



## **AS HARJU ELEKTER**

Interim report 1-6/ 2005

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 2005
End of the reporting period:	30 <sup>th</sup> of June 2005

*The interim report of Harju Elekter Group on 17 pages*

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

In interim report for H1 2005 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 (former Saajos Balti) - by the equity method. The shares of PKC Group Oyj are recognised on the balance sheet on the fair value basis. As of 30.06.2005, Harju Elekter owns significant holdings in the following commercial undertakings:

			Participation %		
			30.06.05	31.12.04	30.06.04
AS Eltek	subsidiary	Estonia	100,0%	100,0%	100,0%
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	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	10,6 %	10,6 %	10,7 %

***Economic environment***

Economic developments in the three Baltic countries, based to the fast expanding exports and domestic demand, are strong and although economic growth rates are about to decline they will remain strong for several years. Due to stronger than expected developments and increased estimates of the past we have raised our forecast for Estonia from 5.9% to 6.1%, the Latvian and Lithuanian forecasts have remained the same – 7,3% and 6,8%. The loan conditions remained favourable, even though inflation which is strongly affected by the rise in the oil price as well as the slight weakening of the euro against the dollar are not very apt to fall to the desired level (3.3% in Estonia in 2005).

The outlooks of international economy are still controversial. Developed economies are constricted by increasing fuel costs as well as the growing competitiveness of the developing countries. Sweden and Finland, important trading partners for the Baltic States, are for the most part satisfied with their economic situation.

The market situation in the important building sector for Harju Elekter was favourable in the first half of the year, and in the coming months we expect a further increase in the volume of orders. At the same time, access to qualified work force is becoming an ever more important issue. The shortage of qualified personnel is already affecting 2/3 of the companies.

***Important events***

For the purpose of streamlining the management structure of the group as well as better organisation of accounting and analysis, the management of the parent company decided to establish a 100% subsidiary of Harju Elekter on the basis of the Electrical Equipment Plant of Harju Elekter. The business name of the company will be AS Harju Elekter Elektrotehnika which has its independent

economic activities since 1.04.2005. AS Harju Elekter Elektrotehnika core business is design, manufacturing and marketing of electrical equipment for energy distribution, industrial and construction sector. The company coordinates the manufacturing of electrical equipment and product development in the entire group, including in Finland and Lithuania.

The annual general meeting of shareholders was held on 22 April, and 108 shareholders or their authorised representatives participated, who represent 56,2 % of the total number of votes. The general meeting decided to pay dividends to the owners at the rate of EEK 4,40 (EUR 0,28) per share. The shareholders registered in the shareholders' registry on 9 May 2005 at 8 am were entitled to dividend. Dividends paid to the shareholders on 23.05.2005.

The AGM of shareholders decided to accept the Council's proposal to increase the Company's share capital by means of fund issue on owners' equity. The Company's share capital increased from present 56 million kroons to 168 million kroons by issuing 2 new ordinary shares for every present share. During the fund issue totally 11,2 million shares with the nominal value 10 kroons or 0,64 euros was issued. After the fund issue the total number of the shares is 16,8 million. The new shares shall carry applicable shareholder rights as of the financial year which begins on 01 January 2005.

In the Q2, newly completed production buildings totally in 9000 sq m were rented to PKC Eesti and HE Elektrotehnika.

### ***Revenues, expenses and profit***

The sales revenue of the consolidation group AS Harju Elekter comprised MEEK 229,2 (MEUR 8,8) in the H1 2005, increasing by 21% in comparison with the same period of the previous year. Manufacturing contributed 80% of the consolidated sales revenue (turnover growth 22%), services contributed 10% (turnover growth 23%) and trade accounted for 10% (turnover growth 10%). Of the turnover, 76% was generated by revenue from the sales of industrial production and 24% by the mediation and sale of services. At the same time the sale of industrial output went up by 23% in the first half year-on-year to EEK 174,0 million (EUR 11,1 million) and the intermediate sale of services and goods increased by 16% to EEK 55,3 million (EUR 3,5 million).

66% of the sales revenue of the group was contributed by Estonia (an increase in turnover growth by 24% year-on-year), 24% by Finland (turnover growth 15%), and 10% Lithuania (turnover growth 18%). Sales to the Estonian market accounted for 54%, increasing by 37% to EEK 123,5 million (EUR 7,9 million). Export sales formed 46% and increased by 7% to EEK 105,7 million (EUR 6,8 million). Finland remained the largest export market with a share of 34% in the turnover.

The total operating profit of the consolidation group AS Harju Elekter was MEEK 15,9 or MEUR 1,1, being 1,6 times higher than in the previous year.

