



## **AS HARJU ELEKTER**

Interim report 1-6/ 2006

Business name	AS Harju Elekter
Main business area:	designing, production and marketing of various electrical engineering and telecommunication systems
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CEO:	Andres Allikmäe
Auditor:	KPMG Estonia
Beginning of the reporting period:	1 <sup>st</sup> of January 2006
End of the reporting period:	30 <sup>th</sup> of June 2006

*The interim report of Harju Elekter Group on 19 pages*

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**EXPLANATORY NOTE*****Group structure and changes on it***

In April, the Group bought a company near Helsinki, Finland, which will be merged with the Finnish subsidiary Satmatic Oy. The assets and liabilities of the acquired enterprise have been included in the balance sheet of the subsidiary Satmatic OY and in the consolidated statements of Harju Elekter Group since 1 April 2006.

In interim report for H1 2006 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries – Harju Elekter Elektrotehnika, Eltek, Satmatic and Rifas - are consolidated line-by-line and the results of affiliated companies - Keila Kaabel and Saajos Inexa - by the equity method. The shares of PKC Group Oyj are recognised on the balance sheet on the fair value basis. As of 30.06.2006, Harju Elekter owns significant holdings in the following commercial undertakings:

Participation %			30.06.06	31.12.05	30.06.05
AS Eltek	subsidiary	Estonia	100.0%	100.0%	100.0%
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	100.0%	100.0%	0.0%
Satmatic OY	subsidiary	Finland	100.0%	100.0%	100.0%
Rifas UAB	subsidiary	Lithuania	51.0%	51.0%	51.0%
AS Keila Kaabel	associated company	Estonia	34.0%	34.0%	34.0%
AS Saajos Inexa	associated company	Estonia	33.3%	33.3%	33.3%
PKC Group Oyj	financial investment	Finland	10.2%	10.3%	10.6%

***Economic environment***

During H12006, the economic climate continued to improve all over the world and according to analysts' predictions this favourable situation will continue during the second half of the year. The assessment given to Western European countries has gone up from a satisfactory level and expectations for the future are also optimistic. Economic growth has also strengthened in the USA, although it is expected to slow down during the next year, which may have a negative impact on some exporting countries (e.g. Finland and Sweden). The world's economic growth is expected to remain at the current level.

The economies of the Baltic States have grown rapidly due to proper exports; however, the most important growth factor has been internal demand. Rapidly decreasing unemployment, increasing salaries and low loan interests supported consumer confidence and therefore also their spending. This in turn accelerated growth in imports and the deficits in current and stock accounts. The rapid economic growth and outflow of the workforce to EU countries caused a workforce deficit, which may have a negative impact on the long-term economic growth in the region. The rapid increase in prices that is postponing the introduction of the euro (according to some estimates, until 2010) is a problem all across the Baltics.

Estonia's economic situation also remained good during Q2 2006. Economic growth continued to be high, based on continuously developing exports and strong internal demand. This fostered new job creation, which placed an increased strain on the labour market situation. Its accession to the European Monetary Union from 2007 was primarily made impossible by a consumer price index of more than 4% resulting from the increase in fuel prices.

**Events**

In April, the Group bought Finoval Oy, a manufacturer of electrical appliances located in Kerava, Finland, which will be merged with Satmatic Oy and which, in addition, will fulfil the functions of the Group's representative office in Helsinki. The purchase of the enterprise expanded the company's possibilities of providing better services to its customers in the Helsinki area of Finland and increased the market share of the Harju Elekter Group.

From the 5<sup>th</sup> to the 8<sup>th</sup> of April, the company's subsidiary Harju Elekter Elektrotehnika took part in an energy fair, Enerex 2006, which took place in the framework of the building fair Eesti Ehitab (Estonia Builds), where a Sivacon distribution board and a MV switchgear HE SM6, prepared on the basis of a licence agreement, were presented. In addition, other new energy sector products were also exhibited.

On 20 April, the annual general meeting of shareholders took place, in which 109 shareholders or their authorised representatives, who represented 58.2 % of the total number of votes, participated. The general meeting decided to pay the owners dividends in the amount of EEK 1.60 (EUR 0.10) per share. The dividends were paid on 12 May 2006.

**Operating results**

The Group's consolidated return on sales in Q2 2006 was 171.0 (117.2) million kroons, showing an increase of 45.9 % in comparison with the same period last year. Production contributed 84.1 % (79.2 %) of the consolidated return on sales (an increase in turnover of 54.9% to 143.8 million kroons). The consolidated return on sales for H12006 amounted to 294.9 (229.2) million kroons, showing an increase of 28.6% in comparison with the same period last year.

