



## **AS HARJU ELEKTER**

Interim report 1-6/ 2006

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

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

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

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

In interim report for 1-6/ 2006 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries – Harju Elekter Elektrotehnika, Eltek, Satmatic and Rifas - are consolidated line-by-line and the results of affiliated companies - Keila Kaabel and Saajos Inexa - by the equity method. The shares of PKC Group Oyj are recognised on the balance sheet on the fair value basis. As of 30.06.2006, Harju Elekter owns significant holdings in the following commercial undertakings:

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

***Economic environment***

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

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

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

### **Events**

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

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

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

### **Operating results**

The Group's consolidated return on sales in Q2 2006 was 10,926 (7,490) thousand euros, showing an increase of 45.9 % in comparison with the same period last year. Production contributed 84.1 % (79.2 %) of the consolidated return on sales (an increase in turnover of 54.9% to 9,192 thousand euros). The consolidated return on sales for H1 2006 amounted to 18,845 (14,649) thousand euros, showing an increase of 28.6% in comparison with the same period last year.

The biggest increase in turnover was in the Lithuanian segment. The return on sales of the Group's enterprises in Lithuania increased in Q2 2006 by 2.9 times in comparison with the same period last year, amounting to 2,355 thousand euros and in 1-6/2006 to 3,212 (1,497) thousand euros. The activities of the subsidiary Rifase have been favourably influenced by both a good economic climate and active investment in industry and immovable property, as well as successfully supplying several large projects, including the water treatment equipment for Panevėžys and the Kazlu Ruda Chipboard Plant. A strong increase of 86.2 % was also observed in the Finnish segment in Q2 2006, where sales volume reached 3,584 thousand euros and by the end of Q2 2006 amounted to 6,243 (3,518) thousand euros. Intense sales work, which has made the company a strong and considerable manufacturer of electrical appliances in the Finnish market, also brought the company several new customers and contributed to the significant increase in Satmatic's turnover. An increase in orders from foreign markets for Finnish exporting companies, and initial supplies for the ship building industry as a new attractive target group also contributed to the increase in turnover. In H1 2006, the quantity of the so-called project sales products, which require significantly greater know-how from the company, and are also more profitable, also increased in the company's sales portfolio. The decrease in the sales of the Estonian segment has stopped and in Q2 2006 an increase in sales volume of 5.9 %, in comparison with the same period last year, was achieved. The return on sales of the enterprises in Estonia totalled 10,010 (10,028) thousand euros in H1 2006, including 5,306 (5,009) thousand euros in Q2 2006. Change in the orders' structure, where the focal point is being transferred to more simple solutions, but also the usual seasonality of customers' investment, has affected the turnover of H1 2006 the most.

The Republic of Finland was the largest of the markets, constituting 39.9 % (36.2 %) of the consolidated return on sales for Q2 2006 and 41.7 % (33.9 %) of the consolidated return on sales for H1 2006. Sales on the Finnish market increased by 60.7 % to 4,355 thousand euros in Q2 2006; within

6 months to 7,852 (4,965) thousand euros. The increase in market share was fostered by the opening of a sales representation office in Helsinki in the summer of 2005 and the purchase and merger of Finoval Oy with Satmatic Oy, as a result of which both the volume of orders and the customer base increased. Sales on the Estonian market contributed 36.7 % (51.2 %) of consolidated return on sales in Q2 2006, increasing to 4,012 (3,838) thousand euros and 39.7 % (53.9 %) of the consolidated return on sales in H1 2006, amounting to 7,474 (7,895) thousand euros. The biggest increase in Q2 2006 was in the Lithuanian market. Sales on the Lithuanian market constituted 21.0 % (9.4 %) of consolidated turnover, increasing by three times, to 2,297 thousand euros in comparison with the same period last year. As regards the half-year, sales on the Lithuanian market contributed 15.6 % (9.3 %) of the consolidated turnover, increasing twice as much as in the same period last year, and amounted to 2,932 thousand euros.

