

# **AS Harju Elekter**

**G R O U P**

ANNUAL REPORT

01.01.1999-31.12.1999

## Corporate data

<b>Business name:</b>	AS Harju Elekter
<b>Commercial registry code</b>	10029524
<b>Address:</b>	31 Paldiski Road 76 606 Keila
<b>Telephone:</b>	372 67 47 400
<b>FAX:</b>	372 67 47 401
<b>Core business:</b>	production of electrical equipment
<b>CEO:</b>	Andres Allikmäe
<b>Auditor:</b>	KPMG Estonia

## Contents

Comments to the annual report and signatures	4
Activities report	5
Annual accounts	8
<i>Balance sheet</i>	8
<i>Income statement</i>	10
<i>Statement of cash flows</i>	11
<i>Note 1. Changes in accounting standard or accounting principles</i>	12
<i>Note 2. Shares and participation</i>	14
<i>Note 3. Accounts receivable from customers</i>	16
<i>Note 4. Other current receivables</i>	17
<i>Note 5. Inventory, stock-in-trade and work-in-progress</i>	17
<i>Note 6. Adjustment of initial balance sheet</i>	17
<i>Note 7. Tangible fixed assets</i>	18
<i>Note 8. Leasing of fixed assets</i>	19
<i>Note 9. Income tax and tax liabilities</i>	20
<i>Note 10. Potential liabilities</i>	20
<i>Note 11. Long-term bank loans</i>	21
<i>Note 12. Loan collaterals and assets pledged</i>	21
<i>Note 13. Owners' equity</i>	21
<i>Note 14. Net sales and revenue</i>	22
<i>Note 15. Depreciation of fixed assets</i>	23
<i>Note 16. Adjustment of income statement</i>	23
<i>Note 17. Related company transactions</i>	23
<i>Note 18. Off-balance sheet assets</i>	25
<i>Note 19. Contingent liabilities</i>	25
<i>Note 20. Participation of AS Harju Elekter management and supervisory board members</i>	25
<i>Note 21. Shareholders with more than 5% voting shares</i>	26
Auditor's report	27
Proposal for profit distribution	28

## Comments to the Annual Report and signatures

The Management Board of AS Harju Elekter has prepared the 1999 activities report and annual accounts of AS Harju Elekter and the Group and the proposal for profit distribution.

The Annual Report of AS Harju Elekter and the Group (pp. 1 – 31) 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 general meeting.

	Name	Date	Signature
<b><u>Management Board</u></b>			
Chairman	Andres Allikmäe	.....	.....
Member	Ülo Merisalu	.....	.....
Member	Karin Padjus	.....	.....
Member	Lembit Libe	.....	.....
<b><u>Supervisory Board:</u></b>			
Chairman	Endel Palla	.....	.....
Member	Lembit Kirsme	.....	.....
Member	Triinu Tombak	.....	.....
Member	Madis Talgre	.....	.....
Member	Ain Kabal	.....	.....

## 1999 Activities Report

### Introduction and impact of economic environment

Affected by the economic crisis originating from Asia and Russia, Estonia's development as a country with a small and open economy stopped abruptly in 1998 and a new economic growth period started only in the second half of 1999, thus creating favourable preconditions for a 5% growth in 2000. In the building sector the growth rate hit the peak already in 1997, continued the climb from inertia throughout 1998 and in 1999 the entire sector sustained a drastic downfall. Rigorous strengthening of the US dollar towards other world currencies had no significant impact on Harju Elekter as we use the EURO zone currencies.

As Harju Elekter's domestic market is oriented primarily to products used in electrical engineering sphere, in 1999 we faced the same problems as other enterprises dependent on the building market. Making serious efforts and operating at the lowest marginal figures we managed to maintain the 1998 level. This is truly commendable because, notwithstanding the 30% drop on the building markets and 20% on electrical engineering markets, our market share grew.

On the other hand, our main export markets (in Scandinavia) performed extremely well. In 1999 the output volumes of products destined for the automotive industry in Northern Europe (for Scania and Volvo buses and trucks), and mediated by PKC Group Oy, as well as for the electronic industry (Nokia Telecommunications and Nokia Mobile Phones) increased rapidly. The exclusive supplier contract signed between PKC Group Oy and Scania Trucks AB created the necessary prerequisites for the significant volume increase in the year 2000.

The much feared "millennium bug" problem did not affect AS Harju Elekter because our relatively new and well-managed IT-system was efficiently protected against the above problem.

### Highlights of the year

Electrical Equipment Factory of AS Harju Elekter brought to the market a substation in a sheet metal enclosure HEKAVM1, manufactured with the licence of the French company Schneider Electric Industry. The product is marketed in Estonia, Latvia and Lithuania.

Cable Harnesses Factory enlarged the area of its Haapsalu plant by 1873 sq.m. The plant was included in the ISO 9002 certificate. The factory employs 369 people, out of them 81 work in Haapsalu.

Subsidiary AS Eltek was chosen to be the supplier of UPS-cases for an American company APC. The delivery volumes stipulated in the contract will help to increase the company's turnover in 2000 to 35 million kroons (+46%).

On March 4, 1999 AS Saajos Balti got a new shareholder – Inexa Panel A/S – that now allows the company to considerably broaden its future horizons on the fireproof doors market and to achieve a better synergy with other sub-units of AS Harju Elekter. The company's share capital is equally divided between the three partners – AS Harju Elekter, Oy Saajos Int. Ltd. and Inexa Panel A/S.

From July 1, 1999 Mr. Andres Allikmäe acts as the Chairman of the Management Board of AS Harju Elekter. Mr. Endel Palla, former chairman of the board, continues to act as Chairman of the Supervisory Board and to sit on the management and supervisory boards of subsidiaries and affiliated companies.

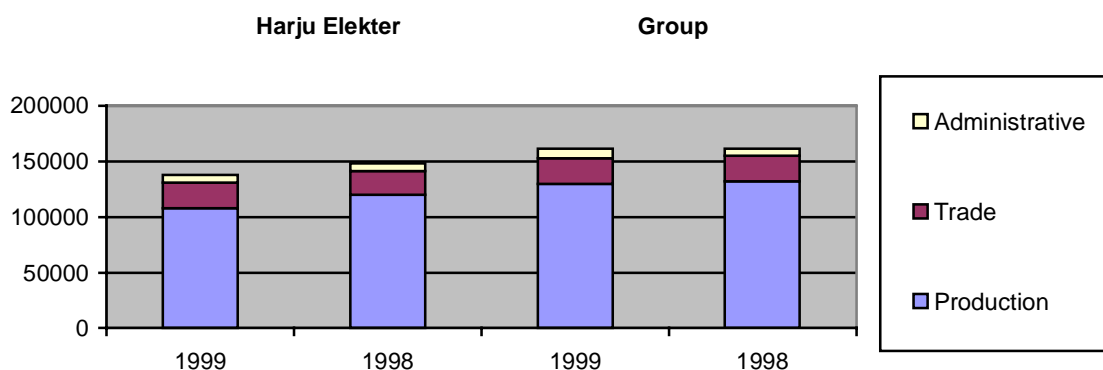
The title deed to the land estate (9 ha) under the company's production site in Keila was finally formally made out and the acquisition of the property duly registered.

The administrative building of AS Harju Elekter was renovated. The management of the Electrical Equipment Factory together with its sales department and the company's board of directors together with general divisions moved into the new premises. The working environment and conditions for customer services improved considerably.

### Turnover and export

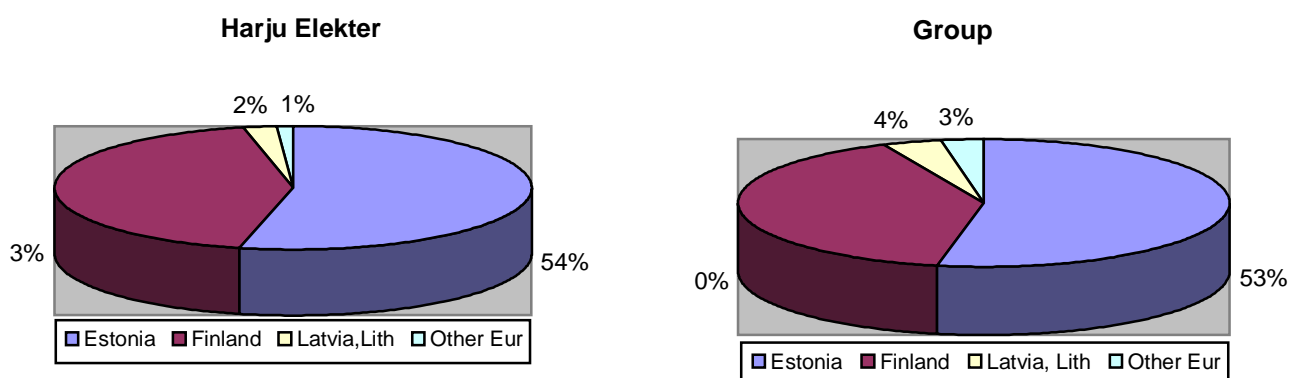
In 1999 the net sales of the Group amounted to 158.4 million kroons (-1.8%), the turnover of the parent company was 137.7 million kroons (-6.9%). Taking into account that the 1998 net sales included 14 million kroons sales revenue of Fireproof Doors Factory (now AS Saajos Balti), the relative growth rate for the parent company was 3.1% and for the group 7.7%.

