

KONČAR – ELECTRICAL INDUSTRY, INC

**ANNUAL REPORT
31 DECEMBER 2016**

Končar – Electrical Industry Inc. Contents

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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.

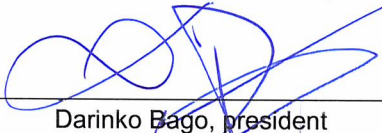
The Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

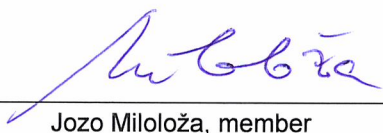
- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are 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



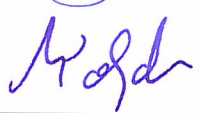
Jozo Miloloža, member



Marina Kralj Miliša, member



Davor Mladina, member



Miroslav Poljak, member



Miki Huljić, member

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

24 March 2017

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



Independent auditor's report

To the shareholders and Management Board of Končar Elektroindustrija d.d.

Our opinion

In our opinion, the financial statements give true and fair view of the financial position of the parent company Končar - Elektroindustrija d.d. (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

What we have audited

The parent Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
 - the statement of comprehensive income for the year then ended;
 - the statement of changes in equity for the year ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the 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 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 Company 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



Our audit approach

Overview

Materiality	<ul style="list-style-type: none">• Overall Company materiality: Croatian kuna (“HRK”) 3,200 thousand, which represents 5% of profit before tax from continuing operations
Key audit matters	<ul style="list-style-type: none">• 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.

<i>Overall Company materiality</i>	HRK 3,200 thousand
<i>How we determined it</i>	5% of profit before tax from continuing operations
<i>Rationale for the materiality benchmark applied</i>	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.



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.

How our audit addressed the Key audit matter

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 than 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.



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.



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.

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Zagreb, 24 March 2017

KONČAR – ELECTRICAL INDUSTRY Inc.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 HRK	2015 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.

KONČAR – ELECTRICAL INDUSTRY Inc.
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	31 December 2016 HRK	31 December 2015 HRK
<u>ASSETS</u>			
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
<u>EQUITY AND LIABILITIES</u>			
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.

KONČAR – ELECTRICAL INDUSTRY Inc.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 HRK	2015 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.

KONČAR – ELECTRICAL INDUSTRY Inc.
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
<i>Other comprehensive income</i>	-	-	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	-	-	62,434,471	62,434,471
<i>Transactions with owners:</i>								
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
<i>Other comprehensive income</i>	-	-	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	-	-	64,768,071	64,768,071
<i>Transactions with owners:</i>								
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

KONČAR – ELECTRICAL INDUSTRY Inc.
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:

	<u>31 December 2016</u>	<u>31 December 2015</u>
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
	<u>48</u>	<u>50</u>

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

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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.

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.

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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 complete.

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.

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- 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.

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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.

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:

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	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.

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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.

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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.

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; 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 instrument 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.

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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).

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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.

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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.

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 as a 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.

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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.

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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

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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 Sesevetski 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.

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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

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12. Finance income and costs

	2016	2015
	HRK	HRK
Finance income		
<u>From relations with associates</u>		
Dividend income	65,277,916	48,458,448
<u>From relations with subsidiaries</u>		
Dividend income	53,515,674	64,218,857
Interest income from loans granted	1,774,947	1,122,076
	<u>55,290,621</u>	<u>65,340,933</u>
<u>From relations with unrelated parties</u>		
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	-
	<u>9,707,492</u>	<u>15,916,780</u>
Reversal of impairment losses and unrealised gains	14,230,954	1,320,621
	144,506,983	131,036,782
Finance costs		
<i>From relations with unrelated parties</i>		
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)
	<u>(7,310,274)</u>	<u>(7,780,344)</u>
Unrealised losses		
Impairment of investments in subsidiaries	(43,901,842)	(43,666,340)
Impairment of available-for-sale financial asset	(398,086)	(398,992)
	<u>(44,299,928)</u>	<u>(44,065,332)</u>
Other finance costs	(161,159)	(458,204)
	<u>(51,771,361)</u>	<u>(52,303,880)</u>
Finance income - net	92,735,622	78,732,902

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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
<i>Tax effects of:</i>		
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.

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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.

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.

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15. Non-current intangible assets

	Concessions, patents, licences, software and other rights	Other	Assets under construction	Total
	HRK	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).

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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

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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.

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 HRK	Buildings HRK	Total 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 value			
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.

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18. Investments in subsidiaries

	31 December 2016	31 December 2015
	HRK	HRK
<u>Investments in domestic subsidiaries</u>		
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, Sesevski 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)
	<u>774,172,584</u>	<u>798,122,323</u>

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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 (%)
<u>Domestic subsidiaries</u>				
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.

