

# AS Harju Elekter

## Interim report 1-12/ 2003 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.

The Group consists of the parent company AS Harju Elekter and the 100%-owned subsidiaries AS Eltek and Satmatic Oy and 51% subsidiary Rifas UAB. AS Harju Elekter has holdings in associated companies AS Keila Kaabel (34,0%) and AS Saajos Balti (33,3%) and in the Finnish company PKC Group Oyj (10,6%).

The Group employees almost 300 people.

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

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Beginning of the financial year:	1 <sup>st</sup> of January
End of the financial year:	31 <sup>st</sup> of December
Beginning of the reporting period:	1 <sup>st</sup> of January 2003
End of the reporting period:	31 <sup>st</sup> of December 2003
CEO:	Mr.Andres Allikmäe
Auditor:	KPMG Estonia

The interim report consists of the consolidated balance sheet, income statement, cash flow statement, statements of owners' equity, notes to the interim report 1-12 /2003 and explanatory note.

*The interim report of Harju Elekter Group on 23 pages*

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**Signatures of the Management Board to the Interim report 1-12/2003**

Management Board of AS Harju Elekter has prepared the consolidated Interim report for Q4 2003 as presented on pp. 4-23.

Approval of the Interim report 1-12/2003 as of December 31, 2003 by the Management Board members:

Andres Allikmäe	Chairman of the Board	.....	„26. 02. 2004“
Lembit Libe	Member of the Board	.....	„26. 02. 2004“
Ülo Merisalu	Member of the Board	.....	„26. 02. 2004“
Karin Padjus	Member of the Board	.....	„26. 02. 2004“

**EXPLANATORY NOTE**

In interim reports for Q4 2003 and 1-12/2003, the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries are consolidated line-by-line and the results of affiliated companies by the equity method. As of 31.12.2003, Harju Elekter owns significant holdings in the following commercial undertakings:

	<u>Original</u>	<u>Participation on 31.12.03</u>	<u>Participation on 31.12.02</u>
AS Eltek	Estonia	100,0 %	100,0 %
Satmatic OY	Finland	100,0 %	100,0 %
Rifas UAB	Lithuania	51,0 %	0,0 %
AS Keila Kaabel	Estonia	34,0 %	41,2 %
AS Saajos Balti	Estonia	33,3 %	33,3 %
PKC Group OY	Finland	10,6 %	11,6 %

**Economic environment**

In 2003 the world economy reached the long-awaited recovery stage: the expansive economic policy employed in US started to bear fruit and in Japan recovery continued beyond expectations. The growth indicators in Europe failed to match the analysts' expectations; however, the development rates of the Scandinavian and Baltic States were the highest in the Euro zone, considerably exceeding the European average.

The development of Estonian economy was largely based on the strong domestic demand last year. Positive developments continued in industry, retail and wholesale and construction industry. Employment continued to be relatively high, while inflation remained low, accompanied by cheap loans and low interests on deposits.

In the area of operation of Harju Elekter, Lithuania showed the most rapid economic growth last year. Lithuania is characterised by a strong growth in construction, industry and energy production.

At the end of the last year the Ministry of Finance of Finland increased its forecasts of economic growth for both 2003 and 2004, motivated by the forecast of private consumption and the impact of tax policy changes. The development of the sector is expected to have a positive influence also on the engineering and electronics industry. The trend towards additional efficiency forces Finnish companies to search for products with the best value for money, which created a favourable background for Harju Elekter. The presence of the group in Finland is a source of important value added — in this way, Harju Elekter has a direct access to the experience and information of the market that is significantly more developed as compared to Estonia.

**Important events**

The shares of Harju Elekter (HAE1T) are traded in the main list of the Tallinn Stock Exchange since 17 February 2003.

The AGM of the shareholders took place on April 11. The general meeting decided to pay dividends to the owners at the rate of 2.00 EEK (0.13 EUR) per share. Dividends paid to the shareholders on May 9, 2003.

In the third quarter, PKC Eesti (former Harju Elekter cable harnesses factory) received into their use a new 4 500 sq. m. production hall. PKC Eesti has been renting production premises from Harju Elekter since July 2002.

June saw the launch of an expansion project concerning the affiliated company, AS Keila Kaabel. According to the business plan, the intention is to double the own production of the company in the next two years, increase productivity, expand the product range and improve product quality. The auxiliary production building will be completed at the end of 2003.

In July, Harju Elekter sold 105 shares of AS Keila Kaabel. The extraordinary general meeting of shareholders decided to issue 200 new shares of AS Keila Kaabel by way of placement with Draka NK Cables for the purpose of financing investments and know-how. After the transaction, the share capital of Keila Kaabel is 26 MEEK (1.6 MEUR) which divides as follows between the parties concerned: Harju Elekter – 34% and Draka NK Cables – 66%.

In October Harju Elekter purchased 51% of the shares of the Lithuanian company UAB Rifas. The main business of the company is the manufacture and sale of electrical control and distribution units and the design and installation of industrial automation equipment. Besides the parent company, the Rifas Group comprises the 51% subsidiaries UAB Automatikos Iranga and UAB Birzu Montuotojas. The Group employs 61 persons. After having acquired the subsidiary, Harju Elekter has now good prospects to increase the market share in the Lithuanian energy distribution and building sector. The capacity of the Rifas plant will be doubled to promote sales in Lithuania. Close cooperation between the Estonian, Finnish, and Lithuanian subsidiaries of Harju Elekter Group will imply a wider product range.

### **Sales income**

The sales income of the consolidated group was 342.3 MEEK or 21.9 MEUR in 2003 (271.2 MEEK or 17.3 MEUR in 2002), the growth being 26.2%. Sales to the Estonian market increased by 20.1%, forming 52.8% of the consolidated turnover (2002: 55.5%). Sales to international markets amounted to 161.5 MEEK or 10.3 MEUR (2002: 120.8 MEEK or 7.7 MEUR), including 134.2 MEEK or 8.6 MEUR to the Finnish market (2002: 104.7 MEEK or 6.7 MEUR). Sales to the Lithuanian market increased by 10 MEEK (0.62 MEUR). In October, Harju Elekter purchased a Lithuanian subsidiary whose consolidated turnover is included in the sales income of the consolidated group.