The net profit of the group was MEEK 20,8, i.e. MEUR 1,3 (H1 2004: MEEK 79,9, i.e. MEUR 5,1). The main cause of the fall in the net profit was the fact that the changes in the prices of PKC shares included in the balance sheet as assets are recorded pursuant to the accounting principles as profit for the period, regardless of the fact that no operations were conducted with them. During the H1 2005, the market price of the share of PKC group Oyj recorded in the balance sheet was stable, increasing by EUR 0,12, and additional income from the revaluation of the shares was MEEK 3,5 (MEUR 0,22). In the H1 2004, the share price rose by EUR 1,75 and the additional financial income from revaluation was MEEK 51,0 (MEUR 3,26). Pursuant to the Finnish Income Tax Act, amended as of 1 January 2005, PKC Group paid an extraordinarily large dividend (MEEK 19,4; MEUR 1,2), while in 2005, they

paid only EUR 0,20 per share in a total of MEEK 5,8, i.e. MEUR 0,37. Pursuant to the amended Finnish Income Tax Act, in 2005, an income tax of 15% was withheld on the paid dividends, amounting to MEEK 0,9 (TEUR 56). The payment of dividends in 2005 also entailed for Harju Elekter an income tax liability of MEEK 2,0 (MEUR 0,13), while in 2004, the payment of dividends had been exempt from tax. The income tax expenditure totalled MEEK 3,0, i.e. TEUR 194 as reported for the H1 2005 in the income statement (H1 2004: TEEK 33, i.e. TEUR 2).

The group's operating margin was 6,9% which is 1,6 percentage points higher than in the first half of 2004. The net margin was 10,6% (42,2% in H1 2004).

EPS was 1,24 kroons or 0,08 euros (H1 2004: 4,93 kroons or 0,32 euros).

### *Investments and capital employed*

During the accounting period, the Group invested in tangible and intangible assets a total of MEEK 27,9 or MEUR 1,78 (H1 2004: MEEK 21,3 or MEUR 1,4). In the Q2, newly completed production buildings were rented to PKC Eesti and HE Elektrotehnika. A total of MEEK 20.2 (MEUR 1.3) were invested in real estate in the first half of the year; MEEK 3.9 (MEUR 0.25) was invested in plant and equipment, and MEEK 2.6 million (MEUR 0.17) in the acquisition of land.

### *Financing*

In Q1 2005 AS Harju Elekter entered into two loan agreements in the amount MEUR 1,8 (MEEK 28,2) and MEUR 1,0 (MEEK 15,6). The loans, which were received on favourable terms, were used to refinance earlier loans of MEUR 1,1 (MEEK 17,1). The loan interest is composed of 3 months' Euribor and margins of 0,5% and 0,48%, respectively. As a result of refinancing the existing loans, the mortgage established on the properties located in Haapsalu for the benefit of the bank was released. The loans will be repaid during 5 years. The borrowed money will be used to finance real estate investments.

The company purchased, on the conditions of a financial lease, a sheet metal centre with an acquisition cost of MEEK 0,85 (TEUR 54). The debt is repayable within four years.

In the first 6 months the group repaid long-term bank loans in the total amount of EEK 3,5 million (EUR 0,22 million) and made capital lease payments in the total amount of EEK 1,4 million (EUR 0,07 million).

### *Employees*

The average number of employees in the Group in H1 2005 was 398 (H1 2004: 369). As of the balance sheet date 30 of June 2005, the number of employees in the Group was 413 (30.06.2004: 374).

<i>Shares of Harju Elekter</i>	EEK		EUR			
	H1 2005	2004	H1 2004	H1 2005	2004	H1 2004
No of the shares (1000 pc)	16 800	16 800	16 200	16 800	16 800	16 200
Nominal value	10	10	10	0,64	0,64	0,64
Low price	48,82	34,94	35,10	3,12	2,23	2,24
High price	85,80	49,50	43,03	5,48	3,16	2,75
Closing price	68,22	47,46	36,51	4,36	3,04	2,33
EPS	1,24	8,87	4,93	0,08	0,57	0,32

**Key indicators**

Accounting period	1 000 EEK			1 000 EUR		
	H1 2005	2004	H1 2004	H1 2005	2004	H1 2004
Net sales	229 205	453 780	189 201	14 649	21 880	12 092
Operating profit	15 899	31 229	9 952	1 016	1 273	636
Profit from ordinary activities	24 405	147 562	80 201	1 560	9 431	5 126
Net profit for the current period	20 756	145 365	79 883	1 327	11 214	5 106

**At the end of the period**

Total current assets	137 809	142 073	120 222	8 808	9 080	7 684
Total fixed assets	521 532	498 520	441 868	33 333	31 861	28 240
Total assets	659 341	640 593	562 090	42 141	40 941	35 924
Total liabilities	127 746	105 235	101 531	8 165	6 725	6 489
Minority interests	14 502	14 381	13 063	927	919	835
Total owners' equity	517 093	520 977	447 496	33 049	33 297	28 600

