

AS Harju Elekter

**FINANCIAL REPORT
01.01.1998-31.12.1998**

Corporate data

| | |
|----------------------------------|---------------------------------------|
| Business name: | AS Harju Elekter |
| Commercial registry code: | 10029524 |
| Address: | 31 Paldiski Road 76 606 Keila |
| Telephone: | 372 67 47 400 |
| FAX: | 372 67 47 401 |
| Core business: | production of electrical equipment |
| CEO: | Endel Palla |
| Auditor: | KPMG Estonia |

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Comments to the Annual Report and signatures

The Management Board of AS Harju Elekter has prepared the 1998 activities report, annual accounts and proposal for the profit distribution.

The Annual Report of AS Harju Elekter (pp. 1 - 21) contains the Activities Report, Financial Statements, Auditor's Report and Proposal for Profit Distribution.

The Supervisory Board of the company has reviewed and approved the reports prepared by the Management Board and the Auditor's Report for the presentation at the annual general meeting of shareholders.

| | Name | Date | Signature |
|-----------------------------------|-----------------|-------|-----------|
| <u>Management Board:</u> | | | |
| Chairman of the Board | Endel Palla | ..... | ..... |
| Member of the Board | Andres Allikmäe | ..... | ..... |
| Member of the Board | Ülo Merisalu | ..... | ..... |
| Member of the Board | Karin Padjus | ..... | ..... |
| Member of the Board | Lembit Libe | ..... | ..... |
| <u>Supervisory Board:</u> | | | |
| Chairman of the Supervisory Board | Jüri Kalmet | ..... | ..... |
| Member of the Supervisory Board | Lembit Kirsme | ..... | ..... |
| Member of the Supervisory Board | Triinu Tombak | ..... | ..... |

Review of the Management Board

Introduction. On the whole, the year 1998 signified for AS Harju Elekter the period marked by strong growth and development. In its business area the company strengthened its market position in all main fields of activity – substations, switchboards, sheet metal products, fireproof and safety doors as well as different cable harnesses and connection cables.

Turnover. In 1998 the turnover of AS Harju Elekter was 147.9 million EEK. Compared to the previous year, the increase was 36.6%. The share of export in net sales was 43.7% or 64.6 million EEK. If we take into account also the material in the value of 302.5 million kroons temporarily imported into the Republic of Estonia for the purpose of processing and reflected in the customs statistics, the turnover of AS Harju Elekter would amount to 450.4 million kroons, including 367.1 million kroons of export.

Profit. Consolidated net profit for 1998 was 16.1 million EEK (37%). Consolidated profit from subsidiaries and affiliated companies was 2.4 million EEK. Profit before tax was 18.0 million EEK. Average rate of return for 1998 was 6.8% (26.7%). 5.4 million kroons investment placed in the tax relief region of Haapsalu reduced our income tax by 1.4 million and income from dividends earned from PK Cables, although included in our profit but treated as income taxed abroad, reduced our income tax level by almost half a million kroons. On the positive side is the 13.3 million EEK (74%) operating profit from the company's core business. Gross profit per employee amounted to 59.5 thousand kroons. Profitability was 10.9% (9.3%).

Balance sheet total. In 1998 the balance sheet total amounted to 109 million EEK (+36.8%) whereas owners' equity increased to 69.4 million kroons (25.4%), non-restricted equity was 49.4 million kroons or 45% equity/assets ratio.

Shares. The share capital of AS Harju Elekter is 18.0 mill. EEK which is divided into 1.8 million registered shares with the nominal value of 10 EEK. The shares are traded on Tallinn Stock Exchange since 30.09.1997. In 1998 the stock exchange transactions with AS Harju Elekter shares totalled 162.15 million EEK which constituted 1.21% of the value of trading. The share price underwent significant changes during the year, floating mostly near the 80 EEK level in the beginning of year and reaching the peak 150-170 EEK level in summer. After the overall autumn slump on the stock exchange, the share price stabilised at the 100 EEK level, climbing by the year' end to 115 EEK. Of all the shares quoted on Tallinn Stock Exchange, the share of Harju Elekter was the only one to display a considerable price increase (39.8%). The proposal of the management board was to pay altogether 3.6 million EEK in dividends to the shareholders or 2.00 kroons per share. EPS was 9 kroons (5.60).

Investments. In 1998 AS Harju Elekter invested altogether 24 mill. EEK, including 19.8 mill. EEK in tangible fixed assets. The most important investment projects were the construction of the substations production plant for the Electrical Equipment Factory – 4.8 mill. EEK, the 1st stage of the Haapsalu production plant of the Cable Harness Factory – 5.4 mill. EEK and the enlargement of the Keila Cables production facility – 3.2 mill. EEK. Privatisation of land was initiated. 722.7 thousand kroons were paid for land. Substantial funds were invested into computer technology – 545 thousand kroons. Among financial investment projects the largest were the acquisition of the subsidiary AS Eltek and expansion of its share capital to 2.7 mill. EEK. In November 1998 the agreement for the establishment of the subsidiary company Saajos Balti AS was signed with the Finnish partner OY Saajos International Ltd., the partnership division being accordingly 55% and 45%.

