

AS Harju Elekter

Interim report 1-6/ 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 st of January
End of the financial year:	31 st of December
Beginning of the reporting period:	1 st of January 2003
End of the reporting period:	30 nd of June 2003
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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 /2003 and explanatory note.

The interim report of Harju Elekter Group on 22 pages

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Signatures of the Management Board to the Interim report 1-6/2003

Management Board of AS Harju Elekter has prepared the consolidated Interim report for H1 2003 as presented on pp. 4-22.

Approval of the Interim report 1-6/2003 as of June 30, 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 1-6/ 2003 as follows:

	<u>Participation on 30.06.03</u>	<u>Participation on 30.06.02</u>
AS Eltek	100 %	100 %
Satmatic OY	100 %	0 %
AS AJT Harju Elekter	0 %	100 %
AS Keila Kaabel	41,2 %	41,2 %
AS Saajos Balti	33,3 %	33,3 %

Economic environment

According to the estimations collected by the Estonian Institute of Economic Research, the economic activities of Estonia in the second quarter were successful, an economic growth of 5–6% continued. The employment situation improved and the unemployment rate fell once again below the level of 10%. Consumer prices decreased in April as well as in May and inflation was at a record low level in comparison with the same period last year. Favourable credit conditions persisted and the dollar exchange rate fell to the past years' lowest level.

Export increased, but not as much as expected. Although the global economic situation is still unfavourable, it is showing signs of recovery. Finland and Sweden, the main trade partners of Estonia, are not satisfied with their development mainly because of poor foreign demand.

The situation in the processing industry also improved. Companies forecast a growth in production for the subsequent three months. Demand also increased in the construction market to which we are directly related and is likely to increase even more within the next few months.

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.

The AGM of the shareholders took place on April 11. The general meeting decided to pay dividends to the owners at the rate of 2,00 EEK (0,13 EUR) per share. Dividends paid to the shareholders on May 9, 2003.

In 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 shareholders of AS Keila Kaabel, a related company of Harju Elekter, decided that a factory extension project would be launched. According to the business plan, the sales of the factory would double in the next two years, when the project has been implemented. After the accession of Estonia and the other Baltic states to the European Union, we expect infrastructure construction to grow sharply and raise demand for the products of Keila Kaabel as the market leader and largest cable factory in the Baltic States. The new technology and know-how and the extended production facility will enable the Keila Kaabel factory to improve productivity and broaden its product range and quality.

Harju Elekter will invest 18 MEEK (1,15 MEUR) in the building extension for the larger production facilities. After reconstruction, Keila Kaabel will use 7600 m² of production area plus over 10,000 m² of outdoor storage area under a long-term commercial lease contract with Harju Elekter, the owner of the registered immovable. Construction work began in June, and the final deadline on the end of this year. New equipment will be installed to broaden the product range. The drawing and production lines of copper and aluminium cables will be fully reconstructed. Draka NK Cables will provide the equipment and related know-how. The equipment cost 21 MEEK (1,35 MEUR).

An extraordinary meeting of shareholders of AS Keila Kaabel was held on 12 June this year, and it was decided to issue 200 new shares of Keila Kaabel each to Draka NK Cables to finance the investment and know-how.

Sales and revenues

The consolidated net sales of Harju Elekter Group for H1 2003 amounted to 149,6 MEEK or 9,6 MEUR (H1 2002: 125,2 MEEK or 8,0 MEUR), i.e. 19,5% growth. Sales on the domestic market grew by 18,4%, thus accounting for 51,8% (H1 2002: 52,2%) of the consolidated net sales. Export sales amounted to 72,2 MEEK or 4,6 MEUR (H1 2002: 59,8 MEEK or 3,8 MEUR), i.e. 20,7% growth. Sales on the Finnish market increased 25,4%.

In the Estonian enterprises of the group, the total sales of the accounting period form 86,2% of the level of the previous year. However, the income of the H1 2002 includes the sale of products and services of the cable harnesses factory amounting to 31,1% of the group's sales of the period, that is 38,9 MEEK (2,5 MEUR). Apart from the sales of the cable harnesses factory in the H1 2002, the comparable sales growth of the Estonian enterprises would be 25,1%.

