



AS HARJU ELEKTER

Interim report 1-3/ 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 st of January 2006
End of the reporting period:	31 st of March 2006

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 Q1 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 31.03.2006, Harju Elekter owns significant holdings in the following commercial undertakings:

Participation %			31.03.06	31.12.05	31.03.05
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

In the first quarter of 2006, the economic situation in Estonia continued to be favourable and several different sources are predicting economic growth of 8% for 2006. Favourable loan conditions supported growth in domestic demand and even employment was high for the seasonal period. The volume of exports has increased and the ability of companies to compete in international markets has grown. Even so, the consumer price index remained above the desired level, which is preventing the transfer to the euro on 1 January 2007.

Even in the world economy there are clear signs of an upturn and the favourable economic climate is expected to remain stable for the next six months. The economic climate improved in nearly all of the Western European countries

Revenues, expenses and profit

Harju Elekter Group sales revenue for the first quarter of 2006 was 7,918 thousand euros, having grown 10.6% in comparison with the same period of the previous year. Production accounted for 78.1% of consolidated sales revenue (turnover increased 8.4%), commerce 9.9% (turnover increased 25.8%), real estate 8.9% (turnover increased 36.2%).

Sales on the Estonian market made up 43.7% of the consolidated sales revenue (2005 1st quarter: 56.7%). The slight reduction in Estonian sales was caused by the seasonal investments of significant clients and unique sales revenue in comparison with the 2005 reference base. The ordering structure has also changed, where the emphasis was placed on simpler and more affordable solutions. The largest of the foreign markets continued to be the Republic of Finland, accounting for 44.2% (2005 1st quarter: 31.5%). The growth in market share was also made favourable by the opening of a sales office in Helsinki in the summer of 2005. The first quarter was the most successful for the Group's companies in Finland (66.9% growth in turnover) and Lithuania (23.3% growth in turnover).

The Group's total profit was 1,446 thousand euros, having increased 13.1% in comparison with the previous year. The gross profit margin was 18.3% (2005: 17.9%).

In the first quarter of 2006, an average of 421 employees were employed by the Group (2005 1st quarter: 394) and wages were 1,291 (2005 1st quarter: 1,063) thousand euros. Workforce expenditures

increased 14.7% in the first quarter of 2006, to 1,617 thousand euros. During the accounting period, a total of 434 (2005 1st quarter: 1,165) thousand euros was invested in the Group's tangible and intangible assets. The first quarter depreciation of tangible assets was 256 thousand euros, having increased 15.8% in comparison with the previous year. Distribution costs were 356 thousand euros, an increase of 10.2%, and general administration costs were 326 thousand euros, an increase of 11.3%.

First quarter commercial profit increased 16.8% to 509 thousand euros. EBIT to net sales was 6.4%, which is 0.3 percentage points better than in the previous year.

The Group's earnings before taxes were 903 (2005 1st quarter 426) thousand euros. The Group sold some of the PKC Group Oyj shares in the first quarter. Profit from the sale of shares was 333 thousand euros. In the first quarter 73 thousand euros more in profit was consolidated from related companies than in the previous year.

Altogether the consolidated earnings after tax were 888 (2005 1st quarter: 418) thousand euros, of which the parent company owners' share was 883 (2005: 1st quarter: 394) thousand euros and earnings per share in the 1st quarter were 0.05 euros (2005 1st quarter: 0.02 euros).

Balance sheet

The consolidated balance sheet total has grown in the first quarter by 2,539 thousand euros to 47,048 thousand euros.

Cash flows in the first quarter were positive. Cash in bank grew by 252 thousand euros to 1,910 thousand euros, regardless of the fact that in the first quarter long term bank loans totalling 140 (2005 1st quarter: 84) thousand euros were repaid, and there were finance lease payments of 23 (2005: 1st quarter 38) thousand euros, while overdraft decreased by 87 (2005: 1st quarter grew by 226) thousand euros.

The increase in the volume of sales orders resulted in a 16.5% increase in inventories to 5,129 thousand euros, primarily in the stock of finished and semi-finished goods, and in terms of liabilities, a 14.9% increase, to 3,076 thousand euros, in arrears to suppliers.