The biggest increase in turnover was in the Lithuanian segment. The return on sales of the Group's enterprises in Lithuania increased in Q2 2006 by 2.9 times in comparison with the same period last year, amounting to 36.9 million kroons and in H1 2006 to 50.2 (23.4) million kroons. The activities of the subsidiary Rifase have been favourably influenced by both a good economic climate and active investment in industry and immovable property, as well as successfully supplying several large projects, including the water treatment equipment for Panevežys and the Kazlu Ruda Chipboard Plant. A strong increase of 86.2 % was also observed in the Finnish segment in Q2 2006, where sales volume reached 56.1 million kroons and by the end of H1 2006 amounted to 97.6 (55.1) million kroons. Intense sales work, which has made the company a strong and considerable manufacturer of electrical appliances in the Finnish market, also brought the company several new customers and contributed to the significant increase in Satmatic's turnover. An increase in orders from foreign markets for Finnish exporting companies, and initial supplies for the ship building industry as a new attractive target group also contributed to the increase in turnover. In H1 2006, the quantity of the so-called project sales products, which require significantly greater know-how from the company, and are also more profitable, also increased in the company's sales portfolio. The decrease in the sales of the Estonian segment has stopped and in Q2 2006 an increase in sales volume of 5.9 %, in comparison with the same period last year, was achieved. The return on sales of the enterprises in Estonia totalled 156.6 (156.9) million kroons in H1 2006, including 83.0 (78.4) million kroons in Q2 2006. Change in the orders' structure, where the focal point is being transferred to more simple solutions, but also the usual seasonality of customers' investment, has affected the turnover of H1 2006 the most.

The Republic of Finland was the largest of the markets, constituting 39.9 % (36.2 %) of the consolidated return on sales for Q2 2006 and 41.7 % (33.9 %) of the consolidated return on sales for H1 2006. Sales on the Finnish market increased by 60.7 % to 68.1 million kroons in Q2 2006; within 6 months to 122.9 (77.7) million kroons. The increase in market share was fostered by the opening of a sales representation office in Helsinki in the summer of 2005 and the purchase and merger of Finoval

Oy with Satmatic Oy, as a result of which both the volume of orders and the customer base increased. Sales on the Estonian market contributed 36.7 % (51.2 %) of consolidated return on sales in Q2 2006, increasing to 62.8 (60.0) million kroons and 39.7 % (53.9 %) of the consolidated return on sales in H1 2006, amounting to 116.9 (123.5) million kroons. The biggest increase in Q2 2006 was in the Lithuanian market. Sales on the Lithuanian market constituted 21.0 % (9.4 %) of consolidated turnover, increasing by three times, to 35.9 million kroons in comparison with the same period last year. As regards the half-year, sales on the Lithuanian market contributed 15.6 % (9.3 %) of the consolidated turnover, increasing twice as much as in the same period last year, and amounted to 45.9 million kroons. During H12006, the average number of employees in the Group was 430 (398) and the cost of wages was 42.2 (34.6) million kroons, including 22.0 (18.0) million kroons in Q2 2006.

In Q2 2006, the average number of employees in the Group was 439 (403). 8.1 (7.0) million kroons of capital asset consumption was included in costs; growth, in comparison with the previous year, was 15.7 %, including 4.1 (3.6) million kroons in Q2 2006; growth – 13.8 %. As a result of the increase in the number of employees and adjustment of salaries, marketing costs have increased within the first six months by 17.1 % to 12.3 (10.5) million kroons, including by 6.7 (5.4) million kroons in Q2 2006 and general administrative costs increased by 9.7 % to 19.6 (17.8) million kroons, including by 10.6 (9.8) million kroons in Q2 2006, remaining below the increase in turnover.

The commercial profit for Q2 2006 was 11.9 (9.1) million kroons; growth of 30.6 %. The turnover profitability was 6.9 % (7.7 %). The commercial profit for the half-year was 19.8 (15.9) million kroons and a growth of 24.7 % in comparison with the previous year. The turnover profitability amounted to 6.7 % (6.9 %).

