

# AS Harju Elekter

## Interim report 1-3/ 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. AS Harju Elekter has holdings in associated companies AS Keila Kaabel (41,2%) and AS Saajos Balti (33,3%) and in the Finnish company PKC Group Oyj (12%).

The Group employees almost 300 people.

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

Business name:	Harju Elekter AS
Commercial registry code:	10029524
Address:	Paldiski mnt.31, 76 606 Keila, Estonia
Beginning of the financial year:	1 <sup>st</sup> of January
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 March 2003
Telephone:	+372 67 47 400
Fax:	+372 67 47 401
E-mail:	he@he.ee
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 1-3 /2003 and explanatory note.

*The interim report of Harju Elekter Group on 18 pages*

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**Signatures of the Management Board to the Interim report 1-3/2003**

Management Board of AS Harju Elekter has prepared the consolidated Interim report for Q1 2003 as presented on pp. 4-18.

Approval of the Interim report 1-3/2003 as of March 31, 2003 by the Management Board members:

Andres Allikmäe	Chairman of the Board	.....	„.....“ :..... 2003
Lembit Libe	Member of the Board	.....	„.....“ :..... 2003
Ülo Merisalu	Member of the Board	.....	„.....“ :..... 2003
Karin Padjus	Member of the Board	.....	„.....“ :..... 2003

**EXPLANATORY NOTE**

The financial results of AS Harju Elekter, its subsidiaries and related companies are presented in the consolidated interim report 1-3/ 2003 as follows:

	Participation on 31.03.03	Participation on 03.02
AS Eltek	100 %	100 %
Satmatic OY	100 %	0 %
AS Keila Kaabel	41,2 %	41,2 %
AS Saajos Balti	33,3 %	33,3 %

**Important events**

In January, Harju Elekter submitted an application to transfer the shares of the company into the main list of the Tallinn Stock Exchange. The application was satisfied and the shares of the company (HAE1T) are traded in the main list of the Tallinn Stock Exchange as from 17 February 2003. On 31 March, the closing price of the share was EEK 58,67 (EUR 3,75).

**Post-balance-sheet events**

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 shall be distributed to the shareholders on May 12, 2003.

In April, AS Harju Elekter acquired a long-term loan from a Finnish bank in the amount of 1 million EUR (15,6 MEEK). The loan is repayable within 8 years. According to the agreement between the parties, the interest of the loan is not made public. Loan money is used for the construction of a new production hall within the framework of the extension of PKC Eesti. The total cost of the project is 26 million EEK (1,7 MEUR) and own funds will be used for financing in addition to the loan. PKC Eesti, the former cable harnesses factory of Harju Elekter, leases production premises from Harju Elekter from July 2002. Today, Harju Elekter leases a total of 13 400 m<sup>2</sup> to PKC Eesti, including 4 700 m<sup>2</sup> in Haapsalu. By launching the new production hall in July 2003, another 4 500 m<sup>2</sup> of leased premises will be added in Keila.

**Sales and revenues**

In the first quarter, the economic growth of Estonia was more than expected. Industry demonstrated a good rising trend by 10% growth at the beginning of the year. The building sector continues powerfully. Electricity production has increased by one-third. As a whole, the economic growth has been more than double compared to the first quarter of the previous year.

The consolidated net sales of Harju Elekter Group for Q1 2003 amounted to 70,8 million EEK or 4,5 million EUR (Q1 2002: 52,2 MEEK e. 3,3 MEUR). Compared to the same period last year, the company's turnover grew by 35,8%. Sales on the domestic market grew by 30,0%, thus accounting for 50,7% (Q1 2002: 53,0%) of the consolidated net sales. Export sales amounted to 34,9 million EEK or 2,2 million EUR (Q1 2002: 24,5 MEEK e. 1,6 MEUR), which is 42,4% more than for the same period last year. Sales on the Finnish market increased 56,6%, of which 40,3% was attributable to the sales of the Finnish subsidiary acquired in September 2002.

In the Estonian enterprises of the group, the total sales of the accounting quarter form 95,5% of the level of the previous year. However, the income of the first quarter of 2002 includes the sale of

products and services of the cable harnesses factory amounting to 29,3% of the group's sales of the period, that is 15,3 million EEK (979 TEUR). Apart from the sales of the cable harnesses factory in the first quarter of 2002, the comparable sales growth of the Estonian enterprises would be 35,2%.