**Performance indicators (%)**

	H1 2005	2004	H1 2004
Net sales growth	21,1	32,5	26,5
Operating profit growth	59,8	56,8	26,3
Net profit growth	-74,0	-17,2	21,8
Return of sales (operating profit/net sales *100)	6,9	6,9	5,3
Net profit margin (net profit /net sales *100)	10,6	32,0	42,2
Owners' equity margin (equity / balance sheet total *100)	78,4	81,3	79,6

**Personnel**

Average number of employees on the current period	398	378	369
Number of employees on 30.06.2005	413	405	374

## INTERIM FINANCIAL STATEMENTS

**CONSOLIDATED BALANCE SHEET**

	Note	1 000 EEK		1 000 EUR	
	no	30.06.05	31.12.04	30.06.05	31.12.04
<b>ASSETS</b>					
<b>Current assets</b>					
<b>Cash and bank</b>		<b>17 553</b>	<b>18 786</b>	<b>1 122</b>	<b>1 201</b>
<b>Short-term receivables</b>					
Trade receivables		45 215	49 824	2 890	3 184
Other short-term receivables	11	4 745	4 156	303	266
Accrued expenses		48	221	3	14
Prepaid expenses		3 921	1 136	251	73
<b>Total short-term receivables</b>		<b>53 929</b>	<b>55 337</b>	<b>3 447</b>	<b>3 537</b>
<b>Inventories</b>		<b>66 327</b>	<b>67 950</b>	<b>4 239</b>	<b>4 342</b>
<b>Current assets</b>		<b>137 809</b>	<b>142 073</b>	<b>8 808</b>	<b>9 080</b>
<b>Fixed assets</b>					
Long-term investments	7	325 288	323 138	20 790	20 652
Investment properties	2	120 677	86 880	7 713	5 553
Tangible assets	2	73 931	86 551	4 725	5 531
Intangible assets	2	1 636	1 951	105	125
<b>Total fixed assets</b>		<b>521 532</b>	<b>498 520</b>	<b>33 333</b>	<b>31 861</b>
<b>Total assets</b>		<b>659 341</b>	<b>640 593</b>	<b>42 141</b>	<b>40 941</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Debt obligations	3	19 870	14 380	1 270	919
Prepayments received from customers		756	2 666	48	170
Accounts payable to suppliers		39 423	45 535	2 520	2 910
Other payables	11	1 732	1 750	111	112
Tax payable		10 902	7 560	697	483
Accrued expenses		10 550	12 044	674	770
Short-term provision		157	300	10	19
Other prepaid revenue		3 643	3 643	233	233
<b>Total current liabilities</b>		<b>87 033</b>	<b>87 878</b>	<b>5 563</b>	<b>5 616</b>
<b>Long-term liabilities</b>	3	<b>40 713</b>	<b>17 357</b>	<b>2 602</b>	<b>1 109</b>
<b>Total liabilities</b>		<b>127 746</b>	<b>105 235</b>	<b>8 165</b>	<b>6 725</b>
<b>Minority interests</b>		<b>14 502</b>	<b>14 381</b>	<b>927</b>	<b>919</b>
<b>Owners' equity</b>					
Share capital (nominal value)		168 000	56 000	10 737	3 579
Issue premium		6 000	6 000	384	384
Reserve requirement		8 600	8 600	550	550
Retained profit		334 493	450 377	21 378	28 784
<b>Total owners' equity</b>	5	<b>517 093</b>	<b>520 977</b>	<b>33 049</b>	<b>33 297</b>
<b>Total current liabilities</b>		<b>659 341</b>	<b>640 593</b>	<b>42 141</b>	<b>40 941</b>