During H12006, the average number of employees in the Group was 430 (398) and the cost of wages was 2,699 (2,214) thousand euros, including 1,407 (1,152) thousand euros in Q2 2006. In Q2 2006, the average number of employees in the Group was 439 (403). 518 (450) thousand euros of capital asset consumption was included in costs; growth, in comparison with the previous year, was 15.7 %, including 262 (230) thousand euros in Q2 2006; growth – 13.8 %. As a result of the increase in the number of employees and adjustment of salaries, marketing costs have increased within the first six month by 17.1 % to 789 (674) thousand euros, including by 430 (348) thousand euros in Q2 2006 and general administrative costs increased by 9.7 % to 1,250 (1,139) thousand euros, including by 679 (625) thousand euros in Q2 2006, remaining below the increase in turnover.

The commercial profit for Q2 2006 was 758 (580) thousand euros; growth of 30.6 %. The turnover profitability was 6.9 % (7.7 %). The commercial profit for the half-year was 1,267 (1,016) thousand euros and a growth of 24.7 % in comparison with the previous year. The turnover profitability amounted to 6.7 % (6.9 %).

In Q2 2006, a dividend income in the amount of 810 (372) thousand euros was drawn, and consolidated profit in the amount of 64 (-10) thousand euros was drawn from subsidiaries. The Group's pre-tax profits for Q2 2006 totalled 1,605 (911) thousand euros. The corporate income tax was 393 (186) thousand euros in Q2 2006. The payment of dividends gave rise to an income tax liability of 345 (182) thousand euros. The consolidated net profit for Q2 2006 was 1,212 (725) thousand euros, of which the share belonging to the owners of the parent company totalled 1,110 (710) thousand euros, and net profit per share amounted to 0.07 (0.04) euros. The consolidated net profit of H1 2006 was 2,101 (1,143) thousand euros, which was influenced by a dividend income 2.2 times greater in Q2 2006 and a single financial benefit drawn from the shares of PKC Group Oy of 333 thousand euros in Q1 2006. In H1 2006, profit exceeding that of a year ago, by 148 thousand euros, was consolidated within a period of 6 months from related companies. The corporate income tax was 408 (194) thousand euros due to an increase in income tax paid on dividends.

Altogether, the consolidated profit after tax of H1 2006 totalled 2,101 (1,143) thousand euros of which the share belonging to the owners of the parent company was 1,993 (1,103) thousand euros and the net profit per share was 0.12 (0.07) euros.

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

During the first 6 months, cash flow from business activities was 664 (1,463) thousand euros, cash flow from investment activities was 91 (-1,723) thousand euros and from financing activities -1,727 (into 183) thousand euros. Cash and cash equivalents decreased in H1 2006 by -972 (-77) thousand euros.

In Q2 2006, the Group bought the assets and liabilities, or the net assets, of the Finnish company Finoval. The Group paid 390 thousand euros for the net assets. At the time of purchase, the enterprise had 25 thousand euros in its bank account. Consequently, as the result of this transaction, the cash flow out of the Group was 365 thousand euros. In order to buy Finoval Oy, the Group sold 30,000 shares in Q1 2006. A total of 359 thousand euros was received from the sale.

During the accounting period, the Group invested 24 (166) thousand euros in real estate, 1,062 (1,613) thousand euros in tangible assets, and 147 (5) thousand euros in intangible assets, totalling 1,233 (1,784) thousand euros. The investments were allocated as follows: 132 (166) thousand euros were spent on the purchase of land, 457 (1,291) thousand euros were spent on the reconstruction and purchase of production buildings and 482 (249) thousand euros were spent on equipment. In order to improve and increase production capacity, a new painting line was purchased for the Group. The installation of the appliance commenced in June. The total cost of the project is 447 thousand euros. In Q2 2006, 133 thousand euros of the cost of the appliance was paid.

In order to finance the new paint line, the Group took a long-term loan of 447 thousand euros from a bank. In order to guarantee the loan, 46 thousand shares of PKC Group Oy were mortgaged to the bank. In H1 2006, the Group repaid a long-term bank loan in the amount of 280 (220) thousand euros, a short-term loan in the amount of 97 thousand euros and long-term capital rent payments in the amount of 46 (73) thousand euros. In Q2 2006, the Group paid dividends in the amount of 1,751 (1,606) thousand euros, 1,718 (1,575) thousand euros of which was paid to the owners of the parent company.

### ***Balance sheet***

The company's consolidated turnover increased during H1 2006 by 5,377 thousand euros, reaching 49,886 thousand euros.

