

**BOARD'S REPORT ON MANAGEMENT OF KONČAR GROUP
FOR THE PERIOD JANUARY-JUNE 2016**

Končar Group consists of KONČAR - ELECTRICAL INDUSTRY Inc. as the parent company and 17 related companies in which the parent company has a controlling influence (more than 50% of the votes in the General Assembly). In part of the companies, apart from common shares, regular shares were also subscribed. In addition, the parent company exercises minority managerial influence (49% of the votes in the General Assembly) in an (associated) company.

Companies within the Group are legally independent companies and the parent company supervises them, directs them strategically and supports them through supervisory boards and companies' assemblies in accordance with the Companies Act, the Statutes of KONČAR - ELECTRICAL INDUSTRY Inc. and the statutes of the companies. The parent company also manages part of the assets not invested in the companies, but is directly or indirectly in function of financial support of sales, products and equipment of associated companies as a credit - guarantee potential.

Potential liabilities of KONČAR - Electrical Industry Inc. for the total issued guarantees on the date 30 June 2016 amounted to 581.8 million HRK, which is a decrease in the amount of 117.2 million HRK compared to 31 December 2015.

The reduction applies to payment and performance guarantees of the company KONČAR - Electric Vehicles Inc. in the amount of 165.4 million HRK, and the reduction of guarantees for loans of associated companies in the amount of 28.1 million HRK with an increase in performance guarantees of KONČAR - Power Plant and Electric Traction Engineering Inc. in the amount of HRK 68.8 million HRK and other companies in the amount of 7.5 million HRK.

The share of performance guarantees in the total guarantees and joint and several guarantees amounts to 432.8 million HRK.

The activity of Končar Group is divided into the following business areas:

- **Energy and Transport:** designing and construction of plants and equipment for the generation, transmission and distribution of electricity, electric locomotives, electric trains, trams and electric equipment for stable electric traction plants.
- **Manufacturing:** electric motors, low voltage electrical equipment.
- **Trade:** electric household appliances, serial products and low voltage electric apparatus.
- **Special activities:** research and development of products and infrastructure services.

Changes in ownership structure

In May 2016 Restructuring and Sale Centre published an invitation for expression of interest and submission of binding offers for the purchase of 526,926 shares of Končar - Electrical Industries Inc property of the Republic of Croatia and the Croatian Pension Insurance Institute. The shares constitute 20.49% of the share capital of the Company.

After the sale of shares there have been significant changes in the ownership structure of the Company. Share ownership of Addiko bank d.d. / PBZ CO OMF - category B increased from 9.95% to 16.37%, the share ownership of Societe Generale - Splitska Banka dd / AZ OMF-category B increased from 6,84% to 14.50%, the share ownership of Societe Generale - Splitska Banka dd / Erste plavi OMF-category B increased from 7.86% to 13.97%. Valmar Riviera d.d. left the group of ten largest shaerholders and Addiko banks d.d./OMF-category B (1.88%) and Zagrebacka Banka d.d./AZ Profit Voluntary Pension Fund (1.12%) entered that group. The share ownership of the State Administrative Office for State Property Management / Republic of Croatia was reduced from 4.58% to 2.33%.

After the sale of shares, the ownership structure of the company is as follows:

Account holder	Number of shares	Ownership share (%)
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17
ADDIKO Bank d.d./ PBZ Croatia Osiguranje – Mandatory pension fund	420,928	16.37
Societe Generale - Splitska banka d.d./ AZ Mandatory pension fund	372,911	14.50
Societe Generale - Splitska banka d.d./ Erste Plavi mandatory pension fund	359,239	13.97
State Administrative Office for State Property Management/Republic of Croatia	60,000	2.33
Restructuring and Sale Centre/Republic of Croatia	57,982	2.25
Floričić Kristijan	50,714	1.97
ADDIKO d.d./ Raiffeisen - Mandatory pension fund	48,291	1.88
PBZ d.d. / skrbnički račun	30,435	1.18
Zagrebačka banka d.d./ AZ Profit Voluntary pension fund	28,928	1.12
Other shareholders	412,315	16.03
Končar d.d. / treasury shares /	5,861	0.23
TOTAL	2,572,119	100.00

Management Board

The President and Board members are appointed and removed by the Supervisory Board. The term of office of the President and Board members is 5 years, after which they can be reappointed. According to the Companies Act and the Articles of Association the Management Board manages affairs on its own responsibility, and it is obliged and authorized to take all actions and decisions it deems necessary for the successful management of the Company. For certain decisions, as prescribed by the Articles of Association the consent of the Supervisory Board is required.