**INCOME STATEMENT**

<b>1 000 EEK</b>	Note no	<b>Q2 2005</b>	<b>Q2 2004</b>	<b>H1 2005</b>	<b>H1 2004</b>
Net sales	6	117 196	103 468	229 205	189 201
Cost of goods sold		-93 013	-84 462	-185 022	-156 132
<b>Gross profit</b>		<b>24 183</b>	<b>19 006</b>	<b>44 183</b>	<b>33 069</b>
Marketing expenses		-5 445	-4 807	-10 546	-9 199
Administrative and general expenses		-9 780	-7 215	-17 823	-14 067
Other operating revenue		386	204	507	389
Other operating charges		-266	-132	-422	-240
<b>Operating profit</b>	6	<b>9 078</b>	<b>7 056</b>	<b>15 899</b>	<b>9 952</b>
Net financial incomes/expenses	7	4 456	19 056	8 557	70 929
Income from associated companies		-159	-19	-51	-680
<b>Profit from ordinary activities</b>		<b>13 375</b>	<b>26 093</b>	<b>24 405</b>	<b>80 201</b>
Corporate income tax expense	8	-2 907	-17	-3 033	-33
<b>Profit after taxes</b>		<b>10 468</b>	<b>26 076</b>	<b>21 372</b>	<b>80 168</b>
Minority interests		-239	-828	-616	-285
<b>Net profit for the current period</b>	9	<b>10 229</b>	<b>25 248</b>	<b>20 756</b>	<b>79 883</b>
Basic earnings per share	9	0,61	1,56	1,24	4,93
Diluted earnings per share	9	0,61	1,52	1,24	4,81
<b>1 000 EUR</b>					
Net sales	6	7 490	6 613	14 649	12 092
Cost of goods sold		-5 945	-5 398	-11 825	-9 979
<b>Gross profit</b>		<b>1 545</b>	<b>1 215</b>	<b>2 824</b>	<b>2 113</b>
Marketing expenses		-348	-308	-674	-588
Administrative and general expenses		-625	-461	-1 139	-899
Other operating revenue		25	13	32	25
Other operating charges		-17	-8	-27	-15
<b>Operating profit</b>	6	<b>580</b>	<b>451</b>	<b>1 016</b>	<b>636</b>
Net financial incomes/expenses	7	285	1 218	547	4 533
Income from associated companies		-10	-1	-3	-43
<b>Profit from ordinary activities</b>		<b>855</b>	<b>1 668</b>	<b>1 560</b>	<b>5 126</b>
Corporate income tax expense	8	-186	-1	-194	-2
<b>Profit after taxes</b>		<b>669</b>	<b>1 667</b>	<b>1 366</b>	<b>5 124</b>
Minority interests		-15	-53	-39	-18
<b>Net profit for the current period</b>	9	<b>654</b>	<b>1 614</b>	<b>1 327</b>	<b>5 106</b>
Basic earnings per share	9	0,04	0,10	0,08	0,32
Diluted earnings per share	9	0,04	0,10	0,08	0,31



**CASH FLOW STATEMENT**

	Note no	1 000 EEK		1 000 EUR	
		H1 2005	H1 2004	H1 2005	H1 2004
<b>Business activities</b>					
Operating profit		15 899	9 952	1 016	636
<u>Adjustments</u>					
Depreciation and value decrease	2	7 048	6 053	450	387
Profit/loss from sales of tangible assets		-44	-77	-3	-5
Change in payables and prepayments related to business operations		-2 285	-13 343	-146	-853
Changes of inventories		1 618	-14 488	103	-926
Change in liabilities and prepayments related to business operations		4 677	8 717	299	557
Interests paid		-3 112	-33	-199	-2
Taxes paid		-899	-745	-57	-47
<b>Total cash flow from business activities</b>		<b>22 902</b>	<b>-3 964</b>	<b>1 463</b>	<b>-253</b>
<b>Investing activities</b>					
Investments in fixed assets		-34 245	-18 779	-2 189	-1 200
Capital gains from fixed assets		44	310	3	20
Payments for financial investments		0	-8 281	0	-529
Capital gains from sale of fin. investments		0	4 415	0	282
Long-term loans granted		-20	-59	-1	-4
Repayment of loan receivables		30	55	2	4
Interests received		115	112	7	7
Dividends received		7 113	19 402	455	1 240
<b>Total cash flow from investing activities</b>		<b>-26 964</b>	<b>-2 825</b>	<b>-1 723</b>	<b>-180</b>
<b>Cash flow from financing activities</b>					
Loans received	3	32 645	12 863	2 086	822
Loans repaid	3	-3 509	-1 933	-224	-124
Repayment of princ. amounts of capital lease	3	-1 140	-1 039	-73	-66
Dividends paid		-25 135	-22 043	-1 606	-1 409
<b>Total cash flow from financial activities</b>		<b>2 861</b>	<b>-12 152</b>	<b>183</b>	<b>-777</b>
<b>Total cash flow</b>		<b>-1 201</b>	<b>-18 941</b>	<b>-77</b>	<b>-1 210</b>
<b>Cash at the beginning of the period</b>		<b>18 786</b>	<b>26 449</b>	<b>1 201</b>	<b>1 690</b>
Net increase in cash		-1 201	-18 941	-77	-1 210
Effect of foreign exchange rate change		-32	-26	-2	-2
<b>Cash at the end of the period</b>		<b>17 553</b>	<b>7 482</b>	<b>1 122</b>	<b>478</b>

**STATEMENT OF CHANGES IN OWNERS' EQUITY**

1000 EEK	Share capital	Issue premium	Reserve requirement	Retained profit	Total
<b>Balance as of 31.12.2003</b>	<b>54 000</b>	<b>0</b>	<b>8600</b>	<b>326 612</b>	<b>389 212</b>
Profit for current period	0	0	0	79 883	<b>79 883</b>
Dividends	0	0	0	-21 600	<b>-21 600</b>
<b>Balance as of 30.06.2004</b>	<b>54 000</b>	<b>0</b>	<b>8600</b>	<b>384 895</b>	<b>447 495</b>
<b>Balance as of 31.12.2004</b>	<b>56 000</b>	<b>6 000</b>	<b>8 600</b>	<b>450 377</b>	<b>520 977</b>
Profit for current period	0	0	0	20 756	<b>20 756</b>
Dividends	0	0	0	-24 640	<b>-24 640</b>
Fund issue	112 000	0	0	-112 000	<b>0</b>
<b>Balance as of 30.06.2005</b>	<b>168 000</b>	<b>6 000</b>	<b>8 600</b>	<b>334 493</b>	<b>517 093</b>

