

**KONČAR GROUP MANAGING BOARD BUSINESS REPORT
JANUARY – DECEMBER, 2016**

The KONČAR Group consists of KONČAR – ELEKTROINDUSTRIJA d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) as a Mother Company and 17 Daughter Companies in which the Mother Company has the prevailing interest (more than 50 % of votes at the Annual / Extraordinary General Meeting). Privileged shares are registered in a part of companies in addition to ordinary shares. Besides, the Mother Company has a minority managing interest (49% votes at the Annual / Extraordinary General Meeting) in one company (the Associated Company).

Companies belonging to the Group are legally independent companies supervised and strategically directed and supported by the Mother Company through company supervisory boards and company general / extraordinary annual meetings, in accordance with the Law on Trading Companies, Statutes of KONČAR - ELEKTROINDUSTRIJA d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) and Statutes of Group Companies. The Mother Company also manages a part of assets that are not invested into companies, but they offer a direct or indirect financial support to the marketing and sales of products and equipment of associated companies as a credit and warranty potential.

The potential liability of Končar - Elektroindustrija d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) for the total issued warranties as of 31/12/2016 amount to HRK 551.4 million representing an decrease by HRK 147,6 million compared to 31/12/2015.

Out of total guarantees and joint and severe warranties, the amount of HRK 413.7 million refers to performance guarantees.

The Končar Group business activities are divided into business areas:

- Generation, transmission and distribution of Electrical Power and Transport: designing and construction of plants and equipment for generation, transmission and distribution of electric energy, electrical locomotives, Electric Multiple Units, tramcars and side-line electric traction equipment;
- Industry: electric motor drives, low voltage electric equipment;
- Trade: electrical household appliances, serial products and low voltage electrical apparatuses;
- Special activities: research and development of products and infrastructural services.

Changes in Ownership Structure

The Centre for Restructuring and Sales published an Invitation for Showing an Interest and Submission of Binding Offers for acquisition of 526.926 Shares of Končar – Electrical Industry Inc. owned by the Republic of Croatia and the Croatian Pension Fund in May, 2016. Stated shares made 20.49 % of the share capital of the Company.

After the sales of stated shares, the ownership structure of the Company significantly changed. The ownership share of Addiko bank d.d. (former Hypo Alpe Adra Bank) /PBZ CO Obligatory Pension Fund – B category increased from 9.95 to 16.37 %, the ownership share of Societe Generale - Splitska Banka d.d./AZ Obligatory Pension Fund – B category increased from 6.84 to 14.50 %, the ownership share of Societe Generale - Splitska Banka d.d./Erste plavi Obligatory Pension Fund – B category increased from 7.86 to

Končar - Elektroindustrija d.d., Fallerovo šetalište 22, 10000 Zagreb, Hrvatska. www.koncar.hr

13.97 %. Valmar riviera d.d. left the ten biggest shareholder group, while Addiko bank d.d./ Raiffeisen Obligatory Pension Fund F category (1,88%) and Zagrebačka banka d.d./AZ Profit Voluntary Pension Fund (1,12%) entered it. The ownership share of the State Office for Management of the Stated Property / the Republic of Croatia decreased from 4.58 to 2.33 %.

The Company ownership structure as of 31/12/2016 was as follows:

Owner of the account	Number of shares	Ownership share (%)
HPB d.d. (Kapitalni fond d.d.)	724.515	28,17
ADDIKO Bank d.d./ PBZ Croatia Osiguranje – Obligatory Pension Fund	420.928	16,37
Societe Generale - Splitska banka d.d./ AZ Obligatory Pension Fund	377.429	14,67
Societe Generale - Splitska banka d.d./ Erste Plavi Obligatory Pension Fund	359.239	13,97
CERP/ The Republic of Croatia	112.970	4,39
Floričić Kristijan	50.714	1,97
ADDIKO d.d./ Raiffeisen - Obligatory Pension Fund /AZ Profit Voluntary Pension Fund	48.166	1,87
PBZ d.d. / Safe custody account	28.494	1,11
Zec Branislav	22.993	0,89
Other shareholders	391.882	15,24
Končar d.d. / treasury shares/	5.861	0,23
TOTAL	2.572.119	100,00

Managing Board

The President and Members of the Managing Board are appointed and recalled by the Supervisory Board. The term of office of the President and Members of the Managing Board lasts 5 years; after expiry of their term of office, they can be reappointed. Pursuant the Trading Company Act and the Statutes of the Company, the Managing Board manages business activities at its own responsibility; it is obliged and authorised to perform all possible actions and make decisions it considers necessary for a successful managing of the Company. Some decisions, prescribed by the Statues and Rules of Procedure of the Supervisory Board, require consent of the Supervisory Board.

