KONČAR – ELECTRICAL INDUSTRY GROUP

CONSOLIDATED ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2017

Contents

Končar– Electrical Industry Inc.

Responsibility for the consolidated Annual Report

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union which give a true and fair view of the consolidated financial position and consolidated financial performance of the company Končar – Electrical Industry d.d. and its subsidiaries (the "Group") for that period.

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

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

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

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

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare a consolidated Annual Report comprising the consolidated financial statements, the consolidated Management Report and the Corporate Governance Statement. The consolidated Management Report was prepared in line with the requirements of Article 21 and 24 of the Accounting Act, and the Corporate Governance Statement in line with the requirements of Article 22 of the Accounting Act.

The consolidated Annual Report was authorised for issuance by the Management Board on 3 April 2018.

Signed on behalf of the Management Board:

Darinko Bago,
President of the Management Board

Miki Huljić,
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

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

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

Independent Auditor's Report

To the Shareholders and Management Board of Končar - Electrical Industry Inc.:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Končar - Electrical Industry Inc. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

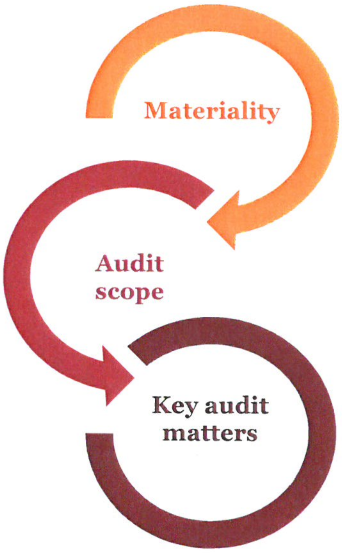
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 1 to the consolidated financial statements.

Our audit approach

Overview



Materiality

- Overall materiality for the consolidated financial statements as a whole:
  HRK 19.7 million, which is 0.7% of sales revenues

- We performed full scope audit work at 18 reporting units in Croatia (companies subject to statutory audit)
- Our audit scope addressed 99% of the Group's revenues and 97% of the Group's profit before tax.

Key audit matters

- Revenue recognition
- Warranty provisions
- Impairment of inventories

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

Materiality

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

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

Overall materiality for the consolidated financial statements as a whole	HRK 19.7 million
How we determined it	0.7% of sales revenues
Rationale for the materiality benchmark applied	We chose revenues as the benchmark because, in our view, it is the benchmark, which objectively best represents the performance of the Group in the period under review, during which volatility in profits may be observed. We selected 0.7% which is which is within the range of acceptable quantitative materiality thresholds used for entities in this sector.

Key audit matters

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

Key audit matters	How our audit addressed the key audit matter
Revenue recognition	
See Note 2.5 to the consolidated financial statements under heading "Revenue recognition" and Note 2.7 under heading "Construction contracts" (accounting policies), Note 2.29 (Critical accounting estimates) and Notes 3, 27 and 38 for further information. As part of its usual business activities, the Group concludes large commercial and technically complex contracts, which represent a significant part of the business (the Group, apart from straight-forward energy equipment delivery of transformers, generators and similar products, is involved in contracting complex energy plant which are within the scope of IAS 11 Construction contracts). The customer/investor payment milestones set in the contracts usually do not correspond to revenue recognition criteria in accordance with IAS 11. As a result, in the consolidated financial statements the Group presents gross amounts of receivables/liabilities from construction contracts for all active projects at the balance sheet date. As disclosed in Notes 27 and 38, net receivables from construction contracts amount to HRK 858,768 thousand at the balance sheet date. We focused on revenue recognition since the accounting for these contracts is complex and involves a certain degree of judgement. Our particular area of focus was Management's judgement whether a contract is within the scope of IAS 11, the assessment of total contract costs (estimation of project margin), warranty costs and similar.	We assessed the consistency of the application of the Group accounting policy for revenue recognition at the Group level. Where effective and efficient, we tested the design and operating effectiveness of the controls (including IT general controls) over revenue recognition systems across the Group to determine the extent of additional substantive testing required. We did not identify any significant inconsistencies when performing our tests or any significant internal control deficiencies. Our procedures also included testing a sample of manual journal entries recorded within revenues, and we did not identify any transactions that could not be adequately explained. In addition, we performed a detailed test of major new contracts which included testing relevant supporting documentation (construction contracts, approved estimations of total contract costs, actual costs summaries, sample of invoices and timecards, analytics and similar) relating to significant projects in the current year. We checked whether revenue was recognised in the correct time period (in case of IAS 11 by comparing the timing of revenue recognition to the stage of completion based on the proportion of contract costs incurred for work performed to date in the estimated total contract costs, and in the case of delivery of goods by comparing to the delivery date). Based on our tests, we have not identified any inconsistencies. We made inquiries of Management to challenge Management's assessment of total contract costs and estimated margins per project, analysed estimated costs in the prior period in relation to actual costs incurred and found no inconsistencies. We also reviewed the most significant contracts to challenge the Management's judgement whether or not a contract is within the scope of IAS 11 and found no inconsistencies.

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Key audit matters	How our audit addressed the key audit matter
Warranty provisions *See Note 2.25 to the consolidated financial statements under heading "Provisions" (accounting policies), Note 2.29 (Critical accounting estimates) and Notes 11 and 33.* Provisions for servicing during warranty periods relate to estimated costs of possible repairs (rectifications or replacement of faulty products) of the Group's products and work performed in relation to different contracted projects. The Group provides warranties for its products for a period of 2 to 7 years in accordance with signed contracts. As at 31 December 2017, the Group recognised a warranty provision in the total amount of HRK 267,317 thousand. Movements in provisions in the current period are disclosed in Note 33. Provisions include general and specific provisions. General provisions are calculated using estimations (within the range of 2% to 8% applied on the value of sold goods under warranty) based on the Group's past experience and on the experience of other manufacturers of similar energy equipment, taking into account specific design and performance requirements. Specific provisions relate to possible quality problems in relation to the equipment sold to certain customers (the Group estimates total costs which may be incurred for resolving quality problems for a particular customer). We focused on this area because Management made provisions that require significant judgements and estimates in relation to the amount of current and potential future claims from customers for losses or damages incurred within the warranty period.	In the view of the significant judgements and estimates involved in the calculation of warranty provisions, we examined the most material provisions in detail and sought relevant supporting evidence and analyses made by Management. We have made inquiries of Management and inspected a sample of significant sales agreements with a focus on contracted terms related to warranty periods and warranty terms In relation to general provisions where Management applied a range from 2% to 8% as an appropriate percentage for its delivery portfolio, we examined the history of claims and settlement amounts and assessed whether the used assumptions, including expected future claims and settlement amounts, were appropriate. Furthermore, in respect of specific provisions related to possible quality problems of equipment sold to certain customers, we examined the supporting documentation such as contracts, delivery notes, correspondence with customers in order to assess whether the provided amounts are appropriate. We have not identified any significant inconsistencies. As set out in the notes to the consolidated financial statements, because Management's assumptions concern future events, the calculations of the provisions are inherently uncertain. We verified the mathematical accuracy of the calculations and agreed the data used in the calculations with the Group's records. We also reviewed the sensitivity analysis in the consolidated financial statements disclosing the effect of change in percentage used for general provisions and found no issues. Based on the evidence obtained, while noting the inherent uncertainty related to such provisions, we determined the level of warranty provisioning at 31 December 2017 to be consistent with previous periods and in accordance with the information currently available to the Group.

Key audit matters	How our audit addressed the key audit matter
Impairment of inventories	
See Note 2.19 to the consolidated financial statements under heading "Inventories" (accounting policies), Note 2.29 (Critical accounting estimates) and Notes 10 and 25 As disclosed in Note 2.19 to the consolidated financial statements, inventory write-downs are recognised in case when Management assesses there is a need to reduce inventory from cost to net realisable value based on predetermined criteria. The calculation of net realisable value takes into account the intended use of the inventory (e.g. inventories held to satisfy a particular service maintenance contract are based on the contract price). In case when Management assesses that the decline in the price of materials indicates that the cost of finished goods will exceed their net realisable value, inventories are written down and in such case the replacement cost is the best available measure of their net realisable value. The write-down of inventories to net realisable value is calculated by applying Management judgement to the period-end inventory levels, with this judgement being affected by the inventory ageing structure as well as Management's view of the current inventory profile and age. The write-down expense recognised in the current period amounted to HRK 13,125 thousand (2016: HRK 19,396 thousand). We focused on the valuation of inventories because of the significance of the inventory balance and the nature of judgements made by Management when assessing the carrying value of inventories.	We attended physical inventory counts performed near year-end on a sample of the Group's stock locations, mainly manufacturing locations. On a sample basis, we checked the correctness of counting inventory quantities by the Group, and we also assessed the effectiveness of count controls in operation at each location. We compared the inventory count results as determined by Management at year-end with the data in the accounting records in order to determine the level of count variances. We performed a test of details involving a comparison of the net realisable value with cost on the selected sample of finished goods, noting no significant variances. We checked the accuracy of the inventory ageing structure report used by Management when determining the inventory write-down by performing a detailed test on a selected sample of inventory items and we did not find any errors. We reviewed Management's analysis and decisions on the inventory write-down based on their analysis and found no inconsistencies. We held discussions with Management in order to obtain an understanding as to the basis of Management's views and related assumptions. Based on the audit procedures performed, we accept the reasonableness of Management's assumptions used in determining the inventory write-down expense.

How we tailored our Group audit scope

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

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

As a result, we performed full scope audit work at 18 reporting units, including Croatian companies subject to statutory audit, and the consolidated accounts, which are issued after the performance of full scope audits for each of the component. In respect of one subsidiary, two associates and one joint venture audited by another auditor, we did not carry out additional audit procedures.

The audit work performed in all significant components and by the group engagement team enabled us to obtain 100% coverage of the Group's total assets, 99% coverage of the Group's revenue and 97% coverage of the absolute value of the Group's profit before tax.

By performing the procedures at all the significant Group components, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Reporting on other information including the Management Report and Corporate Governance Statement

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

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

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

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

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, and
- whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent 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.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 22 May 2014. Our appointment has been renewed annually by resolution of the General Assembly representing a total period of uninterrupted engagement appointment of 4 years.

