Business Report 2016

tradition.
knowledge.
responsibility.

Contents

Acronyms

Used in the text

Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
ZET	Zagreb Electric Tramway
HŽ	Croatian Railways
S/S	Transformer Substation
HPP	Hydro Power Plant
PBZ	Privredna banka Zagreb
RBA	Raiffeisen Bank Austria
CERP	Restructuring and Sale Center
HRK	Croatian Kuna
HPB	Hrvatska poštanska banka
ZSE	Zagreb Stock Exchange

1. Introduction
Foreword by the Chairman of the Management Board

In 2016, KONČAR Group continued its successful business years. Consolidated net profit for 2016 amounted to HRK 173.8 million, an increase of 15.6 percent compared to the previous year.

Due to the appropriate activities and despite the lack of planned revenues on the domestic market (delivery of trains for the Croatian Railways), KONČAR Group achieved a good financial result, increased revenues from the sales of goods and services on export markets by 7.7 percent and contracted new jobs in the amount of 2.7 billion of which 50 percent are exported.

In order to ensure a stable and reliable positioning of market positions, different measures were undertaken in KONČAR Group companies. First of all, the scope of supply was increased and efforts were made to open new markets, measures were taken to increase synergies within the system and to reduce operating costs. All the measures taken resulted in continued profitability and the financial stability of the Group.

Along with all these measures during 2016, the Management Board, with the consent of the Supervisory Board, made the decision to conduct a business analysis with the aim of increasing the synergy effects in KONČAR Group. For the purpose of the analysis, the Boston Consulting Group has been engaged to work with the representatives of KONČAR to identify measures for the rationalization and the optimization of operations and to improve the Group's market position.

The Group has a stable balance sheet. The balance of total consolidated and source funds on 31 December 2016 was HRK 3,799.3 million. In the structure of source funds, subscribed capital, reserves, retained earnings, the profit from current year and the non-controlling (minority) interest amounted to HRK 2,448.3 million, which is by HRK 126.8 million more than on 31 December 2015 and accounted for 64.4 percent of total sources.

Good business results have been achieved as a result of the company's own product and production development and research projects, as a permanent determinant of KONČAR which will continue in the next period by innovating and developing leading to new products and the expansion of business activities.

The collaboration with scientific institutions continued through the delivery of a number of joint projects.

KONČAR Group systematically encourages and supports a value system in which culture of work, creation and excellence gains a more significant place in all companies. Corporate responsibility in KONČAR is a part of everyday work processes in all business segments and relies on human potential as a company development provider. With responsibility for the environment in which it operates, KONČAR has identified environmental management as one of the business priorities which result is visible in customer satisfaction as well as the increasing number of certificates that demonstrate compliance with the most important norms. Thus, apart from ISO 9001, OHSAS 18001 and many other specialized certificates, all KONČAR Group companies also hold the ISO 14001 certificate.

Good contract conclusion-related results at the end of 2016 and additional efforts to find new markets are realistic grounds for KONČAR Group companies to achieve the 2017 planned business plans and to continue the positive business trend.

Chairman of the Management Board
Darinko Bago

The Report By The Supervisory Board To The General Assembly of KONČAR - Electrical Industry Inc.

During 2016, the Supervisory Board of KONČAR - Electrical Industry Inc. conducted its activities set under the law and the Company's Articles of Association.

In the period from 1 January 2016 until 12 July 2016, the Supervisory Board consisted of the following members:

Chairman of the Supervisory Board:	Nenad Filipović
Deputy Chairwoman of the Supervisory Board:	Jasminka Belačić
Members of the Supervisory Board:	Petar Mišura, Nikola Plavec, Petar Vlaić, Vicko Ferić, Boris Draženović, Ivan Rujnić, Dragan Marčinko.

Pursuant to the decision of the General Assembly adopted on 12 July 2016, the following members of the Supervisory Board were appointed for the term of four years: Vicko Ferić, Branko Lampl, Petar Vlaić, Josip Lasić, Joško Miliša and Nikola Anić. At the constituting session of the Supervisory Board held on 12 July 2016, Petar Vlaić was elected its Chairman and Josip Lasić his Deputy. Vladimir Plečko was appointed the SB member by the association of small shareholders, and Jasminka Belačić as an employee representative.

In the period from 12 July 2016 until 31 December 2016, the Supervisory Board consisted of the following members:

Chairman of the Supervisory Board:	Petar Vlaić
Deputy Chairman of the Supervisory Board:	Josip Lasić
Members of the Supervisory Board:	Vicko Ferić, Nikola Anić, Jasminka Belačić, Branko Lampl, Joško Miliša, Vladimir Plečko

In 2016, the Supervisory Board held fifteen sessions and discussed numerous Company operation-related issues.

The Supervisory Board sessions are attended by the members of the Management Board of KONČAR - Electrical Industry Inc., who within their own competencies, report on specific issues and provide the Supervisory Board with all additional explanations in order for the Supervisory Board to discuss all the items on the agenda in detail and take a point of view i.e. reach all necessary decisions.

The Management Board submitted regular reports to the Supervisory Board on all important business events, business operations, income and expenses as well as the general state of the Company. The Management Board submitted regular quarterly, semiannual and annual business reports to the Supervisory Board, which adopted them without qualifications. In that regard, the Supervisory Board assessed its cooperation with the Management Board as very successful.

The Audit and the Strategic Development Committee are the two committees within the Supervisory Board which support its work and activities.

The Audit Committee consists of 4 members, all of whom are also the members of the Supervisory Board. In the period preceding the appointment of the new SB, the Committee was presided by the deputy chairwoman of the Supervisory Board Jasminka Belačić. Other members were Vicko Ferić, Boris Draženović and Ivan Rujnić. After having appointed the new Supervisory Board, new members of the Audit Committee were also elected: Vicko Ferić as its president and Josip Lasić, Nikola Anić and Jasminka Belačić as members.

The Audit Committee held three sessions. They discussed and reached decisions within their competences and responsibilities set under the Audit Act.

The Strategic Development Committee has five members, all of whom are also the members of the Supervisory Board. In the period preceding the appointment of the new SB, the Committee was presided by the chairman of the Supervisory Board Nenad Filipović. Other members included Petar Mišura, Petar Vlaić, Nikola Plavec and Dragan Marčinko. After having appointed the new Supervisory Board, new members of the Strategic Development Committee were elected: Joško Miliša as its president and Petar Vlaić, Branko Lampl and Vladimir Plečko as members.

The Strategic Development Committee held one session. It discussed topics set under the Rules of Procedure of the Strategic Development Committee.

In line with its obligations, the Supervisory Board conducted the supervision and reviewed the Company's business books and documentation. It concluded that KONČAR - Electrical Industry Inc. carried out its business activities in accordance with the law, the Articles of Association and other Company acts as well as decisions adopted by the General Assembly.

The Supervisory Board reviewed the 2016 Financial Statements together with the report of its certified auditors Pricewaterhouse Coopers d.o.o. from Zagreb, Ulica kneza Ljudevita Posavskog 31/VI both for KONČAR - Electrical Industry Inc. and KONČAR Group.

Upon reviewing the 2016 annual financial statements of the Company and the consolidated 2016 annual financial statements for KONČAR Group submitted by the Management Board, the Supervisory Board concluded that both annual financial reports and the consolidated annual financial reports of KONČAR Group for 2016 were made in accordance with the status in the Company's business books and that they correctly showed the assets of and the business situation in the Company. Having approved said reports, they were considered concluded as per the provision of Article 300d of the Companies Act.

The Supervisory Board approved the annual report of KONČAR - Electrical Industry Inc. and its dependent companies for 2016.

The Management Board of KONČAR - Electrical Industry Inc. submitted a proposal to the Supervisory Board on the use of profit earned in 2016. KONČAR - Electrical Industry Inc. earned net profit of HRK 64,768,070.80, of which HRK 3,238,403.54 (5 percent) was allocated to legal reserves, and HRK 30,734,571.26 to statutory reserves.

The Supervisory Board proposed to the General Assembly of KONČAR - Electrical Industry Inc. to pay out the shareholders' dividend of HRK 12.00 per share from the retained profit earned in 2016 i.e. HRK 30,795,096.00.

The Supervisory Board consented to the above proposal made by the Management Board on the use of profit and proposed the adoption thereof by the General Assembly.

The Supervisory Board submits this report to the General Assembly of KONČAR - Electrical Industry Inc. and proposes the adoption of the proposal on the use of available profit earned in 2016.

Zagreb, 24 April 2017
Chairman of the Supervisory Board
Petar Vlaić

2. The Most Important Performance Indicators

FOR THE PERIOD OF 2013 - 2016

in 000 HRK	2013	2014	2015	plan 2016	2016	Index 5/3	Index 5/4
	1	*2*	*3*	*4*	*5*	*6*	*7*
Total revenues	**2.850.979**	**2.947.489**	**3.296.461**	**3.285.937**	**3.111.844**	**94**	**95**
Sales revenues							
Croatia	1.265.777	1.350.740	1.742.432	1.628.018	1.445.511	83	89
Export	1.243.322	1.298.016	1.306.642	1.493.768	1.407.632	108	94
Total	**2.509.099**	**2.648.756**	**3.049.074**	**3.121.786**	**2.853.143**	**94**	**91**
Contracted works							
Croatia	1.141.925	2.878.470	1.413.281	1.519.219	1.203.281	85	79
Export	1.535.259	1.194.469	1.548.371	1.512.711	1.482.324	96	98
Total	**2.677.184**	**4.072.939**	**2.961.652**	**3.031.930**	**2.685.605**	**91**	**89**
Status of contracted works at year end							
Croatia	858.993	2.379.665	2.050.514	1.924.080	1.665.712	81	87
Export	1.511.337	1.337.926	1.579.655	1.588.349	1.626.330	103	102
Total	**2.370.330**	**3.717.591**	**3.630.169**	**3.512.429**	**3.292.042**	**91**	**94**
No.of employees 31 December	**3.780**	**3.662**	**3.666**	**3.657**	**3.643**	**99**	**100**
Sales per employee	**663,8**	**723,3**	**831,7**	**853,6**	**783,2**	**94**	**92**
Group's profit	163.696	160.096	151.321	155.675	173.788	115	112
Minority stakes	28.584	30.847	23.669	22.040	30.505	129	138
Profit attributed to equity holders	**135.112**	**129.249**	**127.652**	133.635	**143.283**	112	107
Non-current assets	1.491.729	1.506.601	1.503.356	1.518.392	1.494.777	99	98
Current assets	1.969.401	2.395.963	2.134.604	2.178.261	2.298.558	108	106
Pre-paid expenses	6.000	15.919	12.078	11.787	5.936	49	50
Total assets	**3.467.130**	**3.918.483**	**3.650.038**	**3.708.440**	**3.799.271**	**104**	**102**
Subscribed capital	1.028.848	1.208.895	1.208.895	1.208.895	1.208.895	100	100
Reserves, retained profit, current year profit	903.430	818.720	884.186	964.320	998.644	113	104
Total capital	**1.932.278**	**2.027.615**	**2.093.081**	**2.173.215**	**2.207.539**	**105**	**102**
Non-controlling interest	243.230	257.389	228.414	233.292	240.785	105	103
Long-term provisions	338.862	303.663	259.351	328.501	234.352	90	71
Long-term liabilities	206.519	161.908	143.126	138.397	122.458	86	88
Short-term liabilities	746.241	1.167.908	926.066	835.035	994.137	107	119
Total liabilities	**3.467.130**	**3.918.483**	**3.650.038**	**3.708.440**	**3.799.271**	**104**	**102**
EBIT	193.905	189.232	181.833	188.506	205.453	113	109
EBITDA	276.490	278.729	271.351	286.318	298.305	110	104
EBITDA margin	9,7%	9,5%	8,2%	8,7%	9,6%	116	110
Return on equity	7,5%	7,0%	6,5%	6,5%	7,1%	109	110
Return on sales	6,5%	6,0%	5,0%	5,0%	6,1%	122	122
Earning per share	52,52	50,25	49,74	52,0	55,83	112	107

3. Organization and Management

The activities of KONČAR Group consist of the following business areas:

Power and Transport

- Designing and constructing plants and equipment for the production, transport and distribution of electrical energy, locomotives, low-floor multiple units, tramways and electrical equipment for stable electric traction facilities.

Industry

- Electromotor drives, low voltage electric equipment.

Trade

- Electric household appliances, mass products and low voltage electric devices.

Special activities

- Product research and development and infrastructural services.

KONČAR Group consists of KONČAR - Electrical Industry Inc. as the parent company and 17 dependent companies in which the parent company exercises predominant influence (more than 50 percent of votes at the General Assembly). Some of the companies have preferred shares subscribed in addition to the ordinary shares issued. In addition, the parent company exercises minority management influence (49 percent of votes at the General Assembly) in one (affiliated) company.

The Group's companies are legally autonomous entities, while the parent company has a supervising role; it provides the strategic direction and supports them through companies' Supervisory Boards and General Assemblies pursuant to the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc. and the articles of association of individual companies. Furthermore, the parent company manages a portion of assets which has not been invested in its companies but is directly and indirectly in function of the financial support of sales, products and equipment of dependent companies as a credit-guarantee potential.

KONČAR - Electrical Industry Inc.

ENERGY AND TRANSPORT	INDUSTRY AND TRADE	SPECIAL ACTIVITIES	REPRESENTATIVE OFFICES
POWER PLANT AND ELECTRICAL TRACTION ENGINEERING	HOUSEHOLD APPLIANCES	ELECTRICAL ENGINEERING INSTITUTE	*RUSSIAN FEDERATION
GENERATORS AND MOTORS	SMALL ELECTRICAL MACHINES	INFRASTRUCTURE AND SERVICES	BOSNIA AND HERZEGOVINA
HIGH VOLTAGE SWITCHGEAR	LOW VOLTAGE SWITCH. AND CIRCUIT BREAKERS		SERBIA
MEDIUM VOLTAGE APPARATUS			
SWITCHGEAR			
DISTRIBUTION AND SPECIAL TRANSFORMERS			
INSTRUMENT TRANSFORMERS			
ELECTRONICS AND INFORMATICS			
METAL STRUCTURES			
ELECTRIC VEHICLES			
ENG. FOR PLANT INSTALLATION & COMMISSIONING			
RENEWABLE SOURCES			

ASSOCIATED COMPANIES
POWER TRANSFORMERS

* Representative Office in Moscow ceased operations in May 2016

As the parent company, KONČAR - Electrical Industry Inc. invoices the dependent companies for the following services:

- Fees for using the corporate name, brand and trade mark,
- A part of the costs incurred for joint presentation on fairs,
- A part of the costs for the agencies abroad,
- A part of joint costs for marketing activities,
- Seminars for managers and quality and environment management systems.

Below is an overview including basic information of dependent and affiliated companies.

	in HRK Subscribed Capital Total	in HRK Subscribed Capital Total	% Management of the Parent 31 Dec 2016	% Ownership of the Parent 31 Dec 2016
Dependent Companies				
Power Plant and Electric Traction Engineering	50,577,000	50,577,000	100.00	100.00
Generators and Motors	107,927,700	107,927,700	100.00	100.00
High Voltage Switchgear	56,335,140	55,553,340	99.03	98.61
Medium Voltage Apparatus	19,679,700	19,679,700	100.00	100.00
Switchgear	29,018,600	20,321,470	81.70	70.03
Distribution and Special Transformers	76,684,800	40,439,400	67.90	52.73
Instrument Transformers	18,989,100	11,721,900	99.77	61.73
Electronics and Informatics	42,027,280	35,286,420	75.03	75.03
Metal Structures	24,645,600	18,486,600	75.01	75.01
Electric Vehicles	47,026,800	35,288,700	75.04	75.04
Renewable Sources	130,312,400	111,120,000	85.27	85.27
Engineering for Plant Installation and Commissioning	11,827,500	5,288,100	79.05	44.71
Small Electric Machines	41,641,800	41,641,800	100.00	100.00
Household Appliances	17,834,100	17,834,100	100.00	100.00
Low Voltage Switches and Circuit Breakers	60,499,300	60,499,300	100.00	100.00
Electrical Engineering Institute	40,763,520	40,763,520	100.00	100.00
Infrastructure and Services	49,891,600	49,891,600	100.00	100.00
Associated Company				
Power Transformers	72,764,000	35,654,400	49.00	49.00

THE MANAGEMENT BOARD

The Supervisory Board appoints and relieves the Chairman of the Management Board and the Board members. The mandate of the Chairman of the Management Board and of the Board members is five years with an option of reappointment. Pursuant to the Companies Act and the Company Articles of Association, the Management Board is responsible for running business operations. In doing so, they are obliged and authorised to take any actions and decisions deemed necessary for the successful management of the Company. The consent of the Supervisory Board is required in making certain decisions defined under the Articles of Association.

KONČAR - Electrical Industry Inc. is managed by the Management Board consisting of:

Darinko Bago	Chairman of the Management Board
Miki Huljić*	Board Member in charge of Integration and Optimization
Marina Kralj Miliša	Board Member in charge of Legal, General and HR Affairs
Jozo Miloloža*	Board Member in charge of Finances
Davor Mladina	Board Member in charge of Industry and Trade
Miroslav Poljak	Board Member in charge of Corporate Development and ICT

Note: Under the decision of the Supervisory Board dated 7 February 2017, Jozo Miloloža ceases to be a member of the Management Board as his term of office expired. Under the decision of the Supervisory Board, it was determined that as of 7 February 2017 Miki Huljić would assume the function of a member of the Management Board.

The Supervisory Board

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry Inc. the General Assembly reaches decisions on appointing and relieving the Supervisory Board. The Supervisory Board is responsible for appointing and relieving the members of the Management Board and for supervising the Company’s operations. The execution of some significant transactions (the amount of such transactions is defined by the Supervisory bord Rules) and important business decisions requires the approval of the Supervisory Board.

Until their terms of offcie were terminated on 3 July 2016, the members of the Supervisory Board were Vicko Ferić, Nenad Filipović, Petar Mišura, Dragan Marčinko, Nikola Plavec and Ivan Rujnić.

The Supervisory Board consisted of:

Nenad Filipović	Chairman of the Supervisory Board
Jasminka Belačić	Deputy Chairwoman of the Supervisory Board
Boris Draženović	Member
Vicko Ferić	Member
Dragan Marčinko	Member
Petar Mišura	Member
Nikola Plavec	Member
Ivan Rujnić	Member
Petar Vlaić	Member

The General Assembly of the Company held on 12 July 2016 decided to elect new members of the Supervisory Boardas.

The New Members of the Supervisory Boardas:

Petar Vlaić	Chairman of the Supervisory Board
Josip Lasić	Deputy Chairman of the Supervisory Board
Nikola Anić	Member
Jasminka Belačić	Member
Vicko Ferić	Member
Branko Lampl	Member
Joško Miliša	Member
Vladimir Plečko	Member

Members of the Supervisory Board have been elected for a period of four years starting on 12 December 2016. Members of the Supervisory Board of the Company have accepted the proposal to appoint Petar Vlaić as the Chairman of the Supervisory Board, while Josip Lasić was appointed the Deputy Chairman of the Supervisory Board.

The Audit Committee

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board has established the Audit Committee. In accordance with the provisions laid down in the Audit Act and the Corporate Governance Code, the Audit Committee is in charge of monitoring the financial reporting procedure, the efficiency of the system of control, supervises the conducting of annual financial statements audits, monitors auditors' independence, makes recommendations to the Supervisory Board concerning the selection and to the General Assembly concerning the appointment of an audit firm.

The Audit Committee consists of four members:

Vicko Ferić	Chairman of the Audit Committee
Nikola Anić	Member
Jasminka Belačić	Member
Josip Lasić	Member

The Strategic Development Committee

At its session held on 28 September 2012, the Supervisory Board established the Strategic Development Committee. The Supervisory Board assigns tasks to the Strategic Development Committee for the purpose of tackling subjects and the activities falling under the remit of the Supervisory Board with a specific emphasis on the long-term viability, risk assessment, Group's strategic priorities, restructuring needs and the development of strategic human resource within KONČAR Group.

The Strategic Development Committee consists of 4 members:

Joško Miliša	Chairman of the Strategic Development Committee
Branko Lampl	Member
Vladimir Plečko	Member
Petar Vlaić	Member

4. Implementation of Corporate Governance Principles

At their sessions held on 7 April 2008 and 17 August 2008, the Management Board of KONČAR - Electrical Industry Inc. and the Supervisory Board of the Company, respectively, adopted the principles of corporate governance based on the positive regulations of the Republic of Croatia and the adopted international standards. The principles are publicly available on the web site of the company (www.koncar.com) and on the official website of the Zagreb Stock Exchange (www.zse.hr).

A questionnaire together with the answers to questions regarding the implementation of the provisions of the Zagreb Stock Exchange Code and the HANFE Company is available on the official website of the Zagreb Stock Exchange (www.zse.hr) and on the Company website (www.koncar.com). The Company applies most of the provisions of the Corporate Governance Code except for certain provisions that the Company does not consider to be required in the prescribed form, and in particular:

- The Nomination and Reward Committee has not been established. The appointment of new members of the Management Board and of key managerial structures takes place in a well-organized manner.
- The remuneration of the Management Board / Directors of the Company was set under the Decision of the Board of KONČAR - Electrical Industry Inc. It is based on clearly defined business-related criteria. The remuneration of the Management Board of KONČAR - Electrical Industry Inc. is stipulated in the Rights and Obligations Agreement signed by the President and the members of the Management Board together with the Chairman of the Supervisory Board. The award is considered to be an appropriate position of the Company and its results. Overall income and fee-related information of the members of the Board and the Director are disclosed in total in the annual report.
- No internal control committee has been established.

KONČAR - Electrical Industry Inc., as a parent of the Group of Owned Associations that are autonomously conducting legal transactions, has successfully established, maintained and developed a Business Information System that enables a coordinated current and strategic planning of business and development, members and parent of the Group. It controls the implementation of plans, deviations in their delivery, search and analysis of said deviations, enables the analysis of resource efficiency, cost control, risk assessment and risk mitigation measures, preparation of consolidated financial statements and financial reports for the public (ZSE, banks, Tax Administration and Financial Statements Registry).

For many years, all KONČAR's companies have submitted their financial statements to be audited by independent auditing companies, which has further contributed to the maintenance and development of a reliable and transparent business system. Most of KONČAR's companies have adopted the International Standard ISO 9001 under which each process is described, determined by the relevant procedures and documents, as well as subject to a regular check by authorized certification companies. All business events and processes are documented and controllable.

The management of these companies and their financial statements are the responsibility of the companies' management boards. KONČAR - Electrical Industry Inc. as a parent, manages the Group's business policy, decides on long-term development goals and strategies, adopts business and development plans, coordinates and supervises the operations of subsidiaries through the Supervisory Boards, in compliance with statutory regulations, company's Articles of Association and Management Board's decisions as well as the adopted Corporate Governance Code.

So far, Internal Business Controls have been organized and implemented periodically and in accordance with the decisions of the Supervisory Board.

KONČAR - Electrical Industry Inc. as a parent of the Group has no significant legal transactions with third parties (except in credit-guarantee operations). All material decisions are made by the Management Board. Prior to the execution of the decision, the members of the Management Board in charge of the areas liquidated the accounts. All process controls are carried out according to prescribed procedures. We believe that documentation, control and business transparency is ensured by consistent implementation and the compliance with prescribed procedures.

The Company believes that the lack of implementation of some of the provisions of the Code does not undermine the high level of transparency of the Company's business and will not significantly affect current and potential investors when making their investment decisions.

A 64-question questionnaire contains precise answers to questions on the provisions of the Code which are applied by the Company and which are not publicly available on the official web pages of the Zagreb Stock Exchange (www.zse.hr) and the Company's web site (www.koncar.com).

Within the framework of its organizational model, in which it operates and within which all business processes are taking place, the Company has developed internal control systems at across all important levels. These systems enable, among other things, the objective and correct presentation of financial and business reports.

Data on significant holders of shares is available daily on the official web site of SKDD (www.skdd.hr). As of 31 December 2016 and 2015, they are also disclosed in the Financial Reports with the Independent Auditor's Report. Electronic voting is available to shareholders in attendance at the General Assembly.

The adopted Corporate Governance Principles are based on responsible management; they define corporate governance procedures based on the adopted recognised international standards and the operational supervision. The underlying purpose is to establish high corporate governance standards and the transparency of operations as the foundation for protecting the shareholders, investors and other stakeholders, as well as care for the employees, sustainable development and environmental protection.

5. Market Position

The production programme of KONČAR Group companies is oriented towards the core business activity of electric power and transport. As the production capacities are being continuously upgraded through investments into modern production technologies, it is important to mention that individual products are designed to meet clients' demands ('tailor made'), constituting the Group's strategic distinction.

In the year 2016, new jobs were contracted in the amount of HRK 2,685.6 million, of which HRK 1,327.1 million for 2016 and HRK 1,358.5 million for 2017 and years after.

The balance of contracted projects (open contracts) at end of December 2016 amounted to HRK 3,292 million, which is 5 percent less than early that year.

Consolidated income from sales of products and services amounted to HRK 2,853.1 million, which is 6.4 percent less than the delivered in 2015.

Sales in the domestic market amounted to HRK 1,445.5 million (51 percent of total income from sales of goods and services), which is 17 percent less than in the previous year. The income from the domestic market consisted of the planned income for the delivery of trains to HŽ Passenger Transport (HRK 177.4 million less than planned in 2016) and the income planned for HEP (HRK 46 million less).

In exports, sales of products and services amounted to HRK 1,407.6 million (49 percent of total income from sales of products and services), which is 7.7 percent higher than in 2015.

In the structure of income from the sale of products and services on the domestic market, income from the sales of products and services to HEP amounted to HRK 476.8 million (33 percent of total achieved income from the sale of products and services on the domestic market).

Income from the sale of products and services to HŽ from January to December 2016 amounted to HRK 155.9 million (10.8 percent of the total achieved on the Croatian market).

Other significant customers on the Croatian market account for income from the sale of products and services to KONČAR - Power Transformers Ltd. which amounted to HRK 110.8 million (7.7 percent of total domestic income), the State Administration (Ministry of the Interior, Ministry of Regional Development, Ministry of Maritime Affairs, Transport and Infrastructure) in the amount of HRK 82.3 million (5.7 percent of total domestic market income), Zagreb Holding - ZET in the amount of HRK 58.6 million or 4.1 percent.

In the period from January to December 2016, the income from the sale of products and services abroad amounted to HRK 1,407.6 million.

Out of the total achieved income from the sale of products and services on the foreign market in the countries of the European Union, products and services were exported in the amount of HRK 947.1 million, which was HRK 172.4 million or 22.2 percent more than in 2015. Export to EU countries accounted for 67.3 percent of total exports. Products and services were exported to Asia in the amount of HRK 121.9 million, and to the neighbouring countries (B&H, Serbia, Montenegro and Macedonia) in the amount of HRK 120.1 million, while HRK 108.1 million was earned from exporting to non EU countries. America, Canada and Australia accounted for the amount of HRK 71.1 million. Exports to other countries amount to HRK 40 million.

In 2016, the Group's companies exported their products and services to 88 countries worldwide.

Specifying by countries, the most significant exports were to Sweden in the amount of HRK 202.2 million, Germany HRK 155.6 million, Slovenia HRK 101 million, Bosnia and Herzegovina HRK 74.2 million, Italy HRK 63.6 million, Austria HRK 62.6 million and Finland HRK 60.6 million. Significant increases in income from the sale of products and services in exports compared to the previous year were recorded in the Swedish market, where exports increased by HRK 88.1 million compared to the same period the year before and mostly refer to the exports of KONČAR - Distribution and Special Transformers and KONČAR - Generators and Motors. A significant increase in exports compared to the previous year was recorded on the market of Slovenia (increase of HRK 82.8 million) and Bosnia and Herzegovina (HRK 22.2 million). From the new markets in 2016, it is important to point out the export to Zambia (the completion of the contract for the revitalization of HPP Mulungushi and HPP Lunsemfwa).

With good financial results in 2016, a whole range of facilities were completed and agreed in Croatia and abroad.

The most significant completed facilities and products as well as newly-concluded jobs are as follows:

Significant projects carried out in 2016 are as follows:

- The first diesel-electric low-floor multiple unit developed and produced by KONČAR delivered to HŽ Passenger Transport,
- The refurbished Production Centre North in Varaždin, operating three hydropower plants on the Drava river, was put into operation. The key part of the new system is KONČAR's PROZA NET SCADA as its core application,
- The revitalization of small hydropower plants (SHPP) Varaždin and the construction of SHPP Prančevići completed,
- Delivery of the new and revitalization of the existing generators in Sweden, Slovenia, Norway and Finland,
- Renovation of the existing and the construction of the new substations in Albania, Bosnia and Herzegovina and Croatia,
- SCADA operating and protection systems installed in numerous facilities in Croatia and Bosnia and Herzegovina,
- Distribution and power transformers delivered to 45 countries (on 4 continents). Key markets include Sweden, Germany, and the United Arab Emirates,
- Instrument transformers were delivered to some fifty countries (on 6 continents) Ð key markets include Poland, Canada, Australia, Russia, Saudi Arabia, and first deliveries of instrument transformers to the USA and Japan,
- Electric motors were delivered to Austria, Denmark, Norway, Germany, Netherlands, Switzerland, Great Britain and some ten other countries. New markets were opened during 2016: Chile and Portugal,
- Transformer cooling fans were delivered to Portugal, Spain, Italy, the UAE, Russia, Bulgaria, Turkey, and Germany,
- Delivery of fan equipment to Uljanik Shipyard for the first of five transatlantic ships for the transport of passenger and cargo vehicles.

Significant jobs completed in 2016:

- Supply of electrical equipment and commissioning of HPP El Chaparral in Salvador,
- Construction of HPP Vranduk in Bosnia and Herzegovina,
- Revitalization of three generators for the HPP Kamburu, Kenya,
- Revitalization of HPP Ozalj and HPP Gojak in Croatia,
- Implementation of the SCADA / DMS / OMS system for the remote management of the distribution power system of JP Elektroprivreda HZHB,
- Extension of transformer stations in Algeria - S/S Biskra by two 220 kV water fields and S/S Sidi Ali Boussidi by one 220 kV water field,
- Construction of 110 kV S/S Orikum and S/S Himara in Albania,
- Renovation of the 110 kV switchgear plant at Buško Blato Pumping Station,
- Reconstruction of 110 kV plant in S/S 110/10 (20) kV Kutina,
- Revitalization of HPP Masinga in Kenya.

6. Business Results and Financial Position (Balance Sheet)

In the period between January and December 2016, KONČAR Group companies achieved the consolidated income in the amount of HRK 2,996.5 million, which is by 6.3 percent less than planned, and by 5.8 percent less than in 2015. In business revenues, sales revenue generated by the sale of products amounted to HRK 2,853.1 million, accounting for 95.2 percent of total income.

Operating expenses were achieved in the amount of HRK 2,868.1 million i.e. by 6.2 percent less than in 2015. In operating expenses, material costs (costs of materials and energy, expenses of goods sold amounted to HRK 2,025.2 million.) The share of material expenses in operating income (corrected by any change in stock) was 66.8 percent, which was a 2.1 percent decrease compared to the same period last year.

The share of personnel costs in operating income (corrected by changes in inventories) was 17.7 percent, i.e. a 1.6 percent increase than last year. The increase in personnel costs for 2016 resulted from an increase in the number of employees in KONČAR - Metal Structures (59 employees more), KONČAR - Distribution and Special Transformers compared to the same period in 2015 (40 workers more) and daily allowance and travel expenses for the construction sites abroad (KONČAR - Generators and Motors).

The difference between operating income and operating expenses resulted from the operating activities in the amount of HRK 128.4 million, which was by 2.2 percent more than for the period January to December of 2015.

The share of profits from affiliated companies amounted to HRK 65.2 million, which was by HRK 15.1 million or 30 percent more than in the same period of the previous year.

The difference between the financial income and expense was positive and amounted to HRK 2.4 million.

Total income for the period from January to December 2016 was achieved in the amount of HRK 3,111.8 million, which was by 5.6 percent less than in the same period in 2015. Total expense in the same period amounted to HRK 2,915.7 million, down by 6.8 percent compared to the period from January to December 2015.

Profit from business activities amounting to HRK 128.4 million, profit share of associates in the amount of HRK 65.2 million, and a positive difference in financial income and expenses of HRK 2.4 million, gives a consolidated pre-tax profit of HRK 196 million. Income tax amounted to HRK 22.2 million, profit after tax amounted to HRK 173.8 million. Profit after taxes was by 14.8 percent higher than in 2015 and by 11.6 percent more than the planned. Of the realized profit, the non-controlling interest (minority interest) was HRK 30.5 million and the owners of the parent company shares accounted for HRK 143.3 million. The net profit attributable to equity holders was 12.2 percent higher than in 2015.

15 out of 18 companies of KONČAR Group achieved positive business results, while three reported a loss of HRK 10.9 million, of which HRK 10.8 million belongs to the owners of the parent company shares.

The amount of total consolidated assets and resources on 31 December 2016 was HRK 3,799.3 million, which was an increase of HRK 149.2 million or 4.1 percent compared to 31 December 2015.

In the structure of assets, non-current assets amounted to HRK 1,494.8 million, as compared to 31 December 2015. Decreased by HRK 8.6 million or by 0.6 percent, current assets amounted to HRK 2,298.6 million thus increasing by HRK 164 million compared to the end of 2015. Prepaid expenses and accrued receivables (deferred expenses) at the end of December 2016 amounted to HRK 5.9 million and were lower by HRK 6.1 million.

In the structure of long-term assets compared to 31 December 2015, intangible assets decreased by HRK 9.3 million. The largest part of the intangible asset decrease occurred in KONČAR - High Voltage Switchgear

(HRK 4.3 million), KONČAR - Electric Vehicles (HRK 1.4 million) and KONČAR - Switchgear (HRK 1.9 million). Tangible assets amounted to HRK 0.8 million, financial assets increased by HRK 2.9 million, long-term receivables decreased by HRK 3.4 million.

On 31 December 2016, current assets increased by HRK 164 million compared to 31 December 2015 with the following changes being made:

- Stocks increased by HRK 21.8 million. In the stock structure, the amount of raw materials and materials decreased by HRK 58.7 million. The most significant reduction in the amount of raw materials and materials came from KONČAR - Electric vehicles (HRK 45.3 million less) and KONČAR - Distribution and Special Transformers (HRK 11.5 million less). The volume of production in progress was increased by HRK 8.1 million (an increase in KONČAR - Distribution and Special Transformers of HRK 11 million and KONČAR - Metal Structures of HRK 4.3 million). In the same period there was a decrease in production in KONČAR - Instrument Transformers (HRK 2 million less), KONČAR - Electronics and Informatics (HRK 2.6 million less), KONČAR - High Voltage Switchgear (HRK 1.3 million). Stocks of finished products were increased by HRK 24.6 million. A significant increase in inventories of finished products occurred in KONČAR - Distribution and Special Transformers (HRK 26.4 million more). In the same period, the amount of inventories of finished products in KONČAR - Instrument Transformers decreased by HRK 3 million. Stocks of trade goods increased by HRK 4.2 million, provisions for stocks decreased by HRK 0.7 million and the most significant increase was in KONČAR - Power Plant and Electric Traction Engineering by HRK 31.6 million. In the same period, inventory was reduced in KONČAR - Electric vehicles by HRK 1.6 million and KONČAR - Generators and Motors by HRK 1 million. The amount of long-term assets intended for sale decreased by HRK 1.8 million (KONČAR - Distribution and Special Transformers).
- Total short-term claims increased by HRK 118.3 million. Customers' claims increased by HRK 68.2 million. A significant increase in customer claims occurred in KONČAR - Power Plant and Electric Traction Engineering by HRK 116.5 million. In the same period, the amount of trade receivables decreased in KONČAR - Electric Vehicles (HRK 91.1 million). Claims on dividends and fees to investors increased by HRK 16.8 million. Other financial assets rose by HRK 3.6 million compared to 31 December 2015.
- Financial assets (deposits over 3 months) decreased by HRK 24.7 million.
- At the Group level, the amount of money was increased by HRK 94.9 million (most of the increase relates to KONČAR - Electrical Industry Inc. i.e. HRK 80.4 million).