Liabilities. A long-term bank loan in the amount of 16.4 mill. EEK was taken from a Finnish bank for the financing of the investment projects, of it 1.2 million kroons were repaid in 1998. In total,

the balance sheet shows 20.7 million EEK in long-term loans from banks. The ratio of external finances to total assets was 36%.

Personnel and remuneration. In 1998 the average number of employees at AS Harju Elekter was 488 (434), including 47 with higher education, 325 with secondary and secondary vocational education and 116 with basic school education. In 1998 the company paid 36 mill. EEK in salaries, vacation pays and incentive benefits which is 9 million EEK more than in the previous year.

Supervisory board, management board and auditors. The Supervisory Board of AS Harju Elekter has three members. The Chairman of the Supervisory Board is Jüri Kalmet, CEO of OÜ Harju KEK, other members are Lembit Kirsme, Vice Chairman of the Supervisory Board of OÜ Harju KEK and Triinu Tombak, senior specialist of Optiva bank.

The Management Board of the company has five members. The Chairman of the Board and CEO is Endel Palla, other members are Andres Allikmäe, Director of Cable Harnesses Factory, Ülo Merisalu, Director of Electrical Equipment Factory, Karin Padjus, Chief Accountant, Lembit Libe, Chief Economist. All board members belong to the Executive Management. Andris Jegers and Indrek Alliksaar from KPMG auditing firm were nominated as auditors for AS Harju Elekter.

Major investments planned for 1999 are the acquisition of a new estate in Keila for the warehouse terminal and production area of the Cable Harnesses Factory, reconstruction and improvement of the existing production and office space, purchase of technological equipment, office machines and equipment.

Financial statement for 1998
Balance sheet

| Assets | Note No | 31.12.98 | 31.12.97 <i>korrigeeritud</i> |
|---|----------------|-------------------|---|
| Cash and bank | 2 | 5 867 060 | 5 519 660 |
| Marketable securities | 3 | 367 971 | 1 433 422 |
| Accounts receivable from customers | 4 | | |
| Accounts receivable | | 12 620 051 | 6 823 953 |
| Improbably receivable accounts | | -552 000 | -96 894 |
| Total | | 12 068 051 | 6 727 059 |
| Other receivable | | | |
| Receivables from affiliated companies | | 350 611 | 239 902 |
| Other receivable | | 367 909 | 511 036 |
| Total | | 718 520 | 750 938 |
| Accrued receivable | | | |
| Interest receivable | | 32 652 | 24 512 |
| Prepaid expenses | | | |
| Prepaid taxes | 9 | 603 940 | 689 754 |
| Other prepayments | | 121 058 | 347 558 |
| Total | | 724 998 | 1 037 312 |
| Inventory | 5 | | |
| Raw materials | | 10 802 822 | 9 345 595 |
| Work-in-progress | | 3 649 104 | 2 168 423 |
| Finished goods | | 2 630 617 | 2 374 477 |
| Purchased goods for sale | | 3 011 458 | 2 898 830 |
| Prepayments to suppliers | | 4 919 | 79 303 |
| Total inventory | | 20 098 920 | 16 866 628 |
| TOTAL CURRENT ASSETS | | 39 878 172 | 32 359 531 |

Non-current assets

| | | | |
|---|---|--------------------|-------------------|
| Long-term financial assets | | | |
| Stock and shares in affiliated companies | 2 | 3 644 407 | 0 |
| Long-term receivables from affiliated companies | | 434 260 | 0 |
| Stock and shares in associated companies | 2 | 16 075 995 | 14 329 427 |
| Other shares and securities | 2 | 1 554 075 | 1 570 348 |
| Other long-term receivables | | 514 171 | 430 620 |
| Total | | 22 222 908 | 16 330 395 |
| Noncurrent tangibles | 7 | | |
| Land and buildings | | 37 200 196 | 2 394 4963 |
| Plant and equipment | | 21 517 382 | 14 639 716 |
| Other equipment and fixtures | | 1 740 267 | 1 241 807 |
| Accumulated depreciation | | -14 607 552 | -11 414 598 |
| Construction in progress | | 504 634 | 0 |
| New equipments(not in exploitation) | | 0 | 2 414 684 |
| Prepayments for tangibles | | 564 244 | 182 390 |
| Total | | 46 919 171 | 31 008 962 |
| TOTAL NON-CURRENT ASSETS | | 69 142 079 | 47 339 357 |
| TOTAL ASSETS | | 109 020 251 | 79 698 888 |