Profit

The Group's operating profit was 7,9 MEEK or 504 TEUR (H1 2002: 6,5 MEEK or 415 TEUR).

Compared to last year, the marketing and general administrative costs in the first quarter increased by almost 5 MEEK (318 TEUR). The income statement for six months of this year include the operating costs of the subsidiary Satmatic OY acquired in September 2002 which exceed the costs of the subsidiary AJT Harju Elekter in the first quarter of 2002 by almost 4 MEEK (250 TEUR). The parent company has also incurred additional costs for developing and advertising Satmatic OY. The profit margin of the Group was 5,3% (5,2% in the first half of 2002).

The operating profit of the mother company for six months increased by 12% compared to the same period last year (6,9 MEEK or 444 TEUR in the first half of 2003; 6,2 MEEK or 394 TEUR in the first half of 2002). The profit margin also improved by 1,1 percentage points.

Financial income was 57,7 MEEK or 3,7 MEUR (H1 2002: 4,0 MEEK or 258 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 (H1 2002: 2,1 MEEK or 132 TEUR). Revaluation of the shares of PKC Group Oyj as at the end of the quarter, 30 June 2003, yielded a profit of 52,3 MEEK (3,3 MEUR). As from 1 January 2003, the shares of PKC are valued at market price on the balance sheet. Their price on the last trading day of the financial year ending on 31 December 2002 on the Helsinki Stock Exchange was 7,10 EUR, but on 30 June 2003 the price was already 12,28 EUR. Thus, the market price grew by 73,0%.

In total, the Group's net profit for the H1 2003 was 65,6 MEEK or 4,2 MEUR (H1 2002: 11,3 MEEK or 719 TEUR). Net profit margin settled at 43,8% (H1 2002: 9,0%). EPS was 12,14 EEK or 0,78 EUR (H1 2002: 2,08 EEK or 0,13 EUR). If we eliminate the profit from revaluation of the shares of PKC in the results for 2003, the comparable net profit for the period would be 13,2 MEEK (846 TEUR) and the rate of return on net profit would be 8,9%, about the same as in 2002.

Cash flow, investments and capital employed

Cash flow from operating activities was 9,1 million EEK or 584 TEUR (H1 2002: 9,3 MEEK or 593 TEUR), outflow due to investing activities 15,5 million EEK or 990 TEUR (H1 2002: 2,9 MEEK or 187 TEUR) and financing activities 2,3 MEEK or 147 TEUR (H1 2002: outflow 9,9 MEEK or 632 TEUR). During the first half of 2003 cash balance on hand and in bank decreased by 4,1 MEEK or 259 TEUR (H1 2002: 3,5 MEEK or 226 TEUR).

During the accounting period the Group invested 26,8 MEEK or 1,7 MEUR in tangible and intangible fixed assets (H1 2002: 8,2 MEEK or 526 TEUR). Investments in plant and technology were 2,2 MEEK or 140 TEUR (H1 2002: 3,7 MEEK or 239 TEUR), into the buildings and reconstructions 23,5 MEEK or 1,5 MEUR (H1 2002: 2,0 MEEK or 128 TEUR).

In the accounting period, AS Harju Elekter purchased 9 thousand shares of PKC Group Oyj and paid 1 061 TEEK (68 TEUR) for the investment.

For financing the extension to be built to PKC Eesti, Harju Eelekter raised a long-term loan in the amount of 15,6 MEEK (995 TEUR). Harju Elekter obtained production equipment for the price of 1,7 MEEK (106 TEUR) on the basis of a financial lease contract. Long-term loan and capital lease repayments during the accounting period accounted for 4,2 MEEK or 272 TEUR (H1 2002: 4,4 MEEK or 278 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 (3,5 MEUR), 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.

