

Annual Report
2006

INFORMATION TO THE SHAREHOLDERS

Annual general meeting

The annual general meeting of the shareholders of Harju Elekter will take place on April 26, 2007, at 10 a.m. at the hall of the Keila Culture Centre, Keskväljak 12, Keila.

The shareholders who are listed in the shareholders' register of Harju Elekter kept by the Central Securities Depository as of April 16, 2007 at 23.59 are entitled to participate in the AGM.

Dividends

Following the dividend policy of the Group and taking into account the profit and loss statement of 2006 the Management Board of Harju Elekter makes a proposal to the General Meeting of Shareholders to pay a dividend of 1.80 Estonian kroons per share for the financial year of 2006. The list of shareholders who are entitled to dividends will be closed on May 11, 2007 at 23.59. The dividends will be transferred to the bank accounts of shareholders on May 21, 2007.

The publication of financial reports in 2007

Harju Elekter will publish its quarterly financial reports in 2007 as follows:

- Interim report 1-3/2007 on 19th week
- Interim report 1-6/2007 on 32st week
- Interim report 1-9/2007 on 45th week

The financial reports will be published in Estonian and in English and will be available with stock exchange announcements on the Harju Elekter home page address: <http://www.harjuelekter.ee>.

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Year 2006

Satmatic Oy, a Finnish subsidiary of Harju Elekter, acquired the electrical installations production company Finoval Oy in Kerava near Helsinki. The purchase of the aforementioned company, which was quickly and successfully merged with Satmatic Oy, has created better possibilities for servicing the Harju Elekter Group's customers in the Helsinki area and for increasing the market share of the Group in Finland. The company also fulfils the functions of a representative office for the Group.

AS Harju Elekter, the leading Latvian producer of electrical installations A/S Jauda and other Latvian undertakings signed a memorandum of association founding a joint venture, SIA Energokomplekss. Launching a sales organisation makes it possible to participate together in invitations to tender for medium and low voltage equipment in Latvia as well as beyond. Due to the close co-operation with the Latvian companies customers are offered a wide selection of products and there are sufficient resources for fulfilling large-scale orders. AS Harju Elekter owns 10% of the company.

In November the Lithuanian subsidiary Rifas UAB sold its holding of 50.3% in Biržu Montuotojas UAB, a subsidiary operating in the construction segment, and focused more on the production and sales of electrical installations and industrial automation equipment.

The annual general meeting of shareholders approved the annual report and profit allocation of Harju Elekter, including a dividend distribution of 1.60 kroons per share.

KEY FIGURES	2006	2005	2006/2005 change
1000 EEK			
Turnover	622,087	513,936	21.1%
Operating profit	45,174	37,516	20.5%
Net profit (belonging to the owners of the Parent)	47,289	41,656	13.6%
EEK			
Shareholder's equity per share	34.46	31.94	
EPS	2.81	2.48	
Dividend per share	*1.80	1.60	* management proposal
Reurn of sales	7.3%	7.3%	
Net profit margin	7.6%	8.1%	
Return of assets (ROA)	6.5%	6.2%	
Return of equity (ROE)	8.2%	7.8%	
Equity ratio	79.9%	79.3%	
Number of employees at the end of the period	427	425	

For the seventh time the Estonian Accounting Standards Board announced the winners of the "Accounting Flagship" contest. In the category of publicly traded companies and financial institutions, whose financial statements are drawn up in accordance with the IFRS, the 2005 financial statement of Harju Elekter shared second place. Auditors, analysts and investors based their assessment on its informativeness, clarity and shareholder-friendly structure.

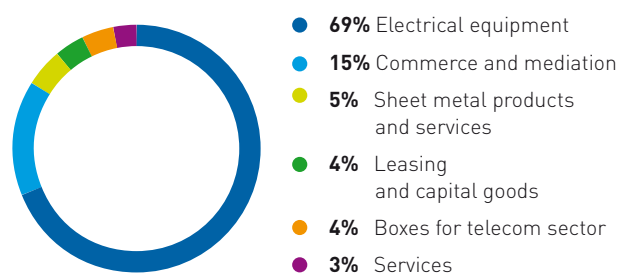
Harju Elekter was also a nominee for the Baltic Market Awards project of the Baltic Stock Exchanges,. The mission of the project is to identify the best Baltic market participants, to increase listed companies' awareness of the significance of disclosure quality, good investor relations and corporate governance practices.

The Tallinn Technical University named Harju Elekter a Golden Sponsor and the Development Fund of the University handed over Harju Elekter scholarships to the undergraduate and graduate students of the Faculty of Power Engineering. Up to the present, 16 students have participated in this scholarship programme, seven of whom work as engineers in companies belonging to the Group.

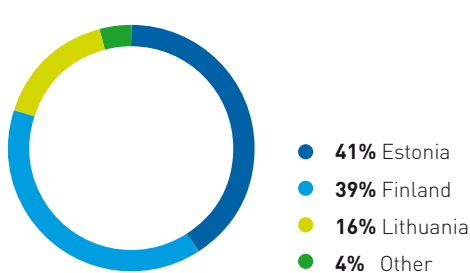
The Lithuanian Industry Association awarded the Group's Lithuanian subsidiary, UAB Rifas, the title of "Successful Enterprise 2006", acknowledging the company for modernising its production, for its outstanding and safe production conditions and for expanding its product range and markets in the category 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.

The sales revenues of the Group in markets outside Estonia formed 59% of the total revenue of the Group.

Turnover by business area, 2006

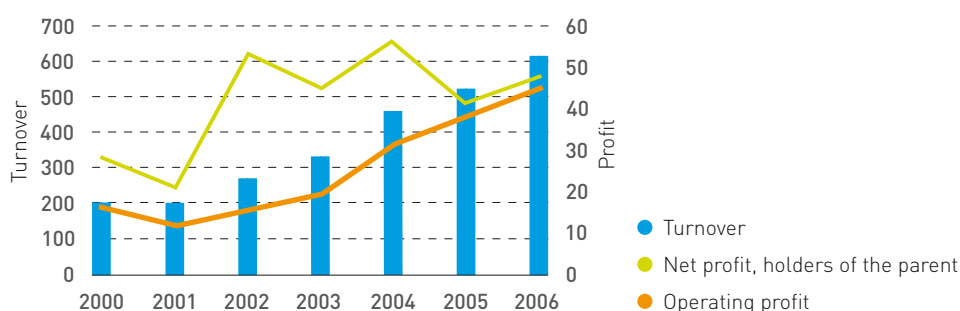


Turnover by market, 2006



Turnover, net profit and operating profit

million EEK



Mission

To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

Goal

To be successful over a long period of time, to increase the company's capital and generate revenue for the owners, as well as the partners, and to provide work, income and development opportunities for the employees.

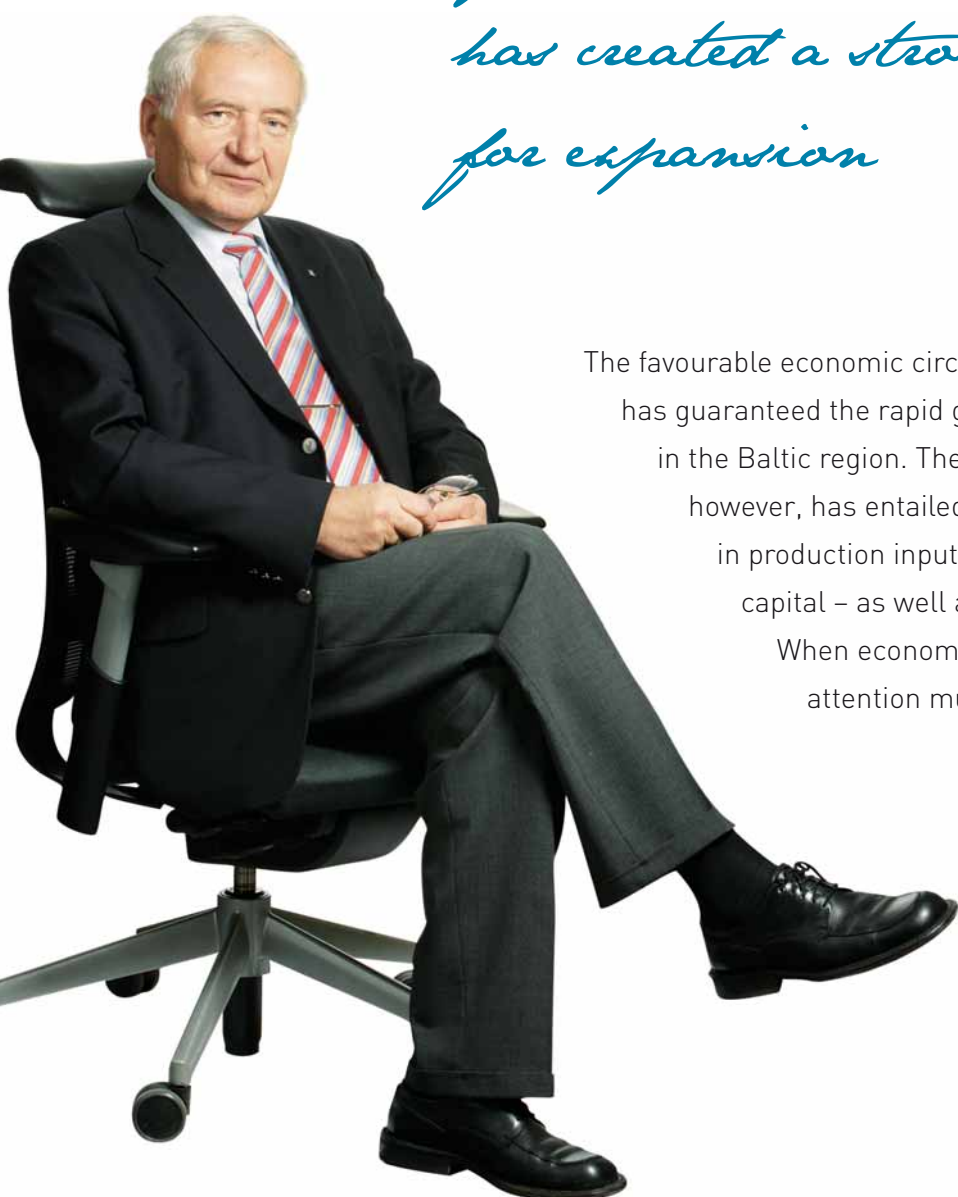
■ Harju Elekter Group Estonian companies ■ Rifas Group ■ Satmatic Oy



Organisation



*Co-operation
of the members of the Group
has created a strong basis
for expansion*



The favourable economic circumstance of recent years has guaranteed the rapid growth of industry in the Baltic region. The rapid economic growth, however, has entailed significant increases in production input – raw materials and human capital – as well as in competitors' activity. When economic growth stabilises more attention must be paid to efficiency.

I am very happy about the economic results Harju Elekter has achieved so far including the results of this 38th year of activity. Every year the turnover and operating profit of the Group have steadily increased.

Successful expansion in the Finnish and Lithuanian markets during the previous years has created a firm basis which already accounts for more than half of the Group's turnover and which gives us the certainty and skills to continue our expansion in the Baltic region. Today our goals set at the turn of the century have been successfully reached – members of the Group are strong production and sales organisations. Every one of them knows what others are capable of and they know how to work together. They are able to provide their customers with quality products, bearing in mind the particular nature of the local market and the efficacy needed to meet the competition. Some of the development potential is most certainly unused, especially in terms of promoting the efficiency of the Group's companies.

As a result of well planned investment activities Harju Elekter has enough production capacity to support the continuous expansion of the Group and meet the growing demand in strategic markets. The quality of our products and European certificates of conformity make it possible for us to operate successfully in West European and Scandinavian markets in particular. Thanks to the well developed traditions of co-operation and the fact that we own local sales organisations we are able to sell original products under the Harju Elekter trade mark and reduce the percentage of out-sourced production. As costs are increasing it is becoming more and more important to focus on end-users and end-products as a means for increasing cost-efficiency and productivity. If we succeed in this, profits will rise as well.

It gives me great pleasure to witness the widening of the circle of shareholders – comprising now over a thousand private and institutional investors who are familiar with our Group and take an interest in its future. When Harju Elekter was first listed on the stock exchange it was partly driven by the wish to make the company better known in the business world. The last nine years during which the company has been listed has most certainly served this purpose. The quoted share price is also one of the indicators reflecting our decisions and actions. Since the year 2000 the share price has increased more than five times and thus the dividend yield has been good for shareholders.

When talking about the future, sustainable development is guaranteed only by efficient expansion and an increase in turnover. As our experience, as well as the experience of other companies, shows in new markets this is achieved best through co-operation with local companies. Last year we strengthened our presence on Finnish market and took our first steps on the Latvian market. I do hope that being informed of the industrial situation in the Baltic region will help us to make the right strategic decisions in the future. In this the Supervisory Board plays an important role as its members have the necessary knowledge and clear vision for the future of Harju Elekter. When we involved members of the Supervisory Board we also involved skills and knowledge necessary for our expansion and successful operation.

In the name of the Supervisory Board, I would like to thank our customers, partners, shareholders and each employee who have all contributed to the development of the company and have made it possible to achieve such good economic results. It is the goal of the management to do everything in their power to make sure that Harju Elekter continues to be the best partner, the best place to work and a secure place to invest in.



Endel Palla
Chairman of the Supervisory Board



*Good salesmanship
and economic growth
guaranteed firm
results*

The development of Harju Elekter Group in 2006 could best be described by reference to the continuous growth in Finland and Lithuania and successful activity by the commercial segment in Estonia. It is also good to note that we managed to secure our position in strategic segments and product groups in Estonia by offering our customers products that correspond to the changing requirements of the Estonian market.

Last year the Group's sales revenue increased by 21%, operating profit increased almost as much and profit per share also increased, amounting to 2.81 kroons. Markets outside Estonia gave almost 60% of the turnover. In 2006 the biggest contribution to the growth of sales revenue was made by associated companies in Finland and Lithuania, increasing the total turnover by more than 100 million kroons. Considering the market potential in Latvia, we are forming a sales organisation together with our local partners and specialists.

Last year showed that one of the important competitive advantages of Harju Elekter is the thorough knowledge of local conditions and ability to develop products meeting customers' demands and supply them on time. In practise it meant that we reclaimed orders from our customers in the Estonian power distribution sector that had decreased at the beginning of the year and that the flow of orders from customers of different sectors in Lithuania, Finland and other markets was good.

Last year we launched several new products and product modifications of LV/MV distribution units and substations. We also continued to introduce licensed products, purchased by Harju Elekter during the previous years, in conformity with our customers' needs. Thanks to the license to manufacture products with EU and Russian certificates of conformity and our knowledge we were able to sell our products on new markets with great potential.

At the same time, however, rapid economic growth has increased the cost of production inputs, which also includes salary increases. In spite of this we managed to keep labour costs under control by motivating our employees and offering them good working environment and thus guaranteeing minimum personnel flow.

We pay more and more attention to the efficiency of the Group in order to compete better and be ready for a new economic cycle with somewhat more modest growth. This means that we are developing production and management as well as passing on knowledge and skills between members of the Group. In terms of efficiency we have a lot to learn from Finnish companies which in this field are among the best companies of the world.

Following the good economic results, capitalization and positive growth perspective the Management Board will propose to pay a dividend of 1.80 kroons per share.

Keeping in mind that Harju Elekter has a significant market share in Estonia, we are sure that in the coming years better growth perspective lies within foreign markets, be it on new or familiar ones. So far we have achieved best expansion results by acting through companies familiar with local markets. We cherish traditions and innovation based on them as they guarantee the safety, efficiency and flexible development of our working and living environment.

Today we face new challenges. The key lies in solutions found through co-operation. I do hope that the year 2007 will be a year of good ideas and even better achievements. I wish all the best to our customers, partners and our employees!



Andres Allikmäe
Chairman of the Management Board

Management report

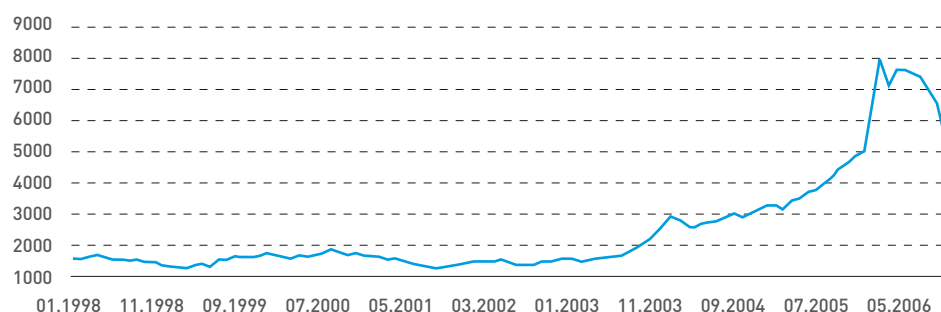
Overview of the economic environment

According to economic experts last year witnessed the culmination of the growth of this cycle of the world economy. Different trends in the economies of the USA and Europe became more visible. The short-term prospects of the USA are decreasing, while those of the EU are increasing under the leadership of Germany and this determines the differences in interest rate policies. The Asian countries have become an increasingly strong economic force. The growth of industrial output in China which started at the turn of the century has contributed to the increase in the fourfold difference between the interest rates of the USA compared to euro zone countries. The production volume as well as production efficiency of Asian countries have directly influenced raw material prices but also led to an increase in the exports of Baltic countries.

Both the Baltic and the Scandinavian countries continue to be the fastest growing economic area of the European Union. In some countries of the Baltic region, due to the rapid economic growth employment rates have reached historic record levels. In developing economies the gap between the increases in salaries and productivity has increased. In the context of stabilising economic growth this puts to the test the competitiveness of the industries of Baltic countries.

The price of copper on the London Metal Exchange

(ton/USD)



Source: www.basemetals.com

	Economic growth, %				CPI, %			
	2005	2006	2007	2008	2005	2006	2007	2008
EU25	1.7	2.8	2.4	2.4	2.2	2.1	2.3	2.0
Estonia	10.5	11.2	9.0	8.0	4.1	4.4	4.3	3.9
Latvia	10.2	11.5	9.0	7.5	6.9	6.6	6.1	5.0
Lithuania	7.6	7.5	6.5	6.5	2.7	3.8	4.5	4.5
Finland	2.9	4.9	3.0	2.6				
Russia	6.4	6.6	6.4	6.2				

2006, 2007, 2008 - forecast

Source: Hansabank Markets

Baltic States

According to the indicators of economic growth the year 2006 proved to be one of the best years for the Baltic States since regaining independence as individual consumption and investment activity reached a peak. Good results in the industrial sector were supported by domestic consumption as well as increases in exports.

Alongside the construction boom in Estonia the large-scale programme of modernising and increasing the efficiency of distribution networks continues. At the same time, however, Lithuania has reduced the requirements concerning the security of the provision of power supplies and this has had a negative impact on investment perspective. The region of Central and Eastern Europe is continuously attractive to investment in the industrial sector, which entails increased demand for energy distribution solutions. Economic growth and favourable tax policies are motivators of foreign investments and total investments are expected to remain at the same level.

Finland and Scandinavian countries

The year 2006 was good for Finnish industry – especially shipbuilding yards. Company turnover increased by 10%, while export increased by 15%.

The flow of orders decreased, however, in the fourth quarter, which may entail a slower increase in turnover in the second half of 2007. An important domestic factor is lower investment activity of industry in Finland and shift of focus to more rapidly growing markets that are closer to customers.

Similarly to Finland, export of Scandinavian countries was positively influenced by orders from Asian countries.

Russia

High prices of oil and other raw materials guarantee Russia a steady and large flow of foreign currency. In the context of increasing individual consumption and forthcoming presidential elections prospects of exporters to Russia are good.

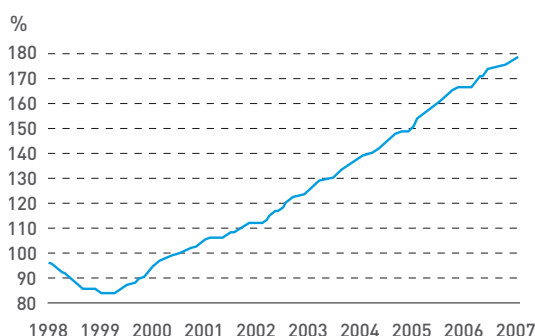
Prospects for the forthcoming years

The economies of the Baltic States are becoming more and more dependent on each other and price levels are rapidly equalising. Decisive indicators for the future development of Baltic companies, including industry, are the cost of production input and productivity, which determine the competitiveness of products. Although in 2007 a significant rise in prices of raw materials is not foreseen, it may happen in 2008 if the world economy continues to grow. Investment activity in the Baltic States is expected to stay at the same level as in previous years although in certain sectors, such as energy distribution, the payback period is expected to be shorter.

The only factor preventing the Baltic States from adopting the Euro is high inflation, caused by domestic consumption. Experts say that the changeover is not going to happen until 2010.

Volume index trend of Estonian industrial production*

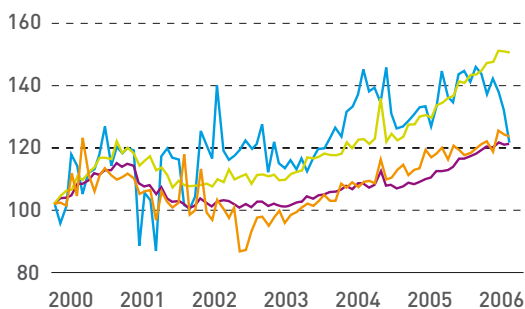
January 1998 – January 2007 (2000=100)



* Trend is a time series free from seasonality and random perturbation which shows development direction and speed of the time series.