The Company Končar - Electrical Industries Inc. is managed by the Board consisting of:

Darinko Bago	President of the Management Board
Marina Kralj Miliša	Board member responsible for legal activities, general administrative services and human resources
Jozo Miloloža	Board member responsible for finance
Davor Mladina	Board member responsible for transmission and distribution of electrical energy, industry and trade
Miroslav Poljak	Board member responsible for electrical energy production, corporate development and ICT

***Note:** At the Supervisory Board meeting held on 20 July 2016 at the proposal of the Chairman of the Board, former deputy member of the Board Miki Huljić was appointed a member of the Board of Končar - Electrical Industry Inc.*

Supervisory Board

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry Inc, the General Assembly makes the decisions on election and recall of the Supervisory Board. The Supervisory Board is responsible for appointing and removing members of the Management Board and for supervising the operations of the Company. Significant transactions and business decisions (the amount of transactions determined by the Rules of Procedure of the Supervisory Board and the Articles of Association of associated companies) require the consent of the Supervisory Board.

Until the expiration of the mandate of the Supervisory Board members Vicko Ferić, Nenad Filipović, Petar Mišura, Dragan Marčinko and Nikola Plavec on 3 July 2016, the Supervisory Board was composed of:

Nenad Filipović	Chairman of the Supervisory Board
Jasminka Belačić	Vice Chairman 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

General Assembly held on 12 July 2016 adopted a decision on the election of the Supervisory Board members. The elected members of the Supervisory Board are the following: Vicko Ferić, Branko Lampl, Petar Vlaić, Josip Lasić, Josko Miliša and Nikola Anić. The Supervisory Board members were elected for a term of four years which starts on 12 July 2016. The association of small shareholders appointed Vladimir Withers as their representative in the Supervisory Board. The member of the Supervisory Board appointed by the workers is Jasminka Belačić.

Members of the Supervisory Board accepted the proposal to elect Petar Vlaić for the Chairman of the Supervisory Board, and Josip Lasić for the Vice Chairman of the Supervisory Board.

KONČAR GROUP BUSINESS ACTIVITY January – June 2016

Končar Group companies achieved for the period of January – June 2016 consolidated income from the sales of products and services in the amount of 1246.2 million HRK. Operating income amounted to 1,305.2 million HRK. As part of the operating income, the income from sales of goods and services amounted to 1,246.2 million or 95.4% of total operating income.

Operating expenses were in the amount of 1,253.6 million HRK.

The difference between operating income and expenses is the income from operations in the amount of 51.6 million HRK, which is 1.6 million HRK or 3.1% higher than achieved in the period January – June 2015.

Profit from operating activities in the amount of 51.6 million HRK, share of profit from associates in the amount of 23.9 million HRK and a negative spread of financial income and expenses in the amount of 3.4 million HRK results in consolidated profit before tax of 72.1 million HRK. Advance payment of income tax is 14.4 million HRK, profit after tax amounts to 57.7 million HRK in which 14 million HRK belong to non-controlling interests (minority interest) and 43.7 million HRK belong to the owners of shares of the parent company.

Of the 18 Končar Group companies, 17 companies operated positively and one company reported a loss in the amount of 5 million HRK, of which HRK 4.9 million HRK belongs to owners of shares of the parent company.

On the national market, revenues from sales of products and services amounted to 653.2 million HRK. Sales of goods and services to foreign markets amounted to 593 million HRK. The share of export in the total sales of products and services is 48%.

The most important export was realised on the markets of the EU countries in the amount of 331.9 million HRK or 56% of total export. Goods and services in the amount of 52 million HRK or 9% of total export were exported to the neighboring countries (Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Albania). Exports worth 47.3 million HRK or 8% of total exports were destined to Asian countries. In the first half of this year Končar Group companies exported goods and services to 77 countries around the world.

The most important export was realized in Sweden in the amount of 68.4 million HRK or 11.5% of total exports, in Germany 56.1 million HRK, in Slovenia 41.7 million HRK, Italy 39.6 million HRK, Austria 29.8 million HRK, and the Netherlands 26 million HRK.

Compared to the same period last year a significant increase in revenue from sales of goods and services exports was recorded for the markets of Slovenia (33.8 million HRK more), Sweden (15.9 million HRK more), Serbia (12.5 million HRK more) and Zambia (12.3 million HRK more).

During the period January – June 2016 Končar Group companies signed new contracts worth 1462.2 million HRK. Of the total amount of contracted projects, 699.5 million HRK (48% of total contracted projects) is for the national market and 762.7 million HRK (52% of total contracted projects) relates to contracts in exporting.

