15.43) euros. PKC shares are valued in the balance sheet according to market price and the change in the market price of the shares has a direct influence on the Group's assets. During the period of 12 months the fair (i.e. market) value of financial assets increased by 10 million euros up to 31.3 million euros.



For the financial year of 2012, PKC paid a dividend of 0.70 euros per share which is a total of 0.95 million euros, compared to 0.60 euros per share in 2011, totalling 0.83 million euros. In 2013, the Group sold 90 (2012: 15.4) thousand PKC shares, the nonrecurring profit for which amounted to 1.68 (2012: 0.18) million euros.

Share of PKC Group Oyj in 2011-2013



PERSONNEL

Substantial changes took place in the labour market of the region where the Group is operating. Although the unemployment rate has decreased over several successive years, the structural unemployment has remained relatively high. It is difficult to find high quality labour and this is aggravated by the unattractive level of wages in the business sector and the outflow of highly qualified specialists from the country (mainly from Estonia and Lithuania). The shortage of highly qualified labour has again spotlighted the subject of raising wages which was done in most of the companies of the Group during the accounting period.



As at the balance day on 31 December, there were 451 (2012: 478) people working in the Group and the average number of employees was 455 (2012:452). Employee wages and salaries totalled 8.6 (2012: 9.1) million euros in the year 2013. The average wages per employee per month amounted 1,584 (2012: 1,684) euros. It is important to note, that the average wage in Finland and Sweden is a multiple time higher compared to Estonia and Lithuania.

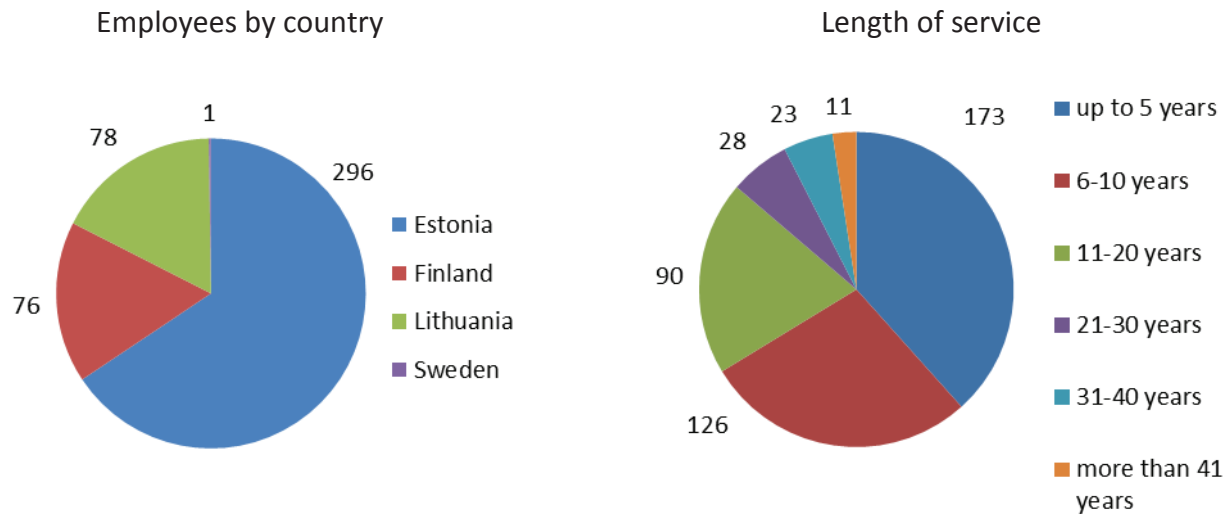
The majority of the Group's employees – 296 people – worked in Estonia, including 45 people who worked in the Parent company. At the end of the year, there were 76 people working in Finland, 78 in Lithuania and 1 in Sweden. From 451 employees working in the Group 349 of them were men and 102 women, 100 of whom have higher education, 285 people have secondary or vocational secondary education and 66 have basic education. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.

Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. 61.6% of employees have worked in the Group for over five years.

The average age of the Group's employees has remained stable, and was 43.8 years in the accounting year. To find new competent employees, AS Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes.

For over ten years now, AS Harju Elekter has had close co-operative relations with Tallinn Technical University, since 2010 as Golden Sponsor. Over the years, altogether 46 Bachelor's or Master's degree students have participated in the scholarship programme and five young engineers are currently employed by the Group. In 2013 Marek Mägi, the electrical engineer of the subsidiary AS Harju Elekter Elektrotehnika defended successfully in the Tallinn University of Technology his doctoral thesis concerning the studies and management of storage devices for electric cars and energy exchange processes in the power distribution networks. This creates a favourable platform and new challenges for the product development department of the subsidiary to continue, in co-operation of the University, the studies in this area.

Harju Elekter Group's Estonian enterprises carry out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School, TTK University of Applied Sciences, and other schools. Finnish subsidiary continues a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.



During the reporting period, companies in the Group continued to focus on optimising costs and making their operation more efficient. Field exercises and training organised for employees at companies located in Estonia were aimed at improving professional skills and qualifications and raising the efficiency and reducing spending surplus materials by implementing the 5S/6S-model. Besides that, first aid courses are organised after every three years and special courses introducing the most important amendments to the relevant laws are offered to working environment representatives. All employees are constantly briefed about waste handling and the organisation of the waste sorting in the company.

The Group has many possibilities for motivating its personnel:

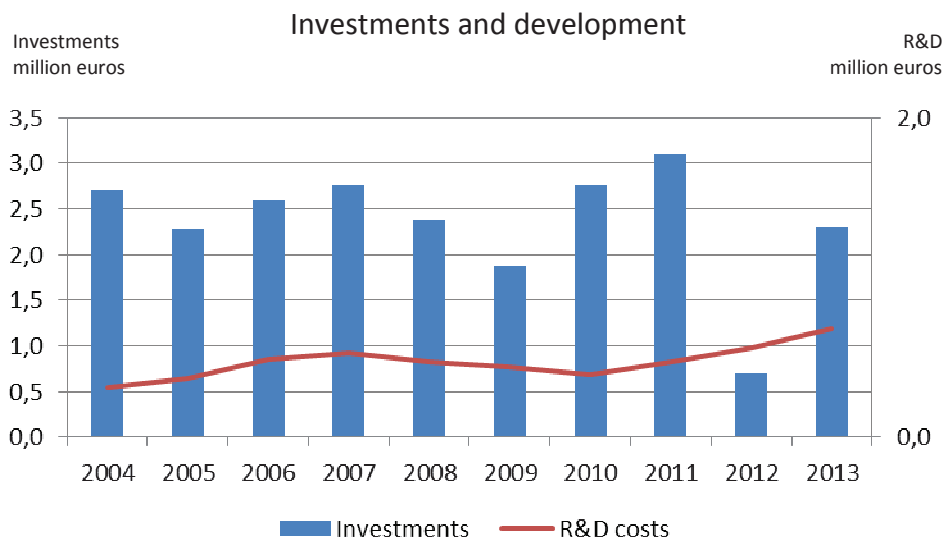
- a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- share-option schemes, aiming at involving members of the directing bodies and employees of companies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

AS 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 AS Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

INVESTMENTS AND DEVELOPMENT

In 2013, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 2.3 (2012: 0.7) million euros.

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



The development of the MS Dynamic AX production management and accounting software programme in Estonian companies of the Group was continued. Although the largest investments related to it were made during the period from 2009–2011, the company continued the identification, adjustment and introduction of new modules and additional options. One of the achievements in 2013 that is worth highlighting is the introduction of the electronic environment for handling purchasing invoices in the Group's companies located in Estonia. Investments in the development of the economic software made during the accounting year amounted to a total of 84.5 (2012: 74.0) thousand euros, while investments in information technology equipment amounted to 73.8 (2012: 18.0) thousand euros.

In the beginning of 2013 the new website of the companies of the Group locating in Estonia was introduced to customers and co-operation partners. In addition to the new design the content of the website based on free software was also substantially changed meeting now up-to-date requirements for design, browsers and monitoring.

Work involving grants from the European Union structural funds in the development projects of the Group continued. The projects were mainly aimed at developing key activities of the companies, preparing strategies and training the personnel (improvement in qualifications, team work training). With assigned technology grants the production capability will continue to be enhanced through improving the technology which resulted in the improved quality and security of supply necessary for successful export activities as well as shorter production cycles. In 2012, assigned grants were received for acquiring machinery and equipment in the amount of 14 (2011: 59) thousand euros, for personnel training in the amount of 4 (2011: 21) thousand euros and for development in the amount of 11 (2011: 19) thousand euros, totalling 29 (2011: 99) thousand euros. In 2013, assigned grants were received for marketing actions totalled 19,000 euros.

According to the development principles of the Group, the Group's companies aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2013 the development costs, at cost price, of the Group amounted to a total of 0.68 (2012: 0.56) million euros, accounting for 1.3% of the Group's sales volume.

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

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

During the period from 2012 to 2013 a substantial part of the product development resources of the Keila Development Centre was used to develop new types of substations to participate in the tender for the state procurement published by the Estonian network operator, Elektrilevi. The participation in the tender was successful and in the summer two large-scale framework contracts for the validity period of 3+1+1 years were signed. According to these contracts AS Harju Elekter Elektrotehnika will within the period of three years provide OÜ Elektrilevi with approximately 2,000 prefabricates 1 and 2 transformer substations. The estimated total value of these contracts is 17 million euros. Thanks to the rapid development of technology the delivered automated substations are about to become an integral part of the so called "smart grid" making it possible to administer substations and monitor the quality of power from a distance. The self-mending system used in the substations allows a reduction in the scope and duration of blackouts caused by failures, checks the state of the network in real time and is capable of preventing possible failures in the future. These substations are meant for the Estonian market.

Although the range of basic products in the product portfolio of the company is sufficient AS Harju Elekter Elektrotehnika developed special solutions for several standard products. The professional skills of engineers working in the Development Centre are adequate for such solutions while flexibility and a customer orientated approach adds value to the whole sales procedure. In addition to the development of product solutions meant for the home market several models of substations were developed for foreign markets. The work with new projects related to power-supply substations for container cranes continued (for Estonia, USA and Australia). Driven by the market demand new generation control/distribution switchboard, HEK4, was developed and several LV control and distribution panel Sivacon S8 projects were completed. In co-operation between the Estonian companies of the Group several models of AC/DC switchboards for international customers were developed and the required tests carried out. The production of car pre-heating panels that were manufactured in the Finnish subsidiary was transferred to Keila plant. The list of achievements is long but it is important to mention the design and manufacturing of the Tallinn charging switchboard for Formula Student Team and the successful doctoral thesis of the electrical engineer of the subsidiary AS Harju Elekter Elektrotehnika, Marek Mägi, concerning the studies and management of storage devices for electric cars and energy exchange processes in the power distribution networks defended in the Tallinn University of Technology created a firm basis for further product development in this area.

