



AS HARJU ELEKTER

Interim report 1-9/2016

Business name	AS Harju Elekter
Main business area:	production of electrical distribution systems and control panels; production of sheet metal products; wholesale and mediation of goods, retail of light fittings and electrical appliances; real estate holding; management assistance and services
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Auditor:	KPMG Baltics OÜ
Beginning of the reporting period:	1 st of January 2016
End of the reporting period:	30 st of September 2016

The interim report of Harju Elekter Group on 25 pages

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EXPLANATORY NOTE

Group structure and changes on it

In interim report for 1-9/2016 the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Rifas UAB and Automatikos Iranga UAB are consolidated line-by-line. AS Harju Elekter still has a holding of 90% in Harju Elekter AB; however, the activity of the company has been suspended as of 01 April 2014.

As of 30 September 2016, AS Harju Elekter has substantial holdings as follows:

Company		Country	30.9.16	31.12.15	30.9.15
AS Harju Elekter Teletehnika	subsidiary	Estonia	100.0%	100.0%	100.0%
AS Harju Elekter Elektrotehnika	subsidiary	Estonia	100.0%	100.0%	100.0%
Satmatic Oy	subsidiary	Finland	100.0%	100.0%	100.0%
Finnkumu Oy	Satmatic Oy`s subsidiary	Finland	100.0%	100.0%	100.0%
Rifas UAB	subsidiary	Lithuania	100.0%	100.0%	100.0%
Automatikos Iranga UAB	Rifas UAB`s subsidiary	Lithuania	51.0%	51.0%	51.0%
Harju Elekter AB	subsidiary	Sweden	90.0%	90.0%	90.0%
Skeleton Technologies Group OÜ	financial investment	Estonia	9.8%	10.0%	10.0%
SIA Energokomplekss	financial investment	Latvia	14.0%	14.0%	14.0%
PKC Group Oyj	financial investment	Finland	4.6%	4.6%	4.6%

The shares of PKC Group Oyj are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners' equity in the Group.

Economic environment

The global economy remains unstable, and the economic recovery in different countries and regions is slow and uneven. Geopolitical tensions are setting the tone; uncertainty towards the future of the European Union has increased. Growth of the global economy is supported by the United States and China. While in the United States, growth should accelerate in the next year, then in China, the controlled slowdown of growth will continue. The euro zone economy is expected to have moderate cyclical growth, driven by domestic demand.

Regardless of the overall modest economic growth of European countries, Estonia seems to be doing pretty well – experiencing stable, although somewhat low, economic growth and rising real wages. Stability has great value in complicated times, but the downsides are a low increase in production, continuous marginalisation of border regions, and an ageing population. The Estonian economy is small and highly dependent on the development of foreign trade. On a positive note, the economic situation of Finland, Estonia's most important export partner, has clearly improved and the economic development of Norway, with rapid inflation and rising real estate prices, has also been better than expected. Also, Sweden's economy still seems to be doing well, considering the overall background. In summary, the moderate growth outlook for Estonia's main trade partners – the Nordic countries (40% of Estonian exports in goods) and the euro zone countries – has remained stable in spite of the global risks.

According to Nordea's economic forecast published in September, the economic growth of Estonia, mainly driven by domestic demand, has been in line with the relatively positive situation on the labour market, and managed to surprise us this time with positive net migration. A positive surprise was the increased export of goods; however, according to analysts, the more general recovery of exports takes more time and is smoother compared to earlier upward phases. In addition, the global demand for goods and commodities most likely will not meet expectations, with the increasing share of services in

economic growth and geopolitical instability playing an important role here. The estimated economic growth of Estonia for 2016 is 1.7% and 2.4% for 2017. The expected economic growth for neighboring Latvia is 3.2% this year and 3.6% next year, and the growth outlook for the Lithuanian economy is 2.7% this year and 3.1% next year. The IMF expects economic growth of 0.9% this year and 1.1% next year for Finland. According to the Ministry of Finance of Sweden, the country's economy will grow 3.7% in 2016 and 2.2% in 2017.

Main events and post-balance events

Swiss CEAMS-CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award. AS Harju Elekter was recognised as the best listed company in Estonia while being the third in the overall Baltic assessment. It was recognised thanks to a significant improvement compared to the previous year, which was possible thanks to the continued expansion in Northern Europe, conservative balance sheet, management as well as a stable and experienced management team. Positive recognition was awarded also to the Group's Finnish company Oy Finnkumu, who reached high, 2nd ranking on the list of the Entrepreneurs of South Ostrobothnia.

On 14 October 2016, AS Harju Elekter bought the real estate company Kiinteistö Oy Uutvallinkulma. Following the transaction, it will bear the name of Harju Elekter Kiinteistö Oy. The contract price was 518,000 euros. To date, the acquired company has been leasing 2,470 m² of production premises to the Group's Finnish company, Finnkulmu Oy, and in the immediate future the production premises used by Satmatic Oy at Kerava and Ulvila, totalling 5,185 m², will also be consolidated under the acquired real estate company. This activity is consistent with the policy of the Group, whereby any production premises used by companies in the Group are owned by the Group.

On 21 October 2016, in Allika Industrial Park, located on the city limits of Tallinn, the cornerstone was laid for two important buildings: the production and storage facilities of HE and the production and storage building of Stera Technologies Oy, the commercial producer of mechanical and electromechanical devices and components. Prior to that, in April 2016, a preliminary contract was concluded with Stera Technologies Oy for the construction and subsequent leasing of production facilities for the company and procurement conducted to identify a project manager, with construction company Rand and Tuulberg AS qualifying. The investment volume is 8.2 million euros, which will be covered from own funds and a bank loan. For this purpose, loan agreements in a total amount of 7 million euros, was signed with Swedbank AS. In total, 12,700 m² of floor area for various purposes will be constructed. First stage will be ready for delivery to the tenants in the first half of 2017.

AS Harju Elekter granted a loan of 660,000 euros to Skeleton Technologies OÜ. In Q3, an additional round of funding and involvement of investors was arranged and the loan was converted into the share capital of Skeleton Technologies OÜ. The respective entry in the Commercial Register was made on 24 August 2016.

