



## **AS HARJU ELEKTER**

Interim report 1-12/ 2005

Business name	AS Harju Elekter
Main business area:	designing, production and marketing of various electrical engineering and telecommunication systems
Commercial registry code:	10029524
Address:	Paldiski mnt.31, 76 606 Keila
Telephone:	+372 67 47 400
Fax:	+372 67 47 401
Web-site:	he@he.ee
Internet homepage:	www.harjuelekter.ee
CEO:	Andres Allikmäe
Auditor:	KPMG Estonia
Beginning of the reporting period:	1 <sup>st</sup> of January 2005
End of the reporting period:	31 <sup>st</sup> of December 2005

*The interim report of Harju Elekter Group on 18 pages*

**Contents**

Contents	2
Explanatory note	3
Interim financial statements	7
<i>Balance sheet</i>	7
<i>Income statement</i>	8
<i>Cash flow statement</i>	9
<i>Statement of changes in Owners' Equity</i>	10
<i>Notes to the Interim report 1-12/2005</i>	11
<i>Note 1 Accounting methods and valuation principles used in the Interim report</i>	11
<i>Note 2 Tangible and intangible assets</i>	11
<i>Note 3 Debt liabilities</i>	12
<i>Note 4 Guarantees and pledges</i>	12
<i>Note 5 Owners' equity</i>	12
<i>Note 6 Segmental reporting</i>	13
<i>Note 7 Net financial incomes</i>	15
<i>Note 8 Tax</i>	16
<i>Note 9 Basic and diluted earnings per shares</i>	16
<i>Note 10 Establishment of subsidiary</i>	16
<i>Note 11 Transactions with related parties</i>	17
Signatures of the Management Board to the Interim report 1-12/2005	18

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

In interim report for the year 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 31.12.2005, Harju Elekter owns significant holdings in the following commercial undertakings:

Participation %			31.12.05	31.12.04
AS Eltek	subsidiary	Estonia	100,0 %	100,0 %
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	100,0%	0%
Satmatic OY	subsidiary	Finland	100,0 %	100,0 %
Rifas UAB	subsidiary	Lithuania	51,0 %	51,0 %
AS Keila Kaabel	associated company	Estonia	34,0 %	34,0 %
AS Saajos Inexa	associated company	Estonia	33,3 %	33,3 %
PKC Group Oyj	financial investment	Finland	10,3 %	10,6 %

***Economic environment***

Fast economic growth continued in Estonia during the fourth quarter, and the continuation of the favorable economic environment was predicted also for the next half-year. Rapid economic growth was made favorable by an increase in exports, low loan interest and construction in full swing. This, in turn, was favorable for an improvement in employment and a drop in unemployment. The outlook for foreign trade development is still very good. The rise in price of petroleum products brought with it a rise in the consumer price index, the predicted rise of which was raised from 3,5% to 4,1%. The price of raw materials also rose significantly during the course of the year. In the near future there is hope to stop the rising consumer price index.

The status of the world economy stayed at a satisfactory level for the entire year. 2005 was a better year for North America, Asia and Eastern Europe. Western Europe's economic situation was average, though Estonia's primary trading partners Sweden and Finland had a better than average year.

The high business cycle for Harju Elekter on the critical Estonian construction market is stable. At the same time, notice is taken of the related difficulty in finding workers. The shortage in the workforce is a problem faced by most construction companies who, despite that and the forecasted increase in loan interest, are predicting a continued increase in the volume of work. According to experts, the factor that would slow economic development the most would be a lack of skilled labour.

***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, based to the Electrical Equipment Plant of Harju Elekter. Newly founded subsidiary AS Harju Elekter Elektrotehnika started its independent economic activities on 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 also coordinates the product development in the entire group, incl. in Finland and Lithuania.

The annual general meeting of shareholders was held on 22 April, and 108 shareholders or their authorised representatives participated, who represented 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. Dividends paid to the shareholders on 23.05.2005.

The AGM of shareholders accepted 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. 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.

The subsidiary Satmatic OY opened a sales representation in Helsinki in Q3 for sales promotion and better customer service.

The subsidiary UAB Rifas signed a contract for the manufacture of automated control equipment for the Panevežys water treatment plant in September. The contract price is 4,5 million lits or 20 million kroons. The project supplies will be delivered in 2006.

