

AS Harju Elekter

CONSOLIDATED

Interim report 1-6/ 2001
Unaudited

(Translation of the Estonian original)

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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 680 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%). The Group has the 10% shareholding in PKC Group Oyj.

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:	30 th of June 2001
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CEO:	Mr.Andres Allikmäe
Auditor:	KPMG Estonia

Signatures of the Management Board to the Interim report 1-6/2001

Management Board of AS Harju Elekter has prepared the consolidated report for the the 1st half-year of 2001 as presented on pp. 5-17.

The Interim Report consists of the consolidated balance sheet, income statement, cash flow statement, statements of owners' equity, notes to the interim report 1-6/2001 and explanatory note.

Approval of the Interim Report 1-6/2001 as of June 30,2001 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 16.08. 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 the 1st half-year of 2001 as follows:

	Participation on 30.06.01	Participation on 30.06.00
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.

Delivery of electrical equipment for the Finnish shipbuilding market began.

Planned activities for the certification of the ISO 14001 environmental management system in the Group are continued. The certification is planned to be conducted in 2002.

The subsidiary company AS Eltek will continue the scheduled work for the introduction of the ISO 9001 quality management system.

Cables Harnesses Factory has renewed its ISO 9002 certificate for the next term. In June the certification agency SGS-Fimko conducted an audit and verified the conformity of the production processes used at the factory with the ISO 9002 standard requirements.

On May 11, 2001 the general meeting of the subsidiary company decided to increase the share capital of AS Eltek to 4 million kroons, out of which amount 2 million to be raised through the capitalisation issue and 1 million through additional contributions into the share capital. The resolution on the entry of the amendments in the Commercial Register was made on 04.07.01

Sales and revenue

The consolidated net sales of AS Harju Elekter in 6M 2001 amounted to 88.9 million kroons (2000 6M: 90.4), whereas the parent company's turnover surpassed by 1.8% the sales revenue earned in the 1st half-year of 2000.

A significant backslide on the export markets was caused by the overall declining demand in the automotive and the electronic industry worldwide. Production of cable harnesses and wiring systems for the motor and electronic industry decreased by 20% and realisation of telecommunication products by 43%.

Despite the 24% reduction in export (2001 6M: 36.1 million kroons; 2000 6M: 47.4 million kroons), the company managed to maintain the previous year's level thanks to the growing domestic market. Production and sale of electrical equipment increased by 11.5% in comparison with the same period last year. Commercial and intermediation activities sustained a strong growth trend (+49.0%).

Profit

The Group's operating profit for the 1st half-year amounted to 5.8 million kroons which is comparable to the profit earned for the same period last year (6.3 million kroons).

Lower profitability of the parent company in Q1 that was caused by the declining export volumes, was offset in Q2 by means of cost control measures and rose from 4.3% in Q1 2001 to 7.2% in Q2, which indicator is by 4.3 per cent points higher than in Q2 of the previous year (2000 Q2: 2.9%). Altogether, the profitability indicator of the Group in Q1 settled at 6.4% (2001 6M: 7.0%). At that, the Group's profitability in Q2 2001 was by 1.9 per cent points better compared to the same indicator of the previous year and reached the 5.4% level (2000 Q2: 3.5%).

Although the shares sold during the accounting period yielded 0.4 million kroons less and income from dividends 0.7 million kroons less than expected, income from financing activities remained, in fact, on the same level (2001 6M: 7.4 million kroons; 2000 6M: 7.7 million kroons). The consolidated profit of the associated companies Keila Cables and Saajos Balti almost doubled in comparison with the same indicator for the previous year and amounted to 2.1 (2000 6M: 1.1) million kroons.

All in all, the Group's net profit for the 1st half-year of 2001 was 0.9 million kroons or 6.7% less than for the same period last year, however, the result achieved in Q2 2001 was by 0.7 million kroons or above 7% better than in Q2 2000. EPS was 2.43 kroons (2000 6M: 2.60), whereas in Q2 2001 it was 1.77 (2000 Q2: 1.65) kroons.