**Profit**

The Group's operating profit was 4,4 million EEK or 283 TEUR (Q1 2002: 2,8 MEEK or 178 TEUR). The Group's return on sales settled at 6,3% (Q1 2002: 5,3%).

Financial income was 3,4 million EEK or 217 TEUR (Q1 2002: 2,7 MEEK or 171 TEUR). PKC Group paid dividends for the year 2002 in an amount of 4,6 million EEK (291 TEUR), which is over two times more than in the previous year (1Q 2002: 2,1 MEEK or 132 TEUR). A loss of 1 072 TEUR (69 TEUR) occurred as of 31 March 2003 due to the revaluation of the PKC Group Oyj shares.

In total, the Group's net profit for the 1<sup>st</sup> quarter of 2003 was 7,6 million EEK or 489 TEUR (Q1 2002: 5,5 MEEK or 348 TEUR). Net profit margin settled at 10,8% (Q1 2002: 10,4%). EPS was 1,42 EEK or 0,09 EUR (Q1 2002: 1,01 EEK or 0,06 EUR).

**Cash flow, investments and capital employed**

Cash flow from operating activities was 4,9 million EEK or 315 TEUR (Q1 2002: 3,7 MEEK or 238 TEUR), outflow due to investing activities 1,3 million EEK or 85 TEUR (Q1 2002: 0,2 MEEK or 14 TEUR) and financing activities 2,3 MEEK or 148 TEUR (Q1 2002: 2,1 MEEK or 136 TEUR). During the quarter cash balance on hand and in bank increased by 1,3 MEEK or 82 TEUR (Q1 2002: 1,4 MEEK or 88 TEUR).

During the accounting period the Group invested 8,6 MEEK or 550 TEUR in tangible and intangible fixed assets (Q1 2002: 3,1 MEEK or 199 TEUR). Investments in plant and technology were 2,0 MEEK or 127 TEUR (Q1 2002: 1,1 MEEK or 68 TEUR), into the buildings and reconstructions 6,4 MEEK or 409 TEUR (Q1 2002: 1,0 MEEK or 66 TEUR).

In the accounting quarter, AS Harju Elekter purchased 9 thousand shares of PKC Group Oyj and paid 1 061 TEEK (68 TEUR) for the investment. After this acquisition, Harju Elekter owns 12% of the shares of PKC Group.

AS Harju Elekter obtained production equipment for the price of 1,4 million EEK (89 TEUR) on the basis of a financial lease contract. Long-term loan and capital lease repayments during the accounting period accounted for 2,3 million EEK or 148 TEUR (Q1 2002: 2,1 MEEK or 136 TEUR).

**Balance sheet**

In accordance with the new Accounting Act of the Republic of Estonia and new standards of the Estonian Accounting Standards Board, which entered into force on 1 January 2003, Harju Elekter Group changed the accounting method of financial instruments. As from 2003, financial instruments are recorded in the balance sheet using the method of fair value. Financial investments (shares of PKC Group Oyj) in the balance sheet as of 31 December 2002 were adjusted to their market value according to the rate of the last trading day of 2002. The difference between the fair value and balance sheet value arising from the revaluation was 53,9 million EEK (3 511 TEUR), by which the opening balance of retained earnings under the owners' equity and the opening balance of other long-term shares under long-term financial investments were increased. As a result, the proportion of owners' equity increased in the balance sheet from 76,2% to 80,8% as of 31 December 2002 and fixed assets increased from 62,8% to 70,0% in the adjusted opening balance sheet of 2003. As of 31 March 2003, fixed assets

formed and owners' equity formed 69,9% and 80,8% of the consolidated balance sheet total, respectively.

### Personnel

The average number of employees in the group was 280 (Q1 2002: 633). As of the balance sheet date 31.03.03 the group employed 291 persons (645 in 2002). The indicators of 2002 include the number of employees of the cable harnesses factory.