On 28 April 2016, the AGM of shareholders of AS Harju Elekter was held; it approved the 2015 annual report and distribution of profit as well as the decision to pay the shareholders a dividend of 0.05 euros per share, or a total of 887,000 euros, for 2015. In addition, the AGM decided to introduce a no par value share and approved the new version of the articles of association of AS Harju Elekter. By virtue of the decision of the AGM, the share capital of AS Harju Elekter will be reduced by 1,242,000 euros, to 11,176,124.40 euros, by means of a reduction of the book value of the shares. The reduction of share capital was entered in the Commercial Register on 18 October 2016 and disbursements to the shareholders will be made in amount of 0.07 euros per share after the three-month term, stipulated by law, has passed as of the registering of the reduction of share capital in the Commercial Register, i.e. on 20 January 2017. The list of shareholders eligible to receive dividends as well as those participating in the reduction of share capital was fixed as at 23.59 on 13 May 2016. Dividends were transferred to the shareholders' bank accounts on 17 May 2016.

At its 5 April 2016 meeting, the Supervisory Board of AS Harju Elekter decided to merge the metal factories of the Group's Estonian subsidiaries, consolidating the sheet metal processing resources, capability and know-how of the entire Group into AS Harju Elekter Teletehnika. The outcome of

restructuring is significant economy in terms of manufacturing as well as labour costs. After the changes, AS Harju Elekter Teletehnika will focus on the manufacturing of sheet metal products and details for the electrical engineering and telecommunications sector, while also maintaining the production line for telecommunications products and fibre-optic cables. By the end of Q3, 30 September, the distribution of assets of factories as well as transfer of employees has been completed.

The annual general meeting of the shareholders of PKC Group Oyj, which gathered on 4 April 2016, decided to pay dividends in the amount of 0.70 euros per share. Dividends were transferred to the shareholders' bank accounts on 15 April 2016. AS Harju Elekter owns 1,094,641 shares. The dividend income of 766,000 euros is reflected in the profit of Q2 2016. The 15% income tax withheld from the dividends in Finland comprised 115,000 euros. PKC Group dividends added 651,000 euros to the cash flow from investment activities in Q2.

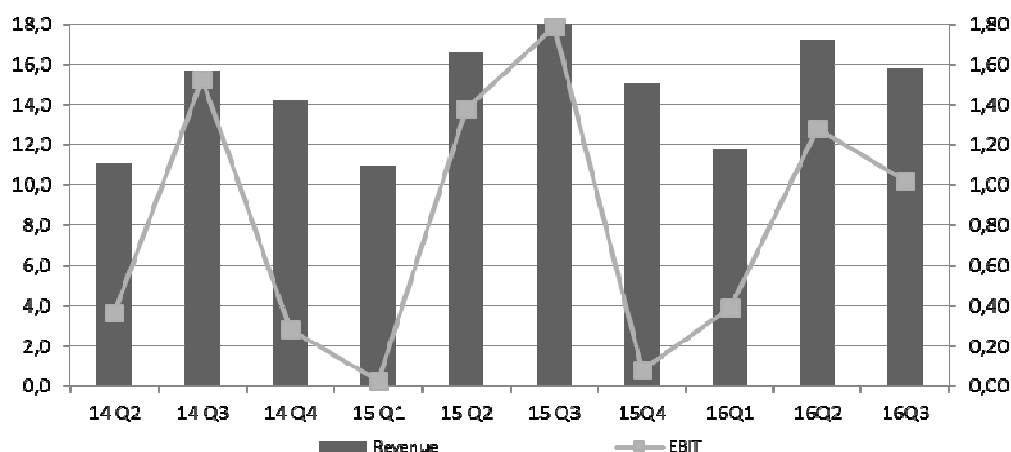
In February, our subsidiary Satmatic Oy in Finland and Finnkulmu Oy participated in the local trade fair Sähkö-Tele-Valo-AV, in Jyväskylä, and in October in the fair Energia 2016, in Tampere. In September, AS Harju Elekter Elektrotehnika presented its product range at the SLO autumn fair, and in April AS Harju Elekter Trade Group participated in the International Building Fair Estbuild, in Tallinn.

Operating results

KEY INDICATORS

	January – September			Year
	2016	2015	2014	2015
Revenue (EUR'000)	44,759	45,626	36,440	60,656
Gross profit (EUR'000)	7,852	8,220	6,858	10,299
EBITDA (EUR'000)	3,883	4,321	3,084	4,819
EBIT (EUR'000)	2,694	3,197	1,945	3,276
Profit for the period (EUR'000)	2,849	3,203	9,525	3,186
incl attributed to Owners of the Company (EUR'000)	2,850	3,199	9,463	3,190
Revenue growth/decrease (%)	-1.9	25.2	1.2	19.9
Gross profit growth/decrease (%)	-4.5	19.9	8.4	13.4
EBITDA growth/decrease (%)	-10.1	40.1	16.7	28.8
EBIT growth/decrease (%)	-15.7	64.4	27.1	47.0
Profit for the period growth/decrease (%)	-11.0	-66.4	95.3	-67.4
incl attributed to Owners of the Company (%)	-10.9	-66.2	95.7	-67.1
Distribution cost to revenue (%)	5.0	4.3	5.4	4.4
Administrative expenses to revenue (%)	6.6	6.8	7.9	7.2
Labour cost to revenue (%)	21.8	20.4	24.2	20.7
Gross margin (Gross profit/revenue) (%)	17.5	18.0	18.8	17.0
EBITDA margin (EBITDA/revenue) (%)	8.7	9.5	8.5	7.9
Operating margin (EBIT/revenue) (%)	6.0	7.0	5.3	5.4
Net margin (Profit for the period/revenue) (%)	6.4	7.0	26.1	5.3
ROE (Profit for the period/average equity) (%)	4.8	5.4	15.6	5.4

Seasonality of business (million euros)



SALES REVENUE

In the reporting quarter, the Group's consolidated revenue was 15.8 (Q3 2015: 18.1) million euros. During the reporting quarter, sales revenue decreased 12.7% or 2.3 million euros in relation to the comparison period.

