



AS HARJU ELEKTER

Interim report 1-12/2016

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:	31 st of December 2016

The interim report of Harju Elekter Group on 26 pages

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EXPLANATORY NOTE

Group structure and changes on it

In interim report for 1-12/2016 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, Harju Elekter Kiinteistöt Oy, Rifas UAB and Automatikos Iranga UAB are consolidated line-by-line. AS Harju Elekter has a holding of 90% in Harju Elekter AB; however, the activity of the company has been suspended as of 1 April 2014.

As of 31 December 2016, AS Harju Elekter has substantial holdings as follows:

Company		Country	31.12.16	31.12.15
AS Harju Elekter Teletehnika	Subsidiary	Estonia	100.0%	100.0%
AS Harju Elekter Elektrotehnika	Subsidiary	Estonia	100.0%	100.0%
Satmatic Oy	Subsidiary	Finland	100.0%	100.0%
Harju Elekter Kiinteistöt Oy	Subsidiary	Finland	100.0%	0.0%
Finnkumu Oy	Satmatic Oy`s subsidiary	Finland	100.0%	100.0%
UAB Rifas	Subsidiary	Lithuania	100.0%	100.0%
UAB Automatikos Iranga	Rifas UAB`s subsidiary	Lithuania	67.0%	51.0%
Harju Elekter AB	Subsidiary	Sweden	90.0%	90.0%
Skeleton Technologies Group OÜ	Financial investment	Estonia	9.8%	10.0%
SIA Energokomplekss	Financial investment	Latvia	14.0%	14.0%
PKC Group Oyj	Financial investment	Finland	4.5%	4.5%

In October 2016, the subsidiary UAB Rifas acquired an additional 16% stake in the subsidiary UAB Automatikos Iranga, increasing its ownership interest to 67%.

In October 2016, AS Harju Elekter acquired 100% of the shares of Harju Elekter Kiinteistöt Oy (Note 9).

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 consensus among forecasters is that economic growth will speed up; although, for several years now, the expectations of analysts have not been fulfilled. Geopolitical tensions are setting the tone; however, these have not yet had a major impact on the economy, at least for the time being. The global economy remains unstable, and the recovery in different countries and regions is uneven. Growth of the global economy is supported by the USA and China; also, the economic indicators in Europe have continued to strengthen.

There seems to be no end to the talk of troubled waters for the European economy: Brexit, the emergence of populism in politics, Italian banks – these are just a few examples. But when you look at the actual economic indicators, they convey the stable strengthening of the economy. In addition to an improved situation on the labour market (as at 11/2016 the unemployment rate in the euro zone had fallen to 9.8%), the economic welfare of people has been fostered by inflation that remains low. Looking at the economic situation of Estonia's main trade partners, local exporters have a reason to rejoice. In Sweden, where most of the goods manufactured in Estonia are transported, imports grew by approximately 6% in 2016. Also in Finland, recovering from the economic recession, import demand started to increase. While at the beginning of 2016, the exportation of goods to Sweden exceeded that to Finland by almost a quarter, then in the last few months of the year the volumes practically levelled off. For Estonian companies, Germany has become an increasingly important trade partner, to which almost 7% of goods manufactured in Estonia were directed in 2016.

Similarly to Latvia and Lithuania, Estonia's recent economic growth has failed to meet the initially expected rate. Estonia's economic growth in 2016 was supported by decreasing unemployment rate, increased domestic consumption and public sector investments. A positive surprise was the increased export of goods. Estonia's industrial undertakings managed to recover from the nadir of 2015 and increase their production by 2% in 2016. There was also a 2% increase in the processing industry last year. In addition to the production of timber products, a considerable contribution to the growth of industrial production came from the production of electrical equipment, having increased by 14% during the year. According to preliminary data, Estonia's economic growth in 2016 was 1.3%.

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, 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.

The AGM 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 thousand euros is reflected in the profit of Q2 2016. The 15% income tax withheld from the dividends in Finland comprised 115 thousand euros.

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 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. Restructuring was completed at the end of Q3.

AS Harju Elekter granted a loan of 660 thousand euros to Skeleton Technologies Group OÜ. In Q3, an additional round of funding and involvement of investors was arranged and the loan was converted into equity of Skeleton Technologies Group OÜ.

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 Kiinteistöt Oy. The contract price was 518 thousand euros. To date, the acquired company has been leasing 2,470 m² of production premises to the Group's Finnish company, Finnkumu Oy. 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: HE production and storage facilities 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 "Ehitusfirma 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. First stage will be ready for delivery to the tenants in the first half of 2017.

Three important substation sales agreements were concluded in Q4 2016 and in Q1 2017, following the reporting date. The most important of these are the agreement signed with Finland's largest distribution network company, Caruna, on 19 December 2016, and the two order letters received from

Konecranes, on 10 January 2017, for delivering special-purpose substations to the United States. As a result of the new orders, the production of substations in the Estonian and Finnish plants of the Group will increase from the current 1,100 substations to 2,500 substations per a year.

To ensure smooth fulfilment of the order volumes, it was decided in Q4 to transfer the operations of AS Harju Elekter Elektrotehnika to new production halls – being vacated by AS PKC Eesti – in the Keila Industrial Park. The project will be implemented during Q1–Q3 of 2017.

