AS Harju Elekter

Annual report 2003

Corporate profile and contact data

Business name:	AS Harju Elekter
Core business:	designing, production and marketing of various electrical engineering and telecommunication systems
Commercial registry code:	10029524
Address:	31, Paldiski str., 76 606 Keila
Phone:	+372 67 47 400
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E-mail:	he@he.ee
Web-site:	www.harjuelekter.ee
CEO/ Chairman of the board:	Andres Allikmäe
Auditor**:**	KPMG Estonia
Beginning of the reporting period:	1st of January 2003
End of the reporting period	31 st of December 2003
Appendices to the annual report :	• Auditor's report • Proposal for profit distribution

Contents

MANAGEMENT REPORT 2003

Group structure and changes in it
In the 2003 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries have been consolidated line-by-line and the results of associated companies by the extended equity method. As of 31.12.2003, Harju Elekter owns significant holdings in the following commercial undertakings:

	Domicile	Participation on 31.12.03	Participation on 31.12.02
AS Eltek	Estonia	100.0 %	100.0 %
Satmatic OY	Finland	100.0 %	100.0 %
Rifas UAB	Lithuania	51.0 %	0.0 %
AS Keila Kaabel	Estonia	34.0 %	41.2 %
AS Saajos Balti	Estonia	33.3 %	33.3 %
PKC Group OY	Finland	10.6 %	11.6 %

In October Harju Elekter acquired 51 per cent of the shares in the Lithuanian company UAB Rifas, paying for the shares and for increase in the share capital of UAB Rifas a total of 10.6 million kroons. The core business of UAB Rifas is manufacturing and marketing of electrical control and distribution boards, design of industrial automation equipment and installation work.

In July Harju Elekter sold 105 shares of AS Keila Kaabel. The extraordinary general meeting of shareholders decided to issue 200 new shares of AS Keila Kaabel by way of placement with Draka NK Cables for the purpose of financing investments and know-how. After the transaction, the share capital of Keila Kaabel is 26 million kroons which is divided between the parties concerned as follows: Harju Elekter – 34% and Draka NK Cables – 66%.

During the year 2003 Harju Elekter bought 9 thousand shares in PKC Group Oyj, paying for the investments 1.1 million kroons, and sold 40 thousand shares. As the result of the transaction Harju Elekter received 11.6 million kroons. PKC Group Oyj paid dividends for 2002 in the amount of 4.6 million kroons and the associated company Keila Kaabel 3.0 (in 2002: 2.1 and 1.7) million kroons.

Economic environment and its impacts
Despite the overall state of global economy, the year 2003 in Estonia was once again a year of rapid growth. GDP grew 4.8 per cent and the consumer price index merely 1.3 per cent. In the long-term perspective our business climate is going to improve even more due to Estonia's (also Latvia and Lithuania) decision to join the European Union and NATO. Both events have already had a favourable effect on Estonia's ratings. Foreign direct investments in the region have been increasing continuously, the country's attractiveness and credibility has grown. Our liberal tax policy and dynamism of the pension reform launched in 2002 have received positive feedback in the country and abroad. The activities of Harju Elekter were directly affected by the growth in the building industry in Estonia. The building price index grew 3.7 per cent.

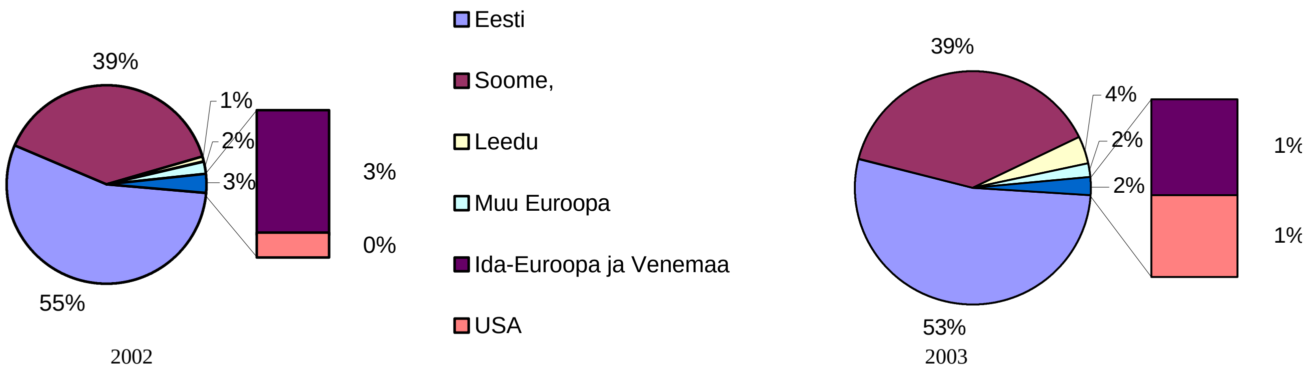
In the second half of 2003 the global economy entered the long-awaited recovery phase: the economic situation in the United States and Asia continued to improve. Although growth indicators in Europe were somewhat below the projections of the analysts, the growth rate in the Nordic and Baltic countries was the highest in the euro area.

In 2003 enterprises of Harju Elekter Group consolidated their positions both on the domestic market and the neighbouring export markets. The activities of AS Harju Elekter are geared to building and renovation, with the prime focus on products intended for electrical engineering. In addition to traditional construction-oriented products, the importance of goods for infrastructure development projects has grown. During the previous financial year the electrical installation sector sustained a rising trend. It triggered a boost in the sale of products made by Electrical Equipment Factory for the power distribution networks sector.

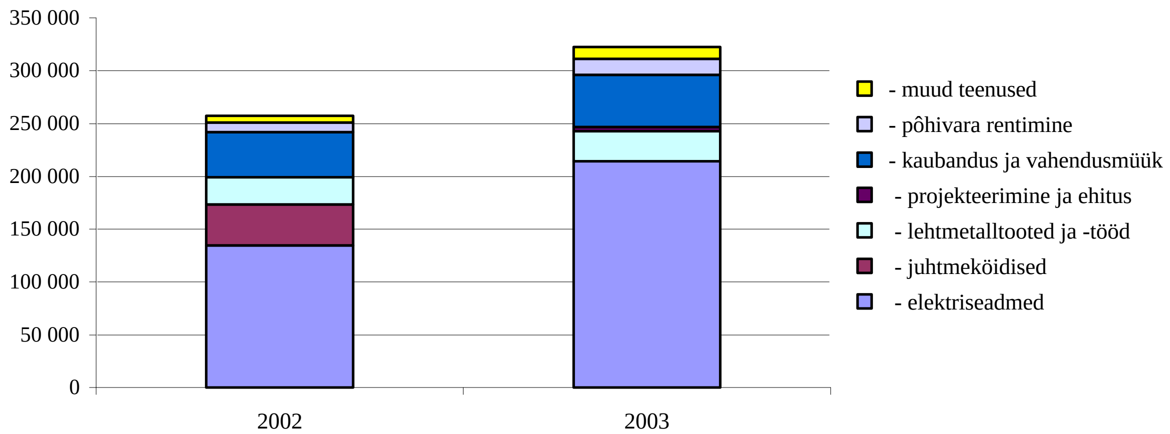
Turnover and export

In 2003 the consolidated sales revenue of the Group amounted to 342.3 (2002: 271.2) million kroons, an increase of 26.2 per cent. Sales on the Estonian market increased 20.1 per cent, thus accounting for 52.8 per cent of the consolidated turnover (2002: 55.5%). Sales on export markets amounted to 161.5 (2002: 120.8) million kroons, including 134.2 (2002: 104.7) million kroons on the Finnish market. Sales on the Lithuanian market increased by 10 million kroons in comparison with the previous year.

The Group's turnover by markets:



The Group's turnover by product groups and business areas



In 2003 production and marketing of electrical equipment grew 60 %, i.e. 80 million kroons. 50 million kroons of the output increase in this product group is attributable to the Finnish and 5 million kroons to the Lithuanian subsidiary. The output growth of Electrical Equipment Factory was 20 %.

The spread of sales revenue in the Group by markets, products and fields of activity has in the past year been influenced by the structural changes in the concern. On October 1, 2003 Harju Elekter acquired a majority stake in the Lithuanian company UAB Rifas whose consolidated turnover for Q4 is included in the 2003 consolidated sales revenue of the Group. In September 2002, a 100%-shareholding in the Finnish company Satmatic had been acquired and in July Cable Harnesses Factory had been sold. Additional information about subsidiaries is presented in Note 6.

In 2003 a rise in rental income was achieved owing to an increase in rentable area.

Profit

The net profit of the Group for the year 2003 amounted to 175.3 (2002: 53.3) million kroons. The net profit margin was 51.2 per cent (2002: 19.7%).

The operating profit of the Group for 12 months running was 19.9 (2002: 15,5) million kroons, an increase of 28.1 per cent. The return on sales in the Group was 5.8 per cent (2002: 5,7%) and 8.8 per cent (2002: 7,5%) in the parent company. In 2003 the operating profit of the parent company was 18.1 (2002: 14.3) million kroons.

Income from financing activities was 155.8 (2002: 7.2) million kroons. Starting from January 1, 2003 PKC shares are recognised in the balance sheet at their market value. On the last trading day of the financial year that ended on 31.12.2002. the share had closed on the Helsinki Stock Exchange at 7.10 euros, whereas on 31.12.2003 it closed at 21.20 euros. It means a triple increase in market value. 137.9 million kroons of additional financial income arising from the revaluation of PKC Oyj Group shares was accumulated in 12 months. For the financing of new investment, in September and October Harju Elekter sold in all 40 thousand PKC Group shares, generating 3.0 million kroons of additional financial income. Non-recurrent financial income received from the transfer of Keila Kaabel shares in July 2003 was 7.1 million kroons.

Investments and financing

During the reporting period the Group invested in tangible and intangible assets in all 50.6 (2002: 14.0) million kroons. Major investments to immovable property and production facilities amounted to 40.0 million kroons, to equipment for production and licenses 3.6 million kroons.

In June the factory extension project of the associated company AS Keila Kaabel was launched. According to the business plan, this should enable the factory to double its sales in the following two years. Harju Elekter invested in the enlargement of production premises, Draka NK Cables supplied the necessary machinery and know-how. The auxiliary production hall was completed in the end of 2003.

In the third quarter PKC Eesti (former Harju Elekter cable harnesses factory) got and commissioned a new 4 500 sq.m production hall. PKC Eesti had been renting production premises from Harju Elekter since July 2002. Harju Elekter owns 10.5 ha of registered immovable property in Keila and 1.5 ha in Haapsalu and has invested in 47,000 sq. m of production, storage and office space there.

For the financing of extension projects in PKC Eesti and Keila Kaabel, Harju Elekter took long-term bank loans in the total amount of 21.6 million kroons. Under the financial lease arrangement the Group acquired production equipment and machinery for the value of 2.1 million kroons. During the reporting period, the Group repaid in total 8.5 (2002: 8.6) million kroons of long-term bank loan and financial lease principals. The amount of the year 2002 dividends paid to the shareholders was 10.8 (2001: 7.6) million kroons, without any income tax withholding obligation arising for Harju Elekter.