As to the technology the Estonian companies of the Group contributed in the development of manufacturing technology of copper conductors, a new CNC-controlled copper bar punching machine was introduced and the process of designing copper components and its integration with production software was modernised. The centre of test devices was complemented with modern equipment for measuring and testing parameters of low voltage and high voltage devices. Preparations were made for acquiring a new bending centre and the whole production procedure of copper details was reviewed.

Subsidiaries in Finland and Lithuania focused on development projects related to renewable energy and offering suitable solutions related to them. Satmatic Oy increased its sales of solar power equipment and services. The development of heating switchboards for car parks and charging systems for electric cars continued and resulted with the solution for a remote control system for heating boards for car parks. A remarkable step forward was also made in the development of charging cabinets for electric cars where a slow as well as medium-fast charging system for means of transport was created at the request of a customer. The number of solar panels on the roofs of production buildings of the Group was increased in 2013 and by the end of the accounting year the total capacity of its solar power stations amounted to 110 kW.

The companies of the Harju Elekter Group participated in different specialised fairs where the product range related to electric power distribution networks, as well as renewable energy products were introduced. In January the Group participated in the largest Finnish power (distribution) networks fair, Sähköverkot, in Tampere, in February in the electric engineering fairs, Sähkö, Tele, Valo and AV in Jyväskylä and in May in the largest power engineering fair in Nordic countries, Elfack, where the prefabricated substations that were tailor-made to meet the local market requirements and needs and cable distribution boxes, substation solutions suitable for 1kV transmission network, data communication boxes and charging and power supply points for electric cars were introduced. In addition to that the Group participated in the composition of the joint Estonian stand in the electronics fair, Productronica, in Munich and in smaller-scale regional fairs.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

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

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

Following the principles of quality management and environmental policy the subsidiaries of the Group continually focused on optimising important work processes and on the efficient use of materials and products 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. In addition to that several occupational and electrical safety trainings were organised for workers. The productivity was continually increased in Estonian and Finnish subsidiaries by further elaborating 5S and 6S production principles.

During the accounting year several audits of key accounts, product certification companies and vendors of licensed products were successfully carried out in subsidiaries of the Group. In Estonian companies the introduction of complementary options of the business software, MS Dynamics AX, was continued.

According to the requirements of quality standards ISO 9001 and ISO 14001 internal and external audits are carried out in the Group's companies at least once a year and after every three years the recertification is carried out. In January 2013 a new certificate for the next three year period was issued to AS Harju Elekter Elektrotehnika and in January 2014 to AS Harju Elekter Teletehnika. This was preceded by comprehensive audits which were passed flawlessly by the companies. Regular annual audits were carried out in other subsidiaries. The next recertification will be carried out in 2015. Consequently, the organisation of production in all the companies of the Group meets the requirements of the international quality and environmental management systems, ISO 9001 and ISO 14001.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
HE Elektrotehnika	ISO9001;ISO14001 (since 2000)				⌚			⌚			up to 1/2016
HE Teletehnika	ISO9001;ISO14001 (since 2002)		⌚			⌚			up to 1/2014		
Rifas	ISO9001			⌚			⌚	ISO14001 OHSAS 18001		up to 12/2015	
Satmatic	ISO9001			⌚			⌚	ISO14001		up to 10/2015	
Draka Keila Cables	ISO9001;ISO14001 (since 2000)			⌚			⌚			up to 3/2015	

⌚ - recertification

CORPORATE TARGET FOR 2014

The preparation of Group's action plans and the organisation of business activities of companies belonging to the Group are built on the Group's long-term development strategy according to which short-term as well as long-term decisions are made on the assumption of the Group's aim to be the well-known and accepted manufacturer of electrical equipment and automation solutions in the Baltic Sea region which manufactures and delivers a highly professional range of products and comprehensive solutions in the segment of MV and LV products while using advanced technology and implementing the best know-how. In addition to the flawless servicing of our current customers the key to the development of the Group is continually in finding new markets and new customers, as well as in increasing the sales of the Group's products outside of Estonia, especially in neighbouring countries, in other European Union countries and further.

In 2014 the companies of the Group will focus on the following:

- finding new projects, customers and co-operation partners in Scandinavian countries
- preferential development of own products meant for end customers
- the development of the range of products and services to offer a comprehensive service, starting with the development and production of the product and ending with the provision of guarantees and maintenance services
- continuous expansion from product centred sales to the area of developing software programmes for controlling technological processes and power supply in order to offer clients comprehensive solutions which include electrical equipment, as well as programmes for their control
- developing solutions based on renewable energy that offer energy efficient, individualised metering and monitoring possibilities.
- construction and implementation of new solar power stations and, by that, save a substantial amount of costs in the companies of the Group
- increasing resources and flexibility by intensifying the co-operation between the companies of the Group
- optimising costs and making the operation of the organisation more efficient
- constant increase in the know-how available in the Group
- increasing the productivity in the plants of the subsidiaries by following Lean principles on cost-effective production
- active development of industrial real estate projects, including Allika Industrial Park

SHARE AND SHAREHOLDERS

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

The share capital of AS Harju Elekter is 12.18 million euros which is divided into equal 17.4 million ordinary shares. The symbol of an 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.

The year 2013 was a year when world's stock exchanges made new records. US and German shares reached higher levels than ever and the London Stock Exchange was just a step away from a new record. Although the euphoria caused by money printing and low interest rates did not influence the Tallinn Stock Exchange last year it was still relatively good for our little home market. By December 31 the OMXT index reflecting the state of the local stock exchange amounted to 817.72 points increasing, within a year, by 11.4%. In the middle of November the OMXT index reached even as high as 855 points which is the highest level during the last 6 years. In 2013 the stock exchange volume amounted to 187.6 million euros which is one third more than in 2012 and equal to that of the turnover of 2011. At the same time the number of stock exchange transactions (50,484) was less than in the previous year.

According to the news agency, Bloomberg, the Tallinn Stock Exchange was 44th among the world's 94 stock exchanges observed in 2013 i.e. it located in the first half of the list. Although, a year earlier the Tallinn Stock Exchange with its 38.2% increase had been among the strongest stock exchanges in the world the last year's result can be still considered good. Although, in 2013, the stock exchange index OMXT increased a bit less than expected, specialists are satisfied with more than 10% increase and the recovery of trade. The general index of European stock exchanges increased within a year by exactly the same percentage i.e. 11.4%. Our neighbour, Latvia, saw an increase that was just 0.5% more than that, while the Finnish Stock Exchange increased 33% despite the fact that Finland suffered from economic downturn.

Key share data

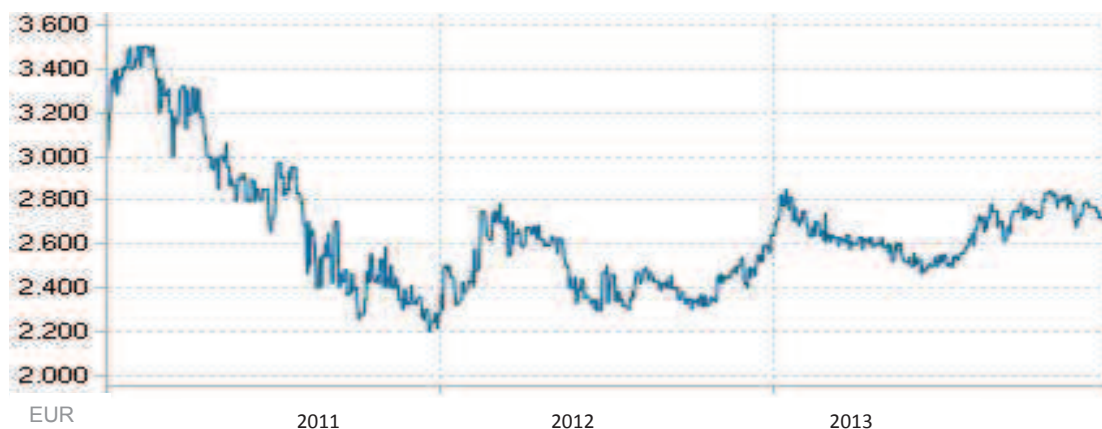
EUR	2013	2012	2011	2010	2009
Number of shares (in thousand)	17,400,000	17,093,443	16,800,000	16,800,000	16,800,000
Nominal value	0.70	0.70	0.70	0.64	0.64
Closing price	2.70	2.64	2.28	3.02	2.07
Market value (in million)	46.98	45.94	38.30	50.74	34.78
Earnings per share, EPS	0.30	0.21	0.17	0.13	0.07
P/E	9.50	12.57	13.41	23.39	28.14
Dividend per share	*0.10	0.09	0.07	0.06	0.05
Dividend yield (%)	3.7	3.4	3.1	2.0	2.5
Dividend payout ratio (%)	33.7	44.5	42.4	46.5	69.9

* Proposal of the Management Board

The share price of AS Harju Elekter increased in 2013 by 2.3% amounting to 2.70 euros and, as of December 31, the market value of the Group was 47.0 million euros. The total amount of transactions was moderate but the number of shares traded increased – 936 thousand shares were involved in transactions. The list of shareholders stayed stable. At the end of 2013, AS Harju Elekter had 1,500 shareholders.