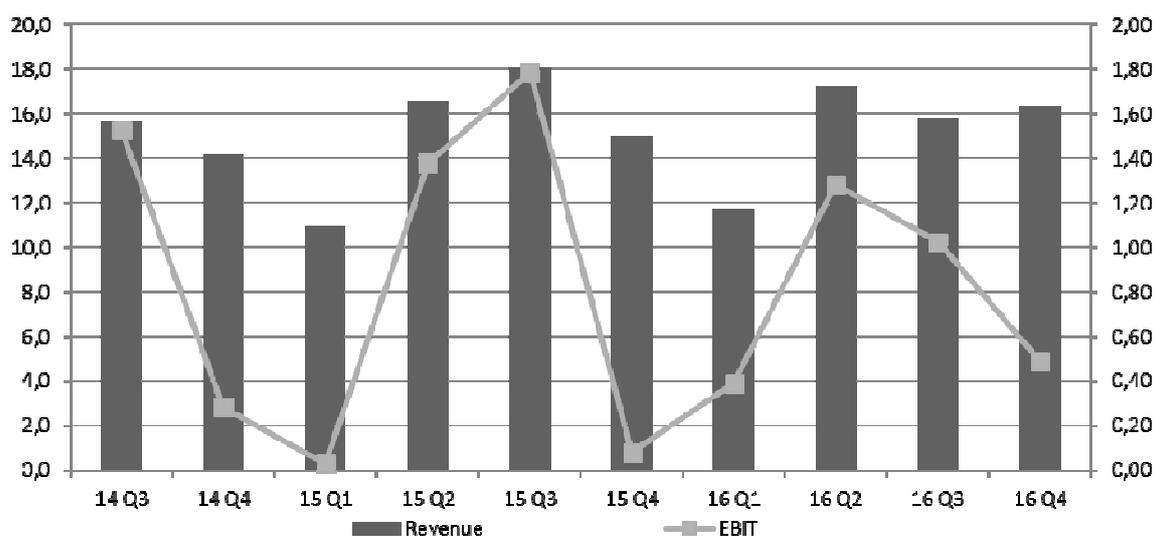
Following the reporting date, Motherson Sumi Systems Limited and the management board of PKC Group Oyj signed a merger agreement on 19 January 2017, according to which the wrapping band operations of Motherson Sumi Systems Limited and PKC Group Oyj will be merged. The merger is being carried out by MSSL Estonia WH OÜ, subsidiary of Motherson Sumi Systems Limited, which has submitted a takeover bid to the shareholders of PKC Group Oyj at the price of EUR 23.55 per share. AS Harju Elekter owns 1,094,641 shares of PKC Group Oyj. The period of the takeover bid is from 6 February 2017 to 21 March 2017.

Operating results

KEY INDICATORS

	January – December		
	2016	2015	2014
Revenue (EUR'000)	61,167	60,656	50,606
Gross profit (EUR'000)	10,348	10,299	9,081
EBITDA (EUR'000)	4,777	4,819	3,741
EBIT (EUR'000)	3,181	3,276	2,228
Profit for the period (EUR'000)	3,224	3,186	9,778
incl attributed to Owners of the Company (EUR'000)	3,219	3,190	9,697
Revenue growth/decrease (%)	0.8	19.9	4.8
Gross profit growth/decrease (%)	0.5	13.4	7.4
EBITDA growth/decrease (%)	-0.9	28.8	14.4
EBIT growth/decrease (%)	-2.9	47.0	27.8
Profit for the period growth/decrease (%)	1.2	-67.4	89.0
incl attributed to Owners of the Company (%)	0.9	-67.1	87.9
Distribution cost to revenue (%)	5.0	4.4	5.4
Administrative expenses to revenue (%)	6.8	7.2	8.0
Labour cost to revenue (%)	22.0	20.7	23.8
Gross margin (Gross profit/revenue) (%)	16.9	17.0	17.9
EBITDA margin (EBITDA/revenue) (%)	7.8	7.9	7.4
Operating margin (EBIT/revenue) (%)	5.2	5.4	4.4
Net margin (Profit for the period/revenue) (%)	5.3	5.3	19.3
ROE (Profit for the period/average equity) (%)	5.4	5.4	15.8

Seasonality of business (million euros)



SALES REVENUE

Consolidated revenue for the reporting quarter was 16.4 (Q4 2015: 15.0) million euros, increasing during the reporting quarter by 9.2% or 1.4 million euros in relation to the comparable period. In the reporting quarter the sale of electric equipment had increased by 1.2 million euros up to 14.2, which was the main reason for the sales growth in the reporting quarter. In terms of other products and services, sales revenue in the reporting quarter has mostly increased. Sales revenue from the main fields of activity has increased in a year-on-year comparison.

The quarterly sales development by business area:

Business area	Change y-o-y				Year	Year
		Q4 2016	Q4 2015	Q4 2014	2016	2015
Electrical equipment	9.7%	14,175	12,920	12,366	52,476	52,135
Sheet metal products and services	15.5%	216	187	171	986	843
Boxes for telecom sector and services	25.3%	322	257	241	1,236	1,108
Intermediary sale of electrical products and components	-4.5%	895	937	721	3,416	3,686
Rental income	1.3%	548	541	520	2,216	2,073
Other services	34.0%	252	188	147	837	811
Total	9.2%	16,408	15,030	14,166	61,167	60,656

The quarterly sales development by markets:

Markets	Change		Q4 2016	Q4 2015	12 months		Share 2016	Share 2015
	Q/Q	12m/12m			2016	2015		
Estonia	15.4%	-5.8%	4,030	3,492	13,371	14,198	21.9%	23.4%
Finland	-0.5%	5.5%	10,202	10,258	41,004	38,875	67.0%	64.1%
Lithuania	780.6%	-3.0%	273	31	592	610	1.0%	1.0%
Sweden	24.2%	47.3%	550	443	2,104	1,428	3.4%	2.4%
Norway	68.7%	-26.1%	1,117	662	2,863	3,873	4.7%	6.4%
Others	63.9%	-26.3%	236	144	1,233	1,672	2.0%	2.7%
Total	9.2%	0.8%	16,408	15,030	61,167	60,656	100.0%	100.0%

The Group's sales revenue earned outside Estonia accounted for 78.1% in 2016 (2015: 76.6%) and in the reporting quarter 75.4% (Q4 2015: 76.8%).