Company Končar – Elektroindustrija d.d. (Končar – Electrical Industry Inc.) is managed by the Managing Board comprising the following members:

Darinko Bago	The President of the Managing Board
Miki Huljić	A Member of the Managing Board in Charge of the Končar Group Integration and Optimisation
Marina Kralj Miliša	A Member of the Managing Board in Charge of Legal, Common and Personnel Affairs
Jozo Miloloža*	A Member of the Managing Board in Charge of Finances
Davor Mladina	A Member of the Managing Board in charge of Transmission and Distribution of Electric Power, Industry and Trade
Miroslav Poljak	A Member of the Managing Board in Charge of Generation of Electric Power, Corporate Development and ICT

Note: The Supervisory Board made a decision on 7th February, 2017 that Jozo Miloloža, a Member of the Managing Board in Charge of Finances ceased to be a Member of the Managing Board due to the expiry of his term of office.

The Supervisory Board made a decision determining that the Managing Board Member, Miki Huljić, was a Member of the Managing Board in Charge of Finances and that he would simultaneously perform activities bound to the compilation of the Business Operation Analysis with the aim to increase the synergy effects in the Končar Group by the termination of the Contract made with the Boston Consulting Group.

Supervisory Board

Pursuant provisions of the Trading Company Act and the Statutes of KONČAR – ELECTRICAL INDUSTRY Inc. the Annual (Extraordinary) General Meeting makes decision on nomination and recalling of the Supervisory Board. The Supervisory Board is responsible for appointment and recall of Managing Board Members and supervision over management of business activities of the Company. Any more significant transactions and business decisions (the level of transactions is defined by the Supervisory Board Rules of Procedure and Statues of Daughter Companies) requires the Supervisory Board consent.

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

Končar Group Business Results for January – December, 2016 /unaudited/

The Končar Group Companies generated operating incomes in the amount of HRK 2.999,7 million for the time period from January to December, 2016 and they are lower by 6.2 % than planned and by 5.7 % compared to the achievements in 2015. The share of the income from sales of products and services in operating incomes amounts to HRK 2,853.1 million or 95.1 % of the total operating incomes. Incomes from sales of products and services are lower by 6.4 % compared to the achievements during the same time period of 2015. The planned incomes for the delivery of trains to the Croatian Railways (HŽ) Passenger Transport miss in the incomes from sales.

Operating expenses were generated in the amount of HRK 2,872.5 million and they are 6 % lower than the achievement of the same time period of 2015. Applying appropriate activities and measures, operating expenses were achieved correspondingly to the level of the achieved operating incomes.

The difference between the operating incomes and the operating revenues gives the profit of operating activities in the amount of HRK 127.3 million. Compared to 2015, the profit of operating activities is higher by 1.3 % and it is at the level of the 2016 Plan.

The profits from the operating activities in the amount of HRK 127.3 million, the share in the profit of the associated entrepreneurs in the amount of HRK 64.9 million and the positive difference between the financial incomes and financial expenses in the amount of HRK 1.4 million make the consolidated profit before tax in the amount of HRK 193.6 million. The profit tax amounts to HRK 19.9 million, while the profit after tax amounts to HRK 173.7 million distributed to the non-controlling interest (the minority interest) in the amount of HRK 30.8 million. The profit allocated to the Group Mother Company shareholders amounts to HRK 142.9 million and it is higher by 12 % than profits generated in 2015 and it is higher by 7 % from the 2016 Business Plan

The achieved 2016 EBIT amounts to HRK 203 million and it is higher by HRK 21.2 million than in 2015. EBITDA is achieved in the amount of HRK 296.8 million and it is higher by HRK 25.4 million than the 2015 achievement. The Group return on capital amounts to 7.1 % (it was 6.5 % in 2015) and the return on sales amounts to 6.1 % (it was 5 % in 2015).

Out of 18 Končar Group Companies, 15 Companies generated a positive financial result, while three companies expressed a loss in the total amount of HRK 10 million out of which HRK 9.9 million belong to Mother Company Shareholders.

On the domestic market the incomes from sales of goods and services were generated in the amount of HRK 1,445,5 million making it by 27 % lower than the achievement for the time period from January to December, 2015. The incomes from sales of products and services that were exported are generated in the amount of HRK 1,407.6 million making it by 7.7 % higher in the comparison with the achievement of the same time period of the previous year. The share of the export amounts to 49.3 % of the total incomes from sales of goods and services.

