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Annual Report

HARJU ELEKTER

INFORMATION TO THE SHAREHOLDERS

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Harju Elekter will take place on April 23 2009, at 10 a.m. at the hall of the Keila Culture Centre, Keskväljak 12, Keila.

The shareholders who are listed in the shareholders' register of Harju Elekter kept by the Central Securities Depository as of April 13, 2009 at 11.59 p.m. are entitled to participate in the AGM.

DIVIDENDS

Following the good economic results, capitalisation and positive growth perspectives, while taking into account the current economic situation, the Management Board of Harju Elekter makes a proposal to pay a dividend of EEK 1.00 per share for the financial year 2008. The list of shareholders who are entitled to dividends will be closed on May 8, 2009 at 11.59. p.m. The dividends will be transferred to the bank accounts of shareholders on May 20, 2009.

THE PUBLICATION OF FINANCIAL REPORTS IN 2009

Harju Elekter will publish its quarterly financial reports in 2009 as follows:

Interim report 1-3/2009	on the week 19
Interim report 1-6/2009	on the week 32
Interim report 1-9/2009	on the week 45

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

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YEAR 2008

A subsidiary of Harju Elekter, AS Harju Elekter Elektrotehnika, won a tender announced by OÜ Jaotusvõrk, a subsidiary of Eesti Energia, for the purchase of integrated substations, as a result of which a three year supply contract was entered into in June with an estimated value of 300 million kroons. According to the contract, over the next three years Harju Elekter Elektrotehnika will supply OÜ Jaotusvõrk with an average of 400 factory-manufactured integrated 1- or 2-transformer substations each year for the Estonian market.

The implementation of integrated management software (Siemens PCS7) developed by the engineers of the Finnish subsidiary, Satmatic Oy, for the mineral wool plant in Poland, was completed. In addition to process management software, Satmatic supplied and installed various types of electrical equipment in the plant during the project. The total cost of the project was 1 million euros.

Due to an increase in orders and production volumes, the management of the group decided to expand the production area of Satmatic Oy. In November, a contract was signed with the city government of Ulvila and the city government's operator Kiinteistö Oy Sammontie 9 in Ulvila to increase the production area by almost 2,000 sq m. After the completion of the new premises, the total production area of the plant will be 4,215 sq m.

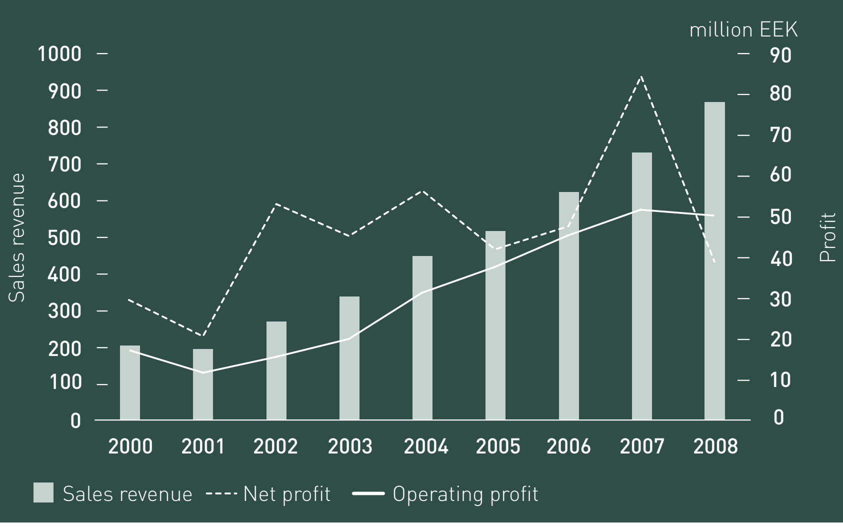
In the last few years, the sales volume of Harju Elekter Elektrotehnika has increased by an average of 16% a year. In order to ensure production capacities and fulfil sales orders on time, the group decided to expand the production area of Harju Elekter Elektrotehnika by 1,500 sq m. After the completion of the new premises in the first quarter of 2009, the total area of production and office premises used by the company will be 10,300 sq m.

Due to the present economic situation as well as the relatively small market in Estonia the management of the group, for economic considerations, decided to close the retail shops in Pärnu and Jõhvi by the end of the year. In future, customers in Pärnu will be served by the Keila electric supplies store and customers in Ida-Viru County by the store located in Tallinn.

In August, UAB Rifas, the Lithuanian subsidiary, opened a new production and office building in Panevežys, the construction of which was commenced in the first half of 2007. The total cost of the project was 12.5 million kroons.

The achievements of UAB Rifas during the last few years in improving the product range, expanding the production area and modernizing the installation were recognised by the local government of Panevežys which named Rifas as the most innovative company in the region.

SALES REVENUE, NET AND OPERATING PROFITS



1 EUR=15,6466 EEK

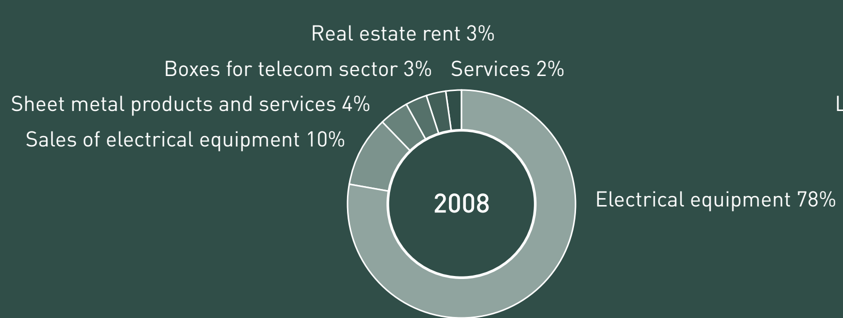
In September, Harju Elekter celebrated its 40th anniversary. Due to right decisions and constant development Harju Elekter has become the leading producer of electrical equipment and materials in the Baltic states.

The annual general meeting of shareholders approved the annual report and profit allocation of Harju Elekter, including a dividend distribution of 2 kroons per share, i.e. a total of 33.6 million kroons, based on the good economic results of 2007.

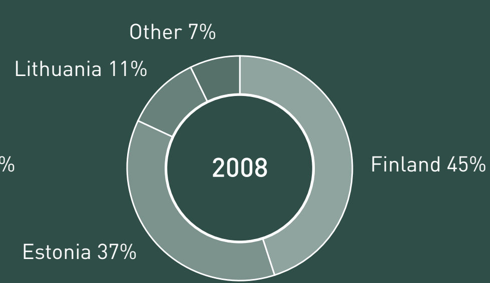
KEY FIGURES	2008	2007	2008/2007 change
(in million kroons)			
Sales revenue	871.6	732.0	19.1%
Operating profit	50.1	51.5	-2.8%
Net profit	38.6	84.5	-54.3%
EEK			
Shareholder's equity per share	23.64	33.89	
EPS	2.29	5.03	
Dividend per share	*1.00	2.00	* management proposal
Return on sales	5.7%	7.0%	
Net profit margin	4.4%	11.5%	
ROA	5.8%	11.4%	
ROE	8.3%	14.8%	
Equity ratio	66.0%	74.0%	
Number of employees at the end of the period	515	486	

* More detailed financial overview is available on page 81.

REVENUE BY BUSINESS AREA



REVENUE BY MARKET



THE SECURITY OF OUR FUTURE LIES IN INDUSTRIAL STRENGTH

Last autumn, we celebrated the 40 year anniversary of the beginning of the production of electrical equipment and materials in Keila

I am proud to say that whatever the system of government we have been able to develop and manufacture products the marketing of which has always proceeded without major difficulties. Today, however, after such an intensive growth period, we are forced to face the world wide recession and accompanying crisis in trust. However, it is not the first time either for me personally or for the entire company that we have had to look for new opportunities due to difficult times. In a way, recession regulates the market; it makes strong companies even stronger and paves the way for their future development. I consider Harju Elekter Group and its team to be on the 'winning side'. Our main chance lies in increasing our exports. Our products are of world-class quality but it is now more important than ever to focus on sales. I can assure you that Harju Elekter has emerged from every downtrend stronger and more viable.

Generally speaking, I do not support the widespread notion of today that expenditure should be cut at any cost because, although when talking about economic development, a reasonable cutting of costs is necessary, it is not the only remedy. Managers of enterprises should rather struggle to increase turnover and avoid decreases in production which, in turn, can only result in a decrease in the revenues of enterprises as well as the state. Similarly, I am not in favour of budgetary cuts that do not help economic development in any way and, in fact, have a contrary effect instead. I believe it is essential to quickly make available and allocate earmarked European funds and that by no means should investments in energy and infrastructure be cut. The issue of government bonds and reintroduction of a corporation tax should be considered in order to channel tax revenues directly into the Estonian economy. I am convinced that as a result of such actions not a single local enterprise would close its doors and that we would not lose foreign investments – on the contrary, the state as well as the Estonian people would gain a lot from this. Although capital has no nationality, the owners of capital have. And there is a big difference between being a master or a servant in your own homeland.

Throughout the years Harju Elekter has invested in its production capacity – technology, personnel and production premises – in order to constantly improve and increase its efficiency and thus guarantee its sustainability. Today, Harju Elekter is a strong manufacturing enterprise that has a solid basis to take advantage of the rise in economic activity which will no doubt follow the current downturn.

Endel Palla
Chairman of the Supervisory Board

INNOVATION AND FLEXIBILITY CREATE NEW POSSIBILITIES

In 2008, in spite of the world economic recession, Harju Elekter Group managed to increase its return on sales by 19.1% to a total amount of 871.6 million kroons and achieve an operating profit of 50.1 million kroons - comparable to that of the previous year. The greatest contribution to growth was made by Harju Elekter Elektrotehnika, Satmatic and Rifas, all of which are involved in the main activity of the group – the production and sales of electrical equipment. Although the year was not an easy one, as markets demonstrated more caution and were more demanding than ever before, we managed to accumulate enough energy and potential to survive the forthcoming difficult times with as small losses as possible owing to the effective sales work, development and opportunities created by the Group. According to the management the Group responded to changing circumstances rapidly and made shrewd business deals which have showed good economic results in the circumstances.

There are times and situations we can do nothing about but then there are situations in which we both can and are even obliged to change. Despite the present downtrend, the magnitude and duration of which is unpredictable even for the best analysts, we see new opportunities. The key issue here is if, and how, we take advantage of these opportunities. We must be cost effective but also ready to invest. We must have development potential and remain far sighted. Thanks to our accumulated resources, skills and experience we are able to operate economically, and thus lay the foundation for new growth. Today the conditions for investing in the expansion of an enterprise are more favourable than they were a year ago or will be in two years time. Whereas in 2008 we invested in the expansion of the production premises and technology of our Estonian enterprises in 2009 we will do the same with our Lithuanian and Finnish enterprises. The success in winning the public procurement tender for the supply of substations and their associated equipment was also an incentive in creating the conditions and opportunities to meet the expectations of our clients. I am pleased to say that such investments support our clients' notion of co-operation in Estonia as well as abroad.