The primary cause for the 5.7% increase in assets was a revaluation of financial assets eligible for sale to their fair value. The PKC Group Oyj share price closed on 31 March 2006 at €11.89 (186.04 kroons), having increased by €0.99 (15.49 kroons) during the quarter. The profit of 1,782 thousand euros from the revaluation of shares was reflected directly in reserves under equity capital. Harju Elekter sold 30,000 shares during the first quarter. The corresponding 301 thousand euros proportional part of the sold shares was carried from the reserves into the income statement. As a result, the book value of the reserves grew by 1,481 thousand euros. On the assets side, the value of other long term financial investments, the difference between share revaluation profit and the book value of the sold shares grew by 1,455 thousand euros. The owners' equity grew totally by 2,364 thousand euros to 38,692 thousand euros.

Post-balance events

The AGM of shareholders was held on 20 April 2006, and 109 shareholders or their authorised representatives participated, who represent 58.2 % of the total number of votes. The general meeting decided to pay dividends to the owners at the rate of 0.10 euros per share, totally 1,718 thousand euros. Dividends will be paid to the shareholders on 12.05.2006.

In April the Council of Harju Elekter decided to expand the share capital of Finnish subsidiary Satmatic Oy up to 600 thousand euros, by subscribing for 100 thousand new shares at a nominal price

of 2 euros per share and at a subscription price of 4 euros per share. To finance the transaction, Harju Elekter sold 30 thousand shares in PKC Group Oyj, receiving 359 thousand euros from the sale.

Subsidiary Satmatic Oy used the received finances to purchase Finoval Oy, which will be merged to Satmatic Oy and it will continue its current activities in manufacturing electrical equipment. The purchase of the company creates better possibilities for servicing the clients in East-Finland and Helsinki region, and increases the market share of Harju Elekter Group. In addition, the company performs the functions of a Helsinki representation office of Harju Elekter Group.

Shares of Harju Elekter

EUR	1-3/ 2006	2005	1-3/ 2005
Number of the shares ('000)	16,800	16,800	16,800
Nominal value	0.64	0.64	0.64
Low price	8.82	6.70	6.75
High price	14.30	9.49	8.25
Closing price	13.50	9.13	8.20
EPS	0.05	0.16	0.02

Key indicators

EUR'000	1-3/ 2006	2005	1-3/ 2005
Accounting period			
Net sales	7,918	32,847	7,159
Operating profit	509	2,398	436
Net profit for the current period (equity holders of the parents)	883	2,662	394
At the end of the period			
Total current assets	11,285	10,457	9,892
Total non-current assets	35,763	34,052	33,088
Total assets	47,048	44,509	42,980
Total liabilities	8,356	8,186	8,098
Total equity	38,692	36,323	34,844
Inclusive equity attributable to equity holders of the parent	37,656	35,292	33,970

Performance indicators (%)

Growth in revenue	10,6	13,3	30,6
Operating profit growth	16,8	20,1	135,5
Net profit growth (Equity holders of the parent)	124,3	-25,9	-73,6
Return of sales (operating profit/revenue *100)	6,4	7,3	6,1
Net profit margin (net profit /net sales *100)	11,2	8,1	5,5
Owners' equity margin (equity / balance sheet total *100)	80,0	79,3	79,0

Employees

Average number of employees on the current period	421	412	394
Number of employees on	437	425	406

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

€000	Note	2006	2005
		At 31 March	At 31 December
Assets			
Cash and cash equivalents		1,910	1,658
Trade receivables		3,971	4,119
Other receivables and prepayments		275	278
Inclusive income tax		1	1
Inventories		5,129	4,402
Total current assets		11,285	10,457
Investments in associates		1,663	1,583
Other long-term financial investments		21,402	19,947
Investment property	2	7,834	7,901
Property, plant and equipment	2	4,761	4,521
Intangible assets	2	103	100
Total non-current assets		35,763	34,052
TOTAL ASSETS		47,048	44,509
Liabilities			
Interest-bearing loans and borrowings	3	1,157	1,407
Advances from customers		590	611
Trade payables		3,076	2,676
Tax liabilities		502	596
Inclusive income tax		15	19
Accrued expenses		888	913
Other payables		233	73
Total current liabilities		6,446	6,276
Non-current liabilities	3	1,910	1,910
Total liabilities		8,356	8,186
Equity			
Share capital		10,737	10,737
Share premium		384	384
Reserves		20,407	18,926
Retained earnings		6,128	5,245
Total equity attributable to equity holders of the parent		37,656	35,292
Minority interest		1,036	1,031
Total equity		38,692	36,323
TOTAL LIABILITIES AND EQUITY		47,048	44,509