Sales on the Estonian market grew by 15.4%, i.e. 0.5 million euros, to 4.0 million euros in the reporting quarter, accounting for 24.6% of the consolidated sales revenues of the reporting quarter. In 2016, the Group sold 21.9% (2015: 23.4%) of its products and services to the Estonian market. Year on year, supply to the Estonian market decreased by 0.8 million euros or 5.8%. The downturn is the result of the continued decline in investments in Estonia's energy distribution sector.

At the same time, deliveries in the direction of Finland have grown 5.5% or 2.1 million euros in the reporting year; in the reporting quarter, however, the sales volume remained mostly on the level of the comparable period. Most of the Group's enterprises have managed to grow their sales volumes on the Finnish market, as a result of which the share of the Finnish market in the Group's sales revenue grew to 67% (2015: 64.1%).

In 2016, the Group continued active work in the direction of Sweden, both, in terms of sales as well as product development. Sales revenue earned from the Swedish market increased by 24.2% in Q4 and 47.3% in a year.

Due to low oil prices and a change in ownership in the main customer of our Lithuanian company, deliveries towards Norway decreased by 1 million euros or 26.1% in 12 months. The order volumes recovered somewhat in Q4, having increased by 0.5 million euros in the reporting quarter to 1.1 million euros, contributing 6.8% of the Group's sales revenue in the last quarter.

The quarterly sales development by segments:

Segment	Change		1. October – 31. December			1. January – 31. December		
	Q/Q	12m/12m	2016	2015	2014	2016	2015	2014
Manufacturing	10.0%	0.4%	14,971	13,608	12,915	55,790	55,556	45,814
Real estate	1.1%	5.4%	633	626	605	2,480	2,353	2,392
Unallocated activities	1.0%	5.5%	804	796	646	2,897	2,747	2,400
Total	9.2%	0.8%	16,408	15,030	14,166	61,167	60,656	50,606

During the reporting quarter 91% (Q4 2015: 91%) of revenue was earned from the Manufacturing segment, Real Estate and Unallocated activities contributed 9% (Q4 2015: 9%) of the consolidated sales volume. The sale of electrical equipment provides a major part (94%-95%) of the sales volume of the Manufacturing segment.

OPERATING EXPENSES

	Change		1. October – 31. December			1. January – 31. December		
	Q/Q	12m/12m	2016	2015	2014	2016	2015	2014
Cost of sales	7.4%	0.9%	13,912	12,951	11,944	50,819	50,357	41,525
Distribution costs	17.5%	14.2%	818	696	745	3,034	2,657	2,720
Administrative expenses	-6.8%	-4.6%	1,165	1,249	1,176	4,138	4,337	4,042
Total expenses	6.7%	1.1%	15,895	14,896	13,865	57,991	57,351	48,287
incl. depreciation of fixed assets	-2.9%	3.4%	407	418	374	1,596	1,543	1,513
Total labour cost	12.9%	7.2%	3,685	3,263	3,208	13,464	12,555	12,027
inclusive salary cost	29.9%	9.3%	3,167	2,439	2,503	10,597	9,695	9,194

Operating expenses decreased 6.7% or 1 million euros in the reporting quarter and 1.1% or 0.6 million euros in the 12 months compared to the reference periods. The main reason for the upsurge in costs

was the increase in the cost of sales. Cost of sales increased by 1 million euros, i.e. 7.4% compared to Q4 of 2015 and in a year-on-year comparison, 0.5 million euros, i.e. 0.9%, lagging in the reporting quarter behind the 9.2% growth rate for sales revenue in the same period. In a year-on-year comparison, the cost of sales increased in an equivalent pace with sales revenue: 0.8%.

The continued focus of the Group towards increasing exports has led to a rise in distribution costs, growing by 18% in the reporting quarter and 14% during the year in respect to the comparable periods. In terms 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. Almost three-fourths of the increase of distribution costs was contributed by the Group's Finnish companies. The rate of distribution costs accounted for 5% of the sales revenue (2015: 4.4%). Administrative expenses decreased by 6.8% in the reporting quarter and 4.6% in 12m in relation to the comparison periods, and the rate of administrative expenses to revenue accounted for 6.8%, having decreased by 0.3 percentage points.

Employees and remuneration

In the reporting quarter, the employees were paid as salaries and fees 3,167 (Q4 2015: 2,439) thousand euros and during the year 10,597 (2015: 9,697) thousand euros. Wage costs increased 29.9% in the reporting quarter and 9.3% in the 12 months compared to the reference periods.

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 second half of 2015, the process of optimising production in the Group's Estonian undertakings was commenced. Until Q3 2016, this caused a decrease in the number of employees; however, after the conclusion of several large-scale sales contracts, the company has once again started to create new jobs. Recruitment of new employees on the labour market is complicated due to prevailing fierce competition and increasing salary pressure. To hire employees and retain the existing ones, a review of salary levels was commenced in Q4.