Research and development

The Group has constantly promoted product development and improvement of process efficiency. The prefabricated substation HEKA designed at Harju Elekter passed successfully testing that verified its conformity to the EU harmonised standards. Work has begun for design, implementation and preparation for testing of two new models of the above substation.

In 2003 the process of putting into production the MV primary distribution unit continued. The list of equipment was upgraded, solutions for telemedia and telecontrol were devised. Implementation of Siemens type-approved products began. The aim of the project is to concentrate the production of cases/cabinets for electrical equipment in the parent company; assembly and marketing will done both by the parent company as and its subsidiaries, depending on the demand existing on the local market. In connection with the increased design work volumes, several new positions were created for R&D engineers in the product development division of the parent company.

Harju Elekter subsidiaries Satmatic Oy and UAB Rifas implemented the ISO 9001:2000 quality management system. In the framework of the ISO project Satmatic introduced also the electronic order processing and messaging system which helps to ensures through optimal work organisation shorter lead times and expected product quality.

The subsidiary Eltek focussed mainly on the upgrading, modernisation and putting into production of models from the telecom product group.

In 2003 R&D total costs in the Group amounted to 5.4 (2002: 3.6) million kroons.

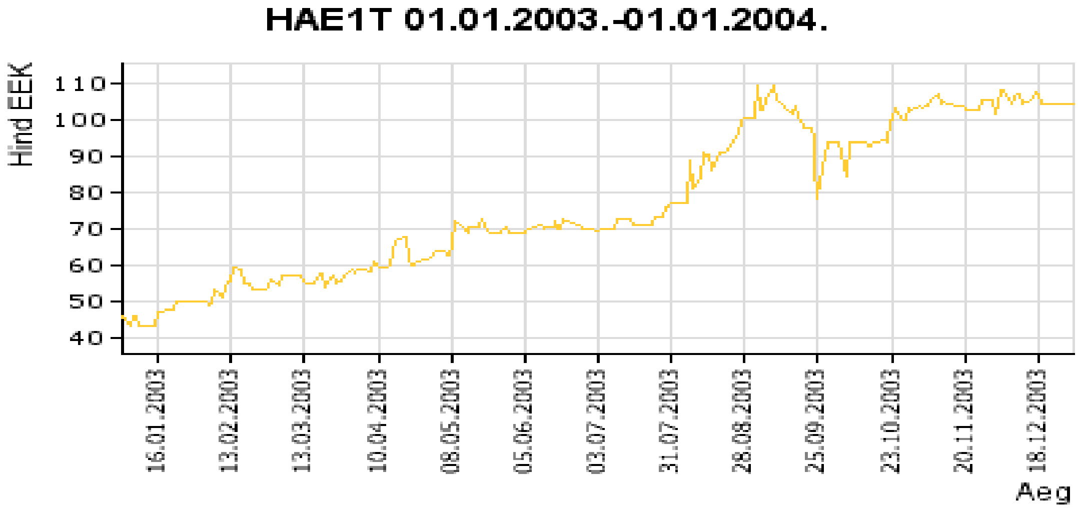
Personnel and remuneration

In 2003 the average number of employees in the Group was 303 (2002: 351), incl. 175 (2002: 273) employed by the parent company. As of 31.12.2003 the number of employees in the Group was 353, incl. 181 in the parent company. 240 employees of the concern worked in Estonia, 51 in Finland and 62 in Lithuania. The significant increase in the workforce was brought about by the purchase of the Lithuanian subsidiary Rifas (+62 employees).

218 employees of the concern were workers, 135 were engineers, technicians and executives. By educational profile the Group's personnel consisted of 42 employees with higher, 161 with secondary or vocational-secondary and 37 with basic education. They were paid in wages and salary, vacation benefits and bonuses 31.9 (2002: 42.1) million kroons, incl. 24.6 (2002: 29.0) million kroons in the parent company. 10.5 (2002: 12.2) million kroons were set aside for social insurance contributions. Payroll costs were higher in 2002 due to the fact that in H1 AS AJT Harju Elekter was still a member of the concern, later it was transferred.

Shares and shareholders

The share capital of Harju Elekter is 54.0 million kroons that is divided into 5.4 million registered common shares (HAE1T) with nominal value of 10 kroons. From September 30, 1997 the company has been listed in the secondary list and since 17 February 2003 in the HEX Tallinn main list. In 2003 Harju Elekter shares were traded for 371.6 (2002: 120.6) million kroons. 118.5 per cent of the shares changed owners or were actively traded, all in all 6.4 (2002: 4.65) million shares. The lowest price deal on the stock exchange was concluded at the rate of 43.03 (2002: 28.48) kroons and the highest price deal at 109.53 (2002: 45.69) kroons. The average price per share settled at 78.54 (2002: 33.69) kroons. The closing price for the year 2003 was 104.83 (2002: 45.69) kroons. The share price increased 129.4 per cent in a year, TALSE to 285.65 points or 34.44 per cent.



As of 31.12. 2003 AS Harju Elekter had 450 shareholders. 72.4 per cent of the shares were held by Estonian and 27.6 per cent by foreign shareholders.; 61.4 per cent by private individuals and 38.6 per cent by corporate owners, banks and funds. EPS was 32.49 (2002: 9.86) kroons.

The management board shall propose to the general meeting of shareholders to pay dividends for the year 2003 at the rate of 4.00 kroons per share, in the total amount of 21.6 million kroons.

Supervisory and management board, auditors
The supervisory board of Harju Elekter consists of five members. The chairman of the board is Endel Palla who works also as the R&D manager at AS Harju Elekter. Other members of the board are: Ain Kabal – lawyer, Kabal & Partners OÜ; Lembit Kirsme – chairman of the supervisory board, AS Harju KEK; Madis Talgre – CEO, AS Harju KEK and Triinu Tombak – consultant, World Bank. The amount of remuneration paid to the members of the supervisory board, incl. social insurance contributions, totalled 606 thousand kroons.

The management board consists of four members. The chairman of the board Andres Allikmäe is Director General of the company. Other members of the board are: Lembit Libe – CFO; Ülo Merisalu – managing director of Electrical Equipment Factory and Karin Padjus – chief accountant. All members of the board belong to the executive management of the company. Members of the management board receive no special remuneration.

Auditors Andris Jegers and Indrek Alliksaar from KPMG Estonia were elected as auditors for the company in 2003.

Corporate targets for 2004
Consolidation of the concern's market position and expansion of its market share in the Baltic countries and Finland. Optimisation of production capacity and resources in order to be ready to meet growing demand, spurred by the accession to the European Union and development of the Baltic Sea region economic area.

Focus on the core business: design, manufacturing and marketing of electrical materials and equipment and products for the telecommunications sector.

Strengthening of co-operation between Estonian, Finnish and Lithuanian electrical equipment production units of Harju Elekter. Systematisation of the assortment of products and identifaction of the right channels.

Intensification of activities of the product development division of Electrical Equipment Factory to facilitate continuous innovation, testing of new products and obtaining of licenses in compliance with international standards.

Balanced and sustainable development of the secondary fields of activity: sheet metal conversion, trade and real estate management.

Advancement of the sheet metal conversion technology and investments in a new sheet metal conversion centre and coating unit of Electrical Equipment Factory. The aim is to build up a metal workshop which has sufficient output capacity to meet the needs of electrical equipment producers in Estonia, Finland and Lithuania.

Extension of the scope of the commerce group's activities both by geographic areas and by diversification of imported product categories. Stimulation of sale of serial products through the shops of the commerce group, especially products intended for small and medium-sized customers of Electrical Equipment Factory - small-size switchboards and their operative assembly, cases for switchboards/fuse boxes, etc.

Development and stimulation of investor relations. Exchange of information based on openness and integrity.

Five-year figures

Group	**2003**	***2002**	**2001**	**2000**	**1999**
Income statement fot the year (1000 EEK)					
Net sales	342 348	271 212	195 495	205 641	158 396
Operating profit	19 911	15 494	11 604	17 031	13 375
Net profit fir the year	175 461	53 254	20 742	29 176	22 095
Balance sheet at year-end (1000 EEK)					
Total current ssets	109 780	83 270	56 718	51 272	49 410
Total fixed assets	373 297	194 504	119 845	114 010	88 087
Total assets	483 077	277 774	176 563	165 282	137 497
Total owners' equity	389 212	224 551	125 413	111 650	87 874
Perfomance indicators					
Net sales growth (%)	26,23	38,73	-4,93	29,83	-1,79
Assets growth (%)	73,91	57,32	6,81	20,21	21,75
Equity growth (%)	73,33	79,05	12,33	27,06	26,66
Return of sales (%)	5,82	5,71	5,94	8,28	8,44
Net profit margin (%)	51,25	19,64	10,61	14,19	13,95
Return of assets (%)	46,12	23,44	12,14	19,27	17,65
Return of equity (%)	57,18	30,43	17,50	29,25	28,10
Solidity ratio	0,81	0,76	0,71	0,68	0,64
Current ratio	1,80	1,63	1,46	1,43	1,63
Quick ratio	1,01	0,87	0,81	0,80	1,07
Inventory turnover (in days)	54,37	52,96	54,70	42,93	54,96
Average collection period (in days)	35,29	29,02	28,32	23,27	25,93
Trade credits (in days)	32,65	28,23	27,56	25,00	26,70
Cash conversion cycle (in days)	57,01	53,75	55,46	41,20	54,20
Shareholders equity per share (EEK)	56,83	32,40	21,95	18,47	14,56
EPS (EEK)	32,49	9,86	3,84	5,40	4,09
Dividend per share (EEK)	**4,00	2,00	1,40	1,20	1,00

Return on sales	= Operating profit/Net sales*100
Operating profit margin	= Income from normal operations/Net sales*100
Shareholders equity per share	= Average owners' equity/Average number of shares
Return on assets or ROA	= Net profit/Average total assets*100
Return on equity or ROE	= Net profit/Average owners' equity*100
Soliduty ratio	= equity/assets
Current ratio	= Current assets/current liabilities
Quick ratio	= Liquid assets/ current liabilities
Inventory turnover (in days)	= invetories (average for period/(cost of goods sold/360)
Average collection period (in days)	= Accounts receivable (average)/(net sales/360)
Trade credit (in days)	= accounts payable (aver.for period)/(cost of goods sold/360)
Cash conversion cycle (in days)	=+ Average collection time (in days) + Average inventory (in days) - average trade credit (in days)

* the closing balance sheet of 2003 has been adjusted.
** the Board's proposal

FINANCIAL STATEMENTS

MANAGEMENT DECLARATION

The management board of AS Harju Elekter declares its liability for the accurate preparation of the 2003 annual accounts and confirms that:

- the accounting policies applied in the preparation of the consolidated annual accounts are in compliance with the generally accepted accounting principles;

- the consolidated annual accounts give a true and fair view of the financial position, economic performance and cash flows of the consolidated group and AS Harju Elekter;

- all material circumstances and aspects that were known and obvious prior to the completion date of the report, were duly taken into account and recognised in the annual accounts;

- the consolidation group and AS Harju Elekter carry on their activities as a going concern.