EUR	2013	2012	2011	2010	2009
Highest price	2.92	2.80	3.54	3.14	2.99
Lowest price	2.46	2.30	2.19	2.02	0.67
Closing price	2.70	2.64	2.28	3.02	2.07
Change (%)	2.3	15.8	-23.8	45.9	107.0
Traded shares (pc)	936,162	759,869	663,917	2,039,910	1,559,830
Turnover (in million)	2.48	1.88	1.88	5.40	2.14

Share of AS Harju Elekter in Tallinn Stock Exchange 2011-2013



A comparison of AS Harju Elekter share indexes 2011–2013

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



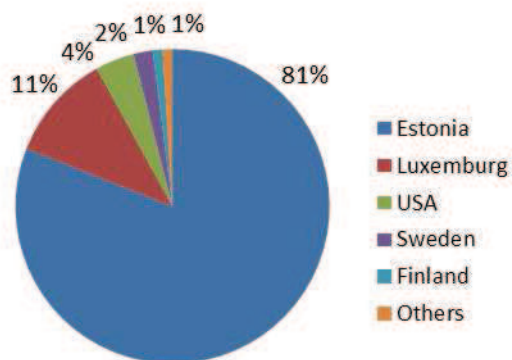
Shareholders structure, at 31 December 2013

At the end of 2013, AS Harju Elekter had 1,500 shareholders. The number of shareholders decreased during the year by 7 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2013 held 32.0% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 8.46% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

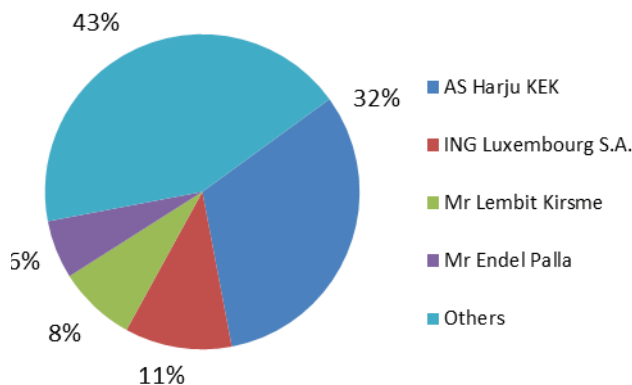
Shareholder structure by size of holding

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.13%	42.92%
1.0 – 10.0%	8	0.53%	27.18%
0.1 – 1.0%	57	3.80%	15.56%
< 0.1%	1,433	95.54%	14.34%
Total	1,500	100.0%	100.0%

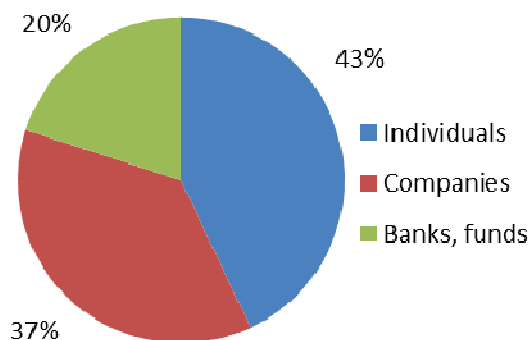
Shareholders by country



> 5% shareholders



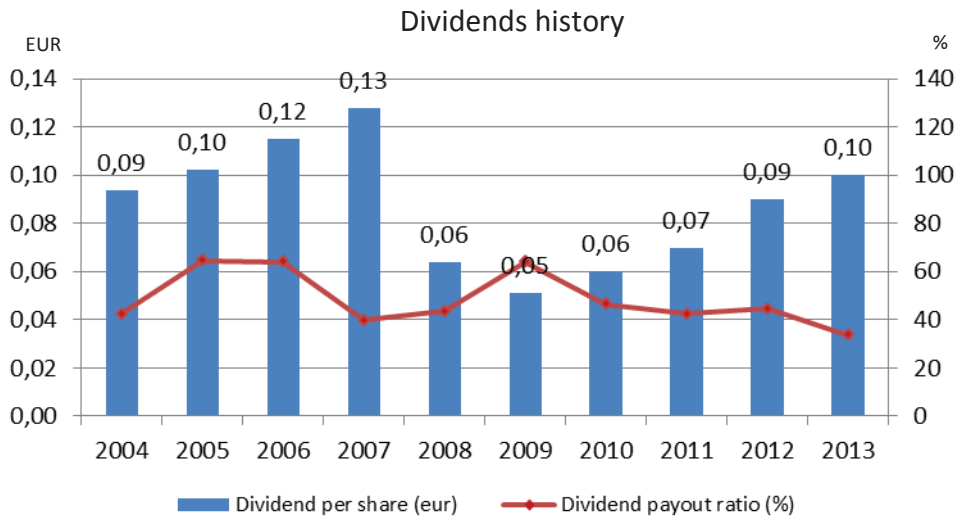
Shareholders by category



Dividends

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

As a result of strong capitalisation the Management Board proposes to pay a dividend of 0.1 euros per share, totally 1.74 (2012: 1.57) million euros for the financial year 2013. This is 33.7% (2012: 44.5%) from total net profit.



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

CORPORATE GOVERNANCE

Corporate Governance Report 2013

AS 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, AS 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, AS 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 2013, the supervisory board, the management board and explains AS 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 AS Harju Elekter does not have the required technical equipment and acquisition of such equipment would be costly, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1

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

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

CGC Article 2.2.7

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

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

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

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

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

CGC Article 2.3.2

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

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

In 2013 no such transactions were performed.

CGC Article 3.1.3

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

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes. In 2013, members of the Supervisory Board of AS Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Council in issues provided by law. Details of the Audit Committee and its position in the organisation will be available on the company's website.

CGC Article 3.2.5

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

The shareholders' general meeting of AS Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 3 May 2012 appointed the membership of the Supervisory Board for the following 5 years, setting 750 euros a month as the pay rate for a member of the Supervisory Board and 1,600 euros a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working in company's management shall be subject to the reward system used in AS Harju Elekter (see also CGC explanation for CGC Article 2.2.7). No severance pay is allotted to members of the Supervisory Board.

CGC Article 3.2.6

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

During the reporting year, all of the members have attended most or all 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 2013 no conflicts of interests occurred.

CGC Article 5.3

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

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

CGC Article 5.6

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

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

CGC Article 6.2

Electing the auditor and auditing the annual accounts.

The general meeting of the shareholders of Harju Elekter of 3 May 2012 elected an auditor for the company for the period 2012–2014; the elected auditor is the auditing company KPMG Baltics OÜ. Information on the auditor is available at the company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. Pursuant to the guidelines of the Financial Supervision Authority from 24.9.2003 – “On the rotation of the auditors of certain subjects of state financial supervision” – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.

Governance principles and additional information

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

General meeting

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

The annual general meeting of 2013 was held on 9 May at Keskväljak 12 in Keila, Estonia. A total of 71.94% of the voting stock were represented. The general meeting approved the 2012 annual report and profit distribution. 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 2013, the supervisory board met six times. All members of the supervisory board attended all or most of the meetings. According to the Articles of Association, AS Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years.

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

Mr Palla has been working in AS 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 Virus Keemia Group AS and a lawyer, who has long-term experience in advising Group's companies on legal issues. Mr Talgre is a chairman of AS Harju KEK, the biggest shareholder of AS Harju Elekter (holding 32.0% of the shares of the company on 31.12.2013). Since 2007 Mr Toome (chairman of OÜ Tradematic) has been a member of the supervisory board. He complements the Board with investment experience. In 2012 was appointed a member of the Supervisory Board Triinu Tombak, to include more financial knowledge and experience to the Board. Two of the five members of the Supervisory Board – Triinu Tombak and Andres Toome - are independent.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law. At 31 December 2013, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 7.3% (2012: 6.8%) of AS 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 5 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman. 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 2013, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.2% of AS 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

The necessary procedures are regulated by rules and the need for additional management bodies has not occurred. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010 the Supervisory Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed the Audit Committee of the company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit

company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. In 2012, the members of the Supervisory Board of AS Harju Elekter – Triinu Tombak and Andres Toome - were appointed as members of the Committee.

Information management

As a publicly traded company AS Harju Elekter follows the principles of openness and equal treatment of investors. The information requested by the rules and regulations of the stock exchange is published regularly on the due dates. AS 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 AS Harju Elekter administers a home page which includes all stock exchange notices, business reports and an overview of the company's background, products and other important issues. All subsidiaries of the Group also have home pages.

Auditors

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

SOCIAL RESPONSIBILITY AND CHARITY

Social Responsibility Report 2013

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

We have always supported financially and in other ways many initiatives that we strongly believe in. We value highly the long-term co-operation that makes the support more efficient. We continue supporting good ideas also in the future. Over the years four major areas of sponsorship have evolved within the Group.

Bearing of social responsibility

AS 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. AS 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 2013 amounted to 13.7 (2012: 19.8) thousand euros.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Note	As at 31 December	
		2013	2012
Current assets			
Cash and cash equivalents	7	4,102	3,352
Trade and other receivables	8	5,699	6,493
Prepayments		256	232
Prepaid income tax	20	41	0
Inventories	10	5,801	6,395
Total current assets		15,899	16,472
Non-current assets			
Deferred income tax assets	26	7	5
Investment in associate	11	3,598	2,295
Other long-term financial investments	12	31,339	21,386
Investment property	13	11,663	10,454
Property, plant and equipment	14	8,129	8,546
Intangible assets	16	436	451
Total non-current assets		55,172	43,137
TOTAL ASSETS		71,071	59,609
Liabilities			
Interest-bearing loans and borrowings	17	654	1,075
Trade and other payables	19	4,437	5,902
Other current tax liabilities	20	969	1,049
Income tax liability	20	15	75
Short-term provisions	21	36	23
Total current liabilities		6,111	8,124
Interest-bearing loans and borrowings	17	1,098	1,306
Other liabilities		43	43
Total non-current liabilities		1,141	1,349
Total liabilities		7,252	9,473
Equity			
Share capital	23	12,180	12,180
Share premium	23	240	240
Reserves		31,424	21,354
Retained earnings		18,635	15,008
Equity attributable to owners of the Company		62,479	48,782
Non-controlling interests		1,340	1,354
Total equity		63,819	50,136
TOTAL LIABILITIES AND EQUITY		71,071	59,609

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR'000	Note	For the year ended 31 December	
		2013	2012
Revenue	24, 25	48,288	52,801
Cost of sales	25	-39,830	-44,148
Gross profit		8,458	8,653
Distribution costs	25	-2,627	-2,801
Administrative expenses	25	-4,067	-3,876
Other income	25	38	49
Other expenses	25	-59	-55
Operating profit		1,743	1,970
Finance income	25	2,648	1,042
Finance costs	25	-46	-45
Share of profit of associate	11	1,303	1,118
Profit before tax		5,648	4,085
Income tax expense	26	-475	-482
Profit for the year		5,173	3,603
Profit attributable to:			
Owners of the Company		5,162	3,517
Non-controlling interests		11	86
Earnings per share			
Basic earnings per share (EUR)	27	0.30	0.21
Diluted earnings per share (EUR)	27	0.30	0.21

