



AS HARJU ELEKTER

Interim report 1-12/ 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 Baltics AS
Beginning of the reporting period:	1 st of January 2006
End of the reporting period:	31 st of September 2006

The interim report of Harju Elekter Group on 20 pages

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

In interim report for 12 M 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 30.09.2006, Harju Elekter owns significant holdings in the following commercial undertakings:

Ownership			31.12.06	31.12.05
AS Eltek	subsidiary	Estonia	100.0%	100.0%
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	100.0%	100.0%
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	10.1%	10.3%

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 November 2006, the Group's subsidiary Rifas UAB (Lithuania) sold its holding of 50.26% in Biržu Montuotojas UAB, a subsidiary company operating in the construction segment. Data concerning the assets and liabilities, revenue, expenditure and cash flow are included in the Group's consolidated accounts until October 31, 2006. The sale of the subsidiary company has little effect on the financial reports of the Group.

Economic environment

The overall global economy is characterised, above all, by the deceleration of economic growth and reduction of inflation both in the US and Europe, as the price of oil has dropped. The reason for this has been the good weather in the Northern hemisphere which has stayed comparatively warm until recently, and the somewhat modest economic developments in the US. Global economic growth reached its peak in the first half of the previous year. Thereafter it started to slow down gradually and this process is ongoing.

According to analysts, Europe's economic growth for the second half-year turned out to be comparatively stronger than predicted; Germany yielded the most pleasant surprise with its good results. The most significant economic developments for the Baltic countries are those of Germany, Sweden and Finland.

Even though final results for the year 2006 have not yet been determined, analysts claim that the past year was extremely successful for the three Baltic countries: Estonia and Latvia reached the highest economic growth in recent years (expectations were 11.2% and 11.5% respectively) and the economy in Lithuania thrived as well (7.4% according to the preliminary data). The economic growth was based

primarily on domestic demand: both private consumption and investments have been thriving. A considerable shift has taken place in the labour market and also in consumption: the fast increase in employment together with the decreasing labour pool brought about a rapid growth in salaries. The expenditures by families increased remarkably due to growing incomes and favourable loan opportunities, which gave corresponding benefits to both local producers and importers. The financial situation of enterprises has improved significantly, enabling expansion and an increase in production. Meanwhile the growing labour shortage and inflation increases the need for investments in order to modernise the production process.

During the second half of the year economic growth in Estonia started to show signs of deceleration. Increase in domestic demand reached 16.1%, having received the largest impetus from investments. Growth in employment and salaries contributed to a 16.4% increase in private consumption. In the last quarter of the year there were no substantial shifts in comparison with the previous period – due to warm weather construction activities continued on a higher level than the usual. Growth in industrial production continued to decelerate due to the negative influence of energetics (warm weather) and some domains of mechanical engineering. In the real estate sector the continuing decrease in activity is impeding the growth of 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 5th to the 8th of April, the company's subsidiary Harju Elekter Elektrotehnika took part in an energy fair, Enerex 2006, where a Sivacon distribution board and MV switchgear HE SM6, prepared on the basis of a licence agreement, were presented as well as other energy sector products.

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.

On 1 September, AS Harju Elekter, the leading Latvian manufacturer of electrical equipment A/S Jauda and other Latvian undertakings, signed the memorandum of association of the joint enterprise SIA Energokompleks. The launch of a sales organisation allows for joint participation in invitations to tender for medium and low voltage equipment in Latvia, as well as elsewhere. Closer cooperation makes a broader range of products available to customers and provides sufficient resources for fulfilling large orders. Harju Elekter holds 10% of the company.

In 15th December, the Lithuanian Industry Association announced the nominees for "Successful Enterprise 2006". Rifas, a subsidiary of Harju Elekter, was awarded this title for modernisation of production, remarkable and safe production conditions, and expansion of the product range and markets in the category of medium-sized enterprises. In total, more than 900 Lithuanian enterprises participated in the competition and 15 of them were presented awards in the given category.

Operating results

The consolidated sales revenue of the IV quarter of 2006 was TEUR 10682 (9907) and this year's increase over last year's figures was 7.8%.