Source: Statistical Office

Production volume of electronics and electrotechnics industry in EU-countries



Source: www.teknologiateollisuus.fi/files/10091_jpkv50d

- Finland
- Germany
- Sweden
- EU25-countries

Group's structure and changes

In the annual report of 2006 the financial statements of AS Harju Elekter (consolidating unit) and its subsidiaries AS Harju Elekter Elektrotehnika, AS Eltek, Satmatic Oy and Rifas UAB (together referred to as "the Group") and the results of associated companies AS Draka Keila Cables (former AS Keila Kaabel) and AS Saajos Inexa under the equity method are consolidated line by line. The shares of PKC Group Oyj are valued in the balance sheet according to their market price, which may have significant influence on asset and equity value.

In April the Group acquired a company in Finland, near Helsinki, that was affiliated with Finnish subsidiary Satmatic Oy. The transaction value was 420 thousand euros (6.6 million kroons). Acquired assets and liabilities are recognised in the balance sheet of Satmatic Oy and in the consolidated financial statements of Harju Elekter Group since 1 April 2006. During the first nine months of 2006 the acquired enterprise increased its sales revenue by 3.4 million kroons. If the acquisition had been carried out at the beginning of 2006 the additional sales revenue would have been 6.6 million kroons.

In November the Group's subsidiary Rifas UAB (Lithuania) sold its holding of 50.26% in Biržu Montuotojas UAB, a subsidiary operating in the construction segment. Control over the enterprise ceased as of 31 October 2006. Assets, liabilities, revenue, costs and cash-flow are recognised in consolidated financial statements of the Group until 31 October 2006. The sales revenue of Biržu Montuotojas UAB over 10 months amounted to 7.5 million kroons, compared to 9.2 million kroons in 2005, which is 1.2% of consolidated sales revenue (1.8%) and net profit 0.3 (2005: 0.2) million kroons, which was 0.5% and 0.4% of consolidated sales revenue respectively. The effect of the sale of the subsidiary on the Group's financial statements is not significant.

In 2006 AS Harju Elekter and the leading Latvian producer of electrical installations A/S Jauda and other Latvian undertakings founded a joint venture, SIA Energokomplekss. The share of Harju Elekter in the company is 10%. The investment is strategically important for the Group. Launching a sales organisation makes it possible to participate together in invitations-to-tender for medium and low voltage equipment in Latvia as well as beyond.

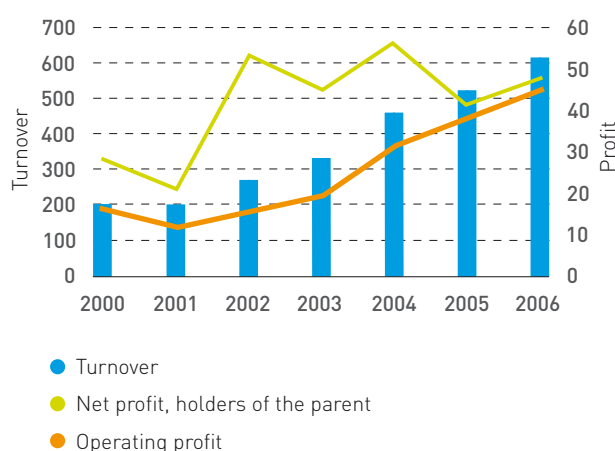
Business results

In 2006 the consolidated sales revenues of the Group amounted to 622.1 million kroons, increasing by 21.1% or 108.2 million kroons in the year. Revenue growth was supported by good salesmanship and favourable economic environment and in some measure the acquisition of the Finnish company, which was affiliated to Satmatic Oy. During the period the Group's home markets – Estonia, Finland and Lithuania – were dominant. The biggest contribution to the increase in sales revenue was made by Finnish and Lithuanian segments – more than 107.4 million kroons in total. Increase in sales in the Estonian market in the fourth quarter also had a positive influence on the business results.

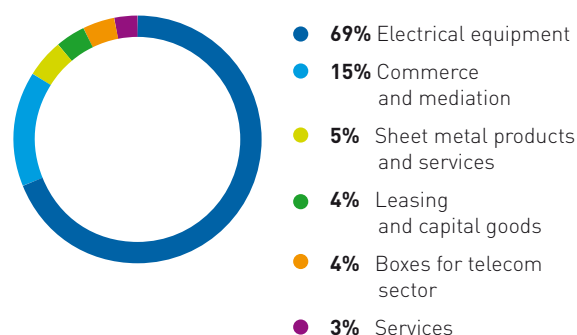
Cost of sales and services increased 23.0% in the year, amounting to 509.8 million kroons, distribution costs increased by 12.4%, amounting to 27.2 million kroons and administrative expenses increased by 6.4%, amounting to 39.8 million kroons. Rapid growth in the employment rate, which brought along the problem of labour force shortage, promoted the rapid growth of wages. Due to the increase in the number of employees and growth of wages the labour costs increased during the year by almost 20% amounting to over 117.4 million kroons. Amortisation of assets in the amount of 16.5 million kroons, which is 10.6% more than the year before, was recognised in costs.

The operating profit of the Group amounted to 45.2 million kroons, increasing in the year by 20.5%, and the net profit amounted to 47.3 million kroons (13.6% increase). Earnings per share were 2.81 kroons. There were no changes in the return on sales during the year remaining at the same level or 7.3%. The economic results of the year were positively influenced by dividends from the shares of PKC Group which were more than double the amount of the year before.

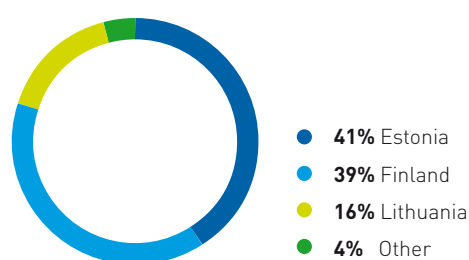
Turnover, net profit and operating profit million EEK



Turnover by business area, 2006



Turnover by market, 2006



Explanation: Group's turnover by market. Based on the location of client.

Geographical segments

The operations of the Group fall into three geographical segments according to the location of business opportunities:

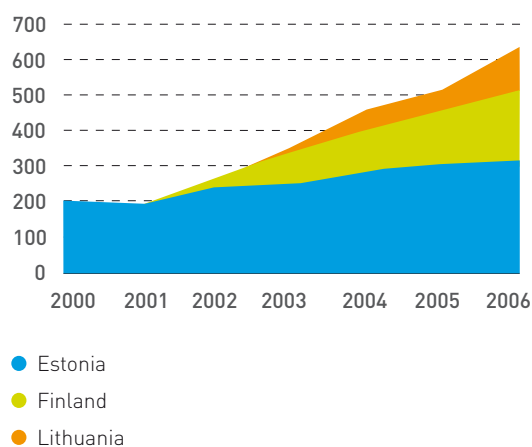
- **Estonia** – location of AS Harju Elekter and the subsidiaries AS Harju Elekter Elektrotehnika and AS Eltek;
- **Finland** – location of the subsidiary Satmatic Oy;
- **Lithuania** – location of the subsidiary Rifas UAB.

The largest increase in sales revenue was in the Finnish (increase 58.4 million kroons, amounting to 198.1 million kroons or 41.9%) and the Lithianian (increase 48.9 million kroons, amounting to 114.1 million kroons or 75.6%) segments. Significant increases in revenue due to good sales in Lithuania and Finland compensated for a certain decrease of the market share in Estonia caused by aggravated competition and changes in customers' investment schedules.

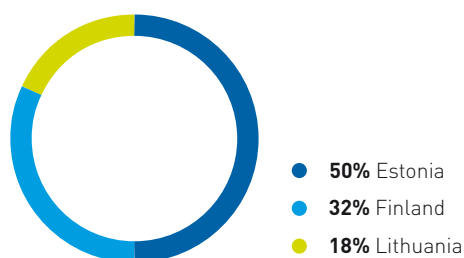
40.9% or more than 254 million kroons of the Group's consolidated sales revenues came from the Estonian market, 39.4% or almost 245 million kroons from Finland, 16.1% or more than 100 million kroons from Lithuania and 3.6% or more than 22 million kroons from other markets. The market share of Harju Elekter in Lithuania, as well as in Finland, increased but remained about the same in Estonia. The sales in foreign markets gave 59.1% of the net sales of the Group.

Turnover by geographical segment

million EEK



Turnover by segment, 2006



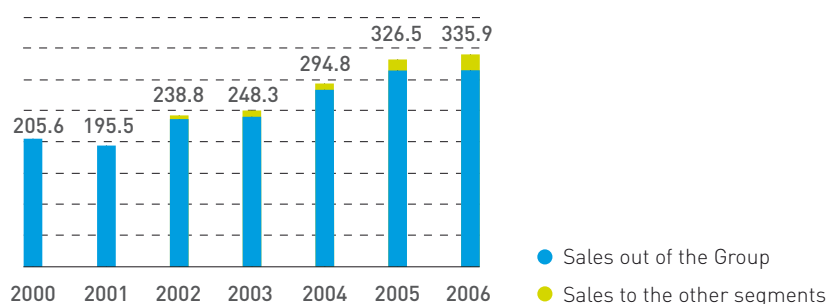
Explanation: distribution of turnover of subsidiaries of the Group located in the three countries. Based on the location of the company.

ESTONIA

The sales revenues of the Estonian segment of the Group increased in the year 2.9 million kroons, amounting to 336.0 million kroons, due to the increased volume of sales to other geographical segments of the Group. Sales revenue from external customers remained practically the same, amounting to approximately 310 million kroons.

Turnover in Estonia

million EEK



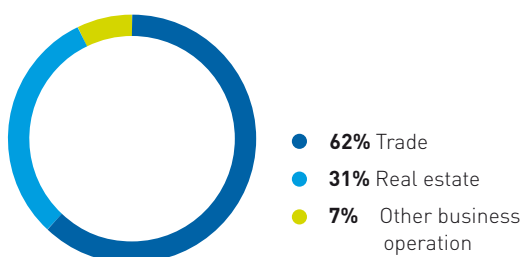
AS Harju Elekter

The main tasks of the management of the Group's parent company, AS Harju Elekter, include the coordination of co-operation within the Group, management of subsidiaries and associated companies through their supervisory and management boards, management of finances and investments of the Group and management of development and expansion activities. The parent company is responsible for administrative and lease arrangements of production premises and for the professional operation of corporate stores of Harju Elekter. The results of our work are reflected in good investor relations and activities related to the stock exchange.

With regard to the development of the Group, major decisions concerned the acquisition and affiliation of the Finnish company Finoval Oy to Satmatic Oy and the foundation of a joint company in Latvia. As a result of the improvement of internal processes the efficiency of the members of the Group increased, for example, in relation to the ratio between the parts manufactured centrally and locally and assembly operations.

In 2006 the revenue of parent company AS Harju Elekter from external customers amounted to 102 million kroons (compared to 86 million kroons in 2005), more than 63 million kroons of which came from Harju Elekter company stores. The volume and percentage of sales revenues gained from the renting of real estate and development did not change much, amounting to 32 million kroons. We expect that in 2007 the trade situation will remain favourable and that real estate development will be stable. We continue to improve the efficiency and co-operation among companies of the Group.

Turnover of the parent company, 2006





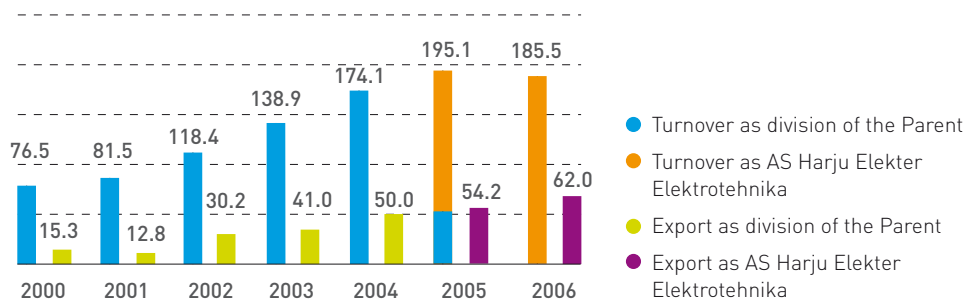
AS Harju Elekter Elektrotehnika

The year 2006 proved to be full of changes for AS Harju Elekter Elektrotehnika. In the first half of the year the turnover of the factory was negatively influenced by the changes in investment schedules and procurements by major customers in the energy distribution sector and by aggravated competition. In the fourth quarter the company managed to regain its market share in the Estonian energy distribution sector. An important role was played in this by flexible product development, quick supply and home market advantage, ie. a very good knowledge of local traditions and details of requirements. In spite of the fact that AS Harju Elekter Elektrotehnika started to operate as an independent legal entity only in the spring of 2005, it has produced electrical equipment since 1968.

Although the turnover in 2006 remained practically at the level of 2005 (185.5 million kroons in 2006 compared to 195.1 million kroons in 2005), the sales policy of the company became more aggressive and essentially more flexible. Co-operation within the Group also improved as a result of which export of the company increased to 33% (over 5% more than in 2005 by share and almost 13% by absolute indicators). The number of prefabricated outdoor substations

Turnover

million EEK





The first full year as an independent company

put to test our ability to react to changes in customers' investment schedule and to compete with competitors who maintain aggressive pricing policy.

We met these challenges

becoming less dependent on certain customers and increasing considerably sales on markets outside Estonia.

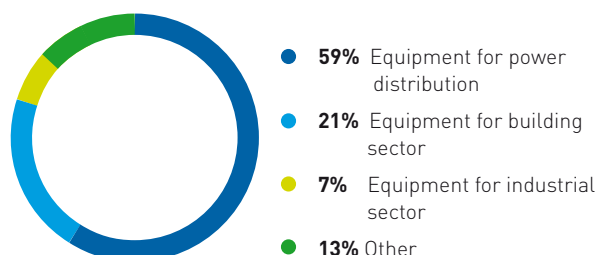
Ülo Merisalu
Managing Director

exported increased to 74 (51 in 2005). Products of the factory were supplied to Finland, Latvia, Lithuania, Sweden, Norway and the Netherlands.

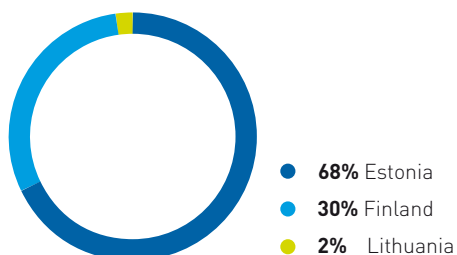
To meet the demand, Harju Elekter Elektrotehnika introduced into production and sold the first LV distribution units Sivacon 8PT and MV secondary distribution units SM6 manufactured under a license agreement; and also focused on the development of new solutions for LV substations. Successful tests were carried out on the new one-ended substation with metal casing, cable distribution cabinet as well as electrical switchboard which were brought into conformity with the technical requirements of the distribution networks. In the first half of the year prototypes of new licensed products and production technology were approved.

During the year Harju Elekter Elektrotehnika became more competitive in Estonian as well as other markets. According to our product portfolio, production opportunities, the competence of our employees, better sales opportunities and economic forecasts for the region, sales increases can be expected in every sector in 2007. The importance of export is expected to remain the same due to our increasing reputation and the high quality of Harju Elekter's products. One of our goals next year is to shorten delivery periods, which is one of the biggest competitive advantages in the conditions of rapid economic growth. We also plan to increase our production area by almost 2000 m².

Product groups, 2006



Turnover by market, 2006



Prerequisites for the development of Eltek are

contemporary production technology, sufficient production resources and qualified labour force.

In 2006 we took many important steps towards these prerequisites to be able to increase our market share.

Aare Metsur
Managing Director

AS Eltek

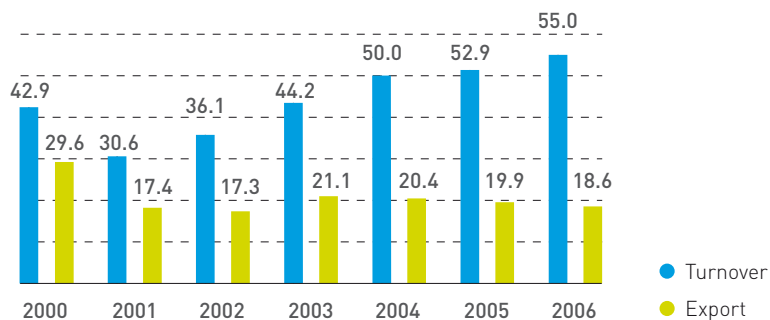
The main activities of AS Eltek include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of sheet metal products and semi manufactured articles are produced for the electrical engineering sector.

The strong economic growth in Estonia and the Baltic Sea region has enhanced the increase in the turnover and revenue of AS Eltek. In 2006 the sales revenue amounted to 55.0 million kroons, increasing during the year by 4.0%.

In 2006 the development department of Eltek developed and introduced more than ten product articles. At the same time many of the existing products were updated to optimise their production costs. The efficiency of the company

Turnover

million EEK



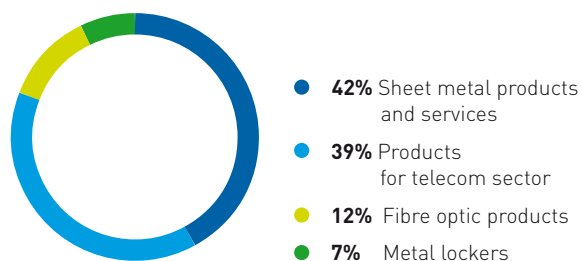


was reinforced by the additional metal processing equipment acquired during the past year and the new fully automatic powder paint line, which started to operate in September and has the capacity of 400–600 m² of painted detail surfaces in a shift.

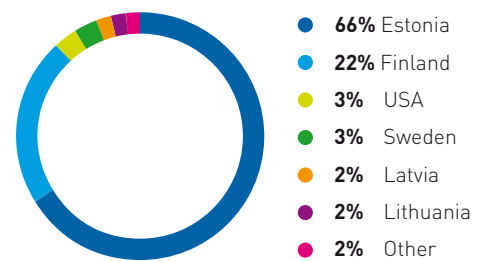
Compared to the previous year, the share of sheet metal and subcontracting works increased by 11%. Sales outside Estonia formed almost 34% of the turnover, remaining at the same level as in 2005. The amount of foreign orders decreased mainly because many of the companies, in Scandinavia in particular, moved their production to China and other countries of South-East Asia.

Investments in product development and production have increased competitiveness, including the security of provision, and broadened the range of products and services of Eltek. This is why our goal for 2007 is to increase the market share in existing markets – Estonia and Finland in particular.

Product groups, 2006



Turnover by market, 2006





Satmatic Oy

Satmatic Oy, a subsidiary which produces automation equipment for the industrial sector and sells electric power distribution and transfer equipment in Finland contributed the most to the improvement in the results of the Group in 2006. Sales to customers outside the Group increased during the reporting year by 58.4 million kroons.

Compared to 2005 the rate of turnover growth doubled – from 20.4% in 2005 to 41.8% in 2006 – amounting to 198 million kroons. Industrial sector products formed the biggest share or 79% (compared to 81% in 2005). It is remarkable that owing to successful sales, including licensed products, the share of products of the energy distribution sector increased during the year by five percentage points, accounting for 14% of the company's sales revenue (compared to 9% in 2005).

The increase in turnover was enhanced by the increase in the orders that Finnish export companies received from foreign markets as well as by deliveries to the shipping industry. The amount of project sales products increased in the company's sales portfolio which demanded better know-how from the company but are more cost-effective. Last year Satmatic Oy started to assemble and sell equipment based on Sivacon technology. Acquisition of the company Finoval Oy in Kerava, near Helsinki, in April had a positive influence on the increase in sales revenue, creating better possibilities for servicing customers in the Helsinki area and for increasing the market share in Finland. The fact that all the professional employees of Finoval Oy decided to stay on, shows that the affiliation was a success.



Products of Satmatic and Harju Elekter are becoming more and more known and appreciated in *Finland*.

Better representation in Helsinki area has given us better opportunities to increase the sale of Group's products.

Increase in the turnover proves that we are on the right path.

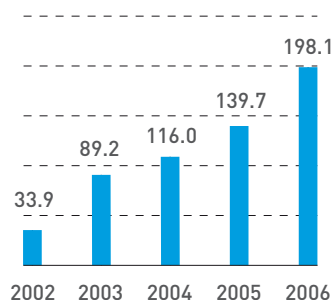
Simo Puustelli
Managing Director

In 2006, the project for online-ordering was launched, the aim of which is to expedite and simplify order processing. Our goal in 2007 is for at least half of the orders to be placed electronically. Satmatic Oy launched car park units using the bluetooth technology as a result of a co-operation project including Tampere Technical University and Siemens Oy.

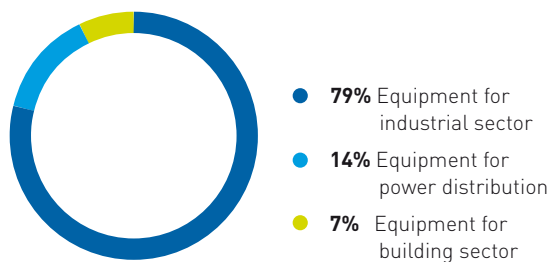
Satmatic Oy has good prospects for increasing sales revenue in the year 2007, although a certain decrease in the growth rate is expected. Particular emphasis will continually be on project products and solutions of the energy distribution sector supported by active sales and marketing.

