

# AS Harju Elekter

## Interim report 1-6/ 2002 unaudited CONSOLIDATED

(Translation of the Estonian original)

Main business areas of Harju Elekter Group are designing, production and marketing of various electrical engineering and telecommunication systems. Almost half of the production is sold on foreign markets.

The Group consists of the parent company AS Harju Elekter and 100%-owned subsidiaries AS AJT Harju Elekter and AS ELTEK. AS Harju Elekter has holdings in associated companies AS Keila Kaabel (41.2%) and AS Saajos Balti (33.3%).

The Group employees more than 640 people.

The parent company AS Harju Elekter is quoted on Tallinn Stock Exchange since September 30, 1997.

Business name:	Harju Elekter AS
Commercial registry code:	10029524
Address:	Paldiski mnt.31, 76 606 Keila, Estonia
Beginning of the financial year:	1 <sup>st</sup> of January 2002
End of the financial year:	31 <sup>st</sup> of December 2002
Beginning of the reporting period:	1 <sup>st</sup> of January 2002
End of the reporting period:	30 <sup>th</sup> of June 2002
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CEO:	Mr. Andres Allikmäe
Auditor:	KPMG Estonia

The interim report consists of the consolidated balance sheet, income statement, cash flow statement, and statements of owners' equity, notes to the interim report 1-6 /2002 and explanatory note.

*The interim report of AS Harju Elekter on 19 pages*

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**Signatures of the Management Board to the Interim report 1-6/2002**

Management Board of AS Harju Elekter has prepared the consolidated Interim report for H1 2002 as presented on pp. 4-19.

Approval of the Interim report 1-6/2002 as of June 30, 2002 by the Management Board members:

Mr. Andres Allikmäe Chairman of the Management Board ..... „ August 2002

Mr. Ülo Merisalu Member of the Management Board ..... „ August 2002

Mrs. Karin Padjus Member of the Management Board ..... „ August 2002

Mr. Lembit Libe Member of the Management Board ..... „ August 2002

**EXPLANATORY NOTE**

The financial results of AS Harju Elekter (parent company), its subsidiaries and related companies are presented in the consolidated interim report 1-6/ 2002 as follows:

	Participation on 30.06.02	Participation on 30.06.01
AS ELTEK	100 %	100 %
AS AJT Harju Elekter	100 %	0 %
AS Keila Kaabel	41.2 %	41.2 %
AS Saajos Balti	33.3 %	33.3 %

**Important events**

On January 3, 2002 Bureau Veritas Quality International acknowledged the conformity of the quality management system used in AS Eltek to the ISO9001:2000 international standard. The scope of the system covers manufacturing of sheet metal products, product development and marketing in the company. The certificate was presented on January 21.

For the protection of environment Harju Elekter Group implemented the environmental management system, the conformity of which to ISO 14001:1996 international standard was verified and acknowledged by the international verification agency BVQI. The compliance certificate award ceremony took place on April 23. The system lays down the norms and rules for continuous monitoring of and adequate response to potential environmental impacts and facilitates the creation of a clean and healthy working and living environment within the industrial area.

In April Harju Elekter opened its third specialised electrical appliances shop in Tartu. The shop has 300 sq.m in salesroom and warehouse space. During the first three months of its operations a considerable customer base has been identified and a solid position secured on the domestic electrical supplies market.

The AGM of the shareholders took place on April 12. 110 shareholders and their authorized representatives who represented totally 83.96% of the total votes attended the general meeting. The general meeting decided to pay dividends to the shareholders at the rate of 1.40 EEK (0.09 EUR) per share. Dividends were distributed to the shareholders on May 13, 2002.

On the basis of former Cable Harnesses Factory, AS AJT Harju Elekter (AJT), a 100% subsidiary, was formed on the 8<sup>th</sup> of March, with the share capital of 6 million kroons (383 TEUR). The company started its Independent economic activities on April 1. On the 4<sup>th</sup> of June AS Harju Elekter and PKC Group Oyj (PKC) signed a sales agreement according to which PKC acquired all shares of AJT, a 100% Harju Elekter owned subsidiary. The transaction value was 2.07 MEUR (32.4 MEEK). The closing date was July 1, 2002.

**Sales and revenues**

The consolidated net sales of AS Harju Elekter for H1 2002 amounted to 125.2 MEEK (8.0 MEUR). Compared to the same period last year, the company's turnover grew by 40.8%. Sales on the domestic market accounted for 52.2% of the consolidated net sales and revenues (H1 2001: 59.4%). Export sales were 59.8 MEEK (3.8 MEUR) which is 65.8% more than for the same period last year.

The first 6 months of 2002 were successful for Electrical Equipment Factory. The factory's total turnover was 52.1 MEEK (3.3 MEUR), having increased in comparison with the same period last year

by 1.4 times, incl. 55.2% increase in the sales of electrical equipment. Sales on the domestic market grew 1.3 and on export markets 2.5 times. The share of export in total turnover was 20.7% (2001: 12.2%). The amount of purchase orders from energy, infrastructure, building and wholesale companies increased.

