AS HARJU ELEKTER

Interim report 1-9/ 2006

Business name	AS Harju Elekter
Main business area:	designing, production and marketing of various electrical engineering and telecommunication systems
Commercial registry code:	10029524
Address:	Paldiski mnt.31, 76 606 Keila
Telephone:	+372 67 47 400
Fax:	+372 67 47 401
Web-site:	he@he.ee
Internet homepage:	www.harjuelekter.ee
CEO:	Andres Allikmäe
Auditor**:**	KPMG Estonia
Beginning of the reporting period:	1st of January 2006
End of the reporting period:	30th of September 2006

The interim report of Harju Elekter Group on 18 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 9M 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			30.09.06	31.12.05	30.09.05
AS Eltek	subsidiary	Estonia	100.0%	100.0%	100.0%
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	100.0%	100.0%	100.0%
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	10.1%	10.3%	10.3%

Economic environment

The world economic climate cooled somewhat in the second half of the year, mainly because of the weakening of future expectations. However, the estimate of the economic situation in Western Europe remained higher than average and the forecasts stayed optimistic. Estonia’s major trading partners Finland and Sweden were also satisfied with their economic situation. Analysts predict world economic growth will remain at the current level in the near future.

The situation continued to be very good in the Baltic countries, although the future expectations have come down somewhat here, as well. The growth rate of the Estonian economy, which was mainly based on strong internal and external demand, was about 10% in Q3. Internal demand was supported by the favourable credit market in addition to the growth of wages and incomes. At the same time, the shortage of qualified labour, particularly in building and industry, increased even more. Inflation accelerated, reaching 4.3%.

Events

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 September, the subsidiary Eltek launched a new, fully automated powder coating line to complement and boost its capacities; the new line both improves product quality and shortens delivery times.

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.

Operating results

The Group’s consolidated return on sales in Q3 2006 was 10.2 (8.3) million euros, showing an increase of 23.4 % in comparison with the same period last year. The consolidated return on sales for 9M 2006 amounted to 29.1 (22.9) million euros, showing an increase of 26.8% 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 Q3 2006 by 2.8 times in comparison with the same period last year, amounting to 2.5 million euros and in 9M 2006 to 5.7 (2.4) million 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 Panevežys and general contracting for power supply to the Kazlu Ruda Chipboard Plant. A strong increase of 42.5 % was also observed in the Finnish segment in Q3 2006, where sales volume reached 3.0 million euros and by the end of 9M 2006 amounted to 9.2 (5.6) million 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 supplies for the ship building industry also contributed to the increase in turnover. In 9M 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. In Q3 the sales revenues of the Estonian companies’ totalled 4.7 (5.3) million euros and, inclusive of sales to other geographic segments, 5.3 (5.7) million euros. Over the first nine months, the Estonian segment’s operating income totalled 15.3 (15.7) million euros, of which 1.2 (0.7) million euros accounted for sales to the group’s Finnish and Lithuanian subsidiaries.

Of Q3 2006 consolidated sales revenue, sales on the Estonian market and on foreign markets accounted for 38.3% (51.8%) and 61.7% (48.2%), respectively; the relevant figures for the first nine months were 39.2% (53.1%) and 60.8% (46.9%). The group companies’ domestic markets dominated.

The average number of employees in the group over the nine month period was 441 (404) and their wages and salaries amounted to 3.9 (3.2) million euros, including 1.2 (1.0) million euros in Q3. The group employed an average of 456 (417) people in Q3. Labour expenses have increased 22% this year to 5.3 (4.1) million euros, both due to the number of employees and higher wages. Depreciation of fixed assets amounted to 0.8 (0.7) million euros; growth compared to last year is 13.6%, including 0.3 (0.2) million euros in Q3, growth 10.8%. As a result of both a greater number of employees and the adjustment of wages, marketing expenses have risen 14.7% over the nine month period to 1.21 (1.05) million euros, including 0.42 (0.38) million euros in Q3, and general and administrative expenses have increased 8.5% to 1.84 (1.7) million euros, including 0.59 (0.56) million euros in Q3, lagging behind the growth of sales.

