ANNUAL REPORT 2014

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

Added documents to the annual report:

- The independent auditor's report
- Profit allocation proposal

CONTENTS

ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

The 46th year of operation of AS Harju Elekter was active and eventful, with the positive greatly outweighing the negative. The less pleasant side the last year brought along the Russian-Ukrainian conflict and its side effects. Although the consequences of the conflict on the Harju Elekter Group are not extensive, it affects considerably the European automobile industry and is one of the reasons for production decline in the factories of PKC Eesti, the Group's largest long-term lessee. 5% of the consolidated sales revenue of AS Harju Elekter is earned from management and renting out of industrial real estate, therefore the closing of the PKC Eesti's factory in Haapsalu was equally problematic for both, the Group and the town of Haapsalu. The downturn in construction activities in Estonia also continued, decreasing the orders for the Group's construction-related products, including the public procurement of substations by Eesti Energia Jaotusvõrk.

The Group's Supervisory Board and management were able to react promptly to the changes in the external environment and take action and decisions to compensate for the decline in the Estonian market through increasing sales outside the country, in the adjacent markets of Sweden and Finland. The decision made in June to purchase Finnkumu Oy, the largest Finnish producer of prefabricated substations, made the Group the number one seller of substations in Finland and also raised considerably the sales revenue. At the end of the year, the newly acquired Finnkumu Oy was declared the best enterprise in Finland.

In July we decided to sell to the core investor our long-term 34% holding in the associated company AS Draka Keila Cables, on the one hand in order to ensure the continuance and development of cable production in Estonia and on the other hand to secure available funds to finance the purchase of Finnkumu Oy.

The shares of AS Harju Elekter have been listed on the Tallinn Stock Exchange since 1997. Even though the year 2014 saw some turmoil on the world stock markets and the Tallinn Stock Exchange dropped 8%, the company's share was one of the few that managed to increase its price (by 3.3%). The closing price of the share was 2.79 euros. 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 dividends to its shareholders the entire time it has been listed on the stock exchange and the continually high number of shareholders shows that the trustworthiness and the solid dividend policy of the company is greatly valued.

On behalf of the Supervisory Board I would like to thank all our customers, partners, shareholders and employees. We wish to remain a responsible employer, a committed partner to our customers and a stable payer of dividends to our shareholders.

/signature/

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE MANAGING DIRECTOR/CEO

Recently we have witnessed a number of historically, politically and undoubtedly also economically crucial changes and events. The view that we are about to achieve a balance in the world has been replaced by an understanding that nothing is for granted any more. Values, agreements or security now lack a clear scale. Everything that has happened and is happening does not provide us any certainty of what to expect from the future.

The Harju Elekter Group has based its business activities of all of its companies and in following the wishes and expectations of its customers and partners on a firm ground, which has allowed us to end the eventful year 2014 beyond the expectations. The last financial year is mainly characterised by steps taken to set the stage for future development. One of Finland's largest manufacturers of prefabricated substations, Finnkumu Oy, joined the Group; the sale of our shareholding in the associated company Draka Keila Cables gave us a strategic option to continue and increase cable production in the Keila Industrial Park; the development of the first real estate project was started at the Allika Industrial Park acquired during the financial year. At the same time we actively reorganised our business activities related to Sweden and paid intense attention to marketing. The activities of the Harju Elekter Group were noticed and valued, as demonstrated by the special acknowledgements and awards both to the subsidiaries as well as the Group as a whole.

Regardless of complications on markets and fierce competition we were able to increase the Group's sales volume by 5%, bringing it to the third best result throughout the history of the company – 50.6 million euros. Sales outside Estonia grew to a record 70% of sales revenue. Operating profit increased 28%, reaching 2.2 million euros, and extraordinary financial income contributed to a remarkable 89% growth in our net profit, to 9.8 million euros. Throughout the entire financial year the Group was very well financed. Investors and shareholders should be well satisfied with our solid balance sheet. However, today we have to admit that in spite of the outstanding economic performance the share price and market capitalisation of AS Harju Elekter remains some tens of percent below the equity figures as a result of passive trading on NASDAQ Tallinn.

The Group's sales are geographically rather diverse. Its companies' economic activities have advanced most in the Finnish segment, which as a result of local sales as well as the Group's companies' sales to Finland grew by 26%, achieving a 58% share in the Group's sales volumes.

The strength of the Harju Elekter Group has always been conducting business in a sustainable and forward-looking way, recognising our responsibility towards society. We consistently support the engineering education at the Tallinn University of Technology as well as electricity related cooperation and security aspects within the professional association EETEL. Youth sports and recreational activities at the company's locations are also not forgotten. We strive to be advisers and opinion leaders in the world we are in interaction. AS Harju Elekter cares about improving people's welfare, but also about more general decisions concerning the choices and security of society.

To round up the successful financial year I would like to thank our customers for their trust, all the Group's employees for their hard work and our shareholders for their support and advice.

/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. 70% of the products are marketed outside Estonia.

HARJU ELEKTER GROUP'S ORGANISATIONAL CHART

OVERVIEW OF THE ECONOMIC ENVIRONMENT

Global economy

According to the World Bank the global economy grew by 2.6% in 2014; this year's growth is expected to be 3.0%. The whole year was strongly affected and made unstable by the Russian-Ukrainian conflict, along with the sanctions imposed, which in turn were the indirect cause of exchange rate fluctuations. The exchange rate of the euro against the dollar and that of the rouble against the euro and the dollar both fell considerably. Besides that, the most important event influencing the global economy was undoubtedly the decrease in oil prices from the peak price of USD 115 per barrel in June to around USD 60 per barrel by the end of the year. At the same time, the low raw material prices enabled the US economy to recover and the weakening of the euro had an additional positive influence on the economy and export competitiveness of the Eurozone. From among the countries of the world, economic growth was fastest (7.4%) in China. The world's largest energy exporter Russia faced its first economic recession since 2009, mainly due to the decline in production and investment at a time when there were already problems with the rouble. Inflation remained low, reaching its lowest level in several decades.

Euro-area

Contrary to expectations, 2014 did not bring about a revival in the economy of the Eurozone. Partially because of the Ukrainian crisis and the sanctions war with Russia, although the introduction of negative interest rates for commercial banks by the European Central Bank was not able to boost the economy as intended either. Industries were not producing, domestic consumption remained low and foreign markets had been lost (e.g. Russia as regards agricultural products and consumer goods or China as regards industrial equipment and machine-tools). Private sector continued to pursue savings, which suppressed both growth and inflation. On top of that there were several local issues, such as the calling of extraordinary elections in Greece, economic stagnation in Italy or the dangerously high burden of debt in France. The situation was also not good for the European growth engine Germany, whose economy has come to a halt, or for Estonia's closest neighbours. The economic situation of Estonia's main trading partners did not improve with the year, rather the opposite. The sanctions were a hard hit for Finland who has not been able to break out of the recession and whose economic growth barely made it into the positive. Sweden's economic growth did not meet expectations either, but it was significantly faster than that of Finland and analysts anticipate it to continue. There are, however, some positive signs – the weakening of the euro strengthens the export competitiveness of the entire Eurozone, lower prices of oil and mineral resources stimulate consumption (Estonia and the EU are both net importers), interest rates and inflation remain at extremely low levels.

Estonia and Baltic countries

The drivers of economic growth in the Baltic States have been broadly the same: domestic demand, support from the EU, increased productivity of the workforce and foreign trade. The slightly faster growth of Lithuania was largely the result of a positive reaction to the decision to join the Eurozone and the OECD in 2015. In Latvia, the growth was supported by the introduction of the euro as the common currency in January 2014. Estonia's economic growth in 2014 was 2.1%, the Latvian and Lithuanian economies grew 2.3% and 2.9%, respectively.

The main risks associated with the economic development of Estonia were related to the Russian-Ukrainian conflict, as well as uncertainty in the Eurozone and the standstill of the Finnish economy. Estonia's economic growth in 2014 was positively influenced by the manufacturing industry, energy and retail trade sectors, while value added decreased in construction, transport and storage. Regardless of the weak external climate exports increased (except to Russia), mainly supported by the growth of sales in the manufacturing industry. A large part of the industrial sector's growth was generated by the production of electronic equipment. The share of employee compensation in the economy increased, stimulating consumption and retail trade. The rapid growth of employee compensation is reflected in social tax receipts, which grew more than 8% within the year. At the same time, companies' profits dropped and investments decreased, as indicated by the decline in both value added of the construction sector and the imports of capital goods. The reduction in investments is mainly attributable to the energy sector.

YEAR 2014

Since 1.4.2014, the Supervisory Board of AS Harju Elekter decided to suspend the activity of Harju Elekter AB for an unspecified term. According to the Group's development strategy, Scandinavia and Sweden continue to be significant target markets, but the reason behind this step was the inefficient and cost-intensive business model used 2011 - 2013. Responsibility for the Group's Sweden-oriented business activity and the local clients was taken over by the sales and development teams of AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. Sales in the Swedish market increased in 2014 compared to the previous year by almost two times.

On 17 June 2014, Satmatic Oy, a subsidiary of AS Harju Elekter in Finland, signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer. After the transaction, Finnkumu Oy continues to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy. By purchasing Finnkumu Oy, the Group will increase our market share in Finland as well as elsewhere in Scandinavia and increases the product range.

In Q2 negotiations took place about selling minority stake in the associated company of AS Harju Elekter. On 9th of July 2014 AS Harju Elekter concluded a contract according to which AS Harju Elekter sells their 34% holding in AS Draka Keila Cables to the core investor Prysmian Group. Selling the holding was a strategic decision of Harju Elekter Group. AS Harju Elekter is going to continue close cooperation with AS Draka Keila Cables in the procurements of low voltage and other cable products; similarly long-term rental contracts of production facilities are going to remain in force.

In September, an invitation to tender was announced in order to find a contractor for a 3100 m^2 production building to be built in the Allika Industrial Park, resulting in an agreement signed between AS Harju Elekter and Merko Ehitus Eesti AS. The construction works were launched in October. The construction is to be completed in June 2015, and a preliminary lease contract has also been signed.

Krediidiinfo AS awarded to AS Harju Elekter the credit rating AAA (excellent) and to its subsidiary AS Harju Elekter Elektrotehnika AA (very good). The rating of Krediidiinfo AS assesses the activities of the company as a whole and represents an aggregate assessment of the company's economic and financial condition as well as the payment patterns. Less than 10% of the Estonian companies have credit rating AAA or AA.

Finnish subsidiary Finnkumu Oy was awarded the certificate "Suomen Vahvimmat 2014" by the client register of Suomen Asiakastiedon. The creditworthiness of the company is the main evaluation criterion and the title is awarded to a company that has met the highest requirements of Alfa rating. The number of such companies makes up only 12% of all companies registered in Finland.

Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award. AS Harju Elekter, a fourth year in the row was recognised as the best in Estonia. 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 the Group's Estonian and Finnish subsidiaries, the process of implementing the Lean 5S/6S principles of increasing productivity and activities in order to increase profitability and customer satisfaction through the cost-effective use of resources was continued.

The Group's subsidiaries participated actively in exhibitions: in February, Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV), in Jyväskylä and in Subcontracting Exchibition in Tampere, in September. AS Harju Elekter Elektrotehnika participated in SLO Autumn Exchibition in September and AS Harju Elekter Trade Group presented its products range in the international building fair Estbuild, in April.

BUSINESS RESULTS

5 years statistical summary

Group	2014	2013	2012	2011	2010
Statement of comprehensive income (million EUR)					
Net sales	50.6	48.3	52.8	46.7	40.9
Operating profit	2.2	1.7	2.0	2.0	1.5
Profit attributable to owners of the Company	9.7	5.2	3.5	2.8	2.2
Statement of financial position at the end of the year (million EUR)					
Total current assets	25.1	15.9	16.5	15.4	14.4
Total fixed assets	44.7	55.2	43.1	37.5	40.7
Total assets	69.8	71.1	59.6	52.9	55.1
Equity attributable to owners of the Company	58.5	62.5	48.8	40.3	44.0
Equity ratio (%)	83.8	87.9	81.8	76.2	79.8
Rates of growth (%, y-o-y)					
Net sales growth	4.8	-8.5	13.1	14.2	1.1
Operating profit growth	27.8	-11.5	-2.7	33.3	-16.1
Profit attributable to owners of the Company growth	87.9	46.8	26.8	27.6	76.9
Assets growth	-1.8	19.2	12.7	-4.0	39.5
Equity attributable to owners of the Company growth	-6.4	28.1	21.1	-8.3	43.1
Performance indicators (%)					
Operating margin	4.4	3.6	3.7	4.3	3.7
Net margin	19.3	10.7	6.8	6.3	5.6
Return of assets (ROA)	13.8	7.9	6.3	5.1	3.2
Return of equity (ROE)	16.0	9.2	7.9	6.6	4.4
Shares (EUR)					
Average number of shares (1000 pc)	17,400	17,400	17,093	16,800	16,800
Equity per share	3.55	3.20	2.61	2.51	2.22
The closing price	2.79	2.70	2.64	2.28	3.02
EPS	0.56	0.30	0.21	0.17	0.13
P/E	4.98	9.00	12.57	13.41	23.39
Dividend per share	[1] 0.15	0.10	0.09	0.07	0.06
Liquidity ratio					
Current ratio	2.8	2.3	1.8	1.8	1.8
Quick ratio	1.9	1.4	1.1	1.0	1.1
Personnel and remuneration					
Average number of employees	459	455	452	427	424
Number of employees at the end of the period	483	451	478	457	440
Wages and salaries (million euros)	9.2	8.6	9.1	7.7	7.0

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's proposal

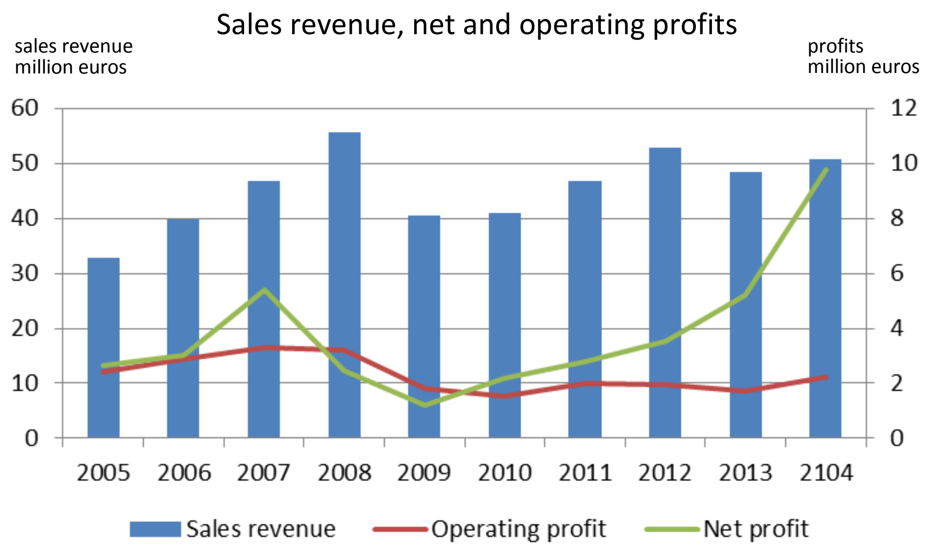
In the 2014 annual report the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Harju Elekter AB (until 31.3.2014), Satmatic Oy, Finnkumu Oy and Rifas UAB are consolidated line-by-line and the results of affiliated company - AS Draka Keila Cables - by the equity method until 30.6.2014.

On 17 June 2014, Satmatic Oy purchased all shares of Finnkumu Oy, Finland's largest pre-fabricated substation producer. The annual report, prepared as at 31 December 2014, comprises, as of 1 July 2014, the financial statements of Finnkumu Oy.

In July 2014, Group sold its 34% holding in AS Draka Keila Cables to the core investor Prysmian Group.

AS Harju Elekter has a share of 4.6% in the Finnish company PKC Group Oyj. The shares of PKC Group Oyj 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 2014 the consolidated net sales of the Group increased by 4.8% compared with the reference period, amounting to 50.6 million euros. The operating profit of the reporting year increased by 27.8% to 2.23 million euros and net profit by 89.0% to 9.78 million euros.

Out of the consolidated net sales 40% (2013: 47%) was contributed by the Estonian, 50% (2013: 40%) by the Finnish and 10% (2013: 12%) by the Lithuanian companies.

The Group's main area of activity is the production and marketing of electric power distribution and transfer equipment and related activities. As usual, these activities made up the largest part of the consolidated sales volume, i.e. 90.5%; real estate and other activities accounted for 9.5%.

As to the markets, once again the Finnish and Estonian markets were dominant with 88% (2013: 86%) of the Group's products and services sold there. 70% of the Group's products and services were sold outside Estonia (63% in the reference period). Increasing the share of foreign markets has been, and will continue to be in the longer term, one of the strategic goals for the Group's management.