Cash in bank accounts decreased over a period of 6 months by 972 thousand euros to 684 thousand euros.

An increase in the volume of sales orders gave rise to an 11.9 % increase in reserves, amounting to 4,928 thousand euros, mainly on account of the reserves of ready-to-use products and intermediate products, and it also gave rise to an increase in suppliers' arrears on the customers' and liability side by 1,540 thousand euros as regards receivables, and by 1,593 thousand euros on the liability side, respectively.

Conversion of vendible financial assets into a fair value was the main reason for the increase of assets by 12.1 %. The price of the shares of PKC Group Oy closed on 30 June 2006, at the level of 12.95 euros, showing an increase of 1.06 euros within the quarter and 2.05 euros within the half-year, which is why the balance cost of financial assets increased by 1,908 thousand euros in comparison with Q2 2006, and by 3,690 thousand euros in total, in comparison with the beginning of the year. The book profit generated from the re-valuation of shares was directly reflected in equity capital reserves. Equity capital belonging to the owners of the parent company increased by 3,664 thousand euros in total and amounted to 38,956 thousand euros.

### ***Development***

According to the development principles of Harju Elekter, the objective of the Group is to constantly modernise and develop products that meet customers' needs, and to improve technology. In H12006, a licence for manufacturing the Sivacon 8PT product was purchased. The contract for purchasing the licence was concluded in December 2005. The acquisition cost of the licence was 55 thousand euros.

Harju Elekter Elektrotehnika introduced the first MV secondary distribution unit SM6 into production and sold them, and was focused on developing new solutions regarding LV substations. Both a metal sheet covered substation and a distribution board and switchboard, which were brought into conformity with the new technical requirements of the distribution network, successfully passed tests. In Q2 2006, approval was obtained for the prototypes and production technology for licence products Sivacon 8PT and SM6.

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

Satmatic was focused on the integration of the business activities of Finoval Oy and also the active expansion of its sales activities, through its representative offices in Helsinki, to other regions in Finland, which will increase the clientele of the company and contribute to an increase in its market share. At the same time two projects, financed by funds from the TYKES-development fund, continued to be developed; the first involving an electronic order processing system and the other a logistics project, with a total cost of 45 thousand euros.

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

Development costs totalled 281 (130) thousand euros in H1 2006, including product licences with 55 thousand euros and software licences with 40 thousand euros. Direct expenditures related to the introduction of new products in production were 20 thousand euros, and other current development costs (within general administrative costs) constituted 157 (130) thousand euros.

### *Shares of Harju Elekter*

EUR	1-6/ 2006	2005	1-6/ 2005
Number of the shares ('000)	16,800	16,800	16,800
Nominal value	0.64	0.64	0.64
High price	14.30	9.49	8.25
Low price	8.82	6.70	6.75
Closing price	13.50	9.13	8.20
EPS	0.05	0.16	0.02

**Key indicators**

EUR'000	1-6/ 2006	2005	1-6/ 2005
<b>Accounting period</b>			
Net sales	18,845	32,847	14,649
Operating profit	1,267	2,398	1,016
Net profit	2,101	2,806	1,143
Net profit for the current period (equity holders of the parents)	1,993	2,662	1,104
<b>At the end of the period</b>			
Total current assets	11,697	10,457	8,808
Total non-current assets	38,189	34,052	33,333
Total assets	49,886	44,509	42,141
Total liabilities	9,833	8,186	8,165
Total equity	40,053	36,323	33,976
Inclusive equity attributable to equity holders of the parent	38,956	35,292	33,049
<b>Performance indicators (%)</b>			
Growth in revenue	28.6	13.3	21.1
Operating profit growth	24.7	20.1	59.8
Net profit growth (Equity holders of the parent)	80.6	-25.9	-74.0
Return of sales (operating profit/revenue *100)	6.7	7.3	6.9
Net profit margin (net profit /net sales *100)	10.6	8.1	10.6
Owners' equity margin (equity / balance sheet total *100)	78.1	79.3	78.4
<b>Employees</b>			
Average number of employees on the current period	430	412	398
Number of employees on	448	425	413



## INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

€000*	Note	2006	2005
		At 30 June	At 31 December
<b>Assets</b>			
Cash and cash equivalents		684	1,658
Trade receivables		5,659	4,119
Other receivables and prepayments		426	278
Inclusive income tax		1	1
Inventories		4,928	4,402
<b>Total current assets</b>		<b>11,697</b>	<b>10,457</b>
Investments in associates		1,644	1,583
Other long-term financial investments		23,313	19,947
Investment property	2	7,565	7,901
Property, plant and equipment	2	5,448	4,521
Intangible assets	2	219	100
<b>Total non-current assets</b>		<b>38,189</b>	<b>34,052</b>
<b>TOTAL ASSETS</b>		<b>49,886</b>	<b>44,509</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	3	1,011	1,407
Advances from customers		244	611
Trade payables		4,269	2,676
Tax liabilities		643	596
Inclusive income tax		15	19
Accrued expenses		933	913
Other payables		373	73
<b>Total current liabilities</b>		<b>7,473</b>	<b>6,276</b>
<b>Non-current liabilities</b>	3	<b>2,360</b>	<b>1,910</b>
<b>Total liabilities</b>		<b>9,833</b>	<b>8,186</b>
<b>Equity</b>			
Share capital		10,737	10,737
Share premium		384	384
Reserves		22,315	18,926
Retained earnings		5,520	5,245
<b>Total equity attributable to equity holders of the parent</b>		<b>38,956</b>	<b>35,292</b>
<b>Minority interest</b>		<b>1,097</b>	<b>1,031</b>
<b>Total equity</b>		<b>40,053</b>	<b>36,323</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>49,886</b>	<b>44,509</b>

**CONSOLIDATED INCOME STATEMENT**

€000	Note	For period 4-6 ended 30 June		For period 1-6 ended 30 June	
	no	2006	2005	2006	2005
Revenue	4	10,926	7,490	18,845	14,649
Cost of sales		-9,088	-5,945	-15,561	-11,825
<b>Gross profit</b>		<b>1,838</b>	<b>1,545</b>	<b>3,284</b>	<b>2,824</b>
Distribution costs		-430	-348	-789	-674
Administrative expenses		-679	-625	-1,250	-1,139
Other income		35	25	38	32
Other expenses		-6	-17	-16	-27
<b>Operating profit</b>	4	<b>758</b>	<b>580</b>	<b>1,267</b>	<b>1,016</b>
Net financing income/costs	5	783	341	1,097	324
Income from associated companies		64	-10	145	-3
<b>Profit before tax</b>		<b>1,605</b>	<b>911</b>	<b>2,509</b>	<b>1,337</b>
Allocation of corporate income tax to relevant periods		-393	-186	-408	-195
<b>Profit for the period</b>		<b>1,212</b>	<b>725</b>	<b>2,101</b>	<b>1,143</b>
<b>Attributable to:</b>					
Minority interests		102	15	108	39
Equity holders of the parent	6	1,110	710	1,993	1,104
Basic and diluted earnings per share for profit attributable to equity holders of the parent (in €)	6	0.07	0.04	0.12	0.07

**CONSOLIDATED CASH FLOW STATEMENT**

<b>For the period 1-6 ended 30 June</b>		€000	
	Note	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>			
Operating profit	4	1,267	1,016
<u>Adjustments for:</u>			
Depreciation and amortisation	2	518	450
Gain on sale of property, plant and equipment		-25	-3
Change in receivables related to operating activity		-1,974	-146
Change in inventories		-526	103
Change in payables related to operating activity		1,875	299
Corporate income tax paid		-416	-199
Interest paid		-55	-57
<b>Net cash from operating activities</b>		<b>664</b>	<b>1,463</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		-945	-2,018
Proceeds from sale of property, plant and equipment		29	3
Acquisition of investment property		-24	-166
Acquisition of intangible assets		-147	-5
Acquisition of other financial investments		-2	0
Proceeds from sale of other financial investments		359	0
Loans given		-1	-1
Repayment of loans given		1	2
Interest received		11	7
Dividends received		810	455
<b>Net cash used in investing activities</b>		<b>91</b>	<b>-1,723</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		447	2,086
Repayment of borrowings	3	-377	-224
Payment of finance lease principal	3	-46	-73
Dividends paid		-1,751	-1,606
<b>Net cash used in financing activities</b>		<b>-1,727</b>	<b>183</b>
<b>Net cash flows</b>		<b>-972</b>	<b>-77</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,658</b>	<b>1,201</b>
Net increase / decrease		-972	-77
Effect of exchange rate fluctuations on cash held		-2	-2
<b>Cash and cash equivalents at end of period</b>		<b>684</b>	<b>1 122</b>