The strongest contribution to the sales revenue originated from the enterprises in the Estonian segment. In the IV quarter the total sales revenue for Estonian businesses, derived from clients outside the Group, increased by TEUR 850, reaching TEUR 5688, providing 53.3% (48.9%) of the consolidated sales revenue in the IV quarter. The main reasons for this growth are the sale of kiosk substations and primary distribution switch gears for medium voltage networks on the home market. Compared to the same period in 2005, sales of substations increased by TEUR 505 and sales of primary distribution switchgears for MV networks increased by TEUR 319. Due to warm weather in the last quarter of the year, construction activities continued on a higher level than usual, and guaranteed an increase in domestic demand. In the IV quarter, as compared to the same period last year, sales to retail clients and electric installation companies in Estonia increased by TEUR 255, reaching TEUR 1195 (940), which accounts for 11.2% (9.5%) of the consolidated sales revenue in the last quarter. In conclusion, sales to the Estonian market in the last quarter of the year increased by TEUR 1003 or 25.9%.

In 2006 the consolidated sales revenue of the Group was TEUR 39759 (32847), having increased by 21.0% or TEUR 6912 compared to the same period last year.

In 2006 the largest contribution to the growth in sales revenue came from the Finnish segment. The sales revenue of Satamatic Oy was TEUR 12663, a growth of TEUR 3735 compared to the previous year. Growth in the respective sector of the economy, and excellent work by the sales team, offered considerable support to the increase in turnover, resulting in the enterprise becoming a well-known and accepted producer of electrical appliances in Finland. Growth of orders to the export enterprises in Finland from foreign markets, and deliveries to the shipbuilding industries, facilitated the increase in turnover. The proportion of the project sales product in the sales portfolio of the company, which requires greater significant know-how from the company and pays off better, increased as well. The purchase of a manufacturing plant in April 2006 in Kerava, near Helsinki, also had a certain impact in the growth of sales revenue. In Kerava the production of electrical appliances continued, which helped to generate increasing sales of the Group in the Helsinki region. The purchase of the plant facilitated better service to clients in the Helsinki region, this in turn lead to an expansion of the market share in Finland. Within the first nine months of 2006, the purchased production unit generated incremental sales revenue of TEUR 217.

In 2006, the largest relative increase in sales revenue (75.5%) originated in the Lithuanian segment. The revenue of the enterprises in Lithuania, which came from clients outside the Group, increased by TEUR 3123 and reached TEUR 7259. The activity of the subsidiary Rifas benefited from the growing economy in Lithuania, and also from excellent work by the sales team, together with successful general contracting projects within several major projects, like the water purification station in Panevėžys and the chipboard plant in Kazlu Ruda.

In the accounting year, the dominating markets were the domestic markets of the Group's enterprises. The Estonian market accounted for 40.9 % (48.9%), the Finnish market for 39.4% (36.7%), and Lithuanian market for 16.1% (11.1%), while other markets accounted for 3.6% (3.3%) of the consolidated sales revenue.

In the IV quarter the average number of employees in the Group was 430 (414) and the employment expenses were TEUR 1680 (1553). The average number of employees per year was 439 (412) and the employment expenses were TEUR 5537 (4723). This year the labour costs increased by 19.6%, reaching TEUR 7503 (6276), mainly related to the growth in the number of employees and to wage increases. As of the end of the year there were 427 (425) employees in the Group. In November the subsidiary Rifas UAB (Lithuania) sold its holding of 50.26 % in Biržu Montuotojas UAB, a subsidiary

operating in the construction segment. As of October 31, there were 34 employees in the company. The labour costs of the enterprise are included in the consolidated accounts of the Group until October 31, 2006.

Depreciation of fixed assets was written off in the amount of TEUR 1056 (954), growth compared to last year was 10.7%, including TEUR 275 (262) in the IV quarter. The pre-depreciation operating profit was TEUR 3942 (3352), including TEUR 1074 (830) in the IV quarter.

