

Shareholders and Board of Directors  
Preformed Line Products Company

We have audited the accompanying consolidated balance sheets of Preformed Line Products Company and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Preformed Line Products Company and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Cleveland, Ohio  
February 12, 2001

*Ernst + Young LLP*

## SUMMARY

Thousands of dollars, except per share data

	2000	1999	1998	1997	1996
<b>NET SALES AND INCOME</b>					
Net sales	\$207,332	\$195,245	\$216,244	\$204,644	\$184,778
Income before income taxes	17,135	14,729	28,464	27,060	22,340
Net income	11,051	10,201	19,006	17,796	15,245
Net income to net sales	5.3%	5.2%	8.8%	8.7%	8.3%
<b>PER SHARE AMOUNTS</b>					
Net income	\$1.91	\$1.71	\$3.10	\$2.90	\$2.48
Dividends declared	0.60	0.60	0.575	0.50	0.485
Shareholders' equity	21.47	20.45	19.91	17.78	15.88
<b>OTHER FINANCIAL INFORMATION</b>					
Current assets	\$ 89,106	\$ 86,089	\$ 84,250	\$ 75,217	\$ 65,610
Current liabilities	26,551	25,181	24,002	21,711	20,961
Working capital	62,555	60,908	60,248	53,506	44,649
Long-term debt	20,160	14,507	11,110	13,077	15,102
Shareholders' equity	123,856	119,194	121,776	109,079	97,388
Property, plant and equipment – net	58,743	53,999	51,595	46,259	41,908
Capital additions – net	14,388	13,136	14,980	11,573	7,914
Depreciation	8,355	7,984	7,521	5,739	5,249
Average number of shares outstanding (in thousands)	5,790	5,975	6,125	6,133	6,149

Consolidated

BALANCE SHEETS

Thousands of dollars, except per share data

	December 31	
	2000	1999
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,470	\$ 6,907
Accounts receivable, less allowance of \$910 (\$690 in 1999)	31,542	29,672
Inventories		
Finished products	17,882	19,317
Work-in-process	1,592	2,223
Raw materials	24,174	24,068
	43,648	45,608
Other	4,446	3,902
<b>TOTAL CURRENT ASSETS</b>	<b>89,106</b>	<b>86,089</b>
<b>PROPERTY AND EQUIPMENT – at cost</b>		
Land and improvements	6,623	5,989
Buildings and improvements	36,070	32,168
Machinery and equipment	73,171	66,967
Construction in progress	5,560	5,873
Total property and equipment – at cost	121,424	110,997
Less allowances for depreciation and amortization	62,681	56,998
Property and equipment – net	58,743	53,999
<b>INVESTMENTS AND OTHER ASSETS</b>		
Investments in foreign joint ventures	10,148	9,235
Goodwill	3,517	4,556
Patents and other intangibles	4,560	1,342
Other	4,537	4,443
Total investments and other assets	22,762	19,576
	<b>\$170,611</b>	<b>\$159,664</b>

See notes to consolidated financial statements.

Thousands of dollars, except per share data

	December 31	
	2000	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Notes payable to banks	\$ 1,704	\$ 2,989
Trade accounts payable	10,289	8,114
Accrued compensation and amounts withheld from employees	3,292	3,237
Accrued expenses and other liabilities	4,762	4,256
Profit-sharing and pension contributions	2,811	2,343
Dividends	865	874
Income taxes	2,283	2,113
Current portion of long-term debt	545	1,255
<b>TOTAL CURRENT LIABILITIES</b>	<b>26,551</b>	<b>25,181</b>
<b>LONG-TERM DEBT, less current portion</b>	<b>20,160</b>	<b>14,507</b>
<b>MINORITY INTEREST</b>	<b>44</b>	<b>782</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock - \$2 par value, authorized – 15,000,000 shares: Issued and outstanding - 5,768,086 shares in 2000 and 5,829,308 shares in 1999	11,536	11,659
Retained earnings	127,994	121,223
Accumulated foreign currency translation adjustment	(15,674)	(13,688)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>123,856</b>	<b>119,194</b>
	<b>\$170,611</b>	<b>\$159,664</b>

See notes to consolidated financial statements.