Another key issue is the innovation of our activities. For Harju Elekter Group innovation is not only a technical notion but it means innovative approaches in every field. For us, it means new opportunities in our way of thinking as well as our actions and it gives us courage to make changes and find extraordinary solutions. We encourage the key players in the group, as well as our entire staff, to think and act accordingly. A good example of this is the development and introduction of the new management and accounting software for the Estonian enterprises. We see this as an indispensable tool in the efficient performance of our future tasks. Whereas export development has been an important issue for decades; in 2009 it has now become our priority.

We value our three main partners but, first of all, we would like to thank our clients for their trust and inspiration. We cherish our workers, recognizing not only their contribution and trust but also their display of the readiness and understanding necessary for surviving the difficult times together. And finally, we would like to thank our shareholders who continue to appreciate the assets, opportunities and potential of Harju Elekter.

I wish you all the courage to maintain our vision.

Andres Allikmäe
Chairman of the Management Board

MISSION

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

GOAL

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

AS HARJU ELEKTER

Subsidiaries

ESTONIA

Harju Elekter Elektrotehnika 100%

Manufacturer of electrical equipment for energy distribution, industrial and construction sectors, located in Keila

FINLAND

Satmatic 100%

Manufacturer of industrial control and automation devices, located in Ulvila and in Kerava

LITHUANIA

Rifas 51%

Parent company which manufactures automatic equipment and control and distribution units, located in Panevežys

Automatikos Iranga 51%

A company which deals with design

ESTONIA

Eltek 100%

Manufacturer of telecom and fibre optic products, located in Keila

Associated companies

ESTONIA

Draka Keila Cables 34%

Producer of power cabels, located in Keila

Strategical investments

FINLAND

PKC Group 9%

Manufacturer of wiring systems

LATVIA

Energokomplekss 10%

MV/LV equipment sales organisation

Management report

OVERVIEW OF THE ECONOMIC ENVIRONMENT

In 2008, the cooling of the world economy became both more rapid and deeper. For financial markets, September 2008 was at least as dramatic as August 2007. The bankruptcy of Lehman Brothers, the takeover of Merrill Lynch by the Bank of America and the nationalisation of the AIG insurance company showed that the financial crises brought about by sub-prime loans was not yet over. Even today the depth and duration of the crisis are not yet clear and no one knows for sure if, or when, the coordinated efforts for strengthening global economies will begin to have some effect. Developments in financial markets have mainly influenced the economies of the USA and Great Britain. Of the developing countries Russia is most exposed to negative risks as its economic development depends greatly on the prices of raw materials (especially oil). Because of the uncertainty and distrust in financial markets interest rates remained high until the end of the year when central banks started to decrease the rates. If the debt burden of the US government increases, the dollar might weaken still. A more positive trend was in the widespread decrease of inflation.

Analysts believe that the possibilities for economic growth (recuperation from the present recession) in 2009 are non-existent as it will take more time for the present trend to reverse. The estimated average real growth of GDP will be 0.1%.

BALTIC STATES

The economies of the Baltic states which demonstrated such rapid growth after their accession to the EU supported by the increase of foreign investments and the growth in the real estate sector started to cool off even before the world economic and financial crisis. The world wide negative trends had a strong influence on the economies of small countries. A significant decrease in foreign demand and an increase of risk margins made the continuing growth trend impossible as the world economic and financial crisis strongly influenced the foreign trade partners of the Baltic States. In 2008, the economy decreased by 3.6% in Estonia and 4.6% in Latvia, whereas Lithuania demonstrated a growth rate of 3.1%.

The crisis in confidence and high interest rates brought about limitations on offering loans, which, in turn, resulted in the decrease in investment and domestic consumption. The rise in unemployment and rapid slowdown in the increase in salaries were noticeable in the last quarter of the year. Despite the unfavourable developments in external markets the increase in exports held relatively firm thanks to the competitive advantage of the Baltic states region. Decrease in domestic demand resulted in a rapid decrease in imports, which brought about a lower current account deficit and price stability as well as a decrease in the inflation rate. This latter statistic once again brought up the issue concerning the introduction of the Euro.

Despite the unfavourable developments in external markets the increase in exports held relatively firm thanks to the competitive advantage of the Baltic states region

Although the short-time economic prospects in the Baltic states are rather gloomy, analysts are of the opinion that future economic development depends on the strength of the economies of the separate countries. When preparing for a new growth period the Estonian economy is supported by its solid foundation of a firm banking system and a flexible business environment and labour market as well as the budgetary reserves accumulated over the years. The primary preconditions for new investments are the structural strength of the economy, the reliability of the monetary system and a stable tax system. In addition, enterprises need the support of the banking sector and loan resources. The recovery in Estonian economic growth depends, above all, on the growth of the international economy.

FINLAND

During the last few years the Finnish economy has done relatively well as the GDP has grown, inflation has been low, employment has increased and the fiscal position has been reliable. Although Finland is among the countries with the most rapidly developing economy within the Euro zone, the growth of uncertainty and risks in the world will not pass unnoticed. In 2008, economic growth in Finland was 0.9%. The problems still encountered include a structural labour shortage which, with unemployment remaining relatively high despite the growth in employment, reveals the lack of flexibility in the labour market. The growth in employment together with the increase in income supported the increase in private consumption, keeping domestic demand high. At the end of the year inflation started to decrease. Investment in real estate has decreased, although the growth rate in prices had already started to slow down in 2007.

RUSSIA

In 2008, the Russian economy grew by 7.0% which is a bit less than in the previous year (7.7%). As from July the situation on Russian financial markets has been depressed because of the drop in raw material prices, uncertainty in the steel industry, the war with Georgia and problems in financial markets. As a result the Russian stock market has dropped rapidly – the Russian RTS index has fallen by 57% from its highest level in May. Investor uncertainty has resulted in an outflow of capital. Russia's national currency, the rouble, also weakened against other currencies during the year. Inflation has increased due to the initial very rapid increase in raw material prices followed by a rapid fall and feeble budgetary policy. This is one of the reasons why in the near future unfavourable economic developments are expected to continue in Russia.

BUSINESS RESULTS

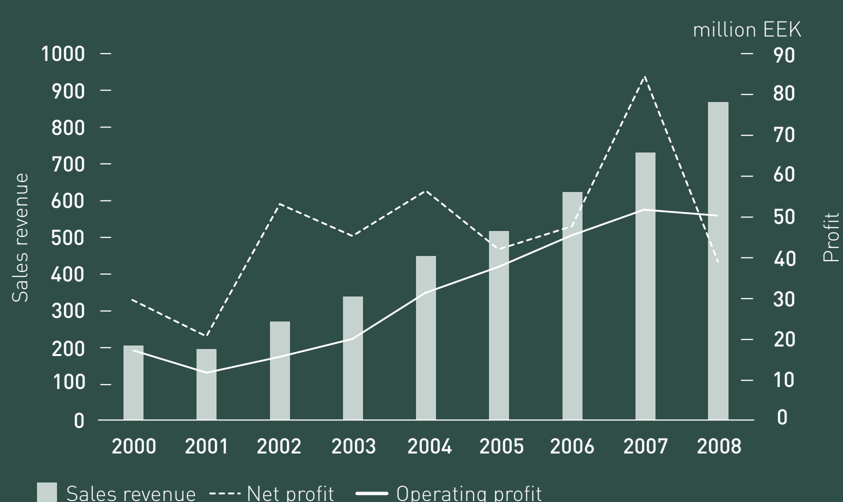
In the annual report of 2008 the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy and UAB Rifas (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

AS Harju Elekter owns 8.9% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and presented in the balance sheet at their market price. The profit/loss caused by the changes in the market price of shares is included directly in the owners' equity. The changes in the market price of shares can have a substantial effect on the value of assets and the owners' equity in the Group. In 2007, the Group sold 220 thousand shares in this company reducing its overall share from 10.1% (31.12.2006) to 8.9% and this had a considerable effect on the consolidated net profit. However no shares were sold in 2008.

In 2008, the consolidated sales revenues of the Group increased by 19.1% amounting to 871.6 million kroons. Revenue growth was supported by good salesmanship and successfully executed large-scale orders which needed both competence and the appropriate production resources. The largest share of sales revenues – 88.3% (83.3%) – was traditionally due to production. As for markets, once again the Group's home markets – mainly Estonia and Finland – were dominant in 2008 as 82% (80%)

In 2008, the consolidated sales revenues of the Group increased by 19.1% amounting to 871.6 million kroons

SALES REVENUE, NET AND OPERATING PROFITS



 1 EUR=15,6466 EEK

of the goods and services were sold there. The Lithuanian and Finnish companies of the Group made the largest contribution to the growth of the Group's sales revenues in 2008. The sales by Lithuanian companies to customers, other than those belonging within the Group, increased by 51 million kroons, amounting to 128 million kroons and sales by Finnish companies increased by 108 million kroons, amounting to 355 million kroons.

The cost of sales and services increased 23.2% in the year, amounting to 733.5 million kroons, distribution costs increased by 5.3%, amounting to 38.8 million kroons and administrative expenses increased by 2.1%, amounting to 48.8 million kroons. Due to the increase in the number of employees the labour costs increased during the year by 8.2%, amounting to 172.2 million kroons. An amortisation of assets in the amount of 18.9 (in 2007: 19.4) million kroons, was recognised in costs.

The Lithuanian and Finnish companies of the Group made the largest contribution to the growth of the Group's sales revenues in 2008

During the financial year, the profitability of the Group was most affected by an increase in competition, which resulted in pressure on sales prices, and a price drop that brought about the markdown in the value of stock reserves in the last quarter of the year. The worsening in the customers' payments situation due to non-settlement of invoiced accounts also had an effect, resulting in bad debts being higher than usual in the financial year and amounting to 1.1 (in 2007: 0.1) million kroons being written down and discounted.

Despite the economic recession the operating profit of the Group remained close to the previous year's level, amounting to 50.1 million kroons, showing a 2.8% decrease. The business profitability of the financial year was 5.7% (in 2007: 7.0%).