Turnover of the Group and the parent company by business areas



The percentage of export in AS Harju Elekter's turnover was 46.5% (43.7% in 1998), in the consolidated turnover of the Group 46.9% (41.4% in 1998). The export volumes of the subsidiary grew by 7.7 million kroons during the financial year in connection with the signing of the supply contract for UPS-cases with APC Denmark AS and the shipment of the first lots to Denmark. The share of export in AS Eltek's turnover accounted for 42.2 % (14.1 % in 1998).

Markets of the Group and parent company by sales turnover



In 1999 Cable Harnesses Factory of AS Harju Elekter processed material temporarily imported into Estonia and valued at 320.8 million kroons which is not reflected in the net sales of the Group. Thus for the purpose of statistics, the Group's turnover in the financial year was 479 million kroons and the parent company's, respectively, 458 million kroons.

### Profit

The Group's net profit for the financial year was 22.1 million kroons (+36.8%) and earnings per share 12.27 kroons (8.97 kroons in 1998). One of the reasons for the marked increase in net profit was the reporting of potential income tax liabilities throughout the financial year under the owners' equity section of the income statement. For the Group it meant the +3.1 million and for Harju Elekter +2.5 million kroon effect on the profit.

During the financial year the effective income tax rate in the Group was 4.5% (7.1% in 1998) and in AS Harju Elekter 3.7% (6.8% in 1998). In 1999 we continued investment activities in the tax relief region of Haapsalu that reduced our corporate income tax burden by 1.8 million, whereas dividends received from PKC Group OY and reported under the financial income, reduced our income tax by another 1.1 million kroons, being treated as income taxed in Finland under the provisions of the bilateral agreement for the avoidance of double taxation and not subject for taxation for a second time. Total effect on income tax grossed -2.9 million kroons that means a 14.6% ratio for the Group and 14.2% for the parent company to the income for the financial year.

Income from financing activities grew by 2.8 million kroons in the Group. This was mainly earned from the sale of Saajos Balti shares.

Due to the difficult business year, the operating profit of the parent company diminished, accounting for only 12 million kroons (-9.8%) and that of the Group 13.4 million kroons (-8.3%).

### Balance sheet

In 1999 the Group's total balance sheet amounted to 137.5 million kroons (+24.6 million kroons) and the parent company's 132.7 million kroons (+23.7 million kroons). The owners' equity increased to 87.9 million kroons (+26.6%).

### **Investing and financing activities**

In 1999 AS Harju Elekter invested primarily into the expansion of the existing projects. Altogether the Group invested 22.2 million kroons (21.6 million kroons in 1998). Investment projects were financed mostly from own funds and loan capital borrowed at a favourable interest rate from Finnish banks. An additional 10 million kroon long-term loan was taken, using PKC Group Oy shares as collateral. Payback period of the above investments does not exceed 7 years. Major investment projects:

- |   |                  |
|---|------------------|
| - Warehouse-terminal for Cable Harnesses Factory                      | 2.5 mill. kroons |
| - Expansion of production space at AS Saajos Balti                    | 3.8 mill.kroons  |
| - Expansion of Haapsalu plant of Cable Harnesses Factory              | 6.5 mill.kroons  |
| - Capital goods, information technology and other fixed assets        | 1.6 mill.kroons  |
| - Licence for manufacturing of substations with sheet metal enclosure | 0.6 mill.kroons  |

### **Personnel and remuneration**

In 1999 the average number of employees in the Group was 538 and in the parent company 493. As of 31.12.1999 the number of employees listed on the payroll of the Group was 578 and in the parent company 529. The personnel of the Group consisted of 474 workers and 104 members of the engineering-technical and managerial staff, including 55 with higher education, 401 with secondary or secondary vocational education and 122 with basic school education. In 1999 the Group paid 40.4 million kroons in salaries, vacation benefits and incentives, out of it 35.9 million kroons in the parent company. 11.2 million kroons were calculated in social tax payable to the government. Average monthly salary per employee was 6,076 kroons.

### **Product development**

In 1999 total development expenses formed 1.3 million kroons. Most of the resources were used for the development of new products at Electrical Equipment Factory, for the launching of the production of substations with the licence of Schneider Electric Industry and for the implementation of new technology and new Scania products at Cable Harnesses Factory in co-operation with PKC Group.

### **Supervisory board, management board and auditors**

The Supervisory Board of Harju Elekter has five members. The chairman of the supervisory board is Mr. Endel Palla who is also the development manager at AS Harju Elekter. Other members of the board are Mr. Ain Kabal – lawyer and member of the Board at BCLO Law Office, Mr.Lembit Kirsme – chairman of the supervisory board of AS Harju KEK, Mr. Madis Talgre – CEO, chairman of the management board of Harju KEK and Mrs. Triinu Tombak - senior investment specialist from Optiva bank. Members of the supervisory board received remuneration in the total amount of 269 thousand kroons.

The Management Board of the stock company has four members. The chairman of the board is Mr. Andres Allikmäe who is also CEO of the company. Other members of the board are Mr Lembit Libe – Chief Economist, Mr. Ülo Merisalu – Director of Electrical Equipment Factory and Ms. Karin Padjus – Chief Accountant. All members of the management board belong to the Executive Management. Members of the management board receive no special remuneration.

Auditors Andris Jegers and Indrek Alliksaar from KPMG were elected as auditors for the stock company.

### **Corporate targets for 2000**

In connection with the beginning of production of substations in sheet metal enclosure with the licence from Schneider Electric Industry we expect an increase of sales turnover of Electrical Equipment Factory.

In connection with changes in Scania and Volvo outsourcing policies and new contracts with PKC Group we expect an increase in sales volumes of Cable Harnesses Factory, reinforced with investments made into production facilities and capacity in previous years.

The supply contract for UPS-cases concluded between AS Eltek and APC Denmark A/S will considerably increase the company's output volumes. In order to ensure it, investments will be made into technology and enlargement of production facilities.

In recent years Harju Elekter has invested more than 40 million kroons into the upgrading of technology, enlargement and renovation of production facilities that has enabled it to react to the rapidly changing market trends extremely well, at the same time committing the company to considerably improve its efficiency and boost its volumes.

## Financial statements for 1999

### BALANCE SHEET

Assets	Note	Group		Harju Elekter	
		31.12.1999	31.12.1998	31.12.1999	31.12.1998 <i>adjusted</i>
<b>Current assets</b>	<b>No.</b>				
<b>Cash and bank</b>	<b>1</b>	<b>17,532,156</b>	<b>6,076,533</b>	<b>17,066,136</b>	<b>5,867,060</b>
<b>Marketable securities</b>	<b>2</b>	<b>450,237</b>	<b>367,971</b>	<b>450,237</b>	<b>367,971</b>
<b>Due from customers</b>					
Accounts receivable		11,596,828	12,607,282	9,381,684	11,453,858
Doubtful accounts		-528,601	-552,000	-487,110	-552,000
<b>Total</b>	<b>3,6</b>	<b>11,068,227</b>	<b>12,055,282</b>	<b>8,894,574</b>	<b>10,901,858</b>
<b>Other receivables</b>					
Receivables from parent company/ subsidiary	4,17	0	0	1,084,759	465,698
Receivables from affiliated companies		1,199,616	1,096,250	1,133,246	1,051,106
Other receivables		310,641	394,643	255,743	367,909
<b>Total</b>	<b>4,6</b>	<b>1,510,257</b>	<b>1,490,893</b>	<b>2,473,748</b>	<b>1,884,713</b>
<b>Accrued income</b>					
Interest receivable		88,889	32,876	88,493	32,652
<b>Prepaid expenses</b>					
Prepaid taxes	9	1,348,578	603,940	1,040,975	603,940
Other prepaid expenses		448,644	201,587	434,059	121,058
<b>Total</b>		<b>1,797,222</b>	<b>805,527</b>	<b>1,475,034</b>	<b>724,998</b>
<b>Inventories</b>					
Raw materials		8,036,648	11,583,150	6,899,486	10,802,822
Work-in-progress		3,090,520	3,649,104	3,090,520	3,649,104
Finished goods		2,359,938	3,304,608	1,032,100	2,630,617
Merchandise purchased for resale		3,458,201	3,192,675	3,303,241	3,011,458
Prepayments to suppliers		17,868	4,919	17,868	4,919
<b>Total</b>	<b>5</b>	<b>16,963,175</b>	<b>21,734,456</b>	<b>14,343,215</b>	<b>20,098,920</b>
<b>Total current assets</b>		<b>49,410,163</b>	<b>42,563,538</b>	<b>44,791,437</b>	<b>39,878,172</b>