### **Profit**

The operating profit of the consolidated group was 19.9 MEEK or 1.3 MEUR in 2003 (2002: 15.5 MEEK or 1.0 MEUR), including 5.7 MEEK or 368 TEUR in the Q4 (Q4 of 2002: 3.0 MEEK or 193 TEUR). The profit margin of the Group was 5.8% (2002: 5.7%), which in the Q4 was by 1.8 per cent points better than in the Q4 of the preceding year (Q4 of 2002: 5.4%; Q4 of 2002: 3.6%).

The operating profit of the parent company increased by 16.3% in 2003 in comparison with the same period of the previous year (2003: 18.1 MEEK or 1155 TEUR; 2002: 14.3 MEEK or 915 TEUR). In the Q4 of 2003, the operating profit to net sales ratio was 8.3% (2002: 5.6%).

Profit from financial activities was 155.8 MEEK or 10.0 MEUR (2002: 7.2 MEEK or 0.5 MEUR). Since 1 January 2003, the shares of PKC are valued at market price in the balance sheet. The price on the last trading day of the financial year ended on 31.12.2003 on the Helsinki Stock Exchange was 7.10 EUR, and as of 31.12.2003 —21.20 EUR. Thus, the market price increased three times. The revaluation of the shares in PKC Group Oyj at the end of the quarter as of 31.12.2003 resulted in an additional financial income of 56.5 MEEK (3.6 MEUR), totalling 137.9 MEEK (5.2 MEUR) in 12

months. To finance new investments, Harju Elekter sold altogether 40 thousand shares in PKC Group in September and October, receiving additional financial income of 3.0 MEEK (53 TEUR). PKC Group Oyj paid dividends for 2002 in the amount of 4.6 MEEK or 291 TEUR, which was over two times more than in the previous year (2002: 2.1 MEEK or 132 TEUR). A total financial income of

145.4 MEEK (5.5 MEUR) was earned from other financial investments during the 12 months. The one-off financial income from selling the shares in AS Keila Kaabel in July was 7.1 MEEK (0.45 MEUR).

All in all, the net profit of the consolidated group in 2003 was 175.3 MEEK or 11.2 MEUR (2002: 53.2 MEEK or 3.4 MEUR). The return on net profit was 51.2% (2002: 19.6%). The net profit per share was 32.47 EEK or 2.07 EUR (2002: 9.86 EEK or 0.63 EUR).

**Cash flows, investments and capital use**

Cash flow from operating activities was 35.2 MEEK or 2.2 MEUR (2002: 6.1 MEEK or 0.4 MEUR), cash outflow from investing activities was 23.7 MEEK or 1.5 MEUR (2002: cash inflow 11.3 MEEK or 0.7 MEUR), and cash outflow from financing activities was 21.0 MEEK or 1.3 MEUR (2002: 16.8 MEEK or 1.1 MEUR). The balance of cash and cash equivalents increased by 14.9 MEEK or 952 TEUR (2002: 627 TEEK or 40 TEUR) over the 12 months.

During the accounting period, the Group's investments in tangible and intangible assets totalled 51.9 MEEK or 3.3 MEUR (2002: 14.0 MEEK or 0.9 MEUR), including construction and reconstruction works of buildings and structures in the amount of 41.9 MEEK or 2.7 MEUR (2002: 5.1 MEEK or 0.3 MEUR). Land acquired for the Group totalled 2.3 MEEK or 147 TEUR, machinery and equipment: 6.0 MEEK or 0.4 MEUR (2002: 4.5 MEEK or 285 TEUR).

In the first quarter, Harju Elekter purchased 9000 shares in PKC Group Oyj, paying 1061 TEEK (68 TEUR) for the investment. On 1 October 2003, Harju Elekter purchased a 51% shareholding in UAB Rifas, a Lithuanian company, paid a total of 10.6 MEEK or 0.68 MEUR for the shares and for increasing the share capital. Harju Elekter paid 3.4 MEEK (220 TEUR) on the transaction to the former owners. As of the acquisition date 1 October 2003, the amount of money on the bank account of Rifas Group totalled 1.3 MEEK (81 TEUR). The acquisition of the subsidiary resulted in a cash outflow from the Group in the amount of 2.1 MEEK (130 TEUR).

In the second half-year, the sale of 105 shares in Keila Kaabel yielded 8.7 MEEK or 559 TEUR, and the sale of 40,000 shares in PKC Group yielded 11.6 MEEK or 740 TEUR. PKC Group OY paid dividends for 2002 in the amount of 4.6 MEEK or 291 TEUR (2002: 2.1 MEEK or 132 TEUR) and the related company Keila Kaabel paid dividends of 3.0 MEEK or 195 TEUR (2002: 1.7 MEEK or 111 TEUR).

To finance the annexes to PKC Eesti and Keila Kaabel, Harju Elekter raised a long-term bank loan in a total amount of 21.6 MEEK or 1.38 MEUR. Production equipment was acquired for the Group by means of financial lease for a total of 2.1 MEEK or 134 TEUR. The long-term loan and principal instalments of financial lease repaid during the accounting period totalled 8.5 MEEK or 544 TEUR (2002: 8.6 MEEK or 550 TEUR). The dividends paid to the shareholders for 2002 totalled 10.8 MEEK or 690 TEUR (2002: 7.6 MEEK or 483 TEUR), which did not impose any income tax liability on AS Harju Elekter.