The operating profit in the IV quarter was TEUR 799 (568) and the growth was 40.7%. The turnover in profitability for the quarter was 7.5% (5.7%). In conclusion, the operating profit for the 12 months was TEUR 2887 (2398) and the growth, compared to the previous year, was 20.4%. The turnover in profitability was 7.3% (7.3%).

The pre-tax profit for the fourth quarter was TEUR 680 (567) and the profit for the 12 months was TEUR 3978 (3042). The dividends, which amounted to 2.2 times the shares of PKC Group Oyj, had the strongest influence on the financial performance of the year. As a consequence of an increase in income tax paid from the dividends, the corporate income tax was TEUR 652 (236).

In conclusion, the consolidated net profit in 2006 was TEUR 3326 (2806), of which the share belonging to the owners of the parent company was TEUR 3022 (2662). The net profit per share was EUR 0,18 (0,16).

Cash flows, investment and financing

During the 12 months, cash flow from business activities was TEUR 2098 (2754), from investment activities was TEUR -1185 (-1892) and from financing activities was TEUR -2137 (-401). Cash and cash equivalents decreased in 12M 2006 by TEUR -1229 (increase 457).

In Q2 2006, the Group bought the assets and liabilities, or the net assets, of the Finnish company Finoval. The Group paid TEUR 390 for the net assets. At the time of purchase, the enterprise had TEUR 25 in its bank account. Consequently, as the result of this transaction, the cash flow out of the Group was TEUR 365. In order to buy Finoval Oy, the Group sold 30,000 shares of PKC Group Oyj in Q1 2006. A total of TEUR 360 was received from the sale.

In November 2006, the subsidiary Rifas UAB (Lithuania) sold its holding of 50.26 % in Biržu Montuotojas UAB, a subsidiary operating in the construction segment. The control over the activity of the enterprise ceased on October 31, 2006. Data concerning cash flow are included in the consolidated accounts of the Group until October 31, 2006. The sale of the holding brought in TEUR 62. As of October 31, there were TEUR 53 in the bank account of the enterprise, net cash flow being TEUR 9. The sale of the company had little effect on the cash flow of the Group.

During the first 12 months, the Group invested TEUR 666 (1535) in real estate, TEUR 1754 (721) in tangible assets, and TEUR 170 (25) in intangible assets, totalling TEUR 2590 (2281). The investments were allocated as follows: TEUR 211 (166) was spent on the purchase of land, TEUR 1124 (1432) was spent on the reconstruction and purchase of production buildings and TEUR 1029 (249) was spent on equipment. In order to improve and increase production capacity, a new painting line was purchased for the Group. The installation of the appliance commenced in June. The total cost of the project is TEUR 447.

In order to finance the new paint line, the Group took a long-term loan of TEUR 447 from a bank. In order to guarantee the loan, 46 thousand shares of PKC Group Oy were mortgaged to the bank. Within a year, the Group has repaid TEUR 587 (504) of long-term loans, TEUR 138 of short-term loans (loan commitments increased by TEUR 203) and TEUR 99 (203) of long-term financial lease payables. In

Q2 2006, the Group paid dividends in the amount of TEUR 1760 (1607); TEUR 1706 (1572) of which was paid to the owners of the parent company.

Balance sheet

The company's balance sheet total increased during 12M 2006 by TEUR 3919, reaching TEUR 48428.

Cash in bank accounts decreased over a period of 12 months by TEUR 1229 to TEUR 429.

An increase in the volume of sales orders gave rise to an 10,4% increase in reserves, amounting to TEUR 5052, 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 TEUR 908 as regards receivables, and by TEUR 712 on the liability side, respectively. In total, current assets increased by TEUR 367 to TEUR 10824, and current liabilities increased by TEUR 537 to TEUR 6813 since the beginning of the year. Interest-bearing debt obligations have decreased by TEUR 262 during the year.

Fixed assets account for 77.7% (76.5%) of the balance sheet total, growing by TEUR 3552 during the year and reaching TEUR 37604. In 2006 the Group invested TEUR 2590 (2281) in fixed assets. The change in the market price of the shares of PKC Group Oyj had a strong influence as well. The price of the shares of PKC Group Oy closed on 31 December 2006, at the level of EUR 12.24 (EEK 191.51), showing an increase of EUR 1.34 (EEK 20.97) within the year 2006, which was the reason that accounting cost for financial assets increased EUR 2409 during the year and reached TEUR 22030. Unrealised profit from the revaluation of the shares was reflected directly in the equity capital and reserves. The equity capital belonging to the parent undertaking increased by TEUR 3415 and reached TEUR 38707.