The quarterly sales development by business area:

Business area	Q3 change y-o-y	Q3 2016	Q3 2015	Q3 2014	Year 2015
Electrical equipment	-16.1%	13,363	15,929	13,683	52,135
Sheet metal products and services	21.9%	256	210	171	843
Boxes for telecom sector and services	29.2%	376	291	303	1,108
Intermediary sale of electrical products and components	3.0%	975	947	878	3,686
Rental income	7.9%	559	518	533	2,073
Other services	35.2%	265	196	119	811
Total	-12.7%	15,794	18,091	15,687	60,656

In the reporting quarter the sale of electric equipment had decreased by 16.1% or 2,566 thousand euros in comparison with the comparison period and by 2.3% or 914 thousand euros in 9 months comparison, providing 85.6% of the sales revenue of the Group. In terms of other products and services, sales revenue in the reporting quarter has increased by 12.4%, being by 269 thousand euros more than in the comparable period.

The quarterly sales development by markets:

Markets	Growth		Q3	Q3	9 months		Share	Share
	Q/Q	9m/9m	2016	2015	2016	2015	2016	2015
Estonia	-27.0%	-12.7%	2,976	4,076	9,341	10,704	20.9%	23.5%
Finland	-8.2%	7.6%	10,859	11,828	30,802	28,617	68.8%	62.7%
Lithuania	66.7%	-44.9%	140	84	319	579	0.7%	1.3%
Sweden	68.3%	57.8%	520	309	1,554	985	3.5%	2.2%
Norway	-1.3%	-45.6%	1,275	1,291	1,746	3,211	3.9%	7.0%
Others	-95.3%	-34.9%	24	503	997	1,530	2.2%	3.3%
Total	12.7%	-1.9%	15,794	18,091	44,759	45,626	100.0%	100.0%

In 9m 2016, 79,1% (9m 2015: 76,5%) of the Group's products and services were sold in foreign markets, outside Estonia and in the reporting quarter 81,2% (Q3 2015: 77,5%). The Finnish market, which is the Group's largest, has grown by 7.6% or 2,185 thousand euros year-on-year. In the reporting quarter, 68.8% of the Group's products and services were sold on the Finnish market (Q3 2015: 65.4%). Sales revenue from the Swedish market has increased by 68.3% in the third quarter and 57.8% during the year. AS Harju Elekter Elektrotehnika, which is responsible for the Sweden-oriented business activity, has been quite active in 2015 as well as in 2016 in sales as well as product development work, in order to increase the sales volumes of the Group on the Swedish market.

The Group's sales revenue from the Norwegian market have decreased by 45.6% over the 9 month period due to a change in the ownership of the main client of the Lithuanian company, as a result of which sales orders have been deferred to the following periods.

In the first 9 months of 2016, the Group sold 20.9% of its products and services to the Estonian market (2015: 23.5%). Year on year, supply to the Estonian market decreased by 1.1 million euros or 12.7%. The decline was precipitated by the continued decline in investments in the energy distribution sector in Estonia.

The quarterly sales development by segments:

Segment	Growth %		1. July – 30. September			1. January – 30. September			Year 2015
	Q/Q	9m/9m	2016	2015	2014	2016	2015	2014	
Manufacturing	-14.3	-2.7	14,400	16,811	14,459	40,819	41,948	32,899	55,556
Real estate	8.1	7.0	599	554	565	1,847	1,727	1,787	2,353
Unallocated activities	9.5	7.3	795	726	663	2,093	1,951	1,754	2,747
Total	-12.7	-1.9	15,794	18,091	15,687	44,759	45,626	36,440	60,656

91,2% (Q3 2015: 92,9%) of revenue was earned from the Manufacturing segment, Real Estate and Unallocated activities contributed 8,8% (Q3 2015: 7.1%) of the consolidated sales volume.

OPERATING EXPENSES

	Growth %		1. July – 30. September			1. January – 30. September			Year 2015
	Q/Q	9m/9m	2016	2015	2014	2016	2015	2014	
Cost of sales	-10.1	-1.3	13,164	14,650	12,445	36,907	37,406	29,582	50,357
Distribution costs	14.7	13.0	704	614	680	2,216	1,961	1,976	2,657
Administrative expenses	-10.9	-3.8	922	1,035	966	2,973	3,088	2,865	4,337
Total expenses	-9.3	-0.8	14,790	16,299	14,091	42,096	42,455	34,423	57,351
incl. depreciation of fixed assets	-4.8	5.8	374	393	380	1,189	1,124	1,139	1,543
Total labour cost	24.8	10.5	3,758	3,011	3,042	9,778	9,291	8,819	12,555
incl. salary cost	10.9	2.4	2,722	2,454	2,361	7,430	7,256	6,692	9,695

Operating expenses decreased 9.3% in the reporting quarter and 0.8% in the nine months compared to the reference period. Cost of sales decreased 10.1% in the reporting quarter and 1.3% in nine months compared to the reference period.

Distribution costs increased by 14.7% in the reporting quarter and by 13% in 9m in relation to the comparison periods, the rate of distribution costs to revenue accounted for 5.0% (9m 2015: 4.3%). In the case of distribution costs, labour costs have increased the most, both due to structural changes in the companies as well as due to payment of additional remuneration.

Administrative expenses decreased by 10.9% in the reporting quarter and 3.8% in 9m in relation to the comparison periods, and the rate of administrative expenses to revenue accounted for 6.6%, having decreased by 0.2 percentage points.

EARNINGS AND MARGINS

In nine months the gross profit of the Group was 7,852 (9m 2015: 8,220) thousand euros. The gross profit margin was 17.5% (9m 2015: 18.0%). In Q3 the gross profit margin was 16.7% (Q3 2015: 19.0%). The price appreciation of metal has had a negative impact on the gross profit margin of the Group.

Another 58,000 euros was added in the third quarter to the one-off expense of 71,000 euros incurred in the second quarter upon the merger of the metal factories, totalling 129,000 euros. The merger of the metal factories has reached the finishing line in the reporting period. Failures in production, caused by the moving and readjustment of machinery and equipment, had been eliminated to a large extent by the end of the third quarter. Production failures resulted in temporary standstills in production; accordingly, there have been problems in compliance with the delivery deadlines, which in turn have influenced the sales revenue for the first 9 months as well as of the reporting quarter and also the operating profit.

The operating profit of the Group in the nine months was 2,694 (9m 2015: 3,197) thousand euros and the EBITDA was 3,883 (9m 2015: 4,321) thousand euros. The operating margin of the reporting period was 6.0% (9m 2015: 7.0%) and the EBITDA margin was 8.7% (9m 2015: 9.5%).