Revenues from the Estonian market decreased during the reporting year by 15.3% amounting to 15.2 million euros. Reduced investments in the Estonian energy distribution sector resulted in a decrease in the sales volumes of MV distribution equipment and substations. Considerably fewer orders under the public procurement contract have been fulfilled. On the Estonian market, enquiries about this type of equipment have dropped. As the requirements for MV equipment have been reduced, lower-rated but price-wise more competitive European brands will also qualify in procurements. The volume of orders for energy sector products as defined in the public procurement contract is expected to increase in 2015.

The economic situation in Europe, the weak competitiveness of Finland and the continuing downturn in the Finnish export sector are also reflected in the economic performance of the Finnish industrial sector in 2014. At the same time, increased orders in the Finnish electrical energy distribution sector have helped to raise revenues. Satmatic Oy was successful in the strong competition, especially as regards the energy distribution sector. Annual sales to the Finnish market increased by a quarter. In the second half of the year, a positive impact on the growth of the Finnish market came from the addition of the sales revenue of Finnkumu Oy, a unit substation producer acquired in June, which provided a 17% increase on the Finnish market in the 12-month period. The Group's Estonian and Lithuanian companies have also made a big contribution to the activities on the Finnish market. The companies in the Estonian segment increased their sales to Finland by 53% in the 12-month period, to 12.6 million euros, 5.8 million euros of which comprised products sold through the Finnish subsidiary. In the reporting period, the companies in the Estonian segment sold 58% more products than in the reference period. The Lithuanian segment's deliveries to Finland in the reporting year amounted to 1.9 (2013: 0.6) million euros, with intra-Group turnover accounting for only 4.8%. The Estonian and Lithuanian segments' sales revenue earned from external customers in Finland amounted to 23% of the sales revenue on the Finnish market in the 12 months of the year in question.

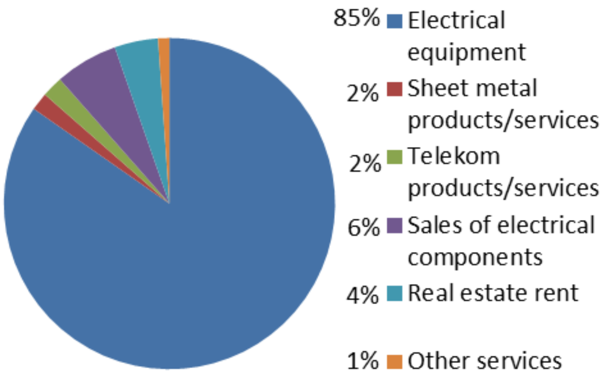
A significant part of the Lithuanian segment's revenue comes from the sales of electrical equipment, which decreased 4% in the 12-month period. In the reporting year, sales revenue from the Lithuanian market dropped by 61%. When the Lithuanian market accounted for 44% of the segment's sales revenue in 2013, then in the year concerned this figure dropped to 19%. At the same time, companies in the Lithuanian segment have increased their sales volumes on foreign markets by 33%, with deliveries to Finland growing by 1.3 million euros in 2014.

In Q1, the Group suspended the business operations of its Swedish subsidiary. As of April 2014, AS Harju Elekter Elektrotehnika is responsible for the Group's activities regarding Sweden. In the 12-month period, the Group sold products to the Swedish market in the amount of 1.6 million euros, which is almost twice as much as in the reference period. In Q4, active efforts continued to find new cooperation partners in Sweden. The company participated in several tenders. In the last quarter of the reporting year, bids for substations on the Swedish market amounted to nearly 1.25 million euros.

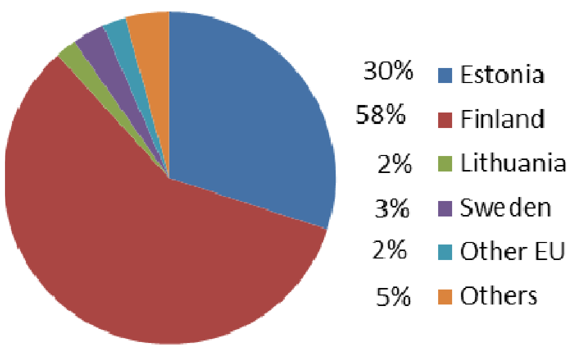
Sales revenue from other European Union markets grew to 1.14 million euros during the year. While deliveries to France decreased in the reporting year, sales volumes in the Latvian, Danish, German, Polish and Portuguese markets increased. In the reporting year, the company expanded to a new market – Slovakia. All in all, the sales volumes to other European Union countries have increased by half a million euros.

The Russian-Ukrainian conflict, along with the sanctions imposed, had a strong impact on the whole year. Deliveries to Eastern Europe have decreased by nearly 0.6 million euros, to 0.3 million euros. The volume of sales to the US market has grown.

Revenue by business area



Revenue by market



Cost of products and services sold increased by 4.3% during the year, remaining in the 12-month period 0.5 percentage points below the growth rate of sales revenue in the reporting year. As a result, the consolidated gross profit for the 12-month period was 9.1 (2013: 8.5) million euros. In comparison to the reference period, the gross profit margin improved by 0.4 percentage points with the year, amounting to 17.9%.

Compared to the beginning of the year, the number of the Group's employees has grown by 32, reaching 483, with 18 employees joining us in connection with the acquisition of Finnkumu Oy in Q3. As a consequence of adjusting the salaries of the Group's employees in the second half of 2013, strong pressure to raise salaries, as well as the implementation of a manufacturing employees' qualification system at the Group's Estonian companies, labour costs in manufacturing grew from 1 January 2014, resulting in an increase of labour costs as compared to the reference period. In the 12-month period, labour costs increased by 6.0%, amounting to 12.0 million euros. The ratio of labour costs to sales revenue was 23.8% (2013: 23.5%).

The Group's distribution costs in the 12-month period were 2.7 million euros, increasing by 3.6% compared to same period in the previous year. The ratio of distribution costs to revenue was 5.4%, remaining at the 2013 level. General administrative expenses decreased by 0.6% to 4.0 million euros during the year. The ratio of general administrative expenses to revenue was 8.0%, having decreased by 0.4 percentage points. In Q2, some of the staff of the Finnish company was restructured from general administration into sales. In the reporting year, the Group wrote off 103,000 euros in doubtful debts, the figure for the reference period was 155,000 euros.

Overall, the growth rate of operating expenses lagged behind that of sales revenue, increasing by 3.8% to 48.3 million euros during the year. In the reporting year, EBITDA as well as EBIT increased both by 0.5 million euros, to 3.7 million euros and 2.2 million euros, respectively. Return on sales before depreciation for the 12-month period improved by 0.6 percentage points, amounting to 7.4%, and return of sales by 0.8 percentage points, amounting to 4.4%.

Dividend income in the reporting period was 0.91 (2013: 0.95) million euros. In 2014, 200,000 (2013: 90,000) shares of PKC Group Oyj were sold, with financial income from selling the shares being 4.6 (2013: 1.7) million euros. The annual profit from financial investments totalled 5.6 (2013: 2.6) million euros and total financial income in 2014 amounted to 5.7 (2013: 2.6) million euros.

In Q3, the Group sold its 34% holding in AS Draka Keila Cables; the financial income from selling the shares was 1.8 million euros. Until June 30, the Group consolidated a profit of 0.8 (2013: 1.3) million euros from the associated company.

Income tax expense in 2014 was 675,000 (2013: 475,000) euros.

The consolidated net profit of the reporting year was 9.8 million euros, increasing by approximately 4.6 million euros. The share of the owners of the parent company amounted to 9.7 million euros. EPS was 0.56 (2013: 0.30) euros.

Other comprehensive income

The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange decreased during the period of 12 moths by 6.72 euros and closed at 17.47 euros (2013: increased by 8.76 euros to 24.19 euros). Other comprehensive loss from the revaluation of financial assets amounted to 7.41 million euros in the reporting year, in the reference period there was a comprehensive income of 11.69 million euros. 4.61 (2013: 1.66) million euros of revaluation profit were earned from the sales of financial assets. As a whole, the revaluation reserve in the owner's equity decreased by 12.02 (2013: increased by 10.03) million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company formed an insignificant part of other comprehensive income/loss.

Financial position

The amount of the consolidated balance sheet of the Group as of 31 December 2014 was 69.8 million euros, decreasing by 1.3 million euros during the year.

Most of the changes in the fixed assets derived from value adjustment of long-term investments in the Helsinki Stock Exchange and the sale of financial assets. Overall, the cost of financial investments in the statement of financial position decreased by 12.2 million euros in the reporting year. In July 2014, the Group sold its 34% holding in AS Draka Keila Cables. As at the beginning of the year, the book value of the associated company in the statement of financial position was 3.6 million euros.

In the reporting year, the Group’s investments in fixed assets amounted to 1.9 million euros; in the reference period, this figure was 2.3 million euros. Through business combinations, fixed assets totalling 4.9 million euros were acquired (Note 31). Overall, the cost of fixed assets decreased by 10.5 million euros the 12-month period amounting to 44.7 million euros.

By the end of the year business claims and prepayments amounted to 6.9 million euros, increasing by 1.0 million euros during the year, and inventory amounted to 8.1 million euros, increasing by 2.3 million euros, 1.5 million euros of which was inventory related to the acquisition of the subsidiary.

As at the reporting date, the Group’s liabilities totalled 9.95 million euros, of which short-term liabilities made up 8.4 million euros. The Group’s liabilities increased by 2.7 million euros with the year. Trade payables and other payables grew the most: 2.6 million euros, reaching 7.0 million euros. Short-term liabilities increased by 2.3 million euros year on year.

By the end of the year interest-bearing debt obligations amounted to 1.1 (31.12.2013: 1.8) million euros, with short-term obligations making up 0.3 (31.12.2013: 0.7) million euros. As at 31 December 2014, interest-bearing debt obligations formed 11.0% of the Group’s liabilities and 1.6% of the cost of assets; as at 31 December 2013, these figures were 24.2% and 2.5%, respectively.

In the 12-month period, the net debt (interest-bearing debt obligations – cash and bank accounts) of the Group decreased by 6.5 million euros, amounting to -8.9 million euros by the end of the year. The ratio of net debt to owners’ equity was -17.4%; in the reference period, it was -3.8%.

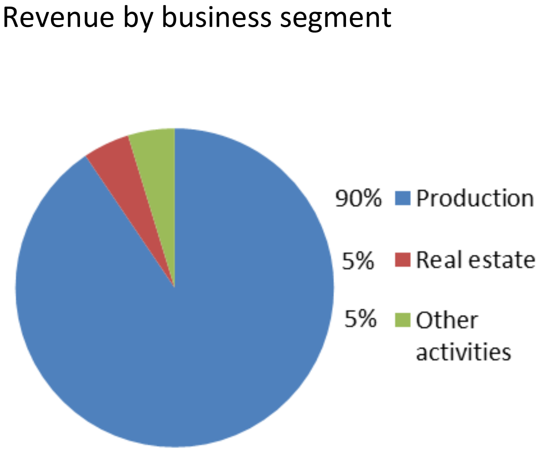
During the year, the owners’ equity of the Group decreased by 4.0 million euros, amounting to 59.8 million euros by the end of the year.

At the end of reporting period current assets amounted to 36% (2013: 22%) and fixed assets to 64% (2013: 78%), on the other hand, foreign capital accounted for 14% (2013: 10%) and owners’ equity for 86% (2013: 90%) of total assets.

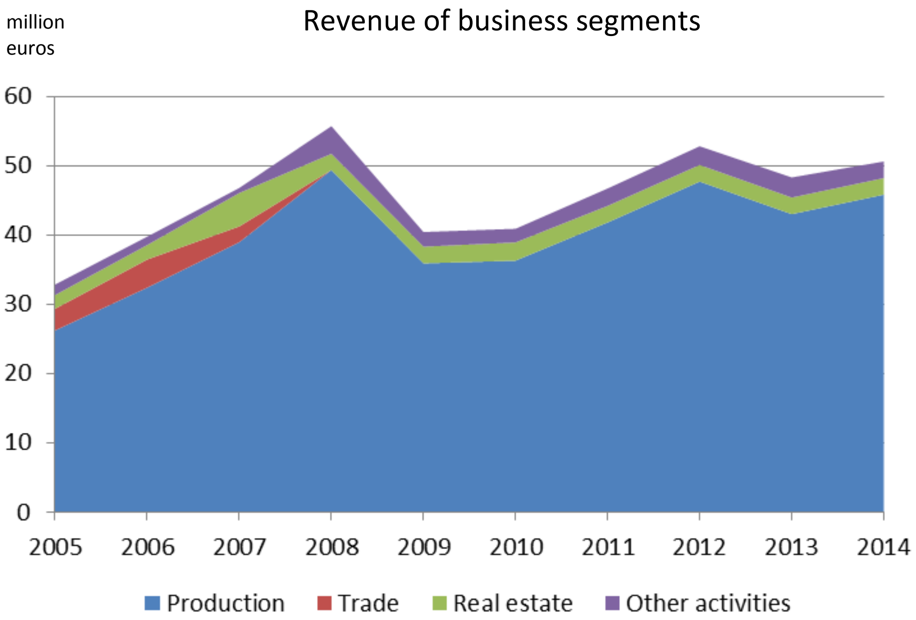
In the reporting year, net cash from operating activities was 2.8 (2013: 2.5) million euros and 5.6 (2013: 0.5) million euros from investment activities. The largest expenditure in the reporting period was the acquisition of the subsidiary Finnkumu Oy. The owners were paid 6.7 million euros for their shares. The acquired company had 1.9 million euros in its account, resulting in a total net cash outflow of 4.8 million euros. The largest revenues came from the sale of financial assets (shares of PKC Group Oyj and the associated company), in the total amount of 11.1 million euros (2013: 1.8 million euros). PKC Group Oyj paid dividends to its shareholders at 0.70 euros per share. In 2014, AS Harju Elekter received dividends in the amount of 910,000 (2013: 950,000) euros.

In 2014 the Group paid dividends of 1.8 (2013: 1.6) million euros. Overall, the net cash used in financing activities was 2.5 (2013: 2.3) million euros. Cash and cash equivalents increased in the reporting year by 5.9 million euros, amounting to 10.0 million euros, while in the reference period it increased by 0.8 million euros amounting to 4.1 million euros.

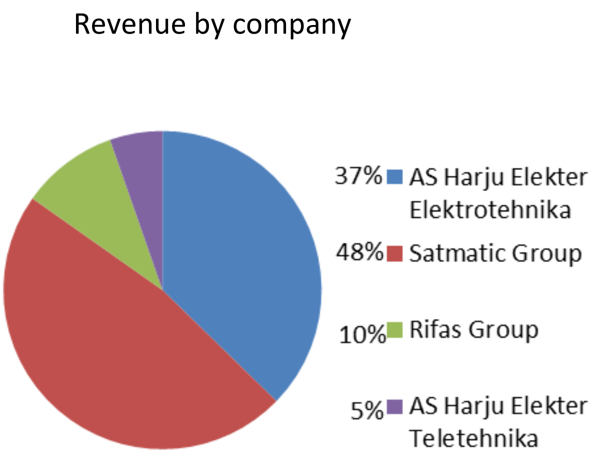
BUSINESS SEGMENTS



As of 31 December 2014 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 (suspended for an unspecified term since 1.4.2014), has during the last years (including 2014) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.



PRODUCTION

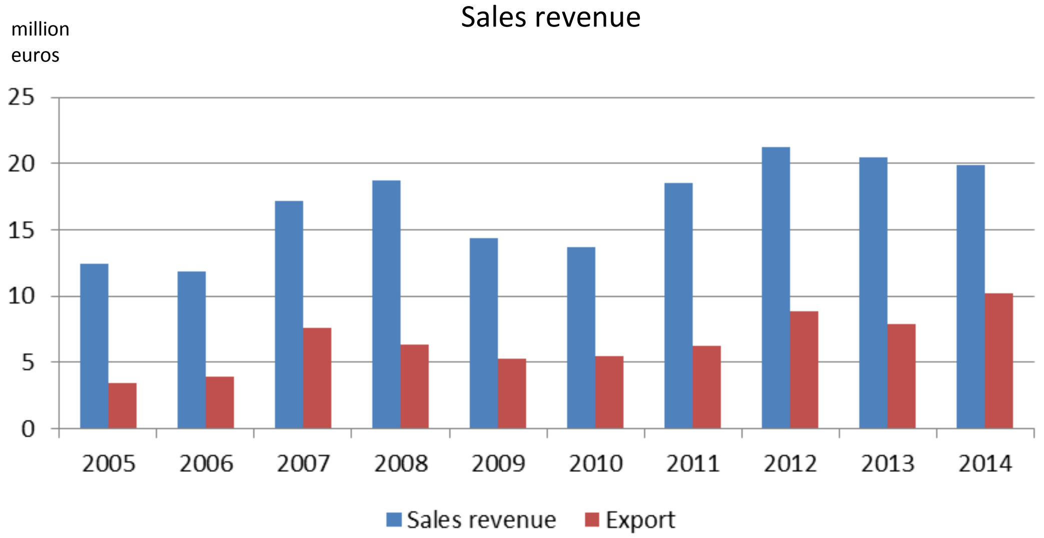


The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy, Finnkumu Oy) and Lithuania (Rifas UAB) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control 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 2014 production gave 90.5% (2013: 88.9%) of the consolidated sales revenue. The segment's volume of sales decreased within a year by 6.7% amounting to 45.8 million euros.

AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of AS Harju Elekter Elektrotehnika are located in Keila comprising 11,000 m^2 of production, warehouse and office premises. The average number of employees is 198, incl. 35 of them working in sales and R&D.



The economic activities of Harju Elekter Elektrotehnika in 2014 can be considered sound, as the company was able to retain its market share in the declining domestic market and even increase it in the foreign markets at a time of economic crisis, keeping its sales volumes at the level of the previous years. The company's sales revenue in 2014 was 19.9 (2013: 20.5) million euros in an environment where domestic consumption was low and the economic crisis in Europe had weakened the customers' business situation as a result of poor demand. Indirectly, the company was also affected by the Russian-Ukrainian conflict. Although the economy of the Eurozone did not recover in the past year as expected, the share of sales of AS Harju Elekter Elektrotehnika to foreign markets increased, including intra-Group sales by 29%, reaching a record 53% of sales revenues.

There were positive developments in carrying out cooperation contracts with the Finnish OEM (original equipment factory) and contracting entities in the energy sector. We also received challenging new orders for manufacturing automation panels for the industrial sector, MV and LV substations for the energy sector and special substations for the industrial sector. At the same time, the orders for standard products decreased with the year. Therefore we continued to widen our product range and directed additional resources to finding new markets, increasing the share of special solution products with a higher value added, and developing further project-based cooperation. As a result of successful negotiations a number of new large long-term cooperation contracts were also concluded.

As regards product groups, unit substations with concrete and metal enclosures still held the leading position in sales revenues. Sales of substations grew by 6.5% compared to the previous year, amounting to 66% of the company's annual sales revenue, with the special substations (port cranes) product group significantly improving its position. Substations were followed by the LV equipment, LV serial products and MV primary and secondary distribution units' product groups, the sales of which both to domestic and foreign customers met expectations. The successful Q4 brought the annual sales revenues of LV equipment to a three-year record level.

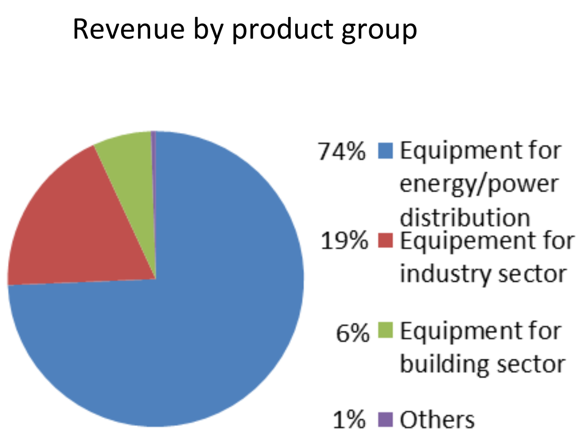
In April 2014, the activities of Harju Elekter AB were indefinitely suspended due to the inefficient and cost-intensive business model. Responsibility for the Group's business activities regarding Sweden and the customers in that country went to the sales and development team of AS Harju Elekter Elektrotehnika and the partner agents in Sweden. As a result of structural reorganisation and good marketing, sales in the Swedish market increased in the reporting year.

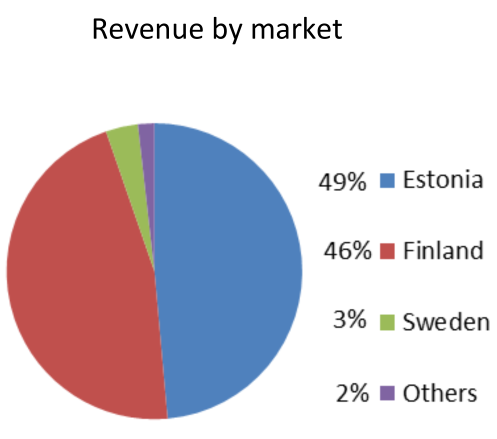
The updating of the company’s long-term strategy and the implementation of employees’ qualification system continued in 2014. As regards describing the processes for increasing management effectiveness, we reached the final stage of developing success-based indicators and finished the preparations for structural changes to be implemented in 2015 in connection with the creation of quality and logistics departments. As concerns process development, the development of the planning process must be highlighted, where employees’ proposals regarding the organisation of production constituted input for the consultations on improvement. The 5S activities continued in the production units. All the activities mentioned above are crucial to setting the company’s objectives and for the smooth functioning of the organisation, as well as a precondition for increasing productivity.

In order to better understand the expectations and needs of customers, the company continued to regularly seek customer feedback on the quality of its main processes. We are happy to note that on the basis of customer feedback, the quality of the company’s customer service (the recommendation index) has moved in a positive direction, meaning that our customers are increasingly recommending AS Harju Elekter Elektrotehnika as a business partner. This information is also valuable for improving business processes within the company. The introduction of complementary options of the business software, MS Dynamics AX, also continued, including the improvement of the registry of electronic purchase invoices and the management reporting environment. On top of that, both licensors and key customers audited the production of MV and LV distribution units on several occasions throughout the year, during which the compatibility of products and technical documentation, the manufacturing process of products and other quality assurance related issues were thoroughly examined. The audits are useful for all parties and constitute an important basis for future cooperation.

During the reporting year, the company participated in various professional fairs and customer fair days and several customer visits and study days were organised. Active cooperation continued with the Tallinn University of Technology in the fields of product development and testing new products; a joint study programme with the Tallinn Polytechnic School was launched.

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.

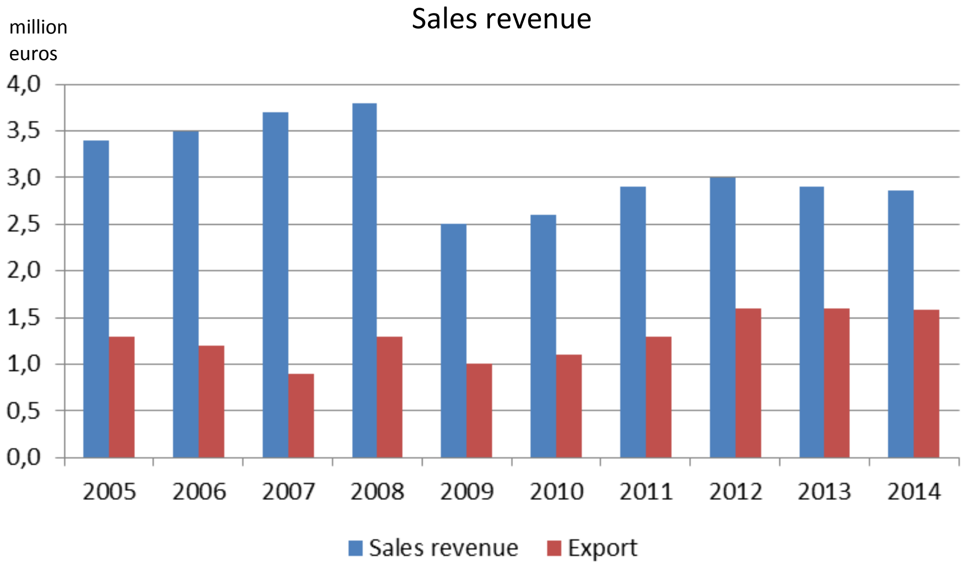




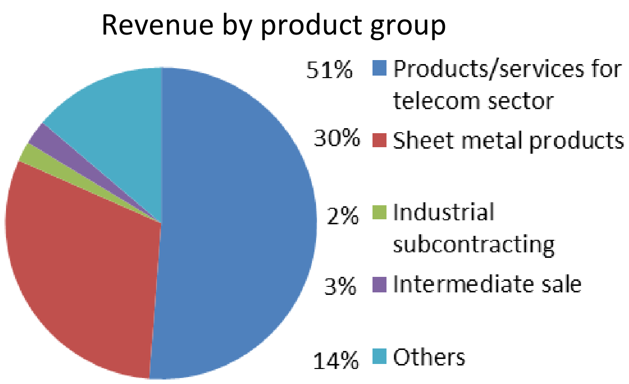
AS Harju Elekter Teletehnika

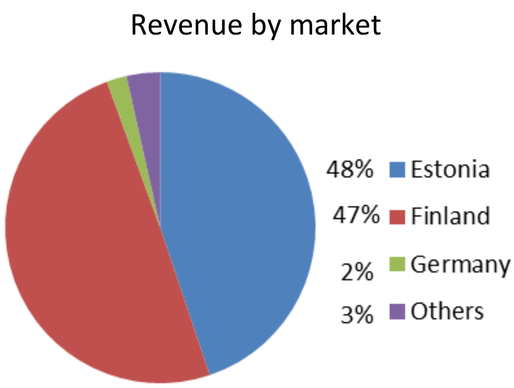
The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of customer-based sheet metal products 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 65 people.

2014 was a year of improving production organisation and developing new sales channels for the company. The focus was on increasing the profitability of specific product groups and customer segments, as well as on improving general efficiency in production. Several activities were directed at raising customer satisfaction and security of supply with the ultimate objective of boosting customer confidence in the company’s products and services. In the sheet metal sector, as in previous years, there was strong competition as regards prices and delivery times.



Overall, the sales revenue of AS Harju Elekter Teletehnika in the reporting year remained practically on the same level as in the previous year, decreasing by 0.4% to 2.9 million euros. Both sales on the domestic market and intra-Group export increased, by 2.1% and 13.4% respectively, but sales outside Estonia decreased by 2.4%. The share of exports in the company’s sales revenue was 55.2%. The largest foreign market was Finland (90% of total export turnover), followed by Sweden and Germany. The slight decline of foreign markets was mainly related to the Finnish telecommunications segment customers, who decreased their investments into data communication networks as a result of the unstable political and economic environment.





As concerns product groups, products and services linked to the telecommunications sector held the leading position with 58.5%, followed by sheet metal products, industrial subcontracting, intermediate sale of products and services and other products and services.

Several customer audits were organised at AS Harju Elekter Teletehnika in 2014, whereby customers evaluated the functioning of the company's processes and its ability to ensure product quality. Feedback from customer audits is crucial, as it helps the company to better understand customers' needs and adjust its processes accordingly, in order to offer customers more value added on a higher level.

During the past financial year, the company presented its products at several fairs in Finland and Germany. The rapidly changing economic environment forces companies increasingly to focus their production activities and define their product and customer segments more strictly. In close cooperation with customers and as a result of continuous product development, AS Harju Elekter Teletehnika developed several new products as well as improved versions of existing products. The company committed to the development of production organisation, concentrated on the improvement of planning accuracy and increasing security of supply and launched the measurement and adjustment of operation times in production. In the field of manufacturing, the development of the 5S programme continued, the aim of which is to reduce non-value adding activities and the misuse of resources as well as to improve efficiency and product quality. A new system for upgrading stock and cost accounting of sheet metal was implemented.

The keywords for AS Harju Elekter Teletehnika during this year will be the growth of sales, short delivery times and products with higher added value, which constitute a precondition for both, increasing sales revenue and productivity, as well as ensuring the company's sustainability and boosting competitiveness. The company focuses on the development of new competitive products, improving the cost-effectiveness of production processes and raising the level of customer satisfaction. Development of employee knowledge and skills increases each employee's contribution, making the company more competitive and sustainable.

Satmatic Group

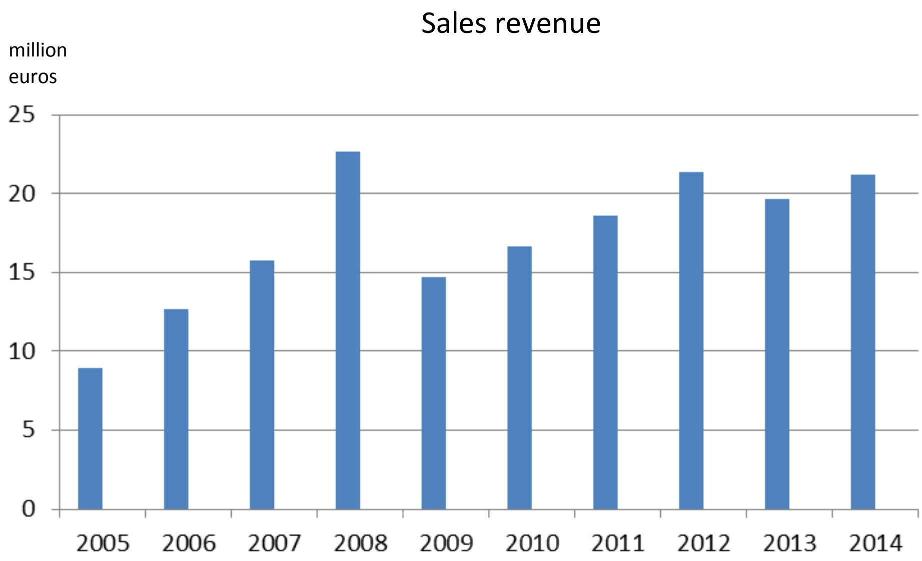
On 17 June 2014, Satmatic Oy, a subsidiary of AS Harju Elekter in Finland, signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer. After the transaction, Finnkumu Oy continues to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy.

In 2014, the Satmatic Group's sales revenue amounted to 26.0 million euros, and there are 92 employees working in Group.

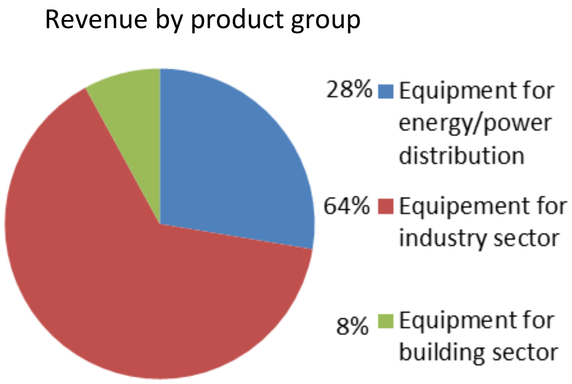
Satmatic Oy

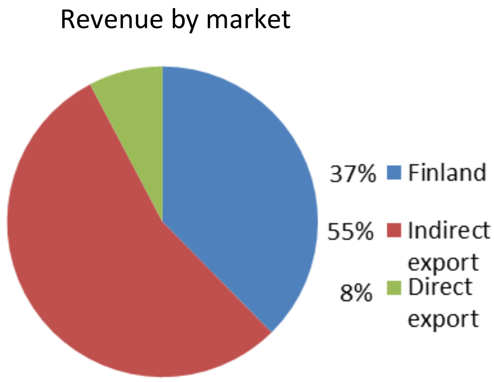
Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes 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 75 employees.

The unstable economic environment in Europe and the downturn in the Finnish export sector were also reflected in the 2014 sales revenue of Satmatic Oy. Even so, increasing orders in the energy distribution sector contributed enough to ensure that the company's sales revenue grew compared to the previous year, reaching 21.4 (2013: 19.7) million euros. Sales outside Finland either directly or through intermediaries accounted for 63% of sales revenue.



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 valuing customer relations, paying great attention to developing first-rate professional products/solutions as well as offering mutual added value. A moderate increase as regards project products continued in the reporting year, therefore additional resources were used for the development. Various electric, control and automation installations were developed at the factory and delivered to customers in the pulp and paper industry, as well as the rock wool, steel and food industries and for offshore, shipbuilding and mining sectors and (electrical) power stations.

The main target countries were Sweden, Russia, Poland, China, USA and Finland. Within the product group of serial products and products for contract customers, car heating switchboards and charging stations formed the largest share, with the products mainly sold by wholesalers. The share of energy distribution sector products in the product portfolio increased as a result of the leading Finnish substation manufacturer Finnkumu Oy joining the Group; the products – unit substations and cable distribution boxes – of this product group were delivered primarily to Finnish network operators, energy and power stations. On-grid and off-grid solar energy solutions proved to be the stand-out products in the renewable energy sector.