The largest part of the contracts on the national market for the period January – June 2016 refers to companies within the HEP Group (HEP Generation, HEP - Distribution System Operator, HOPS) in the amount of 253.4 million HRK or 36% of the new contracted jobs on the national market. Among other buyers on the national market, the important contracts are with Zagreb Holding (ZET) in the amount of 60.6 million HRK, Brodomercur in the amount of 41.7 million HRK, Croatian Waters 27.3 million HRK and Elektro Merkur in the amount of 19.1 million HRK.

The largest part of the contracted projects (13.5%) on the international market for the period January – June 2016 refers to the German market and amounts to 102.8 million HRK (contracts of the companies Končar - Končar-Distribution and Special Transformers, Steel Structures, Small Electrical Machines). 94 million HRK worth of contracts was signed for the Swedish market (Končar - Distribution and Special Transformers and Končar - Generators and motors), El Salvador (contract for HPP Chaparral, the companies involved are Končar Power Plant and Electric Traction Engineering and Končar - Generators and motors). 48 million HRK worth of contracts was signed for the market of Finland (Končar - Generators and motors and Distribution and special transformers). The worth of new contracts for the Austrian market for the period January – June 2016 is 42.4 million HRK (for the most part related to Končar - Distribution and Special Transformers and KONČAR - Steel Structures). Considering other countries, significant contracts were signed for the market of Italy (36.1 million HRK), Netherlands (27.2 million HRK), Bosnia and Herzegovina (24.2 million HRK) and Algeria (20.5 million HRK).

According to the dynamics of delivery, 828.9 million HRK worth new projects were contracted to be implemented in 2017 and 633.5 million HRK worth new projects was contracted for implementation in subsequent years.

The status of contracted projects (active liabilities) at the end of June 2016 amounted to 3,675.6 million HRK which is 6% more than the status of contracts at the beginning of the year.

In the structure of funding sources, subscribed capital, reserves, retained income, profit for the year and equity attributable to non-controlling interests amounts to 2,359.7 million HRK, which is 38.2 million HRK more compared to the state as of 31 December 2015 and makes 64.2% of total sources.

Long-term sources of funds (capital, long-term reservations and long-term liabilities) are larger by 622.2 million HRK compared to fixed assets and average stock. Current assets are 2.8 times larger in relation to short-term liabilities. The consolidated balance sheet indicates the equilibrium of funds and investments.

Signed on behalf of the Management Board:

Končar – Electrical Industry Inc.

President of the Management Board
Darinko Bago

27 July 2016

**STATEMENT OF THE PERSONS RESPONSIBLE FOR THE PREPARATION OF CONSOLIDATED
STATEMENTS OF KONČAR GROUP**

This statement of the Management Board of Končar - Electrical Industries Inc., Zagreb is given related to the preparation and publication of the consolidated financial statements of the Končar Group January – June 2016.

Financial statements have been prepared in accordance with International Financial Reporting Standards applicable in the European Union.

According to our best knowledge, the consolidated financial statements, give a true and fair view of the balance sheet, income statement, cash flow and statement of changes to capital of the Končar Group.

Signed on behalf of the Management Board:

Končar – Electrical Industry Inc.
President of the Management Board
Darinko Bago

27 July 2016

- Note:

The consolidated financial statements have been prepared by Končar - Electrical Industries Inc.

Contact person:

Ervin Filipčić , head of Management Board Office, ervin.filipcic@koncar.hr

Marina Markušić, accounting specialist, marina.markusic@koncar.hr

Vesna Ilić, Accounting Department Manager, vesna.ilic@koncar.hr

Appendix 1

Reporting period:

1.1.2016

to

30.6.2016

Quarterly financial report of entrepreneur TFI-PODRegistration number (MB) **03282635**Identification number of subject (MBS) **080040936**Personal identification number (OIB) **45050126417**Issueer company: **KONČAR - ELECTRICAL INDUSTRY Inc.**Postal code and place **10000****ZAGREB**Street and number **FALLEROVO ŠETALIŠTE 22**E-mail address: **koncar.finance@koncar.hr**Internet address: **www.koncar.hr**Code and name of comune/town **133 ZAGREB**Code and county name **21 GRAD ZAGREB**Number of employees **3.630**
(at quarter end)Consolidated statement **YES**NKD/NWC code: **2711**

Subsidiaries subject to consolidation (according to IFRS

in appendix

Registration number:

Končar - Energetika i usluge d.o.o	Zagreb	1343068
Končar - Institut za elektrotehniku d.d.	Zagreb	3645363
Končar - Elektronika i informatika d.d.	Zagreb	3282899
Končar - Mali električni strojevi d.d.	Zagreb	3282678
Končar - Generatori i motori d.d.	Zagreb	1356216
Končar - Obnovljivi izvori d.o.o.	Zagreb	2435071
Končar - Mjerni transformatori d.d.	Zagreb	3654656
Končar - Distributivni i specijalni transform. d.d.	Zagreb	3654664
Končar - Električni aparati srednjeg napona d.d.	Zagreb	3641287
Končar - Električna vozila d.d.	Zagreb	3282660
Končar - Sklopna postrojenja d.d.	Sesvetski Kraljevec	3641279
Končar - Kućanski aparati d.o.o.	Zagreb	1403222
Končar - Električni visokonaponski aparati d.d.	Zagreb	3641252
Končar - Niskonaponske sklopke i prekidači d.o.o.	Zagreb	3228398
Končar - Montažni inženjering d.d.	Zagreb	3654362
Končar - Inženjering za energetiku i transport d.d.	Zagreb	3654354
Končar - Metalne konstrukcije d.d.	Zagreb	1114328

Book keeping service:

Contact person: **Marina Markušić**

(fill in only surname and name of contact person)

Phone number: **01 3667175**Fascimile: **01 3655377**E-mail address: **marina.markusic@koncar.hr**Surname and name **DARINKO BAGO**

(authorised person for representation)

Disclosure documents:

1. Financial statements (balance sheet, profit and loss account, cash flow statement, statement of changes in shareholders' equity and notes to the financial statements)
2. Report of the Management Board on position of the Company
3. Statement of responsible persons for preparation of financial statements

M.P.

(signed by authorised person for representation)

Balance Sheet
as of 30.6.2016

Company: Končar - Electrical Industry Inc.			
Position	AOP	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	1.503.356.747	1.527.639.103
I. INTANGIBLE ASSETS (004 do 009)	003	61.269.128	54.731.992
1. Expenditure for development	004	41.142.345	33.470.744
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	6.240.755	7.114.636
3. Goodwill	006	7.980.446	7.980.446
4. Advances for purchase of intangible assets	007	0	0
5. Intangible assets in progress	008	5.500.867	5.737.637
6. Other intangible assets	009	404.715	428.529
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	010	1.148.361.935	1.154.436.216
1. Land	011	148.676.673	148.137.183
2. Buildings	012	339.602.117	334.476.473
3. Plant and equipment	013	389.848.707	412.235.404
4. Tools, working inventory and transportation assets	014	69.646.340	67.497.728
5. Biological assets	015	0	0
6. Advances for purchase of tangible assets	016	2.209.211	4.927.710
7. Tangible assets in progress	017	54.021.489	25.502.295
8. Other tangible assets	018	571.342	584.884
9. Investment in real-estate	019	143.786.056	161.074.539
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	020	276.130.123	302.244.859
1. Share in related parties	021	290.067	289.395
2. Loans to related parties	022	0	0
3. Participating interests (shares)	023	3.525.043	3.524.544
4. Loans to companies with participating interest	024	0	0
5. Investments in securities	025	2.045.946	1.465.417
6. Loans, deposits, etc.	026	5.421.451	7.448.106
7. Other non-current financial assets	027	1.110.535	2.058.485
8. Equity-accounted investments	028	263.737.081	287.458.912
IV. RECEIVABLES (030 do 032)	029	17.595.561	16.226.036
1. Receivables from related parties	030	0	0
2. Receivables arising from sales on credit	031	11.143.191	9.788.322
3. Other receivables	032	6.452.370	6.437.714
V. DEFERRED TAX ASSET	033	0	0
C) CURRENT ASSETS (035+043+050+058)	034	2.134.604.477	2.135.378.914
I. INVENTORIES (036 do 042)	035	508.629.833	636.572.255
1. Raw materials and supplies	036	279.934.355	270.460.587
2. Production in progress	037	132.820.941	212.769.445
3. Finished products	038	63.566.763	73.747.044
4. Merchandise	039	21.424.308	17.915.161
5. Advances for inventories	040	4.923.466	52.904.160
6. Long term assets held for sale	041	5.960.000	8.775.858
7. Biological assets	042	0	0
II. RECEIVABLES (044 do 049)	043	879.781.542	699.560.820
1. Receivables from related parties	044	85.012.340	47.772.643
2. Receivables from end-customers	045	720.175.786	582.256.406
3. Receivables from participating parties	046	0	0
4. Receivables from employees and members of the company	047	2.116.894	1.623.243
5. Receivables from government and other institutions	048	29.742.785	44.394.935
6. Other receivables	049	42.733.737	23.513.593
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	399.573.719	407.682.684
1. Share in related parties	051	0	0
2. Loans to related parties	052	0	0
3. Participating interests (shares)	053	0	0
4. Loans to companies with participating interest	054	0	0
5. Investments in securities	055	0	0
6. Loans, deposits, etc.	056	398.936.121	407.175.174
7. Other financial assets	057	637.598	507.510
IV. CASH AND CASH EQUIVALENTS	058	346.619.383	391.563.155
D) PREPAYMENTS AND ACCRUED INCOME	059	12.077.169	9.577.245
E) TOTAL ASSETS (001+002+034+059)	060	3.650.038.393	3.672.595.262
F) OFF BALANCE SHEET ITEMS	061	2.091.669.212	1.977.751.543

EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	2.321.496.034	2.359.666.085
I. SUBSCRIBED SHARE CAPITAL	063	1.208.895.930	1.208.895.930
II. CAPITAL RESERVES	064	719.579	719.579
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	483.175.793	557.213.104
1. Legal reserves	066	47.810.318	52.743.738
2. Reserve for own shares	067	4.143.784	4.143.784
3. Treasury shares and shares (deductible items)	068	4.143.784	4.143.784
4. Statutory reserves	069	359.980.956	391.309.536
5. Other reserves	070	75.384.519	113.159.830
IV. REVALUATION RESERVES	071	530.629	549.795
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	272.108.024	324.340.505
1. Retained earnings	073	272.108.024	324.340.505
2. Loss carried forward	074	0	0
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	127.651.294	43.626.958
1. Net profit for the period	076	127.651.294	43.626.958
2. Net loss for the period	077	0	0
VII. MINORITY INTEREST	078	228.414.785	224.320.214
B) PROVISIONS (080 do 082)	079	297.950.535	283.426.167
1. Provisions for pensions, severance pay and similar liabilities	080	26.165.515	25.839.988
2. Provisions for tax liabilities	081	0	0
3. Other provisions	082	271.785.020	257.586.179
C) NON-CURRENT LIABILITIES (084 do 092)	083	143.126.007	143.284.930
1. Liabilities to related parties	084	0	0
2. Liabilities for loans, deposits, etc.	085	0	0
3. Liabilities to banks and other financial institutions	086	142.988.558	143.127.234
4. Liabilities for advances	087	0	0
5. Trade payables	088	0	0
6. Commitments on securities	089	0	0
7. Liabilities to companies with participating interest	090	0	0
8. Other non-current liabilities	091	0	20.247
9. Deferred tax liabilities	092	137.449	137.449
D) CURRENT LIABILITIES (094 do 105)	093	758.043.917	756.805.668
1. Liabilities to related parties	094	18.304.764	12.108.647
2. Liabilities for loans, deposits, etc.	095	0	0
3. Liabilities to banks and other financial institutions	096	87.973.492	113.489.504
4. Liabilities for advances	097	182.349.546	240.830.668
5. Trade payables	098	349.049.822	306.312.637
6. Commitments on securities	099	0	0
7. Liabilities to companies with participating interest	100	0	0
8. Liabilities to employees	101	34.866.404	34.858.512
9. Taxes, contributions and similar liabilities	102	54.914.602	39.645.964
10. Liabilities arising from share in the result	103	547.066	769.291
11. Liabilities arising from non-current assets held for sale	104	0	0
12. Other current liabilities	105	30.038.221	8.790.445
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	129.421.900	129.412.412
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	3.650.038.393	3.672.595.262
G) OFF BALANCE SHEET ITEMS	108	2.091.669.212	1.977.751.543
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109	2.093.081.249	2.135.345.871
2. Attributable to minority interest	110	228.414.785	224.320.214

Income statement
period 1.1.2016 to 30.6.2016

Company: Končar -Electrical Industry Inc.