Countries in which the majority of the incomes from sales of products and services are generated are Sweden, Germany, Slovenia, Bosnia and Herzegovina, Italy, Austria and Finland.

Comparing it to the same time period of the previous year, a more significant increase of incomes from sales products and services abroad is achieved in the markets of Sweden (HRK 88.1 million more), Slovenia (HRK 88.8 million more), Bosnia and Herzegovina (HRK 22.2 million more), Austria (HRK 21,8 million more) and Zambia (HRK 21,3 million more).

For the time period from January to December of 2016, the import of the value of HRK 726.7 million was made. The import of raw materials and materials amounts to HRK 703.3 million, while the investment purchases amount to HRK 23.4 million. During the same time period of 2016, incomes from sales of products and services have been generated in the amount of HRK 1,407.6 million. The import export coverage coefficient amounts to 1.94.

During the time period January to December, 2016, the Končar Group Companies contracted new projects in the amount of HRK 2,685.6 million. Out of the total contracted new projects, the amount of HRK 1,203.3 million refers to contracts in the domestic market (44.8 % of the total contracted projects), and the amount of HRK 1,482.3 million (55.2 % of the total contacted projects) refers to exporting contracts.

Out of projects contracted on the domestic market during the time period from January to December 2016, the majority refers to the companies within the Croatian Power Authority, i.e. HEP Group (HEP - Generation, HEP – Distribution System Operator, i.e. HOPS) in the amount of HRK 458 million or 38.1 % of the total amount of the newly contracted projects in the domestic market. Regarding other domestic market buyers, more important contracts were concluded with the Zagreb Holding (ZET – Zagreb Town Tramcar) in the amount of HRK 61 million and Brodomerkur in the amount of HRK 58 million.

The majority of the contracted projects in the foreign market during the time period from January to December 2016 refers to the market of Sweden in the amount of HRK 175.1 million (12.5 %) (contracts made by companies Končar – Distributive and Special Transformers in the amount of HRK 120.8 million and Končar – Generators and Motors in the amount of HRK 49.3 million). For the market of Germany, the new projects were contracted in the amount of HRK 162.7 million (Končar – Metal Structures HRK 63.7 million, Končar – Distributive and Special Transformers HRK 60 million, Končar – Small Electrical Machines HRK 29,2 million). In the market of Bosnia and Herzegovina new projects in the amount of HRK 128.7 million were contracted (the majority refers to the contract for Vranduk HPP made by companies Končar – Generators and Motors, Končar – Power Plant and Electric Traction Engineering and Končar - Distributive and Special Transformers), El Salvador HRK 98.6 million (contract for El Chaparral HPP made by Power Plant and Electric Traction Engineering and Končar – Generators and Motors).

In the market of Finland, newly contracted jobs for the time period from January to December of 2016 amounted to HRK 90.8 million (the majority referring to Končar – Distributive and Special Transformers and Končar – Generators and Motors). Regarding other countries, significant contracts were made for the market of Italy (HRK 58.1 million), Austria (HRK 53.9 million) and Albania (HRK 50.4 million).

According to the performance time schedule, new projects contracted in 2016 in the amount of HRK 1,327.1 million would be performed in 2017, and project in the amount of HRK 1,358.6 million would be performed during following years.

On 31st December, 2016, the contracted project status (receivables due) amounted to HRK 3,292 million that was by 5 % lower than the contracted project status at the beginning of the year. The status of due receivables in the domestic market was lower by 13 % and in the export market was 5 % higher than at the beginning of 2016.

The level of the total consolidated assets and asset sources as of 31st December, 2016 amounted to HRK 3,794.9 million representing an increase of HRK 144.4 million or 4 % compared to the level as of 31st December, 2015.

Within the structure of asset sources, the registered capital, reserves, retained profits, profits of the current year and not controlling interest capital amounts to HRK 2,446.1 million that was HRK 124.6 million more compared to the level on 31st December, 2015 and they make 64.5 % of the total sources.

Long term asset sources (capital, long term reservations and long term liabilities) are higher by HRK 872.8 million compared to the long term assets and the average level of stocks. Current assets are 2.9 times higher than the current liabilities. The consolidated balance sheet structure shows equivalence of asset sources and investments.

Signed in the name of the Managing Board:

Končar – Electrical Industry Inc.
Managing Board President

Darinko Bago

14th February, 2017

Končar - Elektroindustrija d.d., Fallerovo šetalište 22, 10000 Zagreb, Hrvatska, www.koncar.hr

STATEMENT OF PERSONS RESPONSIBLE FOR COMPILATION OF THE KONČAR GROUP CONSOLIDATED FINANCIAL REPORTS

This Statement of the Končar – Electrical Industry Inc., Zagreb, Managing Board is given regarding compilation and publishing of the Končar Group Consolidated Financial Reports for the time period January – December 2016.