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
3 April 2018

KONČAR– ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 HRK	2016 HRK
Sales	3	2,823,446,297	2,853,142,344
Other operating income	4	139,867,508	143,398,610
OPERATING INCOME		**2,963,313,805**	**2,996,540,954**
(Decrease)/ increase in inventories of work in progress and finished goods		(14,112,766)	34,593,646
Cost of materials and energy	5	(1,359,741,442)	(1,426,430,441)
Cost of goods sold		(191,080,503)	(199,646,893)
Service costs	6	(407,869,996)	(399,116,755)
Staff costs	7	(554,786,411)	(537,346,352)
Depreciation and amortisation	8	(93,773,042)	(92,851,773)
Other expenses	9	(138,792,954)	(128,644,344)
Impairment losses	10	(53,263,816)	(25,418,124)
Provisions	11	(87,854,892)	(84,445,460)
Other operating expenses	12	(14,570,826)	(8,796,458)
OPERATING EXPENSES		**(2,915,846,648)**	**(2,868,102,954)**
Operating profit		**47,467,157**	**128,438,000**
Gain on bargain purchase	44	**8,903,103**	-
Finance income	13	48,586,180	50,062,955
Finance costs	14	(52,673,859)	(47,657,324)
Net finance (costs)/income		**(4,087,679)**	**2,405,631**
Share in profit of investments accounted for using the equity method	15	**72,177,395**	**65,242,817**
Profit before tax		**124,459,976**	**196,086,448**
Income tax	16	(16,356,064)	(22,297,988)
PROFIT FOR THE YEAR		**108,103,912**	**173,788,460**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Fair value (losses)/gains on available-for-sale financial assets		(1,700,423)	1,150,628
Exchange differences on translation of foreign operations		245,487	31,058
COMPREHENSIVE INCOME FOR THE YEAR		**106,648,976**	**174,970,146**
Profit for the year attributable to:			
Owners of the Company		83,625,614	143,282,971
Non-controlling interest		24,478,298	30,505,489
Net profit for the year		**108,103,912**	**173,788,460**
Total comprehensive income for the year attributable to:			
Owners of the Company		82,054,636	144,452,771
Non-controlling interest		24,594,340	30,517,375
Earnings per share			
Basic and diluted earnings per share in HRK	17	32.59	55.83

KONČAR– ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

ASSETS	Note	**31 December 2017 HRK**	**31 December 2016 HRK**
Goodwill	18	7,342,331	7,980,446
Intangible assets	19	41,293,645	44,029,243
Property, plant and equipment	20	963,627,954	986,053,000
Investment property	21	137,773,135	163,148,502
Investments accounted for using the equity method	22	262,516,776	263,518,997
Financial assets	23	12,708,648	15,541,244
Receivables	24	10,874,967	14,178,830
Deferred tax assets	16	264,224	327,071
Non-current assets		**1,436,401,680**	**1,494,777,333**
Inventories	25	461,997,111	480,046,270
Receivables from related parties	26	33,338,230	97,476,136
Trade and construction contracts receivables	27	877,855,448	785,996,173
Prepaid corporate income tax		9,484,291	8,817,597
Other receivables	28	88,315,061	105,769,925
Financial assets	29	273,100,411	374,842,074
Cash and cash equivalents	30	520,696,817	441,470,621
Prepaid expenses and accrued income	31	7,842,804	5,936,422
Current assets		**2,272,630,173**	**2,300,355,218**
Non-current assets held for sale		-	4,138,671
TOTAL ASSETS		**3,709,031,853**	**3,799,271,222**
EQUITY AND LIABILITIES			
Share capital		1,208,895,930	1,208,895,930
Capital reserves		719,579	719,579
Other reserves		623,292,539	558,913,526
Retained earnings		337,981,548	295,728,107
Profit for the year		83,625,614	143,282,971
Attributable to Company owners		*2,254,515,210*	*2,207,540,113*
Non-controlling interest		230,384,895	240,785,531
TOTAL EQUITY	32	**2,484,900,105**	**2,448,325,644**
Warranty provisions		163,630,766	156,672,700
Other provisions		56,415,697	77,679,435
Provisions	33	**220,046,463**	**234,352,135**
Borrowings	34	120,798,248	122,031,946
Other non-current liabilities	44	8,001,769	-
Deferred tax liability		-	424,606
Non-current liabilities		**128,800,017**	**122,456,552**
Liabilities to related parties	35	16,100,685	23,633,329
Borrowings	36	63,928,234	61,888,252
Trade payables	37	364,550,205	348,212,115
Liabilities from construction contracts	38	19,087,549	13,315,717
Income tax payable		-	1,757,118
Liabilities for advances received	39	177,190,153	244,713,954
Other liabilities	40	99,442,046	94,618,681
Current provisions	33	112,761,907	123,811,935
Deferred income and accrued expenses	41	22,224,489	82,185,790
Current liabilities		**875,285,268**	**994,136,891**
Total liabilities		**1,224,131,748**	**1,350,945,578**
TOTAL EQUITY AND LIABILITIES		**3,709,031,853**	**3,799,271,222**

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

	Note	2017 HRK	2016 HRK
Cash flows from operating activities			
Proceeds from trade receivables		2,629,633,582	2,914,569,821
Proceeds from insurance compensations		6,305,832	33,669,077
proceeds from tax returns		133,156,630	102,469,057
Payments to trade payables		(1,953,626,275)	(2,014,870,185)
Payments for employees		(616,123,293)	(605,210,326)
Payments to insurance companies		(8,542,956)	(8,848,631)
Taxes paid		(89,016,203)	(129,286,068)
Other cash proceeds and payments		(90,854,189)	(90,878,631)
Cash from operations		**10,933,128**	**201,614,114**
Interest paid		(6,773,432)	(9,571,178)
Income tax paid		(30,480,072)	(17,481,430)
Net cash flows from operating activities		**(26,320,376)**	**174,561,506**
Cash flows from investing activities			
Proceeds from sale of non-current tangible and intangible assets		4,957,181	7,562,272
Proceeds from sale of equity and debt instruments		2,627,731	6,710,723
Interest received		1,909,934	8,299,169
Dividends received		140,505,709	50,397,118
Proceeds repayment of term deposits and other investing activities		452,992,960	572,498,700
Purchase of non-current tangible and intangible assets		(76,560,512)	(76,599,992)
Cash used for term deposits and other investing activities		(348,665,043)	(552,712,555)
Net cash flows from investing activities		**177,767,960**	**16,155,435**
Cash flows from financing activities			
Proceeds from borrowings		29,891,527	139,770,963
Repayment of borrowing principal	34, 36	(31,332,454)	(185,384,962)
Dividends paid		(47,172,127)	(47,170,796)
Transactions with non-controlling interest		(22,896,999)	(3,156,068)
Other cash proceeds/(expenses) from financing activities		(711,335)	75,160
Net cash flows from financing activities		**(72,221,388)**	**(95,865,703)**
Net increase in cash flows		**79,226,196**	**94,851,238**
Cash and cash equivalents at the beginning of the year		441,470,621	346,619,383
Cash and cash equivalents at the end of the year	30	**520,696,817**	**441,470,621**

KONČAR– ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(in HRK)	Share capital	Share premium	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Non-controlling interest	**Total**
At 31 December 2015	**1,208,895,930**	**719,579**	**483,706,422**	**4,143,784**	**(4,143,784)**	**272,108,024**	**127,651,294**	**228,414,785**	**2,321,496,034**
Profit for the year	-	-	-	-	-	-	143,282,971	30,505,489	**173,788,460**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	19,172	-	-	-	-	11,886	**31,058**
Changes in fair value of AFS financial assets	-	-	1,150,628	-	-	-	-	-	**1,150,628**
Total comprehensive income	*-*	*-*	*1,169,800*	*-*	*-*	*-*	*143,282,971*	*30,517,375*	***174,970,146***
Transactions with owners:									
Allocation of result for 2015	-	-	74,248,557	-	-	55,211,257	(129,459,814)	-	**-**
Dividend paid	-	-	-	-	-	(30,795,096)	-	(16,439,534)	**(47,234,630)**
Transactions with non-controlling interest	-	-	-	-	-	(603,634)	-	(2,552,438)	**(3,156,072)**
Other movements	-	-	(211,253)	-	-	(192,444)	1,808,521	845,343	**2,250,167**
	-	*-*	*74,037,304*	*-*	*-*	*23,620,083*	*(127,651,293)*	*(18,146,629)*	*(48,140,535)*
At 31 December 2016	**1,208,895,930**	**719,579**	**558,913,526**	**4,143,784**	**(4,143,784)**	**295,728,107**	**143,282,972**	**240,785,531**	**2,448,325,645**
Profit for the year	-	-	-	-	-	-	83,625,614	24,478,298	**108,103,912**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	129,445	-	-	-	-	116,042	245,487
Changes in fair value of AFS financial assets	-	-	(1,700,423)	-	-	-	-	-	(1,700,423)
Total comprehensive income	*-*	*-*	*(1,570,978)*	*-*	*-*	*-*	*83,625,614*	*24,594,340*	***106,648,976***
Transactions with owners:									
Allocation of result for 2016	-	-	65,949,991	-	-	77,332,981	(143,282,972)	-	**-**
Dividend paid	-	-	-	-	-	(30,795,096)	-	(16,285,862)	**(47,080,958)**
Transactions with non-controlling interest	-	-	-	-	-	(4,294,283)	-	(18,693,362)	**(22,987,645)**
Other movements	-	-	-	-	-	9,839	0	(15,752)	**(5,913)**
	-	*-*	*65,949,991*	*-*	*-*	*42,253,441*	*(143,282,972)*	*(34,994,976)*	*(70,074,516)*
At 31 December 2017	**1,208,895,930**	**719,579**	**623,292,539**	**4,143,784**	**(4,143,784)**	**337,981,548**	**83,625,614**	**230,384,895**	**2,484,900,105**

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

1. General information on the Group

1.1. Activities

The principal activities of the Končar – Electrical industry Group, Zagreb (hereinafter: "the Group") include the production of electrical machinery and appliances, production of transportation vehicles, machinery and metalworking.

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

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

The Group comprises 13 subsidiaries involved in core business activities and 2 subsidiaries with special activities, research and development of products and infrastructural services.

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

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

As at 31 December 2017, the Group had 3,639 employees, while as at 31 December 2016 the Group had 3,643 employees.

Members of the Supervisory Board:

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

Members of the Management Board:

Darinko Bago	President of the Management Board
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Davor Mladina	Member, in charge of industry and trade activities
Miroslav Poljak	Member, in charge of corporate development and ICT
Miki Huljić	Member, in charge of finance
Ivan Tomšić	Deputy member, in charge of corporate development and ICT from 5 June 2017
Jozo Miloloža	Member from 5 February 2017, deputy member until 5 August 2017

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

In 2017, the auditors of the Company's financial statements have provided services of HRK 1,384 thousand (2016: HRK 1,002 thousand). In 2017 and 2016, services mainly relate to costs of the audit and review of financial statements, as well as the audit of financial statements prepared for regulatory purposes. Other services provided by the auditor of the financial statements include accounting seminars and training services.

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group. As at 31 December 2017, the exchange rate for USD 1 and EUR 1 was HRK 6.27 and HRK 7.51 (31 December 2016: HRK 7.17 and HRK 7.56).

New and amended standards adopted and effective

The Group has adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- *Disclosure Initiative – IAS 7*
- *Recognition of Deferred Tax Assets for Unrealised Losses - IAS 12*

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

New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. None of these is expected to have a significant effect on the Group's financial statements, except for the following standards:

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

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

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

Key changes to current practice are:

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

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

During 2017, the Group has made a preliminary assessment and calculation of effects of applying IFRS 15 as of 1 January 2018 for unfinished contracted projects and the application of new rules would increase contracted assets by the amount of HRK 5.9 million, increase contracted liabilities by the amount of HRK 7.1 million and decrease retained earnings of the Group by HRK 1.2 million.

This standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

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 and a new model for impairment of financial assets.

The majority of the group's debt instruments that are currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available
- equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under IFRS 9, and

Accordingly, the group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During financial year 2017, the Group did not have any such gains.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of

IFRS 9. In addition, the Group intends to designate the intrinsic value of foreign currency option contracts as hedging instruments going forward. These are currently accounted as held-for-trading derivatives at FVPL. Changes in the fair value of foreign exchange forward contracts attributable to forward points, and in the time value of the option contracts, will in future be deferred in new costs of hedging reserve within equity. The deferred amounts will be recognised against the related hedged transaction when it occurs.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables and loan commitments. Based on the assessments undertaken to date, the Group expects an increase in the impairment loss of financial assets ranging from HRK 8 – 10 million.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

This standard is mandatory for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of the hedging reserve.

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

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

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has operating lease expenses of HRK 6,164 thousand, see Note 6. At this stage, the Group is not able to estimate the total impact of the new standard on the Group's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Group plans to adopt this standard on its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Clarifications to IFRS 15 Revenue from Contracts with Customers (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments clarify how companies:

- identify a performance obligation - the promise to transfer a good or service to a customer is distinct within the context of a contract
- identify whether the company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good service to be provided)
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

Standards, interpretations and amendments issued by the IASB, which have not been adopted by the EU:

IFRIC 22 Foreign Currency Transactions and Advance Consideration was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when the Group recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the Group recognises the related asset, expense or income.