1000 EEK	Share capital	Issue premium	Reserve requirement	Retained profit	Total
<b>Balance as of 31.12.2003</b>	<b>3 451</b>	<b>0</b>	<b>550</b>	<b>20 874</b>	<b>24 875</b>
Profit for current period	0	0	0	5 105	<b>5 105</b>
Dividends	0	0	0	-1 380	<b>-1 380</b>
<b>Balance as of 30.06.2004</b>	<b>3 451</b>	<b>0</b>	<b>550</b>	<b>24 599</b>	<b>28 600</b>
<b>Balance as of 31.12.2004</b>	<b>3 579</b>	<b>384</b>	<b>550</b>	<b>28 784</b>	<b>33 297</b>
Profit for current period	0	0	0	1 327	<b>1 327</b>
Dividends	0	0	0	-1 575	<b>-1 575</b>
Fund issue	7 158	0	0	-7 158	<b>0</b>
<b>Balance as of 30.06.2005</b>	<b>10 737</b>	<b>384</b>	<b>550</b>	<b>21 378</b>	<b>33 049</b>

More information is presented in the note 5

## 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 30.06.2005 include AS Harju Elekter and its subsidiaries AS Harju Elekter Elektrotehnika (hereafter: Elektrotehnika), 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 31.12.2004.

According to the assessment of the management board, the interim report for H1 2005 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 financial statements of AS Harju Elekter are presented in thousands of Estonian kroons and euros. The EEK/EUR exchange rate is 15,6466 according to the quotation of Estonian Bank.

### Note 2 Tangible and intangible assets

	1 000 EEK			1 000 EUR				
	Tangible assets	Investment properties	Intangible assets	TOTAL	Tangible assets	Investment properties	Intangible assets	TOTAL
<b>Initial balance 31.12.04</b>	<b>86 551</b>	<b>86 880</b>	<b>1 951</b>	<b>175 382</b>	<b>5 531</b>	<b>5 553</b>	<b>125</b>	<b>11 209</b>
Acquired	25 240	2 596	74	27 910	1 613	166	5	1 784
Reclassified	-32 805	32 805	0	0	-2 097	2 097	0	0
Sold and written-off fixed assets at acquisition value	-64	0	0	-64	-4	0	0	-4
Expenses take into account	-5 055	-1 604	-389	-7 048	-322	-103	-25	-450
Depreciation of sold and written off fixed assets	64	0	0	64	4	0	0	4
<b>Final balance at the end of the current period</b>	<b>73 931</b>	<b>120 677</b>	<b>1 636</b>	<b>196 244</b>	<b>4 725</b>	<b>7 713</b>	<b>105</b>	<b>12 543</b>

**Note 3 Debt liabilities**

	1 000 EEK		1 000 EUR	
	<b>30.06.05</b>	<b>31.12.04</b>	<b>30.06.05</b>	<b>31.12.04</b>
Short-term loans	14 589	8 699	932	556
Repayment of long-term leasing oblig. during the next period	4 381	3 892	280	249
Repayments of long-term lease in next period	900	1 789	58	114
<b>Total current liabilities</b>	<b>19 870</b>	<b>14 380</b>	<b>1 270</b>	<b>919</b>
Long-term bank loans	37 239	14 482	2 380	925
Long-term lease payables	3 474	2 875	222	184
<b>Total long term liabilities</b>	<b>40 713</b>	<b>17 357</b>	<b>2 602</b>	<b>1 109</b>
<b>Total debt liabilities</b>	<b>60 583</b>	<b>31 737</b>	<b>3 872</b>	<b>2 028</b>

Changes in debt obligations:

	1 000 EEK	1 000 EUR
<b>Initial balance 31.12.04</b>	<b>31 737</b>	<b>2 028</b>
Changes in short-term loans	5 890	377
Received long-term loans	26 755	1 710
Long-term loan repaid	-3 509	-224
New leasing obligations	850	54
New long-term lease liabilities	-1 140	-73
<b>Final balance 30.06.05</b>	<b>60 583</b>	<b>3 872</b>

In Q1 2005 Harju Elekter entered into two long-term loan agreements for MEUR 1,8 (MEEK 28,2) and for MEUR 1,0 (MEEK 15,6). The loans, which were received on favourable terms, were used to refinance earlier loans of MEUR 1,1 (MEEK 17,1). The loan interest is composed of 3 months' Euribor and margins of 0,5% and 0,48%, respectively. The loans will be repaid during 5 years. The borrowed money will be used to finance real estate investments.