Within six months, the cost of assets on the consolidated balance sheet increased by 83 MEEK or 5,3 MEUR (15 MEEK or 0,97 MEUR within six months of 2002), reaching 361 MEEK or 23 MEUR as at 30 June 2003 (192 MEEK or 12 MEUR on 30 June 2002). The value of fixed assets increased by 73 MEEK or 5 MEUR over the six months, constituting 74,4% of total assets as at the end of the period. Current receivables increased by 7,5 MEEK or 0,48 MEUR in the first half of the year (8,5 MEEK or 0,54 MEUR in the first half of 2002, which constituted an increase in accounts receivable) and inventories grew by 5,6 MEEK or 0,35 MEUR (7,6 MEEK or 0,49 EUR in the first half of 2002). Non-trade receivables include the unpaid dividend of Keila Kaabel in the amount of 1,5 MEEK or 97 TEUR. The prepaid VAT of the Estonian companies of the Group and the prepaid import VAT have

increased by 2,5 MEEK or 0,16 MEUR over the six months. Experience has shown that accounts receivable and inventories increase by the end of the first half-year due to seasonal reasons. To ensure smooth business operation, larger inventories are stored for the holiday period.

On the side of liabilities, accounts payable have increased by 11 MEEK or 0,68 MEUR (14 MEEK or 0,9 MEUR in the first half of 2002), which is caused by larger purchase invoices of production inventories in June, on the one hand, and by the fact that investments in the amount of 18,2 MEEK or 1,2 MEUR of an investment total of 26,8 MEEK or 1,7 MEUR were made in the second quarter, on the other hand. Accounts payable for construction, including VAT, amounted to 5,8 MEEK or 0,36 MEUR in the total accounts payable. Owners' equity comprised 77,4% of the assets (67,2% as at 30 June 2002), having increased by 54 MEEK or 3,5 MEUR over the half-year.

Personnel

The average number of employees in the group was 285 (H1 2002: 634). As of the balance sheet date 30.06.03 the group employed 296 persons (645 in 2002). The indicators of 2002 include the number of employees of the cable harnesses factory.

Shares of Harju Elekter

	EEK			EUR		
	H1 2003	*2002	H1 2002	H1 2003	*2002	H1 2002
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	43,03	28,78	28,48	2,75	1,84	1,82
High price	72,76	45,69	36,30	4,65	2,92	2,32
Average price	60,49	34,79	33,80	3,87	2,22	2,16
Market price at the end of period	69,94	45,69	35,05	4,47	2,92	2,24
Earnings per share EEK	12,14	9,86	2,08	0,78	0,63	0,13

Key indicators

Periodi kohta	1 000 EEK			1 000 EUR		
	H1 2003	*2002	H1 2002	H1 2003	*2002	H1 2002
Net sales	149 566	271 212	125 172	9 559	17 334	8 000
Operating profit	7 880	15 494	6 488	504	990	415
Profit before financial expenses (EBIT)	66 062	54 650	11 881	4 222	3 493	759
Net profit for the current year	65 565	53 254	11 257	4 190	3 404	719
At the end of the period						
Total current assets	92 240	83 270	68 782	5 895	5 322	4 396
Total fixed assets	268 410	194 505	122 904	17 155	12 431	7 855
TOTAL assets	360 650	277 774	191 686	23 050	17 753	12 251
Total liabilities	81 333	53 223	62 896	5 198	3 402	4 020
Total owners' equity	279 317	224 551	128 790	17 852	14 351	8 231