**Balance sheet**

In accordance with the new Accounting Act of the Republic of Estonia applicable since 1 January 2003 and the guidelines of the Accounting Standards Board, the consolidated group changed the accounting method used for financial instruments. Since 2003, financial instruments are reflected in the balance

sheet on a fair value method. The financial investments (the shares of PKC Group Oyj) in the balance sheet as of 31 December 2002 were revaluated at market value on the basis of the average share price of the last trading day of 2002. The difference between the fair value and balance-sheet value arising from revaluation was 53.9 MEEK (3.5 MEUR); this was the amount by which the initial balance of retained earnings in the equity capital and the initial balance of other long-term shares in long-term financial investments were increased. As a result, the share of equity capital in the balance sheet increased from 76.2% as of 31 December 2002 to 80.8% and fixed assets increased from 62.8% to 70.0% in the adjusted initial balance sheet of 2003.

During the year, the value of assets in the consolidated balance sheet increased by 205 MEEK or 13 MEUR (2002: 48 MEEK or 3.08 MEUR), reaching 483 MEEK or 30.9 MEUR as of 31 December 2003 (31 December 2002: 225 MEEK or 14 MEUR). Within 12 months, the market value of the shares of PKC Group OY has increased three times, from 7.10 EUR in the initial balance sheet to 21.20 EUR as of the balance sheet date (31 December 2003). The revaluation of securities resulted in a growth in the value of assets by 138 MEEK or 5.2 MEUR in the balance sheet.

**Employees**

The average number of employees in the Group in 2003 was 302 (2002: 351), including 175 (2002: 273) in the parent company. As of the balance sheet date 31 December 2003, the number of employees in the Group was 353, including 181 in the parent company. The number of employees in Estonia, Finland, and Lithuania was 240, 51 and 62, respectively. A significant change in the number of employees was caused by the purchase of the Lithuanian subsidiary Rifas (+62 people).

**Shares of Harju Elekter**

	EEK		EUR	
	2003	2002	2003	2002
Number of shares (1000 pc)	5 400	5 400	5 400	5 400
Nominal value	10	10	0,64	0,64
Low price	43,03	28,78	2,75	1,84
High price	109,53	45,69	7,00	2,92
Average price	78,54	34,79	5,02	2,22
Market price at the end of period	104,83	45,69	6,70	2,92
Earnings per share EEK	32,47	9,86	2,07	0,63

**Key indicators**

	1 000 EEK		1 000 EUR	
<b>For the accounting period</b>	<b>2003</b>	<b>*2002</b>	<b>2003</b>	<b>*2002</b>
Net sales	342 348	271 212	21 880	17 334
Operating profit	19 855	15 494	1 269	990
Profit before financial expenses (EBIT)	177 103	54 650	11 319	3 493
Net profit for the current year	175 317	53 254	11 205	3 404
<b>At the end of the period</b>				
Total current assets	109 780	83 270	7 016	5 322
Total fixed assets	372 922	194 504	23 834	12 431
TOTAL assets	482 702	277 774	30 850	17 753
Total liabilities	80 189	53 223	5 125	3 401
Total owners' equity	389 069	224 551	24 866	14 352

<b>Performance indicators (%)</b>	<b>2003</b>	<b>*2002</b>
Net sales growth	26,21	38,7
Operating profit growth	28,11	33,5
Net profit growth	229,21	156,7
Return of sales (operating profit/net sales *100)	5,8	5,7
Net profit margin (net profit/net sales *100)	51,2	19,6
Owners' equity margin (equity/ balance sheet total*100)	80,6	80,8
Current ratio	1,8	1,6
Quick ratio	1,0	1,0
Number of employees on 31.12.2003	353	282

\* The closing balance sheet of 2002 has been adjusted.



## INTERIM FINANCIAL STATEMENTS

**KONSOLIDEERITUD BILANSS**

	Note	1 000 EEK		1 000 EUR	
<b>ASSETS</b>	<b>no</b>	<b>31.12.03</b>	<b>31.12.02</b>	<b>31.12.03</b>	<b>31.12.02</b>
<b>Current assets</b>			<i>adjusted</i>		<i>adjusted</i>
<b>Cash and bank</b>		<b>26 449</b>	<b>11 620</b>	<b>1 690</b>	<b>743</b>
<b>Short-term receivables</b>					
Trade receivables		31 784	28 705	2 031	1 834
Other short-term receivables	10	6 106	2 035	390	130
Accrued expenses		67	14	4	1
Prepaid expenses		1 251	753	80	48
<b>Total short-term receivables</b>		<b>39 208</b>	<b>31 507</b>	<b>2 506</b>	<b>2 013</b>
<b>Inventories</b>		44 123	<b>40 143</b>	2 820	<b>2 566</b>
<b>Current assets</b>		<b>109 780</b>	<b>83 270</b>	<b>7 016</b>	<b>5 322</b>
<b>Fixed assets</b>					
Long-term investments	1,7	227 623	97 768	14 548	6 249
Investments for the real estate		86 896		5 554	
Tangible assets	2	56 987	95 514	3 642	6 104
Intangible assets	2	1 416	1 222	90	78
<b>Total fixed assets</b>		<b>372 922</b>	<b>194 504</b>	<b>23 834</b>	<b>12 431</b>
<b>Total assets</b>		<b>482 702</b>	<b>277 774</b>	<b>30 850</b>	<b>17 753</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Debt obligations	3	14 366	12 360	918	790
Prepayments received from customers		1 065	193	68	12
Accounts payable to suppliers		26 756	22 438	1 710	1 434
Other payables	10	1 218	1 251	78	80
Tax payable		6 451	5 405	412	345
Accrued expenses		9 534	5 869	609	375
Other prepaid revenue		0	0	0	0
<b>Total current liabilities</b>		<b>59 390</b>	<b>47 516</b>	<b>3 796</b>	<b>3 036</b>
<b>Long-term liabilities</b>	3	<b>20 800</b>	<b>5 707</b>	<b>1 329</b>	<b>365</b>
<b>Total liabilities</b>		<b>80 189</b>	<b>53 223</b>	<b>5 125</b>	<b>3 401</b>
<b>Minority interests</b>		<b>13 444</b>	<b>0</b>	<b>859</b>	<b>0</b>
<b>Owners' equity</b>					
Share capital (nominal value)		54 000	54 000	3 451	3 451
Statutory reserves		8 600	8 600	550	550
Retained profit	1	151 151	108 697	9 660	6 947
Net profit(loss) for the current period		175 317	53 254	11 205	3 404
<b>Total owners' equity</b>	4	<b>389 069</b>	<b>224 551</b>	<b>24 866</b>	<b>14 352</b>
<b>Tot. liabilities and owner' equity</b>		<b>482 702</b>	<b>277 774</b>	<b>30 850</b>	<b>17 753</b>