The attached financial reports (financial reports for Končar – Electrical Industry Inc. and consolidated financial reports) reveal quarter and cumulative non-audited data resulting in a possibility of discrepancies from the final Annual Report.

Financial Reports have been made in accordance of the International Standard for Financial Reporting applied in the European Union.

Pursuant our best knowledge, Financial Reports show a complete and true presentation of the balance sheet, profit and loss account, cash flow and the capital change report of the Končar Group

Signed in the name of the Managing Board:

Končar – Electrical Industry Inc.
President of the Managing Board

Darinko Bago

14th February, 2017

- Note:

Consolidated Financial Reports were compiled by expert services of Končar – Electrical Industry Inc.

Contract persons:

Ervin Filipčić, Managing Board Office Head, ervin.filipcic@koncar.hr

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

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

Appendix 1

Reporting period:

1.1.2016

to

31.12.2016

Quarterly financial report of entrepreneur TFI-PODRegistration number (MB) **03282635**Identification number of subject (MBS) **080040936**Personal identification number (OIB) **45050126417**Issuer company: **KONČAR - ELECTRICAL INDUSTRY Inc.**Postal code and place **10000****ZAGREB**Street and number **FALLEROVO ŠETALIŠTE 22**E-mail address: **koncar.finance@koncar.hr**Internet address: **www.koncar.hr**Code and name of comune/town **133 ZAGREB**Code and county name **21 GRAD ZAGREB**Number of employees **3.643**

(at quarter end)

Consolidated statement **YES**NKD/NWC code: **2711**

Subsidiaries subject to consolidation (according to IFRS)

in appendix

Registration number:

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

Book keeping service:

Contact person: **Marina Markušić**

(fill in only surname and name of contact person)

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

(authorised person for representation)

Disclosure documents:

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

M.P.

(signed by authorised person for representation)

Appendix 1

Reporting period:

1.1.2016

to

31.12.2016

Quarterly financial report of entrepreneur TFI-PODRegistration number (MB) **03282635**Identification number of subject (MBS) **080040936**Personal identification number (OIB) **45050126417**Issuer company: **KONČAR - ELECTRICAL INDUSTRY Inc.**Postal code and place **10000****ZAGREB**Street and number: **FALLEROVO ŠETALIŠTE 22**E-mail address: koncar.finance@koncar.hrInternet address: www.koncar.hrCode and name of comune/town **133** **ZAGREB**Code and county name **21** **GRAD ZAGREB**Number of employees **3.643**

(at quarter end)

Consolidated statement **YES**NKD/NWC code: **2711**

Subsidiaries subject to consolidation (according to IFRS)

in appendix

Registration number:

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

Book keeping service:

Contact person: **Marina Markušić**

(fill in only surname and name of contact person)

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

(authorised person for representation)

Disclosure documents:

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

M.P.

(signed by authorised person for representation)

Balance Sheet
as of 31.12.2016

Company: Končar - Electrical Industry Inc.