Suhtarvud (%)	H1 2003	*2002	H1 2002
Net sales growth	19,5	38,7	40,8
Operating profit growth	21,5	33,5	12,8
Net profit growth	482,4	156,7	-14,2
Return of sales (operating profit/net sales *100)	5,3	5,7	5,2
Net profit margin (net profit /net sales *100)	43,8	19,6	9,0
Owners' equity margin (equity / balance sheet total *100)	77,4	80,8	67,2
Current ratio	1,3	1,6	1,4
Quick ratio	0,8	0,9	0,9
Number of employees on 30.06.2003	296	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		
		30.06.03	31.12.02	30.06.02	30.06.03	31.12.02	30.06.02
Current assets			<i>adjusted</i>			<i>adjusted</i>	
Cash and bank		7 540	11 620	7 475	482	743	478
Short-term receivables							
Trade receivables		31 672	28 705	23 730	2 024	1 834	1 517
Other short-term receivables	10	3 828	2 035	2 505	245	130	160
Accrued expenses		0	14	14	0	1	1
Prepaid expenses		3 505	753	2 181	224	48	139
Total short-term receivables		39 005	31 507	28 430	2 493	2 013	1 817
Inventories		45 695	40 143	32 877	2 920	2 566	2 101
Current assets		92 240	83 270	68 782	5 895	5 322	4 396
Fixed assets							
Long-term investments	1,7	149 038	97 768	27 879	9 525	6 249	1 782
Tangible assets	2	118 138	95 514	94 493	7 550	6 104	6 039
Intangible assets	2	1 234	1 222	532	79	78	34
Total fixed assets		268 410	194 504	122 904	17 155	12 431	7 855
Total assets		360 650	277 774	191 686	23 050	17 753	12 251
LIABILITIES AND OWNERS' EQUITY							
Liabilities							
Current liabilities							
Debt obligations	3	11 404	12 360	12 465	729	790	797
Prepayments received from customers		331	193	230	21	12	15
Accounts payable to suppliers		33 135	22 438	26 434	2 118	1 434	1 689
Other payables	10	1 519	1 251	1 201	97	80	77
Tax payable		4 124	5 405	4 086	264	345	261
Accrued expenses		8 424	5 869	5 917	538	375	378
Other prepaid revenue		971	0	0	62	0	0
Total current liabilities		59 908	47 516	50 333	3 829	3 037	3 217
Long-term liabilities	3	21 425	5 707	12 563	1 369	365	803
Total liabilities		81 333	53 223	62 896	5 198	3 402	4 020
Owners' equity							
Share capital (nominal value)		54 000	54 000	54 000	3 451	3 451	3 451
Statutory reserves		8 600	8 600	8 600	550	550	550
Retained profit	1	151 152	108 698	54 933	9 660	6 947	3 511
Net profit(loss) for the current period		65 565	53 254	11 257	4 190	3 404	719
Total owners' equity	4	279 317	224 551	128 790	17 852	14 351	8 231
Tot. liabilities and owner' equity		360 650	277 774	191 686	23 050	17 753	12 251

INCOME STATEMENT

1 000 EEK	Note no	Q2 2003	Q2 2002	H1 2003	H1 2002
Net sales	5,6	78 724	72 991	149 566	125 172
Cost of goods sold		-64 551	-61 017	-121 692	-103 905
Gross profit		14 173	11 974	27 874	21 267
Marketing expenses		-4 043	-3 059	-7 756	-5 646
Administrative and general expenses		-6 520	-5 099	-11 904	-9 033
Other operating revenue		37	43	42	239
Other operating charges		-194	-155	-376	-339
Operating profit	5,6	3 453	3 704	7 880	6 488
Financial incomes and expenses, incl.					
-from shares of associated companies		1 164	1 577	1 238	2 357
-from other investments	1,7	53 398	11	56 884	2 226
- interest expense		-285	-290	-497	-624
- profit/loss from foreign exchange		-14	0	-30	0
- other financial expenses/incomes		32	79	90	84
Total financial incomes and expenses		54 295	1 377	57 685	4 043
Profit from ordinary activities		57 748	5 081	65 565	10 531
Extraordinary income		0	726	0	726
Allocation of corporate income tax to relevant periods (in Finland)		172		0	
Net profit for the current period		57 920	5 807	65 565	11 257
Basic earnings per share	8	10,73	1,08	12,14	2,08
Diluted earnings per share	8	10,59	1,08	11,99	2,08