Turnover

million EEK



Product groups, 2006



Continually rapid growth of *Lithuanian* economy,
including the industry sector, has created good preconditions

*for excellent results
of Rifas Group.*

I do believe that our position in Lithuanian market
enables us to benefit from developments in various sectors.

Mindaugas Slapsys

Managing Director

Rifas Group

Rifas Group (hereinafter "Rifas") comprises Lithuanian manufacturing enterprise, Rifas UAB and its subsidiaries, UAB Automatikos Iranga (design) and the construction and installation company UAB Biržu Montuotojas (until 31 October 2006).

In 2006 Rifas was the fastest growing subsidiary of the Harju Elekter Group, the sales volume of which increased by 75%, exceeding the growth rate of 2005 (30%) 2.5 times. The sales revenue was 114.1 million kroons.

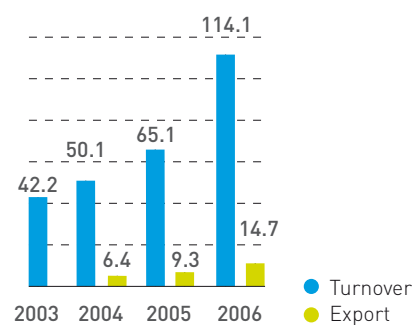
The increase was based on major projects in Lithuania launched in previous years and successfully completed by Rifas in 2006. The projects included the implementation of an electricity distribution solution in the Kazlu Ruda chipboard and furniture factory, which is one of the most contemporary in Lithuania as well as in Central and Eastern Europe. In the framework of the projects the first shipments of Sivacon type equipment were made in the Lithuanian market.

The increase in turnover was also supported by exports to Latvia, Belarus and Norway, giving almost 10% of the turnover. Due to the increase in turnover volume of the industry sector the share of this field in the product group increased to 45% (compared to 28% the year before).

Because of the market situation, the price offered and the goal to focus more on the main activities, Rifas in November sold its majority holding in a subsidiary operating in the construction segment, Biržu Montuotojas UAB, to the management of the company. In the last quarter of the year Mindaugas Slapsys, responsible for marketing, was appointed Chairman of the Managing Board.

Turnover

million EEK



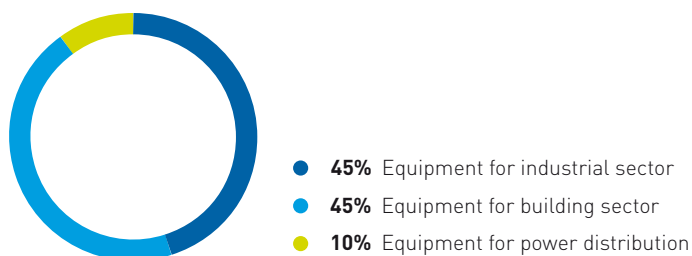


Besides good economic results positive developments have also taken place in the personnel: all the necessary positions are occupied by specialists which enables the successful handling of an increasing volume of work.

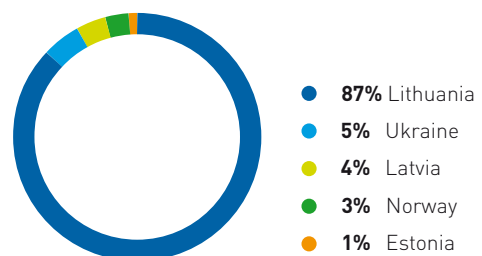
In order to recognise the positive development of the company the Lithuanian Association of Industry awarded UAB Rifas the title of "Successful company 2006" by which the Association acknowledged the company for the modernisation of production, good and safe production conditions and for the range of products and the expansion of markets. A total of 900 Lithuanian companies participated in this competition.

The company has good prospects for the year 2007, as the rapid development of the Lithuanian economy is expected to continue. In order to increase the market share and broaden the product range in the home market the company aims to increase the sales of power distribution equipment and, parallel to that, also increase the volume of its export projects. In order to guarantee sufficient production capacity the construction of a new production and administrative block will start in 2007. To increase the professional knowledge of employees a special training programme will be launched.

Product groups, 2006



Turnover by market, 2006



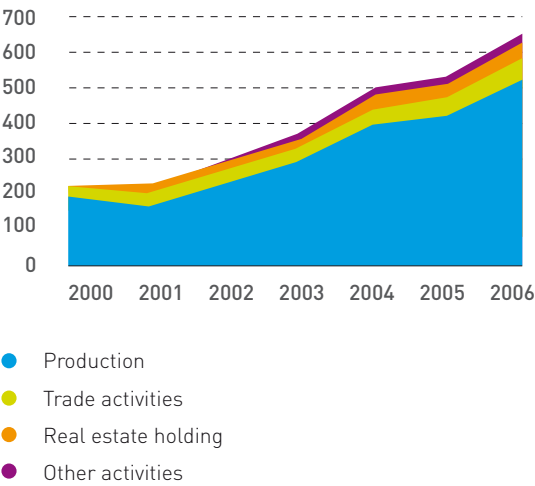
Business segments

The operation of the Harju Elekter Group can be divided into three business segments: production, trade and real estate and other activities.

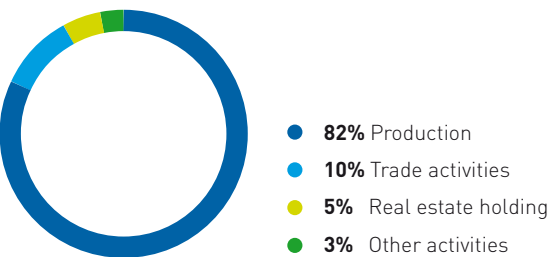
In 2006 the production segment gave 81.5% of sales revenue (compared to 79.8% in 2005). Last year was successful for production and trade. Sales revenue of the real estate segment remained practically at the level of 2005. The revenue increase was two million kroons. The revenue from rent and mediation of investment property related services amounted to 32.8 million kroons. The revenue from other activities decreased during the year by 4.9 million kroons, amounting to 18.9 million kroons. This was due to the sale of the subsidiary of Rifas, Birzu Montuotojas UAB, in October and therefore the company's results from the two last months of the year are not included in the Group's reports.

Turnover of business segments

million EEK



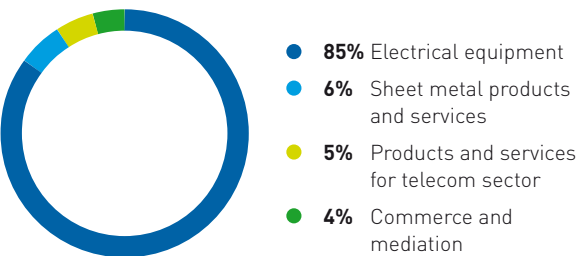
Turnover by segment, 2006



Production

The production segment of the Group includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (UAB Rifas) which produce mainly electric power distribution equipment (substations, cable distribution cabinets and switchboards) and automatic control boards for the energy sector, industry and infrastructure. AS Eltek in Estonia which manufactures products for the data and telecommunication sector also belongs in this segment.

Turnover, 2006



The share of the production segment in consolidated sales revenues increased during the year by 1.7 percentage points, amounting to 81.5%.

In the conditions of strong economic growth the sales revenues of the production segment increased, the biggest part (23.6%) of which came from the production and sales of electrical equipment, amounting to 506.9 million kroons. The revenue gained from the sales of electrical equipment increased during the year by 27.9%, amounting to 429.8 million kroons. Brought about by increased demand, the share of sheet metal products and related services increased by 41.5%, amounting to 31.5 million kroons.

The majority or 84.9% of the revenues of the production segment was received from the sales of electrical equipment.

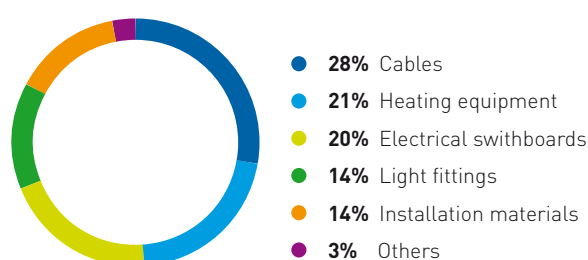
Trade

This segment includes the income from the four Harju Elekter corporate stores operating in the largest towns of Estonia that sell products of the Group and associated companies as well as other products necessary for electrical installation works, mainly to small and medium-sized electrical installation companies and retail customers.

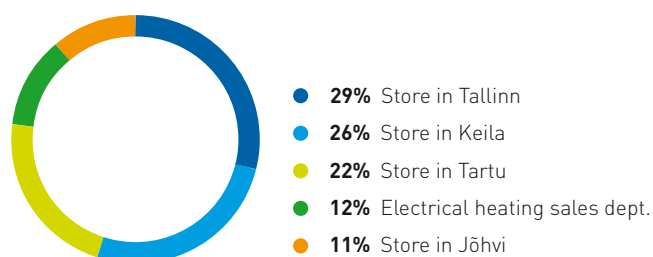
Facilitated by a continuous construction boom and high level of domestic demand the sales revenue of the trade segment increased during the year by 29.3%, amounting to 63.5 million kroons, which made up 10.2% of consolidated sales revenue.

The sales of the trade group was influenced by the rapid growth of the construction market in 2006. Compared to its competitors the trade group has been able to maintain its market share and even somewhat increase it. At the same time, however, the trade group has been influenced by the rise in the price of copper, and hence copper cables, that only slowed down at the end of the year. Preconditions for the continuation of the growth of the trade group are related to the growth of the economy in general and the construction sector, in particular, as well as the opening of the new premises of the Tallinn store at the end of 2006 which are now twice as large as before and contribute the biggest part of the turnover.

Product groups, 2006



Turnover by store, 2006



Associated companies

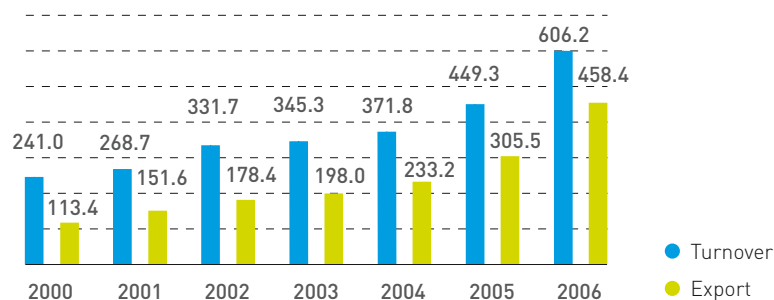
The economic results of associated companies are presented together in the consolidated financial statement using the equity method. The financial income of 2006 from associated companies was 1.7 million kroons, increasing during the year by 0.5 million kroons. The price fluctuation of non-ferrous metals on the world market influenced the economic results of AS Draka Keila Cables the most and this is why the consolidated share of profit of the associated companies remained modest in spite of high sales turnover.

AS Draka Keila Cables

The fourteenth year of operation of AS Draka Keila Cables, which is located in Keila, and is specialised in the production of power cables and sales of the products of Draka Group was spent in an economic environment where the construction sector in company's main markets (Estonia, Latvia, Lithuania) grew rapidly. Despite high demand the year 2006 was complicated because of the price fluctuations of metals on the world market and the limited production volume of the Keila factory.

Turnover

million EEK



In 2006 the turnover of the company was 606.2 million kroons, increasing during the year by almost 35%. Exports amounted to 458.4 million kroons. Export volume was influenced by the doubled sales within the Group.

As the price of aluminium makes up over 70% of the cost price of the production it influenced the level of the selling price considerably. To manage risks arising from fluctuations in aluminium prices futures were used. Nevertheless the rise in prices decreased the profit margin of the company.

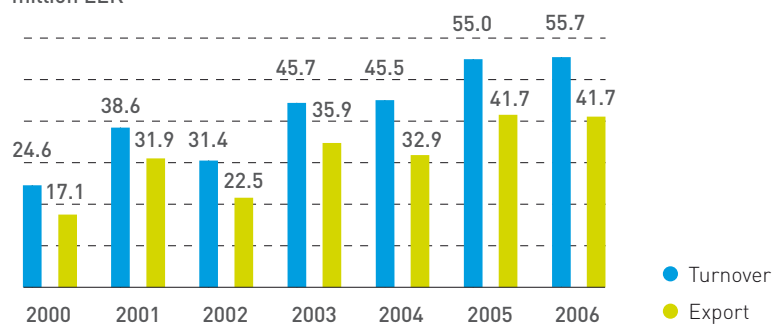
Considering the continuous high demand AS Draka Keila Cables plans to make investments to increase the production capacity. Stricter state supervision over the conformity of cables sold in Estonia to certain standards and sales prohibition on non-conforming products are expected to influence the market share positively. In 2007 the direct supply project will continue, the aim of which is to make as many deliveries as possible direct from the factory to customers' warehouses, thus making the goods less expensive.

AS Saajos Inexa

The main activity of Saajos Inexa is to manufacture and market steel fireproof and safety doors for the shipbuilding and construction market. In 2006, the turnover of the company amounted to 55.7 million kroons, remaining at the same level as in 2005. Almost 75% of the revenue came from exports. The most important markets were Finland, Germany, Great Britain, Norway, Denmark and Sweden. Sales in Finland, Germany, Great Britain and Norway increased considerably, which, according to the project for 2006–2008 “Export plan for Saajos Inexa marine doors” drawn up together with Enterprise Estonia, are the main markets of destination.

Turnover

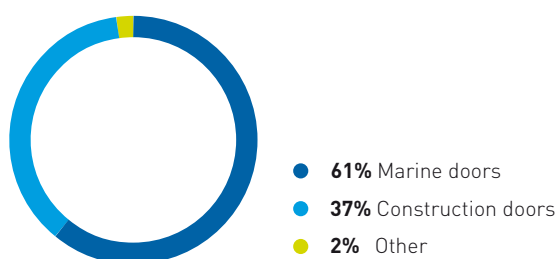
million EEK



Marine doors account for 61.3% and construction doors for 36.5% of the production. Last year the share of marine doors increased due to the increased demand in the Finnish shipbuilding market.

Expectations for the year 2007 are high. Besides the aim to increase turnover we plan to make additional investments in production technology and product development. Execution of the export plan will also continue.

Product groups, 2006



Other financial investments

SIA Energokomplekss

SIA Energokomplekss, founded on 1 September 2006 together with the Latvian leading producer of electrical installations A/S Jauda and other Latvian undertakings as a joint venture, is a sales organisation, which makes it possible to participate together in invitations-to-tender for medium and low voltage equipment in Latvia as well as beyond, thus increasing the market share of Harju Elekter. The share of Harju Elekter in the company is 10%.

The enterprise, which started to operate in the fourth quarter of 2006, is profitable.

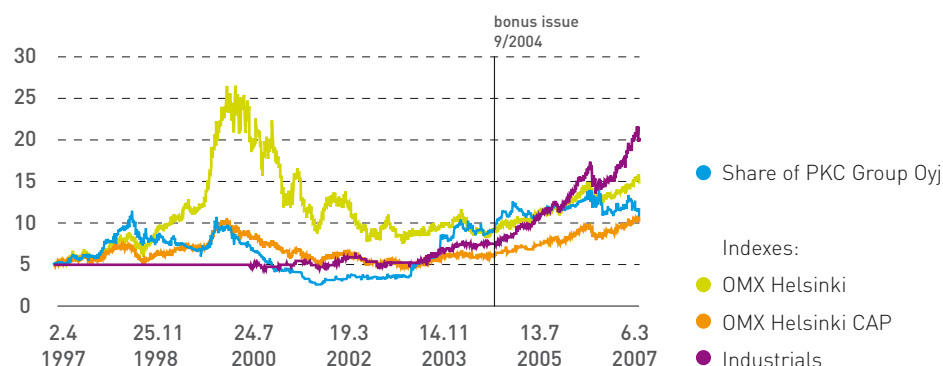
PKC Group Oyj

Harju Elekter has had a strategic investment in PKC Group since 1994. From the year 2000 the market value of the financial investment has increased by almost 50% and Harju Elekter has earned 56.9 million kroons in dividends. At the same time the Group has used the shares of PKC Group in order to finance the acquisition of other stakes and the expansion of its main activities as well as to gain more favourable credit terms.

PKC Group manufactures wiring harnesses for the automobile, telecommunication and electronics industries. The company has factories in Finland, Estonia, Russia, Brazil, China, Canada, Mexico and USA hiring a total of 4800 employees.

Harju Elekter is the main owner of PKC Group Oyj holding a stake of 10.1% as at 31 December 2006. PKC Group shares are quoted on the Helsinki Stock Exchange and are valued in the balance sheet according to market price. The market price of a share increased during the year by 1.34 euros (20.97 kroons), amounting to 12.24 euros (191.67 kroons). The value of assets of the Group increased by the difference in the revaluation or 37.7 million kroons. In 2006 the financial income from shares amounted to 17.9 million kroons (compared to 10.4 million kroons in 2005), including dividend income of 12.7 million kroons (compared to 4.6 million kroons in 2005). The dividend income more than doubled and had a significant influence on the net profit of the Group.

Shares of PKC Group Oyj (PKC1V) on the Helsinki Stock Exchange



Investment and development

Last year the Group invested 40.4 million kroons, which is over 13% more than in 2005. The total cost of investments comprises assets acquired through business combinations (Finoval Oy) in the sum of 6.3 million kroons. Investments in real estate made up 10.4 million kroons (24.0 million kroons in 2005), in tangible assets 26.9 million kroons (11.3 million kroons in 2005) and intangible assets 3.1 million kroons (0.4 million kroons in 2005).

According to the development principles of the Group, Harju Elekter aims to continually modernise and develop new products to meet the needs of its customers and to improve its production technology. The development costs amounted to 7.7 million kroons, increasing during the year by more than 35% and making 1.1% of the Group's turnover.

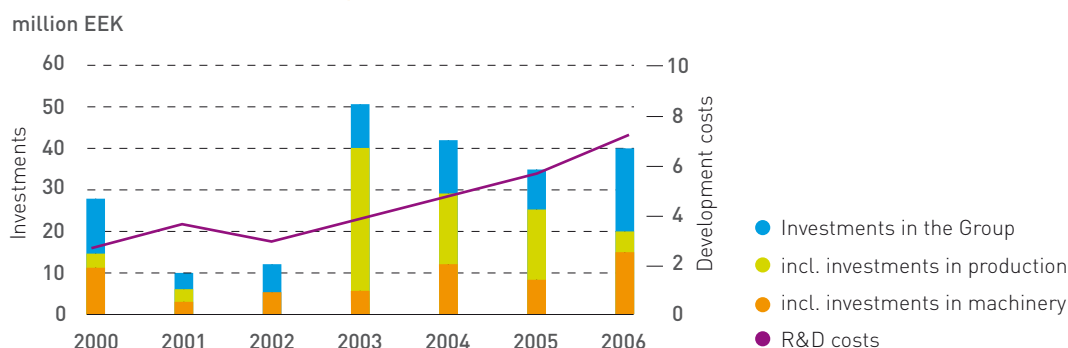
Harju Elekter Elektrotehnika introduced into production and sold the first LV distribution units Sivacon 8PT and MV secondary distribution units SM6 manufactured under a license agreement and focused on the development of new solutions for LV substations. Successful tests were carried out on the new one-ended substation with metal casing, cable distribution cabinet as well as electrical switchboard which were brought into conformity with the technical requirements of the distribution networks. One of the aims of expanding the range of substations is to offer as flexible a selection of products as possible. The aim is to enable the prefabrication of a tailor-made end-product meeting the needs of each customer and minimising the operations to be performed on-site. In the second quarter of the year prototypes of new licensed products and production technology were approved.

To guarantee sufficient production capacity and improve the quality of metal items and details. AS Eltek acquired a new fully automatic power paint line, which was adjusted and started to operate in September. The total cost of the project was 7 million kroons.

Satmatic Oy focused on the integration of the business activities of its newly purchased company, Finoval Oy, and on the active broadening of sales activities in Finland through the Helsinki representation office. At the same time two projects, supported by TYKES funds, were developed, the first of which deals with the system handling electronically placed orders and the other logistics.

In 2006 re-certification audits of quality management systems ISO 9001:2000 and ISO 14001 were carried out in every company of the Group. All the companies passed the audit successfully.

Investments and development costs



Risk management

In its business activities the Group is guided by the principle that reasonable and weighted risks should be taken in such a way that as a result of a transaction, the company is guaranteed an optimal income-risk ratio and in the case of negative events, the loss from a transaction is minimal. To prevent the risks associated with the Group's further growth, internal control procedures have been developed and are monitored by an internal auditor, who regularly reports to the Supervisory and Management Boards.

In order to diminish risks deriving from the operation, the insurance of assets is used among other things. Fixed and current assets for production, as well as production premises, are insured by Harju Elekter. Additionally, personnel and product liability risks connected with business activities are also insured.

As regards **financial risks**, the Group follows the following principles:

- Credit risks – regulations have been developed to manage credit risks – i.e. the risk that customers or transaction partners fail to fulfil their obligations. In order to prevent these risks, the customer's background and solvency are examined before concluding the transaction. Payment discipline is continuously monitored. This has made it possible to keep losses deriving from credit risks to under 0.01%.
- Currency risk: the Group is not exposed to major currency risks, as cross-border transactions are, as a rule, carried out in euros.
- Interest risks: the risk caused by a change in loan interest rates increases when interest rates rise. In order to manage these risks the Group follows the principle that part of the loan agreements are concluded with fixed interest rate. Most of the finance lease agreements are also concluded with fixed interest rate.
- Liquidity risk is minimised by managing liquidity both on a daily basis and in the longer term. The Group's financial resources are distributed among different banks.