The turnover of Cable Harnesses Factory amounted to 38.9 MEEK (2001: 24.0 MEEK or 1.5 MEUR), i.e. 62.2% growth. Beginning from the current year, the cost of materials used for the manufacturing of some products is reflected in the factory's turnover which is the main reason for the turnover increase.

### **Profit**

The Group's six-month operating profit was 6.5 MEEK or 415 TEUR (H1 2001: 5.8 MEEK or 368 TEUR), thus the return on sales was 5.2% (H1 2001: 6.5%). The low profitability of Cable Harnesses Factory products and the shrinking share of products for the electronic and telecom industries in the overall sales had a decreasing effect on the Group's return on sales. Compared to the same period last year, the parent company's operating profit grew by 37.7%, incl. 42.4% in Q2, return on sales improved by 0.8 percentage points, incl. 1.3 percentage points in Q2. Beginning from the second quarter, the results of Cable Harnesses Factory are not reported within the parent company's performance indicators.

Income from financing activities was 4.0 MEEK or 259 TEUR (H1 2001: 7.4 MEEK or 471 TEUR). During the accounting period no extraordinary share transfers were conducted (in H1 2001 income from sale of shares had been 2.8 MEEK or 176 TEUR) and also dividend income from PKC was smaller.

In the consolidated income statement under profit from extraordinary items 726 TEEK (46 TEUR) is reported as the part of extraordinary income due from the disposal of the subsidiary's assets, which was received in Q2.

In conclusion, the Group's net profit for the first six months of 2002 was 11.3 MEEK or 719 TEUR (H1 2001: 13.1 MEEK or 838 TEUR). Thus the net profit margin achieved was 9.0% (H1 2001: 14.8%). EPS was 2.08 EEK or 0.13 EUR (H1 2001: 2.43 EEK or 0.16 EUR).

### **Cash flow, investments and capital employed**

Cash flow from operating activities was 14.8 million EEK or 946 thousand EUR (H1 2001: 11.7 MEEK or 748 TEUR), outflow due to investing and financing activities 18.4 million EEK or 1 174 thousand EUR (H1 2001: 11.0 MEEK or 702 TEUR).

During the accounting period the Group invested 6.7 MEEK or 431 TEUR in tangible and intangible fixed assets (H1 2001: 3.7 MEEK or 236 TEUR). Investments in plant and technology were 3.7 MEEK or 239 TEUR, the bulk of this amount was spent on the rehabilitation of the washing units of the powder-coating line with the aim to ensure better product quality and considerable reduction in environmental pollution. 2.0 MEEK or 128 TEUR was spent on the reconstruction projects of buildings and installations.

In March Harju Elekter paid 6 MEEK (383 TEUR) as a monetary contribution into the share capital of its 100% subsidiary AJT Harju Elekter to be founded on the basis of the Cable Harnesses Factory.

Long-term loan and capital lease repayments during the accounting period accounted for 4.4 MEEK or 278 TEUR (H1 2001: 4.9 MEEK or 319 TEUR).

In 2002 7.6 MEEK or 483 TEUR (2001; 6.5 MEEK or 414 TEUR) were distributed as dividends to the shareholders, with no income tax liabilities arising for Harju Elekter.

### Balance sheet

The consolidated balance sheet volume as of end of June 2002 was 191.7 MEEK (12.3 MEUR). The balance sheet volume increased by 15.1 MEEK (1.0 MEUR) during the first six months of 2002. On one hand, current receivables grew by 8.5 MEEK (544 TEUR) and inventories 7.6 MEEK (485 TEUR), on the other hand, trade accounts payable by 14.0 MEEK (894 TEUR). The increase in inventories was caused by stock on hand procured in the 1<sup>st</sup> quarter for the manufacturing of wiring systems for the automotive and electronic industries that, in turn, lead to an increase in trade accounts payable and in prepaid sales tax to the customs. However, the 30.0% growth in total inventory was beaten by the 40.8% growth rate of the turnover.

The group is highly capitalised. As of the balance sheet date, owners' equity accounted for 67% (72% in 2001), spare equity capital 34% (35% in 2001), debts 13% (16% in 2001) and non-current assets 64% (70% in 2001) of total assets. The group had a total of 25.0 MEEK (1.6 MEUR) worth of long-term and short-term debts as of the balance sheet date, including 12.6 MEEK (0.8 MEUR) of long-term debt. Debts to credit institutions have decreased during the year by 2.2 MEEK (139 TEUR).

### Personnel

The average number of employees in the group was 634 (700 in 1-6/2001). As of the balance sheet date 30.06.2002 the group employed 674 persons (683 in 30th of June 2001).