The average monthly salary for an employee of the Group was 1,940 (2016: 1,711) euros.

	Average number of employees				Number of employees as at 31.12.		
	Q4 2016	Q4 2015	12m 2016	12m 2015	Growth	2016	2015
Estonia	275	263	265	283	22	295	273
Finland	100	94	93	94	4	94	90
Lithuania	92	106	97	95	-16	91	107
Total	467	463	455	472	10	480	470

Over the year, the number of employees decreased only in the Lithuanian company, where, after a very successful 2015, production volumes dropped in 2016. As at the balance day on 31 December, there were 480 people working in the Group, (31.12.2015: 470).

EARNINGS AND MARGINS

In the reporting quarter the gross profit of the Group was 2,496 (Q4 2014: 2,079) thousand euros. The gross profit margin was 15.2% (Q4 2015: 13.8%). In the 12-months period, the gross profit of the Group was 10,348 (2015: 10,299) thousand euros and the gross profit margin was 16.9% (Q4 2014: 17.0%). The Group's gross profit margin was influenced by an increase in the global metal price in the last half-year.

The Group's operating profit in the reporting quarter was 487 (Q4 2015: 79) thousand euros and EBITDA 895 (Q4 2015: 498) thousand euros. Return of sales for the accounting quarter was 3.0% (Q4 2015: 0.5%) and return of sales before depreciation 5.5% (Q4 2015: 3.3%). The Group's operating

profit in 2016 was 3,181 (2015: 3,276) thousand euros and EBITDA 4,777 (2015: 4,819) thousand euros. One of the reasons for the decline in operating profit was direct additional costs resulting from the merger of metal factories, totalling at 134 thousand euros. In Q4, the merger of metal factories was completed, failures in production, caused by the moving and readjustment of machinery and equipment, have been eliminated and problems with adhering to delivery dates have been minimised. Return of sales in 2016 was 5.2% (2015: 5.4%) and return of sales before depreciation was 7.8% (2015: 7.9%).

In the reporting quarter, the consolidated net profit was 375 (Q4 2015: -16) thousand euros, of which the share of the owners of the Company was 369 (Q4 2015: -8) thousand euros. EPS in the Q4 2016 was 0.02 euros and in Q4 2015 was 0.00 euros. The net margin was 2.3% (Q4 2015: -0.1%).

The consolidated net profit of the year 2016 was 3,224 (2015: 3,186) thousand euros. The share of the owners of the Company was 3,219 (2015: 3,190) thousand euros. EPS was 0.18 (2015: 0.18) euros.

Financial position and cash flows

	Growth y-o-y	31.12. 2016	31.12. 2015	31.12. 2014
Current assets	2,422	22,265	19,843	25,141
Non-current assets	4,967	51,703	46,736	44,651
TOTAL ASSETS	7,389	73,968	66,579	69,792
Current liabilities	4,945	12,408	7,463	8,390
Non-current liabilities	255	1,167	912	1,560
Equity	2,188	60,392	58,204	59,842
incl. attributable to owners of the Company	2,221	60,307	58,086	58,475
Equity ratio (%) (Equity/total assets)*100 (%)	-5.8	81.6	87.4	85.7
Current ratio (Average current assets/ Average current liabilities)	-0.7	2.1	2.8	2.8
Quick ratio (Average liquid assets (current assets – inventories)/Average current liabilities)	-0.6	1.3	1.9	1.9

During 12 months, the amount of the consolidated assets increased by 7.4 million euros up to 74.4 million euros.

The current assets increased by 2.4 million euros in a year to 22.3 million euros. The inventories increased by 2.3 million euros and trade receivables and other receivables increased by 2.3 million euros. The cash decreased by 2.4 million euros in a year.

The cost of the non-current assets in the statement of financial position increased by 5 million euros up to 51.7 million euros. Other long-term financial investments make up 42.5% of the Group's non-current assets. During the reporting year, the market price of the share of PKC Group Oyj decreased by 0.42 euros at the Nasdaq Helsinki exchange market and which is why the value of the financial investment decreased by 0.5 million euros. After the additional round of funding and involving new investors, it was possible to prepare a reliable assessment of the fair value of the holding of AS Harju Elekter in Skeleton Technologies Group OÜ. The value of the financial investment from revaluation of the holding increased by 1.6 million euros. In addition, a loan of 660 thousand euros, granted by AS Harju Elekter, was converted into equity of Skeleton Technologies Group OÜ.

In twelve months' period, the Group has made a total of 4.6 (2015: 2.3) million euros worth of investments to property, plant and equipment and investment properties, of which 3 million euros the Group invested to the production facilities at Allika Industrial Park and fixed assets worth 0.9 million euros were acquired in connection with the purchase of real estate in Finland (Note 2).

As at the reporting date, the Group's liabilities totaled 13.6 (2015: 8.4) million euros, of which short-term liabilities made up 12.4 million euros or 91%. A major impact on the 4.9 million euros growth of short-term liabilities came from an increase of accounts payable by 2.7 million euros and debt to shareholders of 1.2 million euros (resulting from decrease of share capital).

In 2016, the current ratio of the Group was 2.1 (2015: 2.8) and the quick ratio was 1.3 (2015: 1.9).

As at 31 December 2016, interest-bearing debt obligations made up 14.5% of the Group's liabilities and 2.7% of the cost of its assets, or 14.4% and 1.8%, respectively, as at 31 December 2015. The Group had interest-bearing debt obligations totaling 2.0 (31.12.2015: 1.2) million euros, with the short-term obligations making up 0.8 (31.12.2015: 0.3) million euros.