In Q2 2006, a dividend income in the amount of 12.7 (5.8) million kroons was drawn, and consolidated profit in the amount of 1.0 (-0.2) million kroons was drawn from subsidiaries. The Group's pre-tax profits for Q2 2006 totalled 25.1 (14.2) million kroons. The corporate income tax was 6.2 (2.9) million kroons in Q2 2006. The payment of dividends gave rise to an income tax liability of 5.4 (2.8) million kroons. The consolidated net profit for Q2 2006 was 19.0 (11.3) million kroons, of which the share belonging to the owners of the parent company totalled 17.4 (11.1) million kroons, and net profit per share amounted to 1.03 (0.66) kroons. The consolidated net profit of H1 2006 was 32.9 (17.9) million kroons, which was influenced by a dividend income 2.2 times greater in Q2 2006 and a single financial benefit drawn from the shares of PKC Group Oy of 5.2 million kroons in Q1 2006. In H1 2006, profit exceeding that of a year ago, by 2.3 million kroons, was consolidated within a period of 6 months from related companies. The corporate income tax was 6.4 (3.0) million kroons due to an increase in income tax paid on dividends.

Altogether, the consolidated profit after tax of H1 2006 totalled 32.9 (17.9) million kroons of which the share belonging to the owners of the parent company was 31.2 (17.3) million kroons and the net profit per share was 1.86 (1.03) kroons.

### ***Cash flows, investment and financing***

During the first 6 months, cash flow from business activities was 10.4 (22.9) million kroons, cash flow from investment activities was 1.4 (-27.0) million kroons and from financing activities -27 (into 2.9) million kroons. Cash and cash equivalents decreased in H1 2006 by -15.2 (-1.2) million kroons.

In Q2 2006, the Group bought the assets and liabilities, or the net assets, of the Finnish company Finoval. The Group paid 6.1 million kroons for the net assets. At the time of purchase, the enterprise had 0.4 million kroons in its bank account. Consequently, as the result of this transaction, the cash flow out of the Group was 5.7 million kroons. In order to buy Finoval Oy, the Group sold 30,000 shares of PKC Group Oyj in Q1 2006. A total of 5.6 million kroons was received from the sale.

During the accounting period, the Group invested 0.4 (2.6) million kroons in real estate, 16.6 (25.2) million kroons in tangible assets, and 2.3 million kroons in intangible assets, totalling 19.3 (27.9) million kroons. The investments were allocated as follows: 2.1 (2.6) million kroons was spent on the purchase of land, 7.5 (20.2) million kroons was spent on the reconstruction and purchase of production buildings and 6.5 (3.9) million kroons was spent on equipment. In order to improve and increase production capacity, a new painting line was purchased for the Group. The installation of the appliance commenced in June. The total cost of the project is 7.0 million kroons. In Q2 2006, 2.1 million kroons of the cost of the appliance was paid.

In order to finance the new paint line, the Group took a long-term loan of 7 million kroons from a bank. In order to guarantee the loan, 46 thousand shares of PKC Group Oy were mortgaged to the bank. In H1 2006, the Group repaid a long-term bank loan in the amount of 4.4 (3.5) million kroons, a short-term loan in the amount of 1.5 million kroons and long-term capital rent payments in the amount of 0.7 (1.1) million kroons. In Q2 2006, the Group paid dividends in the amount of 27.4 (25.1) million kroons, 26.9 (24.6) million kroons of which was paid to the owners of the parent company.

### ***Balance sheet***

The company's consolidated turnover increased during H1 2006 by 84.1 million kroons, reaching 780.6 million kroons.

Cash in bank accounts decreased over a period of 6 months by 15.2 million kroons to 10.7 million kroons.

An increase in the volume of sales orders gave rise to an 11.9 % increase in reserves, amounting to 77.1 million kroons, mainly on account of the reserves of ready-to-use products and intermediate products, and it also gave rise to an increase in suppliers' arrears on the customers' and liability side by 24.1 million kroons as regards receivables, and by 24.9 million kroons on the liability side, respectively.

Conversion of vendible financial assets into a fair value was the main reason for the increase of assets by 12.1 %. The price of the shares of PKC Group Oy closed on 30 June 2006, at the level of 12.95 euros (202.62 kroons), showing an increase of 1.06 euros (16.59 kroons) within the quarter and 2.05 euros (32.08 kroons) within the half-year, which is why the balance cost of financial assets increased by 29.9 million kroons in comparison with Q2 2006, and by 57.7 million kroons in total, in comparison with the beginning of the year. The book profit generated from the re-valuation of shares was directly reflected in equity capital reserves. Equity capital belonging to the owners of the parent company increased by 57.3 million kroons in total and amounted to 609.5 million kroons.

