

Thousands of dollars, except per share data

Years ended December 31	1999	1998	1997	1996	1995
NET SALES AND INCOME					
Net sales	\$ 195,245	\$216,244	\$204,644	\$184,778	\$154,558
Income before income taxes	14,729	28,464	27,060	22,340	15,399
Net income	10,201	19,006	17,796	15,245	10,083
Net income to net sales	5.2%	8.8%	8.7%	8.3%	6.5%
PER SHARE AMOUNTS					
Net income	1.71	3.10	2.90	2.48	1.63
Dividends declared	0.600	0.575	0.500	0.485	0.440
Shareholders' equity	20.45	19.91	17.78	15.88	14.20
OTHER FINANCIAL INFORMATION					
Current assets	\$ 86,089	\$ 84,250	\$ 75,217	\$ 65,610	\$ 54,941
Current liabilities	25,181	24,002	21,711	20,961	17,350
Working capital	60,908	60,248	53,506	44,649	37,591
Long-term debt	14,507	11,110	13,077	15,102	16,645
Shareholders' equity	119,194	121,776	109,079	97,388	87,709
Property, plant and equipment - net	53,999	51,595	46,259	41,908	41,849
Capital additions - net	13,136	14,980	11,573	7,914	5,240
Depreciation	7,984	7,521	5,739	5,249	5,378
Average number (in thousands) of shares outstanding	5,975	6,125	6,133	6,149	6,178

Thousands of dollars, except per share data

December 31	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,907	\$ 10,475
Trade receivables, less allowance of \$690 (\$586 in 1998)	29,672	30,261
Inventories:		
Finished products	19,317	16,393
Work-in-process	2,223	1,661
Raw materials	24,068	22,490
Total Inventories	<u>45,608</u>	<u>40,544</u>
Other	3,902	2,970
TOTAL CURRENT ASSETS	86,089	84,250
PROPERTY AND EQUIPMENT - at cost		
Land and improvements	5,989	5,717
Buildings and improvements	32,168	32,733
Machinery and equipment	66,967	62,681
Construction in progress	5,873	4,119
Total Property and Equipment - at cost	<u>110,997</u>	<u>105,250</u>
Less allowances for depreciation and amortization	56,998	53,655
Property and Equipment - net	<u>53,999</u>	<u>51,595</u>
INVESTMENTS AND OTHER ASSETS		
Investments in foreign joint ventures	9,235	9,205
Goodwill	4,556	5,915
Patents and other intangibles	1,342	1,785
Other	4,443	4,967
Total Investments and Other Assets	<u>19,576</u>	<u>21,872</u>
	<u>\$ 159,664</u>	<u>\$ 157,717</u>



December 31	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable to banks	\$ 2,608	\$ 2,052
Trade accounts payable	8,114	8,246
Accrued salaries, wages, and other compensation	3,237	3,365
Accrued expenses and other liabilities	4,637	5,083
Profit-sharing contributions	2,343	2,204
Dividends	874	918
Income taxes	2,113	1,959
Current portion of long-term debt	1,255	175
TOTAL CURRENT LIABILITIES	25,181	24,002
LONG-TERM DEBT , less current portion	14,507	11,110
MINORITY INTERESTS	782	829
SHAREHOLDERS' EQUITY		
Common stock - \$2 par value, authorized - 15,000,000 shares: Issued and outstanding - 5,829,308 shares in 1999 and 6,117,326 shares in 1998	11,659	12,235
Retained earnings	121,223	119,506
Accumulated foreign currency translation adjustment	(13,688)	(9,965)
TOTAL SHAREHOLDERS' EQUITY	119,194	121,776
	\$ 159,664	\$ 157,717

See notes to consolidated financial statements

Thousands of dollars, except per share data

Years ended December 31	<u>1999</u>	<u>1998</u>
Net sales	\$ 195,245	\$ 216,244
Cost of products sold	131,615	139,101
Gross profit	63,630	77,143
Expenses		
Selling	25,030	26,042
General and administrative	20,343	20,566
Research and engineering	5,514	5,542
Total expenses	50,887	52,150
Operating income	12,743	24,993
Other income (expense)		
Equity in net income of foreign joint ventures	928	771
Interest income	713	729
Interest expense	(1,067)	(988)
Other income - net	1,412	2,959
Total other income	1,986	3,471
Income before income taxes	14,729	28,464
Income taxes	4,528	9,458
Net income	\$ 10,201	\$ 19,006
Net income per share	\$ 1.71	\$ 3.10
Average number (in thousands) of shares outstanding	5,975	6,125

