

AS Harju Elekter

CONSOLIDATED

Interim report 1-3/ 2001
Unaudited

(translation of the Estonian original)

Contents

Contents	2
Corporate profile and contact data	3
Signatures of the Management Board to the Interim report 1-3/2001	4
Explanatory note	5
Interim financial statements	7
<i>Balance sheet</i>	7
<i>Income statement</i>	8
<i>Cash flow statement</i>	9
<i>Statement of changes in Owners' Equity</i>	10
<i>Accounting methods and valuation principles used in the interim report</i>	11
<i>Note 1. Fixed assets</i>	11
<i>Note 2. Debt liabilities</i>	11
<i>Note 3. Equity</i>	12
<i>Note 4. Segments</i>	12
<i>Note 5. Basic and diluted earnings per share</i>	13
<i>Note 6. Transactions with related parties</i>	14
<i>Note 7. Post-balance sheet date events</i>	15

Corporate profile and contact data

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 provides employment to more than 700 employees and workers.

The Group consists of the parent company AS Harju Elekter and the 100%-owned subsidiary company AS ELTEK. AS Harju Elekter has holdings in associated companies AS Keila Kaabel (41,2%) and AS Saajos Balti (33,3%). Both for the Group and its shareholders the 10% shareholding in PKC Group Oyj is of critical importance.

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 st of January 2001
End of the financial year:	31 st of December 2001
Beginning of the reporting period:	1 st of January 2001
End of the reporting period:	31 st of March 2001
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CEO:	Mr.Andres Allikmäe
Auditor:	KPMG Estonia

Signatures of the Management Board to the Interim report 1-3/2001

Management Board of AS Harju Elekter has prepared the consolidated report for the first quarter of 2001 as presented on pp. 5-15.

The Interim Report consists of the consolidated balance sheet, income statement, cash flow statement, statements of owners' equity, notes to the interim report 1-3/2001 and activities report.

Approval of the Interim Report 1-3/2001 as of March 31,2001 by the Management Board members:

Mr. Andres Allikmäe
Chairman of the Management Board

Mr. Ülo Merisalu
Member of the Management Board

Mrs. Karin Padjus
Member of the Management Board

Mr. Lembit Libe
Member of the Management Board

Done in Keila, on 22.05. 2001

EXPLANATORY NOTE

The financial results of AS Harju Elekter (parent company), its subsidiaries and related companies are presented in the consolidated interim report for the 1st quarter of 2001 as follows:

	<u>Participation on 31.03.01</u>	<u>Participation on 31.03.00</u>
AS Eltek	100 %	100 %
AS Keila Kaabel	41.2 %	41.2 %
AS Saajos Balti	33.3 %	33.3 %

Main events

In the contest organised at the 5th international trade fair Enerex 2001 the HEKA 1VM outdoor substation in sheet metal enclosure manufactured by Electrical Equipment Factory of Harju Elekter was named the best electrical product made in Estonia.

Electrical Equipment Factory delivered the first shipment of its products to the Finnish ship-building market.

An agreement was signed between Harju Elekter and a consultation company for the certification of the ISO 14001 environmental management system in the Group and its implementation was begun. The certification is planned to be conducted during the year 2002.

In accordance with the concluded agreement the implementation of the ISO 9001 quality management system began at the subsidiary AS Eltek.

Sales and revenue

The consolidated net sales of AS Harju Elekter in the 1st quarter of 2001 were 44.4 million kroons which is 3.3% more than for the same period last year (43.0 million kroons). The sales turnover grew significantly on the domestic market (+29.3%), reaching the level of 24.7 (2000 IQ: 19.1) million kroons. In the 1st quarter export amounted to 19.7 (2000 Q1: 23.9) million kroons and gave 44.4% (2000 Q1: 55.6%) of the total turnover.

The sale of electrical equipment increased by more than 11%, reaching 11.9 (2000 IQ: 10.7) million kroons. Due to the decrease of demand on the world market, automotive and electronic industries placed less orders for wiring systems. Export for automotive and electronic industries amounted to 13 million kroons which was 16.7% less than for the same period last year (15.6 million kroons). The sale of telecommunication products, despite the global recession in this sector, amounted to 6.1 (2000 IQ: 5.0) million kroons (+19.8%) that was achieved primarily on account of the sales from the consignment warehouse in Denmark. On the internal market the volume of commercial activities and intermediary trade grew the most (+52.8%), reaching 7.5 (2000 IQ: 4.9) million kroons.