### Non-current assets

<b>Long-term financial assets</b>					
Stock and shares in subsidiaries	2	0	0	4,845,132	3,369,406
Long-term receivables from subsidiaries	17	0	0	255,535	434,260
Stock and shares in affiliated companies	2	17,422,165	16,350,996	17,422,165	16,350,996
Other shares	2	1,554,075	1,554,075	1,554,075	1,554,075
Other long-term receivables		429,447	514,171	429,447	514,171
<b>Total</b>		<b>19,405,687</b>	<b>18,419,242</b>	<b>24,506,354</b>	<b>22,222,908</b>
<b>Non-current tangible assets</b>					
Land and buildings		55,888,138	37,200,196	55,913,315	37,200,196
Plant and equipment		27,168,285	26,862,638	21,213,557	21,517,382
Other equipment and fixtures		2,504,506	1,984,385	2,191,101	1,740,267
Accumulated depreciation		-18,676,981	-15,564,643	-17,215,476	-14,607,553
Construction in progress		54,272	499,835	54,272	499,835
Uninstalled fixtures/equipment		0	4,800	0	4,800
Prepayments for fixed assets		904,928	564,244	757,560	564,244
<b>Total</b>	<b>7,8</b>	<b>67,843,148</b>	<b>51,551,455</b>	<b>62,914,329</b>	<b>46,919,171</b>
<b>Intangible assets</b>					
Licences	1	533,188	0	533,188	0
Goodwill	1	304,478	400,629	0	0
<b>Total</b>		<b>837,666</b>	<b>400,629</b>	<b>533,188</b>	<b>0</b>



<b>Total non-current assets</b>		<b>88,086,501</b>	<b>70,371,326</b>	<b>87,953,871</b>	<b>69,142,079</b>
<b>TOTAL ASSETS</b>		<b>137,496,664</b>	<b>112,934,864</b>	<b>132,745,308</b>	<b>109,020,251</b>

<b>Liabilities and owners' equity</b>	<b>Note</b>	<b>Group</b>		<b>Harju</b>	<b>Elekter</b>
	<b>No.</b>	<b>31.12.1999</b>	<b>31.12.1998</b>	<b>31.12.1999</b>	<b>31.12.1998 <i>adjusted</i></b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
<b>Debt obligations</b>					
Debentures	8	913,580	726,193	0	0
Current period long-term debt repayment					
	11	7,723,273	4,937,816	7,723,273	4,937,816
Short-term loans from credit institutions		323,349	2,010,747	323,349	2,010,747
<b>Total</b>		<b>8,960,202</b>	<b>7,674,756</b>	<b>8,046,622</b>	<b>6,948,563</b>
<b>Customer prepayments</b>		<b>22,997</b>	<b>283,190</b>	<b>22,997</b>	<b>276,351</b>
<b>Accounts payable to suppliers</b>	<b>6</b>	<b>11,366,349</b>	<b>7,429,629</b>	<b>9,450,851</b>	<b>6,904,113</b>
<b>Other payables</b>					
Payables to subsidiaries/ parent company		0	0		
Payables to affiliated companies	6	565,091	785,781	565,091	785,781
Other liabilities		307,521	0	307,521	0
<b>Total</b>	<b>6</b>	<b>872,612</b>	<b>785,781</b>	<b>872,612</b>	<b>785,781</b>
<b>Tax liabilities</b>	<b>9</b>	<b>4,683,509</b>	<b>2,875,456</b>	<b>4,162,658</b>	<b>2,549,348</b>
<b>Accrued expenses</b>					
Salary-related accrued expenses		4,414,046	4,336,526	3,764,992	3,927,849
Interest payable		3,212	42	2,588	0
Other accrued expenses		7,622	13,451	3,731	10,269
<b>Total</b>		<b>4,424,880</b>	<b>4,350,019</b>	<b>3,771,311</b>	<b>3,938,118</b>
<b>Total current liabilities</b>		<b>30,330,549</b>	<b>23,398,831</b>	<b>26,327,051</b>	<b>21,402,274</b>
Long-term liabilities (nonconvertible debt)	8	747,858	1,361,439	0	0
Long-term bank loans	11	18,544,291	15,744,174	18,544,291	15,744,174
Other provisions	10	0	3,051,408	0	2,494,791
<b>Total non-current liabilities</b>		<b>19,292,149</b>	<b>20,157,021</b>	<b>18,544,291</b>	<b>18,238,965</b>
<b>Total liabilities</b>		<b>49,622,698</b>	<b>43,555,852</b>	<b>44,871,342</b>	<b>39,641,239</b>

#### **Owners' equity**

Capital stock (par value)		18,000,000	18,000,000	18,000,000	18,000,000
Statutory reserves		3,610,000	2,010,000	3,610,000	2,010,000
Retained earnings		44,169,012	33,223,010	44,169,012	33,223,010
Net profit (loss) for the financial year		22,094,954	16,146,002	22,094,954	16,146,002
<b>Total owners' equity</b>	<b>13</b>	<b>87,873,966</b>	<b>69,379,012</b>	<b>87,873,966</b>	<b>69,379,012</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>137,496,664</b>	<b>112,934,864</b>	<b>132,745,308</b>	<b>109,020,251</b>

## INCOME STATEMENT

01.01.1999-31.12.1999

	Note No.	Group		Harju Elekter	
		1999	1998	1999	1998
Net sales	14	158,395,685	161,280,076	137,726,931	147,894,369
Cost of goods sold	15,16	126,735,418	126,997,193	109,982,369	116,753,344
<b>Gross profit</b>	<b>16</b>	<b>31,660,267</b>	<b>34,282,883</b>	<b>27,744,562</b>	<b>31,141,025</b>
Marketing expenses	15,16	6,684,166	7,084,155	5,477,357	6,417,423
Administration and general expenses	15,16	11,629,619	11,572,315	10,400,432	10,586,573
Other operating income		775,738	200,643	769,934	189,367
Other operating expenses		747,016	1,234,883	676,215	1,065,842
<b>Operating profit</b>		<b>13,375,204</b>	<b>14,592,173</b>	<b>11,960,492</b>	<b>13,260,554</b>
<b>Financial income, incl.</b>					
-from subsidiaries	2	2,586,619	0	4,162,345	668,407
-from affiliated companies	2	2,743,591	1,746,568	2,743,591	1,746,568
-from other holdings	2	4,564,833	4,156,798	4,564,833	4,156,798
-foreign exchange gain		103,636	48,659	98,923	44,892
-other interest and financial income	2,17	834,980	229,425	899,904	305,792
<b>Total financial income</b>		<b>10,833,659</b>	<b>6,181,450</b>	<b>12,469,596</b>	<b>6,922,457</b>
<b>Financial expenses, incl.</b>					
-related with affiliated companies	2	2,573,421	0	2,573,421	0
-interest expense	11,17	1,587,546	1,230,845	1,416,349	1,061,630
-foreign exchange loss		40,059	53,569	27,874	40,716
-value adjustment of financial assets		0	27,320		13,660
-other financial expenses	2	61,147	1,080,551	61,147	1,080,551
<b>Total financial expenses</b>		<b>4,262,173</b>	<b>2,392,285</b>	<b>4,078,791</b>	<b>2,196,557</b>
<b>Profit from normal operations</b>		<b>19,946,690</b>	<b>18,381,338</b>	<b>20,351,297</b>	<b>17,986,454</b>
Income tax	9	903,142	1,312,834	751,134	1,215,416
Deferred income tax	10	-3,051,406	922,502	-2,494,791	625,036
<b>Net profit for the financial year</b>		<b>22,094,954</b>	<b>16,146,002</b>	<b>22,094,954</b>	<b>16,146,002</b>