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

€000	Attributable to equity holders of the parent							Minority	
1-6/2005	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	Total	interest	TOTAL	
Balance at 31 December 2004	3,579	384	550	17,468	11,316	<b>33,297</b>	919	<b>34,216</b>	
Profit for period	0	0	0	0	1,104	<b>1,104</b>	39	<b>1,143</b>	
Income recognised directly in equity	0	0	0	223	0	<b>223</b>	0	<b>223</b>	
Total income for period	0	0	0	223	1,104	<b>1,327</b>	39	<b>1,366</b>	
Dividends	0	0	0	0	-1,575	<b>-1,575</b>	-31	<b>-1,606</b>	
Bonus issue	7,158	0	0	0	-7,158	<b>0</b>	0	<b>0</b>	
<b>Balance at 30 June 2005</b>	<b>10,737</b>	<b>384</b>	<b>550</b>	<b>17,691</b>	<b>3,687</b>	<b>33,049</b>	<b>927</b>	<b>33,976</b>	
1-6/2006									
Balance at 31 December 2005	10,737	384	550	18,376	5,245	<b>35,292</b>	1,031	<b>36,323</b>	
Profit for period	0	0	0	0	1,993	<b>1,993</b>	108	<b>2,101</b>	
Income recognised directly in equity	0	0	0	3,389	0	<b>3,389</b>	0	<b>3,389</b>	
Total income for period	0	0	0	3,389	1,993	<b>5,382</b>	108	<b>5,490</b>	
Dividends	0	0	0	0	-1,718	<b>-1,718</b>	-42	<b>-1,760</b>	
<b>Balance at 30 June 2006</b>	<b>10,737</b>	<b>384</b>	<b>550</b>	<b>21,765</b>	<b>5,520</b>	<b>38,956</b>	<b>1,097</b>	<b>40,053</b>	

## NOTES TO INTERIM FINANCIAL STATEMENT

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

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

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

According to the assessment of the management board, the interim report for 1-6/2006 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the group.

The presentation currency is the Estonian kroon (EEK). The financial statements of AS Harju Elekter are presented in thousands kroons (EEK), rounded to the nearest thousand. 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 – 30 June €000	Property, plant and equipment		Investment property		Intangible assets	
	2006	2005	2006	2005	2006	2005
<b>At beginning of period</b>	<b>4,521</b>	<b>5,531</b>	<b>7,901</b>	<b>5,553</b>	<b>100</b>	<b>125</b>
Additions	1,062	1,613	24	166	147	5
Transfer from investment property	224	-2,097	-224	2,097	0	0
Disposals at acquisition value	-32	-4	0	0	0	0
Amortisation charge for the period	-354	-322	-136	-103	-28	-25
Disposals	27	4	0	0	0	0
<b>Final balance at the end of the current period</b>	<b>5,448</b>	<b>4,725</b>	<b>7,565</b>	<b>7,713</b>	<b>219</b>	<b>105</b>

**Note 3 Debt liabilities**

€000	At 30 June 2006	At 31December 2005	At 30 June 2005
Short-term loans	661	758	932
Repayment of long-term leasing oblig. during the next period	307	560	280
Repayments of long-term lease in next period	43	89	58
<b>Total current liabilities</b>	<b>1,011</b>	<b>1,407</b>	<b>1,270</b>
Long-term bank loans	2,240	1,820	2,380
Long-term lease payables	90	90	222
Other long term liabilities	30	0	0
<b>Total long term liabilities</b>	<b>2,360</b>	<b>1,910</b>	<b>2,602</b>
<b>Total debt liabilities</b>	<b>3,371</b>	<b>3,317</b>	<b>3,872</b>

Changes in debt obligations:

€000	1-6/2006	1-6/2005
<b>Initial balance 31.12.</b>	<b>3,317</b>	<b>2,028</b>
Changes in short-term loans	-97	376
Received long-term loans	447	1 710
Long-term loan repaid	-280	-224
New leasing obligations	0	55
New long-term lease liabilities	-46	-73
Non-current liabilities for tangible assets	30	0
<b>Final balance 30.06.</b>	<b>3,371</b>	<b>3,872</b>

In Q2 2006, the Group raised a long-term loan of 447 thousand euros from a bank, for the purchase of a new paint line. The first repayment of the loan is in September 2006, and the last repayment is in August 2011. The repayments are made once per month and the annual interest is 4.32 %.

