

AS Harju Elekter
Interim report 1-6/ 2004
Unaudited, consolidated

Business name	AS Harju Elekter
Main business area:	designing, production and marketing of various electrical engineering and telecommunication systems
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Auditor:	KPMG Estonia
Beginning of the reporting period:	1 st of January 2004
End of the reporting period:	30 th of June 2004

The interim report of Harju Elekter Group on 20 pages

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EXPLANATORY NOTE***Group structure and changes on it***

In interim report for H1 2004 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. The shares of PKC Group are recognised on the balance sheet on the fair value basis. As of 30.06.2004, Harju Elekter owns significant holdings in the following commercial undertakings:

Participation %			30.06.04	31.12.03	30.06.03
AS Eltek	subsidiary	Estonia	100,0 %	100,0 %	100,0 %
Satmatic OY	subsidiary	Finland	100,0 %	100,0 %	100,0 %
Rifas UAB	subsidiary	Lithuania	51,0 %	51,0 %	0,0 %
AS Keila Kaabel	associated company	Estonia	34,0 %	34,0 %	41,2 %
AS Saajos Balti	associated company	Estonia	33,3 %	33,3 %	33,3 %
PKC Group Oyj	financial investment	Finland	10,7 %	10,6 %	12,0%

Harju Elekter purchased 51% of the shares of the Lithuanian company UAB Rifas in October 2003. Thus the compared period of the report – H1 of 2003 – does not contain the economic indicators of Rifas.

Introduction

The economic situation in the world has improved considerably during first half of the year. Economic climate improved in almost all economic areas, including Western Europe, which is of considerable importance to Estonia. Future prospects are also more optimistic than before, including in Finland, which is the main destination of our export. Experts have rated the economic situation of Estonia to be continuously good.

The H1 of 2004 was for Harju Elekter consolidation group successful and exceeds the expectations. Electrical engineering sector is characterised by dependence on the season, due to which the production volume of the winter period is considerably lower than in the second and third quarter when construction reaches its peak. The economic results of the consolidation group for the first six months were generally good and met our expectations. The number of sales orders in the Q2 considerably exceeded the volume of the Q1. For the parent company, the results of the first and second quarters were equally good. Compared to the same period last year, the sales and operating profit both increased.

Important events

The annual general meeting of shareholders was held on 16 April, and 106 shareholders or their authorised representatives participated, who represent 62,7 % of the total number of votes. The general meeting decided to pay dividends to the owners at the rate of EEK 4,00 (EUR 0,26) per share. Dividends paid to the shareholders on the week 20.

AS Keila Kaabel, associated company of Harju Elekter, opens its new production hall on 4th of May. The expansion project comprised the construction of a new production hall with an area of 2 500 m² and the reconstruction of the production lines. The new technology and the extended production facility will enable the Keila Kaabel factory to improve productivity and broaden its product range and quality. According to a long-term lease contract, Keila Kaabel leases 7 600 m² of the production space and an external storage of more than 10 000 m² from the registered immovable belonging to Harju Elekter.

For a better servicing of its customers in East Estonia and enlarging its market share in the area, Harju Elekter opens its fourth store of electrical materials and equipment in Jõhvi on 3rd of June.

On the 17th of June UAB Rifas, the Lithuanian subsidiary of Harju Elekter, opened a new production building in Panevežys. The newly-built production area has 1300 sq. m of floor space that allows for doubling of the plant's production volumes and expanding the product range from manufacturing automation products to energy distribution and construction products. The necessary know-how for entering the new market segment and a large number of components and semi-finished products is supplied from Estonia. The investment in the construction and technical equipment totalled MEEK 8 (MEUR 0,5) and it was financed from own funds.

Revenues, expenses and profit

The sales revenue of the consolidation group AS Harju Elekter comprised MEEK 189, 2 (MEUR 12,1) in the H1 2004, increasing by 26,5% in comparison with the same period of the previous year. Of the sales revenue, 76,6% accounted for the sales of industrial products and 23,4% for intermediate sales and sales of services. At the same time, the sales of products in the H1 increased by 23,0% in comparison with the same period in 2003, and the sales of services and intermediate sales altogether increased by 39,5%, including trade and intermediate sales by 41,2%.