As regards the fund resources on 31 December 2016, the following changes occurred:

- Capital, reserves, retained profit and profit for the year amounted to HRK 2,207.5 million, which was by HRK 114.4 million more compared to the balance on 31 December 2015.
- Non-controlling (minority interest) amounted to HRK 240.8 million, an increase of HRK 12.4 million compared to 31 December 2015.
- Long-term provisions amounted to HRK 234.4 million, a decrease of HRK 25 million.
- Long-term liabilities amounted to HRK 122.5 million, of which loan liabilities accounted for HRK 122 million. Long-term liabilities decreased by HRK 20.9 million compared to 31 December 2015.
- Current liabilities amounted to HRK 777.4 million, an increase of HRK 30 million compared to 31 December

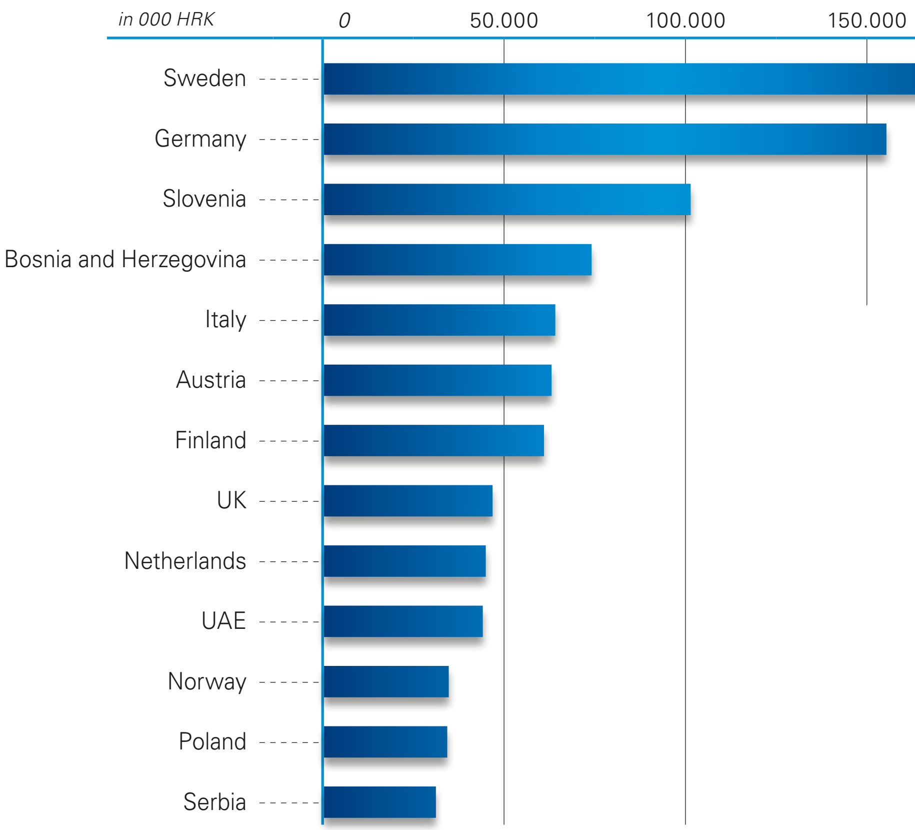
2015. In the structure of short-term liabilities, there were significant changes in the position of advances, which increased by HRK 62.3 million. Increase in short-term advances was made in KONČAR - Power Plant and Electric Traction Engineering in the amount of HRK 62.4 million and KONČAR - Generators and Motors in the amount of HRK 35.5 million. In the same period, the amount of short-term advances in KONČAR - Electric Vehicles decreased by HRK 51.7 million.

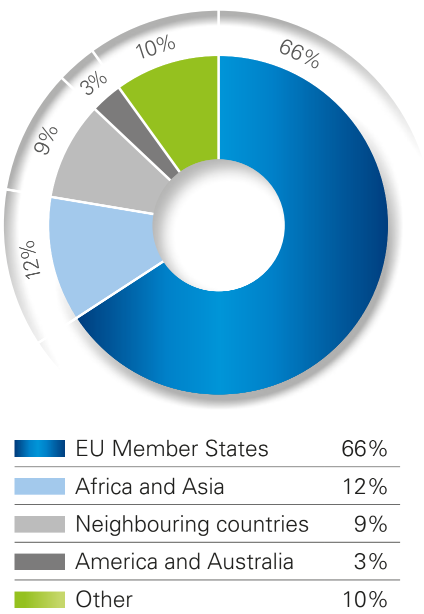
- Current liabilities to banks decreased by HRK 26.1 million. Current liabilities to banks were lower by HRK 13.2 million in KONČAR - Switchgear and KONČAR - Electric Vehicles by HRK 7 million.
- Debt to suppliers increased by HRK 4.5 million.

In the structure of funding sources, the subscribed capital, reserves, retained earnings, profit for the year and the equity belonging to the non-controlling interest amounted to HRK 2,448.3 million which is by 126.8 million more compared to 31 December 2015, accounting for 64.4 percent of total resources. Long-term provisions amounted to HRK 234.5 million and are lower by HRK 24.9 million compared to 31 December 2015, accounting for 6.2 percent of the total resources. Long-term and short-term liabilities amounted to HRK 900 million, which was by HRK 22.2 million more than at the end of 2015, accounting for 23.4 percent of total resources. In short-term liabilities, trade liabilities amounted to HRK 372 million (HRK 4.5 million more compared to end 2015), accounting for 9.8 percent of total sources. Total loans (long-and short-term) amounted to HRK 184 million, an increase of 46.9 million compared to 31 December 2015. They accounted for 4.8 percent of total sources.

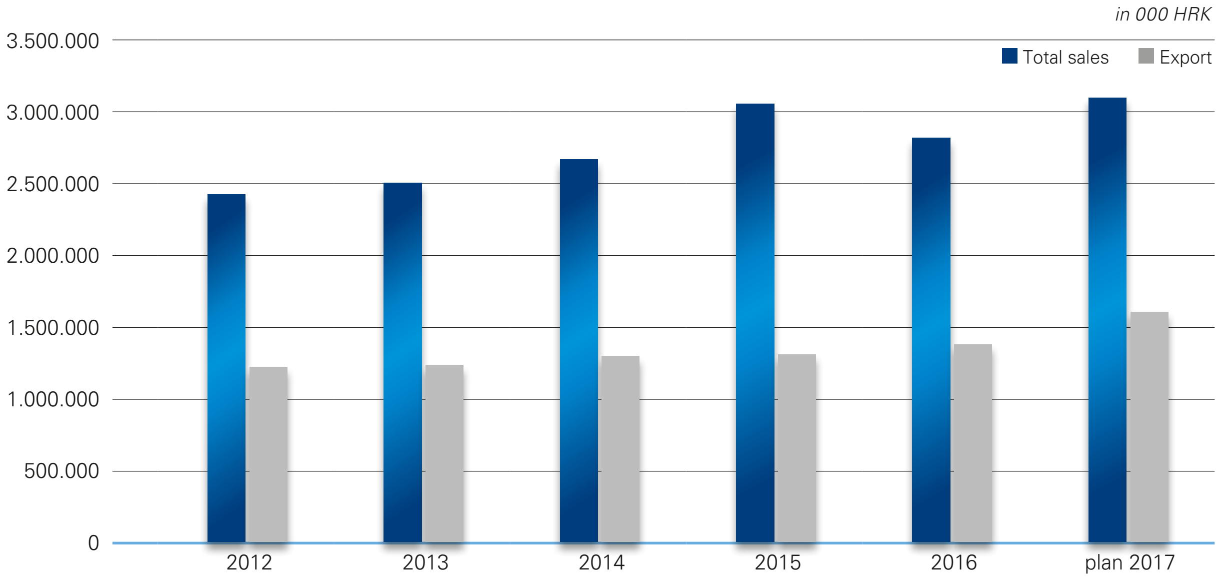
Long-term funding sources (equity, long-term reservations and long-term liabilities) increased by HRK 782.7 million compared to non-current assets and average inventories. Current assets increased by 2.9 times compared to current liabilities, indicating good liquidity. The consolidated balance sheet shows the financial soundness of KONČAR Group.

Export Countries in 2016





Total Sales and Export Revenue in 2016



The Review of Operating Performance from January - December 2016 per KONČAR Group Companies

in HRK	No.of employed 31 Dec 2015	TOTAL REVENUE			Index 4/2	Index 4/3	TOTAL EXPENSES			Index 9/7	Index 9/8
		Achieved 2015	Plan 2016	Achieved 2016			Achieved 2015	Plan 2016	Achieved 2016		
	1	2	3	4	5	6	7	8	9	10	11
Power Plant and Electric Traction Engineering	258	530.919.030	593.408.044	599.812.848	113,0	101,1	524.082.915	587.408.044	583.000.336	111,2	99,2
Generators and Motors	507	287.083.535	352.413.569	284.267.770	99,0	80,7	263.206.525	332.518.215	263.849.921	100,2	79,3
High Voltage Switchgear	125	60.962.999	68.934.801	52.599.299	86,3	76,3	60.461.008	65.626.151	59.302.377	98,1	90,4
Medium Voltage Apparatus	79	77.909.584	82.000.000	51.072.426	65,6	62,3	67.315.458	70.580.000	47.416.315	70,4	67,2
Switchgear	85	60.323.440	78.855.000	54.910.101	91,0	69,6	79.114.292	78.810.000	50.842.144	64,3	64,5
Distribution and Special Tranformers	532	811.522.767	765.200.000	869.131.221	107,1	113,6	780.553.461	734.600.000	831.830.602	106,6	113,2
Instrument Transformers	245	200.344.019	193.565.000	173.733.104	86,7	89,8	186.168.507	178.565.000	164.574.206	88,4	92,2
Electronics and Informatics	256	182.014.947	165.950.000	154.322.270	84,8	93,0	174.925.379	161.440.000	148.155.797	84,7	91,8
Metal Structures	356	202.798.710	215.892.680	195.532.039	96,4	90,6	195.744.416	208.246.703	188.459.528	96,3	90,5
Electric Vehicles	262	636.783.251	351.805.757	214.374.149	33,7	60,9	607.664.101	337.555.757	191.579.539	31,5	56,8
Renewable Sources	4	29.419.416	30.846.500	27.329.185	92,9	88,6	32.530.321	29.228.262	28.627.807	88,0	97,9
Engineering for Power Plant Installati-on and Commissioning	119	72.150.252	119.476.427	152.348.063	211,2	127,5	70.884.693	117.947.000	148.144.283	209,0	125,6
Small Electric Machines	196	104.633.970	103.621.000	108.332.375	103,5	104,5	89.130.517	91.072.000	95.072.728	106,7	104,4
Household Appliances	68	159.335.965	159.140.000	156.950.520	98,5	98,6	169.460.974	157.040.000	155.240.050	91,6	98,9
LV Swithces and Circuit Breakers	189	51.312.301	53.430.500	49.683.097	96,8	93,0	50.941.711	52.630.500	52.582.012	103,2	99,9
Electrical Engineering Institute	167	94.050.912	92.853.559	98.522.250	104,8	106,1	84.424.351	86.517.559	88.741.721	105,1	102,6
Energy and Maintenance	147	59.862.918	59.790.544	59.569.636	99,5	99,6	55.450.795	55.720.458	56.036.918	101,1	100,6
Total Dependant Companies	**3.595**	**3.621.428.016**	**3.487.183.381**	**3.302.490.353**	**91,2**	**94,7**	**3.492.059.424**	**3.345.505.649**	**3.153.456.284**	**90,3**	**94,3**
KONČAR Inc.	48	193.271.645	173.512.840	198.614.665	102,8	114,5	130.837.174	80.499.000	133.846.594	102,3	166,3
Total Parent And Dependant Companies	**3.643**	**3.814.699.661**	**3.660.696.221**	**3.501.105.018**	**91,8**	**95,6**	**3.622.896.598**	**3.426.004.649**	**3.287.302.878**	**90,7**	**96,0**
Associated Companies											
Power Transformers*	515	848.061.443	1.115.020.213	1.114.609.351	131,4	100,0	724.230.328	969.693.225	948.012.030	130,9	97,8
ELKAKON d.o.o. (DIST 50% equity share)											
TBEA (Instrument transformers 27% equity share)											
Total Associated Companies											

Profit / loss before taxes	Corporation tax	PROFIT/LOSS AFTER TAXES			Index 16/14	Index 16/15	Subscribed capital total	Subscribed capital of parent	% Ownership by parent 31 dec 2015	Share of profit/loss attributed to equity owners	Return on sales in %	Return on equity in % (reduced to one year)
		Achieved 2015	Plan 2016	Achieved 2016								
12	13	14	15	16	17	18	19	20	21	22	23	24
16.812.512	3.968.057	4.902.470	4.700.000	12.844.455	262,0	273,3	50.577.000	50.577.000	100,0000	12.844.455	2,2	11,4
20.417.849	2.739.834	23.190.560	18.900.586	17.678.015	76,2	93,5	107.927.700	107.927.700	100,0000	17.678.015	7,5	12,8
-6.703.078		501.992	3.308.650	-6.703.078			56.335.140	55.553.340	98,6122	-6.610.055	-14,1	-12,9
3.656.111	886.065	8.506.035	9.136.000	2.770.046	32,6	30,3	19.679.700	19.679.700	100,0000	2.770.046	5,9	5,9
4.067.957		-18.790.852	45.000	4.067.957			29.018.600	20.321.470	70,0291	2.848.754		
37.300.619	1.370.462	30.064.520	24.500.000	35.930.157	119,5	146,7	76.684.800	40.439.400	52,7346	18.947.614	4,2	13,1
9.158.898	1.048.444	11.001.824	12.000.000	8.110.454	73,7	67,6	18.989.100	11.721.900	61,7296	5.006.553	4,8	8,5
6.166.473	1.510.651	5.947.814	4.010.000	4.655.822	78,3	116,1	47.027.280	35.286.420	75,0339	3.493.447	3,1	6,0
7.072.511	363.634	5.614.845	6.116.782	6.708.877	119,5	109,7	24.645.600	18.486.600	75,0097	5.032.311	3,7	12,3
22.794.610	3.488.402	27.897.472	11.400.000	19.306.208	69,2	169,4	47.026.800	35.288.700	75,0396	14.487.292	9,9	23,0
-1.298.622		-3.110.905	1.618.237	-1.298.622		-80,2	130.312.400	130.312.400	100,0000	-1.298.622	-5,9	-1,1
4.203.780	1.080.284	905.206	1.190.000	3.123.496	345,1	262,5	11.827.500	5.288.100	44,7102	1.396.522	2,1	13,8
13.259.647	2.816.165	12.231.753	9.910.000	10.443.482	85,4	105,4	41.641.800	41.641.800	100,0000	10.443.482	9,9	11,1
1.710.470		-10.125.009	2.100.000	1.710.470		81,5	17.834.100	17.834.100	100,0000	1.710.470	1,1	8,0
-2.898.915		370.590	800.000	-2.898.915			60.499.300	60.499.300	100,0000	-2.898.915	-5,9	-5,5
9.780.529	2.202.592	8.503.226	6.336.000	7.577.937	89,1	119,6	40.763.520	40.763.520	100,0000	7.577.937	8,1	6,1
3.532.718	823.398	3.522.410	3.283.116	2.709.320	76,9	82,5	49.891.600	49.891.600	100,0000	2.709.320	6,3	3,9
149.034.069	**22.297.988**	**111.133.951**	**119.354.371**	**126.736.081**	**114,0**	**106,2**	**830.681.940**	**741.513.050**		**96.138.625**		
64.768.071		62.434.471	93.013.840	64.768.071	103,7	69,6	1.208.895.930		100,0000	64.768.071		
213.802.140	**22.297.988**	**173.568.422**	**212.368.211**	**191.504.152**	**110,3**	**90,2**	**2.039.577.870**	**741.513.050**		**160.906.696**		
Decreased by a portion of income earned by dependent companies and the parent from internal relations										82.958.509		
	33.377.234	98.894.790	116.261.590	133.220.087	134,7	114,6	72.764.000	35.654.400	49,00005	**65.277.916**	12,2	21,1
							3.092.000	799.466	25,85559	**309.912**		
							40.869.289	4.803.199	11,75250	**-345.011**		
										65.242.817		
			Profit ascribed to the holders of parent's equity							**143.282.971**		
			Profit ascribed to minority interest							**30.505.489**		
			Group's profit							**173.788.460**		

7. Restructuring

KONČAR's core business is Energy and Transport. KONČAR plans further restructuring to increase sales income, more efficient use of resources, greater competitiveness and profitability.

During 2016, the Management Board, with the consent of the Supervisory Board, made the decision to conduct a business analysis with the aim of increasing the synergy effects in KONČAR Group. For the purpose of the analysis, the Boston Consulting Group has been engaged to work with the representatives of KONČAR to identify measures for rationalization and optimization of operations and to improve the Group's market position.

In December 2016, the Supervisory Board accepted the proposal of the Company's Management Board to approach the Steel Processing Center in KONČAR - Metal Structures, taking into account the studies developed by BCG and KONČAR - Metal Structures.

At the beginning of 2017, the Board of KONČAR - Electrical Industry Inc. initiated activities related to the possible merger of companies in the field of switchgear and medium- and high voltage switchgear (companies: KONČAR - Switchgear, KONČAR - Medium Voltage Apparatus and KONČAR - High Voltage Switchgear). The possible merger of the company should ensure further development, efficiency and competitiveness of the mentioned companies in the forthcoming period, largely through activities to improve sales, especially in export markets and through a more rational use of resources.

8. Risk Exposure

KONČAR Group is exposed to various market and financial operating conditions. The business environment risk is determined by political, economic and social conditions existing in the markets of companies' operations. The Group monitors the above stated risks and takes measures for mitigating their potential impact on financial stability.

All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacy as well as set measures focused on illiquidity cause prevention or elimination, take measures focused on companies sufficient long-term funding sources in view of the scope and the type of their business activity and regularly monitor the capital adequacy achievement.

At the Group level, long-term funding sources (capital, long-term provisions and long-term liabilities) exceed its non-current assets and an average inventory balance which indicates a sound funding maturity structure. In relation to short-term liabilities, current assets are 2.9 times higher, which indicates a sound liquidity of the system. The structure of consolidated balance sheet indicates the financial soundness of KONČAR Group.

The Group manages and controls the financial risk that might impact the Group's business operations by means of internal risk reports analysing risk exposure based on its degree and significance.

Market risk
Market risk emerges as a consequence of potential losses stemming from less-than-favourable economic conditions and a decline in the market demand.
The Group companies operate domestically and internationally. The Group's core activity relates to energy and transport connected equipment and products. The production scope heavily depends on such investments. Under the influence of the global crisis and recession, there is a risk of closing certain markets down and providing stimulus in order to assign works to domicile enterprises. In 2016, besides the volatile prices of basic raw material, there was also a strong competitive pressure on the price of equipment and profit margins on the equipment market.
Furthermore, competitiveness of our companies' products and services has been impacted by the Group's and our customers changed operating conditions.
Management Boards of individual companies price their products autonomously.

Risk in the procurement market

The prices of major raw materials and materials (copper, sheet metal, steel ...) have been subject to unpredictable changes in recent years (huge growth or decline over a short period of time). In 2016, there was a significant drop in the price of sheet metal (a decrease of about 25 percent) and copper price growth (an increase of around 20 percent). Within the transformer program, the Group companies are protected from the risk of sudden price changes of strategic raw materials in several ways. In the case of copper, given that it is a London Metal Exchange listed raw material, forward contracts with copper suppliers are negotiating quantities and prices for a period ahead of time and estimates of contractility. With steel, transformer sheet and some of the most important supply parts, semi-annual or annual contracts with suppliers try to reduce this risk. Also, in some long-term customer contracts, a sliding formula is sometimes contracted based on material price changes.

Technological and developmental risks

Group companies are continuously investing significant assets in key technology and strategically important segments of production to mitigate the risk of technological - development lagging behind for competition. In the forthcoming period, the Group companies are planning to invest significant resources in the development of new products and innovating the existing ones.

Staff risks

The usual fluctuations and changes in the staff structure do not significantly affect the Group's operations. Sudden or greater fluctuations of workers with specialist knowledge (ex. EU opening for workers from Croatia) could affect the business. Continuous investments in education and stimulation of key company employees tend to protect against staff risks.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity ratio. The Group manages capital and makes appropriate adjustments for the purpose of proper capital structure in accordance with market present economic conditions. The Group can make a decision if the retained earnings should be distributed to shareholders, if the equity needs increase or decrease, if the assets should be sold in order to decrease liabilities and similar.

Currency risk

The official currency of the Group is the Croatian Kuna. However, some transactions executed in foreign exchange are being converted to Croatian Kuna, applying the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are being credited or debited against the profit and loss account. The companies hedge against the F/X risk by continuously planning and monitoring its cash flow, contracting sales and procurement in the same currency where possible, adjusting the receipt and outlay dynamism, as well as term F/X purchases in accordance with the cash receipt and outlay plan. Companies with a higher share of exports in total revenue employ financial derivatives to hedge against the financial risk exposure.

Interest rate risk

The Group is exposed to interest risk since some loans received are arranged at variable interest rate while most assets do not bear interests. Certain companies within the Group hedge against the risk of interest rates payable in foreign currencies.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in the financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties thus mitigating the risk of financial loss form defaults. The Group uses data and opinions gathered from rating agencies, the Chamber of Commerce as well as other publicly available financial information on companies' financial status and uses its own data base to rate its major customers. The Group's risk exposure and the credit ratings of its counterparties are continuously being monitored. As a principle, contracts are entered into only with creditworthy counterparties when appropriate payment insurance instruments are obtained (L/C, guarantee, etc.).

The exposure to credit risk is influenced mainly by individual characteristics of each customer. The Group establishes an allowance for impairment as an estimation of incurred losses in respect of expected losses from receivables and investments.

Liquidity risk

Liquidity risk is the risk of the Group not being able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Boards of Group companies. The Group manages this risk by continuously monitoring the estimated cash flow, comparing and adjusting it with actual income and expenses. As a whole, there was no significant exposure of the Group to liquidity risk.

9. Shares

The shares of KONČAR - Electrical Industry Inc. have been quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under their KOEI-R-A ticker. In keeping with the positive regulations, the Company ensures regular access to information on its operations and activities as well as information on facts and circumstances that may bear influence to the share price (price sensitive information).

The Company's share capital is HRK 1,208,895,930.00 and consists of 2,572,119 ordinary shares with a nominal value of HRK 470.00.

The Company applies the same conditions to all its shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. The voting rights encompass all of the Company's shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession.

In 2016, the price movement of KONČAR - Electrical Industry shares followed the overall market trend. The highest share price was achieved in October 2016 (HRK 701.99), and the lowest in January (HRK 613.21). Until the end of 2016, the average price of the share was HRK 690. The total turnover of the KONČAR share amounted to HRK 442.2 million, which is significantly higher than the achieved turnover in 2015 (HRK 68.2 million). The significantly higher turnover was reached in early June when the Mandatory Pension Funds of the Republic of Croatia purchased 526,926 shares worth HRK 360 million from the Restructuring and Sale Center (the explanation is given below). Except for this transaction, the turnover of KONČAR shares on the Zagreb Stock Exchange was 20.5 percent higher than the 2016 turnover. The amount of shares traded was 650,107 (22 percent more compared to 2015 if this transaction is excluded).

In May 2016, Restructuring and Sales Center announced Public Invitation for the expression of interest for purchasing business interests and delivering binding offers for purchase of 526,926 shares of KONČAR - Electrical Industry owned by the Republic of Croatia and the Croatian Pension Insurance Institute. The relevant shares account for 20.49 percent of the Company's equity.

Following the sale of the shares, significant changes occurred in the ownership structure of the Company. Ownership of Adikko Bank Inc. (Formerly Hypo Alpe Adria Bank) / PBZ CO Compulsory Pension Fund - category B increased from 9.95 percent to 16.37 percent. The share of Societe Generale - Splitska Banka Inc. / AZ Compulsory Pension Fund category B increased from 6.84 percent to 14.50 percent. The share of Societe Generale - Splitska Banka Inc. / Erste Plavi Compulsory Pension Fund category B rose from 7.86 percent to 13.97 percent. Valamar Riviera left the group of ten largest shareholders, while Addiko Bank Inc. / Raiffeisen Compulsory Pension Fund - B category (1.88 percent) and Zagrebačka banka Inc. / AZ Profit voluntary pension fund (1.12 percent) entered. The share of ownership of the State Property Management Administration / Republic of Croatia decreased from 4.58 to 2.33 percent.

KONČAR - Electrical Industry Inc. signed a contract for the performance of specialist jobs with InterCapital Securities Inc. in October 2015 whereby InterCapital Securities Inc. took over the obligation to perform specialist jobs for the shares of KONČAR - Electrical Industry Inc, labels: KOEI-R-A, ISIN: HRKOEIRA0009, included in the Official Market of the Zagreb Stock Exchange Inc.

The specialist trade service includes a simultaneous display of purchase orders and orders for sale of the company shares in accordance with the Rules of the Zagreb Stock Exchange.

KONČAR Group subsidiaries: KONČAR - Distribution and Special Transformers and KONČAR - Switchgear, are included in the quotation of the Zagreb Stock Exchange Regular Market.

In 2016, ordinary and preference shares of KONČAR - Distribution and Special Transformers Inc. listed on the Zagreb Stock Exchange regular market were traded. At the beginning of the year the price of an ordinary share of KONČAR - Distribution and Special Transformers Inc. amounted to HRK 1,250, which at the end of the year was HRK 1,530.

The shares of KONČAR - Switchgear were not traded in 2016.

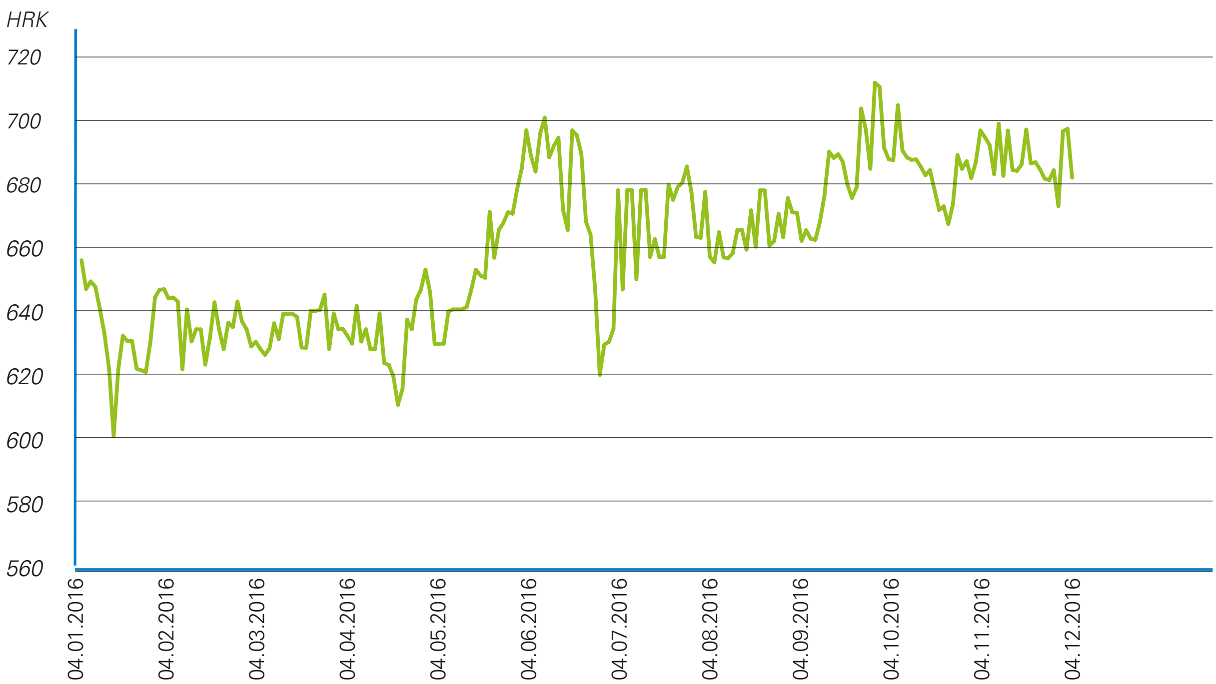
Shares of KONČAR - Instrument Transformers Inc. are included in the OTP Transaction (OTP) Multilateral Trading Platform of the Zagreb Stock Exchange. In 2016, the price of preferred shares of KONČAR - Instrument Transformers traded ranged from HRK 1248.50 to 1.420.

On 31 December 2016, the Company owned 5,861 shares, accounting for 0.23 percent of the company's equity.

Company’s Ownership Structure

Stakeholder	31 Dec 2016 Number of shares	31 Dec 2016 Ownership stake	31 Dec 2015 Number of shares	31 Dec 2015 Ownership stake
HPB Inc. (Capital Fund)	724,515	28.17	724,515	28.17
Addiko Bank Inc. / PBZ Croatia Osiguranje OMF	420,928	16.37	255,928	9.95
Societe Generale - Splitska banka Inc. / AZ Compulsory Pension Fund	377,429	14.67	161,110	6.26
Societe Generale - Splitska banka Inc. / Erste Plavi Compulsory Pension Fund	359,239	13.97	202,149	7.86
State Property Ministry / Republic of Croatia	60,000	2.33	117,982	4.59
Restructuring and Sale Centre / Republic of Croatia	57,982	2.25	527,556	20.51
Floričić Kristijan	50,714	1.97	60,714	2.36
Addiko Bank Inc. / RBA Compulsory Pension Fund	48,291	1.88	28,491	1.11
PBZ Inc. / custodial account	29,050	1.13	30,208	1.17
Other stakeholders	439,110	17.03	457,605	17.79
KONČAR Inc. / treasury stock /	5,861	0.23	5,861	0.23
TOTAL	2.572.119	100,00	2.572.119	100,00

Share Price Trend KOEI-R-A in HRK in 2016



10. Products and Production Development

An integral part of the Group's long-term business policy is to rely on products made through own development.

The Board of KONČAR - Electrical Industry Inc. manages its development based on the adopted concept of the Strategic Development Areas in KONČAR Group. All adopted decisions are in accordance with the long-term development goals of the Group, the needs for developing new products of the Group, the development of techniques and technologies as well as available resources.

The following strategic development areas have been set:

- Production of electrical power,
- Substations and electrical power transport,
- Railway vehicles,
- Renewable resources,
- Advanced networks and computer communications,
- Information technologies.

The most significant development projects in 2016 were:

- Low-floor diesel-electric multiple unit,
- Central converter for 200 kW photovoltaic power plants (KonSol 200),
- Dynamic reversal converters in powerhouse substations with a power output of 250 kW,
- VF radiation source electromagnetic field measurement system,
- 400 and 600 hp drill bits for the oil industry,
- High voltage power transformers with reduced losses for voltages up to 550 kV,
- Level crossing (KLC3),
- Bogie for 100% low-floor tramway track width 1435 mm,
- Low voltage switchgear for photovoltaic systems,
- A new generation of software tools for embedded computer systems (GRAP).

Other Projects

- Obtaining a permit for the wind power pipeline connection for the 120 MW Rust wind power plant and obtaining a building permit for the 2 MW Vis photovoltaic power plant,
- Implementation of the ERP system in several companies of KONČAR Group,
- Continuation of the "Knowledge Management" multi-year project in which KONČAR cooperates with the academic community (University of Zagreb, Faculty of Electrical Engineering and Computing and Faculty of Humanities and Social Sciences).

11. Employees

The starting point of KONČAR's strategic business thinking is that its employees constitute the company's core asset. That coupled with the fact that the entire operations depend on the involvement of each and every employee made KONČAR decide to base its competitiveness upon the experience, knowhow and innovativeness of the staff.

KONČAR Group ended the year 2016 with 3,644 employees, of whom 28 have PhDs and 49 have MSc/MBA degrees. Within KONČAR 1057 employees hold an university degree (70 percent technical 15 percent economics, and 14 percent of other professions).

In 2016 the average age of KONČAR employee was 44. The average age of newly employed in 2016 was 32. Within highly educated younger workers, employment of Graduates from Faculty of Electrical Engineering and Computing dominated.

KONČAR has been traditionally securing its highly educated staff by providing scholarships to students of various faculties (the Faculty of Electrical Engineering and Computing, the Faculty of Mechanical Engineering and Naval Architecture). However, given the problems identified within the education system and the insufficient connection between the institutions of the education system, the labor market and the economy, the number of scholarships have been decreased. If the weak side of this method is removed in the forthcoming period (there is no active participation of the company in student education, there is no validation of the knowledge and the ability of the student/scholar) an increase in the number of scholarships is expected.

Currently 38 employees are completing their doctoral studies, while 39 are attending their post-graduate programmes.

Since lifelong learning represents a guarantee of business success, permanent investment into knowledge of its employees stands as one of KONČAR's priorities. This is precisely the reason why there is a pronounced growth in the number of staff taking part in various types of training. Parallelly, there is an increase in total average investments made for training purposes.

KONČAR pays special attention to the selection of its managers and to the timely recognition of their managerial potentials by investing into their development and creating space for further advancement through educational programs within the KONČAR academy which has been working continuously for the last 6 years.

The analysis showed that more than 50 percent of the workers, who passed the KONČAR academy in their education, or after completing the education cycle, advanced in their career.

The analysis of the results of the Organizational Environment Questionnaire conducted in the companies of KONČAR Group in 2015 and the definition of necessary activities (additional training and introduction of "Annual Employee Evaluation" etc.) was carried out in 2016. The organizational environment is defined as a general psychological atmosphere in an organization that is stable over time and directly influences the productivity of employees, and thus the success of the entire organization. The aim of reassessment of organizational environment is to identify areas that affect job satisfaction as well as those that reduce the efficiency of the organization (and potentially cause unexpected costs in the future).

In 2016, the successful co-operation continued with a number of scientific and educational institutions, which enabled the identification, definition and implementation of a number of projects in which foreign partners are participating as equal partners in a way that each brings their own expertise and encourages the collaboration of the scientific/educational and economic sectors.

12. Quality and Environment, Safety of The Employees and Information Security

An integral part of the KONČAR's business policy includes reaching client satisfaction through the delivery of high quality and reliable products, environmental protection and health as well as the safety of the employees. This policy is being met in all of the Group's subsidiaries via the application and certification of their management systems as per requirements of the international ISO 9001 Quality Management System, ISO 14001 Environmental Management System, OHSAS 18001 Occupational Health and Safety Management System and ISO 27001 Information Security Management System.

The ISO 9001 Quality Management Systems is certified in 15 Companies. The core purpose of the system has to do with the management of key processes that affect the quality of products or services aimed at reaching the client satisfaction. The ISO 9001 Certificate, issued by authorised independent certification institutions, provides clients with a degree of assurance concerning the capacity of an organisation to meet their demands. More and more, and especially during the prequalification process for contracting certain products, buyers audit their counterparties i.e. they carry out on-site verification of the quality of management system functions in order to be sure of the Company's capacity to deliver on their requirements and expectations.