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. Harju Elekter Elektrotehnika introduced the first LV distribution unit Sivacon 8PT and 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 new licence products and production technology.

In order to ensure an adequate production capacity and to improve the quality of metal products and details, the Group purchased a new powder painting line, which construction and installation works completed in September 2006 and the processing centre for current poles which was put into service in the IV quarter.

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. 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.

In 2006, re-certification audits of the quality management system (ISO 9001) and environmental management system (ISO14001) were conducted in and passed by the Group's enterprises.

Development costs totalled TEUR 492 (364) in 12 months, including product licences with TEUR 58 (19) and software licences with TEUR 89 (19). Direct expenditures related to the introduction of new

products in production were TEUR 19 (6), and other current development costs (within general administrative costs) constituted TEUR 326 (320).

Supervisory and management boards

The Supervisory Board of Harju Elekter consists of five members. The Chairman of the Supervisory Board is Endel Palla, who works also as the R&D Manager at AS Harju Elekter. Other memmbers are: Ain Kabal (president of EVEA), Lembit Kirsme (Chairman of the Supervisory Board of AS Harju KEK), Madis Talgre (Chairman of the Management Board of AS Harju KEK) and Triinu Tombak (financial consultant). The specialists on the supervisory board represent the fields of competence relevant to the activities of the Group. There were no changes in the membership of the Board of Harju Elekter AS within the year.

The Management Board of AS Harju Elekter consist three members. The Chairman of the Management Board is Andres Allikmäe and members: Karin Padjus (Financial Director) and Lembit Libe (Chief Economist). All membrs of the Management Board belong to the executive management of the company. The Chairman of the Board is eligible for membership remuneration; the members of the Board do not receive any remuneration.

The amount of remuneration and salaries paid to the members of the Supervisory and Management Boards of AS Harju Elekter in 2006 amounted to a total of TEUR 211 (205). The company has no obligation to pay any compensation when the contract of service of a member of the Supervisory or Management Board members expires or is prematurely terminated. A contract of service is concluded with the Chairman of the Board, determining social guarantees when leaving the position.

Shares of Harju Elekter

For the year ended 31. December

EUR	2006	2005
Number of the shares ('000)	16,800	16,800
Nominal value	0.64	0.64
High price	4.44	9.49
Low price	3.30	6.70
Closing price	4.15	9.13
EPS	0.18	0.16

Key indicators

EUR'000	2006	2005
Accounting period		
Net sales	39,759	32,847
Operating profit	2,887	2,398
Net profit	3,326	2,806
Net profit for the current period (equity holders of the parents)	3,022	2,662

At the end of the period

Total current assets	10,824	10,457
Total non-current assets	37,604	34,052
Total assets	48,428	44,509
Total liabilities	8,543	8,186
Total equity	39,885	36,323
Inclusive equity attributable to equity holders of the parent	38,707	35,292

	2006	2005
Performance indicators (%)		
Growth in revenue	21.0	13.3
Operating profit growth	20.4	20.1
Net profit growth (Equity holders of the parent)	13.5	-25.9
Return of sales (operating profit/revenue *100)	7.3	7.3
Net profit margin (net profit /net sales *100)	7.6	8.1
Owners' equity margin (equity / balance sheet total *100)	79.9	79.3

Employees

Average number of employees on the current period	439	412
Number of employees on	427	425