**Note 4 Segment reporting**

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

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

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

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

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

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

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

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

EUR'000 For period ended 30 June	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers	9,411	9,639	6,241	3,517	3,193	1,493	0	0	18,845	14,649
Inter-segment revenue	599	389	2	1	19	4	-620	-394	0	0
<b>Total revenue</b>	<b>10,010</b>	<b>10,028</b>	<b>6,243</b>	<b>3,518</b>	<b>3,212</b>	<b>1,497</b>	<b>-620</b>	<b>-394</b>	<b>18,845</b>	<b>14,649</b>
Segment result	945	1 020	67	-38	254	75	0	-40	1,267	1,016

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

For the period 1-6 ended 30 June	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Estonia	7,461	7,895	2	1	32	3	-21	-4	7,474	7,895
Finland	2,212	1,790	6,174	3,513	0	0	-534	-338	7,852	4,965
Lithuania	83	79	0	0	2,914	1,338	-65	-52	2,932	1,365
Other Europe	146	168	17	4	266	149	0	0	429	321
Other	75	74	50	0	0	0	0	0	125	74
Russia	33	22	0	0	0	7	0	0	33	29
<b>Total</b>	<b>10,010</b>	<b>10,028</b>	<b>6,243</b>	<b>3,518</b>	<b>3,212</b>	<b>1,497</b>	<b>-620</b>	<b>-394</b>	<b>18,845</b>	<b>14,649</b>

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

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

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

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

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

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

Commercial segment revenue in areas of activity:

€000	Revenue		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005
For the period 1-6 ended 30 June						
Manufacturing	15,632	11,899	-78	-139	15,554	11,760
Real estate	1,410	1,171	-348	-269	1,062	902
Trade	1,789	1,366	-15	-19	1,774	1,347
Unallocated	665	788	-210	-148	455	640
<b>Total revenue</b>	<b>19,496</b>	<b>15,224</b>	<b>-651</b>	<b>-575</b>	<b>18,845</b>	<b>14,649</b>

#### Note 5 Net financing income/costs

€000	1-6/ 2006	1-6 / 2005
Interest charges	-53	-50
Interest return	9	4
Dividend income	810	372
Net exchange profit (+)/loss (-)	-2	-2
<i>Marketable investments:</i>		
Income from sale of investments	333	0
<b>TOTAL</b>	<b>1,097</b>	<b>324</b>



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

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

		<b>1-6/ 2006</b>	<b>1-6/2005</b>
Profit attributable to equity holders of the parent	€000	1,993	1,104
Average number of shares outstanding during the period	'000	16,800	16,800
Basic and diluted earnings per share	€	0.12	0.07

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

**Note7 Business combinations**

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

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

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

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

**Note 8 Transactions with related parties**

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

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

€000	<b>1-6/ 2006</b>		<b>1-6/ 2005</b>	
	<b>Bought</b>	<b>Sold</b>	<b>Bought</b>	<b>Sold</b>
Associated companies	419	419	367	394
Harju KEK	8	0	2	3
Total	427	419	369	397
<i>Inclusive:</i>				
Goods and materials	411	39	360	11
Industrial subcontracting (outsourcing)	3	4	0	0
Lease of fixed assets	3	220	0	217
Management services	0	113	0	105
Other services	10	43	9	64

Balance with related parties:

	Claims		Obligations	
	30.06.06	31.12.05	30.06.06	31.12.05
With associated companies: goods and services	260	182	267	37
dividends	84	0	0	0

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

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

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

Approval of the Interim report 1-6/2006 as of June 30, 2006 by the Management Board members:

**Management Board**

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