Industrial confederation of Lithuania has granted UAB Rifas a nomination „Successfully working company -2005“. On 16.12.2005 the president of confederation awarded to managing director of Rifas the symbol of laureate and honours diploma for deserts of production modernizing, improving the operating conditions, expanding the range of production and markets.

In December Harju Elekter entered into a license agreement with Siemens AG and Siemens AS for the manufacturing of Sivacon-type low-voltage distribution board up to 7400 A in the Group's Estonian and Finnish plants. The use of new design and switchboard structure program will greatly expand a company's current assortment of products with all products having the required certificates of conformity for the EU and Russia.

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

The sales revenue of the consolidation group AS Harju Elekter comprised MEEK 513,9 (MEUR 32,8) in the 2005, increasing by 13% in comparison with the same period of the previous year. Of the sales revenue 80% (turnover growth 13%) accounted for the sales of industrial products, 10 % (turnover growth 10%) for intermediate sales and 10 % (turnover growth 19%) other incomes from services. Of the turnover, 65% was generated by revenue from the sales of electrical equipment, increasing by 14% in comparison to the same period of the previous year to MEEK 336,1 (MEUR 21,5). The sales revenue comprised MEEK 155,0 (MEUR 9,9) in Q4 2005, increasing by 12% compared to the same period of the previous year.

Sales on the Estonian market made up 49% of the consolidated sales revenue, increasing 12 percent over a period of 12 months to MEEK 251,1 (MEUR 16). The largest foreign markets continued to be the Republic of Finland (sales of MEEK 188,7 or MEUR 12,1, growth of 13%) and the Republic of Lithuania (sales of MEEK 56,8 or MEUR 3,6, growth of 18%), totaling 37% and 11% respectively, of the group's turnover. The fourth quarter was most successful for the Finnish group (69% growth in turnover MEEK 51,6 or MEUR 3,3) and Lithuania (two-fold increase in turnover MEEK 27,6 or MEUR 1,6) for segment companies.

The Groups gross profit was MEEK 99,4 (MEUR 6,4), growing 20% in comparison with the previous year. The gross profit margin was 19,4% (2004: 18,3%). Total gross for the fourth quarter grew 17%, MEEK 27,6, (MEUR 1,8) in comparison with the same period the year before.

The average number of employees in the Group in 2005 was 412 (2004: 378) and reporting period salary expenses of MEEK 73,9 or MEUR 4,7 (2004: MEEK 61,2 or MEUR 3,9). Expenditures on the workforce for 2005 increased 15% to MEEK 98,2 (MEUR 6,3).

During the accounting period, the Group invested in tangible and intangible assets a total of MEEK 35,7 or MEUR 2,3 (2004: MEEK 42,5 or MEUR 2,7). Depreciation of fixed assets was MEEK 14,9 (MEUR 1), growth compared to 2004 was 19%. Development costs increased by 18% to MEEK 5,7 (MEUR 0,36).

The total operating profit of the consolidation group AS Harju Elekter was MEEK 37,5 or MEUR 2,4, increasing by the 20% compared to the same period of the last year. The group's operating margin was 7,3% which is 0,4 percentage points higher than last year. Fourth quarter consolidated company profits grew by 23% to MEEK 8,9 (MEUR 0,6) in comparison with the same period of the previous year, and business profitability was 5,7% (5,2% in 2004).

The group's consolidated net income was MEEK 61,8 or MEUR 4,0 (2004: MEEK 147,6 or MEUR 9,4). The change in the market price of the share of PKC Group Oyj that is included in the balance sheet may affect the net income for the period. During the H1 2005, the market price of the share of PKC Group Oyj recorded in the balance sheet was stable (growth 0,12 euros only), but its share price rose by EUR 1,70 (EEK 26,60) in Q3 and the closing price on the end of Q4 was EUR 10,90, which is EUR 1,17 (EEK 18,31) lower than on the the end of Q3. The financial expenses from revaluation of the shares amounted to MEEK 33,5 or MEUR 2,1 in Q4 (the profit for Q4 2004 was MEEK 43,4 or MEUR 2,8), the result of which was a loss in the fourth quarter of MEEK 24,6 or MEUR 1,6 (2004 4th quarter profit was MEEK 50,5 or MEUR 3,2). The total financial income from share price fluctuations for 2005 was MEEK 18,7 or MEUR 1,2 (2004: MEEK 92,2 or MEUR 5,9). Pursuant to the Finnish Income Tax Act, amended as of 1 January 2005, PKC Group paid an extraordinarily large dividend (MEEK 24,3; MEUR 1,5), while in 2005, they paid in a total of MEEK 5,8, i.e. MEUR 0,37 only. Taxes for 2005, in the income statement, were MEEK 3,7 or EUR 236 thousand (2004: EEK 595 thousand or EUR 38 thousand). In response to the change in the Finnish Income Tax Act, 15% of the distributed dividends were withheld, which was MEEK 0,9 (EUR 56 thousand). Harju Elekter has an income tax liability in 2005 of MEEK 2 (EUR 130 thousand) for paid dividends. In 2004, dividends were distributed tax free.