The operating profit for Q3 2006 was 0.82 (0.81) million euros; growth of 0.9 %. The turnover profitability was 8.0 % (9.8 %). The commercial profit for the 9M 2006 was 2.09 (1.83) million euros and a growth of 14.1 % in comparison with the previous year. The turnover profitability amounted to 7.2 % (8.0 %).

The group's pre-tax profit for Q3 2006 was 0.79 (1.14) million euros. While the net financial income/expenditure for this year included only the interest expenses of bank loans in an amount of 33 (27) thousand euros, the financial income for 2005 included the one time income from the sale of shares, MEUR 0.26. Profits of 58 thousand euros were consolidated from the related companies during the Q3 2005. The nine months' consolidated net profit was influenced most by the 2.2 times larger dividends on the shares of PKC Group Oyj, and the related companies' consolidated profit, which totalled 145 (55) thousand euros. Corporate income tax was 0.47 (0.2) million euros because of the larger amount of income tax paid on dividends.

Altogether, the consolidated profit after tax of 9M 2006 totalled 2.83 (2.27) million euros of which the share belonging to the owners of the parent company was 2.62 (2.20) million euros and the net profit per share was 0.16 (0.13) euros.

Cash flows, investment and financing

During the first 9 months, cash flow from business activities was 1.25 (1.56) million kroons, from investment activities was -0.38 (-1.63) million kroons and from financing activities -1.70 (-0.09) million kroons. Cash and cash equivalents decreased in 9M 2006 by –0.83 (-0.16) million kroons.

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 of PKC Group Oyj in Q1 2006. A total of 359 thousand euros was received from the sale.

During the first 9 months, the Group invested 0.02 (1.6) million euros in real estate, 1.48 (0.39) million euros in tangible assets, and 0.13 million euros in intangible assets, totalling 1.63 (1.99) million euros. The investments were allocated as follows: 0.2 (1.6) million euros were spent on the purchase of land, 0.47 (1.43) million euros were spent on the reconstruction and purchase of production buildings and 0.79 (0.25) million euros 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 0.45 million euros. The installation works completed in September 2006.

In order to finance the new paint line, the Group took a long-term loan of 0.47 million euros from a bank. In order to guarantee the loan, 46 thousand shares of PKC Group Oyj were mortgaged to the bank. In Q3 2006, the Group repaid a long-term bank loan in the amount of 0.15 (0.14) million euros (totally 0.43 (0.36) million euros in 9 months) and long-term capital rent payments in the amount of 0.07 (0.11) million euros. The balance of short-term bank loans increased from 0.1 (0.27) to 0.86 (0.83) million 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 balance sheet total increased during 9M 2006 by 1.5 million euros, reaching 46.04 million euros. Cash in bank accounts decreased over a period of 9 months by 0.83 million euros to 0.82 million euros.

An increase in the volume of sales orders gave rise to an 9.5 % increase in reserves, amounting to 4.86 million 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 2.35 million euros as regards receivables, and by 1.6 million euros on the liability side, respectively. In total, current assets increased by 2.2 to 12.6 million euros, and current liabilities increased by 1.57 to 7.85 million euros since the beginning of the year.

The price of the shares of PKC Group Oy closed on 29 September 2006, at the level of 10.20 euros (159.60 kroons), showing an decrease of 2.75 euros (43.03 kroons) within the quarter and 0.70 euros (10.95 kroons) within the 9 months period, which is why the balance cost of financial assets decreased by 4.95 million euros in comparison with Q3 2006, and by 1.26 million 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.

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 signed the agreement with Finnish companies for design, purchasing and installation of a new powder painting line. The construction and installation works 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. 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 9001:2000) were conducted in and passed by the Group's enterprises. Audits have been carried out in Harju Elekter Elektrotehnika and Satmatic; recertification in Rifas is schedule for Q4 2006.

Development costs totalled 0.28 (0.13) million euros in 9M 2006, including product licences with 0.06 million euros and software licences with 0.04 million euros. Direct expenditures related to the introduction of new products in production were 0.02 million euros, and other current development costs (within general administrative costs) constituted 0.24 (0.21) million euros.