Profit

The Group's operating profit for the 1st quarter was 3.4 million kroons which is 28.3% less than for the same period last year (4.7 million kroons). The main reason for the drop in operating profit was the reduced export volume. Based on the optimistic forecasts for 2001 produced by foreign partners, Harju Elekter invested last year in the expansion of production capacity and facilities.

Haapsalu plant of Cable Harnesses Factory was completed. But in the beginning of 2001 the expected growth in the volume of orders that was vital for sustaining the level of profitability did not occur after all.

In comparison with the 1st quarter of 2000, marketing and administrative expenses increased altogether by 1.1 million kroons due to the following factors:

- driven by the need to raise the quality of customer services, to create preconditions for product development and penetration to new markets, the company increased at the end of 2000 its sales and development personnel and undertook restructuring of the product development department;
- general administrative expenses for the quarterly accounting period include additional costs incurred with the implementation of the ISO 14001 environmental management system and the ISO 9001 quality management system at AS Eltek.

The consolidated net profit was 3.5 million kroons which is 31.5% less than for the same period last year (5.2 million kroons).

EPS for the three-month period was 0.65 kroons (in 2000 for 3 m.: 0.96 kroons).

Cash flow, investments and capital expenditure

In the 1st quarter the Group made new investments in the value of 1.5 (2000 Q1: 9.4) million kroons, including 0.8 million kroons for the acquisition of equipment and machinery. During the quarterly accounting period repayments of the long term loan and the principal on the capital lease amounted to 2.2 (2000 Q1: 1.9) million kroons. Cash inflow from business activities was 3.6 (2000 Q1: 1.2) million kroons, outflow for the needs of investing and financing activities was 3.7 (2000 Q1: 6.1) million kroons.

Personnel

The average number of employees during the quarterly accounting period was 735 (2000 Q1: 605). For the optimisation of labour costs, employment contracts were terminated with 54 employees, including 41 employees whose contract had expired. For the purpose of improving economic efficiency, this process will continue also in the second quarter of the year.

Performance indicators	2001 IQ	2000 IQ
Return on sales (%) (Operating profit/Net sales*100)	7.58	10.91
Operating profit margin (%) (Earnings before income and taxes/Net sales*100)	9.18	13.42
Net profit margin (%) (Net profit/ Net sales*100)	7.96	12.00
Current ratio	1.68	1.43
Quick ratio	0.88	0.80

Andres Allikmäe
Chairman of the Management Board

BALANCE SHEET

(in thousand kroons)

ASSETS	Note			
Current assets	No.	31.03.01	31.12.00	31.03.00
Cash and bank		8,077	8,142	12,657
Shares and other securities		387	402	613
Trade receivables				
Accounts receivable from customers		13,001	15,868	12,668
Other receivables	6	1,984	2,484	1,531
Accrued income		0	34	0
Prepaid expenses		1,044	1,540	2,814
Total trade receivables		16,029	19,926	17,013
Inventories		22,271	22,801	20,939
Total current assets		46,764	51,271	51,222
Fixed assets				
Long-term investments		24,579	23,918	20,069
Tangible assets		89,077	89,462	77,901
Intangible assets		577	630	785
Total fixed assets	1	114,233	114,010	98,755
TOTAL ASSETS		160,997	165,281	149,977
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Debt obligations	2	8,262	11,182	8,284
Prepayments received from customers		111	326	24
Accounts payable to suppliers		9,111	11,793	11,341
Other payables	6	595	381	929
Tax payable		4,289	5,731	3,741
Accrued expenses		5,545	6,317	5,965
Total current liabilities		27,912	35,730	30,285
Long-term liabilities	2	17,901	17,901	26,661
Total liabilities		45,813	53,631	56,946
Owners' equity				
Share capital (nominal value)		54,000	54,000	18,000
Statutory reserves		3,610	3,610	3,610
Retained profit		54,040	24,864	66,264
Net profit(loss) for the financial year		3,534	29,176	5,157
Total owners' equity	3	115,184	111,650	93,031
TOTAL LIABILITIES AND OWNERS' EQUITY		160,997	165,281	149,977

INCOME STATEMENT

(in thousand kroons)

01.01.2001-31.03.2001	<i>Note</i> <i>no</i>	2001 I Q	2000 I Q
Net sales	4	44,398	42,977
Cost of goods sold		35,420	33,622
Gross profit		8,978	9,355
Marketing expenses		1,903	1,620
Administrative and general expenses		3,701	2,923
Other operating revenue		108	37
Other operating charges		117	159
Operating profit		3,365	4,690
Financial income incl.			
-from shares in associate co.		661	804
-from other investments		13	23
-other interest and similar financial income	1	38	249
Total financial income		712	1,076
Financial expenses, incl.			
-related to shares in associated companies		0	141
-interest expense		508	443
-other financial expenses		35	25
Total financial expenses		543	609
Profit from ordinary activities		3,534	5,157
Net profit for the financial year			
Basic earnings per share and diluted earnings per share	5	0.65	0,96