**Note 4 Guarantees and pledges**

As a security for new investment loans (Annex 3), an additional amount of 210 000 shares of PKC Group Oyj was pledged with the banks. At the same time, as a result of refinancing the existing loans, the mortgage established on the properties located in Haapsalu for the benefit of the bank was released. As of the balance sheet date of 30 June 2005 the company has pledged 924 000 shares as collaterals for its liabilities with a book value of EUR 9,6 million (EEK 150 million). The balance of the long-term secured loans was EUR 2,66 million (EEK 41,6 million) and the total overdraft limits were EUR 0,67 million (EEK 10 million).

**Note 5 Owners' equity**

In the AGM on the 22.04.2005 decided shareholders to approve the Council's proposal to increase the Company's share capital in the amount 112 million kroons from present 56 million kroons to 168 million kroons by issuing 2 new ordinary shares for every present one. During the fund issue totally 11,2 million shares with the nominal value 10 kroons or 0,64 euros were issued. After the fund issue the total number of the shares is 16,8 million and the share capital 168 million kroons (10,7 mln euros). The maximum number of the shares allowed by the Articles of Associations of Harju Elekter is 20 million.

Based to the results of 2004 the AGM decided to pay dividends to the owners at the rate of EEK 4,40 or EUR 0,28 (2004: EEK 4,00 or EUR 0,26) per share in the total amount of EEK 24,6 million or EUR 1,57 million (2004: EEK 21,6 million or EUR 1,38 million). Dividends transferred to the shareholders accounts on 23.05.2005.

### Note 6 Segmental reporting

Segments of the Groups are differentiated geographically and by areas of activities. The primary segmentation which is based on the areas of activities derives from the structure, management and internal reporting of the Group. Inter-segment price formation is based on market prices.

Results, assets and liabilities of segments include indicators directly related to the activities of the segment and the indicators distributed to segment activities. The most important indicators which cannot be distributed between segments are cash in hand and in bank accounts.

The Group operates in three main business segments.

Segment investments include the costs of assets acquired during the financial year and in use for longer than one year.

#### *Business segments*

Main business segments of the Group are:

*“Production”* – manufacturing and sales of power distribution and control systems to energy, construction and industrial sectors; manufacturing and sales of data and communication systems and fibre optic connection cables to the telecommunications sector; manufacturing and sales of various sheet metal products and subcontracting in the area of sheet metal works; research and development; other services related to the manufacturing intermediary trade in different components;

*“Trade”* – sales of products manufactured by the Harju Elekter Group and associated companies, as well as other products necessary for electric installation works mainly to retail customers and small- and medium-size electrical installation companies;

*“Services”* – real estate development, maintenance and renting, services related to the maintenance of real estate and manufacturing capacity and intermediary trade of those services; managerial 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.

#### *Geographical segments:*

By the location of businesses the operations of the Group falls into three geographical segments:

*Estonia* – domicile of the parent company (trade and services) and the subsidiaries Elektrotehnika (production) and Eltek (production);

*Finland* – domicile of the subsidiary Satmatic (production);

*Lithuania* – domicile of the subsidiary Rifas (production and services).

The income and assets 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.

<b>Business segments</b>	<b>Production</b>		<b>Trade</b>		<b>Services</b>		<b>Elimination</b>		<b>Consolidated</b>	
(thousand kroons)	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Business activities</b>	H1	H1	H1	H1	H1	H1	H1	H1	H1	H1
Electrical equipment	150 484	118 778	0	0	0	0	0	0	150 484	118 778
Sh.metal products /services	13 194	13 153	0	0	0	0	0	0	13 194	13 153
Products for telecom sector	10 281	9 428	0	0	0	0	0	0	10 281	9 428
Trade and intermediation	7 129	6 684	21 071	19 219	1 803	3 045	0	0	30 003	28 948
Design	0	0	0	0	2 430	288	0	0	2 430	288
Installation work	0	0	0	0	2 676	1 997	0	0	2 676	1 997
Leasing of capital assets	0	0	0	0	11 351	9 939	0	0	11 351	9 939
Other services	2 928	2 282	0	0	5 858	4 388	0	0	8 786	6 670
<b>Total revenue from non-concern costumers</b>	<b>184 016</b>	<b>150 325</b>	<b>21 071</b>	<b>19 219</b>	<b>24 118</b>	<b>19 657</b>	<b>0</b>	<b>0</b>	<b>229 205</b>	<b>189 201</b>
Inter-segment revenue	11 060	5 599	292	1 766	6 781	4 672	-18 133	-12 037	0	0
<b>Income from business in segment</b>	<b>195 076</b>	<b>155 924</b>	<b>21 363</b>	<b>20 985</b>	<b>30 899</b>	<b>24 329</b>	<b>-18 133</b>	<b>-12 037</b>	<b>229 205</b>	<b>189 201</b>
<b>Operating profit</b>	<b>9 077</b>	<b>5 494</b>	<b>1 073</b>	<b>1 010</b>	<b>6 382</b>	<b>3 589</b>	<b>-633</b>	<b>-141</b>	<b>15 899</b>	<b>9 952</b>