### ***Development***

According to the development principles of Harju Elekter, the objective of the Group is to constantly modernise and develop products that meet customers' needs, and to improve technology. In H12006, a licence for manufacturing the Sivacon 8PT product was purchased. The contract for purchasing the licence was concluded in December 2005. The acquisition cost of the licence was 0.9 million kroons. Harju Elekter Elektrotehnika introduced the first MV secondary distribution unit SM6 into production and sold them, and was focused on developing new solutions regarding LV substations. Both a metal sheet covered substation and a distribution board and switchboard, which were brought into conformity with the new technical requirements of the distribution network, successfully passed tests. In Q2 2006, approval was obtained for the prototypes and production technology for licence products Sivacon 8PT and SM6.

In order to ensure an adequate production capacity and to improve the quality of metal products and details, the Group bought a new paint line, the installation of which began in June. The construction and installation works are planned to be completed in September 2006.

Satmatic was focused on the integration of the business activities of Finoval Oy and also the active expansion of its sales activities, through its representative offices in Helsinki, to other regions in Finland, which will increase the clientele of the company and contribute to an increase in its market share. At the same time two projects, financed by funds from the TYKES-development fund, continued to be developed; the first involving an electronic order processing system and the other a logistics project, with a total cost of 0.7 million kroons.

In H12006, re-certification audits of the quality management system (ISO 9001:2000) were conducted in and passed by the Group's enterprises.

Development costs totalled 4.4 (2.0) million kroons in H1 2006, including product licences with 0.9 million kroons and software licences with 0.6 million kroons. Direct expenditures related to the introduction of new products in production were 0.3 million kroons, and other current development costs (within general administrative costs) constituted 2.4 (2.0) million kroons.

### *Shares of Harju Elekter*

EEK	1-6/ 2006	2005	1-6/ 2005
Number of the shares ('000)	16,800	16,800	16,800
Nominal value	10	10	10
High price	69.47	85.80	85.80
Low price	51.63	48.82	48.82
Closing price	57.11	64.15	68.22
EPS	1.86	2.48	1.03

### *Key indicators*

EEK'000	1-6/ 2006	2005	1-6/ 2005
<b>Accounting period</b>			
Net sales	294,854	513,936	229,205
Operating profit	19,825	37,516	15,899
Net profit for the current period	32,869	43,908	17,880
Incl. equity holders of the parents	31,186	41,656	17,264
<b>At the end of the period</b>			
Total current assets	183,026	163,614	137,809
Total non-current assets	597,525	532,792	521,532
Total assets	780,551	696,406	659,341
Total liabilities	153,857	128,073	127,746
Total equity	626,694	568,333	531,595
Inclusive equity attributable to equity holders of the parent	609,524	552,195	517,093

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<b>Performance indicators (%)</b>	<b>1-6/ 2006</b>	<b>2005</b>	<b>1-6/ 2005</b>
Growth in revenue	28.6	13.3	21.1
Operating profit growth	24.7	20.1	59.8
Net profit growth (Equity holders of the parent)	80.6	-25.9	-74.0
Return of sales (operating profit/revenue *100)	6.7	7.3	6.9
Net profit margin (net profit /net sales *100)	10.6	8.1	10.6
Owners' equity margin (equity / balance sheet total *100)	78.1	79.3	78.4

  

<b>Employees</b>			
Average number of employees on the current period	430	412	398
Number of employees on	448	425	413

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## INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

EEK'000	Note	2006	2005
		At 30 June	At 31 December
<b>Assets</b>			
Cash and cash equivalents		10,710	25,940
Trade receivables		88,546	64,444
Other receivables and prepayments		6,668	4,353
Inclusive income tax		21	21
Inventories		77,102	68,877
<b>Total current assets</b>		<b>183,026</b>	<b>163,614</b>
Investments in associates		25,724	24,773
Other long-term financial investments		364,756	312,103
Investment property	2	118,371	123,625
Property, plant and equipment	2	85,242	70,731
Intangible assets	2	3,432	1,560
<b>Total non-current assets</b>		<b>597,525</b>	<b>532,792</b>
<b>TOTAL ASSETS</b>		<b>780,551</b>	<b>696,406</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	3	15,814	22,017
Advances from customers		3,817	9,569
Trade payables		66,801	41,870
Tax liabilities		10,058	9,319
Inclusive income tax		174	298
Accrued expenses		14,606	14,281
Other payables		5,837	1,138
<b>Total current liabilities</b>		<b>116,933</b>	<b>98,194</b>
<b>Non-current liabilities</b>	3	<b>36,924</b>	<b>29,879</b>
<b>Total liabilities</b>		<b>153,857</b>	<b>128,073</b>
<b>Equity</b>			
Share capital		168,000	168,000
Share premium		6,000	6,000
Reserves		349,149	296,126
Retained earnings		86,375	82,069
<b>Total equity attributable to equity holders of the parent</b>		<b>609,524</b>	<b>552,195</b>
<b>Minority interest</b>		<b>17,170</b>	<b>16,138</b>
<b>Total equity</b>		<b>626,694</b>	<b>568,333</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>780,551</b>	<b>696,406</b>