| Liabilities and equity | Note No | 31.12.98 | 31.12.97 <i>korrigeeritud</i> |
|---|----------------|-------------------|---|
| Current liabilities | | | |
| Short-term debt | | | |
| Current period long-term dept repayment | 9 | 4 937 816 | 1 828 114 |
| Short-term loans from banks | | 2 010 747 | 512 512 |
| Total | | 6 948 563 | 2 340 626 |
| Customer prepaymetns | | 276 351 | 392 315 |
| Accounts payable | | 7 689 894 | 5 968 200 |
| Tax liabilities | 8 | 2 549 348 | 3 954 243 |
| Accrued expenses | | | |
| Salary-related accrued expenses | | 3 927 849 | 2 839 392 |
| Other accreud expences | | 10 269 | 11 722 |
| Total | | 3 938 118 | 2 851 114 |
| Other prepaid revenue | | 0 | 295 939 |
| Total current liabilities | | 21 402 274 | 15 802 437 |
| Non-current liabilities | | | |
| Long-term loans from banks | 9 | 15 744 174 | 6 093 686 |
| Other non-current provisions | 10 | 2 494 791 | 1 869 755 |
| Total non-current liabilities | | 18 238 965 | 7 963 441 |
| TOTAL LIABILITIES | | 39 641 239 | 23 765 878 |

Equity

| | | | |
|-------------------------------------|----|--------------------|-------------------|
| Capital stock | | 18 000 000 | 18 000 000 |
| Mandatory legal reserv | | 2 010 000 | 1 010 000 |
| Retained earnings | | 33 223 010 | 26 429 046 |
| Net profit | | 16 146 002 | 10 493 964 |
| Total owner's equity | 12 | 69 379 012 | 55 933 010 |
| TOTAL LIABILITIES AND EQUITY | | 109 020 251 | 79 698 888 |

Income statement

| | Note No | 31.12.98 | 31.12.97 <i>korrigeeritud</i> |
|--|-----------|-------------------|----------------------------------|
| Net sales | 13 | 147 894 369 | 108 259 956 |
| Cost of good sold | | 118 863 358 | 89 337 827 |
| Gross profit | | 29 031 011 | 18 922 129 |
| Marketing expenses | | 4 307 409 | 1 908 336 |
| Administration expenses | | 10 586 573 | 8 986 157 |
| Other business revenue | | 189 367 | 382 973 |
| Other business expenses | | 1 065 842 | 791 885 |
| Operating profit | | 13 260 554 | 7 618 724 |
| Financial income from: | | | |
| Affiliated companies | 2 | 668 407 | 0 |
| Associated companies | 2 | 1 746 568 | 432 443 |
| Other non-current financial investment | 2 | 4 156 798 | 6 763 093 |
| Foreign exchange gain | | 44 892 | 302 811 |
| Other interest and similar income | | 305 792 | 839 630 |
| Total financial income | | 6 922 457 | 8 337 977 |
| Financial expenses from: | | | |
| Associated companies | 2 | 0 | 307 471 |
| Interest expense | | 1 061 630 | 633 077 |
| Foreign exchange loss | | 40 716 | 153 811 |
| Value adjustment to non-current fin.assets | 2 | 13 660 | 6 340 |
| Other financial expenses | 2 | 1 080 551 | 563 550 |
| Total financial expenses | | 2 196 557 | 1 664 249 |
| Profit from normal operations | | 17 986 454 | 14 292 452 |
| Profit before taxes | | 17 986 454 | 14 292 452 |
| Income tax | | 1 215 416 | 3 417 566 |
| Provision for taxes | 10 | 625 036 | 380 922 |
| NET PROFIT FOR THE FINANCIAL YEAR | | 16 146 002 | 10 493 964 |
| Net profit per share (EEK) | | 8,97 | 6,11 |

Notes to 1998 Financial Statements

Note 1. Changes in accounting standard or accounting principles

The annual accounts for 1998 have been prepared according to the best accounting principles and practice valid in the Republic of Estonia. The basic requirements of the best accounting practice were specified in the Accounting Law of January 1, 1995 as well as the regulations of the government and Ministry of Finance and supplemented with the recommendations issued by the Estonian Accounting Board. AS Harju Elekter has not changed its accounting principles in 1998.