As regards **risks associated with raw materials**, the Group follows the following principles:

- If necessary, forward transactions are used to manage the risks associated with the purchase price of non-ferrous metals (copper, aluminium, etc.).
- As regards ferrous metals, long-term contracts are concluded with major suppliers; the companies belonging to the Group have also carried out joint procurements to get a better price.
- For the purchase of electrical components, contracts covering the entire Group have been concluded with major suppliers and joint procurements are carried out to get a better price.

The management of the Group considers **personnel risks** to be the following:

- Risks associated with the professional skills of personnel: the Group needs employees with specific specialised training. To that end, the Group co-operates with vocational schools (e.g. Tallinn Construction School, Tallinn Centre of Industrial Education) and institutions of higher education (e.g. Tallinn Technical University (TTU), Tallinn Polytechnic School, Satakunna Vocational High School). Training days and tours to the company's factories are organised to introduce the company as a future employer. In order to ensure a constant supply of engineers, the company has launched scholarship programmes in collaboration with the Development Fund of TTU for the undergraduate and graduate students of TTU. In addition, training activities are constantly organised within the company.
- Risks associated with the geographical location of personnel: the Group's head office and the Estonian factories are located in Keila. There are also factories in Ulvila and Kerava, Finland, and Panevėžys, Lithuania. The foreign subsidiaries deal with their personnel issues on their own. The personnel services of Estonian companies are concentrated on the Group level where daily administration as well as constant recruitment is carried out. The current situation in the factories is rather stable, so employees do not get hired or laid off in numbers.

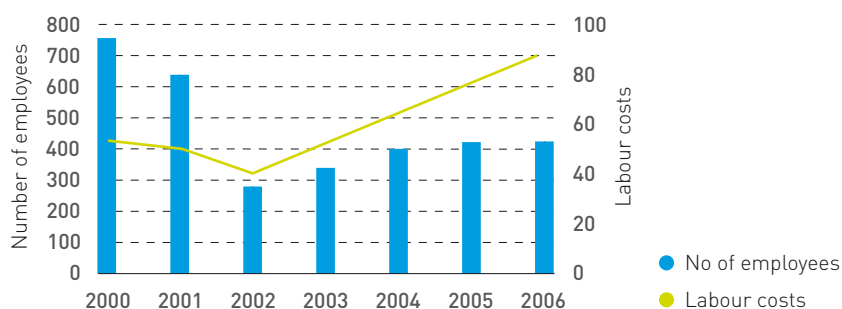
- Personnel turnover: the continuous work done with employees, keeping them informed and up-to-date with the company's objectives has ensured a small percentage of personnel turnover. In addition, the Group has developed clear and attractive wage and bonus systems as well as employee motivation programmes which are continually complemented. As we are an international group, the employees have the opportunity to work in the Group's factories in different countries on the basis of rotation. In 2006, the percentage of personnel turnover in the Group was 10.7 % (compared to 8.0% in 2005).

Personnel

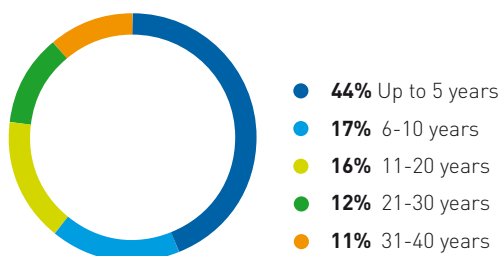
In 2006, the average number of employees of the Group was 439 (412 in 2005). As a result of the sales of the Rifas UAB subsidiary in the fourth quarter the number of employees at the end of the year was 427 (425 in 2005). In the reporting period, wages and salaries amounted to 86.6 million kroons, increasing by 12.7 million kroons in a year, which is the same increase as in 2005. Labour costs grew by 19.6%, amounting to 117.4 million kroons in 2006.

Personnel and labour costs

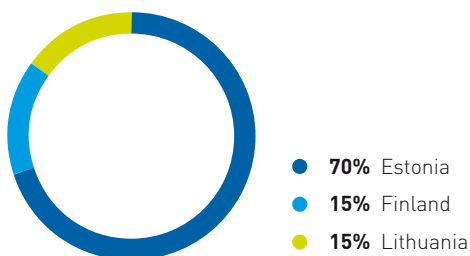
million EEK



Lenght of service in Estonian companies, 2006



Employees by country, 2006



Compared to previous years the overall labour supply decreased considerably but the Group's demand was covered at all times owing to the small percentage of personnel turnover and close co-operation with educational institutions which guarantees that young specialists are interested in working in the companies of the Group. The percentage of personnel turnover is small because of the good reputation of the Group and a good working environment.

The average monthly gross wage in the Group was 16,400 kroons (10.1 % increase compared to 2005). Taking into account the increase in personnel and comparing these indicators with each of the countries' averages, they may be considered to be efficient.

The majority of the Group's employees – 299 people – work in Estonia. At the end of the year, there were 66 people working in Finland and 62 in Lithuania. The number of employees in Finland increased by 20 during the year, primarily because of the affiliation of Finoval Oy to Satmatic Oy. The number of employees in Lithuania decreased by 25 mainly because the Rifas UAB subsidiary was sold. In Estonia 206 of the employees are men and 93 are women – 55 of the total of which have higher education. 174 people have secondary or vocational secondary education and 70 have basic education.

One of the strengths of Harju Elekter is its solid organisational culture. The preservation and development of this culture is enhanced by the high percentage of long-term employees. In Estonia 119 persons have worked in the Harju Elekter Group for over ten years and 171 persons, that is almost 60% of the company's staff, have worked in the Group for over five years.

The average age of the Group's employees is 43 years and this figure has remained constant in the past years. To find new competent employees, Harju Elekter co-operates with universities and vocational schools. Currently seven young engineers have found their way to the Group through the scholarship programme run by the Development Fund of TTU and Harju Elekter.

To motivate its staff, the Group uses a bonus system linked to operating profit, which has proved to be effective over the years. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcomes of the work done for the company as a whole.

In order to maintain its reputation as a good employer, Harju Elekter provides its employees with modern working and rest facilities. The Group is involved in constructive co-operation with the trade union of the Keila Industrial Park, one of the main outcomes of which are collective labour agreements. The stability, social guarantees and motivation scheme offered by Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

The employee exchange programme will be further developed in the Group, which will enable employees to work in the different companies belonging to the Group, promoting the rapid development of knowledge and skills within the Group and offering rotation opportunities.

Quality management and environmental policy

The high quality business and management model is one of the assets of the Harju Elekter Group. The objective is to develop business processes, practices and systems based on the principle of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play.

The Group particularly emphasises the handling of customer feedback so that the necessary information would reach the relevant employees with minimum delay and that corrective and preventive action could be effectively implemented. In 2006 thorough and contemporary methods for studying customers' satisfaction and needs were drawn up, according to which AS Harju Elekter Elektrotehnika conducted a customer survey. The minimal number of claims made to the Group confirms the effectiveness of the Group's quality policy.

Production processes of Harju Elekter do not have a significant negative impact on the environment. Nevertheless, the companies of the Group monitor and measure their environmental impact according to the environmental policy, organise hazardous waste collection and transfer to waste handling companies. Taking care of the environment is part of the daily routine of all the Group's companies. On the end of 2005 a system was established for the collection of packages and packaging waste and for the recovery of packaging waste in accordance with the requirements of the Packaging Act. In addition, the stores of the Harju Elekter commerce group organise the collection, recycling and disposal of unusable electronic devices (boilers) in accordance with the Waste Act.

All the companies of the Group have been awarded the quality and environmental management certificates, ISO 9001 and ISO 14001. The following table gives an overview of the periods of validity.

	2000	2001	2002	2003	2004	2005	2006	2007-...
Harju Elekter Elektrotehnika	ISO9001					•	•	(1/2010)
	ISO14001					•	•	(1/2010)
Eltek			ISO9001 ISO14 001			•	•	(1/2008)
Rifas				ISO9001 LST EN ISO 9001:2001			•	(12/2009)
Satmatic				ISO9001			•	(10/2009)
Draka Keila Cabels	ISO9001					•	•	
		ISO14 001				•	Integrated certificate up to 3/2009	

• resertification

Shareholders and shares

The trading history of Harju Eleker shares¹

	2002	2003	2004	2005	2006
Highest price (EEK)	15.22	36.51	49.50	85.80	69.47
Lowest price (EEK)	9.49	14.34	34.94	48.82	51.63
Closing price (EEK)	15.23	34.94	47.46	64.15	64.93
Change (%)	+45.0	+129.5	+35.8	+35.2	+1.2
Number of traded shares	330,855	1,722,283	1,500,267	2,064,396	4,549,191
Turnover (million EEK)	11.5	114.1	180.3	279.0	277.5
Market value (million EEK)	246.7	566.1	797.4	1,077.7	1,090.2

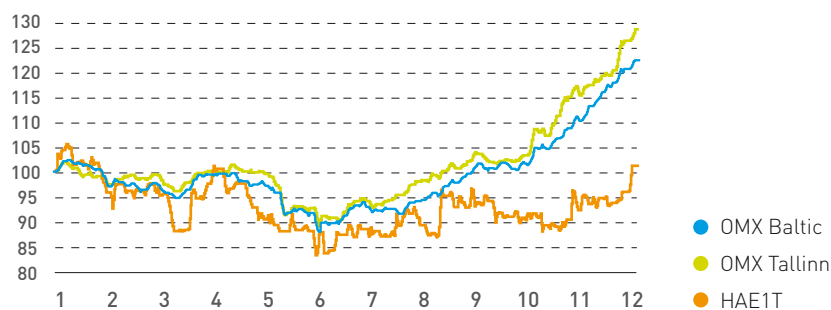
¹ the figures reflect the 2005 bonus issue

Additional information: <http://www.ee.omxgroup.com/>

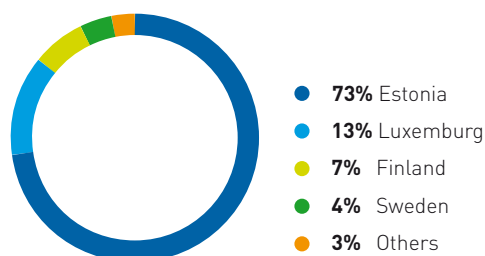
The year 2006 for the Baltic Stock Exchanges was characterised by a fall in the first half and a rapid rise in the second half of the year, especially in the fourth quarter. The Tallinn OMX index increased by almost 30% during the year, outperforming the increase of the Baltic OMX index by 6%. Trading activity of Harju Eleker shares more than doubled during the year. The market value, however, remained practically the same. The number of shareholders reached 1039.

History of trade in Harju Eleker's shares (HAE1T) and Baltic indexes

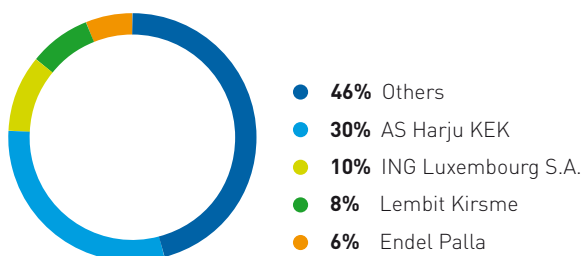
1.1.2006-31.12.2006



Shareholders by country, 2006



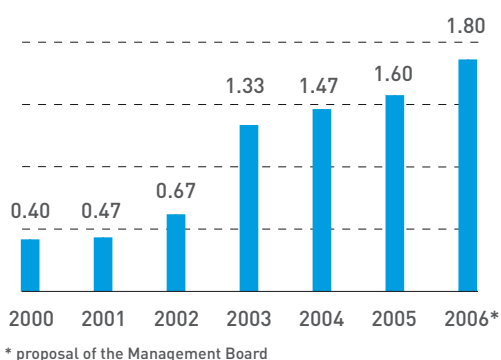
Shareholders (more than 5%, 31.12.2006)



Ownership (31.12.2006)	No of shareholders	Percent	Percent of votes
more than 10%	2	0.2%	40.2%
1.0-10.0%	9	0.9%	30.9%
0.1-1.0 %	106	10.2%	21.6%
under 0.1%	922	88.7%	7.3%
Total	1,039	100%	100%

Dividend per share

EEK



Following the good economic results, capitalisation and positive growth perspective the Management Board of Harju Elekter makes a proposal to pay a dividend of EEK 1.80 per share for the financial year 2006.

Supervisory board, management board and auditors

In 2006 there were no changes in the management of AS Harju Elekter. The Management Board continues with the following membership: Andres Allikmäe as Chairman and members Karin Padjus, the Financial Director, and Lembit Libe, the Chief Economist. All members of the Management Board belong to the executive management of the company. The Chairman of the Board receives remuneration in accordance with the contract of service; members of the Management Board receive no special remuneration.

The Supervisory Board of AS 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 members of the Supervisory Board are: Ain Kabal (President of the Estonian Association of SME's); Lembit Kirsme (Chairman of the Supervisory Board, AS Harju KEK); Madis Talgre (Managing Director, AS Harju KEK) and Triinu Tombak (Consultant). The Supervisory Board consists of specialists from areas essential for the activities of the Group. There were no changes in the Supervisory Board of AS Harju Elekter during the year.

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 3.3 million kroons. When the contract of service of a member of the Supervisory or Management Board expires or is prematurely terminated the company has no obligation to pay any other compensation, except for that prescribed by law. The Chairman of the Management Board has a contract of service specifying social guarantees in case of resignation.

The general meeting of the shareholders elected the Group of auditors lead by the auditor, Andres Root, of KPMG Baltics, the Harju Elekter auditors, for the years 2006–2008.

Social responsibility

The environment around us creates, as well as limits, our opportunities to act. Being a large enterprise in the area, Harju Elekter feels the responsibility to enhance social development and increase the well-being of the members of society. Over time, four major areas of sponsorship have evolved in the Group:

- **co-operation with educational institutions** in order to develop and popularise engineering education and offer young electricity specialists and mechanicals field training and work opportunities at Harju Elekter;
- **sport**: the Group supports mainly young athletes and teams whose results make it possible to expect a break-through;
- **the company's surrounding territory** or the local community, with an emphasis on supporting children's and young people's education and leisure activities from kindergartens to youth clubs;
- **promoting recreational sport among the employees** in co-operation with the Harju KEK Athletic Club.

Through its support and public programmes, Harju Elekter has helped the Development Fund and the Alumni Society of the Tallinn Technical University and the Estonian Ski Association. The Group has also supported the young people in Keila interested in basketball and football as well as the Youth Handball Team. Employees of Harju Elekter have the possibility to use the Keila Health Centre swimming pool at special prices. All in all, the amount spent on various support programmes in 2006 reached nearly half a million kroons.

Corporate target for 2007

In spite of the estimated stabilisation of the rate of economic growth in the coming years the economic growth of the Baltic States is expected to remain between 6–10%. These figures are 2–4 times higher than the EU average. When considering the reference base that has grown rapidly in the past years, this means that increments in absolute capacity have been good. The level of investment in industry and infrastructure will be influenced positively by foreign aid to the three Baltic States from the EU in 2007–2013 in the amount of hundreds of billions of kroons.

The energy market of the Baltic States will be liberalized and this is also expected to enhance investment in the energy sector. Stricter requirements and more efficient state regulation and supervision enhance the use of quality products corresponding to the requirements. These future developments are expected to have a positive influence on the Group's activities in the Baltic States.

Harju Elekter regards Finland and Lithuania as well as the Baltic Sea region and Scandinavia in general to be the main sources of increase in turnover in the coming years. The growing reputation of the Harju Elekter trade mark, the quality of the products and the trade licenses purchased give better opportunities for increasing the share of our own production and marketing of products under the Harju Elekter trade mark. Better profits can be expected by reaching the end-user with our trade mark.

Demand based introduction of licensed products will continue. It is expected to strengthen the Group's market position in relation to MV/LV distribution equipment.

As regards the management and development of the Group we aim at competitiveness enhancing efficiency and productivity. This is why we plan to introduce a new production management information system into our Estonian production unit in 2007–2008. The system aims at a better management of resources and a shortening of delivery dates.

In Lithuania investing in the improvement and expansion of production continues. In Finland the electronic ordering system will expand, making the processing of orders more efficient. Investment in personnel should enhance, above all, the team work skills and make the sales team work more flexible.

2007 will mark the 10th anniversary of Harju Elekter being listed on the stock exchange. Harju Elekter continues to pursue its set dividend policy. In order to use the equity of the Group more efficiently the management continues to look for possibilities to use financial investments for financing the acquisition of new strategic stakes.

Being a socially conscious company, Harju Elekter continues to sponsor certain areas and offer young people, acquiring technical higher education, field training and work opportunities.

Corporate governance

As a company Harju Elekter follows the relevant legislation of the countries in which it operates and the requirements of the Tallinn Stock Exchange. As a publicly traded company AS Harju Elekter follows the principle of openness and equal treatment of investors. In order to keep investors and the public informed Harju Elekter administers a home page which includes all stock exchange notices, annual and internal reports, CGC report and an overview of its background, products and other important issues. All subsidiaries and associated companies of the Group also have home pages.

The everyday business activities of the Group are managed by members of Management Board of the parent company according to their areas of responsibility and those members of the Supervisory Board who are involved in the everyday work of the company. Outside of Estonia the compliance with good corporate governance is ensured by the local managements of the companies. Bearing in mind that the top management of the company is relatively small in number the need for forming special committees or any other additional management bodies has not yet occurred. The necessary procedures are regulated by rules. Meetings of the Management and Supervisory Board take place according to the agreed regularity and need. For better risk management of the Group an internal audit system has been established which regularly reports to the management of the Group.

AS Harju Elekter's CGC report 2006

Pursuant to the Corporate Governance Code (CGC) that was established by the Tallinn Stock Exchange and the Financial Supervision Authority and entered into force on 1 January 2006, AS Harju Elekter has drawn up a CGC report where the company's management board confirms compliance to CGC requirements or explains reasons for non-compliance. When drawing up the annual report, AS Harju Elekter mostly follows CGC guidelines. However, Harju Elekter does not follow some clauses of the CGC, mainly due to the peculiarity of the company's business area. The abovementioned clauses and explanations of non-compliance are presented below.

2.2.1 The chairman of the supervisory board concludes a contract of service with the member of the Management Board on the fulfilment of his or her duties.

The Management Board of the company includes employees who are responsible for the company's strategic areas: Chairman of the Management Board – CEO, members of the Management Board: Financial Director and Head Economist. The member of the Management Board contract has been concluded with the Chairman of the Management Board. Contracts of employment have been concluded with other members of the Management Board. Pursuant to the company's statutes and the regulation on the division of tasks of the Management Board and organisation, the tasks, responsibilities and liability of the Management Board have been set out.

2.2.7 The basic salary, performance pay, severance pay, other payable benefits and reward systems of each member of the Management Board, as well as their significant characteristics are presented in a clear and

unambiguous form on the issuer's website and in the CGC report. The presented data are considered clear and unambiguous if they directly express the extent of the expenses to the issuer or the extent of the likely expenses as of the day of disclosure.

The member of the Management Board pay is given only to the chairman of the Management Board; other members of the Management Board receive remuneration according to their position and contract of employment. The rate of the member of the Management Board pay and severance pay, as well as the conditions of payment are set out in the contract of service and shall not be disclosed to the public under an agreement between the parties. The rate of the severance pay and payment conditions of other members of the Management Board arise from the Employment Contracts Act.

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative personnel and its total rate is 4.0% of the group's operating profit. The performance pay is distributed according to the basic salary and work performance and the performance pay of the members of the Management Board is approved by the Chairman of the Supervisory Board. 90% of the performance pay is paid by quarter; the remaining 10% is paid after the results of the financial year have been determined.

Members of the Management Board are paid an annual bonus of 0.3% of the consolidated net profit in total. The annual bonus is approved by the chairman of the supervisory board and it is paid after the group's annual statement has been audited.

Additional remuneration for the length of employment is paid to all permanent employees on the basis of their length of employment, including permanent employment in the Harju Elekter Group. The rate of additional remuneration is 3–10% of the basic salary.

3.2.5 The rate of the member of the Supervisory Board pay and the payment procedure established by the general meeting shall be presented in the issuer's CGC report, separately pointing out the basic salary and additional remuneration (including severance pay and other payable benefits).

The membership of the supervisory board and its members were elected for 5 years by the decision of the shareholders' general meeting of 12.04.2002, setting 5,000 kroons a month as the pay rate for a member of the Supervisory Board and 18,000 kroons a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working as the company's R&D manager shall be subject to the reward system used in AS Harju Elekter. No severance pay is allotted to members of the Supervisory Board.

5.3 Among other things, the issuer's general strategic trends approved by the Supervisory Board are available for shareholders on the issuer's website.

The company's Management Board believes that strategy is a business secret and should not be made public. However, the general trends and significant topics have been included in the Management Board's management report published as a mandatory annex to the annual report.

5.6 The issuer discloses the times and places of meetings with analysts and of presentations and press conferences for analysts and investors or institutional investors on the issuer's website. The issuer enables shareholders to participate in these events and makes presentations available on its website. The issuer shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting.

The company's activities are always based on the principle of fair treatment of shareholders. Mandatory, significant and price-sensitive information is first disclosed in the system of the Tallinn Stock Exchange and then on the company's website. In addition, each shareholder has the right to request additional information from the company if necessary and to arrange meetings. The company's Management Board does not consider it important to keep a time and agenda schedule of meetings with different shareholders. This rule applies to all meetings, including those immediately preceding the disclosure of financial reporting.

6.2. Electing the auditor and auditing the annual accounts.

The general meeting of the shareholders of Harju Elekter of 20.04.2006 elected an auditor for the company for the period 2006–2008; the elected auditor is the auditing company KPMG Baltics AS and the sworn auditor Andres Root. Information on the auditor is available on the company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. Pursuant to the guideline of the Financial Supervision Authority from 24.09.2003 – "On the rotation of the auditors of certain subjects of state financial supervision" – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.