Position	AOP	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	1.503.356.747	1.490.723.927
I. INTANGIBLE ASSETS (004 do 009)	003	61.269.128	51.681.027
1. Expenditure for development	004	41.142.345	31.035.081
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	6.240.755	8.317.268
3. Goodwill	006	7.980.446	7.980.446
4. Advances for purchase of intangible assets	007	0	0
5. Intangible assets in progress	008	5.500.867	4.006.844
6. Other intangible assets	009	404.715	341.388
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	010	1.148.361.935	1.146.519.659
1. Land	011	148.676.673	148.137.184
2. Buildings	012	339.602.117	343.989.628
3. Plant and equipment	013	389.848.707	403.686.563
4. Tools, working inventory and transportation assets	014	69.646.340	65.963.852
5. Biological assets	015	0	0
6. Advances for purchase of tangible assets	016	2.209.211	5.342.566
7. Tangible assets in progress	017	54.021.489	15.669.036
8. Other tangible assets	018	571.342	582.327
9. Investment in real-estate	019	143.786.056	163.148.503
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	020	276.130.123	278.770.473
1. Share in related parties	021	290.067	289.395
2. Loans to related parties	022	0	0
3. Participating interests (shares)	023	3.525.043	4.950.358
4. Loans to companies with participating interest	024	0	0
5. Investments in securities	025	2.045.946	1.711.183
6. Loans, deposits, etc.	026	5.421.451	7.391.203
7. Other non-current financial assets	027	1.110.535	1.219.104
8. Equity-accounted investments	028	263.737.081	263.209.230
IV. RECEIVABLES (030 do 032)	029	17.595.561	13.425.697
1. Receivables from related parties	030	0	0
2. Receivables arising from sales on credit	031	11.143.191	8.229.442
3. Other receivables	032	6.452.370	5.196.255
V. DEFERRED TAX ASSET	033	0	327.071
C) CURRENT ASSETS (035+043+050+058)	034	2.134.604.477	2.298.840.155
I. INVENTORIES (036 do 042)	035	508.629.833	524.085.185
1. Raw materials and supplies	036	279.934.355	221.694.180
2. Production in progress	037	132.820.941	148.159.741
3. Finished products	038	63.566.763	82.274.883
4. Merchandise	039	21.424.308	20.309.063
5. Advances for inventories	040	4.923.466	47.647.318
6. Long term assets held for sale	041	5.960.000	4.000.000
7. Biological assets	042	0	0
II. RECEIVABLES (044 do 049)	043	879.781.542	958.443.377
1. Receivables from related parties	044	85.012.340	101.798.149
2. Receivables from end-customers	045	720.175.786	780.064.776
3. Receivables from participating parties	046	0	0
4. Receivables from employees and members of the company	047	2.116.894	1.597.504
5. Receivables from government and other institutions	048	29.742.785	47.532.761
6. Other receivables	049	42.733.737	27.450.187
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	399.573.719	306.022.108
1. Share in related parties	051	0	0
2. Loans to related parties	052	0	0
3. Participating interests (shares)	053	0	0
4. Loans to companies with participating interest	054	0	0
5. Investments in securities	055	0	0
6. Loans, deposits, etc.	056	398.936.121	305.759.141
7. Other financial assets	057	637.598	262.967
IV. CASH AND CASH EQUIVALENTS	058	346.619.383	510.289.485
D) PREPAYMENTS AND ACCRUED INCOME	059	12.077.169	5.101.570
E) TOTAL ASSETS (001+002+034+059)	060	3.650.038.393	3.794.665.652
F) OFF BALANCE SHEET ITEMS	061	2.091.669.212	1.844.102.294

EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	2.321.496.034	2.446.144.255
I. SUBSCRIBED SHARE CAPITAL	063	1.208.895.930	1.208.895.930
II. CAPITAL RESERVES	064	719.579	719.579
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	483.175.793	557.213.104
1. Legal reserves	066	47.810.318	52.743.738
2. Reserve for own shares	067	4.143.784	4.143.784
3. Treasury shares and shares (deductible items)	068	4.143.784	4.143.784
4. Statutory reserves	069	359.980.956	391.309.536
5. Other reserves	070	75.384.519	113.159.830
IV. REVALUATION RESERVES	071	530.629	1.700.423
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	272.108.024	293.603.279
1. Retained earnings	073	272.108.024	293.603.279
2. Loss carried forward	074	0	0
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	127.651.294	142.935.344
1. Net profit for the period	076	127.651.294	142.935.344
2. Net loss for the period	077	0	0
VII. MINORITY INTEREST	078	228.414.785	241.076.596
B) PROVISIONS (080 do 082)	079	297.950.535	319.046.623
1. Provisions for pensions, severance pay and similar liabilities	080	26.165.515	36.423.491
2. Provisions for tax liabilities	081	0	0
3. Other provisions	082	271.785.020	282.623.132
C) NON-CURRENT LIABILITIES (084 do 092)	083	143.126.007	122.456.554
1. Liabilities to related parties	084	0	0
2. Liabilities for loans, deposits, etc.	085	0	0
3. Liabilities to banks and other financial institutions	086	142.988.558	122.031.948
4. Liabilities for advances	087	0	0
5. Trade payables	088	0	0
6. Commitments on securities	089	0	0
7. Liabilities to companies with participating interest	090	0	0
8. Other non-current liabilities	091	0	0
9. Deferred tax liabilities	092	137.449	424.606
D) CURRENT LIABILITIES (094 do 105)	093	758.043.917	772.789.614
1. Liabilities to related parties	094	18.304.764	23.360.441
2. Liabilities for loans, deposits, etc.	095	0	0
3. Liabilities to banks and other financial institutions	096	87.973.492	61.867.789
4. Liabilities for advances	097	182.349.546	245.192.140
5. Trade payables	098	349.049.822	345.637.917
6. Commitments on securities	099	0	0
7. Liabilities to companies with participating interest	100	0	0
8. Liabilities to employees	101	34.866.404	35.530.583
9. Taxes, contributions and similar liabilities	102	54.914.602	54.043.099
10. Liabilities arising from share in the result	103	547.066	685.199
11. Liabilities arising from non-current assets held for sale	104	0	0
12. Other current liabilities	105	30.038.221	6.472.446
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	129.421.900	134.228.606
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	3.650.038.393	3.794.665.652
G) OFF BALANCE SHEET ITEMS	108	2.091.669.212	1.844.102.294
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109	2.093.081.249	2.205.480.872
2. Attributable to minority interest	110	228.414.785	240.663.383

Income statement
period 1.1.2016 to 31.12.2016

Company: Končar -Electrical Industry Inc.