The ISO 14001 Quality Management Systems is certified in 17 Companies. By applying this system the companies continuously monitor and analyse various aspects of the environment while performing their business activities, carrying out their processes, looking into the environmental impact of products and services they delivered, and taking adequate measures to mitigate any adverse effects. The ISO 14001 Certificate is issued by authorised independent certification institutions, which renders assurance to all stakeholders, ranging from central governments to local communities, of the Company's responsible behaviour towards the environment.

The OHSAS 18001 Occupational Health and Safety Management System is certified in eight Companies. By applying this system, companies have been continuously monitoring and analysing work place hazards and conducting measures for the prevention and mitigation of accidents which might lead to the loss of health and life as well as the loss of material goods. The OHSAS 18001 certificate issued by authorized independent certification institutions renders assurance to all stakeholders of the Company's conduct of legal and other measures aimed at the provision of safe working environment and work injury protection.

The ISO 27001 Information Security Management System is certified in two Companies. By applying this system, the Company achieves protection of the information system, property, and business information. The ISO 27001 Certificate by Certified Independent Certification Institutes proves that the information security management system provides data protection on the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces the risk of possible fraud, loss of information or unauthorized disclosure of information, improves organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

GROUP COMPANIES	ISO 9001	ISO 14001	OHSAS 18001	ISO/IEC 27001
KONČAR - Power Plant and Electric Traction Engineering				
KONČAR - Power Transformers				
KONČAR - High Voltage Switchgear				
KONČAR - Metal Structures				
KONČAR - Instrument Transformers				
KONČAR - Engineering for Plant Installation and Commissioning				
KONČAR - Distribution and Special Transformers				
KONČAR - Electrical Engineering Institute				
KONČAR - Electric Vehicles				
KONČAR - Medium Voltage Apparatuses				
KONČAR - Electronics and Informatics				
KONČAR - Generators and Motors				
KONČAR - Small Electrical Machines				
KONČAR - Low Voltage Switches and Circuit Breakers				
KONČAR - Switchgear				
KONČAR - Infrastructure and Services				
KONČAR - Household Appliances				
KONČAR - Renewable Sources				

13. Corporate Social Responsibility

KONČAR complies with Corporate Social Responsibility principles in all segments. Relying on those principles the Group takes full responsibility for all processes and activities within the Group, so proactively with all stakeholders. More information is provided in the Corporate Social Responsibility Report which is being issued tenth year in a row and is published on KONČAR's web page www.koncar.com where it is available to all interested stakeholders. The report is prepared in accordance with the UN Global Compact principles and the Global Reporting Initiative (GRI G4) guidelines. Thus, KONČAR has been included in a small group of Croatian companies that have such reports.

Employees make the most significant part of every successful company, KONČAR included. Apart from unquestionable regular salary payments and meeting all legal obligations, a number of activities is conducted in terms of the permanent improvement of employees, work condition advancement, health prevention and organized recreation. In addition to the activities within the working hours, there are also joint activities organized such as the Christmas Futsal Tournament, which was participated by 26 teams from 14 KONČAR Groups in 2016, hiking, skiing trips etc. The KONČAR Pensioners' Club is organized for those who have ended their professional careers, with various cultural, social, humanitarian and other activities, while the "Homeland War Veterans Club" brings together participants of the Homeland War.

Environmental protection in production facilities and on sites where the equipment and products are installed is one of KONČAR's priorities; including quality control of input raw materials, components, production process as well as finished goods and plants.

Apart from the work process that encompasses the development, design, production and delivery of products, KONČAR takes care of the reduction of adverse impacts on the natural environment and numerous other activities. That is why the 2016 Earth Day was an opportunity for volunteer action by employees of "Let's Embellish our Environment", which was attended by many employees.

Social and humanitarian sensitivity to the youngest generation has been demonstrated by a series of activities and financial support for the most demanding activities and groups. One of them is a donation on the occasion of the KONČAR Day. In 2016, these funds were used to renovate elevators at the Zagreb Children's Hospital, the only independent hospital for children and teenagers in the Republic of Croatia.

All forms of school and out-of-school children and youth activities, as well as the social-humanitarian support, are a part of the community's cooperation that has continued successfully in 2016.

Encouraging young people's creativity, as well as sports activities, clubs of 'less commercial' sports have remained in focus through various forms of support for creating the best quality content. One of these activities is the support provided to the KONČAR' Chess Club, one of the oldest in Croatia, which regularly participates in competitions in various categories, and organizes a free chess school for the employees' children.

14. Business Plan for 2017

Business Plan for 2017 was adopted at the Supervisory Board meeting held on 15 December 2016.

Consolidated revenues from the sale of products and services are planned in the amount of HRK 3,051.8 million, which is by 7 percent more than the 2016 results. Domestically earned revenues are projected in the amount of HRK 1,431.8 million, while the export earned ones are planned in the amount of HRK 1,620 million.

The consolidated Group's profit before tax is planned to reach HRK 220.8 million; corporate tax is planned at HRK 31.6 million; profits after tax at HRK 189.2 million; minority stake at HRK 25.5 million, while the portion of the parent company's share in the Group's profits is planned at HRK 1.620 million.

In 2017, the plan is to contract new products and services in the amount of HRK 3,662 million to reach the planned contracted balance at year end of HRK 3,902 million.

15. Future Development Strategy

The KONČAR Group's development strategy is based on the fact that KONČAR's priority task is to produce the most complex products for the end customer in its area of core business of electrical energy and transport. Comprehensive products such as high voltage substations, hydro power plants, wind power plants, trams, electric and diesel-electric multiple units and alike are included in this category.

The strategy is based on the following settings and business orientations:

- Synergy - encouraging and optimizing the Group's joint business processes,
- Investments - expansion of production capacity of strategic parts of products, optimization of existing resources,
- Restructuring of non-core businesses,
- Production -individual products of high degree complexity and added value,
- Product development - own development in cooperation with scientific institutions and increasing the share of knowledge in products and service,
- Strengthening exports - increasing export/domestic market share,
- Human resources management - targeted education for own needs, scholarships, specialist education, scientific education,
- Social responsibility and stakeholder responsibility - stronger involvement in all the Company's operations, especially in environmental related activities.

Closing Remark

From the reporting date until the date of adopting financial statements, there were no events which might have significantly impacted the Company's 2016 financial reports, which publication would be required as a consequence.

Darinko Bago, Chairman of the Management Board	Jozo Miloloža, Board Member
Marina Kralj Miliša, Board Member	Davor Mladina, Board Member
Miroslav Poljak, Board Member	Miki Huljić, Board Member

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

Address Book

tradition.
knowledge.
responsibility.

Management Board

Darinko Bago, Chairman of the Management Board
Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 188, +385 1 3667 195, fax: +385 1 3667 196
e-mail: koncar.head@koncar.hr

Marina Kralj Miliša, Member of the Management Board
Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 169, fax: +385 1 3667 192
e-mail: kralj.dd@koncar.hr

Miki Huljić, Member of the Management Board
Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3666 551, fax: +385 1 3666 018
e-mail: miki.huljic@koncar.hr

Davor Mladina, Member of the Management Board
Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 198, fax: +385 1 3667 601
e-mail: koncar.ind.trade@koncar.hr

Miroslav Poljak, Member of the Management Board
Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3666 415, fax: +385 1 3667 179
e-mail: poljak.dd@koncar.hr

Business area Energy and Transport

KONČAR - Power Plant and Electric Traction Engineering Inc.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 512, fax: +385 1 3667 515
e-mail: info@koncar-ket.hr

KONČAR - Generators and Motors Inc.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 499, fax: +385 1 3666 564
e-mail: gim@koncar-gim.hr

KONČAR - High Voltage Switchgear Inc.

Borongajska cesta 81c, 10000 Zagreb, Croatia
phone: +385 1 2322 100, fax: +385 1 2311 303
e-mail: info@koncar-eva.hr

KONČAR - Medium Voltage Apparatus Inc.

Borongajska cesta 81c, 10000 Zagreb, Croatia
phone: +385 1 2380 000, fax: +385 1 2331 058
e-mail: uprava@koncar-easn.hr

KONČAR - Switchgear Inc.

Strojarska cesta 10, 10361 Sesvetski Kraljevec, Croatia
phone: +385 1 2030 500, fax: +385 1 2030 505
e-mail: uprava@koncarsp.hr

KONČAR - Distribution and Special Transformers Inc.

Josipa Mokrovića 8, 10090 Zagreb, Croatia
phone: +385 1 3783 777, fax: +385 1 3794 051
e-mail: info@koncar-dst.hr

KONČAR - Instrument Transformers Inc.

Josipa Mokrovića 10, 10090 Zagreb, Croatia
phone: +385 1 3794 074
fax: + 385 1 3794 040
e-mail: info@koncar-mjt.hr

KONČAR - Electronics and Informatics Inc.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3655 900, fax: +385 1 3655 550
e-mail: inem@koncar-inem.hr

KONČAR - Metal Structures Inc.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3666 560, +385 1 3667 233,
fax: +385 1 3667 235
e-mail: kmk@koncar-mk.hr

KONČAR - Electric Vehicles Inc.

Ulica Ante Babaje 1, 10090 Zagreb, Croatia
phone: +385 1 3496 959, +385 1 3496 933,
fax: +385 1 3496 960
e-mail: info@koncar-kev.hr

KONČAR - Engineering for Plant Installation & Commissioning Inc.

Borongajska cesta 81c, 10000 Zagreb, Croatia
phone: +385 1 2355 111
fax: +385 1 2333 717
e-mail: kmi@koncar-kmi.hr

KONČAR - Renewable Sources Ltd.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3655 348, fax: +385 1 3667 503
e-mail: koncar@koncar-oi.hr

Business area Industry

KONČAR - Small Electrical Machines Inc.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 273
fax: +385 1 3667 282
e-mail: info@koncar-mes.hr

Business area Trade

KONČAR - Household Appliances Ltd.

Slavonska avenija 16, 10000 Zagreb, Croatia
phone: +385 1 2484 555, fax: +385 1 2404 102
e-mail: kucanski@koncar-ka.hr

KONČAR - Low Voltage Switches and Circuit Breakers Ltd.

Borongajska cesta 81c, 10000 Zagreb, Croatia
phone: +385 1 2369 200, +385 1 2334 404
fax: +385 1 2303 897
e-mail: ivan.jeren@koncar-nsp.hr

Special activities

KONČAR - Electrical Engineering Institute Inc.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 315, fax: +385 1 3667 317
e-mail: info@koncar-institut.hr

KONČAR - Infrastructure and Services Ltd.

Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3794 046, fax: +385 1 3794 149
e-mail: koncar-eu@koncar-eu.hr

Associated companies

KONČAR - Power Transformers Ltd.

Josipa Mokrovića 12, 10090 Zagreb, Croatia
phone: +385 1 3795 504, fax: +385 1 3794 045
e-mail: kpt.hr@siemens.com

Representative offices

KONČAR - Electrical Industry Inc.
Representative office Moscow, Russian Federation

Office in Zagreb: Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3667 604, fax: +385 1 3655 755, 3667 602
e-mail: koncar.moskva@koncar.h

KONČAR - Electrical Industry Inc.
Representative office Mostar, Bosnia and Herzegovina

Dr. Ante Starčevića bb, 88000 Mostar,
Bosnia and Herzegovina
phone: +387 36 327 721, fax: +387 36 327 724
e-mail: koncar-mostar@phone.net.ba

Office in Zagreb: Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3655 610, fax: +385 1 3667 179
e-mail: koncar.mostar@koncar.hr

KONČAR - Electrical Industry Inc.
Representative office Belgrade, Serbia

Bulevar Mihajla Pupina 10Ž/424, 11070 Novi Beograd, Serbia
phone: +381 11 3017 321
fax: +381 11 2145 485
e-mail: koncar.office@koncar.rs

Office in Zagreb: Fallerovo šetalište 22, 10000 Zagreb, Croatia
phone: +385 1 3655 984, fax: +385 1 3655 118
e-mail: koncar.beograd@koncar.hr

publisher: KONČAR - Electrical Industry Inc.
design: Studio Prodomo

KONČAR - Electrical Industry Inc.
Fallerovo šetalište 22, 10000 Zagreb, Croatia

www.koncar.com

KONČAR

Financial Statements 2016

with Independent Auditor´s Report

tradition.
knowledge.
responsibility.

Contents

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

KONČAR Electrical Industry Group

INDEPENDENT AUDITOR'S REPORT, FINANCIAL STATEMENTS
31 December 2015

KONČAR Electrical Industries Inc.

KONČAR Electrical Industry Group

Independent Auditor's Report

and Consolidated Financial Statements
as at 31 December 2016

tradition.
knowledge.
responsibility.

Responsibility for the consolidated financial statements

Končar – Electrical Industry, Inc.

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Act, the Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards endorsed for use in the European Union, which present fairly the financial position and results of Končar – Electrical Industry Inc. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing the consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- appropriate accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management Board:

Darinko Bago, Board President	Jozo Miloloža, Board Member
Marina Kralj Miliša, Board Member	Davor Mladina, Board Member
Miroslav Poljak, Board Member	Miki Huljić, Board Member

Končar - Electrical Industry Inc., Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

24 March 2017

1

Independent auditor's report

pwc

Independent auditor's report

To the shareholders and Management Board of Končar – Electrical Industry Inc.

Our opinion

In our opinion, the consolidated financial statements give true and fair view of the consolidated financial position of Končar – Electrical Industry Inc. and its subsidiaries (the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, president; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

pwc

Our audit approach

Overview

Materiality

- Overall group materiality: Croatian kuna ("HRK") 20 million, which represents 0.7% of revenues.

Audit scope

- We conducted full scope audit work at 18 reporting units (companies subject to statutory audit), all of them are located in Croatia.
- The group engagement team audited Group and parent company financial statements, while the remaining 17 components were audited jointly by us and other network in Croatia under instructions and close cooperation with the group engagement team.
- In respect of one associate and one joint venture we performed audit procedures for significant financial statements lines and overall analytical procedures.
- Our audit scope addressed 100% of the Group's revenues and 99% of the Group's profit before tax.

Key audit matters

- Revenue recognition
- Provision for warranty costs
- Inventory write down

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

pwc

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	HRK 20 million
How we determined it	0.7% of revenues
Rationale for the materiality benchmark applied	We chose revenues as the benchmark because, in our view, it is the benchmark which objectively best represents the performance of the Group over a period of time, during which volatility in profits may be observed. We selected 0.7% which is which is within the range of acceptable quantitative materiality thresholds used for entities in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition	
See note 2.5 of the consolidated financial statements under heading "Revenue recognition" and note 2.7 under heading "Construction contracts" (accounting policies), note 2.29 (Critical accounting judgements and estimates) and notes 3, 27 and 39 for further information As part of its usual business activities, the Group concludes large commercial and technically complex contracts, which represent a significant part of the business (the Group, apart from straight forward energy equipment delivery of transformers and similar products, is involved in contracting complex energy plant and equipment projects which are within the scope of IAS 11 *Construction contracts*). The customer payment milestones set in the contract usually do not follow revenue recognition criteria in accordance with IAS 11. As a result, in the consolidated financial statements the Group presents gross amounts due from/to customers for all active projects at the balance sheet date. As disclosed in Notes 27 and 39 gross amount due from customers (net) is HRK 86,382 thousand at the balance sheet date. We focused on recognition of revenue since accounting for these contracts is complex and involves certain degree of judgment. Our particular area of focus was Management's assessment whether the contract is within the scope of IAS 11, assessment of total contract costs (estimation of project margin), warranty costs and similar.	We assessed the consistency of the application of the revenue recognition policy for the Group's revenues. Where effective and efficient, we tested the design and operating effectiveness of the controls (including IT controls) over revenue systems across the Group to determine the extent of additional substantive testing required. We found no material misstatements from our testing nor the significant control deficiencies. Our work also included testing a sample of manual journal entries posted to revenues which did not identify any items that could not be substantiated. In addition, we have performed detailed test of major new contracts which include testing the relevant supporting documentation (construction contracts, approved estimations of total contract costs, actual costs summaries, sample of invoices and timecards, analytics and similar) in relation to significant projects in the current year. We checked that revenue had been recognised at the correct time by testing a sample of transactions and contracts (in case of IAS 11 by comparing the timing of revenue recognition to stage of completion based on the proportion of contract costs incurred for work performed to date in estimated total contract costs, and in case of sale of goods - to delivery date). No exceptions were noted from our testing. We made inquiries of Management to challenge the Management's assessment of total contract costs and estimated margins per project, made analysis of estimated costs in prior period to actual cost incurred and found no inconsistencies. Also, we made review of most significant contracts to challenge the Management's assessment whether the contract is within the scope of IAS 11 and found no inconsistencies.

pwc

Key audit matter	How our audit addressed the Key audit matter
Provision for warranty costs	
See note 2.25 of the consolidated financial statements under heading "Provisions" (accounting policies), note 2.29 (Critical accounting judgements and estimates) and notes 11 and 34 Provisions for servicing during warranty periods relate to estimated costs of possible repairs (rectifications or replacement of faulty items) of Group's products and work performed in relation to different contracted projects. The Group provides warranties for its products for a period of 2 to 7 years in accordance with the contracts signed. The Group recognises warranty provision amounting to HRK 273,874 thousand as at 31 December 2016. Movements within current period are disclosed in note 34. Warranties include general and specific provisions. General provision is calculated using the estimations (within the range of 2% to 8% applied on the value of sold goods under warranty) based on the Group's past experience and other manufacturers' of similar energy equipment experience taking into account specific design and performance requirements. Specific provisions relate to possible quality problems in relation to equipment sold to certain customers (the Group estimates total costs which will be incurred for resolving quality problems for particular customer). We focused on this area because the management made provisions that require significant judgements in relation to the amount of current and potential future claims from customers for losses or damages within warranty period.	In view of the significant judgements involved in the calculation of warranty provisions, we examined the most material provisions in detail and sought relevant supporting evidence and analysis made by management. We have made inquiries to the management and inspected a sample of significant sales agreements with a focus on contracted terms related to warranty periods and warranty terms. In relation to general provisions where the management applied a range from 2% to 8% as appropriate percentage for its portfolio, we examined the history of claims and settlement amounts and assessed whether the assumptions underpinning the provision calculations, including expected future claims and settlement amounts, were appropriate. In respect to specific provisions related to possible quality problems of equipment sold to certain customers we examined the supporting documentation such as contracts, delivery notes, correspondence with customers, claims raised in order to assess whether the provided amount was appropriate. We found calculations to be reasonable. As set out in the notes to the consolidated financial statements, because such assumptions concern future events, the calculations of the provisions are inherently uncertain. We verified the mathematical accuracy of calculations and agreed data used in calculations with Group's records. We have also reviewed the sensitivity analysis in the consolidated financial statements disclosing the effect of change in percentage used for general provisions and found no issues. Based on the evidence obtained, while noting the inherent uncertainty with such provisions, we determined the level of provisioning at 31 December 2016 to be consistent with previous periods and based on the information currently available to the Group. We found assumptions used by the management in the determination of warranty provision to be reasonable and consistently applied.

pwc

Key audit matter	How our audit addressed the Key audit matter
Inventory write down *Refer to note 2.19 of the consolidated financial statements under heading "Inventories" (accounting policies), note 2.29 (Critical accounting judgements and estimates) and notes 10 and 25* As disclosed in note 2.19 to the consolidated financial statements, inventory write downs are recognized in case when the management assesses there is a need to reduce inventory from cost to net realisable value based on the predetermined criteria. The calculation of net realisable value takes into account the intended use of the inventory (for example inventories held to satisfy a particular service maintenance contract are based on the contract price). In case when the management assesses that the decline in price of materials indicates that the cost of goods will exceed their net realisable value, materials are written down and in such case the replacement cost is the best available measure of their net realisable value. The write down of stock to net realisable value is calculated by applying judgement to the period-end stock levels, with this judgement being affected by stock ageing structure as well as management's view of the current stock profile and age. The write down expense recognized in the current period amounted to HRK 19,396 thousand (2015: HRK 17,725 thousand). The valuation of stock was focused on because of the significance of inventory balance and the nature of the judgements made by the management when assessing the carrying value of inventory. We particularly focused on the management assessment of the stock ageing structure, intended use an estimated net realisable value.	We attended stock counts performed near year-end at a sample of the Group's stock locations, mostly manufacturing locations. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation at each location. We evaluated the results of stock counts performed by the management at the year-end to assess the level of count variances. We performed test of details involving comparison of net realisable value with cost on the selected sample of finished goods, noting no significant issues. We have tested the accuracy of the stock ageing structure used by management in determination of write down by performing detailed test on the sample basis, no errors have been found. We have also reviewed stock analysis made by management describing the current stock profile, age, intended use and estimated net realisable values, and found no inconsistencies. We held discussions with management to understand the basis for management views. Based on the work performed, we accept the reasonableness of management's assumptions used in determination of stock write down expense.

pwc

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographical and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In establishing the scope of our audit work, we have determined the nature and extent of the audit procedures to be performed at the reporting units to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements as a whole.

In establishing our overall approach to audit the Group, we considered the significance of the components to the Group financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the full scope of our audit.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed directly by us, as the group engagement team or component auditors represented by us and other network operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion as a whole. As a result, we conducted full scope audit work (directly by us or jointly in cooperation with other network) at 18 reporting units, including Croatian companies subject to statutory audit, and the consolidated accounts, which are issued after the performance of full scope audits for each of the component. In respect of one associate and one joint venture, we performed audit procedures for significant financial statements lines and overall analytical procedures.

Our audit scope addressed 100% of the Group's revenues and 99% of the Group's profit before tax.

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Group which includes the Management Report and Corporate Governance Statement (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;

pwc

- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International financial reporting standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Dimitrov.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.

Zagreb, 24 March 2017

pwc
PricewaterhouseCoopers d.o.o.
za reviziju i konzalting
Zagreb, Ulica kneza Lj. Posa...kog 3...

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		HRK	*HRK*
Sales	3	2,853,142,344	3,049,074,117
Other operating income	4	143,398,610	132,638,842
Operating income		**2,996,540,954**	**3,181,712,959**
Changes in inventories (work in progress and finished goods)		34,593,646	(14,793,829)
Cost of materials and energy	5	(1,426,430,441)	(1,640,662,224)
Cost of goods sold		(199,646,893)	(167,474,457)
Cost of services	6	(399,116,755)	(375,575,029)
Staff costs	7	(537,346,352)	(509,926,132)
Depreciation and amortization	8	(92,851,773)	(89,518,168)
Other costs	9	(128,644,344)	(132,180,382)
Impairment losses	10	(25,418,124)	(32,634,901)
Provisions	11	(84,445,460)	(72,093,841)
Other operating expenses	12	(8,796,458)	(21,195,559)
Operating expenses		**(2,868,102,954)**	**(3,056,054,522)**
Operating profit		**128,438,000**	**125,658,437**
Finance income	13	50,062,955	64,630,909
Finance costs	14	(47,657,324)	(70,852,069)
Finance income (costs) - net		**2,405,631**	**6,221,160**
Share of net profit of associates and joint ventures accounted for using equity method	15	**65,242,817**	**50,117,737**
Profit before taxation		**196,086,448**	**169,555,014**
Income tax expense	16	(22,297,988)	(18,234,642)
PROFIT FOR THE YEAR		**173,788,460**	**151,320,372**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Changes in the fair value of available-for-sale financial assets		1,150,628	549,795
Exchange differences on translation of foreign operations		31,058	(31,058)
Cash flow hedge		-	4,734,344
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**174,970,146**	**156,573,453**
Profit for the year attributable to:			
Owners of the Company		143,282,971	127,651,294
Non-controlling interests		30,505,489	23,669,078
Net profit for the period		**173,788,460**	**151,320,372**
Total comprehensive income for the year attributable to:			
Owners of the Company		144,452,771	130,630,134
Non-controlling interest		30,517,375	25,943,319
Earnings per share			
Basic and diluted earnings per share in HRK	17	55.83	49.74

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016

	Note	31 December 2016	31 December 2015
		HRK	HRK
ASSETS			
Goodwill	18	7,980,446	7,980,446
Intangible assets	19	44,029,243	53,288,682
Property, plant and equipment	20	986,053,000	1,004,575,879
Investment property	21	163,148,502	143,786,056
Investments in associates accounted for using the equity method	22	263,518,997	263,737,081
Financial assets	23	15,541,244	12,393,042
Receivables	24	14,178,830	17,595,561
Deferred tax asset	16	327,071	-
Non-current assets		**1,494,777,333**	**1,503,356,747**
Inventories	25	480,046,270	502,669,833
Receivables from related companies	26	97,476,136	77,758,772
Trade and construction contracts receivables	27	785,996,173	720,175,786
Prepaid corporate income tax		8,817,597	16,428,434
Other receivables	28	105,769,925	65,418,550
Financial assets	29	374,842,074	399,573,719
Cash and cash equivalents	30	441,470,621	346,619,383
Prepaid costs and accrued income	31	5,936,422	12,077,169
Current assets		**2,300,355,218**	**2,140,721,646**
Non-current assets held for sale	32	4,138,671	5,960,000
TOTAL ASSETS		**3,799,271,222**	**3,650,038,393**
EQUITY AND LIABILITIES			
Share capital		1,208,895,930	1,208,895,930
Share premium		719,579	719,579
Reserves		558,913,526	483,706,422
Retained earnings		295,728,107	272,108,024
Profit for the current year		143,282,972	127,651,294
Equity attributable to owners		2,207,540,114	2,093,081,249
Non-controlling interest		240,785,531	228,414,785
TOTAL EQUITY	33	**2,448,325,645**	**2,321,496,034**
Provisions for warranty costs		156,672,700	195,430,791
Other provisions		77,679,435	63,919,619
Provisions	34	**234,352,135**	**259,350,410**
Deferred tax liability		424,606	137,449
Borrowings	35	122,031,946	142,988,558
Non-current liabilities		**122,456,552**	**143,126,007**
Liabilities toward related companies	36	23,633,329	18,304,764
Borrowings	37	61,888,252	87,973,492
Trade payables	38	348,212,115	349,049,822
Gross amounts due to customers for construction contracts	39	13,315,717	23,592,492
Income tax payable		1,757,117	4,471,611
Liabilities for advances received	40	244,713,954	182,349,546
Other liabilities	41	94,618,681	92,302,190
Provisions	34	123,811,935	72,275,584
Deferred income	42	82,185,790	95,746,441
Current liabilities		**994,136,890**	**926,065,942**
Total liabilities		**1,350,945,577**	**1,328,542,359**
TOTAL EQUITY AND LIABILITIES		**3,799,271,222**	**3,650,038,393**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		HRK	*HRK*
Cash flow from operating activities			
Cash receipts from trade receivables		3,071,041,277	3,284,706,115
Cash receipts from insurance compensations		33,701,627	8,624,665
Cash receipts from tax returns		106,766,441	95,553,924
Cash payments to trade payables		(2,193,233,327)	(2,434,570,686)
Cash payments to employees		(605,210,326)	(592,725,805)
Cash payments to insurance companies		(8,881,181)	(22,123,377)
Cash payments for taxes		(133,495,432)	(121,394,678)
Other cash proceeds and payments		(68,934,654)	(88,792,069)
Net cash from operations		**201,754,425**	**129,278,089**
Interest paid		(9,571,178)	(10,608,690)
Income tax paid		(17,590,952)	(19,103,867)
Net cash flow from operating activities		**174,592,295**	**99,565,532**
Cash flow from investing activities			
Proceeds from sale of non-current assets		7,806,020	11,021,416
Proceeds from sale of financial instruments		6,710,723	4,695,685
Interest received		8,299,169	12,294,036
Dividends received		50,397,118	63,011,096
Deposits released		572,498,700	576,882,680
Acquisition of intangible and tangible assets		(76,874,529)	(78,152,877)
Deposits placed		(552,712,555)	(546,235,266)
Net cash from investing activities		**16,124,646**	**43,516,770**
Cash flow from financing activities			
Proceeds from issuance of debt instruments		-	6,690
Proceeds from borrowings	**35, 37**	146,770,963	48,575,088
Repayment of borrowings	**35, 37**	(192,384,962)	(121,569,501)
Dividends paid		(47,170,796)	(49,352,291)
Purchase of treasury shares		-	(2,804,803)
Transactions with non-controlling interests		(3,156,068)	(69,220,012)
Other proceeds from financing activities		75,160	6,648,159
Net cash used in financing activities		**(95,865,703)**	**(187,716,670)**
Total increase/(decrease) in cash and cash equivalents		**94,851,238**	**(44,634,368)**
Cash and cash equivalents at the beginning of the year		346,619,383	391,253,751
Cash and cash equivalents at the end for the year	30	**441,470,621**	**346,619,383**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital	Share premium	Reserves from earnings	Reserves from treasury shares	Treasury shares	Retained earnings	Profit for the year	Non-controlling interest	Total equity
(in HRK)									
As at 1 January 2015	**1.208.895.930**	**719.579**	**400.090.992**	**1.338.982**	**(1.338.982)**	**288.659.683**	**129.249.283**	**257.389.371**	**2.285.004.838**
Profit for the year							127.651.294	23.669.078	**151.320.372**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	(19.166)	-	-	-	-	(11.882)	**(31.048)**
Changes in the fair value of available-for-sale financial assts	-	-	549.795	-	-	-	-	-	**549.795**
Cash flow hedge	-	-	2.448.221	-	-	-	-	2.286.123	**4.734.344**
Total comprehensive income for the year	-	-	*2.978.850*	-	-	-	*127.651.294*	*25.943.319*	***156.573.463***
Transactions with owners:									
Profit allocation	-	-	80.636.580	-	-	49.359.247	(129.995.827)	-	**-**
Dividends	-	-	-	-	-	(30.843.552)	-	(18.608.491)	**(49.452.043)**
Formation of reserves for own shares	-	-	-	2.804.802	-	(2.804.802)	-	-	**-**
Purchase of treasury shares	-	-	-	-	(2.804.802)	-	-	-	**(2.804.802)**
Transactions with non-controling interest	-	-	-	-	-	(32.262.552)	-	(36.550.046)	**(68.812.598)**
Other movements	-	-	-	-	-	-	746.544	240.632	**987.176**
	-	-	*80.636.580*	*2.804.802*	*(2.804.802)*	*(16.551.659)*	*(129.249.283)*	*(54.917.905)*	*(120.082.267)*
As at 31 December 2015	**1.208.895.930**	**719.579**	**483.706.422**	**4.143.784**	**(4.143.784)**	**272.108.024**	**127.651.294**	**228.414.785**	**2.321.496.034**
Profit for the year	-	-	-	-	-	-	143.282.971	30.505.489	**173.788.460**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	19.172	-	-	-	-	11.886	**31.058**
Changes in the fair value of available-for-sale financial assts	-	-	1.150.628	-	-	-	-	-	**1.150.628**
Total comprehensive income for the year	-	-	*1.169.800*	-	-	-	*143.282.971*	*30.517.375*	***174.970.146***
Transactions with owners:									
Profit allocation	-	-	74.248.557	-	-	55.211.257	(129.459.814)	-	**-**
Dividends	-	-	-	-	-	(30.795.096)	-	(16.439.534)	**(47.234.630)**
Transactions with non-controlling interest	-	-	-	-	-	(603.634)	-	(2.552.438)	**(3.156.072)**
Other movements	-	-	(211.253)	-	-	(192.444)	1.808.521	845.343	**2.250.167**
	-	-	*74.037.304*	-	-	*23.620.083*	*(127.651.293)*	*(18.146.629)*	*(48.140.535)*
As at 31 December 2016	**1.208.895.930**	**719.579**	**558.913.526**	**4.143.784**	**(4.143.784)**	**295.728.107**	**143.282.972**	**240.785.531**	**2.448.325.645**

The accompanying notes form an integral part of these financial statements

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information on the Group

1.1. Activities

The main activities of the Končar - Electrical industry Group, Zagreb ("the Group") include the production of electrical machinery and appliances, production of transportation vehicles, machinery and metalworking.

The Group's principal activities are divided in four main areas:

I. Energetic and transportation: design and construction of plants for the production, transfer and distribution of electrical energy, and related equipment, locomotives, trams, and electrical equipment for stable electric traction plants;
II. Industry: electromotive drivers, electrical equipment of low and high voltage and catering equipment;
III. Trade: electrical household appliances, serial products and electrical low voltage switchgears;
IV. Special activities: research and development of products and infrastructural services.

There are 15 subsidiaries within the Group involved in core business and 2 subsidiaries with special activities, research and development of products and infrastructural services.

The Group has two associates in Croatia, and one joint venture in China.

The Group's Parent company is Končar-Electrical Industry Inc., Zagreb, Fallerovo šetalište 22 ("the Company"). The Company is a holding company of all companies in its ownership.

As at 31 December 2016 the Group had 3,643 employees, while as at 31 December 2015 the Group had 3,666 employees.

Members of the Supervisory Board:

Petar Vlaić	President from 12 July 2016
Nenad Filipović	President until 12 July 2016
Josip Lasić	Deputy from 12 July 2016
Dragan Marčinko	Member from 1 June 2016
Ivan Rujnić	Member from 1 June 2016
Boris Draženović	Member until 1 June 2016
Nikola Plavec	Member until 1 June 2016
Petar Mišura	Member until 1 June 2016
Vicko Ferić	Member
Jasminka Belačić	Member
Vladimir Plečko	Member from 1 June 2016
Branko Lampl	Member from 12 July 2016
Joško Miliša	Member from 12 July 2016
Nikola Anić	Member from 12 July 2016

Members of the Management Board:

Darinko Bago	President
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Jozo Miloloža	Member, in charge of finance
Davor Mladina	Member, in charge of IT and trade activities
Miroslav Poljak	Member, in charge of corporate development and ICT
Miki Huljić	Member, in charge of integrations and group optimisation

Compensations to the members of the Management and Supervisory Board are presented in Notes 7 and 9 to the financial statements.

The financial statements are presented in Croatian Kuna (HRK). Stated amounts are rounded to the nearest HRK.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies

The significant accounting policies used for the preparation of these financial statements are presented below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards adopted in the European Union.

The consolidated financial statements of the Group have been prepared under the basic principle of accrual accounting, whereby the transaction effects are recognised when incurred and recorded in the financial statements for the period to which they relate, as well as under the going concern assumption.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.29.

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group. At 31 December 2016, the exchange rate for USD 1 and EUR 1 was 7.17 HRK and 7.56 HRK, respectively (31 December 2015: HRK 6.99 and HRK 7.64 respectively).

New and amended standards, amendments and interpretations adopted by the Group

The Group has adopted new and amended standards for their annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38.
- Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).

The adoption of the improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, interpretations and amendments issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. None of these is expected to have significant effect on the Group's financial statements, except for the following standards:

a) IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) - minimum amounts must be recognised if they are not at significant risk of reversal)
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa
- There are new specific rules on licenses, warranties, non- refundable upfront fees and, consignment arrangements, to name a few; and
- As with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

Management is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:

- The point of revenue recognition in the case of contracting projects without margin
- Extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date.

b) IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now compete.

The Management of the Group assessed the impact of the new standard IFRS 9 on its financial statements as follows:

- Following the changes approved by the IASB in July 2014, the Group no longer expects any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities.
- While the Group has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) based on their current business model for these assets. Hence there will be no change to the accounting for these assets.
- There will also be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.
- The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.
- The Group has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.

The Management plans to adopt the standard on its effective date.

c) IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)

- IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
- Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At this stage, the Group is not able to estimate the impact of the new standard on the Group's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date and when endorsed by the European Union.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2.2 Basis for consolidation

The consolidated financial statements of the Group include the financial statements of the Parent company and the financial statements of the companies controlled by the Parent company (subsidiaries). The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests in subsidiaries without change of control

The Group applies a policy of treating transactions with non-controlling interests that do not result in loss of control as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from minority shareholders, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries/loss of control over subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Investments in associates and joint ventures

Associates

Associated companies are entities in which the Group has between 20% and 50% of voting power and in which the Group has significant influence, but not control. In the consolidated financial statements investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Dividends received or receivable from associates are deducted from the carrying value of the investment.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Dividends received or receivable from joint ventures are deducted from the carrying value of the investment.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Business combinations

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal.

Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value added tax, excise tax, estimated returns, rebates and discounts.

Revenues from the sale of goods and finished products are recognized when all of the following conditions have been met:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transactions will flow to the Company; and
- the costs incurred or to be incurred in respect to the transaction can be measured reliably.

Income from services is recognized in the period when the services have been rendered by the stage of completion method. Stage of completion is determined on the basis of share of service costs incurred until certain date in the total estimated service costs.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2.6 Finance income and costs

Finance income and costs comprise interest on loans calculated using the effective interest rate method, receivables for interest on investments, revenues from dividends, gains and losses from exchange rate differences, gains and losses from financial assets at fair value through profit and loss.

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in Notes 14 and 15 in gross amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

Finance costs comprise interest on loans, changes of fair value of financial assets at fair value through the profit and loss, impairment losses of financial assets and foreign exchange losses.

2.7 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by the reference to the stage of completion of the contract activity at the end of the reporting period, on the basis of the share of costs incurred to that date in total estimated contract costs. Variations in contract work, claims and incentive payments are included in contract revenue to the extent agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognized only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expense in the period in which are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

2.8 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets or liabilities in the lessee's balance sheet at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

2.9 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time for its intended use or sale, is added to the cost of that asset until the asset is substantially ready for its intended use or sale.

Other borrowing costs are charged to the income statement in the period in which they are incurred.

2.10 Foreign currency transactions

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in the income statement for the current year.

During the consolidation, assets and liabilities of Group's foreign operations are translated into the Group presentation currency at the exchange rates ruling at the reporting date. Revenues and expenses are translated at the foreign exchange rates ruling at the dates of the transactions and the exchange differences are recognized in other comprehensive income. All foreign exchange gains and losses are recognized in the period when the transaction occurred.

2.11 Income tax

The parent company as well as domestic subsidiaries within the Group state its taxation liabilities in accordance with

Croatian law. Corporate income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

Deferred taxes arise from temporary differences between the amounts of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. Deferred tax assets for unused tax losses and unused tax benefits are recognised if it is probable that future taxable profit will be realised on the basis of which the deferred tax assets will be utilised. Deferred tax assets and deferred tax liabilities are calculated by applying the corporate tax rate applicable to periods when those assets or liabilities will be realised.

Current and deferred tax are recognised as income or expense in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

2.12 Earnings per share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, less treasury shares. Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, less treasury shares and potential shares based on share options.

2.13 Related-party transactions

The Group, as well as the Parent company, does not disclose within related-party transactions the relations with other state-owned companies, pursuant to the exemption related to state-owned companies as stated in IAS 24.

2.14 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management/Supervisory Board that makes strategic decisions.

During the identification of business segments, the Management mostly follows sales of goods and provision of services within certain economic area. Each of these business segments are separately managed since they are determined on the basis of specific market needs.

Policies of valuation/measurement which the Group uses for the segment reporting are the same as those used during the preparation of the financial statements.

Furthermore, assets which cannot be directly attributable to certain business segments remain un-allocated.

There were no changes in the valuation methods used in the determination of profit or loss of business segment in comparison to previous periods.

2.15 Non-current intangible and tangible assets (property, plant and equipment)

Non-current intangible and tangible assets are initially carried at cost, which includes the purchase price, including import duties and non-refundable tax after deducting trade discounts and rebates, as well as all other costs directly attributable to bringing the asset to their working condition for their intended use.

Non-current intangible and tangible assets are recognised if it is probable that future economic benefits associated with the item will flow to the Group, if the cost of the asset can be reliably measured, and when the cost is higher than HRK 3,500.

After initial recognition, assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Maintenance and repairs, replacements and minor improvements are expensed when incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an asset beyond its originally assessed standard performance, the expenditures are capitalised i.e. included in the carrying value of the asset. Gains or losses on the retirement or disposal of fixed assets are included in the income statement in the period when incurred.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

The depreciation of assets commences when the assets are ready for use, i.e. when the assets are at the required location and the conditions necessary for use have been met. Amortisation and depreciation of assets ceases when the assets are classified as held for sale.

Amortisation and depreciation are charged so as to write off the cost of each asset, other than land, advances and non-current intangible and tangible assets under construction, over their estimated useful lives, using the straight line method, as follows:

	Depreciation rates (from - to %)
Development expenditure	0%
Concessions, patents, licences, software etc	20%-25%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	2,9% - 25%
Tools and equipment, transport vehicles	3.4% - 25%
Other tangible assets	20%

Impairment of property, plant and equipment

The Group reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, on the basis of external and internal sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit (the plant or line to which the asset belongs), and then the loss is allocated to individual assets within the unit.

During the determination of impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are changed.

The recoverable amount is the higher of the fair value less costs to sell and value in use.

If the amount of a tangible asset is higher than its recoverable amount, the difference is charged to the current result (impairment loss on assets).

At each reporting date the Group reviews if there are indicators that the previously recognized impairment loss should be reversed or decreased.

2.16 Investment property

Investment property (land, buildings) which are in Group's ownership are held for the purpose of earning rentals or as a potential for issuing guarantees or solidarity guarantees for subsidiaries, and also for the future capital appreciations for the purpose of future sale. Investment property is recognised as non-current asset, unless it is intended for sale within the next year, in which case the investment property is recognised as a current asset. Investment property is initially measured at cost less accumulated depreciation. The Group at least annually reviews residual value and useful life of the property. The residual value is an estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Since the Group has estimated that the residual value of the property exceeds its carrying value, depreciation is not charged until the residual value is reduced to the amount below the carrying value.

2.17 Non-current assets held for sale

Non-current assets classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale when its carrying value will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition. Assets which are once classified as held for sale are no longer depreciated.

2.18 Financial assets and financial liabilities

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into following categories:

- At fair value through profit or loss (FVTPL) - Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.

- Held to maturity - financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale - are non-derivative financial assets determined as such or financial assets which cannot be included within above determined categories. AFS is stated at fair value, gains and losses arising from changes in fair value are recognized directly in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income is included in profit or loss for the period.
- Loans and receivables - Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired if there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of an asset when the event affects the estimated future cash flows from the financial asset.

For unlisted shares classified as AFS a significant or prolonged decline in the fair value of the shares below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and reward ownership of a transferred financial asset, the Group continues to recognise the financial asset and financial liability for the proceeds received.

When the Group derecognises a financial asset in its entirety, the difference between the carrying amount and sum of consideration received and the consideration receivable and cumulative gains (losses), recognised in other comprehensive income, is transferred from equity to profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that provides evidence to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

Capital reserves includes share premium arising from the share issue. Incremental costs directly attributable to equity transaction (issue of ordinary shares) are accounted for as a deduction from equity.

Reserves are stated at nominal amounts representing allocation of retained earnings, especially legal reserves, statutory reserves and other reserves.

Share repurchase (treasury shares)

The consideration paid for the repurchase of the Group's equity share capital (treasury shares), including any directly attributable incremental costs related to the repurchase, is deducted from equity, until the shares are cancelled or reissued. Repurchased shares are classified as treasury shares and represent a deduction from equity. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury share is recognised directly in equity, where such ordinary shares are subsequently re issued any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity.

Financial guarantee of a contractual obligation

Financial guarantee of a contractual obligation is initially measured at its fair value and subsequently measured at the higher of:

- the contractual amount of liability determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue).

Financial liabilities at fair value through profit and loss - Financial liabilities are classified as "at fair value through profit or loss" where the financial liability is either held for trading or it is designed as "at fair value through profit or loss". Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities - including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.19 Inventories

Inventories are measured at the lower of cost or net realizable value. Costs of inventories comprise all purchase costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories is determined using the weighted average cost method.

Costs of conversion comprise costs that are specifically attributable to units of production such as direct labour and similar. They also comprise a systematic allocation of fixed and variable production overheads incurred in converting raw materials into finished goods. Fixed production overheads are indirect costs of production that remain relatively constant, regardless of the level of production such as depreciation, maintenance of factory buildings, the costs of factory management and similar. Variable production overheads are those that vary directly with the volume of production such as indirect materials and indirect labour.

The allocation of fixed production overheads is based on the normal level of productive capacity. The normal level of capacity is the average production expected to be achieved over a number of periods in normal circumstances, taking into account a production loss due to planned maintenance. Unallocated overheads are expensed in the period in which they are incurred.

Slow moving and obsolete inventories are written off to its net realisable value by using value adjustment account for these inventories. Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

Small inventory, packaging and tyres are fully expensed when put into use.

2.20 Receivables

Receivables are initially measured at fair value. At each balance sheet date, receivables, whose collection is expected within a period of more than one year, are stated at amortised cost using the effective interest method, less any impairment loss. Current receivables are initially recognised at their nominal value less corresponding allowances for estimated uncollectible amounts and impairment losses.

Receivables are impaired and impairment losses arise only if there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of an asset when the event affects the estimated future cash flows from the receivables that can be reliably estimated. Receivables are assessed at each balance sheet date whether there is objective evidence of their impairment. If there is objective evidence of impairment, the impairment loss is measured as the difference between the carrying amount and the estimated future cash flows. The carrying value of receivables is reduced either directly or by using a separate allowance account. The loss amount is charged to the income statement for the current year.

2.21 Cash and cash equivalents

Cash consists of bank demand deposits, cash on hand and deposits and securities payable on demand or at the latest within a period of three months.

2.22 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

2.23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.24 Government grants

Government grants are not recognized until there is a reasonable assurance that the Group will meet all requirements defined in the subsidy contract and that the grant will be received.

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets, are recognized as deferred income in the balance sheet and released in the income statement on a systematic and appropriate basis in accordance with the useful life of that asset. Government grants are recognized as income during the period to match related costs on a systematic basis.

Government grants received as compensation for expenses or losses already incurred, or for the purpose of immediate financial support to the Group without further related costs, are recognized in the income statement in the period when received.

2.25 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Provisions are determined for costs of repairs within warranty periods, awards to employees for long term employment and retirement (jubilee awards and severance payments).

Provisions for warranties are recognized in the period when the underlying products are sold/projects are completed. Provisions are made based on estimates and experiences from other manufacturers of energy equipment within the Group's environment (described in note 34) and best estimate of potential outcomes.

Provisions for awards to employees for long term employment and retirement (regular jubilee awards and severance payments) are determined as the present value of future cash outflows using the government bond interest rate as the discount rate.

2.26 Employee benefits

(i) Defined pension fund contributions

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

(ii) Long-term employee benefits

The Group has post-employment benefits to be paid to the employees at the end of their employment with the Group (either upon retirement, termination or voluntary departure). The Group recognises a liability for these long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(iii) Short-term employee benefits - bonuses

A liability for employee benefits is recognised in provisions based on the Group's formal plan and when past practice has created a valid expectation by the Management Board/ key employees that the bonus will be paid and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are expected to be settled within 12 months of the balance sheet date and are measured at the amounts expected to be paid when they are settled.

(iv) Share-based payments

The Parent company operates an equity-settled, share-based compensation plans. The total amount to be expensed over the vesting period and the amount that is credited to the equity is determined by the reference to the fair value of the options granted. The fair value of the equity accounted instruments is measured at the grant date. At each reporting date, management revises its estimate of options which complies with conditions for the acquisition of rights and makes necessary adjustments.

2.27 Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statements of the Group, but only disclosed in the notes to the financial statements, unless the possibility of the outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements of the Group except when the inflow of economic benefits is virtually certain.

2.28 Events after the balance sheet date

Events after the balance sheet date, which provide additional information on the Group's position at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements, if material.

2.29 Critical accounting judgements and estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Impairment of inventories

The companies within the Group recognizes an impairment for all types of inventories (raw materials, work in progress, finished goods and merchandise) for which it determines that its cost is higher than its net realizable value, on the basis of direct review of inventories and management's estimation of the slow-moving inventory, inventory inadequate in technological sense, un-functional or inventory which can no longer be used in the production or realisable on the market.

b) Provisions for warranty periods

The Group provides warranties for its products/projects performed for an average period of 2-8 years. The Management estimates the provision for the costs within warranty period on the basis of past experience. Group continuously works on initiatives to improve the quality of work and to decrease exposure to contingent liabilities in relation to warranties issued. If the level of estimated general provision needed had increased by 1% in comparison to deliveries/active projects under warranty, the provisions recognized at the balance sheet date would have increased by HRK 36.1 million (2015: HRK 33.9 million).

c) Estimation of construction contracts costs

The Group companies, which recognize revenues in accordance with IAS 11 Construction contracts (contracts which relate to different accounting periods), use the percentage of completion method when recognizing its revenue. Using this method requires an estimation of contract costs incurred for work performed to that date, compared to the total estimated contract costs (projects). If the percentage of completion had increased by 10% Group's revenues would be higher by HRK 17,910 thousand (2015: higher by HRK 24,391 thousand), whereas if the percentage of completion had decreased by 10%, Group's revenues would be lower by HRK 45,621 thousand (2015: lower by HRK 44,653 thousand).

2.30 Subsidiaries:

	31 December 2016		31 December 2015	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar - Household Appliances Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Small Electrical Machines Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical Engineering Institute Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Breakers Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Generators and Motors Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Renewable Sources Ltd., Zagreb	100.00	100.00	100.00	100.00
Direct ownership	*85.27*	*85.27*	*85.27*	*85.27*
Indirect ownership	*14.73*	*14.73*	*14.73*	*14.73*
Končar - Electrical Vehicles Inc., Zagreb	75.04	75.04	75.04	75.04
Končar - Steel Structures Inc., Zagreb	75.01	75.01	75.01	75.01
Končar - Electronics and Informatics Inc., Zagreb	75.03	75.03	75.03	75.03
Končar - Switchgear Inc., Sesvetski Kraljevec	70.03	81.70	70.03	81.70
Končar - Medium Voltage Apparatus Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Instrument Transformers Inc., Zagreb	61.73	99.77	61.73	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	52.73	67.90	51.71	67.80
Končar - High Voltage Switchgear Inc., Zagreb	98.61	99.03	98.61	99.03
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05
Non-consolidated subsidiaries:				
Konell Ltd., Sofia, Bulgaria*	85.00	85.00	85.00	85.00
Končar-Inženjering Inc., Zagreb*	100.00	100.00	100.00	100.00

Non-consolidated subsidiaries are not consolidated since they are insignificant on the Group level.

** companies in indirect ownership by the Company*

The following are the companies in which the Parent company has a significant non-controlling interest:

- *Končar - Distribution and Special Transformers Inc., Zagreb (KONČAR D&ST d.d.)*
- *Končar - Instrument Transformers Inc. (KONČAR MT d.d.) and*
- *Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb (KONČAR MI d.d.)*

These three companies represent 74% of the total amount of the Group's non-controlling interest at the balance sheet date.

Summary of the stated companies with significant non-controlling interests are presented below:

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR MI Inc.	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Statement of comprehensive income						
Income	869,131	811,522	173,733	200,344	152,348	72,150
Expenses	(831,831)	(780,553)	(164,574)	(186,168)	(148,144)	(70,885)
Profit before tax	37,300	30,969	9,159	14,176	4,204	1,265
Income tax	(1,370)	(905)	(1,048)	(3,174)	(1,080)	(360)
Profit after taxation	**35,930**	**30,064**	**8,111**	**11,002**	**3,124**	**905**
Statement of financial position						
Non-current assets	153,649	153,542	58,242	54,350	9,833	9,216
Current assets	436,454	405,224	127,025	120,219	46,803	28,360
Total assets	**590,103**	**558,766**	**185,267**	**174,569**	**56,636**	**37,576**
Total liabilities	**316,604**	**309,171**	**89,762**	**83,434**	**34,000**	**21,623**
Cash flow						
Cash flow from operating activities	59,128	75,594	(1,154)	3,224	(2,090)	2,975
Cash flow from investing activities	(13,868)	(17,884)	(10,521)	(8,293)	(469)	(440)
Cash flow from financing activities	(19,145)	(45,867)	11,067	(9,075)	(633)	(1,157)
Net increase/decrease in cash	26,115	11,843	(608)	(14,144)	(3,192)	1,378
Cash at the beginning of the period	45,336	33,493	10,817	24,962	8,328	6,950
Cash at the end of the period	**71,451**	**45,336**	**10,209**	**10,818**	**5,136**	**8,328**

	31 December 2016	31 December 2015
	Share in ownership (%)	Share in ownership (%)
Associates accounted for by using equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon Ltd., Zagreb*	50.00	50.00
Joint venture accounted for by using equity method:		
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00

** company in indirect ownership by the Company*

Details of investments accounted for using the equity method are presented in Note 22.

3. Sales

	2016	2015
	HRK	*HRK*
Domestic sales	1,305,209,918	1,632,098,951
Foreign sales	1,407,628,719	1,306,642,875
Sales to associates	140,303,707	110,332,291
	2,853,142,344	**3,049,074,117**

Segment information is presented in Note 44. Revenues from construction contracts are presented in note 27.

4. Other operating income

	2016	2015
	HRK	*HRK*
Income from the release of provisions (Note 34)	35,060,481	46,654,486
Income from the release of accrued expenses	21,763,392	21,028,334
Income from insurance claims	33,735,503	12,142,468
Income from sale of materials	2,872,155	5,572,792
Income from subsequent rebates, bonuses and similar	739,270	3,497,103
Collected receivables previously written off	3,477,862	3,202,490
Rent income	1,273,726	2,803,734
Inventory surpluses	1,544,783	1,665,114
Other income	42,931,438	36,072,321
	143,398,610	**132,638,842**

5. Costs of materials and energy

	2016	2015
	HRK	*HRK*
Raw materials and supplies	1,367,296,474	1,578,728,662
Energy costs	43,912,250	46,656,504
Small inventory and spare parts	15,221,717	15,277,058
	1,426,430,441	**1,640,662,224**

6. Cost of services

	2016	2015
	HRK	*HRK*
External products design and selling services	170,250,219	153,748,404
Maintenance	34,998,228	38,824,105
Costs of telephone, post and transportation	27,604,445	32,173,286
Intellectual and similar services	22,193,757	21,405,345
Entertainment costs	15,171,123	14,103,690
Utilities costs	9,926,621	10,044,544
Costs of research and development	11,177,430	6,740,209
Lease and rentals	6,502,230	5,586,146
Advertising services and trade fairs	6,957,875	5,352,439
Education	3,798,074	4,035,169
Spedition	23,167,431	25,394,449
Other external costs	67,369,322	58,167,243
	399,116,755	**375,575,029**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

7. Staff costs

	2016	2015
	HRK	*HRK*
Net wages and salaries	304,387,994	288,931,225
Taxes and contributions from salaries	154,971,670	147,323,004
Contributions on salaries	77,986,688	73,671,903
	537,346,352	**509,926,132**

Net wages and salaries in the amount of HRK **304,387,994** (2015: HRK 288,931,225) include compensations to the Management Board of the Company and other related companies in the amount of HRK 16,246,136 (2015: HRK 15,037,579) and accrued bonuses for the Management Board in the amount of 8,222,021 (2015: HRK 6,496,528), and are an integral part of staff costs.

Defined contribution payments in 2016 amounted to HRK 99,966,568 (2015: HRK 98,640,570).

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business trips) in the amount of HRK 69,584 thousand (2015: HRK 68,702 thousand) are presented in Note 9.

8. Depreciation and amortization

	2016	2015
	HRK	*HRK*
Depreciation of property, plant and equipment (note 20)	82,625,563	82,314,357
Amortization of intangible assets (note 19)	10,216,407	7,194,008
Depreciation of investment property (note 21)	9,803	9,803
	92,851,773	**89,518,168**

9. Other costs

	2016	2015
	HRK	*HRK*
Travelling costs and per diems	40,237,775	43,334,581
Compensations to employees, gifts and supports	29,345,861	25,367,334
Bank charges	16,753,640	20,823,773
Insurance premiums	16,390,333	15,744,656
Compensations to members of the Supervisory Board	7,288,548	6,428,958
Contributions, membership fees and similar duties	2,243,625	2,307,245
Taxes independent the results and similar costs	3,545,096	3,938,413
Sponsorships and donations	3,213,096	1,981,303
Other	9,626,370	12,254,119
	128,644,344	**132,180,382**

10. Impairment losses and write offs

	2016	2015
Impairment losses on non-current assets		
Impairment losses on tangible assets	761,439	7,947,789
Impairment losses on intangible assets	-	730
	761,439	**7,948,519**
Impairment losses on non-current assets held for sale	1,960,000	-
Impairment losses on current assets		
Bad debt provision	3,301,014	6,961,016
Inventory write-off	19,395,671	17,725,366
	22,656,685	**24,686,382**
	25,418,124	**32,634,901**

11. Provisions

	2016	2015
	HRK	*HRK*
Provisions for servicing costs within warranty periods (note 34)	55,252,062	48,990,437
Provisions for retirement and jubilee awards (note 34)	18,928,195	9,255,523
Provisions for legal claims (note 34)	2,129,317	1,277,948
Other non-current and current provisions	8,135,886	12,569,933
	84,445,460	**72,093,841**

Movement in non-current provisions is presented in Note 34. Provisions for costs within warranty period include non-current provisions amounting to HRK 42,571 thousand, and current provisions amounting to HRK 12,681 thousand.

12. Other operating expenses

	2016	2015
	HRK	*HRK*
Penalties, compensations and similar	1,058,502	19,044,446
Inventory shortages	1,060,194	893,884
Other operating expenses	6,677,762	1,257,229
	8,796,458	**21,195,559**

13. Finance income

	2016	2015
	HRK	*HRK*
Relations with unrelated parties		
Interest income	13,669,886	12,520,167
Foreign exchange gains	32,070,810	47,729,914
Dividend income	1,738,522	1,787,908
Other finance income	1,434,463	1,272,299
	48,913,681	*63,310,288*
Unrealised gains	*1,149,274*	*1,320,621*
	50,062,955	**64,630,909**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

14. Finance costs

	2016	2015
	HRK	*HRK*
Interest, foreign exchange differences, dividends and similar income from relations with unrelated parties		
Interest expense	9,366,563	12,277,433
Foreign exchange losses	37,452,411	57,291,698
Other finance costs	440,264	883,946
	47,259,238	*70,453,077*
Impairment losses on non-current financial assets	398,086	398,992
	398,086	*398,992*
	47,657,324	**70,852,069**

15. Share of net profit of associates and joint ventures accounted for using equity method

The share in profit of associates in the amount of HRK 65,242,817 (2015: HRK 50,117,737) relates to the share in profit of the company Končar - Power Transformers Ltd. in which the Group owns a share of 49% in the amount of HRK 65,277,916 (2015: HRK 48,458,448), to the share in profit of the company Elkakon Ltd. in which the Group indirectly owns 50% share in the amount of HRK 309,912 (2015: HRK 370,388) and to the share in loss of a joint venture - the company Tbea Končar Instrument Transformers Ltd., China in the amount of HRK 345,011 (2015: HRK 1,288,901).

The above mentioned companies realized a total net profit/(loss) in 2016 as follows:
- Power Transformers Ltd. HRK 133,220,236 (2015: HRK 98,894,791)
- Elkakon Ltd. HRK 619,823 (2015: HRK 740,775)
- Tbea Končar Instrument Transformers Ltd. HRK (1,277,818) (2015: HRK 4,773,706).

16. Income tax expense

Calculation of corporate income tax liability for the year ended 31 December was as follows:

	2016	2015
	HRK	*HRK*
Consolidated profit before tax	196.086.448	169,555,014
Corporate income tax at rate of 20%	**39.217.290**	**33,911,003**
Tax effects from:		
Consolidation adjustments	1,192,607	(1,806,447)
Tax non-deductible expenses	24,595,061	9,697,655
Tax decreases	(33,151,684)	(9,175,539)
Utilisation of previously unrecognised tax assets	(2,128,756)	(1,648,940)
Unused tax losses	2,350,534	-
Unrecognized deferred tax on tax losses incurred	5,664,141	-
Income tax in foreign branches	486,131	451,384
Income tax paid abroad	(408,295)	-
Investment incentives	(15,191,970)	(13,194,474)
Deferred tax asset recognized on temporary differences	(327,071)	-
Income tax	**22,297,988**	**18,234,642**

The Group can carry forward tax losses for companies which incurred losses in 2016 and which had no tax liability and from subsidiaries who realized profit in 2016 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2016 unrecognized tax asset on tax losses carried forward amounts to HRK 30,822 thousand (31 December 2015: HRK 30,918 thousand). Corporate income tax rate applied on the calculation of deferred tax is 18% in accordance with changed tax legislation in force.

Gross tax losses expire as follows:

	31 December 2016	31 December 2015
	HRK	*HRK*
Within one year	42,153,642	22,284,725
Within two years	56,749,697	38,115,573
Within three years	16,584,586	57,475,666
Within four years	27,423,604	20,008,425
Within five years	28,320,704	27,423,592
	171,232,233	**165,307,981**

Deferred tax asset on the basis of tax losses carried forward has not been recognized in the financial statements due to uncertainty of their usage in future periods. To date, the Tax Authority did not perform a review of the income tax return of the Group companies. In accordance with local regulations, the Tax Authority may at any time inspect the Group Companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Group companies' Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

17. Earnings per share

Basic and diluted earnings per share

	2016	2015
	HRK	*HRK*
Net profit attributable to owners of the parent	143,282,971	127,651,294
Weighted average number of shares (decreased by treasury shares)	2,566,258	2,566,258
Earnings per share in HRK	**55.83**	**49.74**

Diluted earnings per share for 2016 and 2015 are the same as basic since the Group had no convertible instruments or options during both periods.

18. Goodwill

Goodwill amounting to HRK 7,980,446 (2015: 7,980,446) relates to goodwill recognized in business combinations when the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc and Končar - Engineering for Plant Installation & Commissioning Inc have been acquired).

Movement in goodwill during the year was as follows:

Goodwill	*HRK*
As at 1 January 2015	**7,648,985**
Increase	331,461
As at 31 December 2015	**7,980,446**
Increase	-
As at 31 December 2016	**7,980,446**

The Company's management estimates there is no need to impair goodwill at the reporting date since all four companies are profitable and realised income as planned.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

19. Non-current intangible assets

	Development expenditure	Concessions, patents, software and other rights	Other	Intangible assets under construction	Advances	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Cost						
As at 1 January 2015	**75,582,388**	**27,144,839**	**1,477,786**	**20,739,489**	**2,791,472**	**127,735,974**
Reclassifications	(166,338)	(294,117)	-	(18,021)	-	**(478,476)**
Transfer	31,694,072	1,139,402	-	(32,833,474)	-	**-**
Additions	1,335,837	621,205	34,940	19,932,048	1,952,746	**23,876,776**
Disposals	(117,303)	(98,486)	-	(2,319,175)	(4,744,218)	**(7,279,182)**
As at 31 December 2015	**108,328,656**	**28,512,843**	**1,512,726**	**5,500,867**	**-**	**143,855,092**
Transfer	754,604	3,817,162	-	(4,571,766)	-	**-**
Additions	59,607	26,317	105,670	3,806,028	16,301	**4,013,923**
Disposals	(2,381,878)	(389,377)	-	(728,265)	(16,301)	**(3,515,821)**
As at 31 December 2016	**106,760,989**	**31,966,945**	**1,618,396**	**4,006,864**	**-**	**144,353,194**
Accumulated amortization						
As at 1 January 2015	**62,608,305**	**19,929,281**	**960,105**	**-**	**-**	**83,497,691**
Amortization for the year	4,605,539	2,440,563	147,906	-	-	**7,194,008**
Disposals	(27,533)	(97,756)	-	-	-	**(125,289)**
As at 31 December 2015	**67,186,311**	**22,272,088**	**1,108,011**	**-**	**-**	**90,566,410**
Amortization for the year	7,630,124	2,417,286	168,997	-	-	**10,216,407**
Disposals	(69,528)	(389,338)	-	-	-	**(458,866)**
As at 31 December 2016	**74,746,907**	**24,300,036**	**1,277,008**	**-**	**-**	**100,323,951**
Net book amount						
31 December 2015	41,142,345	6,240,755	404,715	5,500,867	-	53,288,682
31 December 2016	**32,014,082**	**7,666,909**	**341,388**	**4,006,864**	**-**	**44,029,243**

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2016 amounts to HRK 66,381 thousand (2015: HRK 62,441 thousand).

20. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office	Other	Assets under construction	Advances	Total
Cost	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
As at 1 January 2015	**157.551.669**	**956.723.524**	**1.003.273.962**	**361.977.709**	**2.714.626**	**44.081.397**	**5.167.701**	**2.531.490.588**
Reclassification	2.389.916	(506.020)	(8.293.089)	6.679.360	(114.902)	402.484	(402.485)	155.264
Transfer	1.353.030	6.001.450	47.761.536	8.651.307	-	(63.767.323)	-	-
Additions	12.847	4.853.994	8.138.162	6.405.931	-	83.581.076	12.168.180	115.160.190
Transfer for investment property	(11.768.723)	(70.597.595)	-	-	-	(3.659.820)	-	(86.026.138)
Disposals	(862.066)	(225.727)	(23.001.639)	(7.983.565)	(2.154)	(3.236.070)	(14.724.185)	(50.035.406)
As at 31 December 2015	**148.676.673**	**896.249.626**	**1.027.878.932**	**375.730.742**	**2.597.570**	**57.401.744**	**2.209.211**	**2.510.744.498**
Additions	-	495.127	18.354.420	1.648.226	-	99.954.386	6.902.356	127.354.515
Transfer	-	26.939.952	60.155.951	14.023.063	22.520	(101.141.486)	-	-
Transfer for non-current assets held for sale	-	-	(16.215.971)	(374.026)	-	-	-	(16.589.997)
Transfer to investment property	(539.490)	(1.875.379)	-	-	-	(19.240.283)	-	(21.655.152)
Disposals	-	(69.357)	(90.394.030)	(80.048.808)	-	(17.868.666)	(3.825.382)	(192.206.243)
As at 31 December 2016	**148.137.183**	**921.739.969**	**999.779.302**	**310.979.197**	**2.620.090**	**19.105.695**	**5.286.185**	**2.407.647.621**
Accumulated depreciation								
As at 1 January 2015	**-**	**582.224.526**	**608.163.011**	**288.938.153**	**2.019.470**	**3.414.185**	**-**	**1.484.759.345**
Reclassification	-	-	(3.557.000)	3.557.000	-	-	-	-
Depreciation for the year	-	21.287.159	42.870.364	18.147.923	8.911	-	-	82.314.357
Impairment	-	-	4.843.641	3.143.508	-	-	-	7.987.149
Additions	-	56.018	4.002.938	-	-	-	-	4.058.956
Transfer to investment property	-	(46.779.522)	-	-	-	-	-	(46.779.522)
Disposals	-	(140.672)	(18.292.729)	(7.702.182)	(2.153)	(33.930)	-	(26.171.666)
As at 31 December 2015	**-**	**556.647.509**	**638.030.225**	**306.084.402**	**2.026.228**	**3.380.255**	**-**	**1.506.168.619**
Depreciation for the year	-	21.165.188	43.917.985	17.536.925	5.465	-	-	82.625.563
Additions	-	-	16.301.018	59.358	-	-	-	16.360.376
Transfer to non-current assets held for sale	-	-	(16.077.299)	(374.026)	-	-	-	(16.451.325)
Disposals	-	(67.346)	(88.397.060)	(78.644.206)	-	-	-	(167.108.612)
As at 31 December 2016	**-**	**577.745.351**	**593.774.869**	**244.662.453**	**2.031.693**	**3.380.255**	**-**	**1.421.594.621**
Net book value								
31 December 2015.	**148.676.673**	**339.602.117**	**389.848.707**	**69.646.340**	**571.342**	**54.021.489**	**2.209.211**	**1.004.575.879**
31. December 2016.	**148.137.183**	**343.994.618**	**406.004.433**	**66.316.744**	**588.397**	**15.725.440**	**5.286.185**	**986.053.000**

Mortgages have been registered over the property and movables of the Group in the amount of HRK 435 million (2015: HRK 214 million) and EUR 65 million (2015: EUR 43,2 million) as a collateral for long-term (note 35) and short-term (note 37) borrowings, over the assets with carrying value of HRK 346,443 thousand (2015: 494,412 thousand).

The cost of the Group's property, plant and equipment fully depreciated and still in use as of 31 December 2016 amounts to HRK 640,688 thousand (31 December 2015: HRK 704,757 thousand).

The carrying value of Group's assets acquired on finance lease as at 31 December 2016 amounts to HRK 1.6 million (31 December 2015: HRK 1.7 million).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

21. Investment property

Investment property in the amount of HRK 163,148,502 (2015: HRK 143,786,056) relates to the investments in properties for capital appreciation, intended for future sale. A portion of properties is subject to legal disputes over ownership. The residual value of this property estimated by independent evaluators is higher than their carrying amount, and it represents the basis for depreciation.

The following table discloses movements in investment property in 2016 and 2015:

	Land	Buildings	Total
	HRK	*HRK*	*HRK*
Cost			
At 1 January 2015	**33,379,242**	**103,474,338**	**136,853,580**
Reclassification (transfer from property, plant and equipment)	11,768,723	74,257,415	86,026,138
At 31 December 2015	**45,147,965**	**177,731,753**	**222,879,718**
Transfer from property, plant and equipment	9,635,000	18,252,266	27,887,266
Reclassifications	888,600	(888,600)	-
Additions	481,750	480,338	962,088
Disposals	(68,720)	-	(68,720)
At 31 December 2016	**56,084,595**	**195,575,757**	**251,660,352**
Accumulated depreciation			
At 1 January 2015	**-**	**32,304,337**	**32,304,337**
Transfer from property, plant and equipment	-	46,779,522	46,779,522
Depreciation charge for the year	-	9,803	9,803
At 31 December 2015	**-**	**79,093,662**	**79,093,662**
Depreciation charge for the year	-	9,803	9,803
Transfer from property, plant and equipment	-	8,646,984	8,646,984
Impairment	-	761,401	761,401
At 31 December 2016	**-**	**88,511,850**	**88,511,850**
Net carrying value			
31 December 2015	45,147,965	98,638,091	143,786,056
31 December 2016	**56,084,595**	**107,063,907**	**163,148,502**

The fair value of investment property determined at the balance sheet date in the amount of HRK 163,148 thousand relates to fair value of level 3 since input variables are not based on observable market data.

22. Investments accounted for using the equity method

	31 December 2016	31 December 2015
	HRK	*HRK*
Associates:		
Končar - Power Transformers Ltd., Zagreb (49%)	244,722,545	244,722,545
Other associates (indirect subsidiaries):		
Elkakon Ltd., Zagreb (50% - indirect)	4,290,040	4,194,161
Joint venture:		
Tbea Končar Instrument Transformers, China (27%)	14,506,412	14,820,375
	263,518,997	**263,737,081**

The company Končar-Power Transformers Ltd. is primarily engaged in the production of all types of high efficiency power transformers intended for the production, transmission and distribution of electricity. This company is in majority ownership of Siemens and represents strategic partnership for the Group.

The company Elkakon produces industrial conductors and is primarily the strategic partner to the subsidiary Končar D&ST Inc.

The company Tbea Končar Instrument Transformers, China produces electric transformers, power transformers, combined instrument transformers and their components and represents strategic partnership for the Group that enables access to new customers and eastern markets.