Shares of Harju Elekter

EUR	1-9/ 2006	1-9/ 2005	2005
Number of the shares (‘000)	16,800	16,800	16,800
Nominal value	0.64	0.64	0.64
High price	4.44	5.48	5.48
Low price	3.30	3.12	3.12
Closing price	3.85	4.35	4.10
EPS	0.16	0.13	0.16

Key indicators

EUR’000	1-9/ 2006	1-9/ 2005	2005
Accounting period			
Net sales	29,077	22,939	32,847
Operating profit	2,088	1,830	2,398
Net profit	2,828	2,273	2,806
Net profit for the current period (equity holders of the parents)	2,616	2,203	2,662
At the end of the period			
Total current assets	12,659	9,803	10,457
Total non-current assets	33,380	36,161	34,052
Total assets	46,039	45,964	44,509
Total liabilities	10,209	8,033	8,186
Total equity	35,830	37,931	36,323
Inclusive equity attributable to equity holders of the parent	34,629	36,974	35,292
Performance indicators (%)			
Growth in revenue	26.8	13.9	13.3
Operating profit growth	14.1	19.2	20.1
Net profit growth (Equity holders of the parent)	18.7	-29.7	-25.9
Return of sales (operating profit/revenue *100)	7.2	8.0	7.3
Net profit margin (net profit /net sales *100)	9.0	9.6	8.1
Owners’ equity margin (equity / balance sheet total *100)	75.2	80.4	79.3
Employees			
Average number of employees on the current period	441	404	412
Number of employees on	455	418	425

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

€’000*	Note	2006	2005
Assets		At 30 September	At 31 December
Cash and cash equivalents		821	1,658
Trade receivables		6,472	4,119
Other receivables and prepayments		502	278
Inclusive income tax		6	1
Inventories		4,864	4,402
Total current assets		**12,659**	**10,457**
Investments in associates		1,645	1,583
Other long-term financial investments		18,372	19,947
Investment property	2	7,497	7,901
Property, plant and equipment	2	5,678	4,521
Intangible assets	2	188	100
Total non-current assets		**33,380**	**34,052**
TOTAL ASSETS		**46,039**	**44,509**
Liabilities			
Interest-bearing loans and borrowings	3	1,041	1,407
Advances from customers		563	611
Trade payables		4,271	2,676
Tax liabilities		843	596
Inclusive income tax		60	19
Accrued expenses		886	913
Other payables		245	73
Total current liabilities		**7,849**	**6,276**
Non-current liabilities	3	**2,360**	**1,910**
Total liabilities		**10,209**	**8,186**
Equity			
Share capital		10,737	10,737
Share premium		384	384
Reserves		17,518	18,926
Retained earnings		5,990	5,245
Total equity attributable to equity holders of the parent		**34,629**	**35,292**
Minority interest		**1,201**	**1,031**
Total equity		**35,830**	**36,323**
TOTAL LIABILITIES AND EQUITY		**46,039**	**44,509**

CONSOLIDATED INCOME STATEMENT

€'000	Note no	For period 7-9 ended 30 September 2006	2005	For period 1-6 ended 30 September 2006	2005
Revenue	4	10,232	8,290	29,077	22,939
Cost of sales		-8,397	-6,548	-23,959	-18,373
Gross profit		**1,835**	**1,742**	**5,118**	**4,566**
Distribution costs		-421	-381	-1,210	-1,054
Administrative expenses		-590	-558	-1,840	-1,697
Other income		4	22	42	53
Other expenses		-7	-11	-22	-38
Operating profit	4	**821**	**814**	**2,088**	**1,830**
Net financing income/costs	5	-32	267	1,065	590
Income from associated companies		0	58	145	55
Profit before tax		**789**	**1,139**	**3,298**	**2,475**
Allocation of corporate income tax to relevant periods		-62	-9	-470	-202
Profit for the period		**727**	**1,130**	**2,828**	**2,273**
Attributable to:					
Minority interests		104	30	212	70
Equity holders of the parent	6	623	1,100	2,616	2,203
Basic and diluted earnings per share for profit attributable to equity holders of the parent (in €)	6	0.04	0.07	0.16	0.13