In conclusion, the consolidated profit after payment of taxes was MEEK 58,1 or MEUR 3,7 (2004: MEEK 147 or MEUR 9,4), of which the minority shareholders had MEEK 2,3 or EUR 144 thousand (2004: MEEK 1,6 or EUR 102 thousand). The parent companies share of the net profits was MEEK 55,9 or MEUR 3,6 (2004: MEEK 145 or MEUR 9,3) and EPS was EEK 3,32 or EUR 0,21 (2004: EEK 8,86 or EUR 0,57).<sup>1</sup>

### **Financing**

In 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 favorable 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 used to finance real estate investments. The company purchased, on the conditions of a financial lease, a production and technological equipment with an acquisition cost of MEEK 1,29 (TEUR 83). The debt is repayable within four years.

---

<sup>1</sup> The indicators have been calculated, taking into account the fund issue in May 2005

In 2005 the Group repaid long-term bank loans in the total amount of EEK 7,9 million (EUR 0,50 million) and made capital lease payments in the total amount of EEK 3,2 million (EUR 0,20 million).

<i>Investments and capital employed</i>	million EEK		million EUR	
	2005	2004	2005	2004
Land	2,6	0,0	0,17	0,00
Building and reconstructing of production premises	23,1	28,3	1,48	1,81
Machines, equipment and means of transport	7,4	13,3	0,47	0,85
Other acquisition of fixed assets	2,6	0,9	0,17	0,06
	EEK		EUR	
<i>Shares of Harju Elekter<sup>1</sup></i>	2005	2004	2005	2004
No of the shares (1000 pc)	16 800	16 800	16 800	16 800
Nominal value	16 800	16 401	16 800	16 401
Low price	10	10	0,64	0,64
High price	85,80	49,50	5,48	3,16
Closing price	48,82	34,94	3,12	2,23
No of the shares (1000 pc)	64,15	47,46	4,10	3,03
EPS	3,32	8,86	0,21	0,57
	1 000 EEK		1 000 EUR	
<i>Key indicators</i>	2005	2004	2005	2004
<b>Accounting period</b>				
Net sales	513 936	453 780	32 847	29 002
Operating profit	37 516	31 229	2 398	1 996
Profit from ordinary activities	61 801	147 562	3 950	9 431
Net profit for the current period	55 858	145 365	3 570	9 291
<b>At the end of the period</b>				
Total current assets	163 614	142 073	10 457	9 080
Total fixed assets	532 792	498 520	34 052	31 861
Total assets	696 406	640 593	44 509	40 941
Total liabilities	128 043	105 235	8 186	6 725
Total owners' equity	568 333	535 358	36 323	34 216
incl. equity attributable to parent company's shareholders	552 195	520 977	35 292	33 297
<b>Performance indicators (%)</b>				
Net sales growth			13,3	32,5
Operating profit growth			20,1	56,8
Net profit growth			-61,4	-17,2
Return of sales (operating profit/net sales *100)			7,3	6,9
Net profit margin (net profit /net sales *100)			10,9	32,0
Owners' equity margin (equity / balance sheet total *100)			81,6	82,6
<b>Personnel</b>				
Average number of employees on the current period			412	378
Number of employees on 31.12.2005			425	405

## INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

	Note no	1 000 EEK 31.12.05	31.12.04	1 000 EUR 31.12.05	31.12.04
<b>ASSETS</b>					
<b>Current assets</b>					
<b>Cash and bank</b>		<b>25 940</b>	<b>18 786</b>	<b>1 658</b>	<b>1 201</b>
<b>Short-term receivables</b>					
Trade receivables		64 444	49 824	4 119	3 184
Other short-term receivables		2 868	4 156	183	266
Accrued income and prepayments		1 485	1 357	95	87
<b>Total short-term receivables</b>		<b>68 797</b>	<b>55 337</b>	<b>4 397</b>	<b>3 537</b>
<b>Inventories</b>		<b>68 877</b>	<b>67 950</b>	<b>4 402</b>	<b>4 342</b>
<b>Current assets</b>		<b>163 614</b>	<b>142 073</b>	<b>10 457</b>	<b>9 080</b>
<b>Fixed assets</b>					
Long-term investments	7	333 877	323 138	21 530	20 652
Investment properties	2	120 838	86 880	7 723	5 553
Tangible assets	2	73 517	86 551	4 699	5 531
Intangible assets	2	1 560	1 951	100	125
<b>Total fixed assets</b>		<b>532 792</b>	<b>498 520</b>	<b>34 052</b>	<b>31 861</b>
<b>Total assets</b>		<b>696 406</b>	<b>640 593</b>	<b>44 509</b>	<b>40 941</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Debt obligations	3	22 017	14 380	1 407	919
Prepayments received from customers		9 569	2 666	611	170
Accounts payable to suppliers		41 870	45 535	2 676	2 910
Other payables		1 045	1 750	67	112
Tax payable		9 302	7 560	595	483
Accrued expenses		14 298	12 044	914	770
Short-term provision		93	300	6	19
Other prepaid revenue		0	3 643	0	233
<b>Total current liabilities</b>		<b>98 194</b>	<b>87 878</b>	<b>6 276</b>	<b>5 616</b>
<b>Long-term liabilities</b>	3	<b>29 879</b>	<b>17 357</b>	<b>1 910</b>	<b>1 109</b>
<b>Total liabilities</b>		<b>128 073</b>	<b>105 235</b>	<b>8 186</b>	<b>6 725</b>
<b>Owners' equity</b>					
<b>Equity attributable to parent company's shareholders, incl.</b>					
Share capital (nominal value)		552 195	520 977	35 292	33 297
Issue premium		168 000	56 000	10 737	3 579
Reserve requirement		6 000	6 000	384	384
Reserve requirement		8 600	8 600	550	550
Retained profit		369 595	450 377	23 621	28 784
<b>Minority interests</b>		<b>16 138</b>	<b>14 381</b>	<b>1 031</b>	<b>919</b>
<b>Total owners' equity</b>	5	<b>568 333</b>	<b>535 358</b>	<b>36 323</b>	<b>34 216</b>
<b>Total current liabilities</b>		<b>696 406</b>	<b>640 593</b>	<b>44 509</b>	<b>40 941</b>

**INCOME STATEMENT**

1 000 EEK	note no	Q4 2005	Q4 2004	2005	2004
Net sales	6	155 013	138 557	513 936	453 779
Cost of goods sold		-127 435	-114 958	-414 498	-370 916
<b>Gross profit</b>		<b>27 578</b>	<b>23 599</b>	<b>99 438</b>	<b>82 863</b>
Marketing expenses		-7 663	-6 692	-24 164	-21 046
Administrative and general expenses		-10 892	-9 420	-37 445	-30 487
Other operating revenue		199	40	611	523
Other operating charges		-336	-322	-925	-624
<b>Operating profit</b>	6	<b>8 886</b>	<b>7 205</b>	<b>37 516</b>	<b>31 229</b>
Net financial incomes/expenses	7	-33 889	42 966	23 054	116 214
Income from associated companies		371	311	1 231	119
<b>Profit from ordinary activities</b>		<b>-24 632</b>	<b>50 482</b>	<b>61 801</b>	<b>147 562</b>
Corporate income tax expense	8	-525	-546	-3 691	-595
<b>Profit after taxes</b>		<b>-25 157</b>	<b>49 936</b>	<b>58 110</b>	<b>146 967</b>
Minority interests		-1 163	610	-2 252	-1 602
<b>Net profit for the current period</b>	9	<b>-26 320</b>	<b>50 546</b>	<b>55 858</b>	<b>145 365</b>
Basic and diluted earnings per share	9	-1,57	3,01	3,32	8,86
<b>1 000 EUR</b>					
Net sales	6	9 907	8 855	32 847	29 002
Cost of goods sold		-8 144	-7 347	-26 492	-23 706
<b>Gross profit</b>		<b>1 763</b>	<b>1 508</b>	<b>6 355</b>	<b>5 296</b>
Marketing expenses		-490	-428	-1 544	-1 345
Administrative and general expenses		-696	-602	-2 393	-1 948
Other operating revenue		13	3	39	33
Other operating charges		-21	-21	-59	-40
<b>Operating profit</b>	6	<b>568</b>	<b>460</b>	<b>2 398</b>	<b>1 996</b>
Net financial incomes/expenses	7	-2 166	2 746	1 473	7 427
Income from associated companies		24	20	79	8
<b>Profit from ordinary activities</b>		<b>-1 574</b>	<b>3 226</b>	<b>3 950</b>	<b>9 431</b>
Corporate income tax expense	8	-34	-35	-236	-38
<b>Profit after taxes</b>		<b>-1 608</b>	<b>3 191</b>	<b>3 714</b>	<b>9 393</b>
Minority interests		-74	39	-144	-102
<b>Net profit for the current period</b>	9	<b>-1 682</b>	<b>3 230</b>	<b>3 570</b>	<b>9 291</b>
Basic and diluted earnings per share	9	-0,10	0,19	0,21	0,57