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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
<i>Available-for-sale financial assets</i>		
Shares in Tesla Savings Bank	3,500,010	3,500,010
Impairment of shares in Tesla Savings Bank	(3,500,010)	(3,101,924)
<i>Financial assets at fair value through profit and loss</i>		
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
<i>Receivables on the basis of credit sales</i>		
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
<i>Receivable on the basis of foreign sales /iii/</i>	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.

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/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.

22. Receivables from related companies

	31 December 2016	31 December 2015
	HRK	HRK
<i>Trade receivables</i>		
<u>Domestic subsidiaries</u>		
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, Sesevski 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
<u>Associates</u>		
Končar-Power Transformers Ltd, Zagreb	66,187,429	49,141,403
	<u>73,989,499</u>	<u>63,749,758</u>
<i>Interest receivable (total)</i>	<u>262,928</u>	<u>153,956</u>
	<u>74,252,427</u>	<u>63,903,714</u>

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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	-	-

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24. Other receivables

	31 December 2016	31 December 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.

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%).

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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:

Shareholder	31 December 2016		31 December 2015	
	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

KONČAR – ELECTRICAL INDUSTRY Inc.
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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	HRK	HRK	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

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.

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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
<i>Subsidiaries:</i>		
Končar - Infrastructure and Services Ltd, Zagreb	6,320,168	11,880,808
Končar – Switchgears Inc., Sesevski 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	-	-	-	-

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

32. Other current liabilities

	31 December 2016	31 December 2015
	HRK	HRK
<i><u>Liabilities toward employees</u></i>		
Liabilities for net salaries	733,185	664,403
Bonus accruals	1,860,000	1,600,000
	2,593,185	2,264,403
<i><u>Liabilities for taxes, contributions and similar</u></i>		
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
<i><u>Other liabilities</u></i>		
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

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).

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 Company	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000	Receivables HRK'000	Revenues 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).

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2015 Company	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000	Receivables HRK'000	Revenues 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.

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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:

	31 December 2016	31 December 2015
	HRK'000	HRK'000
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:

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

31 December 2016

	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
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

31 December 2015

	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
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:

- level 1: quoted market prices for identical assets or liabilities traded on active markets
- 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)
- level 3: input variables for assets or liabilities which are not based on observable market data.

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

<i>In thousands of HRK</i>	Level 1	Level 2	Level 3	Total
Assets				
Listed securities	1,257	-	-	1,257
	1,257	-	-	1,257

31 December 2015

<i>In thousands of HRK</i>	Level 1	Level 2	Level 3	Total
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.

KONČAR – ELECTRICAL INDUSTRY Inc.
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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:

	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
31 December 2016	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

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	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
31 December 2015	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 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 HRK'000	2015 Effect on income before taxes 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

KONČAR – ELECTRICAL INDUSTRY Inc.
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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.

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
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2016						
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
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2015						
Trade and other payables	13,845	13,845	13,845	-	-	-
	13,845	13,845	13,845	-	-	-

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

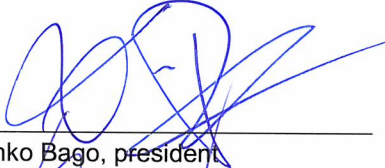
36. Subsequent events

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.


»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
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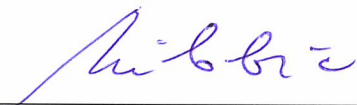
Darinko Bago, president



Marina Kralj Miliša, member




Miroslav Poljak, member



Jozo Miloloža, member



Davor Mladina, member



Miki Huljić, member

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.