Summary information for associates are shown in the following table:

	Končar - Power Transformers Ltd.		**Elkakon Ltd.**	
	2016.	2015.	2016.	2015.
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Revenues	1,158,808	871,481	64,175	62,038
Expenses	(992,211)	747,650	(63,400)	61,112
Profit before taxation	166,597	123,831	775	926
Corporate income tax	(33,377)	(24,936)	(155)	(185)
Net profit for the year	**133,220**	**98,895**	**620**	**741**
Non-current assets	180,659	196,680	5,366	5,903
Current assets	845,085	825,182	13,367	12,884
Total assets	**1,025,744**	**1,021,861**	**18,733**	**18,787**
Total liabilities	**393,091**	**423,533**	**10,153**	**10,398**

For an associate Končar - Power Transformers Ltd. the financial year begins as at 1 October and ends as at 30 September.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

Summary information for the joint venture is shown in the following table:

	Tbea Končar Instrument Transformers Ltd.	
	2016	2015
	HRK'000	*HRK'000*
Revenues	147,935	203,698
Expenses	(148,161)	(198,064)
Profit before taxation	(226)	5,634
Corporate income tax	(1,052)	(860)
Net profit for the year	**(1,278)**	**4,774**
Non-current assets	5,972	9,241
Current assets	132,685	218,748
Total assets	**138,657**	**227,989**
Total liabilities	**74,355**	**159,936**

Movements in investments in associates during the year were as follows:

	Power Transformers Ltd.	Elkakon Ltd.
	HRK	*HRK*
1 January 2015	**244,722,545**	**4,198,513**
Profit of an associate (Note 15)	48,458,448	345,648
Dividend payment by associate	(48,458,448)	(350,000)
31 December 2015	**244,722,545**	**4,194,161**
Profit of an associate (Note 15)	65,277,916	295,879
Dividend payment by associate	(65,277,916)	(200,000)
31 December 2016	**244,722,545**	**4,290,040**

Movements in investment in a joint venture were as follows:

	HRK
1 January 2015	**14,349,115**
Profit of joint venture (Note 15)	1,288,902
Dividend payment by joint venture	(786,593)
Foreign currency from translation of foreign operation through other comprehensive income	(31,049)
31 December 2015	**14,820,375**
Loss of joint venture (Note 15)	(345,011)
Foreign currency from translation of foreign operation through other comprehensive income	31,048
31 December 2016	**14,506,412**

23. Non-current financial assets

	31 December 2016	31 December 2015
	HRK	*HRK*
Other subsidiaries (indirect subsidiaries):		
Končar-Inženjering Inc., Zagreb	227,787	227,787
Konel Ltd., Bulgaria	62,280	62,280
	290,067	**290,067**
Financial assets available for sale (shares in capital up to 20%):		
Dalekovod d.d. Zagreb	271,990	271,990
Novi Feromont Ltd., Donji Kraljevec	1,717,200	1,717,200
Ferokotao Ltd., Donji Kraljevec	1,048,128	1,048,128
Centar proizvodnog strojarstva i analitičarstva Ltd.	40,000	60,000
Pevec d.d.	2,125,030	699,715
IGH d.d.	414,894	241,032
	5,617,242	**4,038,065**
Financial assets at fair value through profit or loss:		
Derivative instruments	38,957	1,096,865
Shares (ZABA, PBZ and Tesla)	**5,050,756**	**4,654,848**
Impairment of shares	(3,520,010)	(3,121,924)
	1,569,703	**2,629,789**
Loans granted, deposits and similar	**8,064,232**	**5,421,451**
Other financial assets	**-**	**13,670**
	15,541,244	**12,393,042**

24. Non-current receivables

	31 December 2016	31 December 2015
	HRK	*HRK*
Receivables on the basis of credit sale		
Receivables for apartments sold /i/	8,919,173	10,834,147
Impairment of receivables for apartments sold	(1,187,994)	(1,941,128)
Receivables for shares sold /ii/	2,509,870	6,862,225
Current portion - apartments and shares sold (Note 28)	(3,383,473)	(4,639,556)
Other receivables	2,133,883	27,503
	8,991,459	**11,143,191**
Receivables on the basis of foreign sales /iii/	3,984,780	4,541,607
Current portion of foreign sales (Note 27)	(593,139)	(516,092)
Loans granted to employees	2,247,145	3,028,498
Current portion of loans grated to employees (note 28)	(547,635)	(690,264)
Other non-current receivables	96,220	88,621
	5,187,371	**6,452,370**
	14,178,830	**17,595,561**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

/i/ In accordance with the Law on Sale of apartments with Tenancy Rights, the flats owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables are increased or decreased, if the exchange rate of EUR is changed for more than 5.1% compared to the rate that existed at the signing date of the Sale agreements. Amounts of unpaid annuities in DEM have been converted into EUR at fixed rate of 1 EUR =1.95583 DEM. As a collateral the mortgage has been registered over the sold apartments.

/ii/ Receivables for sold shares relate to long-term receivable for sold shares in subsidiaries Končar-Electronics and Informatics Inc., Končar - Electric Vehicles Inc and Končar - Steel Structures Inc. within the employee's stock-ownership program and with instalment payments through 10 years.

/iii/ Receivable on the basis of foreign sales relates to receivable for the sale in Bosnia and Herzegovina from the customer TAKRAF from Germany, assigned to KfW Bank, Berlin.

25. Inventories

	31 December 2016	31 December 2015
	HRK	*HRK*
Raw materials and supplies	280,277,154	338,206,266
Work in progress	118,139,869	107,952,818
Unfinished and semi-finished products	37,806,876	39,866,452
Finished goods	88,515,515	63,566,763
Merchandise	24,584,618	20,405,456
Goods in transit	784,420	1,018,852
Spare parts	105,444	135,356
Small inventory and packaging	3,702,130	3,702,889
Less: Impairment of raw materials and supplies, spare parts, and small inventory and packaging	(62,779,022)	(62,110,156)
Impairment of work in progress, finished goods and merchandise	(15,285,524)	(14,998,329)
	475,851,480	**497,746,367**
Advances for inventories		
Domestic advances	1,969,451	2,443,527
Advances given to related parties	-	44,769
	1,969,451	2,488,296
Foreign advances	2,314,790	2,557,488
Impairment of advances given	(89,451)	(122,318)
	2,225,339	*2,435,170*
Total advances	**4,194,790**	**4,923,466**
	480,046,270	**502,669,833**

Cost of goods sold recognized in the income statement in 2016 amounted to HRK 1,621,041 thousand (2015: HRK 1,986,632 thousand).

26. Receivables from related parties

	31 December 2016	31 December 2015
	HRK	*HRK*
Končar- Power Transformers Ltd., Zagreb	91,055,042	70,177,565
TBEA China	325,740	1,914,928
Elkakon Ltd. Zagreb	6,095,354	5,666,279
	97,476,136	**77,758,772**

27. Trade receivables and gross amounts due from customers

	31 December 2016	31 December 2015
	HRK	*HRK*
Trade receivables (invoiced) /i/	686,298,064	603,486,715
Receivables under construction contracts (un-invoiced) /ii/	99,698,109	116,689,071
	785,996,173	**720,175,786**
/i/ Trade receivables		
Domestic customers	424,648,492	372,319,659
Bad debt provision	(43,109,114)	(41,546,392)
Total domestic customers	**381,539,378**	**330,773,267**
Foreign customers	403,431,726	375,537,440
Current portion - foreign sales (Note 24)	593,139	516,092
Bad debt provision	(99,266,179)	(103,340,084)
Total foreign customers	**304,758,686**	**272,713,448**
Total domestic and foreign customers	**686,298,064**	**603,486,715**

As at 31 December, the ageing structure of trade receivables was as follows:

	Total	Undue	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**686,298,064**	576,645,788	87,526,348	10,103,053	6,340,886	4,325,709	1,356,280
2015	**603,486,715**	504,740,591	71,277,931	8,826,592	6,284,810	9,748,366	2,608,425

The quality of receivables that are past due but not impaired did not significantly change and they are considered collectible. The maximum exposure to credit risk at the balance sheet date is the carrying amount of each receivables category stated above.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

Movement in the bad debt allowance was as follows:

	2016	2015
	HRK	*HRK*
Balance as at 1 January	**144,886,476**	**148,067,624**
Impaired during the year	3,058,921	5,884,688
Collected during the year	(3,841,294)	(3,163,475)
Written - off during the year	(972,514)	(5,462,428)
Foreign exchange differences	(756,296)	(439,933)
Balance as at 31 December	**142,375,293**	**144,886,476**
/ii/ Gross amounts due from customers		
Incurred costs plus recognized gains less recognized losses	549,434,441	1,140,911,163
Less invoiced amounts	(449,736,332)	(1,024,222,092)
	99,698,109	**116,689,071**

The amount of construction contract revenues, which are recognized as revenues in 2016, amount to HRK 522,522 thousand (2015: HRK 962,798 thousand). The total amount of advances received for contracts which are not completed as at 31 December 2016 amounts to HRK 149,045 thousand (2015: HRK 88,304 thousand), and total amount of retentions for construction contracts amounts to HRK 31,960 thousand (2015: HRK 15,843 thousand).

28. Other receivables

	31 December 2016	31 December 2015
	HRK	*HRK*
Receivables from the state and other institutions		
Receivables for value added tax	31,511,379	12,588,497
Receivables from Croatian Health Insurance Fund	708,315	647,721
Other	5,462,834	78,133
	37,682,528	**13,314,351**
Other current receivables		
Receivables for shares sold (due)	9,032,958	10,750,238
Receivables for advances given for services	43,805,827	13,800,315
Receivables from companies that are no longer part of the Group	306,686	8,760,765
Receivables for recognised claims	8,292,699	8,292,699
Current portion of receivables for shares sold (Note 24)	2,509,870	3,431,113
Receivables for apartments sold (current portion) (note 24)	873,603	1,208,443
Current portion of loans granted to employees (Note 24)	547,635	690,264
Receivables loans granted to employees	20,530	29,181
Other	1,932,192	3,024,287
	67,322,000	**49,987,305**
Receivables from employees		
Receivables from employees	1,092,868	2,444,365
Impairment of receivables from employees	(327,471)	(327,471)
	765,397	**2,116,894**
	105,769,925	**65,418,550**

29. Current financial assets

	31 December 2016	31 December 2015
	HRK	*HRK*
Deposits over 3 months	373,953,005	398,936,121
Derivative financial instruments - forward contracts	241,611	636,254
Loans given (7%)	647,102	-
Other financial assets	356	1,344
	374,842,074	**399,573,719**

The contractual interest on deposits over 3 months in commercial banks is set between 0.02% - 0.7% (2015: 0.6% - 2,80%).

30. Cash and cash equivalents

	31 December 2016	31 December 2015
	HRK	*HRK*
Deposits up to 3 months	94,258,008	116,144,881
Giro accounts	94,151,866	135,287,497
Foreign currency accounts	234,172,991	88,321,943
Cash funds	18,690,402	6,643,570
Cash in hand	191,230	215,368
Short-term securities	191,116	191,116
Less: Impairment	(184,992)	(184,992)
	441,470,621	**346,619,383**

The contractual interest on deposits over 3 months in commercial banks is set between 0.01% - 0.97% (2015: 0.1% - 1.5%). The Company mainly deposits its cash with financial institutions that are part of international banking groups with an AAA/A/A-1/NEG/B/BB/BBB+(2015: AAA/A/A-1/NEG/B/BB/BBB+), credit rating by Standard & Poor's.

31. Prepaid expenses and accrued income

Prepaid expenses and accrued income amounting to HRK 5,936,422 (31 December 2015: HRK 12,077,169) relate to paid expenses related to future periods amounting to HRK 5,019,154 (31 December 2015: HRK 11,528,950) and accrued income in the amount of HRK 917,268 (31 December 2015: HRK 548,219).

32. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2016 in the amount of HRK 4,138,671 (HRK 5,960,000) relate to real estate owned by the subsidiary Končar Distribution and Special Transformers Inc. acquired in exchange for unsettled receivable from the company Elektromaterijal Ltd. in bankruptcy in the amount of HRK 4,000,000 (2015: 5,960,000) and assets of the subsidiary Končar Switchgears Inc. in the amount of HRK 138,671.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

33. Equity

Share capital is determined in the nominal value amounting to HRK 1,208,895,930 (31 December 2015: HRK 1,208,895,930) and consist of 2,572,119 shares at nominal value of HRK 470.

The ownership structure of the Parent company is as follows:

	31 December 2016		31 December 2015	
Dioničar	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB Inc. (Capital fund Inc.)	724,515	28,17	724,515	28.17
Centre for Reconstruction and sale /HZMO	-	-	384,628	14.95
Centre for Reconstruction and sale /RH	57,982	2,25	142,298	5.53
State office for state property management /CRO	60,000	2,33	117,982	4.59
Societe Generale - Splitska bank/ Erste Blue mandatory pension fund	359,239	13,97	202,149	7.86
Addiko Bank/ PBZ Croatia insurance mandatory pension fund	420,928	16,37	255,928	9.95
Societe Generale/AZ mandatory pension fund	377,429	14,67	161,110	6.26
VALAMAR RIVIJERA d.d.	-	-	39,791	1.55
Floričić Kristijan	50,714	1,97	60,714	2.36
Addiko Bank/Raiffeisen mandatory pension fund	48,291	1,88	28,491	1.11
PBZ d.d. (custodian account)	29,050	1,13	30,208	1.17
Other shareholders	438,110	17,03	418,444	16.27
Končar Inc. (treasury shares)	5,861	0,23	5,861	0.23
	2,572,119	**100,00**	**2,572,119**	**100**

In 2016, the parent Company's General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 30,795,096 which is HRK 12.00 per share (2015: HRK 30,843,095 which is HRK 12.00 per share).

The Group has formed legal, statutory and other reserves in line with the Companies Act that are defined on the basis of profit distribution in accordance with the General Assembly's decision. The statutory and other reserves are not subject to any restrictions as to their distribution.

34. Provisions

	Servicing during warranty periods	Court case provisions	Jubilee and retirement rewards	Other	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*
31 December 2015	**195,430,791**	**35,338,755**	**26,165,515**	**2,415,349**	**259,350,410**
Recognized in the year	42,570,933	2,129,317	17,323,365	1,527,751	63,551,366
Release of provisions	(29,231,984)	(655,342)	(5,173,155)	-	(35,060,481)
Exchange differences and similar	48,783	-	-	-	48,783
Transfer to current provisions	(52,145,823)	-	(813,500)	(578,620)	(53,537,943)
31 December 2016	**156,672,700**	**36,812,730**	**37,502,225**	**3,364,480**	**234,352,135**

Expected outflow for provisions is as follows:

	31 December 2016
	HRK
Within one year	123,811,935
More than one year	234,352,135
	358,164,070

Provisions for servicing during warranty periods

Provisions for servicing during warranty periods relate to estimated costs of possible repairs in warranty periods for companies within the Group. Provisions for warranty costs are determined on the basis of Management's best estimate and includes general and specific provisions. General provisions are based on estimates and experience of other similar producers of energy equipment within this type of industry. The Group regularly issues warranty for minimum of 2 years for sold equipment/performed energy projects. The Management made assessment and recognizes provision representing 2% - 8% of the sales value of sold products/projects completed under warranty's obligation. Non-current provisions for costs within warranty period amount to HRK 156,672,700 (2015: HRK 195,430,71) while current provisions amount to HRK 117,201,682 at the balance sheet date.

Provisions for court cases

Non-current provisions for court cases in the amount of HRK 36,812,730 (2015: HRK 35,338,755) relate to court cases in progress initiated against the companies within the Group and estimated costs of legal proceedings.

Provisions for jubilee awards and termination benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 37,502,225 (2015: HRK 26,165,515) relate to regular compensations to employees (regular termination benefits and jubilee awards), and severance payments to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The present value calculation of these provisions is based on the number of employees, the pension amount, the number of years of service at the balance sheet date and the discount rate of 3.5% (2015: 4.85%).

Other long-term provisions in the amount of HRK 3,364,480 (as at 31 December 2015: HRK 2,415,349) relate to provisions for product testing in the amount of HRK 1,001,994 (31 December 2015: HRK 1,001,994), and other provisions in the amount of HRK 2,362,486 (31 December 2015: HRK 1,413,355).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

35. Long-term borrowings

	31 December 2016	31 December 2015
	HRK	*HRK*
Due to banks	152,719,318	176,600,244
Less: Current portion (Note 37)	(30,687,373)	(33,611,686)
	122,031,946	**142,988,558**

Changes in borrowings from banks were as follows:

	HRK
1 January 2015	**161,907,630**
New borrowings	18,729,549
Repayment of borrowings	(3,615,868)
Foreign exchange differences	(421,067)
Less: current portion	(33,611,686)
31 December 2015	**142,988,558**
New borrowings	59,723,409
Repayment of borrowings	(48,452,452)
Foreign exchange differences	(1,540,197)
Less: current portion	(30,687,372)
31 December 2016	**122,031,946**

Long-term bank borrowings mature as follows:

	31 December 2016	31 December 2015
	HRK	*HRK*
Within 1 year	30,687,372	33,611,686
From 1 to 2 years	14,008,245	15,158,289
From 2 to 5 years	86,206,246	92,885,868
More than 5 years	21,817,455	34,944,401
Less: current portion	(30,687,372)	(33,611,686)
	122,031,946	**142,988,558**

Significant long-term arrangements between banks and the companies within the Končar Group were as follows:

Name of the company	Creditor	Loan purpose	Loan amount	Interest rate	Maturity	Loan collateral
Končar Renewable Sources Ltd.	HBOR	Financing of project "Vjetroelektrana Pometeno brdo".	8,126,520 EUR	4%	21.12.2022	Bills of exchange, debentures, endorsed, insurance policies, mortgages, cessions, pledge agreement on project accounts
Končar Renewable Sources Ltd.	ZABA	Financing of project "Vjetroelektrana Pometeno brdo".	1,800,000 EUR	3-m Euribor + 4%	31.12.2022	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Končar Instrument Transformers Inc.	ZABA.	Investment financ-ing	3,023,115 HRK	4,2% fixed	31.03.2022	3 blank accepted bills of exchange
Končar Instrument Transformers Inc.	ZABA	Investment financing	9,021,020 HRK	3,0% variable	30.09.2022	3 blank accepted bills of exchange
Končar Instrument Transformers Inc.	ERSTE	Working capital requirements	8,000,000 HRK	3,4% fixed	31.12.2021	debenture, pledge over the financed property
Končar Dis-tribution and Special Trans-formers Inc.	RBA	Refinancing of HBOR loan for financing project VN laboratory	4,499,470 eur	2,3% - fixed	30.06.2020	Pledge over property and movables amounting to EUR 25 million 4 blank bills of exchange 1 general debenture amounting to EUR 4.5 million
Končar Steel Structures Inc.	SBSG	Financing for prop-erty legalisation	2,000,000 HRK	4,8% - fixed	25.04.2018	Debenture, 2 bills of exchange
Končar Steel Structures Inc.	SBSG	Renovation and adaptation of pro-duction facilities	1,500,000 HRK	4,8% - fixed	25.06.2018	Debenture, 2 bills of exchange
Končar Steel Structures Inc.	HBOR	Investment in non-current assets	1.169.978 eur	3% - variable	30.04.2030	3 blank bills of exchange, 5 blank debentures of maximum amount of HRK 1 million, 1 blank debentures on granted amount increased by interests, charges and costs, pledge over the property
Končar Steel Structures Inc.	HBOR	Working capital requirements	1,313,047 eur	4% - fixed	31.08.2023	10 blank bills of exchange on maximum amount of HRK 1 million, 1 general debenture on granted amount increased by interests, charges and costs, vinculated insurance policy for property, pledged over the property

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

36. Liabilities toward related parties (associates)

	31 December 2016	31 December 2015
	HRK	*HRK*
Končar-Power transformers Ltd., Zagreb:	20,241,452	14,779,560
Elkakon Ltd.	3,118,994	3,525,204
TBEA, China	272,883	-
	23,633,329	**18,304,764**

37. Current liabilities toward banks (borrowings) and other loans

	31 December 2016	31 December 2015
	HRK	*HRK*
Liabilities to banks and other financial institutions	31,200,880	54,361,806
Plus: Current portion (Note 35)	30,687,372	33,611,686
	61,888,252	**87,973,492**

Changes in liabilities toward banks during the year were as follows:

	HRK
1 January 2015	**143,274,866**
New borrowings	29,845,539
Repayment of borrowings	(117,953,633)
Foreign exchange differences	(804,966)
Plus: current portion of long-term borrowings	33,611,686
31 December 2015	**87,973,492**
New borrowings	87,047,554
Repayment of borrowings	(143,932,510)
Foreign exchange differences	112,344
Plus: current portion of long-term borrowings	30,687,372
31 December 2016	**61,888,252**

Significant short-term arrangements between banks and the companies within the Končar Group were as follows:

Subsidiary	Creditor	Loan purpose	Loan amount HRK	Interest	Collateral
Končar Instrument Transformers	ERSTE	Refinancing of loan from 2008	10,000,000	4% fixed	1 debenture and 5 blank bills of exchange
Končar Instrument Transformers	ZABA	Revolving loan for HBOR funds	15,000,000	3% fixed	1 debenture on granted placement, validated
Končar Steel Structures Inc.	ZABA	Working capital requirements	3,500,000	3.70% - variable	Debenture, pledge over the real estate, vinculated insurance policy for real estate insurance
Končar Steel Structures Inc.	STBA	Revolving loan in HRK	2,000,000	3.5 % fixed	Debenture, 2 bills of exchange

38. Trade payables

	31 December 2016	31 December 2015
	HRK	*HRK*
Domestic suppliers	237,861,511	226,103,138
Foreign suppliers	110,350,604	122,236,859
Liabilities for un-invoiced goods	-	709,825
	348,212,115	**349,049,822**

At 31 December, the ageing structure of trade payables was as follows:

	Total	*Undue*	*Due*				
			< 60 days	*60-90 days*	*90-180 days*	*180-365 days*	*> 365 days*
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**348,212,115**	312,812,824	32,034,616	1,268,184	369,106	869,077	858,308
2015	**349,049,822**	308,931,316	33,987,939	1,142,852	1,788,734	2,005,524	1,193,457

39. Gross amounts due to customers

	31 December 2016	31 December 2015
	HRK	*HRK*
Invoiced in the year under contracts	123,343,316	350,417,561
Less costs incurred plus recognized profits less the sum of recognized losses	(110,027,599)	(326,825,069)
	13,315,717	**23,592,492**

40. Liabilities for advances received

	31 December 2016	31 December 2015
	HRK	*HRK*
From domestic customers	24,268,035	75,819,993
From foreign customers	220,445,919	106,529,553
	244,713,954	**182,349,546**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

41. Other liabilities

	31 December 2016	31 December 2015
	HRK	*HRK*
Liabilities to the state and other institutions		
Liability for value added tax	9,990,413	12,164,097
Liabilities for contributions on and from salary and taxes and surtaxes	41,983,658	38,278,894
Other liabilities	284,974	-
	52,259,045	**50,442,991**
Current other liabilities		
Interest payable	952,000	1,638,257
Liabilities to shareholders	683,776	547,066
Other liabilities	3,468,230	4,807,472
	5,104,006	**6,992,795**
Current liabilities toward employees		
Net salaries	31,511,750	29,919,957
Liabilities for severance pay	443,876	37,300
Liabilities toward Management Boards of companies for bonuses	5,030,463	4,654,646
Other liabilities	269,541	254,501
	37,255,630	**34,866,404**
	94,618,681	**92,302,190**

42. Accrued expenses and deferred income

	31 December 2016	31 December 2015
	HRK	*HRK*
Deferred income	74,093,023	88,526,740
Accrued expenses	8,092,767	7,219,701
	82,185,790	**95,746,441**

43. Financial risk management and financial instruments

The Group is exposed in its business to market (interest and foreign currency risk), credit risk and liquidity risk.

Certain companies within the Group use derivative financial instruments as a protection from these risks. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the adverse effects on the Group’s financial statements. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summarised as follows:

a) Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Group manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Group may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2016 and 31 December 2015. The Group monitors capital on the basis of the gearing ratio, which is calculated as follows.

	31 December 2016	31 December 2015
	HRK	*HRK*
Financial liabilities	183,920	230,962
Decrease for cash and cash equivalents (deposits)	(441,471)	(346,619)
Net debt	**-**	**-**

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to these financial statements.

The accounting policies for financial instruments are applied on the following items in the balance sheet:

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Held to maturity	Total assets classified under IAS 39
31 December 2016					
Long-term financial assets	8,064	1,570	5,907	-	**15,541**
Non-current receivables	14,179	-	-	-	**14,179**
Current financial assets	374,601	241	-	-	**374,842**
Trade receivables, receivables from related parties and other receivables	906,988	-	-	-	**906,988**
Cash and cash equivalents	422,781	18,690	-	-	**441,471**
	1,726,613	**20,501**	**5,907**	**-**	**1,753,021**

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Held to maturity	Total assets classified under IAS 39
31 December 2015					
Long-term financial assets	5,726	1,958	4,709	-	**12,393**
Non-current receivables	17,596	-	-	-	**17,596**
Current financial assets	398,938	636	-	-	**399,574**
Trade receivables, receivables from related parties and other receivables	834,122	-	-	-	**834,122**
Cash and cash equivalents	339,975	6,664	-	-	**346,619**
	1,596,357	**9,238**	**4,709**	**-**	**1,610,304**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

All of the Group's liabilities have been classified as "At amortized cost". The Group does not have liabilities which are classified as Liabilities at "Fair value through Profit and Loss".

Fair value of financial instruments

The following table represents financial assets and liabilities valued at fair value in the Statement of financial position according to the fair value hierarchy. This hierarchy groups financial assets and liabilities into 3 levels depending on the input variables used in measuring the fair value of financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted market prices for identical assets or liabilities traded on active markets

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: inputs for assets or liabilities that are not based on observable market data

The level within which financial assets/liabilities are stated are classified based on the lowest level of significant inputs used in measuring fair value. Financial assets and liabilities measured at fair value in the statement of financial position are grouped within the fair value hierarchy as follows:

31 December 2016	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed shares	4,343	-	-	4,343
Fair value of the derivative financial instruments	-	281	-	281
Available for sale financial assets	-	-	3,095	3,095
Cash funds	18,690	-	-	18,690
	23,033	**281**	**3,095**	**26,409**

31 December 2015	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed shares	2,348	-	-	2,348
Investments in unlisted shares	-	-	398	398
Fair value of the derivative financial instruments	-	1,733	-	1,733
Available for sale financial assets	-	-	3,115	3,115
Cash funds	6,644	-	-	6,644
	8,992	**1,733**	**3,513**	**14,238**

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quote market price:
- the fair value of other financial assets and financial liabilities (including derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices for observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group used the following methods and assumptions during its financial asset fair value estimation:

- Receivables and deposits with banks - for assets due within three months and cash funds, the carrying amount approximates their fair value due to the short maturity of these instruments. For long-term assets, the contracted interest rates do not significantly deviate from the current market rates and, accordingly, their fair value approximates their carrying amount.
- Borrowings - current liability fair value approximates their carrying amount due to the short maturities of these instruments. The Management Board believes that their fair value does not significantly differ from their carrying amount.
- Other financial instruments - financial instruments that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical accounting value of receivables and liabilities, including provisions, that are in line with the usual terms of business, is approximately equal to their fair value.

c) Financial risk

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, such as the change in foreign currencies and interest rates, would influence the Group's result or the value of its financial instruments. The objective of market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

The Group's activities expose it primarily to the market risks of changes in foreign currency exchange rates and interest rates.

There were no significant changes to the Group's exposure to market risk or the manner in which it manages and measures the risk.

a) Foreign exchange risk

The Group is exposed to this risk through sales, purchase and loans stated in foreign currency which is not the Group's functional currency. Foreign currencies to which the Group is mostly exposed are EUR and USD.

Group companies are exposed to foreign currency risk through sales, purchase and short-term deposits denominated in foreign currencies. Certain companies within the Group make agreements for the purpose of hedging this risk.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

The Group's exposure to foreign currency risk is as follows:

31 December 2016	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Trade receivables and receivables from related parties	310,538	8,541	23,601	342,680	441,094	783,774
Derivative instruments	281	-	-	281	-	281
Other receivables	3,392	-	-	3,392	34,303	37,695
Deposits over 3 months	328,732	1,935	-	330,667	51,350	382,017
Cash and cash equivalents	222,295	4,314	19,900	246,509	194,961	441,470
	865,238	**14,790**	**43,501**	**923,529**	**721,708**	**1,645,237**
Trade payables and liabilities to related parties	(105,731)	(492)	(2,567)	(108,790)	(263,055)	(371,845)
Borrowings	(128,564)	-	-	(128,564)	(55,357)	(183,921)
	(234,295)	**(492)**	**(2,567)**	**(237,354)**	**(318,412)**	**(555,766)**

31 December 2015	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Trade receivables and receivables from related parties	228,193	7,377	43,041	278,611	409,888	688,499
Derivative instruments	1,733	-	-	1,733	-	1,733
Other receivables	4,026	93	-	4,119	49,663	53,782
Deposits over 3 months	390,642	2,517	7,110	400,269	4,088	404,357
Cash and cash equivalents	139,845	18,689	112,560	271,094	75,525	346,619
	764,439	**28,676**	**162,711**	**955,826**	**539,164**	**1,494,990**
Trade payables and liabilities to related parties	(273,084)	(547)	(5,353)	(278,984)	(88,371)	(367,355)
Borrowings	(146,559)	-	-	(146,559)	(84,403)	(230,962)
	(419,643)	**(547)**	**(5,353)**	**(425,543)**	**(172,774)**	**(598,317)**

In the above tables, receivables for apartments sold are not included in the amounts in EUR because of a contractual clause on the increase/decrease in receivables if the change in EUR currency rate is more than 5.1% compared to the currency rate that existed at the time of concluding the contracts.

Sensitivity analysis

At 31 December 2016, if the Croatian kuna changed against the Euro by -1% (2015: -1%) and against the USD by 2.5% (2015:+11%) and changes in other currencies the recalculation of profit before tax for the year would have increased / (decreased) as follows::

	2016 Effect on profit before tax	2015 Effect on profit before tax
	HRK'000	HRK'000
EUR -1% (2015: -1%)	(5,568)	(4,162)
USD +2,5% (2015: +11%)	268	619
Other currencies	(392)	785

This analysis assumes that all other variables, interest rates especially, remain unchanged.

Opposite currency change in kuna against the above currencies at the reporting date would have had the equal but opposite effect on the profit before tax, on the basis that all other variables remain constant.

b) Interest rate risk

The Group is exposed to interest risk since a portion of borrowings is agreed at variable interest rates while the majority of assets is non-interest bearing. Certain companies within the Group contract hedge against interest rate risk stated in foreign currencies.

The following table shows sensitivity of changes in interest rates relating to Group's loans as of 31 December, with the assumptions that all other variables are constant, on income before taxes.

2016	Increase / decrease in percentage	Effect on income before taxes *HRK'000*
HRK	+1%	(568)
HRK	-1%	568

2015	Increase / decrease in percentage	Effect on income before taxes *HRK'000*
HRK	+1%	(940)
HRK	-1%	940

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Group uses data and opinions of specialized rating companies, the Chamber of Commerce and other publicly available financial information on financial positions of companies and uses its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transaction concluded is spread amongst approved counterparties.

Trade and other receivables - the Group's exposure to credit risk is affected by the individual characteristics of each customer. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before determining payment and delivery terms and conditions. The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables and investments. The ageing structure of trade receivables that are past due but not impaired is presented in Note 27.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Boards of the Group companies, while the Company's Management Board has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements.

The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities. The following table presents the maturity of financial liabilities of the Group at 31 December in accordance with contracted undiscounted payments:

	Carrying amount	Contracted cash flows	0 - 3 months	3 - 12 months	2 - 5 years	Over 5 years
31 December 2016	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Trade payables and liabilities to related parties	371,845	371,845	371,845	-	-	-
Other current liabilities	4,154	4,154	4,154	-	-	-
Interest-bearing liabilities	184,870	197,116	20,864	39,164	115,524	21,564
	560,869	**573,115**	**396,863**	**39,164**	**115,524**	**21,564**

	Carrying amount	Contracted cash flows	0 - 3 months	3 - 12 months	2 - 5 years	Over 5 years
31 December 2015	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Current trade payables and liabilities to related parties	367,355	367,355	245,737	103,848	17,770	-
Other current liabilities	6,993	6,993	2,482	4,511		-
Interest-bearing liabilities	230,962	235,848	25,909	65,263	109,410	35,266
	605,310	**610,196**	**274,128**	**173,622**	**127,180**	**35,266**

44. Segment reporting

2016	Industry	Energy and transport	Trade	Special activities	Company	Eliminations	Group
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Sales	93,426,827	2,386,336,602	195,930,342	36,888,850	256,016		2,712,838,637
Sales to related companies	11,745,962	282,052,224	3,652,642	100,212,167	52,771,582	(310,130,870)	140,303,707
Other operating income	1,645,694	131,320,733	1,297,891	18,517,594	1,080,086	(10,463,388)	143,398,610
Total operating income	*106,818,483*	*2,799,709,559*	*200,880,875*	*155,618,611*	*54,107,684*	*(320,594,258)*	*2,996,540,954*
Total operating expenses	(93,293,869)	(2,668,875,525)	(206,508,143)	(143,190,419)	(82,075,234)	325,840,236	(2,868,102,954)
Operating profit/loss	*13,524,614*	*130,834,034*	*(5,627,268)*	*12,428,192*	*(27,967,550)*	*5,245,978*	*128,438,000*
Financial result	(264,969)	(7,184,413)	4,438,823	885,055	92,735,621	(22,961,669)	67,648,448
Profit/loss before taxation	**13,259,645**	**123,649,621**	**(1,188,445)**	**13,313,247**	**64,768,071**	**(17,715,691)**	**196,086,448**
Corporate income tax	(2,816,165)	(16,455,833)	-	(3,025,990)	-	-	(22,297,988)
Net profit/loss for the year	**10,443,480**	**107,193,788**	**(1,188,445)**	**10,287,257**	**64,768,071**	**(17,715,691)**	**173,788,460**
Non-controlling interest							30,505,489
Profit of the Parent company owner							**143,282,971**
Non-current assets	28,556,181	743,355,276	45,438,066	70,399,546	1,236,838,695	(629,810,431)	1,494,777,333
Current assets	80,358,214	1,787,096,927	82,753,483	157,252,475	420,765,278	(223,732,488)	2,304,493,889
Total assets	**108,914,395**	**2,530,452,203**	**128,191,549**	**227,652,021**	**1,657,603,973**	**(853,542,919)**	**3,799,271,222**
Total liabilities	**15,553,381**	**1,438,205,166**	**54,247,734**	**35,196,834**	**51,226,234**	**(243,483,772)**	**1,350,945,577**

2015	Industry	Energy and transport	Trade	Special activities	Company	Eliminations	Group
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Sales	93,117,569	2,609,954,508	202,194,929	32,804,400	670,420	-	2,938,741,826
Sales to related companies	7,568,543	399,725,179	4,212,652	96,645,073	54,855,647	(452,674,803)	110,332,291
Other operating income	2,136,503	99,314,608	3,522,533	21,347,564	6,708,796	(391,162)	132,638,842
Total operating income	*102,822,615*	*3,108,994,295*	*209,930,114*	*150,797,037*	*62,234,863*	*(453,065,965)*	*3,181,712,959*
Total operating expenses	(87,851,991)	(2,985,279,193)	(218,304,674)	(137,087,167)	(78,533,294)	(451,001,797)	(3,056,054,522)
Operating profit/loss	*14,970,624*	*123,715,102*	*(8,374,560)*	*13,709,870*	*(16,298,431)*	*(2,064,168)*	*125,658,437*
Financial result	532,828	(14,134,227)	(1,379,859)	328,814	78,732,902	(20,183,881)	43,896,577
Profit/loss before taxation	**15,503,452**	**109,580,875**	**(9,754,419)**	**14,038,684**	**62,434,471**	**(22,248,049)**	**169,555,014**
Corporate income tax	(3,271,700)	(12,949,894)	-	(2,013,048)	-	-	(18,234,642)
Net profit/loss for the year	**12,231,752**	**96,630,981**	**(9,754,419)**	**12,025,636**	**62,434,471**	**(22,248,049)**	**151,320,372**
Non-controlling interest							23,669,678
Profit of the Parent company owner							127,651,294
Non-current assets	28,251,570	768,824,034	45,813,157	67,961,603	1,233,449,878	(640,943,495)	1,503,356,747
Current assets	75,968,991	1,618,921,151	73,159,783	152,960,778	392,917,245	(167,246,304)	2,146,681,644
Total assets	**104,220,561**	**2,387,745,185**	**118,972,940**	**220,922,381**	**1,626,367,123**	**(808,189,799)**	**1,503,356,747**
Total liabilities	**15,187,152**	**1,346,906,541**	**44,991,309**	**37,081,306**	**53,962,359**	**(169,586,307)**	**1,328,542,360**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

Sales by regions:

	2016		2015	
	HRK'000	%	*HRK'000*	%
Croatia	**1,445,473**	**50.65%**	**1,742,432**	**57.2%**
Countries in European Union	947,088	33.19%	774,672	25.4%
	2,392,561	**83.84%**	**2,517,104**	**82.6%**
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	120,120	4.21%	75,312	2.5%
Other European countries	108,090	3.79%	100,846	3.3%
Asia	121,924	4.27%	290,950	9.5%
America and Australia	71,082	2.49%	52,308	1.7%
Other countries	39,965	1.40%	12,554	0.4%
	460,580	**16.16%**	**531,970**	**17.4%**
	2,853,142	**100,00%**	**3,049,074**	**100,0%**

45. Off-balance sheet items

Off-balance sheet items of the Group amounting to HRK 1,883 million (2015: HRK 2,092 million) mostly relate to the issued collateral (guarantees, bills of exchange, promissory notes), solidary/subsidiary guarantees, liabilities toward the state for apartments sold (65%) and similar.