EPS

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## STATEMENT OF CASH FLOWS

	<b>Group</b>		<b>Harju Elekter</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Net income for the financial year	22,094,954	16,146,002	22,094,954	16,146,002
Depreciation of fixed assets	5,013,615	4,300,001	4,321,902	3,780,044
Profit/loss from amortisation of financial assets	-2,756,788	-2,263,920	-4,332,514	-2,945,987
Profit/loss from sales of tangible assets	-583,691	3,043	-585,902	9,921
Unrealised foreign exchange gain/loss from investments	-158,328	0	-158,328	0
Change in deferred income tax liabilities	-3,051,406	297,466	-2,494,791	0
Profit/loss from non-current liabilities	-2,887	-12,126	-2,887	-12,126
<b>Total cash flow</b>	<b>20,555,469</b>	<b>18,470,466</b>	<b>18,842,434</b>	<b>16,977,854</b>
Stock and securities (short-term)	-82,266	1,065,451	-82,266	1,065,451
Accounts receivable from customers	987,055	-5,146,702	2,007,284	-5,340,992
Other accounts receivable	-19,364	7,784	-589,035	32,418
Accrued income	-56,013	-8,364	-55,841	-8,140
Pre-paid expenses	-991,695	292,138	-750,036	312,314
Inventories	4,771,281	-3,613,711	5,755,705	-3,232,292
Transferred assets	-164,891	82,296	-336,775	272,907
Current debt liabilities	1,285,446	4,785,647	1,098,059	4,607,937
Accounts payable to suppliers, customers	3,676,527	1,324,572	2,293,384	1,605,730
Other payables	86,831	166,031	86,831	
Tax liabilities	1,808,053	-1,287,630	1,613,310	-1,404,895
Accrued expenses	74,861	1,104,238	-166,807	1,087,004
Other prepayments	0	-295,939	0	-295,939
Transferred liabilities	-2,953,470	-3,076,075	-3,066,083	-3,109,705
<b>Total cash flow from changes in current assets and liabilities</b>	<b>8,422,355</b>	<b>-4,600,264</b>	<b>7,807,730</b>	<b>-4,408,202</b>
<b>Total cash flow from business activities</b>	<b>28,977,824</b>	<b>13,870,202</b>	<b>26,650,164</b>	<b>12,569,652</b>
Sale of financial assets (selling value)	3,336,618	547,285	3,336,618	547,285
Loan principal amount received	249,614	299,285	600,225	459,285
Additions to long-term financial assets	-2,475,000	-2,826,000	-2,475,000	-4,226,000
Dividends received from subsidiaries/affiliated companies	824,000	0	924,000	0
Disposal of tangible assets (selling value)	1,747,605	113,015	1,742,118	88,515
Additions to tangible fixed assets	-22,186,679	-21,628,962	-21,286,884	-19,788,689
Additions to intangible fixed assets	-561,252	0	-561,252	0
Bills outstanding for fixed assets	280,626	927,408	280,626	0
<b>Total cash flow from investing activities</b>	<b>-18,784,468</b>	<b>-22,567,969</b>	<b>-17,439,549</b>	<b>-22,919,604</b>
New loans	10,526,277	16,413,466	10,526,277	16,413,466
Repayment of long-term loans	-5,664,010	-4,471,571	-4,937,816	-3,016,114
Cash dividends paid	-3,600,000	-2,700,000	-3,600,000	-2,700,000
<b>Cash flow from financing activities</b>	<b>1,262,267</b>	<b>9,241,895</b>	<b>1,988,461</b>	<b>10,697,352</b>
<b>TOTAL CASH FLOW</b>	<b>11,455,623</b>	<b>544,128</b>	<b>11,199,076</b>	<b>347,400</b>
<b>Net increase in cash</b>	<b>11,455,623</b>	<b>544,128</b>	<b>11,199,076</b>	<b>347,400</b>
Cash at the beginning of the year	6,076,533	5,532,405	5,867,060	5,519,660
Cash at the end of the year	17,532,156	6,076,533	17,066,136	5,867,060

# Notes to 1999 Financial Statements

## Note 1. Changes in accounting standard and principles

The annual accounts for the financial year that ended on 31.12.1999 have been prepared in accordance with the good accounting practice approved in the Republic of Estonia. The basic principles of the good accounting practice have been set forth in the Accounting Act of January 1, 1995, regulations of the government, resolutions of the Minister of Finance and supplemented with the recommendations published by the ER Accounting Board.

Accounting principles applied by AS Harju Elekter are in compliance with the International Accounting Standards (IAS), but the format of the annual accounts/financial statements follows primarily the rules and procedures defined in the Accounting Act, not taking into consideration all the IAS requirements.

The 1999 annual accounts reflect for the first time also the Group data and therefore, with the aim to present comparable data, the Group balance sheet as of 31.12.1998 and income statement for 1998 were drafted posterior.

The companies belonging to the Group used Format 2 for income statements to report their income, expenses and profit.

While preparing the annual accounts of AS Harju Elekter and the Group, the following accounting principles and methods were used:

### **Consolidation**

In the consolidated accounts AS Harju Elekter and its subsidiary AS Eltek are treated as one business unit. When consolidating the accounts, the balance sheets, income statements and cash flow statements of the parent and daughter company were summed up entry by entry and accounts payable, liabilities, internal sales, unrealised profit and loss incurred through transactions within the Group were eliminated. AS ELTEK was purchased in February 1998. In the 1998 income statement of the Group the 10 months' income statement was consolidated and into the cash flow statement cash flow figures from the acquisition date to balance sheet date..

### **Long-term investments**

Shareholding in subsidiary and affiliated companies and other securities purchased for a longer term than 1 year are reported under long-term financial investments.

Investments in the subsidiary and affiliated companies are reported in AS Harju Elekter accounts based on extended equity method. In the consolidated report investments in the daughter company are eliminated by their equity capital.

Other long-term financial investments are reported on the balance sheet at their acquisition value.

### **Goodwill**

Upon acquisition of a business entity, the difference between the historical cost of the investment project and the real value of purchased net assets is written off in five years and is reported in the Group's balance sheet at residual value. In the Group's income statement amortisation of goodwill is shown under administration and general expenses.

### **Short-term investments in securities**

Short-term investments in stock and securities are reported based on what is lower, their historical cost or net sales value. Revaluation of investments is done once every three months against the buyer's rate on Tallinn Stock Exchange on the last day of the quarter and value changes are incorporated in the income statement under other financial income and expenses.

### **Currency-denominated transactions and entries**

All foreign currency-denominated transactions of AS Harju Elekter and the Group have been translated into Estonian kroons using the Bank of Estonia exchange rate quoted on the day the transaction took place.

Monetary assets and liabilities included in the Group and AS Harju Elekter balance sheet have been restated using the official Bank of Estonia exchange rate quoted on the balance sheet date. Unrealised gains/losses from translation of outstanding bills and invoices are reported in the income statement under Other operating income and expenses, the exchange variances of long-term liabilities and receivables in the income statement under Financial income and expenses.

### **Cash and cash flows**

Cash stands for money in cash and bank accounts and short-term bank deposits.

Cash flow from business activities has been estimated by the indirect method. Cash flow from investing and financing activities has been reported based on gross receipts and expenditures during the accounting period.

**Due from customers**

Inventory of accounts receivable from customers is taken at the end of the year. They are also assessed individually once every quarter of the year and on the balance sheet date when the probability of the collection of each separate account is estimated. Accounts receivable that are deemed to be doubtful are shown in the balance sheet under “*Doubtful accounts*”. Non-collectible accounts are removed from the balance sheet.

**Inventories and stock-in-trade**

Stock is put down at acquisition cost that consists of direct and indirect costs made in connection with the acquisition or production of the stock. Raw material is accounted for at acquisition cost that consists of the purchase price, other nonrefundable taxes/duties, related transport costs and other direct expenses. The acquisition cost of finished and semi-manufactured products as well as work-in-progress includes direct and indirect production costs.

When accounting for stock, the average weighted historical cost method is used. Inventories have been reported in the balance sheet of the Group and AS Harju Elekter at the lowest of cost – carrying cost or net realisable value.