### Shares of Harju Elekter

	EEK		EUR	
	H1 2002	H1 2001	H1 2002	H1 2001
Number of shares (1000 pc)	5 400	5 400	5 400	5 400
Nominal value	10	10	0.64	0.64
Low price	28.48	31.50	1.82	2.01
High price	36.30	44.00	2.32	2.81
Average price	33.80	39.43	2.16	2.52
Market price at the end of period	35.05	31.50	2.24	2.01
Earnings per share EEK	2.08	2.43	0.13	0.16

### Key indicators

	1 000 EEK		1 000 EUR	
	H1 2002	H1 2001	H1 2002	H1 2001
<b>For the period</b>				
Net sales	125 172	88 897	8 000	5 682
Operating profit	6 488	5 753	415	367
Profit before financial expenses	11 211	14 152	717	904
Net profit for the current year	11 257	13 113	719	838
<b>At the end of the period</b>				
Total current assets	68 782	49 518	4 396	3 165
Total fixed assets	122 904	114 408	7 855	7 312
TOTAL assets	191 686	163 927	12 2513	10 477
Total liabilities	62 896	46 142	4 020	2 949
Total owners' equity	128 790	117 784	8 231	7 528

<b>Performance indicators (%)</b>	<b>H1 2002</b>	<b>H1 2001</b>
Return on sales (Operating profit/Net sales *100)	5.2	6.5
Equity ratio (Owners' equity/Total assets*100)	9.0	15.9
Net profit margin (Net profit/ Net sales *100)	9.0	14.8
Return on assets ROA (Net profit/Average total assets *100*4/3)	12.2	15.9
Return on equity ROE (Net profit/Average owners' equity *100*4/3)	17.7	22.9
Equity ratio (Owners' equity / Total assets *100)	67.1	71.8
Current ratio (Current assets/Short-term obligations)	1.4	1.6
Quick ratio (Liquid assets/Short-term obligations)	0.9	0.8
Number of employees at the end of the period	645	683

Andres Allikmäe  
Chairman of the Management Board

## INTERIM FINANCIAL STATEMENTS

## BALANCE SHEET

ASSETS	Note NO	1 000 EEK			1 000 EUR		
		30.06.02	31.12.01	30.06.01	30.06.02	31.12.01	30.06.01
<b>Current assets</b>							
<b>Cash and bank</b>		<b>7 475</b>	<b>11 039</b>	<b>8 860</b>	<b>478</b>	<b>706</b>	<b>566</b>
<b>Shares and other securities</b>	1	<b>0</b>	<b>468</b>	<b>435</b>	<b>0</b>	<b>30</b>	<b>28</b>
<b>Trade receivables</b>							
Accounts receivable from customers		23 730	15 305	12 567	1 517	978	803
Other receivables	11	2 505	3 343	2 374	160	214	152
Accrued income		14	35	0	1	2	0
Prepaid expenses		2 182	1 242	1 150	139	79	73
<b>Total trade receivables</b>		<b>28 430</b>	<b>19 925</b>	<b>16 091</b>	<b>1 817</b>	<b>1 273</b>	<b>1 028</b>
<b>Inventories</b>		<b>32 876</b>	<b>25 286</b>	<b>24 133</b>	<b>2 101</b>	<b>1 616</b>	<b>1 542</b>
<b>Total current assets</b>		<b>68 782</b>	<b>56 718</b>	<b>49 518</b>	<b>4 396</b>	<b>3 625</b>	<b>3 165</b>
<b>Fixed assets</b>							
Long-term investments	1,8	27 878	27 574	24 489	1 782	1 762	1 565
Tangible assets	2	94 493	91 851	89 395	6 039	5 870	5 713
Intangible assets	2	532	421	525	34	27	34
<b>Total fixed assets</b>		<b>122 904</b>	<b>119 845</b>	<b>114 408</b>	<b>7 855</b>	<b>7 659</b>	<b>7 312</b>
<b>TOTAL ASSETS</b>		<b>191 686</b>	<b>176 563</b>	<b>163 927</b>	<b>12 251</b>	<b>11 284</b>	<b>10 477</b>

LIABILITIES AND OWNERS'  
EQUITY

<b>Current liabilities</b>							
Debt obligations	3	12 465	14 929	8 314	797	954	531
Prepayments received from customers		230	94	225	15	6	14
Accounts payable to suppliers		26 434	12 433	11 183	1 689	795	715
Other payables	11	1 201	499	586	77	32	37
Tax payable		4 087	4 931	4 931	261	315	315
Accrued expenses		5 917	6 010	3 001	378	384	192
<b>Total current liabilities</b>		<b>50 334</b>	<b>38 896</b>	<b>28 241</b>	<b>3 217</b>	<b>2 486</b>	<b>1 805</b>
<b>Long-term liabilities</b>	3	<b>12 563</b>	<b>12 254</b>	<b>17 902</b>	<b>803</b>	<b>783</b>	<b>1 144</b>
<b>Total liabilities</b>		<b>62 896</b>	<b>51 150</b>	<b>46 142</b>	<b>4 020</b>	<b>3 269</b>	<b>2 949</b>
<b>Owners' equity</b>							
Share capital (nominal value)		54 000	54 000	54 000	3 451	3 451	3 451
Statutory reserves		8 600	6 510	6 510	550	416	416
Retained profit		54 933	44 161	44 162	3 511	2 822	2 823
Net profit(loss) for the current year		11 257	20 742	13 113	719	1 326	838
<b>Total owners' equity</b>	4	<b>128 790</b>	<b>125 413</b>	<b>117 784</b>	<b>8 231</b>	<b>8 015</b>	<b>7 528</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>191 686</b>	<b>176 563</b>	<b>163 927</b>	<b>12 251</b>	<b>11 284</b>	<b>10 477</b>



