



ANNUAL REPORT 2004

audited, consolidated

Business name	AS Harju Elekter
Main business area:	designing, production and marketing of various electrical engineering and telecommunication systems
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Beginning of the reporting period:	1 st of January 2004
End of the reporting period:	31 st of December 2004

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ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD**STRATEGIC DECISIONS PROVE TO BE FRUITFUL**

The success in the year 2004 shows clearly the potential of the Harju Elekter Group operating in three countries. The year ended with an all-time high commercial profit and turnover which had increased by one third, production space was increased substantially in Estonia, as well as in Lithuania, and the business of several new customers was gained. All this was reflected in the unprecedented increase in the value of the company's shares. The first year in the European Union progressed according to expectations and gave continued optimism for the future.

Strategic decisions made in previous years – especially the expansion of the Group to Finland and Lithuania – and consistent product development and increase in production capacity has proved to be worthwhile in every way. Despite the fact that we still have a lot to do to develop as a modern international industrial group I am sincerely happy that, so far, we have been able to firmly follow this path. We have outpaced the resultant subcontracting partnership and offer today our own production which includes substantial added value. In the future we expect a continued increase in added value for which we have established favourable conditions by including in the Group companies with good knowledge and experience in developing industrial automation. This is a logical development of the times when increases in the technological know-how in power engineering, construction and other industries is quicker than the growth in absolute production capacity. We must be ready to find comprehensive solutions to our customer's needs.

One of the historic competitive advantages on which we have been relying more and more strongly is rapid and flexible locally trimmed product development. This is one of the reasons why, in the competition with globally known companies, customers have often chosen Harju Elekter. Our team of engineers is expanding and growing younger which is, in many ways, the result of our close co-operation with the relevant educational institutions. As an employer I am honoured to work among staff a quarter of whom I have known for over 10 years and another quarter for over 25 years.

The forthcoming years give promise of the continuation of good economic growth and, therefore, the management of the company is one of the key areas which can ensure the growth and sustainable development of the Group. I have always believed that management needs enough freedom to make decisions which make pragmatic use of local conditions. However, the whole Baltic Sea region of the EU is becoming more homogeneous which means that the distribution within the Group of the best practices and experience, gained in local markets and the readiness to offer comprehensive solutions regionally, offer great opportunities. In this light it is rational that Harju Elekter has an active Supervisory Board which is able to offer the necessary co-ordination and advice and knows the daily "score" of the Group.

Harju Elekter has been a quoted company since 1997. The Stock Exchange is one of the indicators showing the value of the company to shareholders but for the Group it gives signals as to how attractive the company is. I am glad that the circle of our mainly long-term shareholders has increased even more after the issue of shares by way of direct placement. I hope that our long and successful existence and continually growing dividends will encourage you to stay in the circle of our shareholders for years. For Harju Elekter being quoted on the stock exchange means a good opportunity to involve, if necessary, additional capital, which in the case of a rapidly developing company, may have a decisive impact.

During the 36 years which I have been working in the Group I have participated in the development of the Keila Industrial Park where today, side by side with Harju Elekter, several other companies active in the electrical area are operating. The Park constitutes one of the largest electrical area production complexes. It means a comprehensive product package for

customers including appliances from notions to MV substations. For us it means a good opportunity for the optimal management of production capacities and a good partnership in servicing our clients. Our slogan: "Co-operation guarantees success!" is increasingly confirmed.

Hereby I would like to thank the long-term and new customers, shareholders and employees of the Group for their wonderful contribution to the success of Harju Elekter in 2004.

Endel Palla
Chairman of the Supervisory Board

ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD**GROWING ECONOMIC ENVIRONMENT FAVOURS THE RAPID DEVELOPMENT OF THE GROUP**

The year 2004 was the most successful for the Group during its 36 years of existence. The success of the rapidly expanding industrial group can be written down to the following factors:

- ♣ continuous economic growth and favourable economic climate in the countries of the Baltic Sea region plus the catalytic impact of accession to the European Union of the Baltic markets, including energy distribution and construction sectors;
- ♣ increase in the main activities which was, among other factors, supported by well focused and cost-effective development activities carried out by the parent company;
- ♣ the increasingly positive effect of the successfully integrated Finnish and Lithuanian subsidiaries on the Group's market position and the efficiency of production and investment in production;
- ♣ the continuing decrease in the volume of subcontracts of low added value in the whole Group and the replacing of it with our own production of a higher added value.
- ♣ The impact of those factors was supported by the lucrative growth of the segments of trade and services of the Group, profits from financial investment and the increase in their value.

Thanks to the increased number of orders in all main target markets in 2004 the sales revenues of the Group increased 33% amounting to approx. 454 million kroons. Industrial production gave more than three quarters of the sales revenues of the Group while trading and intermediary trade represented approx. 15% and services approx. 10%.

The increase in sales revenues and the effective cost management allowed the Group to increase its commercial profit by 57% amounting to 31,2 million kroons. The profit from economic activities, when eliminate changes in the market price of the shares of PKC, amounted to 55,4 million kroons increasing by more than 46%. The net profit of the Group amounted to 145,4 million kroons.

During the past year the market value of the company increased by more than 35% amounting to approx. 800 million kroons, while the share quotation achieved the level of 142,83 kroons. During the first months of 2005 the increases in the market value of the company has continued and now exceed a billion kroons.

Among the main activities the most remarkable is a 37% increase which has taken place in the sales of electrical equipment which was, inter alia, amplified by the active marketing carried out by the Lithuanian subsidiary. Additional rental premises have increased the rental income by 42%. The 35% growth in trade and intermediary trade was supported by the accession of the Lithuanian subsidiary to the Group.

In 2004 the development activities of Harju Elekter focused mainly on the product group related to the electrical distribution sector which is of the utmost importance to the Group. The development of the industrial automation sector with a long-term perspective in mind has continued, mainly in co-operation with our Finnish and Lithuanian customers and with Finnish higher educational institutions.

The production space brought into use in Estonia and Lithuania during the last year has allowed an increase in production capacities and an expansion in the range of products. The procurement of new equipment, including a modern sheet metal processing centre, has helped to make the production process more efficient within the whole Group. The continuous growth in the number of production premises has reinforced the cash flow of the parent company.

In order to ensure growth in terms of money and volume we have increased the number of engineers and specialists, including the number of staff who deals with product development – by the end of the last year the number of staff in the Group amounted to 405 persons. The knowledgeable and experienced team has positively influenced the capacity of the Group to expand profitably over the state borders by integrating quickly the new members of the Group.

In 2004 the traditional co-operation with educational institutions was continued: the Development Fund of the Tallinn Technical University in Estonia and regional vocational educational institutions in Finland. Harju Elekter has always given young talented people the chance for self-determination. As one of the major employers in the region we have always paid great attention to the promotion of local life by close co-operation with local self-government and by supporting gifted young people. Last year Harju Elekter supported the Estonian Ski Association and local basketball and football clubs of Keila. Hereby it is appropriate to mention the public recognition of the company: we were 5th in the Äripäev TOP100 companies in Estonia; we were, for the second year, placed first in the Äripäev Harju County TOP. We were also among the nominees for the Estonian Business Awards.

In 2005 we aim to open up the possibilities of the Group which is operating within the favourable economic climate of the Baltic Sea region, continue to increase the Group's production capacity and market share, and through the development of the Group, become more and more focused on services which take the needs of our customers more into account. In order to increase the efficiency and transparency of the Group we will establish in April 2005, on the basis of the Electrical Equipment Factory, an independent company – a 100% subsidiary of Harju Eleker called AS Harju Elekter Elektrotehnika. I believe that membership of the European Union will increase the opportunities of Harju Elekter in regional markets by making us more open to competition and encouraging co-operation.

On the assumption of the good state of our capitalisation and continually positive development perspectives the Management Board has made a proposal to pay a dividend of 4,40 kroons per share for the year 2004.

To sum up this successful year I would like to thank our customers and co-operation partners, shareholders and employees, thanks to whom Harju Elekter is in a position which allows us to continue carry out our established strategy and to take advantage of the continually rapid development of the Baltic Sea region.

Andres Allikmäe
Chairman of the Management Board

ORGANISATION

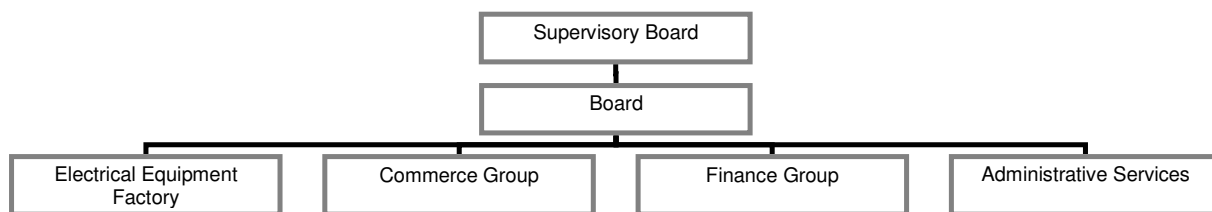
MISSION STATEMENT

To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay, with competence and quality, offering added value and reliability to partners in co-operation projects.

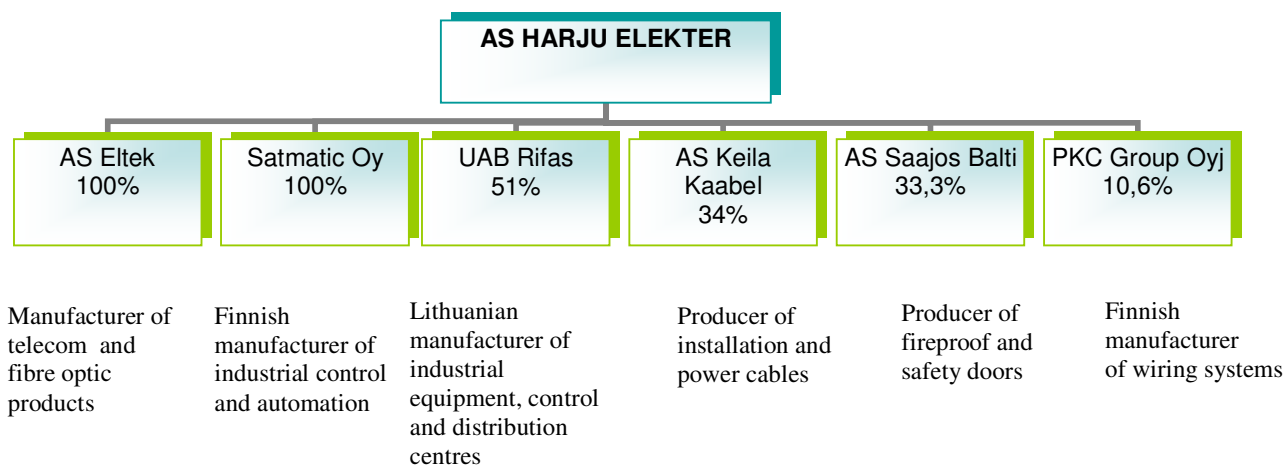
GOAL

To be successful over a long period of time, to increase the company's capital and generate revenue for the owners, as well as the partners, and to provide work, income and development opportunities for the employees.

STRUCTURE OF THE PARENT COMPANY



RELATED COMPANIES



MANAGEMENT REPORT

OVERVIEW OF THE ECONOMIC ENVIRONMENT

The growth of the international economy in 2004 was the highest of the last three decades amounting to approx. 5% and it happened in an environment of low interest rates. The Baltic states, which became full members of the European Union in 2004, are continuously the region with the largest and strongest economic growth in the Union. In addition to high domestic demand and the opening of the European Union market the region's development is amplified, after the abolition of double duties, by more and more active economic relations with Russia which enjoys high oil prices. These factors have, among other reasons, stimulated the growth of exports from the Baltic states. However, The Baltic states are increasingly facing the risks proceeding from the competition related to open markets and the movement of qualified labour in conditions of structural unemployment.

BALTIC STATES

The economic growth in Estonia, which according to preliminary estimates amounted in 2004 to 6%, was mainly based on domestic demand which has increased annually by up to 6,7%. The last year meant also acceleration in the growth of exports which had a positive effect on the balanced economic development of the country. The level of investment, including foreign investment, stayed high thanks to the profitability of companies and the exemption of income tax on reinvested profit, as well as low interest rates. The input of the processing industry into economic growth increased in 2004. Its share in the volume of added value increased up to approx. 20%. The rapid growth was based equally on exports and domestic demand. The production of building materials and metal products, wood processing, engineering, electronics industry, food industry and textile industry made the main contribution to economic growth. The annual growth of the building sector exceeded 10%.

	Economic growth %			CPI, %		
	2003	2004	2005	2003	2004	2005
EU area	0,5	1,9	1,9	2,1	2,1	1,6
Estonia	5,1	6,0	5,9	1,3	3,1	2,6
Latvia	7,5	8,3	6,9	2,9	6,2	5,4
Lithuania	9,7	6,6	6,9	-1,1	1,1	2,3
Finland	2,0	3,2	3,0	1,3	0,1	1,3
Russia	7,3	7,1	5,8	13,7	10,8	10,5

2004 – first results

2005 - prognos

Saures: Estonian and Finnish Ministries of Finance, Bank of Estonia, SEB

After the all time lowest level of 1,3% in 2003 inflation has started to grow and it reached the level of 3,0% which was mainly due to the changes in taxation policy and foreign trade related to the accession to the European Union. The pressure on inflation was reinforced even more by the rise in the prices of oil and steel on international markets. However, the increase in administratively non-regulated prices was moderate. Inflation in 2005 will be influenced, in addition to the high prices of fuels, also by the increase in the price of electricity on 1 March. During the medium long-term period the rate of increase in inflation will slow down in the conditions of the low inflation rate in the European Union member states. However, administrative actions will put pressure on prices.

Latvia which had the quickest economic growth in 2004 also had the highest inflation rate of 6,2% among the new member states of the EU which, in 2005, will probably remain at the level of more than 5%. Lithuania, on the other hand, has been able to keep its economic development stable, retaining a low inflation rate despite the 6,6% economic growth.

During the forthcoming years the Baltic region will see a rapid increase in added value in the industrial and building sector which, according to estimates, will exceed the level of 8%.

Estonia and Lithuania were the first three newly acceded member states to join the exchange rate mechanism last year which made it substantially more realistic to introduce the euro in these countries by 2007 and, inter alias, entailed the goal of following the so called “four Maastricht 1EUR=15, 6466 EEK

criteria". The framework of the exchange rate mechanism facilitates the implementation of a conservative economic and fiscal policy.

FINLAND AND SCANDINAVIAN COUNTRIES

The economic growth in Finland, as well as in all Scandinavian countries, continues supported by domestic demand and the growing investment activity of companies. Economic growth in Finland in 2004 has also encouraged the recovery of the telecommunication sector after several difficult years. However, the strong euro has mainly affected Finnish export capacity and, therefore, Finnish companies have lost market shares in foreign countries. This also concerns electronics and electrical appliances companies whose increase in exports slowed down at the end of the year. However, an increase in domestic demand has partly compensated for this. An analysis of new orders submitted in the fourth quarter of the year still show an 8-10% growth in the whole sector.

The stability of the Finnish economy is supported by the most sustainable state budget of all the euro countries. Similar to Finland the economies of the accelerated economic growth countries of Sweden, Norway and Denmark are characterised by low inflation rates.

RUSSIA

The bankruptcy of the Yukos Oil Group has once again diminished the reliability of Russia in the eyes of investors which will probably be reflected in slower economic growth but which will still remain between 5-5,5%. At the same time of the Baltic states membership of the European Union will increase their opportunities in that vast market.

PROSPECTS FOR THE FORTHCOMING YEARS

For the years from 2004 to 2006 a stable growth of 2% is forecasted for the economy of the European Union. The largest contribution to growth will come from domestic demand: investments supported by low interest rates and gradually increasing private consumption. A business friendly legal environment and employment policies will still remain the key issues of sustainable economic growth in Europe.

The economies of the Baltic states which will continue to have the most rapid economic growth among the EU countries, is supported by the favourable economic conditions in the Nordic countries. During the forthcoming years the retention of a 5-6% rate of increase is feasible for the Estonian economy. Such retention is possible thanks to an estimated approx. 10% growth in exports due to the recovery of the international economy and increases in productivity. In 2005–2006 the added value of the processing industry will increase quicker than in the average economy. These positive expectations are based both on improved export opportunities, as well as on the continuous increase in domestic demand. This increase also continues in the building sector. The opening energy market facilitates the investment activity of energy companies. The servicing sector is also on the rise but its growth is slower than the average growth in the last five years. The development is supported by the high investment activity in the Baltic states. During the forthcoming year the Baltic Sea region will remain an area of sustainable economic growth.

YEAR 2004**MAIN EVENTS OF 2004**

On 4 May the associated company, AS Keila Kaabel, opened a new 2500 m² production bay and reconstructed production lines in Keila. New technology and additional production space enable an increase in the production capacity of the Keila Kaabel factory and raise the quality of the products.

On 3 June Harju Elekter opened a fourth specialised electrical materials and electrical appliances store in Jõhvi in order to better serve East-Estonian customers and increase market share.

On 17 June UAB Rifas in Panevėžys, Lithuania opened a new 1300 m² production bay which doubles the factory's production capacity and enables the expansion of the range of products by adding to the production of automation equipment and also equipment for the power distribution sector.

On 4 September AS Harju Elekter and PKC Eesti AS concluded preliminary lease contracts according to which Harju Elekter will expand, by May 2005, the production space in Keila and Haapsalu used by the PKC Group by a total of 8 400 m². The need for additional production space was caused by the increase in the volume of orders and the transfer of new production stages, which had been previously carried out in the Netherlands and Finland, to Estonia.

On 20 September at a special general meeting of the shareholders of PKC Group Oyj it was decided to pay an additional dividend of 0,5 euros (7,82 kroons) per share due to the results for the year 2003 and to organise a bonus issue which gave each shareholder two new shares for every share held. After the bonus issue Harju Elekter became the major shareholder of PKC owning 10,6% of the company.