### Shares of Harju Elekter

	EEK		EUR	
	Q1 2003	Q1 2002	Q1 2003	Q1 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	28,48	1,82	1,82
High price	61,02	36,00	2,30	2,30
Average price	52,66	33,26	2,13	2,13
Market price at the end of period	58,67	34,74	2,22	2,22
Earnings per share EEK	1,42	1,01	0,09	0,06

### Key indicators

For the period	1 000 EEK			1 000 EUR		
	Q1 2003	*2002	Q1 2002	Q1 2003	*2002	Q1 2002
Net sales	70 842	271 212	52 181	4 528	17 334	3 335
Operating profit	4 428	15 494	2 784	283	990	178
Profit before financial expenses (EBIT)	8 030	24 253	5 784	513	1 550	369
Net profit for the current year	7 645	53 254	5 450	489	3 404	348
<b>At the end of the period</b>						
Total current assets	86 378	83 270	67 759	5 521	5 322	4 331
Total fixed assets	201 001	194 505	121 712	12 846	12 431	7 779
TOTAL assets	287 379	277 774	189 470	18 367	17 753	12 110
Total liabilities	55 183	53 223	58 607	3 527	3 402	3 746
Total owners' equity	232 196	224 551	130 863	14 840	14 351	8 364

Performance indicators (%)	Q1 2003	*2002	Q1 2002
Net sales growth	35,8	38,7	17,5
Operating profit growth	59,0	33,5	-17,2
Net profit growth	40,3	156,7	54,2
Return of sales (operating profit/net sales *100)	6,3	5,7	5,3
Net profit margin (net profit /net sales *100)	10,8	19,6	10,4
Owners' equity margin (equity / balance sheet total *100)	80,8	80,8	69,1
Current ratio	1,8	1,6	1,5
Quick ratio	0,9	0,9	0,8
Number of employees on 31.03.2003	294	294	645

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

## INTERIM FINANCIAL STATEMENTS

## BALANCE SHEET

ASSETS	Note NO	1 000 EEK			1 000 EUR		
		31.03.03	31.12.02	31.03.02	31.03.03	31.12.02	31.03.02
<b>Current assets</b>			<i>adjusted</i>		<i>adjusted</i>		
<b>Cash and bank</b>		<b>12 882</b>	<b>11 620</b>	<b>12 372</b>	<b>823</b>	<b>743</b>	<b>791</b>
<b>Short-term receivables</b>							
Trade receivables		27 149	28 705	18 695	1 735	1 835	1 195
Other short-term receivables	10	2 306	2 035	1 807	147	130	115
Accrued expenses		2	14	103	0	1	7
Prepaid expenses		1 514	753	2 832	97	48	181
<b>Total short-term receivables</b>		<b>30 971</b>	<b>31 507</b>	<b>23 437</b>	<b>1 979</b>	<b>2 014</b>	<b>1 498</b>
<b>Inventories</b>		<b>42 525</b>	<b>40 142</b>	<b>31 950</b>	<b>2 718</b>	<b>2 566</b>	<b>2 042</b>
<b>Current assets</b>		<b>86 378</b>	<b>83 270</b>	<b>67 759</b>	<b>5 521</b>	<b>5 322</b>	<b>4 331</b>
<b>Fixed assets</b>							
Long-term investments	1,8	97 831	97 768	28 394	6 253	6 249	1 815
Tangible assets	2	102 059	95 514	92 761	6 523	6 104	5 929
Intangible assets	2	1 111	1 222	557	71	78	36
<b>Total fixed assets</b>		<b>201 001</b>	<b>194 505</b>	<b>121 712</b>	<b>12 846</b>	<b>12 431</b>	<b>7 779</b>
<b>Total assets</b>		<b>287 379</b>	<b>277 774</b>	<b>189 470</b>	<b>18 367</b>	<b>17 753</b>	<b>12 109</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>							
<b>Liabilities</b>							
<b>Current liabilities</b>							
Debt obligations	3	10 346	12 360	13 048	661	790	834
Prepayments received from customers		144	193	126	9	12	8
Accounts payable to suppliers		25 006	22 438	21 287	1 598	1 434	1 360
Other payables	10	1 274	1 251	864	81	80	55
Tax payable		3 121	5 405	4 079	199	345	261
Accrued expenses		7 543	5 869	6 949	482	375	444
Other prepaid revenue		971	0	0	62	0	0
<b>Total current liabilities</b>		<b>48 405</b>	<b>47 516</b>	<b>46 353</b>	<b>3 094</b>	<b>3 037</b>	<b>2 962</b>
<b>Long-term liabilities</b>	3	<b>6 778</b>	<b>5 707</b>	<b>12 254</b>	<b>433</b>	<b>365</b>	<b>783</b>
<b>Total liabilities</b>		<b>55 183</b>	<b>53 223</b>	<b>58 607</b>	<b>3 527</b>	<b>3 402</b>	<b>3 746</b>
<b>Owners' equity</b>							
Share capital (nominal value)		54 000	54 000	54 000	3 451	3 451	3 451
Statutory reserves		8 600	8 600	6 510	550	550	416
Retained profit	1	161 951	108 698	64 903	10 351	6 947	4 148
Net profit(loss) for the current period		7 645	53 254	5 450	489	3 404	348
<b>Total owners' equity</b>	4	<b>232 196</b>	<b>224 551</b>	<b>130 863</b>	<b>14 840</b>	<b>14 351</b>	<b>8 364</b>
<b>Tot. liabilities and owner' equity</b>		<b>287 379</b>	<b>277 774</b>	<b>189 470</b>	<b>18 367</b>	<b>17 753</b>	<b>12 109</b>