Cash flow, investments and capital employed

Cash inflow from business operations totalled 11.7 (2000 6M: 11.1) million kroons, outflow due to investment and financing activities 11.0 (2000 6M: 21.6) million kroons.

During the 1st half-year, the Group made new investments in the amount of 3.7 (2000 6M: 22.7) million kroons, incl. 1.6 million kroons for the acquisition of plant and machinery. In June 2001 Harju Elekter invested 1 million kroons in the expanded share capital of its subsidiary company.

During the accounting period 4.9 (2000 6M: 5.6) million kroons were spent on the repayment of long-term loan and capital lease principal sums. Dividend payments to the owners for the year 2000 amounted to 6.5 (2000 6M: 5.4) million kroons, which payment did not incur any income tax liabilities on AS Harju Elekter (see note 3).

Balance sheet

The Group has a strong capitalisation base. As of the balance date, the equity accounted for 71.8% of the assets (2000 6M: 60.6%), debt liabilities 15.0% (2000 6M: 24%), fixed assets 69.8% (2000 6M: 64.9%) and available capital 34.9% (2000 6M: 24.4%).

Personnel

During the accounting period the average number of employees in the Group was 700 (2001 6M: 637). With the aim to reduce labour costs, employment contracts were terminated with 87 employees, incl. 42 employees whose contract had expired. As of the balance date 30.06.01, 683 persons were working in the Group (30.06.00: 704).

Goals for the second half-year and future

In the field of cable harnesses, main goal in the second half-year will be flexibility – in case order volumes should fluctuate. In order to sustain the profitability level, more attention will be given to productivity growth and cost saving.

In the field of electrical equipment, preparations are in progress for the expansion of activities on the other Baltic markets.

The Group will launch the production of fibre optic products for the telecommunications sector

The production facility for the manufacturing of fireproof doors will be expanded.

Internal and preliminary audits will begin for the certification of the ISO 14001 environmental management system at Harju Elekter Group and the ISO 9001 at AS ELTEK.

Key indicators	H1 2001	2000	H1 2000
For the period (in thousand kroons)			
Net sales	88,897	205,641	90,437
Operating profit	5,753	17,031	6,329
Profit before financial expenses	11,152	29,176	15,468
Net profit for the current year	13,113	29,176	14,050
At the end of the period (in thousand kroons)			
Total current assets	49,518	51,272	55,918
Total fixed assets	114,408	114,010	103,291
TOTAL assets	163,927	165,282	159,208
Total liabilities	46,142	53,631	62,684
Total owners' equity	117,784	111,650	96,524
Number of employees	683	760	704
Performance indicators			
Return on sales (Operating profit/Net sales *100)	(%) 6.5	8.3	7.0
Equity ratio (Owners' equity/Total assets*100)	(%) 15.9	14.2	17.1
Net profit margin (Net profit/ Net sales *100)	(%) 14.8	14.2	15.5
Return on assets ROA (Net profit/Average total assets *100*2)	(%) 15.9	19.3	18.9
Return on equity ROE (Net profit/Average owners' equity *100*2)	(%) 22.9	29.3	30.5
Equity ratio (Owners' equity / Total assets *100)	(%) 71.8	67.5	60.6
Current ratio (Current assets/Short-term obligations)	1.75	1.43	1.55
Quick ratio (Liquid assets/Short-term obligations)	0.90	0.80	0.92
Earnings per share EEK EEK	2.43	5.40	2.60

Andres Allikmäe
Chairman of the Management Board

BALANCE SHEET

(in thousand kroons)