For a single payment or receipt, the date of the transaction should be the date on which the Group initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

The Group can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

The Group assesses the potential effect of the amendments on its financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

IFRIC 23 – Uncertainty over Income Tax Treatments was issued in June 2016 and is effective for annual periods beginning on or after 1 January 2019.

The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. The Group should assume that the Tax Administration will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes it is not probable that the Tax Administration will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as an change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in fact and circumstances or new information that affects the judgments and estimates required by the interpretation.

The Management Board anticipates that the adoption of the amendments will not have a material effect on the Group's financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

IFRS 2 Leases Classification and Measurement of Share-based Payment Transactions was issued in June 2016 and is effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 2 clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in IFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

Entities with the following arrangements are likely to be affected by these changes:

- equity-settled awards that include net settlement features relating to tax obligations
- cash-settled share-based payments that include performance conditions and cash-settled arrangements that are modified to equity-settled share-based payments

The Management Board anticipates that the adoption of the amendments will not have a material effect on the Group's financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

Annual improvements 2014 -2016 cycle, issued in December 2016:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards – deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.
- IAS 28 – Investments in Associates and Joint Ventures – clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

The Management Board anticipates that the adoption of the amendments will not have a material effect on the Group's financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

Transfers of Investment Property – Amendments to IAS 40, issued in December 2016 and effective for annual periods beginning on or after 1 January 2018. The amendments clarify when the Group should transfer assets, including assets under construction or in progress, to or from investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and if this is supported by evidence. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle. A change in the Management Board's intentions alone on the use of a property does not provide sufficient evidence of a change in the use of the property.

The Board provided two options for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or
- retrospectively - only permitted without the use of hindsight.

Additional disclosures are required if the Group adopts requirements prospectively.

The Group assesses the potential effect of the amendments on its financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

Amendments to IAS 28 Interests in Associates and Joint Ventures were issued in October 2017 and effective for annual periods beginning on or after 1 January 2019. The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

The Management Board anticipates that the adoption of the amendments will not have a material effect on the Group's financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

Annual improvements 2015 – 2017 cycle were issued in December 2017 and are effective for annual periods beginning on or after 1 January 2019, and they include clarifications to the following standards:

- IFRS 3 Business Combinations – the Group remeasures its previously held interest in joint operations when it obtains control.
- IFRS 11 Joint Arrangements – the Group does not remeasure its previously held interest in joint operations when it obtains control.
- IAS 12 Income Taxes – the Group recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits.
- IAS 23 Borrowing Costs – explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowing costs eligible for capitalization only until the specific asset is substantially complete.

The Group will apply the amendments on their effective date and when endorsed by the European Union.

Amendments to IFRS 10 and IAS 28 Investments in Associates and Joint Ventures - In December, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. However, any gain or loss (as a result of a sale or non-operational asset) is recognised only to the amount invested by another investor in an associate or a joint venture. The amendments apply prospectively. The Management Board anticipates that the adoption of the amendments will not have a material effect on the Group's financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

2.2 Basis for consolidation

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries/loss of control over subsidiaries

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

2.3 Investments in associates and joint ventures

Associates

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

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

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

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

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

Joint arrangements

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

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

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

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

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

2.4 Business combinations

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

Goodwill

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

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

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

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

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

2.5 Revenue recognition

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

Revenue from the sale of goods and own products is recognised when all the following conditions have been met:

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

Income from services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.6 Finance income and costs

Finance income and costs comprise interest on loans and borrowings calculated using the effective interest method, receivables for interest on investments, dividend income, foreign exchange gains and losses, gains and losses from financial assets at fair value through profit or loss.

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in Notes 13 and 14 in gross amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

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

2.7 Construction contracts

When the outcome of a construction contract can be estimated reliably, revenues and expenses are recognised according to the stage of completion of contracted work at the balance sheet date, based on the share of contract costs incurred for work performed up to that date in relation to the total estimated contract costs. Variations in contracted work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected losses are recognised as an expense immediately.

2.8 Leases

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

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

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

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

Operating lease payments are recognised in profit or loss as an expense on a straight-line basis over the lease term.

2.9 Borrowing costs

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

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

2.10 Foreign currency transactions

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

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

2.11 Income tax

The parent company as well as domestic subsidiaries within the Group state its taxation liabilities in accordance with Croatian law. Income tax for the year comprises current and deferred tax.

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

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

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

2.12 Earnings per share

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

2.13 Related party transactions

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

2.14 Segment information

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

In identifying operating segments, Management mostly considers the sale of goods and provision of services within a certain economic area. Each of these operating segments are separately managed since they are determined on the basis of specific market needs.

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

Furthermore, assets which cannot be directly attributable to certain business segments remain unallocated.

There were no changes in the valuation methods used when determining the profit/loss of an operating segment compared to previous periods.

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

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

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

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

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

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

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

	Amortisation and depreciation rates (from – to %)
Development expenditure	20%
Concessions, patents, licences, software etc.	20%-25%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	2.9% - 25%
Tools and equipment, transport vehicles	3.4% – 25%
Other tangible assets	20%

Impairment of property, plant and equipment

The Group reviews the carrying amount of its property, plant and equipment to determine whether there is any indication of impairment of such assets. 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.

Where it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit (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 loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are changed.

The recoverable amount is determined as the 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).

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

2.16 Investment property

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

2.17 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale when its carrying value will be recovered principally through a sale transaction rather than through continuing use.

This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition. Assets which are once classified as held for sale are no longer depreciated.

2.18 Financial assets and financial liabilities

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the time frame established by the market concerned. Initially, they are 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 are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.
- Held to maturity – financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale (AFS) - non-derivative financial assets which are designated as such or they cannot be included in any of the above mentioned categories. AFS is stated at fair value. Changes in fair value are recognised 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 recognised 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 – this category comprises 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 recognised by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

When the Group derecognises (writes off) all financial assets, the difference between the carrying 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 provides evidence to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

Share premium includes premium at the issuance of shares. Transactions costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

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

Share capital repurchase

The consideration paid for the repurchase of the Group's equity share capital, including any directly attributable incremental costs related to the repurchase, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury shares is recognised directly in equity.

<u>Financial guarantee contract liabilities</u>

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 recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest income).

<u>Financial liabilities at fair value through profit or loss</u> - 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 recognised in the income statement. The net gain or loss recognised in the income statement includes any interest paid on the financial liability.

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

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

<u>Derecognition of financial liabilities</u>

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

2.19 Inventories

Inventories are stated at the lower of cost or net realisable value. The cost of inventories comprises all purchase costs, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method.

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

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

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

Small inventories, packaging and car tyres are fully written-off when put into use.

2.20 Receivables

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

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

2.21 Cash and cash equivalents

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

2.22 Trade payables

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

2.23 Borrowings

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

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

2.24 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognised as deferred income in the balance sheet and released in the income statement on a systematic and appropriate basis in accordance with the useful life of that asset. Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

2.25 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is likely that the settlement of the obligation will require an outflow of economic benefits and when it is certain that the amount of the obligation can be measured reliably. Provisions are reviewed at each balance sheet date and adjusted to reflect the best current estimate.

Provisions are determined for costs of repairs within warranty periods, legal claims, restructuring costs, termination benefits and awards to employees for long-term employment and retirement.

Provisions for warranties are recognized at the moment when the underlying products are sold/projects are completed. Provisions are made based on estimates and experiences from other manufacturers of energy equipment within the Group's environment and the best estimate of possible solutions against their probabilities.

Provisions for employee benefits for the number of years of service and retirement (regular jubilee awards and termination benefits) are determined as the present value of future cash outflows using a discount rate equal to the interest rate on government bonds.

2.26 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits - bonuses

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

(iv) Share-based payments

The Parent company operates an equity-settled, share-based compensation plans. The total amount recognised as expense and the relevant increase in share capital are measured by reference to the fair value of the provided equity instruments. The fair value of these equity instruments is measured at the grant date. At each reporting date, management revises its estimates of the number of options that are expected to vest.

2.27 Contingent assets and liabilities

Contingent liabilities are not recognised in the Group's consolidated 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 recognised in the Group's consolidated financial statements, except in case where the realisation of income is certain and the assets in question are not contingent assets and their recognition is appropriate.

2.28 Events after the balance sheet date (subsequent events)

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

2.29 Critical accounting estimates

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

a) Impairment of inventories

Group companies perform an impairment of inventories of raw materials and supplies, work in progress, finished goods and trade goods whose carrying amount exceeds their market, i.e. realisable value, based on the direct review of inventories and management's estimation of obsolete inventories, technologically inadequate and non-functional inventories or inventories which can no longer be used in production or realised on the market.

b) Provisions for warranty periods

The Group provides warranties for its products/projects performed for a period of 2 – 8 years. Management estimates the provision for costs within warranty periods based on past experience. Group companies are continuously reducing exposure to contingent liabilities from issued performance guarantees. If the required level of general provisions made had increased by 1% in relation to performed deliverables/active contracts under warranty, provisions would have increased by HRK 35.4 million (2016: HRK 36.1 million).

c) Estimation of construction contracts costs

Group companies, which recognise revenues in accordance with IAS 11 Construction contracts (contracts which are realised over a number of accounting periods), use the percentage of completion method when recognising revenue. Using this method requires an estimation of contract costs, incurred for work performed up to the balance sheet date, compared to the total estimated contract costs. If the stage of completion had increased by 10%, the Group's revenue for 2017 would have increased by HRK 23,271 thousand (2016: increased by HRK 17,910 thousand), whereas if the stage of completion had decreased by 10%, the Group's revenue would have decreased by HRK 40,674 thousand (2016: decreased by HRK 45,621 thousand).

d) Recoverability of non-current tangible assets

At the end of each reporting period, the Group assesses whether there are any indications that the value of property, plant and equipment should be impaired and estimates the recoverable amount of property and plant.

For the purpose of assessing a plant, the discounted cash flow method (DCF method) is used, which is based on the assumption that the value of the plant represents the present value of 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 residual value of entities. In determining the recoverability of the plant at the subsidiary Končar – Renewable Sources Ltd. the expected rate of return on invested capital of 5% was used according to the investment study of the Energy Institute Hrvoje Požar, which was adopted by the Coordination Board of the company, with a selling price of electricity of EUR 70/MWh in the period after the expiration of the preferential price of electricity and residual value, resulting in a decreased value of non-current tangible assets in the amount of HRK 34.7 million. The present value of all future cash flows at the project level at the selling price of EUR 70/MWh without residual value would have been lower by HRK 46 million.

2.30 Subsidiaries:

	31 December 2017		31 December 2016	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar - Household Appliances Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Small Electrical Machines Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical Engineering Institute Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Brakers Inc., Zagreb	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	100.00	100.00	100.00	100.00
Direct ownership	85.27	85.27	*85.27*	*85.27*
Indirect ownership	14.73	14.73	*14.73*	*14.73*
Končar - Electric Vehicles Inc., Zagreb	75.04	75.04	75.04	75.04
Končar - Steel Structures Inc., Zagreb	100.00	100.00	75.01	75.01
Končar - Electronics and Informatics Inc., Zagreb	75.03	75.03	75.03	75.03
Končar - Switchgears Inc., Sesvetski Kraljevec	-	-	70.03	81.70
Končar - Switchgear Inc. (previously: Končar - Medium Voltage Apparatus Inc., Zagreb)	100.00	100.00	100.00	100.00
Končar - Instrument Transformers Inc., Zagreb	61.97	99.77	61.73	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	52.73	67.90	52.73	67.90
Končar - High Voltage Switchgears Inc., Zagreb	-	-	98.61	99.03
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05
Consolidated subsidiaries not registered in Croatia:				
Power Engineering Transformatory Sp. z o.o. (PET) from Czerwonak, Poznan, Poland	74.00	74.00	-	-
*Indirect ownership***				
Non-consolidated subsidiaries:				
Konell Ltd., Sofia, Bulgaria*	85.00	85.00	85.00	85.00
Končar - Inženjering Inc., Zagreb*	100.00	100.00	100.00	100.00

* companies in indirect ownership by the Company Non-consolidated subsidiaries are not consolidated since they are insignificant on the Group level.