Of the sales revenue of the consolidation group AS Harju Elekter, 47,6% is ascribed to the sales to Estonia and 52,4% to the sales to foreign markets. The sales to the Estonian market went up by 16,4%, mainly on account of the increased sales of the parent company AS Harju Elekter. The sales of products to foreign markets went up by 37,3%. Attention should be paid to the fact that the data of the H1 of 2004 include also the consolidated sales revenues of the Lithuanian subsidiary Rifas in amount 19,9 MEEK (1,26 MEUR). The Republic of Finland, with its share of 38,1% in turnover, continued to be the largest target country of export.

The total profit of the consolidation group AS Harju Elekter was MEEK 33,1 (MEUR 2,1), being 34,1% higher than in the previous year. The return of profit in the Group was 17,5% which was influenced by an almost double increase in the prices of copper and aluminium and by a moderate increase in the prices of sheet steel in the world market was 1,1% points lower compared to the same period in last year.

The general administrative expenses were MEEK 14,1 (MEUR 0,9) and the marketing expenses MEEK 9,2 (MEUR 0,6), growing both by 18%. The indicators of 2004 also include the expenses of the Lithuanian subsidiary Rifas. If the effect of marketing and general administrative costs of Rifas were eliminated, the expenses would remain at the level of the previous year.

Depreciation of the fixed assets of the consolidation group in the H1 2004 was MEEK 6,1 (TEUR 387) or 37% more than in the same period of the previous year. Depreciation of fixed assets in amount MEEK 0,7 (TEUR 44) is calculated by UAB Rifas. The rapid growth in depreciation was triggered by the investments made in 2003 in expanding the rental and production premises and enhancing the capacities.

The total operating profit of the consolidation group AS Harju Elekter was MEEK 10,0 (MEUR 0,6), being 26,3% higher than in the previous year. The return of sales in the H1 2004 was 5,3%, being on the same level as in 2003. In the parent company, the turnover grew by 16,4%, the total profit by 22,9% and the operating profit by 36%.

Financial operations yielded a total profit of MEEK 70,2 (MEUR 5,1), which is 22% more than in the same period of the previous year. The major source of financial income was the share of PKC Group

Oyj. The recalculation of the value of shares as a fair value generated financial income of MEEK 51,0 or MEUR 3,3 (H1 2003: MEEK 52,3 or MEUR 3,3). PKC Group Oyj paid dividends in the amount of MEEK 19,4 or MEUR 1,2 for 2003, which was over four times more than in the previous year.

The net profit of the consolidation group was MEEK 79,9 or MEUR 5,1 in the H1 2004, increasing by 22% in comparison with the previous year.

Investments and capital employed

During the accounting period, the Group invested in tangible and intangible assets a total of MEEK 21,3 or MEUR 1,4 (H1 2003: MEEK 27,0 or MEUR 1,7), of which in technology was MEEK 10,4 or TEUR 663 (H1 2003: MEEK 2,7 or TEUR 170) and construction and renovation work of buildings and plant was MEEK 10,6 or TMEUR 672 (H1 2003: MEEK 22,4 or MEUR 1,4).

Employees

The average number of employees in the Group in H1 2004 was 369 (H1 2003: 285), including 189 (H1 2003: 173) employees in the parent company. As of the balance sheet date 30 June 2004, the number of employees in the Group was 374 (H1 2003: 296). A significant change in the number of employees was caused by the purchase of the Lithuanian subsidiary Rifas (+68 people) in Q4 2003.

Shares of Harju Elekter

Accounting period	EEK		EUR			
	H1 2004	2003	H1 2003	H1 2004	2003	H1 2003
Number of shares (1000 pc)	5 400	5 400	5 400	5 400	5 400	5 400
Nominal value	10	10	10	0,64	0,64	0,64
Low price	105,30	43,03	43,03	6,73	2,75	2,75
High price	129,08	109,53	72,76	8,25	7,00	4,65
Average price	119,09	78,54	60,49	7,61	5,02	3,87
Market price at the end of period	109,53	104,83	69,94	7,00	6,70	4,47
Earnings per share EEK	14,79	32,49	12,14	0,95	2,07	0,78

Key indicators

Accounting period	1 000 EEK			1 000 EUR		
	H1 2004	2003	H1 2003	H1 2004	2003	H1 2003
Net sales	189 201	342 348	149 566	12 092	21 880	9 559
Operating profit	9 952	19 911	7 880	636	1 273	504
Profit before fin. expenses (EBIT)	80 797	177 159	66 062	5 164	11 323	4 222
Net profit for the current period	79 883	175 461	65 565	5 106	11 214	4 190
At the end of the period						
Total current assets	120 222	109 780	92 239	7 684	7 016	5 895
Total fixed assets	441 868	373 297	268 411	28 240	23 858	17 155
Total assets	562 090	483 077	360 650	35 924	30 874	23 050
Total liabilities	101 531	80 643	81 334	6 489	5 154	5 198
Minority interests	13 063	13 222	0	835	845	0
Total owners' equity	447 496	389 212	279 316	28 600	24 875	17 852