**CONSOLIDATED INCOME STATEMENT**

EEK'000	Note	For period 4-6 ended 30		For the period 1-6 ended	
		June		30 June	
	no	2006	2005	2006	2005
Revenue	4	170,959	117,196	294,854	229,205
Cost of sales		-142,208	-93,013	-243,482	-185,022
<b>Gross profit</b>		<b>28,751</b>	<b>24,183</b>	<b>51,372</b>	<b>44,183</b>
Distribution costs		-6,728	-5,445	-12,347	-10,546
Administrative expenses		-10,621	-9,780	-19,557	-17,823
Other income		551	386	588	507
Other expenses		-97	-266	-231	-422
<b>Operating profit</b>	4	<b>11,856</b>	<b>9,078</b>	<b>19,825</b>	<b>15,899</b>
Net financing income/costs	5	12,257	5,329	17,168	5,065
Income from associated companies		1,004	-159	2,260	-51
<b>Profit before tax</b>		<b>25,117</b>	<b>14,248</b>	<b>39,253</b>	<b>20,913</b>
Allocation of corporate income tax to relevant periods		-6,153	-2,907	-6,384	-3,033
<b>Profit for the period</b>		<b>18,964</b>	<b>11,341</b>	<b>32,869</b>	<b>17,880</b>
<b>Attributable to:</b>					
Minority interests		1,601	239	1,683	616
Equity holders of the parent	6	17,363	11,102	31,186	17,264
Basic and diluted earnings per share for profit attributable to equity holders of the parent (in €)	6	1.03	0.66	1.86	1.03

**CONSOLIDATED CASH FLOW STATEMENT**

<b>For the period 1-6 ended 30 June</b>		EEK'000	
	Note	2006	2005
<b>Cash flows from operating activities</b>			
Operating profit	4	19,825	15,899
<u>Adjustments for:</u>			
Depreciation and amortisation	2	8,110	7,048
Gain on sale of property, plant and equipment		-396	-44
Change in receivables related to operating activity		-30,890	-2,285
Change in inventories		-8,225	1,618
Change in payables related to operating activity		29,341	4,677
Corporate income tax paid		-6,508	-3,112
Interest paid		-862	-899
<b>Net cash from operating activities</b>		<b>10,395</b>	<b>22,902</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		-14,780	-31,576
Proceeds from sale of property, plant and equipment		459	44
Acquisition of investment property		-375	-2,596
Acquisition of intangible assets		-2,305	-74
Acquisition of other financial investments		-33	0
Proceeds from sale of other financial investments		5,616	0
Loans given		-8	-20
Repayment of loans given		8	30
Interest received		176	115
Dividends received		12,679	7,113
<b>Net cash used in investing activities</b>		<b>1,437</b>	<b>-26,964</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		7,000	32,645
Repayment of borrowings	3	-5,905	-3,509
Payment of finance lease principal	3	-722	-1,140
Dividends paid		-27,397	-25,135
<b>Net cash used in financing activities</b>		<b>-27,024</b>	<b>2,861</b>
<b>Net cash flows</b>		<b>-15,192</b>	<b>-1,201</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>25,940</b>	<b>18,786</b>
Net increase / decrease		-15,192	-1,201
Effect of exchange rate fluctuations on cash held		-38	-32
<b>Cash and cash equivalents at end of period</b>		<b>10,710</b>	<b>17,553</b>