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000		For the year ended 31 December	
	Note	2013	2012
Profit for the year		5,173	3,603
Other comprehensive income			
Items that subsequently might be classified to profit or loss:			
Gain/loss on change in fair value of available-for-sale financial assets	12	11,690	5,538
Gain/loss on sale of financial assets		-1,660	-162
Foreign currency translation differences – foreign operations		-1	-6
Total other comprehensive income for the year		10,029	5,370
Total comprehensive income for the year		15,202	8,973
Comprehensive income attributable to:			
Owners of the Company		15,190	8,887
Non-controlling interests		12	86

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

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	For the year ended 31 December		
	Note	2013	2012
Cash flows from operating activities			
Operating profit		1,743	1,970
<u>Adjustments for:</u>			
Depreciation and amortisation	13,14,16,24,25	1,526	1,469
Gain on sale of property, plant and equipment	25	-12	-6
Share-based payments	25,30	73	85
Change in trade and other receivables		772	1,226
Change in inventories		594	263
Change in trade and other payables		-1,537	1
Corporate income tax paid	29	-579	-388
Interest paid	29	-33	-46
Net cash from operating activities		2,547	4,574
Cash flows from investing activities			
Acquisition of investment property	29	-1,650	-100
Acquisition of property, plant and equipment	29	-423	-463
Acquisition of intangible assets	29	-138	-168
Acquisition of a subsidiary		0	-391
Proceeds from sale of property, plant and equipment	29	16	12
Proceeds from sale of intangible assets	29	11	0
Proceeds from sale of other financial investments	12	1,753	189
Interest received	29	22	9
Dividends received	25	948	854
Net cash used in investing activities		539	-58
Cash flows from financing activities			
Proceeds from issue of shares		0	660
Proceeds from other long-term liabilities		0	43
Changes in overdraft balances	17	-438	-1,179
Payment of finance lease principal	17	-294	-282
Dividends paid		-1,592	-1,225
Net cash used in financing activities		-2,324	-1,983
Net cash flow		762	2,533
Cash and cash equivalents at beginning of year		3,352	815
Increase / decrease in cash and cash equivalents		762	2,533
Effect of exchange rate fluctuations on cash held		-12	4
Cash and cash equivalents at end of year	7	4,102	3,352

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012	Attributable to owners of the Company							Non- controlling interests	TOTAL EQUITY
EUR'000	Share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings	TOTAL		
At 31 December 2011	11,760	0	1,073	14,800	8	12,672	40,313	1,721	42,034
Comprehensive income for the year									
Profit for the year	0	0	0	0	0	3,517	3,517	86	3,603
Other comprehensive income	0	0	0	5,376	-6	0	5,370	0	5,370
Total comprehensive income	0	0	0	5,376	-6	3,517	8,887	86	8,973
Transaction with the owners of the Company, recognised directly in equity									
Contribution to share capital	420	240	0	0	0	0	660	0	660
Share-based payments	0	0	0	0	0	85	85	0	85
Increase of capital reserve	0	0	103	0	0	-103	0	0	0
Dividends	0	0	0	0	0	-1,176	-1,176	-49	-1,225
Total transaction with the owners of the Company	420	240	103	0	0	-1,194	-431	-49	-560
Acquisition of non-controlling interests	0	0	0	0	0	13	13	-404	-391
At 31 December 2012	12,180	240	1,176	20,176	2	15,008	48,782	1,354	50,136

Further information on share capital is presented in note 23.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013	Attributable to owners of the Company							Non-controlling interests	TOTAL EQUITY
	Share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings	TOTAL		
EUR'000									
At 31 December 2012	12,180	240	1,176	20,176	2	15,008	48,782	1,354	50,136
Comprehensive income for the year									
Profit	0	0	0	0	0	5,162	5,162	11	5,173
Other comprehensive income	0	0	0	10,030	-2	0	10,028	1	10,029
Total comprehensive income for the year	0	0	0	10,030	-2	5,162	15,190	12	15,202
Transaction with the owners of the Company, recognised directly in equity									
Share-based payments	0	0	0	0	0	73	73	0	73
Increase of capital reserve	0	0	42	0	0	-42	0	0	0
Dividends	0	0	0	0	0	-1,566	-1,566	-26	-1,592
Total transaction with the owners of the Company	0	0	42	0	0	-1,535	-1,493	-26	-1,519
At 31 December 2013	12,180	240	1,218	30,206	0	18,635	62,479	1,340	63,819

Further information on share capital is presented in note 23.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AS Harju Elekter (address: Paldiski mnt 31, Keila, Estonia) is a company registered in Estonia (registry number 10029524). These consolidated financial statements as at and for the year ended 31 December 2013 comprise AS Harju Elekter (the ‘Parent company’ or the ‘Company’) and its subsidiaries (together referred to as the ‘Group’) and the Group’s interest in the associate AS Draka Keila Cables (Estonia, 34% interest).

Subsidiaries of AS Harju Elekter As at 31 December	Domicile	Core business	Ownership and voting rights, %	
			2013	2012
AS Harju Elekter Teletehnika	Estonia	Manufacturing	100	100
AS Harju Elekter Elektrotehnika	Estonia	Manufacturing	100	100
Satmatic OY	Finland	Manufacturing	100	100
Harju Elekter AB	Sweden	Retail- and wholesale	90	90
Rifas UAB	Lithuania	Manufacturing	62.7	62.7
Subsidiary of Rifas UAB				
Automatikos Iranga UAB	Lithuania	Design	51	51

AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997; 32.0% of the Company’s shares are held by AS Harju KEK, a company registered in Estonia.

The management board authorised these consolidated financial statements as at and for the year ended 31 December 2013 for issue on 14 April 2014. According to the Commercial Code of the Republic of Estonia, final approval of the annual report including the consolidated financial statements, which have been prepared by the management board and approved by the supervisory board, takes place at the annual general meeting.

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

2 Basis of preparation

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

2.1. Statement of compliance

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

2.2. Basis of measurement

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

2.3. Functional and presentation currency

From 1 January 2011, the functional currency of AS Harju Elekter is the euro. The consolidated financial statements for 2013 are presented in euros.

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

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

2.4. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognised in the period of the change and any future periods affected by the change. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

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

2.5. Changes in accounting policies

In preparing these consolidated financial statements, the Group applied amendments to International Financial Reporting Standards as adopted by the EU, which are effective for annual periods beginning on or after 1 January 2013. The amendments did not have a significant effect on the Group's financial statements.

Standards, Interpretations and Amendments to published Standards that are not yet effective

The following new Standards and Interpretations are not yet effective for the annual reporting period ended 31 December 2013 and have not been applied in preparing these financial statements: [IAS 8.30 (a)]:

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvements with the investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint Arrangements

Effective for annual periods beginning on or after 1 January 2014.

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in their consolidated financial statements.

The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after 1 January 2014.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The entity does not expect the new Standard will have a material impact on the financial statements.

IAS 28 (2011) Investments in Associates and Joint Ventures

Effective for annual periods beginning on or after 1 January 2014.

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The entity does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in joint ventures that will be impacted by the amendments.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - *Offsetting Financial Assets and Financial Liabilities* must also be made.

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The entity does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

Effective for annual periods beginning on or after 1 January 2014; early adoption is permitted; to be applied retrospectively subject to transitional provisions.

The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity

- (1) obtains funds from investors to provide those investors with investment management services;
- (2) commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
- (3) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

The Group does not expect the new standard to have any impact on the financial statements, since [Company] does not qualify as an investment entity.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generating units for which an impairment loss was recognised or reversed during the period.

The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generating units has been recognised or reversed in the period and recoverable amount is based on fair value less costs of disposal:

- the level of IFRS 13 ‘Fair value hierarchy’ within which the fair value measurement of the asset or cash-generating unit is categorised;
- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
- for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

The Group does not expect the new Standard will have a material impact on the financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

- the novation is made as a consequence of laws or regulations;
- a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument;
- changes to the terms of the derivative are limited to those necessary to replace the counterparty.

The Group does not expect the new Standard will have a material impact on the financial statements.

3 Significant accounting policies

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

3.1. Basis of consolidation

(a) Business combinations

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

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

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

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

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

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

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

(b) Subsidiaries

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

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

(c) Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss for the year, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(d) Transactions eliminated on consolidation

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

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

3.2. Foreign currency translation

(a) Transactions and balances

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

(b) Financial statements of foreign operations

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

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

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

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

3.3. Financial assets

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified current assets, except where the maturity date is more than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

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

(b) Available-for-sale financial assets

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

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

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

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

Impairment testing for trade receivables is described in note 3.9.

3.4. Inventories

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

3.5. Investment property

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

Investment property is depreciated using the same depreciation rates and useful lives as those assigned to similar items of property, plant and equipment (see 3.6.c).

3.6. Property, plant and equipment

(a) Recognition and measurement

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

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

(b) Subsequent costs

Parts of some items of property, plant and equipment require replacement or renovation at regular intervals. The costs of such replacements and renovations are recognised in the carrying amount of an item of property, plant and equipment if it is probable that future economic benefits associated with the parts will flow to the Group and their cost can be measured reliably. The carrying amount of a part that is replaced is derecognised.

Under the recognition principle provided in the previous paragraph, the costs of the day-to-day servicing of an item are not recognised in the carrying amount of the item. Instead, such costs are expensed as incurred.

(c) Depreciation

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

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

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

3.7. Intangible assets

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

(a) Research and development expenditures

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

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

(b) Other intangible assets

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

3.8. Non-current assets held for sale

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

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

3.9. Impairment

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

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

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

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

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

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

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

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

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

3.10. Leases

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

(a) The Group as a lessor

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

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

(b) The Group as a lessee

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

3.11. Financial liabilities

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

(a) Loans and borrowings

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

(b) Trade payables

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

3.12. Income tax and deferred tax

(a) Corporate income tax

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

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

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

(b) Deferred tax

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

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

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised as other comprehensive income.

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

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

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

The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

3.13. Employee benefits

(a) Profit-sharing and bonus plans

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

(b) Termination benefits

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

3.14. Provisions

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

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

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

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

3.15. Contingent liabilities

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

3.16. Share capital

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

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

3.17. Share-based payments

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

3.18. Segment reporting

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

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

3.19. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating intra-Group sales.

(a) Sale of goods – wholesale and retail

The Group manufactures and sells electrical distribution systems and control panels and various metal products. Sale of goods is recognised when a Group entity has delivered products to the buyer, the buyer has full discretion over the products and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Revenue is not recognised until all significant risks and rewards of ownership have been transferred to the buyer and either the buyer has accepted the products in accordance with the terms of the sales contract, the time period for rejection has elapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the prices specified in the sales contracts.