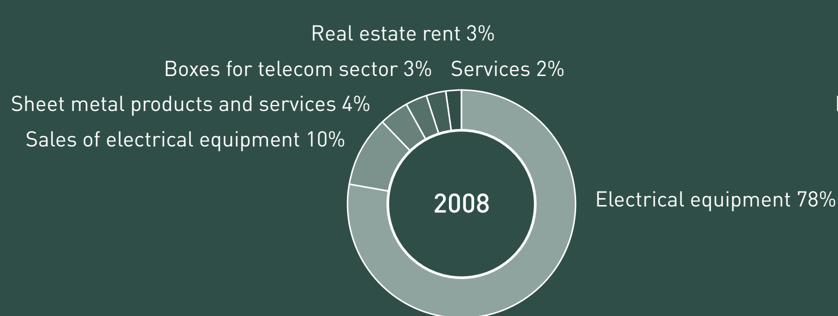
The net profit of the Group was most affected by the financial income earned on financial investments. In 2007, a one-time income in the amount of 32.8 million kroons was earned from the sale of financial investments. No financial assets were disposed of during the financial year of 2008. The drop in the market prices of raw materials had the greatest effect on the economic results of the related company, AS Draka Keila Cables. The loss brought about by the reassessment of the value of the reserves and financial instruments was the reason for a consolidated loss of 4.1 million kroons (a profit in 2007: 73 thousand kroons) from the related company in 2008. As a result of the payment of dividends the Estonian companies paid income tax in the amount of 8.5 million kroons, which was 2.1 million kroons more than in 2007. In twelve months, the total income tax expenditure of the Group increased by 3.9 million kroons, amounting to 12.6 million kroons.

The total net profit of the Group in 2008 was 42.1 (in 2007: 85.9) million kroons, of which the share of the owners of the parent company was 38.6 (in 2007: 84.5) million kroons. The profit per share amounted to 2.29 (in 2007: 5.03) kroons.

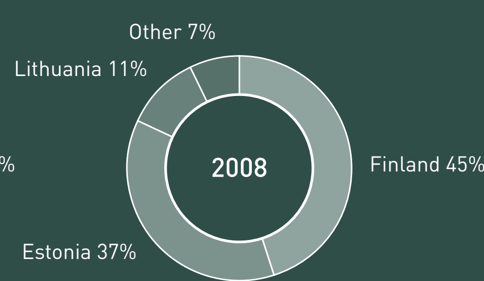
The cash flow from operating activities totalled 45.0 (in 2007: 41.6) million kroons. The cash flow from investment activities was -12.9 million kroons while the cash flow from investment activities in the comparable period was 9.8 million kroons. The cash flow from financing activities was -34.9 (in 2007: -31.8) million kroons. In the twelve months cash and cash equivalents decreased by 2.8 million kroons to 23.4 million kroons whereas the increase in the comparable period of 2007 was 19.6 million kroons, amounting to 26.3 million kroons.

In the year the amount of the consolidated balance sheet decreased by 118.3 million kroons to 602.0 million kroons. The main reason for the decrease in assets was the change in the market price of the shares of PKC Group Oyj. The share price on the Helsinki Stock Exchange decreased during the twelve months by 5.7 euros (89.19 kroons). The difference resulting from reassessment of share values in the total of 140.9 million kroons was recognised directly in the equity as a decrease of reserves. 58.6% (31.12.2007: 66.5%) of the balance sheet total is accounted for by capital assets and 69.6% (31.12.2007: 76.6%) by equity capital.

REVENUE
BY BUSINESS AREA



REVENUE
BY MARKET



Geographical segments

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

ESTONIA – location of the parent company, AS Harju Elekter, and its subsidiaries AS Harju Elekter Elektrotehnika and AS Eltek

FINLAND – location of the subsidiary, Satmatic Oy

LITHUANIA – location of the subsidiary, Rifas UAB

> In 2008 the Lithuanian and Finnish segments recorded respectively 64.5% and 43.8% rates of growth which were the largest in the Group

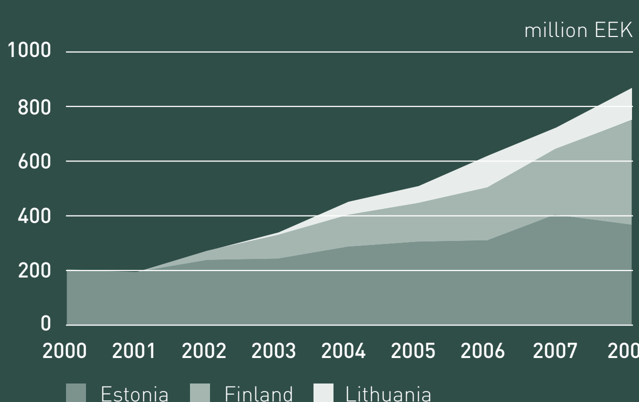
ESTONIA

In 2008, the Estonian segment sold to customers, other than those belonging within the Group, goods and services to a total of 388.7 million kroons, which was 19.6 million kroons less than the year before, while still accounting for 45% of the consolidated sales revenue. The drop of the real estate market has had some effect on the results of the Estonian segment.

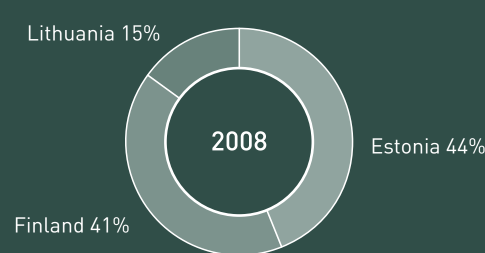
Unlike other segments, a major part of the sales revenue of the Estonian segment is made up of the sales to other geographical segments. In the twelve months, the Estonian companies sold their products and services to the Finnish and Lithuanian companies of the Group for a total of 56.1 (in 2007: 25.8) million kroons, which is double that in 2007 and which, in turn, is reflected in the increase of the sales volumes of these segments.

In 2008, the sales revenue of the Estonian segment from clients not belonging within the Group as well as other segments increased by 2.5%, amounting to 444.8 million kroons, including sales to the home market which increased by 8.2%, amounting to 324.1 million kroons; to the Finnish market which increased by 60.8%, amounting to 103.9 million kroons and to the Lithuanian market

REVENUE BY GEOGRAPHICAL SEGMENT



REVENUE BY SEGMENT



Explanation: distribution of revenue of subsidiaries of the Group located in the three countries. Based on the location of the company.

1 EUR=15,6466 EEK

which increased by 51.0%, amounting to 5.3 million kroons. In 2008 goods were sold to other markets for 11.2 million kroons, which was only 19% of the sales volume for 2007 which importantly, however, included a large order from Greece amounting to 50.6 million kroons.

AS HARJU ELEKTER

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

The changes in the real estate market in 2008 mainly influenced the parent company. The sales revenue of Harju Elekter was 115.0 (in 2007: 133.1) million kroons and from external customers amounted to 99.0 (in 2007: 117.5) million kroons. Most of the revenue i.e. over 59 (in 2007: 75) million kroons came from Harju Elekter's corporate stores. The wholesale volume by the trade group to small and medium-sized electrical installation companies decreased. Two stores were also closed in the last quarter. The toughening of the credit sales policy also played a certain role. In the year, the sales volume of the trade group decreased by almost 16 million kroons. The revenues gained from the renting of real estate and development were 49.6 million kroons, remaining at the same level as last year and giving 43% (in 2007: 37%) of the sales revenues of the parent company.

AS HARJU ELEKTER ELEKTROTEHNIKA

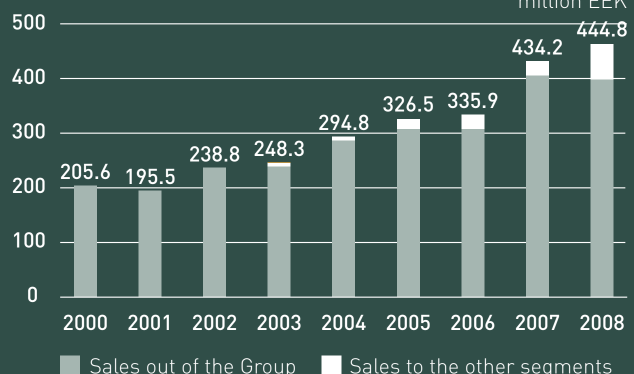
AS Harju Elekter Elektrotehnika (100% subsidiary) is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of Harju Elekter Elektrotehnika are located in Keila comprising 8,800 sq m of production, warehouse and office premises. The company employs 200 employees, 34 of whom work in sales and production development.

In spite of the varying economic environment, 2008 on the whole was a successful year. Sales revenue increased by almost 10%, amounting to 293.1 million kroons. The increase was accounted for by successfully executed large-scale orders mainly in the power distribution sector (MV/LV prefabricated and distribution substations) as well as by an increase in sales to other subsidiaries of the Group in Finland and Lithuania. Sales outside Estonia remained at the same level, amounting to 34% of the turnover.

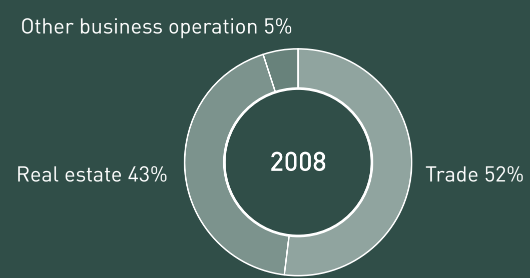
There were no considerable changes in the distribution of sales revenues between different product groups. Nevertheless, sales of equipment to the power distribution sector, which for years has accounted for over half of the sales revenues increased to 67% of the total in 2008 owing to the successful execution of orders placed. Among the most significant events was the sales contract with a subsidiary of Estonian Energy as well as several contracts for selling high nominal current MV/LV distribution systems. Almost 500 prefabricated and distribution substations were sold during the year - 370 of them to the domestic market. The sales of equipment for the industrial sector decreased from 26% connected with large-scale orders to the usual level of 9%. There were no major changes concerning products for the building and infrastructure sector.