**CASH FLOW STATEMENT**

	Note no	1 000 EEK 2005	1 000 EUR 2004	1 000 EUR 2005	2004
<b>Business activities</b>					
Operating profit		37 516	31 229	2 398	1 996
<u>Adjustments</u>					
Depreciation and value decrease	2	14 928	12 543	954	802
Profit/loss from sales of tangible assets		-123	-147	-8	-9
Change in payables and prepayments related to business operations		-1 343	-14 531	-86	-929
Changes of inventories		-928	-23 827	-59	-1 523
Change in liabilities and prepayments related to business operations		-598	18 636	-38	1 191
Taxes paid		-3 501	-737	-224	-47
Interests paid		-1 788	-1 468	-114	-94
<b>Total cash flow from business activities</b>		<b>44 163</b>	<b>21 698</b>	<b>2 823</b>	<b>1 387</b>
<b>Investing activities</b>					
Investments in fixed assets		-43 449	-31 573	-2 777	-2 018
Capital gains from fixed assets		415	421	26	27
Payments for financial investments		0	-8 281	0	-529
Capital gains from sale of fin. investments		5 008	4 415	320	282
Long-term loans granted		-13	-76	-1	-5
Repayment of loan receivables		32	154	2	10
Interests received		217	160	14	10
Dividends received		7 113	26 014	454	1 663
<b>Total cash flow from investing activities</b>		<b>-30 677</b>	<b>-8 766</b>	<b>-1 962</b>	<b>-560</b>
<b>Financing activities</b>					
Loans received	3	29 925	1 512	1 913	97
Loans repaid	3	-7 890	-5 999	-504	-383
Repayment of principal amounts of capital lease	3	-3 169	-2 007	-203	-128
Issued shares		0	8 000	0	511
Dividends paid		-25 135	-22 043	-1 606	-1 409
<b>Total cash flow from financial activities</b>		<b>-6 269</b>	<b>-20 537</b>	<b>-400</b>	<b>-1 312</b>
<b>Total cash flow</b>		<b>7 217</b>	<b>-7 605</b>	<b>461</b>	<b>-485</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		7 217	-7 605	461	-486
Effect of foreign exchange rate change		-63	-58	-4	-4
<b>Cash at the end of the period</b>		<b>25 940</b>	<b>18 786</b>	<b>1 658</b>	<b>1 201</b>