Note 2. Cash Flow Statement

| | 1998 | 1997 |
|---|--------------------|-------------------|
| Net profit for the financial year | 16 146 002 | 10 493 964 |
| Depreciation tangible assets | 3 780 044 | 2 897 581 |
| Gains/losses on financial assets | -2 945 987 | -5 141 041 |
| Gains/losses on tangible assets | 9 921 | -43 295 |
| Gains/losses on non-current liabilities | -12 126 | -107 850 |
| Working capital from operations | 16 977 854 | 8 099 359 |
| Marketable securities | 1 065 451 | 1 010 724 |
| Customer receivables | -5 340 992 | -1 741 205 |
| Other receivables | 32 418 | -540 657 |
| Accrued income | -8 140 | -13 400 |
| Prepaid expenses | 312 314 | -856 997 |
| Inventory | -3 232 292 | -6 786 063 |
| Repositioning of assets | 608 287 | 840 001 |
| Short-term debt | 4 607 937 | 685 719 |
| Trade payables | 1 605 730 | 3 759 741 |
| Tax liabilities | -1 404 895 | 2 107 791 |
| Accrued expenses | 1 087 004 | 194 448 |
| Other prepaid revenue | -295 939 | 295 939 |
| Repositioning of liabilities | -4 937 816 | -1 619 447 |
| Change in current accounts | -5 900 933 | 2 663 406 |
| Cash flows from operations | 11 076 921 | 5 435 953 |
| Sale of financial assets | 671 187 | 5 296 059 |
| Investment in financial assets | -4 226 000 | -540 000 |
| Sale of tangible assets | 88 515 | 96 511 |
| Investment in tangible assets | -19 788 689 | -10 080 688 |
| Cash flow from investing activities | -23 254 987 | -5 228 118 |
| New loans | 16 413 466 | 8 404 973 |
| Repayment of non-current liabilities | -1 188 000 | -5 000 000 |
| Issue of shares | 0 | 2 000 000 |
| Dividends | -2 700 000 | -1 700 000 |
| Cash flows from financing activities | 12 525 466 | 3 704 973 |
| Change in cash | 347 400 | 3 912 808 |
| Cash on the beginning of the year | 5 519 660 | 1 606 852 |
| Cash on the end of the year | 5 867 060 | 5 519 660 |

Note 3. Shares and Participation

3.1 Short-term financial investments

Short-term financial investments in securities as of 31.12.98 have been reported based on what is lower, their historic cost or market price.

The fall in the value of short-term financial investments during the financial year resulted in the loss of 1 065 451 kroons. The amount of price reduction was charged to financial expenses and reported in the income statement under *Other financial expenses*. In 1998 no shares were bought for short-term holding purposes.

3.2 Long-term financial investments

3.2.1 Affiliated companies

(in kroons)

| Item | AS ELTEK | Saajos Balti AS | Total |
|---|------------------|-----------------|------------------|
| Number of shares at year-end | 10 000 | 27 500 | x |
| Par value | 100 | 10 | x |
| Acquisition value in 1998. | 2 701 000 | 275 000 | 2 976 000 |
| Share of consolidated profit in 1998. | 668 407 | | 668 407 |
| Investments book value at year-end | 3 369 407 | 275 000 | 3 644 407 |
| Consolidated profit contained in book value | 668 407 | 0 | 668 407 |
| Participation % | 100 | 55 | x |

Consolidation based on extended equity method

| | | | |
|---|----------------|----------|----------------|
| 1.Net profit of affiliated companies in 1998 | 960 020 | | 960 020 |
| 2.Share of consolidated profit | 751 681 | | 751 681 |
| 3.Share of unrealized gains in AS Harju Elekter stock | 618 | | 618 |
| 4.Unrealized gains in 1998 capitalized expenses | 2 530 | | 2 530 |
| 5.Amortization of <i>goodwill</i> in 1998. | 80 126 | | 80 126 |
| Consolidated profit/loss(+/-) | 668 407 | 0 | 668 407 |

| AS-i ELTEK equity structure | 31.12.98 | 28.02.98 |
|--|------------------|------------------|
| Common stock | 1 000 000 | 300 000 |
| Reserves | 30 000 | 30 000 |
| Retained earnings | 981 907 | 981 907 |
| Net profit (loss) for the financial year | 960 016 | 208 338 |
| TOTAL OWNERS' EQUITY | 2 971 923 | 1 520 245 |

The affiliated company AS ELTEK was purchased on 28.02.98. At the time of its acquisition the net worth of the company was equal to 1,150 245 kroons and the acquisition price was 2, 001 000 kroons. *Goodwill* in the amount of 480,755 krooni shall be charged to costs and expenses within five years. In 1998 80,126 kroons of goodwill was written down that resulted in the decreased consolidated profit of AS ELTEK. The share capital of AS ELTEK was increased by 700,000 kroons to the total of 1 million kroons.

On 05.11.98 the foundation agreement of Saajos Balti AS was signed. The founders of the company were AS Harju Elekter and OY Saajos International Ltd from Finland. The shareholding in the established company was respectively 55% ja 45%. The share capital was paid in at the end of the year. The affiliated company was formed on the basis of one of AS Harju Elekter production units – fireproof doors company. The company shall start its business operations in 1999. .