Annual financial statements

Statement of management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated financial statements of AS Harju Elekter Group for 2006, as set out on pages 41 to 83, and confirms that to the best of its knowledge, information and belief that:

- the policies applied in the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the Group and of the results of its operations and its cash flows;
- all significant events that occurred before the date on which the consolidated financial statements were authorised for issue (27 February 2007) have been properly recognised and disclosed;
- AS Harju Elekter and its subsidiaries are going concerns.

27th February 2007

Andres Allikmäe
Chairman of the Management Board



Lembit Libe
Member of the Management Board



Karin Padjus
Member of the Management Board



Consolidated balance sheet

As at 31 December		EEK '000		EUR '000	
	Note	2006	2005	2006	2005
Current assets					
Cash and cash equivalents	4	6,712	25,940	429	1,658
Trade receivables and other receivables	5	82,765	67,720	5,290	4,328
Prepayments	6	845	1,077	54	69
Inclusive income tax	17	2	21	0	1
Inventories	7	79,030	68,877	5,050	4,402
Total current assets		169,352	163,614	10,823	10,457
Investments in associates	8	25,187	24,773	1,610	1,583
Other long-term financial investments	9	344,884	312,103	22,042	19,947
Investment property	10	127,268	123,625	8,134	7,901
Property, plant and equipment	11	87,446	70,731	5,589	4,521
Intangible assets	13	3,595	1,560	230	100
Total non-current assets		588,380	532,792	37,605	34,052
TOTAL ASSETS		757,732	696,406	48,428	44,509
Liabilities					
Interest-bearing loans and borrowings	14	20,772	22,017	1,328	1,407
Trade payables and other payables	16	73,496	66,765	4,697	4,267
Tax liabilities	17	12,268	9,319	784	596
Inclusive income tax	17	2,401	298	154	19
Short-term provision	18	100	93	6	6
Total current liabilities		106,636	98,194	6,815	6,276
Non-current liabilities	14	26,568	29,879	1,698	1,910
Other non-current liabilities		469	0	30	0
Total non-current liabilities		27,037	29,879	1,728	1,910
Total liabilities		133,673	128,073	8,543	8,186
Equity					
Share capital	20	168,000	168,000	10,737	10,737
Share premium		6,000	6,000	384	384
Reserves	20	331,552	296,126	21,190	18,926
Retained earnings		100,078	82,069	6,396	5,245
Total equity attributable to equity holders of the parent		605,630	552,195	38,707	35,292
Minority interest		18,429	16,138	1,178	1,031
Total equity		624,059	568,333	39,885	36,323
TOTAL LIABILITIES AND EQUITY		757,732	696,406	48,428	44,509

Consolidated income statement

For the year ended 31 December		EEK '000		EUR '000	
	Note	2006	2005	2006	2005
Revenue	22, 23	622,087	513,936	39,759	32,847
Cost of sales	23	-509,812	-414,503	-32,583	-26,492
Gross profit		112,275	99,433	7,176	6,355
Distribution costs	23	-27,156	-24,163	-1,736	-1,544
Administrative expenses	23	-39,830	-37,430	-2,546	-2,392
Other income	23	646	601	41	38
Other expenses	23	-761	-925	-48	-59
Operating profit	22	45,174	37,516	2,887	2,398
Finance income	23	18,226	10,656	1,164	680
Finance costs	23	-2,885	-1,804	-184	-115
Share of profit of associates	8	1,723	1,231	111	79
Profit before tax		62,238	47,599	3,978	3,042
Income tax expense	24	-10,195	-3,691	-652	-236
Profit for the period		52,043	43,908	3,326	2,806
Attributable to:					
Equity holders of the parent	25	47,289	41,656	3,022	2,662
Minority interest		4,754	2,252	304	144
Basic and diluted earnings per share	25	2.81	2.48	0.18	0.16

See accompanying notes to the consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December		EEK '000		EUR '000	
	Note	2006	2005	2006	2005
Cash flows from operating activities					
Operating profit		45,174	37,516	2,887	2,398
Adjustments for:	10, 11,				
Depreciation and amortisation	13, 23	16,516	14,929	1,056	954
Gain on sale of property, plant and equipment	23	-374	-149	-24	-9
Change in receivables related to operating activity		-20,024	-13,512	-1,280	-864
Change in inventories		-9,862	-927	-630	-59
Change in payables related to operating activity		11,312	10,397	723	664
Corporate income tax paid	17, 24	-8,073	-3,369	-516	-215
Interest paid	16, 23	-1,943	-1,797	-124	-115
Net cash from operating activities		32,726	43,088	2,092	2,754
Cash flows from investing activities					
Acquisition of investment property	10	-10,416	-24,012	-666	-1,535
Acquisition of property, plant and equipment	11, 26	-19,256	-17,655	-1,231	-1,128
Proceeds from sale of property, plant and equipment		475	379	30	24
Acquisition of intangible assets	13, 26	-3,452	-672	-221	-43
Acquisition of other financial investments	9	-158	0	-10	0
Net cash flows incurred by acquisition of production unit	21	-5,714	0	-365	0
Proceeds from sale of other financial investments	9	5,758	5,008	368	320
Net cash flow from disposal of subsidiary	21	144	0	9	0
Loans given		-58	-13	-4	-1
Repayment of loans given		8	33	1	2
Interest received	5, 23	249	217	16	14
Dividends received	8, 23	13,988	7,113	894	455
Net cash used in investing activities		-18,432	-29,602	-1,179	-1,892
Cash flows from financing activities					
Proceeds from borrowings	14	7,000	29,925	447	1,913
Repayment of borrowings	14	-11,353	-7,890	-725	-504
Payment of finance lease principal	14	-1,555	-3,169	-99	-203
Dividends paid		-27,531	-25,135	-1,760	-1,607
Net cash used in financing activities		-33,439	-6,269	-2,137	-401
Net cash flows		-19,145	7,217	-1,224	461
Cash and cash equivalents at beginning of period	4	25,940	18,786	1,658	1,201
Net increase / decrease		-19,145	7,217	-1,224	461
Effect of exchange rate fluctuations on cash held	23	-83	-63	-5	-4
Cash and cash equivalents at end of period	4	6,712	25,940	429	1,658

Consolidated statement of changes in equity

EEK '000	Attributable to equity holders of the parent							
	Share capital	Share premium	Capital reserve	Fair value reserve	Re-tained earnings	Total	Minority interest	TOTAL
Balance at 31 December 2004	56,000	6,000	8,600	273,324	177,053	520,977	14,381	535,358
Profit for 2005	0	0	0	0	41,656	41,656	2,252	43,908
Income recognised directly in equity	0	0	0	14,202	0	14,202	0	14,202
Total income for 2005	0	0	0	14,202	41,656	55,858	2,252	58,110
Dividends	0	0	0	0	-24,640	-24,640	-495	-25,135
Bonus issue	112,000	0	0	0	-112,000	0	0	0
Balance at 31 December 2005	168,000	6,000	8,600	287,526	82,069	552,195	16,138	568,333
Profit for 2006	0	0	0	0	47,289	47,289	4,754	52,043
Income recognised directly in equity	0	0	0	33,026	0	33,026	0	33,026
Total income for 2006	0	0	0	33,026	47,289	80,315	4,754	85,069
Dividends	0	0	0	0	-26,880	-26,880	-651	-27,531
Amounts transferred to reserves	0	0	2,400	0	-2,400	0	0	0
Disposal of a subsidiary	0	0	0	0	0	0	-1,812	-1,812
Balance at 31 December 2006	168,000	6,000	11,000	320,552	100,078	605,630	18,429	624,059
EUR'000								
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	7158	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
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
Amounts transferred to reserves	0	0	153	0	-153	0	0	0
Disposal of a subsidiary	0	0	0	0	0	0	-116	-116
Balance at 31 December 2006	10,737	384	703	20,487	6,396	38,707	1,178	39,885

Further information on share capital and reserves can be found in Note 20.
See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

Note 1 Significant accounting policies

General information

AS Harju Elekter is a company registered in Estonia. These consolidated financial statements for the year ended 31 December 2006 comprise AS Harju Elekter (the "parent company") and its subsidiaries AS Eltek, AS Harju Elekter Elektrotehnika, Satmatic Oy and Rifas UAB (together referred to as the "Group") and the Group's interest in associates AS Draka Keila Cables and AS Saajos Inexa. AS Harju Elekter has been listed at Tallinn Stock Exchange since 30 September 1997; 30.17 percent of its shares is held by AS Harju KEK.

According to the Commercial Code of the Republic of Estonia the annual report, comprising the consolidated financial statements, which are drawn up by the Management Board and approved by the Supervisory Board, are authorised by the annual general meeting of shareholders.

The Management Board approved and signed the consolidated financial statement for the year ending on 31 December 2006, on 27 February 2007.

The main activity of the Group is the production and sales of equipment for power distribution and controls for the energy, construction and industrial sectors. The activities of the Group are described in detail in Note 22 "Information on segments".

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Operating and underlying currency

For accounting purposes the companies of the Group use the currency applicable to their economic environment. Estonian companies of the Group use the Estonian kroon (EEK), Finnish companies use the euro (EUR) and Lithuanian companies the Lithuanian litas (LTL). The Estonian kroon is pegged to the euro at the rate of EEK 15.6466 to € 1 and Lithuanian litas at the rate LTL 3.4528 to € 1.

The consolidated financial statement has been drawn up in thousands of Estonian kroons and all the figures have been rounded to the nearest thousand, unless indicated otherwise. In accordance with Tallinn Stock Exchange Rules, the annual financial statement is also presented in euros. As the Estonian kroon is pegged to the euro (see previous paragraph) presentation of the statements does not entail differences in the exchange rate. In the statement the abbreviation EEK '000 means a thousand kroons and abbreviation EUR '000 means a thousand euros.

Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except that available-for-sale investments are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Group companies apply uniform accounting policies.

Changes in accounting policies and presentation

As from 1 January 2006 the following standards and amendments and interpretations to existing standards became mandatory for the companies of the Group.

- *IFRIC 4* "Determining whether an arrangement contains a lease"
- *Amendment to IAS 39 and IFRS 4* "Financial Guarantee Contracts"

Note 1 Significant accounting policies (continued)

- *Amendment to IAS 39 "Fair value option"*
- *Amendment to IAS 39 "Cash Flow Hedge Accounting of Forecast Intra-group Transactions"*
- *IAS 21 "The Effects of Changes in Foreign Exchange Rates"*

As at 31 December 2005 the application of the new standards had not entailed any changes in the assets, liabilities or equity of the Group.

Changes in segment reporting

The Group's internal reporting is classified by legal entities, 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.

New International Financial Reporting Standards and Interpretations of the Financial Reporting Interpretations Committee (IFRIC)

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements. The following is the Group's assessment of the possible impact these new standards, amendments or interpretations will have on its financial statements in the period of initial application.

- *IFRS 7 Financial Instruments: Disclosures* (effective

for annual periods beginning on or after 1 January 2007). The new Standard will require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risk. The Standard will require increased disclosures about financial instruments in the Group's financial statements.

- *IFRS 8 Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard requires that segment information should be presented on the basis of components whose results are reviewed regularly by management in making business decisions. The Group's management has not completed its analysis and consequently cannot assess the impact of IFRS 8 on the Group's financial statements.

- *Amendments to IAS 1 - Presentation of Financial Statements - Capital Disclosures* (effective for annual periods beginning on or after 1 January 2009). The amendments and the Standard will require increased disclosures in financial statements with respect to the Group's share capital.

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 will not affect the Group's financial statements.

- *IFRIC 8 Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will not affect the Group's financial statements.

- *IFRIC 9 Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. According to management's assessment, IFRIC 9 will not affect the Group's financial statements.

- *IFRIC 10 Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after

Note 1 Significant accounting policies (continued)

1 November 2006). IFRIC 10 prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will not affect the Group's financial statements.

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Group does not have agreements on share-based payment transactions. Therefore, IFRIC 11 will not affect the Group's financial statements.
- IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). The Group has not entered into concession arrangements. Therefore, IFRIC 12 will not affect the Group's financial statements.

Basis of consolidation

The consolidated financial statement is drawn up every year on the basis of financial statements of AS Harju Elekter and its subsidiaries for the financial year ending on 31 December. The financial statements of the subsidiaries are prepared for the same period as the consolidated financial statement, applying uniform accounting policies. If a subsidiary applies different accounting policies compared to the consolidated financial statement, the financial statements of the subsidiary are adjusted accordingly for the same transactions carried out in the same conditions.

Subsidiaries

Subsidiaries are entities controlled by the parent. Control exists when the parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences to the date the control ceases.

All intra-group transactions, receivables and liabilities and unrealised profits arising from intra-group transactions are eliminated in the consolidated financial statement. Unrealised losses are eliminated, except when the value of the assets is decreasing.

Minority participation representing a portion of the profit or loss in subsidiaries not held by the Group are shown separately in the consolidated income statement and in the consolidated balance sheet together with the equity but separately from the equity belonging to the owners of the parent company.

New subsidiaries (business combinations) are included in the consolidated financial statements using the purchase price method of accounting. The acquisition cost is allocated to the fair value of the assets acquired and liabilities and contingent liabilities assumed on the date of acquisition. The consolidated income statement and consolidated cash flow statement include the results and cash flows of new subsidiaries for the period from their acquisition date.

Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date the significant influence commences to the date the significant influence ceases. When the Group's share of losses exceeds the carrying amount of the investment in the associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations on behalf of the associate.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Financial statements of foreign group companies

In subsidiaries whose functional currency differs from the group presentation currency, results of transactions

Note 1 Significant accounting policies (continued)

and balances are translated into the presentation currency. The assets and liabilities of foreign operations are translated to Estonian kroons at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign group companies are translated to Estonian kroons using Eesti Pank's fixed exchange rates: the financial statements of the Finnish company are translated using the Estonian kroon exchange rate against euro (€ 1 = EEK 15.6466) and the financial statements of the Lithuanian company are translated using the Estonian kroon exchange rate against the Lithuanian lit (LTL 1 = EEK 4.53157). Since the Estonian kroon and Lithuanian lit are pegged to the euro, the presentation practice does not give rise to foreign exchange translation differences.

Financial assets and liabilities

Financial assets comprise cash, shares and other securities, trade receivables, accrued income and other short- and long-term receivables. Financial liabilities comprise trade payables, accrued expenses and other short- and long-term debt obligations. The Group recognises a financial asset or a financial liability on its balance sheet when the company becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the company's contractual rights to the cash flows from the financial asset expire or it transfers the financial asset. The Group removes a financial liability from the balance sheet when the liability is discharged, cancelled or expires. Financial assets and liabilities are initially recognised at the fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Regular way purchases or sales of financial assets that are conducted under market terms are recognised and derecognised using settlement date accounting.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances on current accounts (excluding overdrafts) and term deposits with a maturity of up to three months.

The cash flow statement is prepared using the indirect method.

Trade and other receivables

Trade receivables and other receivables are stated at cost less impairment losses. All the outstanding

accounts are evaluated separately for each customer considering the information available concerning their financial solvency. Trade receivables, the collection of which is improbable, are included in the costs of the reporting period. Trade receivables, taking measures for the collection of which is either not possible or economically efficient, are considered to be bad debts and written off the balance sheet.

Inventories

Finished and semi-finished goods and work in progress are initially recognised at cost. The cost of finished and semi-finished goods and work in progress comprises direct and indirect costs of conversion incurred in bringing the inventories to their present condition and location. An appropriate share of a locatable production overheads are allocated to the costs on the basis of the normal capacity of the production facilities.

Other inventories are initially recognised at cost. The cost of other inventories comprises the costs of purchase: the purchase price, non-refundable taxes and duties, and transport, handling and other costs directly attributable to the acquisition of the inventories, less discounts, rebates and similar items. As a rule, the Group assigns the cost of inventories using the weighted average cost formula.

In the balance sheet, inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory write-downs are recognised in the Cost of sales.

Other investments

The Group's investments in equity securities are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity in the fair value reserve, except for impairment losses. The fair value of available-for-sale financial assets is their quoted bid price at the balance sheet date. When available-for-sale financial assets are derecognised, any cumulative gain or loss previously recognised directly in equity is recognised in profit or loss in the income statement.

Other financial assets that do not have an active market and whose fair value cannot be measured reliably are presented using the amortised cost method.

Note 1 Significant accounting policies (continued)

Other investments are recognised / derecognised by the Group on the date it commits to purchase / sell the investments.

Investment property

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. After recognition, investment property is measured using the cost model, i.e. the property is stated at cost less any accumulated depreciation and impairment losses.

Investment property is depreciated using the same depreciation rates and useful lives as those assigned to similar items of property, plant and equipment (see below).

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete. Then the property is reclassified as investment property.

Where an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are recognised as separate items of property, plant and equipment and assigned depreciation rates that correspond to their useful lives.

Subsequent costs

Parts of some items of property, plant and equipment require replacement or renovation at regular intervals. The costs of such replacements and renovations are recognised in the carrying amount of an item of property, plant and equipment if it is probable that future economic benefits associated with parts of the item will flow to the Group, and the cost of the part of the item can be measured reliably. The carrying amount of a part that is replaced is derecognised. Under the recognition principle provided in the previous

paragraph, the costs of the day-to-day servicing of an item of property, plant and equipment are not recognised in the carrying amount of the item. Instead, the costs are expensed as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each item and significant part of an item of property, plant and equipment. Land and construction in progress are not depreciated. Group companies use, in all material respects, uniform depreciation rates. The following estimated useful lives are applied:

Asset group	Useful life
Buildings and structures	10 - 33 years
Production plant and equipment	6 2/3 - 10 years
Other machinery and equipment	4 - 6 2/3 years
Vehicles	5 - 6 2/3 years
Other equipment and fixtures	3 - 6 2/3 years

Estimated useful lives, residual values and depreciation methods are reassessed annually. The effect of any resulting changes is recognised in the current and subsequent periods.

Intangible assets

Intangible assets are included in the balance sheet in so far as the following requirements are fulfilled:

- the item of property is controllable by the company;
- it is probable that future economic benefits associated with the item will flow to the company;
- the acquisition cost of the item can be measured reliably.

Intangible assets (except goodwill) are amortised on a straight-line basis over the estimated useful life. Impairment of intangible assets is evaluated, if any such indication exists, similarly to the evaluation of impairment of tangible assets.

Research and development

Expenditure on development is expenditure made upon the application of research findings when developing new products and services. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is

Note 1 Significant accounting policies (continued)

recognised in the income statement as an expense as incurred.

Expenditure on development activities whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses. Expenditure on development is written off on a straight-line basis over the estimated useful life but not exceeding 5 years.

Other intangible assets

Other intangible assets are expenditure on licenses and software. The balance sheet reflects expenditure that is important for the business in the long-term and is adjusted to conditions in the company. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses. Other intangible assets are written off on a straight-line basis over the estimated useful life but not exceeding 5 years.

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity

and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

The recoverable amount of the receivables carried at adjusted cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a receivable carried at adjusted cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Note 1 Significant accounting policies (continued)

Finance and operating leases

A lease that transfers all significant risks and rewards of ownership to the lessee is recognised as a finance lease. Other leases are treated as operating leases.

The Group as a lessor

Assets leased out under finance leases are recognised as a receivable at an amount equal to the net investment in the lease. Lease payments receivable are divided into principal repayments and finance income. Finance income is recognised over the lease term.

Assets leased out under operating leases are presented in the balance sheet according to the nature of the asset, similarly to other items of property, plant and equipment which are carried in the balance sheet. Operating lease payments are recognised as income on a straight-line basis over the lease term.

The Group as a lessee

Assets and liabilities connected with finance leases are initially recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments at the inception of the lease and depreciated over the shorter of the lease term and its useful life. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Financial liabilities

Liabilities that are due to be settled within more than one year of the balance sheet date are classified as non-current liabilities. Liabilities that are due to be settled within twelve months of the balance sheet date are classified as current liabilities.

Liabilities to credit institutions are initially recognised at cost using settlement date accounting and, thereafter, the liabilities are measured at the amortised cost using the effective interest rate. Borrowing costs are not capitalised. Instead, they are considered as expenses incurred.

Trade and other payables are recognised at amortised cost.

Provisions

Provisions are established and recognised when:

- a group company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are recognised based on management estimates of the amount and timing of the obligation. In making the estimates, the assistance of external experts may be used.

Contingent liabilities

Significant promises, guarantees and other obligations which may transform into a liability subject to the occurrence of some uncertain future events are disclosed in the notes to the consolidated financial statements as contingent liabilities. Contingent liabilities are not recognised in the balance sheet.

Income tax

Corporate income tax

According to the Estonian Income Tax Act that took effect on 1 January 2000, income tax is not levied on profits earned but dividends distributed. The income tax calculated on dividends is recognised as a liability and an expense when the dividend is declared. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared irrespective of the period for which they are declared or in which they are distributed.

No provision is established for income tax payable on a dividend distribution before the dividend has been declared but information on the contingent liability is disclosed in the notes to the consolidated financial statements.

The consolidated financial statements include the Lithuanian and Finnish subsidiaries' current corporate income tax expense (calculated on profits earned), deferred income tax and the dividend tax expense of the Estonian group companies.

Deferred tax

Under the current Estonian Income Tax Act, there are

Note 1 Significant accounting policies (continued)

no differences between the tax bases and carrying amounts of the assets and liabilities of the Estonian group companies which could give rise to deferred tax assets or liabilities. The profits of the Finnish and Lithuanian group companies are adjusted for temporary differences and taxed in accordance with the laws of their domicile (see below).