The daily business operation and organisation of Satmatic Oy follows quality and environmental policies based on international standards. Issues related to both quality and the environment, are discussed as an integral part of everyday management, sales, development, manufacturing, logistics and real estate management activities. The company's employees have received the relevant training that enables them to take note of problems and make suggestions to ensure that transport, waste management and usage of materials and energy are organised better and in a more environmentally friendly way. The activities of Satmatic Oy do not involve environmentally hazardous waste and the company's operations are in accordance with quality and environmental management standards ISO 9001/2008 and ISO 14001. In addition, Satmatic Oy has a valid UL certificate, which is a prerequisite for selling the company's products on the US market.

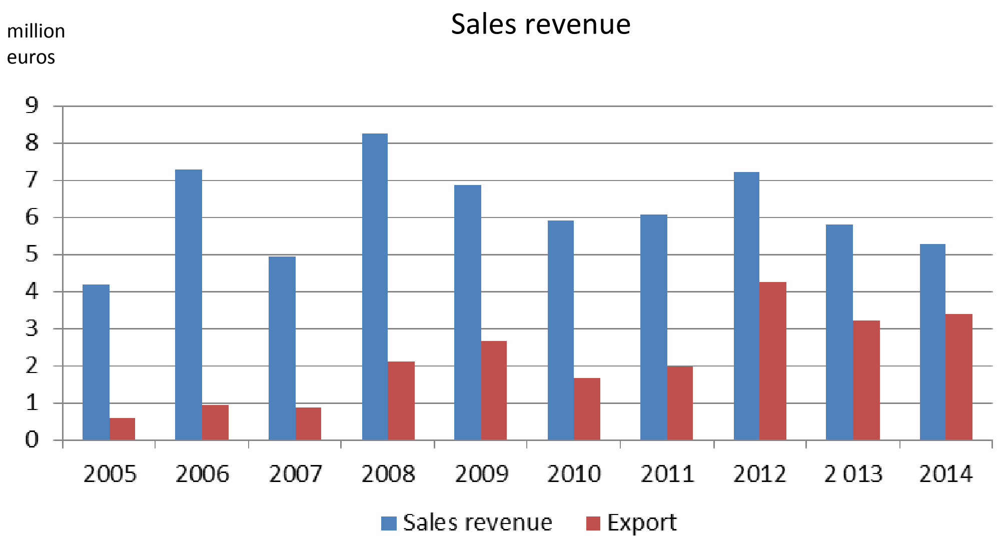
In 2015, the company's activities will be focused on finding new customers and more efficient involvement of wholesale and retail traders in the sales of substations, distribution and transfer equipment, as well as increasing on-line sales. In order to further develop the organisation of the company, greater attention will be paid to intensifying the work of the development department and organising logistics more efficiently. With the objective of increasing the company's sales revenue, alongside offering first-class service to existing customers, we will concentrate on finding new customers on domestic and foreign markets, using both traditional and electronic sales channels. Further growth is expected from improving the efficiency of marketing activities in relation to the products of Harju Elekter Group (substations, distribution boxes, etc.) and involving wholesalers. To increase the sales of renewable energy products, heating switchboards for car parks and charging systems, these products will be made even more customer friendly.

Finnkumu Oy

Finnkumu Oy is a wholly-owned subsidiary of Satmatic Oy and Finnish leading prefabricated substation manufacturer, involved in the planning, production and sale of electricity distribution devices, mainly substations and distribution cabinets. The company's headquarter is located in Kurikka and the company employees 17 people. In 2014, the company's sales revenue amounted to 9.0 (2013: 10.4) million euros, of which 4.0 million euros includes into the Harju Elekter Group's sales revenue.

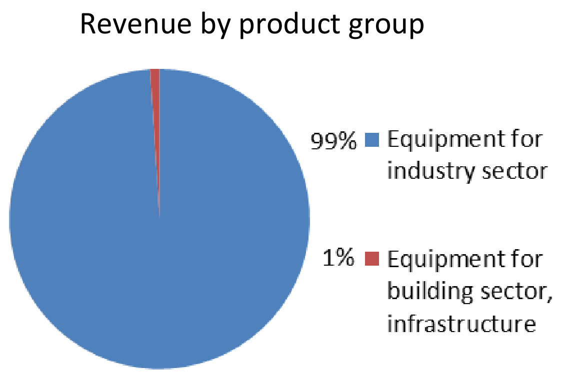
Rifas Group

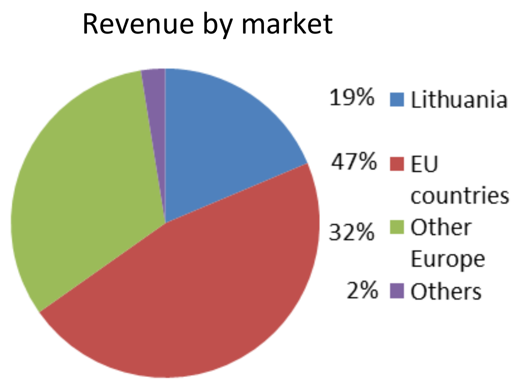
Rifas UAB is AS Harju Elekter's Lithuanian subsidiary, which located in Panevežys. AS Harju Elekter own 62.7% of shares of the company. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. 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 82 employees.



In 2014, the sales revenue of Rifas amounted to 5.3 (2013: 5.8) million euros. The decrease in sales revenue was due to the strategic decision to restructure the company's existing product portfolio, according to which it was decided to withdraw from the general contracting business that had so far accounted for a substantial part of the company's sales revenue 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 sales volumes of other product groups increased during the reporting 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.



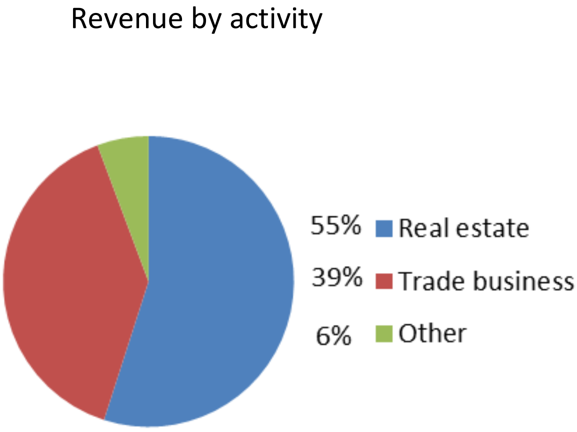


According to the company strategy and focal points in the fields of activities, main emphasis was put on boosting the efficiency of production processes and increasing production capacity, primarily in the export markets. During the year, the standardisation of the company's product range continued and new standard products and solutions were developed that should ensure a strong basis for increasing the volume of production. Long-term persistent efforts resulted in the conclusion of new important cooperation contracts with several foreign partners.

The introduction of the new business and accounting software continued in the company; in 2014, the main focus was on implementing the production capacity planning and project management modules, along with introducing the financial and management accounting modules. Besides that, throughout the year preparations were ongoing for the introduction and adoption of the euro as of 1 January 2015, when Lithuania became member of the Eurozone. The exchange rate was fixed at 1 EUR = 3.4528 LTL.

For the further development of the company the main focus will be put on the reinforcement of strategic relations with existing cooperation partners and on active marketing to find new customers and projects. The development of project based customer relations on foreign markets will continue.

REAL ESTATE HOLDING AND OTHER ACTIVITIES



The sales revenues of the real estate segment (Parent company) and other non-segmented activities (Parent company's Trade Group and until 31.3.2014 Harju Elekter AB) totalled 9.5% (2013: 11.1%) of the consolidated sales revenue, out of which merchandise formed 49.2%, rental income 45.1%, intermediary sale of services 4.0%, and income from other products/services formed 1.7%.

Real estate holding

The sales revenues of the segment were 2.4 million euros, being on the same level comparing to the previous year. Rental income amounted to 2.2 million euros, accounting for 89.3% (2013: 90.1%) of the profit of the segment. Rendering public and other services totalled 10.7% (2013: 9.9%) of the sales revenue of the segment.

Other activities

During the reporting period, the sales revenues of other non-segmented activities decreased by 8.4% amounting to 2.68 million euros and forming 5.1% (2013: 6.0%) 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 (2013: 80) 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 9.0% (2013: 9.6%) 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. In April 2014, the activity of Harju Elekter AB was suspended for an unspecified term, because of the inefficient and cost-intensive business model. Responsibility for the Group's Sweden-oriented business activity and the local clients was taken over by the sales and development teams of AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. Sales in the Swedish market increased in 2014 compared to the previous year by almost two times.

OTHER FINANCIAL INVESTMENTS

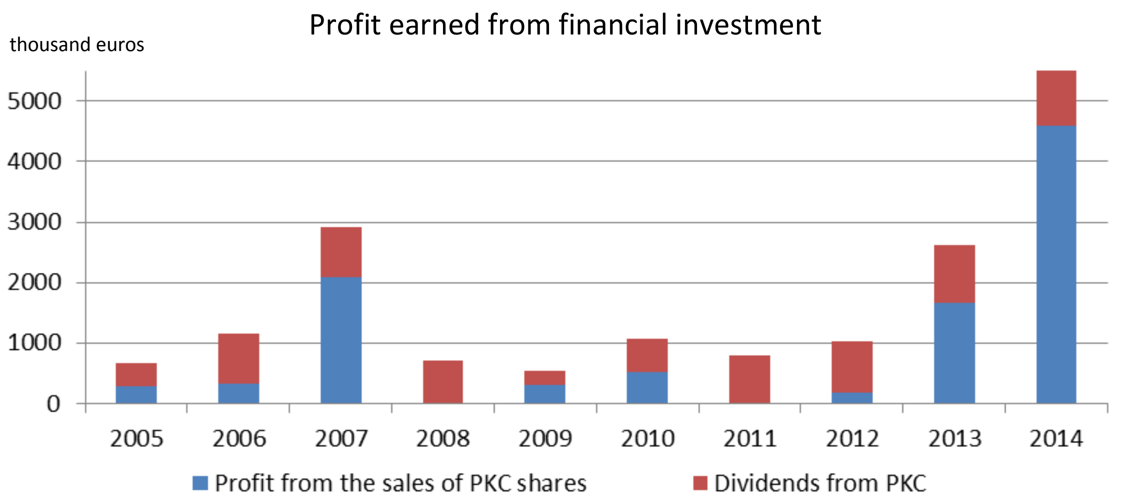
SIA Energokomplekss

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

PKC Group Oyj

PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. In 2014, sales revenue of PKC was 829.2 million euros and the Group employees 19,437 people.

PKC shares are quoted on the Helsinki Stock Exchange and AS Harju Elekter has 4.6% of PKC shares as at December 31, 2014. The market price of the shares decreased in 2014 by 6.72 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 17.47 (2013: 24.19) 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. The cost of investment in assets and reserves in equity decreased by the loss of 7.4 million euros; within the comparable period increased by the profit of 11.7 million euros. At a high price level, in order to promptly finance the purchase of the Finnish subsidiary, 200,000 shares in PKC Groupi Oyj were sold in May. The book value of the shares sold was 4.8 million euros. In total, the cost of financial investments decreased by 12.2 million euros to 19.1 million euros during 12 months period.



PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. In 2014 AS Harju Elekter received dividends in the amount of 907,000 (2013: 948,000) euros. In Q2, the Group sold 200 (2013: 90) thousand PKC shares, the nonrecurring profit for which amounted to 4.6 (2013: 1.7) million euros.

Share of PKC Group Oyj in 2012-2014

PERSONNEL

The companies of the Harju Elekter Group are located in Estonia, Finland and Lithuania. However, most of the employees (85%) work in either Estonia or Finland. While in Estonia unemployment has been declining (2014: 7.4%) and employment rates rising for several consecutive years, in Finland unemployment started to grow again last year, amounting to 8.8% of the working age population in December 2014. The structural unemployment, which has remained on a relatively high level, is a concern for both countries. In Estonia and Lithuania, employers have difficulties finding high quality labour and this is aggravated by the unattractive level of salaries in the business sector and the outflow of highly qualified specialists from these countries. The shortage of highly qualified labour has created a constant pressure to raise salaries.

As at the balance day on 31 December, there were 483 (2013: 451) people working in the Group and the average number of employees was 459 (2013:455). Employee wages and salaries totalled 9.2 (2013: 8.6) million euros in the year 2014. The average wages per employee per month amounted 1,669 (2013: 1,584) euros. It is important to note, that the average wage in Finland is a multiple time higher compared to Estonia and Lithuania.

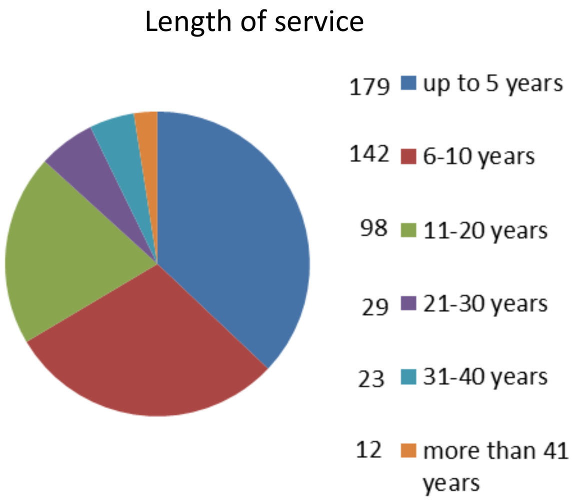
The majority of the Group's employees – 311 people – worked in Estonia, including 48 people who worked in the Parent company. At the end of the year, there were 92 people working in Finland and 80 in Lithuania. From 483 employees working in the Group 375 of them were men and 108 women, 113 of whom have higher education, 317 people have secondary or vocational secondary education and 53 have basic education. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.

Harju Elekter Group is characterised by is its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. 62.9% of employees have worked in the Group for over five years.

The average age of the Group's employees has remained stable, and was 41.2 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.

Since 2001, AS Harju Elekter has had close co-operative relations with Tallinn University of Technology (TUT), since 2010 as Golden Sponsor. Over the years, altogether 50 Bachelor's or Master's degree students have participated in the scholarship programme and five young engineers are currently employed by the Group. In cooperation with the TUT and under the leadership of Marek Mägi, an electrical engineer at the subsidiary AS Harju Elekter Elektrotehnika, a prototype of a storage device for a substation with an energy management system capacity was completed. Within the framework of a joint development project of AS Harju Elekter Elektrotehnika and TUT, the prototype device is being tested at the TUT on a real micro-grid test bench. The prototype device will be presented for the first time in May 2015 at the largest Nordic electrical engineering fair Elfack in Gothenburg.

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.



In the reporting year, companies in the Group continued to focus on optimising costs and ensuring the efficient operation of the organisation. The qualification system of manufacturing employees was implemented in the Group’s Estonian companies during the reporting year, which has helped link employees’ skills and contribution to a fair and motivating pay and pointed out possibilities for the development and for increasing salaries. The qualification system implemented has proven to be so successful that the mapping of jobs of administrative personnel is planned to be carried out in the beginning of 2015. Exercises and training courses organised for employees during the year were mainly aimed at improving professional skills and qualifications. In the production units, activities continued in order to implement the 5S production model and first results have been achieved in the form of increased productivity and reduced losses. 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:

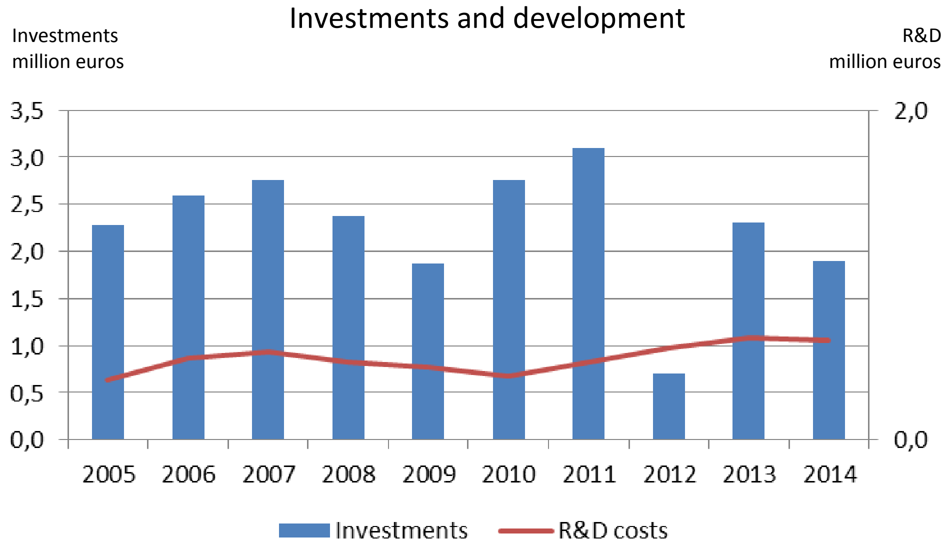
- a bonus system linked to operating profit and involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- share-option schemes, aiming at involving members of the directing bodies and employees of companies of the Group 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 2014, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 1.9 (2013: 2.3) million euros. In addition, fixed assets totalling 4.9 million euros were acquired through business combinations.