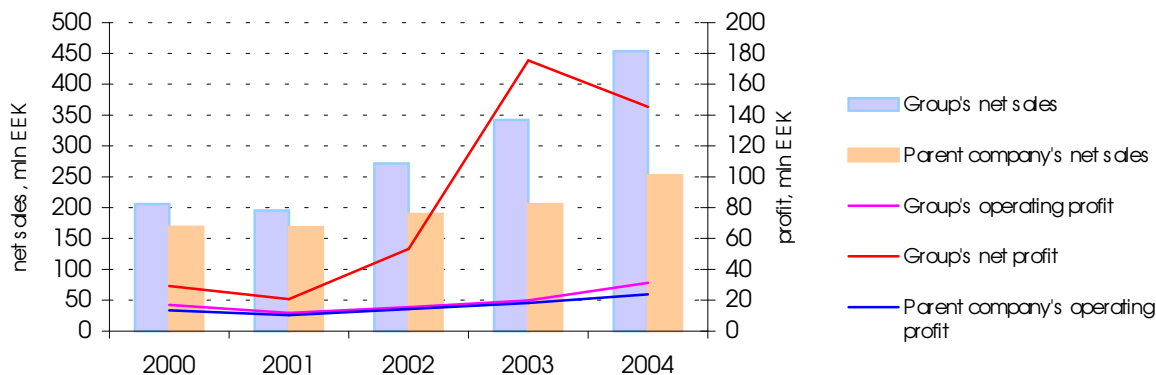
In September an issue of shares by way of direct placement with AS Harju Elekter was carried out and all 200 thousand ordinary shares with a nominal value of 10 kroons were subscribed. 8 millions kroons which were received as a result were allocated to the expansion of production. After the registration of the increase in the share capital in the Commercial Register the share capital of AS Harju Elekter is 56 million kroons which is divided into 5.6 million ordinary shares with a nominal value of 10 kroons.

In December a licence contract with Schneider Electric SM6 was concluded for the production and sales of 24kV equipment being a third effective licence contract.

On the basis of the results of 2003 Harju Elekter was 5th in the list of TOP100 Estonian companies compiled by the daily newspaper Äripäev and, for the second year, the first in the TOP companies located in Harju County.

MANAGEMENT REPORT

Net sales and profit



In 2004 the sales revenues of the Group increased by 33% amounting to 453,8 million kroons. The growth was influenced mainly by the increased flow of orders which were high all year, but increased remarkably in the second half of the year. The operating profit of the Group amounted to 31,2 million kroons, growing, within a year, by 57%. The sales revenues of the parent company grew by 23% amounting to 252,5 million kroons, while its operating profit increased by 31% and amounted to 23,7 million kroons.

The industrial production represented 76% of sales revenue, trade and intermediary represented 14,6% and the sales of services gave 9,5% of the revenue.

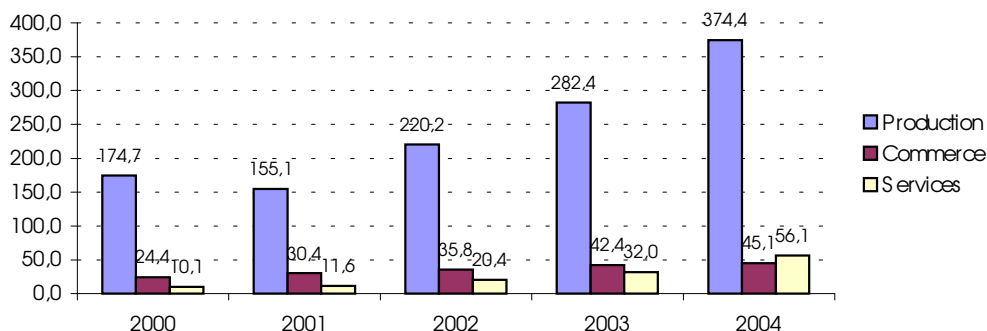
The net profit of the Group was 145,4 million kroons which was 17% less than in 2003 mainly because of changes in the market price of the shares of PKC Group Oy which are included in the balance sheet of the Group. Reportedly 230 million kroons of the last two years' financial income has been received from overvalue of shares, including 92,2 million in 2004 and 137,9 million in 2003.

The volume of assets of the Group increased by approx. 33% amounting to 641 million kroons, while the owner's equity exceeded the limit of half a billion kroons amounting to 521 million kroons (growth of 34%). The cash flows of the Group were good thanks to the substantial increase in the turnover, well controlled stock reserves and precise payment discipline. The increase in the capitalisation of the company was facilitated by all-time dividends of PKC Group OY (total dividend income 24,3 million kroons) and the share issue by direct placement (8 million kroons were received).

Return on sales of the Group increased by more than one per cent amounting to 6,9%. Due to the increase in sales revenues and decrease in net profit the company's net return on sales amounted to 32% (51,2% in 2003) and the net return on assets was 25,9% (46,1% in 2003). The owner's equity which had increased by more than one third reduced the indicator of the net return on owner's equity to 31,9% (57,2% in 2003).

BUSINESS SEGMENTS

Net sales of business segments of the Group



The operations of the Harju Elekter Group can be divided into three business segments: production, trade and services.

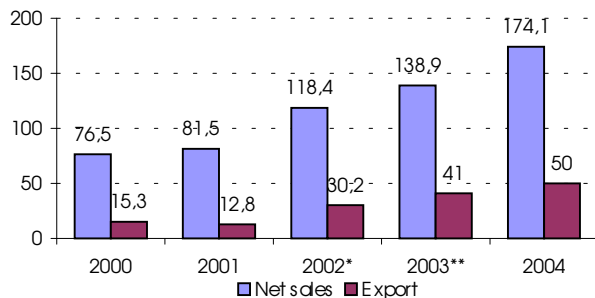
The largest share of the consolidated sales revenue i.e. 80% came from the main activity of the Group – manufacturing. In the production segment the operating revenues increased by approx. 32% amounting to 369,5 million kroons. The operating revenue of services increased most of all, i.e. by more than 62% amounting to 52,5 million kroons which was due to the introduction of several new rental premises. The 15% increase in the operating revenue of trade which amounted to 45,1 million kroons was facilitated by opening a new representation in the rapidly developing region East-Virumaa and the establishment of direct contacts with suppliers.

PRODUCTION

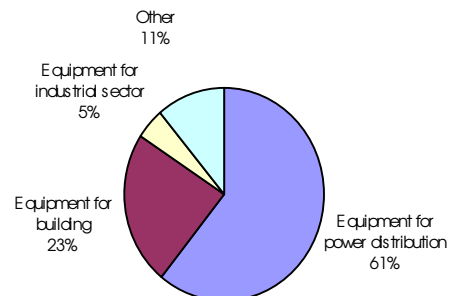
The production segment of the Harju Elekter Group includes electrical equipment factories in Estonia (the Electrical Equipment Factory of AS Harju Elekter), Finland (Satmatic Oy) and Lithuania (UAB Rifas), as well as AS Eltek which manufactures sheet metal products for the data and telecommunication sector. Thanks to long-term partnerships, active and successful marketing in all three countries and the construction period which was prolonged by the warmer than usual autumn the operating revenues of the production sector increased by approx. one third during the past year. Among other things the revenues of the segment were influenced by the business results of the Lithuanian factory during the past 12 months (In 2003 UAB Rifas was consolidated only as far as the last quarter of the year was concerned).

AS Harju Elekter Electrical Equipment Factory

Net sales and export



Product groups 2004



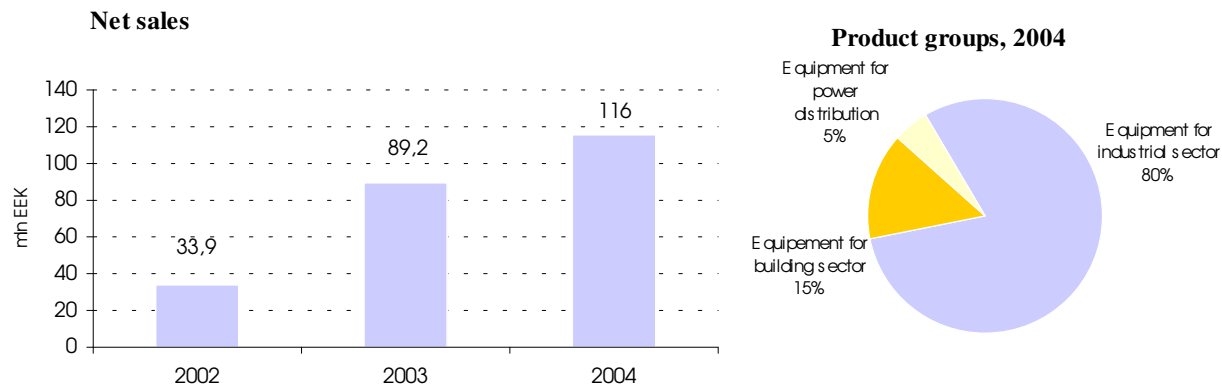
(Since 1.4.2005 AS Harju Elekter Elektrotehnika)

In 2004 the success of the factory manufacturing MV/LV electric equipment continued: the turnover of the factory increased by 1,25 times from 138,9 million kroons to 174,1 million kroons. The rate of increase was similar to 2003. However, what's more positive in 2004 is the fact that the volume of sales on the domestic and foreign markets increased evenly and the year 2005 which so far shows a continuation of the growth.

The development of the energy distribution area was the fastest and was facilitated by the active renewal of the national energy distribution network and successful co-operation projects abroad. Despite the fact that the competition with internationally known groups is tough Harju Elekter aims to be flexible and offer equipment which meets specific needs for a price related to its high quality. The growth in the production capacity of outdoor substations by more than one quarter is a particularly positive indication – every working day the factory produced one new substation. At the same time the export of substations increased by more than a half. Last year a licence contract for the production of MV secondary distribution units was concluded with Schneider Electric. As a result, the range of MV systems will expand. According to the plans new MV units will be introduced into production during 2005 and the production of outdoor MV distribution substations will continue. In order to support the further development of the factory, including the production and sales of equipment for the construction and industrial sector the team of engineers and salesmen will grow, the production space will be expanded and the investment in development and sales will be increased.

The estimates for export projects are positive as the experience gained so far has shown that sales abroad through direct contacts and through companies belonging the Group is working well.

Satmatic OY

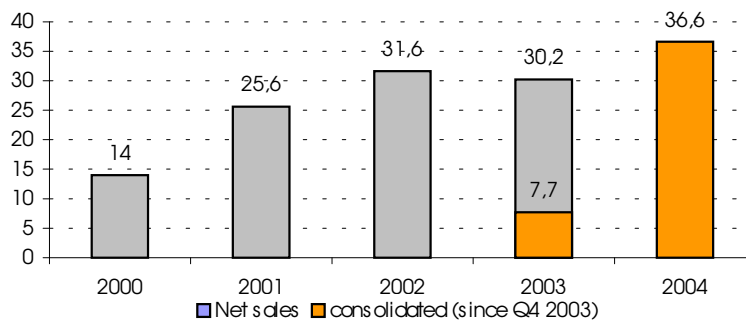


The main activity of the Finnish subsidiary, Satmatic Oy, which is fully owned by Harju Elekter, is the production of automation equipment for the industrial sector and the marketing of electric power distribution and transfer equipment. The year 2004 was successful for Satmatic Oy – sales turnover increased by 30% (amounting to 116 million kroons) and the range of customers was expanded. The number of orders and customers was increased substantially by active participation in local specialised fairs in Pori, Jyväskylä and Tampere. In order to win a larger market share some allowances had to be made in terms of margins. Another promising perspective which should be pointed out is the fact that Satmatic Oy became a certified supplier to the construction of the V energy block of the Olkiluoto Power Station. This long-term project, which is currently in a preliminary state, will be carried out in co-operation with the Siemens Group.

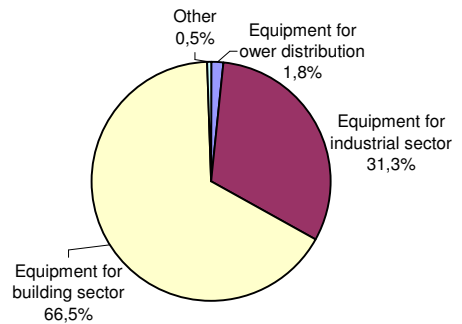
The management of the Group assumes that the economic environment will continue favourably in 2005 and plans to increase the turnover as well as the profitability of the Group. The growth in turnover should also be facilitated by increasing the sales of products of Harju Elekter in Finland and launching several new project-based products.

Rifas UAB

Net sales



Product groups, 2004

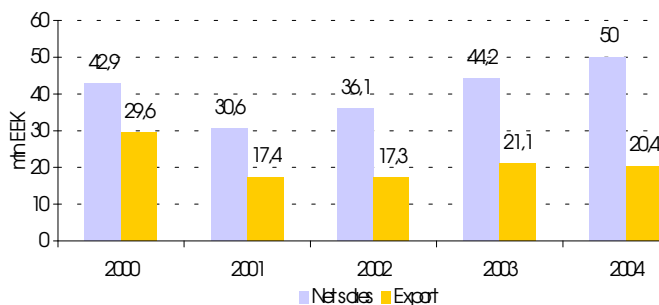


Last year the sales revenue of Rifas UAB increased by approx. one fifth amounting to 36,6 million kroons which was mainly due to the rapid development of the building and industrial sector in Lithuania. In the conditions of increased demand the company opened a new 1300 m2 production in Panevėžys last June. This allows for a doubling of the production capacity of the factory and an expansion of the range of products for the automation sector, as well as for the energy distribution sector. The know-how, components and semi-manufactured articles come mainly from Estonia.

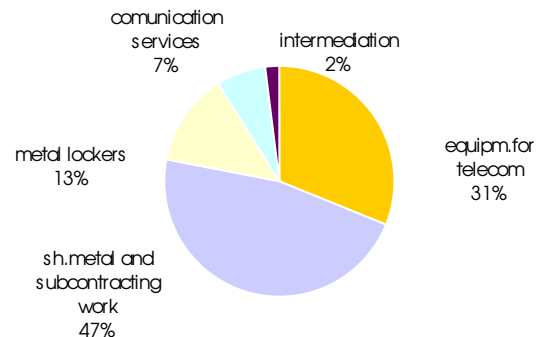
It is also worth mentioning that UAB Rifas participated, in co-operation with Siemens, in the Vilnius water treatment plant project which was of national importance. On the basis of the development of the Lithuanian factory so far there is a reason to believe that growth will continue.

AS Eltek

Net sales and export



Product groups, 2004



The main activities of AS Eltek include the manufacturing and marketing of different sheet metal products, fibre optical cables and other accessories for the telecom sector. In addition, a

range of sheet metal products and semi-manufactured articles are produced for the electrical engineering sector.

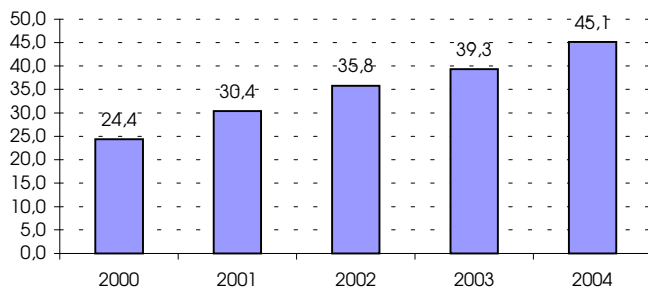
Last year the turnover of the company increased by more than 10%. More than 40% of the production was exported. These results can be considered good as the operations of the company were restricted by the increase in the price of metal and tough competition on domestic as well as foreign markets.

Last year Eltek introduced several new products into production, including boxes containing fire extinguishers and mailboxes. This wider range of final products has enabled a decrease in the volume of contract works and an increase in profitability and competitiveness.

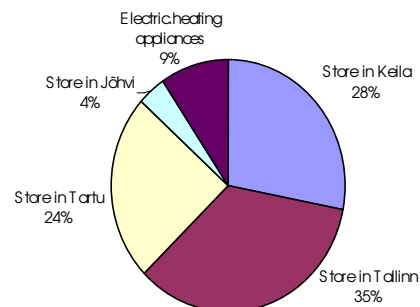
Eltek is capable of competing with European companies in several areas as far as concerns its state-of-the-art machinery, qualifications of its specialists, quality of products and the price. Therefore the company is carrying out an intensive search for new markets and partners.

COMMERCE

Net sales



Product groups, 2004



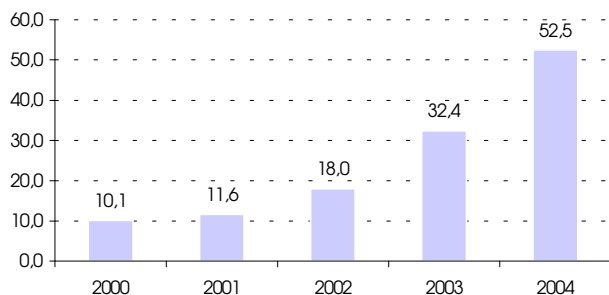
The main goal of the Harju Elekter Commerce Group is to sell and introduce the products of the Group to different regions of Estonia. The Commerce Group supports the core business of the Group by ensuring better services to retail customers as well as to small and medium sized electrical installation companies.

During the year the turnover of the trade business segment increased by 15% amounting to 45,1 million kroons. As before the largest share of the turnover came from the Tallinn and Keila stores.

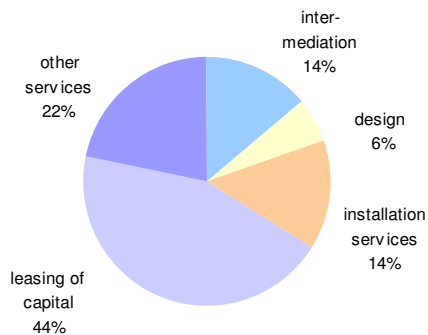
In 2004 Harju Elekter offered serial production switchboards specially designed for small and medium sized customers to order from the Electrical Equipment Factory. In summer, a new company store, the fourth in a row, was opened in Jõhvi, East Virumaa County. The rapid development of this industrial region led to the opening of an outlet of Harju Elekter Commercial Group there.

SERVICES

Net sales of business segment



Net sales inside the segment, 2004



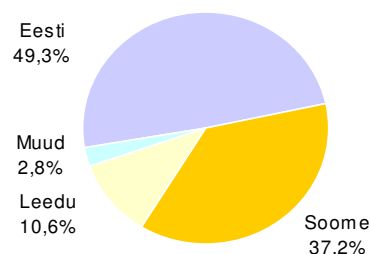
The service segment of Harju Elekter includes the renting of real estate, maintenance and servicing of production facilities; management services; design of industrial automation solutions, programming of process control automation equipment and project management of installation works; building, as well as installation and intermediary trade of automation equipment. Income from renting increased by 43% due to the introduction of new rental space. The accession of subsidiaries of the Rifas UAB to the Group on 01.10.2003 increased the profit from design and construction services and from the sales of automation equipment amounting to 11,4 million kroons which formed a major share of the 2004 increase of operating revenue which amounted to a total of 20,1 million kroons.