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

(b) Rendering of services

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

(c) Rental income

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

(d) Interest income

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

(e) Dividend income

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

3.20. Government grants

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

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

3.21. Earnings per share

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

3.22. Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.23. Related parties

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

- AS Harju KEK that owns 32.0% of the shares of AS Harju Elekter;
- members of the Parent company's management and supervisory boards;
- close family members of the above;
- companies controlled by members of the management and supervisory boards; and
- associates.

4 Accounting estimates and judgments

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

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

(a) Receivables (note 8)

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

(b) Inventory (note 10)

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

(c) Deferred income tax assets (note 26)

Deferred income tax assets are recognised for the unused prior period tax losses of subsidiaries operating in foreign markets to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Management estimates future taxable profits and the potential utilisation of deferred tax assets based on assumptions and forecasts regarding the development and performance of the market involved. Generation of profit assumes attainment of the Group's strategic

goals. At 31 December 2013, the carrying amount of deferred income tax assets measured using the net method amounted to 7,000 euros (31 December 2012: 5,000 euros).

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

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

(e) Contingent liabilities (notes 3.15 and 22)

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

(f) Warranty provisions (note 21)

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

5 Financial risk management

5.1. Financial risk factors

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

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

5.2 Market risk

(a) Currency risk

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

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

EUR'000	Note	EUR	LTL	SEK	TOTAL
Cash and cash equivalents	7	3,764	207	131	4,102
Trade receivables	8	5,261	386	52	5,699
Available-for-sale financial assets	12	31,339	0	0	31,339
TOTAL		40,364	593	183	41,140
Current portion of interest-bearing loans and borrowings	17	-646	-8	0	-654
Trade payables	19	-2,084	-414	-27	-2,525
Other short-term liabilities	19	-1,758	-138	-16	-1,912
Non-current portion of interest-bearing loans and borrowings	17	-1,096	-2	0	-1,098
TOTAL		-5,584	-562	-43	-6,189
Net exposure		34,780	31	140	34,951

Based on the above, the Group is not materially exposed to currency risks and, therefore, did not use separate instruments to hedge its currency risks in 2013 or 2012. Information on foreign exchange gains and losses is disclosed in note 25.

(b) Price risk

The Group is exposed to equity price risk through its investments in equity instruments. Fluctuations in the market value of shares in PKC Group Oyj, which are accounted for as other long-term financial investments, may have a significant impact on the value of the Group's assets. The market price of a share in PKC Group Oyj increased by 8.76 euros in 2013 and decreased by 4.00 euros in 2012. In 2013 the value of the investment increased by 11.7 million euros and in 2012 by 5.5 million euros. Gain on change in fair value was recognised in other comprehensive income. Further information on shares in PKC Group Oyj is presented in note 12.

(c) Interest rate risk

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

The Group's interest rate risk arises from short-term and long-term loans and borrowings that have floating interest rates. Loans and borrowings with floating interest rates expose the Group to cash flow interest rate risk. Above all, the Group's exposure to interest rate risk depends on changes in Euribor (Euro Interbank Offered Rate). At 31 December 2013, the Group's long-term loans and borrowings had floating interest rates linked to 3 month Euribor and short-term loans and borrowings had floating interest rates linked to 1 month Euribor (note 17).

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

As at 31 December	EUR'000	Note	2013	2012
Floating rate loans and borrowings		17	1,752	2,381
Total			1,752	2,381

A average change of one percentage point in interest rates as during the reporting period 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 2012.

As at 31 December	EUR '000	2013	2012
One percentage point increase		-21	-24
One percentage point decrease		21	24

5.3. Credit risk

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

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

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

As at 31 December	EUR '000	Note	2013	2012
Cash and cash equivalents		7	4,102	3,352
Trade receivables		8	5,542	6,281
Total			9,644	9,633

At the reporting date, the Group's credit risk exposure was 9.6 million euros (31 December 2012: 9.6 million euros). Although settlement of receivables may be influenced by various economic factors, management is of the opinion that the Group does not have any significant risk of loss that would exceed the impairment allowance already recognised.

5.4. Liquidity risk

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

Liquidity risk is mitigated with different financial instruments such as loans and finance leases. At the reporting date the Group's free cash totalled 4.1 million euros and loans and borrowings totalled 1.8 million euros (note 17).

5.5. Capital management

In capital management, the main objective is to ensure sustainable development of the Group so as to ensure return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

Debt to capital ratio and equity ratio

As at 31 December	EUR '000	Note	2013	2012
Interest-bearing loans and borrowings		17	1,752	2,381
Cash and cash equivalents		7	-4,102	-3,352
Net debt			-2,350	-971
Total equity			63,819	50,136
Total capital			61,469	49,165
Debt to capital ratio			-3.8%	-2.0%
Total assets			71,071	59,609
Equity ratio			90%	84%

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

5.6. Determination of fair value (note 6)

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

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

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

The Group divides financial instruments into three levels depending on their revaluation:

Level 1: Financial instruments that are valued using unadjusted price from the stock exchange or some other active regulated market.

Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.

Level 3: Financial instruments that are valued by assessment methods based on non-monitored inputs.

6 Financial instruments

6.1. Financial instruments in the statement of financial position

As at 31 December	EUR '000	Note	2013	2012
Financial assets				
Cash and cash equivalents		7	4,102	3,352
Trade and other receivables		8	5,699	6,493
Available-for-sale financial assets		12	31,339	21,386
Total			41,140	31,231
Financial liabilities				
Interest-bearing loans and borrowings		17	1,752	2,381
Trade and other payables		19	4,437	5,902
Total			6,189	8,283

6.2. Fair values of financial instruments by category (Note 5.6)

EUR'000	Note	Loans and receivables	Available -for-sale	Other financial liabilities	Carrying amount	Fair value
At 31 December 2013						
Cash and cash equivalents	7	4,102	0	0	4,102	4,102
Trade and other receivables	8	5,699	0	0	5,699	5,699
Available-for-sale financial assets	12	0	31,339	0	31,339	31,339
Total		9,801	31,339	0	41,140	41,140
Interest-bearing loans and borrowings	17	0	0	-1,752	-1,752	-1,752
Trade and other payables	19	0	0	-4,437	-4,437	-4,437
Total		0	0	-6,189	-6,189	-6,189
At 31 December 2012						
Cash and cash equivalents	7	3,352	0	0	3,352	3,352
Trade receivables and other receivables	8	6,493	0	0	6,493	6,493
Available-for-sale financial assets	12	0	21,386	0	21,386	21,386
Total		9,845	21,386	0	31,231	31,231
Interest-bearing loans and borrowings	17	0	0	-2,381	-2,381	-2,381
Trade and other payables	19	0	0	-5,902	-5,902	-5,902
Total		0	0	-8,283	-8,283	-8,283

6.3. Credit quality of financial assets

Ageing of trade receivables

As at 31 December	EUR '000	2013	2012
Not past due		4,925	5,405
Up to 3 months past due		465	568
3 to 6 months past due		2	70
Over 6 months past due		310	300
Total		5,702	6,343

7 Cash and cash equivalents

As at 31 December	EUR'000	2013	2012
Cash on hand		12	6
Current accounts		3,790	2,946
Short-term deposit		300	400
Cash and cash equivalents		4,102	3,352

Cash and cash equivalents by currency:

As at 31 December	EUR'000	2013	2012
EUR		3,764	2,826
LTL		207	435
SEK		131	91
Total		4,102	3,352

8 Trade and other receivables

As at 31 December	EUR'000	Note	2013	2012
Trade receivables				
Trade receivables			5,702	6,343
Allowance for impairment			-160	-62
Trade receivables net of impairment allowance			5,542	6,281
Receivables from associates		30	154	209
Miscellaneous receivables			1	0
Other accrued income			2	3
Total receivables			5,699	6,493

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

As at 31 December	EUR'000	2013	2012
EUR		5,262	5,292
LTL		385	1,081
SEK		52	120
Total		5,699	6,493

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

Movements in allowance for impairment of receivables

For the year ended 31 December	EUR'000	2013	2012
At 1 January		-62	-61
Items expensed as doubtful		-137	-86
Recovery of doubtful items		1	0
Doubtful items written off as irrecoverable		38	85
At 31 December		-160	-62

Expenses from impairment of receivables are recognised in other distribution costs in the statement of profit or loss (note 25).

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

9 Prepayments

As at 31 December	EUR'000	Note	2013	2012
Prepaid taxes		20	114	78
Prepaid expenses			183	154
Total prepayments			297	232

10 Inventories

As at 31 December	EUR'000	2013	2012
Raw and other materials		3,021	3,271
Work in progress		1,331	1,460
Finished goods		1,121	1,184
Merchandise purchased for resale		328	480
Total		5,801	6,395
Items written down to net realisable value		279	262
Expenses from write-down of inventories during the year		23	38

11 Investment in associate

Company's name	Core business	Domicile	
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia	
<i>Draka Keila Cables AS share</i>		2013	2012
Number of the shares		884	884
Ownership (%)		34.0	34.0
Par value of a share at 31 December (EUR)		639	639
EUR'000		2013	2012
Cost at 31 December		565	565
Carrying amount at 1 January		2,295	1,177
Share of profit under the equity method		1,303	1,118
Carrying amount at 31 December		3,598	2,295
Associate's equity at the end of year		10,587	6,752
Investor's share in equity		3,600	2,296
Unrealised gain		-2	-1
<i>Financial information on the associate</i>			
Assets at 31 December		17,817	11,478
Liabilities at 31 December		7,230	4,726
Revenue for the year ended 31 December		53,762	51,746
Profit for the year ended 31 December		3,835	3,286

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

12 Other long-term financial investments

As at 31 December	EUR'000	2013	2012
Available-for-sale equity securities		31,318	21,365
Other shares		21	21
Total		31,339	21,386
1. Available-for-sale equity securities			
Carrying amount at 1 January		21,365	16,002
Sale of shares at sales price		-1,753	-189
Sales gain		16	14
Gain on change in fair value		11,690	5,538
Carrying amount at 31 December		31,318	21,365
2. Other shares			
Carrying amount at 1 January		21	21
Carrying amount at 31 December		21	21
Total carrying amount at 31 December		31,339	21,386
PKC Group Oyj share			
		2013	2012
Number of the shares (1000)		1,295	1,385
Ownership (%)		5.4	6.4
Market price at 31 December (EUR)		24.19	15.43

PKC Group Oyj's shares are listed on the Helsinki Stock Exchange. The shares have been classified as available-for-sale financial assets and are therefore stated in the statement of financial position at fair value (note 3.3.b). The fair value of the shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised in other comprehensive income. Changes in the market value of shares may significantly influence the value of the Group's assets and equity. Information on PKC Group Oyj's shares pledged as loan collateral is disclosed in note 18. In 2013, PKC Group Oyj paid dividends of 0.70 euros per share (2012: 0.60 euros per share).