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 Dynamics AX management and business software continued in the Group's Estonian companies. Although the largest investments in that regard were made in the years 2009–2011, work continued to identify, adjust and introduce new modules and additional options of the business software. In 2014, the focus of the Group's Estonian companies' development activities in the field of information systems was on projects related to business analysis and information dissemination; preparations were started for the upcoming renewal of the management and business software version in 2016. The Group's Finnish and Lithuanian subsidiaries were also carrying out activities to implement and develop the management and business software and integrate it into a common platform. Development of the CRM and QlickView programmes continued in all subsidiaries. Investments in the development of business software made during the reporting year totalled 188,500 (2013: 84,500) euros and investments in information technology equipment amounted to 98,000 (2013: 73,800) euros.

As regards process developments, the development of the planning process in AS Harju Elekter Elektrotehnika must be highlighted. All subsidiaries continued with the 5S activities to increase productivity and reduce additional costs.

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 2014, assigned grants were received mostly for marketing actions and totalled 15.4 (2013: 19.0) thousand 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 2014 the development costs, at cost price, of the Group amounted to a total of 0.60 (2013: 0.62) million euros, accounting for 1.2% 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 2014 was diverse and interesting for the Estonian product development team. The Development Centre which pools the engineers from product development and technical departments and sales engineers of AS Harju Elekter Elektrotehnika grew by 4 persons. New the unit consists of 23 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.

A significant part of the product development resources of the Keila Development Centre in 2014 was used to develop a new solution for substations with concrete and metal enclosures specifically designed for the export markets. Product development activities and testing products at the Tallinn University of Technology continued, during which the production of a smart grid substation prototype and device was developed and implemented. The upgrading of the substation product portfolio was started with the aim of ensuring the compatibility of these products with the requirements of the new directive, soon to enter into force.

In the reporting year, large long-term cooperation contracts to manufacture substations and control system cabinets for the export markets were concluded and successfully launched. The Group’s product development team developed challenging solutions in connection with the manufacture of control system cabinets for the industrial sector, MV/LV substations for the energy sector and special substations for the industrial sector. One positive development was the significant improvement of the position of the special substations product group, which has used up considerable product development resources.

The Finnish and Lithuanian subsidiaries focussed on developments and projects related to renewable energy and offering suitable solutions in this field. On top of that, Satmatic Oy made efforts to increase the level of automation by purchasing and installing two new pieces of equipment: a CNC punch press and a cable connector installation and cutting device. The Finnish subsidiary increased its sales of solar power equipment and services. The development of heating switchboards for car parks and charging systems for electric cars continued in order to make these products even more customer-friendly.

The Group’s subsidiaries participated actively in professional fairs: in February, Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV) in Jyväskylä and in a subcontracting fair in Tampere in September. Also in September, AS Harju Elekter Elektrotehnika participated in the traditional SLO autumn exhibition, and in April, the AS Harju Elekter Trade Group presented its product range at the international building fair Estbuild.

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 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. The further development of the management and business software and implementation of additional modules continued in all subsidiaries; the Finnish company's work also included software related integration activities.

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 2014 a new certificate for the next three year period was issued 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.

Company	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
HE Elektrotehnika	ISO9001/ISO14001 (since 2000)		()			()			up to 1/2016	
HE Teletehnika	()	ISO9001/ISO14001 (since 2002)		()			()			up to 1/2017
Rifas		() ISO9001 (since 2003)			()		ISO14001 OHSAS 18001	up to 12/2015		
Satmatic		() ISO9001 (since 2003)			()		ISO14001	up to 10/2015		

() - recertification

CORPORATE TARGET FOR 2015

The preparation of the 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 guided by the Group's aim to be the well-known and recognised producer of electrical equipment and automation devices in the Baltic and Scandinavian countries who manufactures and delivers a highly professional range of products and comprehensive solutions in the segment of MV and LV products, using advanced technology and the best know-how available. The Group's activities derive from the concept of supporting our customers' and partners' interests and preferences in all our actions and decisions.

Alongside first-class service offered to our existing customers, the key factor for the Group's further development continues to be finding new customers and increasing sales outside Estonia in the neighbouring countries, other EU countries and beyond. The Group's marketing and sales are increasingly concentrated on foreign markets, developing technically and quality-wise impeccable products and solutions in accordance with our customers' and partners' high expectations.

In 2015, the Group will focus on:

- more efficient marketing and sales activities on all domestic markets and on expanding these activities
- continuing work to find new customers, partners and projects in Scandinavian countries
- remaining a part of our loyal customers' business activities and an integrated partner worldwide
- further developing the product and service range in the energy and industrial automatics sector and industrial real estate sector in order to offer customers and partners even more focussed and comprehensive solutions
- developing energy efficient and smart technical solutions
- developing solar power stations and including them in our product range; improving and adapting the existing product range developed in the Group
- ensuring greater efficiency of the business activities and production processes of the companies belonging to the Group through the addition of the necessary development projects and/or resources
- developing information systems throughout the Group that would allow using modern and smart solutions in decision-making processes as well as a reporting system that includes future-oriented assessments
- smart and focussed investments in production resources, real estate development and information technology
- active efforts to seek out and launch potential financial investment, merger and takeover projects

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 Group.It delivers trading, exchange technology and public company services across six continents, with over 3,200 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 nominal value of a share is 0.70 euros. The symbol of an AS Harju Elekter share in NASDAQ is HAE1T. ISIN: EE3100004250. 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.

2013 was a record year for the world's stock exchanges with both US and German shares reaching new heights and the London Stock Exchange being just short of a record level. In 2014 the markets experienced more turmoil but regardless of a modest start, the largest stock market index in the US, S&P 500, increased by 12% during the year. The trading year was far less positive for the European shares – the Stoxx Europe 600 index grew by 4%.

The Tallinn Stock Exchange OMXT index fell by 8% to 755 points with the year, having the smallest turnover in history and decreasing by one-third compared to the previous year, to 127 million euros. According to analysts the year was difficult, primarily on account of the unpredictable Russian-Ukrainian crisis that affected the performance of a number of companies. Out of the 15 shares remaining on the stock exchange only four were able to rise, including that of AS Harju Elekter.

In the reporting year, the share price of AS Harju Elekter increased by 3.3% to 2.79 euros and the company's market value as at December 31 was 48.6 million euros. Compared to the previous year, the volume of transactions and the number of shares traded decreased.

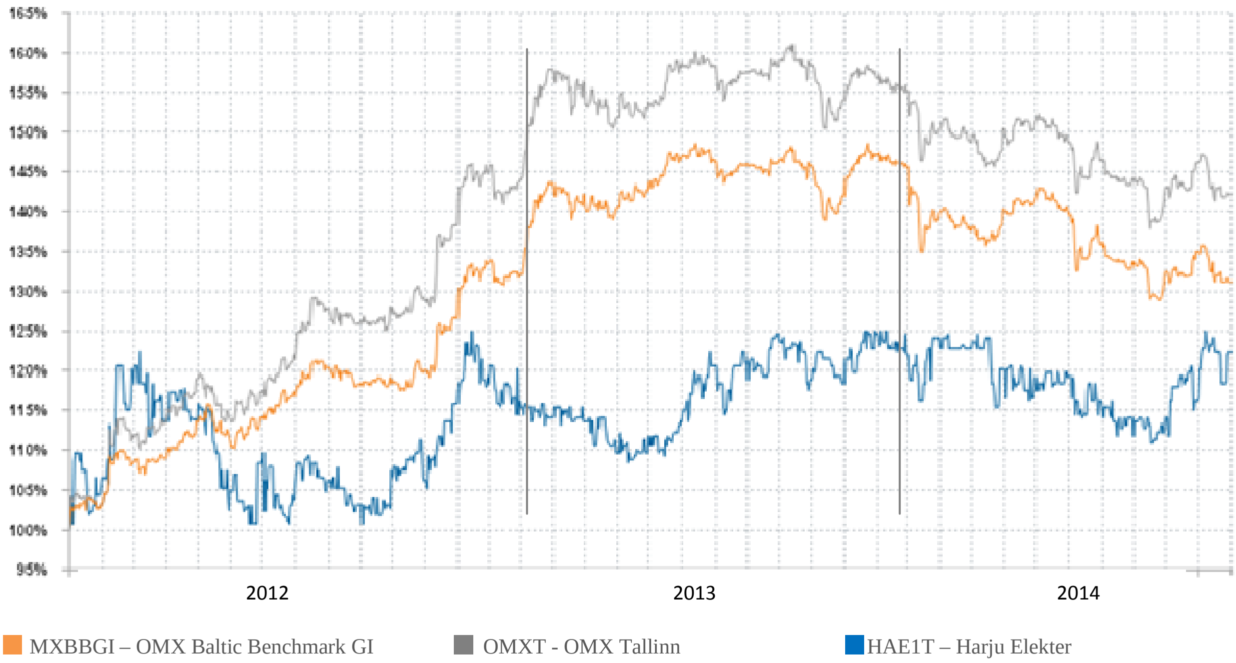
Key share data

EUR	2014	2013	2012	2011	2010
Number of shares (in thousand)	17,400,000	17,400,000	17,093,443	16,800,000	16,800,000
Nominal value	0.70	0.70	0.70	0.70	0.64
Highest price	2.85	2.92	2.80	3.54	3.14
Lowest price	2.52	2.46	2.30	2.19	2.02
Closing price	2.79	2.70	2.64	2.28	3.02
Change (%)	3.3	2.3	15.8	-23.8	45.9
Market value (in million)	48.55	46.98	45.94	38.30	50.74
Traded shares (pc)	800,823	936,162	759,869	663,917	2,039,910
Turnover (in million)	2.17	2.48	1.88	1.88	5.40
Earnings per share, EPS	0.56	0.30	0.21	0.17	0.13
P/E	4.98	9.50	12.57	13.41	23.39
Dividend per share	*0.15	0.10	0.09	0.07	0.06
Dividend yield (%)	5.4	3.7	3.4	3.1	2.0
Dividend payout ratio (%)	26.6	33.7	44.5	42.4	46.5

* Proposal of the Management Board

Share of AS Harju Elekter in Tallinn Stock Exchange 2012-2014

A comparison of AS Harju Elekter share indexes 2012-2014
for more information: http://www.nasdaqomxbaltic.com/market/



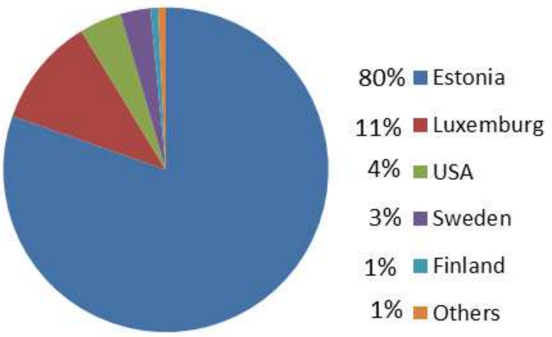
Shareholders structure, at 31 December 2014

At the end of 2014, AS Harju Elekter had 1,473 shareholders. The number of shareholders decreased during the year by 27 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2014 held 32.0% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 9.55% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

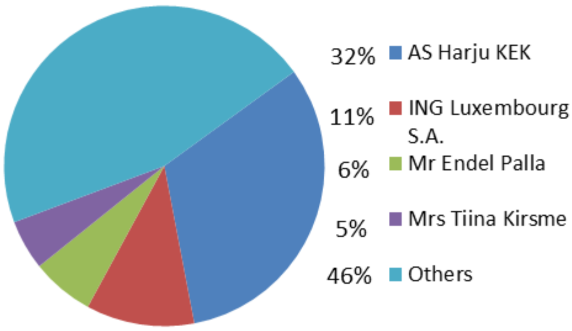
Shareholder structure by size of holding

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.14%	42.92%
1.0 – 10.0%	12	0.81%	27.91%
0.1 – 1.0%	54	3.67%	15.03%
< 0.1%	1,405	95.38%	14.14%
Total	1,473	100.0%	100.0%

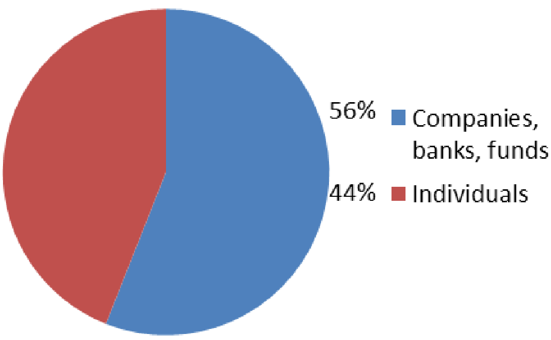
Shareholders by country



> 5% shareholders



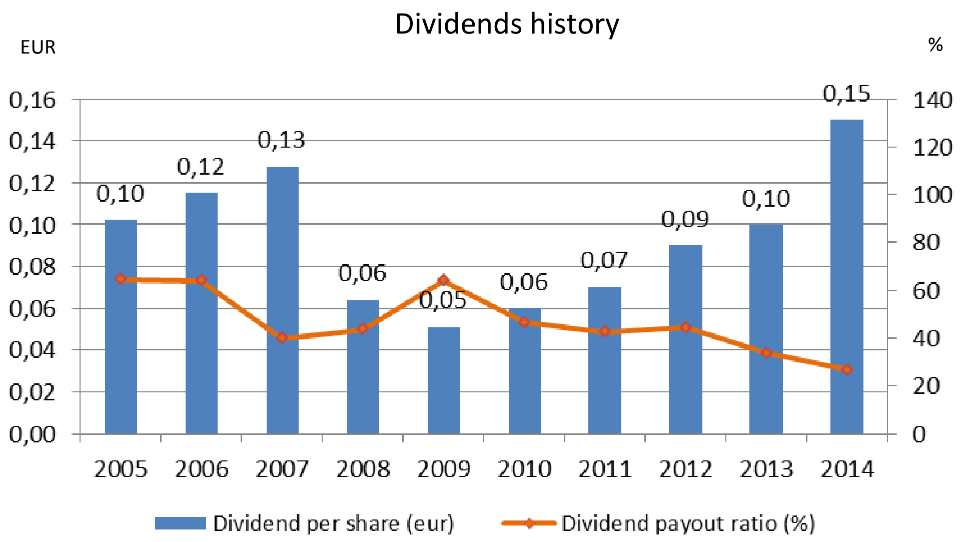
Shareholders by category



Dividends

According to the dividend policy of the Group, one third of the net profit of regular activities 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 0.15 (2013: 0.10) euros per share, totally 2.61 (2013: 1.74) million euros for the financial year 2014, which follows the principle of paying out a one third of the annual net profit minus exceptional profit from the sale of AS Draka Keila Cables.



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

CORPORATE GOVERNANCE

Corporate Governance Report 2014

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 2014, 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 0.4% 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 2014 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 consolidated financial statements; 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 2014 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 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 consolidated financial statements.

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 2014 was held on 8 May at Keskväljak 12 in Keila, Estonia. A total of 65.57% of the voting stock were represented. The general meeting approved the 2013 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 2014, the supervisory board met nine times. All members of the supervisory board attended all or most of the meetings. According to the Articles of Association, 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. In 2014, there were some changes in Supervisory Board of AS Harju Elekter. Mr Madis Talgre, a member of the Supervisory Board of AS Harju Elekter presented to the company an application for his resignation from the position of AS Harju Elekter Supervisory Board member. AGM elected on its 8th May meeting Mr Aare Kirsme to the position of AS Harju Elekter Supervisory Board member. Since 8th of May, the Supervisory Board has 5 members with the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Hansa Law Offices), Aare Kirsme (Chairman of the Supervisory 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 Hansa Law Offices legal adviser and a lawyer, who has long-term experience in advising Group's companies on legal issues. Mr Toome (chairman of OÜ Tradematic) 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. Mr Kirsme is a chairman of supervisory board of AS Harju KEK, the biggest shareholder of AS Harju Elekter (holding 32.0% of the shares of the company on 31.12.2014). 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 2014, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 8.4% (2013: 7.3%) 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.

The company has a one-member Management Board. In connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, at its meeting on 5 May 2014 the Supervisory Board extended the contract with Andres Allikmäe, the Chairman of the Management Board for the next three-year period. 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 2014, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.15% 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 consolidated financial statements; 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 KPMG Baltics UAB (2013: Baltijos Auditas UAB) in Lithuania and KPMG Oy in Finland. In 2014, there was no need to conduct an audit in Swedish subsidiary; in 2013 the audit are carried out by Allians Revision & Redovisning AB.