Position	AOP	Previous period		Current period	
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 do 113)	111	3.181.712.959	888.307.740	3.000.695.216	986.274.661
1. Rendering of services	112	3.049.074.117	827.230.422	2.853.103.511	923.160.693
2. Other operating income	113	132.638.842	61.077.318	147.591.705	63.113.968
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114	3.056.054.522	844.698.289	2.873.436.065	929.713.551
1. Change in inventories of work in progress	115	14.793.829	-3.317.871	-34.616.805	6.533.890
2. Material expenses (117 do 119)	116	2.183.711.710	587.386.784	1.946.397.645	601.938.404
a) Costs of raw materials	117	1.640.662.224	438.351.435	1.426.445.676	455.025.330
b) Cost of goods sold	118	167.474.457	44.426.150	199.649.022	44.214.415
c) Other material expenses	119	375.575.029	104.609.199	320.302.947	102.698.659
3. Employee benefits expenses (121 do 123)	120	509.926.132	142.295.702	537.565.458	149.645.995
a) Net salaries	121	288.931.225	78.286.627	304.829.637	83.080.556
b) Tax and contributions from salary expenses	122	147.323.004	42.279.676	154.792.143	43.444.988
c) Contributions on salary	123	73.671.903	21.729.399	77.943.678	23.120.451
4. Depreciation and amortisation	124	89.518.168	23.642.840	93.768.614	22.918.046
5. Other expenses	125	132.180.382	35.619.969	205.543.609	61.075.426
6. Write down of assets (127+128)	126	32.634.901	24.609.176	27.738.496	21.831.367
a) non-current assets (except financial assets)	127	7.948.519	7.948.519	4.324.783	4.324.783
b) current assets (except financial assets)	128	24.686.382	16.660.657	23.413.713	17.506.584
7. Provisions	129	72.093.841	27.761.137	85.121.489	60.171.414
8. Other operating costs	130	21.195.559	6.700.552	11.917.559	5.599.009
III. FINANCIAL INCOME (132 do 136)	131	64.630.909	18.552.851	49.034.852	18.270.829
1. Interest, foreign exchange differences, dividends and similar income from related parties	132	0	0	690.324	305.705
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	63.310.288	17.232.230	46.692.051	17.429.176
3. Income from investments in associates and joint ventures	134	0	0	0	0
4. Unrealised gains (income) from financial assets	135	1.320.621	1.320.621	396.141	396.141
5. Other financial income	136	0	0	1.256.336	139.807
IV. FINANCIAL EXPENSES (138 do 141)	137	70.852.069	11.816.432	47.595.853	10.636.507
1. Interest, foreign exchange differences, dividends and similar income from third parties	138	0	0	733.407	285.970
2. Interest, foreign exchange differences, dividends and similar income from third parties	139	70.453.077	11.417.440	46.232.749	9.894.599
3. Unrealised losses (expenses) from financial assets	140	398.992	398.992	398.086	398.086
4. Other financial expenses	141	0	0	231.611	57.852
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142	50.117.737	13.822.853	64.932.905	22.206.738
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143	0	0	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	0	0	0
IX. TOTAL INCOME (111+131+144)	146	3.296.461.605	920.683.444	3.114.662.973	1.026.752.228
X. TOTAL EXPENSES (114+137+143+145)	147	3.126.906.591	856.514.721	2.921.031.918	940.350.058
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	169.555.014	64.168.723	193.631.055	86.402.170
1. Profit before taxes (146-147)	149	169.555.014	64.168.723	193.631.055	86.402.170
2. Loss before taxes (147-146)	150	0	0	0	0
XII. TAXATION	151	18.234.642	589.400	19.924.194	445.936
XII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	151.320.372	63.579.323	173.706.861	85.956.234
1. Profit for the period (149-151)	153	151.320.372	63.579.323	173.706.861	85.956.234
2. Loss for the period (151-148)	154	0	0	0	0
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	155	127.651.294	53.702.829	142.935.344	73.802.397
2. Attributable to minority interest	156	23.669.078	9.876.494	30.771.517	12.153.828
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)					
I. PROFIT OR LOSS FOR THE PERIOD (=152)	157	151.320.372	63.579.323	173.706.861	85.956.234
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO	158	5.390.530	656.186	1.468.844	1.437.786
1. Exchange differences from international settlement	159	-31.058	-31.058	31.058	0
2. Changes in revaluation reserves of long-term tangible and intangible	160	0	0	0	0
3. Profit or loss from re-evaluation of financial assets held for sale	161	687.244	687.244	1.437.786	1.437.786
4. Profit or loss from cash flow hedging	162	4.734.344	0	0	0
5. Profit or loss from hedging of foreign investments	163	0	0	0	0
6. Share of other comprehensive income/loss from associated	164	0	0	0	0
7. Actuarial gains/losses from defined benefit plans	165	0	0	0	0
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE	166	137.449	137.449	287.158	287.158
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158 TO	167	5.253.081	518.737	1.181.686	1.150.628
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	156.573.453	64.098.060	174.888.547	87.106.862
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)					
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD					
1. Attributable to majority owners	169	130.630.134	54.233.448	144.105.144	74.953.031
2. Attributable to minority interest	170	25.943.319	9.864.612	30.783.403	12.153.832