See notes to consolidated financial statements

Thousands of dollars, except per share data

	Common Stock	Retained Earnings	Accumulated Foreign Currency Translation Adjustment	Total
Balance at January 1, 1998	\$ 6,133	\$110,644	\$ (7,698)	\$109,079
Net income for the year		19,006		19,006
Foreign currency translation adjustment-net			(2,267)	(2,267)
Total comprehensive income for the year				16,739
Purchase of 15,922 treasury shares	(32)	(490)		(522)
Stock split effected as a dividend	6,134	(6,134)		
Cash dividends declared—\$.575 per share		(3,520)		(3,520)
Balance at December 31, 1998	<u>12,235</u>	<u>119,506</u>	<u>(9,965)</u>	<u>121,776</u>
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)
Balance at December 31, 1999	<u>\$11,659</u>	<u>\$121,223</u>	<u>\$(13,688)</u>	<u>\$119,194</u>

See notes to consolidated financial statements

Thousands of dollars

Years ended December 31	1999	1998
OPERATING ACTIVITIES		
Net income	\$10,201	\$19,006
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	9,786	8,754
Deferred income taxes	325	(1,650)
Equity in earnings of foreign joint ventures - net of dividends received	309	484
Loss (gain) on sale of property and equipment	1,034	(2,275)
Changes in operating assets and liabilities		
Trade receivables	589	(1,132)
Inventories	(5,064)	(6,743)
Trade payables and accrued expenses	(567)	(1,329)
Income taxes	154	1,959
Other	(1,086)	(720)
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,681	16,354
INVESTING ACTIVITIES		
Purchases of property and equipment	(13,136)	(14,980)
Proceeds from the sale of property and equipment	79	3,298
Other	—	(248)
NET CASH USED IN INVESTING ACTIVITIES	(13,057)	(11,930)
FINANCING ACTIVITIES		
Increase in notes payable to banks	556	1,668
Proceeds from issuance of long-term debt	4,645	3,716
Payments of long-term debt	(168)	(5,841)
Dividends paid	(3,622)	(3,369)
Purchase of treasury stock	(5,482)	(522)
NET CASH USED IN FINANCING ACTIVITIES	(4,071)	(4,348)
Effects of exchange rate changes on cash and cash equivalents	(2,121)	(741)
Decrease in cash and cash equivalents	(3,568)	(665)
Cash and cash equivalents at beginning of year	10,475	11,140
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,907	\$10,475

See notes to consolidated 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 inter-company 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 \$23.2 million in 1999 and \$21.1 million in 1998) 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 \$2.2 million in 1999 and 1998.

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, principally, over ten years. Patents and other intangible assets represent the value assigned to patents acquired with purchased businesses and are amortized using the straight-line method over their remaining useful lives. Goodwill and other long lived assets are evaluated periodically to determine that their fair value is greater than their recorded value.

COMPREHENSIVE INCOME

Foreign currency translation adjustments are the only element of other comprehensive income.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

REVENUE RECOGNITION

Revenue is recognized when products are shipped to unaffiliated customers.

> > **NOTE B** | **SEGMENT REPORTING**

Prefomed Line Products designs, manufactures and sells hardware employed in the construction and maintenance of telecommunications 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.

	<u>1999</u>	<u>1998</u>
Net Sales		
Domestic	\$142,343	\$161,781
Foreign	57,107	62,780
Eliminations	(4,205)	(8,317)
<i>Total Net Sales</i>	<u>\$195,245</u>	<u>\$216,244</u>
Operating Profit		
Domestic	\$ 4,653	\$ 15,820
Foreign	8,090	9,173
	12,743	24,993
Equity in net income of joint ventures	928	771
Interest income	713	729
Interest expense	(1,067)	(988)
Other income - net	1,412	2,959
<i>Income before income taxes</i>	<u>\$ 14,729</u>	<u>\$ 28,464</u>
Identifiable Assets		
Domestic	\$105,576	\$ 97,215
Foreign	44,853	51,297
	150,429	148,512
Corporate	9,235	9,205
<i>Total assets</i>	<u>\$159,664</u>	<u>\$157,717</u>
Long-lived Assets		
Domestic	\$ 35,491	\$ 33,302
Foreign	18,508	18,293
	<u>\$ 53,999</u>	<u>\$ 51,595</u>