3.2.2 Associated companies

(in kroons)

| Item | AS Keila Cables | AS Glamox Harju Elekter | Total |
|--|--------------------|----------------------------|-------------------|
| Number of shares at year-end | 989 | 40 | x |
| Par value | 10 000 | 13 000 | x |
| Book value at the beginning of the year | 10 691 601 | 3 637 826 | 14 329 427 |
| Share of consolidated profits in 1998 | 1 717 502 | 29 066 | 1 746 568 |
| Investment book value at year-end | 12 409 103 | 3 666 892 | 16 075 995 |
| Equity accounting profit contained in book value | 2 519 103 | 3 146 892 | 5 665 995 |
| Participation % | 41,2 | 20 | x |

| Consolidation on extended equity method | | | |
|---|------------------|---------------|------------------|
| 1.Net profit of associated companies in1998 | 4 181 383 | 165 301 | 4 346 684 |
| 2.Share of consolidated profit | 1 722 730 | 33 060 | 1 755 790 |
| 3.Share of unrealized gains in AS Harju Elekter stock | 5 228 | 1 274 | 6 502 |
| 4.Unrealized gains in 1998 capitalized expenses | | 2 720 | 2 720 |
| Consolidated profit/loss (+/-) | 1 717 502 | 29 066 | 1 746 568 |

1,746 568 kroons in consolidated profit earned from the shares of the associated companies has been booked as financial income and reported in the income statement under *Financial income from shares of associated companies*.

Equity structure of associated companies

| AS Keila Cables | 31.12.98 | 31.12.97 |
|--------------------------------------|-------------------|-------------------|
| Common stock | 24 000 000 | 24 000 000 |
| Reserves | 200 354 | 200 354 |
| Retained earnings | 1 778 024 | 2 496 423 |
| Net profit (loss) for financial year | 4 181 383 | -718 399 |
| TOTAL OWNERS' EQUITY | 30 159 761 | 25 978 378 |

| AS Glamox HE | 31.12.98 | 31.12.97 |
|--------------------------------------|-------------------|-------------------|
| Common stock | 2 600 000 | 2 600 000 |
| Reserves | 650 000 | 650 000 |
| Retained earnings | 15 013 645 | 13 606 183 |
| Net profit (loss) for financial year | 165 301 | 1 407 462 |
| TOTAL OWNERS' EQUITY | 18 428 946 | 18 263 645 |

3.2.3 Other shares

| | PK Cables | Eesti Ühispank | Eesti Maapank |
|---|---------------|-------------------|------------------|
| Number of shares at year-end | 527600 | 49435 | 1366 |
| Par value | 2(FIM) | 10 | 10 |
| Book value at year-end | 987478 | 569210 | 13660 |
| Investments sold | 2613 | 0 | |
| Write-downs | 0 | 0 | 13660 |
| Book value at year-end | 984865 | 569210 | 0 |
| Participation in share capital at year-end in % | 10,03 | 0,1666 | |
| Market price as of 31.12.98 | 187471818 | 2869702 | 0 |

1,400 PK Cables OY shares were sold in 1998 and financial income in the amount of 544,672 kroons earned. It is reported in the income statement under *Financial income from other financial investments*. The shares of PK Cables OY are booked in the balance sheet at their historical acquisition cost of 984 865 kroons among other shares. The market value of the shares at year-end was 187,471,818 kroons. The shares were quoted on the Helsinki Stock Exchange at 135 FIM. Dividends earned from PK Cables OY for the financial year amounted to 3,485,366 kroons.

The market value of Eesti Ühispank shares was 2,869,702 kroons as of the date of the balance sheet. The shares of Eesti Maapank were charged to costs and expenses as they generated financial expenses in the amount of 13,660 kroons that is reported in the income statement under *Revaluation of financial investments*.

Note 4. Accounts receivable from customers

Accounts receivable from customers are reported in the balance sheet in the amount of 12, 068, 051 kroons. Accounts receivable have been calculated in the balance sheet based on doubtless collectible amounts. Allowance for doubtful receivables is reported in the balance sheets in the amount of 552 000 kroons. The value of doubtful receivables estimated for the fiscal year and charged to costs and expenses totalled 497,207 kroons.

Out of 96,894 kroons of doubtful receivables estimated in the previous financial year and charged to costs and expenses, 41,682 kroons were collected during the fiscal year and reported in the income statement under *Other operating revenues*.

Foreign currency denominated claims to customers were translated using the official Bank of Estonia exchange rate valid on the balance sheet date. Unrealized foreign exchange losses amounted to 2,869 kroons and are reported in the income statement under *Other operating expenses*.

Note 5. Inventory, stock in trade and work in progress

The assessment of inventory is based on weighted average cost formula. It is reported at the lower of cost, acquisition price or net realisable value. After annual inventory counts 74,530 kroons in non-liquid or obsolete stock without utilization value were written off. The value of inventory, the historical cost of which exceeded its net realizable value, was written down by 64,965 kroons.

The cost of work-in-progress, semimanufactures and finished goods includes direct and indirect conversion costs.

Note 6. Miscellaneous inventory

Assets with the value less than 5,000 kroons and useful life up to one year, irrespective of the cost, are recorded as miscellaneous inventory. Beside tools and other items, protective clothing belongs to this category. In 1998 miscellaneous items and expendables were charged to costs and expenses in the value of 1,433, 328 kroons.