**INCOME STATEMENT**

1000 EEK	Note no	Q2 2002	Q2 2001	H1 2002	H1 2001
Net sales	5,6	72 991	44 499	125 172	88 897
Cost of goods sold		61 017	35 941	103 905	71 361
<b>Gross profit</b>		<b>11 974</b>	<b>8 558</b>	<b>21 267</b>	<b>17 536</b>
Marketing expenses		3 059	2 122	5 645	4 025
Administrative and general expenses		5 099	3 830	9 033	7 531
Other operating revenue		43	96	239	204
Other operating charges		155	314	339	431
<b>Operating profit</b>	<b>5,7</b>	<b>3 704</b>	<b>2 389</b>	<b>6 488</b>	<b>5 753</b>
<b>Financial income incl.</b>					
-from shares in associate co.		1 577	1 392	2 357	2 053
-from other investments	8	11	6 166	2 226	6 178
-other interest and similar financial income	11	89	129	140	167
<b>Total financial income</b>		<b>1 676</b>	<b>7 687</b>	<b>4 723</b>	<b>8 399</b>
<b>Financial expenses, incl.</b>					
-interest expense		290	479	624	987
-other financial expenses		10	17	56	52
<b>Total financial expenses</b>		<b>300</b>	<b>496</b>	<b>680</b>	<b>1 039</b>
<b>Profit from ordinary activities</b>		<b>5 081</b>	<b>9 579</b>	<b>10 531</b>	<b>13 113</b>
<b>Net profit for the current year</b>		<b>5 807</b>	<b>9 579</b>	<b>11 257</b>	<b>13 113</b>
Basic earnings per share and diluted	9	1,08	1,77	2,08	2,43

**INCOME STATEMENT**

1000 EUR	Note no	Q2 2002	Q2 2001	H1 2002	H1 2001
Net sales	5,6	4 665	2 844	8 000	5 681
Cost of goods sold		3 900	2 297	6 641	4 561
<b>Gross profit</b>		<b>765</b>	<b>547</b>	<b>1 359</b>	<b>1 120</b>
Marketing expenses		196	135	361	257
Administrative and general expenses		326	245	577	481
Other operating revenue		3	6	15	13
Other operating charges		10	20	22	28
<b>Operating profit</b>	<b>5,7</b>	<b>237</b>	<b>153</b>	<b>415</b>	<b>367</b>
<b>Financial income incl.</b>					
-from shares in associate co.		101	89	151	131
-from other investments	8	0	394	142	395
-other interest and similar financial income	11	6	8	9	11
<b>Total financial income</b>		<b>107</b>	<b>491</b>	<b>302</b>	<b>537</b>
<b>Financial expenses, incl.</b>					
-interest expense		19	31	40	63
-other financial expenses		1	1	4	3
<b>Total financial expenses</b>		<b>19</b>	<b>32</b>	<b>43</b>	<b>66</b>
<b>Profit from ordinary activities</b>		<b>325</b>	<b>612</b>	<b>673</b>	<b>838</b>
<b>Net profit for the current year</b>		<b>371</b>	<b>612</b>	<b>719</b>	<b>838</b>
Basic earnings per share and diluted	9	0,07	0,11	0,13	0,16