**Noncurrent tangible assets**

Assets with the acquisition value higher than 5,000 kroons and expected useful life longer than one year, are accounted for as non-current tangible assets. Non-current tangible assets are recorded at their acquisition cost, the carrying cost of the tangible fixed assets made/constructed for one’s own use includes actual manufacturing/construction costs. The acquisition cost of reconstructed fixed assets is increased by the amount of costs attributable to reconstruction. Improvements of fixed assets are subject to capitalisation if through the improvement operations the properties of these assets were upgraded to a qualitatively new level or if it is possible to prove that the substantial part of benefits deriving from these expenditures will be earned in the subsequent periods. Other repair and maintenance costs related to fixed assets are reported as period expenses.

The straight-line depreciation method is used for non-current tangible assets, proceeding from the useful life of each specific asset. The companies belonging to the Group apply uniform depreciation rates.

Income and losses from the sale of fixed assets and their write-off are reported in the income statement under Other operating income and operating expenses.

Miscellaneous inventory means assets with the acquisition value less than 5,000 kroons and useful life, irrespective of the cost, up to one year. Acquisition costs of additions to miscellaneous assets are treated as period expenses.

**Non-current intangible assets**

Development expenditure is reported as non-current intangible assets if it is deemed likely that the company will derive economic benefit from these assets in the future and it might be possible to truthfully measure the value of these assets. A licence bought for the implementation of a new product is reported in the balance sheet. Intangible assets are entered into books at their acquisition value and shown in the balance sheet at their residual value. The straight-line depreciation method is applied to development expenses and they are depreciated within the five-year period, their depreciation is reported in the income statement under depreciation items. R&D expenses in connection with product development are reported in the income statement under administration and general expenses.

**Deferred tax**

Due to the difference between the tax amortisation computation method defined in the Income Tax Act that was valid until 31.12.1999 and the amortisation method used in bookkeeping and accounting, variances existed in the residual value of fixed assets stated for the accounting and for taxation purposes. As it was reasonable to believe prior to the enactment of the new income tax legislation that the above variances are of temporary nature and their elimination will affect the size of corporate income tax levied on the corporate profit, AS Harju Elekter and its subsidiary AS ELTEK introduced the deferred tax liabilities in their balance sheet. The effect of Income Tax Act enforced on 01.01.2000 - that precluded the impact of the variances between the residual value of fixed assets used for accounting and for taxation purposes on the amount of income tax calculated by the company – has been interpreted pursuant to IAS 8 and 12 as a change in evaluation principles. Unrealised deferred tax obligation is reported in the 1999 income statement as reduction in deferred tax liabilities.

**Leases**

Fixed assets acquired with the capital lease are reported in the lessee’s balance sheet as part of non-current tangible assets and are subject to depreciation. The outstanding liability for capital lease has been entered into the balance sheet as non-convertible debt. The part of the debt to be paid in the following financial year has been transferred in the balance sheet to

current liabilities section. Rental payments due later than one year after the balance sheet date are under long-term liabilities.

Fixed assets procured with the operating lease are reported in the lessee's balance sheet under non-current tangible assets and are subject to depreciation. At the expiration of the lease term, the lessor will keep the assets and the risks and obligations connected with these assets will lie with the lessor. The assets are recorded in the lessor's balance sheet and depreciated in line with their useful life. Accrual basis of accounting is used for rental income and it is reported in the income statement under net sales.

### Liabilities

The balance sheet contains long-term liabilities with the maturity date later than one year after the balance sheet date. Known material liabilities are entered into the balance sheet. Potential liabilities, guarantees and warranties are accounted for as off-balance sheet items.

Vacation benefit reserve is calculated on a monthly basis. Earned vacation benefits have been reported in the balance sheet in the Liabilities section under Accrued expenses.

## Note 2. Stock and securities

### 2.1 Short-term financial assets (thousand kroons)

Market value of securities at the beginning of the year	368
Disposals at selling price	-144
Sales revenue	20
Profit from revaluation of securities	236
Loss from revaluation of securities	-30
Market value of securities at the end of the year	450

Foreign exchange gain and sales revenue from revaluation of securities' market value are shown in the income statement under Other financial income, losses from revaluation and disposal under Other financial expenses. All stock reported under short-term investments is held by AS Harju Elekter. The value of securities is determined based on the buyer's rate quotation on Tallinn Stock Exchange on the last trading day of 1999 as the acquisition value of securities was higher than their market value on the balance sheet date.

### 2.2 Long-term financial assets

#### 2.2.1 Shareholding in subsidiary AS ELTEK (thousand kroons)

Item	Total
Number of shares at year end	10,000
Par value (in kroons)	100
Acquisition value	2,701
Book value at the beginning of the year	3,369
Dividends paid in 1999	-100
Share of consolidated profit in 1999	1,576
<b>Book value of financial assets at year end</b>	<b>4,845</b>
Consolidated profit contained in book value	2,144
Goodwill	304
Participation %	100

Consolidation based on extended equity method	1999	1998
1.Net profit of subsidiary company	1,698	960
2.Share in consolidated profit	1,698	752
3.Share of eliminated unrealised gains	0	1
4.Unrealized gains in 1998 capitalised expenses	26	3

5. Amortisation of goodwill	96	80
<b>Consolidated profit/loss(+/-)</b>	<b>1,576</b>	<b>668</b>
<b>AS ELTEK equity structure</b>	<b>31.12.99</b>	<b>31.12.98</b>
Common stock	1,000	1,000
Reserves	100	30
Retained earnings	1,772	982
Net profit (loss) for the year	1,698	960
<b>TOTAL OWNERS' EQUITY</b>	<b>4,570</b>	<b>2,972</b>

AS ELTEK was bought in February 1998. The Group's consolidated report includes the 10 month profit of the subsidiary that came to 752 thousand kroons. The value of the financial investment made into the subsidiary's stock varies from the data reported in AS Harju Elekter balance sheet by the amount of unrealised gains/losses within the Group and non-depreciated part of goodwill that have been deducted from AS ELTEK equity at the end of the accounting period.

#### 2.2.2 Shareholding in affiliated companies

(thousand kroons)

Item	Keila Kaabel	Glamox HE	Saajos Balti
Number of shares at year end	989	40	2000
Par value (kroons)	10 000	13 000	10
Acquisition value	9,890	260	2,000
Book value at the beginning of the year	12,409	3,667	275
Dividends paid in 1999	-824	0	0
Investments made in 1999	0	0	2,475
Sold (at selling price)	0	0	-3,337
Sales revenue	0	0	2,587
Share of consolidated profit in 1999.	2,744	-1,625	-949
<b>Book value of financial assets at year end</b>	<b>14,329</b>	<b>2,042</b>	<b>1,051</b>
Change in equity holding	4,439	1,782	-949
Participation %	41,2	20	33,33

AS Saajos Balti was bought at the end of 1998. AS Harju Elekter's participation was 55% and the share capital of the company 500 thousand kroons. AS Harju Elekter paid in additional 2,475 thousand kroons into the share capital. In March of the fiscal year the participation was reduced to 1/3 and 2,587 thousand kroons earned from the sale of the shares, reported in the income statement under "Financial income from subsidiaries". AS Saajos Balti functioned as a subsidiary of AS Harju Elekter only one month. In fact, negotiations with third party investors for the selling of this holding had started already in January 1999. Business transactions with AS Saajos Balti and concurrent receipts and expenses, receivables and liabilities are shown in the Group's reports under Transactions with affiliated companies.