In 2008, the development of the company continued together with the growing of competence aiming at the entry into large-scale and knowledge intensive projects. As a result of the efforts of the product development team two new prefabricated substations with sheet metal enclosure successfully passed testing standards and were awarded certificates for compliance. An air insulated medium voltage substation developed for foreign markets received positive feedback from clients. The company developed and

SALES REVENUE
BY ESTONIAN SEGMENT



REVENUE
OF THE PARENT COMPANY



As a result of the efforts of the product development team two new prefabricated substations with sheet metal enclosure successfully passed testing standards and were awarded certificates for compliance

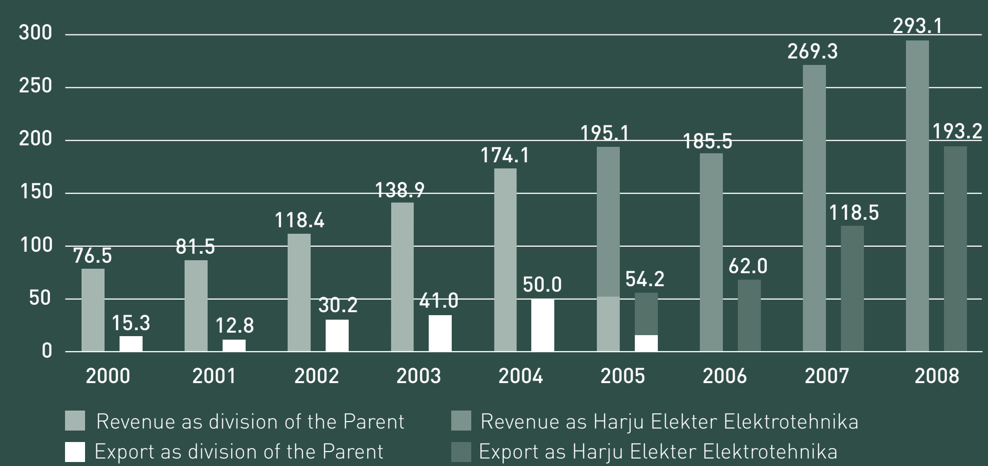
marketed a medium voltage distribution point as a novel product. Safe cable boxes with a high degree of protection that will be brought to market in 2009 were developed to meet the needs of the Scandinavian market. In co-operation with the shipping industry several new switchgears were designed and introduced that will help to speed up electrical installation works in shipyards. A low-current converter and communication box for information technology connections in buildings as well as a series of novel portable temporary boards for field applications were introduced into production.

According to the requirements of quality standards ISO9001 and ISO14001 internal and external audits are carried out at least once a year and every three years a recertification by specialists from the international certification organisation BVQI takes place. The next recertification is scheduled to take place in 2010. Harju Elekter Elektrotehnika provided training for 10 of its employees who became internal auditors. 13 employees participated in environmental and quality standard training.

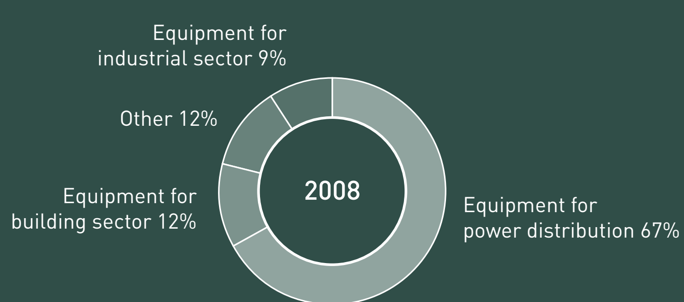
Year by year Harju Elekter Elektrotehnika has become more competitive in Estonian as well as other markets. Earnest efforts to expand the product portfolio have resulted in success in knowledge intensive projects. Considering the professional product portfolio, consistent investments, the increase in production capacity, the competence of employees as well as the good reputation of the company and the trust of clients it is safe to say that in 2009 we continue to look hopefully into the future.

SALES REVENUE

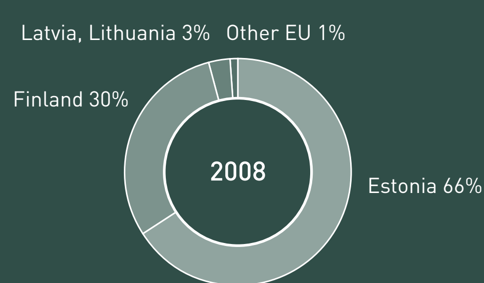
million EEK



PRODUCT GROUPS



REVENUE BY MARKET



 1 EUR=15,6466 EEK

AS ELTEK

The main activities of AS Eltek, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of sheet metal products and semi-manufactured articles are produced for the electrical engineering sector, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. In 2008, the mechanical division of the parent company, which executed special orders for companies in Keila Industrial Park, was affiliated with Eltek. The company also has licences for designing, installing and maintaining fire and security systems.

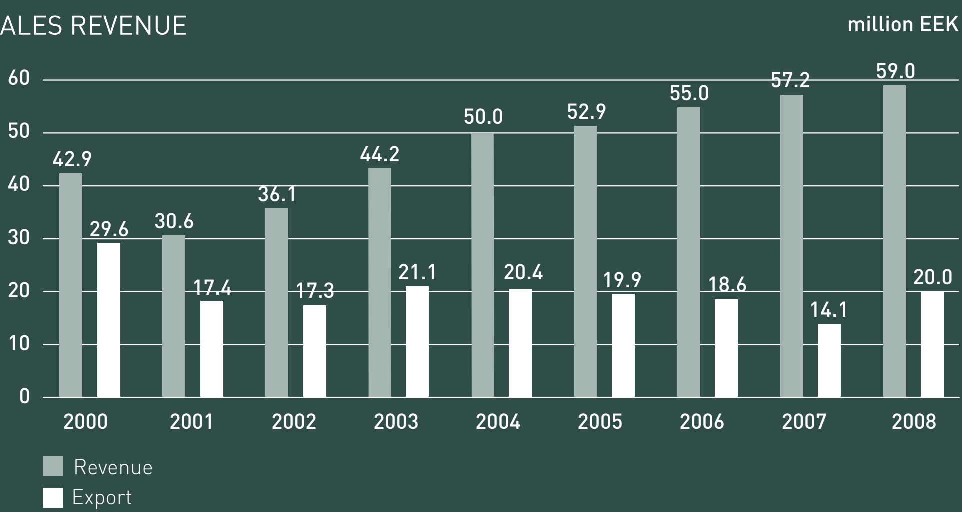
In 2008, sales revenues of Eltek amounted to 59.0 million kroons - of which sales outside Estonia amounted to 34%. Although Finland, Latvia and Lithuania were the largest external markets products were also supplied to Poland, Sweden, Germany and Russia. The increase in sales revenues was mainly related to the 1.6 times increase in the sales volumes of fibre optical products. The distribution of product groups did not change in comparison with the previous year.

In order to guarantee adequate and modern production resources the company has made significant investments both in production technology and production premises during the recent years. For expediting the production cycle and making it more flexible a combined sheet processing machine was purchased comprising stamping and laser cutting facilities. Up to a million kroons was invested in the equipment of the recently affiliated mechanical division. Smaller investments were also made in information technology and for supplementing the programmes of the metal processing centres.

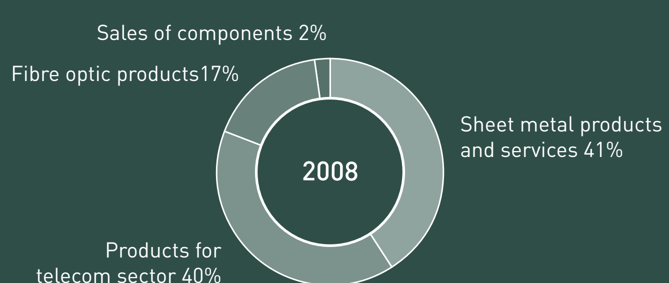
AS Eltek has introduced a quality and environmental management system corresponding to the requirements of international standards ISO9001:2000 and ISO14001:2004. At the beginning of 2008 specialists from the international certification organisation BVQI checked the company's compliance with the requirements of quality systems. The next recertification is scheduled to take place in 2011.

In order to guarantee adequate and modern production resources the company has made significant investments both in production technology and production premises during the recent years

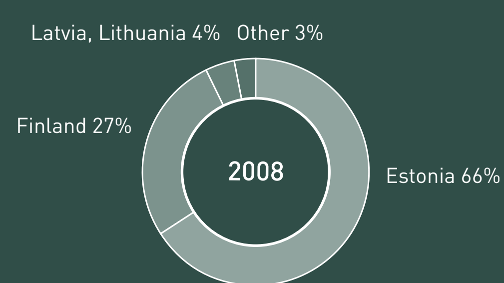
SALES REVENUE



PRODUCT GROUPS



REVENUE BY MARKET



In 2009, the company's aim is to direct all possible resources for making the sales work more efficient. The investments over the recent years have considerably increased production capacity and competitiveness. Therefore, the reinforcing of the sales team is of key importance in order to find new customers and to obtain new orders to fully utilise the existing production capacity. The motivation and training of personnel is also of great importance.

FINLAND

SATMATIC OY

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

Because of the favourable situation in the Finnish economy during recent years, the growth in the relevant industrial sector, the increase in the number of orders from foreign companies and the establishment of a positive image and reputation for Satmatic Oy the rapid development of the company, based on large-scale projects and orders, has continued. Although the situation in the world economy became more difficult during the year, Satmatic managed to increase sales revenues by 43.8%, amounting to 354.9 million kroons. The rate of increase in sales revenues of the company affiliated with the Group in 2002 has been considerable, the average increase amounting to over 30% during recent years. Most of the sales revenues i.e. 71% (in 2007: 82%) were for the sales of products for the industrial sector. Significant increase in sales volumes has taken place in products for the power and electric energy distribution sector.

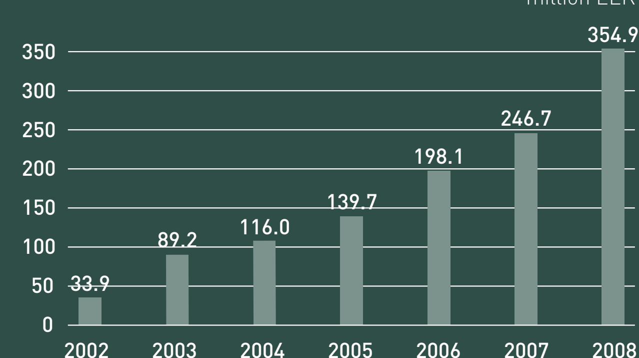
Most of the sales revenues i.e. 71% (in 2007: 82%) were for the sales of products for the industrial sector

The increase in the share of products for the industrial sector in the sales revenues was largely based on the recently established department for designing industrial automation software whose product development engineers successfully completed a large-scale project in a mineral wool plant in Poland. The project involved the development and supply of process control software. During the year other comprehensive solutions were developed and supplied for a number of domestic as well as foreign projects, the largest of which were for a solar panel production line and a nuclear waste packaging line.

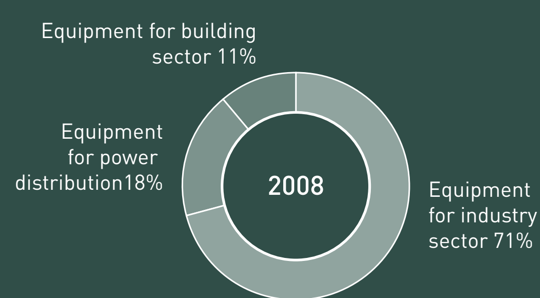
The department has extended the business areas of the Group from manufacturing equipment to the area of process control software - making it possible for us to offer our clients added value in the form of integrated solutions.

The rapid sales increase of products for the energy distribution sector was mainly based on the successful execution of orders for prefabricated substations in the Talvivaara mines.