**CASH FLOW STATEMENT**

	Note No	1 000 EEK		1 000 EUR	
		H1 2002	H1 2001	H1 2002	H1 2001
<b>Business activities</b>					
Net profit for the current year		11 257	13 113	719	838
Depreciation and amortization of fixed assets	2	4 043	3 884	258	248
Profit/loss from sales and write-off of tangible assets		-88	-34	-6	-2
Profit/loss by equity method		-2 357	-2 053	-151	-131
Profit/loss by from sales of financial assets		0	-2 761	0	-177
<b>Total cash flow</b>		<b>12 855</b>	<b>12 149</b>	<b>822</b>	<b>776</b>
Stock and securities (short-term)		468	-33	30	-2
Net change in claims related to business operations		-8 689	3 835	-555	245
Inventories		-7 590	-1 331	-485	-85
Transferred assets		1 650	-52	105	-3
Current debt liabilities		-2 464	-2 868	-158	-183
Net change in liabilities related to business activities		14 085	-4 621	900	-295
Transferred liabilities		4 489	4 635	287	296
<b>Total cash flow from changes in current assets and liabilities</b>		<b>1 948</b>	<b>-435</b>	<b>125</b>	<b>-28</b>
<b>Total cash flow from business activities</b>		<b>14 804</b>	<b>11 714</b>	<b>946</b>	<b>748</b>
<b>Investing activities</b>					
Sale of financial assets (selling price)		0	2 798	0	179
Dividends received from related companies		0	1 236	0	79
Loan principal received		136	62	9	4
Additions to long-term financial investments		-55	0	-4	0
Sale of tangible fixed assets (selling price)		210	34	13	2
Additions to intangible and tangible fixed assets	2	-6 747	-3 712	-431	-237
<b>Total cash flow from investing activities</b>		<b>-6 457</b>	<b>418</b>	<b>-413</b>	<b>27</b>
<b>Financing activities</b>					
Repayment of long-term liabilities	3	-3 946	-4 631	-252	-296
Repayment of principal amounts of capital lease	3	-405	-303	-26	-19
Cash dividends paid		-7 560	-6 480	-483	-414
<b>Cash flow from financing activities</b>		<b>-11 911</b>	<b>-11 414</b>	<b>-761</b>	<b>-729</b>
<b>TOTAL CASH FLOW</b>		<b>-3 564</b>	<b>718</b>	<b>-228</b>	<b>46</b>
<b>Net increase in cash</b>		<b>-3 564</b>	<b>718</b>	<b>-228</b>	<b>46</b>
Cash at the beginning of the year		11 039	8 142	706	520
Cash at the end of the year		7 475	8 860	478	566

**STATEMENT OF CHANGES IN OWNERS' EQUITY**

	1 000 EEK		1 000 EUR	
	H1 2002	H1 2001	H1 2002	H1 2001
<b>Share capital</b>				
Initial balance	54 000	54 000	3 451	3 451
<b>Final balance</b>	<b>54 000</b>	<b>54 000</b>	<b>3 451</b>	<b>3 451</b>
<b>Reserves</b>				
Initial balance	6 510	3 610	416	231
Provisions for reserve capital	2 090	2 900	134	185
<b>Final balance</b>	<b>8 600</b>	<b>6 510</b>	<b>550</b>	<b>416</b>
<b>Retained earnings</b>				
Initial balance	44 161	24 864	2 822	1 589
Distribution of net profit	20 742	29 176	1 326	1 865
Provisions for reserves	-2 090	-2 900	-134	-185
Dividends paid	-7 560	-6 480	-483	-414
Income tax on dividends (related company)	-321	-499	-20	-32
<b>Final balance</b>	<b>54 933</b>	<b>44 161</b>	<b>3 511</b>	<b>2 823</b>
<b>Profit for current year</b>				
Initial balance	20 742	29 176	1 326	1 865
Distribution of net profit	-20 742	-29 176	-1 326	-1 865
Profit for the current year	11 257	13 113	719	838
<b>Final balance</b>	<b>11 257</b>	<b>13 113</b>	<b>719</b>	<b>838</b>
<b>Total owners' equity</b>	<b>128 790</b>	<b>117 784</b>	<b>8 231</b>	<b>7 528</b>

More detailed information about the owners' equity and its changes is presented in Note 4.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### Accounting methods and valuation principles used in the consolidated interim report

The present consolidated interim report has been prepared in accordance with the Accounting Act of the Republic of Estonia, "Guidelines for the preparation and submission of interim reports" issued by the Estonian Accounting Standards Board and in compliance with the requirements for condensed interim financial statements set forth in the International Accounting Standard IAS 34 "Interim Financial Reporting". While preparing the interim financial statement, the same accounting methods were used as in the annual accounts for the fiscal year that ended on 31.12.2001.

Management Board of AS Harju Elekter is of the opinion that the interim report for the H1 of 2002 reflects truly and fairly the company's financial results on the basis of the going-concern concept. The present interim report has not been audited or in any other way verified by the auditors and contains only the consolidated accounts of the Group.

The data in the Interim financial statements is presented in thousand Estonian kroons and thousand euros. The EEK/EUR exchange rate based on the Bank of Estonia quotation was 15.6466.

### Note 1. Shares

In March Harju Elekter sold some short-term shares. Financial income earned from the disposal of shares in the amount of 139 TEEK (9 TEUR) is reported under *Other financial income* in the income statement.

### Note 2 Tangible and intangible assets

	1 000 EEK			1 000 EUR		
	Tan-gible assets	Intan-gible assets	TOTAL	Tan-gible assets	Intan-gible assets	TOTAL
<b>Initial balance 31.12.01</b>	<b>91 850</b>	<b>421</b>	<b>92 271</b>	<b>5 870</b>	<b>27</b>	<b>5 897</b>
Acquired	6 021	188	<b>6 209</b>	385	12	<b>397</b>
Reconstructed	2 018		<b>2 018</b>	129	0	<b>129</b>
Sold (at acquisition value) and written-off fixed assets	-4 891		<b>-4891</b>	-313	0	<b>-313</b>
Depreciation for the financial period	-3 966	-77	<b>-4 043</b>	-253	-5	<b>-258</b>
Depreciation of sold and written-off fixed assets	3 461		<b>3 461</b>	221	0	<b>221</b>
<b>Final balance</b>	<b>94 493</b>	<b>532</b>	<b>95 025</b>	<b>6 039</b>	<b>34</b>	<b>6 073</b>