For the Group's foreign subsidiaries:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Revenue

Goods sold and services rendered

Revenue is measured at the fair value of the consideration received or receivable for sale of goods in the ordinary course of business. Revenue is stated in the net amount, which does not include value-added tax, discounts and rebates provided.

Revenue arising from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer, the revenue and expenses associated with the transaction can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the enterprise.

Revenue from the rendering of services is recognised when the service has been rendered or, if the service is rendered over an extended period, by reference to the stage of completion of the transaction at the balance sheet date.

Rental income

Rentals earned on investment property are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing income or net financing costs

Net financing income or net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividend income from other investments, realised gains and losses from sale of available-for-sale financial assets, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest rate method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the parent

Note 1 Significant accounting policies (continued)

company by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit or loss attributable to equity holders of the parent company by the weighted average number of shares outstanding during the period, considering the effects of all dilative potential shares.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The primary segment in the Group's reporting is the geographical segment and the secondary segment is the business segment.

Related parties

For the purposes of these consolidated financial statements, related parties include:

- AS Harju KEK which owns 30.17% of the shares of AS Harju Elekter;
- members of the parent company's management and supervisory boards;
- close family members of the above;
- companies controlled by members of the management and supervisory boards; and
- associated companies.

Note 2 Financial risks management

The purpose of financial risk management is to manage financial risks.

Fair value

The fair values of cash, receivables, payables and short-term loans and borrowings do not differ significantly from their carrying amounts because these amounts will be settled within 12 months of the balance sheet date. The fair values of long-term loans and borrowings do not differ significantly from their carrying amounts because their interest rates are regularly repriced to market rates. Fluctuations in the market value of the PKC Group Oyj shares, which are recognised as other long-term financial investments, may have a significant impact on the value of the assets of AS Harju Elekter.

Liquidity risk

Liquidity risk is a risk covering the inability of the Group to cover its necessary costs and investments due to a cash-flow deficit. Liquidity risk is managed with different financial instruments such as loans and finance leases. At the end of the reporting period the Group had funding available to the amount of 6.7 million kroons (0.4 million euros) and debt obligations to the amount of 47.3 million kroons (0.3 million euros) (Note 14).

Currency risk

The Group operates in Estonia (currency EEK), Finland (currency €), and Lithuania (currency LTL). Both Estonian kroon and Lithuanian lit are pegged to the euro.

To hedge currency risks, the Group concludes all major foreign contracts in euro. The Group does not have material receivables or payables denominated in foreign currencies that are not pegged to euro.

All existing long-term loan and finance lease contracts (see Note 14) have been made in euro or the functional currency of the relevant group company. Therefore, they are treated as liabilities without currency risk.

Trade and other payables are recognised at amortised cost. Items that fall due more than 12 months from the balance sheet date are recognised as long-term liabilities.

Based on the above, the Group is not materially exposed to currency risks and does not use separate instruments to hedge currency risks. Information on foreign exchange gains and losses has been disclosed in Note 23.

Note 2 Financial risks management (continued)

Credit risk

Credit risk is the risk that a party is unable to discharge an obligation under financial instruments. Exposure to credit risk is monitored on an ongoing basis. There are certain conditions in place where the recovery of debts is commenced through the court.

The maximum amount exposed to credit risk is the value of accounts receivables, less mark downs. At the balance sheet date, the credit risk was 79 million kroons (5 million euros), compared to 64 million kroons (4 million euros) at 31 December 2005. According to management assessment, the Group does not have any major credit risks that would exceed the allowance sum already recognised.

Interest rate risk

An interest rate risk arises from debt obligations with a floating interest rate and lies in the risk that financial expenses increase when interest rates rise. Above all, the Group's exposure to interest rate risk depends on

changes in EURIBOR (Euro Interbank Offered Rate) because all loans taken by the Group (see Note 14) are linked to EURIBOR. Interest rate risks are managed by concluding loan agreements with a fixed interest rate. Most of the finance lease agreements are also concluded with a fixed interest rate.

The interest rates of long-term bank loan agreements are reviewed to reflect changes in EURIBOR as follows:

- the loan of € 850,000 every year on 28 March, 28 June, 28 September and 28 December
- the loan of € 1,530,000 every year on 5 March, 5 June, 5 September and 5 December

The interest rate risk also depends on the economic situation in the domicile of each group company and on changes in the banks' average interest rates. The Group has a cash flow risk from changes in interest rates because most loans have floating interest rates. According to management's assessment, the cash flow risk is not material. Therefore, the Group does not use separate instruments to hedge it. Information on interest expense has been disclosed in Note 23.

Note 3 Accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are estimations of useful lives of investment property, property, plant and equipment, recognitions and estimates in respect of provisions, and statement of contingent liabilities.

Useful lives of investment property, property, plant and equipment

Management has estimated the useful lives of property, plant and equipment based on the volume and conditions of production, historical experience in this area and the perspectives in the future.

Contingent liabilities

In estimating the probability of realisation of contingent liabilities the management is considering the historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

Note 4 Cash and cash equivalents

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Cash and cash equivalents				
Cash in hand	126	237	8	15
Current accounts	6,586	25,703	421	1,643
Cash and cash equivalents in the statement of cash flows	6,712	25,940	429	1,658

Effective deposit average interest rates for the accounting year were 2.5% (2.0% in 2005).

Note 5 Trade receivables and other receivables

	Note	EEK '000		EUR '000	
		2006	2005	2006	2005
Balance at 31 December					
Trade receivables					
Trade receivables		78,699	64,462	5,030	4,120
Allowance for doubtful receivables		-47	-18	-3	-1
Total		78,652	64,444	5,027	4,119
Receivables from associates	27	2,926	2,846	187	182
Miscellaneous receivables		68	22	4	1
Interest receivable		6	30	0	2
Other accrued income		1,113	378	72	24
Total receivables		82,765	67,720	5,290	4,328

Changes in the allowance for doubtful receivables		EEK '000		EUR '000	
For the year ended 31 December		2005	2006	2006	2005
At beginning of period		-18	-63	-1	-4
Recovery of doubtful items		13	0	1	0
Items expensed as doubtful		-43	-18	-3	-1
Doubtful items written off as irrecoverable		1	63	0	4
At end of period		-47	-18	-3	-1

Note 6 Prepayments

	Note	EEK '000		EUR '000	
		2006	2005	2006	2005
Balance at 31 December					
Prepaid taxes	17	144	305	9	19
Prepaid expenses		701	772	45	50
Total prepayments		845	1,077	54	69

Note 7 Inventories

		EEK '000		EUR '000	
		2006	2005	2006	2005
Balance at 31 December					
Raw and other materials		32,079	27,527	2,050	1,759
Work in progress		24,633	23,661	1,574	1,513
Finished goods		10,272	6,541	656	418
Merchandise purchased for resale		11,802	10,833	754	692
Prepayments to suppliers		244	315	16	20
Total		79,030	68,877	5,050	4,402
- items carried at net realisable value		95	505	6	32
Expenses from write-down to net realisable value for the year ended 31 December.		216	779	14	50

Note 8 Investments in associates

Company's name	Activity	Location	Ownership (%)	
			2006	2005
Draka Keila Cables AS	Manufacture and wholesale of cable	Estonia	34.0	34.0
Saajos Inexa AS	Manufacture of fire doors	Estonia	33.3	33.3

Draka Keila Cables AS is a new trade name of Keila Kaabel AS. The shares of the associates are not listed at the stock exchange.

		EEK '000		EUR '000	
		2006	2005	2006	2005
Balance at 31 December					
Draka Keila Cables AS		23,378	23,297	1,494	1,489
Saajos Inexa AS		1,809	1,476	116	94
Total investments in associates		25,187	24,773	1,610	1,583

Note 8 Investments in associates (continued)

	Draka Keila Cables		Saajos Inexa	
	2006	2005	2006	2005
Number of shares at 31 December	884	884	200,000	200,000
Par value of a share (EEK)	10,000	10,000	10	10
Par value of a share (EUR)	639	639	0.64	0.64
EEK '000				
Cost at 31 December	8,840	8,840	2,000	2,000
Carrying amount at 01 January	23,297	23,407	1,476	1,426
Dividends paid	-1,309	-1,291	0	0
Share of profit for the period under the equity method	1,390	1,181	333	50
Carrying amount at 31 December	23,378	23,297	1,809	1,476
Associate's equity at end of period	68,924	68,721	5,457	4,473
Investor's share in equity	23,434	23,365	1,820	1,491
Unrealised gains from transactions with associate	-56	-68	-11	-15
Financial summary				
Assets at 31 December	252,838	220,633	19,411	17,017
Liabilities at 31 December	183,913	151,912	13,954	12,544
Revenue for the year ended 31 December	606,159	449,312	55,668	55,043
Profit for the year ended 31 December	4,053	3,494	947	80
EUR '000				
Cost at 31 December	565	565	128	128
Carrying amount at 01 January	1,489	1,496	94	91
Dividends paid	-84	-83	0	0
Share of profit for the period under the equity method	89	76	22	3
Carrying amount at 31 December	1,494	1,489	116	94
Associate's equity at end of period	4,405	4,392	349	286
Investor's share in equity	1,498	1,493	116	95
Unrealised gains from transactions with associate	-4	-4	0	-1
Financial summary				
Assets at 31 December	16,159	14,101	1,241	1,088
Liabilities at 31 December	11,754	9,709	892	802
Revenue for the year ended 31 December	38,741	28,716	3,558	3,518
Profit for the year ended 31 December	259	223	63	5

Note 9 Other long-term financial investments

	Note	EEK '000		EUR '000	
		2006	2005	2006	2005
Balance at 31 December					
Available-for-sale financial assets		344,726	312,103	22,032	19,947
Other shares		158	0	10	0
Total		344,884	312,103	22,042	19,947

1. Available-for-sale financial assets

Carrying amount at 01 January		312,103	298,304	19,947	19,065
Sale of shares		-5,616	-5,008	-359	-320
Sales gain	23	5,213	4,605	333	294
Fair value remeasurement	20	33,026	14,202	2,111	908
Carrying amount at 31 December		344,726	312,103	22,032	19,947

2. Other shares

Additions		158	0	10	0
Additions through the joint venture	21	33	0	2	0
Sale of shares		-142	0	-9	0
Sales gain	23	109	0	7	0
Carrying amount at 31 December		158	0	10	0

Total carrying amount at 31 December		344,884	312,103	22,042	19,947
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PKC Group Oyj share	2006	2005
Number of the shares (1000)	1,800	1,830
Ownership (%)	10.12	10.35
Market price at 31 December (EEK)	191.67	170.55
Market price at 31 December (EUR)	12.24	10.90

PKC Group Oyj shares have been classified as available-for-sale financial assets and are therefore stated on the balance sheet at their fair value. The fair value of shares is their market value. Gains and losses arising from changes in the fair value of financial assets are recognised directly in equity as a revaluation reserve (Note 20). Changes in the market value of shares may significantly influence the value of the Group's assets and equity. For the financial year the PKC Group Oyj paid dividends to the amount of 0.45 euros per share (0.20 euros in 2005). Information on PKC Group shares pledged as loan collateral has been disclosed in Note 15.

On 1 September 2006, AS Harju Elekter and the Latvian leading producer of electrical installations A/S Jauda and other Latvian undertakings signed a memorandum of association founding a joint venture, SIA Energokompleks. Launching a sales organisation makes it possible to participate together in invitations to tender for medium and low voltage equipment in Latvia as well as beyond. Harju Elekter paid 158,000 kroons (10,000 euros) for the 10% ownership. Other shares acquired during the reporting year are stated in the balance sheet at acquisition cost.

Note 10 Investment property

	Note	EEK '000			EUR '000		
		Land	Buildings	TOTAL	Land	Buildings	TOTAL
Balance at 31 December 2004							
Cost		2,400	98,319	100,719	153	6,284	6,437
Accumulated depreciation		0	-13,839	-13,839	0	-884	-884
Carrying amount 31.12.2004		2,400	84,480	86,880	153	5,400	5,553
For the year ended 31 December							
Additions		2,615	21,397	24,012	167	1,368	1,535
Depreciation charge		0	-3,812	-3,812	0	-244	-244
Transfer from property, plant and equipment	11	0	16,545	16,545	0	1,057	1,057
Total for the period		2,615	34,130	36,745	167	2,181	2,348
Balance at 31 December 2005							
Cost		5,015	136,771	141,786	320	8,742	9,062
Accumulated depreciation		0	-18,161	-18,161	0	-1,161	-1,161
Carrying amount 31.12.2005		5,015	118,610	123,625	320	7,581	7,901
For the year ended 31 December							
Additions		1,102	9,314	10,416	71	595	666
Depreciation charge		0	-4,616	-4,616	0	-295	-295
Transfer to property, plant and equipment	11	0	-2,157	-2,157	0	-138	-138
Total for the period		1,102	2,541	3,643	71	162	233
Balance at 31 December 2006							
Cost		6,117	143,281	149,398	391	9,157	9,548
Accumulated depreciation		0	-22,130	-22,130	0	-1,414	-1,414
Carrying amount 31.12.2006		6,117	121,151	127,268	391	7,743	8,134

The Group's investment properties comprise production and office buildings in Keila and Haapsalu, Estonia, where transactions with similar properties are irregular. Due to this and the large number of the properties, determination of the fair value of the investment properties would be costly and might not produce reliable results. Therefore, the Group has not performed such valuations and has not commissioned them from independent experts. According to management estimates, the fair value of the Group's investment properties falls between 130 million and 150 million kroons (between 8.3 and 9.6 million euros).

In 2006, the direct maintenance and repair expenses of investment property totalled 4.2 (2005: 4.3) million kroons. Information on rental income from investment property has been disclosed in Note 12.

Note 11 Property, plant and equipment

EEK '000	Note	Land	Buildings	Plant and equipment	Other items	TOTAL
Balance at 31 December 2004						
Cost		1,022	39,218	70,546	5,828	116,614
Accumulated depreciation		0	-7,612	-34,696	-3,657	-45,965
Carrying amount		1,022	31,606	35,850	2,171	70,649
Construction in progress		0	15,820	0	0	15,820
Prepayments		0	0	53	29	82
Balance at 31 December 2004		1,022	47,426	35,903	2,200	86,551
For the year ended 31 December						
Additions		0	1,729	6,121	3,437	11,287
Disposals		0	0	-223	-9	-232
Depreciation charge		0	-1,329	-6,635	-2,366	-10,330
Transfer to investment property	10	0	-16,545	0	0	-16,545
Total for the period		0	-16,145	-737	1,062	-15,820
Balance at 31 December 2005						
Cost		1,022	39,005	75,404	8,977	124,408
Accumulated depreciation		0	-8,402	-40,611	-5,715	-54,728
Carrying amount		1,022	30,603	34,793	3,262	69,680
Construction in progress		0	678	0	0	678
Prepayments		0	0	373	0	373
Balance at 31 December 2005		1,022	31,281	35,166	3,262	70,731
For the year ended 31 December						
Additions		670	5,638	12,559	1,781	20,648
Additions through business combinations	21	1,565	4,543	116	35	6,259
Disposals through business combinations	21	0	-731	-652	-13	-1,396
Disposals		0	0	-96	-5	-101
Depreciation charge for the year		0	-1,880	-7,727	-1,245	-10,852
Transfer from investment property	10	0	2,157	0	0	2,157
Total for the period		2,235	9,727	4,200	553	16,715
Balance at 31 December 2006						
Cost		3,257	51,226	84,517	9,908	148,908
Accumulated depreciation		0	-10,218	-45,251	-6,093	-61,562
Carrying amount		3,257	41,008	39,266	3,815	87,346
Prepayments		0	0	100	0	100
Balance at 31 December 2006		3,257	41,008	39,366	3,815	87,446

Note 11 Property, plant and equipment (continued)

EUR '000	Note	Land	Buildings	Plant and equipment	Other items	TOTAL
Balance at 31 December 2004						
Cost		65	2,506	4,509	372	7,452
Accumulated depreciation		0	-486	-2,217	-233	-2,936
Carrying amount		65	2,020	2,292	139	4,516
Construction in progress		0	1,011	0	0	1,011
Prepayments		0	0	3	2	5
Balance at 31 December 2004		65	3,031	2,295	141	5,532
For the year ended 31 December						
Additions		0	110	391	220	721
Disposals		0	0	-14	-1	-15
Depreciation charge		0	-85	-424	-151	-660
Transfer to investment property	10	0	-1,057	0	0	-1,057
Total for the period		0	-1,032	-47	68	-1,011
Balance at 31 December 2005						
Cost		65	2,493	4,820	574	7,952
Accumulated depreciation		0	-537	-2,596	-365	-3,498
Carrying amount		65	1,956	2,224	209	4,454
Construction in progress		0	43	0	0	43
Prepayments		0	0	24	0	24
Balance at 31 December 2005		65	1,999	2,248	209	4,521
For the year ended 31 December						
Additions		43	360	803	114	1,320
Additions through business combinations	21	100	290	7	2	399
Disposals through business combinations	21	0	-46	-42	-1	-89
Disposals		0	0	-6	0	-6
Depreciation charge for the year		0	-120	-494	-80	-694
Transfer from investment property	10	0	138	0	0	138
Total for the period		143	622	268	35	1,068
Balance at 31 December 2006						
Cost		208	3,274	5,402	633	9,517
Accumulated depreciation		0	-653	-2,892	-389	-3,934
Carrying amount		208	2,621	2,510	244	5,583
Prepayments		0	0	6	0	6
Balance at 31 December 2006		208	2,621	2,516	244	5,589

Note 11 Property, plant and equipment (continued)

At 31 December 2006, the total cost of the Group's fully depreciated items of property, plant and equipment that were still in use was 5,330 thousand kroons (341 thousand euros) and as at 31 December 2005 13,377 thousand kroons (855 thousand euros).

Assets acquired with finance lease

	EEK '000			EUR '000		
	Cost	Depreciation	Carrying amount	Cost	Depreciation	Carrying amount
Balance at 31 December 2005	7,971	-2,288	5,683	509	-146	363
Additions	1,293	0	1,293	83	0	83
Depreciation charge for the year	0	-762	-762	0	-49	-49
Lease discontinued	-4,804	2,302	-2,502	-307	147	-160
Balance at 31 December 2006	4,460	-748	3,712	285	-48	237

Information on finance lease liabilities and lease terms has been disclosed in Note 14.

Assets leased out under operating leases

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Plant and equipment				
Cost of items leased out	1,193	3,419	76	219
Accumulated depreciation	-844	-955	-54	-62
Carrying amount at end of period	349	2,464	22	157

Note 12 Operating leases

	Note	EEK '000		EUR '000	
		2006	2005	2006	2005
For the year ended 31 December					
Lease income					
- on investment property		26,577	25,376	1,699	1,622
- on plant and equipment		180	173	11	11
TOTAL	23	26,757	25,549	1,710	1,633
Lease expense					
Office, commercial and production premises		2,658	2,508	170	160
Vehicles		827	960	53	62
Other		275	36	18	2
TOTAL		3,760	3,504	241	224

In the income statement, lease income is recognised in revenue; the expenses and depreciation related to assets that have been leased out are recognised in the cost of sales. The Group leases out its investment and production plant and equipment under operating leases (Note 10).

Note 12 Operating leases (continued)

Future lease payments under non-cancelable operating leases are based on contract periods.

For the year ended 31 December	EEK '000		EUR '000	
	2006	2005	2006	2005
Lease income				
← 1 year	27,068	26,748	1,730	1,709
1-5 years	89,343	84,317	5,710	5,389
→ 5 years	5,130	15,389	328	984
Total lease income	121,541	126,454	7,768	8,082
Lease expenses				
← 1 year	598	172	38	11
1-5 years	845	350	54	22
Total lease expenses	1,443	522	92	33

Note 13 Intangible assets

	EEK '000			EUR '000		
	Expendi- ture on develop- ment	Other	TOTAL	Expendi- ture on develop- ment	Other	TOTAL
Balance at 31 December 2004						
Cost	720	3,044	3,764	47	194	241
Accumulated depreciation	-228	-1,585	-1,813	-15	-101	-116
Carrying amount 31.12.2004	492	1,459	1,951	32	93	125
For the year ended 31 December						
Additions	181	215	396	11	14	25
Depreciation charge for the year	-180	-607	-787	-11	-39	-50
Total	1	-392	-391	0	-25	-25
Balance at 31 December 2005						
Cost	901	3,259	4,160	59	208	267
Accumulated depreciation	-408	-2,192	-2,600	-27	-140	-167
Carrying amount 31.12.2005	493	1,067	1,560	32	68	100
For the year ended 31 December						
Additions	475	2,610	3,085	30	167	197
Disposals in carrying amount	0	-2	-2	0	0	0
Depreciation charge for the year	-202	-846	-1,048	-13	-54	-67
Total	273	1,762	2,035	17	113	130
Balance at 31 December 2006						
Cost	1,376	5,823	7,199	88	372	460
Accumulated depreciation	-610	-2,994	-3,604	-39	-191	-230
Carrying amount 31.12.2006	766	2,829	3,595	49	181	230

Note 13 Intangible assets (continued)

Expenditure on development is direct costs related to the production and testing of products. Other intangible assets comprise primarily product manufacturing and software licences.

As at 31 December 2006, the total cost of the Group's fully depreciated intangible assets still in use was 1,147 thousand kroons (731 thousand euros), compared to 561 thousand kroons (36 thousand euros) at 31 December 2005.