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

BALANCE SHEET

1000 EEK	Note No	Group 31.12.03.	Group 31.12.02. *Adjusted*	Parent company 31.12.03.	Parent company 31.12.02. *Adjusted*
Assets					
Current assets					
Cash at hand and in bank		**26 449**	**11 620**	**15 105**	**11 165**
Trade receivables	4	**31 784**	**28 705**	**13 003**	**12 074**
Non-trade receivables					
Receiv.from parent comp.and subsid.	9,25	0	0	5 520	6 048
Receivables from associated companies	25	6 028	1 858	6 028	1 858
Other short-term receivables		78	177	63	150
Total		**6 106**	**2 035**	**11 611**	**8 056**
Accrued income					
Interest receivable		20	0	20	0
Other accrued income		47	14	0	0
Total		**67**	**14**	**20**	**0**
Prepaid expenses					
Prepaid taxes	3	175	263	9	264
Other prepaid expenses		1 076	490	671	300
Total		**1 251**	**753**	**680**	**564**
Invertories					
Raw materials		20 535	16 703	9 139	8 273
Work-in-progress		12 207	14 296	5 863	5 838
Finished goods		4 980	4 528	2 899	2 579
Goods for resale		6 344	4 616	5 869	4 575
Prepayments to suppliers		57	0	38	0
Total	5	**44 123**	**40 143**	**23 808**	**21 265**
Total current assets		**109 780**	**83 270**	**64 227**	**53 124**
Fixed assets					
Long-term investments					
Shares in subsidiaries	6	0	0	24 973	13 759
Long-term receivables from subsidiaries	9	0	0	1 734	6 780
Shares in associated companies	7	26 477	26 587	26 477	26 587
Other shares	2,8,22	201 128	70 803	201 128	70 803
Other long-term receivables		19	378	19	378
Total		**227 624**	**97 768**	**254 331**	**118 307**
Investment properties	10	**86 896**	**49 286**	**91 668**	**54 236**
Tangible assets					
Land and buildings		28 308	21 571	15 642	15 451
Machinery and equipment		58 144	46 385	30 843	26 033
Other tangible assets		4 996	3 277	1 900	1 751
Accumulated depreciation		-38 892	-26 384	-22 242	-18 852
Construction-in-progress		2 363	1 351	1 351	1 351
Prepayments for tangible assets		2 068	28	868	28
Total	11,13,14	**56 987**	**46 228**	**28 362**	**25 762**
Intangible assets	12	**1 790**	**1 223**	**490**	**750**
Total fixed assets		**373 297**	**194 505**	**374 851**	**199 055**
Total assets		**483 077**	**277 775**	**439 078**	**252 179**

Liabilities and owner's equity					
Liabilities	Lisa	**31.12.03.**	**31.12.02.**	**31.12.03.**	**31.12.02.**
Current liabilities	nr		*Adjusted*		*Adjusted*
Debts					
Short-term loans and notes		6 913	5 508	0	1 251
Repayment of long-term debt	15	7 453	6 852	4 612	4 265
Total		**14 366**	**12 360**	**4 612**	**5 516**
Prepayments received for goods and services		**1 065**	**193**	**559**	**193**
Trade creditors		**26 756**	**22 438**	**16 464**	**13 500**
Other payables					
Payables to parent company and subsid.-es		0	0	238	153
Payables to associated companies		848	554	848	554
Other debt		370	697	370	562
Total		**1 218**	**1 251**	**1 456**	**1 269**
Taxes payable		**6 790**	**5 381**	**3 328**	**2 508**
Accrued expenses					
Employee-related liabilities		8 995	5 488	4 404	3 164
Interest payable		129	45	110	27
Other accrued expenses		524	359	38	17
Total		**9 648**	**5 892**	**4 552**	**3 208**
Total current liabilities		**59 843**	**47 515**	**30 971**	**26 194**
Long-term liabilities (non-convertible)		0	195	0	195
Long-term bank loans		18 374	3 542	17 913	1 238
Long-term lease payables		2 426	1 971	982	0
Total long-term liabilities	15	**20 800**	**5 708**	**18 895**	**1 433**
Total liabilities		**80 643**	**53 223**	**49 866**	**27 627**
Minority interest		**13 222**	**0**	**0**	**0**
Owner's equity					
Share capital (nominal value)	17	54 000	54 000	54 000	54 000
Legal reserve		8 600	8 600	8 600	8 600
Retained profit		151 151	108 698	151 151	108 698
Net profit(loss) for the financial year		175 461	53 254	175 461	53 254
Total owner's equity		**389 212**	**224 552**	**389 212**	**224 552**
Total liabilities and owner' equity		**483 077**	**277 775**	**439 078**	**252 179**

Notes on the annual report 2003 on pages 16-36 constitute an inseparable part of the annual accounts.

INCOME STATEMENT

1000 EEK	Note no	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Net sales	18,19	342 348	271 212	205 708	189 731
Cost of goods sold		-278 973	-222 367	-161 696	-151 715
Gross profit		**63 375**	**48 845**	**44 012**	**38 016**
Marketing expenses		-17 740	-12 322	-10 153	-9 113
Administrative and general expenses		-25 428	-20 741	-15 512	-14 313
Other operating revenue		396	381	320	262
Other operating charges		-692	-668	-590	-540
Operating profit	18	**19 911**	**15 494**	**18 077**	**14 311**
Financial income and expenses, incl.					
- from shares in subsidiaries	6	0	0	514	227
- from shares in associated companies	7	11 691	6 067	11 691	6 067
- from other investments	8, 9,20	7 557	2 247	7 557	2 392
- from revaluation of financial investments	8,20	137 876	0	137 876	0
- interest expenses	13	-1 464	-1 353	-862	-664
- from translation of foreign currencies		-62	-46	-19	-16
- other financial income and expenses		186	247	627	295
Total financial income and expenses	18	**155 784**	**7 162**	**157 384**	**8 301**
Extraordinary income from the sale of a production unit		0	30 641	0	30 641
Profit on ordinary activities		**175 695**	**53 298**	**175 461**	**53 254**
Income tax expense	16	-97	-44	0	0
Profit after tax		**175 598**	**53 254**	**175 461**	**53 254**
Minority interest		-137	0	0	0
Net profit for the financial year	18	**175 461**	**53 254**	**175 461**	**53 254**
Basic earnings per share (EEK)	21	32,49	9,86	32,49	9,86
Diluted earnings per share (EEK)	21	31,91	9,86	31,91	9,86

Notes on the annual report 2003 on pages 16-36 constitute an inseparable part of the annual accounts.

CASH FLOW STATEMENT

(1000 EEK)		Group		Parent company	
Operating activities	Note no	**2003**	**2002**	**2003**	**2002**
			Adjusted		*Adjusted*
Operating profit		19 911	15 494	18 077	14 311
Adjustments				0	0
Depreciation and value decrease	10,11,12	9 646	8 126	6 469	5 780
Profit/loss from sales of tangible assets		-138	-130	-138	-130
Change in payables and prepayments				0	0
related to business operations		1 807	-11 580	-5 124	-299
Changes in inventories		1 463	-14 856	-2 533	-3 311
Change in liabilities and prepayments				0	0
related to business operations		3 932	10 428	5 653	-1 023
Taxes paid		-44	0	0	0
Interests paid		-1 380	-1 333	-779	-643
Total cash flow from operating activities		**35 197**	**6 149**	**21 626**	**14 685**
Investing activities					
Investments in fixed assets		-49 092	-12 895	-44 753	-9 968
Capital gains from fixed assets		164	5 488	164	5 488
Payments for financial investments	6,7,8	-3 291	-6 000	-11 761	-10 671
Capital gains from sale of fin. investments	6,7,8	20 355	20 478	20 355	20 478
Long-term loans granted	9	-26	-196	-20	-10 320
Repayment of loan receivables	9	458	340	6 307	334
Interest received	9,25	178	306	628	502
Dividends received	7,8	7 603	3 803	7 603	3 803
Total cash flow from investing activities		**-23 651**	**11 325**	**-21 477**	**-352**
Cash flow from financing activities					
Loans received	15	24 309	0	21 652	66
Loans repaid	15	-8 770	-8 450	-6 529	-5 918
Repayment of princ.amounts of financial lease	13	-1 394	-836	-514	0
Cash dividends paid	17	-10 800	-7 560	-10 800	-7 560
Cash flow from financing activities		**3 345**	**-16 846**	**3 810**	**-13 412**
Total cash flow		**14 891**	**627**	**3 959**	**920**
Cash at the beginning of the period		**11 620**	**11 039**	**11 165**	**10 260**
Net increase in cash		14 891	627	3 959	920
Effect of changes in foreign exchange rates		-62	-46	-19	-16
Cash at the end of the period		**26 449**	**11 620**	**15 105**	**11 165**

Notes on the annual report 2003 on pages 16-36 constitute an inseparable part of the annual accounts.

STATEMENT OF CHANGES IN OWNER'S EQUITY

(1000 EEK)	Note	**2003**	**2002**
Share capital	no		*Adjusted*
Initial balance		54 000	54 000
Final balance	17	**54 000**	**54 000**
Reserve requirement			
Initial balance		8 600	6 510
Provisions for reserve capital		0	2 090
Final balance		**8 600**	**8 600**
Profit for current period			
Initial balance 1		54 933	44 161
Adjustments: initial revaluation of financial assets to their fair value	2	53 765	0
Distribution of net profit		53 253	20 742
Provision for reserves		0	-2 090
Dividends paid		-10 800	-7 560
Income tax on dividends (related company)		0	-320
Final balance		**151 151**	**54 933**
Profit for current year			
Initial balance		53 253	20 742
Distribution of net profit		-53 253	-20 742
Profit for the financial year		175 461	53 253
Final balance		**175 461**	**53 253**
Total owner's equity		**389 212**	**170 786**

Notes on the annual report 2003 on pages 16-36 constitute an inseparable part of the annual accounts.

Notes on the annual accounts

Note 1. Accounting methods and valuation principles used in the annual accounts
AS Harju Elekter is a company registered in Estonia. The consolidated annual accounts prepared as of 31.12.2003 include AS Harju Elekter and its subsidiaries AS ELTEK, Satmatic Oy and Rifas UAB (together referred to as "Group"). In addition to the consolidated accounts, the unconsolidated accounts of the parent company AS Harju Elekter are presented. AS Harju Elekter has been listed on Tallinn Stock Exchange since September 30, 1997, 31 % of the shares are held by AS Harju KEK.

In accordance with the valid Commercial Code, the annual report for the financial year must be approved by the general meeting of shareholders which will take place on April 16, 2004.

The year 2003 annual accounts of AS Harju Elekter have been prepared in accordance with the good accounting practice approved in the Republic of Estonia and it is based on the internationally recognised accounting and reporting princeples. Basic requirements of the good accounting practice have been set forth in the Accounting Act of the Republic of Estonia that are supplemented with the guidelines issued by the Estonian Accounting Standard Board. The accounting principles applied by AS Harju Elekter are in compliance with the International Accounting Standards (IAS), but the format of the financial statements follows primarily the rules and procedures defined in the Accounting Act, not taking into consideration all the IASs requirements to format.