The consolidated operating profit of the reporting quarter was 1,023 (Q3 2015: 1,788) thousand euros and the EBITDA was 1,397 (Q3 2015: 2,181) thousand euros. The operating margin of the reporting quarter was 6.5% (Q3 2015: 9.9%) and the EBITDA margin was 8.8% (Q3 2015: 12.1%).

In Q3 2016, the consolidated net profit was 870 (Q3 2015: 1,620) thousand euros, of which the share of the owners of the Company was 862 (Q3 2015: 1,627) thousand euros. EPS in the Q3 2016 was 0.05 (Q3 2015: 0.09) euros. The net margin was 5.5% (Q3 2015: 9.0%).

Overall, the consolidated net profit of the nine months 2016 was 2,849 (9m 2015: 3,203) thousand euros. The share of the owners of the Company was 2,850 (9k 2015: 3,199) thousand euros. EPS was 0.16 (9m 2015: 0.18) euros.

Employees and remuneration

The optimisation of production that started in the second half of 2015 in the Estonian undertakings of the Group has brought about the reduction of the number of employees by 14 people. At the same time, the merger of the metal factories has created a need for additional labour this year. Following a very successful year in 2015, the Lithuanian company has also faced a decrease in production volume in 2016, as a result of which the number of employees has been reduced by 20 in the first 9 months; at the same time, the increased production volumes of Finnish companies created a need for new employees.

As at the end of the reporting period, the Group had 454 employees (30 September 2015: 477). Compared to the beginning of the year, the number of employees has decreased by 16.

In the first 9 months of 2016, an average of 451 employees worked in the Group, which was 24 people less than in the comparable period. In the reporting quarter, the average number of employees decreased by 32, to 447.

In the first 9 months, the labour costs of the Group increased 10.5%, amounting to 9,778 thousand euros. The sound financial results of the Group's companies in Finland in 2016 have resulted in the payment of additional remuneration and an increase in reserves, which also led to higher labour costs for the Group. In the first 9 months, labour costs accounted for 21.8% of the sales revenue and in the comparable period, 20.4%.

In the reporting quarter, the employees were paid as salaries and fees 2,722 (Q3 2015: 2,454) thousand euros and in nine months, 7,430 (9m 2015: 7,256) thousand euros. The average monthly salary for an employee of the Group was 1,829 (9m 2015: 1,696) euros.

	Average number of employees				Number of employees as at 30.9.			As at
	Q3 2016	Q3 2015	9m 2016	9m 2015	Growth	2016	2015	31.12.2015
Estonia	265	288	261	290	-14	274	288	273
Finland	91	95	91	93	3	93	90	90
Lithuania	91	96	99	92	-12	87	99	107
Total	447	479	451	475	-23	454	477	470

Financial position and cash flows

During 9 months, the amount of the consolidated assets increased by 6,168 thousand euros and compared to the period under review by 3,814 thousand euros to 72,747 thousand euros, as of 30 September 2016.

	Growth		30.9.	30.9.	31.12.
	y-o-y	9m 2016	2016	2015	2015
Current assets	369	2,604	22,447	22,078	19,843
Non-current assets	3,445	3,564	50,300	46,855	46,736
TOTAL ASSETS	3,814	6,168	72,747	68,933	66,579
Current liabilities	1,436	2,785	10,248	8,812	7,463
Non-current liabilities	-1,044	0	912	1,956	912
Equity	4,422	4,383	62,587	58,165	58,204
incl. attributable to owners of the Company	3,442	3,384	61,470	58,028	58,086
Equity ratio (%) (Equity/total assets)* 100 (%)	1.6	-1.4	86.0	85.1	87.4
Current ratio (Average current assets/ Average current liabilities)	-0.3	-0.4	2.4	2.7	2.8
Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities)	-0.3	-0.5	1.4	1.7	1.9

The current assets increased by 2,604 thousand euros in a nine months to 22,447 thousand euros. The inventories increased by 3,021 thousand euros to 10,169 thousand euros; trade receivables and other receivables increased by 2,541 thousand euros to 9,219 thousand euros; cash decreased by 3,118 thousand euros in a nine months to 2,593 thousand euros.

The cost of the non-current assets in the statement of financial position increased by 3,564 thousand euros in 9 months and by 3,445 thousand euros to 50,300 thousand euros in relation to the period of comparison.

Other long-term financial investments make up 46.7% of the Group's non-current assets and 32.3% of of the Group's assets. The most part of the changes in the non-current assets were due to the changes in the value of long-term financial investments. During the reporting quarter, the market price of the share of PKC Group Oyj at the Nasdaq Helsinki exchange market increased by 0.27 euros and by 0.97 euros in nine months, and as at the last trading day, the share at Nasdaq Helsinki exchange market cost 17.20, (30.9.2015: 19.18) euros. In the first 9 months, the value of PKC Group Oyj shares increased by 1,022 thousand euros and in the comparable period, the value of shares decreased by 1,412 thousand euros.

After the additional round of funding and involving new investors, it was possible to make a reliable assessment of the fair value of the holding of AS Harju Elekter in Skeleton Technologies OÜ. Due to the revaluation of the share, the value of financial assets increased by 1,622 thousand euros. In addition, a loan of 660,000 euros, granted by AS Harju Elekter, was converted into the share capital of Skeleton Technologies OÜ.

The cost of investment in assets and reserves in equity increased by the other comprehensive income of 2,664 thousand euros, by which amount increased the cost of investment in assets and reserves in equity. In the reference period revaluation loss made up 1,412 thousand euros.

In nine months, the Group has made a total of 1,336 (9m 2015: 2,240) thousand euros worth of investments to property, plant and equipment and investment properties. In the 1st half of 2015, the Group invested 1,272 thousand euros to the production facilities at Allika Industrial Park. In Q3 2016 the Group invested 637 thousand euros to the building of the next larger production complex at Allika Industrial Park.

As at the reporting date, the Group's liabilities totalled 11,160 thousand euros, of which short-term liabilities made up 10,248 thousand euros or 91.8%. Short-term liabilities increased by 2,785 thousand euros in nine months and 1,436 thousand euros in a year. Trade payables and other payables grew the most: by 1,427 thousand euros in nine months and 759 thousand euros in a year, to 7,470 thousand euros. As at the reporting date, payables to shareholders was 1,242 thousand euros. Short-term liabilities decreased by 221 thousand euros in nine months and 557 thousand euros in a year.