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

€000*	Note	2006	2005
Assets		At 31 December	At 31 December
Cash and cash equivalents		429	1,658
Trade receivables		5,027	4,119
Other receivables and prepayments		316	278
Inclusive income tax		0	1
Inventories		5,052	4,402
Total current assets		10,824	10,457
Investments in associates		1,610	1,583
Other long-term financial investments		22,042	19,947
Investment property	2	8,134	7,901
Property, plant and equipment	2	5,602	4,521
Intangible assets	2	216	100
Total non-current assets		37,604	34,052
TOTAL ASSETS		48,428	44,509
Liabilities			
Interest-bearing loans and borrowings	3	1,326	1,407
Advances from customers		125	611
Trade payables		3,388	2,676
Tax liabilities		791	596
Inclusive income tax		153	19
Accrued expenses		1,091	913
Other payables		92	73
Total current liabilities		6,813	6,276
Non-current liabilities	3	1,730	1,910
Total liabilities		8,543	8,186
Equity			
Share capital		10,737	10,737
Share premium		384	384
Reserves		21,190	18,926
Retained earnings		6,396	5,245
Total equity attributable to equity holders of the parent		38,707	35,292
Minority interest		1,178	1,031
Total equity		39,885	36,323
TOTAL LIABILITIES AND EQUITY		48,428	44,509

CONSOLIDATED INCOME STATEMENT

€000	Note no	For period 10-12 ended 31 December		For the year ended 31 December	
		2006	2005	2006	2005
Revenue	4	10,682	9,907	39,759	32,847
Cost of sales		-8,647	-8,144	-32,605	-26,492
Gross profit		2,035	1,763	7,154	6,355
Distribution costs		-525	-490	-1,736	-1,544
Administrative expenses		-684	-696	-2,524	-2,392
Other income		1	12	43	38
Other expenses		-28	-21	-50	-59
Operating profit	4	799	568	2,887	2,398
Net financing income/costs	5	-84	-25	980	565
Income from associated companies		-35	24	111	79
Profit before tax		680	567	3,978	3,042
Allocation of corporate income tax to relevant periods		-181	-34	-652	-236
Profit for the period		499	533	3,326	2,806
Attributable to:					
Minority interests		92	74	304	144
Equity holders of the parent	6	407	459	3,022	2,662
Basic and diluted earnings per share for profit attributable to equity holders of the parent (in €)	6	0.04	0.03	0.18	0.16

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December		€000	
	Note	2006	2005
Cash flows from operating activities			
Operating profit	4	2,887	2,398
<u>Adjustments for:</u>			
Depreciation and amortisation	2	1,056	954
Gain on sale of property, plant and equipment		-24	-9
Change in receivables related to operating activity		-1,333	-864
Change in inventories		-726	-59
Change in payables related to operating activity		878	664
Corporate income tax paid		-516	-215
Interest paid		-124	-115
Net cash from operating activities		2,098	2,754
Cash flows from investing activities			
Acquisition of property, plant and equipment		-1,651	-1,128
Proceeds from sale of property, plant and equipment		30	24
Acquisition of investment property		-666	-1,535
Acquisition of intangible assets		-170	-43
Acquisition of other financial investments		-12	0
Proceeds from sale of other financial investments		377	320
Loans given		-4	-1
Repayment of loans given		1	2
Interest received		16	14
Dividends received		894	455
Net cash used in investing activities		-1,185	-1,892
Cash flows from financing activities			
Proceeds from borrowings		447	1,913
Repayment of borrowings	3	-725	-504
Payment of finance lease principal	3	-99	-203
Dividends paid		-1,760	-1,607
Net cash used in financing activities		-2,137	-401
Net cash flows		-1,224	461
Cash and cash equivalents at beginning of period		1,658	1,201
Net increase / decrease		-1,224	461
Effect of exchange rate fluctuations on cash held		-5	-4
Cash and cash equivalents at end of period		429	1,658