**INCOME STATEMENT**

1 000 EEK	Note no	Q4 03	Q4 02	2003	2002
Net sales	5,6	106 966	84 576	342 348	271 212
Cost of goods sold		-87 463	-70 044	-278 881	-222 367
<b>Gross profit</b>		<b>19 504</b>	<b>14 532</b>	<b>63 468</b>	<b>48 845</b>
Marketing expenses		-5 757	-3 900	-17 722	-12 322
Administrative and general expenses		-7 973	-7 456	-25 595	-20 741
Other operating revenue		227	91	396	381
Other operating charges		-247	-243	-692	-668
<b>Operating profit</b>	5,6	<b>5 754</b>	<b>3 024</b>	<b>19 855</b>	<b>15 494</b>
<b>Financial incomes and expenses, incl.</b>					6 067
-from shares of associated companies	10	852	62	11 691	2 247
-from other investments	1,7	58 702	-7	145 433	0
- interest expense		-546	-451	-1 464	-1 353
- profit/loss from foreign exchange		-24	-17	-62	-46
- other financial expenses/incomes		46	54	186	247
<b>Total financial incomes and expenses</b>		<b>59 030</b>	<b>-359</b>	<b>155 784</b>	<b>7 162</b>
Extraordinary income					30 641
<b>Profit from ordinary activities</b>		<b>64 784</b>	<b>2 664</b>	<b>175 639</b>	<b>53 298</b>
Allocation of corporate income tax to relevant periods (in Finland)		-283	-44	-283	-44
Minority interests		-38	0	-38	0
<b>Net profit for the current period</b>		<b>64 462</b>	<b>2 620</b>	<b>175 317</b>	<b>53 254</b>
Basic earnings per share	8	11,94	0,49	32,47	9,86
Diluted earnings per share	8	11,70	0,49	31,89	9,86

**INCOME STATEMENT**

1 000 EUR	Note No	Q4 03	Q4 02	2003	2002
Net sales	5,6	6 836	5 405	21 880	17 334
Cost of goods sold		-5 590	-4 477	-17 824	-14 212
<b>Gross profit</b>		<b>1 247</b>	<b>929</b>	<b>4 056</b>	<b>3 122</b>
Marketing expenses		-368	-249	-1 133	-788
Administrative and general expenses		-510	-477	-1 636	-1 326
Other operating revenue		15	6	25	24
Other operating charges		-16	-16	-44	-43
<b>Operating profit</b>	5,6	<b>368</b>	<b>193</b>	<b>1 269</b>	<b>990</b>
<b>Financial incomes and expenses, incl.</b>					388
-from shares of associated companies	10	54	4	747	144
-from other investments	1,7	3 752	0	9 295	0
- interest expense		-35	-29	-94	-86
- profit/loss from foreign exchange		-2	-1	-4	-3
- other financial expenses/incomes		3	3	12	16
<b>Total financial incomes and expenses</b>		<b>3 774</b>	<b>-23</b>	<b>9 956</b>	<b>459</b>
Extraordinary income					1 958
<b>Profit from ordinary activities</b>		<b>2 895</b>	<b>605</b>	<b>11 225</b>	<b>3 407</b>
Allocation of corporate income tax to relevant periods (in Finland)		-18	-3	-18	-3
Minority interests		-2	0	-2	0
<b>Net profit for the current period</b>		<b>4 120</b>	<b>170</b>	<b>11 205</b>	<b>3 404</b>
Basic earnings per share	8	0,76	0,03	2,07	0,63
Diluted earnings per share	8	0,75	0,03	2,04	0,63

**CASH FLOW STATEMENT**

	Note no	1 000 EEK		1 000 EUR	
		2003	2002	2003	2002
<b>Business activities</b>					
Operating profit		19 855	15 494	1 269	990
<u>Adjustments</u>					
Depreciation and value decrease	2	9 832	8 126	628	519
Profit/loss from sales of tangible assets		-138	-130	-9	-8
Change in payables and prepayments related to business operations		1 807	-11 580	115	-740
Changes of inventories		1 558	-14 856	100	-949
Change in liabilities and prepayments related to business operations		3 705	10 428	237	666
Interests paid		-44	0	-3	0
Taxes paid		-1 380	-1 333	-88	-85
<b>Total cash flow from business activities</b>	9	<b>35 196</b>	<b>6 149</b>	<b>2 249</b>	<b>393</b>
<b>Investing activities</b>					
Investments in fixed assets		-49 092	-12 895	-3 138	-824
Capital gains from fixed assets		164	5 488	11	351
Payments for financial investments		-3 291	-6 000	-210	-383
Capital gains from sale of fin. investments	7,10,12	20 355	20 478	1 301	1 309
Long-term loans granted		-26	-196	-2	-13
Repayment of loan receivables		458	340	29	22
Interests received	9	178	306	11	20
Dividends received	7,9	7 603	3 803	486	243
<b>Total cash flow from investing activities</b>	9	<b>-23 651</b>	<b>11 325</b>	<b>-1 512</b>	<b>724</b>
<b>Cash flow from financing activities</b>					
Loans received	3	24 309	0	1 554	0
Loans repaid	3	-8 770	-8 450	-560	-540
Repayment of princ.amounts of cap.lease	3	-1 394	-836	-89	-53
Cash dividends paid	4	-10 800	-10 800	-7 560	-690
<b>Cash flow from financing activities</b>	3	<b>-20 964</b>	<b>-16 846</b>	<b>-1 340</b>	<b>-1 077</b>
<b>Total cash flow</b>		<b>14 891</b>	<b>627</b>	<b>952</b>	<b>40</b>
<b>Cash at the beginning of the period</b>		<b>11 620</b>	<b>11 039</b>	<b>743</b>	<b>706</b>
Net increase in cash		14 891	627	952	40
Effect of foreign exchange rate change		-62	-46	-4	-3
<b>Cash at the end of the period</b>		<b>26 449</b>	<b>11 620</b>	<b>1 690</b>	<b>743</b>