CONSOLIDATED CASH FLOW STATEMENT

For the period 1-9 ended 30 September	Note	€'000 2006	2005
Cash flows from operating activities			
Operating profit	4	2,088	1,830
Adjustments for:			
Depreciation and amortisation	2	781	688
Gain on sale of property, plant and equipment		-24	-2
Change in receivables related to operating activity		-2,653	-403
Change in inventories		-462	-403
Change in payables related to operating activity		2,043	142
Corporate income tax paid		-434	-207
Interest paid		-88	-86
Net cash from operating activities		**1,251**	**1,559**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-1,432	-394
Proceeds from sale of property, plant and equipment		29	10
Acquisition of investment property		-24	-2,025
Acquisition of intangible assets		-127	-5
Acquisition of other financial investments		-12	0
Proceeds from sale of other financial investments		359	320
Loans given		-4	-1
Repayment of loans given		0	2
Interest received		14	9
Dividends received		810	455
Net cash used in investing activities		**-387**	**-1,629**
Cash flows from financing activities			
Proceeds from borrowings		547	1,983
Repayment of borrowings	3	-427	-364
Payment of finance lease principal	3	-66	-107
Dividends paid		-1,751	-1,606
Net cash used in financing activities		**-1,697**	**-94**
Net cash flows		**-833**	**-164**
Cash and cash equivalents at beginning of period		**1,658**	**1,201**
Net increase / decrease		-833	-164
Effect of exchange rate fluctuations on cash held		-4	-3
Cash and cash equivalents at end of period		**821**	**1,034**

CONSOLIDATED
STATEMENT OF CHANGES IN OWNERS' EQUITY

€'000			Attributable to equity holders of the parent					
1-9/2005	**Share capital**	**Share premium**	**Capital reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Minority interest**	**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	2,203	**2,203**	70	**2,273**
Income recognised directly in equity	0	0	0	3,048	0	**3,048**	0	**3,048**
Total income for period	0	0	0	3,048	2,203	**5,251**	70	**5,321**
Dividends	0	0	0	0	-1,575	**-1,575**	-31	**-1,606**
Bonus issue	7,158	0	0	0	-7,158	**0**	0	**0**
Balance at 30 September 2005	**10,737**	**384**	**550**	**20,516**	**4,786**	**36,973**	**958**	**37,931**
1-9/2006								
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	2,616	**2,616**	212	**2,828**
Income recognised directly in equity	0	0	0	-1,561	0	**-1,561**	0	**-1,561**
Total income for period	0	0	0	-1,561	2,616	**1,055**	212	**1,267**
Capital reserve	0	0	153	0	-153	**0**	0	**0**
Dividends	0	0	0	0	-1,718	**-1,718**	-42	**-1,760**
Balance at 30 September 2006	**10,737**	**384**	**703**	**16,815**	**5,990**	**34,629**	**1,201**	**35,830**

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 include 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 1-9/2006 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 or 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 September	Property, plant and equipment		Investment property		Intangible assets	
€'000	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
At beginning of period	**4,521**	**5,531**	**7,901**	**5,553**	**100**	**125**
Additions	1,475	394	24	1,596	127	5
Transfer from investment property	223	-810	-224	810	0	0
Disposals at acquisition value	-36	-39	0	0	0	0
Amortisation charge for the period	-538	-483	-204	-168	-39	-37
Disposals	33	36	0	0	0	0
Final balance at the end of the current period	**5,678**	**4,629**	**7,497**	**7,791**	**188**	**93**

Note 3 Debt liabilities

€'000	**At 30 September 2006**	**At 31December 2005**	**At 30 September 2005**
Short-term loans	858	758	829
Repayment of long-term leasing oblig. during the next period	160	560	140
Repayments of long-term lease in next period	23	89	28
Total current liabilities	**1,041**	**1,407**	**997**
Long-term bank loans	2,240	1,820	2,380
Long-term lease payables	90	90	246
Other long term liabilities	30	0	0
Total long term liabilities	**2,360**	**1,910**	**2,626**
Total debt liabilities	**3,401**	**3,317**	**3,623**

Changes in debt obligations:

€'000	**1-9/2006**	**1-9/2005**
Initial balance 31.12.	**3,317**	**2,028**
Changes in short-term loans	100	273
Received long-term loans	447	1,710
Long-term loan repaid	-427	-364
New leasing obligations	0	83
New long-term lease liabilities	-66	-107
Non-current liabilities for tangible assets	30	0
Final balance 30.09.	**3,401**	**3,623**

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 is 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.