**During 2017, the subsidiary Končar - Distribution and Special Transformers Inc. acquired a 74% share in the company Power Engineering Transformatory Sp. z.o.o., but the 100% share was accounted for (Note 44).
Pursuant to the Merger Agreement dated 29 September 2017, approved by the Decision of the company's General Assembly dated 20 December 2017, and by the Decision of the Commercial Court dated 29 December 2017, Končar - Switchgears Inc. and Končar - Electrical High Voltage Switchgears Inc. merged with all their assets, rights and obligations with the company Končar– Switchgear Inc. (previously: Končar - Medium Voltage Apparatus Inc.).

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

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

These three companies represent 83.11% of the total amount of the Group's non-controlling interest at the balance sheet date.
Summary of the stated companies with significant non-controlling interests are presented below:

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR MI Inc.	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Statement of comprehensive income						
Income	906,640	869,131	181,221	173,733	126,963	152,348
Expenses	(863,582)	(831,831)	(174,132)	(164,574)	(122,733)	(148,144)
Profit before tax	43,058	37,300	7,089	9,159	4,230	4,204
Income tax	(1,551)	(1,370)	(1,087)	(1,048)	(1,075)	(1,080)
Profit after tax	**41,507**	**35,930**	**6,002**	**8,111**	**3,155**	**3,124**
Statement of financial position						
Non-current assets	173,525	153,649	58,180	58,242	10,400	9,833
Current assets	472,941	436,454	135,942	127,025	40,607	46,803
Total assets	**646,466**	**590,103**	**194,122**	**185,267**	**51,007**	**56,636**
Total liabilities	**345,833**	**316,604**	**95,963**	**89,762**	**18,504**	**34,000**
Cash flow						
Cash flow from operating activities	79,957	59,128	1,735	(1,154)	7,473	(2,090)
Cash flow from investing activities	(32,875)	(13,868)	(4,779)	(10,521)	(1,607)	(469)
Cash flow from financing activities	(683)	(19,145)	(5,499)	11,067	(1,714)	(633)
Net increase/(decrease) in cash	**46,399**	**26,115**	**(8,543)**	**(608)**	**4,152**	**(3,192)**
Cash at beginning of period	71,451	45,336	10,209	10,817	5,135	8,328
Cash at end of period	**117,850**	**71,451**	**1,666**	**10,209**	**9,287**	**5,136**

Associates:

	31 December 2017 Ownership share (in %)	31 December 2016 Ownership share (in %)
Associates accounted for by using the equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon Ltd., Zagreb*	50.00	50.00
Joint venture accounted for by using the equity method:		
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00

* company in indirect ownership by the Company

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

3. Sales

	2017 HRK	**2016** HRK
Domestic sales	1,138,069,153	1,305,209,918
Foreign sales	1,566,459,574	1,407,628,719
Sales to associates	118,917,570	140,303,707
	2,823,446,297	**2,853,142,344**

Segment information is presented in Note 43. Revenues from construction contracts are presented in Note 27.

4. Other operating income

Other operating income in the amount of HRK 139,867,508 (2016: HRK 143,398,610) mainly relates to income from the release of provisions, income from insurance claims, income from the sale of materials, income from collected receivables previously written off and other income.

5. Cost of materials and energy

	2017 HRK	**2016** HRK
Cost of raw materials and supplies	1,300,662,484	1,367,296,474
Energy cost	43,479,233	43,912,250
Cost of small inventories and spare parts	15,599,725	15,221,717
	1,359,741,442	**1,426,430,441**

6. Service costs

	2017	2016
	HRK	HRK
External products design and selling services	175,769,275	170,250,219
Maintenance services (servicing)	35,109,734	34,998,228
Telephone, post and transport	31,258,879	27,604,445
Intellectual and similar services	25,148,567	22,193,757
Entertainment	15,154,688	15,171,123
Agency commission costs	13,198,532	17,781,472
Utility services	9,796,934	9,926,621
Research and development costs	6,538,779	11,177,430
Lease and rentals	6,163,817	6,502,230
Costs of advertising and fairs	7,521,903	6,957,875
Professional training costs	4,931,977	3,798,074
Legal representation services	-	2,326,977
Outsourcing of employees	1,902,430	2,033,612
Freight forwarding	31,617,402	23,167,431
Other external costs	43,757,079	45,227,561
	407,869,996	**399,116,755**

7. Staff costs

	2017	2016
	HRK	HRK
Net salaries and wages	322,883,978	304,387,994
Taxes and contributions from salaries	152,458,695	154,971,670
Contributions on salaries	79,443,738	77,986,688
	554,786,411	**537,346,352**

Net salaries in the amount of HRK 322,883,978 (2016: HRK 278,738.103) include compensations to the Management Board of the Company and other related companies in the amount of HRK 21,387,465 (2016: HRK 16,246,136) and accrued bonuses for the Management Board in the amount of 7,016,004 (2016: HRK 8,222,021), and are an integral part of staff costs.

In 2017, pension fund contributions amounted to HRK 103,296,597 (2016: HRK 99,966,568).

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business travel expenses) in the amount of HRK 76,226 thousand (2016: HRK 69,584 thousand) are recorded in Note 9.

8. Depreciation and amortisation

	2017	**2016**
	HRK	HRK
Depreciation of property, plant and equipment (Note 20)	83,491,049	82,625,563
Amortisation of intangible assets (Note 19)	10,272,190	10,216,407
Depreciation of investment property (Note 21)	9,803	9,803
	93,773,042	**92,851,773**

9. Other expenses

	2017	**2016**
	HRK	HRK
Daily allowances for business trips and travel expenses	43,487,750	40,237,775
Reimbursements of costs to employees, gifts and support	32,738,196	29,345,861
Bank charges and payment transactions	14,641,486	16,753,640
Insurance premiums	16,616,992	16,390,333
Compensations to members of the Supervisory Board (gross)	6,361,883	7,288,548
Compensations for temporary service contracts and authors' fees	3,475,572	2,643,359
Taxes irrespective of result and fees	2,922,219	3,545,096
Contributions, membership fees and similar charges	2,664,575	2,243,625
Sponsorships and donations	2,203,777	3,213,096
Voluntary pension fund premiums	1,991,210	-
Other expenses	11,689,294	6,983,011
	138,792,954	**128,644,344**

10. Impairment losses

	2017	**2016**
	HRK	HRK
Impairment losses on non-current assets:		
Impairment losses on tangible assets (Note 20, Note 21)	37,058,764	761,439
Impairment losses on intangible assets (Note 19)	638,115	-
Goodwill impairment losses	623,878	-
	38,320,757	*761,439*
Impairment losses on non-current assets held for sale	*500,000*	*1,960,000*
Impairment losses on current assets:		
Impairment losses on current receivables	1,318,329	3,301,014
Impairment of inventories	13,124,730	19,395,671
	14,443,059	*24,656,685*
	53,263,816	**25,418,124**

11. Provisions

	2017	**2016**
	HRK	HRK
Provisions for costs within warranty period (Note 33)	54,156,309	55,252,062
Provisions for termination benefits and jubilee awards (Note 33)	25,208,733	18,928,195
Provisions for legal claims	2,183,963	2,129,317
Other non-current and current provisions	6,305,887	8,135,886
	87,854,892	**84,445,460**

The movement in non-current provisions is presented in Note 33. Provisions for costs within warranty period include non-current provisions amounting to HRK 36,602 thousand (2016: HRK 42,571 thousand), and current provisions amounting to HRK 17,554 thousand (2016: HRK 12,681 thousand).

12. Other operating expenses

	2017	**2016**
	HRK	HRK
Fines, penalties, insurance reimbursements, etc.	7,932,980	1,058,502
Inventory shortages	1,096,411	1,060,194
Other operating expenses	5,541,435	6,677,762
	14,570,826	**8,796,458**

13. Finance income

	2017	**2016**
	HRK	HRK
Interest, foreign exchange differences, dividends and similar income from relations with unrelated parties		
Interest income	3,273,654	13,669,886
Foreign exchange gains	39,760,822	32,070,810
Income from dividends and shares in profit	2,054,089	1,738,522
Other finance income	2,738,402	1,434,463
	47,826,967	*48,913,681*
Unrealised gains (income)	*759,213*	*1,149,274*
	48,586,180	**50,062,955**

14. Finance costs

	2017	2016
	HRK	HRK
Interest, foreign exchange differences, dividends and similar income from relations with unrelated parties		
Interest expense	6,980,606	9,366,563
Foreign exchange losses	45,590,781	37,452,411
Other finance costs	72,215	440,264
	52,643,602	*47,259,238*
Unrealised losses		
Impairment losses from non-current financial assets	30,257	398,086
	30,257	*398,086*
	52,673,859	**47,657,324**

15. Share in profit of associate/joint venture

The share in profit of associates in the amount of HRK 72,177,395 (2016: HRK 65,242,817) relates to the share in profit of the company Končar – Power Transformers Ltd. in which the Group owns a share of 49% in the amount of HRK 72,973,704 (2016: HRK 65,277,916), to the share in profit of the company Elkakon Ltd. in which the Group indirectly owns a 50% share in the amount of HRK 305,052 (2016: HRK 309,912) and to the share in the loss of a joint venture – the company Tbea Končar Instrument Transformers Ltd., China in the amount of HRK 1,101,361 (2016: HRK 2,155,085). HRK 345,011).

The above mentioned companies realised a total net profit/(loss) in 2017 as follows:

- Končar - Power Transformers Ltd.: profit of HRK 148,925,927 (2016: HRK 133,220,236).
- Elkakon Ltd.: profit of HRK 610,104 (2016: HRK 619,823).
- Tbea Končar Instrument Transformers Ltd.: loss of HRK 4,079,116 (2016: loss of HRK 1,277,818).

16. Income tax

The income tax calculation for the year ended 31 December was as follows:

	2017	2016
	HRK	HRK
Consolidated profit before tax	124,459,976	196,086,448
Income tax at 18% (*2016:* 20%)	**22,402,796**	**39,217,290**
Tax effects of:		
Consolidation adjustments	5,402,590	1,192,607
Tax non-deductible expenses	23,856,225	24,595,061
Income not subject to tax	(29,832,211)	(33,151,684)
Utilisation of previously unrecognised tax losses	-	(2,128,756)
Expired tax loss	-	2,350,534
Tax losses for which no deferred tax asset is recognised	6,107,148	5,664,141
Income tax in foreign subsidiaries	732,392	486,131
Income tax paid abroad	(656,049)	(408,295)
Investment incentives	(11,392,603)	(15,191,970)
Deferred tax asset recognised on temporary differences	(264,224)	(327,071)
Income tax	**16,356,064**	**22,297,988**
Effective tax rate		

The Group can carry forward tax losses for companies which incurred losses in 2017 and which had no tax liability and from subsidiaries which realised a profit in 2017 but had tax losses from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income in the period of the next five (5) years. As at 31 December 2017, the unrecognised tax asset on tax losses carried forward amounts to HRK 32,072 thousand (31 December 2016: HRK 30,822 thousand). The income tax rate for the application of the deferred tax calculation is 18% in accordance with the changes in the tax regulations in force.