**INCOME STATEMENT**

	Note No	1 000 EEK		1 000 EUR	
		Q1 2003	Q1 2002	Q1 2003	Q1 2002
Net sales	5,6	70 842	52 181	4 528	3 335
Cost of goods sold		-57 140	-42 888	-3 652	-2 741
<b>Gross profit</b>		<b>13 702</b>	<b>9 293</b>	<b>876</b>	<b>594</b>
Marketing expenses		-3 713	-2 586	-237	-166
Administrative and general expenses		-5 384	-3 935	-344	-252
Other operating revenue		5	196	0	13
Other operating charges		-183	-184	-12	-12
<b>Operating profit</b>	5,6	<b>4 428</b>	<b>2 784</b>	<b>283</b>	<b>177</b>
<b>Financial incomes and expenses, incl.</b>					
-from shares of associated companies		74	780	5	50
-from other investments	1,7	3 486	2 215	223	142
- interest expense		-212	-334		-21
- profit/loss from foreign exchange		-16	-44	-1	-3
- other financial expenses/incomes		58	49	4	3
<b>Total financial incomes and expenses</b>		<b>3 390</b>	<b>2 666</b>	<b>217</b>	<b>170</b>
<b>Profit from ordinary activities</b>		<b>7 818</b>	<b>5 450</b>	<b>500</b>	<b>348</b>
Allocation of corporate income tax to relevant periods (in Finland)		-173	0	-11	0
<b>Net profit for the current period</b>		<b>7 645</b>	<b>5 450</b>	<b>489</b>	<b>348</b>
Basic earnings per share	8	1,42	1,01	0,09	0,06
Diluted earnings per share	8	1,40	1,01	0,09	0,06



**CASH FLOW STATEMENT**

	Note no	1 000 EEK		1 000 EUR	
		Q1 2003	Q1 2002	Q1 2003	Q1 2002
<b>Business activities</b>					
Operating profit		4 428	2 784	283	178
<u>Adjustments</u>					
Depreciation and value decrease	2	2 184	2 057	140	131
Profit/loss from sales of tangible assets		0	-96	0	-6
Change in payables and prepayments related to business operations		-432	-3 616	-28	-231
Changes of inventories		-2 372	-6 664	-152	-426
Changes of dept obligations		-24	247	-2	16
Change in liabilities and prepayments related to business operations		1 363	9 338	87	597
Interests paid		-212	-334	-14	-21
<b>Total cash flow from business activities</b>	9	<b>4 934</b>	<b>3 716</b>	<b>315</b>	<b>238</b>
<b>Investing activities</b>					
Investments in fixed assets		-4 917	-3 108	-314	-199
Capital gains from disposed fixed assets		0	101	0	6
Payments for financial investments		-1 061	0	-68	0
Capital gains from sale of fin. investments		0	608	0	39
Long-term loans granted		0	-55	0	-4
Repayment of loan receivables		24	118	2	8
Interests received	9	66	61	4	4
Dividends received	9	4 551	2 064	291	132
<b>Total cash flow from investing activities</b>	9	<b>-1 338</b>	<b>-212</b>	<b>-85</b>	<b>-14</b>
<b>Financing activities</b>					
Loans repaid		-1 939	-1 939	-124	-124
Repayment of princ.amounts of cap.lease		-380	-189	-24	-12
<b>Cash flow from financing activities</b>	3	<b>-2 319</b>	<b>-2 128</b>	<b>-148</b>	<b>-136</b>
<b>Total cash flow</b>		<b>1 277</b>	<b>1 377</b>	<b>82</b>	<b>88</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		1 277	1 377	82	88
Effect of foreign exchange rate change		-16	-44	-1	-3
<b>Cash at the end of the period</b>		<b>12 882</b>	<b>12 372</b>	<b>823</b>	<b>791</b>