The consolidated income statement of AS Harju Elekter has been prepared in accordance with the Income Statement Layout 2, as described in Annex 2 of the Accounting Act of the Republic of Estonia.

The financial statements of AS Harju Elekter are presented in thousands of Estonian kroons.

Changes in accounting policies
In connection with the entry into force of the Accounting Act on 01.01.2003 and the guidelines issued by the Estonian Accounting Standards Board, the following change was introduced in the accounting policies and procedures during the financial year: *for financial investments the historical cost method was replaced with the fair value method.*

The fair value adjustment of financial investments was made retroactively as of 01.01.2003. The revaluation results (profit) were reported as a change in retained earnings. An overview of the adjustment effect on retained earnings is presented in Note 2 on the present accounts.

Changes in presentation format
Cash flow statement
The Group applies the indirect method for the presentation of cash flow from operating activities and the direct method for cash flows from investing and financing activities. Until 01.01.2003 the presentation of the cash flow from operating activities began with the net profit for the period. For the calculation of the net cash flow from operating activities, the net profit for the accounting period was adjusted to profit/loss from investing activities and non-cash business transactions. In order to make the presentation of data in cash flow statements more transparent, the format of the cash flow statement was modified as of January 1, 2003. Pursuant to the new format, the cash flow from operating activities begins with operating profit; received interest and dividend income are recorded under cash flow from investing activities. Comparative data for 2002 are presented in the cash flow statement in accordance with the principles applied during the preparation of the 2003 statement.

The impact on the 2002 cash flows was the following:

	Group	Parent company
Total cash flow from operating activities	10 252	19 686
Adjustment	*-4 103*	*-5 001*
Total cash flows from operating activities after adjustment	6 149	14 685
Total cash flow from investing activities	6 486	-5 303
Adjustment	*4 839*	*4 951*
Cash flow from investing activities after adjustment	11 325	-352
Total cash flow from financing activities	-16 157	-13 478
Adjustment	*-690*	*66*
Cash flow from financing activities after adjustment	-16 846	-13 412
Effect of changes in foreign exchange rates on cash balance	0	0
Adjustment	*-46*	*-16*
Effect of changes in foreign exchange rates on cash balance after adjustment	-46	-16

Notes on annual accounts
In connection with the new Accounting Act, effective 1 January 2003, and the guidelines issued by the Estonian Accounting Standards Board, some changes were introduced concerning information published in the notes on annual accounts and its presentation format Comparative data for 2002 are presented in the 2003 annual report in accordance with the requirements effective as of 2003.

Since 2003 the guidelines of the Accounting Standards Boards specify also the accounting policies for investment property. If prior to the enactment of the guidelines investment property was accounted for within tangible fixed assets, then beginning from 01.01.2003 it is reflected as a separate entry in the balance sheet. Information about the presentation format and publication requirements concerning information on investment property is presented in Note 10 on the 2003 annual accounts.

Cash and cash flow
Cash and its equivalents reported in the cash flow statement comprise of cash in hand, balance on bank accounts (exc. overdrafts), short-term bank deposits and up to three- month term deposits.

Presentation of cash flows from operating activities is based on the indirect method. Cash flows from investing and financing activities are reported based on gross receipts and payments made during the accounting period.

Foreign currency transactions and balance sheet items
Transactions in foreign currencies are reported on the basis of the Bank of Estonia official exchange rates quoted on the date of the transaction. Assets and liabilities denominated in foreign currencies as of 31.12.2003 are translated into Estonian kroons at Bank of Estonia official exchange rates quoted on the balance sheet date. The same principles are applied to the adjustment of nonmonetary financial assets and liabilities that must be stated at their fair value. Gains and losses arising from foreign currency transactions are recognised in the income statement as revenue and expenses for the accounting period.

Shares and other securities
Investments in shares (exc. shareholding in subsidiary and associated companies for which either the consolidation or the equity method is used) are reported in the balance sheet at their adjusted fair value on the balance sheet date. Exception is made to these shares the credible fair value of which cannot be estimated. The value of such shares is reported using the adjusted historical cost method.
The average share price on the last trading day of the accounting period is used as the basis for fair value adjustments of shares of the listed companies.

Due from customers
Accounts receivable are reported in the balance sheet using the adjusted historical cost method, considering their collection potential. Claims against every single customer are evaluated separately, taking into consideration any available information about the customer's solvency. Doubtful accounts are written down to their doubtless collectible value and allowances for uncollectible accounts are shown in the balance sheet under "Doubtful accounts". Accounts formerly transferred to expenses, but collected during the accounting period are reported in the income statement for the accounting period as adjustments to doubtful accounts and decrease in expenses. Non-collectible accounts are removed from the balance sheet.

Inventories
Finished and semi-finished goods and work-in-progress are recorded at their manufacturing cost which consists of the direct and indirect production-related expenses (direct and indirect production costs) incurred in bringing the goods to their present state and quantity. Production-related fixed general costs are broken down by product acquisition costs based on regular production volumes.

Other inventories are recorded at their acquisition cost which is comprised of the purchase price, non-recoverable duties and taxes, acquisition-related transportation costs and other directly attributable expenses, less trade discounts and subsidies. Inventories are evaluated in the Group using predominantly the weighted average acquisition cost method. Additional information is presented in Note 5.

In the balance sheet inventories are stated at the lowest of average acquisition cost or net realisable value. Stocks that have been idle over the last 12 months or longer are subject to up to 50% write-downs. The amounts of write-downs are reported in the income statement under *"Cost of goods sold"*.

Subsidiaries and associated companies
Subsidiaries
Subsidiaries are all these enterprises which are controlled by another company (parent company). Control is presumed to exist if one of the following premises is fulfilled;

a) parent company has directly or through a subsidiary company a holding of more than 50 per cent of the voting rights in the subsidiary;
b) the parent company exercises control on the basis of a management contract.

Associated companies
Associates are all these enterprises in which the investor company has significant influence, but not control. Significant influence is presumed to exist if one of the following premises is fulfilled:

a) investor company has directly or through a subsidiary company a holding of more than 20 per cent of the voting rights in the associated company;
b) investor company exercises significant influence through representation in the governing bodies of the subsidiary company or through significant co-operation agreements in the operations of the associated company.

In preparing the annual accounts, revaluation of the shares of subsidiary and associated companies is made in the balance sheet of the parent company, using the extended equity method, under which the initial investment is adjusted to the profit/loss of subsidiary and associated companies and received dividends. Gains and losses arising from unrealised intra-group transactions are eliminated.

In the consolidated accounts investments into subsidiaries are eliminated to the owner's equity; and parent and subsidiary companies are treated as one business entity. In the process of consolidation balance sheets, income statements and cash flow statements of the parent company and subsidiaries are added up entry by entry , whereas claims, liabilities internal turnovers, unrealised gains and losses arising from intra-group transactions are eliminated.

Tangible assets

Recording of tangible assets

Pursuant to the materiality concept, items with the acquisition cost higher than 5 000 kroons and useful life longer than one year are stated as fixed assets. In case a tangible fixed asset item consists of several distinctive essential components with different useful lives, these components are recorded in the books as separate items and individual depreciation rates are assigned, corresponding to the useful life. The acquisition value of tangible assets/work made for one's own purpose contains actual manufacturing/construction costs.

Assets with the expected useful life longer than one year, but the acquisition cost below 5 000 kroons or, irrespective of the value, with the useful life shorter than one year, are stated as immaterial assets (under stocks) before their utilisation and charged 100 % to expenses as of the moment of their utilisation. The acquisition cost of the purchased immaterial assets is treated as expense for the accounting period. Immaterial assets charged to expenses are accounted for off-balance.

Tangible assets are reported in the balance sheet at their historical cost less accumulated depreciation and write-downs due to impairment of fixed assets.

Depreciation method

For depreciation of tangible fixed assets a straight line method is used. The companies of the Group apply uniform depreciation rates. Due the specific nature of some item, its useful life may differ from another similar category. In this case it is treated as a separate item and a suitable depreciation rate is assigned to it.

Depreciation rates for tangible assets are subject to revision if circumstances arise which may significantly affect the expected useful life of fixed assets or a group of fixed assets. The impact of revisions is reported during the accounting period and the following periods.

In general, categories of tangible fixed assets have been assigned the following depreciation rates/useful lives:

Tangible asset category	Depreciation rate	Useful life
Land	Non depreciable	Non depreciable
Buildings and installations	3 - 10%	10 - 33 years
Plant and production facilities	10 - 15%	6 2/3 - 10 years
Other machines and equipment	15 - 25%	4 - 6 2/3 years
Vehicles	15 - 20%	5 - 6 2/3 years
Other inventory	15 - 33%	3 - 6 2/3 years

Improvements

If an item of tangible assets has been subject to improvement which increased its capacity to participate in the future in generating financial gains, then the cost of such improvements is added to the acquisition cost of the item. Other expenses which are incurred for the preservation of the fixed assets' capacity to generate financial gain, are reported under expenses for the accounting period.

Gains and losses from the sale of fixed assets or write-offs are stated in the income statement under other operating revenue and costs.

Intangible assets

Intangible assets are recorded at their acquisition cost and reported in the balance sheet at their net carrying value. Intangible assets are depreciated on the straight-line basis over the period of up to five years. Depreciation is shown in the income statement under *"Depreciation and impairment of fixed assets"*.

As a rule, research and development costs are charged to expenses, with the exception of these development costs that can be identified/attributed and are likely to contribute to the generation of revenue or cost-saving in the subsequent periods. R&D costs which are related to product development are reported in the income statement under administrative and general expenses.

Amortisation on positive goodwill arising from the acquisition of a business entity is reflected in the income statement within administrative and general expenses.

Investment property
Investment property is treated as property held by the enterprise as owner or leased under the financial lease conditions for the purpose of earning rental revenue or increasing its value or both. Investment property is recorded in the balance sheet at its acquisition cost which contains transaction costs directly associated with the acquisition.

Due to the lack of active markets, investments in immovable property are, likewise traditional fixed assets, stated in the current annual report at their acquisition cost, less accumulated depreciation. For depreciation of investmnet property the same depreciation rates/useful life are applied as for similar categories of tangible fixed assets.

Financial and operating lease
The term financial (capital) lease applies to leases where the lessee acquires essentially all of the economic benefits and risks of the leased property. Other lease agreements are treated as operating leases.
Company as a lessor
Assets leased under the financial lease arrangement are reflected in the balance sheet as accounts receivable in the amount of net investments made in the capital lease. Receivable lease payments are divided into payments of the principal due from the capital lease and into financial income. Financial income is reported over the lease period.

Assets leased under the operating lease conditions are reflected in the balance sheet in the same way as other assets reflected in the company's balance sheet. Payments of operating leases are reported as revenue on a straight-line basis over the lease period.

Company as a lessee
Assets rented under the financial lease arrangement are reflected in the balance sheet at the fair value of the rented assets. Payable lease payments are divided into financial expenses and reduction of liabilities. Financial expenses are reflected over the lease period. Payments of operating lease are reflected as expense on a straight-line basis over the lease period.