**STATEMENT OF CHANGES IN OWNERS' EQUITY**

	Note no	1 000 EEK 2003	2002	1 000 EUR 2003	2002
<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>Reserve requirement</b>					
Initial balance		8 600	6 510	550	416
Provisions for reserve capital		0	2 090	0	134
<b>Final balance</b>		<b>8 600</b>	<b>8 600</b>	<b>550</b>	<b>550</b>
<b>Profit for current period</b>					
Initial balance	1	108 697	44 161	6 947	2 822
Gains from initial revaluation of financial assets to the fair value		0	53 765	0	3 436
Distribution of net profit		53 254	20 742	3 404	1 326
Provision for reserves		0	-2 090	0	-134
Dividends paid		-10 800	-7 560	-691	-483
Income tax on dividends (related company)		0	-320	0	-20
<b>Final balance</b>		<b>151 149</b>	<b>108 698</b>	<b>9 660</b>	<b>6 947</b>
<b>Profit for current year</b>					
Initial balance		53 254	20 742	3 404	1 326
Distribution of net profit		-53 254	-20 742	-3 404	-1 326
Profit for the current year		175 317	53 254	11 205	3 404
<b>Final balance</b>		<b>175 317</b>	<b>53 254</b>	<b>11 205</b>	<b>3 404</b>
<b>Total owners' equity</b>	4	<b>389 067</b>	<b>224 551</b>	<b>24 866</b>	<b>14 351</b>

More detailed information about the owners' equity and its changes is presented in Notes 1 and 4.

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

The Interim reports of 1-12/2003 have been prepared in accordance with the internationally recognised Good Accounting Practice and the Accounting Act of the Republic of Estonia which was in force until 01.01.2003. Accounting methods applied during the accounting period comply with the accounting methods of last financial year, excl. financial investments.

As from 1 January 2003, the new Accounting Act of the Republic of Estonia entered into force, accompanied by new standards of the Accounting Standards Board (RTJ) including RTJ 3 „Financial instruments“. In accordance with section 15 of the mentioned standard, financial instruments shall be recorded in the balance sheet using the method of fair value. Pursuant to section 67 of RTJ 3, upon the initial implementation of the standard, the balance sheet values of all financial instruments to be reflected by fair value on the basis of this standard shall be revaluated as of the date of the implementation of the standard. The difference arising from the revaluation due to the initial implementation between the fair value and the balance sheet value shall be reflected as an adjustment of the opening balance of retained earnings. Additional information on changes of accounting methods is contained in Annex 1.

According to the assessment of the management board, the interim report of the 1-12/2003 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the group.

The interim report is prepared in thousand Estonian kroons and thousand euros. The EEK/EUR exchange rate is 15.64664 according to the quotation of Eesti Pank.

### Note 1 Changing of the accounting methods and adjustments to opening balance sheet

The new Accounting Act of the Republic of Estonia and new accounting standards issued by the Estonian Accounting Board entered into force on 1 January 2003. As a result of implementation of Standard 3 “Financial Instruments”, the Group reflects marketable investments as assets in their fair value. The change in the accounting principles was recorded as an adjustment of opening balance of the shareholders’ equity (retained earnings) as of 1 January 2003; comparable information was not adjusted.

As of 31 December 2002, the PKC Group Oyj shares were financial instruments not reflecting the fair value in the balance sheet. The share is listed on the Helsinki Stock Exchange. The market value of the share has been taken as the fair value of the financial investment. The shares have been revaluated in the balance sheet on the basis of the rate of the last trading day of the financial year ended on 31.12.02, which was 7.10 EUR (111.09 EEK). The difference between the fair value and the balance sheet value arising from the revaluation was 53 934 thousand EEK (3 511 TEUR)

Adjustm. to opening balance sheet	1 000 EEK		1 000 EUR	
	Long-term fin.investments	Owner's equity	Long-term fin.investments	Owner's equity
Opening balance 31.12.2002	44 003	170 786	2 813	10 915
Adjustments to opening balance	53 765	53 765	3 436	3 436
Adj.opening balance 01.01.2003	97 768	224 551	6 249	14 351

**Note 2 Tangible and intangible assets**

	1 000 EEK			1 000 EUR				
	Tangible assets	Investment in real property	Intangible assets	TOTAL	Tangible assets	Investment in real property	Intangible assets	TOTAL
<b>Initial balance 31.12.02</b>	<b>95 514</b>	<b>0 1 222</b>	<b>96 736</b>	<b>6 104</b>	<b>0</b>	<b>78</b>	<b>6 182</b>	
Reclassification as investment in real property	-47 081	47 081	0	0	-3 009	3 009	0	0
Fixed assets acquired through purchase of a subsidiary	7 919	0	62	<b>7 981</b>	506	0	4	<b>510</b>
Acquired	7 544	28 446	758	<b>36 749</b>	482	1 818	48	<b>2 349</b>
Reconstructed	290	13 413	0	<b>13 703</b>	19	857	0	<b>876</b>
Sold and written-off fixed assets at acquisition value	-896	0	0	<b>-896</b>	-57	0	0	<b>-57</b>
Depreciation	-7 165	-2 043	-627	<b>-9 835</b>	-458	-131	-40	<b>-629</b>
Depreciation of sold and written-off fixed	872	0	0	<b>872</b>	56	0	0	<b>56</b>
<b>Final balance</b>	<b>56 987</b>	<b>86 896</b>	<b>1 416</b>	<b>145 299</b>	<b>3 642</b>	<b>5 554</b>	<b>90</b>	<b>9 286</b>