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

€000	Attributable to equity holders of the parent							Minority	
1-12/2005	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	33,297	919	34,216	
Profit for 2005	0	0	0	0	2,662	2,662	144	2,806	
Income recognised directly in equity	0	0	0	908	0	908	0	908	
Total income for 2005	0	0	0	908	2,662	3,570	144	3,714	
Dividends	0	0	0	0	-1,575	-1,575	-32	-1,607	
Bonus issue	7,158	0	0	0	-7,158	0	0	0	
Balance at 31 December 2005	10,737	384	550	18,376	5,245	35,292	1,031	36,323	
1-12/2006									
Balance at 31 December 2005	10,737	384	550	18,376	5,245	35,292	1,031	36,323	
Profit for 2006	0	0	0	0	3,022	3,022	304	3,326	
Income recognised directly in equity	0	0	0	2,111	0	2,111	0	2,111	
Total income for 2006	0	0	0	2,111	3,022	5,133	304	5,437	
Dividends	0	0	0	0	-1,718	-1,718	-42	-1,760	
Capital reserve	0	0	153	0	-153	0	0	0	
Change in minority share due to sale of holding	0	0	0	0	0	0	-115	-115	
Balance at 31 December 2006	10,737	384	703	20,487	6,396	38,707	1,178	39,885	

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 30.09.2006 includes AS Harju Elekter and its subsidiaries AS Harju Elekter 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 31.12.2005 except the presentation of financial information of segments (see below).

According to the assessment of the management board, the interim report for 1-12/2006 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the group.

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

Changes in segment reporting

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

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

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

For the year ended 31 December €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	1,754	721	666	1,535	170	25
Transfer from investment property	138	-871	-138	871	0	0
Disposals at acquisition value	-411	-82	0	0	-3	0
Amortisation charge for the period	-707	-668	-295	-236	-54	-50
Disposals	307	68	0	0	3	0
Final balance at the end of the current period	5,602	4,699	8,134	7,723	216	100

Note 3 Debt liabilities

€000	At 31 December 2006	At 31 December 2005
Short-term loans	620	758
Repayment of long-term leasing oblig. during the next period	643	560
Repayments of long-term lease in next period	63	89
Total current liabilities	1,326	1,407
Long-term bank loans	1,597	1,820
Long-term lease payables	103	90
Other long term liabilities	30	0
Total long term liabilities	1,730	1,910
Total debt liabilities	3,056	3,317

Changes in debt obligations:

For the year ended 31 December

€000	2006	2005
Initial balance	3,317	2,028
Changes in short-term loans	-138	203
Received long-term loans	447	1,710
Long-term loan repaid	-587	-504
New leasing obligations	86	83
New long-term lease liabilities	-99	-203
Non-current liabilities for tangible assets	30	0
Final balance	3,056	3,317

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 was 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.

For the year ended 31 December

€000	Estonia		Finland		Lithuania		Eliminations		Consolidated	
For the year ended 31 December	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers	19,842	19,787	12,658	8,924	7,259	4,136	0	0	39,759	32,847
Inter-segment revenue	1,632	1,078	5	4	32	27	-1,669	-1,109	0	0
Total revenue	21,474	20,865	12,663	8,928	7,291	4,163	-1,669	-1,109	39,759	32,847
Segment result	1,777	2,068	309	54	801	311	0	-35	2,887	2,398

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

For the year ended 31 December

€000	Estonia		Finland		Lithuania		Eliminations		Consolidated	
For the year ended 31 December	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Estonia	16,241	16,048	5	4	48	27	-37	-31	16,257	16,048
Finland	4,410	4,098	12,593	8,895	0	0	-1,351	-932	15,652	12,061
Lithuania	344	206	0	0	6,354	3,569	-281	-146	6,417	3,629
Other Europe	329	305	16	29	512	553	0	0	857	887
Other	150	208	49	0	377	14	0	0	576	222
Total	21,474	20,865	12,663	8,928	7,291	4,163	-1,669	-1,109	39,759	32,847

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

As of 31 December 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 year ended 31 December						
Manufacturing	32,697	26,704	-298	-485	32,399	26,219
Real estate	2,812	2,563	-713	-589	2,099	1,974
Trade	4,081	3,168	-25	-32	4,056	3,136
Unallocated	1,682	1,930	-477	-412	1,205	1,518
Total revenue	41,272	34,365	-1,513	-1,518	39,759	32,847

Note 5 Net financing income/costs

€000	2006	2005
For the year ended 31 December		
Interest return	14	15
Interest charges	-124	-111
Dividend income	810	372
Income from sale of investments	340	293
Net exchange profit (+)/loss (-)	-5	-4
Loss resulting from the sale of holding	-55	0
TOTAL	980	565

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.