INCOME STATEMENT

1 000 EUR	Note no	Q2 2003	Q2 2002	H1 2003	H1 2002
Net sales	5,6	5 031	4 665	9 559	8 000
Cost of goods sold		-4 125	-3 900	-7 777	-6 641
Gross profit		906	765	1 781	1 359
Marketing expenses		-258	-195	-496	-361
Administrative and general expenses		-417	-326	-760	-577
Other operating revenue		2	3	3	15
Other operating charges		-12	-10	-24	-21
Operating profit	5,6	221	237	504	415
Financial incomes and expenses, incl.					
-from shares of associated companies		74	101	79	151
-from other investments	1,7	3 413	1	3 635	142
- interest expense		-18	-19	-32	-40
- profit/loss from foreign exchange		-1	0	-2	0
- other financial expenses/incomes		2	5	6	5
Total financial incomes and expenses		3 470	88	3 686	258
Profit from ordinary activities		3 691	325	4 190	673
Extraordinary income		0	46	0	46
Allocation of corporate income tax to relevant periods (in Finland)		11	0	0	0
Net profit for the current period		3 702	371	4 190	719
Basic earnings per share	8	0,69	0,07	0,78	0,13
Diluted earnings per share	8	0,68	0,07	0,77	0,13

CASH FLOW STATEMENT (on 22 July 2003)

Business activities	Note no	1 000 EEK		1 000 EUR	
		H1 2003	H1 2002	H1 2003	H1 2002
Operating profit		7 880	6 488	504	415
<u>Adjustments</u>					
Depreciation and value decrease	2	4 390	4 043	280	258
Profit/loss from sales of tangible assets		9	-88	1	-6
Change in payables and prepayments related to business operations		-5 930	-6 708	-379	-429
Changes of inventories		-5 552	-7 590	-355	-485
Change in liabilities and prepayments related to business operations		8 836	13 792	565	882
Interests paid		-449	-650	-29	-42
Taxes paid		-44	0	-3	0
Total cash flow from business activities	9	9 140	9 287	584	593
Investing activities					
Investments in fixed assets		-21 011	-6 747	-1 342	-431
Capital gains from fixed assets		4	936	0	60
Payments for financial investments		-1 061	0	-68	0
Capital gains from sale of fin. investments		0	607	0	39
Long-term loans granted	10	-15	-129	-1	-8
Repayment of loan receivables	10	429	177	28	11
Interests received	10	83	156	5	10
Dividends received	10	6 076	2 064	388	132
Total cash flow from investing activities	10	-15 495	-2 936	-990	-187
Cash flow from financing activities					
Loans received		17 348	2 024	1 109	129
Loans repaid		-3 483	-3 946	-223	-252
Repayment of princ.amounts of cap.lease		-760	-405	-49	-26
Cash dividends paid		-10 800	-7 560	-690	-483
Cash flow from financing activities	3	2 305	-9 887	147	-632
Total cash flow		-4 050	-3 536	-259	-226
Cash at the beginning of the period		11 620	11 039	743	706
Net increase in cash		-4 050	-3 536	-259	-226
Effect of foreign exchange rate change		-30	-28	-2	-2
Cash at the end of the period		7 540	7 475	482	478

STATEMENT OF CHANGES IN OWNERS' EQUITY

	1 000 EEK		1 000 EUR	
	H1 2003	H1 2002	H1 2003	H1 2002
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	6 510	550	416
Provisions for reserve capital	0	2 090	0	134
Final balance	8 600	8 600	550	550
Profit for current period				
Initial balance	108 698	44 161	6 947	2 822
Distribution of net profit	53 254	20 742	3 404	1 326
Provision for reserves	0	-2 090	0	-134
Dividends paid	-10 800	-7 560	-690	-483
Income tax on dividends (related company)	0	-320	0	-20
Final balance	151 152	54 933	9 661	3 511
Profit for current year				
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	65 565	11 257	4 190	719
Final balance	65 565	11 257	4 190	719
Total owners' equity	279 317	128 790	17 852	8 231

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 1-6/2003 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 half 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	
	Other shares	Retained profit	Other shares	Retained profit
Adjustments to opening balance sheet				
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 30 July 2003, based on the rate of the last trading day, which was 12,28 EUR. The difference of the revaluation is recorded in the income statement under *financial income and costs from other investments*. Revaluation caused a profit of 52 324 thousand EEK (3 344 TEUR). More detailed information is presented in Note 7.