**STATEMENT OF CHANGES IN OWNERS' EQUITY**

	1 000 EEK		1 000 EUR	
	Q1 2003	Q1 2002	Q1 2003	Q1 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>Reserves</b>				
Initial balance	8 600	6 510	550	416
<b>Final balance</b>	<b>8 600</b>	<b>6 510</b>	<b>550</b>	<b>416</b>
<b>Retained earnings</b>				
Initial balance	108 698	44 161	6 947	2 822
Distribution of net profit	53 254	20 742	3 404	1 326
<b>Final balance</b>	<b>161 951</b>	<b>64 903</b>	<b>10 351</b>	<b>4 148</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	7 645	5 450	489	348
<b>Final balance</b>	<b>7 645</b>	<b>5 450</b>	<b>489</b>	<b>348</b>
<b>Total owners' equity</b>	<b>232 196</b>	<b>130 863</b>	<b>14 840</b>	<b>8 364</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 1-3/2003 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 first quarter of 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**

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. The difference between the fair value and the balance sheet value arising from the revaluation was 53 934 thousand EEK (3 511 TEUR) by which the opening balance of retained earnings under the owners' equity and the opening balance of other long-term shares under long-term financial investments was increased.

	1 000 EEK		1 000 EUR	
	<b>Other shares</b>	<b>Retained profit</b>	<b>Other shares</b>	<b>Retained profit</b>
<b>Adjustments to opening balance sheet</b>				
Opening balance 31.12.2002	17 038	54 933	1 089	3 511
Adjustments to opening balance	53 765	53 765	3 436	3 436
Adjusted opening balance 01.01.2003	70 803	108 698	4 525	6 947

Financial investment is revaluated as of the end of the quarter, on 31 March 2003, based on the rate of the last trading day, which was 7,00 EUR. The difference of the revaluation is recorded in the income

statement under *financial income and costs from other investments*. Revaluation caused a loss of 1 072 thousand EEK (69 TEUR).

**Note 2 Tangible and intangible assets**

	1 000 EEK			1 000 EUR		
	Tan- gible assets	Intan- gible assets	TOTAL	Tan- gible assets	Intan- gible assets	TOTAL
<b>Initial balance 31.12.02</b>	<b>95 514</b>	<b>1 222</b>	<b>96 737</b>	<b>6 104</b>	<b>78</b>	<b>6 183</b>
Acquired	3 278	0	3 278	209	0	209
Reconstructed	5 340	0	5 339	341	0	341
Depreciation	-2 073	-111	-2 184	-132	-7	-140
<b>Final balance</b>	<b>102 059</b>	<b>1 111</b>	<b>103 169</b>	<b>6 523</b>	<b>71</b>	<b>6 594</b>

**Note 3 Debt liabilities**

	1 000 EEK		1 000 EUR	
	31.03.03	31.12.02	31.03.03	31.12.02
Short-term loans	5 484	5 508	350	352
Current portion of long-term debt	4 168	6 107	266	390
Repayment of long-term leasing oblig. during the next period	694	745	44	48
<b>Total debt obligations</b>	<b>10 346</b>	<b>12 360</b>	<b>661</b>	<b>790</b>
Non-convertible debt	195	195	12	12
Long-term bank loans	3 542	3 542	226	226
Long-term lease liabilities	3 042	1 971	194	126
<b>Total long-term liabilities</b>	<b>6 778</b>	<b>5 707</b>	<b>433</b>	<b>365</b>
<b>Total debt liabilities</b>	<b>17 125</b>	<b>18 067</b>	<b>1 094</b>	<b>1 155</b>

Changes in debt obligations :

	1 000 EEK		1 000 EUR	
	31.12.02	31.03.03	31.12.02	31.03.03
<b>Initial balance 31.12.02</b>	<b>18 067</b>	<b>1 155</b>	<b>1 155</b>	<b>18 067</b>
Changes in short-term loans	-24	-2	-2	-24
Loans repaid	-1 938	-124	-124	-1 938
Repayment of principal amounts of capital lease	-380	-24	-24	-380
New long-term lease liabilities	1 400	89	89	1 400
<b>Final balance 31.03.03</b>	<b>17 125</b>	<b>1 095</b>	<b>1 095</b>	<b>17 125</b>

**Note 4 Equity**

The share capital of AS Harju Elekter is 54 MEEK (3,4 MEUR) that is divided into 5 400 thousand ordinary shares with the nominal value of 10 EEK (0,64 EUR).