Liabilities
Liabilities with the maturity longer than one year as of the balance sheet date are stated in the balance sheet as long-term liabilities.

Physically measurable, known and contingent liabilities are reported in the balance sheet. Commitments, guarantees, pledges and other obligations which under certain circumstances may in the future transform into liabilities, are disclosed in the notes on annual accounts as contingent liabilities.

Provisions and contingent liabilities
The Group makes provisioning for the liabilities, the realisation time or amount of which is not certain. The amount of allowances and realisation terms are defined on the basis of the opinion of the executive management or competent experts.

Contingent liabilities are liabilities with the realisation probability of less than 50% or the estimated amount not credible. Contingent liabilities are accounted for off-balance.

Corporate income tax
Pursuant to the valid income tax legislation, beginning from January 1, 2000, the tax is not charged on corporate profits but on dividends, at the grossed-up rate of 26/74 on the amount of net dividends distributed. Due to the specificity of the taxation framework, the concept of tax basis of assets and

liabilities has lost its financial content and, consequently, deferred income tax liability or assets cannot arise.
In accordance with the guidelines issued by the Accounting Standard Board, effective 1 January 2003, corporate tax on dividends charged for subsequent periods is accounted for as income tax in the income statement of the dividend announcement period. Maximum potential income tax liability which may arise in connection with dividend payment is indicated in Note 16.

Non-resident companies of the Group pay corporate income tax in accordance with the valid laws of their country of residence.

Revenue recognition
Revenue arising from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue and costs incurred in respect of the transaction can be measured reliably.

Revenue from the rendering of services is recognised by reference to the stage of completion (the percentage-of-completion method); the amount of revenue and profit gained from the rendering of services is reflected on a time proportion basis as costs incurred in rendering the service.

Interest income is reported based on the internal interest rate of an asset. Dividend income is accounted for when the relevant right to receive payments is established.

Post-balance sheet date events
The annual accounts reflect all essential factors and circumstances that influence the evaluation of assets and liabilities and were obvious in the interval between the balance sheet date 31.12.2003 and the finalisation of the accounts on 26.02.2004, but are associated with transactions made during the accounting period or earlier periods.
Events after the balance sheet date that were not taken into consideration when assets and liabilities were evaluated, but which may have a significant influence on the results of the next financial year, are disclosed in the notes on the annual accounts.

Note 2. Impact of changes in accounting policy on retained earnings as of 01.01.2003
(in thousands of kroons)

Opening balance of retained earnings on 01.01.2003 before adjustment	54 933
Adjustments	
Fair value adjustment of long-term financial investments	53 765
Opening balance of retained earnings on 01.01.2003 after adjustment	108 698

Note 3. Taxes

	Group				Parent company			
(in thousands of kroons)	**31.12.2003**		**31.12.2002**		**31.12.2003**		**31.12.2002**	
Tax category	**prepaid**	**debt**	**prepaid**	**debt**	**prepaid**	**debt**	**prepaid**	**debt**
Corporate income tax	11	138	9	58	9	23	9	0
VAT	164	2 726	255	1 686	0	685	154	0
Personal income tax	0	1 870	0	1 719	0	1 043	0	1 015
Soc.security contributions	0	1 939	0	1 842	0	1 504	0	1 425
Inc.tax on fringe benefits	0	9	0	0	0	9	0	8
Unemploym.insurance contributions	0	80	0	76	0	64	0	60
Property tax	0	12	0	0	0	0	0	0
Road tax	0	16	0	0	0	0	0	0
TOTAL	**175**	**6 790**	**264**	**5 381**	**9**	**3 328**	**163**	**2 508**

Note 4. Trade receivables

	Group		Parent company	
As of the end of the period (in 1000 kroons)	**31.12.03.**	**31.12.02.**	**31.12.03.**	**31.12.02.**
Accounts receivable	31 826	28 764	13 014	12 121
Doubtful accounts	-41	-59	-11	-47
TOTAL	**31 784**	**28 705**	**13 003**	**12 074**

In the balance sheet accounts receivable are estimated as doubtless collectible amounts. During the financial year the following changes took place in the amounts of doubtful accounts:

	Group		Parent company	
For the period (in thousands of kroons)	**2003**	**2002**	**2003**	**2002**
- doubtful accounts at the beginning of the period	-59	-75	-47	-59
- collected amounts of accounts recognised as doubtful	0	10	0	7
- amounts recognised as doubtful accounts	-41	-48	-11	-36
- accounts recognised as non-collectible and eliminated from the balance sheet	59	54	47	42
- doubtful accounts at the end of the period	-41	-59	-11	-47

Accounts initially recognised as doubtful accounts, but collected during the financial year are stated in the income statement under other operating revenue, amounts recognised as doubtful accounts are stated in the income statement under other operating expense.

Note 5. Inventories

At the balance sheet date the Group had goods and production inventories in the total value of 44.1 (2002: 40.1) million kroons. For the estimation of tangible inventories, the weighted average acquisition cost method is used in the Group, excel. the Lithuanian subsidiary where the FIFO method is used. Inventories of the Rifas group amount to 9.7 per cent of the consolidated inventories in the balance sheet.

Write-downs of inventories during the financial year totalled 845 (2002: 1 160) thousand kroons, incl. cost of write-downs of idle stockpiles 781 (2002: 887) and write-downs to net realisable value 63 (2002: 257) thousand kroons. Write-downs of inventories in the parent company amounted to 131 (2002: 137) thousand kroons.

As of the balance sheet date the Group had stocks in the United States of America under the bailment contract in the value of 362 (2002: 353) thousand kroons and was the bailee for the stocks in the value of 70 (2002: 95) thousand kroons.

Note 6. Shares in subsidiaries

AS Harju Elekter subsidiary companies

Participation and voting right-%	2003	2002		
AS Eltek	100	100	Keila, Estonia	Manufacturing of telecom equipment
Satmatic OY	100	100	Ulvila, Finland	Manufacturing of electrical equipment
Rifas UAB	51	0	Panevež is, Lithuania	Manufacturing of electrical equipment

Rifas UAB subsidiaries

Automatikos Iranga	51	51	Panevež is, Lithuania	Design
Biþ ø Montuotojas	50.26	50.26	Biþ ø, Lithuania	Installation services

(in thousands of kroons)	ELTEK	Satmatic	Rifas	TOTAL
Number of shares at the beginning of the year	**400 000**	**200 000**	**0**	
Number of shares acquired during the financial year	0	0	3 900	
Number of shares at the end of the year	**400 000**	**200 000**	**3 900**	
Nominal value (in kroons)	10	15,65	453,15	
Acquisition cost at the beginning of the year	**3 701**	**4 671**	**0**	**8 372**
Book value at the beginning of the year	**9 228**	**4 531**	**0**	**13 759**
Acquired (at cost)	0	63	10 637	10 700
Profit by the equity method for the financial year	1 258	0	370	1 628
Loss by the equity method for the financial year	0	- 1 114	0	-1 114
Book value at the end of the year	**10 486**	**3 480**	**11 007**	**24 973**
Acquisition cost at the end of the year	**3 701**	**4 671**	**10 637**	**19 009**
Owner's equity of subsidiaries at the end of the year	10 582	2 720	21 582	
Investor participation in owner's equity	10 582	2 720	11 007	
Market value at the beginning and end of the year	none	none	none	none

The shares of subsidiary companies are not listed on the stock exchange.

On October 1, 2003 AS Harju Elekter bought a 51 per cent shareholding in the Lithuanian company UAB Rifas. In accordance with the preliminary contract signed on 8 September 2003, a share issue by way of direct placement with Harju Elekter was organised. 2650 new shares were issued and Harju Elekter bought 1250 shares from current owners. After the issue the share capital of UAB Rifas is 765 thousand Lithuanian lits (3.5 MEEK), which is divided into 7650 common shares. 3900 shares (51 %) are held by Harju Elekter and 3750 (49 %) by private individuals in Lithuania.

UAB Rifas was founded in 1991. The core business of the enterprise in designing of industrial automation equipment, manufacturing and installation of control systems. Rifas Group consists, in addition to the parent company, of 51 % subsidiary UAB Automatikos Iranga and 50.26 % subsidiary Birzu Montuotojas. The core business of Automatikos Iranga is designing of industrial and process automation systems, whereas Birzu Montuotojas specialises mostly in electrical installation work. The core business of the parent company Rifas is manufacturing of power distribution and control boards.

Investments in the shares of subsidiaries which have been value adjusted in AS Harju Elekter balance sheet using the equity method differ from investor participation in owner's equity of the subsidiary. The difference is caused by the following factors:

As of 31.12.2003	ELTEK	Satmatic	Rifas
Owner's equity of subsidiaries	10 582	2 720	21 582
Investor participation in owner's equity	10 582	2 720	11 007
Balance of write-ups of fixed assets in purchase analysis	0	760	0
Unrealised profits (inventories)	-2	0	0
Unrealised profits (fixed assets)	-94	0	0
Book value of investment	**10 486**	**3 480**	**11 007**

Note 7. Shares in associated companies

AS Harju Elekter associated companies	Participation and voting right-%		Domicile	Business area
AS Keila Kaabel	34	41.2	Keila, Estonia	Production and wholesale of cables
AS Saajos Balti	33.3	33.3	Keila, Estonia	Production of fireproof doors

(in thousands of kroons)	Keila Kaabel	Saajos Balti	TOTAL
Number of shares at the beginning of the year	**989**	**200 000**	
Sold	-105		
Number of shares at the end of the year	**884**	**200 000**	
Nominal value (in kroons)	10 000	10	
Acquisition cost at the beginning of the year	9 890	2 000	11 890
Book value at the beginning of the year	**24 778**	**1 809**	**26 587**
Dividends paid for 2002	-3 052	0	-3 052
Shares sold during the financial year (at selling price)	-8 748	0	-8 748
Revenue from share transfers during the financial year	7 052	0	7 052
Profit by the equity method for the financial year	5 144	0	5 144
Loss by the equity method for the financial year	0	-506	-506
Book value at the end of the year	**25 174**	**1 303**	**26 477**
Acquisition cost at the end of the year	**8 840**	**2 000**	**11 890**
Owner's equity of associates at the end of the year	74 205	4 158	
Investor participation in owner's equity	25 230	1 386	

The shares of associated companies are not listed on the stock exchange.

Pursuant to the resolution of the extraordinary general meeting of shareholders and for the purpose of financing of investments and know-how, an issue of Keila Kaabel shares by way of placement with Draka NK Cables was organised; 200 new shares were issued. In 2003 Harju Elekter sold 105 shares of AS Keila Kaabel. After the share issue and transfer of shares, Harju Elekter's participation decreased from 41.2 % to 34 %. The owner's equity of Keila Kaabel increased by 6 800 thousand kroons. The decrease in shareholding is reflected as disposal of shares. The profit from the decrease in participation and transfer of shares totalled 7 052 thousand kroons.