**Note 3 Debt liabilities**

	1 000 EEK		1 000 EUR	
	31.06.02	31.12.01	31.06.02	31.12.01
Non-convertible debt	2 967	3 150	190	201
Current portion of long-term debt	3 812	7 755	244	496
Current portion of lease debt	432	776	28	50
Short-term loans from credit institutions	5 254	3 248	335	208
<b>Total debt obligations</b>	<b>12 465</b>	<b>14 929</b>	<b>797</b>	<b>954</b>
Unsecured debt obligations	198	0	13	0
Long-term bank loans	9 649	9 649	617	617
Long-term lease liabilities	2 716	2 605	173	166
<b>Total long-term liabilities</b>	<b>12 563</b>	<b>12 254</b>	<b>803</b>	<b>783</b>
<b>Total debt liabilities</b>	<b>25 028</b>	<b>27 183</b>	<b>1 600</b>	<b>1 737</b>

Changes in debt obligations:

	1 000 EEK	1 000 EUR
<b>Initial balance 31.12.01</b>	<b>27 183</b>	<b>1 737</b>
Changes in non-convertible debt	15	1
Loans repaid	-3 944	-252
Repayment of principal amounts of capital lease	-405	-26
Changes in short-term loans from credit institutions	2 007	129
New long-term lease liabilities	171	11
<b>Final balance</b>	<b>25 027</b>	<b>1 600</b>

**Note 4 Equity**

The share capital of AS Harju Elekter is 54 MEEK (3.4 MEUR) that is divided into 5 400 thousand ordinary shares with the nominal value of 10 EEK (0.64 EUR).

For the year 2001 the shareholders were paid dividends of 1.40 EEK (0.09 EUR) per share, totally 7 560 TEEK (483 TEUR). The shareholders listed in the share register of AS Harju Elekter at 8 a.m. on the record date April 30, 2002 were entitled to dividends. Dividends were distributed on May 13, 2002.

321 TEEK (20 TEUR) income tax on dividends paid from retained earnings constitutes the part of income tax liabilities arising from dividends paid by AS Keila Cables that corresponds to AS Harju Elekter's equity holding in the associated company.

**Note 5. Segmental reporting**

Pursuant to the established internal accounting and reporting procedure, the primary form of accounting in the Group is by business segments and the secondary by geographic areas. The group operates in one geographical segment, Estonia. The business activities of the Group have been classified by business segments, based on the characteristics of the products and services as well as of the consumers of these products and services

**Business segments**

The Group operates in two business segments:

“electrical engineering” – designing, production and marketing of power distribution and control systems, subcontracting for energy, construction and production sectors, intermediary trade in electrical equipment.

“telecommunications” – manufacturing and marketing of various type of sheet metal and fiber-optic products for data networks for the telecommunications sector, installation of computer, communication and alarm networks, provision of communication services and intermediary trade in communication systems.

H1 2001	1 000 EEK				1 000 EUR			
	Elect- rical	Tele- com- muni- cations	Elimi- nation	TOTAL	Elect- rical	Tele- com- muni- cations	Elimi- nation	TOTAL
Sales revenue	75 299	13 598		88 897	4 812	869	0	5 681
Transactions with other segments	1 619	462	-2 080	0	103	30	-133	0
<b>Total</b>	<b>76 917</b>	<b>14 060</b>	<b>-2 080</b>	<b>88 897</b>	<b>4 916</b>	<b>899</b>	<b>-133</b>	<b>5 681</b>
<b>Operating profit</b>	<b>4 491</b>	<b>1 309</b>	<b>-47</b>	<b>5 753</b>	<b>287</b>	<b>83</b>	<b>-3</b>	<b>367</b>

H1 2002	1 000 EEK				1 000 EUR			
	Elect- rical	Tele- com- muni- cations	Elimi- nation	TOTAL	Elect- rical	Tele- com- muni- cations	Elimi- nation	TOTAL
Sales revenue	107 676	17 496		125 172	6 882	1 118	0	8 000
Transactions with other segments	8 198	558	-8 756	0	524	36	-560	0
<b>Total</b>	<b>115 873</b>	<b>18 054</b>	<b>-8 756</b>	<b>125 172</b>	<b>7 406</b>	<b>1 154</b>	<b>-560</b>	<b>8 000</b>
<b>Operating profit</b>	<b>5 878</b>	<b>661</b>	<b>-51</b>	<b>6 488</b>	<b>376</b>	<b>42</b>	<b>-3</b>	<b>415</b>