As years have gone by the Keila Industrial Park has become an important centre supporting business and development. Last year the existing production space was expanded again and several large-scale development projects were started. In September the construction of rental production space to a total of 8400 m² was started in Keila and Haapsalu at the request of the PKC Group. The construction of production areas was started in September 2004 and will be completed by May 2005.

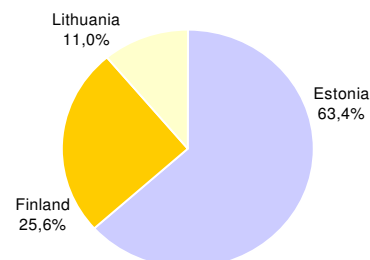
As of the end of the year Harju Elekter owned 42 843 m² of production and rental space in Keila and 4 726 m² in Haapsalu.

GEOGRAPHICAL SEGMENTS AND MARKETS

Müügitulud turgude lõikes, 2004



Net sales by business segments, 2004

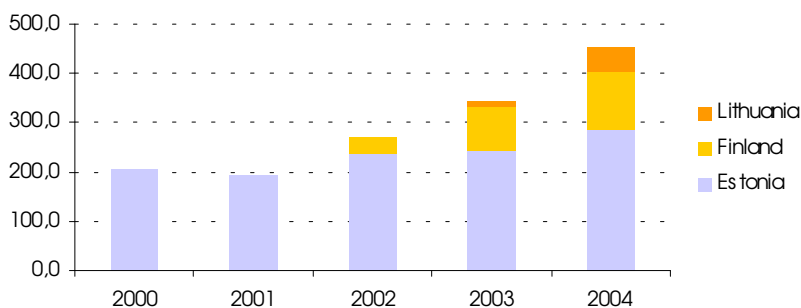


According to the location of businesses the operations of the Group fall into three geographical segments. Estonia – location of AS Harju Elekter and its subsidiary, Eltek; Finland – location of the subsidiary, Satmatic; Lithuania – location of the subsidiary, Rifas.

Last year the Group's largest increase in sales was in the Republic of Lithuania. This is due to the purchasing of Rifas UAB in the IV quarter of 2003 which increased the Group's 2004 turnover five fold amounting to 49,9 million kroons. The sales revenue of the Finnish segment was 116 million kroons an annual increase of 30%, while sales in Estonian segment amounted to 287,8 million kroons, an annual growth of 19%.

The sales in the Estonian and Finnish markets increased by approx. one fourth i.e. 24%, respectively to 223,7 and 166,5 million kroons, but the sales in the Lithuanian market increased 3,8 times amounting to 48,3 million kroons. The sales at other markets remained practically at the level of 2003 increasing by only 3%.

As a whole the Group enlarged its market share in Lithuania, as well as in Finland and increased sales in Estonian market. It is worth mentioning that for the first time since the year 2000 sales in foreign markets accounted for more than half of the Group's sales revenue.

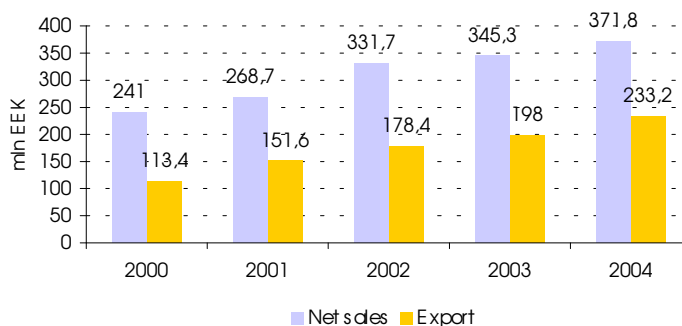


ASSOCIATED COMPANIES AND FINANCIAL INVESTMENTS

AS Harju Elekter owns 34% of AS Keila Kaabel, 33,3% of AS Saajos Balti and 10,6% of the Finnish company PKC Group Oyj.

AS Keila Kaabel

Net sales and export



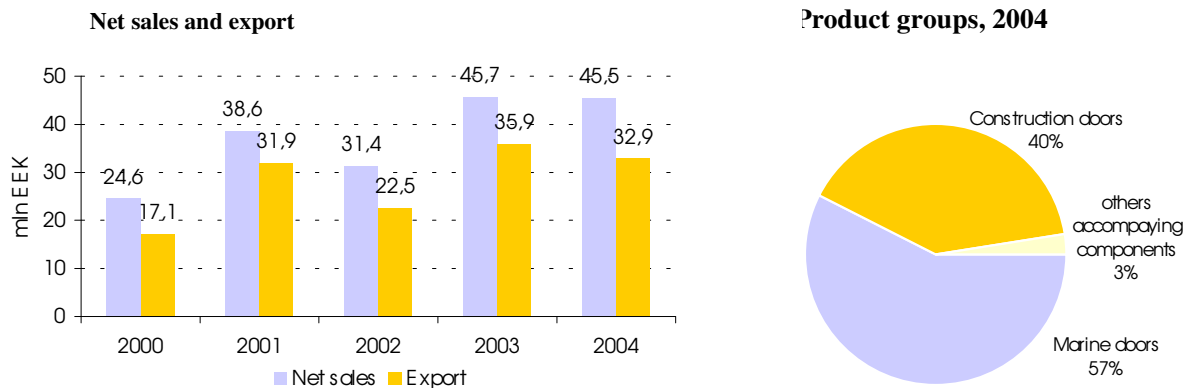
Last year was active but complex for AS Keila Kaabel which manufactures and sells power and installation cables. In 2004 the start-up to full capacity of the 2 500 m² expansion of the factory with new machinery took more time than was planned. In the conditions of tough competition it meant a short-term loss of the market share and winning it back, especially within the context of increased prices for basic materials, had a negative effect of profitability. In 2004 Harju Elekter registered for almost no profit from the associated company (2003: 5,1 million kroons profit and

7,1 million kroons from the sale of shares). However, for 2003 Keila Kaabel paid dividends of 5,2 million kroons, including 1,8 million kroons to Harju Elekter.

All in all two goals were attained last year: the company now has substantially larger production capacity and a good opportunity to launch new products.

According to the estimates for the year 2005 the results will improve mainly because of the reorganisation and improvement of production, logistics and motivation of the personnel. All this is supported by the newly introduced surplus spending control system which in 2005 will be linked to the wage system. The system for measuring the security of supply will also be introduced with a view to ensuring 98% security of supply.

AS Saajos Balti



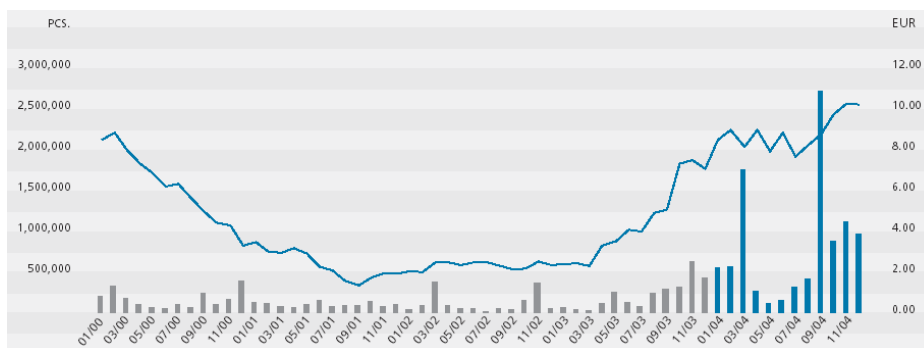
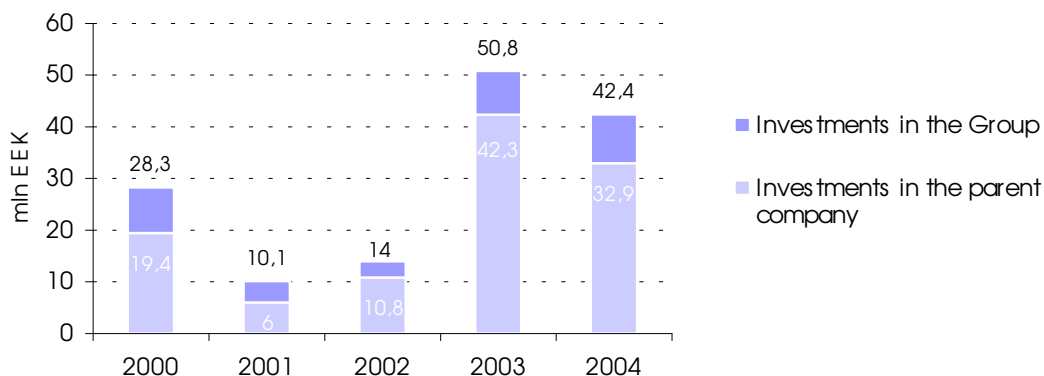
The main activity of AS Saajos Balti is to manufacture and market fireproof and safety doors and the sales of associated locking systems for the construction and shipbuilding market. The annual net turnover of the company was 45,5 million kroons, which meant minimum change compared with 2003. 72,2% of the total turnover represented exports. Finland, Denmark and Sweden were continually the most important export markets. The ship doors product group accounted for 57,4% of the turnover. In 2004 Harju Elekter consolidated the profit of 123 thousand kroons from this associated company (in 2003: losses of 506 thousand kroons).

In 2004 the company concentrated on long-term partners and clients in order to explore and satisfy their demands and needs more thoroughly. A lot of attention was also paid to the development of the personnel – the improvement of professional skills of employees, as well as increasing their motivation, and the general development of the organisation.

In order to make the sales of ship doors more efficient an improved joint marketing strategy with Inexa AS and Saajos Balti is being developed. Substantial investment will be made in the introduction into production of doors for the building sector which meet new requirements.

PKC Group Oyj

Harju Elekter is the largest owner of PKC Group owning 10,6% i.e. 1,86 million shares. In the financial year 2004 PKC Group Oyj paid dividends of 2,50 euros (2003: 0,45 euros) per share, to a total of 24,3 (2003: 4,6) million kroons. The closing price of the shares in 2004 was at the level of 10,25 euros. The complementary financial income from the revaluation of PKC shares amounted in 2004 to 92,2 million kroons (2003: 137,9 million kroons).

PKC share price and monthly trading volume 2000-2004**INVESTMENT AND DEVELOPMENT****Investments**

The investments made by Harju Elekter last year amounted to 42,4 (2003: 50,8) million kroons, including 32,9 (2003: 42,3) million kroons made by the parent company. Those investments ensure the readiness of the Group to operate actively in the growing market and allow it to profit from the attractiveness of Estonia as a target country of manufacturing.

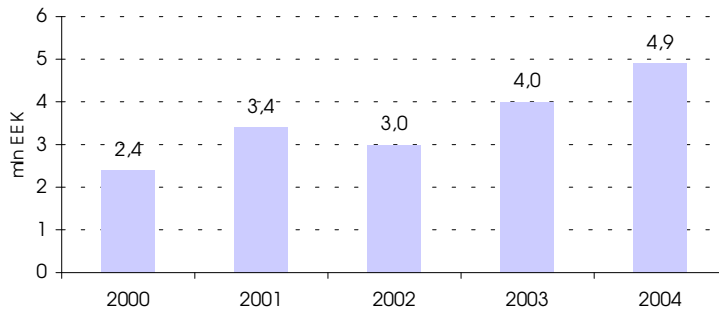
The largest investments of the year went to the expansion of the substation plant and storage area of the Electrical Equipment Plant and the equipment testing centre of Harju Elekter. In June the Lithuanian subsidiary, UAB Rifas, opened a new 1 300 m² production unit in Panevėžys. According to the agreement concluded in September 2004 Harju Elekter started the construction of production premises for PKC Eesti in Keila and Haapsalu (total of 8 400 m²). The construction of the extension of the substation plant of the Electrical Equipment Factory was also started last year.

Taking into account the need to make the manufacturing process of the Group more efficient with the increased market demand, the investment in machinery and equipment was doubled (in 2004: 12,3 million kroons). The fully automated sheet metal centre for the Electrical Equipment Factory received one of the largest investments. This was the sixth production line of this kind within the Group. The introduction of new equipment increased productivity and quality. The 40% increase in the use of steel also refers to the growth of productivity.

The most important non-physical investment was made in the licence agreement with Schneider Electric for manufacturing and marketing of an MV unit.

In 2004 the Group continued to use its high capitalisation level to meet its investment and financing needs. The volume of short-term liabilities remained more or less the same as in the previous year but the amount of long-term liabilities decreased by approx. 3 million kroons.

Development costs



According to the Group's principles of development Harju Elekter aims to constantly modernise and develop products which meet customers' needs, as well as to improve the manufacturing process. Therefore, the development costs have increased year by year in the Group amounting to almost 5 million kroons in 2004.

As far as concerns the Electrical Equipment Factory the development concentrated in 2004 mainly on satisfying the needs of the electricity distribution sector which led to an enhanced profit on this development. It is also worth mentioning that last year an integrated MV distributor in steel enclosure was introduced which meant entering a new market segment. Besides that telecontrol equipment was developed and its production was started and a prefabricated substation in sheet metal enclosure was manufactured for the Finnish market. We are about to obtain the status of the main supplier of sheet metal components for LV distribution panels in our subsidiaries in Finland and Lithuania.

Last year a licence contract for the manufacturing and marketing of the SM6 24kV device was procured. This is already the third operating licence contract. By that Harju Elekter saves time which would otherwise be spent on development, implements the best practice in the world and manages development costs more efficiently. By focusing on the development of the sectors with higher demand the Group will get back the development costs within a shorter period.

Satmatic Oy participated in co-operation with Tampere Technical University and Siemens Oy in the development project of switchboards for parking lots where bluetooth-technology was applied. In co-operation with Satakunta Vocational High School the development of a web-based programme for electrical equipment sales offers was started. The TYKES project was also started with the aim to ensure the further development of know-how within the company.

RISK MANAGEMENT

Despite the rapid growth in 2004 the Management has coped with risk management – the position of the Group did not deteriorate in any of the business risks areas. In order to prevent risks and to support the further growth of the Group an internal control specialist was hired last year by Harju Elekter with the task to prevent and detect any possible problems and to ensure compliance with the internal control procedures in the Group.

As regards currency, credit and cash flow risks the Group follows the following principles:

Over 99% of the Group's turnover consists of sales in the territory of the European Union. The Group purchases most of the necessary materials and products either from the domestic market

or from other member states of the European Union. Cross-border transactions are, as a rule, carried out in euros. Therefore, the Group is not open to major currency risks.

In order to reduce credit risks the payment discipline of customers and their ability to perform obligations undertaken is continuously monitored. Therefore it has been possible to keep losses causing credit risks to under 0,01%.

The cash flow risks of the Group proceeding from the potential changes in the interest rate of loans has no substantial influence.

QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

Companies related with Harju Elekter have following quality management certificates:

	1998	1999	2000	2001	2002	2003	2004
Harju Elekter Electrical Equipm.Factory			ISO9001		ISO 14001		
Eltek					ISO9001 ISO14 001		
Rifas						ISO9001	
Satmatic						ISO9001	
Keila Kaabel	ISO 9001			ISO 14 001			
Saajos Balti							ISO9001

In the Electrical Equipment Factory of AS Harju Elekter the ISO 9001:2000 standard international quality management system covers MV/LV distribution units, prefabricated outdoor substations, planning, manufacturing and marketing of sheet metal structures of electrical equipment. The management system of the whole Group has been recognised as being in compliance with ISO 14001:1996 requirements concerning the environmental management system.

When carrying out its activities Harju Elekter follows its own quality policy, as well as quality requirements established by customers, laws and regulations. The company provides flawless and competitive products and services in due time. The quality of operations and products is systematically developed following the approved quality system. Any deviations or detected inconsistencies are considered openly and the information gathered is used for the constant improvement of working processes and methods. The quality is assessed on the basis of operative and economic indicators and detected inconsistencies. Every member of the staff must know the influence of his/her, and his/her department's, work on the quality of output, and he/she must have the right to initiate and, if necessary, to implement the necessary adjustments.

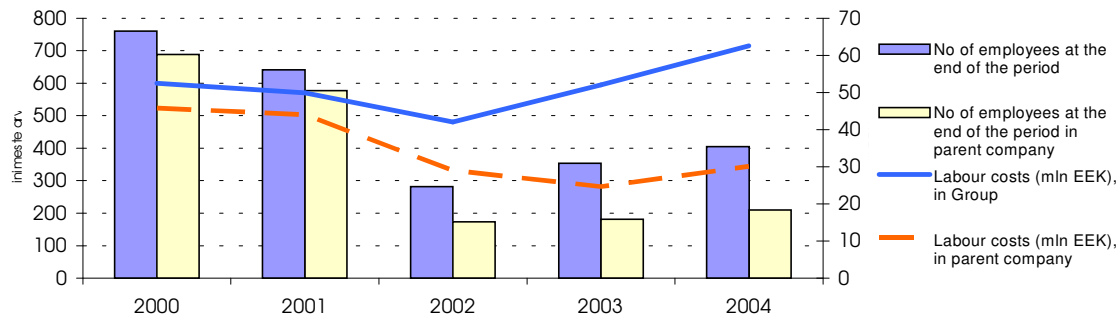
The environmental policy of the company is based on the requirements established by laws and regulations, as well as by society and customers. Harju Elekter measures, observes and reduces continually the impact of its activities on the environment following its environmental programme. Environmental objectives are measures by quantity and economic indicators. The environmental programme covers different areas of the activities of the company. Deviations from environmental requirements in the company's activities are considered openly and the information gained is used for the development of better procedures and production methods.

In 2004 one of the most important quality and environmental projects was the installation of a modern filter cyclone in the powder paint plant of the finishing department. This is a device which ensures that the air used in the production process is 100% clean when released into the atmosphere. The installation of the new dosage and change system to the powder paint line reduced the amount of residuals and made the process of painting more efficient and raised its quality. The improvement of the working environment was facilitated by the renovation of the existing production spaces and the construction of new ones.

The subsidiary, Satmatic, developed its quality system from ISO 9001:1996 standards to meet the requirements of ISO9001:2000.