46. Contingencies

Several court cases have been initiated against the subsidiaries (labor cases) and the Parent company which are currently in process.

Except for the court cases for which the Group recognized provisions (note 34) the Group's management assessed that no significant costs shall be incurred which would significantly influence the Groups financial statements and therefore no provision has been recognized at the balance sheet date.

47. Contractual commitments

The Group's contractual commitments on the basis of unfinished construction projects as at 31 December 2016 amounted to HRK 3,292 million (31 December 2015: HRK 3,630 million).

48. Events after the reporting date

After the reporting date and up to the date of approval of the financial statements, there were no events that could significantly affect the annual financial statements of the Group for 2016, which should be disclosed.

49. Preparation and approval of the consolidated financial statements

The consolidated financial statements set out on the previous pages were prepared and approved by the Company's Management Board on 24 March 2017.

Signed on behalf of the Management Board:

Darinko Bago, Board President	Jozo Miloloža, Board Member
Marina Kralj Miliša, Board Member	Davor Mladina, Board Member
Miroslav Poljak, Board Member	Miki Huljić, Board Member

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

KONČAR Electrical Industry Inc.

Independent Auditor's Report

Financial Statements
31 December 2016

tradition.
knowledge.
responsibility.

Responsibility for the financial statements

Končar – Electrical Industry Inc.

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law; the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards endorsed for use in the European Union which give a true and fair view of the financial position and results of Končar -Electrical Industry Inc. (hereinafter: the Company) for that period.

The Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Law in force. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Darinko Bago, president	Jozo Miloloža, member
Marina Kralj Miliša, member	Davor Mladina, member
Miroslav Poljak, member	Miki Huljić, member

Končar-Electrical Industry Inc, Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

24 March 2017

1

Independent auditor's report

pwc

Our audit approach

Overview

Materiality	• Overall Company materiality: Croatian kuna ("HRK") 3,200 thousand, which represents 5% of profit before tax from continuing operations
Key audit matters	• Valuation and impairment of investments in subsidiaries • Valuation, classification and impairment of property

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	HRK 3,200 thousand
How we determined it	5% of profit before tax from continuing operations
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Company. We selected 5% based on our professional judgement, which is consistent with qualitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Our audit approach

Overview	
Materiality	• Overall Company materiality: Croatian kuna ("HRK") 3,200 thousand, which represents 5% of profit before tax from continuing operations
Key audit matters	• Valuation and impairment of investments in subsidiaries • Valuation, classification and impairment of property

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	HRK 3,200 thousand
How we determined it	5% of profit before tax from continuing operations
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Company. We selected 5% based on our professional judgement, which is consistent with qualitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Key audit matter	How our audit addressed the Key audit matter
Valuation and impairment of investments in subsidiaries See note 2 of the financial statements under the heading "Investments in subsidiaries and associates", note 3 (*Critical accounting estimates and assumptions*) and notes 10 and 18 An impairment review of investments in subsidiaries is performed when there is an indication that these may be impaired. The Company's Management determines the recoverable amount of investments in subsidiaries at the higher of fair value less cost of disposal and value in use. The recoverable amount is determined using the discounted cash flow model. Refer to note 3, 10 and 18 to the financial statements where the impairment of investments in subsidiaries has been discussed. Impairment indicators were identified in four subsidiaries with net carrying value amounting to HRK 165,782 thousand as at 31 December 2016. In the current year, an impairment loss of HRK 43.7 million was recognized as well as the impairment reversal amounting to HRK 13.1 million on the basis of impairment tests performed. We focused on this area due to identification of impairment indicators in certain subsidiaries (such as losses incurred, performance below budget, liquidity problems) and also due to the significant judgement involved in performing the impairment test. We specifically focused on the Managements judgements and assumptions used in the impairment models.	We satisfied ourselves as to the management's assumptions used in the impairment model, and identified the most significant assumptions as: - growth rates within medium-term business plans - discount rate - terminal value. As indicated in Note 3, the impairment model is the most sensitive to these assumptions. We verified the mathematical accuracy of the cash flow model and inspected the inputs into the model. These inputs were agreed to supporting documentation such as the approved business plan. We also held discussions with management to understand the basis for the assumptions used. We agreed the cash flow forecasts to the 2017-2021 approved business plan. We compared current year actual results with prior year forecasts as an indication to the quality of the forecasting process. We found the forecasts for the current year to be somewhat below the actual results, but noted management made appropriate adjustments to plans used in impairment model. Management used average growth rates of 6.67% for impairment tests for subsidiaries based on approved business plans for the next five years. Also, Management assumed a real discount rate in the range of 5% to 13% taking into account risk-free placements and the rate that reflects the risk premium depending on subsidiary's specifics, market position and technical capabilities. In determination of terminal value, the Management of the Company applied growth rate of 3%. We stress-tested the assumptions used by analysing the impact on results from using other discount rates which were within a reasonably foreseeable range. We tested the reasonableness of management's assumptions using our valuation expertise by benchmarking these against analysts' forecast (we challenged the Management's key assumptions for long-term growth rates in the forecasts by comparing them to economic and industry forecast and discount rate by assessing the cost of capital for the Company and comparable organisations). Based on the work performed, we accept the reasonableness of management's assumptions. We checked the completeness and accuracy of impairment loss recognized in accordance with impairment tests performed in the Company's financial statements.

Key audit matter	How our audit addressed the Key audit matter
Valuation, classification and impairment of property *Refer to note 2 of the financial statements under the heading "Property, plant and equipment" and heading "Investment property" (accounting policies), note 3 (Critical accounting estimates and judgements) and notes 16 and 17* The Company recognizes owner-occupied property classified as Property, plant and equipment in the amount of HRK 187,383 thousand and investment property classified as such in the amount of HRK 162,443 thousand at the balance sheet date (both measured using cost method). Part of administrative/ production buildings is rented to subsidiaries but not classified as investment property since the management assessed that the portions could not be sold separately and the portion used for production or administrative purposes is not insignificant. Further, for most investment properties the management assessed that the residual value of the property exceeds its carrying value on the basis of annual review performed, and therefore the depreciation is not charged until the residual value subsequently decreases to an amount below the property's carrying amount. Management concluded that the recoverable amount of the properties stated at the balance sheet date is higher that their carrying values such that no impairment provision was required, except for one real estate where impairment loss amounted to HRK 761 thousand. These conclusions are dependent upon significant management judgement, including in respect of: • Estimated fair values, provided by an independent external valuer; and • Estimated utilisation and disposal values.	We obtained, understood and evaluated management's accounting policies in relation to valuation and classification of owner-occupied property and investment property and impairment models. For the property where the management identified certain impairment indicators, the management engaged an independent third party valuer in order to determine the recoverable amount of properties (fair value less cost of disposal). We agreed the property information in the valuation by tracing a sample of inputs to the underlying property records held by the Company (which were also tested during the audit). We also evaluated the competency, qualifications, experience and objectivity of third party property valuation experts. We challenged the management on the assessment (by inquiry and benchmarking procedures) of recoverable amounts of properties, proper classification and assessment of residual value of the investment property and found they were able to provide explanations and refer to appropriate supporting evidence. We found the assessment made by the Management regarding the impairment indicators and recoverable amount of property recognized in the financial statements to be appropriate. Further, we found the disclosures in notes 3, 16 and 17 to be appropriate.

pwc

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company, which includes the Management Report and Corporate Governance Statement (but does not include the financial statements and our independent auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

pwc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Dimitrov.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.

Zagreb, 24 March 2017

pwc
PricewaterhouseCoopers d.o.o.
za reviziju i konzalting
Zagreb, Ulica kneza Lj. Posavskog 31

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		HRK	*HRK*
Sales	4	53,006,102	54,957,694
Other operating income	5	1,101,581	7,277,169
Operating income		**54,107,683**	**62,234,863**
Cost of materials and energy	6	(6,282,202)	(6,310,421)
Cost of services	7	(31,924,498)	(30,783,552)
Staff costs	8	(25,018,220)	(24,073,938)
Depreciation and amortization	15, 16	(7,978,763)	(8,980,945)
Other costs	9	(8,691,558)	(6,475,313)
Impairment losses	10	(761,401)	(1,076,383)
Provisions	11	(1,418,592)	(832,742)
Operating expenses		**(82,075,234)**	**(78,533,294)**
Operating loss		**(27,967,551)**	**(16,298,431)**
Dividend income from associates		65,277,916	48,458,448
Finance income		79,229,067	82,578,334
Finance costs		(51,771,361)	(52,303,880)
Finance income - net	12	**92,735,622**	**78,732,902**
Profit before taxation		**64,768,071**	**62,434,471**
Corporate income tax	13	-	-
NET PROFIT FOR THE PERIOD		**64,768,071**	**62,434,471**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**64,768,071**	**62,434,471**
Earnings per share			
Basic and diluted earnings per share (HRK)	14	25.23	24.33

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

AS AT 31 DECEMBER 2016

	Note	2016	2015
ASSETS		*HRK*	*HRK*
Non-current assets			
Intangible assets	15	1,292,436	1,007,436
Property, plant and equipment	16	219,104,550	207,098,692
Investment property	17	162,443,479	143,071,230
Investments in subsidiaries	18	774,172,584	798,122,323
Investments in associates	19	67,722,257	67,722,257
Loans granted		588,000	-
Financial assets	20	1,256,850	1,258,796
Receivables	21	10,258,538	15,169,144
		1,236,838,694	**1,233,449,878**
Current assets			
Financial assets	26	193,895,302	241,267,485
Receivables from related companies	22	74,252,427	63,903,714
Trade receivables	23	1,070,948	537,550
Prepaid corporate income tax		2,148,093	6,335,954
Other receivables	24	21,306,260	34,392,924
Loans granted to related parties	25	38,775,456	30,075,456
Cash and cash equivalents	27	88,789,740	8,431,842
Prepaid costs and accrued income		527,053	7,972,320
		420,765,279	**392,917,245**
TOTAL ASSETS		**1,657,603,973**	**1,626,367,123**
EQUITY AND LIABILITIES			
Share capital		1,208,895,930	1,208,895,930
Share premium		719,579	719,579
Other reserves		325,746,118	294,106,743
Retained earnings		6,248,041	6,248,041
Profit of the year		64,768,071	62,434,471
	28	**1,606,377,739**	**1,572,404,764**
Non-current provisions	29	**35,424,953**	**34,443,923**
Current liabilities			
Liabilities to related companies	30	7,642,113	12,356,500
Trade payables	31	952,148	903,616
Other current liabilities	32	6,628,400	5,760,262
Provisions	29	578,620	498,058
		15,801,281	**19,518,436**
Total liabilities		**51,226,234**	**53,962,359**
TOTAL EQUITY AND LIABILITIES		**1,657,603,973**	**1,626,367,123**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		HRK	*HRK*
Cash flow from operating activities			
Cash receipts from trade receivables		73,692,771	66,333,442
Cash receipts from prepaid corporate income tax		4,187,862	6,681,194
Other cash receipts		(64,369,860)	(50,196,354)
Cash payments to trade payables		(24,323,251)	(24,588,743)
Cash payments to employees		(4,187,862)	(10,996,271)
Other cash proceeds and payments		13,643,863	(1,131,407)
Net cash from operations		**(1,356,477)**	**(13,898,139)**
Interest paid		(4,685)	(809)
Net cash flow used in operating activities		**(1,361,162)**	**(13,898,948)**
Cash flow from investing activities			
Proceeds from sale of non-current assets		1,852,063	11,758,202
Proceeds from sale of financial instruments		6,710,723	4,695,685
Dividends received		98,266,124	99,082,339
Interest received		5,561,400	7,892,860
Deposits released		313,069,111	282,412,251
Acquisition of intangible and tangible assets		(33,145,891)	(3,845,022)
Investments in subsidiaries		(3,156,068)	(94,644,512)
Deposits placed		(268,240,764)	(240,836,420)
Loans granted to related parties		(17,900,000)	(29,125,456)
Repayment of loans granted to related parties		9,512,719	6,621,218
Net cash from investing activities		**112,529,417**	**44,011,145**
Cash flow from financing activities			
Dividends paid		(30,810,357)	(30,735,901)
Purchase of treasury shares		-	(2,804,803)
Other cash proceeds from financing activities		-	6,648,159
Net cash used in financing activities		**(30,810,357)**	**(26,892,545)**
Total increase in cash and cash equivalent		**80,357,898**	**3,219,652**
Cash and cash equivalents at the beginning of the period		8,431,842	5,212,190
Cash and cash equivalents at the end of the period	27	**88,789,740**	**8,431,842**

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital	Share premium	Other reserves	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
As at 1 January 2015	**1,208,895,930**	**719,579**	**235,357,615**	**1,338,982**	**(1,338,982)**	**9,052,844**	**89,592,224**	**1,543,618,192**
Profit for the year	-	-	-	-	-	-	62,434,471	62,434,471
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	***62,434,471***	***62,434,471***
Transactions with owners:								
Allocation of profit to reserves (note 28)	-	-	58,749,128	-	-	-	(58,749,128)	-
Dividends (note 28)	-	-	-	-	-	-	(30,843,096)	(30,843,096)
Formation of reserves for treasury shares from retained earnings	-	-	-	2,804,803	-	(2,804,803)	-	-
Purchase of treasury shares	-	-	-	-	(2,804,803)	-	-	(2,804,803)
	-	**-**	***58,749,128***	***2,804,803***	***(2,804,803)***	***(2,804,803)***	***(89,592,224)***	***(33,647,899)***
As at 31 December 2015	**1,208,895,930**	**719,579**	**294,106,743**	**4,143,785**	**(4,143,785)**	**6,248,041**	**62,434,471**	**1,572,404,764**
Profit for the year	-	-	-	-	-	-	64,768,071	64,768,071
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	***64,768,071***	***64,768,071***
Transactions with owners:								
Allocation of profit to reserves (note 28)	-	-	31,639,375	-	-	-	(31,639,375)	-
Dividends (note 28)	-	-	-	-	-	-	(30,795,096)	(30,795,096)
	-	**-**	***31,639,375***	**-**	**-**	**-**	***(62,434,471)***	***(30,795,096)***
As at 31 December 2016	**1,208,895,930**	**719,579**	**325,746,118**	**4,143,785**	**(4,143,785)**	**6,248,041**	**64,768,071**	**1,606,377,739**

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information on the Company

Končar-Electrical Industry Inc, Zagreb, Fallerovo šetalište 22, is the parent company of the Končar-Electrical Industry Group (the Končar Group). As the parent company, it prepares consolidated financial statements which are presented and audited separately. These separate financial statements represent the Company as a separate entity. The main activities of the Company are managing owned subsidiaries and associates.

As at 31 December 2016 the Company had 48 employees, while as at 31 December 2015 the Company had 50 employees.

The structure of employees is as follows:

	31 December 2016	31 December 2015
PhD	1	1
Master's degree	13	12
University degree	22	24
College	8	7
Secondary school	3	5
Primary school + training on the job	1	1
	48	50

Members of the Supervisory Board:

Petar Vlaić	President from 12 July 2016
Nenad Filipović	President until 12 July 2016
Josip Lasić	Deputy from 12 July 2016
Dragan Marčinko	Member from 1 June 2016
Ivan Rujnić	Member from 1 June 2016
Boris Draženović,	Member until 1 June 2016
Nikola Plavec	Member until 1 June 2016
Petar Mišura	Member until 1 June 2016
Vicko Ferić	Member
Jasminka Belačić	Member
Vladimir Plečko	Member from 1 June 2016
Branko Lampl	Member from 12 July 2016
Joško Miliša	Member from 12 July 2016
Nikola Anić	Member from 12 July 2016

Members of the Management Board:

Darinko Bago	President
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Jozo Miloloža	Member, in charge of finance
Davor Mladina	Member, in charge of IT and trade activities
Miroslav Poljak	Member, in charge of corporate development and ICT
Miki Huljić	Member, in charge of integrations and Group optimisation

The remuneration paid to members of the Management Board and Supervisory Board is disclosed in notes 8 and 9 to the financial statements.

The financial statements are stated in Croatian Kuna (HRK). The stated amounts are rounded to the nearest HRK.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis for preparation

The financial statements of the Company are prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards endorsed for use in the European Union (IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments that are carried at fair value. The financial statements are prepared on the accrual basis and on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The financial statements are denominated in Croatian Kuna (HRK) as the Company's functional and reporting currency. At 31 December 2016, the exchange rate for USD 1 and EUR 1 was 7.17 HRK and 7.56 HRK, respectively (31 December 2015: HRK 6.99 and HRK 7.635 respectively).

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 24 March 2017.

New and amended standards adopted by the Company

The Company has adopted new and amended standards for their annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38.
- Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).

The adoption of the improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, amendments and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Company. None of these is expected to have significant effect on the Company's financial statements, except for the following standards:

IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now compete.

The Management of the Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:

- Following the changes approved by the IASB in July 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.
- While the Company has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) based on their current business model for these assets. Hence there will be no change to the accounting for these assets.
- There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.
- The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.
- The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.

The Management plans to adopt the standard on its effective date.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)

- IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
- Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At this stage, the Company is not able to estimate the impact of the new standard on the Company's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date and when endorsed by the European Union.

a) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

Revenue from services is recognized in the accounting period in which the services are rendered, using the percentage of completion method. Revenues from fees and rent charged to related companies are recognized in the period when rendered, on the basis of contracted terms with related companies.

Dividend income from subsidiaries and associates is recognized when the right to receive payment is established, within Finance income and cost, note 12.

b) Finance income and cost

Finance income and cost comprises interest income on loans and borrowings using the effective interest method, interest income on funds invested, dividend income, foreign currency losses and gains, gains and losses from changes in the fair value of financial assets at fair value through profit or loss.

Foreign exchange gains/losses are recognized in the Statement of comprehensive income and note 12 in gross amounts (amounts include exchange differences from operations as well from financing activities).

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

c) Taxation

The Company provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, adjusted for amounts which are not included in the tax base or tax deductible expenses. Corporate tax is calculated by using tax rates enacted at the balance sheet date.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. A deferred tax asset for unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be realised on the basis of which the deferred tax assets will be utilised. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets or liabilities will be realised.

Current and deferred tax are recognized in the Statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is also recognized in other comprehensive income or directly in equity, respectively.

d) Earnings per share

The Company presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period less potential shares which arise from options.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

e) Dividend distribution

Dividends are recognized in the Statement of changes in equity and recognized as a liability in the period when declared by the shareholders.

f) Foreign currency translation

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange losses and gains arising on translation are included in profit or loss for the current year.

g) Non-current intangible and tangible assets (property, plant and equipment)

Non-current intangible and tangible assets are initially recognized at cost which includes the purchase price, import duties and non-refundable taxes after discounts and rebates, as well as all other costs directly attributable to bringing the assets into working condition for their intended use.

Non-current intangible and tangible assets are recognized when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably, and when the cost is higher than HRK 3,500.

Subsequent to the initial recognition, the assets are stated at historical cost less depreciation (or amortization) and any accumulated impairment losses.

Maintenance and repairs, replacements and improvements of minor scale are expensed as incurred. When it is clear that expenses incurred resulted in an increase in expected future economic benefits to be derived from the use of an item of non-current intangible or tangible assets in excess of the originally assessed standard performance of the asset, they are capitalised, i.e. added to the carrying amount of the asset. Gains or losses on the retirement or disposal of non-current asset are included in the income statement in the period when incurred.

Depreciation and amortisation start when the assets are available and ready for use, i.e. when they are appropriately located and in the right conditions needed for their intended use. Depreciation and amortisation cease when the assets are fully depreciated or when the assets are classified as held for sale. Depreciation and amortisation are provided on a straight-line basis for each asset, except for land and non-current intangible and tangible assets under construction and advances, over their estimated useful lives, using the straight line method, as follows:

	Depreciation/amortization rate (from - to %)
Intangible assets	20
Buildings	1.2 - 7.7
Plant and equipment	7.5 - 50
Tools, fittings and vehicles	5.6 - 25
Other assets	20

Impairment of property, plant and equipment

The Company reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, based on internal and external sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit (plant or line to which the asset belongs), and then the loss is allocated to individual assets within the unit.

When determining impairment losses or reversal of impairment losses for an item of property, plant and equipment the depreciation rate is not changed but the useful life of an item is changed. The recoverable amount is determined as higher of an asset's fair value less costs of disposal and value in use.

If the amount of tangible assets exceeds the recoverable amount, the difference is charged to the operating result (impairment loss). Prior impairments of assets are reviewed for possible reversal or decrease at each reporting date.

h) Investment property

Investment property (land, buildings) owned by the Company is held for the purpose of earning rentals or as a potential for issuing guarantees or solidarity guarantees for subsidiaries, and to increase the value of the property with the intention of future sales. Investment property is recognised as a long-term investment, unless it is intended for sale within the next year, in which case it is recognised as a current asset. Investment property is initially measured at cost reduced by accumulated depreciation. The Company at least annually reviews the residual value and useful life of the property. The residual value is an estimated amount that the Company would gain selling the asset now, after reducing the estimated cost of sales, if assumed the asset is close to or at the end of its useful life. Since the Company has estimated that the residual value of the property exceeds its carrying value, depreciation is not charged until the residual value is reduced to the amount below the carrying value.

i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets or liabilities in the lessee's balance sheet at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

j) Financial assets and financial liabilities

Financial assets

Investments are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories:

- At fair value through profit or loss (FVTPL) - financial assets either held for trading or designated as at FVTPL at initial recognition. Financial assets at FVTPL are stated at fair value, with any gain or loss arising recognized in profit or loss.
- Held-to-maturity - financial assets with fixed or determinable payments and fixed maturity dates for which there is a positive intent and ability to hold to maturity. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale (AFS) - non-derivative financial assets which is designated as such or it cannot be included in any of the above mentioned categories. AFS is stated at fair value. Gains and losses arising from changes in fair value are recognized directly in other comprehensive income, in the investment's revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income in revaluation reserves from investments, is included in profit or loss for the period.
- Loans and receivables - trade receivables, loans, and other receivables with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of an asset when the event affects the estimated future cash flows from the financial asset.

For unlisted shares classified as AFS a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

For all other financial assets, including redeemable notes classifies as AFS and finance lease receivables, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

De-recognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and financial liability for the proceeds received.

When the Company derecognises (writes off) all financial assets, the difference between the book value and the sum of received compensations and claims for compensations and cumulative profit (loss), recognised within other comprehensive income, transfers from equity to profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital

Ordinary shares

Share capital represents the nominal amount of issued shares.

Capital reserves include a premium at the issuance of shares. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Reserves are stated at nominal amounts defined in the allocation of earnings, especially legal reserves, statutory reserves and other reserves.

Share capital repurchase (treasury shares)

The consideration paid for the repurchase of the Company's equity share capital (treasury shares), including any directly attributable incremental costs related to the repurchase, is deducted from equity, until the shares are cancelled or reissued. Repurchased shares are classified as treasury shares and represent a deduction from equity where such ordinary shares are subsequently re issued any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue).

Financial liabilities at fair value through profit and loss - financial liabilities either held for trading or are classified as such at initial recognition. They are measured at their fair value, while the gains/losses relating to them are recognized in the income statement. The net gain/loss recognized in the income statement includes any interest paid on the financial liability.

Other financial liabilities - they include borrowings that are initially measured at fair value, net of transaction cost. They are subsequently measured at amortized cost using the effective interest method, with an interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimate future cash payments over the expected life of the financial instrument, or, where appropriate, a shorter period.

De-recognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

k) Investments in subsidiaries and associates

Subsidiaries are entities in which the Company has control, i.e. when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates are entities in which the Company exercises significant influence, but not control, which generally involves a share between 20% and 50%.

Investments in subsidiaries and associates are presented using the cost method. If there are indicators of impairment, the recoverable amount of the investment is estimated. The difference between the investment and the recoverable amount is recognised in the statement of comprehensive income as a loss or gain (reversal of the previously recorded loss).

l) Receivables

Receivables are initially measured at fair value. At each reporting date, receivables, whose collection is expected in the period longer than one year, are stated at amortized cost by using the effective interest rate method decreased by the impairment loss. Current receivables are stated at the initially recognized nominal amount decreased by the appropriate value adjustment for estimated uncollectible amounts and impairment losses.

The value of the receivables is decreased and impairment losses are incurred if and only if there is objective evidence on the impairment as a result of one or more events which happened after the initial recognition when this event influences the estimated future cash flows for receivables which can be reliably estimated. At each reporting date the Company estimates if there is objective evidence on the impairment of a certain receivable. If objective evidence on the impairment exists, the impairment loss is measured as a difference between the carrying value and estimated future cash flows. The carrying value of receivables is decreased directly or by the usage of the separate value adjustment account. The impairment loss is recognized as an expense in the Statement of comprehensive income.

m) Cash and cash equivalents

Cash and cash equivalents consist of bank deposits, cash on hand, demand deposits and securities or collectible within 3 months.

n) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are re-evaluated at every balance sheet date and adjusted according to the latest best estimates.

Provisions are determined for warranties, legal cases and costs of legal proceedings in progress, termination benefits and awards to employees for long-term employment and retirement.

Provisions for awards to employees for long-term employment and retirement (regular jubilee awards and severance payments) are determined as the present value of future cash outflows using the government bond interest rate as the discount rate.

The newly formed provisions and income from the reversal of provisions are stated on a gross basis (Notes 5 and 9).

Contingent liabilities are not recognised in financial statements, but only disclosed in the notes to the financial statements, unless the possibility of the outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements except when the inflow of economic benefits is virtually certain and the asset is no longer contingent and should be recognized.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

q) Employee benefits

(i) Defined pension fund contributions

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions.

(ii) Long-term employee benefits

The Company has post-employment benefits to be paid to the employees at the end of their employment with the Company (either upon retirement, termination or voluntary departure). The Company recognises a liability for these long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(iii) Short-term employee benefits - bonus plans

A liability for employee benefits is recognized in provisions based on the Company's formal plan and when past practice has created a valid expectation by the Management Board/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements. For liability for bonuses it is expected that it will be settled within 12 months from the balance sheet date, and the liability is recognized in the amount expected to be paid.

(iv) Share-based payments

The Company has a plan for share-based payments to the members of the Management Board which are settled with equity instruments of the Company. The total amount that is recognized a as cost and the corresponding increase in equity are measured at the fair-value basis of given equity instruments granted. The fair value of those equity instruments is measured on the grant date. At each reporting date, the Company reviews its estimate of options which complies with conditions for the acquisition of rights and makes necessary adjustments.

r) Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Critical accounting estimates and assumptions

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Residual value of investment property

The Company reviews at least annually the residual value and useful life of the property. The Company has estimated that the residual value of the property exceeds its carrying value, and therefore depreciation is not charged until the residual value is reduced to the amount below the carrying value. For 31% of property (representing 61% of net carrying value of total property) the Company engaged independent evaluator to determine its fair value and the values determined were higher than the carrying values of this property stated in the Company's books except for one property where the impairment loss amounting to HRK 761 thousand was recognized at the balance sheet date.

b) Impairment tests for investments in subsidiaries

At each reporting date the Company estimates whether the impairment indicators exists, which indicate that investments in subsidiaries could be impaired and estimates the recoverable amount of those investments.

For the purpose of impairment tests, the DCF method is used which is based on the assumptions that the entity's value represents the present value of its future net cash flows. When using the DCF method, the objectivity of calculations mostly depends on the reality of medium-term business plans and the discounted rate used in discounting future cash flows as well as the calculation of the terminal value of entities. Determining the discount rate depends on the interest rate for risk-free placements (government bonds) and the rate which reflects the risk premium depending on the entity's specifics, market position and technical capabilities.

In 2016 impairment tests were performed for four entities and the main assumptions which could significantly influence the determined recoverable value are as follows:

- Discount rate was determined in the range from 5% to 13%
- Average growth rate applied in the medium-term business plan amounted to 6.67% depending on contracting plan for each of the entity in the following periods
- Terminal value of the entities was calculated on the basis of average growth rate of 3%.

If the discount rate applied had increased by 1%, this would have an effect on the determined recoverable amount in the range from HRK 800 thousand to HRK 12,411 thousand. Also, if the discount rate applied had decreased by 1%, this would have an effect on the determined recoverable amount in the range from HRK 1,900 thousand to HRK 18,673 thousand.

c) Legal claims and disputes

Provisions for legal claims and disputes are recognized based on Management's best estimate of probable losses after consultation with legal counsel.

4. Sales

	2016	2015
	HRK	*HRK*
Fees charged to related parties (note 34)	28,771,581	30,855,647
Rent charged to related parties (note 34)	24,000,000	24,000,000
Fees charged to unrelated parties	234,521	102,047
	53,006,102	**54,957,694**

5. Other operating income

	2016	2015
	HRK	*HRK*
Release of provisions and dispute resolutions (note 29)	357,000	2,167,495
Net income from the asset disposal	72,670	3,567,900
Rent income	21,495	518,373
Refunds for value added tax	-	84,582
Income from subventions and insurance claims	-	197,902
Other income	650,416	740,917
	1,101,581	**7,277,169**

6. Cost of materials and energy

	2016	2015
	HRK	*HRK*
Cost of energy	5,878,162	5,926,210
Cost of raw materials	295,605	292,819
Small inventory	108,435	91,392
	6,282,202	**6,310,421**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

7. Cost of services

	2016	2015
	HRK	*HRK*
Intellectual services	6,074,005	5,076,461
Maintenance	4,416,487	4,011,558
Utilities	3,885,555	3,610,693
Security services	3,510,448	3,377,592
Supervisory services and property management at Sesvetski Kraljevec, Samobor, Jankomir, Zlatar	2,880,000	2,880,000
Cleaning services	2,394,335	2,361,587
Entertainment	1,643,125	1,405,355
Advertising services and fair costs	1,091,346	838,947
Graphical services	1,079,018	824,292
Rent services and leases	867,479	962,248
Telephone cost, postal services and transport	759,972	757,757
Education and training services	639,820	857,124
Lawyer services	288,652	79,310
Audit fees	114,642	114,642
Other services	2,279,614	3,625,986
	31,924,498	**30,783,552**

8. Staff costs

	2016	2015
	HRK	*HRK*
Net wages and salaries	11,941,890	11,482,227
Costs of taxes and contributions from salaries	9,401,372	9,151,231
Contributions on salaries	3,674,958	3,440,480
	25,018,220	**24,073,938**

Net wages and salaries in the amount of **HRK 11,941,890** (2015: in the amount of **HRK 11,482,227**) include compensations to the Management Board consisting of their salaries in the amount of HRK 3,198,289 (2015 in the amount of HRK 3,348,633) and accrued bonuses in the amount of HRK 1,860,000 (2015 in the amount of HRK 1,600,000), and are an integral part of staff costs.

Contributions to the Pension fund in 2016 amounted to HRK 2,842,508 (2015: HRK 2,917,527).

Compensations to employees (business trip compensations, travel to and from work, jubilee awards and similar) in the amount of HRK 983 thousand (2015: HRK 730 thousand) are presented in note 9.

9. Other costs

	2016	2015
	HRK	*HRK*
Compensations to members of the Supervisory Board	2,280,427	1,435,302
Sponsorships and donations	2,699,801	1,929,508
Work agreements and copyrights	963,331	630,837
Taxes and contributions independent of the results and similar costs	479,802	502,816
Insurance premiums	939,870	904,924
Travelling costs and per-diems	607,863	551,580
Compensations to employees, gifts and support	374,826	178,046
Membership fees and similar expenses	102,029	101,166
Bank charges and payment transaction expenses	69,827	99,533
Public notary, court dues, enforcements	72,177	92,699
Other	101,605	48,902
	8,691,558	**6,475,313**

10. Impairment losses

	2016	2015
	HRK	*HRK*
Bad debt provision (note 24)	-	1,076,383
Impairment on investment property	761,401	-
	761,401	**1,076,383**

11. Provisions

	2016	2015
	HRK	*HRK*
Provisions for retirement and jubilee awards (note 29)	1,338,030	334,684
Provision for unused vacation (note 29)	80,562	498,058
	1,418,592	**832,742**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

12. Finance income and costs

	2016	2015
	HRK	*HRK*
Finance income		
From relations with associates		
Dividend income	*65,277,916*	*48,458,448*
From relations with subsidiaries		
Dividend income	53,515,674	64,218,857
Interest income from loans granted	1,774,947	1,122,076
	55,290,621	*65,340,933*
From relations with unrelated parties		
Interest income on deposits	2,961,171	4,763,133
Interest income from sale of shares to employees	641,235	849,103
Interest income - other	327,781	732,050
Foreign exchange gains on foreign currency deposits	3,442,465	4,765,657
Foreign exchange gains - other	1,305,597	4,723,047
Dividend income	6,216	83,790
Other finance income	1,023,027	-
	9,707,492	*15,916,780*
Reversal of impairment losses and unrealised gains	*14,230,954*	*1,320,621*
	144,506,983	**131,036,782**
Finance costs		
From relations with unrelated parties		
Foreign exchange losses on foreign currency deposits	(6,410,948)	(6,577,507)
Foreign exchange losses on loans granted	(655,009)	(706,582)
Foreign exchange losses - other	(244,317)	(496,255)
	(7,310,274)	*(7,780,344)*
Unrealised losses		
Impairment of investments in subsidiaries	(43,901,842)	(43,666,340)
Impairment of available-for-sale financial asset	(398,086)	(398,992)
	(44,299,928)	*(44,065,332)*
Other finance costs	*(161,159)*	*(458,204)*
	(51,771,361)	**(52,303,880)**
Finance income - net	**92,735,622**	**78,732,902**

The Company performed impairment test at the reporting date for the subsidiaries which incurred losses in the current year and recognized net loss in the amount of HRK 30.1 million (2015: loss amounting to HRK 43.7 million) by:

- decreasing the value of investment in a subsidiary Končar-High Voltage Switchgear Inc by the amount of HRK 37.3 million (evaluation performed by independent valuer)
- decreasing the value of investment in a subsidiary Končar-Low Voltage Switches and Circuit Breakers Ltd by the amount of HRK 1.7 million
- reversing the previously recognized impairment loss for the subsidiary Končar-Switchgear Inc in the amount of HRK 13.1 million (evaluation performed by independent valuer).