STATEMENT OF CASH FLOWS - Direct method
period 1.1.2016 to 31.12.2016

Legal entity: Končar Electrical Industry Inc.			
Position	AOP	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash receipts from customers	001	3.284.706.115	3.069.216.593
2. Cash receipts from royalties, fees, commissions, etc.	002	0	0
3. Cash receipts from insurance for damages compensation	003	8.624.665	33.701.627
4. Cash receipts arising from tax refunds	004	95.553.924	106.766.441
5. Other cash receipts	005	44.971.923	55.664.473
I. Total increase in cash flow from operating activities (001 to 005)	006	3.433.856.627	3.265.349.134
1. Cash paid to suppliers	007	2.434.570.686	2.192.994.044
2. Cash paid to employees	008	592.725.805	595.957.859
3. Cash outflows for insurance for damages compensation	009	22.123.377	8.881.181
4. Interest paid	010	10.608.690	9.455.487
5. Tax paid	011	140.498.545	150.780.688
6. Other cash outflows	012	121.469.956	124.522.973
II. Total decrease in cash flow from operating activities (007 to 012)	013	3.321.997.059	3.082.592.232
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	014	111.859.568	182.756.902
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	015	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash flow from sale of long - term tangible and intangible assets	016	11.021.416	7.806.020
2. Cash inflows from sale of equity and debt financial instruments	017	4.695.685	6.710.723
3. Interest receipts	018	0	0
4. Dividend receipts	019	63.011.096	50.393.013
5. Other cash inflows from investing activities	020	0	0
III. Total cash inflows from investing activities(016 to 020)	021	78.728.197	64.909.756
1. Cash outflows for purchase of long - term tangible and intangible assets	022	78.152.877	76.874.529
2. Cash outflows for purchase of equity and debt financial instruments	023	69.220.012	3.156.068
3. Other cash outflows from investing activities	024	0	0
IV. Total cash outflows from investing activities (022 to 024)	025	147.372.889	80.030.597
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	026	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	027	68.644.692	15.120.841
CASH FLOW FROM FINANCING ACTIVITIES			
1. Cash receipts from issuance of equity and debt financial instruments	028	6.690	0
2. Cash inflows from loans, debentures, credits and other borrowings	029	48.575.088	146.770.963
3. Other cash inflows from financing activities	030	583.530.839	573.203.138
V. Total cash inflows from financing activities (028 to 030)	031	632.112.617	719.974.101
1. Cash outflows for repayment of loans and bonds	032	121.569.501	192.246.295
2. Dividends paid	033	49.352.291	47.170.795
3. Cash outflows for finance lease	034	0	0
4. Cash outflows for purchase of own stocks	035	2.804.803	0
5. Other cash outflows from financing activities	036	546.235.266	484.522.970
VI. Total cash outflows from financing activities (032 to 036)	037	719.961.861	723.940.060
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	038	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	039	87.849.244	3.965.959
Total increases of cash flows (014 – 015 + 026– 027 + 038 – 039)	040	0	163.670.102
Total decreases of cash flows (015 – 014 + 027– 026 + 039 – 038)	041	44.634.368	0
Cash and cash equivalents at the beginning of period	042	391.253.751	346.619.383
Decrease in cash and cash equivalents	043	0	163.670.102
Increase in cash and cash equivalents	044	44.634.368	0
Cash and cash equivalents at the end of period	045	346.619.383	510.289.485

STATEMENT OF CHANGES IN EQUITY

period 1.1.2016 to 31.12.2016

Legal entity: Končar Electrical Industry Inc.