SOCIAL RESPONSIBILITY AND CHARITY

Social Responsibility Report 2014

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 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 2014 amounted to 24.4 (2013: 13.7) thousand euros.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Note	As at 31 December 2014	2013
Current assets			
Cash and cash equivalents	5,7	9,984	4,102
Short-term financial investments	12	35	0
Trade and other receivables	8	6,484	5,699
Prepayments	9	455	256
Prepaid income tax	9,20	79	41
Inventories	10	8,104	5,801
Total current assets		**25,141**	**15,899**
Non-current assets			
Deferred income tax assets	26	0	7
Investment in associate	11	0	3,598
Long-term financial investments	12	19,145	31,339
Investment property	13	12,109	11,663
Property, plant and equipment	14	7,968	8,129
Intangible assets	16	5,429	436
Total non-current assets		**44,651**	**55,172**
TOTAL ASSETS		**69,792**	**71,071**
Liabilities			
Interest-bearing loans and borrowings	17	278	654
Trade and other payables	19	6,989	4,437
Other current tax liabilities	20	1,072	969
Income tax liability	20	12	15
Short-term provisions	21	39	36
Total current liabilities		**8,390**	**6,111**
Interest-bearing loans and borrowings	17	818	1,098
Other liabilities	31	742	43
Total non-current liabilities		**1,560**	**1,141**
Total liabilities		**9,950**	**7,252**
Equity			
Share capital	23	12,180	12,180
Share premium	23	240	240
Reserves		19,393	31,424
Retained earnings		26,664	18,635
Equity attributable to owners of the Company		**58,477**	**62,479**
Non-controlling interests		1,365	1,340
Total equity		**59,842**	**63,819**
TOTAL LIABILITIES AND EQUITY		**69,792**	**71,071**

The notes on pages 45 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR'000		**For the year ended 31 December**	
	Note	**2014**	**2013**
Revenue	24, 25	50,606	48,288
Cost of sales	25	-41,525	-39,830
Gross profit		**9,081**	**8,458**
Distribution costs	25	-2,720	-2,627
Administrative expenses	25	-4,042	-4,067
Other income	25	27	38
Other expenses	25	-118	-59
Operating profit		**2,228**	**1,743**
Finance income	25	5,661	2,648
Finance costs	25	-38	-46
Share of profit of associate	11	817	1,303
Sales gain from the sale of share in associate	11	1,785	0
Profit before tax		**10,453**	**5,648**
Income tax expense	26	-675	-475
Profit for the year		**9,778**	**5,173**
Profit attributable to:			
Owners of the Company		9,697	5,162
Non-controlling interests		81	11
Earnings per share			
Basic earnings per share (EUR)	27	0.56	0.30
Diluted earnings per share (EUR)	27	0.56	0.30

The notes on pages 45 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000		**For the year ended 31 December**	
	Note	**2014**	**2013**
Profit for the year		**9,778**	**5,173**
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	-7,406	11,690
Gain/loss on sale of financial assets		-4,616	-1,660
Foreign currency translation differences – foreign operations		-10	-1
Total other comprehensive income for the year		**-12,032**	**10,029**
Total comprehensive income for the year		**-2,254**	**15,202**
Comprehensive income attributable to:			
Owners of the Company		-2,334	15,190
Non-controlling interests		80	12

The notes on pages 45 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR'000	Note	For the year ended 31 December 2014	2013
Cash flows from operating activities			
Operating profit		2,228	1,743
Adjustments for:			
Depreciation and amortisation	13,14,16,24,25	1,513	1,526
Gain on sale of property, plant and equipment	25	-10	-12
Share-based payments	25,30	72	73
Change in trade and other receivables		301	772
Change in inventories	29	-673	594
Change in trade and other payables		205	-1,537
Corporate income tax paid	29	-845	-579
Interest paid		-31	-33
Net cash from operating activities		**2,760**	**2,547**
Cash flows from investing activities			
Acquisition of investment property	29	-672	-1,650
Acquisition of property, plant and equipment	29	-765	-423
Acquisition of intangible assets	29	-257	-138
Acquisition of a subsidiary, net of cash acquired	31	-4,847	0
Proceeds from sale of investment in associate	11	6,200	0
Proceeds from sale of financial investments	12	4,933	1,753
Proceeds from sale of property, plant and equipment	29	27	16
Proceeds from sale of intangible assets	29	0	11
Interest received	29	54	22
Dividends received	25	907	948
Net cash used in investing activities		**5,580**	**539**
Cash flows from financing activities			
Changes in overdraft balances	17	-358	-438
Payment of finance lease principal	17	-298	-294
Dividends paid		-1,795	-1,592
Net cash used in financing activities		**-2,451**	**-2,324**
Net cash flow		**5,889**	**762**
Cash and cash equivalents at beginning of year		**4,102**	**3,352**
Increase / decrease in cash and cash equivalents		5,889	762
Effect of exchange rate fluctuations on cash held		-7	-12
Cash and cash equivalents at end of year	7	**9,984**	**4,102**

The notes on pages 45 to 91 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**								
EUR'000	**Share capital**	**Share premium**	**Capital reserve**	**Fair value reserve**	**Translation reserve**	**Retained earnings**	**TOTAL**	**Non-controlling interests**	**TOTAL EQUITY**
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 for the year	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	**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 45 to 91 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014	**Attributable to owners of the Company**								
EUR'000	**Share capital**	**Share premium**	**Capital reserve**	**Fair value reserve**	**Translation reserve**	**Retained earnings**	**TOTAL**	**Non-controlling interests**	**TOTAL EQUITY**
At 31 December 2013	**12,180**	**240**	**1,218**	**30,206**	**0**	**18,635**	**62,479**	**1,340**	**63,819**
Comprehensive income for the year									
Profit	0	0	0	0	0	9,697	**9,697**	81	**9,778**
Other comprehensive income	0	0	0	-12,022	-9	0	**-12,031**	-1	**-12,032**
Total comprehensive income for the year	**0**	**0**	**0**	**-12,022**	**-9**	**9,697**	**-2,334**	**80**	**-2,254**
Transaction with the owners of the Company, recognised directly in equity									
Share-based payments	0	0	0	0	0	72	**72**	0	**72**
Dividends	0	0	0	0	0	-1,740	**-1,740**	-55	**-1,795**
Total transaction with the owners of the Company	**0**	**0**	**0**	**0**	**0**	**-1,668**	**-1,668**	**-55**	**-1,723**
At 31 December 2014	**12,180**	**240**	**1,218**	**18,184**	**-9**	**26,664**	**58,477**	**1,365**	**59,842**

Further information on share capital is presented in note 23.

The notes on pages 45 to 91 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 2014 comprises AS Harju Elekter (the 'Parent company' or the 'Company') and its subsidiaries (together referred to as the 'Group') and the Group's 34% interest in the associate AS Draka Keila Cables (until 30.6.2014).

Subsidiaries of AS Harju Elekter	**Domicile**	**Core business**	**Ownership and voting rights, %**	
As at 31 December			**2014**	**2013**
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 (note 31)	Sweden	Retail- and wholesale	90	90
Rifas UAB (note 31)	Lithuania	Manufacturing	62.7	62.7
Subsidiary of Satmatic Oy				
Finnkumu Oy	Finland	Manufacturing	100	0
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 2014 for issue on 31 January 2015. 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 2014 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. On 1 January 2015, the Republic of Lithuania joined the Euro area and adopted the Euro as its currency, replacing the Lithuanian litas.

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

Effect on financial statements of application of new standards and amendments and new interpretations to standards

Except for the changes below, the Group has consistently applied the accounting policies set out in note 3 to all periods presented in these financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

As a result of IFRS 12, the Group has reviewed its disclosures about its interests in subsidiaries (note 1).

IFRS 11 *Joint Arrangements* also became first applicable in 2014; however, it is not applicable to the Group as the Group does not participate in joint arrangements.

IFRS 10 Consolidated Financial Statements

As a result of IFRS 10 (2011), the Group has changed its accounting policies for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether an entity has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. The Group concluded that there are no changes in the Group's control assessment as a consequence of new rules introduced by IFRS 10 (2011).

Other amendments to standards

The following amendments to standards with effective date of 1 January 2014 did not have any impact on these consolidated financial statements:

- IAS 27 (2011) *Separate Financial Statements*;
- IAS 28 (2011) *Investments in Associates and Joint Ventures*;
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 27 *Investment Entities*;
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*.

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 2014 and have not been applied in preparing these financial statements:

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

It is expected that the amendments, when initially applied, will have a significant impact on the financial statements, since the Entity will recognise contributions to defined benefit plans from employees and third parties as a reduction of the service cost in the period in which the related service is rendered instead of including the contributions in the calculation of the net current service cost and the defined benefit obligation.

IFRIC 21 *Levies*

Effective for annual periods beginning on or after 17 June 2014; to be applied retrospectively. Earlier application is permitted.

The interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by a government.

In accordance with the interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.
If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

It is expected that the interpretation, when initially applied, will not have a material impact on the financial statements, since it does not result in a change in the Entity's accounting policy regarding levies imposed by governments.

Annual improvements to IFRSs

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Entity.

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 acquree, 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 all entities over which the Parent Company has control. Control is assumed if the Parent Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed before.

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 prentation 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: current financial assets at fair value through profit or loss, 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) Current financial assets at fair value through profit and loss
A financial asset is classified as a financial asset at fair value through profit or loss if it is held for trading or upon initial recognition.

A financial asset at fair value through profit or loss is measured at its fair value at each reporting date without any deduction for the transaction costs that may be incurred on its sale or other disposal. A gain or loss on a change in fair value is recognised in profit or loss. The fair value of a listed security is determined based on its quoted bid price at the close of business at the reporting date and the official exchange rate of the European Central Bank at that date. The fair value of an unlisted security is established using publicly available information and valuation techniques, which may include comparison with the current fair value of another instrument which is substantially the same and/or discounted cash flow analysis.

A gain or loss on the disposal of a financial asset at fair value through profit or loss as well as any interest and dividend income on the financial asset is recognised in profit or loss for the period. A financial asset at fair value through profit or loss is classified as a current asset when it has been acquired for trading or it is expected to be realised within twelve months.

(b) 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.

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are not cash or cash equivalents and have not been designated to any other category of financial assets. 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 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 deprecation methods are reviewed annually. The effect of any resulting changes is recognised in the current and subsequent periods.

3.7. Intangible assets

Intangible assets (except goodwill) are amortised on a straight-line basis over 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) Goodwill
Goodwill acquired in a business combination is measured initially at cost. Acquisition of goodwill is described in the policy Basis of consolidation (note 3.1.).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The goodwill allocated to equity-accounted investees is included in the cost of the investees.

Impairment testing is described in the policy Impairment of assets (note 3.9.).

(b) 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 expenditures include expenditures incurred in the application of research findings on the development, design or testing of specific new products, services, processes or systems. Development expenditure is capitalised and recognised as an intangible asset if the expenditure can be measured reliably, the Group has technical and financial resources and a positive intention to complete the development of the asset, the Group can use or sell the asset and the probable future economic benefits generated by the asset can be measured.

Capitalised development expenditures are carried at cost less any accumulated amortisation and any accumulated impairment losses. Development expenditure is recognised as an expense on a straight-line basis over its estimated useful life that generally does not exceed five years. Amortisation commences when the Group has started the business activity that was expected to result from the development project.

(c) 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 profit or loss. 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 book value 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 (CGU) 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.

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that the carrying amount of goodwill may be impaired. Impairment is determined by estimating the recoverable amount of the CGU to which goodwill has been allocated.

For the purpose of impairment testing, goodwill is allocated to the Group's CGUs or groups of CGUs that are expected to benefit from the synergies of a business combination. Impairment losses on goodwill are recognised in profit or loss.

The Group assesses at least at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If such indication exists, the impairment loss is reversed. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised. A reversal of an impairment loss is recognised in profit or loss (within the same item where the original impairment loss was recognised). As an exception, impairment losses on goodwill are not reversed.

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 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 liability.

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 and reserves

(a) 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.

(b) Capital reserve
The Estonian Commercial Code requires companies to create a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders.

(c) Fair value reserve
The fair value reserve compromises gain or loss from a change in fair value of available-for-sale financial assets (note 3.3.c).

(d) Translation reserve
The translation reserve comprises foreign exchange differences from the translation of the financial statements of foreign subsidiaries whose function al currency differs from the Group's presentation currency.

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.

(d) Useful lives of investment property and property, plant and equipment (notes 3.5, 3.6, 13 and 14)
Management estimates the useful lives of investment property and property, plant and equipment based on production volumes and conditions, historical experience and future prospects. Depreciation rates are increased if the useful life of an asset proves shorter than originally estimated. Technically obsolete assets are either written down or written off.

(e) Contingent liabilities (notes 3.15 and 22)
Management estimates the probability of realisation of contingent liabilities based on its best knowledge, considering historical experience, general background information and assumptions and conditions concerning the potential future events.

(f) Warranty provisions (note 21)
Under its sales contracts, the Group provides a one-year warranty to products sold by which it undertakes to either repair or replace substandard or defective products during that period free of charge. Management estimates the expenditure required for settling the obligations based on historical warranty expenses for similar products and services.

5 Financial risk management

5.1. Financial risk factors

In its everyday activities, the Group faces different risks. Management of those risks is an important and inherent part of its business activity. The Group's capability to identify, measure and control different risks is an important input for its profitability. The Group's management defines risk as a possible negative deviation from the expected financial result. The main risk factors are market risk (including currency risk, price risk and interest rate brisk), 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. On 1 January 2015, the Republic of Lithuania joined the Euro area and adopted the Euro as its currency, replacing the Lithuanian litas.

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	9,792	117	75	9,984
Current financial assets	12	35	0	0	35
Trade receivables	8	6,226	242	16	6,484
Available-for-sale financial assets	12	19,124	0	0	19,124
TOTAL		**35,177**	**359**	**91**	**35,627**
Current portion of interest-bearing loans and borrowings	17	-278	0	0	-278
Trade payables	19	-2,942	-714	0	-3,656
Other short-term liabilities	19	-3,022	-308	-3	-3,333
Non-current portion of interest-bearing loans and borrowings	17	-818	0	0	-818
TOTAL		**-7,060**	**-1,022**	**-3**	**-8,085**
Net exposure		**28,117**	**-663**	**88**	**27,542**

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 2014 or 2013. 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 decreased by 6.72 euros in 2014 and increased by 8.76 euros in 2013. In 2014 the value of the investment decreased by 7.4 million euros and in 2013 increased by 11.7 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 2014, 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	**2014**	**2013**
Floating rate loans and borrowings		17	1,096	1,752
Total			**1,096**	**1,752**

An 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 2013.

As at 31 December	EUR'000	**2014**	**2013**
One percentage point increase		-14	-21
One percentage point decrease		14	21

5.3. Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation and thus the Group will not receive the cash flows to which it is entitled. The Group's main sources of credit risk are trade receivables and loans provided.

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest.

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	**2014**	**2013**
Cash and cash equivalents		7	9,984	4,102
Trade receivables		8	6,478	5,542
Total			**16,462**	**9,644**

At the reporting date, the Group's credit risk exposure was 16.5 million euros (31 December 2013: 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 encounter difficulty associated with financial obligations that have to be settled by delivering cash or another financial asset. Management monitors cash flow forecasts on an on-going 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 10.0 million euros and loans and borrowings totalled 1.1 million euros (note 17), trade payables and other short-term liabilities totalled 7.0 million euros (note 19), total liabilities 8.1 million euros.