PERSONNEL

No of employees and laboury costs



In parallel with the increase in the volume of production and business of Harju Eleker the number of specialists hired by the Group, including the staff involved in the development, also increased last year. By the end of the year the number of staff employed by the Group amounted to 405 people, including 210 people who worked in the parent company. Last year's average number of employees of the Group was 378.

By the end of the year the Group had 274 persons working in Estonia, 50 in Finland and 81 in Lithuania. The number of workers employed by the Group amounted to 257 and the number of engineers-technicians and executives was 148. The companies located in Estonia employ 47 persons with higher education, 179 with secondary or vocational secondary education and 48 with basic education.

The fact that 45 persons out of 210 employees of the parent company, which is 36 years old, have worked in the company for over 25 years and 56 of them for over 10 years refers to a strong organisation culture and good working climate in the company. The knowledgeable and experienced team has positively influenced the company's ability to expand profitably over the state borders and integrate quickly the new member of the Group.

In 2004 the average monthly gross wage in the parent company was 12 732 kroons, increasing during the year by 6,8%. The average monthly gross wage in the Republic of Estonia in the IV quarter of 2004 was 7 704 kroons, increasing during the year by 8,1%. However, average monthly gross wages in manufacturing industry at the end of 2004 was 6 956 kroons – an annual increase of 7,7%.

In order to ensure a continuous recruitment of competent employees the companies of the Group work in close co-operation with educational institutions such as the Development Fund of the Tallinn Technical University in Estonia and vocational educational institutions in Finland. Additional synergy is created by the companies located on the territory of the Keila production centre – on the 48 hectares territory of Keila Industrial Park more than 1 300 specialist in electro-technical engineering are employed, while the total number of persons working in the Industrial Park is around 2 000.

Harju Eleker offers its employees up-to-date working conditions, e.g. the dressing-rooms of the production premises of the parent company include saunas and the production centre is provided

with an occupational health centre. The location of the company in Keila offers the personnel good opportunities for sports such as basketball and swimming.

In 2004 the company reintroduced a tradition of service awards to its employees for long-term and outstanding achievements. At the New Year reception organised by the Management Board 56 employees received awards for 10 years of service in the company and 45 employees for 25 years of service. The company's summer outings and winter outings and the Management Board's New Year reception have become a well-established tradition.

The forthcoming years are promising in terms of economic growth. Therefore, from the point of view of the sustainability of the growth and development of the Group and the full implementation of its development potential, the management of the company is one of the key issues. The Management of the Group follows the principle that there must be enough freedom in the management and the decisions must be made taking pragmatic account of local conditions. This ensures clear responsibility and carefully thought out decisions.

SUPERVISORY BOARD, MANAGEMENT BOARD AND AUDITORS

In 2004 no changes were made either in the Supervisory Board no in the Management Board of AS Harju Elekter.

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 – Chairman of the Management Board, AS Harju KEK and Triinu Tombak – consultant, the World Bank. Thus the Supervisory Board consists of specialists from areas essential for the activities of the Group.

The Management Board consists of four members. Andres Allikmäe is the Chairman of the Board. Other members of the Board are: Lembit Libe - CFO; Ülo Merisalu – Managing Director of the 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.

The amount of remuneration and salaries paid to the members of the Supervisory and Management Boards in 2004 amounted to a total of 3,7 (2003: 3,3) million kroons.

Auditors Andris Jegers and Indrek Alliksaar from KPMG Estonia were elected as auditors for the company in 2005.

SHARES AND SHAREHOLDERS

Overview of trade in shares of Harju Elekter

	2001	2002	2003	2004
Highest price (EEK)	44,00	45,69	109,53	148,49
Lowest price (EEK)	23,10	28,48	43,03	104,83
Closing price (EEK)	30,30	45,69	104,83	142,38
Change (%)	-29,21	+45,04	+129,45	+35,82
No of traded shares	758 705	330 855	1 722 283	1 500 267
Net sales (mln EEK)	27,19	11,52	114,13	180,26
Company's market value (mln kr)	163,62	246,72	566,09	797,35

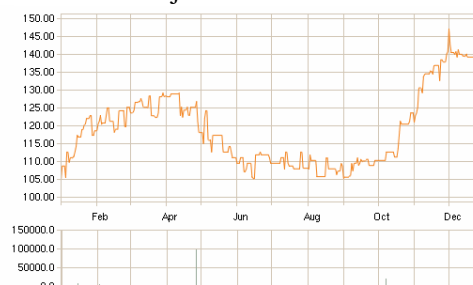
The year 2004 was a success for most of the companies quoted on the Tallinn Stock Exchange – the TALSE index almost doubled within a year. The market value of Harju Elekter increased by more than 35% amounting, by the end of the year, to approx. 800 million kroons. The closing price attained level of 142,38 kroons. The activity of trade in the company's shares was a little less than the previous year.

As a result of the successful issue of shares by way of direct placement which was carried out in September the share capital of the company increased by 200 thousand shares amounting to 5,6 million shares. The number of shareholders increased within a year by more than 100 persons from 450 to 561.

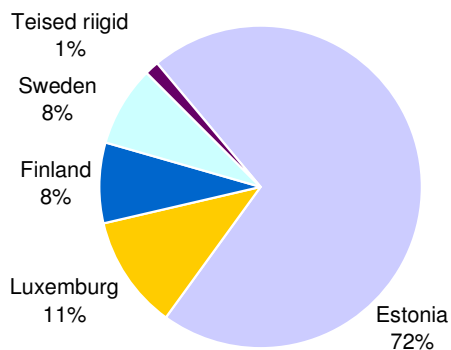
Tallinn Stock Exchange index TALSE



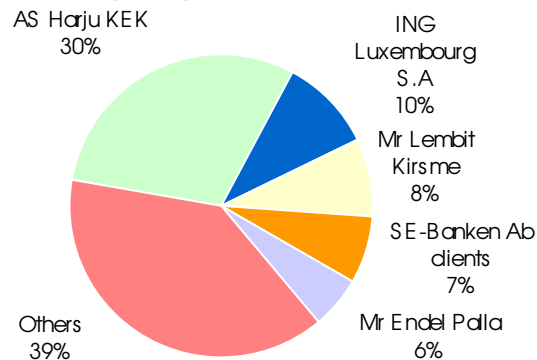
Shares of Harju Elekter HAEIT



Shareholders per countries



Shareholders (participation more than 5%, 31.12.2004)



CORPORATE TARGETS FOR 2005

According to estimates the favourable economic climate in the countries of the Baltic Sea region will continue supporting the development of the Group which is currently represented in three countries. The first months of 2005 signal a continuous growth in the flow of orders.

The Group has the following corporate targets:

- ♣ consolidation of the Group' s market position and expansion of its market share in the Baltic countries and Finland;
- ♣ 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. Making use of the advantages of being a local manufacturer. Optimization and standardisation of the range of products;
- ♣ Establishment of the company, AS Harju Elekter Elektrotehnika, on the basis of AS Harju Elekter Electrical Equipment Factory and starting its operation on 01.04.2005. This will result in an improvement of the management structure and specify the rights and responsibilities, as well as the better organisation of financial reporting and analysis;
- ♣ Expansion of the production of electrical equipment in order to meet market demands.
- ♣ The Group aims in the forthcoming years to focus more on the operation processes of customers by the mutual use of the know-how of manufacturing and development of electrical equipment and industrial automation equipment available in the Group.

FIVE-YEAR FIGURES

Group exchange rate: 1 EUR=15,6466 EEK	2004	2003	*2002	2001	2000
Income statement for the year (1000 EEK)					
Net sales	453 779	342 348	271 212	195 495	205 641
Operating profit	31 229	19 911	15 494	11 604	17 031
Net profit for the year	145 365	175 461	53 254	20 742	29 176
Balance sheet at year-end (1000 EEK)					
Total current assets	142 073	109 780	83 270	56 718	51 272
Total fixed assets	498 520	373 297	194 504	119 845	114 010
Total assets	640 593	483 077	277 774	176 563	165 282
Total owners' equity	520 977	389 212	224 552	125 413	111 650
Equity ratio (%)	81,33	80,57	80,84	70,46	67,55
Rates of growth (%)					
Net sales growth	32,56	26,23	38,73	-4,93	29,83
Operating profit growth	56,70	28,51	33,52	-31,87	27,40
Net profit growth	-17,13	229,48	156,74	-28,91	32,00
Assets growth	32,61	73,91	57,32	6,81	20,21
Equity growth	33,86	73,33	79,05	12,33	27,06
Performance indicators (%)					
Return of sales	6,88	5,82	5,71	5,94	8,28
Net profit margin	32,04	51,25	19,64	10,61	14,19
Return of assets	25,88	46,12	23,44	12,14	19,27
Return of equity (ROE)	31,95	57,18	30,43	17,50	29,25
Shares (EEK)					
Average number of shares for the period (1000 pc)	5 467	5 400	5 400	5 400	5 400
Shareholders equity per share	83,25	56,83	32,40	21,95	18,47
The closing price	142,38	104,83	45,69	30,30	42,20
EPS	26,60	32,49	9,86	3,84	5,40
P/E	5,35	3,23	4,63	7,89	7,81
Dividend per share	**4,40	4,00	2,00	1,40	1,20
Liquidity ratio					
Current ratio	1,70	1,80	1,63	1,46	1,43
Quick ratio	0,90	1,01	0,87	0,81	0,80
Personnel and remuneration					
Number of employees on the end of the period	405	353	282	641	760
Average number of employees for the period	378	302	351	673	687
Wages and salaries (million kroons)	61,2	50,7	42,1	49,9	52,5

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
Solidity ratio	= equity/assets*100
Current ratio	= Current assets/current liabilities
Quick ratio	= Liquid assets/ current liabilities

* 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 2004 annual accounts on the pages 28 - 68 and confirms that:

- the accounting policies applied in the preparation of the consolidated annual accounts are in compliance with the generally accepted international 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 as 04.03.2005, 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 Board	4 th of March 2005
Lembit Libe	Member of the Board	4 th of March 2005
Ülo Merisalu	Member of the Board	4 th of March 2005
Karin Padjus	Member of the Board	4 th of March 2005

BALANCE SHEET

(1000 EEK)		Group		Parent company	
	Note no	31.12.04.	31.12.03.	31.12.04.	31.12.03.
Assets					
Cash at hand and in bank	1	18 786	26 449	15 169	15 105
Trade receivables	2	49 824	31 784	25 458	13 003
Other receivables	3,4	4 156	6 106	7 229	11 611
Accrued income	5	221	67	18	20
Prepayments	6	1 136	1 251	664	680
incl. prepaid taxes	6	148	175	53	9
Inventories	7	67 950	44 123	43 002	23 808
Total current assets		142 073	109 780	91 540	64 227
Investments to the subsidiaries	8	0	0	32 261	24 973
Investments to the associated companies	9	24 834	26 477	24 834	26 477
Other long-term financial investments	10	298 304	201 147	298 439	202 881
Investment properties	11	86 880	86 896	91 743	91 668
Tangible assets	12, 14	86 551	56 987	52 872	28 362
Intangible assets	13	1 951	1 790	878	490
Total fixed assets		498 520	373 297	501 027	374 851
Total assets		640 593	483 077	592 567	439 078
Liabilities					
Debts	15	14 380	14 366	3 946	4 612
Prepayments received from customers		2 666	1 065	1 005	559
Accounts payable to suppliers		45 535	26 756	34 814	16 464
Other payables	17	1 750	1 218	2 743	1 456
Tax payable	18	7 474	6 790	3 456	3 328
Accrued expenses	19	12 130	9 648	6 151	4 552
Short-term provision	20	300	0	300	0
Other prepaid revenue		3 643	0	3 643	0
Total current liabilities		87 878	59 843	56 058	30 971
Long-term liabilities	15	17 357	20 800	15 532	18 895
Total liabilities		105 235	80 643	71 590	49 866
Minority interests	22	14 381	13 222	0	0
Owners' equity					
Share capital (nominal value)	23	56 000	54 000	56 000	54 000
Statutory reserves		6 000	0	6 000	0
Reserves		8 600	8 600	8 600	8 600
Retained profit		450 377	326 612	450 377	326 612
Total owners' equity		520 977	389 212	520 977	389 212
TOT. LIABILITIES AND OWNER' EQUITY		640 593	483 077	592 567	439 078

BALANCE SHEET

(1000 EUR)		Group		Parent company	
	Note no	31.12.04.	31.12.03.	31.12.04.	31.12.03.
Assets					
Cash at hand and in bank	1	1 201	1 690	969	965
Trade receivables	2	3 184	2 031	1 627	831
Other receivables	3,4	266	390	463	742
Accrued income	5	14	4	1	1
Prepayments	6	73	80	42	44
incl. prepaid taxes	6	9	11	3	1
Inventories	7	4 342	2 821	2 748	1 522
Total current assets		9 080	7 016	5 850	4 105
Investments to the subsidiaries	8	0	0	2 062	1 596
Investments to the associated companies	9	1 587	1 692	1 587	1 692
Other long-term financial investments	10	19 065	12 856	19 074	12 966
Investment properties	11	5 553	5 554	5 863	5 859
Tangible assets	12, 14	5 531	3 642	3 380	1 813
Intangible assets	13	125	114	56	31
Total fixed assets		31 861	23 858	32 022	23 957
Total assets		40 941	30 874	37 872	28 062
Liabilities					
Debts	15	919	918	252	295
Prepayments received from customers		170	68	64	35
Accounts payable to suppliers		2 910	1 710	2 225	1 052
Other payables	17	112	78	175	93
Tax payable	18	483	437	225	215
Accrued expenses	19	770	614	389	289
Short-term provision	20	19	0	19	0
Other prepaid revenue		233	0	233	0
Total current liabilities		5 616	3 825	3 582	1 979
Long-term liabilities	15	1 109	1 329	993	1 208
Total liabilities		6 725	5 154	4 575	3 187
Minority interests	22	919	845	0	0
Owners' equity					
Share capital (nominal value)	23	3 579	3 451	3 579	3 451
Statutory reserves		384	0	384	0
Reserves		550	550	550	550
Retained profit		28 784	20 874	28 784	20 874
Total owners' equity		33 297	24 875	33 297	24 875
TOT. LIABILITIES AND OWNER' EQUITY		40 941	30 874	37 872	28 062

INCOME STATEMENT

	Note	Group		Parent company	
(1000 EEK)	N0	2004	2003	2004	2003
Net sales	24	453 779	342 348	252 528	205 708
Cost of goods sold	25	-370 916	-278 973	-198 488	-161 696
Gross profit		82 863	63 375	54 040	44 012
Marketing expenses	25	-21 046	-17 740	-13 670	-10 153
Administrative and general expenses	25	-30 487	-25 428	-16 626	-15 512
Other operating revenue	25	523	396	483	320
Other operating charges	25	-624	-692	-488	-590
Operating profit	24	31 229	19 911	23 739	18 077
Net financial incomes/expenses	24,25	116 214	144 093	117 017	145 179
Income from subsidiaries	8	0	0	4 490	514
Income from associated companies	9,24	119	11 691	119	11 691
Profit from ordinary activities		147 562	175 695	145 365	175 461
Corporate income tax expense	27	-595	-97	0	0
Profit after taxes		146 967	175 598	145 365	175 461
Minority interests	22	-1 602	-137	0	0
Net profit for the financial year		145 365	175 461	145 365	175 461
Basic earnings per share (EEK)	27	26,59	32,49	26,59	32,49
Diluted earnings per share (EEK)	27	26,59	31,91	26,59	31,91

(1000 EUR)

Net sales	24	29 002	21 880	16 139	13 147
Cost of goods sold	25	-23 706	-17 830	-12 686	-10 334
Gross profit		5 296	4 050	3 454	2 813
Marketing expenses	25	-1 345	-1 134	-874	-649
Administrative and general expenses	25	-1 948	-1 625	-1 063	-991
Other operating revenue	25	33	25	31	20
Other operating charges	25	-40	-44	-31	-38
Operating profit		1 996	1 273	1 517	1 155
Net financial incomes/expenses	25	7 427	9 209	7 479	9 279
Income from subsidiaries	8	0	0	287	33
Income from associated companies	9	8	747	8	747
Profit from ordinary activities		9 431	11 229	9 291	11 214
Corporate income tax expense	27	-38	-6	0	0
Profit after taxes		9 393	11 223	9 291	11 214
Minority interests	22	-102	-9	0	0
Net profit for the financial year		9 291	11 214	9 291	11 214
Basic earnings per share (EUR)	27	1,70	2,08	1,72	2,08
Diluted earnings per share (EUR)	27	1,70	2,04	1,70	2,04

CASH FLOW STATEMENT

(1000 EEK)		Group		Parent company	
Operating activities	Note no	2004	2003	2004	2003
Operating profit		31 229	19 911	23 739	18 077
<u>Adjustments</u>					
Depreciation and value decrease	25	12 543	9 646	7 810	6 469
Profit/loss from sales of tangible assets	25	-147	-138	-105	-138
Change in payables to business operations	28	-14 531	1 807	-11 082	-5 124
Changes in inventories		-23 827	1 463	-19 194	-2 533
Change in liabilities to business operations	28	18 635	3 932	17 458	5 653
Taxes paid	26	-737	-44	0	0
Interests paid		-1 468	-1 380	-783	-778
Total cash flow from operating activities	24	21 698	35 197	17 844	21 626
Investing activities					
Investments in fixed assets		-31 573	-49 092	-24 427	-44 753
Capital gains from fixed assets		421	164	322	164
Payments for financial investments	10	-8 281	-3 291	-8 281	-11 761
Capital gains from sale of fin. investments	10	4 415	20 355	4 415	20 355
Long-term loans granted	4,29	-76	-26	-3 418	-20
Repayment of loan receivables	4,29	154	457	5 365	6 307
Interest received	9,25	160	179	236	628
Dividends received	8,9,10	26 014	7 603	26 344	7 603
Total cash flow from investing activities	24	-8 766	-23 651	556	-21 477
Cash flow from financing activities					
Loans received	15	1 512	24 309	0	21 652
Loans repaid	15	-5 999	-8 770	-4 161	-6 529
Repayment of princ.amounts of financial lease	13	-2 007	-1 394	-559	-514
Share issue	23	8 000	0	8 000	0
Dividends paid	23	-22 043	-10 800	-21 600	-10 800
Cash flow from financing activities	24	-20 537	3 345	-18 320	3 810
Total cash flow		-7 605	14 891	80	3 959
Cash at the beginning of the period	1	26 449	11 620	15 105	11 165
Net increase in cash		-7 605	14 891	80	3 959
Effect of changes in foreign exchange rates		-58	-62	-16	-19
Cash at the end of the period	1	18 786	26 449	15 169	15 105