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
Initial balance 31.12.02	95 514	1 222	96 736	6 104	78	6 182
Acquired	4 391	235	4 626	280	15	295
Reconstructed	22 414	0	22 414	1 433	0	1 433
Sold and written-off fixed assets at acquisition value	-130	0	-130	-8	0	-8
Depreciation	-4 167	-223	-4 390	-266	-14	-280
Depreciation of sold and written-off fixed	116		116	7	0	7
Final balance	118 138	1 234	119 372	7 550	79	7 629

Note 3 Debt liabilities

	1 000 EEK		1 000 EUR	
	30.06.03	31.12.02	30.06.03	31.12.02
Short-term loans	7 288	5 508	466	352
Current portion of long-term debt	3 633	6 107	232	390
Repayment of long-term leasing oblig. during the next period	483	745	31	48
Total debt obligations	11 404	12 360	729	790
Non-convertible debt	195	195	12	12
Long-term bank loans	18 100	3 542	1 157	226
Long-term lease liabilities	3 130	1 971	200	126
Total long-term liabilities	21 425	5 707	1 369	365
Total debt liabilities	32 829	18 067	2 098	1 155

Changes in debt obligations:

	1 000 EEK	1 000 EUR
Initial balance 31.12.02	18 067	1 155
Changes in short-term loans	1 780	114
New long-term loan	15 568	995
Loans repaid	-3 483	-223
Repayment of principal amounts of capital lease	-760	-49
New long-term lease liabilities	1 657	106
Final balance 30.06.03	32 829	2 098

On 29 April 2003, AS Harju Elekter and Sampo Pank Finland entered into a loan agreement in the amount of 1 MEUR (15,6 MEEK) for a term of eight years. The repayment starts this year. The

consolidating company pledged 250 thousand shares of PKC Group Oyj as a security to the bank. The balance sheet value of the pledge was 48 MEEK (3,07 MEUR) as at 30 June 2003. According to an arrangement between the parties, the interest rate will not be disclosed. AS Harju Elekter has another valid long-term loan agreement with the same bank; the repayment term is 28 September 2003. The loan money is used for the construction of a new production hall in the framework of expansion of PKC Eesti.

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 distributed on May 9, 2003.

Note 5. Segmental reporting

Pursuant to the established internal accounting and reporting procedure, the primary form of accounting in the Group is by business segments and the secondary by geographic areas. The business activities of the Group have been classified by business segments, based on the characteristics of the products and services as well as of the consumers of these products and services

Business segments

The Group operates in two business segments:

“electrical engineering” – designing, production and marketing of power distribution and control systems, subcontracting for energy, construction and production sectors, intermediary trade in electrical equipment.

“telecommunications” – manufacturing and marketing of various type of sheet metal and fiber-optic products for data networks for the telecommunications sector, installation of computer, communication and alarm networks, provision of communication services and intermediary trade in communication systems.

H1 2003	1 000 EEK				1 000 EUR			
	Electrical	Telecom municat.	Elimina- tion	TOTAL	Electrical	Telecom municat.	Elimina- tion	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

H1 2002	1 000 EEK				1 000 EUR			
	Electrical	Telecom municat.	Elimina- tion	TOTAL	Electrical	Telecom municat.	Elimina- tion	TOTAL
Sales revenue	107 676	17 496	0	125 172	6 882	1 118	0	8 000
Transact.with other segments	8 198	558	-8 756	0	524	36	-560	0
Total	115 873	18 054	-8 756	125 172	7 406	1 154	-560	8 000
Operating profit	5 878	661	-51	6 488	376	42	-3	415