Gross tax losses expire as follows:

	31 December 2017	31 December 2016
	HRK	HRK
Within 1 year	56,758,698	42,153,642
Within 2 years	16,584,586	56,749,697
Within 3 years	27,423,604	16,584,586
Within 4 years	29,394,751	27,423,604
Within 5 years	48,014,308	28,320,704
	178,175,947	**171,232,233**

No deferred tax assets have been recognised in the financial statements in respect of the tax losses carried forward due to the uncertainty of their future use. To date, the Tax Administration did not perform a review of the Group companies' income tax return. In accordance with local regulations, the Tax Administration may at any time inspect the individual Group companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

17. Earnings per share

Basic and diluted earnings per share

	2017	**2016**
	HRK	HRK
Net profit attributable to owners of the parent	83,625,614	143,282,971
Weighted average number of shares *(net of treasury shares)*	2,566,258	2,566,258
Earnings per share	**32.59**	**55.83**

Diluted earnings per share for 2017 and 2016 are the same as basic since the Group had no convertible instruments or options during both periods.

18. Goodwill

Goodwill amounting to HRK 7,342,331 (2016: relates to goodwill recognised in the course of gaining control over the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc. and Končar - Engineering for Plant Installation & Commissioning Inc.

The movement in goodwill during the year was as follows:

	HRK
At 1 January 2016	**7,980,446**
Increase	-
At 31 December 2016	**7,980,446**
Decrease	(638,115)
At 31 December 2017	**7,342,331**

Based on the performed goodwill impairment test, the Company's Management estimates that there is no need to impair goodwill at the reporting date since all three companies are profitable and realised income as planned.

19. Non-current intangible assets

	Development expenditure	Concessions, patents, licences, software etc .	Other	Assets under construction	Advances	Total
	HRK	HRK	HRK	HRK	HRK	HRK
Cost						
At 1 January 2016	**108,328,656**	**28,512,843**	**1,512,726**	**5,500,867**	**-**	**143,855,092**
Transfer from assets under construction	754,604	3,817,162	-	(4,571,766)	-	-
Additions	59,607	26,317	105,670	3,806,028	16,301	4,013,923
Disposals	(2,381,878)	(389,377)	-	(728,265)	(16,301)	(3,515,821)
At 31 December 2016	**106,760,989**	**31,966,945**	**1,618,396**	**4,006,864**	**-**	**144,353,194**
Transfer from assets under construction	253,358	701,720	-	(955,078)	-	-
Additions	1,597,033	681,478	13,780	4,657,272	-	6,949,563
Disposals	-	(509,732)	-	(182,251)	-	(691,983)
At 31 December 2017	**108,611,380**	**32,840,411**	**1,632,176**	**7,526,807**	**-**	**150,610,774**
Accumulated amortisation and impairment						
At 1 January 2016	**67,186,311**	**22,272,088**	**1,108,011**	**-**	**-**	**90,566,410**
Amortisation charge	7,630,124	2,417,286	168,997	-	-	10,216,407
Disposals	(69,528)	(389,338)	-	-	-	(458,866)
At 31 December 2016	**74,746,907**	**24,300,036**	**1,277,008**	**-**	**-**	**100,323,951**
Amortisation charge	7,713,465	2,415,700	143,025	-	-	10,272,190
Disposals	-	(1,902,890)	-	-	-	(1,902,890)
Impairment	-	-	-	623,878	-	623,878
At 31 December 2017	**82,460,372**	**24,812,846**	**1,420,033**	**623,878**		**109,317,129**
Net book amount						
31 December 2016	32,014,082	7,666,909	341,388	4,006,864	-	44,029,243
31 December 2017	**26,151,008**	**8,027,565**	**212,143**	**6,902,929**	**-**	**41,293,645**

The cost of fully amortised intangible assets still in use as at 31 December 2017 amounts to HRK 89,568 thousand (2016: HRK 66,381 thousand).

20. Property, plant and equipment

(in HRK)	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction	Advances	Total
Cost								
At 1 January 2016	**148,676,673**	**896,249,626**	**1,027,878,932**	**375,730,742**	**2,597,570**	**57,401,744**	**2,209,211**	**2,510,744,498**
Additions	-	495,127	18,354,420	1,648,226	-	99,954,386	6,902,356	127,354,515
Transfer from assets under construction	-	26,939,952	60,155,951	14,023,063	22,520	(101,141,486)	-	-
Transfer to assets held for sale	-	-	(16,215,971)	(374,026)	-	-	-	(16,589,997)
Transfer to investment property	(539,490)	(1,875,379)	-	-	-	(19,240,283)	-	(21,655,152)
Disposals	-	(69,357)	(90,394,030)	(80,048,808)	-	(17,868,666)	(3,825,382)	(192,206,243)
At 31 December 2016	**148,137,183**	**921,739,969**	**999,779,302**	**310,979,197**	**2,620,090**	**19,105,695**	**5,286,185**	**2,407,647,621**
Additions	-	2,149,480	2,499,795	429,876	447,982	67,983,874	23,599,730	97,110,737
Transfer from assets under construction	118,560	6,902,159	33,588,491	19,066,288	-	(57,433,686)	-	2,241,812
Acquisition of subsidiary	2,105,083	15,745,105	3,552,215	702,863	-	1,439,801	-	23,545,067
Transfer to investment property	-	-	-	-	-	(5,110,665)	-	(5,110,665)
Disposals	(114,943)	(867,535)	(16,599,322)	(19,011,501)	-	(155,919)	(19,353,986)	(56,103,206)
At 31 December 2017	**150,245,883**	**945,669,178**	**1,022,820,481**	**312,166,723**	**3,068,072**	**25,829,100**	**9,531,929**	**2,469,331,366**
Accumulated depreciation								
At 1 January 2016	**-**	**556,647,509**	**638,030,225**	**306,084,402**	**2,026,228**	**3,380,255**	**-**	**1,506,168,619**
Depreciation charge	-	21,165,188	43,917,985	17,536,925	5,465	-	-	82,625,563
Impairment	-	-	1,625,637	15,370	-	-	-	1,641,007
Additions	-	-	16,301,018	59,358	-	-	-	16,360,376
Transfer to assets held for sale	-	-	(16,077,299)	(374,026)	-	-	-	(16,451,325)
Disposals or retirements	-	(67,346)	(90,022,697)	(78,659,576)	-	-	-	(168,749,619)
At 31 December 2016	**-**	**577,745,351**	**593,774,869**	**244,662,453**	**2,031,693**	**3,380,255**	**-**	**1,421,594,621**
Depreciation charge	18,532	22,038,070	42,505,208	18,924,376	4,863	-	-	83,491,049
Impairment	-	-	37,058,764	-	-	-	-	37,058,764
Acquisition of subsidiary	-	(399,823)	-	-	-	-	-	(399,823)
Disposals or retirements	-	(455,951)	(15,196,169)	(17,466,473)	-	-	-	(33,118,593)
At 31 December 2017	**18,532**	**598,927,647**	**658,142,672**	**246,120,356**	**2,036,556**	**3,380,255**	**-**	**1,508,626,018**
Net book amount								
31 December 2016	**148,137,183**	**343,994,618**	**406,004,433**	**66,316,744**	**588,397**	**15,725,440**	**5,286,185**	**986,053,000**
31 December 2017	**150,227,351**	**346,741,531**	**364,677,809**	**66,046,367**	**1,031,516**	**22,448,845**	**9,531,929**	**960,705,348**

Mortgages have been registered over the Group's property and movables in the amount of HRK 226,359 thousand (2016: HRK 346,443 thousand) as a collateral for long-term borrowings (Note 34) and short-term borrowings (Note 36) in the amount of HRK 135 million (2016: HRK 435 million) and EUR 65 million (2016: EUR 65 million).

The cost of the Group's fully depreciated tangible assets still in use as at 31 December 2017 amounts to HRK 648,840 thousand (2016: HRK 640,688 thousand).

The carrying value of the Group's assets acquired under a finance lease as at 31 December 2017 amounts to HRK 4.1 million (2016: HRK 1.6 million).

21. Investment property

Investment property in the amount of HRK 137,773,135 (2016: HRK 163,148,502) relates to investment property for capital appreciation intended for future sale. The residual value of these investments estimated by independent valuers exceeds their carrying value, and accordingly, depreciation is not charged to these investments. Movements in investment property in 2017 and 2016 are presented below:

	Land	**Buildings**	**Total**
	HRK	**HRK**	**HRK**
Cost			
At 1 January 2016	**45,147,965**	**177,731,753**	**222,879,718**
Transfer from property, plant and equipment	9,635,000	18,252,266	27,887,266
Reclassification	888,600	(888,600)	-
Additions	481,750	480,338	962,088
Disposals	(68,720)	-	(68,720)
At 31 December 2016	**56,084,595**	**195,575,757**	**251,660,352**
Transfer from property, plant and equipment	-	2,188,059	2,188,059
Transfer from assets held for sale	-	3,500,000	3,500,000
Disposals	(10,537,466)	(20,516,157)	(31,053,623)
At 31 December 2017	**45,547,129**	**180,747,659**	**226,294,788**
Accumulated depreciation			
At 1 January 2016	**-**	**79,093,662**	**79,093,662**
Additions	-	9,803	9,803
Transfer from property, plant and equipment	-	8,646,984	8,646,984
Depreciation charge	-	761,401	761,401
At 31 December 2016	**-**	**88,511,850**	**88,511,850**
Depreciation charge	-	9,803	9,803
At 31 December 2017	**-**	**88,521,653**	**88,521,653**
Net book amount			
31 December 2016	**56,084,595**	**107,063,907**	**163,148,502**
31 December 2017	**45,547,129**	**92,226,006**	**137,773,135**

The fair value of investment property at the balance sheet date amounting to HRK 137,773 thousand relates to fair value level 3 since the input variables are not based on observable market data.

22. Investments accounted for using the equity method

	31 December 2017	31 December 2016
	HRK	HRK
Associates:		
Končar - Power Transformers Ltd., Zagreb (49%)	244,722,545	244,722,545
Other associates (indirect subsidiaries):		
Elkakon Ltd., Zagreb (50% - indirect)	4,389,180	4,290,040
Joint venture:		
Tbea Končar Instrument Transformers, China (27%)	13,405,051	14,506,412
	262,516,776	**263,518,997**

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

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

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

Summary information for associates are shown in the following table:

	Končar - Power Transformers Ltd.		**Elkakon Ltd.**	
	2017	**2016**	**2017**	**2016**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Revenues	1,161,497	1,158,808	67,173	64,175
Expenses	(974,702)	(992,211)	(66,429)	(63,400)
Profit before tax	186,795	166,597	744	775
Income tax	(37,869)	(33,377)	(134)	(155)
Profit after tax	**148,926**	**133,220**	**610**	**620**
Non-current assets	182,310	180,659	5,691	5,366
Current assets	841,152	845,085	16,035	13,367
Total assets	**1,023,462**	**1,025,744**	**21,726**	**18,733**
Total liabilities	**375,103**	**393,091**	**12,970**	**10,153**

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

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

	Tbea Končar Instrument Transformers Ltd. 2017 HRK'000	2016 HRK'000
Revenues	97,306	147,935
Expenses	(100,535)	(148,161)
Loss before tax	(3,229)	(226)
Income tax	(850)	(1,052)
Loss after tax	**(4,079)**	**(1,278)**
Non-current assets	4,014	5,972
Current assets	120,703	132,685
Total assets	**124,717**	**138,657**
Total liabilities	**68,311**	**74,355**

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

	Power Transformers Ltd. HRK	**Elkakon Ltd. HRK**
1 January 2016	**244,722,545**	**4,180,128**
Profit of associate (Note 15)	65,277,916	304,000
Dividend payment by associate	(65,277,916)	(200,000)
31 December 2016	**244,722,545**	**4,284,128**
Profit of associate (Note 15)	72,973,704	305,052
Dividend payment by associate	(72,973,704)	(200,000)
31 December 2017	**244,722,545**	**4,389,180**

Movements in investments in the joint venture are as follows:

	HRK
1 January 2016	**14,820,375**
Loss of joint venture (Note 15)	(345,011)
Foreign exchange differences on translation through OCI	31,048
31 December 2016	**14,506,412**
Loss of joint venture (Note 15)	(1,101,361)
Foreign exchange differences on translation through OCI	-
31 December 2017	**13,405,051**