CASH FLOW STATEMENT

(1000 EUR)		Group		Parent company	
Operating activities	Note no	2004	2003	2004	2003
Operating profit		1 996	1 273	1 517	1 155
<u>Adjustments</u>				0	0
Depreciation and value decrease	25	802	616	499	413
Profit/loss from sales of tangible assets	25	-9	-9	-7	-9
Change in payables to business operations	25	-929	115	-708	-327
Changes in inventories		-1 523	94	-1 227	-162
Change in liabilities to business operations	25	1 191	251	1 116	361
Taxes paid	26	-47	-3	0	0
Interests paid		-94	-88	-50	-50
Total cash flow from operating activities		1 387	2 249	1 140	1 381
Investing activities					
Investments in fixed assets		-2 018	-3 138	-1 561	-2 860
Capital gains from fixed assets		26	11	20	11
Payments for financial investments	10	-529	-210	-529	-752
Capital gains from sale of fin. investments	10	282	1 301	282	1 301
Long-term loans granted	4,29	-5	-2	-218	-1
Repayment of loan receivables	4,29	10	29	343	403
Interest received	9,25	10	11	15	40
Dividends received	8,9,10	1 663	486	1 684	486
Total cash flow from investing activities		-561	-1 512	36	-1 372
Cash flow from financing activities					
Loans received	15	97	1 554	0	1 384
Loans repaid	15	-383	-560	-266	-417
Repayment of princ.amounts of financial lease	13	-128	-89	-36	-33
Share issue	23	512	0	512	0
Dividends paid	23	-1 409	-690	-1 381	-690
Cash flow from financing activities		-1 311	215	-1 171	244
Total cash flow		-485	952	5	253
Cash at the beginning of the period	1	1 690	743	965	714
Net increase in cash		-485	952	5	253
Effect of changes in foreign exchange rates		-4	-5	-1	-2
Cash at the end of the period	1	1 201	1 690	969	965

STATEMENT OF CHANGES IN OWNER' S EQUITY

(1000 EEK)	Share capital	Issue premium	Reserve requirement	Retained profit	Total
Balance as of 31.12.2002	54 000	0	8600	108 187	170 787
Impact from the changes in accounting practices	0	0	0	53 765	53 765
Adjusted balance as of 31.12.2002	54 000	0	8600	161 952	224 552
Profit for current year	0	0	0	175 460	175 460
Announced dividends	0	0	0	-10 800	-10 800
Balance as of 31.12.2003	54 000	0	8600	326 612	389 212
Profit for current year	0	0	0	145 365	145 365
Announced dividends	0	0	0	-21 600	-21 600
Share capital issued	2 000	6 000	0	0	8 000
Balance as of 31.12.2004	56 000	6 000	8 600	450 377	520 977

(1000 EUR)					
Balance as of 31.12.2002	3 451	0	550	6 914	10 915
Impact from the changes in accounting practices	0	0	0	3 436	3 436
Adjusted balance as of 31.12.2002	3 451	0	550	10 350	14 351
Profit for current year	0	0	0	11 214	11 214
Announced dividends	0	0	0	-690	-690
Balance as of 31.12.2003	3 451	0	550	20 874	24 875
Profit for current year	0	0	0	9 291	9 291
Announced dividends	0	0	0	-1 381	-1 381
Share capital issued	128	384	0	0	512
Balance as of 31.12.2004	3 579	384	550	28 784	33 297

Information about the changes in the owner's equity is present in the note 23

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

Accounting principles

AS Harju Elekter is a company registered in Estonia. The consolidated annual accounts prepared as of 31.12.2004 include AS Harju Elekter and its subsidiaries AS Eltek, Satmatic Oy and Rifas UAB (together referred to as "the Group") and the Group's stakes in the associated companies, AS Keila Kaabel and AS Saajos Balti. Alongside the consolidated annual account of the Group the unconsolidated annual accounts of AS Harju Elekter as the parent company are presented. AS Harju Elekter has been listed on the Tallinn Stock Exchange since 30 September 1997. 30,1% of the company's shares are held by AS Harju KEK.

In accordance with the current Commercial Code the annual report must be approved by the general meeting of shareholders which will take place on 22 April 2005.

Confirmation of compliance

The annual accounts of AS Harju Elekter for the year 2004 have been prepared, for the first time, according to the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The basis for the preparation of the annual accounts

The annual accounts are prepared in Estonian kroons and the figures are rounded off to the nearest thousand. The consolidated annual accounts were prepared on the basis of the principle of acquisition cost, except in the case of the following assets and liabilities which are presented at their fair value: investments acquired for the purpose of trading and investments eligible for sale.

The companies belonging to the Group mainly follow common accounting principles and, compared with last year, no major changes to these accounting principles have been made.

Consolidation

Subsidiaries

Subsidiaries are undertakings which are controlled by the parent company. A subsidiary is deemed to be under the control of the parent company if the parent undertaking is able, either directly or indirectly, to control the operation and financial activities of the subsidiary in order to profit from the activities of the subsidiary. Control is presumed if one of the following preconditions is in place:

- a) a parent company holds directly, or through its subsidiary, more than 50% of the voting rights in the subsidiary;
- b) a parent company exercises control on the basis of a management contract.

The consolidated annual accounts include the financial statements of the subsidiaries from the date of their acquisition up to the date when control over them was divested.

Associated companies

Associated companies are undertakings over which the parent company has significant influence but no control over its operational financial activities. Significant influence exists if one of the following preconditions is in place:

- a) an investor company has, directly or through its subsidiaries, a holding of over 20% of the voting rights in the associated company;
- b) an investor company exercises, through its representation on the management bodies of the subsidiary company or through co-operation agreements, significant influence on the business activities of the associated company.

Accounting principles (continuation)

The consolidated annual accounts reflect the proportional share of the Group in the profits and losses of associated companies accounted on the basis of the equity method. Profits and losses are taken into account from the moment when the Group attained significant influence on an associated company up to the moment when it is relinquished. If the Group's share in losses exceeds the accounting value, the accounting value will be decreased to zero and the reflection of further losses will be stopped, unless the Group has binding liabilities to the associated company.

Transactions eliminated during the process of consolidation

In the consolidated accounts investments in subsidiaries are eliminated as regards the owner's equity, and the parent company and subsidiaries are treated as one business entity. In the process of consolidation, the balance sheets, income statements and cash flow statements of the parent company and subsidiaries are added up entry by entry, whereas in intra-group transactions, mutual balances and unrealised profits and losses are eliminated. Unrealised profits from transactions with associated companies are eliminated proportionally according to the Group's share in these companies. Unrealised losses are eliminated in the same manner, but only to the extent of taking into account the decrease in the value of assets.

Investments in subsidiaries which are included in the parent company's balance sheet

The accounting report of the parent company reflects proportionally the share of the parent company in the profits and losses of subsidiaries accounted by the equity method according to which the initial investment has also been adjusted by taking into account dividends from the subsidiaries. Profits and losses are taken into account starting from the time when the Group attained control over the subsidiary up to the time when the control was relinquished.

Cash and cash equivalents

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

Cash flow report

The presentation of cash flows from operating activities is based on the indirect method. Cash flows from investments and financial activities are reported as gross receipts and payments made during the accounting period.

Foreign currency*Foreign currency transactions*

Transactions in foreign currencies are reported in Estonian kroons on the basis of the exchange rates quoted on the day of the transaction. Assets and liabilities denominated in foreign currencies in the balance sheet are translated into Estonian kroons at the official exchange rate quoted on the balance sheet date. Profits and losses arising from foreign currency transactions are recognised in the income statement.

Accounting reports of companies located abroad

Activities of the companies in foreign countries belonging to the Group are not recognised as a natural part of the company's activities. Because of this the assets and liabilities of foreign companies and the value of such companies emerging during the consolidation and the adjustments to fair value established are converted into Estonian kroons at the official exchange rate quoted on the balance sheet date. The income statements of companies located abroad are converted into Estonian kroons at the fixed exchange rate of the Bank of Estonia: i.e. the statement of the Finnish company is at the exchange rate between the Estonian kroon and the euro (15,6466) and the statement of the Lithuanian company is at the rate between the Estonian kroon and the Lithuanian lit (4,53157).

Accounting principles (continuation)**Trade and non-trade receivables**

Trade and non-trade receivables are reported at adjusted acquisition cost. The adjusted acquisition cost of short-term receivables generally equals their nominal value (minus possible discounts) and, therefore, short-term receivables are reported in the balance sheet at their invoiced value. Claims against each customer are evaluated separately taking into account any available information concerning the customer's solvency. 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 decreases in expenses. Non-collectable 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 to convert 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 costs 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 7.

In the balance sheet inventories are stated at the lowest 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% of write downs. The amounts of write-downs are reported in the income statement under the entry „*Costs of goods sold*“.

Other long-term investments

Investments in shares (except shareholdings 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 for those shares for which a credible fair value cannot be estimated. The value of such shares is reported using the adjusted acquisition cost method. Investment accounting is started and completed on the date of transaction.

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 listed companies. Differences emerging from overvaluation are reflected in the income statement.

Investment property

Investment property is treated as property held by the enterprise as an owner or leased under financial lease conditions for the purpose of earning rental revenue or increasing its value or both. Investment property is recorded by using the historical cost method i.e. it is recorded at their acquisition cost, less accumulated depreciation and possible discounts related to the decrease in value.

For depreciation of investment property the same depreciation rates/useful life terms are applied as for similar categories of tangible fixed assets (see below).

Tangible assets*Assets*

Tangible assets are reported at their acquisition cost less accumulated depreciation and write-downs due to impairment of fixed assets. The acquisition value of tangible assets made for one's own asset purposes contain consumption of materials, direct costs of labour and a proportional share of production overheads.

Accounting principles (continuation)

The real estate sites which are still in the stage of construction or development are reported as tangible assets at their acquisition cost until the completion of the construction or development. Only then will these assets be reclassified as investment property.

Where 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 their useful life.

Pursuant to the materiality concept, items with an acquisition cost higher than 5 000 kroons and with a useful life of longer than one year are stated as fixed assets. Assets with an expected useful life of longer than one year, but whose acquisition cost is below 5 000 kroons, or, irrespective of its value, with a useful life of less than one year, are reported as immaterial assets (under stock) before their utilisation and charged at 100% to expenses as of the moment of their utilisation. The acquisition costs of the purchased immaterial assets are treated as expenses for the accounting period. Immaterial assets are charged as regular expenses and not included in the balance sheet.

Subsequent expenses

If a component of tangible assets is recorded as a separate asset item, the expenses related to the replacement of this component, major technical checks or substantial repairs are capitalised. Other expenses are capitalised only if the economic benefit gained from the assets, as a result of the expenditure will increase in the future. All other costs are recognised in the income statements as expenses at the date of their generation.

Depreciation method

The depreciation of tangible fixed assets and their distinguishable components is calculated and reported in the income statement using the straight line method. Due to the specific nature of some items, their useful life may differ from another similar category. In this case they are treated as separate items and a suitable depreciation rate is assigned to them. Land is not depreciated. All companies belonging to the Group use the same depreciation rates.

Tangible asset category	Depreciation rate (p. a)	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

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 such revisions is reported during the accounting period and subsequent periods.

Intangible assets

Goodwill

Goodwill emerges with the purchase of a new business entity as a difference between the purchasing price and their fair value of the acquired net assets. Goodwill is recorded at its acquisition cost less accumulated depreciation (see below) and write-downs due to impairment of assets. As regards associated companies goodwill is included in the accounting value of the investment made in the associated company.

Research and development

Costs related to research and development activities carried out for the purposes of generating new scientific and technical knowledge are reported in the income statement as expenses on the date when they arise.

Accounting principles (continuation)

Development costs are capitalised only if the results of previous research are used to introduce a technically and economically efficient product or production process and if the Group has enough resources to complete the development project. Capitalised expenses include consumption of materials, direct costs of labour and a proportional share of production overheads. Other development costs are presented in the income statement as expenses during the period in which they arise. Capitalised development expenses are recorded at their acquisition cost less accumulated depreciation (see below) and losses due to impairment of assets.

Other intangible assets

Other intangible assets are recorded at their acquisition cost less accumulated depreciation (see below) and losses due to impairment of assets. Goodwill, which has been generated within the company and expenses on commercial brands, are recorded in the income statement as expenses on the date they arose.

Expenses subsequent to acquisition

Additional expenses related to intangible assets are capitalised only if the economic benefit received from the assets will increase in the future. All other expenses are reflected in the income statement at the time they arose as expenditure.

Depreciation

Intangible assets are depreciated on a straight-line basis during their expected useful life. Goodwill is depreciated starting from the moment when it emerged. The depreciation of the rest of the intangible assets starts from the moment of utilisation of the assets. The estimated economically useful lives are as follows:

Intangible assets category	Depreciation rate	Useful lives
Patents and trade marks	5 - 10%	10 – 20 years
Goodwill	7 - 10%	10 - 15 years
Capitalised development expenses	14 - 20%	5 - 7 years

m) Financial and operating lease

The transaction where all essential rights and obligations related to the use of the property are transferred to the lessee is deemed as a transaction of the financial lease. The property which is leased on the basis of a financial lease contract is reported at the current value of payments of the lease and is depreciated according to its useful life or leasing period, according to which is the shorter. Other lease contracts are treated as operating leases.

Company as a lessor

Assets leased under the financial lease contract are reflected in the balance sheet as accounts receivable to the amount of the 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 are reflected in the balance sheet in the same way as other assets in the company's balance sheet. Payments for 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 for operating leases are reflected as expenses on a straight-line basis over the lease period.

Accounting principles (continuation)**Liabilities**

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

Reliably 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 to the annual accounts as contingent liabilities.

Financial liabilities

Loans are recorded on the date of transaction at their acquisition cost and subsequently reflected at adjusted acquisition cost using currently effective interest rate.

The balance sheet value of financial liabilities does not differ substantially from their fair value i.e. the amount for which they can be exchanged by knowledgeable, interested and independent parties.

Provisions and contingent liabilities

The Group makes provisions and reflects them in the balance sheet in the following cases:

- a legal or operational liability which has emerged before the balance sheet date on a company which belongs in the Group;
- the liability is likely to be realised;
- the total liability can be calculated accurately.

Provisions are reflected in the balance sheet on the basis of a management assessment of the estimated amount needed for the implementation and also on the time of realisation of the provision. External experts are often used to evaluate the amounts of provisions.

Substantial commitments, guarantees and other obligations which, under certain circumstances may, in the future, transform into liabilities, are disclosed in the notes to the annual accounts as contingent liabilities.

Income tax*Corporate income tax*

According to the Income Tax Act which entered into force on 1 January 2000 tax is not charged on corporate profits but on distributed dividends. Since 2003 all distributed dividends have been taxed at the rate of 26/74 (since 01.01.2005 24/76) on the amount of net dividends distributed.

Income tax related to dividends to be distributed is reflected as a liability and as an expense at the date of the announcement of dividends. Corporate income tax on dividends is accounted for as income tax in the income statement for the dividend announcement period, irrespective of the period for which they are distributed or when they are actually distributed.

Provisions for the income tax on prospective dividends are not made before the announcement of the dividend but information about such is disclosed in the notes to the accounts.

The consolidated income statement includes the corporate income tax on the profits of subsidiary companies located in Lithuania and Finland, deferred income tax liability and corporate income tax on dividends distributed in companies located in Estonia.

Deferred income tax

According to the current Income Tax Act as regards the companies of the Group which are located in Estonia there are no differences between the residual value of assets and liabilities in the accounts for taxation purposes and in the balance sheet which would cause deferred income tax liability or tax claims. According to the income tax law applicable in the countries of their establishment corporate income tax is charged on the profits of the companies which are located in Finland and Lithuania after

Accounting principles (continuation)

these profits have been adjusted according to the differences provided for in the legislation of these countries.

Deferred income tax is calculated on the basis of any differences between the accounting for taxation purposes and the balance sheet value of assets and liabilities, and is reflected in the accounts of the Group under the entry *Deferred income tax liability*.

Revenues*Sale of products and services*

Revenue arising from the sale of goods is shown when all the significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue and costs incurred in respect of the transactions can be measured reliably. Revenue from the provision of services is recognised by reference to the stage of completion. The amount of revenue and profit gained from providing services is reflected on a time proportion basis as costs incurred in providing the service.

Income from rent

The income from rent received from real estate investment are reported as revenue on a straight-line basis over the lease period. Rental preferences made to customers are treated as a part of the income from rent.

Expenses*Operating lease payments*

Payments for operating leases are reported in the income statement on a straight-line basis over the lease period. Rental preferences received are treated as a part of the rental costs.

Net financial expenses

Net financial expenses consist of loan interests calculated on the basis of effective interest rates, dividend income received from other shares, profits and losses emerging from the changes in the fair value of available-for-sale investments, interest to be received from investment and profits and losses related to changes in currency rates.

Interest income is reported in the income statement on the basis of the effective interest rate valid on the date when it emerged. Interest income related to the financial lease is reflected in the income statement on the basis of the effective interest rate.

Dividend income is included in the income statement as it was on the date of the dividend announcement.

Earnings per share (EPS)

Basic EPS is computed by dividing net profit by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is the net profit of the financial year divided by the weighted average number of ordinary shares, also taking into account the possible number of options.

Segmental reporting

Distinguishable parts of the Group's economic activities form segments which either consist of a supply of similar goods and services (business segments) or a supply of goods and services in different economic environments (geographical segments), and reflect the risks and profits which differ from the risks and profits of other segments.

Related parties

For the purposes of drawing up the annual accounts of AS Harju Elekter the following are deemed as related parties:

- AS Harju KEK which owns over 30,1% of the shares of AS Harju Elekter;

Accounting principles (continuation)

- members of the Management Board and the Supervisory Board;
- persons connected with the above-mentioned persons and companies which are controlled by the members of the Management Board and the Supervisory Board;
- subsidiaries and associated companies.

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 of 31.12.2004 and the finalisation of the accounts on 04.03. 2005 but are associated with transactions made during the account period or earlier periods.

Events after the balance sheet date that were not taken into consideration when the 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 to the annual accounts.