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

13 Investment property

EUR'000	Land	Buildings	Total
At 31 December 2011			
Cost	821	13,034	13,855
Accumulated depreciation	0	-3,022	-3,022
Carrying amount	821	10,012	10,833
Movements in 2012			
Additions	0	61	61
Depreciation charge	0	-440	-440
Total	0	-379	-379
At 31 December 2012			
Cost	821	13,095	13,916
Accumulated depreciation	0	-3,462	-3,462
Carrying amount	821	9,633	10,454
Movements in 2013			
Additions	1,638	6	1,644
Depreciation charge	0	-441	-441
Reclassification	0	6	6
Total	1,638	-429	1,209
At 31 December 2013			
Cost	2,459	13,107	15,566
Accumulated depreciation	0	-3,903	-3,903
Carrying amount	2,459	9,204	11,663

The Group's investment properties are of a specialised nature, comprising production and office buildings in Keila and Haapsalu (Estonia), where transactions with similar properties are irregular or there are no similar properties. Due to this and the large number of the properties, determination of the fair value of the investment properties would be costly and might not produce reliable results. Therefore, the Group has not commissioned valuations from independent experts.

In 2013, direct property maintenance and repair costs totalled 126.000 euros (2012: 243.000 euros). Information on rental income is disclosed in note 15.

14 Property, plant and equipment

14.1. Movements in property, plant and equipment

EUR'000	Land	Buildings	Plant and equipment	Other items	Total
At 31 December 2011					
Cost	208	7,574	7,669	808	16,259
Accumulated depreciation	0	-1,439	-5,277	-564	-7,280
Carrying amount	208	6,135	2,392	244	8,979
Construction in progress	0	0	6	0	6
Total	208	6,135	2,398	244	8,985
Movements in 2012					
Additions	0	177	134	175	486
Depreciation charge for the year	0	-284	-521	-114	-919
Disposals	0	0	-6	0	-6
Reclassification	0	0	-5	5	0
Total	0	-107	-398	66	-439
At 31 December 2012					
Cost	208	7,896	6,617	895	15,616
Accumulated depreciation	0	-1,905	-4,620	-585	-7,110
Carrying amount	208	5,991	1,997	310	8,506
Construction in progress	0	38	2	0	40
Total	208	6,029	1,999	310	8,546
Movements in 2013					
Additions	0	145	262	125	532
Depreciation charge for the year	0	-295	-505	-143	-943
Reclassification	0	-2	-17	13	-6
Total	0	-152	-260	-5	-417
At 31 December 2013					
Cost	208	8,040	6,709	975	15,932
Accumulated depreciation	0	-2,200	-4,972	-670	-7,842
Carrying amount	208	5,840	1,737	305	8,090
Construction in progress	0	37	2	0	39
Total	208	5,877	1,739	305	8,129

At 31 December 2013, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was 1,096 thousand euros (31 December 2012: 2,609 thousand euros). During the reporting period, the total cost of the Group's fully depreciated items of property, plant and equipment that were written off and sold was 211,000 euros, included plant and equipment were 153,000 euros and other items 58,000 euros.

14.2. Property, plant and equipment acquired with finance lease

EUR'000	Cost	Depreciation	Carrying amount
At 31 December 2011	2,602	-298	2,304
Additions	28	0	28
Depreciation	0	-121	-121
Lease discontinued	-15	17	2
At 31 December 2012	2,615	-402	2,213
Additions	103	0	103
Depreciation	0	-134	-134
Lease discontinued	-10	10	0
At 31 December 2013	2,708	-526	2,182

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

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

EUR'000	At 31 December	
	2013	2012
Plant and equipment		
Cost of items leased out	17	17
Accumulated depreciation	-9	-7
Carrying amount at end of period	8	10

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

15 Operating leases

EUR'000		For the year ended 31 December	
	Note	2013	2012
Lease income			
- on investment property		2,190	2,178
- on plant and equipment		2	2
Total	25	2,192	2,180
Lease expense			
Land		35	35
Office, commercial and production premises		65	74
Vehicles		131	113
Other		6	4
Total		237	226

In the statement of profit or loss, lease income is recognised in revenue; the expenses and depreciation related to assets that have been leased out are recognised in the cost of sales.

Future lease payments under non-cancellable operating leases

As at 31 December	EUR'000	2013	2012
Lease income			
< 1 year		2,196	2,160
1-5 years		3,617	3,482
> 5 years		2,593	2,958
Total lease income		8,406	8,600
Lease expenses			
< 1 year		109	87
1-5 years		157	156
Total lease expenses		266	243

16 Intangible assets

EUR'000	Development expenditure	Licenses	Other	TOTAL
At 31 December 2011				
Cost	166	719	44	929
Accumulated amortisation	-107	-392	-8	-507
Carrying amount	59	327	36	422
Movements in 2012				
Additions	5	135	0	140
Amortisation charge for the year	-33	-70	-7	-110
Effect of movements in foreign exchange rates	0	0	-1	-1
Total	-28	65	-8	29
At 31 December 2012				
Cost	170	848	43	1,061
Accumulated amortisation	-139	-456	-15	-610
Carrying amount	31	392	28	451
Movements in 2013				
Additions	0	142	0	142
Amortisation charge for the year	-13	-101	-28	-142
Disposals	0	-15	0	-15
Total	-13	26	-28	-15
At 31 December 2013				
Cost	170	971	43	1,184
Accumulated amortisation	-152	-553	-43	-748
Carrying amount	18	418	0	436

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

17 Interest-bearing loans and borrowings

17.1. Interest-bearing loans and borrowings at 31 December

EUR'000	2013	2012
Current interest-bearing loans and borrowings		
Short-term bank loans	358	796
Current portion of lease liabilities	296	279
Total current interest-bearing loans and borrowings	654	1,075
Non-current portion of lease liabilities	1,098	1,306
Total non-current interest-bearing loans and borrowings	1,098	1,306
Total interest-bearing loans and borrowings	1,752	2,381
Interest-bearing loans and borrowings at beginning of the year	2,381	3,814
Changes during the year		
Increase (+)/decrease (-) in short-term loans	-438	-1,179
Acquisition of new finance lease liabilities	103	28
Settlement of non-current finance lease liabilities	-294	-282
Interest-bearing loans and borrowings at end of the year	1,752	2,381

17.2. Details of short-term bank loans

At 31 December

Base currency	Loan limit in base currency		Interest rate		Balance at 31.12.	
	2013	2012	2013	2012	2013	2012
EUR'000	600	600	1 month euribor+0.4%	+0.5%	240	275
EUR'000	1,200	1,200	1 month euribor+0.6%	+0.4%	118	521
EUR'000	33	33	Nordea base rate +1.75%	+1.75%	0	0
EUR'000	500	500	1 month euribor+0.4%	+0.4%	0	0
Total short-term bank loans					358	796

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

17.3. Finance lease liabilities

Present value of lease payments

EUR'000	Original cost	Settlement	Present value
At 31 December 2011	2,490	-651	1,839
Acquisition of new lease liabilities	28	0	28
Finance lease payments made	0	-282	-282
At 31 December 2012	2,518	-933	1,585
Acquisition of new lease liabilities	103	0	103
Finance lease payments made	0	-294	-294
Lease discontinued	-58	58	0
At 31 December 2013	2,563	-1,169	1,394

In most lease contracts the base currency is the euro. At 31 December 2013, finance lease liabilities whose base currency was the Lithuanian litas, amounted to 10,000 euros, (31 December 2012: 22,000 euros).

At 31 December 2013, the interest rates of finance lease contracts were in the range of 1.4% to 3.4% (31 December 2012: 1.4% to 3.1%). In 2013, the weighted average effective interest rate of finance lease liabilities was 1.6 % (2012: 1.7 %).

17.4. Finance lease liabilities by maturities

EUR'000	<1 year	1-5 years	> 5 years	Total
At 31 December 2012				
Minimum amount of lease payments	308	1,003	407	1,718
Future finance charges	-29	-78	-26	-133
Present value of lease payments	279	925	381	1,585
At 31 December 2013				
Minimum amount of lease payments	326	987	217	1,530
Future finance charges	-30	-80	-26	-136
Present value of lease payments	296	907	191	1,394

Lease payments are made monthly.

18 Loan collateral and pledged assets

Pledged assets	As at 31 December EUR'000	Overdraft limit	
		2013	2012
Shares in PKC Group Oyj			
770,638 shares		1,134	1,134

At 31 December 2013, the carrying amount of shares pledged as loan collateral amounted to 18.6 million euros. The shares are pledged to the bank until all obligations to the bank have been fully settled. According to the pledge agreement, the Group has the obligation to immediately pledge additional shares, if the market value of the pledged shares decreases and does not exceed the outstanding loan principal by at least 50%. Further information on PKC Group Oyj's shares can be found in note 12.

19 Trade and other payables

As at 31 December	EUR'000	2013	2012
Trade payables		2,525	3,411
Other short-term liabilities			
Advances from customers		383	858
Payables to associates (for goods and services)		42	56
Miscellaneous payables		35	55
Payables to employees		1,355	1,378
Interest payable		1	1
Other accrued expenses		96	143
Total		1,912	2,491
Total trade and other payables		4,437	5,902

Trade payables

As at 31 December	EUR'000	2013	2012
Trade payables			
Payable for goods and services		2,515	3,405
Payable for property, plant and equipment		6	0
Payable for investment property		0	6
Payable for intangible assets		4	0
Total		2,525	3,411

20 Taxes

As at 31 December	EUR'000	Note	2013	2012
Prepaid taxes				
Value added tax			72	76
Prepaid income tax			41	0
Social security tax			1	2
Total		9	114	78
Tax liabilities				
Value added tax			577	556
Income tax liability			15	75
Personal income tax			170	183
Social security tax			205	285
Other taxes			17	25
Total			984	1,124

21 Provisions

EUR'000	Warranties provision		Other provisions		TOTAL	
	2013	2012	2013	2012	2013	2012
At 1 January	8	5	15	12	23	17
Provisions made during the year	81	34	18	15	99	49
Provisions used during the year	-71	-31	-15	-12	-86	-43
At 31 December	18	8	18	15	36	23

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

22 Contingent liabilities

22.1. Corporate income tax

As at 31 December	EUR'000	2013	2012
Consolidated retained earnings		18,635	15,008
Maximum possible dividend		14,722	11,856
Income tax payable on the maximum possible dividend		3,913	3,152

The maximum possible income tax liability has been calculated under the assumption that the net dividend and the related income tax liability cannot exceed retained earnings as at 31 December 2013.