**CONSOLIDATED  
STATEMENT OF CHANGES IN OWNERS' EQUITY**

EEK'000	Attributable to equity holders of the parent							Minority interest	TOTAL
	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	Total			
For period 1-6/2005									
Balance at 31 December 2004	56,000	6,000	8,600	273,324	177,053	<b>520,977</b>	14,381	<b>535,358</b>	
Profit for period	0	0	0	0	17,264	<b>17,264</b>	616	<b>17,880</b>	
Income recognised directly in equity	0	0	0	3,492	0	<b>3,492</b>	0	<b>3,492</b>	
Total income for period	0	0	0	3,492	17,264	<b>20,756</b>	616	<b>21,372</b>	
Dividends		0	0	0	-24,640	<b>-24,640</b>	-495	<b>-25,135</b>	
Bonus issue	112,000	0	0	0	-112,000	<b>0</b>	0	<b>0</b>	
<b>Balance at 30 June 2005</b>	<b>168,000</b>	<b>6,000</b>	<b>8,600</b>	<b>276,816</b>	<b>57,677</b>	<b>517,093</b>	<b>14,502</b>	<b>531,595</b>	
For period 1-6 /2006									
Balance at 31 December 2005	168,000	6,000	8,600	287,526	82,069	<b>552,195</b>	16,138	<b>568,333</b>	
Profit for period	0	0	0	0	31,186	<b>31,186</b>	1,683	<b>32,869</b>	
Income recognised directly in equity	0	0	0	53,023	0	<b>53,023</b>	0	<b>53,023</b>	
Total income for period	0	0	0	53,023	31,186	<b>84,209</b>	1,683	<b>85,892</b>	
Dividendid	0	0	0	0	-26,880	<b>-26,880</b>	-651	<b>-27,531</b>	
<b>Balance at 30 June 2006</b>	<b>168,000</b>	<b>6,000</b>	<b>8,600</b>	<b>340,549</b>	<b>86,375</b>	<b>609,524</b>	<b>17,170</b>	<b>626,694</b>	

## NOTES TO INTERIM FINANCIAL STATEMENT

### **Note 1. Accounting methods and valuation principles used in the consolidated interim report**

AS Harju Elekter is a company registered in Estonia. The interim report prepared as of 30.06.2006 include AS Harju Elekter and its subsidiaries AS Eltek, Satmatic Oy and Rifas UAB (together referred to as "Group"). AS Harju Elekter has been listed on Tallinn Stock Exchange since September 30, 1997, more than 30 % of the shares are held by AS Harju KEK.

This consolidated interim report is prepared in accordance with the requirements for international accounting standard IAS 34 "Interim Financial Reporting" on condensed interim financial statements. The interim report is prepared on the basis of the same accounting methods as used in the annual report concerning the period ending on 31.12.2005 except the presentation of financial information of segments (see below).

According to the assessment of the management board, the interim report for H1 2006 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the group.

The presentation currency is the Estonian kroon (EEK). The financial statements of AS Harju Elekter are presented in thousands kroons (EEK), rounded to the nearest thousand.

#### ***Changes in segment reporting***

The Group's internal reporting is arranged across legal persons, the result of which is that the company's internal reports express the results of non-related product manufacturing and provision of services. Therefore, when choosing the segment report format, the internal company report structure cannot be directly followed and management must designate whether the group's risks and profit margins are primarily affected by the differences of the products manufactured in the company and the services offered, or the fact that the group is operating in different geographic areas.

Even though management recognizes that there are differences present in the risks related to the group's production activities and service provision, they are of the position that the group's risks and profit margins are better tied to the geographical locations where business is conducted. Based on the above, the group's management has chosen geographic segments as the basic format for external group reports and business segments as an additional format for the economic year which began on 1 January 2006. The comparison period's financial information is adjusted and brought into conformity with the indicators presented in the corresponding reporting period's segment report.

**Note 2 Property, plant and equipment, investment property and intangible assets**

For period 1-6 ended 30 June EEK'000	Property, plant and equipment		Investment property		Intangible assets	
	2006	2005	2006	2005	2006	2005
<b>At beginning of period</b>	<b>70,731</b>	<b>86,551</b>	<b>123,625</b>	<b>86,880</b>	<b>1,560</b>	<b>1,951</b>
Additions	16,622	25,240	375	2,596	2,305	74
Transfer from investment property	3,508	-32,805	-3,508	32,805	0	0
Disposals at acquisition value	-489	-64	0	0	0	0
Amortisation charge for the period	-5,556	-5,055	-2,121	-1,604	-433	-389
Disposals	426	64	0	0	0	0
<b>Final balance at the end of the current period</b>	<b>85,242</b>	<b>73,931</b>	<b>118,371</b>	<b>120,677</b>	<b>3,432</b>	<b>1,636</b>