ASSETS	Note			
Current assets	No.	30.06.01	31.12.00	30.06.00
Cash and bank		8,860	8,142	6,956
Shares and other securities		435	402	549
Trade receivables				
Accounts receivable from customers		12,567	15,868	13,984
Other receivables	9	2,374	2,484	7,481
Accrued income		0	34	0
Prepaid expenses		1,150	1,540	4,323
Total trade receivables		16,091	19,926	25,788
Inventories		24,133	22,801	22,625
Total current assets		49,518	51,271	55,918
Fixed assets				
Long-term investments	1,8	24,489	23,918	17,717
Tangible assets	1	89,395	89,462	84,840
Intangible assets	1	525	630	733
Total fixed assets	1	114,408	114,010	103,290
TOTAL ASSETS		163,927	165,281	159,208
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Debt obligations	2	8,314	11,182	11,661
Prepayments received from customers		225	326	493
Accounts payable to suppliers		11,183	11,793	13,203
Other payables	9	586	381	793
Tax payable		4,931	5,731	5,226
Accrued expenses		3,001	6,317	4,649
Total current liabilities		28,241	35,730	36,023
Long-term liabilities	2	17,902	17,901	26,661
Total liabilities		46,142	53,631	62,684
Owners' equity				
Share capital (nominal value)		54,000	54,000	54,000
Statutory reserves		6,510	3,610	3,610
Retained profit		44,162	24,864	24,864
Net profit(loss) for the current year		13,113	29,176	14,050
Total owners' equity	3	117,784	111,650	96,524
TOTAL LIABILITIES AND OWNERS' EQUITY		163,927	165,281	159,208

INCOME STATEMENT

(in thousand kroons)

	<i>Note</i>	H1 2001	H1 2000	H1 2001	H1 2000
01.01.2001-30.06.01	<i>no</i>				
Net sales	4	44,499	47,460	88,897	90,437
Cost of goods sold		35,941	40,232	71,361	72,970
Gross profit		8,558	7,228	17,536	17,467
Marketing expenses		2,122	1,912	4,025	4,180
Administrative and general expenses		3,830	3,573	7,531	6,732
Other operating revenue		96	71	204	108
Other operating charges		314	176	431	335
Operating profit	4,5	2,389	1,638	5,753	6,328
Financial income incl.					
-from shares in associate co.	6	1,392	3,766	2,053	4,570
-from other investments	6	6,166	4,160	6,178	4,183
-other interest and similar financial income	9	129	137	167	386
Total financial income		7,687	8,063	8,399	9,139
Financial expenses, incl.					
-related to shares in associated companies		0	181	0	322
-interest expense		479	537	987	979
-other financial expenses		17	90	52	115
Total financial expenses		496	808	1,039	1,417
Profit from ordinary activities		9,579	8,893	13,113	14,050
Net profit for the current year		9,579	8,893	13,113	14,050
Basic earnings per share and diluted earnings per share	7	1.77	1.65	2.43	2.60

CASH FLOW STATEMENT

(in thousand kroons)

Business activities	<i>Note no.</i>	H1 2001	H1 2000
Net profit for the current year		13,113	14,050
Depreciation and amortization of fixed assets	1	3,884	3,222
Profit/loss from sales and write-off of tangible assets		-34	-10
Profit/loss by equity method	1	-2,053	-1,090
Profit/loss from sales of financial assets	6	-2,761	-3,158
Total cash flow		12,150	13,014
Stock and securities (short-term)		-33	-99
Net change in claims related to business operations		3,835	-10,325
Inventories		-1,331	-5,662
Transferred assets		-52	5,563
Current debt liabilities		-2,868	2,701
Net change in liabilities related to business activities		-4,621	1,993
Transferred liabilities		4,635	3,875
Total cash flow from changes in current assets and liabilities		-435	-1,954
Total cash flow from business activities		11,714	11,061
Investing activities			
Sale of financial assets (selling price)	1,6	2,798	0
Dividends received from subsidiaries and associated companies	1	1,236	412
Loan principal received		62	62
Long-term credit granted		0	-100
Sale of tangible fixed assets (selling price)		34	34
Additions to intangible and tangible fixed assets	1	-3,712	-20,138
Total cash flow from investing activities		418	-19,730
Financing activities			
New loans	2	0	7,368
Loans repaid	2	-4,631	-1,466
Repayment of principal amounts of capital lease	2	-303	-2,409
Cash dividends paid	3	-6,480	-5,400
Cash flow from financing activities		-11,415	-1,907
TOTAL CASH FLOW		718	-10,576
Net increase in cash		718	-10,576
Cash at the beginning of the year		8,142	17,532
Cash at the end of the year		8,860	6,956