**STATEMENT OF CHANGES IN OWNERS' EQUITY**

1000 EEK	Equity attributable to parent company's shareholders					Minority interests	Total
	Share capital	Issue premium	Reserve require	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>	<b>13 222</b>	<b>402 434</b>
Profit for current period	0	0	0	145 365	<b>145 365</b>	1 602	<b>146 967</b>
Dividends	0	0	0	-21 600	<b>-21 600</b>	-443	<b>-22 043</b>
Share issue	2 000	6 000	0	0	<b>8 000</b>	0	<b>8 000</b>
<b>Balance as of 31.12.2004</b>	<b>56 000</b>	<b>6 000</b>	<b>8600</b>	<b>450 377</b>	<b>520 977</b>	<b>14 381</b>	<b>535 358</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>	<b>14 381</b>	<b>535 358</b>
Profit for current period	0	0	0	55 858	<b>55 858</b>	2 252	<b>58 110</b>
Dividends	0	0	0	-24 640	<b>-24 640</b>	-495	<b>-25 135</b>
Fund issue	112 000	0	0	-112 000	<b>0</b>	0	<b>0</b>
<b>Balance as of 31.12.2005</b>	<b>168 000</b>	<b>6 000</b>	<b>8 600</b>	<b>369 595</b>	<b>552 195</b>	<b>16 138</b>	<b>568 333</b>
1000 EUR							
<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>	<b>845</b>	<b>25 720</b>
Profit for current period	0	0	0	9 291	<b>9 291</b>	102	<b>9 393</b>
Dividends	0	0	0	-1 381	<b>-1 381</b>	-28	<b>-1 409</b>
Share issue	128	384	0	0	<b>512</b>	0	<b>512</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>	<b>919</b>	<b>34 216</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>	<b>919</b>	<b>34 216</b>
Profit for current period	0	0	0	3 570	<b>3 570</b>	144	<b>3 714</b>
Dividends	0	0	0	-1 575	<b>-1 575</b>	-32	<b>-1 607</b>
Fund issue	7 158	0	0	-7 158	<b>0</b>	0	<b>0</b>
<b>Balance as of 31.12.2005</b>	<b>10 737</b>	<b>384</b>	<b>550</b>	<b>23 621</b>	<b>35 292</b>	<b>1 031</b>	<b>36 323</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 31.12.2005 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 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	11 286	24 010	396	<b>35 692</b>	721	1 535	25	<b>2 281</b>
Reclassified	-13 632	13 632	0	<b>0</b>	-871	871	0	<b>0</b>
Sold and written-off fixed assets at acquisition value	-1 260	0	0	<b>-1 260</b>	-82	0	0	<b>-82</b>
Expenses take into account	-10 457	-3 684	-787	<b>-14 928</b>	-668	-236	-50	<b>-954</b>
Depreciation of sold and written off fixed assets	1 029	0	0	<b>1 029</b>	68	0	0	<b>68</b>
<b>Final balance at the end of the current period</b>	<b>73 517</b>	<b>120 838</b>	<b>1 560</b>	<b>195 915</b>	<b>4 699</b>	<b>7 723</b>	<b>100</b>	<b>12 522</b>

**Note 3 Debt liabilities**

	1 000 EEK		1 000 EUR	
	31.12.05	31.12.04	31.12.05	31.12.04
Short-term loans	11 869	8 699	758	556
Repayment of long-term leasing oblig. during the next period	8 762	3 892	560	249
Repayments of long-term lease in next period	1 386	1 789	89	114
<b>Total current liabilities</b>	<b>22 017</b>	<b>14 380</b>	<b>1 407</b>	<b>919</b>
Long-term bank loans	28 477	14 482	1 820	925
Long-term lease payables	1 402	2 875	90	184
<b>Total long term liabilities</b>	<b>29 879</b>	<b>17 357</b>	<b>1 910</b>	<b>1 109</b>
<b>Total debt liabilities</b>	<b>51 896</b>	<b>31 737</b>	<b>3 317</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	3 170	203
Received long-term loans	26 755	1 710
Long-term loan repaid	-7 890	-504
New leasing obligations	1 293	83
New long-term lease liabilities	-3 169	-203
<b>Final balance 31.12.05</b>	<b>51 896</b>	<b>3 317</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 favorable 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 (instead of previous agreements 6 months' euribor + 0,75% and 3 months euribor 0 1,35% respectively). The loans will be repaid during 5 years. The borrowed money 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 31 December 2005 the company has pledged 924 000 shares as collaterals for its liabilities with a book value of EUR 10,1 million (EEK 158 million). The balance of the long-term secured loans was EUR 2,38 million (EEK 37,2 million) and the total overdraft limits were EUR 0,77 million (EEK 12 million).

**Note 5 Owners' equity**

In the AGM on the 22.04.2005 shareholders approved 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 million 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 fiber 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 Harju Elekter 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.