Performance indicators (%)	H1 2004	2003	H1 2003
Net sales growth	26,5	26,2	19,5
Operating profit growth	26,3	27,7	21,5
Net profit growth	21,8	229,5	482,4
Return of sales (operating profit/net sales *100)	5,3	5,8	5,3
Net profit margin (net profit /net sales *100)	42,2	51,3	43,8
Owners' equity margin (equity / balance sheet total *100)	79,6	80,6	77,4
Current ratio	1,7	1,8	1,3
Quick ratio	0,9	1,0	0,8
Number of employees on 30.06.2004	374	353	296

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	Note	1 000 EEK		1 000 EUR	
ASSETS	no	30.06.04	31.12.03	30.06.04	31.12.03
Current assets					
Cash and bank		7 482	26 449	478	1 690
Short-term receivables					
Trade receivables		47 583	31 784	3 041	2 032
Other short-term receivables	10	2 652	6 106	170	390
Accrued expenses		1 762	67	113	4
Prepaid expenses		2 132	1 251	136	80
Total short-term receivables		54 129	39 208	3 459	2 506
Inventories		58 611	44 123	3 746	2 820
Current assets		120 222	109 780	7 684	7 016
Fixed assets					
Long-term investments	8	281 137	227 624	17 968	14 548
Investment properties	2	85 621	86 896	5 472	5 554
Tangible assets	2	73 512	56 987	4 698	3 642
Intangible assets	2	1 598	1 790	102	114
Total fixed assets		441 868	373 297	28 240	23 858
Total assets		562 090	483 077	35 924	30 874
LIABILITIES AND OWNERS' EQUITY					
Liabilities					
Current liabilities					
Debt obligations	3	24 880	14 366	1 591	919
Prepayments received from customers		3 842	1 065	246	67
Accounts payable to suppliers		33 959	26 756	2 170	1 710
Other payables	10	1 820	1 218	116	78
Tax payable		5 932	6 838	379	437
Accrued expenses		8 571	9 600	548	614
Total current liabilities		79 004	59 843	5 050	3 825
Long-term liabilities	3	22 527	20 800	1 439	1 329
Total liabilities		101 531	80 643	6 489	5 154
Minority interests		13 063	13 222	835	845
Owners' equity					
Share capital (nominal value)		54 000	54 000	3 451	3 451
Statutory reserves		8 600	8 600	550	550
Retained profit		305 012	151 151	19 494	9 660
Net profit(loss) for the current period		79 883	175 461	5 105	11 214
Total owners' equity	4	447 496	389 212	28 600	24 875
Tot. liabilities and owner' equity		562 090	483 077	35 924	30 874

INCOME STATEMENT

1 000 EEK	Note no	Q2 2004	Q2 2003	H1 2004	H1 2003
Net sales	5,6	103 468	78 724	189 201	149 566
Cost of goods sold		-84 462	-64 551	-156 132	-121 692
Gross profit		19 006	14 173	33 069	27 874
Marketing expenses		-4 807	-4 043	-9 199	-7 756
Administrative and general expenses		-7 215	-6 520	-14 067	-11 904
Other operating revenue		204	37	389	42
Other operating charges		-132	-194	-240	-376
Operating profit	5,7	7 056	3 453	9 952	7 880
Financial incomes and expenses, incl.					
-from shares of associated companies		-19	1 164	-680	1 238
-from other investments	8	-6	1 343	20 494	4 560
- from revaluation of financial investments	8	19 402	52 055	50 983	52 324
- interest expense		-371	-285	-596	-497
- profit/loss from foreign exchange		-21	-14	-26	-30
- other financial expenses/incomes		52	32	74	90
Total financial incomes and expenses		19 037	54 295	70 249	57 685
Profit from ordinary activities		26 093	57 748	80 201	65 565
Allocation of corporate income tax to relevant periods (in Finland)		-17	172	-33	0
Profit after taxes		26 076	57 920	80 168	65 565
Minority interests		-828	0	-285	0
Net profit for the current period		25 248	57 920	79 883	65 565
Basic earnings per share	9	4,68	10,73	14,79	12,14
Diluted earnings per share	9	4,56	10,57	14,44	11,99