CONSOLIDATED INCOME STATEMENT

€000	Note no	For the period 1-3 ended 31 March	
		2006	2005
Revenue	4	7,918	7,159
Cost of sales		-6,472	-5,881
Gross profit		1,446	1,278
Distribution costs		-359	-326
Administrative expenses		-571	-514
Other income		2	8
Other expenses		-9	-10
Operating profit	4	509	436
Net financing income/costs	5	314	-17
Income from associated companies		80	7
Profit before tax		903	426
Allocation of corporate income tax to relevant periods		-15	-8
Profit for the period		888	418
Attributable to:			
Minority interests		5	24
Equity holders of the parent	6	883	394
Basic and diluted earnings per share for profit attributable to equity holders of the parent (in €)	6	0.05	0.02

CONSOLIDATED CASH FLOW STATEMENT

For the period 1-3 ended 31 March		€000*	
	Note	2006	2005
Cash flows from operating activities			
Operating profit	4	509	436
<u>Adjustments for:</u>			
Depreciation and amortisation	2	256	220
Gain on sale of property, plant and equipment		0	2
Change in receivables related to operating activity		128	108
Change in inventories		-729	227
Change in payables related to operating activity		356	-181
Corporate income tax paid		-23	-17
Interest paid		-24	-26
Net cash from operating activities		473	769
Cash flows from investing activities			
Acquisition of property, plant and equipment		-318	-1,399
Acquisition of intangible assets		-17	-3
Proceeds from sale of property, plant and equipment		0	1
Proceeds from sale of other financial investments		359	0
Loans given		0	-1
Repayment of loans given		0	1
Interest received		6	2
Net cash used in investing activities		30	-1,399
Cash flows from financing activities			
Proceeds from borrowings		0	1,955
Repayment of borrowings	3	-227	-104
Payment of finance lease principal	3	-23	-38
Net cash used in financing activities		-250	1,813
Net cash flows		253	1,183
Cash and cash equivalents at beginning of period			
Net increase / decrease		253	1,183
Effect of exchange rate fluctuations on cash held		-1	-1
Cash and cash equivalents at end of period		1,910	2,383

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

€000	Attributable to equity holders of the parent							Minority interest	TOTAL
1-3/2005	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	Total			
Balance at 31 December 2004	3,579	384	550	17,468	11,316	33,297	919	34,216	
Profit for period	0	0	0	0	394	394	24	418	
Income recognised directly in equity	0	0	0	279	0	279	0	279	
Total income for period	0	0	0	279	394	673	24	697	
Balance at 31 March 2005	3,579	384	550	17,747	11,710	33,970	943	34,913	
1-3/2006									
Balance at 31 December 2005	10,737	384	550	18,376	5,245	35,292	1,031	36,323	
Profit for period	0	0	0	0	883	883	5	888	
Income recognised directly in equity	0	0	0	1,481	0	1,481	0	1,481	
Total income for period	0	0	0	1,481	883	2,364	5	2,369	
Balance at 31 March 2006	10,737	384	550	19,857	6,128	37,656	1,036	38,692	

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 31.03.2006 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 Q1 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 euros (€), rounded to the nearest thousand. The Estonian kroon is pegged to the euro at the rate of EEK 15.6466 to €1 and all amounts shown in the financial statements for both years presented are converted at this rate, therefore the presentation practice does not give rise to foreign exchange translation differences.

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 the period 01 January – 31 March €000	Property, plant and equipment		Investment property		Intangible assets	
	2006	2005	2006	2005	2006	2005
At beginning of period	4,521	5,531	7,901	5,553	100	125
Additions	415	1,162	0	0	17	3
Disposals at acquisition value	0	-3	0	0	0	0
Amortisation charge for the period	-175	-157	-67	-51	-14	-12
Final balance at the end of the current period	4,761	6,533	7,834	5,502	103	116

Note 3 Debt liabilities

€000	31 March 2006	31 December 2005
Short-term loans	671	758
Repayment of long-term leasing oblig. during the next period	420	560
Repayments of long-term lease in next period	66	89
Total current liabilities	1,157	1,407
Long-term bank loans	1,820	1,820
Long-term lease payables	90	90
Total long term liabilities	1,910	1,910
Total debt liabilities	3,067	3,317

Changes in debt obligations:

	1-3/2006	1-3/2005
Initial balance 31.12.	3,317	2,028
Changes in short-term loans	-87	226
Received long-term loans	0	1,710
Long-term loan repaid	-140	-84
New leasing obligations	0	54
New long-term lease liabilities	-23	-38
Final balance 31.03.	3,067	3,896

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.