In determining the present value of the parent company's investment in above stated subsidiaries medium-term business plan for the period from 2017 - 2021 approved by the Supervisory board and by applying the discount rate in accordance with the market position of each subsidiary.

Investment in a subsidiary Končar-Renewable Sources Ltd was decreased by the amount of HRK 4.8 million. When deciding on the approval of the investment in the strategically important project for Končar Group and accepting the feasibility study made by the Energy institute Hrvoje Požar, the Management and the Supervisory Board accepted the estimated rate of return on investment of 5%.

The value of cash flows within the estimated useful life of the project, discounted to present value by applying the rate of return of 5% is sufficient for the coverage of invested capital and repayment of loans.

13. Corporate income tax

	2016	2015
	HRK	*HRK*
Profit before tax	64,768,071	62,434,471
Corporate income tax at 20% (2015: 20%)	**12,953,614**	**12,486,894**
Tax effects of:		
Tax non-deductible expenses	9,273,137	9,359,083
Income not subject to tax (dividends)	(26,526,921)	(22,816,343)
Government subsidies for education	(114,195)	(117,206)
Tax losses for which no deferred tax asset was recognized	4,414,365	1,087,572
Corporate income tax	**-**	**-**

The Company has not recognized deferred tax assets in the total amount of HRK 13,995,698 (2015: 11,136,409) due to the uncertainty of its usage within the period of five years (the Company as a holding mainly realises non-taxable revenue (dividends). Tax rate applied on calculation of non-recognized deferred tax amounts to 18% in accordance with changes in tax legislation in force.

Gross tax losses expire as follows:

	2016	2015
	HRK	*HRK*
Within five years	22,071,829	5,437,862
Within four years	5,437,862	15,255,154
Within three years	15,255,154	34,989,035
Within two years	34,989,035	-
	77,753,880	**55,682,051**

To date, the Tax Authority did not perform a review of the income tax return of the Company. In accordance with local regulations, the Tax Authority may at any time inspect the Companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

14. Earnings per share

Basic and diluted earnings per share	2016	2015
	HRK	*HRK*
Net profit for the year	64,768,071	62,434,471
Weighted average number of shares (decreased by treasury shares)	2,566,258	2,566,258
Earnings per share in HRK	**25.23**	**24.33**

Diluted earnings per share for 2016 and 2015 are the same as basic earnings per share, as the Company had no convertible instruments or options during both periods.

15. Non-current intangible assets

	Concessions, patents, licences, software and other rights	*Other*	*Assets under construction*	*Total*
	HRK	*HRK*		*HRK*
Cost				
As at 1 January 2015	**468,629**	**653,207**	**782,436**	**1,904,272**
Additions	-	-	225,000	225,000
As at 31 December 2015	**468,629**	**653,207**	**1,007,436**	**2,129,272**
Additions	-	-	285,000	285,000
As at 31 December 2016	**468,629**	**653,207**	**1,292,436**	**2,414,272**
Accumulated amortization				
As at 1 January 2015	**468,629**	**653,207**	**-**	**1,121,836**
Amortization charge	-	-	-	-
As at 31 December 2015	**468,629**	**653,207**	**-**	**1,121,836**
Amortization charge	-	-	-	-
As at 31 December 2016	**468,629**	**653,207**	**-**	**1,121,836**
Net carrying value				
31 December 2015	**-**	**-**	**1,007,436**	**1,007,436**
31 December 2016	**-**	**-**	**1,292,436**	**1,292,436**

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2016 amounts to HRK 1,122 thousand (2015: HRK 1,122 thousand).

16. Property, plant and equipment

	Land	Buildings	Plant & equipment	Tools, fittings and transportation equipment	Other	Assets under construction	Advance payments	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Cost								
As at 1 January 2015	**74,531,677**	**279,128,910**	**52,220,706**	**5,060,810**	**63,376**	**3,348,650**	**474,661**	**414,828,790**
Transfer	-	2,494,080	505,002	45,063	-	(3,044,145)	-	-
Additions	12,847	172,065	4,019,952	-	-	12,417,260	75,242	16,701,366
Disposals	(350,005)	-	(20,143,373)	(111,683)	-	-	(549,903)	(21,158,963)
Transfer to investment property	-	(2,475,059)	-	-		(3,659,820)	-	(6,134,879)
As at 31 December 2015	**74,194,519**	**279,319,996**	**36,602,287**	**4,994,190**	**63,376**	**9,061,945**	**-**	**404,236,314**
Transfer	-	7,280,046	1,184,173	691,250	6,070	(9,161,539)	-	-
Additions	-	-	16,296,026	-	-	39,229,231	677,468	56,202,725
Disposals	-	-	(577,565)	(745,021)	-	-	(543,503)	(1,866,089)
Transfer to investment property	-	-	-	-	-	(19,240,283)	-	(19,240,283)
As at 31 December 2016	**74,194,519**	**286,600,042**	**53,504,921**	**4,940,420**	**69,446**	**19,889,354**	**133,965**	**439,332,667**
Accumulated depreciation								
As at 31 December 2015	**-**	**162,543,829**	**34,146,660**	**3,299,194**	**-**	**-**	**-**	**199,989,683**
Depreciation for the year	-	5,472,217	2,635,129	873,599	-	-	-	8,980,945
Additions	-	56,018	4,002,938	-	-	-	-	4,058,956
Disposals	-	(34,247)	(15,825,141)	(32,574)	-	-	-	(15,891,962)
As at 31 December 2015	**-**	**168,037,817**	**24,959,586**	**4,140,219**	**-**	**-**	**-**	**197,137,622**
Depreciation for the year	-	5,373,895	1,892,929	711,939	-	-	-	7,978,763
Additions	-	-	16,301,020	59,358	-	-	-	16,360,378
Disposals	-	-	(537,422)	(711,224)	-	-	-	(1,248,646)
As at 31 December 2016	-	**173,411,712**	**42,616,113**	**4,200,292**	**-**	**-**	**-**	**220,228,117**
Net carrying value								
31 December 2015	**74,194,519**	**111,282,179**	**11,642,702**	**853,971**	**63,376**	**9,061,945**	**-**	**207,098,692**
31 December 2016	**74,194,519**	**113,188,330**	**10,888,808**	**740,128**	**69,446**	**19,889,354**	**133,965**	**219,104,550**

The gross carrying value of fully depreciated property, plant and equipment, still in use as at 31 December 2016 amounts to HRK 58,675 thousand (31 December 2015: HRK 43,761 thousand).

A mortgage is registered over land with a carrying value of HRK 44,917 thousand (31 December 2015: HRK 44,917 thousand) and business facilities with a carrying value of HRK 71,168 thousand (31 December 2015: HRK 67,153 thousand) as collateral for the subsidiaries' obligations.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

17. Investment property

Investment property (located in Osijek, Sesvetski Kraljevec, Samobor, Požega-Zvečevo, Zagreb and Zlatar) in the amount of HRK 162,443,479 (2015: HRK 143,071,230) relates to investment property for capital appreciation intended for future sale. Part of the assets are subject to court proceedings due to ownership issues. The fair value of this property estimated by independent evaluators is higher than their carrying value, and accordingly, depreciation is not charged to this property.

The following table discloses movements in investment property in 2016 and 2015 (during the transfer from to investment property, the Company uses the gross presentation principle, i.e. increases the carrying value and accumulated depreciation for these assets):

	Land	Buildings	Total
	HRK	*HRK*	*HRK*
Cost			
As at 1 January 2015	**45,147,965**	**170,842,836**	**215,990,801**
Additions	-	6,134,879	6,134,879
As at 31 December 2015	**45,147,965**	**176,977,715**	**222,125,680**
Transfer from p,p,e under construction	9,635,000	18,252,266	27,887,266
Reclassifications	888,600	(888,600)	-
Additions	481,750	480,338	962,088
Disposals	(68,720)	-	(68,720)
As at 31 December 2016	**56,084,595**	**194,765,701**	**250,850,296**
Accumulated depreciation			
As at 1 January 2015	**-**	**78,998,432**	**78,998,432**
Additions	-	-	-
As at 31 December 2015	**-**	**78,998,432**	**78,998,432**
Transfer from p,p,e under construction	-	8,646,984	8,646,984
Impairment	-	761,401	761,401
As at 31 December 2016	**-**	**88,406,817**	**88,406,817**
Net carrying vale			
31 December 2015	**45,147,965**	**97,923,265**	**143,071,230**
31 December 2016	**56,084,595**	**106,358,884**	**162,443,479**

The fair value of investment property at the reporting date relates to fair value level 3 since the input variables are not based on observable market data. Fair value was determined in the amount of HRK 162 million.

18. Investments in subsidiaries

	31 December 2016	31 December 2015
	HRK	*HRK*
Investments in domestic subsidiaries		
Končar - Infrastructure and Services Ltd, Zagreb	56,691,318	56,691,318
Končar - Electrical Engineering Institute Inc, Zagreb	60,936,110	60,936,110
Končar - Electronics and Informatics Inc, Zagreb	46,138,413	42,424,053
Končar - Small Electrical Machines Inc, Zagreb	48,600,512	48,600,512
Končar - Generators and Motors Inc, Zagreb	116,347,127	116,347,127
Končar - Instrument Transformers Inc, Zagreb	30,228,943	30,228,943
Končar - Distribution and Special Transformers Inc, Zagreb	62,118,369	58,962,301
Končar - Medium Voltage Apparatus Inc, Zagreb	65,576,811	65,576,811
Končar - Electric Vehicles Inc, Zagreb	36,409,158	36,409,158
Končar - Switchgear Inc, Sesvetski Kraljevec	28,647,123	28,647,123
Končar - Household Appliances Ltd, Zagreb	147,966,970	147,966,970
Končar - High Voltage Switchgear Inc, Zagreb	96,598,157	96,598,157
Končar - Low Voltage Switches and Circuit Breakers Ltd, Zgb	81,432,641	81,432,641
Končar - Engineering for Plant Installation and Commissioning Inc, Zagreb	6,908,942	6,908,942
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	51,773,266	51,773,266
Končar - Renewable Sources Ltd, Zagreb	111,120,000	111,120,000
Končar - Steel Structures Inc, Zagreb	16,703,123	16,703,123
Impairment of investments	*(290,024,399)*	*(259,204,232)*
	774,172,584	**798,122,323**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

Shares in ownership and voting rights as at 31 December were as follows:

	31 December 2016		31 December 2015	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Domestic subsidiaries				
Končar - Household Appliances Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar - Small Electrical Machines Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Infrastructure and Services Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical Engineering Institute Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Breakers Ltd, Zgb	100.00	100.00	100.00	100.00
Končar - Generators and Motors Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Renewable Sources Ltd, Zagreb	85.27	85.27	85.27	85.27
Končar - Electric Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar - Steel Structures Inc, Zagreb	75.01	75.01	75.01	75.01
Končar - Electronics and Informatics Inc, Zagreb	75.03	75.03	75.03	75.03
Končar - Switchgear Inc, Sesvetski Kraljevec	70.03	81.70	70.03	81.70
Končar - Medium Voltage Apparatus Inc, Zagreb	100.00	100.00	100.00	100.00
Končar - Instrument Transformers Inc, Zagreb	61.73	99.77	61.73	99.77
Končar - Distribution and Special Transformers Inc, Zagreb	52.73	67.90	51.71	67.80
Končar - High Voltage Switchgear Inc, Zagreb	98.61	99.03	98.61	99.03
Končar - Engineering for Plant Installation and Commissioning Inc, Zagreb	44.71	79.05	44.71	79.05

At the balance sheet date, the Company recognized an impairment loss for investments in subsidiaries at the reporting date on the basis of impairment tests performed (note 12).

Summary data for related companies with significant non-controlling interest are disclosed in the Company's consolidated financial statements.

19. Investments in associates

Investments in associates in the amount of HRK 67,722,257 (31 December 2015: HRK 67,722,257) relate to the investment in the company Končar - Power Transformers Ltd, Zagreb (Company holds a 49% stake in the share capital of this company).

The summary data of associates are disclosed in the Company's consolidated financial statements.

20. Non-current financial assets

	31 December 2016	31 December 2015
	HRK	*HRK*
Available-for-sale financial assets		
Shares in Tesla Savings Bank	3,500,010	3,500,010
Impairment of shares in Tesla Savings Bank	(3,500,010)	(3,101,924)
Financial assets at fair value through profit and loss		
Shares in Zagrebačka banka d.d., Zagreb	1,256,850	860,710
	1,256,850	**1,258,796**

21. Non-current receivables

	31 December 2016	31 December 2015
	HRK	*HRK*
Receivables on the basis of credit sales		
Receivables for apartments sold /i/	9,011,355	10,834,147
Impairment of receivables for apartments sold	(1,187,994)	(1,941,128)
Current portion (note 24)	(965,785)	(1,208,443)
	6,857,576	*7,684,576*
Receivables for shares sold /ii/	2,509,870	6,862,225
Current portion (note 24)	(2,509,870)	(3,431,113)
	-	*3,431,112*
Other loans receivable	8,883	27,503
Other financial assets	438	438
Receivable on the basis of foreign sales /iii/	3,984,780	4,541,607
Current portion (note 23)	(593,139)	(516,092)
	10,258,538	**15,169,144**

/i/ In accordance with the Law on the Sale of Apartments with Tenancy Rights, the apartments owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables increase/decrease if the EUR exchange rate changes more than 5.1% compared to the rate that existed at the signing date of the Sale agreements. Amounts of unpaid annuities in DEM have been converted in EUR at a fixed rate of EUR 1 = DEM 1.95583. As collateral, the mortgage over the sold apartments has been registered.

/ii/ Receivables for shares sold relate to non-current receivables for sold shares of related companies Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc. and Končar - Steel Structures Inc. within the employee share ownership plan that includes instalment payments over 10 years.

/iii/ Receivable on the basis of foreign sales relates to the sales in Bosnia and Herzegovina to customer Takraf, Germany assigned to KfW bank.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

22. Receivables from related companies

	31 December 2016	31 December 2015
Trade receivables	*HRK*	*HRK*
Domestic subsidiaries		
Končar-Infrastructure and Services Ltd, Zagreb	11,484	5,811,404
Končar-Electrical Engineering Institute Inc, Zagreb	263,848	279,932
Končar-Electronics and Informatics Inc, Zagreb	117,231	296,520
Končar-Small Electrical Machines Inc., Zagreb	336,533	339,893
Končar-Generators and Motors Inc, Zagreb	614,711	607,545
Končar-Instrument Transformers Inc, Zagreb	783,290	950,275
Končar-Distribution and Special Transformers Inc, Zagreb	1,449,189	1,124,630
Končar-Medium Voltage Apparatus Inc, Zagreb	94,429	113,831
Končar-Electric Vehicles Inc, Zagreb	479,732	1,271,552
Končar-Switchgear Inc, Sesvetski Kraljevec	1,023,099	1,373,803
Končar-Household Appliances Ltd, Zagreb	483,095	357,932
Končar-High Voltage Switchgear Inc, Zagreb	221,384	194,688
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb	185,483	132,189
Končar- Engineering for Plant Installation and Commissioning Inc	188,516	109,033
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	965,136	731,272
Končar-Steel Structures Inc, Zagreb	444,689	445,855
Končar-Renewable Sources Ltd, Zagreb	140,221	468,001
Associates		
Končar-Power Transformers Ltd, Zagreb	66,187,429	49,141,403
	73,989,499	*63,749,758*
Interest receivable (total)	*262,928*	*153,956*
	74,252,427	**63,903,714**

As at 31 December, the ageing structure of receivables from related parties was as follows:

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**74,252,427**	72,252,319	1,270,742	53,164	205,285	470,917	-
2015	**63,903,714**	61,613,964	1,031,434	272,234	296,676	689,406	-

For receivables which are past due at the reporting date, for which the Company has not made a provision, there has not been a significant change in credit quality and the amounts are still considered recoverable.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

23. Trade receivables

	31 December 2016	31 December 2015
	HRK	*HRK*
Domestic customers	477,809	21,458
Foreign customers (current portion, note 21)	593,139	516,092
	1,070,948	**537,550**

As at 31 December, the ageing structure of trade receivables was as follows:

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**477,809**	136,949	13,789	3,125	9,375	314,571	-
2015	**21,458**	13,670	7,788	-	-	-	-

For receivables which are past due at the reporting date, for which the Company has not made a provision, there has not been a significant change in credit quality and the amounts are still considered recoverable. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The movement in the allowance for bad debts was as follows:

	2016	2015
	HRK	*HRK*
Balance as at 1 January	**-**	**23,125**
Collected in the current year	-	(23,125)
Balance as at 31 December	**-**	**-**

24. Other receivables

	2016	2015
	HRK	*HRK*
Receivables from companies no longer within Končar group	306,686	9,837,148
Impairment of above receivables	-	(1,076,383)
Receivables for shares sold (due)	9,032,958	10,750,238
Current portion of non-current receivables (note 21)	2,509,870	3,431,113
Receivable for claims recognised	8,292,699	8,292,699
Interest receivables on bank deposits	38,466	667,006
Receivables for apartments sold	965,785	1,208,443
Receivables for prepaid value added tax	-	1,016,069
Other receivables	159,796	126,481
	21,306,260	**34,252,814**

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivable mentioned above.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

25. Loans granted to related parties

	31 December 2016	31 December 2015
	HRK	*HRK*
Končar - High Voltage Switchgear Inc, Zagreb	12,700,000	8,000,000
Končar - Renewable Sources Ltd, Zagreb	24,075,456	20,075,456
Končar - Household Appliances Ltd, Zagreb	2,000,000	2,000,000
	38,775,456	**30,075,456**

Loans granted to related parties are repayable within one year bearing an annual interest rate of 7% until 30 April and 5% from 1 May 2016, secured by blank bills of exchange and debentures.

26. Loans and deposits

	31 December 2016	31 December 2015
	HRK	*HRK*
Deposits over 3 months	193,248,200	241,267,485
Loans receivable	647,102	-
	193,895,302	**241,267,485**

Deposits over 3 months are related to deposits placed in a commercial bank bearing an annual interest rate in the range from 0.05% to 0.35% (2015: 0.70% to 1.70%).

27. Cash and cash equivalents

	31 December 2016	31 December 2015
	HRK	*HRK*
Balance at gyro accounts in HRK	11,784,737	8,140,122
Balance at accounts in foreign currency	76,982,977	270,290
Petty cash - HRK	4,711	27
Petty cash - foreign currencies	17,315	21,403
	88,789,740	**8,431,842**

28. Equity

Share capital is determined in the nominal value of HRK 1,208,895,930 (as at 31 December 2015: HRK 1,208,895,930) and includes 2,572,119 shares at the nominal value of HRK 470 per share.

The Company's ownership structure is as follows:

	31 December 2016		31 December 2015	
Shareholder	Number of shares	Ownership share %	Number of shares	Ownership share %
1. HPB d.d. (Kapitalni fond Inc.)	724,515	28.17	724,515	28.17
2. State office for state property management/ Croatian pension fund	-	-	384,628	14.95
3. Restructuring and sale centre/Croatia	57,982	2.25	142,298	5.53
4. State office for state property management/ Croatia	60,000	2.33	117,982	4.59
5. SOCIETE GENERALE - Splitska bank Inc./ Erste Plavi mandatory pension fund	359,239	13.97	202,149	7.86
6. ADDIKO BANK d.d./PBZ Croatia Osiguranje OMF	420,928	16.35	255,928	9.95
7. Societe Generale Bank/ AZ OMF	377,429	14.67	161,110	6.26
8. Valamar Rivijera d.d.	-	-	39,791	1.55
9. Florinčić Kristijan	50,714	1.97	60,714	2.36
10. ADDIKO BANK/RBA OMF	48,291	1.88	28,491	1.11
11. PBZ d.d. (custodian account)	29,050	1.13	30,208	1.17
12. Other shareholders	438,110	17.37	418,444	16.27
13. KONČAR Inc. (treasury shares)	5,861	0.23	5,861	0.23
	2,572,119	**100.00**	**2,572,119**	**100.00**

On 21 December 2010, ordinary shares of the Company are listed on the Official market at the Zagreb Stock Exchange under the name KOEI-R-A in accordance with the resolution of the Zagreb Stock Exchange Management from 20 December 2010.

In 2016, the Company's General Assembly made the decision on the dividend payment to shareholders in the amount of HRK 30,795,096 which is HRK 12,00 per share (2015: HRK 30,843,096 which is HRK 12,00 per share).

The Company states legal, statutory and other reserves in accordance with the Company's Act made on the basis of profit distribution according to the General Assembly's resolutions. Statutory and other reserves are distributable. The movement in these reserves in 2016 and 2015 were as follows:

	Legal reserves	*Statutory reserves*	*Other reserves*	*Total*
				HRK
1 January 2015	**30,546,339**	**163,414,511**	**41,396,764**	**235,357,614**
Profit allocation	4,479,611	54,269,518	-	58,749,129
31 December 2015	**35,025,950**	**217,684,029**	**41,396,764**	**294,106,743**
Profit allocation	3,121,723	-	28,517,652	31,639,375
31 December 2016	**38,147,673**	**217,684,029**	**69,914,416**	**325,746,118**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

29. Provisions

	Legal court cases	*Retirement and jubilee rewards*	*Unused vacation*	*Total*
	HRK	*HRK*	*HRK*	*HRK*
1 January 2015	**34,267,495**	**2,009,239**	**-**	**36,276,734**
Additional provisions	-	334,684	498,058	832,742
Release of provisions	(2,167,495)	-	-	(2,167,495)
31 December 2015	**32,100,000**	**2,343,923**	**498,058**	**34,941,981**
Additional provisions	-	1,338,030	80,562	1,418,592
Release of provisions	(300,000)	(57,000)	-	(357,000)
31 December 2016	**31,800,000**	**3,624,953**	**578,620**	**36,003,573**
Provisions mature as follows:				
Within 12 months	-	-	578,620	**578,620**
More than 12 months	31,800,000	3,624,953	-	**35,424,953**

Provisions for legal claims

Long-term provisions for legal claims in the amount of HRK 31,800,000 (2015: in the amount of HRK 32,100,000) relate to legal cases in progress initiated against the Company in Croatia in relation to the determination of ownership over the property in Konavoska, Zagreb.

Provisions for long-term employee benefits (termination benefits and jubilee awards)

The non-current portion of provisions for termination benefits and jubilee rewards in the amount of HRK 3,625 thousand (2015: HRK 2,344 thousand) comprises the estimated amount of long-term employee benefits relating to termination benefits and jubilee awards in accordance with the Collective agreement to which the employees are entitled to receive at the moment of employment termination (during the retirement or dismissal). The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service within the Company at the balance sheet date and the discount rate of 3.5% (2015: 4.85%).

Current provisions

Provisions for unused vacation in the amount of HRK 579 thousand relates to employee benefit for unused vacation days related to 2015 (2015: HRK 498 thousand).

30. Current liabilities to related parties

	31 December 2016	31 December 2015
	HRK	*HRK*
Subsidiaries:		
Končar - Infrastructure and Services Ltd, Zagreb	6,320,168	11,880,808
Končar - Switchgears Inc., Sesvetski kraljevec	1,000,000	-
Končar - Electronics and Informatics Inc, Zagreb	140,647	110,964
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	119,560	352,310
Končar - Electrical vehicles Inc, Zagreb	25,000	-
Končar - Generators and motors Inc, Zagreb	25,000	-
Končar - Electrical Engineering Institute Inc, Zagreb	11,738	-
Končar - Low Voltage Switches and Circuit Breakers Ltd., Zagreb	-	12,418
	7,642,113	**12,356,500**

31. Trade payables

	31 December 2016	31 December 2015
	HRK	*HRK*
Domestic suppliers	933,380	843,013
Foreign suppliers	18,768	60,603
	952,148	**903,616**

As at 31 December, the ageing structure of trade payables was as follows:

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**952,148**	847,388	104,760	-	-	-	-
2015	**903,616**	902,167	1,449	-	-	-	-

32. Other current liabilities

	31 December 2016	31 December 2015
	HRK	*HRK*
Liabilities toward employees		
Liabilities for net salaries	733,185	664,403
Bonus accruals	1,860,000	1,600,000
	2,593,185	***2,264,403***
Liabilities for taxes, contributions and similar		
Liabilities for taxes	1,997,303	1,696,849
Liabilities for value added tax	233,378	-
Liabilities for contributions	1,222,092	1,214,047
	3,452,773	***2,910,896***
Other liabilities		
Liabilities toward state for apartments sold	11,549	1,946
Liabilities for dividends	414,380	429,642
Other liabilities	156,513	153,375
	582,442	***584,963***
	6,628,400	**5,760,262**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

33. Contingent liabilities and off-balance sheet items

	31 December 2016	31 December 2015
	HRK	*HRK*
Subsidiarity guarantee (Zagrebačka banka d.d.)	505,049,647	563,850,871
Corporative guarantees / Končar Inc.	43,835,165	132,685,051
Corporative guarantees / other banks	2,481,390	2,481,390
Apartments sold (65%)	21,723,124	23,677,933
Bills of exchange	36,775,456	28,075,456
Debentures	5,204,640	2,000,000
	615,069,422	**752,770,701**

Several domestic legal cases are initiated against the Company and as at 31 December 2016 the Company recognized a provision in the amount of HRK 31,800 thousand (2015: HRK 32,100 thousand) for these legal claims. The Management Board does not expect additional costs to arise from other court cases.

Total guarantees issued by the Company as disclosed in the above table include performance guarantees amounting to HRK 413,763 thousand (2015: HRK 431,145 thousand).

34. Related party transactions

Parties are considered to be related if one party has control over the other party, if they are under common control or under significant influence or are part of a joint arrangement. Related parties include companies within the Končar Group - subsidiaries and associates. All intercompany transactions are based on the usual business terms (purchase of goods and sale of products and provision of services).

2016	Operating activities				Financial activities	
	Receivables	Liabilities	Revenues	Expenses	Receivables	Revenues
Company	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Končar-Infrastructure and Services Ltd.	11	6,320	24,495	13,087	-	-
Končar-Household Appliances Ltd.	483	-	1,067	17	2,008	111
Končar-Electric Vehicles Inc.	480	25	3,128	235	-	-
Končar-High Voltage Switchgear Inc.	221	-	450	-	12,855	504
Končar-Generators and Motors Inc.	615	25	2,415	220	-	-
Končar-Power Plant and Electric Traction Engineering Inc. Zagreb	965	120	3,084	1,959	-	-
Končar-Steel Structures Inc.	445	-	1,383	-	-	-
Končar-Switchgear Inc.	1,023	1,000	532	-	-	-
Končar-Instrument Transformers Inc.	783	-	1,536	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	185	-	663	112	-	-
Končar-Distribution and Special Transformers Inc.	1,449	-	5,234	-	-	-
Končar-Electrical Engineering Institute Inc.	264	12	949	173	-	-
Končar-Small Electrical Machines Inc.	337	-	915	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc.	189	-	856	-	-	-
Končar-Electronics and Informatics Inc.	117	140	986	1,425	-	-
Končar-Medium Voltage Apparatus Inc.	94	-	413	-	-	-
Končar-Power Transformers Ltd.	910	-	3,069	-	-	-
Končar-Renewable Sources Ltd.	140	-	1,597	-	24,175	1,160
	8,711	**7,642**	**52,772**	**17,228**	**39,038**	**1,775**

The transactions presented in the table do not include receivables (receivables from associate for dividends amount to HRK 65,277 thousand) and dividend income. Dividend income is recognized in the amount of HRK 115,079 thousand (2015: HRK 109,761 thousand).

2015	Operating activities				Financial activities	
	Receivables	Liabilities	Revenues	Expenses	Receivables	Revenues
Company	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Končar-Infrastructure and Services Ltd.	5,811	11,881	24,505	12,865	-	-
Končar-Household Appliances Ltd.	358	-	1,149	42	2,011	136
Končar-Electric Vehicles Inc.	1,271	-	5,061	180	-	-
Končar-High Voltage Switchgear Inc.	195	-	544	-	8,027	147
Končar-Generators and Motors Inc.	608	-	2,769	-	-	-
Končar-Power Plant and Electric Traction Engineering Inc. Zagreb	730	352	3,084	2,650	-	-
Končar-Steel Structures Inc.	445	-	1,351	-	-	-
Končar-Switchgear Inc.	1,374	-	778	-	-	-
Končar-Instrument Transformers Inc.	950	-	1,659	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	132	12	654	124	-	-
Končar-Distribution and Special Transformers Inc.	1,125	-	5,461	-	-	-
Končar-Electrical Engineering Institute Inc.	280	-	877	81	-	-
Končar-Small Electrical Machines Inc.	340	-	868	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc.	109	-	510	-	-	-
Končar-Electronics and Informatics Inc.	297	111	1,093	1,717	-	-
Končar-Medium Voltage Apparatus Inc.	114	-	560	-	-	-
Končar-Power Transformers Ltd.	683	-	1,883	-	-	-
Končar-Renewable Sources Ltd.	468	-	2,051	-	20,191	839
	15,290	**12,356**	**54,857**	**17,659**	**30,229**	**1,122**

The transactions presented in the table do not include receivables and dividend income.

35. Financial risk management and financial instruments

The Company is exposed in its business to market (foreign currency) and credit risk.

The Company does not use derivative financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial statements. The risk management policies related to current and non-current financial assets, current and non-current receivables, management of cash, debt and liabilities may be summarised as follows:

a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Company manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Company may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2016 and 31 December 2015. The Company monitors capital on the basis of the gearing ratio, which is calculated as follows:

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

	31 December 2016	31 December 2015
	HRK	*HRK*
Borrowings	-	-
Less: cash and cash equivalents (deposits)	(88,790)	(8,432)
Net debt	-	-
Capital	1,606,378	1,572,405
Gearing ratio	-	-

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial assets, financial liabilities and equity instrument are disclosed in note 2 to the financial statements.

Accounting policies for financial instruments are applied on the following items in the Statement of financial position:

	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
31 December 2016				
Non-current financial assets and receivables	10,847	1,257	-	**12,104**
Current financial assets	232,671	-	-	**232,671**
Trade and other current receivables	96,630	-	-	**96,630**
Cash and cash equivalents	88,790	-	-	**88,790**
	428,938	**1,257**	**-**	**430,195**

	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
31 December 2015				
Non-current financial assets and receivables	15,169	861	398	**16,428**
Current financial assets	271,343	-	-	**271,343**
Trade and other current receivables	97,679	-	-	**97,679**
Cash and cash equivalents	8,432	-	-	**8,432**
	392,623	**861**	**398**	**393,882**

All of the Company’s liabilities have been classified as “At amortized cost”. The Company has no liabilities that have been classified as “Liabilities at fair value through profit and loss”.

Fair value of financial instruments

The following table represents financial assets and liabilities valued at fair value in the Statement of financial position according to the fair value hierarchy. This hierarchy groups financial assets and liabilities in three levels, depending on the significance of input variables used in the measurement of their fair values. The fair value hierarchy has the following levels:

o level 1: quoted market prices for identical assets or liabilities traded on active markets

o level 2: input variables that do not represent the above stated prices from level 1 but are visible for assets or liabilities, be it directly (like prices) or indirectly (derived from prices for example)

o level 3: input variables for assets or liabilities which are not based on observable market data.

The level within which a financial asset/liability is classified is based on the lowest level of a significant input variable used in the fair value measurement. Financial assets and liabilities measured at fair value in the Statement of financial position are grouped within the hierarchy as follows:

31 December 2016	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed securities	1,257	-	-	1,257
	1,257	**-**	**-**	**1,257**

31 December 2015	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed securities	861	-	-	861
Unlisted securities	-	-	398	398
	861	**-**	**398**	**1,259**

The Company used the following methods and assumptions during its financial asset fair value estimation:

Receivables and bank deposits

For assets due within three months, the accounting value is approximate to their fair value due to the short-term nature of the assets. For longer term assets, the contracted interest rates do not significantly deviate from the current market rates and their fair value is, therefore, approximate to their accounting value.

Liabilities per loans received

The current liability fair value is approximate to their accounting value due to the short-term nature of these instruments. The Management Board believes that their fair value does not differ significantly from their accounting value.

Other financial instruments

The Company's financial instruments that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical accounting value of receivables and liabilities, including provisions that are in line with the usual terms of business is approximately equal to their fair value.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

c) Financial risk

The Company's Management monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by the degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, as the change of foreign currencies and interest rates, would influence the Company's result of the value of its financial instruments. The goal of market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

The Company's activities are primarily exposed to the foreign currency exchange rate risk.

There have been no significant changes to the Company's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk management

The Company is exposed to this risk through the sale and purchase of funds stated in foreign currency which is not the Company's functional currency. Foreign currencies to which the Company is mostly exposed are EUR, USD and CHF.

The Company exposes itself to foreign currency risk through sales, purchasing and depositing of funds denominated in foreign currencies.

The Company's exposure to foreign currency risk is as follows:

31 December 2016	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non-current receivables	3,392	-	-	3,392	6,867	10,259
Trade receivables	593	-	-	593	478	1,071
Current financial assets	163,248	-	-	163,248	30,647	193,895
Cash and cash equivalents	76,626	323	32	76,981	11,808	88,789
Trade payables	(19)	-	-	(19)	(933)	(952)
	243,840	**323**	**32**	**244,195**	**48,867**	**293,062**

31 December 2015	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non-current receivables	4,025	-	-	4,025	11,144	15,169
Trade receivables	516	-	-	516	21	537
Current financial assets	241,267	-	-	241,267	-	241,267
Cash and cash equivalents	251	6	35	292	8,140	8,432
Trade payables	(61)	-	-	(61)	-	(61)
	245,998	**6**	**35**	**246,039**	**19,305**	**265,344**

In the above tables, receivables for apartments sold are not included in the amounts in EUR because of a contractual clause on the increase/decrease in receivables if the change in EUR currency rate is more than 5.1% compared to the currency rate that existed at the time of concluding the contracts.

Sensitivity analysis

Change in the HRK currency in relation to EUR for -1% (2015: -1%), the strengthening in relation to of CHF by -1% (2015:+11%) at the date of reporting would increase/(decrease) the profit before tax by the following amounts:

	2016 Effect on income before taxes	2015 Effect on income before taxes
	HRK'000	*HRK'000*
EUR (-1%)	(2,467)	(2,461)
CHF(-1%)	(3)	1

This analysis assumes that all other, variables, interest rates especially, remain unchanged.
A strengthening/(weakening) of HRK against the above currencies for the same average % at the reporting date would have had the equal but opposite effect on the profit before tax, with assumption that all other variables remain constant.

b) Interest rate risk

The Company is not exposed to interest rate risk since it has no interest-bearing liabilities.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses information gathered from specialized credit agencies and the Croatian Chamber of Economy, as well as other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The age structure of trade receivables (related and unrelated) which are past due but are considered collectable are shown in the notes 22 and 23.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Board which has built a quality frame for monitoring current, middle and long-term financing and all requirements related to liquidity risk. The Company manages this risk by constantly monitoring estimated and actual cash flow and comparing it with the maturity of financial assets and liabilities.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

The following table shows the maturity of the Company's financial liabilities at 31 December 2016 and 2015 according to the contracted undiscounted payments:

	Carrying value	Contracted cash flows	0 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 years
31 December 2016	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Trade and other payables	9,177	9,177	9,177	-	-	-
	9,177	**9,177**	**9,177**	**-**	**-**	**-**

	Carrying value	Contracted cash flows	0 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 years
31 December 2015	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Trade and other payables	13,845	13,845	13,845	-	-	-
	13,845	**13,845**	**13,845**	**-**	**-**	**-**

36. Subsequent events

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company for 2016, and that should, consequently, be disclosed.