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	**2014**	**2013**
Interest-bearing loans and borrowings		17	1,096	1,752
Cash and cash equivalents		7	-9,984	-4,102
Net debt			-8,888	-2,350
Total equity			59,842	63,819
Total capital			50,954	61,469
Debt to capital ratio			**-17.4%**	**-3.8%**
Total assets			69,792	71,071
Equity ratio			86%	90%

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. 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 2014						
Cash and cash equivalents	7	9,984	0	0	9,984	9,984
Current financial assets	12	0	35	0	35	35
Trade and other receivables	8	6,484	0	0	6,484	6,484
Available-for-sale financial assets	12	0	19,124	0	19,124	19,124
Total		**16,468**	**19,159**	**0**	**35,627**	**35,627**
Interest-bearing loans and borrowings	17	0	0	-1,096	-1,096	-1,096
Trade and other payables	19	0	0	-6,989	-6,989	-6,989
Total		**0**	**0**	**-8,085**	**-8,085**	**-8,085**
At 31 December 2013						
Cash and cash equivalents	7	4,102	0	0	4,102	4,102
Trade receivables and other receivables	8	5,699	0	0	5,699	5,699
Available-for-sale financial assets	12	0	31,318	0	31,318	31,318
Total		**9,801**	**31,318**	**0**	**41,119**	**41,119**
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**

6.3. Credit quality of financial assets

Ageing of trade receivables

As at 31 December	EUR'000	2014	2013
Not past due		5,826	4,925
Up to 3 months past due		571	465
3 to 6 months past due		58	2
Over 6 months past due		234	310
Total		**6,689**	**5,702**

7 Cash and cash equivalents

As at 31 December	EUR'000	2014	2013
Cash on hand		4	12
Current accounts		5,940	3,790
Short-term deposit		4,040	300
Cash and cash equivalents		**9,984**	**4,102**

Cash and cash equivalents by currency:

As at 31 December	EUR'000	2014	2013
EUR		9,792	3,764
LTL		117	207
SEK		75	131
Total		**9,984**	**4,102**

8 Trade and other receivables

As at 31 December	EUR'000	Note	2014	2013
Trade receivables				
Trade receivables			6,689	5,702
Allowance for impairment			-211	-160
Trade receivables net of impairment allowance			**6,478**	**5,542**
Receivables from associates		30	0	154
Miscellaneous receivables			0	1
Other accrued income			6	2
Total receivables			**6,484**	**5,699**

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

As at 31 December	EUR'000	2014	2013
EUR		6,226	5,262
LTL		242	385
SEK		16	52
Total		**6,484**	**5,699**

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	2014	2013
At 1 January		-160	-62
Items expensed as doubtful		-130	-137
Recovery of doubtful items		0	1
Doubtful items written off as irrecoverable		79	38
At 31 December		**-211**	**-160**

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

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

9 Prepayments

As at 31 December	EUR'000	Note	2014	2013
Prepaid taxes		20	347	114
Prepaid expenses			187	183
Total prepayments			**534**	**297**

10 Inventories

As at 31 December	EUR'000	2014	2013
Raw and other materials		4,849	3,021
Work in progress		1,605	1,331
Finished goods		1,241	1,121
Merchandise purchased for resale		409	328
Total		**8,104**	**5,801**
Items written down to net realisable value		129	279
Expenses from write-down of inventories during the year		143	23

11 Investment in associate

Company's name	Core business	Domicile
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia

Draka Keila Cables AS share	**2014**	**2013**
Number of the shares	0	884
Ownership (%)	0	34.0
Par value of a share at 31 December (EUR)	0	639

EUR'000	**2014**	**2013**
Cost at 31 December	0	565
Carrying amount at 1 January	3,598	2,295
Share of profit under the equity method	817	1,303
Sale of shares at sales price	-6,200	0
Sales gain	1,785	0
Carrying amount at 31 December	**0**	**3,598**
Associate's equity at the end of year	0	10,587
Investor's share in equity	0	3,600
Unrealised gain	0	-2

In July the 9th 2014**,** Group sold its 34% holding in AS Draka Keila Cables to the core investor Prysmian Group.

12 Other long-term financial investments

As at 31 December EUR'000	Note	**2014**	**2013**
Current financial assets		35	0
Available-for-sale equity securities		19,124	31,318
Other shares		21	21
Total		**19,180**	**31,339**
Changes during the year			
1. Current financial assets at fair value through profit and loss			
Acquisitions through business combinations	31	112	0
Sale of shares at sales price		-145	0
Sales gain		57	0
Gain on change in fair value		11	0
Carrying amount at 31 December		**35**	**0**
2. Available-for-sale equity securities			
Carrying amount at 1 January		31,318	21,365
Sale of shares at sales price		-4,788	-1,753
Sales gain		0	16
Gain on change in fair value		-7,406	11,690
Carrying amount at 31 December		**19,124**	**31,318**
3. Other shares			
Carrying amount at 1 January		21	21
Carrying amount at 31 December		**21**	**21**
Total carrying amount at 31 December		**19,180**	**31,339**

PKC Group OYj share	**2014**	**2013**
Number of the shares (1000)	1,095	1,295
Ownership (%)	4.6	5.4
Market price at 31 December (EUR)	17.47	24.19

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 2014, PKC Group Oyj paid dividends of 0.70 euros per share (2013: 0.70 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	13,095	**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**
Movements in 2014			
Additions	123	763	**886**
Depreciation charge	0	-440	**-440**
Total	**123**	**323**	**446**
At 31 December 2014			
Cost	2,582	13,114	**15,696**
Accumulated depreciation	0	-4,343	**-4,343**
Carrying amount	**2,582**	**8,771**	**11,353**
Construction in progress	0	756	**756**
Total	**2,582**	**9,527**	**12,109**

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 2014, direct property maintenance and repair costs totalled 96,000 euros (2013: 126,000 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	Note	Land	Buildings	Plant and equipment	Other items	Total
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**
Movements in 2014						
Additions		0	185	527	58	**770**
Additions through business combinations	31	0	0	39	0	**39**
Disposals		0	-5	-12	0	**-17**
Depreciation charge for the year		0	-311	-500	-142	**-953**
Reclassification		0	25	15	-40	**0**
Total		**0**	**-106**	**69**	**-124**	**-161**
At 31 December 2014						
Cost		208	8,257	7,071	964	**16,500**
Accumulated depreciation		0	-2,510	-5,298	-783	**-8,591**
Carrying amount		**208**	**5,747**	**1,773**	**181**	**7,909**
Construction in progress		**0**	**23**	**36**	**0**	**59**
Total		**208**	**5,770**	**1,809**	**181**	**7,968**

At 31 December 2014, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was 1,685,000 euros (31 December 2013: 1,096,000 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 220,000 euros, included buildings 19,000 euros, plant and equipment were 170,000 euros and other items 31,000 euros.

14.2. Property, plant and equipment acquired with finance lease

EUR'000	Cost	Depreciation	Carrying amount
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**
Depreciation	0	-132	-132
Lease discontinued	-39	26	-13
At 31 December 2014	**2,669**	**-632**	**2,037**

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	
	2014	**2013**
Plant and equipment		
Cost of items leased out	17	17
Accumulated depreciation	-11	-9
Carrying amount at end of period	**6**	**8**

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

15 Operating leases

EUR'000		For the year ended 31 December	
	Note	**2014**	**2013**
Lease income			
- on investment property		2,151	2,190
- on plant and equipment		2	2
Total	25	**2,153**	**2,192**
Lease expense			
Land		35	35
Office, commercial and production premises		63	65
Vehicles		140	131
Other		8	6
Total		**246**	**237**

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.

Lease agreements have been concluded for the term of 2 to 14 years. Changes in lease term and conditions are renegotiated before the end of the lease term, otherwise the lease agreements will extend automatically by one year. Lease agreements are cancellable with a 3-12 month advance notice.

Future lease payments under non-cancellable operating leases

As at 31 December	EUR'000	2014	2013
Lease income			
< 1 year		1,805	2,196
1-5 years		3,433	3,617
> 5 years		4,389	2,593
Total lease income		**9,627**	**8,406**
Lease expenses			
< 1 year		104	109
1-5 years		87	157
Total lease expenses		**191**	**266**

16 Intangible assets

EUR'000	Note	Goodwill	Development expenditure	Licenses	Other	TOTAL
At 31 December 2012						
Cost		0	170	848	43	1,061
Accumulated amortisation		0	-139	-456	-15	-610
Carrying amount		**0**	**31**	**392**	**28**	**451**
Movements in 2013						
Additions		0	0	142	0	142
Amortisation charge for the year		0	-13	-101	-28	-142
Effect of movements in foreign exchange rates		0	0	-15	0	-15
Total		**0**	**-13**	**26**	**-28**	**-15**
At 31 December 2013						
Cost		0	170	971	43	1,184
Accumulated amortisation		0	-152	-553	-43	-748
Carrying amount		**0**	**18**	**418**	**0**	**436**
Movements in 2014						
Additions		0	0	253	0	253
Additions through the business combinations	31	4,860	0	0	0	4,860
Amortisation charge for the year		0	-6	-114	0	-120
Total		**4,860**	**-6**	**139**	**0**	**4,993**
At 31 December 2014						
Cost		4,860	170	1,224	0	6,254
Accumulated amortisation		0	-158	-667	0	-825
Carrying amount		**4,860**	**12**	**557**	**0**	**5,429**

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

The Group has no intangible assets with an indefinite useful life other than goodwill.

Impairment testing for cash-generating unit containing goodwill

The Group has acquired goodwill in amount 4,860,000 euros on the acquisition of interest in subsidiary (100%) Finnkumu Oy (Note 31). Goodwill is related to the cash-generating capabilities of the subsidiary. Therefore, for the purpose of impairment testing, goodwill is allocated to subsidiary which represents the lowest level within the Group at which goodwill is monitored for internal management purposes (cash-generating units). The value in use of the subsidiary was determined using the discounted cash flow method and it was compared with the carrying amount of the investment including goodwill.

General assumptions for determining value in use

The following are management's key assumptions and estimates on the basis of which the cash-generating unit (CGU) including goodwill were tested for impairment. Management's estimates were based on historical experience but also took into account the market situation and other relevant information at the date the impairment test was performed:

- The forecast period was 2015-2019 plus the terminal year.
- The present value of the future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the capital structures of similar companies (measured at the average market value), depending on the field of activity of the CGU.
- The GPU did not have any interest-bearing debt obligations. The cost of debt was estimated based on the actual loan interest rates, which ranged from 1.0% to 1.5%, and were offered to the other Group's companies. The expected rate of return on equity was set at 15%.
- Changes in subsequent periods' operating profit were projected on the basis of the action plans of the CGU for subsequent years (including the budget approved by management for 2015) and an assessment of the market situation in the segment where the CGU operates.
- Changes in subsequent periods' gross and operating margins were projected on the basis of the action plans of the CGU for subsequent years (including the budget approved by management for 2015) and an assessment of the market situation in the segment where the CGU operates.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (10%-12%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budget approved by management for 2015 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the CGU's future activity.

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. The Group's management performed a sensitivity analysis that reflected how a change in discount rates would affect the recoverable amount of goodwill. The total value in use of the cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the weighted average discount rate (8%) does not exceed 17 percentage points, assuming all other variables remain constant.

17 Interest-bearing loans and borrowings

17.1. Interest-bearing loans and borrowings at 31 December

EUR'000	2014	2013
Current interest-bearing loans and borrowings		
Short-term bank loans	0	358
Current portion of lease liabilities	278	296
Total current interest-bearing loans and borrowings	**278**	**654**
Non-current portion of lease liabilities	818	1,098
Total non-current interest-bearing loans and borrowings	**818**	**1,098**
Total interest-bearing loans and borrowings	**1,096**	**1,752**
Interest-bearing loans and borrowings at beginning of the year	**1,752**	**2,381**
Changes during the year		
Increase (+)/decrease (-) in short-term loans	-358	-438
Acquisition of new finance lease liabilities	0	103
Settlement of non-current finance lease liabilities	-298	-294
Interest-bearing loans and borrowings at end of the year	**1,096**	**1,752**

17.2. Details of short-term bank loans

At 31 December

Base currency	Loan limit in base currency		Interest rate		Short-term bank loans	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
EUR'000	600	600	1 month euribor+0.4%	+0.4%	0	240
EUR'000	1,200	1,200	1 month euribor+0.6%	+0.6%	0	118
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					**0**	**358**

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 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**
Finance lease payments made	0	-298	-298
Lease discontinued	-44	44	0
At 31 December 2014	**2,519**	**-1,423**	**1,096**

In most lease contracts the base currency is the euro. At 31 December 2014, the interest rates of finance lease contracts were in the range of 1.4% to 2.9% (31 December 2013: 1.4% to 3.4%). In 2014, the weighted average effective interest rate of finance lease liabilities was 1.6 % (2013: 1.6 %).

17.4. Finance lease liabilities by maturities

EUR'000	<1 year	1-5 years	> 5 years	Total
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**
At 31 December 2014				
Minimum amount of lease payments	318	856	26	1,200
Future finance charges	-40	-38	-26	-104
Present value of lease payments	**278**	**818**	**0**	**1,096**

Lease payments are made monthly.

18 Loan collateral and pledged assets

As at	December 31	Unit	**2014**	**2013**
Pledged assets	Shares in PKC Group Oyj	Number of shares	724,638	770,638
Short-term bank loans	Overdraft limit	EUR'000	1,134	1,134
Pledged as loan collateral	Carrying amount of shares	EUR'000	12,659	18,642

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%.

19 Trade and other payables

As at 31 December	EUR'000	**2014**	**2013**
Trade payables		**3,656**	**2,525**
Other short-term liabilities			
Advances from customers		818	383
Payables to associates (for goods and services)		0	42
Miscellaneous payables		904	35
Payables to employees		1,506	1,355
Interest payable		0	1
Other accrued expenses		105	96
Total		**3,333**	**1,912**
Total trade and other payables		**6,989**	**4,437**

Trade payables

As at 31 December EUR'000	2014	2013
Trade payables		
Payable for goods and services	3,431	2,515
Payable for property, plant and equipment	11	6
Payable for investment property	214	0
Payable for intangible assets	0	4
Total	**3,656**	**2,525**

20 Taxes

As at 31 December EUR'000	Note	2014	2013
Prepaid taxes			
Value added tax		266	72
Prepaid income tax		79	41
Social security tax		2	1
Total	9	**347**	**114**
Tax liabilities			
Value added tax		618	577
Income tax liability		12	15
Personal income tax		200	170
Social security tax		228	205
Other taxes		26	17
Total		**1,084**	**984**

21 Provisions

	Warranties provision		**Other provisions**		**TOTAL**	
EUR'000	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
At 1 January	**18**	**8**	**18**	**15**	**36**	**23**
Provisions made during the year	13	81	33	18	46	99
Provisions used during the year	-25	-71	-18	-15	-43	-86
At 31 December	**6**	**18**	**33**	**18**	**39**	**36**

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.

Other provisions consist of claims and license fees payable on the next reporting period.

22 Contingent liabilities

22.1. Corporate income tax

As at 31 December	EUR'000	2014	2013
Consolidated retained earnings		26,664	18,635
Maximum possible dividend		21,331	14,722
Income tax payable on the maximum possible dividend		5,333	3,913

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 2014.

The contingent income tax liability has been calculated based using the tax rate effective from 1 January 2015 (2013: from 1 January 2014). If the annual general meeting approves the management board's proposal to distribute a dividend of 2,610 thousand euros, there will arise an income tax liability of 653 thousand euros.

23 Capital and reserves

23.1. Share capital and share premium

As at 31 December	Unit	2014	2013
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

As at 31 December 2014 and 31 December 2013 shares comprise equal 17.4 million ordinary shares, which are listed on the Tallinn Stock Exchange.

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 2014 the Company paid for 2013 a dividend of 0.10 euros per share, i.e. 1,740 thousand euros in aggregate. The dividends were paid out on 27 May 2014. In the previous year, the Company paid for 2012 a dividend of 0.09 euros per share, i.e. 1,566 thousand euros in aggregate.

According to the profit allocation proposal, the Company will pay for 2014 a dividend of 0.15 euros per share, i.e. 2,610 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	**2014**	**2013**
AS Harju KEK	32.00%	32.00%
ING Luxembourg S.A	10.92%	10.92%
Endel Palla	6.32%	6.32%
Tiina Kirsme	5.06%	0.00%
Lembit Kirsme	0.00%	8.10%
Others	45.70%	42.66 %

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%	0.36%
Kirsme, Aare	Member of the supervisory board	228,250	1.31%	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%	0.29%
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		**1,548,260**	**8.90%**	**0.65%**

The number of shares held by shareholders and their ownership interests were determined on 31 December 2014 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 member of the management or supervisory board 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 cash, other receivables, prepayments and other financial investments.

2014 EUR'000	Note	**Manu-facturing**	**Real estate**	**Other activities**	**Elimi-nations**	**Consoli-dated**
Revenue from external customers	25	45,814	2,392	2,400	0	50,606
Inter-segment revenue		237	980	413	-1,630	0
Total revenue		**46,051**	**3,372**	**2,813**	**-1,630**	**50,606**
Operating profit		1,469	1,137	-306	-72	2,228
Segment assets		34,118	12,516	8,491	-7,473	47,652
Unallocated assets						22,140
Total assets						**69,792**
Segment liabilities		16,513	0	613	-7,473	9,653
Unallocated liabilities						297
Total liabilities						**9,950**
Capital expenditure	13, 14, 16	638	1,052	219	0	**1,909**
Depreciation charge for the year	13, 14, 16	861	440	213	-1	**1,513**
2013						
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**

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).