The contingent income tax liability has been calculated based using the tax rate effective from 1 January 2013 (2012: from 1 January 2012). If the annual general meeting approves the management board's proposal to distribute a dividend of 1,740 thousand euros, there will arise an income tax liability of 463 thousand euros.

23 Capital and reserves

23.1. Share capital and share premium

As at 31 December	Unit	2013	2012
Share capital	EUR'000	12,180	12,180
Par value of a share	EUR	0.70	0.70
Number of shares issued (fully paid)	'000	17,400	17,400
Share premium	EUR'000	240	240

According to the articles of association, the maximum authorised share capital amounted to 14 million euros and minimum to 3.5 million euros.

23.2. Dividend per share

Based on the profit allocation proposal, in 2013 the Company paid for 2012 a dividend of 0.09 euros per share, i.e. 1,566 thousand euros in aggregate. The dividends were paid out on 28 May 2013. In the previous year, the Company paid for 2011 a dividend of 0.07 euros per share, i.e. 1,176 thousand euros in aggregate.

According to the profit allocation proposal, the Company will pay for 2013 a dividend of 0.10 euros per share, i.e. 1,740 thousand euros in aggregate. The dividend will be recognised when the profit allocation proposal has been approved by the annual general meeting.

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

As at 31 December	2013	2012
AS Harju KEK	32.00%	31.70%
ING Luxembourg S.A	10.92%	10.92%
Lembit Kirsme	8.10%	8.10%
Endel Palla	6.32%	6.06%
Others	42.66 %	43.22%

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

		Number of shares	Direct ownership	Indirect ownership
Palla, Endel	Chairman of the supervisory board	1,100,000	6.32%	0.35%
Talgre, Madis	Member of the supervisory board	31,000	0.18%	0.00%
Kabal, Ain	Member of the supervisory board	10	0.00%	0.00%
Toome, Andres	Member of the supervisory board	10,000	0.06%	0.34%
Tombak, Triinu	Member of the supervisory board	10,000	0.06%	0.00%
Allikmäe, Andres	Managing director/CEO	200,000	1.15%	0.00%
Total		1,351,010	7.77%	0.69%

The number of shares held by shareholders and their ownership interests were determined on 31 December 2013 at 11:59 p.m. In accordance with the rules of the Tallinn Stock Exchange, an issuer has to disclose in the annual report the number of the issuer's shares that are held by members of its management and supervisory boards (direct interest) and people connected to them (indirect interest) as at the end of the financial year. Voting power belonging to a company controlled by a shareholder is also treated as indirect interest. People connected to shareholders include their spouses, minor children and people sharing the household with them.

24 Segment reporting

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

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

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

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

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

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

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

2013	EUR'000	Note	Manu- facturing	Real estate	Other activities	Elimi- nations	Consoli- dated
Revenue from external customers		25	42,935	2,432	2,921	0	48,288
Inter-segment revenue			582	1,005	349	-1,936	0
Total revenue			43,517	3,437	3,270	-1,936	48,288
Operating profit			1,048	1,188	-421	-72	1,743
Segment assets			23,729	11,992	4,504	-666	39,559
Unallocated assets							31,512
Total assets							71,071
Segment liabilities			7,049	2	491	-666	6,876
Unallocated liabilities							376
Total liabilities							7,252
Capital expenditure		13, 14, 16	368	1,775	175	0	2,318
Depreciation charge for the year		13, 14, 16	882	442	203	-1	1,526
2012							
Revenue from external customers		25	47,728	2,395	2,678	0	52,801
Inter-segment revenue			464	1,003	300	-1,767	0
Total revenue			48,192	3,398	2,978	-1,767	52,801
Operating profit			1,280	1,140	-367	-83	1,970
Segment assets			22,402	10,886	3,303	-812	35,779
Unallocated assets							23,830
Total assets							59,609
Segment liabilities			9,330	179	423	-812	9,120
Unallocated liabilities							353
Total liabilities							9,473
Capital expenditure		13, 14, 16	461	61	165	0	687
Depreciation charge for the year		13, 14, 16	887	440	143	-1	1,469

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

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

For the year ended 31 December	EUR'000	Note	2013	2012
REVENUE BY MARKET				
Estonia			17,936	17,744
Finland			23,441	25,525
Lithuania			2,636	3,024
Sweden			867	1,246
Other EU countries			604	2,639
Non-EU countries			2,804	2,623
Total		25	48,288	52,801

25 Further information on statement of profit or loss line items

For the year ended 31 December	EUR'000	Note	2013	2012
REVENUE BY BUSINESS ACTIVITY				
Electrical equipment			39,969	44,079
Sheet metal products and services			925	1,143
Telecom products and services			1,129	1,057
Intermediary sale of electrical products and components			3,446	3,586
Commerce and mediation of services			104	372
Rental income		15	2,192	2,180
Other services			523	384
Total		24	48,288	52,801
COST OF SALES				
Goods and materials			-29,595	-32,933
Services			-1,453	-1,730
Personnel expenses (see below)			-7,132	-7,583
Depreciation and amortisation			-1,172	-1,172
Other costs			-286	-711
Change in work in progress and finished goods inventories			-192	-19
Total			-39,830	-44,148
DISTRIBUTION COSTS				
Services purchased			-484	-482
Personnel expenses (see below)			-1,723	-1,916
Depreciation and amortisation			-51	-33
Other			-369	-370
Total			-2,627	-2,801
ADMINISTRATIVE EXPENSES				
Services purchased			-599	-546
Personnel expenses (see below)			-2,495	-2,362
Depreciation and amortisation			-303	-264
Other			-670	-704
Total			-4,067	-3,876
- Of which development costs			-617	-556

For the year ended 31 December	2013	2012
<i>Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:</i>		
Salaries and other remuneration	-8,645	-9,142
Social security and other taxes on salaries and other remuneration	-2,597	-2,557
Share-based payments	-73	-85
Accruals	-35	-77
Total	-11,350	-11,861
OTHER INCOME		
Gains on sale of property, plant and equipment	16	6
Interest on arrears and penalty payments received	3	6
Other	19	37
Total	38	49
OTHER EXPENSES		
Loss on sale of property, plant and equipment	-4	0
Interest on arrears, penalty payments and similar items paid	-11	-11
Net loss from foreign exchange differences	-5	0
Gifts and donations made	-23	-28
Other	-16	-16
Total	-59	-55
FINANCE INCOME		
Interest income	24	9
Dividend income	948	854
Net income from foreign exchange differences	0	4
Income from sale of financial assets	1,676	175
Total	2,648	1,042
FINANCE COSTS		
Interest expense	-33	-45
Net loss from foreign exchange differences	-13	0
Total	-46	-45

26 Income tax and deferred tax

Income tax expense

EUR'000	2013	2012
Income tax expense	478	454
Deferred income tax expense/income	-3	28
Income tax expense in the statement of profit or loss	475	482

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

Income tax by regions for the year ended at 31 December 2013

EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit (loss) before income tax	5,512	314	12	-190	5,648
Income tax rate	0%	24.5%	15.0%	22.0%	
Theoretical income tax expense	0	77	2	-42	37
Income tax expense on dividends	369	0	0	0	369
Utilisation of tax losses carried forward	0	0	-3	42	39
Effect of tax exempt income	0	-7	-7	0	-14
Effect of non-deductible expenses	0	24	23	0	47
Change in recognised deferred tax assets	0	-1	-2	0	-3
Income tax expense	369	93	13	0	475
Change in unrecognised deferred tax assets	0	0	0	97	97

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

EUR '000	Estonia	Finland	Lithuania	Sweden	Total
Profit (loss) before income tax	3,522	405	264	-106	4,085
Income tax rate	0%	24.5%	15.0%	26.3%	
Theoretical income tax expense	0	99	40	-28	111
Income tax expense on dividends	274	0	0	0	274
Utilisation of tax losses carried forward	0	0	0	28	28
Effect of tax exempt income	0	0	-10	0	-10
Effect of non-deductible expenses	0	28	19	0	47
Change in recognised deferred tax assets	0	-1	0	33	32
Income tax expense	274	126	49	33	482
Change in unrecognised deferred tax assets	0	0	0	61	61

The change in deferred tax assets in 2013 resulted mostly from a change in the estimate of the extent to which the assets can be utilised in the future.

Deferred income tax assets at 31 December 2013

EUR '000	Lithuania	Finland	Sweden	Total
Non-current portion of deferred tax assets	6	1	0	7
Of which on property, plant and equipment	0	1	0	1
Of which on tax loss carry-forwards	6	0	0	6

Deferred income tax assets at 31 December 2012

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

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

The Group does not recognise deferred tax assets of 97,000 euros (31 December 2012: 61,000 euros) in its statement of financial position. The deferred tax asset resulted from tax losses of 411,000 euros that can be carried forward and used to reduce future tax liabilities.

27 Basic and diluted earnings per share

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

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

The average market price of the share was 2.64 euros in 2013 and 2.48 euros in the comparative period. Hence, the potential shares did not have a dilutive effect.