Note 1 Cash at hand and in bank

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Cash at hand	288	339	281	334
Bank accounts	18 498	26 110	14 888	14 771
Total	18 786	26 449	15 169	15 105

Note 2 Trade receivables

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Accounts receivable	49 888	31 826	25 500	13 014
Doubtful accounts	-63	-41	-42	-11
Total	49 824	31 784	25 458	13 003

In the balance sheet accounts receivable are estimated as collectible amounts likely to be received. During the financial year the following changes took place in the amounts of doubtful debts:

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	2004	2003	2004	2003
Initial balance	-41	-59	-11	-47
Total of accounts recognised as doubtful	9	0	0	0
Doubtful accounts which are stated in expenses	-42	-41	-42	-11
Doubtful accounts which are stated as irrecoverable	11	59	11	47
Final balance	-63	-41	-42	-11

Note 3 Non-trade receivables

(1000 EEK) 1 EUR=15,6466 EEK		Group		Parent company	
	Note	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Receivables from parent company and subsidiaries	29	0	0	3 099	5 519
incl. outstanding sales invoices		0	0	3 049	2 042
loans to subsidiaries	29	0	0	0	3 468
lease receivables from subsidiaries		0	0	50	0
Interest receivables		0	0	0	9
Receivables from associated companies	29	4 137	6 028	4 111	6 028
incl. outstanding sales invoices		4 137	6 028	4 111	6 028
Other short-term receivables		19	78	19	64
incl. loans	4	19	77	19	64
Total non-trade receivables		4 156	6 106	7 229	11 611

Note 4 Loans for unrelated natural persons

(1000 EEK) 1 EUR=15,6466 EEK		Group		Parent company	
	Note	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Loan balance at the beginning of the year	10	97	528	79	484
Loans granted		76	26	15	0
Received		-154	-457	-75	-405
Loan balance at the end of the year	3	19	97	19	79
incl. long-term portion	10	0	19	0	19

Average annual interest rate 6%

Reference currency EEK

Loans have been granted to unrelated natural persons.

Note 5 Accrued income

(1000 EEK) 1 EUR=15,6466 EEK		Group		Parent company	
		31.12.2004	31.12.2003	31.12.2004	31.12.2003
Interest receivable		18	20	18	20
Other accrued income		203	47	0	0
Total		221	67	18	20

Note 6 Prepaid expenses

(1000 EEK)	1 EUR=15,6466 EEK	Group		Parent company	
	Lisa	2004	2003	2004	2003
Prepaid taxes		148	175	53	9
Incl. VAT		68	164	44	0
income tax expense		80	11	9	9
Other prepaid expenses		988	1 076	611	671
Incl. prepaid insurance premium		400	353	169	132
prepaid rent		264	94	264	94
other		324	629	178	445
Total		1 136	1 251	664	680

Note 7 Inventories

(1000 EEK)	1 EUR=15,6466 EEK	Group		Parent company	
	Note	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Raw materials		29 074	20 535	16 817	9 139
Work-in progress		17 156	12 206	8 703	5 863
Finished goods		12 589	4 980	9 849	2 899
Goods for sale		8 891	6 344	7 546	5 869
Prepayments to suppliers		240	58	87	38
Total		67 950	44 123	43 002	23 808

For the estimation of tangible inventories the weighted average acquisition cost method is used by the Group, except in the case of the Lithuanian subsidiary where the FOFO method is used. Inventories of the Rifas Group amount to 11,1% of the consolidated inventories in the balance sheet.

Write-downs of inventories during the financial year amounted to a total of 646 (2003: 845) thousand kroons. Write-downs of inventories in the parent company amounted to 201 (2003: 131) thousand kroons. As of the balance sheet date the amount of stocks in the Group was 88 (2003: 205) thousand kroons which is a marked-down value of net realisation.

As of the balance sheet date the Group had stocks in the USA under a bailment contract to a value of 355 (2003: 362) thousand kroons and was the bailee for the stocks to a value of 58 (2003: 70) thousand kroons.

Note 8 Investments to the subsidiary companies**AS Harju Elekter subsidiary companies**

AS Eltek	Keila, Estonia	Manufacturing and marketing of telecom equipment
Satmatic OY	Ulvila, Finland	Manufacturing and marketing of electrical equipment
Rifas UAB	Panevėžys, Lithuania	Manufacturing and marketing of electrical equipment

Investments to the subsidiaries in the report of the parent company

(1000 EEK)	1 EUR=15,6466 EEK	Eltek	Satmatic	Rifas	TOTAL
Number of shares as of 31.12.2003 (pc)		400 000	200 000	3 900	
No of shares acquired during the financial year (pc)		0	200 000	0	
Number of shares as of 31.12.2004		400 000	400 000	3 900	
Participation as of 31.12.03		100,0%	100,0%	51,0%	
Participation as of 31.12.04		100,0%	100,0%	51,0%	
Nominal value of the share (in kroons)		10	15,65	453,15	
Acquisition cost as of 31.12.03		3 701	4 671	10 637	19 009
Acquisition cost as of 31.12.04		3 701	7 800	10 637	22 138
Book value as of 31.12.03		10 486	3 480	11 007	24 973
Increasing share capital		0	3 129	0	3 129
Profit/loss by the equity method for the financ.year		2 946	-86	1 630	4 490
Cash dividends paid		0	0	-331	-331
Book value as of 31.12.04		13 432	6 523	12 306	32 261

Investments in the shares of subsidiaries which have been adjusted in the balance sheet of the parent company using the equity method differ from the share of the investors in the owner's equity of subsidiaries due to the following reasons:

(1000 EEK)	1 EUR=15,6466 EEK	Eltek	Satmatic	Rifas
Owner's equity of subsidiaries as of 31.12.04		13 522	6 040	24 165
Investor participation in owner's equity		13 522	6 040	12 306
Balance of write-ups of fixed assets in purchase analysis		0	483	0
Unrealised profits (inventories)		-1	0	0
Unrealised profits (fixed assets)		-89	0	0
Book value of investments as of 31.12.04		13 432	6 523	12 306

Market value at the beginning and end of the year none none none
The shares of subsidiary company is not listed on the stock exchange.

Lithuanian subsidiary Rifas UAB owns shares in two service provided companies: Automatikos Iranga and Biržų Montuotojas.

Note 8 (continuation)**Investment in subsidiaries included in the accounts of Rifas UAB**

(1000 EEK)	1 EUR=15,6466 EEK	Automatikos Iranga Montuotojas	Birpė Montuotojas	TOTAL
Domicile		Panevėžis, Lithuania	Birpė, Lithuania	
Business area		Design and whole sales	Installation work	
Number of shares as of 31.12.2003 (pc)		204	2301	
Number of shares 31.12.2004 (pc)		204	2301	
Nominal value of the share (kroons)		453	453	
Participation as of 31.12.03		51,0%	50,26%	
Participation as of 31.12.04		51,0%	50,26%	
Acquisition cost as of 31.12.03		92	618	
Acquisition cost as of 31.12.04		92	618	
Book value as of 31.12.03		1 041	1 665	2 706
Cash dividends paid		-131		-131
Profit/loss by the equity method for the financial year		61	-40	21
Book value as of 31.12.2004		971	1 625	2 596
Owner's equity of subsidiaries as of 31.12.04		1 903	3 232	
Investor partic.in owner's equity as of 31.12.2004		971	1 625	2 596
Market value at the beginning and end of the year		noun	noun	

The shares of subsidiary company is not listed on the stock exchange.

Note 9. Investments to the associated companies

(1000 EEK)	1 EUR=15,6466 EEK	Keila Kaabel	Saajos Balti	TOTAL
Domicile		Keila, Estonia	Keila, Estonia	
Business area		Production and wholesale of cables	Production of fireproof doors	
Number of shares as of 31.12.2003 (pc)		884	200 000	
Number of shares as of 31.12.2004 (pc)		884	200 000	
Nominal value of the share (kroons)		10 000	10	
Participation as of 31.12.03		34,0%	33,3%	
Participation as of 31.12.04		34,0%	33,3%	
Acquisition cost as of 31.12.03		8 840	2 000	10 840
Acquisition cost as of 31.12.04		8 840	2 000	10 840
Book value as of 31.12.03		25 174	1 303	26 477
Cash dividends paid		-1 762	0	-1 762
Profit/loss by the equity method for the financ.year		-4	123	119
Book value as of 31.12.2004		23 408	1 426	24 834
Owner's equity of assoc.company as of 31.12.04		69 027	4 393	
Investor participation in owner's equity		23 469	1 464	
Unrealised profits (inventories)		-61	0	
Unrealised profits (fixed assets)		0	-38	
Book value of investments as of 31.12.04		23 408	1 426	24 834

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

Note 10 Other long-term financial investments

(1000 EEK)	1 EUR=15,6466 EEK	Group		Parent company	
	Note	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Long-term receivables from subsidiaries	29	0	0	135	1 734
Other shares		298 304	201 128	298 304	201 128
Other long-term receivables	4	0	19	0	19
Total		298 304	201 147	298 439	202 881

Note 10 (continuation)

PKC Group Oyj share 1 EUR=15,6466 EEK	Note	Number of shares	Amount (1000 EEK)
At the beginning of the year*		1 819 017	201 128
Participation % at the beginning of the year		10,55	
Acquired shares at cost		70 986	8 281
Shares sold at selling price		-30 000	-4 415
Revenue from share transfers	25		1 098
Profit from revaluation of shares	25		92 212
At the end of the year		1 860 003	298 304
Participation % at the end of the year		10,65	

* In September 2004 PKC Group arranged a bonus issue during which 11 640 348 new shares were distributed in the manner that for each old share two new one were granted. At the beginning of the year Harju Elekter owned 606 339 shares but following the bonus issue the number of its shares had increased to 620 001. Thus, by the bonus issue, Harju Elekter gained another 1 240,002 shares. In that the number of shares issued at the beginning of the year had been adjusted in a manner so that the number of existing shares (606 339) had been multiplied by three.

Shares are stated in the balance sheet at their market price. On the last trading day of the financial year that ended on 31.12.2004 the average price quotation on the Helsinki Stock Exchange closed at 10,25 euros.

Before the bonus issue PKC Group Oyj paid dividends for the financial year to the amount of 2,50 euros (2003: 0,40 euros) per share.

714 thousand PKC shares are pledged as bank loan guarantees. The information on pledged assets is presented in Note 16.

Note 11. Investment properties

1 EUR=15,6466 EEK (1000 EEK)	Note	Group			Parent company		
		Land	Building	TOTAL	Land	Building	TOTAL
Acquisition cost							
31.12.03		2 400	95 444	97 844	2 400	101 436	103 836
Reconstructed		0	2 875	2 875	0	3 150	3 150
31.12. 04		2 400	98 319	100 719	2 400	104 586	106 986
Accumulated depreciation							
31.12.03		0	-10 948	-10 948	0	-12 168	-12 168
Depreciation for the fin.year25		0	-2 892	-2 892	0	-3 075	-3 075
31.12. 04		0	-13 839	-13 839	0	-15 243	-15 243
Accounting value							
31.12.03		2 400	84 496	86 896	2 400	89 268	91 668
31.12.04		2 400	84 480	86 880	2 400	89 343	91 743

There is no substantial differences between the acquisition cost and the fair value of investment property and it is recorded in the annual accounts similarly with the ordinary fixed assets at acquisition cost, less accumulated depreciation. The costs of maintenance and repairs of investment property amounted to 3,6 (2003: 2,3) million kroons. More information about income from rent can be found in Note 14.

The accounting value of the investment property, on which a mortgage has been established in favour of the bank as a guarantee for a loan (notes 16 and 17), is 17,2 million kroons.

Note 12. Movement of tangible assets*Group*1 EUR=15,6466 EEK
(1000 EEK)

	Note	Land	Buildings	Machine ry and equipm.	Other inventory	Construc tion -in- progress	Prepaym for tangi- ble assets	TOTAL
Acquisition cost								
31.12.03		1 022	27 287	58 143	4 996	2 363	2 068	95 879
Acquired		0	6 307	13 135	892	14 470	-839	33 965
From construction-in-progress and prepayments		0	1 012	990	158	-1 012	-1 148	0
Reconstructed		0	4 625	127	0	0	0	4 752
Sold and write-offs		0	-13	-1 849	-218	0	0	-2 080
31.12.04		1 022	39 218	70 546	5 828	15 821	81	132 516
Accumulated depreciation								
31.12.03		0	-6 464	-29 311	-3 117	0	0	-38 892
Depreciation for the fin.year	25	0	-1 161	-7 048	-759	0	0	-8 968
Deprec.of disposed assets and write-off		0	13	1 663	219	0	0	1 895
31.12.04		0	-7 612	-34 696	-3 657	0	0	-45 965
Accounting value								
31.12.03		1 022	20 822	28 833	1 878	2 363	2 068	56 987
31.12.04		1 022	31 606	35 850	2 171	15 821	81	86 551

Parent company

Acquisition cost								
31.12.03		868	14 774	30 843	1 900	1 351	868	50 604
Acquired		0	715	10 385	623	14 470	-839	25 354
Reconstruction		0	3 649	127	0	0	0	3 776
Sold and write-offs		0	-12	-1 498	-144	0	0	-1 654
31.12.04		868	19 126	39 857	2 379	15 821	29	78 080
Accumulated depreciation								
31.12.03		0	-3 174	-17 813	-1 255	0	0	-22 242
Depreciation for the fin.year	25	0	-514	-3 695	-283	0	0	-4 492
Deprec.of disposed assets and write-off		0	12	1 370	144	0	0	1 526
31.12.04		0	-3 676	-20 138	-1 394	0	0	-25 208
Accounting value								
31.12.03		868	11 600	13 030	645	1 351	868	28 362
31.12.04		868	15 450	19 719	985	15 821	29	52 872

Construction was started in 2003. A total of 8,2 million kroons was invested in the construction and equipment of the production bay.

The parent company invested 3,6 million kroons in the reconstruction of the production buildings. A fully automatic revolver punch (6,3 million kroons) for the production of leaf metal details, a colour change centre (0,7 million kroons) for servicing operatively the colouring line and a hoist (0,7 million kroons) were purchased for the Electrical Equipment Factory. During the financial year the parent company invested a total of 10,5 million kroons in machinery and equipment.

As of 31.12.2004 the acquisition cost of the fixed assets which were fully depreciated but still in use was 13 164 thousand kroons for the whole Group (2003: 11 356 thousand kroons) and 9 724 thousand kroons (2003: 8 260 thousand kroons) in the balance sheet of the parent company.

Note 12 (continuation)

The information about the fixed assets purchased and leased under the financial lease conditions is presented in note 14 and on the fixed assets, on which mortgage has been established as an undertaking of obligation, in Note 17.

Construction-in-progress

AS Harju Elekter started to construct production expansion of buildings for PKC Eesti and Electrical Equipment Factory Substations Hall. The costs of construction-in-progress amounted to 15,8 million kroons.

The buildings will be taken into use during the year 2005.

Note 13 Intangible assets

1 EUR=15,6466 EEK (1000 EEK)	Group Other intangible assets	Pre- payments	Group TOTAL	Parent company Other intangible assets
Acquisition cost				
31.12.03	2 881	39	2 920	1 152
Acquired during the year	883	-39	844	631
31.12.04	3 764	0	3 764	1 783
Accumulated depreciation				
31.12.03	-1 130	0	-1 130	-662
Depreciation for the fin. year	-683	0	-683	-243
31.12.04	-1 813	0	-1 813	-905
Accounting value				
31.12.03	1 751	39	1 790	490
31.12.04	1 951	0	1 951	878

The parent company acquired the license for processing the MV distribution unit from Schneider Electric Industries S.A.S. Its contract value was 631 thousand kroons.

Note 14 Financial and operating lease**Company as a lessor**

Receivables from financial lease included in the accounts of the parent company

1 EUR=15,6466 EEK (1000 EEK)	Note	TOTAL	up to 1 year	1-5 years
Machinery and equipment				
Gross investment	29	274		
Receivables as of 31.12.2004	3,10	185	50	135

Reference currency	EEK
Maturity	Every month
Average interest rate (%)	5,50%

During the accounting period capital repayments of 89 thousand kroons plus interest of 12 thousand kroons were received. Leases are held by subsidiary companies.

Note 14 (continuation)*Operating lease*

The parent company leases the following asset items under the operating lease conditions

(1000 EEK) 1 EUR=15,6466 EEK		2004	2003
		Machinery and equipment	Machinery and equipment
Acquisition cost of leased items		1589	460
Accumulated depreciation of leased items		-810	-334
Net carrying value at the end of the year		779	126

The parent company leases an property investment (Note 11) and production equipments under the operating lease conditions. During the accounting year the income from rent was reported in the income statement as follows:

(1000 EEK) 1 EUR=15,6466 EEK		Note	2 004	Group 2 003	Parent company 2 004	2 003
Lease income from property investment		11	20 133	14 069	21 645	16 614
from machinery and equipment			96	77	114	115
TOTAL		24	20 229	14 146	21 759	16 729

Deferred income from rent is distributed as follows:

(1000 EEK) 1 EUR=15,6466 EEK		Investment property	Machinery and equipment	Total
Due date up to 1 year		26 200	178	26 378
1-5 years		119 200	621	119 821
ver 5 years		90 000	0	90 000

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.

Company as a lessee*Financial lease*

Fixed assets acquired through financial lease:

(1000 EEK) 1 EUR=15,6466 EEK		Group 2004	2003	Parent company 2004	2003
Machinery and equipment					
Acquisition cost		9 907	8 057	2631	1932
incl. acquisitions during the financial year		2 837	2 086	690	1932
Accumulated depreciation		-1 992	-1 786	-370	-146
incl. depreciation for the financial year		-968	-669	-224	-146
Residual value as of 31.12.		7 915	6 271	2261	1786

The information on financial lease arrears and conditions is presented in Note 15.

Operating lease

During the accounting year the payments of operating leases were accounted for as expenses in the following manner:

Note 14 (continuation)

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	2004	2003	2004	2003
Office, commercial and production premises	2 211	2 104	724	684
Machinery and equipment	1 153	733	645	552
TOTAL	3 364	2 837	1 369	1 236

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 :

(1000 EEK) 1 EUR=15,6466 EEK	Group Machinery and equipm.	Parent company Machinery and equipm.
Due date up to 1 year	549	456
1-5 years	1 257	1 135

Note 15 Debt obligations

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Short-term loans	8 699	6 913	0	0
Repayment of long-term debt in next period	3 892	5 806	3 431	3 963
Repayments of long-term lease in next period	1 789	1 450	515	452
Other debt	0	197	0	197
Total current liabilities	14 380	14 366	3 946	4 612
Long-term bank loans	14 482	18 374	14 482	17 913
Long-term lease payables	2 875	2 426	1 050	982
Total long-term liabilities	17 357	20 800	15 532	18 895
Debts total	31 737	35 166	19 478	23 507

Other debt of 197 thousand kroons was in fact a subscription fee paid in by participants in the issue of shares. Following the decision of the General Meeting of AS Harju Elekter one kroon per each subscribed option was paid out. The subscription fee is recognised as a long-term interest-free debt. The increase of share capital was carried out in September 2004. The debt was cleared in September 2004 concurrently with the subscription of shares. More information about the increase of share capital is presented in Note 23.