As at 30.9.2016, the current ratio of the Group was 2.4 (30.9.2015: 2.7) and the quick ratio was 1.4 (30.9.2015: 1.7)

As at 30 September 2016, interest-bearing debt obligations made up 8.8% of the Group's liabilities and 1.4% of the cost of its assets, or 17.1% and 2.7%, respectively, as at 30 September 2015. The Group had interest-bearing debt obligations totalling 987 (30.9.2015: 1,846) thousand euros, with the short-term obligations making up 75 (30.9.2015: 632) thousand euros.

	9 months			Year
	2016	2015	2014	2015
Cash flows from operating activities	-18	-234	713	4,293
Cash flows from investing activities	-1,991	-6,157	6,362	-6,328
Cash flows from financing activities	-1,108	-1,561	-2,039	-2,235
Net cash flow	-3,117	-7,952	5,036	-4,270

In nine months, business operations was paid out in 18,000 euros and 234,000 euros during the period of comparison

In the reporting quarter an additional 713 (9m 2015: 856) thousand euros was paid for the shares of Finnkumu Oy (see Note 8), for financial investment 660 (9m 2015: 2,400) thousand euros and for other non-current assets 1,419 (9m 2015: 2,103) thousand euros. PKC Group Oyj paid dividends in the amount of 0.70 euros per share. AS Harju Elekter received dividends in the amount of 766 thousand euros both in the reporting period and during the period of comparison. In 9m 2016, cash flow out from investing activities totaled 1,991 (9m 2015: 6,157) thousand euros. In 2015, 1,651 thousand euros were paid for acquisition of non-controlling interest.

In the reporting period, cash flow out from financing activities was 1,108 (9m 2015: 1 561) thousand euros. AS Harju Elekter paid out 887 (9m 2015: 2,654) thousand euros of dividends. Income from the share issue amounted to 802,000 euros in 2015.

Cash and cash equivalents decreased in the nine months by 3,117 thousand euros to 2,593 thousand euros, and in the period of comparison by 7,952 thousand euros to 2,030 thousand euros.

AGM

On 28th of April 2016 the AGM was held where attended by 81 shareholders and their authorised representatives who represented the total 11,375,563 votes, being 64.12% of the total votes.

The general meeting approved the 2015 annual report and profit distribution and decided to pay dividends amounting to 0.05 euros per share, totally 887,000 euros. The shareholders registered in the shareholders' registry on 12.5.2016 at 23.59 entitled to dividend. The dividends transferred to the shareholders bank accounts on 17.5.2016.

The general meeting resolved to introduce a no par value share and approve the new version of AS Harju Elekter articles of association together with the abovementioned changes.

The general meeting resolved to reduce the share capital by 1,242,000 euros, decreasing the book value of the shares: as a result of reduction, the book value of AS Harju Elekter share will decrease to EUR 0.63, from EUR 0.70. The list of shareholders participating in the reduction of share capital was fixed as at 23.59 on 12 May 2016, disbursement will be made to the shareholders on 20 January 2017. The entry on the reduction of share capital was made in the Commercial Register on 18 October 2016.

Supervisory and management boards

The Supervisory Board of AS Harju Elekter has 5 members with the following membership: Mr. Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Mr. Ain Kabal (Managing director of Priileib OÜ, legal consultant), Mr. Aare Kirsme (Chairman of the Supervisory Board of AS Harju KEK), Mrs. Triinu Tombak (Ch of the Supervisory Board of Praxis Center for Policy Studies, financial consultant) and Mr. Andres Toome (managing director of OÜ Tradematic, consultant).

The Managing Director/CEO is Mr. Andres Allikmäe. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

Information about the education and career of the members of the Management and Supervisory Boards as well as their membership in the management bodies of companies and their shareholdings have been published on the home page of the company at www.harjuelekter.ee

Shares of Harju Elekter and shareholders

Security trading history:

	2012	2013	2014	2015	9M 2016
Opening price	2.30	2.64	2.77	2.79	2.62
Highest price	2.80	2.92	2.85	3.14	2.70
Lowest price	2.30	2.46	2.52	2.49	2.43
Closing price	2.64	2.70	2.79	2.63	2.53
Traded shares (pc)	759,869	936,162	800,823	1,086,451	750,230
Turnover (in million euros)	1.88	2.48	2.17	2.98	1.93
Capitalisation (in million euros)	45.94	46.98	48.55	46.16	44.88
Overage number of the shares	17,093,443	17,400,000	17,400,000	17,550,851	17,739,880
EPS (EUR)	0.21	0.30	0.56	0.18	0.16

As at 30 September 2016 AS Harju Elekter had 1,899 shareholders. The number of shareholders increased during the accounting quarter by 24 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which held 31.4% of AS Harju Elekter's share capital. At 30 September 2016, the members of the Supervisory and Management Boards owned in accordance with their direct and indirect ownerships totally 10.4% of AS Harju Elekter shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

Share price (in euros) in Tallinn Stock growth/decrease, 1.01.2016 - 30.9.2016



Shareholders structure by size of holding at 30 September 2016

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.11	42.10
1.0 – 10.0%	9	0.47	23.00
0.1 – 1.0 %	68	3.58	19.30
< 0.1%	1,820	95.84	15.60
Total	1,899	100.0	100.0

Shareholders (above 5%) at 30 September 2016

Shareholder	Holding (%)
HARJU KEK AS	31.39
ING LUXEMBOURG S.A.	10.71
Endel Palla	6.56
Shareholders holding under 5%	51.34