**Note 6. Net sales**

Markets	1 000 EEK		1 000 EUR		Structure %	
	H1 2002	H1 2001	H1 2002	H1 2001	H1 2002	H1 2001
<b>INTERNAL MARKET</b>	<b>65 365</b>	<b>52 835</b>	<b>4 178</b>	<b>3 377</b>	<b>52,2%</b>	<b>59,4%</b>
<b>EXTERNAL MARKET</b>	<b>59 807</b>	<b>36 062</b>	<b>3 822</b>	<b>2 305</b>	<b>47,8%</b>	<b>40,6%</b>
Incl. Nordic countries	53 401	29 514	3 413	1 886	42,7%	33,2%
Baltic States	3 567	2 592	228	166	2,8%	2,9%
Other Europe	2 021	3 095	129	198	1,6%	3,5%
Russia and CEEC	722	861	46	55	0,6%	1,0%
USA	96	0	6	0	0,1%	0,0%
<b>TOTAL</b>	<b>125 172</b>	<b>88 897</b>	<b>8 000</b>	<b>5 682</b>	<b>100,0%</b>	<b>100,0%</b>

**Business activities of the Group are divided into two main types:**

“core business” - industrial production and marketing of own products;

“other activities” – intermediate sale of electrical engineering and telecommunication products; provision of services that belong to core business activities and leasing of production capacities to companies that belong to the same business segment.

	1 000 EEK		1 000 EUR	
	H1 2002	H1 2001	H1 2002	H1 2001
<b>Core business and products</b>				
- electrical equipment	43 218	27 854	2 762	1 780
- wiring systems for automotive and telecommunications industry (subcontracting)	38 926	23 991	2 488	1 533
- cabinets/boxes for telecom installations	7 980	6 062	510	387
- sheet metal products and metalwork	12 242	10 506	782	671
<b>TOTAL CORE BUSINESS</b>	<b>102 366</b>	<b>68 413</b>	<b>6 542</b>	<b>4 372</b>
<b>Intermediary activities and other services</b>				
- trade and intermediation	17 871	15 407	1 142	985
- leasing of capital assets	2 546	2 400	163	153
- other services	2 389	2 677	153	171
<b>TOTAL OTHER ACTIVITIES</b>	<b>22 806</b>	<b>20 484</b>	<b>1 458</b>	<b>1 309</b>
<b>TOTAL</b>	<b>125 172</b>	<b>88 897</b>	<b>8 000</b>	<b>5 682</b>

**Note 7 Operating profit**

Operating profit contains the following write-downs and other essential income and cost items arising beyond current business operations :

	1 000 EEK		1 000 EUR	
	H1 2002	H1 2001	H1 2002	H1 2001
- write-down of outstanding accounts receivable from customers	-27	-32	-2	-2
- receipt of accounts formerly charged to expenses	8	9	1	1
- revaluation of inventory	-19	-67	-1	-4
- profit from sales fixed assets	93	34	7	2
- revaluation of fixed assets	-5	0	0	0

**Note 8 One-time financial income**

Profit for the financial year contains the following one-time financial revenues:

	1 000 EEK		1 000 EUR	
	H1 2002	H1 2001	H1 2002	H1 2001
- dividends paid by PKC Group Oyj	2 064	3 390	132	217
- income earned from the sale of PKC Group Oyj shares	0	2 761	0	176



**Note 9 Basic and diluted earnings per share**

Average number of the company's share in H1 of 2002 was 5 400 thousand. Basic EPS is  $11\,257 / 5\,400 = 2.08$  (H1 2001:  $13\,113 / 5\,400 = 2.43$ ) EEK or  $719 / 5\,400 = 0.13$  (H1 2001:  $838 / 5\,400 = 0.16$ ) EUR.

Pursuant to the resolution of the general meeting of AS Harju Elekter, a share option was organized in September 2000. The redemption price of the option was set at 40 EEK (2.56 EUR). For the realization of the option 200 thousand new shares will be issued and if all the options are exercised, the company will earn 8 MEEK (0.5 MEUR). In the H1 of 2002 the average market price of the share settled at 33.80 EEK (2.16 EUR), which is lower than the option redemption price. Thus diluted earnings per share were equal to basic earnings per share.

**Note 10. Acquisition and disposal of subsidiaries**

On the 8<sup>th</sup> of March AS AJT Harju Elekter, a 100% subsidiary; was established on the basis of Cable Harnesses Factory and started independent economic activities on the 1<sup>st</sup> of April. AJT shall continue as PKC Group Oyj (PKC) subcontractor in its current field of activities, which is designing and manufacturing of wiring systems, connection cables, their components as well as other electromechanical and electrical engineering devices and components and their marketing to leading motor and electronic industry enterprises in Northern Europe. AS Harju Elekter paid in a 6 MEEK (383 TEUR) contribution into AJT share capital. Harju Elekter sold the fixed and current assets used by the enterprise to its subsidiary (Note 11).

On the 4<sup>th</sup> of June AS Harju Elekter and PKC signed a sales agreement according to which PKC acquired all shares of AJT, a 100% Harju Elekter owned subsidiary. With the disposal of AJT as a secondary subcontractor, Harju Elekter will be able to considerably reduce its business risks. On-going co-operation with PKC shall open new development opportunities to both partners. The deal was closed on the 1<sup>st</sup> of July (Note 12).