Position	AOP		Current year	
	1	2	3	4
1. Subscribed share capital			1.297.613.140	1.298.064.820
2. Capital reserves		001	719.579	719.579
3. Reserves from profit		002	587.584.450	670.308.865
4. Retained earnings or loss carried forward		003	283.739.756	301.643.707
5. Net profit or loss for the period		004	151.320.372	173.706.861
6. Revaluation of tangible assets		005	0	0
7. Revaluation of intangible assets		006	0	0
8. Revaluation of available for sale assets		007	549.795	1.700.423
9. Other revaluation		008	-31.058	0
10. Total equity and reserves (AOP 001 to 009)		009	2.321.496.034	2.446.144.255
11. Foreign exchange differences from foreign investments		010	-31.058	31.058
12. Current and deferred taxes		011	0	0
13. Cash flow hedge		012	4.734.344	0
14. Change of accounting policies		013	0	0
15. Correction of significant mistakes of prior period		014	0	0
16. Other changes		015	31.787.910	124.617.163
17. Total increase or decrease of equity (AOP 011 to 016)		016	36.491.196	124.648.221
17 a. Attributable to majority owners		017	65.465.782	111.986.410
17 b. Attributable to minority interest		018	-28.974.586	12.661.811

Notes to the consolidated financial reports

Taxpayer: 03282635 Končar Electrical Industry Inc.

1. Distribution of shares

There has been no distribution of shares.

2. Earnings per share

Earnings per share for the period January - December 2016 are HRK 55,70 and are higher than earnings per share during the same period of the previous year by HRK 5,96.

3. Changes in ownership structure

Compared to the previous trimestre, there have been no significant changes in ownership structure.

4. Mergers and acquisitions

There have been no new mergers and acquisitions.

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

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

6. Business results

During the period January - December 2016, as opposed to the same period of the previous year, sales revenues (which make up for 91.6 per cent of the total revenues) decreased by 6.4 per cent, operational revenues (which make up for 96.3 per cent of the total revenues) decreased by 5.7 per cent, while total revenues decreased by 5.5 per cent. Total expenses decreased by 6.6 per cent in respect to the same period of last year, while operating expenses with changes in stock, which constitute 98.4 per cent of the total expenses, decreased by 6 per cent. Income from investment into affiliated companies increased by 29.6 per cent compared to the same period of last year. Financial incomes (which make up for 1.6 per cent of the total revenues) decreased by 24.1 per cent and financial expenses (which make up for 1.6 per cent of the total expenses) decreased by 32.8 per cent compared to the same period last year.

7. Products and services description

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

8. Operating and other costs

For the period January - December of the year 2016, in comparison with the same period of last year, the share of material expenses in the operational revenue decreased by 4.9 percentage points, the share of cost of provisions decreased by 0.1 percentage point, the share of costs of value adjustment decreased by 1.6 percentage point. The share of employees expenses (without remuneration of costs of employees) increased by 0.3 percentage points and the share of depreciation and amortisation increased by 0.6 percentage points. Other expenses and costs in the operational revenue decreased 2.3 per cent.

9. Profit or loss

The profit of the Group after tax is HRK 173,71 million which is HRK 22,38 million higher compared to the same period of the previous year. The Group's net profit subscribed to the parent capital holders for the period January -December of the year 2016 amounts to HRK 142,94 million, which is a decrease of HRK 15,28 million compared to the same period of the previous year. Net profit subscribed to the minority interests amounts to HRK 30,77 million, which is an increase of HRK 7,1 million compared to the same period of the previous year. Of the 18 companies comprising the Končar Group, three companies declared a loss in the amount of HRK 10,01 million, of which HRK 9,92 million is subscribed to the parent capital holders.

10. Solvency

Cash and cash equivalents by the end of 2016, as opposed to the beginning of the year, increased by HRK 163,67 million.

11. Other notes

In the first quarter of 2016 the parent company bought 1.02 per cent of shares of Končar - Distribution and Special Transformers Inc. from minority shareholders. In the second quarter of 2016, Končar - Electronics and Informatics Inc. increased the share capital by reinvestment of earnings from 2015 in the amount of HRK 4,950,240. A simplified reduction of capital was carried out in Končar - Household Appliances Inc. in order to cover the loss in the amount of HRK 9,719,200.