INTERIM FINANCIAL STATEMENTS**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	30.9.2016	31.12.2015	30.9.2015
Current assets				
Cash and cash equivalents		2,593	5,711	2,030
Trade receivables and other receivables		9,219	6,678	9,904
Prepayments		440	278	416
Income tax prepayments		26	28	60
Inventories		10,169	7,148	9,668
Total current assets		22,447	19,843	22,078
Non-current assets				
Deferred income tax asset		57	57	0
Other long-term financial investments	2	23,512	20,188	20,133
Investment property	2	13,493	12,990	13,053
Property, plant and equipment	2	7,802	8,010	8,239
Intangible assets	2	5,436	5,491	5,430
Total non-current assets		50,300	46,736	46,855
TOTAL ASSETS		72,747	66,579	68,933
LIABILITIES AND EQUITY				
Liabilities				
Interest-bearing loans and borrowings	3	75	296	632
Trade payables and other payables		7,470	6,043	6,711
Payables to shareholders	4	1,242	0	0
Tax liabilities		1,307	944	1,402
Income tax liabilities		138	146	58
Short-term provision		16	34	9
Total current liabilities		10,248	7,463	8,812
Interest-bearing loans and borrowings	3	912	912	1,214
Other non-current liabilities		0	0	742
Non-current liabilities		912	912	1,956
Total liabilities		11,160	8,375	10,768
Equity				
Share capital	4	12,418	12,418	12,418
Unregistered share capital	4	-1,242	0	0
Share premium		804	804	804
Reserves		20,734	18,047	17,980
Retained earnings		28,756	26,817	26,826
Total equity attributable to equity holders of the parent		61,470	58,086	58,028
Non-controlling interests		117	118	137
Total equity		61,587	58,204	58,165
TOTAL LIABILITIES AND EQUITY		72,747	66,579	68,933

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	1 July – 30 September		1 January – 30 September	
		2016	2015	2016	2015
Revenue	5	15,794	18,091	44,759	45,626
Cost of sales		-13,164	-14,650	-36,907	-37,406
Gross profit		2,630	3,441	7,852	8,220
Distribution costs		-704	-614	-2,216	-1,961
Administrative expenses		-922	-1,035	-2,973	-3,088
Other income		31	5	83	66
Other expenses		-12	-9	-52	-40
Operating profit	5	1,023	1,788	2,694	3,197
Finance income	6	2	3	769	788
Finance costs	6	-6	-11	-17	-40
Profit before tax		1,019	1,780	3,446	3,945
Income tax expense		-149	-160	-597	-742
Profit for the period		870	1,620	2,849	3,203
Profit attributable to:					
Owners of the Company		862	1,627	2,850	3,199
Non-controlling interests		8	-7	-1	4
Profit for the period		870	1,620	2,849	3,203
Earnings per share					
Basic earnings per share (EUR)	7	0.05	0.09	0.16	0.18
Diluted earnings per share (EUR)	7	0.05	0.09	0.16	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1 July – 30 September 2016	1 July – 30 September 2015	1 January – 30 September 2016	1 January – 30 September 2015
Profit for the period		870	1,620	2,849	3,203
Other comprehensive income					
Net growth/decrease in fair value of available-for-sale financial assets	2	1,898	-3,995	2,664	-1,412
Currency translation differences		-1	-1	-1	-1
Other comprehensive income for the period, net of tax		1,897	-3,996	2,663	-1,413
Total comprehensive income for the period		2,767	-2,376	5,512	1,790
Total comprehensive income attributable to:					
Owners of the Company		2,759	-2,369	5,513	1,786
Non-controlling interests		8	-7	-1	4
Total comprehensive income for the period		2,767	-2,376	5,512	1,790

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 30 September	Note	2016	2015
Cash flows from operating activities			
Operating profit	5	2,694	3,197
<u>Adjustments for:</u>			
Depreciation and amortisation	2	1,189	1,124
Gain on sale of property, plant and equipment	8	-27	-24
Share-based payment transactions		0	36
Growth/decrease in receivables related to operating activity		-2,707	-3,381
Growth/decrease in inventories		-3,021	-1,564
Growth/decrease in payables related to operating activity		2,474	1,081
Corporate income tax paid	8	-603	-677
Interest paid	6	-17	-26
Net cash from operating activities		-18	-234
Cash flows from investing activities			
Acquisition of investment property	8	-872	-1,506
Acquisition of property, plant and equipment	8	-460	-491
Acquisition of intangible assets	8	-87	-106
Acquisition of subsidiaries	9	-713	-856
Acquisition of non-controlling interests		0	-1,651
Acquisition of other financial investments	2	-660	-2,400
Proceeds from sale of property, plant and equipment	8	29	30
Proceeds from sale of other financial investments		0	36
Interest received	8	6	21
Dividends received		766	766
Net cash used in investing activities		-1,991	-6,157
Cash flows from financing activities			
Growth/decreases in short-term loans	3	0	557
Payment of finance lease principal	3	-221	-266
Receipts from contribution into share capital		0	802
Dividends paid		-887	-2,654
Net cash used in financing activities		-1,108	-1,561
Net cash flows		-3,117	-7,952
Cash and cash equivalents at beginning of period		5,711	9,984
Net increase / decrease		-3,117	-7,952
Effect of growth/decrease rate fluctuations on cash held		-1	-2
Cash and cash equivalents at end of period		2,593	2,030

CONSOLIDATED STATEMENT OF GROWTH/DECREASES IN EQUITY

For the period 1 January – 30 September	Attributable to owners of the Company							Non- controlling interests	TOTAL
	Share capital	Share premium	Capital reserve	Fair value reserve	Trans- lation reserve	Retained earnings	TOTAL		
At 31 December 2014	12,180	240	1,218	18,184	-9	26,664	58,477	1,365	59,842
Comprehensive income 2015									
Profit for the period	0	0	0	0	0	3,199	3,199	4	3,203
Other comprehensive income for the period	0	0	0	-1,412	-1	0	-1,413	0	-1,413
Total comprehensive income	0	0	0	-1,412	-10	3,199	1,786	4	1,790
Transaction with the owners of the Company, recognised directly in equity									
Increase of share capital	238	564	0	0	0	0	802	0	802
Share-based payments	0	0	0	0	0	36	36	0	36
Dividends	0	0	0	0	0	-2,610	-2,610	-44	-2,654
Acquisition of non- controlling interest	0	0	0	0	0	-463	-463	-1,188	-1,651
At 30 September 2015	12,418	804	1,218	16,772	-10	26,826	58,028	137	58,165

For the period 1 January – 30 September	Attributable to owners of the Company								Non- controlling interests	TOTAL
	Share capital	Unregis- -tered share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings	TOTAL		
At 31.December 2015	12,418	0	804	1,218	16,827	2	26,817	58,086	118	58,204
Comprehensive income 2016										
Profit for the period	0	0	0	0	0	0	2,850	2,849	-1	2,849
Other comprehensive income for the period	0	0	0	0	2,664	-1	0	2,663	0	2,663
Total comprehensive income	0	0	0	0	2,664	-1	2,850	5,513	-1	5,512
Transaction with the owners of the Company, recognised directly in equity										
Increase of capital reserve	0	0	0	23	0	0	-23	0	0	0
Reduction of unregistered share capital	0	-1,242	0	0	0	0	0	-1,242	0	-1,242
Dividends	0	0	0	0	0	0	-887	-887	0	-887
At 30 September 2016	12,418	-1,242	804	1,241	19,491	1	28,757	61,470	117	61,587

Further information on share capital is presented in note 4.