INCOME STATEMENT

1 000 EUR	Note no	Q2 2004	Q2 2003	H1 2004	H1 2003
Net sales	5,6	6 613	5 031	12 092	9 559
Cost of goods sold		-5 398	-4 125	-9 979	-7 777
Gross profit		1 215	906	2 113	1 782
Marketing expenses		-308	-258	-588	-496
Administrative and general expenses		-461	-417	-899	-760
Other operating revenue		13	2	25	3
Other operating charges		-8	-12	-15	-24
Operating profit	5,7	451	221	636	504
Financial incomes and expenses, incl.					
-from shares of associated companies		-1	74	-43	79
-from other investments	8	0	86	1 310	291
- from revaluation of financial investments	8	1 240	3 327	3 258	3 344
- interest expense		-24	-18	-38	-32
- profit/loss from foreign exchange		-1	-1	-2	-2
- other financial expenses/incomes		3	2	5	6
Total financial incomes and expenses		1 217	3 470	4 490	3 686
Profit from ordinary activities		1 668	3 691	5 126	4 190
Allocation of corporate income tax to relevant periods (in Finland)		-1	11	-2	0
Profit after taxes		1 667	3 702	5 124	4 190
Minority interests		-53	0	-18	0
Net profit for the current period		1 614	3 702	5 106	4 190
Basic earnings per share	9	0,30	0,69	0,95	0,78
Diluted earnings per share	9	0,29	0,68	0,92	0,77

CASH FLOW STATEMENT

	Note no	1 000 EEK		1 000 EUR	
		H1 2004	H1 2003	H1 2004	H1 2003
Business activities					
Operating profit		9 952	7 880	636	504
<u>Adjustments</u>					
Depreciation and value decrease	2	6 053	4 390	387	280
Profit/loss from sales of tangible assets		-77	9	-5	1
Change in payables and prepayments related to business operations		-13 343	-5 930	-853	-379
Changes of inventories		-14 488	-5 552	-926	-355
Change in liabilities and prepayments related to business operations		8 717	8 836	557	565
Interests paid		-33	-449	-2	-29
Taxes paid		-745	-44	-47	-3
Total cash flow from business activities		-3 964	9 140	-253	585
Investing activities					
Investments in fixed assets		-18 779	-21 011	-1 200	-1 343
Capital gains from fixed assets		310	4	20	0
Payments for financial investments		-8 281	-1 061	-529	-68
Capital gains from sale of fin. investments		4 415	0	282	0
Long-term loans granted		-59	-15	-4	-1
Repayment of loan receivables		55	429	4	28
Interests received		112	83	7	5
Dividends received		19 402	6 076	1 240	388
Total cash flow from investing activities		-2 825	-15 495	-180	-991
Cash flow from financing activities					
Loans received	3	12 863	17 348	822	1 109
Loans repaid	3	-1 933	-3 483	-124	-223
Repayment of princ. amounts of capital lease	3	-1 039	-760	-66	-49
Dividend paid		-22 043	-10 800	-1 409	-690
Cash flow from financing activities		-12 152	2 305	-777	147
Total cash flow		-18 941	-4 050	-1 210	-259
Cash at the beginning of the period		26 449	11 620	1 690	743
Net increase in cash		-18 941	-4 050	-1 210	-259
Effect of foreign exchange rate change		-26	-30	-2	-2
Cash at the end of the period		7 482	7 540	478	482

STATEMENT OF CHANGES IN OWNERS' EQUITY

	Note no	1 000 EEK		1 000 EUR	
		H1 2004	H1 2003	H1 2004	H1 2003
Share capital					
Initial balance		54 000	54 000	3 451	3 451
Final balance		54 000	54 000	3 451	3 451
Reserve requirement					
Initial balance		8 600	8 600	550	550
Final balance		8 600	8 600	550	550
Profit for current period					
Initial balance	1	151 151	108 697	9 660	6 947
Distribution of net profit		175 461	53 254	11 214	3 404
Dividend paid		-21 600	-10 800	-1 380	-690
Final balance		305 012	151 152	19 494	9 661
Profit for current year					
Initial balance		175 461	53 254	11 214	3 404
Distribution of net profit		-175 461	-53 254	-11 214	-3 404
Profit for the current year		79 883	65 565	5 105	4 190
Final balance		79 883	65 565	5 105	4 190
Total owners' equity	4	447 496	279 316	28 600	17 852