Position	AOP	Previous period		Current period	
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 do 113)	111	1.555.467.611	863.854.371	1.305.185.054	661.552.103
1. Rendering of services	112	1.513.094.840	846.906.567	1.246.191.710	627.283.867
2. Other operating income	113	42.372.771	16.947.804	58.993.344	34.268.236
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114	1.505.418.911	839.462.879	1.253.577.722	643.262.443
1. Change in inventories of work in progress	115	8.315.820	41.600.193	-90.246.889	-26.845.821
2. Material expenses (117 do 119)	116	1.043.721.438	556.498.940	915.800.009	464.499.956
a) Costs of raw materials	117	815.502.900	437.737.235	665.324.852	336.900.607
b) Cost of goods sold	118	79.696.377	39.720.801	112.800.587	55.388.682
c) Other material expenses	119	148.522.161	79.040.904	137.674.570	72.210.667
3. Employee benefits expenses (121 do 123)	120	244.217.620	124.855.799	257.594.284	131.934.953
a) Net salaries	121	140.330.828	71.643.557	147.175.581	74.663.998
b) Tax and contributions from salary expenses	122	69.886.353	35.811.772	74.680.626	39.209.550
c) Contributions on salary	123	34.000.439	17.400.470	35.738.077	18.071.405
4. Depreciation and amortisation	124	43.910.465	21.774.310	47.837.157	22.800.988
5. Other expenses	125	103.245.251	54.611.023	95.491.406	47.949.589
6. Write down of assets (127+128)	126	6.036.831	4.148.028	4.359.329	2.595.572
a) non-current assets (except financial assets)	127	0	0	0	0
b) current assets (except financial assets)	128	6.036.831	4.148.028	4.359.329	2.595.572
7. Provisions	129	42.347.082	34.937.895	18.265.367	-2.291.166
8. Other operating costs	130	13.624.404	1.036.691	4.477.059	2.618.372
III. FINANCIAL INCOME (132 do 136)	131	30.013.008	9.433.207	22.539.615	10.756.999
1. Interest, foreign exchange differences, dividends and similar income from related parties	132	66.861	52.034	247.391	112.194
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	29.632.097	9.180.465	21.193.214	9.599.919
3. Income from investments in associates and joint ventures	134	0	0	0	0
4. Unrealised gains (income) from financial assets	135	0	0	0	0
5. Other financial income	136	314.050	200.708	1.099.010	1.044.886
IV. FINANCIAL EXPENSES (138 do 141)	137	41.835.806	19.242.179	25.970.201	10.154.085
1. Interest, foreign exchange differences, dividends and similar income from third parties	138	82.828	62.596	341.710	141.563
2. Interest, foreign exchange differences, dividends and similar income from third parties	139	41.555.268	19.174.945	25.455.380	9.846.582
3. Unrealised losses (expenses) from financial assets	140	0	0	0	0
4. Other financial expenses	141	197.710	4.638	173.111	165.940
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142	22.906.512	9.129.733	23.904.671	15.627.504
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143	0	0	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	0	0	0
IX. TOTAL INCOME (111+131+144)	146	1.608.387.131	882.417.311	1.351.629.340	687.936.606
X. TOTAL EXPENSES (114+137+143+145)	147	1.547.254.717	858.705.058	1.279.547.923	653.416.528
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	61.132.414	23.712.253	72.081.417	34.520.078
1. Profit before taxes (146-147)	149	61.132.414	23.712.253	72.081.417	34.520.078
2. Loss before taxes (147-146)	150	0	0	0	0
XII. TAXATION	151	11.700.577	6.428.484	14.427.438	6.227.076
XII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	49.431.837	17.283.769	57.653.979	28.293.002
1. Profit for the period (149-151)	153	49.431.837	17.283.769	57.653.979	28.293.002
2. Loss for the period (151-148)	154	0	0	0	0
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	155	37.091.895	12.560.924	43.626.958	19.848.828
2. Attributable to minority interest	156	12.339.942	4.722.845	14.027.021	8.444.174
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)					
I. PROFIT OR LOSS FOR THE PERIOD (=152)	157	49.431.837	17.283.769	57.653.979	28.293.002
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO 166)	158	4.734.344	1.273.815	31.048	0
1. Exchange differences from international settlement	159	0	0	31.048	0
2. Changes in revaluation reserves of long-term tangible and intangible	160	0	0	0	0
3. Profit or loss from re-evaluation of financial assets held for sale	161	0	0	0	0
4. Profit or loss from cash flow hedging	162	4.734.344	1.273.815	0	0
5. Profit or loss from hedging of foreign investments	163	0	0	0	0
6. Share of other comprehensive income/loss from associated	164	0	0	0	0
7. Actuarial gains/losses from defined benefit plans	165	0	0	0	0
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166	0	0	0	0
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 TO 166)	167	4.734.344	1.273.815	31.048	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	54.166.181	18.557.584	57.685.027	28.293.002
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)					
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	169	39.540.116	13.219.638	43.646.124	19.848.828
2. Attributable to minority interest	170	14.626.065	5.337.946	14.038.903	8.444.174