SALES REVENUE



PRODUCT GROUPS



 1 EUR=15,6466 EEK

In 2008, further development of the new online-ordering system was continued. All the necessary procedures were carried out during the year and as a result three new partners were connected with the system. The electronic data processing system has expedited and simplified the handling of orders and the system as a whole has received positive feedback from the customers.

In relation to the increasing orders and production volumes, the management of the Group decided to expand the production areas of the plant of Satmatic Oy. In November, a contract was signed for increasing the production areas in Ulvila by almost 2,000 sq m. Today, Satmatic Oy rents 2,200 sq m of production area, the total area of which after the completion of new premises will be 4,215 sq m. The estimated cost of the investment will be 2.8 million euros. The funding will be guaranteed by Ulvila city government and the construction will be supervised by the city government's operator Kiinteistö. The new production premises are planned to be delivered to Satmatic Oy on September 1, 2009.

When organising work and production processes the company pays great attention to environmental sustainability even during periods of fast growth. The personnel of Satmatic has been trained to follow the requirements for waste handling and package circulation and to reduce energy consumption according to the principles of sustainable development. The organisation of production has been certified to comply with ISO9001 quality requirements by issuing a relative certificate. The next recertification is scheduled to take place at the end of 2009.

Satmatic Oy has good prospects for increasing its sales revenues in 2009 regardless of the unfavourable economic conditions. The company will focus on maintaining the sales level of project based products and increasing the share of project based products in its product portfolio. In order to increase productivity an efficiently operating outsourcing chain must be developed and the sales of products manufactured by the Harju Elekter Group must be expanded. In these conditions of economic recession active sales and marketing efforts must become as important as the quality of the products supplied.

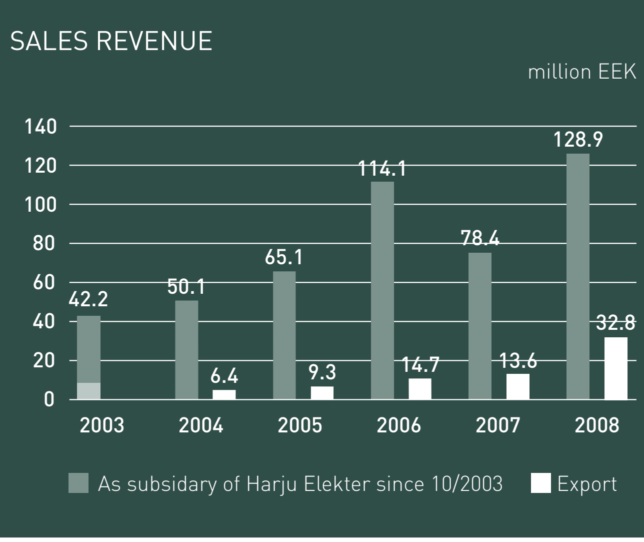
LITHUANIA

RIFAS GROUP

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

For Rifas, the year 2008 was very successful. Sales revenues of the company amounted to 128.9 million kroons which corresponds to a yearly increase of 64.5%. Sales on the domestic market increased over 1.5 times and the volume of export market sales more than doubled. During the year sales outside of Lithuania accounted for 25% of the annual sales revenue. Of the foreign markets Norway, Belarus and Latvia continued to play important roles while Denmark emerged as a new market.

For Rifas, the year 2008 was very successful. Sales revenues of the company amounted to 128.9 million kroons which corresponds to a yearly increase of 64.5%



The year was characterised by the winning of several large-scale projects but also by the increase of the total number of projects in domestic as well as foreign markets. Project supplies comprised project management as well as the sales of electrical equipment manufactured in the plant. Denmark became the largest market outside of Lithuania. Orders included the manufacturing and supply of LV control boards for wind generators in wind parks. This large order increased the share of Denmark in exports to 46%. Also the sale of electrical equipment to the shipbuilding sector played an important role in sales revenues.

In 2008, a contract was signed for using European Union funding for modernising the installation in Rifas. Expansion of the production area was also continued. The new production and office building was completed during the first half of the year and it was opened officially in August. The spacious building equipped with modern installations has three storeys and it is located next to the production hall from which there is access to the ground floor. There are meeting halls, administrative, sales and accounting departments as well as offices for technical and engineering personnel and production managers. The total cost of the building was 12.5 million kroons.

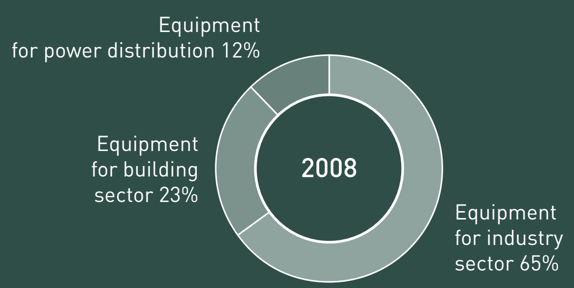
Rifas the most innovative company in the Panevežys region

The increase of production volumes and the adding and introduction of new products to the product line of the company sets high expectations for its employees and, therefore, the special training programme to improve the qualifications of the personnel was continued.

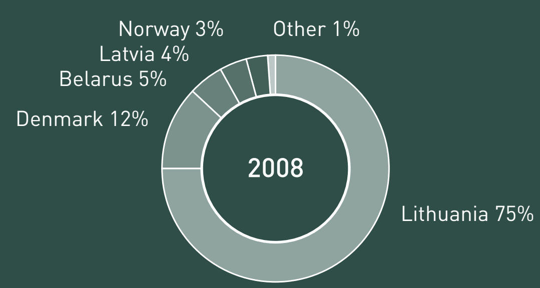
The achievements of the company during the last few years in improving the product range, expanding production areas and in modernizing the installation were recognised by the local government by naming Rifas the most innovative company in the Panevežys region. This title was proof of the company's success and development and recognition of its managers and workers.

In 2009, the company is planning to continue to extend the product line, find new customers and win new projects in domestic as well as foreign markets. This will be supported by increased production capacities, active sales efforts and successfully completed projects. In order to find new markets and customers the company is planning to participate in relevant fairs in the Nordic countries. The company is also planning to increase its export capacity in sales revenues by winning more large-scale foreign orders.

PRODUCT GROUPS



SALES REVENUE BY MARKET



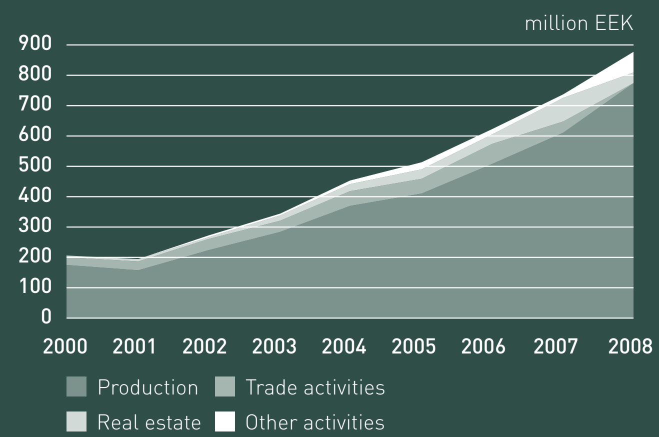
 1 EUR=15,6466 EEK

Business Segments

As at 31 December 2008 the Group was active in two business segments where the risks and benefits were so remarkably different that they have to be considered separately: firstly, production and real estate and secondly, all other activities. The turnover from trade outlets, however, was not significant and therefore it has been presented as a part of other fields of activities.

The share of the production segment in consolidated sales revenues increased during the year by 5.0 percentage points, amounting to 88.0%. Owing to the increase in sales volumes of the companies manufacturing electrical equipment in the Group the sales volume of the production segment to clients other than those within the Group increased during the year by 26.2%, amounting to 769.2 million kroons. Sales revenues of the real estate segment remained at the same level as in 2007, increasing by 1.0 million kroons or 2.6%, amounting to 36.5 million kroons. Due to the decline of the real estate and construction markets sales to small and medium-sized electrical installation companies decreased. The sales volume of trade and other activities made up 8% of consolidated sales revenue or 65.8 million kroons, decreasing by one quarter during the year.

REVENUE OF BUSINESS SEGMENTS

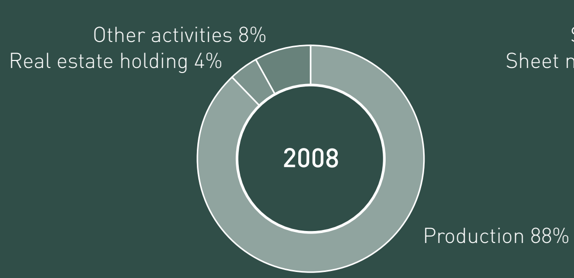


PRODUCTION

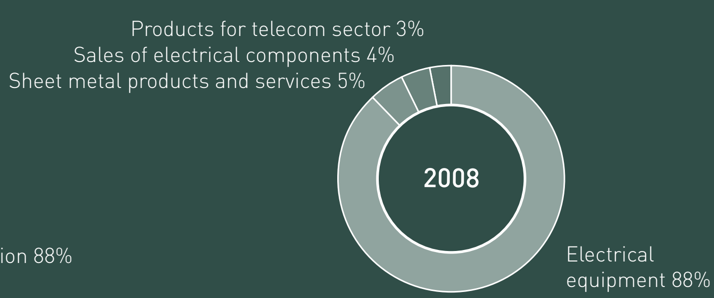
The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (UAB Rifas) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for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

The largest contribution to the increase of the consolidated sales revenues was made by the Finnish company, the sales revenues of which have considerably increased owing to the large share of large-scale projects. The contribution of the Finnish company in the increase of sales revenues was 102.7 million kroons. The year 2008 was also very successful for the Lithuanian manufacturing enterprise which during the financial year won several significant construction projects for industrial sites, thus entering successfully into the Danish and Norwegian markets. The sales of its industrial production to clients other than those within the Group increased during the year by 52.7 million kroons, amounting to 124.7 million kroons.

REVENUE
BY BUSINESS SEGMENT



PRODUCTION SEGMENT REVENUE
BY PRODUCT GROUP



Related Companies

As at the end of 2008, the Group had a share of 34% in the related company, Draka Keila Cables. In 2007 the Group sold its share of 33.3% in the related company, AS Saajos Inexa. The economic results of the related company are presented in the consolidated financial statement using the equity method. Due to the rapid drop in prices of raw materials that brought about the markdown of stock reserves at the end of the year a loss of 4.1 million kroons from the affiliated company was consolidated in 2008.
In 2007, a total of 73 thousand kroons profit was consolidated from the related companies, out of which 1.5 million kroons was from the AS Saajos Inexa share sales gain and 1.4 million kroons was a loss from the Draka Keila Cables under the equity method.