Consolidation based on extended equity method	Keila Cables	Glamox HE	Saajos Balti
Net profit of affiliated companies in 1999	6,663	-8,135	-2,445
Share in consolidated profit	2,745	-1,627	-815
Change of unrealized gains/loss within the Group in assets in 1999 (growth "-", decrease "+")	-1	2	-466
AS Harju Elekter share of call premium	0	0	333
<b>Consolidated profit/loss(+/-)</b>	<b>2,744</b>	<b>-1,625</b>	<b>-910</b>

### Equity structure of affiliated companies

<b>AS Keila Kaabel</b>	<b>31.12.99</b>	<b>31.12.98</b>
Common stock	24,000	24,000
Reserves	619	200
Retained earnings	3,541	778
Net profit(loss) for the year	6,663	4,181
<b>TOTAL OWNERS' EQUITY</b>	<b>34,823</b>	<b>30,160</b>

<b>AS Glamox Harju Elekter</b>	<b>31.12.99</b>	<b>31.12.98</b>
Common stock	2,600	2,600
Reserves	650	650
Retained earnings	15,179	15,014
Net profit (loss) for the year	-8,135	165
<b>TOTAL OWNERS' EQUITY</b>	<b>10,294</b>	<b>18,429</b>

<b>AS Saajos Balti</b>	<b>31.12.99</b>
Common stock	6,000
Share premium	1,000
Net profit "+"(loss "-") for the year	-2,445
<b>TOTAL OWNERS' EQUITY</b>	<b>4,555</b>

### 2.2.3 Other stock and shares

(thousand kroons)

<b>Item</b>	<b>PKC Group</b>	<b>Eesti Ühispank</b>	<b>Total</b>
Number of shares at year end	527600	49435	x
Par value	2(FIM)	10(EEK)	x
Acquisition value	985	569	1,554
Participation % in share capital at year end	10,03	0,07	x
Market value as of 31.12.99	220,412	1,216	221,629

The shares of PKC Group Oy were quoted on Helsinki Stock Exchange at 26.70 EUR on 30.12.99. The market value of the shares was on the balance sheet date 220.4 million kroons. In the balance sheet the investment into PK Cables Oy shares is reported at the acquisition value. PK Cables Oy paid dividends for the financial year at the rate of 3.20 FIM per share, in total 4,443 thousand kroons that is reported in the income statement under the item "Other financial income".

The market value of Eesti Ühispank's shares was 1,216 thousand kroons on the balance sheet date. Long-term investment into Eesti Ühispank stock is shown in the balance sheet at the acquisition value.

### Note 3. Due from customers

(thousand kroons)

	<b>Group</b>		<b>Harju Elekter</b>	
	<b>31.12.1999</b>	<b>31.12.1998</b>	<b>31.12.1999</b>	<b>31.12.1998</b>
Total accounts receivable from customers	11,597	12,607	9,382	11,454
Incl. foreign customers	4,970	5,005	3,369	4,466
domestic customers	6,627	7,602	6,013	6,988
Doubtful accounts	-529	-552	-487	-552
<b>Total</b>	<b>11,068</b>	<b>12,055</b>	<b>8,895</b>	<b>10,902</b>



Accounts receivable from customers have been estimated in the balance sheet based on doubtless collectible amounts and charged to the Group costs and expenses in the total amount of 130 thousand kroons, including 89 thousand kroons for AS Harju Elekter. During the fiscal year 148 thousand kroons of AS Harju Elekter accounts receivable formerly charged to costs and expenses was collected and reported in the income statement under other operating income.

#### Note 4. Other current accounts receivable

Other receivables (thousand kroons)	Group		Harju Elekter	
	31.12.1999	31.12.1998	31.12.1999	31.12.1998
Due from parent/subsidiary companies	0	0	1,085	466
Incl. outstanding bills	0	0	906	115
Short part of long-term credit	0	0	179	351
Due from affiliated companies	1,200	1,096	1,133	1,051
incl. AS Keila Kaabel	494	921	476	907
AS Saajos Balti	593	0	574	0
AS Glamox Harju Elekter	111	175	83	144
Other current receivables	310	395	256	368
incl. damage claims	28	6	28	6
Short-term credit to employees	195	127	141	104
Short part of long-term loan	93	258	93	258
Other claims	81	83	80	80
Doubtful accounts	-86	-80	-86	-80
<b>Total</b>	<b>1,510</b>	<b>1,491</b>	<b>2,474</b>	<b>1,885</b>

Other short-term receivables have been estimated based on the probability of their collection. Under the operating expenses of the fiscal year the amount of 6 thousand kroons has been entered as doubtful damage claims.

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

After annual inventory counts in the Group non-liquid or obsolete stock without utilisation value was written off, in the total sum of 131.3 thousand kroons, incl. 117.6 thousand kroons in the balance sheet of AS Harju Elekter. The value of stock-in-trade, the historic cost of which exceeded its net sales price, was written down in the balance sheet of the parent company and charged to costs and expenses in the amount of 261.8 thousand kroons. The total value of stock charged to costs and expenses of the Group came to 393.1 thousand kroons and in the accounts of the parent company to 379.4 thousand kroons.

#### Note 6. Adjustment of initial balance

1. Due from customers	1998 <i>adjusted</i>	1998 <i>confirmed</i>
Accounts receivable from customers	11,453,858	12,620,051
Doubtful accounts	-552,000	-552,000
<b>Total</b>	<b>10,901,858</b>	<b>12,068,051</b>

In the 1998 Annual Report accounts receivable from the affiliated companies and the subsidiaries were reported in the balance sheet under the item of "Accounts receivable". In 1999 the sum total of receivables from affiliated companies is shown in the balance sheet in the section "Other receivables" under separate entries "Receivables from affiliated companies" and "Receivables from parent/subsidiary company". As of 31.12.1998 accounts receivable from subsidiary and affiliated companies totalled 1,166,193 kroons.

	<b>1998</b> <i>adjusted</i>	<b>1998</b> <i>confirmed</i>
<b>2. Other receivables</b> (in kroons)		
Receivables from parent/subsidiary company	465,698	350,611
Receivables from affiliated companies	1,051,106	
Other current receivables	367,909	367,909
<b>Total</b>	<b>1,884,713</b>	<b>718,520</b>

In the initial balance sheet for 1999 the sum total of various accounts receivable was changed by 1,166,193 kroons, out of which 115,087 kroons were receivables from parent and subsidiary companies and 1,051,106 kroons receivables from affiliated companies. Amounts entered under Other receivables were in 1998 reported under accounts receivable from customers

	<b>1998</b> <i>adjusted</i>	<b>1998</b> <i>confirmed</i>
<b>3. Other liabilities</b>		
Debt to affiliated companies	785,781	0
<b>Total</b>	<b>785,701</b>	<b>0</b>
<b>4.Accounts payable to suppliers</b>	<b>6,904,113</b>	<b>7,689,894</b>

In the 1998 Annual report liabilities to affiliated companies were entered in the balance sheet under "Accounts payable to suppliers". In 1999 this liability is reported separately among other liabilities and therefore the initial balance had to be adjusted. Payables to affiliated companies consist of bills outstanding to AS Glamox Harju Elekter at the beginning and also at the end of the year.

## Note 7. Tangible fixed assets

Group	(thousand kroons)							
	Land	Build-ings	Plant and equipment	Other inventory	Accumul ated Depreciat ion	Construc tion In process	Prepay-ments for fixed assets	Total tangible Tangible fixed assets
<b>Init.balance 31.12.98</b>								
Acquisition cost	163	37,037	26,863	1,984	0	505	564	67,116
Accumul.depreciation	0	-5,061	-9,630	-874	-15,565	0	0	-15,565
<b>Residual value</b>	<b>163</b>	<b>31,976</b>	<b>17,235</b>	<b>1,110</b>	<b>0</b>	<b>505</b>	<b>564</b>	<b>51,551</b>
Purchased	723	14,241	2,753	1,015	0	-450	341	18,623
Reconstructed	0	3,724	0	0	0	0	0	3,724
Sold(at acquisition value)	0	0	-2,121	-329	1,306	0	0	-2,450
Write-off	0	0	-327	-165	472	0	0	-492
Depreciation for the year	0	-1,198	-3,453	-240	-4,891			
<b>Final balance 31.12.99</b>								
Acquisition cost	886	55,002	27,168	2,505		54	905	<b>86,520</b>
Accumul.depreciation	0	-6,259	-11,566	-852	-18,677	0	0	-18,677
<b>Residual value</b>	<b>886</b>	<b>48,743</b>	<b>15,602</b>	<b>1,653</b>		<b>54</b>	<b>905</b>	<b>67,843</b>

(thousand kroons)

AS Harju Elekter	Land	Build-ings	Plant and equipment	Other inventory	Accumu- lated Depreci- ation	Construc- tion In process	Prepay- ments for fixed assets	Total tangible fixed assets
<b>Init. balance 31.12.98</b>								
Acquisition cost	163	37,037	21,517	1,740		505	564	61,527
Accumul.depreciation	0	-5,061	-8,792	-755	-14,608			-14,608
<b>Residual value</b>	<b>163</b>	<b>31,976</b>	<b>12,726</b>	<b>985</b>		<b>505</b>	<b>564</b>	<b>46,919</b>
Purchased	723	14,241	2,090	900		-450	193	17,696
Reconstructed		3,750						3,750
Sold (at acquisition value)	0	0	-2,068	-303	1,235			-2,371
Write-off			-326	-145	451			-471
Depreciation for the year	0	-1,198	-2,906	-190	-4,294			-4,294
<b>Final balance 31.12.99</b>								
Acquisition cost	886	55,028	21,213	2,191		55	757	80,130
Accumul.depreciation	0	-6,259	-10,221	-736	-17,216			-17,216
<b>Residual value</b>	<b>886</b>	<b>48,769</b>	<b>10,992</b>	<b>1,455</b>		<b>55</b>	<b>757</b>	<b>62,914</b>

In 1999 the following depreciation rates were used in the Group and AS Harju Elekter for fixed assets:

Buildings and installations 3%;  
Plant and equipment 10-30%;  
Other inventory 15%.