**Note 3 Debt liabilities**

	1 000 EEK		1 000 EUR	
	31.12.03	31.12.02	31.12.03	31.12.02
Short-term loans	6 913	5 508	441,8	352
Repayment of long-term leasing oblig. during the next period	5 806	6 107	371,1	390
Current portion of long-term leasing obligations	1 450	745	92,7	48
Repayments of non-convertible debts	197	0	12,6	0
<b>Total debt obligations</b>	<b>14 366</b>	<b>12 360</b>	<b>918,2</b>	<b>790</b>
Non-convertible debt	0	195	0	12
Long-term bank loans	18 374	3 542	1 174	226
Long-term lease liabilities	2 426	1 971	155	126
<b>Total long-term liabilities</b>	<b>20 800</b>	<b>5 707</b>	<b>1 329</b>	<b>365</b>
<b>Total debt liabilities</b>	<b>35 166</b>	<b>18 067</b>	<b>2 248</b>	<b>1 155</b>

Changes in debt obligations:

	1 000 EEK	1 000 EUR
<b>Initial balance 31.12.02</b>	<b>18 067</b>	<b>1 155</b>
Changes in short-term loans	1 406	90
New long-term loan	21 650	1 384
Loans repaid	-7 119	-455
Leasing obligations related to acquisition of shareholding	452	29
New leasing obligations	2 103	134
New long-term lease liabilities	-1 394	-89
<b>Final balance 31.12.03</b>	<b>35 166</b>	<b>2 248</b>

On 29 April 2003, AS Harju Elekter and Sampo Pank Finland entered into a loan agreement in the amount of 1 MEUR (15,6 MEEK) for a term of eight years. The repayment starts this year. The consolidating company pledged 250 thousand shares of PKC Group Oyj as a security to the bank. The balance sheet value of the pledge was 60 MEEK (3,81 MEUR) as at 30 Sept. 2003. The loan money is used for the construction of a new production hall in the framework of expansion of PKC Eesti.

For financing the construction of the auxiliary building of Keila Kaabel, Harju Elekter borrowed 383 500 TEUR (6 MEEK) as a long-term loan from Nordea Pank (Estonia) in July with a repayment period of 17 consecutive quarterly repayments starting from July 2004. As a collateral for the loan, a mortgage was established on the registered immovables located in Haapsalu for the benefit of the bank.

The annual interest rate of these loans is based on six-months' EURIBOR, plus a margin of up to 1,5%.

#### 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). According to the articles of association, the maximum allowed number of shares is 20 million.

As from 1 January 2003, long-term financial investments are recorded in the balance sheet according to the method of fair value (RTJ 3, section 15). The shares of PKC Group Oyj have been revaluated in the balance sheet on the basis of the rate of the last trading day of the ended financial year, which was 7,10 EUR. The difference between the fair value and balance sheet value arising from the initial implementation is reflected in the adjustment of the opening balance of retained earnings (RTJ 3, section 67). The amount of the difference is 53 934 thousand EEK (3 511 TEUR). The additional information on adjustment of the opening balance is provided in Annex 1.

For the year 2002 the owners were paid dividends of 2,00 EEK (0,13 EUR) per share, totaling 10 800 TEEK (690 TEUR). The shareholders listed in the share register of AS Harju Elekter at 8 a.m. on the record date April 28, 2003 shall be entitled to dividends. Dividends distributed on May 9, 2003.



**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 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.

	1 000 EEK				1 000 EUR			
	Electrical	Telecom municat.	Elimina- tion	TOTAL	Electrical	Telecom municat.	Elimina- tion	TOTAL
<b>2003</b>								
Sales revenue	299 413	42 935		342 348	19 136	2 744	0	21 880
Transact.with other segments	7 108	1 273	-8 381	0	454	81	-536	0
<b>Total</b>	<b>306 521</b>	<b>44 208</b>	<b>-8 381</b>	<b>342 348</b>	<b>19 590</b>	<b>2 825</b>	<b>-536</b>	<b>21 880</b>
<b>Operating profit</b>	<b>18 058</b>	<b>1 858</b>	<b>-62</b>	<b>19 855</b>	<b>1 154</b>	<b>119</b>	<b>-4</b>	<b>1 269</b>

	1 000 EEK				1 000 EUR			
	Electrical	Telecom municat.	Elimina- tion	TOTAL	Electrical	Telecom municat.	Elimina- tion	TOTAL
<b>2002</b>								
Sales revenue	236 480	34 732	0	271 212	15 114	2 220	0	17 334
Transact.with other segments	10 309	1 338	-11 647	0	659	86	-744	0
<b>Total</b>	<b>246 788</b>	<b>36 070</b>	<b>-11 647</b>	<b>271 212</b>	<b>15 773</b>	<b>2 305</b>	<b>-744</b>	<b>17 334</b>
<b>Operating profit</b>	<b>14 349</b>	<b>1 553</b>	<b>-408</b>	<b>15 494</b>	<b>917</b>	<b>99</b>	<b>-26</b>	<b>990</b>

**Geographical segments**

The operations of the concern fall into three geographical areas by business locations:

*Estonia* – country of establishment for the parent company and its subsidiary Eltek;

*Finland* – original country for the subsidiary Satmatic

*Lithuania* – original country for the subsidiary Rifas

	1 000 EEK				1 000 EUR			
	Estonia	Finland	Lithuania	Total	Estonia	Finland	Lithuania	Total
Revenue from non-concern buyers								
2003	242 559	89 159	10 630	<b>342 348</b>	15 502	5 698	680	<b>21 880</b>
2002	237 327	33 885	0	<b>271 212</b>	15 167	2 166	0	<b>17 334</b>