	12 months		
	2016	2015	2014
Cash flows from operating activities	2,686	4,825	2,760
Cash flows from investing activities	-4,580	-6,473	5,580
Cash flows from financing activities	-539	-2,622	-2,451
Net cash flow	-2,433	-4,270	5,889

Cash flows from operating activities were 2.7 million euros in 2016 and 4.8 million the year before. The growth in receivables and inventories related to operating activities increased the growth of payables related to operating activities in the reporting year by 1.6 million euros.

In 2016, an additional 0.7 million euros was paid for the shares of Finnkumu Oy and 0.5 million euros for the purchase of the real estate company Kiinteistö Oy Uutvällinkulma (see Note 9). The total outflow due to investment activity in the reporting year in amount of 1.2 million euros was due to the acquisition of subsidiaries (in 2015: 0.9 million) and due to purchase of non-controlling holding 0.05 (2015: 1.7) million euros. AS Harju Elekter provided Skeleton Technologies OÜ with a refundable loan of 0.7 million euros, which later was converted into the company's equity. In 2015, 2.4 million euros were paid for financial investments. PKC Group Oyj paid dividends in the amount of 0.70 euros per share. AS Harju Elekter received the net-dividend in the amount of 0.65 million euros. Acquisition of property investments and tangible assets had a 3.2 million euros impact on cash flows (2015: 2.1).

In 2016, cash flow-out from financing activities was 0.5 (2015: 2.6) million euros. Cash flows from financing activities influenced smaller payments to shareholders – AS Harju Elekter paid out dividends in the amount of 0.9 (2015: 2.7) million euros. The payment of 1.2 million euros in connection with the reduction of share capital was made in January 2017. In addition, overdraft in the amount of 0.64 million euros and a long-term loan of 0.12 million euros were used in the reporting year.

Cash and cash equivalents decreased in the reporting year by 2.4 million euros to 3.3 million euros, and in the period of comparison by 4.2 million euros to 5.7 million 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 thousand euros. The shareholders registered in the shareholders' registry on 12 May 2016 at 23.59 entitled to dividend. The dividends transferred to the shareholders bank accounts on 17 May 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 thousand 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 shall be fixed as at 23.59 on 12 May 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 (financial consultant) and Mr. Andres Toome (consultant).

The Management Board of AS Harju Elekter has three members. On 26 October 2016, the Supervisory Board of AS Harju Elekter decided to increase the number of Management Board members to three. Andres Allikmäe, the former manager of the company, was appointed as the Chairman of the Management Board and will continue on the basis of the current service contract and authorisations. In addition, Tiit Atso, the CFO of AS Harju Elekter and Aron Kuhi-Thalfeldt, the head of real estate and energy services were appointed as Management Board members. The authorisations of new Management Board members commenced on 1 November 2016 and will end on 31 October 2019. The competence and authority of the Management Board are listed in the Commercial Law and in the Articles of Association of the Company.

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

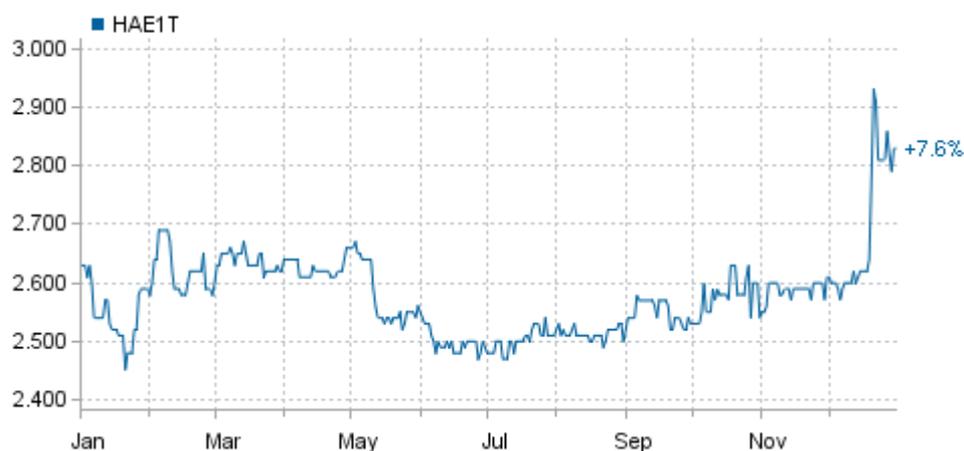
Shares of Harju Elekter and shareholders

As at December 31 2016 AS Harju Elekter had 1,925 shareholders. The number of shareholders increased during the accounting year by 148 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 31 December 2016, the members of the Supervisory and Management Boards owned in accordance with their direct and indirect ownerships totally 10.6% of AS Harju Elekter shares. The comprehensive list of shareholders is available at the website of the Estonian Central Securities Register (www.e-register.ee).