Note 7. Tangible fixed assets

| | Land | Buildings | Plant And Equipment | Other Inventory | Accumu- lated deprecia- tion | Construc- tion In process | Unassem- bled installation | Prepayment for noncurrent physical assets | Total |
|--------------------------------------|---------|------------|---------------------------|--------------------|---------------------------------------|------------------------------------|----------------------------------|---|-------------|
| Acquisition value 01.01.98 | 0 | 23 944 963 | 14 639 716 | 1 241 807 | -11 414 598 | 0 | 2 414 684 | 182 390 | 42 423 560 |
| Accumulated depreciation 01.01.98 | 0 | 4 307 718 | 6 513 376 | 593 504 | | | | | |
| Purchased | 163 353 | 9 341 119 | 7 335 301 | 498 460 | | 504 634 | -2 414 684 | 381 854 | 15 810 037 |
| Sold (at acquisition value) | | | -310 801 | | 256 060 | | | | -310 801 |
| Renovation | | 3 750 761 | 227 891 | | | | | 0 | 3 978 652 |
| Write-off | | | -374 725 | | 331 030 | | | | -374 725 |
| Depreciation for financial year | | -753 027 | -2 865 390 | -161 627 | -3 780 044 | | | | |
| Acquisition value 31.12.98 | 163 353 | 37 036 843 | 21 517 382 | 1 740 267 | | 504 634 | 0 | 564 244 | 61 526 723 |
| Accumulated depreciation 31.12.98 | 0 | -5 060 745 | -8 791 676 | -755 131 | -14 607 552 | | | | -14 607 552 |
| Residual value 31.12.98 | 163 353 | 31 976 098 | 12 725 706 | 985 136 | X | 504 634 | 0 | 564 244 | 46 919 171 |

Assets, the acquisition value of which exceeds 5,000 kroons and the estimated useful life one year, are accounted for as tangible fixed assets. Before the minimum value of tangible fixed assets was raised to 5 000 kroons, they were not entered into costs and expenses. The straight-line depreciation method is applied to tangible fixed assets. Depreciation rates used for tangible fixed assets are adjusted once a year. In 1998 the following depreciation rates were used:

Buildings and installations 3%;

Plant and equipment 10-30%;

Other inventory 15%.

When calculating tax amortization, the 7% rate was applied to category I and 28% rate to category II tangible fixed assets.

Note 8. Deferred taxes

As of 31.12.98 AS Harju Elekter deferred taxes amounted to 2,549,348 kroons and consisted of the following sums (in kroons):

| | |
|-------------------------------|------------------|
| Personal income tax | 1 595 017; |
| Corporate income tax | 46 751; |
| Value added | 73 321; |
| Social security contributions | 834 259; |
| Total | 2 549 348 |

The corporate income tax calculated for 1998 on the basis of the company's tax return equalled 2,122,141 kroons, out of which 960,000 kroons had been paid in advance payments during the financial year. In addition to the advance payments, the tax liabilities of the company were reduced by 906,723 kroons paid in income tax levied on dividends earned in foreign countries in 1998 and 208,687 kroons levied on dividends earned in previous periods and not deducted from payable income tax sum in previous years.

Note 9. Long-term liabilities

| Item | Loan 1 | Loan 2 | Loan 3 |
|---|-------------------------|--------------------------|-------------------------|
| Loan agreement signed | 18.09.97 | 03.03.98 | 28.12.98 |
| Maturity | 18.06.01 | 03.03.03 | 28.09.03 |
| Interest rate | 3 month helibor+3,0% | 3 month helibor+2,75% | 3 month helibor+2,5% |
| Credit limit in FIM | 3 000 000 | 3 000 000 | 3 000 000 |
| Amount outstanding in FIM as of 31.12.98. | 2 307 690 | 2 550 000 | 3 000 000 |
| Debt liabilities in kroons | 6 074 002 | 6 711 778 | 7 896 210 |

As of 31.12.98 long-term liabilities amounted to 20,681,990 kroons. 4,937,816 kroons due for repayment in 1999 are reported in the balance sheet among short-term liabilities under the item *Current period long-term debt repayment*. The remaining part of debt liabilities is entered in the balance sheet under *Long-term bank loans*.

Note 10. Contingent liabilities

The following contingent liabilities are reported in the balance sheet of AS Harju Elekter:

| | |
|--|-------------------|
| Provisions for tax liability (<i>Other non-current provisions</i>) | 2 494 791 kroon; |
| Vacation benefit reserve (Salary-related accrued expenses) | 1 583 467 kroons. |

Potential income tax liability increased by 625,036 kroons due to the differences in depreciation principles applied to fixed assets for taxation and accounting purposes during the financial year.

Note 11. Adjustment of initial balance sheet for 1998

The initial balance sheet of AS Harju Elekter for the year 1998 was adjusted in conjunction with the agreement on the avoidance of double taxation signed between the Republic of Estonia and Finland and the right arising thereof to treat dividends earned from PK Cables OY, resident of Finland, as non-taxable income.

Dividends earned by AS Harju Elekter from PK Cables OY, resident of Finland, before 1998 were initially reported on the tax return form as taxable income and therefore 608,911 kroons were paid in income tax more than prescribed. By years, the erroneously paid income tax outlay was as follows:

- 1) 1996.a. 208 667 kroons;
- 2) 1997.a. 400 244 kroons.