Note 15 (continuation)

Terms and conditions and payment schedules of bank loans:

(1000 EEK) 1 EUR=15,6466 EEK	Total	Up to 1 year	1-2 years	2-5 years	Over 5 years
Short-term bank loans					
<i>Group</i>					
Limit 300000 EUR; 1m euribor+0,4%	827	827	0	0	0
Limit 600000 EUR; 1m euribor+ 0,5%	3 811	3 811	0	0	0
Limit 5500000 EEK; fixed 4%	3 748	3 748	0	0	0
Limit 64000 EUR; day eurib+2,2%	313	313	0	0	0
Total	8 699	8 699	0	0	0
Long-term bank loans					
<i>Parent company</i>					
EUR 338380 ;3m euribor+1,35%; Q	5 295	1 412	1 412	2 471	0
EUR 806452; 6m euribor+0,75%; Q	12 618	2 019	2 019	6 057	2 523
Total	17 913	3 431	3 431	8 528	2 523
<i>Other enterprises of the Group</i>					
EUR 29465; 3m euribor+1,5%; every month	461	461	0	0	0
Group total	18 374	3 892	3 431	8 528	2 523

Securities with an accounting value of 114,5 million kroons and investment property with a value of 17,2 million kroons were used as bank loan guarantees (Note 11).

Terms and conditions and payment schedules of financial lease:

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	2004	2003	2004	2003
Financial lease				
Financial lease debt at the beginning of the year	3 876	2 716	1 434	0
New debts	2 795	2 527	690	1 948
Repaid	-2 007	-1 367	-559	-514
Total financial lease debt	4 664	3 876	1 565	1 434
Reference currency EUR	4 319	3 493	1565	1434
Reference currency LTL	345	383	0	0

Financial lease liabilities are subject to payment as follows:

Total financial lease debt	4 664	3 876	1 565	1 434
incl. payment term up to 1 year	1 790	1 450	515	452
incl. payment term 1-5 years	2 874	2 425	1050	982
Average interest rate	5,1%	5,5%	4,7%	4,7%
Interest charges for the accounting period	199	168	142	48
Maturity date is one a month				

Note 16 Securities for loans and pledged property

Pledged shares 1 EUR=15,6466 EEK (1000 EEK)	Note	Unit	Balance of investment loan	Overdraft limit	Trustees
			31.12.2004	31.12.2004	
PKC Group Oyj shares	15	195 000	12 618		Sampo Pank
PKC Group Oyj shares	15	99 000	461		Nordea Pank
PKC Group Oyj shares	15	420 000	0	11 310	OKOBANK
Total pledged shares	10,15	714 000			
incl. loans to subsidiaries		327 000			
incl. loans to associated companies		22 500			

On the balance sheet date of 31.12.2004 the accounting value of pledged bonds was 114,5 million kroons.

As security for the long-term loan, immovable properties in Haapsalu were mortgaged for the benefit of Nordea Bank (Estonia). On the balance sheet date of 31.12.2004 the accounting value of the investment property was 17,2 million kroons and the balance of the outstanding long-term loan was 5,3 million kroons (Note 15).

Note 17 Other current liabilities

(1000 EEK)	1 EUR=15,6466 EEK	Group		Parent company	
	Note	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Liabilities to parent company and subsidiaries	29	0	0	994	238
Liabilities to associated companies	29	1 074	848	1 072	848
Other liabilities		676	370	677	370
TOTAL		1 750	1 218	2 743	1 456

Note 18 Tax liabilities

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	31.12.04	31.12.03	31.12.04	31.12.03
VAT	2 104	2 726	0	685
Corporate income tax	104	147	53	32
Personal income tax	2 215	1 870	1 305	1 043
Social security contributions	2 772	1 939	1 995	1 504
Other taxes	279	108	103	64
TOTAL	7 474	6 790	3 456	3 328

Note 19 Accrued expenses

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	Note	31.12.04	31.12.03	31.12.04 31.12.03
Employee-related liabilities		12 038	8 995	6 072 4 404
Interests payable		92	129	79 110
Other accrued expenses		0	524	0 38
TOTAL		12 130	9 648	6 151 4 552

Note 20 Provisions**Warranty reserve**

The warranty reserve was established in 2005 for products of the Electrical Equipment Factory in order to satisfy possible claims. According to its sales contracts the Harju Elekter Electrical Equipment Factory gives a two-year warranty to products sold by undertaking, during that period, to either repair or replace low quality or flawed products free of charge. Following last year's experience the established in the reporting period warranty reserve amounted to 300 thousand kroons which is stated as a short-term provision.

Income tax on dividend

Retained earnings of the company on 31 December 2004 amounted to 450 378 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 to an amount of 342 287 thousand kroons;
- upon distribution of the above dividends 108 091 thousand kroons of income tax on the 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 2005 income statement should not exceed the amount of available-for-distribution profit as of 31.12.2004.

Note 21 Contingent liabilities*Contracts of guarantee and surety ship:*

As of 31.12.2004 the parent company AS Harju Elekter has the following valid contracts of guarantee and surety ship:

(1000 EEK) 1 EUR=15,6466 EEK		31.12. 04	31.12. 03	Guarantee beneficiary	Term
<i>Guarantee object</i>					
Settlement credit from the concern account	Eltek AS	5 500	5 500	AS Harju KEK	indefinite
Overdraft (from bank)	Satmatic OY	9 387	0	Nordea Finland	indefinite
Long-term bank loan	Keila Kaabel	6 224	0	Draka NK Cables	10.07.09
Supply guarantee	Keila Kaabel	3 110	0	Draka NK Cables	31.10.05
Overdraft (from bank)	Keila Kaabel	5 368	5 368	Draka NK Cables	indefinite
TOTAL		29 589	10 868		

Note 21 (continuation)

All contracts have been concluded with the aim to guarantee the obligations of the related parties (Note 29). As of 31.12.2004 the overdraft balance in the balance sheet of Eltek AS was 3,7 million kroons and the overdraft of Satmatic OY was 3,8 million, the balance of outstanding long-term loans in the balance sheet of Keila Kaabel was 18,3 million kroons and the overdraft balance amounted to 15,7 million kroons. Harju Elekter guarantees loans of the associated company to the extent of its participation (34%) in the owner's equity of Keila Kaabel.

Income tax on dividend 2005

According to the proposal for profit distribution 4,40. kroons dividend per share, which amounts to a total amount of 24 640 thousand kroons, will be paid to shareholders in the year 2005. After the distribution of dividends in 2004 (Note 22) AS Harju Elekter has received dividends from other companies which can be used for further tax-free payments (Note 26). 1 761 thousand kroons was received from AS Keila Kaabel (Note 9) and in September an additional dividend of 4 850 thousand kroons was received from PKC Group OY. At the time of drawing up the 2004 report it was known that PKC Group would pay a dividend of 0,20 euros per share in 2005. On the assumption that AS Harju Elekter owns, at the moment of the distribution of dividends, the same amount of PKC Group's shares as at the time of drawing up the report (Note 10) Harju Elekter will receive additional dividends of 5 820 thousand kroons which can be used for further tax-free payments. Thus the amount of taxable dividends is 12 209 thousand kroons (24 640-1 761-4 850-5 820) and the liability for tax (24/76) from that sum is 3 855 thousand kroons which is reduced by the amount of 1 330 thousand kroons forwarded from the previous tax period and not included in the balance sheet (Note 26).

Based on the planned dividends the total maximum income tax liability in 2005 may amount to 2 525 thousand kroons (3 855-1330). No provision is made for income tax on dividends (Note 20).

As a general rule, PKC Group distributes dividends before AS Harju Elekter does. According to the current Income Tax Act the income tax liability of a company is calculated on the basis of those dividends which have been paid to the company before the date it pays its dividends. Thus the dividends received from PKC in March 2004 have been taken into account by ASi Harju Elekter when calculating the income tax liability on the dividends paid out in May 2004.

Note 22 Minority interests

(1000 EEK) 1 EUR=15,6466 EEK	Group	
	2004	2003
Minority interests on the beginning of the year	13 222	0
Acquisition of shares	0	13 085
Profit for the financial year	1 602	169
Loss of the financial year	0	-32
Cash dividends paid	-443	0
TOTAL	14 381	13 222

Note 23 Share capital*Share capital*

1 EUR=15,6466 EEK

	31.12.2004	31.12.2003
Number of shares (1000 pc)	5 600	5 400
Nominal value (kroons)	10	10
Premium par (1000 kroons)	6 000	0
Share capital (1000 kroons)	56 000	54 000
Max permitted no of shares according the Articles of Association (1000 pc)	20 000	20 000

Increasing share capital

During the issue of shares by way of direct placements from 16.09.2004 to 30.09.2004 share subscription was carried out. Only those who had, in advance, concluded an agreement to subscribe for the shares had the right to eventual subscription. During the subscription all 200 thousand common inscribed shares with a nominal value of 10 kroons were subscribed for. The payment for issued shares was implemented at the time of subscription and thus the required payment for all the subscribed shares has been received. The stock trading increased the equity capital by 8 million kroons of which 6 million kroons was at a premium par.

Dividend per share

On the basis of the results for the year 2003 the shareholders were paid dividends of four kroons per share to a total amount of 21,6 million kroons which did not entail any income tax liability. Dividends were paid on 12 May 2004.

According to the proposal for profit distribution, 4,40 kroons dividend per share, which amounts to a total amount of 24 640 thousand kroons, will be paid to shareholders in the year 2005. The dividends to be paid will be recoded after the proposal for profit distribution has been adopted by the AGM.

*Shareholders with over 5% voting shares**Participation %*

AS Harju KEK	30,11%
ING Luxembourg S.A	9,91%
Lembit Kirsme	8,30%
SE-Banken Ab clients	7,22%
Endel Palla	5,65%
Others	38,81%

*Particip.% of management and supervisory board members**Participation %*

	No of shares	Direct	indirect
Council			
Palla, Endel	316 336	5,65%	10,11%
Kirsme, Lembit	465 000	8,30%	7,34%
Talgre, Madis	5 700	0,10%	0,45%
Tombak, Triinu	5 000	0,09%	0,00%
Kabal, Ain	5 000	0,09%	0,00%
Total	797 036	14,23%	17,91%
Management			
Allikmäe, Andres	61 300	1,09%	0,26%
Padjus, Karin	36 731	0,66%	0,35%
Libe, Lembit	6 500	0,12%	0,15%
Merisalu, Ülo	5 200	0,09%	0,00%
Total	109 731	1,96%	0,76%

Number of shares and participation pro cent is presented as of 02.01.2005 at 8 am.

Note 24 Segmental reporting

Segments of the Groups are differentiated geographically and by areas of activities. The primary segmentation which is based on the areas of activities derives from the structure, management and internal reporting of the Group.

Inter-segment price formation is based on market prices.

Results, assets and liabilities of segments include indicators directly related to the activities of the segment and the indicators distributed to segment activities. The most important indicators which cannot be distributed between segments are cash in hand and in bank accounts.

The Group operates in three main business segments:

Segment investments include the costs of assets acquired during the financial year and in use for longer than one year.

Business segments

Main business segments of the Group are:

“Production” – manufacturing and sales of power distribution and control systems to energy, construction and industrial sectors; manufacturing and sales of data and communication systems and fibre optic connection cables to the telecommunications sector; manufacturing and sales of various sheet metal products and subcontracting in the area of sheet metal works; research and development; other services related to the manufacturing intermediary trade in different components;

“Trade” – sales of products manufactured by the Harju Elekter Group and associated companies, as well as other products necessary for electric installation works mainly to retail customers and small- and medium-size electrical installation companies;

“Services” – real estate development, maintenance and renting, services related to the maintenance of real estate and manufacturing capacity and intermediary trade of those services; managerial services; design of industrial automation equipment, programming of process control automatic equipment and project management of installation works; construction services and installation of automatic control equipment.

Information about business segments are presented on the pages 58 and 59.

Geographical segments:

By the location of businesses the operations of the Group falls into three geographical segments:

Estonia – domicile of the parent company (production, trade and services) and the subsidiary Eltek (production);

Finland – domicile of the subsidiary Satmatic (production);

Lithuania – domicile of the subsidiary Rifas (production and services).

The income and assets of the geographic segments are reporting according to the geographical location of assets. The income of the segments by markets is reflected on the basis of the location of its customers.

Information of geographic segments is presented on the page 60.

Note24 (continuation)**Business segments**

(1000 EEK) 1 EUR=15,6466 EEK

Note

		Production		Trade		Services		Elimination		Consolidated	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue from non-concern costumers											
Sales of electrical equipment		294 506	214 488	0	0	0	0	0	0	294 506	214 488
Sheet metal products and metal work		29 134	28 470	0	0	0	0	0	0	29 134	28 470
Products for telecom sector		20 469	19 785	0	0	0	0	0	0	20 469	19 785
Trade and intermediation		15 291	10 085	44 699	38 900	6 330	99	0	0	66 320	49 084
Design		6	0	0	0	2 747	1 360	0	0	2 753	1 360
Installation work		0	0	0	0	6 527	2 657	0	0	6 527	2 657
Leasing of capital assetes		0	0	0	0	20 229	14 146	0	0	20 229	14 146
Other services		3 870	2 432	0	5	9 971	9 921	0	0	13 841	12 358
Total revenue from non-concern costumers		363 276	275 260	44 699	38 905	45 804	28 183	0	0	453 779	342 348
Inter-segment revenue		6 259	5 634	395	394	6 726	4 173	-13 380	-10 201		0
Total income from business		369 535	280 894	45 094	39 299	52 530	32 356	-13 380	-10 201	453 779	342 348
Segment net gain		21 261	13 359	2 287	2 533	7 970	4 446	-289	-427	31 229	19 911
Operating profit										31 229	19 911
Net finance incomes/(expenses)	25	-851	-1 129	0	0	117 065	145 222	0	0	116 214	144 093
Income from associated companies	9			0	0	119	11 691			119	11 691
Income tax	26	-521	-127	0	0	-74	30	0	0	-595	-97
Minority interests	22	-19	-32	0	0	-1 583	-105	0	0	-1 602	-137
Net profit for the financial year		19 870	12 071	2 287	2 533	123 497	161 285	-289	-427	145 365	175 461

Note 24 (continuation)

(1000 EEK) 1 EUR=15,6466 EEK	Note	Production		Trade		Services		Elimination		Consolidated	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Segment assets		148 888	109 667	12 088	8 787	439 239	322 383	375	658	600 590	441 495
Investments to associated companies						24 834	26 477			24 834	26 477
Undistributed assets										15 169	15 105
Total assets										640 593	483 077
Segment liabilities		63 717	51 599	5 196	3 801	36 322	25 243	0	0	105 235	80 643
Cash flow from business activities		2 917	25 915	993	1 364	17 744	7 478	44	439	21 698	35 196
Cash flow from investing activities		-19 536	-6 345	-591	-698	13 623	-17 506	-2 262	898	-8 766	-23 651
Cash flow from financial activities		-4 763	386	0	0	-17 993	4 297	2 218	-1 337	-20 537	3 345
Investments in fixed assets	11,12,13	21 965	7 830	635	686	19 871	42 307	-35	0	42 436	50 823
Depreciation of the segment	25	7 242	6 030	256	163	4 791	3 390	255	63	12 544	9 646
Decrease in the value of stocks	7	524	839	17	6	0	0	0	0	541	845

Note 24 (continuation)**Geographical segments**

(1000 EEK) 1 EUR=15,6466 EEK	Estonia		Finland		Lithuania		Consolidated	
Markets	2004	2003	2004	2003	2004	2003	2004	2003
Estonia	223 734	180 802	0	30	0		223 734	180 832
Finland	52 996	45 495	113 529	88 674	0		166 525	134 169
Lithuania	1 527	2 383	0		46 724	10 150	48 251	12 533
Other Europe	6 019	9 790	2 488	455	3 193	480	11 700	10 725
USA	2 947	3 740	0		0	0	2 947	3 740
Russia	622	349	0		0	0	622	349
Revenue from non-concern costumers	287 845	242 559	116 017	89 159	49 917	10 630	453 779	342 348
Assets of the segment	582 981	431 910	23 769	21 775	33 843	29 392	640 593	483 077
Cash flow								
-from business activities	22 813	24 459	-2 558	7 093	1 443	3 645	21 698	35 197
- from investing activities	-2 048	-20 793	-253	-1 237	-6 465	-1 621	-8 766	-23 651
- from financial activities	-19 804	227	311	-3 618	-1 044	6 736	-20 537	3 345
Investments in fixed assets	35 462	46 697	253	1 236	6 722	2 890	42 436	50 823

In 2004 the consolidated sales revenues of the Harju Elekter Group increased by 32,5%. The biggest increase was achieved in the Republic of Lithuania due to the fact that the subsidiary, Rifas UAB, was purchased in the IV quarter of 2003 and the comparable period only included the subsidiary's economic indicators for the last quarter of 2003.

Exports represented 22% (2003:25,5%) of the sales revenues of the Estonian segment, 0,2% of the Finnish segment (2003:0,6%) and 6,4% of the Lithuanian segment (2003: 4,5%). Sales to the Estonian market represented 49,3% (2003:52,8%) of the consolidated sales revenues, while sales to the Finnish market represented 37,2% (2003: 9,2%) and 0,6% (2003:3,7%) to Lithuanian market. Other markets represented 2,9% (2003:4,3%).