**Note 6. Net sales****By markets**

	Growth	1 000 EEK		1 000 EUR		Structure	
		2003	2002	2003	2002	2003	2002
Estonia	20,1%	180 832	150 530	11 557	9 621	52,8%	55,5%
Finland	28,2%	134 169	104 686	8 575	6 691	39,2%	38,6%
Lithuania	348,2%	12 533	2796	801	179	3,7%	1,0%
Other EU	29,8%	3 675	2 832	235	181	1,1%	1,0%
Other Europe	23,1%	2 899	2355	185	151	0,8%	0,9%
Russia and CEEC	-33,7%	4 500	6 791	288	434	1,3%	2,5%
USA	205,8%	3 740	1 223	239	78	1,1%	0,5%
<b>Total</b>	<b>26,2%</b>	<b>342 348</b>	<b>271 211</b>	<b>21 880</b>	<b>17 334</b>	<b>100,0%</b>	<b>100,0%</b>

**Net sales by business activities and product groups**

	Growth	1 000 EEK		1 000 EUR	
		2003	2002	2003	2002
<b>Core business and products</b>					
- electrical equipment	59,5%	214 488	134 465	13 708	8 594
-wiring systems for automobile and telecom industries (subcontr.)	-100,0%	0	38 926	0	2 488
- products for telecom sector	43,1%	19 785	13 830	1 264	884
- sheet metal products and work	9,0%	28 470	26 112	1 820	1 669
- design		1 360	0	87	0
- construction services		2 657	0	170	0
<b>TOTAL CORE BUSINESS</b>	<b>25,0%</b>	<b>266 760</b>	<b>213 333</b>	<b>17 049</b>	<b>13 634</b>
<b>Other activities</b>				0	
- trade and intermediation	15,4%	49 164	42 613	3 142	2 723
- leasing of capital assets	55,9%	14 146	9 075	904	580
- other services	98,3%	12 277	6 190	785	396
<b>TOTAL OTHER ACTIVITIES</b>	<b>30,6%</b>	<b>75 588</b>	<b>57 878</b>	<b>4 831</b>	<b>3 699</b>
<b>TOTAL</b>	<b>26,2%</b>	<b>342 348</b>	<b>271 211</b>	<b>21 880</b>	<b>17 334</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.

The sales revenue has been influenced by the changes in the group in 2003 and 2002. On 1 October 2003 Harju Elekter acquired a 51% shareholding in the Lithuanian company Rifas UAB. Thus the sales revenue includes the consolidated sales revenue of the Rifas Group of quarter IV. In July 2002 the cable harnesses factory was sold and in September 2002 the 100% shareholding was acquired in the Finnish subsidiary Satmatic. Additional information has been provided in annex 5. The increase in the rental income has been achieved on account of the expanding lease premises.

### 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	
	2003	2002	2003	2002
- write-down of outstanding accounts receivable from customers	-41	-86	-3	-5
- receipt of accounts formerly charged to expenses	0	12	0	1
- revaluation of inventory	-845	-1 160	-54	-74
- profit from sales tangible assets	138	139	9	9
- revaluation of fixed assets	0	-9	0	-1

### Note 8. Financial incomes and expenses from other financial investments

	1 000 EEK		1 000 EUR	
	2003	2002	2003	2002
- dividends paid by PKC Group Oyj	4 551	2 064	291	132
- profit from the sales of PKC shares	2 994	0	54	0
- change of the value of PKC shares	137 878	0	5 198	0

On the second half Harju Elekter sold 40 000 shares of PKC Group Oyj. The amount of the transaction was 11,6 MEEK (0,74 MEUR) and the profit from the sale of shares was 3,0 MEEK (191 TEUR).

As of the end of the quarter on 31 December 2003, the financial investment was revalued at the average quotation of the last trading day that is 21,20 EUR (331,70 EEK). The revaluation generated financial income in the amount of 56,5 MEEK (3,6 MEUR) in the Q4 and the total for the year was 137,9 MEEK (2,4 MEUR).

Additional information on valuation of the shares of PKC Group Oyj using the method of fair value is presented in Annex 1.

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

*Ordinary net profit per share* is calculated by dividing the net profit earned during the reporting period by the average weighted number of issued shares.

*Diluted net profit per share* is calculated by dividing the net profit by the average number of shares of the period, considering also the number of potential options. Share options entitle their holders to acquire the company's shares at a price that is lower than the market price. The difference between the number of the shares covered by options and the number of shares issued at the market price could be regarded as shares distributed free of charge by which the average number of shares for the period has been increased.

	unit	EEK		EUR	
		2003	2002	2003	2002
Net profit of the current period	1000	175 317	53 254	11 205	3 404
Average no of the company shares	1000 tk	5 400	5 400	5 400	5 400
<i>Basic and diluted EPS</i>		32,53	9,86	2,07	0,63
Terms of option:					
- number of issued shares	1000 tk	200	200	200	200
- fixed purchase price		40	40	2,56	2,56
- amount to be raised from the issue	1000	8 000	8 000	511	511
Diluted net profit per share:					
- average market price for the period		78,54	33,64	5,02	2,22
- number of shares issued at market price	1000 tk	102	200	102	200
- no of shares to be distrib. free of charge	1000 tk	98	0	98	0
- average adjusted number of shares	1000	5 498	5 400	5 498	5 400
- <i>diluted net profit per share</i>		31,89	9,86	2,04	0,63

**Note 10 Cash flow statements**

For recording its cash flow from operations, the Group uses the indirect method and for recording cash flow from investment and financial activities the Group uses the direct method. Until now the Group used to show cash flow from operations separately in the net profit for the period, of which around a half was made up by profits and losses from financial activities. For finding net operating cash flow it was necessary to adjust the net profit for the period to the profits and losses of investment activities and to non-cash transactions. With the purpose of clarifying the way information is presented in the cash flow statement, it was decided to change the reporting model of cash flows as from 1 January 2003. According to the new model, operating cash flow will be separated from the operating profit; interest and dividends received will be reflected as cash flow from investments. Figures for nine months 2002 are adjusted in the cash flow statement and the information provided in the report is comparable.