Security trading history:

	2012	2013	2014	2015	2016
Opening price	2.30	2.64	2.77	2.79	2.62
Highest price	2.80	2.92	2.85	3.14	2.94
Lowest price	2.30	2.46	2.52	2.49	2.43
Closing price	2.64	2.70	2.79	2.63	2.83
Traded shares (pc)	759,869	936,162	800,823	1,086,451	974,294
Turnover (in million)	1.88	2.48	2.17	2.98	2.45
Capitalisation (in million)	45.94	46.98	48.55	46.16	50.20
Overage number of the shares	17,093,443	17,400,000	17,400,000	17,550,851	17,739,880
EPS	0.21	0.30	0.56	0.18	0.18

Share price (in euros) in Tallinn Stock growth/decrease, 1.1.2016 - 31.12.2016
(Nasdaq Tallinn, www.nasdaqbaltic.com)



Shareholders structure by size of holding at 31 December 2016

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.10	42.10
1.0 – 10.0%	9	0.47	23.10
0.1 – 1.0 %	70	3.64	19.42
< 0.1%	1,844	95.79	15.38
Total	1,925	100.0	100.0

Shareholders (above 5%) at 31 December 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	31.12.2016	31.12.2015
Current assets			
Cash and cash equivalents		3,278	5,711
Trade receivables and other receivables		8,480	6,678
Prepayments		771	278
Income tax prepayments		24	28
Inventories		9,712	7,148
Total current assets		22,265	19,843
Non-current assets			
Deferred income tax asset		37	57
Other long-term financial investments	2	21,990	20,188
Investment property	2	13,273	12,990
Property, plant and equipment	2	10,972	8,010
Intangible assets	2	5,431	5,491
Total non-current assets		51,703	46,736
TOTAL ASSETS		73,968	66,579
LIABILITIES AND EQUITY			
Liabilities			
Interest-bearing loans and borrowings	3	804	296
Trade payables and other payables		9,140	6,043
Payables to shareholders	4	1,242	0
Tax liabilities		1,075	944
Income tax liabilities		133	146
Short-term provision		15	34
Total current liabilities		12,409	7,463
Interest-bearing loans and borrowings	3	1,167	912
Non-current liabilities		1,167	912
Total liabilities		13,576	8,375
Equity			
Share capital	4	12,418	12,418
Unregistered share capital	4	-1,242	0
Share premium		804	804
Reserves		19,214	18,047
Retained earnings		29,113	26,817
Total equity attributable to equity holders of the parent		60,307	58,086
Non-controlling interests		85	118
Total equity		60,392	58,204
TOTAL LIABILITIES AND EQUITY		73,968	66,579

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	1 October – 31 December		1 January – 31 December	
		2016	2015	2016	2015
Revenue	5	16,408	15,030	61,167	60,656
Cost of sales		-13,912	-12,951	-50,819	-50,357
Gross profit		2,496	2,079	10,348	10,299
Distribution costs		-818	-696	-3,034	-2,657
Administrative expenses		-1,165	-1,249	-4,138	-4,337
Other income		10	4	93	70
Other expenses		-36	-59	-88	-99
Operating profit	5	487	79	3,181	3,276
Finance income	6	6	48	775	835
Finance costs	6	-7	-9	-24	-49
Profit before tax		486	118	3,932	4,062
Income tax expense		-111	-134	-708	-876
Profit for the period		375	-16	3,224	3,186
Profit attributable to:					
Owners of the Company		369	-8	3,219	3,190
Non-controlling interests		6	-8	5	-4
Profit for the period		375	-16	3,224	3,186
Earnings per share					
Basic earnings per share (EUR)	7	0.02	0.00	0.18	0.18
Diluted earnings per share (EUR)	7	0.02	0.00	0.18	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1 October – 31 December		1 January – 31 December	
		2016	2015	2016	2015
Profit for the period		375	-16	3,224	3,186
Other comprehensive income					
Net growth/decrease in fair value of available-for-sale financial assets	2	-1,522	55	1,142	-1,357
Currency translation differences		1	1	1	0
Other comprehensive income for the period, net of tax		-1,521	56	1,143	-1,357
Total comprehensive income for the period		-1,146	40	4,367	1,829
Total comprehensive income attributable to:					
Owners of the Company		-1,152	59	4,362	1,844
Non-controlling interests		6	-19	5	-15
Total comprehensive income for the period		-1,146	40	4,367	1,829

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 1 January - 31 December	Note	2016	2015
Cash flows from operating activities			
Profit for the period	5	3,224	3,186
<u>Adjustments for:</u>			
Depreciation and amortisation	2	1,596	1,543
Gain on sale of property, plant and equipment	8	-31	-25
Share-based payment transactions		0	36
Finance income	6	-775	-835
Finance costs	6	24	49
Income tax expense	8	708	876
<u>Changes in:</u>			
Growth/decrease in receivables related to operating activity		-2,301	-20
Growth/decrease in inventories		-2,564	956
Growth/decrease in payables related to operating activity		3,315	-692
Corporate income tax paid	8	-601	-361
Interest paid	6	-24	-33
Net cash from operating activities		2,686	4,825
Cash flows from investing activities			
Acquisition of investment property	8	-2,539	-1,565
Acquisition of property, plant and equipment	8	-662	-523
Acquisition of intangible assets	8	-142	-207
Acquisition of subsidiaries, net of cash acquired	9	-1,224	-856
Acquisition of non-controlling interests		-50	-1,651
Acquisition of other financial investments	2	-660	-2,400
Proceeds from sale of property, plant and equipment	8	34	30
Proceeds from sale of other financial investments		0	36
Interest received	8	12	42
Dividends received		651	621
Net cash used in investing activities		-4,580	-6,473
Cash flows from financing activities			
Growth/decreases in short-term loans	3	642	0
Proceeds from borrowings	3	129	0
Repayment of borrowings	3	-12	0
Payment of finance lease principal	3	-296	-347
Receipts from contribution into share capital		0	766
Dividends paid		-887	-2,654
Dividends income tax paid		-115	-387
Net cash used in financing activities		-539	-2,622
Net cash flows		-2,433	-4,270
Cash and cash equivalents at beginning of period			
Net increase / decrease		-2,433	-4,270
Effect of growth/decrease rate fluctuations on cash held		0	-3
Cash and cash equivalents at end of period		3,278	5,711