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			1 000 EUR		
	Estonia	Finland	Total concern	Estonia	Finland	Total concern
H1 2003	107 903	41 663	149 566	6 896	2 663	9 559
H1 2002	125 172	0	125 172	8 000	0	8 000

The sales of the first half of 2003 exceeded the sales of the same period of the previous year by 19,5%, whereas the increases were 13,3% and 21,0% 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 86,2% of the level of the previous year. However, the income of the first half of 2002 includes the sale of products and services of the cable harnesses factory, amounting to 31,1% of the turnover of the group, that is 38,9 MEEK (2,5 MEUR). Apart from the sales of the cable harnesses factory in the first half of 2002, the comparable turnover increase in Estonian enterprises would be 25,1%.

Note 6 Net sales**By markets**

	1 000 EEK		1 000 EUR		Structure	
	H1 2003	H1 2002	H1 2003	H1 2002	H1 2003	H1 2002
Estonia	77 408	65 365	4 947	4 178	51,8%	52,2%
Finland	65 508	52 248	4 187	3 339	43,8%	41,7%
Other Europe	1 696	3 174	108	203	1,1%	2,6%
Latvia and Lithuania	2 419	3 567	155	228	1,6%	2,8%
Russia and CEEC	299	722	19	46	0,2%	0,6%
USA	2 236	96	143	6	1,5%	0,1%
Total	149 566	125 172	9 559	8 000	100,00%	100,00%

Sales increased 18,4% on the Estonian market and 25,4% on the Finnish market. The sales of the Finnish subsidiary accounts 41,5 MEEK (2,7 MEUR).

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	
		H1 2003	H1 2002	H1 2003	H1 2002
Core business and products					
- electrical equipment	118,4%	94 389	43 218	6 033	2 762
- wiring systems for automotive and telecomm. industry (subcontracting)					
- cabinets/boxes for telecom install.	-100,0%	0	38 926	0	2 488
- sheet metal products and work	27,4%	10 169	7 980	650	510
TOTAL CORE BUSINESS	7,8%	13 196	12 242	843	782
Core business and products	15,0%	117 754	102 366	7 526	6 542
Interm. activities and other services					
- trade and intermediation	21,7%	21 751	17 871	1 390	1 142
- leasing of capital assets	163,5%	6 709	2 546	429	163
- other services	40,3%	3 352	2 389	214	153
TOTAL OTHER ACTIVITIES	39,5%	31 812	22 806	2 033	1 458
TOTAL	19,5%	149 566	125 172	9 559	8 000

Compared to the previous year, the sale of electrical equipment to buyers outside the group increased by 51,2 MEEK (3,3 MEUR), of which EEK 41,7 MEEK (2,7 MEUR) accounted for the sales of Satmatic to buyers outside the group. Therefore, the increase in the sales of the electrical equipment factory reached 22,0% in respect of this product. The 2,6-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	
	H1 2003	H1 2002	H1 2003	H1 2002
- dividends paid by PKC Group Oyj	4 551	2 064	291	132
- change of the value of PKC shares	52 324	0	3 344	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	
	H1 2003	H1 2002	H1 2003	H1 2002
- net profit of the current period (1 000)	65 565	11 257	489	719
- average no of the company shares (1 000 tk)	5 400	5 400	5 400	5 400
- basic earning per share	12,14	2,08	0,78	0,13
- diluted earnings per share	11,99	2,08	0,77	0,13

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 H1 2003 the average market price of the share settled at 60,40 EEK (3,86 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 132 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 – 68 000 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 $65\,565/5\,448 = 11,99$ EEK ($4\,190/5448=0,77$ 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 half

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 H1 2003 AS Harju Elekter bought from, sold its products to and provided services to related parties as follows:

	1 000 EEK				1 000 EUR			
	H1 2003		H1 2002		H1 2003		H1 2002	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Eltek	647	2 470	478	1 716	41	158	31	110
Satmatic03/AJT02*	14	422	4 319	2 162	1	27	276	138
Keila Kaabel	2 864	3 283	2 587	2 236	183	210	165	143
Saajos Balti	749	2 436	914	1 500	48	156	58	96
Harju KEK	1 000	18	53	15	64	1	3	1
TOTAL	5 274	8 629	8 351	7 629	337	552	533	378