## I N C O M E

Thousands of dollars, except per share data

	Year ended December 31	
	2000	1999
Net sales	\$207,332	\$195,245
Cost of products sold	138,340	131,615
<b>GROSS PROFIT</b>	<b>68,992</b>	63,630
Costs and expenses		
Selling	25,578	25,030
General and administrative	20,335	20,343
Research and engineering	5,709	5,514
	<u>51,622</u>	<u>50,887</u>
<b>OPERATING INCOME</b>	<b>17,370</b>	12,743
Other income (expense)		
Equity in net income of foreign joint ventures	335	928
Interest income	682	713
Interest expense	(1,608)	(1,067)
Other income – net (Note G)	356	1,412
	<u>(235)</u>	<u>1,986</u>
<b>INCOME BEFORE INCOME TAXES</b>	<b>17,135</b>	14,729
Income taxes	6,084	4,528
<b>NET INCOME</b>	<b>\$ 11,051</b>	<b>\$ 10,201</b>
Net income per share – basic and diluted	<u>\$1.91</u>	<u>\$1.71</u>
Average number of shares outstanding (in thousands)	<u>5,790</u>	<u>5,975</u>

See notes to consolidated financial statements.

## S H A R E H O L D E R S ' E Q U I T Y

Thousands of dollars, except per share data

	Common Stock	Retained Earnings	Accumulated Foreign Currency Translation Adjustment	Total
<b>BALANCE AT JANUARY 1, 1999</b>	\$12,235	\$119,506	\$ (9,965)	\$121,776
Net income for the year		10,201		10,201
Foreign currency translation adjustment - net			(3,723)	(3,723)
Total comprehensive income for the year				6,478
Purchase of 288,018 treasury shares	(576)	(4,906)		(5,482)
Cash dividends declared -\$.60 per share		(3,578)		(3,578)
<b>BALANCE AT DECEMBER 31, 1999</b>	11,659	121,223	(13,688)	119,194
Net income for the year		11,051		11,051
Foreign currency translation adjustment - net			(1,986)	(1,986)
Total comprehensive income for the year				9,065
Purchase of 61,222 treasury shares	(123)	(812)		(935)
Cash dividends declared -\$.60 per share		(3,468)		(3,468)
<b>BALANCE AT DECEMBER 31, 2000</b>	<u>\$11,536</u>	<u>\$127,994</u>	<u>\$(15,674)</u>	<u>\$123,856</u>

See notes to consolidated financial statements.

## CASH FLOWS

Thousands of dollars

	Year ended December 31	
	2000	1999
<b>OPERATING ACTIVITIES</b>		
Net income	\$11,051	\$10,201
Adjustment to reconcile net income to net cash provided by operations		
Depreciation and amortization	11,411	9,786
Deferred income taxes	(838)	325
Equity in earnings of joint ventures – net of dividends received	(103)	309
Loss on sale of property and equipment	44	1,034
Changes in operating assets and liabilities		
Accounts receivable	(1,870)	589
Inventories	561	(5,064)
Trade payables and accrued expenses	2,681	(959)
Income taxes	304	166
Other	(1,022)	(67)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>22,219</b>	<b>16,320</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(14,388)	(13,136)
Business acquisitions	(5,724)	–
Proceeds from the sale of property and equipment	1,887	79
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(18,225)</b>	<b>(13,057)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	24,443	20,584
Payments of long-term debt	(20,140)	(16,190)
Dividends paid	(3,479)	(3,622)
Purchase of treasury stock	(935)	(5,482)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(111)</b>	<b>(4,710)</b>
Effects of exchange rate changes on cash and cash equivalents	(1,320)	(2,121)
Increase (decrease) in cash and cash equivalents	2,563	(3,568)
Cash and cash equivalents at beginning of year	6,907	10,475
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 9,470</b>	<b>\$ 6,907</b>

See notes to consolidated financial statements.

## FINANCIAL STATEMENTS

Thousands of dollars, except per share data

## NOTE A SIGNIFICANT ACCOUNTING POLICIES

On June 10, 1998 the Company distributed a two-for-one stock split effected in the form of a 100% stock dividend. Accordingly, all per share amounts and average shares outstanding used in the calculation of per share amounts have been adjusted retroactively to reflect the stock split.

**Consolidation.** The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation. Investments in joint ventures are accounted for by the equity method.

**Cash Equivalents.** Cash equivalents are stated at fair value and consist of highly liquid investments with remaining maturities of three months or less at the time of acquisition.

**Inventories.** Inventories are carried at the lower of cost or market. The Company uses the last-in, first-out (LIFO) method of determining the cost for the majority (approximately \$21.1 million in 2000 and \$23.2 million in 1999) of its inventories in the United States. All other inventory costs are determined by the FIFO method. Had the cost of all inventories been determined by the FIFO method (which approximates current cost), the amounts thereof would have been greater by \$2.3 million in 2000 and \$2.2 million in 1999.