When calculating tax amortisation in 1999, the 8% rate was applied to category I fixed assets and the 40% rate to category 2.

## Note 8. Leasing of fixed assets

### 8.1. Capital lease

(thousand kroons)

Maturity date	Acquisition cost	Balance owed 31.12.1999	Payments 1999	Payments 2000
15.02.2001	753	178	136	152
30.04.2003	1,360	686	163	181
15.10.2001	1,273	452	214	236
30.09.1999	98	0	27	0
30.06.1999	216	0	78	0
<b>TOTAL</b>	<b>3,700</b>	<b>1,316</b>	<b>618</b>	<b>569</b>

During the fiscal year altogether 166 thousand kroons interest was paid for the capital lease of the equipment purchased by the subsidiary. The interest rates were 6.75 – 8 % according to the lease agreements. Fixed assets acquired under the capital lease conditions have been entered into the balance sheet under *Plant and equipment*. As of the date of the balance sheet, the accumulated depreciation of the leased assets amounted to 757 thousand kroons, amortisation for the fiscal year is shown in the income statement under depreciation of fixed assets.

### 8.2. Operating lease

#### 8.2.1. IN LESSOR'S REPORT

(thousand kroons)

Item	Buildings	Equipment
Acquisition cost	15,526	293
Accumulated depreciation 31.12.99	2,206	85

<b>Rental income of parent company in 1999</b>	<b>4,620</b>	<b>12</b>
Group internal turnover	-750	0
<b>Rental income of the Group in 1999</b>	<b>3,870</b>	<b>12</b>

Rental income is reported in the income statement under Net sales, costs and expenses as well as depreciation under Cost of goods sold.

#### 8.2.2. IN LESSEE'S REPORT

Lease agreements that do not contain any essential financial constraints are treated in the Group and AS Harju Elekter accounting documents as operating leases and, consequently, rented assets are not reported in the lessee's balance sheet nor are pending rental fees included in the liabilities. Rental payments have been charged to expenses in the income statement.

Item	Group	Harju Elekter
Buildings, rooms	368	368
Plant, equipment	388	284
<b>TOTAL</b>	<b>756</b>	<b>652</b>

1 agreement has been concluded with the employees of AS Harju Elekter. In 1999 rental payments came to 4 thousand kroons.

### Note 9. Income tax and tax liabilities

Income tax calculated on the basis of the 1999 tax return equalled 1,956,354 kroons for the parent company and for the entire Group 2,108.362 kroons. In the course of the year AS Harju Elekter made advance payments in the amount of 1,500,000 kroons. In addition to the advance payments, the company's income tax liabilities were reduced by the amount of income tax paid in foreign countries on dividends earned in 1999 in the sum of 1,555,167 kroons. AS ELTEK paid 15,892 kroons in income tax on dividends received. In the Group's balance sheet the subsidiary's accrued income tax 136 thousand kroons is included under Tax liabilities and the parent company's refundable income tax 749 thousand kroons under Prepaid taxes. Accrued and reclaimed taxes as of 31.12.1999 are shown in the following matrices:

(thousand kroons)

Refund claimed	Group	Harju Elekter
Advance VAT payments to customs	600	292
Excess corporate income tax payments	749	749
<b>TOTAL</b>	<b>1,349</b>	<b>1,041</b>

(thousand kroons)

Tax liabilities	Group	Harju Elekter
Personal income tax	1,874	1,690
Corporate income tax	136	0
VAT	193	193
Social security tax	2,481	2,280
<b>TOTAL</b>	<b>4,684</b>	<b>4,163</b>

### Note 10. Potential liabilities

In the Group and AS Harju Elekter balance sheets potential liabilities include the following:

	<u>Group</u>	<u>AS Harju Elekter</u>
Vacation benefit reserve	1,933 thousand kroons	1,658 thousand kroons
"Salary-related expenses"		

The effect of the Income Tax Act enforced on 01.01.2000 that excludes the impact of the difference between the residual value of fixed assets according to the books and the value used for taxation purposes on the corporate tax calculations, is interpreted in the light of IAS 8 and 12 as a change in the accounting principles. In AS Harju Elekter ja AS ELTEK balance sheet deferred taxes reported under the item "Other provisions" in the aggregate amount of 3.051 thousand kroons as of 31.12.98 have been entered in the 1999 income statement under non-restricted equity. If we had applied the instructions of the Accounting Board set out in "The impact of income tax legislation on accounting and reporting" that interpret the enactment of the new Income Tax Act as the changing of accounting principles, we should have prepared an adjusted initial balance sheet for the company. The adjustment of the initial balance sheet would have meant the moving of the amount of deferred taxes registered in previous years under liabilities to the Retained earnings. In case the instructions of the Accounting Board had been followed, net profit of AS Harju Elekter and the Group would have been smaller, respectively by 2,495 thousand and 3,051 thousand kroons.

### Note 11. Long-term bank loans

Item	Loan 1	Loan 2	Loan 3	Loan 4
Loan agreement signed	18.09.97	03.03.98	28.12.98	31.05.99
Maturity	18.06.01	03.03.03	28.09.03	31.05.04
Interest rate	3m.helibor+3,0%	3m.helibor+2,75%	3m.helibor+2,5%	3m.euribor+2%
Amount outstanding 31.12.99 (thous.EEK)	3,644	5,132	6,965	10,526
To be paid in 2000.	2,429	1,579	1,857	1,858

Total long-term debt obligations as of 31.12.1999 were 26,268 thousand kroons. 7,723 thousand kroon amount of the debt to be repaid in 2000 is reported in the balance sheet under current liabilities as "Current period long-term debt repayment". The remaining part of debt obligations is shown in the balance sheet among noncurrent liabilities under "Long-term bank loans". Interest paid on long-term bank loans in 1999 was 1,338 thousand kroons and is reported in the income statement under Interest expenses.

### Note 12. Loan collaterals and assets pledged

Pledged / Due date	No.of shares	Pledged to	Contract no.
Pk Cables shares/ 18.06.2001	25, 000	Leonia pank	302-00-04300137-3
PK Cables shares/ 03.03.2003	30, 000	Leonia pank	302-00-04369361-3
PK Cables shares/ 03.03.2004	39, 032	Leonia pank	302-00-04451475-9
PK Cables shares/ 03.03.2004	79, 660	OKOBANK	588001-89903423
<b>Total pledged shares</b>	<b>173,692</b>		

The contract of pledge concluded with Leonia pankki Oy and Osuuspankkien Keskuspankki OY (OKOBANK) serves as a guarantee for long-term loans granted by these banks and for the short-term factoring and financing agreement in the limit of one million FIM signed with OP-Rahoitus Oy. In 1999 Leonia bank released 80 thousand shares. As of 31.12.99 the market value of the pledged shares was 26.70 EUR per share or 72,562 thousand kroons.