CASH FLOW STATEMENT

(in thousand kroons)

Business activities	<i>Note no.</i>	2001 I Q	2000 I Q
Net profit for the current year		3,534	5,157
Depreciation and amortization of fixed assets		1,905	1511
Profit/loss by equity method		-661	-663
Total cash flow		4,778	6,005
Stock and securities (short-term)		15	-163
Net change in claims related to business operations		3,897	-2,548
Inventories		530	-3,976
Transferred assets		-31	-32
Current debt liabilities		-2,920	-676
Net change in liabilities related to business activities		-4,898	630
Transferred liabilities		2,249	1,947
Total cash flow from changes in current assets and liabilities		-1,158	-4,818
Total cash flow from business activities		3,620	1,187
 Investing activities			
Loan principal received		31	32
Sale of tangible fixed assets (selling price)		0	23
Additions to intangible and tangible fixed assets		-1,467	-9388
Bills outstanding for fixed assets (+)/paid(-)		0	-2151
Total cash flow from investing activities		-1,436	-11484
 Financing activities			
New loans		0	7,368
Loans repaid		-2,086	-1,466
Repayment of principal amounts of capital lease		-163	-480
Cash flow from financing activities		-2,249	5,422
TOTAL CASH FLOW		-65	-4,875
 Net increase in cash		-65	-4,875
Cash at the beginning of the year		8,142	17,532
Cash at the end of the year		8,077	12,657

STATEMENT OF CHANGES IN OWNERS' EQUITY

(in thousand kroons)

2000 I Q

	Share capital	Reserves	Retained earnings	Profit for current year	Total owners' equity
Initial balance 31.12.99	18,000	3,610	44,169	22,095	87,874
Net profit for 1999			22,095	-22,095	
Profit for the current year				5,157	5,157
Final balance 31.03.00	18,000	3,610	66,264	5,157	93,031

2001 I Q

	Share capital	Reserves	Retained earnings	Profit for current year	Total owners' equity
Initial balance 31.12.00	54,000	3,610	24,864	29,176	111,650
Net profit for 2000			29,176	-29,176	
Profit for the current year				3,534	3,534
Final balance 31.03.01	54,000	3,610	54,040	3,534	115,184

More detailed information about the owners' equity and its changes is presented in Note 3.

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 31.12.2000.

Management Board of AS Harju Elekter is of the opinion that the interim report for the 1st quarter of 2001 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.

Note 1 Fixed assets

(in thousand kroons)

	Long-term investments	Tangible assets	Intangible assets	TOTAL
Initial balance 31.12.00	23,918	89,462	630	114,010
Acquired		1,142		1,142
Reconstructed		325		325
Sold (at acquisition value) and written-off fixed assets		-17		-17
Profit by equity method for the financial period	661			661
Depreciation for the financial period		-1,852	-53	-1,905
Depreciation of sold and written-off fixed assets		17		17
Final balance 31.03.01	24,579	89,077	577	114,233

Note 2. Debt liabilities

(in thousand kroons)

	31.03.01	31.12.00
Non-convertible debt	1,003	1,017
Current portion of long-term debt	6,423	8,509
Current portion of lease debt	357	520
Short-term loans from credit institutions	480	1,137
Total debt obligations	8,262	11,182
Unsecured debt obligations	200	200
Long-term bank loans	17,404	17,404
Long-term lease liabilities	298	298
Total long-term liabilities	17,902	17,902
Total debt liabilities	26,164	29,084

Changes in debt obligations:

Initial balance 31.12.00	11,182
Changes in non-convertible debt	-14
Loans repaid	-2,086
Repayment of principal amounts of capital lease	-163
Changes in short-term loans from credit institutions	-657
Final balance 31.03.01	8,262

Note 3. Equity

AS Harju Elekter has issued 5,400,000 shares and their total nominal value is 54 million kroons. For the year 2000 the owners will be paid dividends of 1.20 kroons per share. Dividends will be distributed on May 28, 2001. The shareholders listed in the share register of AS Harju Elekter at 8 a.m. on the record date May 14, 2001 shall be entitled to dividends. Altogether 6,480 thousand kroons shall be paid out in dividends.

Note 4. Segmental reporting

(in thousand kroons)

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” – 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 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.