**Depreciation and Amortization.** Depreciation for the majority of the Company's assets is computed using accelerated methods over the estimated useful lives. Goodwill is amortized by the straight-line method over a period from ten to twenty years. Patents and other intangible assets primarily represent the value assigned to patents acquired with purchased businesses and are amortized using the straight-line method over their useful lives. Goodwill and other long-lived assets are evaluated periodically to determine that their fair value is greater than their recorded value.

**Accumulated Foreign Currency Translation Adjustment.** Asset and liability accounts are translated into U.S. dollars using exchange rates in effect at the date of the consolidated balance sheet; revenues and expenses are translated at weighted average exchange rates in effect during the period. Translation gains and losses arising from exchange rate changes on transactions denominated in a currency other than the functional currency are included in income or expense as incurred. Unrealized translation adjustments are recorded as accumulated foreign currency translation adjustment in shareholders' equity.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates.

**Revenue Recognition.** Revenue is recognized when products are shipped to unaffiliated customers.

**Reclassifications.** Certain amounts in the 1999 financial statements have been reclassified to conform to the presentation in 2000.

**Acquisitions.** During 2000, the Company acquired assets and assumed certain liabilities of Rack Technologies Pty. Limited whose results of operations are included in the consolidated financial statements from the date of acquisition. Rack Technologies Pty. Limited has two foreign locations and one domestic location. The Company accounted for this acquisition using the purchase method. The initial cash payment for this acquisition was \$5.3 million. Further consideration will be based on the acquired company's profitability through 2001 and additional payments will be recorded as goodwill. In addition during 2000, the Company acquired the remaining twenty percent minority interest in its subsidiary in the People's Republic of China for \$4 million.

## NOTE B SEGMENT REPORTING

Preformed Line Products designs, manufactures and sells hardware employed in the construction and maintenance of telecommunications, energy and other utility networks. Principal products include cable anchoring and control hardware, splice enclosures and devices which are sold primarily to customers in North and South America, Europe and Asia.

The Company's segments are based on the way management aggregates business units for making operating decisions and assessing performance. The Company's reportable operating segments are domestic and foreign operations. The accounting policies of the operating segments are the same as those described in Note A.

	2000	1999
Net sales		
Domestic	\$130,779	\$126,756
Foreign	82,563	72,694
Eliminations	(6,010)	(4,205)
Total net sales	<u>\$207,332</u>	<u>\$195,245</u>
Operating income		
Domestic	\$4,801	\$ 1,707
Foreign	12,569	11,036
	17,370	12,743
Equity in net income of joint ventures	335	928
Interest income	682	713
Interest expense	(1,608)	(1,067)
Other income – net	356	1,412
Income before income taxes	<u>\$ 17,135</u>	<u>\$ 14,729</u>
Identifiable assets		
Domestic	\$ 97,905	\$ 98,654
Foreign	62,558	51,775
	160,463	150,429
Corporate	10,148	9,235
Total assets	<u>\$170,611</u>	<u>\$159,664</u>
Long-lived assets		
Domestic	\$ 37,394	\$ 33,842
Foreign	21,349	20,157
	<u>\$ 58,743</u>	<u>\$ 53,999</u>

Transfers between geographic areas are generally above cost and consistent with rules and regulations of governing tax authorities. Corporate assets are equity investments in joint ventures.

## NOTE C PENSIONS

Hourly employees of the Company and certain employees of foreign subsidiaries who meet specific requirements as to age and service are covered by pension plans. Net periodic benefit cost for the Company's domestic plan included the following components:

	2000	1999
Service cost	\$ 487	\$ 568
Interest cost	530	498
Expected return on plan assets	(569)	(516)
Amortization of the unrecognized transition asset	13	13
Net periodic benefit cost	<u>\$ 461</u>	<u>\$ 563</u>

The following table sets forth benefit obligations, assets and the prepaid (accrued) benefit cost of the Company's domestic defined benefit plan at December 31:

	2000	1999
Projected benefit obligation at beginning of the year	\$ 6,967	\$ 7,112
Service cost	487	568
Interest cost	530	498
Actuarial loss (gain)	314	(1,097)
Curtailement	(121)	–
Benefits paid	(141)	(114)
Projected benefit obligation at end of the year	<u>\$ 8,036</u>	<u>\$ 6,967</u>
Fair value of plan assets at beginning of the year	\$ 7,445	\$ 7,192
Actual return on plan assets	197	(96)
Employer contributions	–	463
Benefits paid	(141)	(114)
Fair value of plan assets at end of the year	<u>\$ 7,501</u>	<u>\$ 7,445</u>
Plan assets in excess of (less than) benefit obligations	\$ (535)	\$ 478
Unamortized:		
Net loss (gain)	387	(257)
Transition asset	25	38
Prepaid (accrued) benefit cost	<u>\$ (123)</u>	<u>\$ 259</u>

In determining the projected benefit obligation at each December 31 and the net periodic benefit cost for the year then ended, the assumed discount rate was 7.5% for 2000 and 1999, the rate of increase in future compensation levels was 4.0% for 2000 and 1999, and the expected long-term rate of return on plan assets was 7.5% in 2000 and 7.0% in 1999.