NOTES TO INTERIM FINANCIAL STATEMENT**Note 1 Accounting methods and valuation principles used in the consolidated interim report**

AS Harju Elekter is a company registered in Estonia. The interim report prepared as of 30.9.2016 comprises AS Harju Elekter (the "Parent Company") and its subsidiaries AS Harju Elekter Teletehnika, AS Harju Elekter Elektrotehnika, Satmatic Oy, Finnkumu Oy (subsidiary Satmatic Oy) Rifas UAB and Automatikos Iranga UAB (subsidiary Rifas UAB) (together referred to as the Group).

AS Harju Elekter has been listed at Tallinn Stock Exgrowth/decrease since 30 September 1997; 31.4% of its shares are held by AS Harju KEK.

The consolidated interim financial statements of AS Harju Elekter and its subsidiaries have been prepared in accordance with International Reporting Standards (IFRS EU) as adopted by the European Union. This consolidated interim report is prepared in accordance with the requirements for international accounting standard IAS 34 "Interim Financial Reporting" on condensed interim financial statements. The interim report is prepared on the basis of the same accounting methods as used in the annual report concerning the period ending on 31.12.2015. The interim report should be read in conjunction with the Group's annual report of 2015, which is prepared in accordance with International Financial Reporting Standards (IFRS).

According to the assessment of the management board, the interim report for 1-9/2016 of AS Harju Elekter presents a true and fair view of the financial result of the consolidation Group guided by the going-concern assumption. This interim report has been neither audited nor monitored by auditors by any other way and only includes the consolidated reports of the Group.

The presentation currency is Euro. The consolidated interim financial statement has been drawn up in thousands of Euros and all the figures have been rounded to the nearest thousand, unless indicated otherwise.

Note 2 Non-current assets

For the period 1 January – 30 September	Note	2016	2015
Other long-term financial investments			
At 1 January		20,188	19,145
Additions		660	2,400
Gain on change on fair value		2,664	-1,412
At the end of the period		23,512	20,133
Investment property			
At 1 January		12,990	12,109
Additions		876	1,301
Reclassification		3	-13
Depreciation charge	5	-376	-344
At the end of the period		13,493	13,053

Note 2 Non-current assets (continued)

For the period 1 January – 30 September	Note	2016	2015
Property, plant and equipment			
At 1 January		8,010	7,968
Additions		460	939
Disposals		-2	-6
Reclassification		-3	13
Depreciation charge	5	-663	-675
At the end of the period		7,802	8,239
Intangible assets			
At 1 January		5,491	5,429
Additions		95	106
Depreciation charge	5	-150	-105
At the end of the period		5,436	5,430

Note 3 Interest-bearing loans and borrowings

	30.9.2016	31.12.2015	30.9.2015
Liabilities			
Short-term bank loans	0	0	557
Current portion of lease liabilities	75	296	75
Total current liabilities	75	296	632
Non-current liabilities			
Lease liabilities	912	912	1,214
Total non-current liabilities	912	912	1,214
TOTAL	987	1,208	1,846

Growth/decreases during the period 1 January – 30 September

	2016	2015
Loans and borrowings at the beginning of the year	1,208	1,096
Growth/decreases in short-term loans	0	557
New finance lease	0	459
Payment of finance lease principal	-221	-266
Loans and borrowings at the end of the current period	987	1,846

Note 4 Share capital

	Unit	30.9.2016	31.12.2015	30.9.2015
Share capital	EUR'000	12,418	12,418	12,418
Number of shares issued (fully paid)	PC'000	17,740	17,740	17,740
Unregistered share capital	EUR'000	-1,240	0	0
Number of unregistered shares	PC'000	0	0	0

The general meeting of shareholders of AS Harju Elekter decided on 28 April to pay out 0.07 cents per share to shareholders, reducing the share capital of AS Harju Elekter by 1,242,000 euros to 11,178,000 euros. As at 30.6.2016, the entry on the reduction of share capital has not been made in the Commercial Register, which is why the amount is reflected as unregistered share capital. The entry on the reduction of share capital was made in the Commercial Register on 18 October 2016 and the disbursement will be made to the shareholders on 20 January 2017.

Note 5 Segment reporting

Three segments- manufacturing, real estate and other activities are distinguished in the consolidated financial statements.

Manufacturing – The manufacture and sale of power distribution and control systems as well as services related to manufacturing and intermediary sale of components. The entities in this business segment are AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Rifas UAB and Automatikos Iranga UAB.

Real estate – The segment is involved in real estate development, maintenance and rental, services related to managing real estate and production capacities and intermediation of services. Real estate has been identified as a reportable segment because the value of its assets exceeds the aggregate value of the assets of all Group by 10%.

Other activities – The segment is involved in selling products of the Group and companies related to the Group as well as other goods necessary for electrical installation works mainly to retail customers and small- and medium-sized electrical installation companies and in providing management services. Other activities are less significant for the Group and none of them constitutes a separate reporting segment.

The Group assesses the performance of its operating segments on the basis of revenue and operating profit. Based on the assessment of the Parent company's management board, inter-segment transactions are carried out on ordinary market terms that do not differ substantially from the terms agreed in transactions conducted with third parties.

Unallocated assets comprise the Parent company's cash, other receivables, prepayments and other financial investments.

Unallocated liabilities consist of the Parent company's (Estonia) interest-bearing loans and borrowings, tax liabilities and accrued expenses.