**Note 3 Debt liabilities**

EEK'000	At 30 June 2006	At 31 December 2005	At 30 June 2005
Short-term loans	10,345	11,869	14,589
Repayment of long-term leasing oblig. during the next period	4,805	8,762	4,381
Repayments of long-term lease in next period	664	1,386	900
<b>Total current liabilities</b>	<b>15,814</b>	<b>22,017</b>	<b>19,870</b>
Long-term bank loans	35,053	28,477	37,239
Long-term lease payables	1,402	1,402	3,474
Other long term liabilities	469	0	0
<b>Total long term liabilities</b>	<b>36,924</b>	<b>29,879</b>	<b>40,713</b>
<b>Total debt liabilities</b>	<b>52,738</b>	<b>51,896</b>	<b>60,583</b>

Changes in debt obligations:

For period 1-6 ended 30 June	2006	2005
<b>Initial balance 31.12.</b>	<b>51,896</b>	<b>31,737</b>
Changes in short-term loans	-1,524	5,890
Received long-term loans	7,000	26,755
Long-term loan repaid	-4,381	-3,509
New leasing obligations	0	850
New long-term lease liabilities	-722	-1,140
Non-current liabilities for tangible assets	469	0
<b>Final balance 30.06.</b>	<b>52,738</b>	<b>60,583</b>

In Q2 2006, the Group raised a long-term loan of 7 million kroons from a bank, for the purchase of a new paint line. The first repayment of the loan is in September 2006, and the last repayment is in August 2011. The repayments are made once per month and the annual interest is 4.32 %.

#### Note 4 Segment reporting

Segment reporting is presented in respect of the Group's business and geographical segments. The primary segmentation – geographical segments - which is based on the location of businesses derives from the structure, management and internal reporting of the Group.

Inter-segment pricing is determined on the basis of market prices.

##### *The Group's geographical segments - the primary reporting format*

Geographically, the Group's operations may be divided into three segments:

*Estonia* – the domicile of AS Harju Elekter and its subsidiaries AS Harju Elekter Elektrotehnika and AS Eltek.

*Finland* – the domicile of the subsidiary Satmatic Oy.

*Lithuania* – the domicile of the subsidiary Rifas UAB.

The income of the geographic segments are reporting according to the geographical location of assets. The income of the segments by markets is reflected on the basis of the location of its customers.

EEK'000 For period 1-6 ended 30 June	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers	147,251	150,818	97,645	55,024	49,958	23,363			294,854	229,205
Inter-segment revenue	9,366	6,088	36	26	291	44	-9,693	-6,158	0	0
<b>Total revenue</b>	<b>156,617</b>	<b>156,906</b>	<b>97,681</b>	<b>55,050</b>	<b>50,249</b>	<b>23,407</b>	<b>-9,693</b>	<b>-6,158</b>	<b>294,854</b>	<b>229,205</b>
Segment result	14,793	15,967	1,053	-602	3,980	1,167	-1	-633	19,825	15,899

Segments' sales revenue distribution by client's country of location:

For the period 1-6 ended 30 June	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Estonia	116,732	123,532	36	26	506	44	-327	-70	116,947	123,532
Finland	34,609	28,005	96,609	54,969	0	0	-8,354	-5282	122,864	77,692
Lithuania	1,298	1236	0	0	45,579	20,921	-1,012	-806	45,865	21,351
Other Europe	2,292	2,628	263	55	4,164	2,328	0	0	6,719	5,011
Other	1,175	1,159	773	0	0	0	0	0	1,948	1,159
Russia	511	346	0	0	0	114	0	0	511	460
<b>Total</b>	<b>156,617</b>	<b>156,906</b>	<b>97,681</b>	<b>55,050</b>	<b>50,249</b>	<b>23,407</b>	<b>-9,693</b>	<b>-6,158</b>	<b>294,854</b>	<b>229,205</b>

**The Group's business segments- the secondary reporting format:**

As of 30 June 2006, the Group is operating in the following areas, in which the accompanying risks and benefits are significantly different and each area of activity is large enough to comprise a separate segment:

*Manufacturing* – The manufacture and sale of power distribution and control systems; manufacture and sale of data and communications systems and fiber optic cables; manufacture and sale of various sheet metal products and subcontracting in the area of sheet metal works; research and development; services related to manufacturing and intermediary sale of components.

*Trade* – Retail- and wholesale of products necessary for electrical installation works, mainly to retail customers and small- and medium-sized electrical installation companies;

*Real estate* – Real estate development, maintenance and rental, services related to the maintenance of real estate and intermediary trade of those services. Real estate has been identified as a reportable segment because it has more than 10% of the total assets of all segments.