The Company's policy is to fund amounts deductible for federal income tax purposes. Expense for defined contribution plans was \$2.5 million in 2000 and 1999.

## NOTE D LONG-TERM DEBT

Long-term debt consists of:

	December 31	
	2000	1999
Revolving credit agreement	\$ 17,400	\$ 12,500
Other notes payable	3,305	3,262
	<u>20,705</u>	<u>15,762</u>
Less current portion	545	1,255
Total long-term debt	<u>\$ 20,160</u>	<u>\$ 14,507</u>

The revolving credit agreement makes \$40 million available through December 31, 2002 at an interest rate at the lower of the lender's prime rate, 1/2% above the London interbank rate (LIBOR) or the lender's cost of funds plus 1/2%. The effective interest rate at December 31, 2000 was 7.125%. The revolving credit agreement contains, among other provisions, requirements for maintaining levels of working capital and net worth. Under the most restrictive of these covenants approximately \$54.5 million of net worth (exclusive of accumulated foreign currency translation adjustment) was available for payment of dividends as of December 31, 2000.

Aggregate maturities of long-term debt during the next five years are as follows: 2001, \$.5 million; 2002, \$18.8 million; 2003, \$.4 million; 2004, \$.5 million and 2005, \$.5million.

Interest paid was \$1.6 million in 2000 and \$1.1 million in 1999.

The fair value of long-term debt approximates the amounts recorded.

## NOTE E INCOME TAXES

The provision for income taxes is as follows:

	2000	1999
Federal & foreign		
Current	\$ 6,415	\$ 3,213
Deferred	(838)	325
State and local	507	990
Total income taxes	<u>\$ 6,084</u>	<u>\$ 4,528</u>

The effective income tax rate differs from the statutory rate, principally, due to state and local taxes, foreign tax credits, and low income housing credits.

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets arise primarily from allowance reserves and other accruals which do not meet the criteria for deduction from taxable income until a future period, while deferred tax liabilities arise principally from differences in depreciation methods and lives.

The Company's deferred tax assets and liabilities at December 31 are set forth below:

	2000	1999
Deferred tax assets	\$ 3,824	\$ 3,120
Deferred tax liabilities	487	621
Net deferred tax assets	<u>\$ 3,337</u>	<u>\$ 2,499</u>

The Company has not provided for income taxes on approximately \$46 million of undistributed earnings of foreign subsidiaries and joint ventures. The Company intends to reinvest these earnings indefinitely in operations outside the United States. If distributed, such earnings would be subject to withholding taxes but substantially free of United States income taxes.

Income taxes paid, net of refunds, in 2000 were \$6.2 million and \$4.8 million in 1999.

## NOTE F STOCK OPTIONS

The 1999 Stock Option Plan (Plan) provides for granting of 300,000 options to key employees to buy common shares of the Company at not less than fair market value of the shares on the date of grant. Under the Plan, options vest 50% one year following the date of the grant, 75% after two years, 100% after three years and expire from five to ten years from the date of grant.

In 2000, 155,000 options were granted at exercise prices of \$15.125 and \$16.638 per share. All options were outstanding as of December 31, 2000 and no options were exercisable as of December 31, 2000.

As permitted under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company applies the intrinsic value based method disclosed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, to account for stock options granted to employees to purchase common shares. Under this method, compensation expense is measured as the excess, if any, of the market price at the date of grant over the exercise price of the options. Therefore, no compensation expense has been recorded.

SFAS 123 requires pro forma disclosure of the effect on net income and earnings per share when applying the fair value method of valuing stock-based compensation. If the fair value method to measure compensation cost for the Company's stock compensation plan had been used, the Company's net income would have been reduced by \$.5 million in 2000 (\$.09 per share). For purposes of this pro forma disclosure, the estimated fair value of the options is amortized ratably over the vesting period.

Disclosures under the fair value method are estimated using the Black-Scholes option- pricing model with the following assumptions:

Risk-free interest rate	5.88%
Dividend yield	3.97%
Expected life	5 years
Expected volatility	25.6%

## NOTE G OTHER INCOME – NET

Included in other income – net is a write down of \$.9 million for the Company's investment in a partnership to its current estimated value. The write down of this partnership investment is included as part of depreciation and amortization in the Statements of Consolidated Cash Flows for 2000.