	Unit	2013	2012
Profit attributable to owners of the Parent	EUR '000	5,162	3,517
Average number of shares during the period	'000	17,400	17,093
Basic earnings per share for owners of the Parent	EUR	0.30	0.21
Adjusted number of shares during the period	'000	17,400	17,093
Diluted earnings per share	EUR	0.30	0.21

28 Government grants

EUR'000	2013	2012
Government grants related to assets	0	14
Of which for acquisition of plant and equipment	0	14
Government grants related to income	19	14
Of which for covering training costs	0	4
Of which for covering development costs	0	10
Of which for covering marketing costs	19	0
Total	19	28

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

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

For the year ended 31 December	EUR'000	Note	2013	2012
Corporate income tax paid				
Income tax expense in the statement of profit or loss		26	-475	-482
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability		20	-101	66
Deferred income tax expense/income			-3	28
Corporate income tax paid			-579	-388
Interest received				
Interest income		25	24	9
Receivable increase (-)			-2	0
Interest received			22	9
Interest paid				
Interest expense		25	-33	-45
Liability decrease (-)			0	-1
Interest paid			-33	-46
Paid for investment property				
Additions of investment property		13	-1,644	-61
Liability decrease (-)/ increase (+) incurred by purchase		19	-6	-39
Acquisition of investment property			-1,650	-100
Paid for property, plant and equipment				
Additions of property, plant and equipment		14	-532	-486
Acquired with finance lease		14	103	28
Liability decrease (-)/ increase (+) incurred by purchase		19	6	-5
Acquisition of property, plant and equipment			-423	-463
Paid for intangible assets				
Additions of intangible assets		16	-142	-140
Liability decrease (-)/ increase (+) incurred by purchase		19	4	-27
Effect of movements in exchange rates			0	-1
Acquisition of intangible assets			-138	-168
Proceeds from sale of property, plant and equipment				
Book value of disposed property, plant and equipment		14	0	6
Profit on disposal of property, plant and equipment			16	6
Proceeds from sale of property, plant and equipment			16	12
Proceeds from sale of intangible assets				
Book value of disposed property, plant and equipment		16	15	0
Profit on disposal of property, plant and equipment			-4	0
Proceeds from sale of intangible assets			11	0

30 Related parties

The related parties of AS Harju Elekter are associated company AS Draka Keila Cables, members of the Group's management and their close family members, and AS Harju KEK which owns 32.0% of the shares in AS Harju Elekter. The Group's management comprises members of the Parent company's supervisory and management boards. The management board has one member and the supervisory board has five members.

Transactions with related parties

For the year ended 31 December	EUR'000	Note	2013	2012
Purchase of goods and services from related parties:				
- from the associate			479	474
- from Harju KEK			1,686	67
Total			2,165	541
<i>Of which:</i>				
- goods and materials			479	474
- lease of property plant and equipment			47	65
- other services			1	2
- purchase of non-current assets			1,638	0
Sale of goods and services to related parties:				
- to the associate			774	722
- to Harju KEK			19	5
Total			793	727
<i>Of which:</i>				
- goods and materials			26	18
- lease of property plant and equipment			678	680
- other services			89	29
Balances with related parties				
Receivables from the associate for goods and services		8	154	209
Payables to the associates for goods and services		19	42	56
Remuneration of the management and supervisory boards				
- salaries, bonuses, additional remuneration			185	192
- fringe benefits			13	15
Total			198	207
Share-based payments				
- to management of the associate			0	1
- to management of Harju KEK			0	3
- to members of the management and supervisory boards of AS Harju Elekter			20	17
Total			20	21

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

Share-based payments

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

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

The subscription rights were recognised in accordance with the principles of IFRS 2. The Group measured the value of the services received from the employees in return for the shares based on the fair value of the subscription right at the date the preliminary agreements were signed. An independent expert determined that the value was 0.50 euros per right to subscribe for one share. In 2013 the expense of share-based payments recognised as personnel expenses amounted to 73 (2012: 85) thousand euros.

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

31 Events after the reporting period

According to the 27 February 2014 decision of the Supervisory Board of AS Harju Elekter to reorganise the Group's Sweden-oriented activities, as of 1 April 2014, the activities of Swedish subsidiary Harju Elekter AB will be suspended for an unspecified term.

Founded in 2010, subsidiary Harju Elekter AB has acquired a fully functional client base during these three years. According to the Group's development strategy, Scandinavia and Sweden continue to be important target markets, but the reason behind this step was the inefficient and cost-intensive business model that was implemented between 2011 and 2013. While sales volumes continued to increase year by year, the relatively steep costs did not make it possible to reach the desired business results.

As at 31.12.2013, Harju Elekter AB's balance sheet total in the Group's assets was 0.25%, making up 184,000 euros (31.12.2012: 342, 000 euros). The company's sales revenue in 2013 was 703,000 euros (2012: 532,000 euros), making up 1.4% and 1.0% of the consolidated sales revenue, respectively. The financial year resulted in a loss of 190,000 euros (2012: 140,000 euros).

After the reorganisation, responsibility for the Group's Sweden-oriented business activities and the local clients will be taken over by the sales and development teams of Harju Elekter's subsidiary AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. All unfinished projects will be carried over to AS Harju Elekter Elektrotehnika, who will continue with active sales and participation in tenders. After the reorganisation, the main focus will be put on efficient development and sales.

32 Primary financial statements of the Parent

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

PARENT COMPANY'S STATEMENT OF FINANCIAL POSITION

EUR '000	As at 31 December	
	2013	2012
Cash and cash equivalents	2,254	850
Trade receivables	400	412
Receivables from related parties	1,117	1,190
Other receivables and prepayments	76	53
Inventories	299	333
Total current assets	4,146	2,838
Investments in subsidiaries	3,006	3,326
Investments in associates	565	565
Other long-term financial investments	31,339	21,386
Investment property	14,233	13,021
Property, plant and equipment	394	411
Intangible assets	326	300
Total non-current assets	49,863	39,009
TOTAL ASSETS	54,009	41,847
Liabilities		
Trade payables	316	345
Payables to related parties	49	107
Tax liabilities	116	117
Other payables and advances received	218	197
Total current liabilities	699	766
Other long-term liabilities	44	44
Total liabilities	743	810
Equity		
Share capital	12,180	12,180
Share premium	240	240
Reserves	31,425	21,353
Retained earnings	9,421	7,264
Total equity	53,266	41,037
TOTAL LIABILITIES AND EQUITY	54,009	41,847

PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

EUR'000	For the year ended 31 December	
	2013	2012
Revenue	6,004	5,845
Cost of sales	-3,421	-3,370
Gross profit	2,583	2,475
Other income	6	6
Distribution costs	-354	-352
Administrative expenses	-1,250	-1,215
Other expenses	-28	-33
Operating profit	957	881
Income from subsidiaries	455	344
Income from available-for-sale financial assets		
-Dividend income	948	854
-Income from sale of investments	1,676	175
Interest income	28	13
Interest expense	-1	-2
Foreign exchange gain/loss (-)	-9	8
Profit before tax	4,054	2,273
Income tax expense	-289	-221
Profit for the year	3,765	2,052
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	10,030	5,376
Total comprehensive income for the year	13,795	7,428

PARENT COMPANY'S STATEMENT OF CASH FLOWS

EUR'000	2013	2012
Cash flows from operating activities		
Operating profit	957	881
Adjustments for		
Depreciation, amortisation and impairment losses	750	703
Gain on sale of property, plant and equipment	-2	-4
Change in receivables	23	-116
Change in inventories	34	5
Change in payables	-6	69
Corporate income tax paid	-289	-221
Interest paid	-1	-2
Net cash from operating activities	1,466	1,315
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-1,974	-431
Acquisition of a subsidiary	0	-391
Proceeds from sale of financial assets	2	6
Proceeds from sale of property, plant and equipment	1,753	189
Repayment of loans provided	750	0
Loans provided	-778	-431
Interest received	27	11
Dividends received	1,404	1,198
Net cash from/used in investing activities	1,184	151
Cash flows from financing activities		
Proceeds from issue of share capital	0	660
Other long-term liabilities	0	43
Proceeds from reduction of the subsidiary's share capital	320	0
Repayment of loans received	0	-346
Dividends paid	-1,566	-1,176
Net cash used in financing activities	-1,246	-819
Net cash flows	1,404	647
Cash and cash equivalents at beginning of year	850	203
Increase/decrease in cash and cash equivalents	1,404	647
Cash and cash equivalents at end of year	2,254	850

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
EUR'000						
At 31 December 2011	11,760	0	1,073	14,801	6,491	34,125
Profit for the year	0	0	0	0	2,052	2,052
Other comprehensive income	0	0	0	5,376	0	5,376
Total comprehensive income	0	0	0	5,376	2,052	7,428
Contribution to share capital	420	240	0	0	0	660
Increase of capital reserve	0	0	103	0	-103	0
Dividends	0	0	0	0	-1,176	-1,176
At 31 December 2012	12,180	240	1,176	20,177	7,264	41,037
Profit for the year	0	0	0	0	3,765	3,765
Other comprehensive income	0	0	0	10,030	0	10,030
Total comprehensive income	0	0	0	10,030	3,765	13,795
Increase of capital reserve	0	0	42	0	-42	0
Dividends	0	0	0	0	-1,566	-1,566
At 31 December 2013	12,180	240	1,218	30,207	9,421	53,266
EUR'000					2013	2012
Adjusted unconsolidated equity at 31 December					53,266	41,037
Interests under control and significant influence:						
- Carrying amount					-3,571	-3,891
- Carrying amount under the equity method					12,784	11,636
Adjusted unconsolidated equity at 31 December					62,479	48,782

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

According to the Commercial Code, a Parent undertaking who prepares the annual report of the consolidation group shall approve the profit distribution resolution based on the consolidated reports of the consolidation group. Profit as apparent from the consolidated reports shall not be distributed in so far as this would decrease the net assets of the parent undertaking to a level below the total of share capital and reserves which pursuant to law or the articles of association shall not be paid out to shareholders.

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED ANNUAL REPORT

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

The Management Board confirms the correctness and completeness of AS Harju Elekter consolidated financial statements for the year 2013 as set out on pages 38-88 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;
- Harju Elekter AS and its subsidiaries are going concerns.

Andres Allikmäe Managing Director/CEO /signature/ 14th April 2014

SIGNATURES TO THE ANNUAL REPORT OF 2013

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2013.

Andres Allikmäe Managing Director/CEO /signature/ 14th April 2014

The supervisory board has reviewed the annual report prepared by the management board (pp. 5-89) 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/ 16th April 2014

Ain Kabal Member of the Supervisory Board /signature/ 16th April 2014

Madis Talgre Member of the Supervisory Board /signature/ 16th April 2014

Triinu Tombak Member of the Supervisory Board /signature/ 16th April 2014

Andres Toome Member of the Supervisory Board /signature/ 16th April 2014



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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 statement of consolidated financial position as at 31 December 2013, the statements of consolidated comprehensive income, consolidated cash flows and consolidated changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 88.

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 AS Harju Elekter as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 14 April 2014

/signature/

Andris Jegers
Authorized Public Accountant, licence No 171

/signature/

Indrek Alliksaar
Authorized Public Accountant, licence No 446

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Licence No 17
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Tallinn 10117

PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EUR '000
Retained earnings of prior periods	13,473
Profit for 2013	5,162
Total distributable profits at 31 December 2013	<u>18,635</u>

The management board proposes that profits be allocated as follows:

Dividend distribution (EUR 0.09 per share)	1,740
Retained earnings after allocations	<u>16,895</u>

/signature/

Andres Allikmäe
Managing Director/CEO

14 April 2014