2000 I Q	Electrical	Telecommunications	Elimination	TOTAL
Sales revenue	36,584	7,771	-1,378	42,977
Operating profit	4,340	377	-28	4,689
2001 I Q	Electrical	Telecommunications	Elimination	TOTAL
Sales revenue	36,726	8,762	-1,090	44,398
Operating profit	1,587	1,801	-23	3,365

Geographic areas	2001 I Q	2000 I Q
INTERNAL MARKET	24,671	19,082
EXTERNAL MARKET	19,727	23,895
Incl. Nordic countries	15,105	18,933
Denmark	2,919	3,008
CEEC	305	578
Baltic states	1,398	1,376
TOTAL	44,398	42,977

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.

	2001 I Q	2000 I Q
Core business		
- electrical equipment	11,908	10,687
- wiring systems for automotive and telecommunications industry (subcontracting)	13,014	15,591
- cabinets/boxes for telecom installations	6,088	4,969
- sheet metal products and metalwork	3,511	4,751
TOTAL CORE BUSINESS	34,521	35,998
Intermediary activities and other services		
- trade and intermediation	7,504	4,910
- leasing of capital assets	1,183	1,097
- other services	1,190	972
TOTAL OTHER ACTIVITIES	9,877	6,979

Note 5. Basic and diluted earnings per share

Average number of the company's share in IQ of 2001 is 5,400 thousand. Basic EPS per share is $3,534/5,400=0.65$ kroons ($5,157/5,400=0.96$ kroons in IQ of 2000).

Pursuant to the resolution of the general meeting of AS Harju Elekter, a stock option was organized in September 2000. The redemption price of the option was set at 40 kroons. 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 million kroons. In IQ 2001 the average market price of the shares settled at 42.03 (IQ 2000: 43.74) kroons. In order to gain the equivalent sum, the company should issue $190,340 (8,000/42.03)$ new shares at the market price. 9,660 shares $(200,00-190,340)$

that form the difference between the number of shares covered with the options and shares issued at the market price could be regarded as shares granted free-of-charge and the annual average number of shares has been increased by this amount (5,400,000+9,660). Thus diluted earnings per share would be 0.65 kroons (3,534/5,410). Thus diluted earnings per share are equal to basic earning per share.

Note 6. Transactions with related parties

(in thousand kroons)

Related parties to AS Harju Elekter are the 100%-owned subsidiary company 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 2001 I Q AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

Related parties	Bought	Sold
ELTEK	343	747
Keila Kaabel	787	683
Saajos Balti	238	733
Harju KEK	35	5
TOTAL	1,403	2,168

Type of transaction	Bought	Sold
Goods purchased for resale	797	0
Material, components for production needs	243	37
Industrial subcontracting (outsourcing)	0	577
Lease of fixed assets	0	1,214
Management services	0	80
Other services (building and communication, repairs and maintenance of real estate)	363	260
TOTAL	1,403	2,168

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 48.5 thousand kroons of the long-term and 600 thousand kroons of the short-term credit. The annual interest rate on loans to related parties was 8%. During the quarterly accounting period the related parties paid the total of 72 thousand kroons in interest, of that 58 thousand kroons was paid by the subsidiary company.

Balance with related parties:

Subsidiary company	Claims		Obligations	
	31.03.01	31.12.00	31.03.01	31.12.00
Total	3,113	4,700	235	240
Incl. outstanding accounts	709	1,648	235	240
Long-term loan	204	252	0	0
Short-term loan	2,200	2,800	0	0
Associated companies				
Total	1821	2,136	432	238
incl. AS Keila Kaabel	55	1,121	241	114
AS Saajos Balti	1766	1,015	191	124
Total loans to employees	652	698	0	0
Incl. long-term loan	618	649	0	0
Short-term loan	34	49	0	0

Note 7. Post-balance sheet date events

After the balance date of the interim report 31.03.01, AS Harju Elekter sold 20 thousand PKC Group OYj shares. As the result of this transaction AS Harju Elekter is now the owner of 521,600 shares or 9.89% of PKC Group Oyj share capital. 2.8 million kroon revenue received from the sale of the shares as well as 3.4 million kroons of dividends paid by PKC Group Oyj shall be accounted for in the interim report for the 2nd quarter.

The general meeting of the subsidiary company AS Eltek that took place in April 2001 decided to expand the share capital of the company up to 4 million kroons - 2 million kroons to be raised through the stock dividend issue and 1 million through additional contributions into the share capital. Thus three new shares will be issued in addition to each existing share. The total share capital of AS ELTEK is 4,000 thousand kroons and is divided into 400,000 registered ordinary shares with the nominal value of 10 kroons. On the 31st of March 2001 the total share capital of AS Eltek was 1 million kroons that was divided into 100 thousand ordinary shares.