CONSOLIDATED STATEMENT OF GROWTH/DECREASES IN EQUITY

For the period 1 January – 31 December	Attributable to owners of the Company							Non- Control- ling 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	3,190	3,190	-4	3,186
Other comprehensive income for the period	0	0	0	-1,357	11	0	-1,346	-11	-1,357
Total comprehensive income	0	0	0	-1,357	11	3,190	1,844	-15	1,829
Transaction with the owners of the Company, recognised directly in equity									
Increase of capital reserve	238	564	0	0	0	0	802	0	802
Reduction of unregistered share capital	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 31 December 2015	12,418	804	1,218	17,969	2	26,817	58,086	118	58,204

For the period 1 January – 31 December	Attributable to owners of the Company							TOTAL	Non-Controlling interests	TOTAL
	Share capital	Unregistered share capital	Share premium	Capital reserve	Fair value reserve	Translation reserve	Retained earnings			
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	3,219	3,219	5	3,224
Other comprehensive income for the period	0	0	0	0	1,142	1	0	1,143	0	1,143
Total comprehensive income	0	0	0	0	1,142	1	3,219	4,362	5	4,367
Transaction with the owners of the Company, recognised directly in equity										
Increase of capital reserve	0	0	0	24	0	0	-24	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
Acquisition of non-controlling interest	0	0	0	0	0	0	-12	-12	-38	-50
At 31 December 2016	12,418	-1,242	804	1,242	17,969	3	29,113	60,307	85	60,392

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 31.12.2016 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), Harju Elekter Kiinteistöt Oy, Rifas UAB and Automatikos Iranga UAB (subsidiary Rifas UAB) (together referred to as the Group).

AS Harju Elekter has been listed at Nasdaq Tallinn Stock Exchange 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 1-12/2016 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 – 31 December	Note	2016	2015
Other long-term financial investments			
At 1 January		20,188	19,145
Additions		660	2,400
Growth/decreases in the fair value reserve		1,142	-1,357
At the end of the period		21,990	20,188
Investment property			
At 1 January		12,990	12,109
Additions		3,111	1,356
Reclassification		-2,319	-13
Depreciation charge	5	-509	-472
At the end of the period		13,273	12,980

Note 2 Non-current assets (continued)

For the period 1 January – 31 December	Note	2016	2015
Property, plant and equipment			
At 1 January		8,010	7,968
Additions		675	970
Additions through acquisition of subsidiaries		851	0
Disposals		-3	-5
Reclassification		2,319	13
Depreciation charge	5	-880	-926
At the end of the period		10,972	8,020
Intangible assets			
At 1 January		5,491	5,429
Additions		147	207
Depreciation charge	5	-207	-145
At the end of the period		5,431	5,491

Note 3 Interest-bearing loans and borrowings

	31.12.2016	31.12.2015
Current liabilities		
Short-term bank loans	642	0
Current portion of long-term bank loans	54	0
Current portion of lease liabilities	108	296
Total current liabilities	804	296
Non-current liabilities		
Long-term bank loans	363	0
Lease liabilities	804	912
Total non-current liabilities	1,167	912
TOTAL	1,971	1,208

Growth/decreases during the period 1 January – 31 December

	2016	2015
Loans and borrowings at the beginning of the year	1,208	1,096
Growth/decreases in short-term loans	642	0
Received long-term loans	129	0
Received long-term loans through acquisition of subsidiaries	300	0
Long-term loan repaid	-12	0
New finance lease	0	459
Payment of finance lease principal	-296	-347
Loans and borrowings at the end of the current period	1,971	1,208

Note 4 Share capital

	Unit	31.12.2016	31.12.2015
Share capital	EUR'000	12,418	12,418
Number of shares issued (fully paid)	Pc'000	17,740	17,740
Unregistered share capital	EUR'000	-1,242	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 thousand euros to 11,176 thousand euros. The entry on the reduction of share capital has made on 18 October 2016 in the Commercial Register. The payments to shareholders were made on 20 January 2017, therefore the amount is recorded as Unregistered share capital as at 31 December 2016. According to Article 359 (1) of the Commercial Code, a petition for entry of the reduction of share capital in the commercial register will not be submitted earlier than three months after publication of the reduction of share capital notice.

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”– Real estate development, maintenance and rental. Real estate has been identified as a reportable segment because its result and assets are more than 10% of the total result and assets of all segments.

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 – 31 December	Note	Manu- facturing	Real estate	Other activities	Elimi- nations	Consoli- dated
2016						
Revenue from external customers		55,791	2,480	2,896	0	61,167
Inter-segment revenue		144	978	402	-1,524	0
Total revenue		55,935	3,458	3,298	-1,524	61,167
Operating profit		2,502	1,112	-241	-192	3,181
Finance income	6					775
Finance costs	6					-24
Profit before tax						3,932
Income tax						-708
Profit for the period						3,224
Segment assets		38,713	13,742	4,738	-6,920	50,273
Indivisible assets						23,695
Total assets						73,968
Capital expenditure	2	658	3,113	822	0	4,593
Depreciation charge for the year	2	862	509	238	-13	1,596
2015						
Revenue from external customers		55,555	2,353	2,748	0	60,656
Inter-segment revenue		252	961	345	-1,558	0
Total revenue		55,807	3,314	3,093	-1,558	60,656
Operating profit		2,651	954	-297	-32	3,276
Finance income	6					806
Financial income from subsidiary	6					29
Finance costs	6					-36
Financial expense from subsidiary	6					-13
Profit before tax						4,062
Income tax						-876
Profit for a period						3,186
Segment assets		33,440	13,304	4,678	-7,432	43,990
Indivisible assets						22,589
Total assets						66,579
Capital expenditure	2	850	1,391	2,692	0	4,933
Depreciation charge for the year	2	875	471	200	-3	1,543