Investments in the shares of associated companies which have been value adjusted in AS Harju Elekter balance sheet using the equity method, are smaller than the sum total of AS Keila Kaabel and AS Saajos Balti owner's equity. The difference is caused by the following factors:

	Keila Kaabel	Saajos Balti
Investor participation in owner's equity of assoc.companies 31.12.2003	25 230	1 386
Unrealised profit (inventories)	-56	0
Unrealised profit (fixed assets)	0	-83
Book value of investment 31.12.2003	25 174	1 303

Note 8. Other long-term shareholdings

Parent company **PKC Group OY shares** (in thousands of kroons)	**Number**	**Amount**
At the beginning of the year	**637 339**	**17 038**
Difference after initial share revaluation		53 765
At the beginning of the year (*adjusted*)	**637 339**	**70 803**
Participation % at the beginning of the year	11,8	
Acquired (at cost)	9 000	1 061
Disposed (at selling price)	-40 000	-11 606
Revenue from share transfers		2 994
Changes in market value of financial investment		137 876
At the end of the year	**606 339**	**201 128**
Participation % at the end of the year	10,55	

Shares are stated in the balance sheet using the fair value method. On the last trading day of the financial year that ended on 31.12.2003, the average price quotation on the Helsinki Stock Exchange closed at 21.20 euros.

Since 31.12.2002 AS Harju Elekter has had a long-term financial investment in PKC Group Oyj shares at book value of 17 038 thousand kroons. The investment is recognised in the balance sheet at acquisition cost. The market value of the shares on 31.12.2002 was 70 803 thousand kroons.

In order to harmonise the financial statements with the Accounting Act of Estonia and Estonian Accounting Standards Board guidelines (EASB gl), the above long-term financial investment had to be classified as a financial instrument and recognised on the fair value basis. As PKC Group Oyj is a company registered in Finland and listed on the Helsinki Stock Exchange, the best indicator of the fair value for these shares was their market price [EASB gl.3 p20]. The shares were value adjusted in the opening balance sheet on the basis of the average price quotation on the last trading day of the financial year that ended on 31.12.2002, which was 7.10 euros. According to [EASB gl.3 p.15b] definition, the above financial investment is classified as available-for-sale financial assets. In accordance with [EASB gl.3 p.67], gains arising from the revaluation of assets in the amount of 53 934 thousand kroons were recognised directly as a component of owner's equity under the entry „*Retained earnings*“. Comparative data was not adjusted. Gains and losses arising from the adjustment of long-term financial investments to their fair value are recognised during the financial year, in conformity with IAS standard 39, in the income statement under the entry „*Financial income and expenses from revaluation of financial investments*”.

PKC Group Oyj paid dividends for the financial year at the rate of 0.40 euros (2002: 0.25 euros) per share. The amount of 4 551 thousand kroons (2002: 2 064) received in dividends is reported in the income statement under the entry of „*Financial income and expenses from other financial investments*“.

Note 9. Long-term credit granted

(in thousands of kroons)	Satmatic	Employees	TOTAL
Loan balance at the beginning of the year	**10 170**	**484**	**10 654**
Repaid during the accounting period	-4 968	-405	-5 373
Loan balance at the end of the year	**5 202**	**79**	**5 281**
Incl. current portion of long term credit	3 468	60	3 580
Long-term portion	1 734	19	1 753
Interest income received	410	16	426
Reference currency	EUR	EEK	
Average annual interest rate	5%	7%	
Maturity dates	19.06.05	31.12.05	

The long-term portion of long-term credit extended to the employees is stated under the balance sheet entry of *Various long-term receivables* and the short-term portion under *Other short-term receivables.* Interest income from long-term receivables is entered in the income statement under the item *Financial income and expenses from other investments.*

Note 10. Investment property

	Group			Parent company		
(in thousands of kroons)	**Land**	**Buildings**	**TOTAL**	**Land**	**Buildings**	**TOTAL**
Acquisition cost						
31.12.02 (*adjusted)*	164	58 026	58 190	164	64 018	64 182
Acquired	2 236	35 741	37 977	2 236	35 741	37 977
Reconstructed	0	1 677	1 677	0	1 677	1 677
31.12. 03	2 400	95 444	97 844	2 400	101 436	103 836
Accumulated depreciation						
31.12.02 (*adjusted)*	0	-8 904	-8 904	0	-9 946	-9 946
Depreciation for the financial year		-2 043	-2 043		-2 222	-2 222
31.12. 03	0	-10 947	-10 947	0	-12 168	-12 168
Net carrying value						
31.12.02 (*adjusted)*	**164**	**49 122**	**49 286**	**164**	**54 072**	**54 236**
31.12.03	**2 400**	**84 497**	**86 897**	**2 400**	**89 268**	**91 668**

AS Harju Elekter applied for the first time for the financial year that began on 01.01.2003 the Estonian Accounting Standards Board's guideline on Investment property. As of 01.01.2003 the parent company had land and buildings that meet the investment property criteria and have sofar been recognised as tangible assets, at the net carrying value of 54 236 thousand kroons and on the Group had 49 286 thousand kroons as of 01.01.2003. The opening balance of the tangible assets was adjusted in the 2003 annual report due to the changes in the accounting policies. Additional information about tangible assets is presented in Notes 1, 10, 13 and 14.

Due to inactive markets, the investement property is stated in the present annual report similarily to traditional fixed assets at its acquisition cost, less accumulated depreciation

Lease income from investment property and administration costs:

	Group / buildings		**Parent company / buildings**	
	2 003	**2 002**	**2 003**	**2 002**
Lease income	15 106	9 014	16 614	12 529
Administration costs	2 360	825	2 603	1 052
TOTAL	12 746	8 189	14 011	11 477

Note 11. Movement of tangible assets
(in thousands of kroons)

Group

Category	Land	Buildings	Machine-ry and equipm.	Other inventory	Construc tion-in-progress	Prepay-ment for tangible assets	TOTAL
Acquisition cost							
31.12.02	868	20 703	46 385	3 277	1 351	28	72 612
Fixed assets acquired with the purchase of subsidiary	51	6 409	6 228	1 396	50	0	14 134
Acquired	104	174	6 031	428	0	840	7 577
From construction-in-progress and prepayments	0	0	0	0	963	1 200	2 162
Reconstructed	0	0	290	0	0	0	290
Sold and write-offs	0	0	-788	-105	0	0	-896
31.12.03	1 022	27 286	58 143	4 996	2 363	2 068	95 879
Accumulated depreciation							
31.12.02	0	-3 769	-20 987	-1 627	0	0	-26 384
Depreciation acquired with the purchase of the subsidiary	0	-1 952	-3 255	-1 008	0	0	-6 215
Depreciation for the financial year	0	-742	-5 836	-586	0	0	-7 165
Deprec.of disposed assets and write-off	0	0	767	105	0	0	872
31.12.03	0	-6 464	-29 311	-3 117	0	0	-38 892
Residual value							
31.12.02	**868**	**16 934**	**25 398**	**1 649**	**1 351**	**28**	**46 228**
31.12.03	**1 022**	**20 822**	**28 833**	**1 878**	**2 363**	**2 068**	**56 987**

Parent company

Category	Land	Buildings	Machine ry and equipm.	Other inventory	Construc t-ion-in-progress	Prepay-ment for tangible assets	TOTAL
Acquisition cost							
31.12.02	868	14 583	26 033	1 751	1 351	28	44 614
Acquired	0	191	5 119	174	0	840	6 324
Reconstructed	0	0	290	0	0	0	290
Sold and write-off	0	0	-599	-25	0	0	-624
31.12.03	868	14 774	30 843	1 900	1 351	868	50 604
Accumulated depreciation							
31.12.02	0	-2 704	-15 105	-1 043	0	0	-18 852
Depreciation for the financial year	0	-470	-3 283	-237	0	0	-3 990
Depreciation of disposed fixed assets and write-offs	0	0	575	25	0	0	600
31.12.03	0	-3 174	-17 813	-1 255	0	0	-22 242
Residual value							
31.12.02	**868**	**17 287**	**41 138**	**2 794**	**1 351**	**28**	**63 466**
31.12.03	**868**	**11 600**	**13 030**	**645**	**1 351**	**868**	**28 362**

The residual value of the fixed assets written off due to obsolence or wear and tear was 19 thousand kroons, which amount is reported in the income statement under *Other operating charges.* 157 thousand kroon income from the sale of fixed assets is reported in the income statement under *Other operating revenue.*

In connection with the Accounting Standards Board's new guideline on *investement property*, effective 1 January 2003, buildings that have sofar been recognised as tangible assets were reclassified to investment property. Due to the change in accounting policy, the opening balance of tangible assets was adjusted in the 2003 annual accounts. Information about the accounting policy for tangible assets is presented in Notes 1, 10, 13 and 14.

Note 12. Intangible assets

Group (in thousands of kroons)	**Goodwill**	**Licenses bought**	**Pre-payment**	**Group TOTAL**	**Parent company Licenses bought**
Acquisition cost					
31.12.02	481	1 631		2 112	1 152
Assets acquired with the purchase of the subsidiary	0	148	0	148	0
Acquired	0	1 101	39	1 140	0
31.12.03	481	2 881	39	3 400	1 152
Accumulated depreciation					
31.12.02	-465	-424	0	-889	-402
Depreciation acquired with the purchase of the subsidiary	0	-86	0	-86	0
Depreciation recognised for the financial year	-16	-619	0	-627	-260
31.12.03	-481	-1 129	0	-1 610	-662
Net carrying value					
31.12.02	**16**	**1 207**	**0**	**1 223**	**750**
31.12.03	**0**	**1 751**	**39**	**1 790**	**490**

Information about the accounting policy for intangible assets is presented in Note 1.

Note 13. Investment property

For the period (in thousands of kroons)	**Group 2003**	**Group 2002**	**Parent company 2003**
Acquisition cost	8 057	4 961	1932
incl. acquisition of participation	452	0	0
incl. acquisitions during the financial year	2 086	171	1932
Accumulated depreciation	1 786	1 045	146
incl.reclassification of fixed assets	72	0	0
incl.depreciation for the financial year	669	489	146
Residual value	6 271	0	1786
Payments for the accounting period	1 367	627	514
Interest charges for the accounting period	168	180	48
Average interest rate	5,5%	6,8%	4,7%

At the end of the period	**31.12.2003**	**31.12.2002**	**31.12.2003**
Total financial lease debt	3 860	2 716	1434
incl. payment term up to 1 year	1 450	745	452
incl. payment term 1 – 5 years	2 425	1 971	982
Reference currency	EUR	EUR	EUR

Note 14. Operating lease

AS Harju Elekter leases the following asset items under the operating lease conditions:

Description of entry (in 1000 EEK)	**2003 Equipment**	**2002 Equipment**
Acquisition cost of leased items	460	660
Accumulated depreciation of leased items	334	367
Operating lease income for the financial year	**115**	**79**
incl. income from the subsidiary	38	18
non-concern lease income	77	61

Lease income is reported in the income statement under sales revenue, whereas costs and depreciation associated with the leased property under cost of goods sold. Operating lease income/expenses with relation to subsidiaries are in the consolidated income statement eliminated. Additional information about buildings and land leased out under the operating lease arrangement is presented in Note 10.