STATEMENT OF CHANGES IN OWNERS' EQUITY

(in thousand kroons)

H1 2000

	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	
Dividends paid			-5,400		-5,400
Bonus issue	36,000		-36,000		
Profit for the current year				14,050	14,050
Final balance 30.06.01	54,000	3,610	24,864	14,050	96,524

H1 2001

	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	
Increase in reserves		2,900	-2,900		
Income tax on dividends			-498		-498
Dividends paid			-6,480		-6,480
Profit for the current year				13,113	13,113
Final balance 30.06.01	54,000	6,510	44,162	13,113	117,784

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 half-year 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		2,035		2,035
Reconstructed		1,677		1,677
Sold (at acquisition value) and written-off fixed assets	-37	-178		-215
Dividend payments during the accounting period	-1,445			-1,445
Profit by equity method for the financial period	2,053			2,053
Depreciation for the financial period		-3,780	-104	-3,884
Depreciation of sold and written-off fixed assets		178		178
Final balance 30.06.01	24,488	89,394	525	114,408

In April 2001 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 9.9% of PKC Group Oyj share capital. Financial income earned from the sale of shares and dividend income received from PKC Group Oy is reported in the income statement under "Income from other long-term financial investments". See Note 6 for more detailed information about financial revenue.

The value of the financial investment has been adjusted against the dividends announced and actually received from AS Keila Kaabel (Keila Cables) in June and against the income tax liability arising from the payment of dividends, in the amount proportional to AS Harju Elekter's participation in the share capital of AS Keila Kaabel.

Note 2. Debt liabilities

(in thousand kroons)

	30.06.01	31.12.00
Non-convertible debt	1,471	1,017
Current portion of long-term debt	3,877	8,509
Current portion of lease debt	217	520
Short-term loans from credit institutions	2,749	1,137
Total debt obligations	8,314	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	26,217	29,084

Changes in debt obligations:

Initial balance 31.12.00	29,084
Changes in non-convertible debt	454
Loans repaid	-4,631
Repayment of principal amounts of capital lease	-303
Changes in short-term loans from credit institutions	1,613
Final balance 30.06.01	26,217

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. The share capital of AS Harju Elekter is 54 million kroons that is divided into 5,400,000 ordinary shares with the nominal value of 10 kroons. 6,480 thousand kroons were paid out in dividends and this did not incur any income tax liability on AS Harju Elekter. Income tax liability calculated on the dividends paid to the shareholders who belong to the taxable category was covered fully by the deductions allowed under the law.

The income tax on dividends in the amount of 498 thousand kroons disbursed from the retained earnings of the previous periods represents the part of the income tax liability arising from the dividends paid by AS Keila Kaabel and corresponds to AS Harju Elekter's holding in the equity of the associated company.

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.

H1 2000	Electrical	Telecommunications	Elimination	TOTAL
Sales revenue	73,137	17,300		90,437
Transactions with other segments	2,425	694	-3,119	0
Total	75,562	17,994	-3,119	90,437
Operating profit	5,474	908	-53	6,329

H1 2001	Electrical	Telecommunications	Elimination	TOTAL
Sales revenue	75,299	13,598		88,897
Transactions with other segments	1,619	462	-2,080	0
Total	76,917	14,060	-2,080	88,897
Operating profit	4,491	1,309	-46	5,753

Geographic areas	H1 2001	H1 2000
INTERNAL MARKET	52,835	43,068
EXTERNAL MARKET	36,062	47,369
Incl. Nordic countries	29,514	36,532
Netherland	123	0
Russia	556	0
Denmark	2,972	6,024
CEEC	305	1,892
Baltic states	2,592	2,921
TOTAL	88,897	90,437

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.