**Note 11 Transactions with related parties**

Related parties to AS Harju Elekter are the 100%-owned subsidiaries AS AJT Harju Elekter and AS ELTEK, associated companies AS Keila Kaabel and AS Saajos Balti, its own employees and the members of the governing bodies, also AS Harju KEK that owns more than 30% of AS Harju Elekter shares.

In Q2 AS Harju Elekter sold assets to its subsidiary AJT Harju Elekter for the total value of 5,366 TEEK (343 TEUR), of which amount 3,426 TEEK (219 TEUR) AJT entered into its books as fixed assets. 726 TEEK (46 TEUR) as a part of the realization income from the sale of assets is reported in the income statement under *Income from extraordinary items*

In the 1<sup>st</sup> half of 2002 AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

Related parties	1 000 EEK				1 000 EUR			
	H1 2002		H1 2001		H1 2002		H1 2001	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
AJT Harju Elekter	4 319	2 162	0	0	276	138	0	0
Eltek	478	1 716	462	1 619	31	110	30	103
Keila Kaabel	2 587	2 236	1 688	1 951	165	143	108	125
Saajos Balti	914	1 500	444	1 453	59	96	28	93
Harju KEK	53	15	76	9	3	1	5	1
<b>TOTAL</b>	<b>8 351</b>	<b>7 629</b>	<b>2 670</b>	<b>5 032</b>	<b>534</b>	<b>488</b>	<b>171</b>	<b>322</b>

Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	2 436	0	156	0
Material, components for production needs	1 143	855	73	55
Industrial subcontracting (outsourcing)	0	661	0	42
Lease of fixed assets	0	4 613	0	295
Management services	0	965	0	62
Other services (building and communication, repairs and maintenance of real estate)	4 772	535	305	34
<b>TOTAL</b>	<b>8 351</b>	<b>7 629</b>	<b>534</b>	<b>488</b>

The executive management of the company is of the opinion that prices applied in transactions with the related parties did not differ significantly from market prices.

The subsidiary AS ELTEK paid back to the parent company 52 TEEK (3 TEUR) of the long-term loan. In H1 37 TEEK (2 TEUR) was received as income from interest on short-term loans which is reported in Harju Elekter's income statement under *Other interest and financial income*. The annual interest rate on loans was 8%.

During the financial period the employees were granted short-term loans in the amount 117 TEEK (7 TEUR) and long-term loans in the amount 55 TEEK (4 TEUR). The employees repaid 177 TEEK (11 TEUR). The annual interest rate on loans was 8%. During the reporting period the employees paid the total of 25 TEEK (1.6 TEUR) in interest.

#### Balance with related parties:

Claims	1 000 EEK		1 000 EUR	
	30.06.02	31.12.01	30.06.02	30.12.01
<b>Total loans to subsidiaries</b>	<b>2 313</b>	<b>2 117</b>	<b>148</b>	<b>135</b>
Incl. AJT Harju Elekter	195	0	12	0
ELTEK outstanding accounts	1 218	1 165	78	74
ELTEK long-term loan	0	52	0	3
ELTEK short-term loan	900	900	58	58
<b>Total loans to associated companies</b>	<b>2 319</b>	<b>3 094</b>	<b>148</b>	<b>198</b>
Incl. AS Keila Kaabel (dividends)	1 739	892	111	57
AS Saajos Balti	580	2 202	37	141

<b>Total loans to employees</b>	<b>639</b>	<b>673</b>	<b>41</b>	<b>43</b>
Incl. long-term loan	539	620	34	40
short-term loan	100	53	7	3

Obligations	1 000 EEK		1 000 EUR	
	31.06.02	31.12.01	31.06.02	31.12.01
<b>Total loans to subsidiary company ELTEK</b>	<b>208</b>	<b>0</b>	<b>13</b>	<b>0</b>
Incl. outstanding accounts	208	0	13	0
<b>Total loans to associated companies</b>	<b>1 010</b>	<b>327</b>	<b>64</b>	<b>21</b>
Incl. AS Keila Kaabel	757	103	48	7
AS Saajos Balti	253	224	16	14

#### Note 12. Post-balance-sheet events

In July PKC paid to Harju Elekter for the acquisition of 100% holding in AJT, in accordance with the sales agreement concluded on 04.06.2002, 61.4% (1.27 MEUR or 19.9 MEEK) of the transaction value in money and the balance in PKC shares. The share subscription price settled at 7.29 euro, which was the mean share price for 10 stock exchange business days prior to the transaction date. The total value of the transaction was 2.07 MEUR (32.4 MEEK).

Harju Elekter shall ensure the functioning of infrastructure facilities shall provide management services and continue to participate in PKC and AJT governing bodies. Production facilities shall remain in Harju Elekter's possession and AJT shall continue to rent them.