In the Group operating lease payments were charged to expenses during the financial years as follows:

	Group		**Parent company**	
Description of entry	**2003**	**2002**	**2003**	**2002**
Office, commercial and production premises	2 104	1156	684	607
Machinery and equipment	733	679	552	626
TOTAL	2 837	1 835	1 236	1 233

The enterprises of the Group have rented under the operating lease conditions several means of transport/vehicles. Due dates of operating leases payable in subsequent periods :

(in thousands of kroons)	**Group** **Machinery and equipm.**	**Parent company** **Machinery and equipm.**
Due date up to 1 year	447	357
1-5 years	370	175

Note 15. Long-term liabilities

Group	**Unsecured debt**		**Investment loans**		**Lease obligations**	
(in thousands of kroons)	**31.12.03**	**31.12.02**	**31.12.03**	**31.12.02**	**31.12.03**	**31.12.02**
Loan balance	197	195	24 180	9 648	3 876	2 716
incl. long-term portion	0	195	18 374	3 541	2 426	1 971
inc. short-term portion	197	0	5 806	6 107	1 450	745
Interest rate (%)	0	0	5,4-7,9	5,5-7,9	8,3	8,3
Maturity	30.09.04	30.09.04	2005-2011	2003-2005	2005-2006	2003-2006

Parent company	**Unsecured debt**		**Investment loans**		**Lease obligations**	
(in thousands of kroons)	**31.12.03**	**31.12.02**	**31.12.03**	**31.12.02**	**31.12.03**	**31.12.02**
Loan balance	197	195	21 876	5 503	1 434	0
incl. long-term portion	0	195	17 913	1 238	982	0
incl. short-term portion	197	0	3 963	4 265	452	0
Interest rate (%)	0	0	3,2 - 4,15	5,4-6,3	4,4 -5,0	0
Maturity	30.09.04	30.09.04	2004-2011	2003-2004	2005-2008	0

The unsecured debt obligation is the subscription fee collected from the employees in September for the stock option, paid as decided by the general meeting of AS Harju Elekter at the rate one kroon per each subscribed option. The subscription fee is recognised as long-term interest-free debt. The debt shall be repaid before the redemption of the option in 2004.

For the financing of PKC Eesti and Keila Kaabel extension projects Harju Elekter borrowed from the banks on a long-term basis 21 647 thousand kroons. In 2003 repayments of investment loans in the Group amounted to 7 119 (2002: 7 760) thousand kroons and capital lease payments to 1 394 (2002: 836) thousand kroons. Information about bank loan guarantees is presented in Note 22.

Note 16. Income tax on dividend

Retained earnings of the company on 31 December 2003 were 326 468 thousand kroons. No provisions for income tax payable on dividends are made, but in view of the non-restricted equity of the company, the consideration is that:

- as of the status on the balance sheet date it is possible to distribute dividends to the owners in the amount of 241 586 thousand kroons;
- upon distribution of the above dividends 84 919 thousand kroons of income tax on dividend should be paid.

Calculations of the maximum potential tax liability are based on the premise that the sum total of distributed net dividends and dividend-related income tax expenses reported in the 2004 income statement should not exceed the amount of available-for-distribution profit as of 31.12.2003.

In the subsequent periods the parent company will qualify for the following deductions from tax liabilities arising from distribution of dividends:

-right of deferred tax deductions on provisions for income tax payable on dividends (in thousand of kroons)	1 030

On the preparation date of the annual report 26.02.2004 it was known that PKC Group OY has announced dividends at the rate of 2 euros per share. As of 31.12.2003 Harju Elekter owned 606 thousand PKC Group OY shares. The participation of AS Harju Elekter in the share capital of PKC Group (more than 10 %) entitles Harju Elekter to deductions in Estonia to the extent of the amount of income tax withheld abroad on that portion of the profit that served as the basis for the dividends received from PKC Group. In 2003 dividends in the amount of 3 million kroons were received from Keila Kaabel, which amount can be used for further tax-free payments. The management board of Harju Elekter has proposed to distribute dividends to the owners at the rate of 4 kroons per share, in total 21.5 million kroons. Taking into account the above information, it is possible to pay this amount to the owners without any income tax liability.

Additional information about participations of the parent company in business undertakings is presented in Notes 6-8.

Note 17. Share capital

The share capital of AS Harju Elekter is 54 million kroons that is divided into 5 400 thousand common shares, with the nominal value of 10 kroons. In addition to 5,400 common shares, 200 thousand share options have been issued. Every option gives one the right to one share of AS Harju Elekter, with the nominal value of 10 kroons and the redemption price of 40 kroons. After the redemption of the options on 30 September 2004, the share capital of AS Harju Elekter will be increased by 2 million kroons to the amount of 56 million kroons and the maximum possible number of common shares will be 5 600 thousand. Pursuant to the articles of association, the maximum permitted number of shares is 20 million. Additional information about the number of shares and options held by the members of the governing bodies of AS Harju Elekter is presented in Note 25.

In 2003 the owners were paid dividends in the amount of 10 800 (2002: 7 560) thousand kroons without incurring any tax liability for AS Harju Elekter. Income tax liabilities arising from dividends paid to these shareholders who belong to the taxable category were fully covered by deductions sanctioned by the laws.

Note 18. Segmental reporting

The primary format of segmental reporting in AS Harju Elekter is by business segments and the supplementary format by geographical areas of operations.

The Group operates in two main business segments:
"*electrical engineering"* - manufacturing and marketing of power distribution and control systems; subcontracting for energy, construction and manufacturing sectors; intermediary trade in electrical equipment and appliances - parent company and subsidiaries Satmatic and Rifas;
"telecommunication" - manufacturing and marketing of various products for data transfer networks when commissioned by the telecom sector; installation of computer networks, communication and alarm systems, rendering of communication services; intermediary trade in communication technology - subsidiary Eltek.

<u>**Business segments**</u>

Year 2003 (in thousands of kroons)	**Electrical engineering**	**Telecommu-nication**	**Elimina-tion**	**TOTAL**
Income statement				
Sales to non-concern buyers	299 413	42 935		342 348
Inter-segment sales	7 108	1 273	-8 381	0
Total	**306 521**	**44 208**	**-8 381**	**342 348**
Operating profit	**18 058**	**1 858**	**-6**	**19 911**
Financial income and expenses for segment	151 722	-588		151 134
Profit by the equity method	5 163	0	-514	4 649
Income tax	-97	0	0	-97
Minority interest	-137			-137
Net profit for the financial year	**174 710**	**1 271**	**-520**	**175 461**
Other data				
Acquisition of tangible assets	50 441	383		50 824
Depreciation of tangible assets	7 488	2 096	47	9 630
31.12.2003				
Segment assets	463 769	24 632	-31 801	456 600
Associated companies	26 476			26 476
Total assets	**490 245**	**24 632**	**-31 801**	**483 077**
Segment liabilities	**68 920**	**14 050**	**-2 328**	**80 643**

Year 2002 (in thousands of kroons)	**Electrical engineering**	**Telecommu-nication**	**Elimina-tion**	**TOTAL**
Income statement				
Sales to non-concern buyers	236 480	34 732	0	271 212
Inter-segment sales	10 309	1 338	-11 647	0
Total	**246 788**	**36 070**	**-11 647**	**271 212**
Operating profit	**14 349**	**1 553**	**-408**	**15 494**
Financial income for segment	1 874	-779	0	1 095
Profit by the equity method	6 294	0	-227	6 067
Undistributed non-recurrent income	0	0	0	30 641
Income tax	-44	0	0	-44
Net profit for the financial year	**22 517**	**774**	**-634**	**53 254**
Other data				
Acquisition of tangible assets	12 434	513	-61	12 886
Depreciation of tangible assets	5 717	2 062	77	7 856
31.12.2002				
Segment assets	197 716	25 244	-25 519	197 440
Associated companies	26 587			26 587
Total assets	**224 302**	**25 244**	**-25 519**	**224 027**
Segment liabilities	**50 289**	**15 932**	**-12 981**	**53 240**

Geographical segments

By the location of businesses the operations of the Group falls into three geographical segments:
Estonia –domicile of the parent company and the subsidiary Eltek;
Finland – domicile of the subsidiary Satmatic;
Lithuania – domicile of the subsidiary Rifas.

Year 2003 / 31.12.2003 (in thousands of kroons)	**Estonia**	**Finland**	**Lithuania**	**Group total**
Revenue to non-concern buyers	242 559	89 159	10 630	342 348
Segment assets	405 059	21 775	29 392	456 226
Associated companies	26 476	0	0	26 476
Total assets	431 535	21 775	29 392	482 702
Acquisition of tangible assets	46 261	1 300	2 890	50 452

Year 2002 / 31.12.2002 (in thousands of kroons)	**Estonia**	**Finland**	**Lithuania**	**Group total**
Revenue to non-concern buyers	237 327	33 885	0	271 212
Segment assets	171 167	25 870	0	197 037
Associated companies	26 587	0	0	26 587
Total assets	197 753	25 870	0	223 623
Acquisition of tangible assets	11 690	1 196	0	12 886

Note 19. Sales revenues

Breakdown by markets

Non-concern revenue by market location:

(in thousands of kroons)	Group 2003	2002	Parent company 2003	2002
Estonia	180 832	150 530	163 830	139 023
Finland	134 169	104 686	36 231	45 289
Lithuania	12 533	2 796	584	700
European Union (exc. Finland)	3 675	2 832	975	0
Other Europe	2 899	2 355	2 899	506
Russia and CEEC	4 500	6 791	1 189	4 213
USA	3 740	1 223	0	0
TOTAL	**342 348**	**271 211**	**205 708**	**189 731**

Breakdown by fields of activity and product groups

The operations of the Group fall into two types of business activities:

"*core business*" - manufacturing and marketing of own products;

"*other activities*" – intermediary sale of electrical engineering and telecommunication products; provision and intermediation of services related to the core business, leasing of production capacity/facilities to the undertakings that belong to the same business segment.

(in thousands of kroons)	Group 2003	2002	Parent company 2003	2002
Core business				
- electrical equipment	214 488	134 465	120 745	100 559
- wiring systems for automotive and telecom industry (subcontracting)	0	38 926	0	20 096
- cases/boxes for telecom installations	19 785	13 830	0	0
- sheet metal products and metalwork	28 470	26 112	9 967	9 182
- design	1 360	0	0	0
- installation services	2 657	0	0	0
Total core business	**266 760**	**213 333**	**130 712**	**129 837**
Other activities				
- trade and intermediation	49 164	42 613	47 025	41 844
- leasing of capital assets	15 183	9 075	16 729	12 608
- other services	11 241	6 190	11 242	5 442
Total other activities	**75 588**	**57 878**	**74 996**	**59 894**
TOTAL TURNOVER	**342 348**	**271 211**	**205 708**	**189 731**

Note 20. Non-recurring financial income

The profit for the financial year includes the following non-recurring financial income :

(in thousands of kroons)	**2003**	**2002**
- dividend income from PKC Group Oyj	4 551	2 064
- profit from transfer of PKC Group OYJ shares	2 994	0
- profit from revaluation of PKC Group OYJ shares to market value	137 878	0
- profit from transfer of AS Keila Kaabel shares and change in participation	7 052	0
TOTAL	**152 475**	**2 064**

Note 21. Basic and diluted earnings per share

	Unit	2003	2002
Net profit for the period	1000 EEK	175 461	53 254
Average number of shares for the period	1000	5 400	5 400
Basic EPS	EEK	32.49	9.86
Option terms and conditions:			
- number of shares issued	1000	200	200
- set redemption price	EEK	40	40
- amount received from the issue	1000	8 000	8 000
Diluted earnings per share:			
- average market price for the period	EEK	78.54	33.64
- number of shares issued at market price	1000	102	200
- number of shares granted free of charge	1000	98	0
- adjusted average number of shares	1000	5 498	5 400
- *diluted earnings per share*	EEK	31.91	9.86

Pursuant to the resolution of the general meeting of AS Harju Elekter, a share option was issued. An option gives one the right to buy shares of Harju Elekter at the price of 40 kroons. For the realisation of the options 200 thousand new common shares will be issued and, if all the options are exercised, the company will earn 8 million kroons.