**Note 11 Acquisition of subsidiary**

On 1 October 2003 AS Harju Elekter acquired 51% in the Lithuanian company UAB Rifas, paying for the shares and for increase in the share capital of UAB Rifas a total of 10,6 MEEK (0,68 MEUR).

Harju Elekter acquired 1250 shares from the current owners. The purchase and sales transaction of shares was performed between independent parties. As of the acquisition date 1.10.2003 the bank accounts of the Rifas Group totalled EEK 1,264,000 (EUR 81,000), EEK 3.3m (EUR 210,000). According to the agreement concluded in September 2003 a share issue directed to Harju Elekter was arranged. After the share issue the share capital of UAB Rifas amounts to LTL 765,000 (mEEK 3.5 or EUR 222,000), which is divided into 7650 ordinary shares. The private persons of Harju Elekter hold 3900 shares (51%) and the Lithuanian private persons hold 3750 shares (49%). The nominal value of a share is LTL 100 (EEK 453.16 or EUR 28.96). The acquisition resulted in a negative goodwill formed as follows:

Acquisition cost of the shareholding acquired (thousand EEK)	10 636
<u>Fair value of the acquired shareholding</u>	<u>11 019</u>
The negative goodwill resulting from acquisition	- 383

UAB Rifas was founded in 1991. The main business of the company is the manufacture and sale of electrical control and distribution units and the design and installation of industrial automation equipment. Besides the parent company, the Rifas Group comprise 51% subsidiaries UAB Automatikos Iranga and UAB Birzu Montuotojas. The main business of Automatikos Iranga is the design of industrial and process automation equipment and Birzu Montuotojas has focused on installation of electrical equipment. The main business of the parent company, Rifas, is manufacturing of electrical control and distribution units.

#### **Note 12 Reduction of holding in affiliated company**

In July Harju Elekter sold 105 shares of AS Keila Kaabel and 200 new shares of AS Keila Kaabel were issued to Draka NK Cables. After the issue and sale of shares the share capital of Keila Kaabel is 26 MEEK (1,6 MEUR) that is divided by the parties as follows: 34% is held by Harju Elekter and 66% by Draka NK Cables. From the sale of shares, AS Harju Elekter received 8,75 MEEK (0,56 MEUR). One-off financial income from the share transaction amounted to 6,31 MEEK (0,40 MEUR) and is consolidated in the profit and loss statement under the item *Financial income and expenses from shares of affiliated companies*.

#### **Note 13 Transactions with related parties**

Related parties to AS Harju Elekter are the 100%-owned subsidiaries AS Eltek and Satmatic Oy, 51%-subsidiary Rifas UAB and 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 the consolidated interim report, all intra-group receivables and payables, transactions between the Group companies and unrealised profit and loss incurred as a result have been eliminated.

AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

	1 000 EEK				1 000 EUR			
	2003		2002		2003		2002	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Eltek	1 273	4 552	1 258	3 466	81	291	80	222
Satmatic Oy	1 024	1 221	22	339	65	78	1	22
RifasUAB (2003) / AJT Harju Elekter (2002)	0	310	4 319	2 162	0	20	276	138
Keila Kaabel	6 667	6 843	5 518	5 652	426	437	353	361
Saajos Balti	1 742	4 936	1 816	3 110	111	315	116	199
Harju KEK	1 072	78	71	32	69	5	5	2
<b>TOTAL</b>	<b>11 778</b>	<b>17 942</b>	<b>13 004</b>	<b>14 761</b>	<b>753</b>	<b>1 147</b>	<b>831</b>	<b>943</b>

Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	6 071	0	388	0
Material, components for production needs	4 077	3 193	261	204
Industrial subcontracting (outsourcing)	98	2 647	6	169
Lease of fixed assets	0	5 710	0	365
Management services	0	3 653	0	233
Other services (building and communication, repairs and maintenance of real estate)	1 532	2 738	98	175
<b>TOTAL</b>	<b>11 778</b>	<b>17 942</b>	<b>753</b>	<b>1 147</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.

During the year 2003 the subsidiary Satmatic Oy paid back to the parent company 4 968 TEEK or 317 TEUR of the long-term credit and AS Eltek 900 TEEK or 57,5 TEUR of short-term credit. Harju Elekter earned in the period 37 TEEK (2,3 TEUR) of interest income from the short-term credit and 410 TEEK or 26,2 TEUR from the long-term credit.

**Balance with related parties:**

	1 000 EEK		1 000 EUR	
	31.12.03	31.12.02	31.12.03	31.12.02
<b>Claims:</b>				
<b>Total loans to subsidiaries</b>	<b>7 254</b>	<b>12 828</b>	<b>457</b>	<b>820</b>
<b>ELTEK</b>	<b>1 684</b>	<b>2 302</b>	<b>108</b>	<b>147</b>
Incl. outstanding accounts	1 684	1 402	108	90
short-term loan	0	900	0	58
<b>Satmatic</b>	<b>5 469</b>	<b>10 526</b>	<b>350</b>	<b>673</b>
Incl. outstanding accounts	257	339	16	22
long-term loan	5 203	10170	333	650
interest of the long-term loan	9	17	1	1
<b>Rifas</b>	<b>101</b>	<b>0</b>	<b>6</b>	<b>0</b>
Incl. outstanding accounts	101	0	6	0
<b>Total loans to associated companies</b>	<b>6 028</b>	<b>1 858</b>	<b>385</b>	<b>119</b>
Incl. AS Keila Kaabel outstanding accounts	2 007	1000	128	64
AS Saajos Balti outstanding accounts	4 021	858	257	55
<b>Obligations:</b>				
<b>Total loans to subsidiaries</b>	<b>237</b>	<b>153</b>	<b>15</b>	<b>10</b>
Incl. outstanding accounts to Eltek	231	153	15	10
Incl. outstanding accounts to Satmatic	6	0	0	0
<b>Total loans to associated companies</b>	<b>848</b>	<b>554</b>	<b>54</b>	<b>35</b>
Incl. AS Keila Kaabel	401	318	26	20
AS Saajos Balti	447	236	29	15