23. Non-current financial assets

	31 December 2017 HRK	31 December 2016 HRK
Other subsidiaries (indirect subsidiaries):		
Končar - Inženjering Inc., Zagreb	227,787	227,787
Konell Ltd., Bulgaria	62,280	62,280
	290,067	**290,067**
Financial assets available for sale (shares in capital up to 20%):		
Dalekovod d.d. Zagreb	271,990	271,990
Novi Fermot Ltd., Donji Kraljevec	1,717,200	1,717,200
Ferokotao Ltd., Donji Kraljevec	1,048,128	1,048,128
Centar proizvodnog strojarstva i analitičarstva Ltd.	30,000	40,000
Pevec d.d.	-	2,125,030
IGH d.d.	460,465	414,894
	3,527,783	**5,617,242**
Financial assets at fair value through profit or loss and available for sale:		
Derivative financial assets	57,782	38,957
Investments in shares (ZABA, PBZ, Tesla)	4,785,603	5,050,756
Impairment of shares	(3,520,010)	(3,520,010)
	1,323,375	**1,569,703**
Loans granted, deposits and similar	**7,567,423**	**8,064,232**
	12,708,648	**15,541,244**

24. Non-current receivables

	31 December 2017 HRK	31 December 2016 HRK
Receivables from credit sales		
Receivables for flats sold /i/	7,234,403	8,919,173
Impairment of receivables for flats sold	(428,782)	(1,187,994)
Receivables for shares sold	-	2,509,870
Current portion – flats and shares sold (Note 28)	(856,796)	(3,383,473)
Other receivables	625,000	2,133,883
	6,573,825	**8,991,459**
Other receivables		
Receivables on the basis of foreign sales /ii/	3,371,833	3,984,780
Current portion of foreign sales (Note 27)	(680,699)	(593,139)
Loans granted to employees	1,922,789	2,247,145
Current portion of loans granted to employees (Note 28)	(415,197)	(547,635)
Other non-current receivables	102,416	96,220
	4,301,142	**5,187,371**
	10,874,967	**14,178,830**

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

/ii/ Receivables on the basis of foreign sales relates to receivables for sales in Bosnia and Herzegovina through the company TAKRAF from Germany, acquired by KfW Bank, Berlin.

25. Inventories

	31 December 2017 HRK	31 December 2016 HRK
Raw materials and supplies	283,136,790	280,277,154
Work in progress	124,274,604	118,139,869
Unfinished and semi-finished goods	32,061,404	37,806,876
Finished goods	67,241,715	88,515,515
Trade goods	25,317,665	24,584,618
Goods in transit	9,283	784,420
Spare parts	148,788	105,444
Small inventory and packaging	3,795,686	3,702,130
Less: Impairment of raw materials and supplies, spare parts, and small inventory and packaging	(63,776,841)	(62,779,022)
Impairment of work in progress, finished goods and trade goods	(18,669,914)	(15,285,524)
	453,539,180	**475,851,480**
Advances for inventories		
Domestic advances	6,322,735	1,969,451
	6,322,735	*1,969,451*
Foreign advances	2,162,680	2,314,790
Impairment of advances given	(27,484)	(89,451)
	2,135,196	*2,225,339*
Total advances	**8,457,931**	**4,194,790**
	461,997,111	**480,046,270**

In 2017, the cost of goods sold recognised in the income statement amounted to HRK 1,979,353 thousand (2016: HRK 1,621,041 thousand).

26. Receivables from related parties

	31 December 2017 HRK	31 December 2016 HRK
Associates and joint ventures:		
Končar - Power Transformers Ltd., Zagreb	25,732,918	91,055,042
TBEA China	813,325	325,740
Elkakon Ltd. Zagreb	6,791,987	6,095,354
	33,338,230	**97,476,136**

27. Trade receivables and receivables from construction contracts

	31 December 2017	31 December 2016
	HRK	HRK
Trade receivables (invoiced) /i/	752,083,374	686,298,064
Receivables under construction contracts (uninvoiced) /ii/	125,772,074	99,698,109
	877,855,448	**785,996,173**

/i/ Trade receivables

	31 December 2017	31 December 2016
	HRK	HRK
Domestic trade receivables	372,616,168	424,648,492
Provision for impairment	(41,292,244)	(43,109,114)
Total domestic trade receivables	**331,323,924**	**381,539,378**
Foreign trade receivables	518,118,258	403,431,726
Current portion of foreign sales (Note 24)	680,699	593,139
Provision for impairment	(98,039,507)	(99,266,179)
Total foreign trade receivables	**420,759,450**	**304,758,686**
Total domestic and foreign trade receivables	**752,083,374**	**686,298,064**

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

	Total	**Not past due**	**Past due but collectible**				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2017	**752,083,374**	636,986,098	71,189,493	6,752,778	19,900,206	9,293,793	7,961,006
2016	**686,298,064**	576,645,788	87,526,348	10,103,053	6,340,886	4,325,709	1,356,280

There was no significant change in the credit quality of receivables past due which have not been impaired and they are considered recoverable. The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above.

The movement in provisions for impairment of trade receivables is as follows:

	2017	2016
	HRK	HRK
At 1 January	**142,375,293**	**144,886,476**
Impaired during the year	2,108,826	3,058,921
Collected during the year	(4,236,953)	(3,841,294)
Written-off during the year	(228,218)	(972,514)
Foreign exchange differences	(687,197)	(756,296)
At 31 December	**139,331,751**	**142,375,293**

/ii/ Receivables under construction contracts

	31 December 2017 HRK	31 December 2016 HRK
Costs incurred plus recognised gains, less recognised losses	347,038,147	549,434,441
Less invoiced amounts	(221,266,073)	(449,736,332)
	125,772,074	**99,698,109**

The amount of construction contract revenues, which are recognised as revenues in 2017, is HRK 351,959 thousand (2016: HRK 522,522 thousand). The total amount of advances received for contracts which are not completed as at 31 December 2017 is HRK 116,262 thousand (2016: HRK 149,045 thousand), while the total amount of retentions for construction contracts is HRK 92,897 thousand (2016: HRK 31,960 thousand).

28. Other receivables

	31 December 2017 HRK	31 December 2016 HRK
Receivables from state and other institutions		
Receivables for value added tax	40,791,597	31,511,379
Receivables from the Croatian Health Insurance Fund	948,819	708,315
Other	3,662,646	5,462,834
	45,403,062	**37,682,528**
Other current receivables		
Receivables for shares and stakes sold /i/	9,185,814	9,032,958
Receivables for advances given for services	20,216,644	43,805,827
Receivables for recognised claims	8,292,699	8,292,699
Current portion of receivables for shares sold (Note 24)	-	2,509,870
Receivables for flats sold (current portion) (Note 24)	856,796	873,603
Current portion of loans granted to employees (Note 24)	415,197	547,635
Other receivables	2,628,971	2,259,408
	41,596,121	**67,322,000**
Receivables from employees		
Receivables from employees	1,643,349	1,092,868
Impairment of receivables from employees	(327,471)	(327,471)
	1,315,878	**765,397**
	88,315,061	**105,769,925**

/i/ Receivables for sold shares and stakes relate to non-current receivables from the sale of shares of related companies Končar - Electronics and Informatics Inc. within the employee share ownership program repayable in instalments over a period of 10 years, which have been recorded as current receivables at the balance sheet date.

29. Current financial assets

	31 December 2017 HRK	31 December 2016 HRK
Deposits over 3 months	271,587,039	373,953,005
Derivative financial instruments – forward contracts	882,706	241,611
Loans given (5%)	625,281	647,102
Other financial assets	5,385	356
	273,100,411	**374,842,074**

The contractual interest on deposits over 3 months in commercial banks is set between 0.01%-2% (2016: 0.02%-0.7%).

30. Cash and cash equivalents

	31 December 2017 HRK	31 December 2016 HRK
Deposits up to 3 months	2,254,094	94,258,008
Giro accounts	186,464,413	94,151,866
Foreign currency accounts	328,593,266	234,172,991
Investments in cash funds	3,133,804	18,690,402
Cash on hand	245,116	191,230
Short-term securities	191,116	191,116
Less: Impairment	(184,992)	(184,992)
	520,696,817	**441,470,621**

The contractual interest on deposits up to 3 months in commercial banks is set between 0.01%-2% (2016: 0.01% - 0.97%).

31. Prepaid expenses and accrued income

Prepaid expenses and accrued income in the amount of HRK 7,842,804 (2016: HRK 5,936,422) relate to prepaid expenses in the amount of HRK 6,637,859 (2016: HRK 5,019,154) and accrued income in the amount of HRK 1,204,945 (2016: HRK 917,268).

32. Capital and reserves

Share capital is determined in the nominal amount of HRK 1,208,895,930 (31 December 2016: HRK 1,208,895,930) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The ownership structure of the Parent company is as follows:

		31 December 2017		31 December 2016	
	Shareholder	Number of shares	Ownership share %	Number of shares	Ownership share %
1	HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
2	ADDIKO BANK d.d./PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
3	SOCIETE GENERALE / AZ OMF	377,429	14.67	377,429	14.67
4	SOCIETE GENERALE - Splitska banka d.d./ Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
5	Restructuring and Sale Center (CERP)/Croatia	83,610	3.25	57,982	2.25
6	FLORIČIĆ KRISTIJAN	50,714	1.97	50,714	1.97
7	ADDIKO BANK/RBA OMF	47,636	1.85	48,291	1.88
8	ZAGREBAČKA BANKA D.D. /AZ PROFIT DOBROVOLJNI MIROVINSKI FOND	32,803	1.28	28,928	1.12
9	PBZ d.d. /custodian joint client account	24,251	0.94	29,050	1.13
10	ZEC BRANISLAV	22,843	0.89	22,843	0.89
11	Other shareholders	422,290	16.41	446,339	17.35
12	KONČAR Inc. (treasury shares)	5,861	0.23	5,861	0.23
		2,572,119	**100.00**	**2,572,119**	**100.00**

In 2017, the Parent company’s General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 30,795,096 which is HRK 12,00 per share (2016: HRK 30,795,096 which is HRK 12,00 per share).

The Group has formed legal, statutory and other reserves in line with the Companies Act that are defined on the basis of profit distribution in accordance with the General Assembly's decision. Statutory and other reserves are distributable.

33. Provisions

	Warranty provisions	Provisions for legal disputes	Jubilee awards and termination benefits	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
1 January 2016	**195,430,791**	**35,338,755**	**26,165,515**	**2,415,349**	**259,350,410**
Additional provisions	42,570,933	2,129,317	17,323,365	1,527,751	63,551,366
Release of provisions	(29,231,984)	(655,342)	(5,173,155)	-	(35,060,481)
Foreign exchange differences and similar	48,783	-	-	-	48,783
Transfer to current provisions	(52,145,823)	-	(813,500)	(578,620)	(53,537,943)
31 December 2016	**156,672,700**	**36,812,730**	**37,502,225**	**3,364,480**	**234,352,135**
Additional provisions	36,601,673	2,183,963	24,399,498	165,077	63,350,211
Release of provisions	(10,122,305)	(1,071,104)	(12,065,332)	(1,901,423)	(25,160,164)
Utilised provisions	-	(31,800,000)	-	-	(31,800,000)
Foreign exchange differences and similar	585,526	-	10,007	-	595,533
Transfer to current provisions	(20,106,828)	-	(1,184,424)	-	(21,291,252)
31 December 2017	**163,630,766**	**6,125,589**	**48,661,974**	**1,628,134**	**220,046,463**

Provisions mature as follows:

	31 December 2017	31 December 2016
	HRK	HRK
Within 1 year	112,761,907	123,811,935
More than 1 year	220,046,463	234,352,135
	332,808,370	**358,164,070**

Warranty provisions

Warranty provisions relate to estimated costs of possible repairs in warranty periods for companies within the Group. Provisions for warranty costs are determined on the basis of Management's best estimate and includes general and specific provisions. General provisions are based on estimates and experience of other similar producers of energy equipment within this type of industry. The Group regularly issues warranties for a minimum of 2 years for sold equipment/performed energy projects. Management assesses and recognises a provision representing 2% - 8% of the sales value of sold products/projects completed under warranty obligation. Individual/specific provisions refer to potential quality problems with regard to sold energy equipment/projects executed to individual customers. The non-current provision for costs within warranty periods amounts to HRK 163,630,766 (31 December 2016: HRK 156,672,700), while current provisions amount to HRK 103,687,458 (31 December 2016: HRK 117,201,682).