Business segments (1000 EEK)	Production		Trade		Services		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Business activities</b>										
Electrical equipment	336 063	294 506	0	0	0	0			336 063	294 506
Sheet metal products /services	28 693	29 134	0	0	0	0			28 693	29 134
Products for telecom sector	22 235	20 469	0	0	0	0			22 235	20 469
Trade and intermediation	16 342	15 291	49 068	44 699	2 735	6 330			68 145	66 320
Design	0	6	0	0	7 768	2 747			7 768	2 753
Installation work	0	0	0	0	6 954	6 527			6 954	6 527
Leasing of capital assets	0	0	0	0	25 549	20 229			25 549	20 229
Other services	6 896	3 870	0	0	11 633	9 971			18 529	13 841
<b>Total revenue from non-concern costumers</b>	<b>410 229</b>	<b>363 276</b>	<b>49 068</b>	<b>44 699</b>	<b>54 639</b>	<b>45 804</b>	<b>0</b>	<b>0</b>	<b>513 936</b>	<b>453 779</b>
Inter-segment revenue	9 020	6 259	478	395	15 638	6 726	-25 136	-13 380	0	0
<b>Income from business in segment</b>	<b>419 249</b>	<b>369 535</b>	<b>49 546</b>	<b>45 094</b>	<b>70 277</b>	<b>52 530</b>	<b>-25 136</b>	<b>-13 380</b>	<b>513 936</b>	<b>453 779</b>
<b>Operating profit</b>	<b>20 799</b>	<b>21 261</b>	<b>2 252</b>	<b>2 287</b>	<b>15 017</b>	<b>7 970</b>	<b>-552</b>	<b>-289</b>	<b>37 516</b>	<b>31 229</b>
<hr/>										
(1000 EUR)										
Electrical equipment	21 478	18 822	0	0	0	0	0	0	21 478	18 822
Sheet metal products /services	1 834	1 862	0	0	0	0	0	0	1 834	1 862
Products for telecom sector	1 421	1 308	0	0	0	0	0	0	1 421	1 308
Trade and intermediation	1 044	977	3 136	2 857	175	405	0	0	4 355	4 239
Design	0	0	0	0	496	176	0	0	496	176
Installation work	0	0	0	0	444	417	0	0	444	417
Leasing of capital assets	0	0	0	0	1 633	1 293	0	0	1 633	1 293
Other services	442	247	0	0	744	637	0	0	1 186	885
<b>Total revenue from non-concern costumers</b>	<b>26 219</b>	<b>23 218</b>	<b>3 136</b>	<b>2 857</b>	<b>3 492</b>	<b>2 927</b>	<b>0</b>	<b>0</b>	<b>32 847</b>	<b>29 002</b>
Inter-segment revenue	576	400	31	25	1 000	430	-1 607	-855	0	0
<b>Income from business in segment</b>	<b>26 795</b>	<b>23 618</b>	<b>3 167</b>	<b>2 882</b>	<b>4 492</b>	<b>3 357</b>	<b>-1 607</b>	<b>-855</b>	<b>32 847</b>	<b>29 002</b>
<b>Operating profit</b>	<b>1 329</b>	<b>1 359</b>	<b>144</b>	<b>146</b>	<b>960</b>	<b>509</b>	<b>-35</b>	<b>-18</b>	<b>2 398</b>	<b>1 996</b>

*Geographical segments*

Markets (1000 EEK)	Estonia		Finland		Lithuania		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Estonia	251 091	223 734	2	0	0	0	251 093	223 734
Finland	49 537	52 996	139 174	113 529	0	0	188 711	166 525
Lithuania	953	1 527	0	0	55 836	46 724	56 789	48 251
Other Europe	4 766	6 019	455	2 488	8 651	3 193	13 872	11 700
USA	2 640	2 947	0	0	0	0	2 640	2 947
Russia	614	622	0	0	217	0	831	622
<b>Revenue from non-concern costumers</b>	<b>309 601</b>	<b>287 845</b>	<b>139 631</b>	<b>116 017</b>	<b>64 704</b>	<b>49 917</b>	<b>513 936</b>	<b>453 779</b>

  

(1000 EUR)	Estonia		Finland		Lithuania		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Estonia	16 048	14 299	0	0	0	0	16 048	14 299
Finland	3 166	3 387	8 895	7 256	0	0	12 061	10 643
Lithuania	60	98	0	0	3 569	2 986	3 629	3 084
Other Europe	305	385	29	159	553	204	887	748
USA	169	188	0	0	0	0	169	188
Russia	39	40	0	0	14	0	53	40
<b>Revenue from non-concern costumers</b>	<b>19 787</b>	<b>18 397</b>	<b>8 924</b>	<b>7 415</b>	<b>4 136</b>	<b>3 190</b>	<b>32 847</b>	<b>29 002</b>

**Note 7 Financial income**

	1 000 EEK		1 000 EUR	
	2005	2004	2005	2004
Interest charges	-1 706	-1 450	-109	-93
Interest return	194	160	12	10
Dividend income	5 822	24 252	372	1 550
Net exchange profit (+)/loss (-)	-63	-58	-4	-4
<i>Marketable investments:</i>				0
Profit from sales of investments	140	1 098	9	70
Revaluation at fair value	18 667	92 212	1 193	5 894
<b>TOTAL</b>	<b>23 054</b>	<b>116 214</b>	<b>1 473</b>	<b>7 427</b>

In Q3 Harju Elekter sold 30 000 shares in PKC Group Oyj for MEEK 5,7 (MEUR 0,35); the net income from the transaction was TEEK 140 (TEUR 9). As of 31 December 2005, Harju Elekter holds 1,83 million shares in PKC Group Oyj.