NOTES TO INTERIM FINANCIAL STATEMENTS

Note 1. Accounting methods and valuation principles used in the consolidated interim report

AS Harju Elekter is a company registered in Estonia. The consolidated annual accounts prepared as of 30.06.2004 include AS Harju Elekter and its subsidiaries AS Eltek, Satmatic Oy and Rifas UAB (together referred to as "Group"). AS Harju Elekter has been listed on Tallinn Stock Exchange since September 30, 1997, 31 % of the shares are held by AS Harju KEK.

This consolidated interim report is prepared in accordance with the Accounting Act of the Republic of Estonia applicable as from 1 January 2003, "Guidelines for Preparation and Submission of Interim Reports" issued by the Accounting Standards Board, and the requirements for international accounting standard IAS 34 "Interim Financial Reporting" on condensed interim financial statements. The interim report is prepared on the basis of the same accounting methods as used in the annual report concerning the period ending on 31.12.2003.

According to the assessment of the management board, the interim report of the H1 2004 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 financial statements of AS Harju Elekter are presented in thousands of Estonian kroons and euros. The EEK/EUR exchange rate is 15,64664 according to the quotation of Estonian Bank.

Note 2 Tangible and intangible assets

	1 000 EEK			1 000 EUR				
	Tangible assets	Investment properties	Intangible assets	TOTAL	Tangible assets	Investment properties	Intangible assets	TOTAL
Initial balance 31.12.03	56 987	86 896	1 790	145 673	3 642	5 554	114	9 310
Acquired	16 515	0	168	16 683	1 056	0	11	1 066
Reconstructed	4 396	172	0	4 568	281	11	0	292
Sold and written-off fixed assets at acquisition value	-456	0	0	-456	-29	0	0	-29
Depreciation	-4 245	-1 448	-360	-6 053	-271	-93	-23	-387
Depreciation of sold and written-off fixed	315	0	0	315	20	0	0	20
Final balance	73 512	85 621	1 598	160 731	4 698	5 472	102	10 272

Note 3 Debt liabilities

	1 000 EEK		1 000 EUR	
	30.06.04	31.12.03	30.06.04	31.12.03
Short-term loans	21 286	6 913	1 360	442
Repayment of long-term leasing oblig. during the next period	2 637	5 806	169	371
Current portion of long-term leasing obligations	760	1 450	49	93
Repayments of non-convertible debts	197	197	13	13
Total debt obligations	24 880	14 366	1 590	919
Long-term bank loans	18 374	18 374	1 174	1 174
Long-term lease liabilities	4 153	2 426	265	155
Total long-term liabilities	22 526	20 800	1 440	1 329
Total debt liabilities	47 407	35 166	3 030	2 248

Changes in debt obligations:

	1 000 EEK	1 000 EUR
Initial balance 31.12.03	35 166	2 248
Changes in short-term loans	14 374	919
Loans repaid	-3 170	-203
New leasing obligations	2 140	137
New long-term lease liabilities	-1 103	-71
Final balance 30.06.04	47 407	3 030

Note 4 Equity

The share capital of AS Harju Elekter is 54 MEEK (3,4 MEUR) that is divided into 5,4 million 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.

For the year 2003 the owners were paid dividends of 4,00 EEK (0,26 EUR) per share, totaling MEEK 21,6 (MEUR 1,38), payable in the 20th week of 2004, without income tax liability to the shareholders. The shareholders listed in the share register of AS Harju Elekter at 8 a.m. on the record date May 3, 2004 were entitled to dividends. Dividends distributed on May 12, 2004.

An equity option, proclaimed in 2000 and approved by the general meeting of shareholders, will be exercised in September 2004. The number of the new shares issued at a contractual purchase price of EEK 40 each will be 200 000. Upon selling the options on 30 September 2004, the equity capital of AS Harju Elekter will increase by a total of MEEK 8 (MEUR 0,5), of which the share capital comprises MEEK 2 (MEUR 0,127) and the share premium MEEK 6 (MEUR 0,383). After the options have been sold, the maximum potential number of ordinary shares will be 5 600 000 and the share capital will be MEEK 56 (MEUR 3,6).

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.