Note 14. Interest-bearing loans and borrowings

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Liabilities				
Short-term bank loans	9,702	11,869	620	759
Current portion of long-term bank loans	10,054	8,762	643	560
Current portion of lease liabilities	1,016	1,386	65	88
Total current liabilities	20,772	22,017	1,328	1,407
Long-term bank loans	24,999	28,477	1,597	1,820
Lease liabilities	1,569	1,402	101	90
Total non-current liabilities	26,568	29,879	1,698	1,910
Total interest-bearing loans and borrowings	47,340	51,896	3,026	3,317
Loans and borrowings at the beginning of the year	51,896	31,737	3,317	2,028
Changes during the period 1.01. – 31.12				
Changes in short-term loans	-2,167	3,170	-138	203
Received long-term loans	7,000	26,755	447	1,710
Long-term loan repaid	-9,186	-7,890	-587	-504
New finance lease liabilities	1,352	1,293	86	83
Payment of finance lease principal	-1,555	-3,169	-99	-203
Loans and borrowings at the end of the year	47,340	51,896	3,026	3,317

Short-term bank loan terms

Base currency	Overdraft limit in base currency		Interest rate		EEK '000		EUR '000	
	2006	2005	2006	2005	2006	2005	2006	2005
Balance at 31 December								
EUR	600,000	600,000	1m euribor+0.4%	+0.4%	1,782	5,343	114	342
EUR	400,000	300,000	1m euribor+0.5%	+0.4%	4,322	5,196	276	332
EUR	75,000	0	1m euribor+1.5%	0	700	0	45	0
EEK	4,000,000	5,500,000	fixsed 4.5%	4.0%	0	1,330	0	85
EEK	6,000,000	6,000,000	fixsed 4.5%	4.0%	2,898	0	185	0
Total short-term bank loans					9,702	11,869	620	759

Note 14 Interest-bearing loans and borrowings (continued)

Long-term bank loans and terms

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Total loan payable; terms; maturity date				
EUR 850,000; 3 m euribor+0.48%; 2010	10,170	13,300	650	850
EUR 1,530,000; 3 m euribor+0.50%; 2010	18,307	23,939	1,170	1,530
EUR 447,382; fixed 4.32%; 2011	6,576	0	420	0
Total	35,053	37,239	2,240	2,380
including by due dates				
← 1 year	10,054	8,762	642	560
1 - 2 years	10,118	8,762	647	560
2 - 5 years	14,881	19,715	951	1,260
Interest expense for the year ended 31 December	1,349	979	86	62

According to management assessment, the fair value of loans at the balance sheet date does not differ significantly from their book value. In 2006 the weighted average effective interest rate of long-term bank loans was 3.8% compared to 2.7% in the reference period.

The loans are secured with financial assets (Note 15).

Finance lease liabilities

	EEK '000			EUR '000		
	Initial value	Settlement	Present value	Initial value	Settlement	Present value
Present value of lease payments						
Balance at 31 December 2004	8,818	-4,154	4,664	563	-265	298
Acquisition	1,293	0	1,293	83	0	83
Payment of finance lease	0	-3,169	-3,169	0	-203	-203
Lease discontinued	-3,324	3,324	0	-212	212	0
Balance at 31 December 2005	6,787	-3,999	2,788	434	-256	178
Acquisition	1,184	0	1,184	76	0	76
Payment of finance lease	0	-1,374	-1,374	0	-88	-88
Lease discontinued	-3,621	3,609	-12	-232	231	-1
Balance at 31 December 2006	4,350	-1,764	2,586	278	-113	165

The base currency of lease contracts is mainly the euro. The 31 December 2006 finance lease liabilities, the base currency of which is Lithuanian litas, amounted to 294 thousand kroons (19 thousand euros), compared to 116 thousand kroons (7 thousand euros) at 31 December 2005.

At 31 December 2006 interest rates of finance lease contracts were 3.3–5.3% (at 31 December 2005 3.2–5.0%).

In 2006 the weighted average effective interest rate of finance lease was 3.6% compared to 4.7% in the reference period.

Note 14 Interest-bearing loans and borrowings (continued)

Finance lease liabilities by by due dates	EEK '000			EUR '000		
	← 1 year	1-5 years	TOTAL	← 1 year	1-5 years	TOTAL
Balance at 31 December 2005						
Minimum amount of lease payments	1,475	1,460	2,935	94	94	188
Unrealised financing cost	-89	-58	-147	-6	-4	-10
Present value of lease payments	1,386	1,402	2,788	88	90	178
Balance at 31 December 2006						
Min sum of lease payments	1,099	1,626	2,725	70	104	174
Unrealised financing cost	-82	-57	-139	-5	-4	-9
Present value of lease payments	1,017	1,569	2,586	65	100	165

Lease payments are made monthly.

Note 15 Loan collateral and pledged assets

	Number	Balance of investment loan		Overdraft limit	
	'000	EEK '000	EUR '000	EEK '000	EUR '000
Balance at 31 December 2006					
Pledged assets					
PKC Group Oyj equity securities	836	35,053	2,241	10,436	667

At 31 December 2006, the carrying amount of pledged securities amounted to 160.1 million kroons (10.2 million euros). Information on assets pledged to guarantee loans taken by related parties has been disclosed in Note 27.

Note 16 Trade payables and other payables

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Trade payables				
Payable for goods and services	52,517	41,465	3,356	2,650
Payable for property, plant and equipment	504	405	32	26
Payable intangible assets	0	367	0	24
Total	53,021	42,237	3,388	2,700
Accrued expenses				
Payables to employees	15,957	13,336	1,020	852
Interest payable	33	35	2	2
Other	1,189	910	76	58
Total	17,179	14,281	1,098	912
Advances from customers	1,955	9,569	125	612
Payables to associates	1,266	584	81	37
Miscellaneous payables	75	94	5	6
Total	73,496	66,765	4,697	4,267

Note 17 Taxes

	Note	EEK '000		EUR '000	
		2006	2005	2006	2005
Balance at 31 December					
Prepayment					
Value-added tax		142	284	9	18
Income tax	24	2	21	0	1
TOTAL		144	305	9	19
Liability					
Value-added tax		4,303	4,194	275	268
Income tax	24	2,401	298	154	19
Personal income tax		2,050	1,960	131	125
Social security tax		3,117	2,641	199	169
Other taxes		397	226	25	15
TOTAL		12,268	9,319	784	596

Note 18 Provisions

	Warranty provision		Other provisions		Total	
	EEK '000	EUR '000	EEK '000	EUR '000	EEK '000	EUR '000
2005						
Balance at 1 January 2005	300	19	0	0	300	19
Provisions made during the year	142	9	63	4	205	13
Provisions used during the year	-412	-26	0	0	-412	-26
Balance at 31 December 2005	30	2	63	4	93	6
2006						
Provisions made during the year	44	3	90	5	134	8
Provisions used during the year	-65	-4	-62	-4	-127	-8
Balance at 31 December 2005	9	1	91	5	100	6

The warranty provision is established to cover contingent warranty repair expenses. AS Harju Elekter Elektrotehnika grants the products sold a two-year warranty period during which it has to repair or replace free of charge standard and defective products.

Note 19 Contingent liabilities

Corporate Income tax

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Consolidated retained earnings	100,078	82,069	6,396	5,245
Max sum of dividends payable to owners	78,061	63,193	4,989	4,039
Income tax payable on dividends	22,017	18,876	1,407	1,206

Note 19 Contingent liabilities (continued)

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the maximum potential income tax liability at 31 December 2006, which would be paid out if all retained earnings were distributed, cannot exceed the distributable profits as of 31 December 2006. Potential income tax liability has been calculated based on the tax rate enacted after 1 January 2007 (for 2005 after 1 January 2006).

Guarantees

As at 31 December 2006, a letter of guarantee from AS Harju Elekter issued on 8 February 2004 to Nordea Bank Finland Plc Estonian Branch was in force guaranteeing the fulfillment of commitments entered into by AS Draka Keila Cables in a long-term loan agreement concluded between the latter and AS Harju Elekter. The bank loan is due to be repaid on 10 May 2009. As at 31 December 2006, the loan balance on the associate's balance sheet amounted to 10,170 thousand kroons (650 thousand euros) compared to 14,238 thousand kroons (910 thousand euros) at 31 December 2005. The Group guarantees the associate's commitments to the extent of its interest in the associate's equity (34%). At 31 December 2006 the maximum guarantee liability of the Group amounted to 3,666 thousand kroons (234 thousand euros) compared to 5,257 thousand kroons (336 thousand euros) at 31 December 2005. The guarantees are not secured with a pledge.

Note 20 Capital and reserves

Share capital

	EEK		EUR	
	2006	2005	2006	2005
Balance at 31 December				
Share capital ('000)	168,000	168,000	10,737	10,737
Par value of a share	10	10	0.64	0.64
Number of shares issued ('000) (fully paid)	16,800	16,800	16,800	16,800

Authorised share capital according to the Articles of Association is 20 million.

Dividend per share

Based on the results for 2005, shareholders were distributed a dividend of 26.9 million kroons (1.7 million euros), i.e. 1.60 kroons (0.10 euros) per share. The dividends were paid out on 12 May 2006.

According to the profit allocation proposal, for 2006 a dividend of 30.2 million kroons (1.9 million euros), i.e. 1.80 kroons (0.12 euros) per share will be distributed. The dividend will be recognised when the profit allocation proposal has been approved by the general meeting.

Shareholders holding over 5 percent of the votes determined by shares

	Ownership
AS Harju KEK	30.17%
ING Luxembourg S.A	10.02%
Lembit Kirsme	8.30%
Endel Palla	5.65%
Others	45.86%

Note 20 Capital and reserves (continued)

Members of the management and supervisory boards of AS Harju Elekter

	Number of shares	Direct ownership	Indirect ownership
Supervisory board			
Palla, Endel	950,000	5.65%	0.31%
Kirsme, Lembit	1,395,000	8.30%	0.72%
Talgre, Madis	18,000	0.11%	0.00%
Tombak, Triinu	15,000	0.09%	0.00%
Kabal, Ain	3,660	0.02%	0.00%
Total	2,381,660	14.17%	1.03%
Management board			
Allikmäe, Andres	185,000	1.10%	0.00%
Padjus, Karin	110,193	0.66%	0.25%
Libe, Lembit	19,500	0.12%	0.00%
Total	314,693	1.88%	0.25%

The number of shares held by shareholders and the ownership interests were determined on 2 January 2007 at 8 a.m.

In accordance with Tallinn Stock Exchange Rules, an issuer is obliged to disclose in the annual report information on the number of the issuer's shares belonging to members of its management and supervisory boards (direct interest) and people connected to them (indirect interest) as at the end of the reporting period. Voting stock belonging to a company controlled by a shareholder is also treated as indirect interest. People connected to shareholders include their spouses, minor children and people sharing the household with them.

Reserves

	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Capital reserve	11,000	8,600	703	550
Fair value reserve	320,552	287,526	20,487	18,376
Total	331,552	296,126	21,190	18,926
Changes in the fair value reserve				
for the year ended 31 December 2006				
Balance at 01 January	287,526	273,324	18,376	17,468
Gains on the restatement of financial assets	37,739	18,667	2,412	1,193
Realised gain from sale of financial assets	-4,713	-4,465	-301	-285
Balance at 31 December	320,552	287,526	20,487	18,376

The Commercial Code requires companies to establish a capital reserve. Each year companies have to transfer to the capital reserve at least 5 percent of their profit for the period until the reserve amounts to 10 percent of share capital. The capital reserve may be used for covering losses and increasing share capital. In 2005, a bonus issue was made which increased share capital from 56,000 thousand to 168,000 thousand kroons (from 3,579 thousand to 10,737 thousand euros). As a result, the 10 percent requirement is not fulfilled. During 2006, 2,400 thousand kroons (153 thousand euros) were transferred to the capital reserve.

The management board also has proposed that 2,400 thousand kroons (153 thousand euros) of the profit for the period be transferred to the capital reserve.

Note 20 Capital and reserves (continued)

Harju Elekter has a 10.12 percent interest in PKC Group Oyj, a Finnish company (Note 9). The investment has been classified as available-for sale. Financial assets available-for-sale are stated on the balance sheet at their fair value. Gains and losses arising from changes to the fair value are recognised directly as equity. When the financial assets available-for-sale are sold, the related cumulative gain or loss previously recognised in the fair value reserve will be recognised in the profit or loss statement for the period. In 2006, 30,000 shares in PKC Group Oyj were sold.

If all the shares in PKC Group Oyj were sold, the fair value reserve would transform into profit.

Note 21 Business combinations

Purchase of production unit

The Group purchased the net assets of the Finnish company Finoval Oy, which produces and sells electrical installations. Data concerning assets and liabilities of the purchased company are included in the consolidated accounts of the Group from 1 April 2006. The company was merged with the Finnish subsidiary enterprise Satamatic Oy. The enterprise continues to produce electrical installations and also fulfils the functions of a representative office for the Group. The enterprise will create better possibilities for servicing the Group's customers in the Helsinki area and will increase the market share of the Group in Finland. During the first nine months of 2006 the acquired enterprise increased its sales revenue by 3,441 thousand kroons (220 thousand euros), 1,064 thousand kroons (68 thousand euros) of which went to non-corporate clients. If the acquisition had been carried out at the beginning of 2006 the additional sales revenue would have been 6,576 thousand kroons (420 thousand euros); in 2005 it was 9,342 thousand kroons (597 thousand euros).

The acquisition cost of the enterprise purchased was 420 thousand euros (6,572 thousand kroons), which according to independent experts was a fair value for the purchased net assets. In 2006, the sellers were paid 390 thousand euros (6,102 thousand kroons). In accordance with the contract of purchase and sale, 30 thousand euros (460 thousand kroons) will be paid after two years. This liability is recognised in the balance sheet as a long-term liability. The effect of the acquisition on the Group's assets, liabilities and cash-flow is presented in the following table.

Sales of subsidiary

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. Control over the enterprise ceased as of 31 October 2006.

The effect of the sale of the subsidiary on the Group's financial report is not significant (see table). The sales revenue of Biržu Montuotojas UAB over 10 months amounted to 7,533 thousand kroons (481 thousand euros), compared to 9,245 thousand kroons (591 thousand euros) in 2005, which is 1.2% of consolidated sales revenue (1.8%). There was a net profit 276 thousand kroons (18 thousand euros), compared to 195 thousand kroons (12 thousand euros) in 2005, which was 0.5% and 0.4% of consolidated sales revenue respectively.

Note 21 Business combinations (continued)

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

	Note	Sales of subsidiary				Purchase of production unit	
		31.10.2006		31.12.2005		31.03.2006	
		EEK '000	EUR '000	EEK '000	EUR '000	EEK '000	EUR '000
Cash and cash equivalents		826	53	596	38	388	25
Trade receivables		930	59	992	63	629	40
Other receivables and prepayments		875	56	296	19	200	13
Inventories		1,186	76	1,094	70	1,493	95
Financial investments		0	0	0	0	33	2
Property, plant and equipment	11	1,396	90	1,570	100	6,259	400
Current liabilities		-1,569	-100	-1,122	-72	-2,430	-155
Net assets		3,644	234	3,426	218	6,572	420
Rifas UAB 50,26% share		1,832	117	1,723	110	-	-
Loss from sale		-862	-55	-	-	-	-
Sales/purchase price		970	62	-	-	6,572	420
Paid (-)/received (+)		970	62	-	-	-6,102	-390
Cash acquired (+)/ sold (-) balance		-826	-53	-	-	388	25
Net cash flow		144	9	-	-	-5,714	-365

Note 22 Segment reporting

Segment reporting is presented in respect of the Group's business and geographical segments.

The primary format, geographical segments, is based on the Group's management and internal reporting structure.

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

Group's geographical segment report – primary segment

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.

In presenting information on the basis of geographical segments, segment revenue and assets are based on the geographical location of the assets. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated to it on a reasonable basis.

The Group's undistributed assets comprise the financial assets available-for-sale and other long-term financial investments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

In presenting information on the basis of markets, segment revenue is based on the geographical location of customers.

Note 22 Segment reporting (continued)

EEK '000		Estonia		Finland		Lithuania		Eliminations		Consoli- dated	
	Note	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Income statement											
Revenue from external customers		310,453	309,601	198,063	139,631	113,571	64,704	0	0	622,087	513,936
Inter-segment revenue		25,536	16,876	77	58	499	421	-26,112	-17,355	0	0
Total revenue		335,989	326,477	198,140	139,689	114,070	65,125	-26,112	-17,355	622,087	513,936
Operating profit		27,803	32,351	4,827	851	12,538	4,864	6	-550	45,174	37,516
Net financing income / costs	23									15,341	8,852
Share of profit of associates	8	1,723	1,231	0	0	0	0	0	0	1,723	1,231
Income tax expense	24									-10,195	-3,691
Profit for the period										52,043	43,908
Balance											
Segment assets		290,402	277,838	50,746	43,191	51,470	41,926	-4,957	-3,425	387,661	359,530
Investment in associates		25,187	24,773	0	0	0	0	0	0	25,187	24,773
Group's indivisible assets										344,884	312,103
Total assets										757,732	696,406
Segment liabilities		48,537	42,695	27,583	36,682	15,169	12,026	-4,957	-3,357	86,332	88,046
Group's indivisible liabilities										47,341	40,027
Total liabilities										133 673	128,073
Cash flows											
- from operating activities		26,518	44,409	4,611	-5,198	1,704	3,877	-107	0	32,726	43,088
- from investing activities		-15,482	-27,175	-6,903	-701	-1,904	-1,211	5,857	-515	-18,432	-29,602
- from financing activities		-28,767	-11,448	2,523	5,902	-1,445	-1,238	-5,750	515	-33,439	-6,269
Capital expenditure		30,385	33,735	7,487	701	2,536	1,257	0	0	40,408	35,693

Segment revenue based on the geographical location of customers

EEK '000	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
For the year ended 31 December										
Estonia	254,116	251,091	78	60	748	421	-577	-479	254,365	251,093
Finland	69,002	64,125	197,038	139,174	0	0	-21,140	-14,588	244,900	188,711
Lithuania	5,375	3,241	0	0	99,414	55,836	-4,395	-2,288	100,394	56,789
Other	7,495	8,020	1,025	455	13,908	8,868	0	0	22,428	17,343
Total	335,988	326,477	198,141	139,689	114,070	65,125	-26,112	-17,355	622,087	513,936

Note 22 Segment reporting (continued)

EUR '000	Note	Estonia		Finland		Lithuania		Eliminations		Consoli- dated	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Income statement											
Revenue from external customers		19,842	19,788	12,658	8,924	7,259	4,135	0	0	39,759	32,847
Inter-segment revenue		1,632	1,079	5	4	32	27	-1,669	-1,110	0	0
Total revenue		21,474	20,867	12,663	8,928	7,291	4,162	-1,669	-1,110	39,759	32,847
Operating profit		1,777	2,068	309	54	801	311	0	-35	2,887	2,398
Net financing income / costs	23									980	565
Share of profit of associates	8	111	79	0	0	0	0	0	0	111	79
Income tax expense	24									-652	-236
Profit for the period										3,326	2,806
Balance											
Segment assets		18,560	17,757	3,243	2,760	3,289	2,681	-316	-219	24,776	22,979
Investment in associates		1,610	1,583	0	0	0	0	0	0	1,610	1,583
Group's indivisible assets										22,042	19,947
Total assets										48,428	44,509
Segment liabilities		3,102	2,729	1,763	2,344	970	769	-318	-215	5,517	5,627
Group's indivisible liabilities										3,026	2,559
Total liabilities										8,543	8,186
Cash flows											
- from operating activities		1,695	2,838	295	-332	109	248	-7	0	2,092	2,754
- from investing activities		-989	-1,737	-441	-45	-122	-77	373	-33	-1,179	-1,892
- from financing activities		-1,839	-732	161	377	-92	-79	-367	33	-2,137	-401
Capital expenditure		1,942	2,156	479	45	162	80	0	0	2,583	2,281

Segment revenue based on the geographical location of customers

EUR '000	Estonia		Finland		Lithuania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
For the year ended 31 December										
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	479	513	65	29	889	567	0	0	1,433	1,109
Total	21,474	20,865	12,663	8,928	7,291	4,163	-1,669	-1,109	39,759	32,847

Note 22 Segment reporting (continued)

Group's business segment report – secondary segment

The annual financial statements reflect the main activity of the Group which is the production and sales of equipment for power distribution and control and associated activities. As at 31 December 2006 the Group was active in the following fields and the accompanying risks and rewards were very different. Every field of activity had enough weight to form a separate segment:

“Manufacturing” – The manufacture and sale of power distribution and control systems as well as data and communications systems and fibre optic cables and 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. Real estate has been identified as a reportable segment because its result and assets are more than 10% of the total result and assets of all segments.