STATEMENT OF CASH FLOWS - Direct method
period 1.1.2016 to 30.6.2016

Legal entity: Končar Electrical Industry Inc.			
Position	AOP	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash receipts from customers	001	1.600.536.311	1.516.868.870
2. Cash receipts from royalties, fees, commissions, etc.	002	0	0
3. Cash receipts from insurance for damages compensation	003	2.611.209	3.825.736
4. Cash receipts arising from tax refunds	004	41.723.400	41.871.551
5. Other cash receipts	005	19.583.570	32.253.001
I. Total increase in cash flow from operating activities (001 to 005)	006	1.664.454.490	1.594.819.158
1. Cash paid to suppliers	007	1.237.484.078	1.101.987.243
2. Cash paid to employees	008	286.465.974	289.967.181
3. Cash outflows for insurance for damages compensation	009	14.516.057	4.380.098
4. Interest paid	010	6.102.080	4.656.859
5. Tax paid	011	54.122.522	93.494.040
6. Other cash outflows	012	67.550.407	62.854.786
II. Total decrease in cash flow from operating activities (007 to 012)	013	1.666.241.118	1.557.340.207
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	014	0	37.478.951
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	015	1.786.628	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash flow from sale of long - term tangible and intangible assets	016	1.095.733	4.743.263
2. Cash inflows from sale of equity and debt financial instruments	017	4.581.840	6.653.423
3. Interest receipts	018	0	0
4. Dividend receipts	019	61.220.356	49.366.923
5. Other cash inflows from investing activities	020	0	0
III. Total cash inflows from investing activities(016 to 020)	021	66.897.929	60.763.609
1. Cash outflows for purchase of long - term tangible and intangible assets	022	41.631.084	48.046.883
2. Cash outflows for purchase of equity and debt financial instruments	023	2.873.612	3.156.068
3. Other cash outflows from investing activities	024	0	0
IV. Total cash outflows from investing activities (022 to 024)	025	44.504.696	51.202.951
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	026	22.393.233	9.560.658
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	027	0	0
CASH FLOW FROM FINANCING ACTIVITIES			
1. Cash receipts from issuance of equity and debt financial instruments	028	0	0
2. Cash inflows from loans, debentures, credits and other borrowings	029	29.516.698	65.129.772
3. Other cash inflows from financing activities	030	260.235.731	119.344.929
V. Total cash inflows from financing activities (028 to 030)	031	289.752.429	184.474.701
1. Cash outflows for repayment of loans and bonds	032	60.820.766	36.954.871
2. Dividends paid	033	49.410.984	16.291.608
3. Cash outflows for finance lease	034	0	0
4. Cash outflows for purchase of own stocks	035	0	0
5. Other cash outflows from financing activities	036	141.330.575	133.324.059
VI. Total cash outflows from financing activities (032 to 036)	037	251.562.325	186.570.538
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	038	38.190.104	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	039	0	2.095.837
Total increases of cash flows (014 – 015 + 026– 027 + 038 – 039)	040	58.796.709	44.943.772
Total decreases of cash flows (015 – 014 + 027– 026 + 039 – 038)	041	0	0
Cash and cash equivalents at the beginning of period	042	391.253.751	346.619.383
Decrease in cash and cash equivalents	043	58.796.709	44.943.772
Increase in cash and cash equivalents	044	0	0
Cash and cash equivalents at the end of period	045	450.050.460	391.563.155

STATEMENT OF CHANGES IN EQUITY

period 1.1.2016 to 30.6.2016

Legal entity: Končar Electrical Industry Inc.

	Position			
	1	2	3	4
1. Subscribed share capital		1.297.613.140	1.298.064.820	1.298.064.820
2. Capital reserves		719.579	719.579	719.579
3. Reserves from profit		587.584.450	670.308.864	670.308.864
4. Retained earnings or loss carried forward		283.739.756	332.369.048	332.369.048
5. Net profit or loss for the period		151.320.372	57.653.979	57.653.979
6. Revaluation of tangible assets		0	0	0
7. Revaluation of intangible assets		0	0	0
8. Revaluation of available for sale assets		549.795	549.795	549.795
9. Other revaluation		-31.058	-31.058	-31.058
10. Total equity and reserves (AOP 001 to 009)		2.321.496.034	2.359.666.085	2.359.666.085
11. Foreign exchange differences from foreign investments		-31.058	31.058	31.058
12. Current and deferred taxes		0	0	0
13. Cash flow hedge		4.734.344	4.734.344	4.734.344
14. Change of accounting policies		0	0	0
15. Correction of significant mistakes of prior period		0	0	0
16. Other changes		31.787.910	38.138.993	38.138.993
17. Total increase or decrease of equity (AOP 011 to 016)		36.491.196	38.170.051	38.170.051
17 a. Attributable to majority owners		65.465.782	42.264.622	42.264.622
17 b. Attributable to minority interest		-28.974.586	-4.094.571	-4.094.571

Notes to the consolidated financial reports

Taxpayer: 03282635 Končar Electrical Industry Inc.