	H1 2001	H1 2000
Core business and products		
- electrical equipment	27,854	24,980
- wiring systems for automotive and telecommunications industry (subcontracting)		
- cabinets/boxes for telecom installations	23,991	29,910
- sheet metal products and metalwork	6,062	10,640
- electrical equipment	10,506	10,115
TOTAL CORE BUSINESS	68,413	75,645
Intermediary activities and other services		
- trade and intermediation	15,407	10,346
- leasing of capital assets	2,400	2,213
- other services	2,677	2,233
TOTAL OTHER ACTIVITIES	20,484	14,792
TOTAL	88,897	90,437

Note 5 Operating profit

(in thousand kroons)

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

	H1 2001	H1 2000
(in thousand kroons)		
- write-down of outstanding accounts receivable from customers	32	41
- receipt of accounts formerly charged to expenses	-9	-30
- revaluation of inventory	67	0

Note 6 One-time financial income

(in thousand kroons)

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

	H1 2001	H1 2000
- income from the sale of shares of the associated company Glamox Harju Elekter	0	3,159
- income earned from the sale of PKC Group Oyj shares	2,761	0
- dividends paid by PKC Group Oyj	3,390	4,128

Note 7 Basic and diluted earnings per share

Average number of the company's share in 1st half-year of 2001 is 5,400 thousand. Basic EPS is $13,113/5,400=2.43$ kroons ($14,050/5,400= 2.60$ kroons in 1H 2000).

Pursuant to the resolution of the general meeting of AS Harju Elekter, a share option was organized in September 2000. The redemption price of the option was set at 40 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 the 1st half-year of 2001 the average market price of the share settled at 39.43 (2000 6M: 44.60) kroons which is lower than the option redemption price. The exercise of the call option would not cause any potential loss for the company. Thus diluted earnings per share was equal to basic earnings per share.

Note 8 Expanding the share capital of the subsidiary

The general meeting of the subsidiary company AS Eltek that took place on 11th of 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.

Note 9 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 the 1st half-year of 2001 AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

Related parties	Bought	Sold
ELTEK	462	1,619
Keila Kaabel	1,688	1,951
Saajos Balti	444	1,453
Harju KEK	76	9
TOTAL	2,670	5,032

Type of transaction	Bought	Sold
Goods purchased for resale	1,684	0
Material, components for production needs	467	100
Industrial subcontracting (outsourcing)	0	577
Lease of fixed assets	0	2,440
Management services	0	662
Other services (building and communication, repairs and maintenance of real estate)	518	1,254
TOTAL	2,670	5,032

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 98 thousand kroons of the long-term and 1.750 thousand kroons of the short-term credit. During the financial period the employees were granted short-term loans in the amount 10 thousand kroons, the employees repaid 99.7 thousand kroons. The annual interest rate on loans to related parties was 8%. During the reporting period the related parties paid the total of 116 thousand kroons in interest, of that 90 thousand kroons was paid by the subsidiary company.

Balance with related parties:	Claims		Obligations	
	30.06.01	31.12.00	30.06.01	31.12.00
Total loans to subsidiary company	2,452	4,700	49	240
Incl. outstanding accounts	934	1,648	49	240
outstanding dividends	300	0	0	0
long-term loan	154	252	0	0
short-term loan	1,064	2,800	0	0
Total loans to associated companies	2,239	2,136	417	238
Incl. AS Keila Kaabel	278	1,121	290	114
AS Saajos Balti	1,961	1,015	127	124
Total loans to employees	609	698	0	0
Incl. long-term loan	587	649	0	0
short-term loan	22	49	0	0