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of HRK 6,125,589 (2016: HRK 36,812,730) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes. Non-current provisions for legal disputes in 2016 in the amount of HRK 31,800,000 relate to a legal dispute initiated against the Company in Croatia in relation to determining ownership over the property in Konavoska, Zagreb. During 2017, the Company cancelled the amount of the provision since a resolution was rendered in favour of the plaintiff, and the value of the investment property was eliminated from records in the same amount (Note 21).

Provisions for jubilee awards and termination benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 48,661,974 (2016: HRK 37,502,225) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 2% (2016: 3.5%).

Other non-current provisions in the amount of HRK 1,628,134 (31 December 2016: HRK 3,364,480) relate to provisions for product testing in the amount of HRK 501,995 (31 December 2016: HRK 1,001,994) and other provisions in the amount of HRK 1,126,139 (31 December 2016: HRK 2,362,486).

34. Long-term borrowings

	31 December 2017 HRK	31 December 2016 HRK
Bank borrowings	149,791,145	152,719,318
Less: Current portion (Note 36)	(28,992,897)	(30,687,372)
	120,798,248	**122,031,946**

Changes in bank borrowings were as follows:

	HRK
1 January 2016	**142,988,558**
New borrowings	59,723,409
Repayment of borrowings	(48,452,452)
Foreign exchange differences	(1,540,197)
Less: current portion	(30,687,372)
31 December 2016	**122,031,946**
New borrowings	26,606,983
Acquisition of subsidiary	1,677,234
Repayment of borrowings	(191,000)
Foreign exchange differences	(334,018)
Less: current portion	(28,992,897)
31 December 2017	**120,798,248**

Long-term bank borrowings mature as follows:

	31 December 2017 HRK	31 December 2016 HRK
Within 1 year	28,992,897	30,687,372
From 1 to 2 years	31,350,411	14,008,245
From 2 to 5 years	69,717,779	86,206,246
More than 5 years	19,730,058	21,817,455
Less: current portion	(28,992,897)	(30,687,372)
	120,798,248	**122,031,946**

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

Company name	Creditor	Purpose of borrowing	Borrowing amount	Interest rate	Maturity	Collaterals
Končar Renewable Sources Ltd.	HBOR	Financing of project "Vjetroelektrana Pometeno brdo"	EUR 6,772,103	4%	21 Dec 2022	Bills of exchange, debentures, vinculated insurance policies, mortgages, cessions, pledge agreement on project accounts, solidary guarantee of parent company in full amount over borrowing period
Končar Renewable Sources Ltd.	ZABA	Financing of project "Vjetroelektrana Pometeno brdo"	EUR 1,500,000	3-month EURIBOR + margin of 4% p.a.	31 Dec 2022	Bills of exchange, debentures, vinculated insurance policies, mortgages, cessions, pledge agreement on project accounts, solidary guarantee of parent company in full amount over borrowing period
Končar Instrument Transformers Inc.	ZABA d.d.	Investment financing	HRK 3,005,459	4,2% fixed	31 March 2022	3 blank accepted bills of exchange, pledge over property and equipment
Končar Instrument Transformers Inc.	ZABA d.d.	Investment financing	HRK 8,968,335	3,0% variable	30 Sep 2022	3 blank accepted bills of exchange, pledge over property and equipment
Končar Instrument Transformers Inc.	ERSTE	Working capital financing	HRK 8,000,000	3.4% fixed	31 Dec 2021	Debenture, pledge over financed property
Končar Instrument Transformers Inc.	ERSTE	Working capital financing	HRK 4,000,000	3.4% fixed	31 Dec 2021	Debenture, pledge over financed property
Končar Distribution and Special Transformers Inc.	RBA d.d.	Financing the acquisition of the 74% share in the company Power Engineering Transformatory Sp. z.o.o., Poland	EUR 3,000,000	2.05% fixed	30 June 2027	Security instruments are 2 blank bills of exchange with bill of exchange statement, 1 general debenture of EUR 3,000,000.00, pledge over Company property and movables based on the Insurance Agreement amounting to EUR 25,000,000.00.
Končar Distribution and Special Transformers Inc.	RBA d.d.	Refinancing of borrowing from HBOR's lending program for development of economic activities for financing VN laboratory project	EUR 2,812,168	1.85% fixed	30 June 2020	4 blank bills of exchange, 1 debenture, pledge in favour of the Bank, property insurance policies that are subject to pledge
Končar Steel Structures Inc.	HBOR	Investment in non-current tangible assets	EUR 1,169,978	3% - variable	30 April 2030	3 blank bills of exchange, 5 blank debentures with max. amount of HRK 1,000,000.00, 1 general debenture in the amount of the granted borrowing plus interest, fees and charges, pledge over property
Končar Steel Structures Inc.	HBOR	Working capital financing	EUR 890,996	4% fixed	31 Aug 2023	10 blank bills of exchange, 10 blank debentures with max. amount of HRK 1,000,000.00, 1 general debenture in the amount of the granted borrowing plus interest, fees and charges, vinculated property insurance policy, pledge over property

35. Liabilities to related parties (associates and joint ventures)

	31 December 2017	31 December 2016
	HRK	HRK
Končar - Power Transformers Ltd., Zagreb	12,472,837	20,241,452
Elkakon Ltd.	3,582,823	3,118,994
TBEA China	45,025	272,883
	16,100,685	**23,633,329**

36. Current liabilities to banks (borrowings) and other loans

	31 December 2017	31 December 2016
	HRK	HRK
Liabilities to banks and other financial institutions	34,935,337	31,200,880
Plus: Current portion (Note 34)	28,992,897	30,687,372
	63,928,234	**61,888,252**

Movements in bank borrowings during the year can be summarised as follows:

	HRK
1 January 2016	**87,973,492**
New borrowings	80,460,189
Repayment of borrowings	(136,932,510)
Foreign exchange differences	112,344
Plus: current portion of long-term borrowings	30,687,372
31 December 2016	**61,888,252**
New borrowings	4,265,180
Repayment of borrowings	(31,141,454)
Foreign exchange differences	(76,641)
Plus: current portion of long-term borrowings	28,992,897
31 December 2017	**63,928,234**

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

Company name	Creditor	Purpose of borrowing	Borrowing amount	Interest rate	Maturity	Collaterals
Končar Instrument Transformers Inc.	ERSTE	Refinancing of short-term borrowing from 2008	HRK 10,000,000	4% fixed	15 February 2018	1 debenture and 5 blank bills of exchange
Končar Instrument Transformers Inc.	ZABA	Revolving loan agreement for preparing and collecting export transactions from HBOR funds	HRK 15,000,000	3% fixed	15 April 2018	1 debenture on granted placement, validated by public notary
Končar Steel Structures Inc.	ZABA	Working capital requirements	HRK 3,500,000	3.70% - variable	27 January 2018	Debenture, pledge over property based on mortgage bills of exchange, vinculated insurance policy for property insurance
Končar Household Appliances Ltd.	ZABA	Working capital requirements	EUR 350,000	3M EURIBOR + 2.9% p.a.	22 December 2018	1 debenture, validated by public notary

37. Trade payables

	31 December 2017	31 December 2016
	HRK	HRK
Domestic trade payables	217,147,913	237,861,511
Foreign trade payables	147,400,260	110,350,604
Liabilities for uninvoiced goods	2,032	-
	364,550,205	**348,212,115**

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

	Total	Not past due	Past due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2017	**364,550,205**	321,635,472	37,660,717	1,926,392	1,894,567	665,048	768,009
2016	**348,212,115**	312,812,824	32,034,616	1,268,184	369,106	869,077	858,308

38. Liabilities from construction contracts

	31 December 2017	31 December 2016
	HRK	HRK
Invoiced in the year under contracts	196,066,661	123,343,316
Less costs incurred plus recognised gains, less recognised losses	(176,979,112)	(110,027,599)
	19,087,549	**13,315,717**

39. Liabilities for advances received

	31 December 2017	31 December 2016
	HRK	HRK
From domestic customers	21,277,300	24,268,035
From foreign customers	155,912,853	220,445,919
	177,190,153	**244,713,954**

40. Other liabilities

	31 December 2017	31 December 2016
	HRK	HRK
Liabilities to the state and other institutions		
VAT payable	23,108,910	9,990,413
Liabilities for contributions on and from salaries and taxes and surtaxes	32,761,274	41,983,658
Other liabilities	406,575	284,974
	56,276,759	**52,259,045**
Other current liabilities		
Interest payable	1,151,051	952,000
Liabilities from share in result	676,131	683,776
Other liabilities	3,828,696	3,468,230
	5,655,878	**5,104,006**
Current liabilities to employees		
Liabilities for net salaries	30,888,912	31,511,750
Termination benefits payable	1,066,526	443,876
Liabilities toward Management Boards of companies for bonuses	5,289,522	5,030,463
Other liabilities	264,449	269,541
	37,509,409	**37,255,630**
	99,442,046	**94,618,681**

41. Accrued expenses and deferred income

	31 December 2017	31 December 2016
	HRK	HRK
Deferred income	16,030,419	74,093,023
Accrued expenses	6,194,070	8,092,767
	22,224,489	**82,185,790**

42. Financial risk management and financial instruments

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

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

a) Capital risk management

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

The Group manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Group may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2017 and 31 December 2016. The Group monitors capital on the basis of the gearing ratio, which is calculated as follows.

	31 December 2017 HRK'000	31 December 2016 HRK'000
Financial liabilities	192,728	183,920
Less: cash and cash equivalents (deposits)	(520,697)	(441,471)
Net debt	-	-

b) Significant accounting policies

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

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

	Loans and receivables	Assets at fair value through P&L	Available-for-sale assets	Total assets classified under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2017				
Non-current financial assets	8,621	1,284	2,804	12,709
Non-current receivables	10,875	-	-	10,875
Current financial assets	272,217	883	-	273,100
Trade receivables, receivables from related parties and other receivables	929,944	-	-	929,944
Cash and cash equivalents	520,697	-	-	520,697
	1,742,354	**2,167**	**2,804**	**1,747,325**

	Loans and receivables	Assets at fair value through P&L	Available-for-sale assets	Total assets classified under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2016				
Non-current financial assets	8,064	1,570	5,907	**15,541**
Non-current receivables	14,179	-	-	**14,179**
Current financial assets	374,601	241	-	**374,842**
Trade receivables, receivables from related parties and other receivables	906,988	-	-	**906,988**
Cash and cash equivalents	422,781	18,690	-	**441,471**
	1,726,613	**20,501**	**5,907**	**1,753,021**

All of the Group's liabilities have been classified as “At amortised cost”. The Group does not have any liabilities classified as “Liabilities at fair value through profit or loss”.