Draka Keila Cables is the largest cable manufacturer in the Baltic States

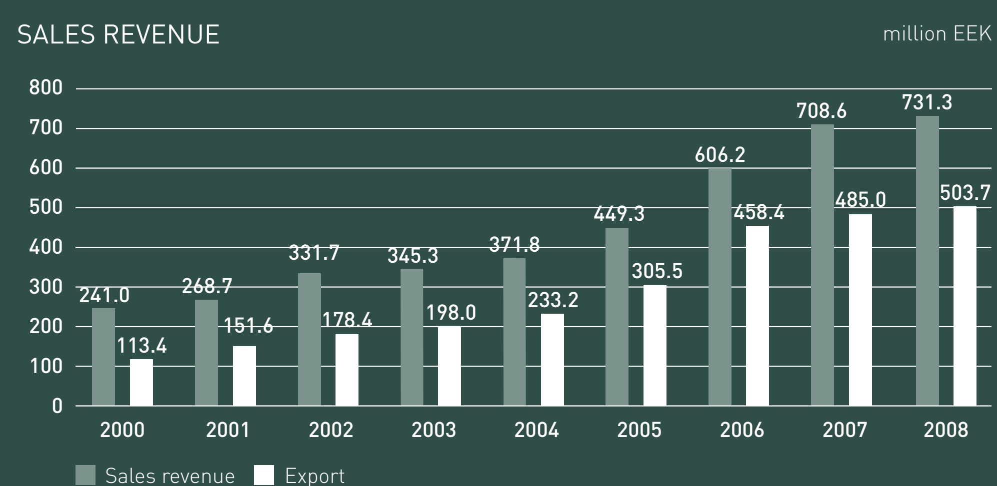
Draka Keila Cables is the largest cable manufacturer in the Baltic States. The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, being the representative of Draka Group in the domestic market, markets a wide range of the Draka Group's products.

In 2008, the company operated in an economic environment where rapid increases in the first half year were followed by a quick drop in the prices of raw materials as well as in construction markets in the Baltic states and Scandinavia. Such rapid changes demanded an immediate response and great flexibility by the company.

In 2008, the sales revenue of AS Draka Keila Cables was 731.3 million kroons, increasing by 3%, while exports made up 503.7 million kroons. Considering the changed conditions the sales results were satisfactory. The company's market position improved thanks to the expanded product range. The company also managed to adhere to delivery dates and introduce certain procedures for raising the security of supply to a higher level. A significant shortening of delivery dates was another positive change.

In 2008, the company continued to carry out a reorganisation of its production facilities to improve the quality of products and to reduce overall expenditure, as a result of which the overall expenditure on materials was reduced and production efficiency improved.

In 2009, the focus will be on the reorganisation of work to cope with the changed economic environment. In the area of production organisation it is planned to bring the number of shifts into correlation with the changed demand and to improve production processes. It is also planned to introduce some new products to meet market demands. In sales activities the main aim is to constantly improve the quality of customer services. The company will also continue to introduce products of other plants within the Draka Group to local customers.



 1 EUR=15,6466 EEK

Other Financial Investments

SIA ENERGOKOMPLEKSS

SIA Energokomplekss is a sales organisation, founded in 2006 together with the Latvian leading producer of electrical installations A/S Jauda and other Latvian undertakings. The share of Harju Elekter in the company is 10%. This share in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for medium and low voltage equipment in Latvia and other markets.

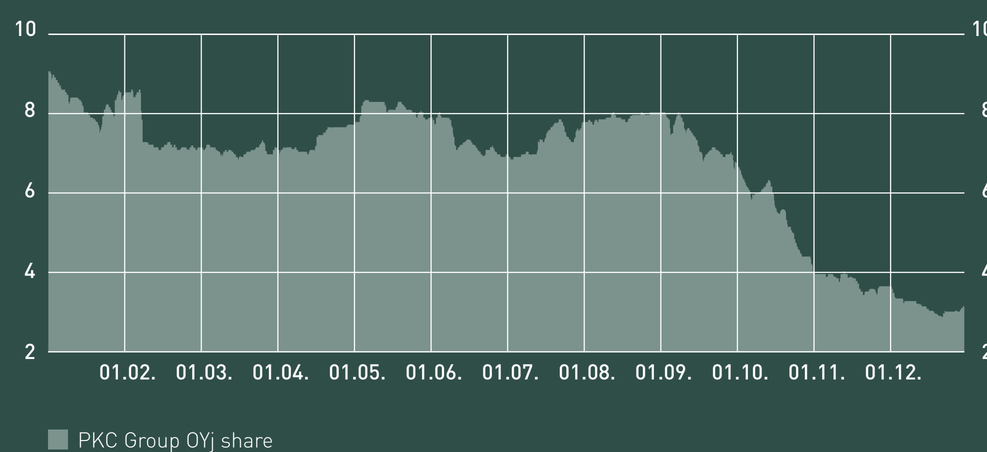
PKC GROUP OYJ

Since 1994 AS Harju Elekter has been the largest shareholder and strategic investor in the Finnish publicly traded company, PKC Group Oyj, which manufactures cable insulation for the automobile, telecommunication and electronics industries. The company has factories in Finland, Estonia, Russia, Brazil, China and Mexico hiring a total of 5,600 employees.

AS Harju Elekter is the main owner of PKC Group Oyj holding a stake of 8.9% as at 31 December 2008. PKC Group shares are quoted on the Helsinki Stock Exchange and are valued in the balance sheet according to market price. The change in the market price of the share may have a substantial influence on the financial indicators of the Group. The market price of the share decreased during the year by 5.70 euros (89.19 kroons) which reduced the value of the investment in the balance sheet to 140.9 million kroons. On the last trading date the price of a share on the Helsinki Stock Exchange was 3.00 euros (in 2007: 8.70 euros).

In 2008 PKC Group Oyj paid a dividend of 0.45 euros (7.04 kroons) per share. The Group's dividend income was 11.1 (in 2007: 12.5) million kroons. As 220 thousand shares were sold in 2007, the profit from the sales of shares amounted to 32.9 million kroons, making the total profit earned from financial investment in 2007 45.3 million kroons.

PKC GROUP OYJ SHARE PRICE ON THE HELSINKI STOCK EXCHANGE IN 2008 EUR



INVESTMENTS AND DEVELOPMENT

In 2008, the Group invested a total of 37.2 million kroons, which is 13.9% less than in 2007

In 2008, the Group invested a total of 37.2 million kroons, which is 13.9% less than in 2007. Investments in real estate made up 5.2 (in 2007: 14.0), in tangible assets 30.9 (in 2007: 28.5) and intangible assets 1.1 (in 2007: 0.7) million kroons.

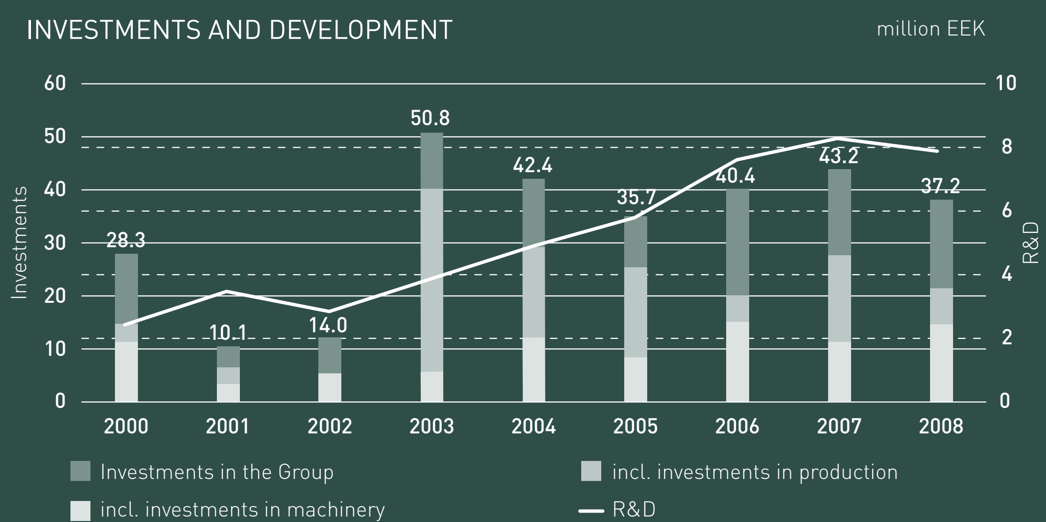
The investments can be divided into two: the first part is to support and ensure the further development of the Group and the second part of the investment is made in order to ensure the production premises and technologies are of the highest quality and meet contemporary requirements.

According to the development principles of the Group, Harju Elekter aims to continually modernise and develop new products to meet the needs of its customers and to improve its production technology. The development costs amounted to a total of 7.8 (in 2007: 8.3) million kroons accounting for 0.9% of the Group's turnover. The main product development resources of the Group are concentrated in the subsidiary Harju Elekter Elektrotehnika. In 2008, two new prefabricated substations with sheet metal enclosure successfully passed testing procedures and were awarded a certificate of compliance. A novel air insulated medium voltage substation was developed for foreign markets that received positive feedback from clients. A medium voltage distribution point was developed and marketed as a novel product. Safe cable boxes with a high degree of protection that will be introduced onto the market in 2009 were developed to meet the needs of the Scandinavian market. In co-operation with the shipping industry several new switchgears were designed and introduced that will help to speed up electrical installation works in shipyards. A low-current converter and communication box for information technology connections in buildings as well as a series of novel portable temporary boards for field applications were also introduced into production.

The Finnish subsidiary continued the development and expansion of the project for an online-ordering system. During the year three new clients were connected with the system. The novel electronic data processing system makes the handling of orders quicker and simpler. Today, most of the clients and co-operation partners have already accessed the system.

In 2008, the subsidiary, Satmatic, continued to develop process control software. The product development engineers of the department for designing industrial automation software developed several comprehensive solutions comprising products ranging from process control software to equipment. Integrated solutions were supplied to Finland, Poland, Kazakhstan and beyond.

In order to improve the quality of metal products and details and to expedite the production cycle and make it more flexible the subsidiary, Eltek, purchased a combined sheet processing machine comprising stamping and laser cutting facilities.



 1 EUR=15,6466 EEK

In the second half of the year the Lithuanian subsidiary in Panevežys opened a new production and office premises (the total cost of the construction was 12.5 million kroons), and preparatory work for expanding production premises in Estonia (1,500 sq m) and Finland (2,000 sq m) were commenced. In 2008, 14.1 million kroons was spent on machinery and vehicles.

At the beginning of 2008 AS Eltek successfully passed the audits for recertification of the quality management systems ISO9001:2000 and ISO14001. The certificate will be valid until 2011.