Transfers between geographic areas are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers are eliminated in preparation of consolidated financial statements. 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:

	<u>1999</u>	<u>1998</u>
Service cost	\$ 568	\$ 520
Interest cost	498	435
Expected return on plan assets	(516)	(428)
Recognized losses	—	4
Amortization of the unrecognized transition asset	13	13
Net periodic benefit cost	<u>\$ 563</u>	<u>\$ 544</u>

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

	<u>1999</u>	<u>1998</u>
Projected benefit obligation at beginning of the year	\$ 7,112	\$ 6,242
Service cost	568	520
Interest cost	498	435
Actuarial gain	(1,097)	—
Benefits paid	114	85
Projected benefit obligation at end of the year	<u>\$ 6,967</u>	<u>\$ 7,112</u>
Fair value of plan assets at beginning of the year	\$ 7,192	\$ 5,840
Actual returns on plan assets	(96)	886
Employer contributions	463	551
Benefits paid	114	85
Fair value of plan assets at end of the year	<u>\$ 7,445</u>	<u>\$ 7,192</u>
Plan assets in excess of benefit obligations	\$ 478	\$ 80
Unamortized:		
Net (gain) loss	(257)	227
Transition asset	38	51
Prepaid benefit asset	<u>\$ 259</u>	<u>\$ 358</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% in 1999 and 7.0% in 1998, the rate of increase in future compensation levels was 4.0% in 1999 and 5.0% in 1998, and the expected long-term rate of return on plan assets was 7.0%.

The Company's policy is to fund amounts deductible for federal income tax purposes. Expense for defined contribution plans was \$2.5 million in 1999 and 1998.

> > **NOTE** **D** **LONG-TERM DEBT**

Long-term debt consists of:

	December 31	
	1999	1998
Revolving credit agreement	\$ 12,500	\$ 8,000
Other notes payable	3,262	3,285
	<u>15,762</u>	<u>11,285</u>
Less current portion	1,255	175
Total long-term debt	<u>\$ 14,507</u>	<u>\$ 11,110</u>

The revolving credit agreement makes \$40,000,000 available through December 31, 2001 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, 1999 was 6.0%. 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 \$61.2 million of retained earnings was available for payment of dividends as of December 31, 1999.

Aggregate maturities of long-term debt during the next five years are as follows: 2000, \$1.3 million; 2001, \$13.0 million; 2002, \$0.4 million; 2003, \$0.4 million and 2004, \$0.4 million.

Interest paid was \$1.1 million in 1999 and \$1.0 million in 1998.

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

> > **NOTE** **E** **INCOME TAXES**

The provision for income taxes is as follows:

	1999	1998
Federal and foreign		
Current	\$ 3,213	\$ 9,687
Deferred	325	(1,650)
State and local	990	1,421
Total income taxes	<u>\$ 4,528</u>	<u>\$ 9,458</u>

The effective income tax rate differs from the statutory rate, principally, due to state and local taxes, capital gains rates, net operating losses, low income housing and foreign tax 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 allowances 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 has foreign tax credits (approximately \$0.4 million) which are available to reduce future income taxes should certain conditions be met.

For financial reporting purposes a valuation allowance was recorded in 1998 to offset the related deferred tax assets, due to the uncertainty of realizing the benefit of the carryforwards, which reflected management's estimate of their net realizable value. Such amounts were realized in 1999.

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

	1999	1998
Deferred tax assets	\$ 3,120	\$ 3,499
Valuation allowances	—	(580)
Deferred tax liabilities	621	95
Net deferred tax assets	<u>\$ 2,499</u>	<u>\$ 2,824</u>

The Company has not provided for income taxes on the undistributed earnings of foreign subsidiaries and joint ventures (approximately \$35 million) at December 31, 1999, since these earnings are considered to be reinvested for an indefinite period of time. 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 1999 were \$4.8 million and \$10.1 million in 1998.



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, 1999 and 1998, 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, 1999 and 1998, 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.

Ernst & Young LLP

Cleveland, Ohio
March 3, 2000