H1 2004	1 000 EEK				1 000 EUR			
	Electrical engineering	Telecommunications	Elimination	TOTAL	Electrical	Telecommunications	Elimination	TOTAL
Sales revenue	167 623	21 578		189 201	10 712	1 380	0	12 092
Transact. with other segments	4 379	586	-4 965	0	280	37	-317	0
Total	172 002	22 164	-4 965	189 201	10 992	1 417	-317	12 092
Operating profit	8 400	954	597	9 952	537	61	38	636

H12003	1 000 EEK				1 000 EUR			
	Electrical engineering	Telecommunications	Elimination	TOTAL	Electrical	Telecommunications	Elimination	TOTAL
Sales revenue	128 363	21 203	0	149 566	8 204	1 355	0	9 559
Transact. with other segments	2 906	647	-3 553	0	186	41	-227	0
Total	131 269	21 850	-3 553	149 566	8 390	1 396	-227	9 559
Operating profit	7 102	1 090	-312	7 880	454	70	-20	504

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								
H1 2004	121 673	47 665	19 863	189 201	7 776	3 046	1 270	12 092
H1 2003	107 903	41 663	0	149 566	6 896	2 663	0	9 559

Note 6 Net sales**By markets**

	Growth	1 000 EEK		1 000 EUR		Struktur	
		H1 2004	H1 2003	H1 2004	H1 2003	H1 2004	H1 2003
Estonia	16,4%	90 105	77 408	5 758	4 947	47,6%	51,8%
Finland	10,0%	72 066	65 508	4 606	4 186	38,1%	43,8%
Lithuania	1823,9%	21 355	1 110	1 365	71	11,3%	0,7%
Other EU	29,9%	2 126	1 636	136	105	1,1%	1,1%
Other Europe	206,9%	185	60	12	4	0,1%	0,0%
Russia and CEEC	22,9%	1 976	1 608	126	103	1,1%	1,1%
USA	-37,9%	1 388	2 236	89	143	0,7%	1,5%
Total	26,5%	189 201	149 566	12 092	9 559	100,0%	100,0%

Here we have to consider the fact that the consolidated sales revenues of the Lithuanian subsidiary Rifas are also included in the first six months of 2004. Consolidation of the Lithuanian segment increased the sales of the first six months by MEEK 19,9 (MEUR 1,3), which is 13,3% more than in the same period last year. This also explains the redoubling of the sales volume in the Lithuanian market.

Net sales by business activities and product groups

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.

	Growth	1 000 EEK		1 000 EUR	
		H1 2004	H1 2003	H1 2004	H1 2003
Core business and products					
- electrical equipment	25,9%	118 840	94 389	7 595	6 033
-wiring systems for automobile and telecom industries (subcontr.)	-7,3% 8,2%	9 429 14 279	10 169 13 196	603 913	650 843
- products for telecom sector		288	0	18	0
- sheet metal products and work		1 997	0	128	0
TOTAL CORE BUSINESS	23,0%	144 833	117 754	9 257	7 526
Other activities					
- trade and intermediation	41,2%	30 718	21 751	1 963	1 390
- leasing of capital assets	48,1%	9 939	6 709	635	429
- other services	10,7%	3 711	3 352	237	214
TOTAL OTHER ACTIVITIES	39,5%	44 368	31 812	2 835	2 033
TOTAL	26,5%	189 201	149 566	12 092	9 559

13,3% of the 26,5% increase in the sales revenues was achieved on account of the Lithuanian subsidiary Rifas; 11,6% from the increase in electrical appliances sales and 11,3% in regard to products of principal activity. Trade and mediation sales increased by MEEK 9,0 of which MEEK 6,3 constituted the turnover of the Lithuanian subsidiary, resulting in 28,8% increase. The almost 1,5 fold increase in income from rent was achieved due to the growth of rented space.

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 2004	H1 2003	H1 2004	H1 2003
- collected amounts of acc. recognised as doubtful	4	0	0	0
- revaluation of inventory	-105	0	-7	0
- profit from sales tangible assets	78	0	5	0

Note 8 Financial incomes and expenses from other financial investments

	1 000 EEK		1 000 EUR	
	H1 2004	H1 2003	H1 2004	H1 2003
- dividends paid by PKC Group Oyj	19 402	4 551	1 240	291
- profit from the sales of PKC shares	1 097	0	70	0
- change of the value of PKC shares	50 983	52 324	3 258	3 344

PKC Group Oyj paid dividends 2 euros (31,29 EEK) per share.