REVENUE BY MARKET

For the year ended 31 December	EUR'000	Note	**2014**	**2013**
Estonia			15,183	17,936
Finland			29,480	23,441
Lithuania			1,037	2,636
Sweden			1,596	867
Other EU countries			1,144	604
Non-EU countries			2,166	2,804
Total		25	**50,606**	**48,288**

25 Further information on statement of profit or loss line items

For the year ended 31 December	EUR'000	Note	**2014**	**2013**
REVENUE BY BUSINESS ACTIVITY				
Electrical equipment			42,867	39,969
Sheet metal products and services			881	925
Telecom products and services			1,039	1,129
Intermediary sale of electrical products and components			3,109	3,446
Commerce and mediation of services			298	104
Rental income		15	2,153	2,192
Other services			259	523
Total		24	**50,606**	**48,288**
COST OF SALES				
Goods and materials			-31,344	-29,595
Services			-1,256	-1,453
Personnel expenses (see below)			-7,485	-7,132
Depreciation and amortisation			-1,147	-1,172
Other costs			-713	-286
Change in work in progress and finished goods inventories			420	-192
Total			**-41,525**	**-39,830**
DISTRIBUTION COSTS				
Services purchased			-381	-484
Personnel expenses (see below)			-1,881	-1,723
Depreciation and amortisation			-17	-51
Other			-441	-369
Total			**-2,720**	**-2,627**
ADMINISTRATIVE EXPENSES				
Services purchased			-527	-599
Personnel expenses (see below)			-2,661	-2,495
Depreciation and amortisation			-349	-303
Other			-505	-670
Total			**-4,042**	**-4,067**
- Of which development costs			-604	-617

For the year ended 31 December	2014	2013
Personnel expenses allocated to cost of sales, distribution costs and administrative expenses:		
Salaries and other remuneration	-9,195	-8,645
Social security and other taxes on salaries and other remuneration	-2,766	-2,597
Share-based payments	-72	-73
Accruals	6	-35
Total	**-12,027**	**-11,350**
OTHER INCOME		
Gains on sale of property, plant and equipment	10	16
Interest on arrears and penalty payments received	1	3
Other	16	19
Total	**27**	**38**
OTHER EXPENSES		
Loss on sale of property, plant and equipment	0	-4
Interest on arrears, penalty payments and similar items paid	-19	-11
Net loss from foreign exchange differences	-18	-5
Gifts and donations made	-37	-23
Other	-44	-16
Total	**-118**	**-59**
FINANCE INCOME		
Interest income	58	24
Income from sale of financial assets	4,685	1,676
Dividend income	907	948
Other	11	0
Total	**5,661**	**2,648**
FINANCE COSTS		
Interest expense	-31	-33
Net loss from foreign exchange differences	-7	-13
Total	**-38**	**-46**

26 Income tax and deferred tax

Income tax expense

EUR'000	2014	2013
Income tax expense	668	478
Deferred income tax expense/income	7	-3
Income tax expense in the statement of profit or loss	**675**	**475**

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 2014

EUR ‘000	Estonia	Finland	Lithuania	Sweden	Total
Profit before income tax	7,852	2,071	101	429	10,453
Income tax rate	0%	20%	15%	22%	
Theoretical income tax expense	0	414	15	94	523
Income tax expense on dividends	419	0	0	0	419
Utilisation of tax losses carried forward	0	0	-6	-94	-100
Effect of tax exempt income	0	-211	17	0	-194
Effect of non-deductible expenses	0	24	-4	0	20
Change in recognised deferred tax assets	0	1	6	0	7
Income tax expense	**419**	**228**	**28**	**0**	**675**

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

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

2014 EUR ‘000	Lithuania	Finland	Total
Non-current portion of deferred tax assets	0	0	0
Of which on property, plant and equipment	0	0	0
Of which on tax loss carry-forwards	0	0	0
2013			
Non-current portion of deferred tax asset	6	1	7
Of which on property, plant and equipment	0	1	1
Of which on tax loss carry-forwards	6	0	6

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.

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 2.67 euros in 2014 (2013: 2.72 euros). Hence, the potential shares did not have a dilutive effect.

	Unit	**2014**	**2013**
Profit attributable to owners of the Parent	EUR '000	9,697	5,162
Average number of shares during the period	'000	17,400	17,400
Basic earnings per share for owners of the Parent	EUR	0.56	0.30
Adjusted number of shares during the period	'000	17,400	17,400
Diluted earnings per share	EUR	0.56	0.30

28 Government grants

EUR'000	**2014**	**2013**
Government grants related to income	**15**	**19**
Of which for covering marketing costs	15	19
Total	**15**	**19**

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	**2014**	**2013**
Change in inventories			
Increase (-)/decrease (+) in statement of financial position		-2,303	-142
Additions in inventories through business combinations	31	1,630	0
Acquisition of investment property		**-673**	**594**
Corporate income tax paid			
Income tax expense in the statement of profit or loss	26	-675	-475
Decrease (+)/increase (-) in prepayment and decrease (-)/increase (+) in liability	20	-41	-101
Additions in liability through business combinations	31	-136	0
Deferred income tax expense/income		7	-3
Corporate income tax paid		**-845**	**-579**
Interest received			
Interest income	25	58	24
Receivable increase (-)		-4	-2
Interest received		**54**	**22**
Paid for investment property			
Additions of investment property	13	-886	-1,644
Liability decrease (-)/ increase (+) incurred by purchase	19	214	-6
Acquisition of investment property		**-672**	**-1,650**
Paid for property, plant and equipment			
Additions of property, plant and equipment	14	-770	-532
Acquired with finance lease	14	0	103
Liability decrease (-)/ increase (+) incurred by purchase	19	5	6
Acquisition of property, plant and equipment		**-765**	**-423**
Paid for intangible assets			
Additions of intangible assets	16	-253	-142
Liability decrease (-)/ increase (+) incurred by purchase	19	-4	4
Acquisition of intangible assets		**-257**	**-138**
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	14	17	0
Profit on disposal of property, plant and equipment		10	16
Proceeds from sale of property, plant and equipment		**27**	**16**
Proceeds from sale of intangible assets			
Book value of disposed property, plant and equipment	16	0	15
Profit on disposal of property, plant and equipment		0	-4
Proceeds from sale of intangible assets		**0**	**11**

30 Related parties

The related parties of AS Harju Elekter are associated company AS Draka Keila Cables (until 30.6.2014, see note 11), 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	2014	2013
Purchase of goods and services from related parties:			
- from the associate		248	479
- from Harju KEK		192	1,686
Total		440	2,165
Of which:			
- goods and materials		248	479
- lease of property plant and equipment		65	47
- purchase of non-current assets		126	1,638
- other services		1	1
Sale of goods and services to related parties:			
- to the associate		378	774
- to Harju KEK		3	19
Total		381	793
Of which:			
- goods and materials		17	26
- lease of property plant and equipment		339	678
- other services		25	89
Balances with related parties			
Receivables from the associate for goods and services	8	0	154
Payables to the associates for goods and services	19	0	42
Remuneration of the management and supervisory boards			
- salaries, bonuses, additional remuneration		215	185
- social security and other taxes on salaries		71	13
Total		286	198
Share-based payments			
- to members of the management and supervisory boards of AS Harju Elekter		20	20

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 2014 the expense of share-based payments recognised as personnel expenses amounted to 72 (2013: 73) 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 Business combinations

Subsidiaries with non-controlling interest

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

At the balance date the Group owned the following subsidiary with minority interest:

		Ownership		
At December 31	**Domicile**	**2014**	**2013**	**Area of activity**
UAB Rifas	Lithuania	62,7%	62,7%	Manufacture of power distribution equipment

The following table contains unconsolidated financial indicators of subsidiaries with minority interest:

Statement of financial position (EUR'000)	**2014**	**2013**
Current assets	2 977	2 465
Non-current assets	1 615	1 664
Total assets	**4 592**	**4 129**
Current liabilities	1 165	671
Long-term liabilities	0	2
Total liabilities	**1 165**	**673**
Retained earnings	**2 682**	**2 701**
Non-controlling interests	*1 353*	*1 370*

Statement of profit or loss (EUR'000)	**2014**	**2013**
Revenue	5 297	5 289
Net profit for the period	78	-1
incl. Non-controlling interests	41	30
Statement of cash flows		
Cash flows from operating activities	282	189
Cash flows from investing activities	-135	-71
Cash flows from financing activities	-111	-84
Net cash flows	**36**	**34**

Suspension of the subsidiary's activities in Sweden

According to the 27 February 2014 decision of the Supervisory Board of AS Harju Elekter the Group's Sweden-oriented activities were reorganised, as of 1 April 2014, the activities of Swedish subsidiary Harju Elekter AB was 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. The company's sales revenue in 2013 was 703,000 euros, making up 1.4% of the consolidated sales revenue. The year 2013 resulted in a loss of 190,000 euros.

After the reorganisation, responsibility for the Group's Sweden-oriented business activities and the local clients have been 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 have been carried over to AS Harju Elekter Elektrotehnika, who continues with active sales and participation in tenders. After the reorganisation, the main focus will be put on efficient development and sales.

Acquisition of subsidiary

On 17 June 2014, Satmatic Oy (Finland) signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer. Finnkumu Oy continues to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy. By purchasing Finnkumu Oy, the Group increased its market share in Finland as well as elsewhere in Scandinavia and increased the product range. The transaction took effect on 17 June 2014, which was also when accounts were settled. For the purchase transaction, EUR 6,716 thousand was paid.

Pursuant to the contract, after the audited annual report was approved, in 2015 an additional 50% of the company's operating profit in 2014, and in 2016 an additional 40% of the company's operating profit in 2015 shall be paid to the sellers. The purchase transaction was funded out of the own funds of AS Harju Elekter.

Since the end of the previous financial year there were no significant changes in the Finnkumu's business activities. We confirm that there were no valid contracts between AS Harju Elekter and Finnkumu Oy, and Finnkumu Oy had no loans or any court or arbitration proceedings involving the commercial undertaking.

Financial summary 2011 - 2013	**2013**	**2012**	**2011**
Cash and cash equivalents	820	413	512
Securities	374	174	155
Receivables and prepayments	811	935	389
Inventories	1,504	925	532
Non-current assets	43	32	31
Total assets	**3,552**	**2,479**	**1,619**
Current liabilities	**804**	**834**	**327**
Equity	**2,748**	**1,645**	**1,292**
Inclusive share capital	24	24	254
Sales revenue	10,391	6,634	4,126
Operating profit	1,626	884	419
Profit for the period	1,250	664	273
EPS (EUR)	511	271	108
Number of shares	2,448	2,448	2,540
Dividend per share (EUR)	88	60	45

Influence of purchase to the Group's assets, liabilities and cash flow at 31.12.2014

Assets and liabilities	Preaquisition carryng amount	Total fair value	Recognised value on acquisition
Cash and cash equivalents	1,869	1,869	1,869
Securities	112	112	112
Receivables and prepayments	1,264	1,264	1,264
Inventories	1,630	1,630	1,630
Non-current assets	39	39	39
Trade payables and other payables	-1,337	-1,337	-1,337
Income tax liabilities	-136	-136	-136
Net assets	**3,441**	**3,441**	**3,441**
Purchase price			8,300
Goodwill			4,860
Cash flow			
Money paid (-)			-6,716
Balance of sums of purchase(+)			1,869
Net cash flow			**-4,847**

If the Group had acquired Finnkumu Oy at the beginning of 2014, Group revenue for 2014 would have been higher by approximately 5,024,000 euros, operating profit by 1,027,000 euros and net profit would have been higher by 1,134,000 euros.

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

As at 31 December (EUR'000)	**2014**	**2013**
Cash and cash equivalents	6,008	2,254
Trade receivables	644	400
Receivables from related parties	1,195	1,117
Other receivables and prepayments	89	76
Inventories	383	299
Total current assets	**8,319**	**4,146**
Investments in subsidiaries	3,112	3,006
Long-term receivables from related parties	6,278	0
Investments in associates	0	565
Other long-term financial investments	19,145	31,339
Investment property	14,703	14,233
Property, plant and equipment	426	394
Intangible assets	309	326
Total non-current assets	**43,973**	**49,863**
TOTAL ASSETS	**52,292**	**54,009**
Liabilities		
Trade payables	566	316
Payables to related parties	0	49
Tax liabilities	84	116
Other payables and advances received	257	218
Total current liabilities	**907**	**699**
Other long-term liabilities	**0**	**44**
Total liabilities	**907**	**743**
Equity		
Share capital	12,180	12,180
Share premium	240	240
Reserves	19,403	31,425
Retained earnings	19,562	9,421
Total equity	**51,385**	**53,266**
TOTAL LIABILITIES AND EQUITY	**52,292**	**54,009**

PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December (EUR'000)	2014	2013
Revenue	6,169	6,004
Cost of sales	-3,534	-3,421
Gross profit	**2,635**	**2,583**
Other income	14	6
Distribution costs	-368	-354
Administrative expenses	-1,339	-1,250
Other expenses	-67	-28
Operating profit	**875**	**957**
Income from subsidiaries	46	455
Income from sale of investments in associate	5,635	0
Income from available-for-sale financial assets		
-Dividend income	906	948
-Income from sale of investments	4,616	1,676
Interest income	131	28
Interest expense	-1	-1
Foreign exchange gain/loss (-)	0	-9
Profit before tax	**12,208**	**4,054**
Income tax expense	-327	-289
Profit for the year	**11,881**	**3,765**
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	-7,406	11,690
Realised gain from sale of financial assets (-)	-4,616	-1,660
Total other comprehensive income for the period	**-12,022**	**10,030**
Total comprehensive income for the year	**-141**	**13,795**

PARENT COMPANY'S STATEMENT OF CASH FLOWS

For the year ended 31 December (EUR'000)	2014	2013
Cash flows from operating activities		
Operating profit	875	957
Adjustments for		
Depreciation, amortisation and impairment losses	794	750
Gain on sale of property, plant and equipment	0	-2
Change in receivables	-112	23
Change in inventories	-84	34
Change in payables	-51	-6
Corporate income tax paid	-327	-289
Interest paid	-1	-1
Net cash from operating activities	**1,094**	**1,466**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-1,063	-1,974
Acquisition of a subsidiary	-200	0
Proceeds from sale of investments in associate	6,200	0
Proceeds from sale of financial assets	4,787	1,753
Proceeds from sale of property, plant and equipment	0	2
Repayment of loans provided	0	750
Loans provided	-6,800	-778
Interest received	62	27
Dividends received	1,414	1,404
Net cash from/used in investing activities	**4,400**	**1,184**
Cash flows from financing activities		
Proceeds from reduction of the subsidiary's share capital	0	320
Dividends paid	-1,740	-1,566
Net cash used in financing activities	**-1,740**	**-1,246**
Net cash flows	**3,754**	**1,404**
Cash and cash equivalents at beginning of year	**2,254**	**850**
Increase/decrease in cash and cash equivalents	3,754	1,404
Cash and cash equivalents at end of year	**6,008**	**2,254**

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 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**
Profit for the year	0	0	0	0	11,881	11,881
Other comprehensive income	0	0	0	-12,022	0	-12,022
Total comprehensive income	0	0	0	-12,022	11,881	-141
Dividends	0	0	0	0	-1,740	-1,740
At 31 December 2014	**12,180**	**240**	**1,218**	**18,185**	**19,562**	**51,385**

EUR'000	**2014**	**2013**
Adjusted unconsolidated equity at 31 December	**51,385**	**53,266**
Interests under control and significant influence:		
- Carrying amount	-3,112	-3,571
- Carrying amount under the equity method	10,204	12,784
Adjusted unconsolidated equity at 31 December	**58,477**	**62,479**

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 5-38 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 2014 as set out on pages 39-91 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/	31st March 2015

SIGNATURES TO THE ANNUAL REPORT OF 2014

The management board has prepared the activity report and the annual financial statements of AS Harju Elekter and the Group for 2014.

Andres Allikmäe	Managing Director/CEO	/signature/	31st March 2015

The supervisory board has reviewed the annual report prepared by the management board (pp. 5-90) 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/	14th April 2015
Ain Kabal	Member of the Supervisory Board	/signature/	14th April 2015
Madis Talgre	Member of the Supervisory Board	/signature/	14th April 2015
Triinu Tombak	Member of the Supervisory Board	/signature/	14th April 2015
Andres Toome	Member of the Supervisory Board	/signature/	14th April 2015

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Independent Auditors' Report

(Translation from the Estonian original)

To the shareholders of AS Harju Elekter

We have audited the accompanying consolidated financial statements of AS Harju Elekter ("the Company"), which comprise the consolidated financial position as at 31 December 2014, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information. Audited consolidated financial statements are presented on pages from 39 to 91.

Management's Responsibility for consolidated the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Estonia, 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 the auditor's 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, the auditor considers 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 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting principles generally accepted in Estonia.

Tallinn, 31 March 2015

/signature/

Andris Jegers
Certified Public Accountant, Licence No 17

KPMG Baltics OÜ
Licence No 17

PROFIT ALLOCATION PROPOSAL

Profits attributable to equity holders of AS Harju Elekter:

	EUR
Retained earnings of prior periods	16,967,166
Profit for 2014	9,696,842
Total distributable profits at 31 December 2014	26,664,008

The management board proposes that profits be allocated as follows:

Dividend distribution (EUR 0.15 per share)	2,610,000
Retained earnings after allocations	24,054,008

/signature/

Andres Allikmäe
Managing Director/CEO

31st March 2015