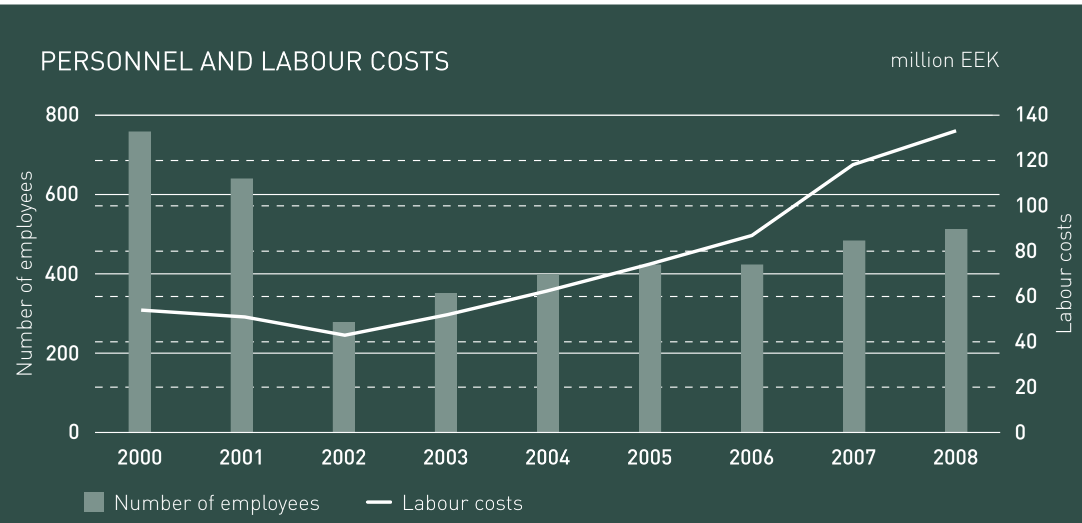
PERSONNEL

The number of employees of the Group as on the balance sheet date, 31.12.2008, was 515 (in 2007: 486) and the average number of employees was 501 (in 2007: 442). In the reporting period, wages and salaries amounted to 132.4 million kroons, increasing by 16.2 million kroons in the year which was mainly because of the increase in the number of employees. In all labour costs grew in 2008 by 8.2%, amounting to 172.2 million kroons.

The year 2008 was characterised by rapid changes in the labour market as well as in the economy as a whole. In the first quarter the situation in the labour market was tight with an above average need by the companies of the Group for additional qualified labour. This labour force shortage experienced in the first quarter was followed by a stabilisation period in the labour market that lasted for two quarters when it again became possible to hire qualified workers. At the same time the prolonged pressure for an increase in salaries was starting to alleviate. In the second half of the year the supply of labour exceeded the demand in the labour market and in the last quarter the need for new workers disappeared. The personnel service directed the released resources to personnel development programmes such as employee participation in the modernisation of fundamental values of the company, development programmes for instructors and new workers, internal training schemes, etc.

The average monthly gross salary within the Group was 22 thousand kroons (21 thousand kroons in 2007). Taking into account the increase in personnel and comparing these indicators with each of the countries' averages, this can be considered to be satisfactory.

The majority of the Group's employees – 344 people – worked in Estonia, including 55 people who work in the parent company. At the end of the year, there were 87 people working in Finland and 84 in Lithuania. In Estonia 241 of the employees were men and 103 women, 53 of whom have higher education. 223 people have secondary or vocational secondary education and 68 have basic education. In Finland 70 people have secondary or vocational secondary education and in Lithuania the relevant number is 43. 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.



Out of 515 persons working in the Harju Elekter Group almost 300 have worked there for over five years

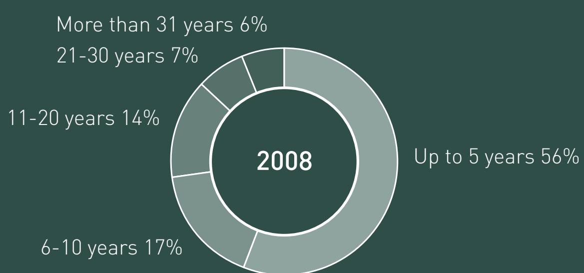
One of the strengths of Harju Elekter, which in autumn 2008 celebrated its 40th anniversary, is its solid organisational culture. The preservation and development of this culture is enhanced by the high percentage of long-term employees. Out of 515 persons working in the Harju Elekter Group almost 300 have worked there for over five years. Harju Elekter is a stable employer which appreciates the loyalty of its workers.

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

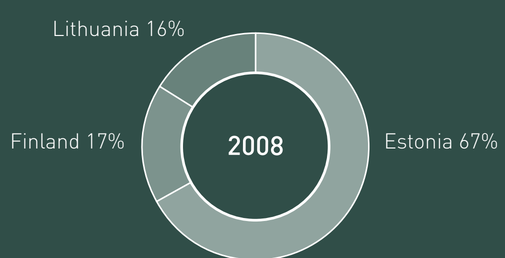
To motivate its staff, the Group uses a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole. The cross-company as well as cross-border employee exchange programmes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

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

LENGHT OF SERVICE



EMPLOYEES BY COUNTRY



 1 EUR=15,6466 EEK

RISK MANAGEMENT

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

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

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

As regards FINANCIAL RISKS, the Group follows the following principles:

- Regulations have been developed to manage credit risks – i.e. the risk that customers or transaction partners fail to fulfil their obligations. In order to prevent these risks, the customer's background and solvency are examined before concluding the transaction. Payment discipline is continuously monitored. This has made it possible to keep losses deriving from credit risks to under 1 % (0.12%).
- Currency risk: the Group is not exposed to major currency risks, as cross-border transactions are, as a rule, carried out in euros.
- Interest risks: proceed from long-term loans. The interest rate risk is mainly due to the possible changes in euribor (Euro Interbank Offered Rate) because some of the Group's loans are connected to euribor. The risk increases if interest rates rise. In order to manage these risks the Group follows the principle that part of the loan agreements are concluded at a fixed rate of interest.
- Liquidity risk: Liquidity risk is managed by different financial instruments such as loans and financial leases should the Group is unable to cover necessary costs and investments because of a deficit in the cash flow.

As regards RISKS ASSOCIATED WITH RAW MATERIALS, the Group follows the following principles:

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

The management of the Group considers PERSONNEL RISKS to be the following:

- risks associated with the professional skills of personnel: the Group needs employees with specific specialised training. To that end, the Group co-operates with vocational schools (e.g. Tallinn Construction School, Tallinn Centre of Industrial Education) and institutions of higher education (e.g. Tallinn Technical University (TTU), Tallinn Polytechnic School, Satakunna Vocational High School). Training days and tours to the company's factories are organised to introduce the company as a future employer. In order to ensure a constant supply of engineers, the company has launched scholarship programmes in collaboration with the Development Fund of TTU for the undergraduate and graduate students of TTU. In addition, training activities are constantly organised within the company;
- risks associated with the geographical location of personnel: the Group's head office and the Estonian factories are located in Keila. There are also factories in Ulvila and Kerava, Finland and Panevežis, Lithuania. The foreign subsidiaries deal with their personnel issues on their own. The personnel services of the Estonian companies are concentrated at the Group level where daily administration as well as constant recruitment is carried out.
- personnel turnover: in 2008, the situation in terms of personnel within the Group was influenced by rapid changes in the world economic situation as well as in the region of operation in general. During the first few months of the year a lack of qualified workers and strong pressure for an increase in salaries dominated, but by the spring the situation stabilised and in the last quarter labour supply exceeded demand. In 2008, the percentage of personnel turnover in the Group was 13.9% (in 2007: 11.8%). It was brought about by the closing of two stores as well as the retirement of several senior workers. Personnel turnover is kept under control by the continuous work done with employees in keeping them informed and up-to-date concerning the company's objectives and guaranteeing the quality of information management within the Group. In addition, the Group has developed clear and attractive wage and bonus systems as well as employee motivation programmes which are continually complemented. As we are an international group, the employees have the opportunity to work in the Group's factories in different countries on the basis of rotation.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

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.

In 2008, Harju Elekter Elektrotehnika focused on the improvement of internal information exchange and on the reduction of the relative share of nonferrous metal waste. The subsidiary also provided training for its workers as a result of which 10 became internal auditors. Altogether 13 employees participated in the training.

The subsidiary Eltek purchased a new combined automatic sheet processing machine which considerably reduced material waste and was environmentally friendly. The company also successfully passed a specialists check of the international certification organisation BVQI for the company's compliance with the requirements of quality systems, as well as recertification.

In the Finnish subsidiary the focus was on the improvement of production processes for making inter-company and inter-Group co-operation more efficient while taking into account environmental sustainability. Personnel participated in the relevant training to follow the requirements for waste handling and package circulation and to reduce the consumption of energy. Several joint courses and training programmes with the local higher education institution were organised during the year in order to improve the skills of employees.

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

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008-
Harju Elekter Elektrotehnika	ISO9001, ISO14001				●			● up to 1/2010	
Eltek			ISO9001, ISO14001			●			● up to 1/2011
Rifas				ISO9001:2001			● up to 12/2009		
Satmatic				ISO9001			● up to 10/2009		
Draka Keila Cables	ISO9001, ISO14001			●			● up to 3/2009		

● - recertification

 1 EUR=15,6466 EEK

SHAREHOLDERS AND SHARES

THE TRADING HISTORY OF HARJU ELEKTER SHARES[1]	2003	2004	2005	2006	2007	2008
Highest price (EEK)	36.51	49.50	85.80	69.47	71.97	53.98
Lowest price(EEK)	14.34	34.94	48.82	51.63	47.25	14.86
Closing price (EEK)	34.94	47.46	64.15	64.93	53.20	15.49
Change (%)	+129.45	+35.82	+35.17	+1.22	-18.1	-70.9
Number of traded shares	1,722,283	1,500,267	2,064,396	4,549,191	5,787,606	4,634,592
Turnover (million EEK)	114.13	180.26	278.96	277.51	335.42	178.25
Market value (million EEK)	566.09	797.35	1,077.72	1,090.24	893.76	260.23

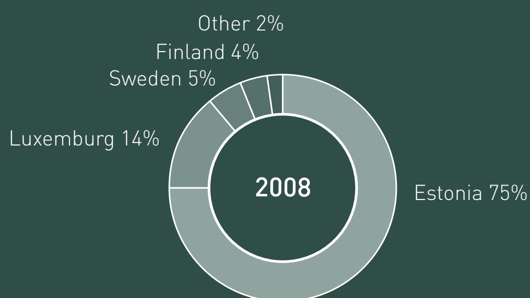
For more information: http://www.ee.omxgroup.com/

At the beginning of 2008 a fall in the stock exchange index on the Tallinn Stock Exchange continued and became even more rapid. Although the number of transactions during the first half of the year did not change, the turnover of transactions decreased due to low share prices. In the second half of the year the number of transactions showed a downward trend. In 2008, there were no first issues and no new publicly traded companies were listed.