“Unallocated items” – management 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. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

	Revenue from external customers		Assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
Balance at 31 December						
EEK '000						
Manufacturing	506,931	410,230	212,359	206,570	27,727	7,742
Real estate	32,847	30,880	132,240	128,625	10,416	24,012
Trade	63,456	49,068	16,568	14,541	941	465
Unallocated activities	18,853	23,758	51,681	34,567	1,324	3,474
Group's indivisible assets	0	0	344,884	312,103	0	0
Total	622,087	513,936	757,732	696,406	40,408	35,693
EUR '000						
Manufacturing	32,399	26,218	13,572	13,203	1,772	495
Real estate	2,099	1,974	8,452	8,221	666	1,535
Trade	4,056	3,136	1,059	929	60	30
Unallocated activities	1,205	1,519	3,303	2,209	85	221
Group's indivisible assets	0	0	22,042	19,947	0	0
Total	39,759	32,847	48,428	44,509	2,583	2,281

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Note 23 Income statement line items

For the year ended 31 December	EEK '000		EUR '000	
	2006	2005	2006	2005
REVENUE				
Electrical equipment	429,840	336,063	27,473	21,478
Boxes for telecom sector and services	22,109	28,693	1,413	1,834
Sheet metal products and services	31,473	22,235	2,011	1,421
Intermediary sale of electrical products and components	92,398	68,145	5,905	4,355
Commerce and mediation of services	6,920	4,740	442	303
Rental income	26,757	25,549	1,710	1,633
Other services	12,590	28,511	805	1,823
TOTAL	622,087	513,936	39,759	32,847
COST OF SALES				
Goods and materials	-384,100	-318,018	-24,548	-20,325
Services	-37,451	-21,764	-2,394	-1,391
Personnel expenses (see below)	-75,437	-59,463	-4,821	-3,800
Depreciation and amortisation	-13,323	-11,608	-852	-742
Other	-4,204	-4,107	-268	-263
Change in work in progress and finished goods inventories	4,703	457	300	29
TOTAL	-509,812	-414,503	-32,583	-26,492
DISTRIBUTION COSTS				
Services purchased	-6,525	-6,267	-418	-401
Personnel expenses (see below)	-16,326	-14,630	-1,043	-935
Depreciation and amortisation	-831	-728	-53	-46
Other	-3,474	-2,538	-222	-162
TOTAL	-27,156	-24,163	-1,736	-1,544
ADMINISTRATIVE EXPENSES				
Services purchased	-6,405	-6,637	-410	-424
Personnel expenses (see below)	-25,630	-24,060	-1,638	-1,538
Depreciation and amortisation	-2,362	-2,593	-151	-166
Other	-5,433	-4,140	-347	-264
TOTAL	-39,830	-37,430	-2,546	-2,392
Incl. development costs	-5,123	-5,688	-327	-368
Personnel expenses allocated to cost of sales, distribution and administrative expenses:				
Salaries and other remuneration	-86,620	-73,857	-5,535	-4,720
Social and other taxes on salaries and other remuneration	-26,884	-22,053	-1,718	-1,410
Accruals	-3,889	-2,243	-249	-143
TOTAL	-117,393	-98,153	-7,502	-6,273

Note 23 Income statement line items (continued)

		EEK '000		EUR '000	
	Note	2006	2005	2006	2005
OTHER INCOME					
Gains on sale of property, plant and equipment		396	180	25	12
Interest on arrears and penalty payments received		43	173	3	11
Foreign exchange gain		0	54	0	3
Other		207	194	13	12
TOTAL OTHER INCOME		646	601	41	38
OTHER EXPENSES					
Losses on disposal of property, plant and equipment		-22	-31	-1	-2
Interest on arrears, penalty payments and similar items paid		-123	-403	-8	-26
Foreign exchange losses		-24	0	-2	0
Gifts and donations made		-355	-264	-23	-17
Other		-237	-227	-14	-14
TOTAL OTHER EXPENSES		-761	-925	-48	-59
FINANCE INCOME					
Interest income		225	229	14	14
Dividend income		12,679	5,822	810	372
Income from sale of investments	9	5,322	4,605	340	294
TOTAL FINANCE INCOME		18,226	10,656	1,164	680
FINANCE COSTS					
Loss incurred by sale of participation	21	-862	0	-55	0
Interest expense		-1,940	-1,741	-124	-111
Net loss from foreign exchange differences		-83	-63	-5	-4
TOTAL FINANCE COSTS		-2,885	-1,804	-184	-115

Note 24 Income tax expense

Theoretical income tax incurred on the Group's profit differs from the actual income tax expense for the reasons stated in the following table.

EEK '000	Estonia		Finland		Lithuania		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Profit (loss) before income tax	46,022	42,191	4,576	593	11,640	4,815	62,238	47,599
Income tax rate	0%	0%	26%	26%	19%	15%		
Theoretical income tax expense	0	0	-1,190	-154	-2,212	-722	-3,402	-876
Income tax expense on dividends	-6,764	-2,841	0	0	0	0	-6,765	-2,841
Effect of non-taxable income	0	0	284	0	31	5	315	5
Effect of non-taxable expenses	0	0	-78	-27	-317	-39	-395	-66
Tax losses	0	0	0	57	52	30	52	87
Income tax expense	-6,764	-2,841	-984	-124	-2,446	-726	-10,195	-3,691

Note 24 Income tax expense (continued)

EUR '000	Estonia		Finland		Lithuania		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Profit (loss) before income tax	2,942	2,696	292	38	744	308	3,978	3,042
Income tax rate	0%	0%	26%	26%	15%	15%		
Theoretical income tax expense	0	0	-76	-10	-141	-46	-217	-56
Income tax expense on dividends	-433	-182	0	0	0	0	-433	-182
Effect of non-taxable income	0	0	18	0	2	0	20	0
Effect of non-taxable expenses	0	0	-5	-2	-20	-2	-25	-4
Tax losses	0	0	0	4	3	2	3	6
Income tax expense	-433	-182	-63	-8	-156	-46	-652	-236

In accordance with the Estonian Income Tax Act which took effect on 1 January 2000, in Estonia income tax is not levied on profits earned but on dividends distributed. There are no deferred income tax liabilities in the Lithuanian and Finnish subsidiaries.

Note 25 Basic and diluted earnings per share

	Unit	EEK '000		EUR '000	
		2006	2005	2006	2005
Profit attributable to equity holders of the parent	'000	47,289	41,656	3,022	2,662
Average number of shares outstanding during the period	'000	16,800	16,800	16,800	16,800
Basic and diluted earnings per share		2.81	2.48	0.18	0.16

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.

Note 26 Cash flow statement line items

	Note	EEK '000		EUR '000	
		2006	2005	2006	2005
For the year ended 31 December					
Paid for property, plant and equipment					
Additions of property, plant and equipment	11	-20,648	-11,287	-1,320	-721
Acquired with finance lease	11	1,293	1,293	83	83
Liability decrease (-)/ increase (+) incurred by purchase of assets	16	99	-7,661	6	-490
Acquisition of property, plant and equipment		-19,256	-17,655	-1,231	-1,128
Paid for intangible assets					
Additions of intangible assets	13	-3,085	-396	-197	-25
Liability decrease (-)/ increase (+) incurred by purchase of assets	16	-367	-276	-24	-18
Acquisition of intangible assets		-3,452	-672	-221	-43

Note 27 Transactions with related parties

Related parties

The related parties of AS Harju Elekter include associated companies AS Draka Keila Cables and AS Saajos Inexa; members of the management and supervisory boards and their close family members; and AS Harju KEK which owns 30.17 percent of the shares of AS Harju Elekter.

Transactions with related parties

For the year ended 31 December	EEK '000		EUR '000	
	2006	2005	2006	2005
Purchase of goods and services from related parties:				
- from associates	13,017	12,258	832	783
- from Harju KEK	282	168	18	11
TOTAL	13,299	12,426	850	794
Inclusive:				
- goods and materials for manufacturing	12,834	12,140	820	776
- lease of property, plant and equipment	215	0	14	0
- other	250	286	16	18
Sale of goods and services to related parties:				
- to associates	13,173	12,293	842	786
- to Harju KEK	33	66	2	4
TOTAL	13,206	12,359	844	790
Inclusive:				
- goods and materials for manufacturing	1,463	469	94	30
- lease of property, plant and equipment	6,814	6,756	435	432
- management services	3,697	3,288	236	210
- other	1,232	1,846	79	118
Purchase of assets from Harju KEK				
- land	1,562	2,596	100	166
- buildings	8,938	0	571	0
TOTAL	10,500	2,596	671	166
Purchase of products and services from related parties:				
- from associates	3,259	3,202	208	205
- from Harju KEK	95	0	6	0
TOTAL	3,354	3,202	214	205
Balances with related parties				
Receivables with associates: goods and services	2,926	2,846	187	182
Payables with associates: goods and services	1,266	584	81	37

No other transactions with members of the Group's governing bodies and people connected to them were carried out. The Group does not give the members of the Management Board any benefits related to pension. Members of the Management Board have the right to receive severance pay.

Note 27 Transactions with related parties (continued)

Guarantees and pledges

The Group guarantees the long-term bank loans of the associate which is due to be settled on 10 May 2009. As at 31 December 2006 the loan balance on the associate's balance sheet amounted to 10,170 thousand kroons (650 thousand euros) compared to 14,238 thousand kroons (910 thousand euros) at 31 December 2005. The Group guarantees the associate's commitments to the extent of its interest in the associate's equity (34%). As at 31 December 2006 the maximum guarantee liability of the Group amounted to 3,666 thousand kroons (234 thousand euros) compared to 5,257 thousand kroons (336 thousand euros) at 31 December 2005. The guarantees are not secured with a pledge.

The Group has pledged 22.5 thousand shares in PKC Group as collateral for the overdraft facilities of the associate. The credit limit is 1,048 thousand kroons (67 thousand euros). As at 31 December 2006 the associate had no overdraft, compared to one of 569 thousand kroons (36 thousand euros) at 31 December 2005.

Note 28 Financial information of parent company

The financial information of parent company comprises of separate principal reports of parent company, disclosure of which is required by Estonian Accounting Law.

INCOME STATEMENT	EEK '000		EUR '000	
	2006	2005	2006	2005
For the year ended 31 December				
Revenue	116,491	146,878	7,445	9,387
Cost of sales	-75,427	-104,564	-4,821	-6,683
Gross profit	41,064	42,314	2,624	2,704
Other income	259	1,033	17	66
Distribution expenses	-8,399	-8,684	-537	-555
Administrative expenses	-14,784	-13,925	-945	-890
Other expenses	-565	-582	-36	-37
Operating profit	17,575	20,156	1,123	1,288
Income from subsidiaries	2,278	516	146	33
Income from associates	1,309	1,292	84	83
Income from available-for-sale financial assets				
-Dividend income	12,674	5,822	810	372
-Income from sale	5,213	4,605	333	294
Interest income	163	158	10	10
Interest expense	-1,180	-1,178	-75	-75
Foreign exchange loss	-9	-22	-1	-1
Profit before tax	38,023	31,349	2,430	2,004
Corporate income tax expense	-6,235	-2,841	-398	-182
Profit for the period	31,788	28,508	2,032	1,822

Note 28 Financial information of parent company (continued)

BALANCE SHEET	EEK '000		EUR '000	
	2006	2005	2006	2005
Balance at 31 December				
Cash and cash equivalents	2,356	17,353	151	1,109
Trade receivables	7,010	5,652	448	361
Receivables from related parties	15,617	18,006	998	1,151
Other receivables and prepayments	362	390	23	25
Inventories	10,095	9,179	645	587
Total current assets	35,440	50,580	2,265	3,233
Investments in subsidiaries	44,460	38,201	2,841	2,441
Investments in associates	10,840	10,840	693	693
Other investments	344,884	312,103	22,042	19,947
Investment property	152,074	140,856	9,719	9,002
Property, plant and equipment	7,554	9,768	483	624
Intangible assets	1,246	698	80	45
Total non-current assets	561,058	512,466	35,858	32,752
TOTAL ASSETS	596,498	563,046	38,123	35,985
Liabilities				
Loans	8,762	8,762	560	560
Trade payables	9,007	6,096	576	390
Payables to related parties	712	169	46	11
Tax liabilities	1,944	1,573	124	101
Other payables and advances received	3,432	2,977	219	190
Total current liabilities	23,857	19,577	1,525	1,252
Non-current portion of loans	19,715	28,477	1,260	1,820
Total liabilities	43,572	48,054	2,785	3,072
Equity				
Share capital	168,000	168,000	10,737	10,737
Share premium	6,000	6,000	383	383
Reserves	331,552	296,126	21,190	18,926
Retained earnings	47,374	44,866	3,028	2,867
Total equity	552,926	514,992	35,338	32,913
TOTAL LIABILITIES AND EQUITY	596,498	563,046	38,123	35,985

Note 28 Financial information of parent company (continued)

STATEMENT OF CASH FLOWS	EEK '000		EUR '000	
	2006	2005	2006	2005
Cash flows from operating activities				
Operating profit	17,575	20,156	1,123	1,288
Adjustments for				
Depreciation, amortisation and impairment losses	7,235	6,978	463	446
Gain / loss on sale of property, plant and equipment	-6	-727	0	-46
Change in receivables related to operating activity	1,040	8,289	66	530
Change in inventories	-916	33,823	-58	2,162
Change in payables related to operating activity	4,757	-32,272	304	-2,063
Corporate income tax paid	-6,236	-2,841	-399	-182
Interest paid	-1,179	-1,227	-75	-78
Net cash from operating activities	22,270	32,179	1,424	2,057
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets	-17,311	-36,944	-1,106	-2,361
Proceeds from sale of property, plant and equipment	47	16,861	3	1,078
Acquisition of financial assets	-6,416	-16,000	-410	-1,023
Proceeds from sale of financial assets	5,616	5,008	359	320
Repayment of loans given	0	205	0	13
Interest received	187	147	12	9
Dividends received	16,261	7,628	1,039	488
Net cash used in / from investing activities	-1,616	-23,095	-103	-1,476
Cash flows from financing activities				
Loans received	0	26,755	0	1,710
Repayment of loans received	-8,762	-7,429	-560	-475
Payment of finance lease liabilities	0	-1,565	0	-100
Dividends paid	-26,880	-24,640	-1,718	-1,575
Net cash used in financing activities	-35,642	-6,879	-2,278	-440
Net cash flows	-14,988	2,205	-957	141
Cash and cash equivalents at beginning of period	17,353	15,169	1,109	969
Net increase	-14,988	2,205	-957	141
Effect of exchange rate fluctuations on cash held	-9	-21	-1	-1
Cash and cash equivalents at end of period	2,356	17,353	151	1,109

Note 28 Financial information of parent company (continued)

STATEMENT OF CHANGES IN EQUITY EEK '000	Share capital	Share premium	Capital reserve	Fair value reserve	Retained earnings	TOTAL
Balance at 31 December 2004	56,000	6,000	8,600	273,324	152,998	496,922
Profit for the period	0	0	0	0	28,508	28,508
Income recognised directly in equity	0	0	0	14,202	0	14,202
Dividends	0	0	0	0	-24,640	-24,640
Capitalisation issue	112,000	0	0	0	-112,000	0
Balance at 31 December 2005	168,000	6,000	8,600	287,526	44,866	514,992
Profit for the period	0	0	0	0	31,788	31,788
Income recognised directly in equity	0	0	0	33,026	0	33,026
Dividends	0	0	0	0	-26,880	-26,880
Transfer to capital reserve	0	0	2,400	0	-2,400	0
Balance at 31 December 2006	168,000	6,000	11,000	320,552	47,374	552,926
EUR '000						
Balance at 31 December 2004	3,579	383	550	17,469	9,778	31,759
Profit for the period	0	0	0	0	1,822	1,822
Income recognised directly in equity	0	0	0	908	0	908
Dividends	0	0	0	0	-1,575	-1,575
Capitalisation issue	7,158	0	0	0	-7,158	0
Balance at 31 December 2005	10,737	383	550	18,377	2,867	32,914
Profit for the period	0	0	0	0	2,032	2,032
Income recognised directly in equity	0	0	0	2,111	0	2,111
Dividends	0	0	0	0	-1,719	-1,719
Transfer to capital reserve	0	0	153	0	-153	0
Balance at 31 December 2006	10,737	383	703	20,488	3,027	35,338

	EEK '000		EUR '000	
	2006	2005	2006	2005
Unconsolidated equity at 31. December	552,926	514,992	35,338	32,914
Interests under control and significant influence:				
-carrying amount	-55,299	-49,041	-3,534	-3,134
-carrying amount under the equity method	108,003	86,244	6,903	5,512
Restated unconsolidated equity at 31 December	605,630	552,195	38,707	35,292

Signatures

The management board

has prepared the activity report
and the annual financial statements
of AS Harju Elekter and the Group for 2006.

27th February 2007

Andres Allikmäe

Chairman of the Management Board



Lembit Libe

Member of the Management Board



Karin Padjus

Member of the Management Board



The supervisory board has reviewed the
annual report prepared by the management
board (pp. 12-83), including an activity report
and annual financial statements, and has
approved its presentation to the general mee-
ting of the shareholders.

3rd April 2007

Endel Palla

Chairman of the Supervisory Board



Ain Kabal

Member of the Supervisory Board



Lembit Kirsme

Member of the Supervisory Board



Madis Talgre

Member of the Supervisory Board



Triinu Tombak

Member of the Supervisory Board





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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Harju Elekter

We have audited the accompanying consolidated financial statements of AS Harju Elekter, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 41 to 83.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Harju Elekter as of 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 27 February 2007

KPMG Baltics AS

/signature/

Andres Root
Authorized Public Accountant

/signature/

Indrek Alliksaar
Authorized Public Accountant

Profit allocation proposal

Profits attributable to equity holders of AS Harju Elekter:

	EEK '000	EUR '000
Retained earnings of preceding periods	52,789	3,374
Profit for 2006	47,289	3,022
Total distributable profits at 31 December 2006	100,078	6,396

The management board proposes that profits be allocated as follows:

Dividend distribution (EEK 1.80 or EUR 0.115 per share)	30,240	1,933
Transfer to capital reserve	2,400	153
Retained earnings after allocations	67,438	4,310

27th February 2007

Andres Allikmäe
Chairman of the Management Board



Lembit Libe
Member of the Management Board



Karin Padjus
Member of the Management Board



Statistical summary

1 EUR=15,6466 EEK	2006	2005	2004	2003	2002
Income statement for the year (EEK' 000)					
Turnover	622,087	513,936	453,779	342,348	271,212
Operating profit	45,174	37,516	31,229	19,911	15,494
Net profit ¹ (belonging to the owners of the parent company)	47,289	41,656	56,190	45,077	53,254
Balance sheet as of the end of the year (EEK' 000)					
Total current assets	169,352	163,584	142,073	109,780	83,270
Total fixed assets	588,380	532,792	498,520	373,297	194,504
Total assets	757,732	696,409	640,593	483,077	277,774
Owners equity (belonging to the owners of the parent company)	605,630	552,195	520,977	389,212	224,552
Equity ratio (%)	79.9	79.3	81.3	80.6	80.8
Rates of growth (%)					
Growth in net sales	21.1	13.3	32.6	26.2	38.7
Operating profit growth	20.5	20.2	56.7	28.5	33.5
Net profit growth	13.6	-25.9	25.0	-15.0	156.7
Assets growth	8.8	8.7	32.6	73.9	57.3
Owner's equity growth (belonging to the owners of the parent company)	9.7	6.0	33.9	73.3	79.1
Performance indicators (%)					
Return of sales	7.3	7.3	6.9	5.8	5.7
Net profit margin	7.6	8.1	12.0	13.0	19.6
Return of assets (ROA)	6.5	6.2	10.0	46.1	23.4
Return of equity (ROE)	8.2	7.8	12.0	57.2	30.4
Shares (EEK) ²					
Average number of shares (1000 pc)	16,800	16,800	16,401	16,200	16,200
Shareholder's equity per share	34.46	31.94	27.75	18.94	10.80
The closing price	64.93	64.15	47.46	34.94	15.23
EPS	2.82	2.48	3.43	2.78	3.29
P/E	23.06	25.87	13.85	12.56	4.63
Dividend per share	³ 1.80	1.60	1.47	1.33	0.67
Liquidity ratio					
Current ratio	1.6	1.6	1.7	1.8	1.6
Quick ratio	0.9	0.9	0.9	1.0	0.9
Personnel and remuneration					
Number of employees at the end of the period	427	425	405	353	282
Average number of employees	439	412	378	302	351
Wages and salaries (million kroons)	86.6	73.9	61.2	50.7	42.1

Return of sales = Operating profit/Net sales *100

Net profit margin = Net profit (belonging to the owners of the parent company)/Net sales *100

Shareholder's equity per share = Average owner's equity/Average number of shares

Return of assets (ROA) = Net profit/Average total assets *100

Return of equity (ROE) = Net profit/Average owner's equity *100

Equity ratio = Owner's equity (belonging to the owners of the parent company)/Assets*100

Current ratio = Current assets/Current liabilities

Quick ratio = Liquid assets/Current liabilities

¹ Net profits of the previous periods have been corrected due to changes in the accounting principles

² The indicators have been corrected retroactively taking into account the bonus issue in May 2005

³ Proposal of the Management Board



Karin Padjus, Lembit Libe, Andres Allikmäe, Ain Kabal, Lembit Kirsme, Madis Talgre, Endel Palla, Triinu Tombak

Supervisory Board

Chairman

Endel Palla (1941)

R&D manager at AS Harju Elekter
950,000 Harju Elekter shares,
direct participation 5.65%, indirect 0.31%

Members

Ain Kabal (1962)

President of the Estonian Association of SME's
3,660 Harju Elekter shares,
direct participation 0.02%

Lembit Kirsme (1941)

Ch. of the Supervisory Board, AS Harju KEK
1,395,000 Harju Elekter shares
direct participation 8.30%, indirect 0.72%

Madis Talgre (1960)

Managing Director, AS Harju KEK
18,000 Harju Elekter shares,
direct participation 0.11%

Triinu Tombak (1971)

Consultant
15,000 Harju Elekter shares,
direct participation 0.09%

Management Board

Chairman

Andres Allikmäe (1957)

CEO
185,000 Harju Elekter shares,
direct participation 1.10%

Members

Lembit Libe (1946)

Chief Economist
19,500 Harju Elekter shares,
direct participation 0.12%

Karin Padjus (1948)

Financial Director
110,193 Harju Elekter shares,
direct participation 0.66%, indirect 0.25%

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