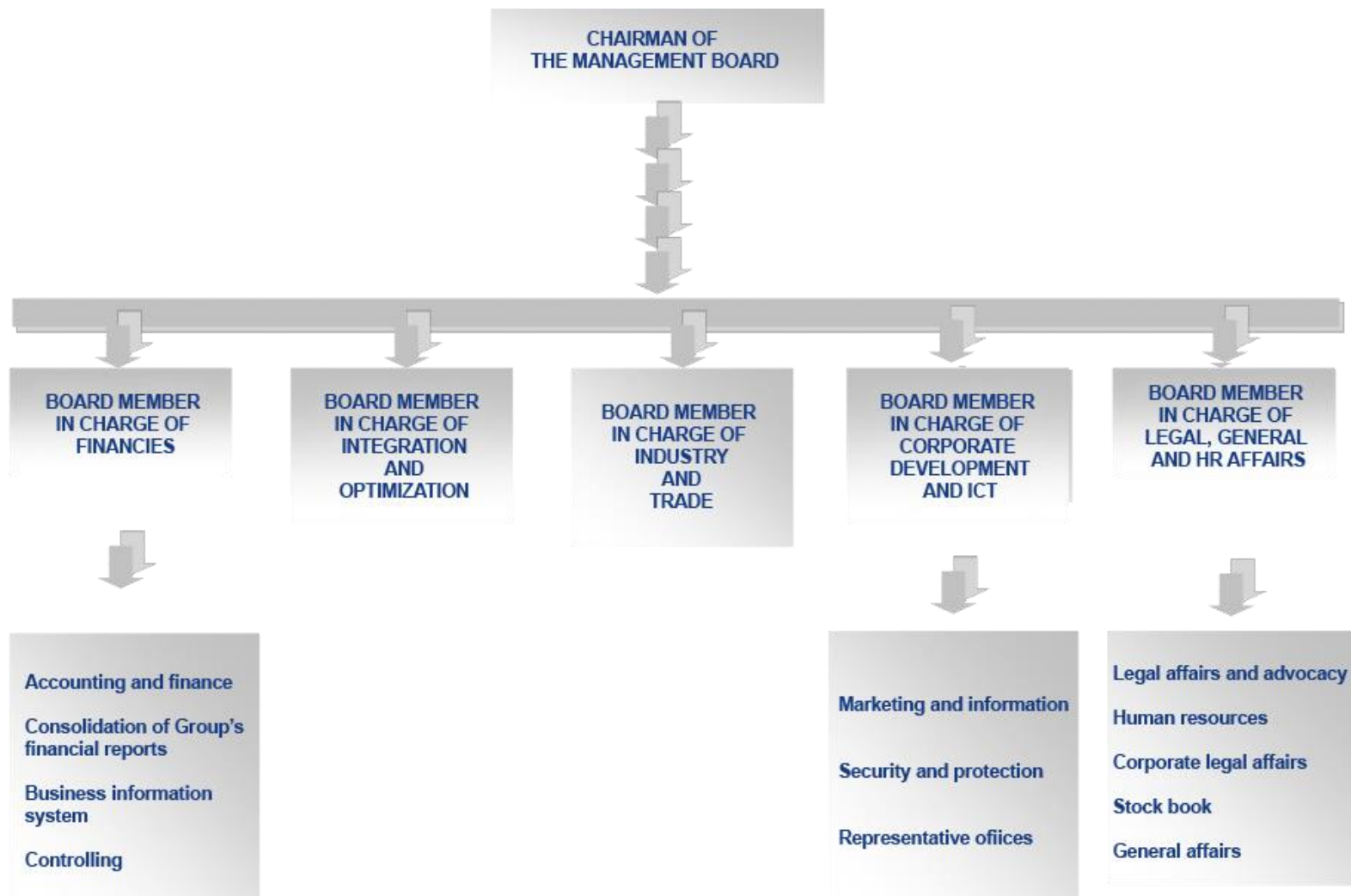
1. THE MOST IMPORTANT PERFORMANCE INDICATORS FOR 2015 - 2016

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:

DEPENDENT 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
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

AFFILIATED COMPANY

POWER TRANSFORMERS	72.764.000	35.654.400	49,00	49,00
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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 Board 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

The General Assembly of the Company held on 12 July 2016 decided to elect new members of the Supervisory Board as follows:

Petar Vlaić	Chairman of the Supervisory Board
Josip Lasić	Deputy Chairman of the Supervisory Board
Nikola Anić	Member
Jasmina 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.

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

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.hr) 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.hr). 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.hr).

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. After their sale, significant changes occurred in the ownership structure of the Company. The ownership share of Addikobank Inc. (formerly Hypo Alpe Adria Bank)/PBZ CO OMF - category B increased from 9.95 to 16.37percent, the share of Societe Generale - Splitska Banka Inc./AZ OMF category B rose from 6.84 to 14.50percent, the share of Societe Generale - Splitska Banka Inc./Erste Blue OMF category B increased from 7.86 to 13.97percent. Valamar Riviera Inc. left the company of ten largest shareholders of the Group. Instead, Addikobank Inc./Raiffeisen OMF category B (1.88percent) and Zagrebačka banka Inc./AZ Profit voluntary pension fund (1.12percent) came in. The ownership share of the State Office for State Property Management/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

Stakeholder	31-Dec-16		31-Dec-15	
	Number of shares	Ownership stake	Number of shares	Ownership stake
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
Addiko Bank d.d./ PBZ Croatia Osiguranje OMF	420,928	16.37	255,928	9.95
Societe Generale - Splitska banka d.d./ AZ Obvezni mirovinski fond	377,429	14.67	161,110	6.26
Societe Generale - Splitska banka d.d./ Erste Plavi obvezni mirovinski fond	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	526,926	20.49
Floričić Kristijan	50,714	1.97	60,714	2.36
Addiko Bank d.d./ RBA OMF	48,291	1.88	28,491	1.11
PBZ d.d. / custodial account	29,050	1.13	30,208	1.17
Other stakeholders	438,110	17.03	458,235	17.82
Končar d.d. / 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,

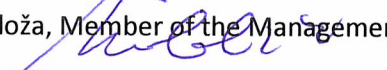
- Strengthening exports - increasing export/domestic market share,
- Human resources management - targeted education for own needs, scholarships, specialist education, scientific education,
- Social responsibility and stakeholder responsibility - stronger involvement in all the Company's operations, 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.

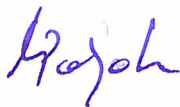
»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
8


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