EUR'000	Estonia		Finland		Lithuania		Eliminations		Consolidated	
For period ended 31	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
March										
Revenue from external customers	4,423	4,876	2,658	1,592	837	691	0	0	7,918	7,159
Inter-segment revenue	281	143	1	1	17	2	-299	-146	0	0
Total revenue	4,704	5,019	2,659	1,593	854	693	-299	-146	7,918	7,159
Segment result	448	469	20	-72	40	44	1	-5	509	436

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

For the period	Estonia		Finland		Lithuania		Eliminations		Consolidated	
1-3 ended 31 March	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Estonia	3,462	4,057	1	1	17	2	-18	-3	3,462	4,057
Finland	1,099	800	2,650	1,588	0	0	-252	-133	3,497	2,255
Lithuania	40	16	0	0	623	652	-29	-10	634	658
Other Europe	68	96	8	4	214	39	0	0	290	139
USA	17	41	0	0	0	0	0	0	17	41
Russia	18	9	0	0	0	0	0	0	18	9
Total	4,704	5,019	2,659	1,593	854	693	-299	-146	7,918	7,159

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

As of 31 March 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 its are 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:

€000	Revenue		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005
For the period 1-3 ended 31 March						
Manufacturing	6,440	5,944	-78	-116	6,362	5,828
Real estate	734	539	-178	-108	556	431
Trade	814	647	-3	-13	811	634
Unallocated	260	342	-71	-76	189	266
Total revenue	8,248	7,472	-330	-313	7,918	7,159

Note 5 Net financing income/costs

€000	1-3/ 2006	1-3 / 2005
Interest charges	-22	-17
Interest return	4	1
Net exchange profit (+)/loss (-)	-1	-1
<i>Marketable investments:</i>		
Income from sale of investments	333	0
TOTAL	314	-17

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.

		1-3/ 2006	1-3/2005
Profit attributable to equity holders of the parent	€000	883	394
Average number of shares outstanding during the period	'000	16,800	16,800
Basic and diluted earnings per share	€	0.05	0.02

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 31 March 2006, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

Note 7 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:

€000	1-3/ 2006		1-3/ 2005	
	Bought	Sold	Bought	Sold
Associated companies	183	195	167	149
<i>Inclusive:</i>				
Goods purchased for resale	145	20	127	0
Material, components for production needs	29	0	40	7
Industrial subcontracting (outsourcing)	2	0	0	0
Lease of fixed assets	2	110	0	109
Management services	0	42	0	0
Other services	5	23	0	33

Balance with related parties:

	Claims		Obligations	
	31.03.06	31.12.05	31.03.06	31.12.05
With associated companies: goods and services	195	182	194	37

Note 8 Post-balance events

The AGM of shareholders was held on 20 April 2006 decided to pay dividends to the owners at the rate of 0.10 (2005: 0.09) euros per share, totally in amount 1,718 (2005: 1,575) thousand euros. Dividends paid to the shareholders on 12.05.2006.

In April the Council of Harju Elekter decided to expand the share capital of Finnish subsidiary Satmatic Oy up to 600 thousand euros, by subscribing for 100 thousand new shares at a nominal price of 2 euros per share and at a subscription price of 4 euros per share. To finance the transaction, Harju Elekter sold 30 thousand shares in PKC Group Oyj, receiving 359 thousand euros from the sale. Subsidiary Satmatic Oy used the received finances to purchase Finoval Oy, which will be merged to Satmatic Oy and it will continue its current activities in manufacturing electrical equipment. The purchase of the company creates better possibilities for servicing the clients in East-Finland and Helsinki region, and increases the market share of Harju Elekter Group. In addition, the company performs the functions of a Helsinki representation office of Harju Elekter Group.

Signatures of the members of the Management Boards to the interim report 1-3/2006

The management board of AS Harju Elekter declares its liability for the accurate preparation of the financial interim statements of 1-3/2006 accounts on the pages 7 - 15 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 04 May 2006, were duly taken into account and recognised in the annual accounts;

Approval of the Interim report 1-3/2006 as of March 31, 2006 by the Management Board members:

Management Board

Andres Allikmäe	Chairman of the Board	/signature/	May the 4th 2006
Lembit Libe	Member of the Board	/signature/	May the 4th 2006
Karin Padjus	Member of the Board	/signature/	May the 4th 2006