For the period 1 January – 30 September	Note	Manu- facturing	Real estate	Other activities	Elimi- nations	Consoli- dated
2016						
Revenue from external customers		40,819	1,847	2,093	0	44,759
Inter-segment revenue		109	709	266	-1,084	0
Total revenue		40,928	2,556	2,359	-1,084	44,759
Operating profit		2,257	815	-189	-189	2,694
Finance income	6					769
Finance costs	6					-17
Profit before tax						3,446
Income tax						-597
Profit for the period						2,849
Segment assets		36,590	13,818	4,302	-7,833	46,877
Indivisible assets						25,870
Total assets						72,747
Capital expenditure to non-current assets	2	145	876	410	0	1,431
Capital expenditure to financial investment	2					660
Depreciation charge for the year	2	533	376	280	0	1,189
2015						
Revenue from external customers		41,948	1,727	1,951	0	45,626
Inter-segment revenue		200	720	251	-1,171	0
Total revenue		42,148	2,447	2,202	-1,171	45,626
Operating profit		2,656	772	-199	-32	3,197
Finance income	6					788
Finance costs	6					-27
Financial expense from subsidiary	6					-13
Profit before tax						3,945
Income tax						-742
Profit for a period						3,203
Segment assets		36,819	13,314	4,359	-8,704	45,788
Indivisible assets						23,145
Total assets						68,933
Capital expenditure to non-current assets	2	751	1,301	294	0	2,346
Capital expenditure to financial investment	2					2,400
Depreciation charge for the year	2	526	344	254	0	1,124

Revenue by markets:

For the period 1 January – 30 September	2016	2015
Estonia	9,341	10,704
Finland	30,802	28,617
Lithuania	319	579
Sweden	1,554	985
Norway	1,746	3,211
Other countries	997	1,530
Total	44,759	45,626

Revenue by business area:

For the period 1 January – 30 September	2016	2015
Electrical equipment	38,301	39,215
Sheet metal products and services	770	656
Boxes and services for telecom sector	914	851
Intermediary sale of electrical products and components	2,521	2,749
Commerce and mediation of services	287	132
Rental income	1,668	1,532
Other services	298	491
Total	44,759	45,626

Note 6 Finance income and costs

For the period 1 January – 30 September	2016	2015
Interest income	3	21
Income from sale of investments	0	1
Dividend income	766	766
Total finance income	769	788
Interest expense	-17	-26
Net loss from foreign exchange differences	0	-1
Financial expense from subsidiary	0	-13
Total finance costs	-17	-40

Note 7 Basic and diluted earnings per share

For the period	Unit	2016	2015
1 January – 30 September			
Profit attributable to equity holders of the parent	EUR'000	2,850	3,199
Average number of shares outstanding	Pc'000	17,740	17,487
Basic and diluted earnings per share	EUR	0.16	0.18
1 July – 30 September			
Profit attributable to equity holders of the parent	EUR'000	862	1,627
Adjusted number of shares during the period	Pc'000	17,740	17,659
Basic and diluted earnings per share	EUR	0.05	0.09

Basic earnings per share have been calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by considering the effects of all dilutive potential shares. At 30 September 2016, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

Note 8 Further information on line items in the statement of cash flows

For the period 1 January – 30 September	Note	2016	2015
Corporate income tax paid			
Income tax expense		-597	-742
Prepayment decrease (+)/ increase (-), liability decrease (-)/ increase (+)		-6	65
Corporate income tax paid		-603	-677
Interest received			
Interest income	6	3	21
Receivable increase (-)		3	0
Interest received		6	21
Paid for investment property			
Additions of investment property	2	-876	-1,301
Liability decrease (-)/ increase (+) incurred by purchase		4	-205
Acquisition of investment property		-872	-1,506
Paid for property, plant and equipment			
Additions of property, plant and equipment	2	-460	-939
Acquired with finance lease	3	0	459
Liability decrease (-)/ increase (+) incurred by purchase		0	-11
Acquisition of property, plant and equipment		-460	-491
Paid for intangible assets			
Additions of intangible assets	2	-95	6
Liability decrease (-)/ increase (+) incurred by purchase		8	24
Acquisition of intangible assets		-87	30
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	2	2	6
Profit on disposal of property, plant and equipment		27	24
Proceeds from sale of property, plant and equipment		29	30

Note 9 Subsidiaries

On 17 June 2014, Satmatic Oy (Finland) signed a contract for the purchase of all of the shares of Finkkumu Oy, Finland's largest unit substation producer. According to the contract, after the audited annual report is approved, in 2015 an additional 50% of the company's operating profit shall be paid for the year 2014, and in 2016 an additional 40% of the company's operating profit shall be paid to the sellers for the year 2015.

In the reporting period Satmatic Oy paid an additional 713,000 (9m 2015: 857,000) euros for the shares of Finnkumu Oy.

Note 10 Transactions with related parties

The related party of AS Harju Elekter includes, members of the management and supervisory boards and their close family members and AS Harju KEK which owns 31.4% of the shares of AS Harju Elekter.

Group has purchased goods and services from and sold goods and services to related parties as follows:

For the period 1 January – 30 September	2016	2015
Purchase of goods and services from related parties:		
- from Harju KEK	79	71
<i>Inclusive:</i>		
- lease of property, plant and equipment	79	57
- purchase of property, plant and equipment	0	13
- other services	0	1
Sale of goods and services to related parties:		
- to Harju KEK	2	2
<i>Inclusive:</i>		
- other services	2	2
Remuneration of the management and supervisory boards		
- salaries, bonuses, additional remuneration	165	154
- social security and other taxes on salaries	54	51
TOTAL	219	205

The member/Chairman of the Management Board receives remuneration in accordance with the contract and is also entitled to receive a severance payment in the amount of 10 months' remuneration of a member of the management board. The Chairman of the Supervisory Board is entitled to termination benefits that may extend to 6 monthly remuneration of a development manager. The member/Chairman of the Management Board has no rights related to pension. During the reporting period, no other transactions were made with members of the Group's directing bodies and the persons connected with them.

Statement of Management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the consolidated interim report of 1-9/2016 as set out on pages 3 to 25 and confirms that to the best of its knowledge, information and belief that:

- the management report presents true and fair view of significant events that took place during the accounting period and their impact to financial statements; and includes the description of major risks and doubts for the parent company and consolidate companies as a Group; and reflects significant transactions with related parties;
- the accounting principles and presentation of information used in preparing the interim financial statements are in compliance with the International Financial Reporting Standards as adopted by the European Union;
- the interim financial statements give a true and fair view of the assets, liabilities, financial position of the Group and of the results of its operations and its cash flows; and
- AS Harju Elekter and its subsidiaries are going concerns.

/signature/
Andres Allikmäe
Managing director/ CEO
„26th“October 2016