<b>Business segments</b>	<b>Production</b>		<b>Trade</b>		<b>Services</b>		<b>Elimination</b>		<b>Consolidated</b>	
(thousand euros)	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Business activities</b>	H1	H1	H1	H1	H1	H1	H1	H1	H1	H1
Electrical equipment	9 618	7 591	0	0	0	0	0	0	9 618	7 591
Sh.metal products /services	843	841	0	0	0	0	0	0	843	841
Products for telecom sector	657	603	0	0	0	0	0	0	657	603
Trade and intermediation	456	427	1 347	1 228	115	195	0	0	1 918	1 850
Design	0	0	0	0	155	18	0	0	155	18
Installation work	0	0	0	0	171	128	0	0	171	128
Leasing of capital assets	0	0	0	0	725	635	0	0	725	635
Other services	187	146	0	0	375	280	0	0	562	426
<b>Total revenue from non-concern costumers</b>	<b>11 761</b>	<b>9 608</b>	<b>1 347</b>	<b>1 228</b>	<b>1 541</b>	<b>1 256</b>	<b>0</b>	<b>0</b>	<b>14 649</b>	<b>12 092</b>
Inter-segment revenue	707	358	19	113	433	299	-1 159	-770	0	0
<b>Income from business in segment</b>	<b>12 468</b>	<b>9 966</b>	<b>1 366</b>	<b>1 341</b>	<b>1 974</b>	<b>1 555</b>	<b>-1 159</b>	<b>-770</b>	<b>14 649</b>	<b>12 092</b>
<b>Operating profit</b>	<b>580</b>	<b>351</b>	<b>69</b>	<b>65</b>	<b>408</b>	<b>229</b>	<b>-41</b>	<b>-9</b>	<b>1 016</b>	<b>636</b>

**Geographical segments**

(thousand kroons)	<b>Estonia</b>		<b>Finland</b>		<b>Lithuania</b>		<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	H1	H1	H1	H1	H1	H1	H1	H1
<b>Markets</b>								
Estonia	123 532	90 062	0	0	0	0	123 532	90 062
Finland	22 723	24 572	54 969	47 481	0	0	77 692	72 053
Lithuania	430	1 780	0		20 920	19 575	21 350	21 355
Other Europe	2 628	3 472	55	184	2 328	288	5 011	3 944
USA	1 159	1 388	0		0	0	1 159	1 388
Russia	346	399	0		115	0	461	399
<b>Revenue from non-concern costumers</b>	<b>150 818</b>	<b>121 673</b>	<b>55 024</b>	<b>47 665</b>	<b>23 363</b>	<b>19 863</b>	<b>229 205</b>	<b>189 201</b>

(thousand euros)

Estonia	7 895	5 755	0	0	0	0	7 895	5 755
Finland	1 452	1 570	3 513	3 035	0	0	4 965	4 605
Lithuania	28	114	0	0	1 337	1 251	1 365	1 365
Other Europe	168	222	4	12	149	18	321	252
USA	74	89	0	0	0	0	74	89
Russia	22	26	0	0	7	0	29	26
<b>Revenue from non-concern costumers</b>	<b>9 639</b>	<b>7 776</b>	<b>3 517</b>	<b>3 047</b>	<b>1 493</b>	<b>1 269</b>	<b>14 649</b>	<b>12 092</b>

**Note 7 Net financial incomes**

	1 000 EEK		1 000 EUR	
	H1 2005	H1 2004	H1 2005	H1 2004
Interest charges	-777	-596	-49	-38
Interest return	53	74	3	5
Dividend income	5 821	19 402	372	1 240
Net exchange profit (+)/loss (-)	-32	-26	-2	-2
<i>Marketable investments:</i>				
Profit from sales of investments	0	1 092	0	70
Revaluation at fair value	3 492	50 983	223	3 258
<b>TOTAL</b>	<b>8 557</b>	<b>70 929</b>	<b>547</b>	<b>4 533</b>

As of the end of the quarter on 30 of June 2005, the financial investment was revalue at the closing price of the last trading day that is 10,37 euro (162,26 krooni). In the Q1 2005 the revaluation generated financial expenses in the amount of 4,4 MEEK or 0,2 MEUR (Q1 2004: 31,6 MEEK or 2,0 MEUR) and in the Q2 2005 -0,9 MEEK or 56 TEUR (Q2 2004: 19,4 MEEK or 1,2 MEUR).

Note 8 Corporate income tax expense	1000 EEK		1000 EUR	
	H1 2005	H1 2004	H1 2005	H1 2004
Allocation of corporate income tax to relevant periods	192	33	12	2
Tax from dividends (Finland)	873	0	56	0
Tax from dividends (Estonia)	1 968	0	126	0
<b>TOTAL</b>	<b>3 033</b>	<b>33</b>	<b>194</b>	<b>2</b>

### Note 9 Basic and diluted earnings per share

Basic EPS is calculated on the basis of the ratio between the net profit(loss) owned by shareholders and weighted average number of shares not including own shares.