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).

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 will be distributed on May 12, 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.

Q1 2003	1 000 EEK				1 000 EUR			
	Electrical	Telecom municat.	Elimina- tion	TOTAL	Electrical	Telecom municat.	Elimina- tion	TOTAL
Sales revenue	59 775	11 067		70 842	3 820	707	0	4 528
Transact.with other segments	1 531	342	-1 873	0	98	22	-120	0
<b>Total</b>	<b>61 306</b>	<b>11 409</b>	<b>-1 873</b>	<b>70 842</b>	<b>3 918</b>	<b>729</b>	<b>-120</b>	<b>4 528</b>
<b>Operating profit</b>	<b>3 639</b>	<b>954</b>	<b>-165</b>	<b>4 428</b>	<b>233</b>	<b>61</b>	<b>-11</b>	<b>283</b>

Q1 2002	1 000 EEK				1 000 EUR			
	Electrical	Telecom municat.	Elimina- tion	TOTAL	Electrical	Telecom municat.	Elimina- tion	TOTAL
Sales revenue	43 328	8 853		52 181	2 769	566	0	3 335
Transact.with other segments	994	135	-1 129	0	64	9	-72	0
<b>Total</b>	<b>44 322</b>	<b>8 988</b>	<b>-1 129</b>	<b>52 181</b>	<b>2 833</b>	<b>574</b>	<b>-72</b>	<b>3 335</b>
<b>Operating profit</b>	<b>2 032</b>	<b>775</b>	<b>-23</b>	<b>2 784</b>	<b>130</b>	<b>49</b>	<b>-2</b>	<b>177</b>

**Geographical segments**

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

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

*Finland* – country of establishment for the subsidiary Satmatic.

Revenue from non-concern buyers	1 000 EEK		Total concern	1 000 EUR		Total concern
	Estonia	Finland		Estonia	Finland	
Q1 2003	49 827	21 015	70 842	3 185	1 343	4 528
Q1 2002	52 181	0	52 181	3 335	0	3 335

The sales of the first quarter of 2003 exceeded the sales of the same period of the previous year by 35,8%, whereas the increases were 38,3% and 26,9% in the electro-technology sector and telecommunications sector, respectively. The report of geographic segments shows that the revenue increase was attributable to the sales of the Finnish subsidiary. In Estonian segment, the sales amounted to 95,5% of the level of the previous year. However, the income of the first quarter of 2002 includes the sale of products and services of the cable harnesses factory, amounting to 29,3% of the turnover of the group, that is 15 314 thousand EEK (979 TEUR). Apart from the sales of the cable harnesses factory in the first quarter of 2002, the comparable turnover increase in Estonian enterprises would be 35,2%.

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

	1 000 EEK		1 000 EUR		Structure	
	Q1 2003	Q1 2002	Q1 2003	Q1 2002	Q1 2003	Q1 2002
Estonia	35 951	27 664	2 298	1 768	50,75%	53,02%
Finland	30 586	19 528	1 955	1 248	43,18%	37,42%
Other Europe	999	2 266	64	145	1,41%	4,34%
Latvia and Lithuania	1 575	2 456	101	157	2,22%	4,71%
Russia and CEEC	210	267	13	17	0,30%	0,51%
USA	1 521	0	97	0	2,15%	0,00%
<b>Total</b>	<b>70 842</b>	<b>52 181</b>	<b>4 528</b>	<b>3 335</b>	<b>100,00%</b>	<b>100,00%</b>

Sales increased 30,0% on the Estonian market and 56,6% on the Finnish market, of which 40,3% accounts for the sales of the Finnish subsidiary acquired in September 2002.