*Unallocated items* –management services; other services (design of industrial automation equipment, programming of process control automatic equipment and project management of installation works; construction services and installation of automatic control equipment).

Commercial segment revenue in areas of activity:

EEK'000	Revenue		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005
For the period 1-6 ended 30 June						
Manufacturing	246,071	186,184	-2,709	-2,168	243,362	184,016
Real estate	22,058	18,321	-5,440	-4,211	16,618	14,110
Trade	27,993	21,364	-246	-292	27,747	21,072
Unallocated	10,405	12,335	-3,278	-2,328	7,127	10,007
<b>Total revenue</b>	<b>306,527</b>	<b>238,204</b>	<b>-11,673</b>	<b>-8,999</b>	<b>294,854</b>	<b>229,205</b>



**Note 5 Net financing income/costs**

EEK'000		
For the period 1-6 ended 30 June	2006	2005
Interest charges	-832	-777
Interest return	145	53
Dividend income	12,679	5,821
Net exchange profit (+)/loss (-)	-38	-32
<i>Marketable investments:</i>		
Income from sale of investments	5,214	0
<b>TOTAL</b>	<b>17,168</b>	<b>5,065</b>

**Note 6 Basic and diluted earnings per share**

Basic earnings per share have been calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding during the period.

For the period 1-6 ended 30 June		2006	2005
Profit attributable to equity holders of the parent	EEK'000	31,186	17,264
Average number of shares outstanding during the period	'000	16,800	16,800
Basic and diluted earnings per share	EEK	1.86	1.03

Diluted earnings per share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding, both adjusted for the effects of all dilutive potential shares. At 30 June 2006, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

**Note 7 Business combinations**

In April, the Group bought the company Finoval Oy, located near Helsinki, Finland, which will be merged with Finnish subsidiary Satmatic Oy. As of 30 June 2006, the merger process had not yet ended.

Acquisition cost of the purchased enterprise	420,000 euros (6,572,000 kroons)
Fair value of the purchased net assets	420,000 euros (6,572,000 kroons)

The assets and liabilities of the acquired enterprises are included in the consolidated statements of Harju Elekter Group as of 1 April 2006.

The enterprise will create better possibilities for servicing the Group's customers in the Helsinki area of Finland and will increase the market share of the Harju Elekter Group. In addition, the enterprise fulfils the functions of a representative office in Helsinki for the Harju Elekter Group.

**Note 8 Transactions with related parties**

Related parties to AS Harju Elekter are its associated companies AS Keila Kaabel and AS Saajos Inexa, members of the governing bodies and AS Harju KEK which owns over 30% of AS Harju Elekter shares.

Group bought from, sold its products to and provided services to related parties as follows:

EEK'000	2006		2005	
	<b>Bought</b>	<b>Sold</b>	<b>Bought</b>	<b>Sold</b>
For the period 1-6 ended 30 June				
Associated companies	6,620	6,560	5,737	6,161
Harju KEK	66	0	35	50
Total	6,686	6,560	5,772	6,211
<i>Inclusive:</i>				
Goods and materials	6,445	610	5,637	161
Industrial subcontracting (outsourcing)	41	55	6	1
Lease of fixed assets	51	3,439	0	3,394
Management services	0	1,767	0	1,646
Other services	149	689	129	1,009

Balance with related parties:

EEK'000	Claims		Obligations	
	<b>30.06.06</b>	<b>31.12.05</b>	<b>30.06.06</b>	<b>31.12.05</b>
With associated companies: goods and services	4,070	2,846	4,175	584
dividends	1,309	0	0	0

**Signatures of the members of the Management Boards to the interim report 1-6/2006**

The management board of AS Harju Elekter declares its liability for the accurate preparation of the financial interim statements of 1-6/2006 accounts on the pages 9 - 18 and confirms that:

- the accounting policies applied in the preparation of the consolidated annual accounts are in compliance with the generally accepted international accounting principles;
- the consolidated annual accounts give a true and fair view of the financial position, economic performance and cash flows of the consolidated group and AS Harju Elekter;
- all material circumstances and aspects that were known and obvious prior to the completion date of the report as 02 August 2006, were duly taken into account and recognised in the annual accounts;

**Management Board**

Andres Allikmäe	Chairman of the Board	/signature/	August the 2nd 2006
Lembit Libe	Member of the Board	/signature/	August the 2nd 2006
Karin Padjus	Member of the Board	/signature/	August the 2nd 2006