	Unit	EEK		EUR	
		H1 2005	H1 2004*	H1 2005	H1 2004*
Net profit for the period	1000	20 756	79 883	1 327	5 106
Average number of shares for the period	1000 pc	16 800	16 200	16 800	16 200
<i>Basic EPS</i>		1,24	4,93	0,08	0,32
<i>Diluted earnings per share</i>		1,24	4,81	0,08	0,31

*Diluted net profit per share* is calculated by considering the number of potential options. As of the balance sheet date of 30 June 2005, the group did not have potentially issuable common shares. As a result, the diluted net profit (loss) per share in the quarter was equal to the regular earnings per share. In the figures of the H1 2004, discount options have been included that entitled the option holders to acquire shares of Harju Elekter at lower-than-market price of EEK 40. The options were realised in September 2004.

\* The indicators for 2004 have been calculated, taking into account the fund issue in May 2005 (note 5).

### Note 10 Establishment of the subsidiary

For the purpose of streamlining the management structure of the group, specifying the rights and liability as well as better organisation of accounting and analysis, the management of the parent company decided to establish a 100% subsidiary of Harju Elekter on the basis of the Electrical Equipment Plant of Harju Elekter. The business name of the company will be AS Harju Elekter Elektrotehnika. The new company was registered in the Trade Register at 24.03.2005 and it has independent economic activities since 1.04.2005. The financial year of the company will last from 1 January to 31 December. AS Harju Elekter Elektrotehnika will continue in its present area of activity which is design, manufacturing and marketing of electrical equipment for energy distribution, industrial and construction sector.

The share capital of AS Harju Elekter Elektrotehnika will be MEEK 16, divided into 1,6 million shares with a nominal value of EEK 10 or 0,64 euros. Shares were paid for by monetary contributions into the bank account of the established company. The electrical equipment unit continues to buy all materials required for its operations from the parent company. All claims and liabilities resulting from the economic operations of the plant of electrical equipment until 31 March 2005 will remain in the parent company's balance sheet. All the present employees of the Electrical Equipment Plant were transferred



to the established subsidiary under the currently valid employment contracts. On 1.04.2005, the Electrical Equipment Plant employs 150 people.

### Note 11 Transactions with related parties

Related parties to AS Harju Elekter are its subsidiaries AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy and Rifas UAB, 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.

In the consolidated interim report, all intra-group receivables and payables, transactions between the Group companies and unrealised profit and loss incurred as a result have been eliminated.

AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

	1 000 EEK				1 000 EUR			
	H1 2005		H1 2004		H1 2005		H1 2004	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Subsidiaries	1 735	6 821	801	4 164	111	436	51	267
Associated companies	4 837	6 010	4 787	6 108	309	384	306	391
Harju KEK	1 328	0	84	97	85	0	5	6
<b>TOTAL</b>	<b>7 900</b>	<b>12 831</b>	<b>5 672</b>	<b>10 369</b>	<b>505</b>	<b>820</b>	<b>362</b>	<b>664</b>

Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	5 009	0	320	0
Material, components for production needs	1 254	656	80	42
Industrial subcontracting (outsourcing)	1 362	2 454	87	157
Lease of fixed assets	0	5 021	0	321
Management services	0	2 473	0	158
Other services (building and communication, repairs and maintenance of real estate)	275	2 227	18	142
<b>TOTAL</b>	<b>7 900</b>	<b>12 831</b>	<b>505</b>	<b>820</b>

### Balance with related parties:

	1 000 EEK		1 000 EUR	
	30.06.05	31.12.04	30.06.05	31.12.04
<b>Claims</b>				
<i>With subsidiaries: goods and services*</i>	27 361	3 049	1 749	195
financial lease	173	185	10	12
<i>With associated companies: goods and services</i>	4 745	4 137	301	264
<b>Obligations</b>				
<i>With subsidiaries: goods and services</i>	85	994	5	64
<i>With associated companies: goods and services</i>	1 341	1 074	50	69

\* The indicators as of 30.06.2005 include the one-off sale of production stocks to Elektrotehnika. On the balance sheet date, TEEK 23 825 (TEUR 1 523) had not been paid of the sales invoice yet. Additional information is presented in note 10.

**Signatures of the members of the Management Boards to the interim report 1-6/2005**

Management Board of AS Harju Elekter has prepared the consolidated Interim report for H1 2005 as presented on pp. 3-18

Approval of the Interim report 1-6/2005 as of June 30, 2005 by the Management Board members:

**Management Board**

Andres Allikmäe	Chairman of the Board	.....	„2 <sup>nd</sup> “ of August 2005
Lembit Libe	Chairman of the Board	.....	„2 <sup>nd</sup> “ of August 2005
Karin Padjus	Chairman of the Board	.....	„2 <sup>nd</sup> “ of August 2005