€'000	**Estonia**		**Finland**		**Lithuania**		**Eliminations**		**Consolidated**	
For period ended 30 September	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue from external customers	14,151	14,944	9,244	5,625	5,682	2,370	0	0	29,077	22,939
Inter-segment revenue	1,192	741	2	3	30	12	-1,224	-756	0	0
Total revenue	**15,343**	**15,685**	**9,246**	**5,628**	**5,712**	**2,382**	**-1,224**	**-756**	**29,077**	**22,939**
Segment result	1,480	1,735	102	-21	506	146	0	-30	2,088	1,830

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

€'000	**Estonia**		**Finland**		**Lithuania**		**Eliminations**		**Consolidated**	
For the period 1-9 ended 30 September	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Estonia	11,379	12,185	2	3	44	12	-32	-15	11,393	12,185
Finland	3,343	2,983	9,178	5,597	0	0	-940	-635	11,581	7,945
Lithuania	283	146	0	0	5,280	2,189	-252	-106	5,311	2,229
Other Europe	188	230	17	28	388	167	0	0	593	425
USA	117	115	0	0	0	0	0	0	117	115
Russia	33	26	49	0	0	14	0	0	82	40
Total	**15,343**	**15,685**	**9,246**	**5,628**	**5,712**	**2,382**	**-1,224**	**-756**	**29,077**	**22,939**

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

As of 30 September 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**	
For the period 1-9ended 30 September	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Manufacturing	24,220	18,744	-282	-375	23,938	18,369
Real estate	2,069	1,840	-513	-420	1,556	1,420
Trade	2,877	2,223	-20	-26	2,857	2,197
Unallocated	1,078	1,226	-352	-273	726	953
Total revenue	**30,244**	**24,033**	**-1,167**	**-1,094**	**29,077**	**22,939**

Note 5 Net financing income/costs

€’000	**1-9/ 2006**	**1-9/ 2005**
Interest charges	-86	-77
Interest return	12	4
Dividend income	810	372
Net exchange profit (+)/loss (-)	-4	-3
Marketable investments:		
Income from sale of investments	333	294
TOTAL	**1,065**	**590**

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.

		1-9/ 2006	1-9/2005
Profit attributable to equity holders of the parent	€'000	2,616	2,203
Average number of shares outstanding during the period	'000	16,800	16,800
Basic and diluted earnings per share	€	0.16	0.13

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 September 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 September 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	1-9/ 2006		1-9/ 2005	
	Bought	**Sold**	**Bought**	**Sold**
Associated companies	648	619	590	591
Harju KEK	9	2	10	4
Total	657	621	600	595
Inclusive:				
Goods and materials	638	65	583	13
Industrial subcontracting (outsourcing)	4	4	1	0
Lease of fixed assets	5	326	0	324
Management services	0	170	0	160
Other services	10	56	16	98

Balances with related parties:

€'000	Claims		Obligations	
	30.09.06	**31.12.05**	**30.09.06**	**31.12.05**
With associated companies: goods and servises	241	182	193	37
dividends	84	0	0	0

Signatures of the members of the Management Boards to the interim report 1-9/2006

The management board of AS Harju Elekter declares its liability for the accurate preparation of the financial interim statements of 1-9/2006 accounts on the pages 9 - 17 and confirms that:

- the accounting policies applied in the preparation of the consolidated annual accounts are in compliance with the generally accepted international accounting principles;
- the consolidated annual accounts give a true and fair view of the financial position, economic performance and cash flows of the consolidated group and AS Harju Elekter;
- all material circumstances and aspects that were known and obvious prior to the completion date of the report as 01 November 2006, were duly taken into account and recognised in the annual accounts;

Approval of the Interim report 1-9/2006 as of September 30, 2006 by the Management Board members:

<u>Management Board</u>

Andres Allikmäe	Chairman of the Board	/signature/	November the 1st 2006
Lembit Libe	Member of the Board	/signature/	November the 1st 2006
Karin Padjus	Member of the Board	/signature/	November the 1st 2006