### Note 13. Owners' equity

(thousand kroons)	Common stock	Reserves	Retained earnings
<b>Initial balance 01.01.99</b>	18,000	1,010	49,369
Increased capital reserves		1,600	-1,600
Dividends paid			-3,600
Net profit for 1999			22,095
Incl.potential income tax			3,051
<b>Final balance 31.12.99</b>	18,000	3,610	66,264

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



## Note 15. Depreciation of fixed assets

Depreciation of fixed assets is included in the items of the income statement as follows:

(thousand kroons)	Group		Parent company	
	1999	1998	1999	1998
Cost of goods sold	4211	3435	3658	2965
Marketing expenses	249	295	239	291
Administration and general expenses	459	559	425	524
<b>TOTAL</b>	<b>4919</b>	<b>4289</b>	<b>4322</b>	<b>3780</b>

## Note 16. Adjustment of income statement

One of the business activities of AS Harju Elekter is commerce and intermediation. The company has two electrical equipment stores, one in Tallin and the other in Keila and Electrical Heating Sales Department that functions as an importer and agent. Costs related to these structural units were reported until 31.12.1998 under Costs of goods sold. Since 1999 the management has decided with respect to these functions to include under Costs of goods sold only the goods-related costs, the upkeep and maintenance costs of these structural units to include under marketing expenses. In 1998 the upkeep and maintenance costs related to trade and intermediation activities (with the exception of goods) came to 2,110,014 kroons and in 1999 to 2,172,572 kroons. In order to be able to compare the costs of this fiscal year with the previous year, the entries in the income statement have been adjusted as follows:

Item in income statement:	1998 <i>adjusted</i>	1998 <i>confirmed</i>
Costs of goods sold	116,753,344	118,863,358
<b>Total income</b>	<b>31,141,025</b>	<b>29,031,011</b>
Marketing expenses	6,417,423	4,307,409
Administration and general expenses	10,586,573	10,586,573

## Note 17. Related company transactions

### 1. Sold-bought

(thousand kroons)

Related parties	Group		Harju Elekter	
	Bought	Sold	Bought	Sold
ELTEK	0	0	1,275	2,395
GLAMOX Harju Elekter	2,264	699	2,256	292
SAAJOS BALTI	913	6,601	901	6,485
KEILA KAABEL	1851	3,467	1,851	3,260
Harju KEK	206	147	201	10
<b>TOTAL</b>	<b>5,234</b>	<b>10,914</b>	<b>6,484</b>	<b>12,442</b>

Purchase and sale transactions with related companies were effected at market prices.

AS Harju Elekter purchases from related companies the following goods and services:

From

AS Keila Kaabel

AS Glamox Harju Elekter

-products/commodities for retail sale at ASHarju Elekter shops;  
-products for renovation, reconstruction and development of new real estate projects;

AS SAAJOS BALTI

AS ELTEK

-products/commodities for retail sale at AS Harju Elekter shops;  
-communication services; communication devices;  
-services related to installation of communication and alarm systems and computer networks;

AS Harju KEK

-medical services (medical check-up of employees)

AS Harju Elekter sells to related companies the following goods and services:

(thousand kroons)

Item	ELTEK	Glamox Harju Elekter	Keila Kaabel	Saajos Balti	Harju KEK
Goods, products	228	22	82	0	9
Metal and coating work	1,061	53	0	481	0
Leasing of production facilities	750	0	2,171	826	0
Other services	213	70	82	165	1
Management services	143	147	925	0	0

Other services sold to related companies include repair, maintenance and transport services; goods and commodities, electrical appliances self-produced or purchased, either for the production purposes or current needs of the enterprise. Management services mean the remuneration established by the resolution of the supervisory boards of the companies and paid to the owners proportionally to their holding in the company's share capital. The company is entitled to get free-of-charge financial, legal and IT assistance, consultations from the specialists of the owners' companies and advertising/promotion by the owners' companies.

In connection with the establishment of the joint venture AS Saajos Balti on the basis of one of AS Harju Elekter production units – Fireproof Doors Factory, the following assets were sold one-time to AS Saajos Balti:

Fixed assets sold	(agreed price)	1,784 thousand kroons
Stock-in-trade sold	(historical cost)	3,229 thousand kroons

Income from stock sold is not included in AS Harju Elekter net sales. Sale of stock did not generate any profit. Profit earned from the sale of fixed assets is shown under Operating profit of the parent company. The part of unrealised gains in AS Saajos Balti inventory/stock has been 100% eliminated when the investment was adjusted on the basis of extended equity method. Unrealised gains from the sale of fixed assets will be accrued periodically in the parent company income statistics in accordance with the useful life determined by the affiliated company for every category of assets .

## 2. Financing activities

AS Harju Elekter has granted a long-term loan to its subsidiary AS ELTEK and as of 31.12.1999 the amount of credit outstanding was 434 thousand kroons. The sum to be repaid in 2000 equals 179 thousand kroons and this is reported in the parent company balance sheet in the section of current assets under "Receivables from parent/subsidiary companies". Long-term financial assets include the 255,5 thousand kroon part of the long-term credit granted by the parent company that is due to be redeemed later than one year after the balance date.

During the fiscal year no new credit was granted to related parties. The outstanding credit was granted to the subsidiary in 1998 and its maturity date is March 30,2002.

The total amount of interest paid by AS Eltek to the parent company was 72 thousand kroons that is shown in the parent company income statement in the section of Financial income under *other*



interest and financial income. In the Group accounts the above sum has been eliminated from the corresponding entries of financial income and financial expenses. The interest paid by the subsidiary includes also the interest on the loan paid off/redeemed by the end of the fiscal year. Interest rates agreed between the parties were 8% and 12%.

### 3. Guarantees, warranties

(thousand kroons)

Guarantee beneficiary	Guarantee issued for	Sum	Related companies	Term
Optiva Pank	Long-term credit	3,000	AS Harju KEK	15.06.02
AS Harju KEK	Settlement credit from trust account	400	AS ELTEK	termless
NK Cables OY	Settlement credit	4,337	AS Keila Kaabel	termless
NK Cables OY	Delivery contract	3,112	AS Keila Kaabel	30.11.2000
Optiva Pank	Loan	40	employee	08.12.2002
AS Eesti Ühispank	Loan	43	employee	19.11.2002
HANSAPANK	Post-construction warranty	50	AS Saajos Balti	31.03.2001

### Note 18. Off-balance sheet assets

(thousand kroons)	Group Value	Harju Elekter Value	Comments
Tööstusliising AS	1,188	927	Leased assets
Hoiupanga Liisingu AS	363	235	Leased assets
Schneider Electric OY, Finland	250	250	Consignment warehouse

### Note 19. Contingent liabilities

According to the Income Act that came into force in January 2000, dividends paid to natural persons and non-residents are taxable based on the tax rate 26/74. Income tax payable on dividends can be reduced by the amount of income tax paid on retained earnings in the years 1994 – 1999. Dividends may be paid out from retained earnings.

If AS Harju Elekter distributed all its non-restricted owners' capital, then considering the shareholders' structure on 31.12.1999 it would entail a 9 million kroon income tax obligation.

The Management Board has made a proposal to distribute 5,400 thousand kroons as dividends or 3 kroons per share. The proposal must be approved by the shareholders' general meeting. Considering the ownership structure of the company as of 31.12.1999, the disbursement of dividends would incur the 620 thousand kroon income tax obligation and decrease retained earnings by 6,020 thousand kroons. If the structure of the owners eligible for dividends would be different as compared to the structure on 31.12.1999, the dividend-related income tax obligation may vary.

### Note 20. Participation of AS Harju Elekter management and supervisory board members

Member	No. of shares	Direct participation %	Indirect participation %
<i>Supervisory Board</i>			
Palla, Endel	97,312	5.41	10.44
Kirsme, Lembit	120,000	6.67	9.95
Total	217,312	12.07	20.39
<i>Management Board</i>			
Padjus, Karin	10,577	0.59	0.19
Libe, Lembit	7,707	0.43	0.08
Merisalu, Ülo	5,000	0.28	0.00
Total	43,384	2.42	0.46

**Note 21. Shareholders with more than 5% voting shares**

<b>Shareholder</b>	<b>No. of shares</b>	<b>Participation %</b>
AS Harju KEK	565,400	31.41
Kirsme, Lembit	120,000	6.67
Endel Palla	97,312	5.41

Number of shares held by the shareholders and their participation percentage are stated as of 31.12.1999.

**Auditor's Report to the Shareholders of AS Harju Elekter  
(Translation of the Estonian original)**

We have audited the accompanying annual financial statements of AS Harju Elekter comprising the group's and the parent's balance sheets as of 31 December 1999, related statements of income and the notes to the annual financial statements. These financial statements are the responsibility of the 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Parent**

In our opinion, the financial statements give a true and fair view of the financial position of AS Harju Elekter as of 31 December 1999, and of the results of its operations for the year then ended in accordance with the Estonian Accounting Act.

**Group**

In our opinion, the financial statements of AS Harju Elekter group have been prepared in accordance with the consolidation principles outlined in International Accounting Standards and give a true and fair view of the financial position of the group as of 31 December 1999 and of the results of its operations for the year then ended.

Tallinn, 16 March 2000

AS KPMG Estonia

(signature)

Andris Jegers  
*Authorised Public Accountant*

(signature)

Indrek Alliksaar  
*Authorised Public Accountant*

**Proposal for profit distribution**

Retained earnings from previous periods	44,169,012
Net income for the financial year	22,094,954
<b>Total retained earnings</b>	<b>66,263,966</b>
To be distributed as dividends	5,400,000
<b>To be carried forward</b>	<b>60,863,966</b>