37. Approval of financial statements

The financial statements presented on the pages above were authorised for issue by the Company's Management Board on 24 March 2017 and were signed on its behalf.

Darinko Bago, president

Jozo Miloloža, member

Marina Kralj Miliša, member

Davor Mladina, member

Miroslav Poljak, member

Miki Huljić, member

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

KONČAR Electrical Industry Inc.

Business Report

tradition.
knowledge.
responsibility.

Introduction

KONČAR - Electrical Industry Inc., a joint-stock company, is the parent company of KONČAR Group. As such, the Company compiles consolidated reports, which are separately presented and revised. This 2016 Corporate Governance Report presents the company's report as a separate entity. The Company is engaged in the management of its subsidiaries and affiliated companies.

Companies within the Group are legally autonomous companies supervised by the parent company which strategically directs and supports them through supervisory boards and the assemblies, all in accordance with the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc. and of individual subsidiaries. The parent also manages the portion of the assets which have not been invested into companies but are in direct or indirect function of financial support of sales, products and equipment of the subsidiaries as a credit-guarantee potential.

As the parent company, KONČAR - Electrical Industry Inc. invoices the dependent companies for the following services:

- Fees for using the corporate name, brand and trade mark,
- A part of the costs incurred for joint presentation on fairs,
- A part of the costs for the agencies abroad,
- A part of joint costs for marketing activities,
- Seminars for managers and quality and environment management systems.

1. The Most Important Performance Indicators

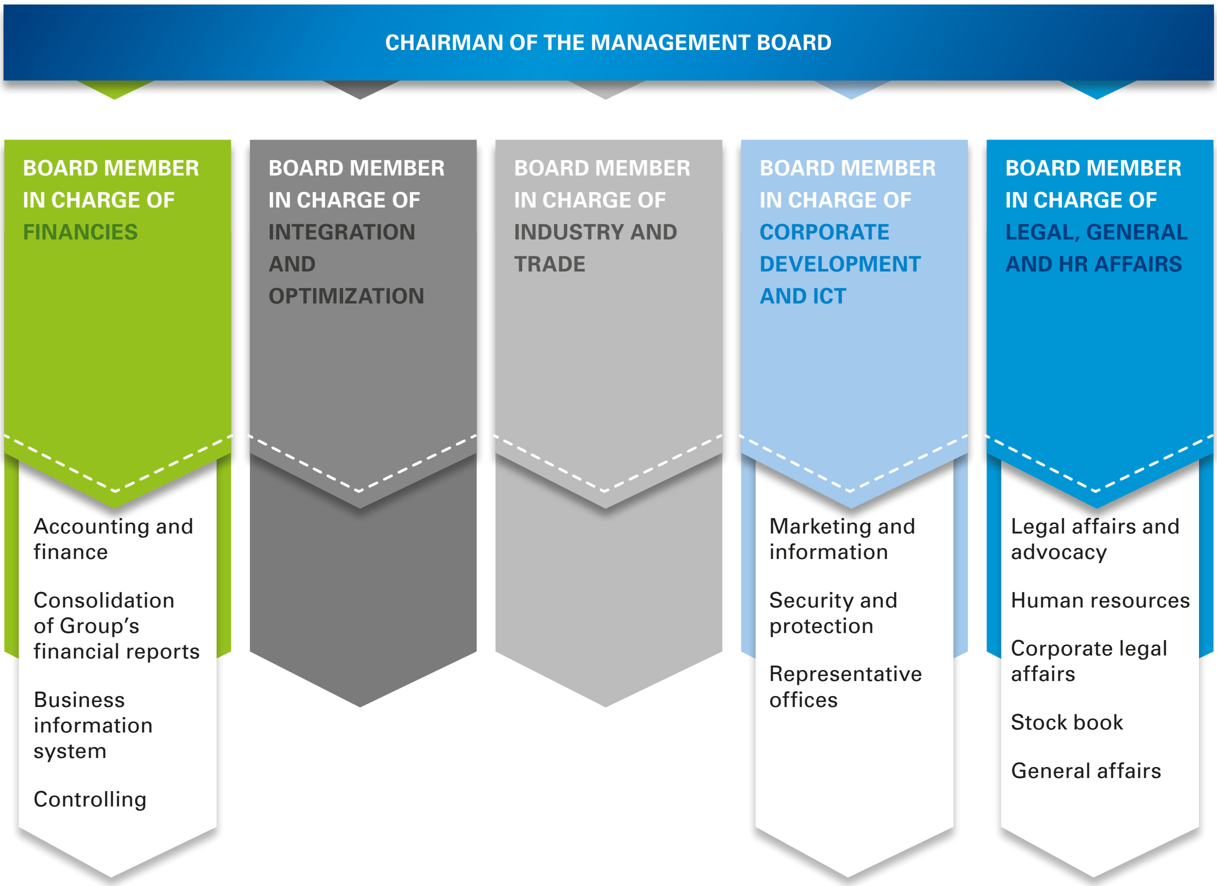
FOR 2015 - 2016

in 000 HRK	2015	2016	Index 2/1
	1	*2*	*3*
Business revenue	62,235	54,108	87
Business expenses	78,533	82,075	105
Profit/loss from business activities	**-16,298**	**-27,967**	**172**
Financial revenue	82,578	79,229	96
Dividend revenue from associated company	48,458	65,277	135
Financial expenses	52,304	51,771	99
Net financial revenue	**78,732**	**92,735**	**118**
Profit before tax	**62,434**	**64,768**	**104**
Tax	**0**	**0**	
Profit for the period	**62,434**	**64,768**	**104**
No. of employees 31 December	**50**	**48**	**96**
Non-current assets	1,233,450	1,236,839	100
Current assets	392,917	420,765	107
Total assets	**1,626,367**	**1,657,604**	**102**
Subscribed capital	1,208,896	1,208,896	100
Reserves, retained profit, current year profit	363,509	397,482	109
Total capital	**1,572,405**	**1,606,378**	**102**
Long-term provisions	34,444	35,425	103
Short-term liabilities	19,518	15,801	81
Total liabilities	**1,626,367**	**1,657,604**	**102**
EBIT	**62,436**	**64,773**	**104**
EBITDA	**71,417**	**72,752**	**102**
Return on sales	**4.0%**	**4.0%**	**100**
Earning per share (in kuna)	**24.33**	**25.23**	**104**

2. Organization and Management

KONČAR - Electrical Industry Inc. (the Group's parent) manages its subsidiaries and affiliated companies.

The Group's companies are legally autonomous entities, while the parent company has a supervising role; it provides the strategic direction and supports them through companies' Supervisory Boards and General Assemblies pursuant to the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc. and of individual companies. Furthermore, the parent company manages a portion of assets which has not been invested in its companies but is directly and indirectly in function of the financial support of sales, products and equipment of subsidiaries as a credit-guarantee potential.



Below is an overview including basic information on dependent and affiliated companies:

	in HRK subscribed capital total	in HRK subscribed capital total	% management of the parent 31 Dec 2016	% ownership of the parent 31 Dec 2016
Dependent companies				
Power Plant and Electric Traction Engineering	50.577.000	50.577.000	100,00	100,00
Generators and Motors	107.927.700	107.927.700	100,00	100,00
High Voltage Switchgear	56.335.140	55.553.340	99,03	98,61
Medium Voltage Apparatus	19.679.700	19.679.700	100,00	100,00
Switchgear	29.018.600	20.321.470	81,70	70,03
Distribution and Special Transformers	76.684.800	40.439.400	67,90	52,73
Instrument Transformers	18.989.100	11.721.900	99,77	61,73
Electronics and Informatics	42.027.280	35.286.420	75,03	75,03
Metal Structures	24.645.600	18.486.600	75,01	75,01
Electric Vehicles	47.026.800	35.288.700	75,04	75,04
Renewable Sources	130.312.400	130.312.400	100,00	100,00
Engineering for Plant Installation and Commissioning	11.827.500	5.288.100	79,05	44,71
Small Electrical Machines	41.641.800	41.641.800	100,00	100,00
Household Appliances	17.834.100	17.834.100	100,00	100,00
Lv Switches and Circuit Breakers	60.499.300	60.499.300	100,00	100,00
Electrical Engineering Institute	40.763.520	40.763.520	100,00	100,00
Infrastructure and Services	49.891.600	49.891.600	100,00	100,00
Associated company				
Power Transformers	72.764.000	35.654.400	49,00	49,00

THE MANAGEMENT BOARD

The Supervisory Board appoints and relieves the Chairman of the Management Board and the Board members. The mandate of the Chairman of the Management Board and of the Board members is five years with an option of reappointment. Pursuant to the Companies Act and the Company Articles of Association, the Management Board is responsible for running business operations. In doing so, they are obliged and authorised to take any actions and decisions deemed necessary for the successful management of the Company. The consent of the Supervisory Board is required in making certain decisions defined under the Articles of Association.

KONČAR - Electrical Industry Inc. is managed by the Management Board consisting of:

Darinko Bago	Chairman of the Management Board
Miki Huljić*	Board Member in charge of Integration and Optimization
Marina Kralj Miliša	Board Member in charge of Legal, General and HR Affairs
Jozo Miloloža*	Board Member in charge of Finances
Davor Mladina	Board Member in charge of Industry and Trade
Miroslav Poljak	Board Member in charge of Corporate Development and ICT

* **Note:** Under the decision of the Supervisory Board dated 7 February 2017, Jozo Miloloža ceases to be a member of the Management Board as his term of office expired.
Under the decision of the Supervisory Board, it was determined that as of 7 February 2017 Miki Huljić would assume the function of a member of the Management Board.

THE SUPERVISORY BOARD

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry Inc. the General Assembly reaches decisions on appointing and relieving the Supervisory Board. The Supervisory Board is responsible for appointing and relieving the members of the Management Board and for supervising the Company's operations. The execution of some significant transactions (the amount of such transactions is defined by the Supervisory bord Rules) and important business decisions requires the approval of the Supervisory Board. Until their terms of office was terminated on 3 July 2016, the members of the Supervisory Board were Vicko Ferić, Nenad Filipović, Petar Mišura, Dragan Marčinko, Nikola Plavec and Ivan Rujnić.

The Supervisory Board consisted of:

Nenad Filipović	Chairman of the Supervisory Board
Jasminka Belačić	Deputy Chairwoman of the Supervisory Board
Boris Draženović	Member
Vicko Ferić	Member
Dragan Marčinko	Member
Petar Mišura	Member
Nikola Plavec	Member
Ivan Rujnić	Member
Petar Vlaić	Member

Members of the Supervisory Board have been elected for a period of four years starting on 12 December 2016. Members of the Supervisory Board of the Company have accepted the proposal to appoint Petar Vlaić as the Chairman of the Supervisory Board, while Josip Lasić was appointed the Deputy Chairman of the Supervisory Board.

AUDIT COMMITTEE

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board has established the Audit Committee. In accordance with the provisions laid down in the Audit Act and the Corporate Governance Code, the Audit Committee is in charge of monitoring the financial reporting procedure, the efficiency of the system of control, supervises the conducting of annual financial statements audits, monitors auditors' independence, makes recommendations to the Supervisory Board concerning the selection and to the General Assembly concerning the appointment of an audit firm.

The Audit Committee consists of four members:

Vicko Ferić	Chairman of the Audit Committee
Nikola Anić	Member
Jasminka Belačić	Member
Josip Lasić	Member

STRATEGIC DEVELOPMENT COMMITTEE

At its session held on 28 September 2012, the Supervisory Board established the Strategic Development Committee. The Supervisory Board assigns tasks to the Strategic Development Committee for the purpose of tackling subjects and the activities falling under the remit of the Supervisory Board with a specific emphasis on the long-term viability, risk assessment, Group's strategic priorities, restructuring needs and the development of strategic human resource within KONČAR Group.

The Strategic Development Committee consists of 4 members:

Joško Miliša	Chairman of the Strategic Development Committee
Branko Lampl	Member
Vladimir Plečko	Member
Petar Vlaić	Member

3. Implementation of Corporate Governance Principles

At their sessions held on 7 April 2008 and 17 August 2008, the Management Board of KONČAR - Electrical Industry Inc. and the Supervisory Board of the Company, respectively, adopted the principles of corporate governance based on the positive regulations of the Republic of Croatia and the adopted international standards. The principles are publicly available on the web site of the company (www.koncar.com) and on the official website of the Zagreb Stock Exchange (www.zse.hr).

A questionnaire together with the answers to questions regarding the implementation of the provisions of the Zagreb Stock Exchange Code and the HANFE Company is available on the official website of the Zagreb Stock Exchange (www.zse.hr) and on the Company website (www.koncar.com). The Company applies most of the provisions of the Corporate Governance Code except for certain provisions that the Company does not consider to be required in the prescribed form, and in particular:

- The Nomination and Reward Committee has not been established. The appointment of new members of the Management Board and of key managerial structures takes place in a well-organized manner.
- The remuneration of the Management Board / Directors of the Company was set under the Decision of the Board of KONČAR - Electrical Industry Inc. It is based on clearly defined business-related criteria. The remuneration of the Management Board of KONČAR - Electrical Industry Inc. is stipulated in the Rights and Obligations Agreement signed by the President and the members of the Management Board together with the Chairman of the Supervisory Board. The award is considered to be an appropriate position of the Company and its results. Overall income and fee-related information of the members of the Board and the Director are disclosed in total in the annual report.
- No internal control committee has been established.

  KONČAR - Electrical Industry Inc., as a parent of the Group of Owned Associations that are autonomously conducting legal transactions, has successfully established, maintained and developed a Business Information System that enables a coordinated current and strategic planning of business and development, members and parent of the Group. It controls the implementation of plans, deviations in their delivery, search and analysis of said deviations, enables the analysis of resource efficiency, cost control, risk assessment and risk mitigation measures, preparation of consolidated financial statements and financial reports for the public (ZSE, banks, Tax Administration and Financial Statements Registry).

  For many years, all KONČAR's companies have submitted their financial statements to be audited by independent auditing companies, which has further contributed to the maintenance and development of a reliable and transparent business system. Most of KONČAR's companies have adopted the International Standard ISO 9001 under which each process is described, determined by the relevant procedures and documents, as well as subject to a regular check by authorized certification companies. All business events and processes are documented and controllable.

  The management of these companies and their financial statements are the responsibility of the companies' management boards. KONČAR - Electrical Industry Inc. as a parent, manages the Group's business policy, decides on long-term development goals and strategies, adopts business and development plans, coordinates and supervises the operations of subsidiaries through the Supervisory Boards, in compliance with statutory regulations, company's Articles of Association and Management Board's decisions as well as the adopted Corporate Governance Code.

So far, Internal Business Controls have been organized and implemented periodically and in accordance with the decisions of the Supervisory Board.

KONČAR - Electrical Industry Inc. as a parent of the Group has no significant legal transactions with third parties (except in credit-guarantee operations). All material decisions are made by the Management Board. Prior to the execution of the decision, the members of the Management Board in charge of the areas liquidated the accounts. All process controls are carried out according to prescribed procedures. We believe that documentation, control and business transparency is ensured by consistent implementation and the compliance with prescribed procedures.

The Company believes that the lack of implementation of some of the provisions of the Code does not undermine the high level of transparency of the Company's business and will not significantly affect current and potential investors when making their investment decisions.

A 64-question questionnaire contains precise answers to questions on the provisions of the Code which are applied by the Company and which are not publicly available on the official web pages of the Zagreb Stock Exchange (www.zse.hr) and the Company's web site (www.koncar.com).

Within the framework of its organizational model, in which it operates and within which all business processes are taking place, the Company has developed internal control systems across all important levels. These systems enable, among other things, the objective and correct presentation of financial and business reports.

Data on significant holders of shares is available daily on the official web site of SKDD (www.skdd.hr). As of 31 December 2016 and 2015, they are also disclosed in the Financial Statements with the Independent Auditor's Report. Electronic voting is available to shareholders in attendance at the General Assembly.

The adopted Corporate Governance Principles are based on responsible management; they define corporate governance procedures based on the adopted recognised international standards and the operational supervision. The underlying purpose is to establish high corporate governance standards and the transparency of operations as the foundation for protecting the shareholders, investors and other stakeholders, as well as care for the employees, sustainable development and environmental protection.

4. Business Results

In 2016, KONČAR - Electrical Industry Inc. achieved total revenues of HRK 198.6 million and total expenses amounting to HRK 133.8 million.

The profit earned in 2016 amounted to HRK 64.7 million, which was by 3.7 percent more than in 2015. The Company has no obligation to pay the profit tax for 2016 due to the deductible items of dividend income from affiliated companies and associates which tax has already been paid by subsidiaries.

Total operating income for the period from January to December 2016 was HRK 54.1 million and it consisted of fees for using the name of the company, the merchandise and trade marks and the fees for joint marketing activities.

Total operating expenses amounted to HRK 82.1 million. They are made up of material costs of HRK 38.2 million, staff costs of HRK 25 million, depreciation of HRK 8.0 million, other operating expenses in the total amount of HRK 8.7 million, provisions amounting to HRK 1.4 million and a value adjustment of property investment in the amount of HRK 0.8 million.

Other operating expenses in the total amount of HRK 8.7 million relate mainly to the fees for the Supervisory Board, the Audit Committee and the Strategic Development Board members of HRK 2.3 million, the donation and sponsorship costs of HRK 2,7 million, works contracts and royalty fees in the amount of HRK 1 million, insurance premiums amounting to HRK 0.9 million, daily allowances and travel expenses of 0.6 million.

Financial income amounted to HRK 79.2 million. It consisted of dividend income and profit share of associated companies in the amount of HRK 49.8 million, interest income on time deposits, domestic loans and long-term claims in the amount of HRK 7 million, revenues from the increase in the share of the reinvested profit of KONČAR - Electronics and Informatics Inc. in the amount of HRK 3.7 million, revenues from value adjustments of shares in KONČAR - Switchgear Inc. in the amount of HRK 13.1 million, foreign exchange gains in the amount of HRK 4.7 million and other financial income of HRK 2.2 million.

Financial income from the associated company's dividend amounted to HRK 65.3 million.

Financial expenses were realized in the amount of HRK 51.8 million, the most significant part of which relates to value adjustments of shares in affiliated companies in the amount of HRK 43.9 million, while the negative exchange rate differences from unrelated companies amounted to HRK 7.3 million.

5. Financial Position (Balance Sheet)

The value of the overall assets of KONČAR - Electrical Industry Inc. on 31 December 2016 amounted to HRK 1,657.6 million. Compared to 31 December 2015, this was an increase of HRK 31.2 million or 1.9 percent.

Non-current assets amounted to HRK 1,236.8 million i.e. an increase by HRK 3.4 million or 0.3 percent. Current assets amounted to HRK 420.7 million, increasing by HRK 35.3 million or 9.2 percent. The paid costs for the future period amounted to HRK 0.5 million and decreased by HRK 7.4 million mainly due to the liquidation of KONČAR - Catering Equipment Ltd.

Total equity with reserves on 31 December 2016 amounted to HRK 1,606.4 million, which is HRK 34 million or 2.2 percent higher than the balance on 31 December 2015.

Long-term claims amounted to HRK 35.4 million, up by HRK 1 million than in the same period the year before.

The most significant part of the long-term claims relates to claims for legal disputes in the amount of HRK 31.8 (a court case against the Company for determining the ownership of the property at Konavoska, Zagreb).

Potential liabilities that KONČAR - Electrical Industry Inc. might have for total guarantees issued on 31 December 2016 amounted to HRK 505 million, a decrease compared to 31 December 2015 in the amount of HRK 58.8 million.

Out of total guarantees and several liabilities for performance bonds, HRK 413.7 million is related.

6. Restructuring

KONČAR's core business is Energy and Transport. KONČAR plans further restructuring to increase sales income, more efficient use of resources, greater competitiveness and profitability.

During 2016, the Management Board, with the consent of the Supervisory Board, made the decision to conduct a business analysis with the aim of increasing the synergy effects in KONČAR Group. For the purpose of the analysis, the Boston Consulting Group has been engaged to work with the representatives of KONČAR to identify measures for rationalization and optimization of operations and to improve the Group's market position.

In December 2016, the Supervisory Board accepted the proposal of the Company's Management Board to approach the Steel Processing Center in KONČAR - Metal Structures, taking into account the studies developed by BCG and KONČAR - Metal Structures.

At the beginning of 2017, the Board of KONČAR - Electrical Industry Inc. initiated activities related to the possible merger of companies in the field of switchgear and medium and high voltage switchgear (companies: KONČAR - Switchgear, KONČAR - Medium Voltage Apparatus and KONČAR - High Voltage Switchgear). The possible merger of the company should ensure further development, efficiency and competitiveness of the mentioned companies in the forthcoming period, largely through activities to improve sales, especially in export markets and through a more rational use of resources.

7. Risk Exposure

KONČAR - Electrical Industry Inc. as the parent of the Group has no significant legal transactions with third entities (except credit - guarantee operations) and is to a lesser extent exposed to financial and market risks.

KONČAR - Electrical Industry Inc. manages the risks of the company, issues policies, coordinates and directs the risk management in affiliated companies. The management of each dependent entity controls the risks of its company in KONČAR Group. The operational, developmental, market and financial risks are systematically taken into account when developing, adopting and controlling the implementation of business and development mid-term, annual and operational plans.

Currency risk

The Company is exposed to currency risk through sales, foreign currency purchases and loans denominated in a currency other than the functional currency of the Company. Currencies that are subject to risks are primarily in euros. Since the exchange rate of kuna is to some extent related to the euro exchange rate, the Company is limited to the currency risk of deposits in euros.

Liquidity risk

Liquidity risk is the risk of the Group not being able to meet its financial obligations as they fall due. The liquidity risk management is the responsibility of the Management Board of the Group which has built a quality framework for covering short-term, medium and long-term financing as well as all the risks associated with liquidity risk. The Group manages this risk by continuously monitoring the estimated cash flow, comparing and adjusting it to actual income and expenses. There was no significant exposure of the Group to liquidity risk because it has the ability to quickly cash out funds that are considerably higher than potential liabilities.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity ratio.

The Group manages capital and makes appropriate adjustments for the purpose of proper capital structure in accordance with market present economic conditions. The Group can make a decision if the retained earnings should be distributed to shareholders, if the equity needs to be increased or decreased, if the assets should be sold in order to decrease liabilities and similar.

Credit risk

Apart from deposits in commercial banks and domestic claims, the company has no significant claims on third parties. Therefore, no credit risk is expressed.

Interest rate risk

The Company is not exposed to interest rate risk because it is not exposed to debts. Since the Company has a good financial asset structure and has no interest-bearing liabilities with third parties, it is not exposed to interest rate risk.

8. Shares

The shares of KONČAR - Electrical Industry Inc. have been quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under their KOEI-R-A ticker. In keeping with the positive regulations, the Company ensures regular access to information on its operations and activities as well as information on facts and circumstances that may bear influence to the share price (price sensitive information).

The Company's share capital is HRK 1,208,895,930.00 and consists of 2,572,119 ordinary shares with a nominal value of HRK 470.00.

The Company applies the same conditions to all its shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. The voting rights encompass all of the Company's shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession.

In 2016, the price movement of KONČAR Electrical Industry's shares followed the overall market trend. The highest share price was achieved in October 2016 (HRK 701.99), and the lowest in January (HRK 613.21). Until the end of 2016, the average price of the share was HRK 690. The total turnover of the KONČAR share amounted to HRK 442.2 million, which is significantly higher than the achieved turnover in 2015 (HRK 68.2 million). The significantly higher turnover was reached in early June when the Mandatory Pension Funds of the Republic of Croatia purchased 526,926 shares worth HRK 360 million from the Restructuring and Sale Center (the explanation is given below). Except for this transaction, the turnover of KONČAR shares on the Zagreb Stock Exchange was 20.5percent higher than the 2016 turnover. The amount of shares traded was 650,107 (22 percent more compared to 2015 if this transaction is excluded).

In May 2016, the Restructuring and Sales Center published a Call for the Expression of Interest and the submission of binding bids for the purchase of 526,926 shares of KONČAR - Electrical Industry Inc. owned by the Republic of Croatia and the Croatian Pension Insurance Institute. The relevant shares accounted for 20.49percent of the Company's share capital.

Following the sale of the shares, significant changes occurred in the ownership structure of the Company. Ownership of Adikko Bank Inc. (Formerly Hypo Alpe Adria Bank) / PBZ CO Compulsory Pension Fund - category B increased from 9.95 percent to 16.37 percent. The share of Societe Generale - Splitska Banka Inc. / AZ Compulsory Pension Fund category B increased from 6.84 percent to 14.50 percent. The share of Societe Generale - Splitska Banka Inc. / Erste Plavi Compulsory Pension Fund category B rose from 7.86 percent to 13.97 percent. Valamar Riviera left the group of ten largest shareholders, while Addiko Bank Inc. / Raiffeisen Compulsory Pension Fund - B category (1.88 percent) and Zagrebačka banka Inc. / AZ Profit voluntary pension fund (1.12 percent) entered. The share of ownership of the State Property Management Administration / Republic of Croatia decreased from 4.58 to 2.33 percent.

KONČAR - Electrical Industry Inc. signed a contract for the performance of specialist jobs with InterCapital Securities Inc. in October 2015 whereby InterCapital Securities Inc. took over the obligation to perform specialist jobs for the shares of KONČAR - Electrical Industry Inc, labels: KOEI-R-A, ISIN: HRKOEIRA0009, included in the Official Market of the Zagreb Stock Exchange Inc.

The specialist trade service includes a simultaneous display of purchase orders and orders for sale of the company shares in accordance with the Rules of the Zagreb Stock Exchange.

KONČAR Group subsidiaries: KONČAR - Distribution and Special Transformers and KONČAR - Switchgear, are included in the quotation of the Zagreb Stock Exchange Regular Market.

In 2016, ordinary and preference shares of KONČAR - Distribution and Special Transformers Inc. listed on the Zagreb Stock Exchange regular market were traded. At the beginning of the year the price of an ordinary share of KONČAR - Distribution and Special Transformers Inc. amounted to HRK 1,250, which at the end of the year was HRK 1,530.

The shares of KONČAR - Switchgear were not traded in 2016.

Shares of KONČAR - Instrument Transformers Inc. are included in the OTP Transaction (OTP) Multilateral Trading Platform of the Zagreb Stock Exchange. In 2016, the price of preferred shares of KONČAR - Instrument Transformers traded ranged from HRK 1248.50 to 1.420.

On 31 December 2016, the Company owned 5,861 shares, accounting for 0.23 percent of the company's equity.

Company's ownership structure is as follows:

Company's Ownership Structure

	31 Dec 2016		31 Dec 2015	
Stakeholder	Number of shares	Ownership stake	Number of shares	Ownership stake
HPB Inc. (Capital Fund)	724,515	28.17	724,515	28.17
Addiko Bank Inc. / PBZ Croatia Osiguranje OMF	420,928	16.37	255,928	9.95
Societe Generale - Splitska banka Inc. / AZ Compulsory Pension Fund	377,429	14.67	161,110	6.26
Societe Generale - Splitska banka Inc. / Erste Plavi Compulsory Pension Fund	359,239	13.97	202,149	7.86
State Property Ministry / Republic of Croatia	60,000	2.33	117,982	4.59
Restructuring and Sale Centre / Republic of Croatia	57,982	2.25	527,556	20.51
Floričić Kristijan	50,714	1.97	60,714	2.36
Addiko Bank Inc. / RBA Compulsory Pension Fund	48,291	1.88	28,491	1.11
PBZ Inc. / custodial account	29,050	1.13	30,208	1.17
Other stakeholders	439,110	17.03	457,605	17.79
KONČAR Inc. / treasury stock /	5,861	0.23	5,861	0.23
TOTAL	**2.572.119**	**100,00**	**2.572.119**	**100,00**

9. Employees

The starting point of KONČAR's strategic business thinking is that its employees constitute the company's core asset. That coupled with the fact that the entire operations depend on the involvement of each and every employee made KONČAR decide to base its competitiveness upon the experience, knowhow and innovativeness of the staff.

On 31 December 2016 and 2015, the Company had 48 and 50 employees, respectively.

Structure of employees	31 Dec 16	31 Dec 15
PhD	1	1
Masters of science	13	12
University degree	22	24
Polytechnic degree	8	7
High-school degree	3	5
Primary education	1	1
Total number of employees	48	50

10. Quality and Environment

An integral part of the KONČAR's business policy includes reaching client satisfaction through the delivery of high quality and reliable products, environmental protection and health as well as the safety of the employees. This policy is being met in all of the Group's subsidiaries via the application and certification of their management systems as per requirements of the international ISO 9001 Quality Management System, ISO 14001 Environmental Management System, OHSAS 18001 Occupational Health and Safety Management System and ISO 27001 Information Security Management System.

The ISO 9001 Quality Management Systems is certified in 15 Companies. The core purpose of the system has to do with the management of key processes that affect the quality of products or services aimed at reaching the client satisfaction. The ISO 9001 Certificate, issued by authorised independent certification institutions, provides clients with a degree of assurance concerning the capacity of an organisation to meet their demands. More and more, and especially during the prequalification process for contracting certain products, buyers audit their counterparties i.e. they carry out on-site verification of the quality of management system functions in order to be sure of the Company's capacity to deliver on their requirements and expectations.

The ISO 14001 Quality Management Systems is certified in 17 Companies. By applying this system the companies continuously monitor and analyse various aspects of the environment while performing their business activities, carrying out their processes, looking into the environmental impact of products and services they delivered, and taking adequate measures to mitigate any adverse effects. The ISO 14001 Certificate is issued by authorised independent certification institutions, which renders assurance to all stakeholders, ranging from central governments to local communities, of the Company's responsible behaviour towards the environment.

The OHSAS 18001 Occupational Health and Safety Management System is certified in eight Companies. By applying this system, companies have been continuously monitoring and analysing work place hazards and conducting measures for the prevention and mitigation of accidents which might lead to the loss of health and life as well as the loss of material goods. The OHSAS 18001 certificate issued by authorized independent certification institutions renders assurance to all stakeholders of the Company's conduct of legal and other measures aimed at the provision of safe working environment and work injury protection.

The ISO 27001 Information Security Management System is certified in two Companies. By applying this system, the Company achieves protection of the information system, property, and business information. The ISO 27001 Certificate by Certified Independent Certification Institutes proves that the information security management system provides data protection on the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces the risk of possible fraud, loss of information or unauthorized disclosure of information, improves organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

11. Corporate Social Responsibility

KONČAR complies with Corporate Social Responsibility principles in all segments. Relying on those principles the Group takes full responsibility for all processes and activities within the Group, so proactively with all stakeholders. More information is provided in the Corporate Social Responsibility Report which is being issued tenth year in a row and is published on KONČAR's web page www.koncar.com where it is available to all interested stakeholders. The report is prepared in accordance with the UN Global Compact principles and the Global Reporting Initiative (GRI G4) guidelines. Thus, KONČAR has been included in a small group of Croatian companies that have such reports.

Employees make the most significant part of every successful company, KONČAR included. Apart from unquestionable regular salary payments and meeting all legal obligations, a number of activities is conducted in terms of the permanent improvement of employees, work condition advancement, health prevention and organized recreation. In addition to the activities within the working hours, there are also joint activities organized such as the Christmas Futsal Tournament, which was participated by 26 teams from 14 KONČAR Groups in 2016, hiking, skiing trips etc. The KONČAR Pensioners' Club is organized for those who have ended their professional careers, with various cultural, social, humanitarian and other activities, while the "Homeland War Veterans Club" brings together participants of the Homeland War.

Environmental protection in production facilities and on sites where the equipment and products are installed is one of KONČAR's priorities; including quality control of input raw materials, components, production process as well as finished goods and plants.

Apart from the work process that encompasses the development, design, production and delivery of products, KONČAR takes care of the reduction of adverse impacts on the natural environment and numerous other activities. That is why the 2016 Earth Day was an opportunity for volunteer action by employees of "Let's Embellish our Environment", which was attended by many employees.

Social and humanitarian sensitivity to the youngest generation has been demonstrated by a series of activities and financial support for the most demanding activities and groups. One of them is a donation on KONČAR's Day. In 2016, these funds were used to renovate elevators at the Zagreb Children's Hospital, the only independent hospital for children and teenagers in the Republic of Croatia.

All forms of school and out-of-school children and youth activities, as well as the social-humanitarian support, are a part of the community's cooperation that has continued successfully in 2016.

Encouraging young people's creativity, as well as sports activities, clubs of 'less commercial' sports have remained in focus through various forms of support for creating the best quality content. One of these activities is the support provided to the KONČAR Chess Club, one of the oldest in Croatia, which regularly participates in competitions in various categories, and organizes a free chess school for the employees' children.

12. Business Plan for 2017

Business Plan for 2017 was adopted at the Supervisory Board meeting held on 15 December 2016.

In 2017, KONČAR - Electrical Industry Inc. is planning to achieve a positive financial result of HRK 90.8 million. Total revenues and expenses were planned in the amount of HRK 171.7 million and HRK 80.9 million, respectively.

Total operating income and expenses are planned in the amount of HRK 55.2 million and HRK 80.9 million, respectively.

Financial revenues are planned in the amount of HRK 116.6 million. They consist of dividends from the business results of the Group companies for 2016 in the amount of HRK 42.4 million, income from the share of the profit of affiliated KONČAR - Power Transformers Ltd. for the period from October 2016 to September 2017 in the amount of HRK 71.0 million, interest on time deposits and other placements in the amount of HRK 1.5 million and interest on domestic loans of HRK 1.7 million.

13. Future Development Strategy

The KONČAR Group's development strategy is based on the fact that KONČAR's priority task is to produce the most complex products for the end customer in its area of core business of electrical energy and transport. Comprehensive products such as high voltage substations, hydro power plants, wind power plants, trams, electric and diesel-electric multiple units and alike are included in this category.

The strategy is based on the following settings and business orientations:

- Synergy - encouraging and optimizing the Group's joint business processes,
- Investments - expansion of production capacity of strategic parts of products, optimization of existing resources,
- Restructuring of non-core businesses,
- Production - individual products of high degree complexity and added value,
- Product development - own development in cooperation with scientific institutions and increasing the share of knowledge in products and service,
- Strengthening exports - increasing export/domestic market share,
- Human resources management - targeted education for own needs, scholarships, specialist education, scientific education,
- Social responsibility and stakeholder responsibility - stronger involvement in all the Company's operations, especially in environmental related activities.

Closing remark

From the reporting date until the date of adopting financial statements, there were no events which might have significantly impacted the Company's 2016 financial reports, which publication would be required as a consequence.

Darinko Bago, Chairman of the Management Board

Jozo Miloloža, Member of the Management Board

Marina Kralj Miliša, Member of the Management Board

Davor Mladina, Member of the Management Board

Miroslav Poljak, Member of the Management Board

Miki Huljić, Member of the Management Board

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8

publisher: KONČAR - Electrical Industry Inc.
design: Studio Prodomo

KONČAR - Electrical Industry Inc.
Fallerovo šetalište 22, 10000 Zagreb, Croatia

www.koncar.com