Note 25 Income statement

(1000 EEK) 1 EUR=15,6466 EEK	Note	Group		Parent company	
		2004	2003	2004	2003
COSTS OF GOODS SOLD					
Goods and raw materials		291 354	207 937	166 218	127 793
Services		25 248	14 105	11 360	8 173
Labour costs (see below)		54 785	46 028	23 429	19 676
Depreciation of fixed assets		10 225	7 805	6 745	5 567
Other expenses		1 863	1 461	526	831
Growth of work-in-progress and finished goods		-12 559	1 637	-9 790	-345
TOTAL		370 916	278 973	198 488	161 696
MARKETING EXPENSES					
Purchase services		5 520	5 146	3 890	3 304
Labour costs (see below)		11 922	9 440	8 063	5 831
Depreciation of fixed assets		486	319	418	267
Other expenses		3 118	2 835	1 307	750
TOTAL		21 046	17 740	13 679	10 153
ADMINIST. AND GENERAL EXPENSES					
Purchase services		4 383	4 411	3 162	3 149
Labour costs (see below)		18 814	14 866	10 220	9 011
Depreciation of fixed assets		1 832	1 522	647	635
Other expenses		5 458	4 629	2 597	2 718
TOTAL		30 487	25 428	16 626	15 512
incl. development costs		4 859	3 953	3 849	2 972
<i>Labour costs in sold products, marketing and administrative/general expenses:</i>					
Salaries		61 204	50 661	28 825	23 050
Social tax and other taxes from salaries		19 346	15 739	10 537	8 732
Reserves		4 971	3 934	2 350	2 736
TOTAL		85 521	70 334	41 712	34 518
Number of employees at the end of the year		405	353	210	181
Average number of employees		378	302	197	172
OTHER OPERATING REVENUE					
Profit from sales of tangible assets		141	157	117	157
Received fines and penalties		216	96	213	135
Other operating revenue		166	143	153	28
TOTAL		523	396	483	320

Note 25 (continuation)

(1000 EEK) 1 EUR=15,6466 EEK	Note	Group		Parent company	
		2004	2003	2004	2003
OTHER OPERATING CHARGES					
Loss from sales and liquidation of fixed assets		-12	-19	-12	-19
Fines, penalties and other losses		-48	-22	-37	-10
Currency exchange losses		-41	-39	0	0
Doubtful receivables recorded as losses		-42	-11	-42	-11
Costs of gifts and charity donations		-302	-394	-268	-382
Other business expenses		-179	-207	-129	-168
TOTAL		-624	-692	-488	-590
NET FINANCIAL INCOME					
Interest charges		-1 450	-1 444	-751	-862
Interest return		160	172	222	634
Dividend income		24 252	4 551	24 252	4 551
Net exchange profit (+)/loss (-)		-58	-58	-16	-16
<i>Marketable investments:</i>					
Profit from sales of investments		1 098	2 994	1 098	2 994
Revaluation at fair value		92 212	137 878	92 212	137 878
TOTAL	24	116 214	144 093	117 017	145 179

Depreciation of fixed assets and labour costs are recorded in the income statements under products sold and marketing and general administration costs while development costs are recorded under general administration costs.

Note 26 Income tax

(1000 EEK)	1 EUR=15,6466 EEK	Note	Group		Parent company	
			2004	2003	2004	2003
<i>Corporate income tax</i>						
Income tax expenses		24	-595	-97	0	0

According to the Income Tax Act which entered into force on 1 January 2000 tax is not charged on corporate profits but on distributed dividends.

According to the income tax law applicable in the countries of their establishment corporate income tax is charged against the profit of the companies which are located in Finland and Lithuania after the profit has been adjusted according to the differences provided for in the legislation of these countries. In the Republic of Finland the income tax rate levied on corporate profit is 29% and in the Republic of Lithuania 15%.

Income tax on dividend

Starting from 2003 all distributed dividends are taxed at the rate of 26/74 on the amount of net dividends distributed. In order to avoid double taxation of dividends the Income Tax Act provides for the right for the further tax-free payment of dividends received from a company registered in Estonia if the share holding of the party who is to receive further payments of dividends in this Estonian company is at least 20%.

Note 26 (continuation)

If a resident company has received dividends from a non-resident company, the recipient of dividends may deduct the income tax withheld from such dividends abroad from the income tax payable in a foreign country. If the resident company who has received dividends owns, at the time of payment of the dividends, at least 20% of the shares or votes of the non-resident company which paid the dividends, and if Estonia and that other country have not concluded an agreement on the application of a more preferential rate, the recipient of the dividends, may also deduct the income tax paid on the share of the profit from abroad, which was the basis for the dividends in addition to the income tax withheld from the dividends, from the income tax payable. However this deduction cannot exceed 26/74 on the amount of net dividends distributed in a foreign country.

The parent company has the right to further tax-free payments of dividends received from subsidiaries and associated companies (notes 8 and 9) as well as the dividends received from the PKC Group Oyj (note 10).

In 2004 the parent company paid dividends of 21,6 million kroons (2003: 10,8 million kroons). The payment of dividends did not lead to any income tax withholding obligation for the parent company.

(1000 EEK) 1 EUR=15,6466 EEK		Parent company	
		2004	2003
Taxable amount of dividend		21 600	10 800
Income tax on dividend (26/74 on the amount of the dividend)		-7 589	-3 795
<i>Deductions:</i>			
- income tax paid in a foreign country which is an allowed deduction in Estonia		6 817	1 599
- the right for deduction of income tax received from a resident company		1 072	290
- balance of deductions of income tax for previous periods of taxation to be carried forward		1 030	2 936
Total deductions reducing the income tax liability		8 919	4 825
The amount to be forwarded to the next period of taxation in order to decrease the income tax liability		1 330	1 030

Note 27 Basic and diluted earnings per share

Ordinary net profit (loss) per share is calculated on the basis of the ratio between the net profit(loss) owned by shareholders and weighted average number of shares not including own shares.

(1000 EEK)	1 EUR=15,6466 EEK	Unit	2004	2003
Net profit for the period		1000 EEK	145 365	175 461
Average number of shares for the period		1000 pc	5 467	5 400
<i>Basic EPS</i>		EEK	26,59	32,49
<i>Option terms and conditions:</i>				
- number of shares issued		1000 pc	0	200
- set redemption price		EEK	0	40
- amount received from the issue		1000	0	8 000
<i>Diluted earnings per share:</i>				
- average market price for the period		EEK	120,15	78,54
- number of shares issued at market price		1000 pc	0	102
- difference between the number of shares covered by options and the number of shares issued at market price		1000 pc	0	98
- adjusted average number of shares		1000	5 467	5 498
- <i>diluted earnings per share</i>		EEK	26,59	31,91

In order to determine the diluted earnings per share, beneficial options were included in the accounts of 2003. The options gave the right to acquire the shares of Harju Elekter for the price of 40 kroons which is less than the market price in 2003. In order to calculate the diluted earning per share the following was determined:

- how much money would the company receive by the realisation of all options;
- how many shares had to be issued at the market price in order to receive the same amount;
- the number of weighted average shares was increased, during the period, by the difference between the number of shares covered by options and the shares issued at the market price.

Diluted EPS was determined as a ratio between the net profit belonging to shareholders and the adjusted average number of shares.

Options were realised in September 2004 (Note 23). As of the balance sheet date the Group had no ordinary shares with the potential to be issued and thus the diluted net profit (net loss) per share equalled the ordinary net profit per share.

Note 28 Cash flow report

(1000 EEK) 1 EUR=15,6466 EEK	Group		Parent company	
	2004	2003	2004	2003
Change in payables related to business operations				
Trade receivables	-16 465	5 992	-12 009	-563
Receivables from subsidiaries	0	0	-1 008	-300
Receivables from associated companies	1 892	-4 170	1 917	-4 170
Other receivables	25	22	0	27
Other accrued income	-156	-33	0	0
Prepayments	173	-10	18	-118
Total	-14 531	1 807	-11 082	-5 124
Changes in liabilities related to operating activities				
Payables to suppliers	11 193	500	10 763	3 212
Current liabilities to subsidiaries	0	0	757	84
Current liabilities to associated companies	225	294	224	294
Other short-term liabilities	11	20	13	-18
Taxes payable	805	422	157	820
Employee-related liabilities	2 957	3 507	1 601	1 240
Other accrued expenses	-499	-811	0	21
Short-term provisions	300	0	300	0
Income to be received in subsequent periods	3 643	0	3 643	0
Total	18 635	3 932	17 458	5 653

Note 29 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:

(1000 EEK) 1 EUR=15,6466 EEK	2004		2003	
	Bought	Sold	Bought	Sold
Related parties				
Eltek	2 743	5 009	1 273	4 553
Satmatic Oy	301	5 250	1 024	1 222
Rifas UAB	142	1 651	0	310
Keila Kaabel	8 128	9 112	6 667	6 843
Saajos Balti	2 810	3 454	1 742	4 936
Harju KEK	156	115	1 072	78
TOTAL	14 280	24 590	11 778	17 942

Note 29 (continuation)

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

Content of transaction (in %)	2004		2003	
	Bought	Sold	Bought	Sold
Goods purchased for resale				
Material, gathered for production needs	54,99	0,04	51,55	0,00
Industrial subcontracting	40,30	26,92	34,61	17,80
Lease of fixed assets	1,14	13,82	0,83	14,75
Management services	0,00	33,23	0,00	31,82
Other services	0,00	16,30	0,00	20,36
TOTAL	3,57	9,68	13,00	15,26
Content of transaction (in %)	100,00	100,00	100,00	100,00

Rifas UAB has sold goods to subsidiaries to a value of 2 098 thousand kroons and services for 35 thousand kroons (2003: respectively 254 and 927) and bought goods from them to a value of 1 339 thousand kroons and services to a value of 1 008 thousand kroons (2003: respectively 96 and 107).

AS Eltek sold bending machine to Rifas UAB for 57 thousand kroons.

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 2004 Harju Elekter paid Harju KEK a total of 844 thousand kroons to cover the costs related to the release of registered immovables, the construction designs and the supervision of construction (2003: investment in property amounted to 2 895 thousand kroons, 1 891 thousand of this was for the land). The costs are included in the expenses for the construction-in- progress of the production building of KC Eesti in Keila (Note 12).

Financing activities

The parent company has granted loans to the Finnish subsidiary on the following conditions:

(1000 EEK)	1 EUR=15,6466 EEK	Note	short-term	long-term	TOTAL
Loan balance at the beginning of the year	3,10		0	5 202	5 202
Loans granted during the accounting period			3 129	0	3 129
Repayments during the accounting period			-3 129	-2 073	-5 202
Funds for equity financing			0	-3 129	-3 129
Loan balance in the end of the year			0	0	0
Received interest income (interest rate 5%)			9	50	59

The parent company leased for Eltek, on the conditions of a financial lease, a transit vehicle (note 14) with an acquisition cost of 274 thousand kroons and interest of 5,5%. During the 12 month period Eltek paid to the parent company financial lease payments to a total of 88 thousand kroons plus 12 thousand kroons in interest.

Guarantees, warranties and pledges

The parent company guarantees the short-term bank loans of subsidiaries, Eltek and Satmatic, which amount to a total of 14,9 million kroons and the short-term and long-term bank loans and other **Note**

Note 29 (continuation)

liabilities of the associated company, Keila Kaabel, which amounts to a total of 14,7 million kroons (Note 21). The guarantee is not secured by any pledge.

The parent company has pledged 350 thousand PKC Group shares (Note 16) as security for the overdraft facility of its subsidiary Satmatic (credit limit is 300 thousand euros), a long-term bank loan of Eltek (461 thousand kroons investment loan outstanding as of 31.12.2004) and the overdraft facility of the associated company, Saajos Balti (credit limit of 67 thousand euros).

Balance with related parties (1000 EEK) 1 EUR=15,6466 EEK	Note	Claims		Obligations	
		31.12.04	31.12.03	31.12.04	31.12.03
Subsidiaries:					
Eltek: goods and services		1 084	1 684	972	232
receivables from financial lease	14	185	0	0	0
Satmatic: goods and services		1 838	257	22	6
long-term loan	3,10	0	5 203	0	0
Interest rate	3	0	9	0	0
Rifas: goods and services		127	101	0	0
TOTAL	3	3 234	7 254	994	238
Associated companies					
Keila Kaabel: goods and services		1 840	2 007	293	401
Saajos Balti: goods and services		2 271	4 021	779	447
TOTAL	3	4 111	6 028	1 072	848

Remunerations for members of the Supervisory Board and the Management Board

In 2004 a total of 3 722 thousand kroons (2003: 3 255 thousand kroons) was paid as remunerations and wages to members of the Supervisory Board and the Management Board of AS Harju Elekter. The expiry or preliminary termination of a service contract concluded with any member of the Supervisory Board or the Management Board does not involve an obligation to pay him/her any compensation.

Note 30 Management of financial risks**Fair value**

The fair values of cash, receivables, loans and liabilities do not differ substantially from their accounting value because their interest rates are close to current market interest rates. The fluctuation in the market price of PKC Group Oyj shares may substantially affect the economic results of Harju Elekter.

Currency risk

The activities of the Group are carried out in Estonia (currency: EEK), Finland (currency: EUR) and Lithuania (currency: LTL). The Lithuanian lit was linked to the euro in 2002.

In order to manage currency risks The Group concludes all major foreign contracts in euros. The Group has no substantial claims and liabilities in a foreign currency which are not linked to the euro. All the existing long-term loans and financial lease contracts (Note 15) are concluded in euros or in

Note 30 (continuation)

the local currency of the company belonging in the Group and therefore they are treated as currency risk free liabilities.

Exports constitute 14,9% of the turnover of the AS Harju Elekter Group, incl. sales outside of the European Union account for 0,8%. The most important sales currencies are EEK (Estonian kroon), EUR (euro) and LTL (Lithuanian lit). Sales in US dollars constituted 0,6% of the Group's turnover. The group buys the overwhelming part of the necessary materials and products on the domestic market or from other member states of the European Union. The euro is the main currency used for imports. Sales currency received is used, as much as possible, to pay for liabilities in the same currency.

Consequently, the Group is not greatly jeopardised by currency risks and, therefore, the Group does not use special instruments to manage currency risks. Information about the profits and losses related to currency exchange rates is presented in Note 25.

Credit risk

The credit risk shows the potential loss which may occur if trading partners involved cannot fulfil their contractual obligations. As of the balance sheet date the companies of the Group did not know of any major risks related to the accounts receivable, which amounted to 42 thousand kroons, which were evaluated as unlikely to be received (Note 2). In order to reduce credit risks the payment record of customers and their ability to fulfil their commitments is under constant observation. According to the assessment of the management of the Group the Group does not have substantial credit risks.

Interest rate risk

The interest rate risk of the Group is, first of all, subject to possible changes in the Euribor (Euro Interbank Offered Rate) because all the loans (Note 15) taken by the Group are linked to the Euribor. The dates for reviewing the interest on different loans on the basis of changes in the Euribor are the following:

the loan amounting to 806 452 euros: each year on 28 February and 30 July;
the loan amounting to 338 380 euros: each year on 13 January, 13 April, 13 July, 13 October;
the loan amounting to 29 465 euros with the last payment date of 16 March 2005: each year on 14 March, 14 June, 14 September and 14 December.

The interest rate risk also depends on the economic situation in the country of registration of a company belonging in the Group and the changes in the average interest rates of banks. The Group is facing a cash flow risk related to the changes in interest rates because most of the loans taken have changing interest rates. According to the estimates of the Management the cash flow risk is not very high. Therefore the Group does not use special instruments to manage those risks. Information concerning interest charges is presented in Note 25.

Note 31 Post-balance events*Establishment of a subsidiary*

In order to improve the management structure of the Group and specify its rights and duties, as well as to organise its accounting and economic analysis, a 100% subsidiary of Harju Eleker on the basis of the Electrical Equipment Factory will be established. The new company will start independent economic activities on 1 April. The financial year of the company starts on 1 January and ends on 31 December.

The share capital of the subsidiary is 16 million kroons which is divided into 1.6 million shares with a nominal value of 10 kroons. The payment for shares is carried out by monetary payments to the bank account of the company to be established. The Supervisory Board of the company has four members – the Chairman, Endel Palla and the members, Andres Allikmäe, Karin Padjus and Lembit Libe. The Management Board of the company has one member. The present Director of the Electrical Equipment Factory, Ülo Merisalu, will be appointed as the head of the new company. Ülo Merisalu will be moved from the Management Board of AS Harju Elekter in connection with him being transferred to the position of the head of the subsidiary company. All current employees of the Electrical Equipment Factory will be transferred to the newly established subsidiary on the basis of their current employment contracts. Currently the Electrical Equipment Factory employs 149 people.

Organisation of bonus issue

The Management Board makes a proposal to the general meeting to organise a bonus issue. During the bonus issue 11.2 million new shares will be distributed in the manner that for each existing share 2 new shares will be received. New shares carry a right to dividends on the results of the financial year, 2005. After the bonus issue the number of shares of ASi Harju Elekter will increase up to 16.8 million and the share capital will be 168 million kroons (Note 23).

SIGNATURES OF THE MANAGEMENT BOARD'S MEMBERS TO THE 2004 ANNUAL REPORT

The management has prepared the year 2004 management report and annual accounts of AS Harju Elekter and of the concern and the proposal for the distribution of profits.

Andres Allikmäe	Chairman of the Board	„ 04. „, March 2005
Lembit Libe	Chairman of the Board	„ 04. „, March 2005
Ülo Merisalu	Chairman of the Board	„ 04. „, March 2005
Karin Padjus	Chairman of the Board	„ 04. „, March 2005



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Auditor's report

To the shareholders of AS Harju Elekter

(Translation from Estonian)

We have audited the accompanying unconsolidated financial statements of AS Harju Elekter (the "Parent Company") as of 31 December 2004. We have also audited the accompanying consolidated financial statements of AS Harju Elekter Group (the "Group") as of 31 December 2004. 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 25 to 63, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of the Parent Company and the consolidated financial statements of the Group based on our audits.

We conducted our audit in accordance with International Standards on Auditing. Those Standards 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 the Parent Company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

The Group

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tallinn, 4 March 2005

KPMG Estonia AS

(signature)

Andris Jegers
Authorised Public Accountant

(signature)

Indrek Alliksaar
Authorised Public Accountant

PROPOSAL FOR PROFIT DISTRIBUTION

(kroons)

Retained profits of AS Harju Elekter is:

Profit brought forward	305 012 208
Net profit for 2004	145 365 219

Total profits available for distribution as of 31.12.2004: 450 377 427

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

Dividends (4,40 kroons per share) 24 640 000

Balance carried forward after profit distribution 425 737 427

Andres Allikmäe Chairman of the Board „ 04. „, March 2005

Lembit Libe Chairman of the Board „ 04. „, March 2005

Ülo Merisalu Chairman of the Board „ 04. „, March 2005

Karin Padjus Chairman of the Board „ 04. „, March 2005