**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.

	Changes	1 000 EEK		1 000 EUR	
		Q1 2003	Q1 2002	Q1 2003	Q1 2002
<b>Core business and products</b>					
- electrical equipment	176,35%	42 956	15 544	2 745	993
- wiring systems for automotive and telecomm. industry (subcontracting)					
- cabinets/boxes for telecom install.	-100,00%	0	15 314	0	979
- sheet metal products and work	-5,88%	4 963	5 273	317	337
<b>TOTAL CORE BUSINESS</b>	<b>42,89%</b>	<b>7 096</b>	<b>4 966</b>	<b>454</b>	<b>317</b>
<b>Core business and products</b>	<b>33,87%</b>	<b>55 015</b>	<b>41 097</b>	<b>3 516</b>	<b>2 627</b>
<b>Interm. activities and other services</b>					
- trade and intermediation	22,81%	11 184	9 107	715	582
- leasing of capital assets	171,72%	3 334	1 227	213	78
- other services	74,40%	1 308	750	84	48
<b>TOTAL OTHER ACTIVITIES</b>	<b>42,78%</b>	<b>15 826</b>	<b>11 084</b>	<b>1 011</b>	<b>708</b>
<b>TOTAL</b>	<b>35,76%</b>	<b>70 842</b>	<b>52 181</b>	<b>4 528</b>	<b>3 335</b>

Compared to the previous year, the sale of electrical equipment to buyers outside the group increased by 27,4 MEEK (1,8 MEUR), of which EEK 21,0 MEEK (1,3 MEUR) accounted for the sales of Satmatic to buyers outside the group. Therefore, the increase in the sales of the electrical equipment factory reached 41,3% in respect of this product. The 2,7-fold increase in income from rent was achieved due to the increase in rental premises.

#### Note 7. Financial incomes and expenses from other financial investments

	1 000 EEK		1 000 EUR	
	Q1 2003	Q1 2002	Q1 2003	Q1 2002
- dividends paid by PKC Group Oyj	4 551	2 064	291	132
- change of the value of PKC shares	-1 072	0	-69	0

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

#### Note 8 Basic and diluted earnings per share

	EEK		EUR	
	Q1 2003	Q1 2002	Q1 2003	Q1 2002
- net profit of the current period (1 000)	7 645	5 450	489	348
- average no of the company shares (1 000 tk)	5 400	5 400	5 400	5 400
- basic earning per share	1,42	1,01	0,09	0,06
- diluted earnings per share	1,40	1,01	0,09	0,06

Basic earnings per share = net profit of the current period / average number of the company shares.

Diluted earnings have been calculating, taking account of share options that entitle the holder to acquire the shares of the company at a price more favorable than the market price. In Q1 2003 the average market price of the share settled at 52,66 EEK (3,37 EUR), which is higher than the option redemption price 40,00 EEK (2,56 EUR). For the realisation of the option the company will earn 8 million kroons (511 TEUR). The company should issue 152 thousand new shares in market value. The difference between the number of shares covered with options and shares to be issued at the market value - 48 000 shares - may be viewed as shares free of charge, by which the average number of shares of the period is increased.

Diluted earnings per share is  $7\,645/5\,448 = 1,40$  EEK ( $489/5448=0,09$  EUR).

### Note 9 Cash flow statement

The group applies the indirect method for presentation of cash flows from operating activities and the direct method for presentation of cash flows from financing activities. In order to improve the clarity of presentation of information in the cash flow statement, the scheme of the cash flow statement was amended. Pursuant to the new scheme, cash flows from operating activities are indicated by first presenting the operating profit (net profit for the period 2002). Almost a half of the net profit for the consolidated period is the profit from financing activities; therefore, in order to identify the cash flows from operating activities, all profit and loss from investing activities and non-cash transactions are to be disregarded (unrealised foreign exchange fluctuations, profit/loss from the equity method, etc). Therefore, the presentation of cash flows from operating activities is lengthy and abstruse, if started with the net profit for the period. Another difference is that as of this report, the received interest income and dividends are reflected under cash flow from investing activities. Indicators of the first quarter of 2002 are adjusted in the cash flow statement and the information submitted in the report is comparable.