When preparing AS Harju Elekter Annual Report for 1998 and In order to avoid distortion of 1998 financial results, the following adjustments were made to correct the accounts of previous periods:

1) balance sheet as of 31.12.97

| Entry line | Adjusted data | Initial data |
|-----------------------------------|---------------|--------------|
| Tax liabilities | 3 954 243 | 4 563 154 |
| Retained earnings | 26 429 046 | 26 220 379 |
| Net profit for the financial year | 10 493 964 | 10 093 720 |

1) 1997 income statement

| Entry line | Adjusted data | Initial data |
|-----------------------------------|---------------|--------------|
| Income tax | 3 417 566 | 3 817 810 |
| Net profit for the financial year | 10 493 964 | 10 093 720 |

Note 12. Owners' equity

| | Common stock | Reserves | Retained earnings |
|---------------------------|--------------|-----------|-------------------|
| Initial balance 01.01.98 | 18 000 000 | 1 010 000 | 36 923 010 |
| Increased reserve capital | | 1 000 000 | -1 000 000 |
| Dividends paid | | | -2 700 000 |
| Net profit for 1998 | | | 16 146 002 |
| Final balance 31.12.98 | 18 000 000 | 2 010 000 | 49 369 012 |

The number of shares issued by AS Harju Elekter is equal to 1,800,000 and their par value is 18,000,000 krooni.

In 1998 the shareholders were paid dividends 1.5 kroons per share.

Note 13. Net sales and revenues by fields of activity and markets

| (in thousand kroons) | Core business | Other business areas | Total 1998 | Ratio In % | 1997 | Ratio In % |
|--|----------------|----------------------|----------------|--------------|----------------|--------------|
| 13.1 Fields of activity | | | | | | |
| - electrical equipment | 55 402 | | 55 402 | 37,5 | 37 255 | 34,4 |
| - sheet metal products | 5 669 | | 5 669 | 3,8 | 4 103 | 3,8 |
| - metal works(outsourcing)* | 1 236 | | 1 236 | 0,8 | 1 112 | 1,0 |
| - fireproof doors + jambs | 14 272 | | 14 272 | 9,7 | 9 245 | 8,5 |
| - cable harnesses for electronic components of cars (outsourcing)) | 43 625 | | 43 625 | 29,5 | 33 437 | 30,9 |
| - trade and intermediation | | 20 741 | 20 741 | 14,0 | 16 970 | 15,7 |
| - leasing of fixed assets | | 3 393 | 3 393 | 2,3 | 3 325 | 3,1 |
| - plastic products | | 972 | 972 | 0,7 | 977 | 0,9 |
| - other fields of activity | | 2 584 | 2 584 | 1,7 | 1 836 | 1,7 |
| Total | 120 204 | 27 690 | 147 894 | 100,0 | 108 260 | 100,0 |
| Ratio in % | 81,3 | 18,7 | 100,0 | | | |

13.2 Markets

| | | | | | | |
|------------------------------|--------|--------|--------|-------|--------|------|
| DOMESTIC MARKET | 55 632 | 27 690 | 83 322 | 56,3 | 59 922 | 55,4 |
| FOREIGN MARKETS | | | 64 572 | | 48 338 | 44,6 |
| Incl. Finland | 46 181 | x | 61 402 | 95,1 | 46 181 | 95,5 |
| Sweden | 1 522 | x | 1 541 | 2,4 | 1 522 | 3,1 |
| Russia | 115 | x | 85 | 0,1 | 115 | 0,2 |
| Latvia | 520 | x | 750 | 1,2 | 520 | 1,1 |
| Lithuania | 0 | x | 794 | 1,2 | 0 | 0 |
| TOTAL FOREIGN MARKETS | 48 338 | x | 64 572 | 100,0 | 48 338 | 100 |

Net sales and revenues grew 36.6% during the financial year. Sales related to core business grew 41.2%, to other fields of activity 19.8%. In 1998 the share of the domestic market in net sales and revenues continued to grow, reaching the 56.3% level. Sales on the domestic market grew 39.05% and export increased 33.58%.

Note 14. Off-balance sheet liabilities and assets pledged

| A. Loan guarantees issued | Value | Beneficiary | Currency | Maturity |
|---------------------------------|-----------|--------------|----------|-----------|
| Estonian Investment Bank | 3 000 000 | OÜ Harju KEK | EEK | 15.06.02 |
| NK Cables OY | 1 648 000 | Keila Cables | FIM | overdraft |
| Translated into Estonian kroons | 4 337 651 | | EEK | |

| B. Pledged assets / Due date | No. of shares | Pledged to | No. of contract |
|------------------------------|----------------|----------------|-------------------|
| Pk Cables shares/ 31.05.1999 | 12 000 | OP-Rahoitus OY | 3472 |
| Pk Cables shares/ 18.06.2001 | 85 000 | Leonia bank | 302-00-04300137-3 |
| PK Cables shares/ 03.03.2003 | 50 000 | Leonia bank | 302-00-04369361-3 |
| PK Cables shares/ 03.03.2004 | 39 032 | Leonia bank | 302-00-04451475-9 |
| Total pledged assets | 186 032 | | |

A short-term factoring and financing contract was concluded with OP-Rahoitus OY. The credit limit is one million FIM. The limit was granted to Saajos OY (Finland) and KCI Hoists OY (Finland) for the financing of sales invoices to the extent of 80% of the invoiced amount.