As of the end of the quarter on 31 of December 2005, the financial investment was revalue at the closing price of the last trading day that is 10,90 euro (170,55 krooni). In the Q4 2005 the revaluation generated financial expenses in the amount of -33,5 MEEK or -2,1 MEUR (Q4 2004: 43,4 MEEK or -2,8 MEUR).

Note 8 Corporate income tax expense	1000 EEK		1000 EUR	
	2005	2004	2005	2004
Allocation of corporate income tax to relevant periods	850	595	54	38
Tax from dividends (Finland)	873	0	56	0
Tax from dividends (Estonia)	1 968	0	126	0
<b>TOTAL</b>	<b>3 691</b>	<b>595</b>	<b>236</b>	<b>38</b>

### Note 9 Basic and diluted earning 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	
		2005	2004	2005	2004
Net profit for the period	1000	55 858	145 365	3 570	9 291
Average number of shares for the period	1000 pc	16 800	16 401	16 800	16 401
<i>Basic and diluted EPS</i>		3,32	8,86	0,21	0,57

*Diluted net profit per share* is calculated by considering the number of potential options. As of the balance sheet date of 31 December 2005, the group did not have potentially issue able common shares. As a result, the diluted net profit (loss) per share in the quarter was equal to the regular earnings per share.

### 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 is 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 continues 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 is 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 company purchased 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 remained in the parent company's balance sheet. All the employees of the Electrical Equipment Plant transferred to the established subsidiary under the currently valid employment contracts.



**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		2004		1 000 EUR		2004	
	2005		Bought	Sold	Bought	Sold	Bought	Sold
Subsidiaries	4 114	13 176	3 186	11 909	263	842	204	761
Assoc. companies	9 670	11 976	10 938	12 566	618	766	699	803
Harju KEK	1 462	1	156	115	93	0	10	7
<b>TOTAL</b>	<b>15 246</b>	<b>25 153</b>	<b>14 280</b>	<b>24 590</b>	<b>974</b>	<b>1 608</b>	<b>913</b>	<b>1 571</b>

Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	11 992	107	766	7
Material, components for production needs	1 372	1 375	88	88
Industrial subcontracting (outsourcing)	1 362	2 454	87	157
Lease of fixed assets	0	10 905	0	697
Management services	0	5 128	0	328
Other services (building and communication, repairs and maintenance of real estate)	520	5 184	33	331
<b>TOTAL</b>	<b>15 246</b>	<b>25 153</b>	<b>974</b>	<b>1 608</b>

**Balance with related parties:**

	1 000 EEK		1 000 EUR	
	31.12.05	31.12.04	31.12.05	31.12.04
<b>Claims</b>				
<i>With subsidiaries: goods and services*</i>	15 212	3 049	972	195
financial lease	0	185	0	12
<i>With associated companies: goods and services</i>	2 793	4 137	179	264
<b>Obligations</b>				
<i>With subsidiaries: goods and services</i>	0	994	0	64
<i>With associated companies: goods and services</i>	584	1 074	37	69

\* The indicators as of 31.12.2005 include the one-off sale of production stocks to Harju Elekter Elektrotehnika. On the balance sheet date, TEEK 12 577 (TEUR 804) 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 1-12/2005**

The management board of AS Harju Elekter declares its liability for the accurate preparation of the interim report of 1-12/2005 accounts on the pages 3 - 17 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 27.02.2006, were duly taken into account and recognised in the annual accounts;

**Management Board**

Andres Allikmäe	Chairman of the Board	/signature/	„27 <sup>th</sup> “ of February 2006
Lembit Libe	Chairman of the Board	/signature/	„27 <sup>th</sup> “ of February 2006
Karin Padjus	Chairman of the Board	/signature/	„27 <sup>th</sup> “ of February 2006