### Note 10 Transactions with related parties

Related parties to AS Harju Elekter are the 100% -owned subsidiaries AS ELTEK and Satmatic Oy, 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 1<sup>st</sup> quarter of 2003 AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

	1 000 EEK				1 000 EUR			
	Q1 2003		Q1 2002		Q1 2003		Q1 2002	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Eltek	342	1 314	135	994	22	84	9	64
Satmatic	7	210			0	13		
Keila Kaabel	1 318	1 594	882	665	84	102	56	42
Saajos Balti	307	1 310	388	786	20	84	25	50
Harju KEK	911	10	37	8	58	1	2	0
<b>TOTAL</b>	<b>2 885</b>	<b>4 437</b>	<b>1 442</b>	<b>2 453</b>	<b>184</b>	<b>284</b>	<b>92</b>	<b>157</b>



Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	1 199	0	77	0
Material, components for production needs	441	1 057	28	68
Industrial subcontracting (outsourcing)	244	517	16	33
Lease of fixed assets	0	1 437	0	92
Management services	0	317	0	20
Other services (building and communication, repairs and maintenance of real estate)	1 001	1 110	64	71
<b>TOTAL</b>	<b>2 885</b>	<b>4 437</b>	<b>184</b>	<b>284</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 1<sup>st</sup> quarter of 2003 the subsidiary Satmatic Oy paid back to the parent company 848 TEEK or 54 TEUR of the long-term credit. Harju Elekter earned in the period 18 TEEK (1,15 TEUR) of interest income from the short-term credit and 123 TEEK or 7,87 TEUR from the long-term credit.

During the financial period the employees were granted short-term loans in the amount 15 TEEK or 0,96 TEUR (Q1 2002: 39 TEEK or 2,49 TEUR). The employees repaid 45 TEEK or 2,8 TEUR (Q1 2002: 130 TEEK or 8,31 TEUR). The annual interest rate on loans was 7%. During the reporting period the employees paid the total of 10 TEEK or 0,64 TEUR (Q1 2002: 12 TEEK or 0,77 TEUR) in interest.

#### Balance with related parties:

Claims	1 000 EEK		1 000 EUR	
	31.03.03	31.12.02	31.03.03	31.12.02
<b>Total loans to subsidiaries</b>	<b>12 351</b>	<b>12 828</b>	<b>789</b>	<b>820</b>
<b>EL/TEK</b>	<b>2 803</b>	<b>2 302</b>	<b>179</b>	<b>147</b>
Incl. outstanding accounts	1 903	1 402	122	90
short-term loan	900	900	58	58
<b>Satmatic</b>	<b>9 548</b>	<b>10 526</b>	<b>610</b>	<b>673</b>
Incl. outstanding accounts	210	339	13	22
long-term loan	9 323	10 170	596	650
interest of the long-term loan	15	17	1	1
<b>Total loans to associated companies</b>	<b>2 156</b>	<b>1 858</b>	<b>138</b>	<b>119</b>
Incl. AS Keila Kaabel	140	1000	9	64
AS Saajos Balti	2 017	858	129	55
<b>Total loans to employees</b>	<b>429</b>	<b>453</b>	<b>27</b>	<b>29</b>
Incl. long-term loan	391	409	25	26
short-term loan	38	44	2	3

Obligations	1 000 EEK		1 000 EUR	
	31.03.03	31.12.02	31.03.03	31.12.02
<b>Total loans to subsidiaries</b>	<b>293</b>	<b>153</b>	<b>19</b>	<b>10</b>
Incl. outstanding accounts to ELTEK	286	153	18	10
Incl. outstanding accounts to Satmatic	7	0	0	0
<b>Total loans to associated companies</b>	<b>574</b>	<b>554</b>	<b>37</b>	<b>35</b>
Incl. AS Keila Kaabel	285	318	18	20
AS Saajos Balti	289	236	18	15

### Note 11 Post-balance-events

On 29 April 2003, AS Harju Elekter and Sampo Pank Finland concluded a loan agreement in the amount of 1million EUR (15,6 MEEK) for a term of eight years. Repayment starts this year. The consolidating company pledged 250 000 shares of PKC Group Oyj in favour of the bank as security. As of 31 March 2003, the balance sheet value of the pledge was 27,4 million EEK (1,75 MEUR). According to the agreement between the parties, the loan interest is not made public. AS Harju Elekter has another valid long-term loan agreement with the same bank and its repayment is due on 28.09.03.

Loan money is used for the construction of a new production hall within the framework of the extension of PKC Eesti. The total cost of the project is 26 million EEK (1,7 MEUR) and own funds will be used for financing in addition to the loan. PKC Eesti, the former cable harnesses factory of Harju Elekter, leases production premises from Harju Elekter from July 2002. Today, Harju Elekter leases a total of 13 400 m<sup>2</sup> to PKC Eesti, including 4 700 m<sup>2</sup> in Haapsalu. By launching the new production hall in July 2003, another 4 500 m<sup>2</sup> of leased premises will be added in Keila.