Revenue by markets:

For the period 1 January – 31 December	2016	2015
Estonia	13,371	14,198
Finland	41,004	38,875
Lithuania	592	610
Sweden	2,104	1,428
Norway	2,863	3,873
Other countries	1,233	1,672
Total	61,167	60,656

Revenue by business area:

For the period 1 January – 31 December	2016	2015
Electrical equipment	52,476	52,135
Sheet metal products and services	986	843
Boxes for telecom sector and services	1,236	1,108
Intermediary sale of electrical products and components	3,416	3,686
Rental income	2,216	2,073
Other services	837	811
Total	61,167	60,656

Note 6 Finance income and costs

For the period 1 January – 31 December	2016	2015
Interest income	9	39
Income from sale of investments	0	1
Dividend income	766	766
Financial income from subsidiary	0	29
Total finance income	775	835
Interest expense	-24	-33
Net loss from foreign exchange differences	0	-3
Financial expense from subsidiary	0	-13
Total finance costs	-24	-49

Note 7 Basic and diluted earnings per share

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 31 December 2016, the Group did not have any potential shares. Therefore, diluted earnings per share are equal to basic earnings per share.

For the period	Unit	2016	2015
1 January – 31 December			
Profit attributable to equity holders of the parent	EUR'000	3,219	3,190
Average number of shares outstanding	Pc'000	17,740	17,551
Basic and diluted earnings per share	EUR	0.18	0.18
1 October – 31 December			
Profit attributable to equity holders of the parent	EUR'000	369	-8
Adjusted number of shares during the period	Pc'000	17,740	17,740
Basic and diluted earnings per share	EUR	0.02	0.00

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

For the period 1 January – 31 December	Note	2016	2015
Corporate income tax paid			
Income tax expense		-708	-876
Prepayment decrease (+)/ increase (-) liability decrease (-)/ increase (+)		-9	185
Acquired liability through through acquisition of subsidiaries		-19	0
Income tax expense on dividends		115	387
Deferred income tax expense (+)/income (-)		20	-57
Corporate income tax paid		-601	-361
Interest received			
Interest income	6	9	39
Receivable increase (-)		3	3
Interest received		12	42
Paid for investment property			
Additions of investment property	2	-3,111	-1,356
Liability decrease (-)/ increase (+) incurred by purchase		570	-209
Acquisition of investment property		-2,539	-1,565
Paid for property, plant and equipment			
Additions of property, plant and equipment	2	-675	-970
Acquired with finance lease	3	0	459
Liability decrease (-)/ increase (+) incurred by purchase		13	-12
Acquisition of property, plant and equipment		-662	-523
Paid for intangible assets			
Additions of intangible assets	2	-147	-207
Liability decrease (-)/ increase (+) incurred by purchase		5	0
Acquisition of intangible assets		-142	-207
Proceeds from sale of property, plant and equipment			
Book value of disposed property, plant and equipment	2	3	5
Profit on disposal of property, plant and equipment		31	25
Proceeds from sale of property, plant and equipment		33	30

Note 9 Subsidiaries

On 17 June 2014, Satmatic Oy (Finland) signed a contract for the purchase of all of the shares of Finnkumu 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 thousand (Q2 2015: 857 thousand) euros for the shares of Finnkumu Oy.

In October 2016, the subsidiary UAB Rifas acquired an additional 16% stake in the subsidiary UAB Automatikos Iranga for 50 thousand euros, increasing its ownership interest to 67%. The carrying amount of the non-controlling interest was 38 thousand euros. The difference between cost and carrying amount of 12 thousand euros was recognised in equity, as an decrease in retained earnings.

On 14 October 2016, AS Harju Elekter acquired the real estate company Kiinteistö Oy Uutvällinkulma. Following the transaction, the acquired company will trade under the name Harju Elekter Kiinteistöt Oy. The contract price worked out to be 518 thousand euros. The acquisition of the company has been recorded as the acquisition of fixed assets under IAS 16 and not as a business combination to be recorded under IFRS 3, as the acquired company did not include a separately identifiable business activity.

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 – 31 December	2016	2015
Purchase of goods and services from related parties:		
- from Harju KEK	53	93
<i>Inclusive:</i>		
- lease of property, plant and equipment	53	80
- purchase of property, plant and equipment	0	13
Sale of goods and services to related parties:		
- to Harju KEK	0	5
<i>Inclusive:</i>		
- other services	0	5
Remuneration of the Management and Supervisory Boards		
- salaries, bonuses, additional remuneration	235	213
- social security and other taxes on salaries	78	71
TOTAL	313	284

The members of the Management Board receive remuneration in accordance with the contract and are also entitled to receive a severance payment: Chairman in the amount of 10 months' and other members 4 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. Members of the Management Board have no rights related to pension. During the quarter, 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 financial statements of 1-12/2016 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

Chairman of the Managing Board/ CEO

„27th“ February 2017