A contract of pledge signed with Leonia pankki OY serves as a guarantee to long-term bank loans. In 1998 two additional long-term loans were taken from Leonia bank, in the total amount of 6 million FIM.

The market value of pledged shares was 66,103 thousand kroons as of 31.12.98 and the value of guaranteed credits 22,693 thousand kroons.

Note 15. Off-balance sheet assets

| | In currency | In kroons | Notes |
|--------------------------------------|-------------|-----------|-----------------------|
| Group Schneider, Republic of Finland | FIM 98 780 | 259 947 | Consignment warehouse |

Note 16. Related parties transactions

| Related parties | Sold | Bought |
|-------------------------|---------------|--------------|
| | (1000 kroons) | (1000kroons) |
| AS Keila Cables | 3 000 | 2 008 |
| AS Glamox Harju Elekter | 429 | 3 002 |
| AS ELTEK | 1 434 | 1 169 |
| OÜ Harju KEK | 223 | 2 443 |

Products manufactured by AS Harju Elekter associated companies AS Keila Cables and AS Glamox HE are bought for resale at AS Harju Elekter outlets in Keila and Tallinn. The electrical equipment stores were opened for the purpose of reducing sales for cash payment in our company and also in the related companies and for redirecting our smaller customers to the outlets. Unrealised profit from stock-in-trade as of the year-end has been eliminated thru adjustment of investment value on the extended equity method.

From AS ELTEK mostly communication services and services related to the installation of communication and computer networks are bought, from the major shareholder OÜ Harju KEK area maintenance and guard/security services.

We sell to the related parties repair, maintenance and transport services, various commodities (safety doors, metering boards, tool-engineered products) and other electrical goods. Sales revenue earned from AS Keila Cables and AS ELTEK consists mostly of income from lease.

Note 17. Shareholders with more than 5% voting shares

| Shareholders | No. of shares | Participation % |
|---|---------------|-----------------|
| OÜ Harju KEK | 549 400 | 30,52 |
| Skandinaviska Enskilda Banken customers | 135 640 | 7,54 |
| Kirsme, Lembit Mr. | 120 000 | 6,67 |
| Merita bank customers | 91 400 | 5,08 |

Number of shares held by the shareholders and participation percentage are stated as of 31.12.1998.

Note 18. Shareholdings of AS Harju Elekter Supervisory and Management Board members

| Member | Number of shares | Direct participation in % | Indirect participation % thru OÜ Harju KEK |
|--------------------------|------------------|---------------------------|--|
| <i>Supervisory Board</i> | | | |
| Kalmet, Jüri Mr. | 38 619 | 2,15% | 1,59% |
| Kirsme, Lembit Mr | 120 000 | 6,67% | 6,16% |
| Tombak, Triinu Mrs | - | - | - |
| Total | 158 619 | 8,82% | 7,75% |
| <i>Management Board</i> | | | |
| Palla, Endel Mr | 87 312 | 4,85% | 3,07% (4,17%)* |
| Allikmäe, AndresMr | 20 100 | 1,12% | 0,26% |
| Merisalu, Ülo Mr | 5 000 | 0,28% | 0,00% |
| Padjus, Karin Mrs | 5 577 | 0,31% | 0,02% (0,17%)* |
| Libe, Lembit Mr | 7 707 | 0,43% | 0,08% |
| Total | 125 696 | 6,98% | 7,77% |

- participation of next-of-kin

Auditor's report to the shareholders of AS Harju Elekter

(Translation of the original in Estonian language)

We have audited the annual financial statements of AS Harju Elekter as of 31 December 1998. These financial statements are the responsibility is to Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Estonian Guidelines on Auditing. Those Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, prepared in accordance with the Estonian Accounting Law, showing a profit for the period of 16 146 002 kroons and the balance sheet total of 109 020 251 kroons, give a true and fair view of the financial position of AS Harju Elekter as of 31 December 1998, and of the results of its operations for the year then ended.

Tallinn, 10 March 1999
KPMG Estonia

Andris Jegers
Authorized Public Accountant

Indrek Alliksaar
Authorized Public Accountant

Proposal for profit distribution

| | |
|------------------------------------|-------------------|
| Retained earnings | 33 223 010 |
| Net income for financial year | 16 146 002 |
| Total non-restricted equity | 49 369 012 |
| To reserve capital | 1 600 000 |
| To be distributed as dividends | 3 600 000 |
| To be carried forward | 44 169 012 |