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

For the year ended 31 December		2006	2005
Profit attributable to equity holders of the parent	€000	3,022	2,662
Average number of shares outstanding during the period	'000	16,800	16,800
Basic and diluted earnings per share	€	0.18	0.16

Note 7 Business combinations**Purchase of production unit**

In April, the Group purchased a company near Helsinki, Finoval OY, which was then merged with the Finnish subsidiary enterprise Satamatic Oy. Data concerning assets and liabilities of the purchased company are included in the consolidated accounts of the Group from 1 April 2006. The original currency of the transaction was the Euro. Pursuant to the purchase and sale contract, TEUR 30 are due within two years and the liabilities are shown in the balance under *Long-term liabilities*.

Sale of subsidiaries

In November 2006, the Group's subsidiary Rifas UAB (Lithuania) sold its holding of 50.26% in Biržu Montuotojas UAB, a subsidiary operating in the construction segment. Data concerning the assets and liabilities, revenue, expenditure and cash flow are included in the Group's consolidated accounts until October 31, 2006.

Influence of purchase and sale to the Group's assets, liabilities and cash flow

EUR`00	Sale of subsidiary		Purchase of
	31.10.2006	31.12.2005	production unit 31.03.2006
Cash and cash equivalents	53	38	25
Receivables and prepayments	115	82	53
Inventories	76	70	95
Non-current assets	89	100	402
Current liabilities	-100	-72	-155
Net assets	233	218	420
Rifas UAB, share of 50,26%	117	110	-
Sale losses	-55	-	-
Purchase/sale price	62	-	420
Money paid (-)/received (+)	62	-	-390
Balance of sums of purchase(+)/sale (-)	-53	-	25
Net cash flow	9	-	-365

The sale of the subsidiary company has little effect on the financial reports of the Group (see the chart above). The 10-month sales revenue for Biržu Montuotojas UAB was TEUR 481 (591), accounting for 1.2% (1.8%) from consolidated sales revenue and net profit was TEUR 18 (12), accounting for 0.5% and 0.4% of consolidated net profit respectively.

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	2006		2005	
	Bought	Sold	Bought	Sold
For the year ended 31 December				
Associated companies	832	842	783	786
Harju KEK	18	2	11	4
Total	850	844	794	790
<i>Inclusive:</i>				
Goods and materials	820	94	776	30
Lease of fixed assets	14	435	0	432
Management services	0	236	0	210
Other services	16	79	17	118

Investments

Harju Elekter AS purchased a registered immovable from Harju KEK AS, and paid TEUR 100 (166) for the land and TEUR 571 (0) for the building.

Balance with related parties:

€000	Claims		Obligations	
	30.12.06	31.12.05	30.12.06	31.12.05
With associated companies: goods and services	187	182	81	37

Guarantees

The Group shall grant a guarantee for the long-term bank loan of the related company, with a repayment term of 10 May 2009. As of 31 December 2006, the loan balance on the balance sheet of the related company was TEUR 650 (910). The Group shall grant a guarantee within the scope of its holding (34%). As of 31 December 2006, the Group's maximum guarantee obligation was TEUR 234 (336). The guarantee has not been secured by a pledge.

Pledges

The Group has pledged 22.5 thousand shares of PKC Group, in order to guarantee the overdraft facility of the related company. The credit limit is TEUR 67. As of 31 December 2006, the related company had no credit limit and as of 31 December 2005, the obligation was TEUR 36.

Signatures of the members of the Management Boards to the interim report 1-12/2006

The management board of AS Harju Elekter declares its liability for the accurate preparation of the financial interim statements of 1-12/2006 accounts on the pages 10 - 19 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 February 2006, were duly taken into account and recognised in the annual accounts;

Approval of the Interim report 1-12/2006 as of December 31, 2006 by the Management Board members:

Management Board

Andres Allikmäe	Chairman of the Board	/signature/	February the 27th 2007
Lembit Libe	Member of the Board	/signature/	February the 27th 2007
Karin Padjus	Member of the Board	/signature/	February the 27th 2007