1. Distribution of shares

There has been no distribution of shares.

2. Earnings per share

Earnings per share for the period January - June 2016 are HRK 17.00 and are higher than earnings per share during the same period of the previous year by HRK 2.55.

3. Changes in ownership structure

After Restructuring and Sale Centre that represents the Republic of Croatia published an invitation for expression of interest and submission of binding offers for the purchase of shares of Končar - Electrical Industries Inc property of the Republic of Croatia and the Croatian Pension Insurance Institute in May 2016 a,d after the sale of shares, there have been significant changes in the ownership structure. Share ownership of Addiko bank d.d. / PBZ CO OMF - category B increased from 9.95% to 16.37%, the share ownership of Societe Generale - Splitska Banka dd / AZ OMF-category B increased from 6.84% to 14.50%, the share ownership of Societe Generale - Splitska Banka dd / Erste plavi OMF-category B increased from 7.86% to 13.97%. Valmar Riviera d.d. left the group of ten largest shaerholders and Addiko banks d.d./OMF-category B (1.88%) and Zagrebacka Banka d.d./AZ Profit Voluntary Pension Fund (1.12%) entered that group. The share ownership of the State Administrative Office for State Property anagement / Republic of Croatia was reduced from 4.58% to 2.33%, and the share ownership of Restructuring and Sale Centre /Republic of Croatia was reduced from 5.53% to 2.25%.

4. Mergers and acquisitions

There have been no new mergers and acquisitions.

5. Uncertainty (description of cases in which exists the uncertainty of collection of outstanding debts or possible future expenses)

There have been no significant uncertainties in collection or future expenses.

6. Business results

During the period January - June 2016, as opposed to the same period of the previous year, sales revenues (which make up for 92.2 per cent of the total revenues) decreased by 17.6 per cent, operational revenues (which make up for 96.6 per cent of the total revenues) decreased by 16.1 per cent, while total revenues decreased by 16.0 per cent. Total expenses decreased by 17.3 per cent in respect to the same period of last year, while operating expenses with changes in stock, which constitute 98.0 per cent of the total expenses, decreased by 16.7 per cent. Income from investment into affiliated companies increased by 4.4 per cent compared to the same period of last year. Financial incomes (which make up for 1.7 per cent of the total revenues) decreased by 24.9 per cent and financial expenses (which make up for 2.0 per cent of the total expenses) decreased by 37.9 per cent compared to the same period last year.

7. Products and services description

Production of electrical equipment for production, transmission and consumption of electrical energy, production of transport equipment.

8. Operating and other costs

For the period January - June of the year 2016, in comparison with the same period of last year, the share of material expenses in the operational revenue decreased by 2.3 percentage points, the costs of provisions decreased by 1.3 percentage point, the costs of value adjustment decreased by 0,1 percentage point and the share of other expenses decreased by 4.0 percentage points. The share of employees expenses (without remuneration of costs of employees) increased by 2.5 percentage points, the share of depreciation and amortisation increased by 0.6 percentage points.

9. Profit or loss

The profit of the Group after tax is HRK 57,65 million which is an increase of HRK 8.22 million compared to the same period of the previous year. The Group's net profit subscribed to the parent capital holders for the period January - June of the year 2016 amounts to HRK 43,63 million, which is an increase of HRK 6.53 million compared to the same period of the previous year.

Net profit subscribed to the minority interests amounts to HRK 14.3 million, which is an increase of HRK 1.69 million compared to the same period of the previous year. Of the 18 companies comprising the Končar Group, one company declared a loss in the amount of HRK 5.01 million, of which HRK 4.94 million is subscribed to the parent capital holders.

10. Solvency

Cash and cash equivalents by the end of the first half- year of 2016, as opposed to the beginning of the year, increased by HRK 44.94 million.

11. Other notes

In the first quarter of 2016 the parent company bought 1.02% of shares of Končar - Distribution and Special Transformers Inc. From minority shareholders. In the second quarter of 2016, Končar - Electronics and Informatics Inc. Increased the share capital by reinvestment of earnings from 2015 in the amount of 4,950,240 HRK. A simplified reduction of capital was carried out in Končar - #NAME?