Type of transaction	1 000 EEK		1 000 EUR	
	Bought	Sold	Bought	Sold
Goods purchased for resale	2 561	0	164	0
Material, components for production needs	1 076	1 103	69	70
Industrial subcontracting (outsourcing)	383	1 888	24	121
Lease of fixed assets	0	2 860	0	183
Management services	0	1 308	0	84
Other services (building and communication, repairs and maintenance of real estate)	1 254	1 470	80	94
TOTAL	5 274	8 629	337	552

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 H1 2003 the subsidiary Satmatic Oy paid back to the parent company 1 695 TEEK or 108,3 TEUR of the long-term credit. Harju Elekter earned in the period 29,5 TEEK (1,9 TEUR) of interest income from the short-term credit and 233 TEEK or 14,9 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 (H1 2002: 172 TEEK or 11,0 TEUR). The employees repaid 412 TEEK or 26,3 TEUR (H1 2002: 177 TEEK or 11,3 TEUR). The annual interest rate on loans was 7%. During the reporting period the employees paid the total of 13 TEEK or 0,8 TEUR (H1 2002: 25 TEEK or 1,6 TEUR) in interest.

* The indicator for 2003 includes an internal turnover with Satmatic (Satmatic03) and for 2002 with AJT Harju Elekter (AJT02).

Balance with related parties:

Claims	1 000 EEK		1 000 EUR	
	30.06.03	31.12.02	30.06.03	31.12.02
Total loans to subsidiaries	11 202	12 828	716	820
ELTEK	2 509	2 302	160	147
Incl. outstanding accounts	2 009	1 402	128	90
short-term loan	500	900	32	58
Satmatic	8 693	10 526	556	673
Incl. outstanding accounts	206	339	13	22
long-term loan	8 475	10170	542	650
interest of the long-term loan	12	17	1	1
Total loans to associated companies	3 769	1 858	143	119
Incl. AS Keila Kaabel outstanding accounts	40	1000	3	64
AS Keila Kaabel outstanding dividends	1 525		97	
AS Saajos Balti	2 204	858	141	55
Total loans to employees	117	453	7	29
Incl. long-term loan	112	409	7	26
short-term loan	5	44	0	3
Obligations				
	1 000 EEK		1 000 EUR	
	30.06.03	31.12.02	30.06.03	31.12.02
Total loans to subsidiaries	264	153	17	10
Incl. outstanding accounts to Eltek	257	153	16	10
Incl. outstanding accounts to Satmatic	7	0	0	0
Total loans to associated companies	800	554	51	35
Incl. AS Keila Kaabel	448	318	29	20
AS Saajos Balti	352	236	23	15

Note 11 Post-balance-events

In June, Harju Elekter started to construct an annex to the production building of Keila Kaabel. The estimated cost of the investment is 18 MEEK (1,15 MEUR) and it should be completed by the end of 2003. For financing the construction, Harju Elekter raised a long-term loan from Nordea Bank (Eesti) in the amount of 383,5 thousand EUR (6 MEEK). The loan will be paid by 17 successive instalments on a quarterly basis as from July 2004.

In July, Harju Elekter sold 105 shares of AS Keila Kaabel and the issue of 200 new shares was placed with Draka NK Cables. After the issue and sale of the shares on 1 July 2003, the share capital of Keila Kaabel will be 26 MEEK (1,66 MEUR), which will be divided among the shareholders as follows: 34% Harju Elekter and 66% Draka NK Cables.

In July 2003, a new production hall of PKC was completed, which added 4400 m² of leased premises in Keila. The total cost of the project was 26 MEEK (1,7 MEUR). PKC Eesti, the cable harnesses factory of Harju Elekter, leases production premises from Harju Elekter as from July 2002. Harju Elekter leases premises to PKC Eesti with a total area of 17,900 m², including 4700 m² in Haapsalu.