Note 22. Bank loan securities and pledged assets

Pledged assets	Number of shares	Investment loan balance 31.12.2003	Settlement credit limit 31.12.2003	Pledged to
PKC Group Oyj shares	250 000	14 637		Sampo bank
PKC Group Oyj shares	33 000	2 303		Nordea bank
PKC Group Oyj shares	140 000	1 238	11 310	OKOBANK
Total pledged shares	**423 000**			

Pledged assets are recognised in the balance sheet as of 31.12.2003 on the basis of the fair value method, i. e.. at their market value. For the financing of the production facility extension project in Keila Kaabel, Harju Elekter took a long-term bank loan of 383.5 thousand euros (6 million kroons) from Nordea bank (Estonia) in July. As security for the loan immovable properties in Haapsalu were mortgaged for the benefit of the bank.

In total Harju Elekter has pledged to the banks 116.5 thousand PKC Group Oyi shares as guarantees for the bank loans of its subsidiaries and associated companies. Additional information about related parties is presented in Note 24.

Note 23. Contingent liabilities
(in thousands of kroons)

As of 31.12.2003 the parent company AS Harju Elekter has the following valid contracts of guarantee and suretyship:

Guarantee object	31.12. 03	31.12. 02	Related parties	Term
Settlement credit from the concern account	5 500	3 500	AS Eltek	indefinite
Long-term bank loan	3 400	4 120	AS Keila Kaabel	30.09.04
Overdraft (from banks)	5 368	6 505	AS Keila Kaabel	indefinite
TOTAL related parties	**14 268**	**20 155**		

All contracts have been concluded with the aim to guarantee obligations of the related parties. In the balance sheet of Keila Kaabel the balance of the outstanding long-term loan was 5 million kroons as of 31.12.2003. Harju Elekter guarantees loans of the associated company to the extent of its participation (34 %) in the owner's equity of Keila Kaabel. Thus the amount of the actual guarantee on the balance sheet date is 1.7 million kroons. Additional information about related parties is presented in Note 24.

Note 24. Transactions with related parties
Related parties
Related parties to AS Harju Elekter are its 100%-owned subsidiaries AS Eltek, Satmatic Oy and 51%-owned subsidiary Rifas UAB, associated companies AS Keila Kaabel and AS Saajos Balti, members of the governing bodies and AS Harju KEK which owns over 30% of AS Harju Elekter shares.

Bought-sold
AS Harju Elekter bought from and sold goods to and rendered services to related parties as follows:

	2003		**2002**	
Related parties (in thousands of kroons)	**Bought**	**Sold**	**Bought**	**Sold**
Eltek	1 273	4 552	1 258	3 466
Satmatic Oy	1 024	1 221	22	339
RifasUAB (2003)	0	310	0	0
AJT Harju Elekter (2002)	0	0	4 319	2 162
Keila Kaabel	6 667	6 843	5 518	5 652
Saajos Balti	1 742	4 936	1 816	3 110
Harju KEK	1 072	78	71	32
TOTAL	**11 778**	**17 942**	**13 004**	**14 761**

Purchase and sale transactions between related parties broken down by the content of transaction::

	2003		**2002**	
Content of transaction (in %)	**Bought**	**Sold**	**Bought**	**Sold**
Goods purchased for resale	51.55	0.00	40.69	0.00
Material, gathered for production needs	34.61	17.80	19.70	15.04
Industrial subcontracting	0.83	14.75	0.00	9.16
Lease of fixed assets	0.00	31.82	0.00	50.34
Management services	0.00	20.36	0.00	21.58
Other services	13.00	15.26	39.62	3.88
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**

Other services include building and communication services, repair and maintenance of immovable property. The executive management of the company is of the opinion that prices applied to transactions with related parties do not differ significantly from market prices.

Investments
In 2003 Harju Elekter bought land and buildings from Harju KEK, paying for this investment in immovable property in all 2,895 thousand kroons, including 1,891 thousand kroons for the land.

Financing activity
In 2003 the Finnish subsidiary repaid 4 969 thousand kroons of the long-term loan. The loan had been granted in 2002 for the acquisition of fixed and current assets. The interest rate was 5%. 418 thousand kroons of interest income is recognised as financial income in the 2003 income statement of the parent company.

In 2003 the subsidiary Eltek fully repaid to the parent company the short-term loan in the total amount of 900 thousand kroons. The parent company received 37 thousand kroons of interest income from Eltek. The interest rate was 8 per cent.

Information about long-term loans granted to related parties, loan repayment and loan terms is presented in Note 9.

Guarantees, warranties
The loan agreement concluded on 28.06.2002 between the associated company AS Keila Kaabel and Nordea bank is guaranteed by Harju Elekter to the extent of 34%. The value of the issued guarantee is 3.4 million kroons. The 5.4 million kroon guarantee issued as a security for an overdraft is up from earlier periods. The guarantee is not secured by pledge.

The parent company has pledged PKC Group assets as a security for the 300 thousand euro overdraft facility of its subsidiary Satmatic. Pledge contracts made in earlier periods to secure Eltek's long-term loan (2 303 thousand kroons of investment loan outstanding as of 31.12.2003) and the 67 thousand euro overdraft facilty of the associated company Saajos Balti are still valid.

Additional information about guarantee agreements entered into by AS Harju Elekter for securing loan obligation of related parties and still valid on 31.12.2003, is presented in Note 23 and about pledged assets in Note 22.

Balance with related parties	**Claims**		**Obligations**	
	31.12.03	**31.12.02**	**31.12.03**	**31.12.02**
Total with subsidiaries	**7 254**	**12 828**	**237**	**153**
Total Eltek	**1 684**	2 302	231	153
incl. outstanding accounts	1 684	1 402	231	153
Short-term loan	0	900	0	0
Total Satmatic	**5 469**	10 526	6	0
incl. outstanding accounts	257	339	6	0
Long-term loan	5 203	10 170	0	0
Short-term loan	9	17	0	0
Total with associates	**6 028**	**1 858**	**848**	**554**
incl.. AS Keila Kaabel	2 007	1 000	401	318
AS Saajos Balti	4 021	858	447	236

Note 25. Participation of AS Harju Elekter management and supervisory board members

	No of shares	incl. subscr. option	Direct particip. %	Indirect particip. %
Supervisory board				
Palla, Endel	316 336	5 000	5,65	10,58
Kirsme, Lembit	465 000	5 000	8,30	6,69
Talgre, Madis	5 000	5 000	0,09	0,44
Tombak, Triinu	5 000	5 000	0,09	0,00
Kabal, Ain	5 000	5 000	0,09	0,00
Total	**796 336**	**25 000**	**14,22**	**17,71**
Management board				
Allikmäe, Andres	62 300	5 000	1,11	0,27
Padjus, Karin	36 731	5 000	0,66	0,24
Libe, Lembit	5 000	5 000	0,09	0,15
Merisalu, Ülo	5 500	5 000	0,10	0,00
Total	**109 531**	**20 000**	**1,96**	**0,66**

Shares to be received in subsequent periods in exchange for options issued in 2001 have been included in the total number of shares held by the members of the management and supervisory boards

Note 26. Shareholders with over 5% voting shares

	Number of shares	Participation %
AS Harju KEK	1 674 000	31,00
Nordea Bank Finland PLC	642 705	11,90
Lembit Kirsme	460 000	8,52
Skandinaviska Enskilda Banken Ab	334 700	6,20
Endel Palla	311 336	5,77
KOKKU	**3 422 741**	**63,38**

The number of shares held by the shareholders and their participation percentages are stated as of 08.00 a.m. on 02.01.2004.

Signatures of the management and supervisory board to the 2003 annual report

The management has prepared the year 2003 management report and annual accounts of AS Harju Elekter and of the concern and the proposal for the distribution of profits.

Management board

Andres Allikmäe	chairman of the board…………....………….	„…..“….. 2004
Lembit Libe	member of the board ………...……………	„…..“….. 2004
Ülo Merisalu	member of the board ……...……………	„…..“….. 2004
Karin Padjus	member of the board…………...……………	„…..“….. 2004

The supervisory board has reviewed the annual report prepared by the management and consisting of the management report, annual accounts, proposal for the distribution of profits, the auditor's report (pp. 3-37) and has approved the submission of the report to the general meeting of shareholders.

Supervisory board

Endel Palla	chairman of the board………...……………	„…..“…..2004
Ain Kabal	member of the board…………...……………	„…..“…..2004
Lembit Kirsme	member of the board…………...……………	„…..“…..2004
Madis Talgre	member of the board…………...……………	„…..“…..2004
Triinu Tombak	member of the board…………...……………	„…..“…..2004

Auditor's report

To the shareholders of AS Harju Elekter

We have audited the accompanying unconsolidated financial statements of AS Harju Elekter as of 31 December 2003. We have also audited the accompanying consolidated financial statements of AS Harju Elekter Group as of 31 December 2003. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, as set out on pages 9 to 36, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of AS Harju Elekter and the consolidated financial statements of AS Harju Elekter Group based on our audits.
We conducted our audit in accordance with Estonian Guidelines on Auditing. Those guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Parent Company
In our opinion, the unconsolidated parent company financial statements present fairly, in all material respects, the financial position of AS Harju Elekter as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

The Group
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Harju Elekter Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

Tallinn, 26 February 2004

Andris Jegers
Authorised Public Accountant

Indrek Alliksaar
Authorised Public Accountant

PROPOSAL FOR PROFIT DISTRIBUTION
(in kroons)

Retained profits of AS Harju Elekter (in kroons):

Profit brought forward	151 151 324
Net profit for 2003	175 460 884
Total profits available for distribution as of 31.12.2003:	326 612 208

The proposal of the management board for the distribution of profits is the following:

Dividends (4,00 kroons per share)	21 600 000
Balance carried forward after profit distribution	305 012 208

Andres Allikmäe	chairman of the board	………..…....………….	„…..“….. ….2004
Lembit Libe	member of the board	…………...……………	„…..“……... 2004
Ülo Merisalu	member of the board	…………...……………	„…..“……... 2004
Karin Padjus	member of the board	…………...……………	„…..“……... 2004