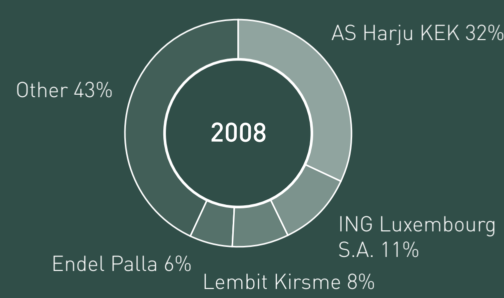
The shares of Harju Elekter have been listed on the Tallinn Stock Exchange since 1997. The share capital of the company is 168 million kroons which is divided into 16.8 million ordinary shares which are uniform and registered. All shares are freely negotiable on the stock exchange. According to the information available to Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit. All the shareholders of the company are equal. Each share confers an equal right to vote. There are no separate restrictions or agreements concerning the right to vote.

OWNERSHIP (31.12.2008)	No of shareholders	Percent	Percent of votes
more than 10%	2	0.2%	43.5%
1.0 - 10.0%	10	1.0%	29.5%
0.1 - 1.0 %	109	10.6%	19.6%
under 0.1%	912	88.3%	7.4%
TOTAL	**1,033**	**100%**	**100%**

SHAREHOLDERS BY COUNTRY



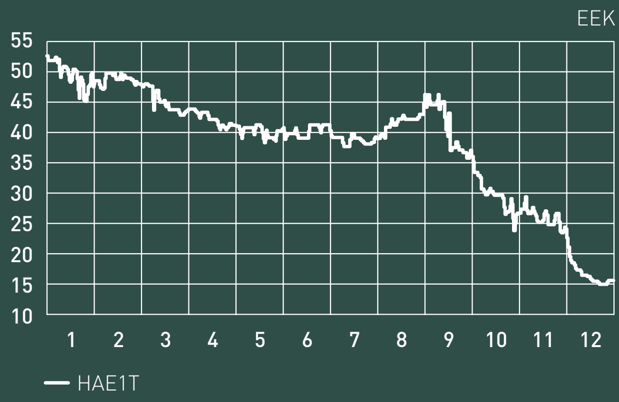
SHAREHOLDERS (MORE THAN 5%)



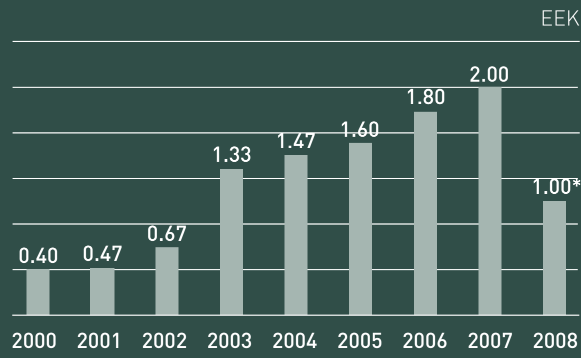
[1] The figures reflect the 2005 bonus issue

As a result of the good economic results, capitalisation and a positive growth perspective while, at the same time, taking into account the current economic situation, the Management Board of Harju Elekter makes a proposal to pay a dividend of EEK 1.00 per share for the financial year 2008.

HISTORY OF HARJU ELEKTER'S SHARES 1.1.–31.12.2008



DIVIDEND PER SHARE



* proposal of the Management Board

SOCIAL RESPONSIBILITY AND CHARITY

The environment around us creates, as well as limits, our opportunities to act. During its 40 years of operation Harju Elekter has become one of the largest companies in the region and, as a large-scale enterprise, it is ready to take responsibility for the general development of society as well as the well-being of the local community. Over the years four major areas of sponsorship have evolved in the Group.

BEARING OF SOCIAL RESPONSIBILITY

Harju Elekter, as a local large-scale enterprise, is conscious of a certain responsibility for the general development of the region and the well-being of the local community - focusing mainly on children and youth by supporting their educational efforts and spending their leisure time in good surroundings. Therefore, the Group supports kindergartens, as well as young athletes' clubs. The company has concluded long-term sponsorship agreements with Keila Gymnasium, local kindergartens and basketball and football 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 education of engineers and to offer young electricity and mechanics specialists the possibility to practice or work in the company. Harju Elekter is a golden sponsor of Tallinn Technical University and carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and the Tallinn Construction School.

SUPPORTING AND INSPIRING YOUNG SPORTSMEN

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

PROMOTING RECREATIONAL SPORT AMONG THE EMPLOYEES

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

The total amount of different support programmes in 2008 amounted to 355.5 thousand kroons.

 1 EUR=15,6466 EEK

SUPERVISORY BOARD, MANAGEMENT BOARD AND AUDITORS

In 2008, there were no changes to the management of AS Harju Elekter. The Supervisory Board continues with the following membership: Endel Palla (Chairman and R&D Manager of AS Harju Elekter) and members: Ain Kabal (Chairman of Kabal & Partners OÜ), Lembit Kirsme (Chairman of the Supervisory Board, AS Harju KEK), Madis Talgre (Chairman of the Management Board, AS Harju KEK) and Andres Toome (consultant). As a rule, meetings of the Supervisory Board are attended by all its members. During the reporting year the only exception was member of the Supervisory Board, Lembit Kirsme, who for medical reasons attended less than half of the meetings. According to the Articles of Association of Harju Elekter the general meeting of shareholders elects and appoints the Supervisory Board of the company. The AGM of ASi Harju Elekter appointed the five member Supervisory Board for the next five years in 2007. The Supervisory Board elects the chairman of the Management Board and appoints, on the basis of his proposal, members of the Management Board.

In 2008, there were no changes to the Management Board which continues with the following membership: Andres Allikmäe as a Chairman and members Karin Padjus (Financial Director) and Lembit Libe (Chief Economist). All members of the Management Board belong to the executive management of the company. The Chairman of the Board receives remuneration in accordance with his contract of service; members of the Management Board receive no special remuneration. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

The amount of remuneration and salaries paid to the members of the Supervisory and Management Boards of AS Harju Elekter in 2008 amounted to a total of 4.2 million kroons (in 2007: 3.9 million kroons). When the contract of service of a member of the Supervisory or Management Board expires or is prematurely terminated the company has no obligation to pay any other compensation, except for that prescribed by law. The Chairman of the Management Board has a contract of service specifying social guarantees in case of resignation.

According to the decision of the general meeting of the shareholders (20.04.2006) the audits of AS Harju Elekter for the years 2006–2008 are carried out by KPMG Baltics AS, represented by the group of auditors and led by the auditor, Andres Root. Audits in subsidiaries outside of Estonia are carried out by UAB Baltijos Auditas in Lithuania and Pyydönniemi Ky in Finland.

CORPORATE TARGET FOR 2009

Harju Elekter considers that forceful entry into new foreign markets as well as increasing sales in existing markets is the main factor in the growth of sales revenues. The main efforts are focused on finding new projects, customers and co-operation partners in Nordic countries and the EU as a whole. To that end, a new post of export manager will be created within the Group, whose main tasks will be to find and develop new markets and guarantee our active presence there. At the same time the Group is looking for attractive companies which could be associated with the Harju Elekter Group providing our interests coincide and the conditions for association are appropriate.

The current production capacity of the Group is sufficient for entering into new projects

The use and implementation of up-to-date compatible information systems is the basis for the co-operation between the different companies of the Group and the smooth functioning of the whole Group. In 2008, a thorough analysis of information systems was carried out and the development of new production management and accounting software was started in the Estonian companies of the Group. In 2009, it is planned to introduce the new system first in the parent company and Harju Elekter Elektrotehnika and then throughout the whole Group. The aim is to take full advantage of a future tool for finding proper cost and time effective solutions, for better management and timing of the information circulating within the Group and for a better analysis and use of the information received from customers.

Harju Elekter Group has made targeted investments for increasing production capacities through procurement of innovative production technologies and modernising the existing equipment as well as through the expansion of production premises. The current production capacity of the Group is sufficient for entering into new projects.

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

The success of the company is ensured by product development which takes into account the needs and demands of customers, a wide range of professional products and sales of our own products. This is strongly facilitated by following and supporting the development plans and guidelines of the sector, customers and co-operation partners. The Group directs more and more resources into the development of products meant for end customers, in which, according to the Management Board of the Group, lie our long-term success and greater profitability. The growing reputation of the Harju Elekter trade mark and the quality of the products offer enhanced opportunities to achieve that.

The investments in the personnel are mainly channelled on in-service training and the improvement of the qualifications of the staff. In order to survive these difficult times closer co-operation between the companies of the Group at every level is another important subject to be dealt with.

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

CORPORATE GOVERNANCE

As a company Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and the requirements of the Tallinn Stock Exchange. Amending the Articles of Association and approving 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 are within the competence of the general meeting of the shareholders. The everyday business activities of the Group are managed by members of the Management Board of the parent company according to their areas of responsibility and those members of the Supervisory Board who are involved in the everyday work of the company. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies. The administration of all the members of the Group is characterised by a lengthy experience of over 10 years.

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

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

As a publicly traded company AS Harju Elekter follows the principles of openness and equal treatment of investors

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

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

A Corporate Governance Code report accepted by the Management Board as well as the Supervisory Board of AS Harju Elekter is available on the company's homepage at www.harjuelekter.ee.

AS HARJU ELEKTER'S CGC REPORT 2008

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

CGC 2.2.1

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

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

CGC 2.2.7

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

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

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

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

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

CGC 3.2.5

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

The shareholders' general meeting of Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 26.04.2007 appointed the membership of the Supervisory Board for the following 5 years, setting 8,000 kroons a month as the pay rate for a member of the Supervisory Board and 25,000 a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working as the company's R&D manager shall be subject to the reward system used in AS Harju Elekter. No severance pay is allotted to members of the Supervisory Board.

CGC 5.3

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

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

CGC 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 6.2

"Electing the auditor and auditing the annual accounts."

The general meeting of the shareholders of Harju Elekter of 20.04.2006 elected an auditor for the company for the period 2006–2008; the elected auditor is the auditing company KPMG Baltics AS and the named auditor is Andres Root. 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 24.09.2003 – "On the rotation of the auditors of certain subjects of state financial supervision" – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.

MANAGEMENT'S CONFIRMATION TO THE MANAGEMENT REPORT

The Management Board acknowledges its responsibility and confi rms, to the best of its knowledge, that the Management Report as set out on pages 9 to 32 is an integral part of the Annual Report of AS Harju Elekter Group for 2008 and gives a true and fair view of the trends and results of operations, main risks and doubts of AS Harju Elekter and its subsidiaries as a group.

26th February 2009

/signature/	/signature/	/signature/
Andres Allikmäe Chairman of the Management Board	Lembit Libe Member of the Management Board	Karin Padjus Member of the Management Board

 1 EUR=15,6466 EEK