As of the end of the quarter on 30 June 2004, the financial investment was revalued at the average quotation of the last trading day that is 26,50 EUR (414,63 EEK). The revaluation generated financial income in the amount of 19,4 MEEK (1,24 MEUR)

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	
		H1 2004	H1 2003	H1 2004	H1 2003
Net profit of the current period (MEEK)	1000	79 883	65 565	5 106	4 190
Average no of the company shares	1000 pc.	5 400	5 400	5 400	5 400
<i>Basic and diluted EPS</i>		14,79	12,14	0,95	0,78
Terms of option:					
- number of issued shares	1000 pc.	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		119,09	60,49	7,61	3,87
- number of shares issued at market price	1000 pc.	67	132	67	132
- no of shares to be distrib. free of charge	1000 pc.	133	68	133	68
- average adjusted number of shares	1000	5 533	5 468	5 533	5 468
- <i>diluted net profit per share</i>		14,44	11,99	0,92	0,77

Note 10 Transactions with related parties

Related parties to AS Harju Elekter are the subsidiaries AS Eltek and Satmatic Oy, 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			
	H1 2004		H1 2003		H1 2004		H1 2003	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Eltek	586	2 465	647	2 470	37	158	41	158
Satmatic Oy	0	1 002	14	422	0	64	1	27
RifasUAB	215	697	0	0	14	45	0	0
Keila Kaabel	3 880	3 982	2 864	3 283	248	255	183	210
Saajos Balti	907	2 126	749	2 436	58	136	48	156
Harju KEK	84	97	1 000	18	5	6	64	1
Total	5 672	10 369	5 274	8 629	362	664	337	552

Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	3 638	10	232	1
Material, components for production needs	1 612	2 482	103	159
Industrial subcontracting (outsourcing)	137	1 002	9	64
Lease of fixed assets	0	4 019	0	257
Management services	0	1 453	0	93
Other services (building and communication, repairs and maintenance of real estate)	285	1 402	18	90
TOTAL	5 672	10 369	362	664

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.

Financing:

TEUR 200 (MEEK 3,1) of the loan granted to the subsidiary Satmatic OY was allocated for the increase of the subsidiary's share capital. By the end of the first six months Satmatic returned to the parent company the full long-term loan in the amount of TEEK 2 074 (TEUR 133). In the second quarter Harju Elekter gave to Satmatic OY a short-term loan in the amount of TEUR 200 (MEEK 3,1), which was returned by the end of the quarter. Loan interest was 5%.

The parent company rented to Eletk a truck on terms of financial lease with the acquisition cost of TEEK 274 (TEUR 1,75) and interest 5,5%. During the first 6 months Eltek paid financial lease payments to the parent company in the total amount of TEEK 64 (TEUR 4,1).

During the first six months a total of TEEK 66 (TEUR 4,2) of interest income from subsidiaries was entered to the financial revenues of the income statement of the parent company.

Balance with related parties:

	1 000 EEK		1 000 EUR	
	30.06.04	31.12.03	30.06.04	31.12.03
Claims				
Total loans to subsidiaries	2 725	7 254	173	457
Eltek	1 826	1 684	116	108
Incl. outstanding accounts	1 616	1 684	103	108
short-term loan	210	0	13	0
Satmatic	479	5 469	30	350
Incl. outstanding accounts	456	257	29	16
long-term loan	0	5 203	0	333
interest of the long-term loan	23	9	1	1
Rifas	420	101	27	6
Incl. outstanding accounts	420	101	27	6
Total loans to associated companies	4 293	6 028	275	385
Incl. outstanding accounts of AS Keila Kaabel	708	2 007	45	128
Incl. outstanding dividends of AS Keila Kaabel	1 761	0	113	0
outstanding accounts of AS Saajos Balti	1 824	4 021	117	257
Obligations				
Total loans to subsidiaries	500	237	32	15
Incl. outstanding accounts to Eltek	311	231	20	15
Incl. outstanding accounts to Satmatic	189	6	12	0
Total loans to associated companies	1 591	848	102	55
Incl. AS Keila Kaabel	996	401	64	26
AS Saajos Balti	595	447	38	29

Signatures of the Management Board to the Interim report 1-6/2004

Management Board of AS Harju Elekter has prepared the consolidated Interim report for H1 2004 as presented on pp. 3-19

Approval of the Interim report 1-6/2004 as of June 30, 2004 by the Management Board members:

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