Fair value of financial assets and liabilities

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

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

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

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

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

31 December 2017

	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	1,998	-	-	1,998
Fair value of derivative financial instruments	-	940	-	940
Available-for-sale financial assets	-	-	2,795	2,795
Units in cash funds	3,134	-	-	3,134
	5,132	**940**	**2,795**	**8,867**

31 December 2016

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

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

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

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

- Receivables and deposits with banks – for assets due within three months and cash funds, the carrying amount approximates their fair value due to the short maturity of these instruments. For non-current assets, the contracted interest rates do not significantly deviate from the current market rates and, accordingly, their fair value approximates their carrying amount.
- Borrowings - the fair value of current liabilities approximates their carrying value due to the short-term maturities of these instruments. The Management Board believes that their fair value is not materially different from their carrying value.
- Other financial instruments – financial instruments that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

c) Financial risk

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

Market risk

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

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

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

a) Foreign exchange risk

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

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

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

31 December 2017	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-current receivables	5,871	125		5,996	4,879	10,875
Non-current financial assets	2,145	-	-	2,145	10,564	12,709
Trade receivables and receivables from related parties	457,316	1,107	26,345	484,768	426,426	911,194
Derivative instruments	940	-	-	940	-	940
Deposits over 3 months	207,242	2,006	7,128	216,376	55,211	271,587
Cash and cash equivalents	314,013	1,798	12,346	328,157	192,540	520,697
	987,527	**5,036**	**45,819**	**1,038,382**	**689,620**	**1,602,230**
Trade payables and liabilities to related parties	(218,002)	(920)	(6,337)	(225,259)	(155,392)	(380,651)
Borrowings	(145,920)	-	-	(145,920)	(46,808)	(192,728)
	(363,922)	**(920)**	**(6,337)**	**(371,179)**	**(202,200)**	**(573,379)**

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

In the above tables, receivables for flats 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

A change in the HRK exchange rate against the EUR by -1% (2016: -1%), and a change against the CHF by -13% (2016: +2.5%) and changes in other currencies at the reporting date would have (decreased)/increased profit before tax as follows:

	2017 Effect on profit before tax HRK'000	2016 Effect on profit before tax HRK'000
EUR -1% (2016: -1%)	(6,326)	(5,568)
USD -13% (2016: +2.5%)	(570)	268
Other currencies	(1,809)	(392)

This analysis assumes that all other variables, interest rates especially, remain unchanged.
A reverse proportional change of the HRK against the above currencies by the same average percentage changes at the reporting date would have had the equal but opposite effect on the profit before tax, provided that all other variables are held constant.

b) Interest rate risk

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

The following table shows the sensitivity of changes in interest rates relating to the Group's borrowings as at 31 December, provided that all other variables are constant, on profit before tax.

2017	Increase/ decrease in percentage	Effect on profit before tax HRK'000
HRK	+1%	(388)
HRK	-1%	388

2016	Increase/ decrease in percentage	Effect on profit before tax HRK'000
HRK	+1%	(568)
HRK	-1%	568

Credit risk

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

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

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. As at 31 December 2017, financial assets not past due classified in the category 'Trade receivables' and Receivables from related companies amounted to HRK 785,422 thousand (2016: HRK 783,774 thousand). All other receivables relate to outstanding loans, deposits, receivables from government institutions, interest receivables and to customers who typically pay within 60 days from the maturity date.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	31 December 2017 HRK'000	31 December 2016 HRK'000
Trade receivables		
Counterparties with credit rating		
AAA	681	1,908
A	7,116	5,650
A+	630	-
B	3,340	5,275
BBB-	442	12,242
BB	161,335	216,138
BBB	22,281	35,017
*Counterparties without credit rating**		
Group 1	7,876	28,710
Group 2	445,842	311,694
Group 3	228,312	169,362
	877,855	**785,996**
Receivables from related parties**	**33,338**	**97,476**
Other receivables (including loans)		
Counterparties with credit rating (Standard and Poor's)		
AAA	2,691	3,392
BBB	3	-
BB	5	18
*Counterparties without credit rating**		
Group 2	2,014	1,336
Group 3	16,086	19,685
*Receivables from non-recurring related party transactions****	8,454	8,490
	29,253	**32,921**
Cash and short-term deposits		
A	164,748	1,669
BBB	30,592	40,673
BB	468,500	656,904
BB+	-	126
BBB+	108,061	63,155
BBB-	7,621	23,596
Cash in hand and at other banks	20,335	37,365
	799,857	**823,488**

Classification of counterparties without credit rating:

- Group 1 – new customers (less than 6 months)
- Group 2 – existing customers (more than 6 months) with no defaults in the past
- Group 3 – existing customers (more than 6 months) with defaults in the past; all default payments have been fully collected.

**Although some amounts of receivables from related parties are past due, they were not impaired because historically repayments have been regular and accordingly the risk of non-collectability of these receivables is immaterial.

***The Company has procedures in place for assessing the reasonableness of non-recurring transactions with third parties, including mandatory verification of customer creditworthiness.

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Boards of the Group companies, while the Company's Management Board has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements. The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities.

The following table presents the maturity of financial liabilities of the Group at 31 December in accordance with contracted undiscounted payments:

	Carrying amount	Contracted cash flows	0 – 3 months	3 – 12 months	2 – 5 years	More than 5 years
31 December 2017	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current trade payables and liabilities to related parties	380,651	380,651	362,596	14,935	3,120	-
Other current liabilities	1,001	1,001	810	191	-	-
Interest-bearing liabilities	192,728	237,159	22,693	76,823	116,007	21,636
	574,380	**618,811**	**386,099**	**91,949**	**119,127**	**21,636**

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

43. Segment reporting

2017	Industry	Energy and transport	Trade	Special activities	Končar-Electrical Industry Inc.	Eliminations	Group
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	84,520,118	2,367,306,253	219,322,107	33,153,782	226,465		2,704,528,725
Sales to related companies	9,814,573	296,953,516	3,893,983	87,241,302	49,986,865	(328,972,667)	118,917,572
Other operating income	1,948,562	108,226,829	5,187,822	24,070,574	3,207,848	(2,774,127)	139,867,508
Total operating income	96,283,253	2,772,486,598	228,403,912	144,465,658	53,421,178	(331,746,794)	2,963,313,805
Total operating expenses	(85,323,078)	(2,712,914,583)	(226,941,403)	(130,354,125)	(79,255,595)	(318,942,136)	2,915,846,648
Operating profit/loss	*10,960,175*	*59,572,015*	*1,462,509*	*14,111,533*	*(25,834,417)*	*(12,804,658)*	*47,467,157*
Financial result	(386,969)	1,366,762	2,103,673	(681,585)	94,908,861	(20,317,924)	76,992,818
Profit/(loss) before tax	**10,573,206**	**60,938,777**	**3,566,182**	**13,429,948**	**69,074,444**	**(33,122,582)**	**124,459,975**
Income tax	(1,975,631)	(11,970,526)	-	(2,409,907)	-	-	(16,356,064)
Net profit/(loss) for the year	**12,548,837**	**48,968,251**	**3,566,182**	**11,020,041**	**69,074,445**	**(33,122,582)**	**108,103,912**
Non-controlling interest							**24,478,298**
Profit of the Parent company owner							**83,625,614**
Non-current assets	28,342,328	720,997,307	39,827,471	72,305,649	1,205,872,643	(630,943,717)	1,436,401,681
Current assets	83,805,335	1,744,758,914	85,311,664	168,098,413	459,903,887	(269,248,041)	2,272,630,172
Total assets	**112,147,663**	**2,465,756,221**	**125,139,135**	**240,404,062**	**1,665,776,530**	**(900,191,758)**	**3,709,031,853**
Total liabilities	**15,917,709**	**1,378,432,738**	**49,329,561**	**38,215,761**	**21,119,444**	**(278,883,465)**	**1,224,131,748**

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

Sales by regions:

	2017		2016	
	HRK'000	**%**	**HRK'000**	**%**
Croatia	**1,256,987**	**44.52%**	**1,445,473**	**50.65%**
Countries in the European Union	997,578	35.33%	947,088	33.19%
	2,254,565	**79.85%**	**2,392,561**	**83.84%**
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	122,844	4.35%	120,120	4.21%
Other European countries	76,086	2.70%	108,090	3.79%
Asia	120,320	4.26%	121,324	4.27%
America and Australia	119,240	4.22%	71,082	2.49%
Other countries	130,391	4.62%	39,965	1.40%
	568,781	**20.15%**	**460,581**	**16.16%**
	2,823,346	**100.00%**	**2,853,142**	**100.00%**

44. Business combinations

In May 2017, the subsidiary Končar Distribution and Special Transformers Inc. acquired a 74% share in in the company Power Engineering Transformatory Sp. z.o.o. (PET) from Czerwonak, Poznan, Poland. Since for the remaining 26% share there is a symmetric call and put option in effect in the period from 8 May 2020 until 31 December 2037, which can be used at the prices defined in the contract, this acquisition by the Group was accounted for as if it had immediately acquired the 100% share, and it recognised the amount payable as per the put/call option as deferred and paid at the purchase price.

The fair value of identifiable assets and liabilities of the subsidiary Power Engineering Transformatory Sp. z.o.o. (PET) as at 8 May 2017 was as follows:

	8 May 2017 HRK
Non-current intangible assets	8,581
Non-current tangible assets	22,070,850
Non-current receivables	62,645
Inventories	2,793,477
Current receivables	378,109
Cash	646,822
Prepaid expenses	74,648
Provisions	(677,972)
Non-current liabilities	(2,199,350)
Current liabilities	(4,999,888)
Accrued expenses and deferred income	(1,253,050)
Total identifiable assets	**16,904,872**
Non-current purchase obligation	(8,001,769)
Gain on bargain purchase	**8,903,103**

45. Off-balance-sheet items

The Group’s off-balance sheet items in amount of HRK 1,900 million (2016: HRK 1,883 million) mostly relate to the issued collaterals (guarantees, bills of exchange, promissory notes), solidary/subsidiary guarantees, liabilities to the state for flats sold (65%), etc.

46. Contingencies

Several legal disputes have been initiated against the subsidiaries and the Parent company which are currently in process.

Except for the legal disputes for which the Group recognised provisions (Note 33), the Group companies' Management Boards estimate that other legal disputes will not bear any costs which could have a significant effect on the Group's financial statements and, accordingly, has not recognised provisions at the balance sheet date.

47. Contractual commitments

The Group's contractual commitments on the basis of unfinished projects as at 31 December 2017 amounted to HRK 3,028 million (31 December 2016: HRK 3,292 million).

48. Events after the balance sheet date

After the reporting date and until the approval date of these financial statements, there were no events that could significantly affect the annual financial statements of the Group for 2017, and that should, consequently, be disclosed.

KONČAR – ELECTRICAL INDUSTRY Inc.
CONSOLIDATED GOVERNANCE REPORT
AND
STATEMENT ON APPLICATION OF
CORPORATE GOVERNANCE PRINCIPLES

INTRODUCTION

Končar Group generated HRK 3,094.1 million in revenues in 2017, thus retaining the revenue level generated the year before.

Despite being faced with the challenging macroeconomic conditions on most markets in 2017, KONČAR Group companies achieved business results which reflected a continuation of their stable operations. Revenues from the sale of products and services, accounting for 91 percent of total revenues, amounted to HRK 2,823.4 million. Due to taking appropriate activities and measures, the revenue earned by KONČAR Group from the sale of products and services abroad increased by 11.2 percent compared to the 2016 results as a result of expanding their business operations to new foreign markets.

The consolidated net profit of the Group amounted to HRK 108.1 million. Said profit was lower than in 2016, primarily due to the one-off cost of the adjustment of fixed assets in Končar – Renewable Sources Ltd. of HRK 37.6 million.

Končar-Electrical Industry Inc. (the parent) generated HRK 69.1 million in profit in 2017. As part of the Group's 2017 restructuring plan, the merger of 3 companies operating in medium- and high voltage switchgear production was completed. The merger of these three companies was focused on achieving a better synergy effect by coordinating market presence, a more efficient development of new products, and reduced operating costs. Despite increased cost and risk provision amounts, costs incurred by the merger of the companies operating in the medium- and high voltage area as well as by the value adjustment of a share in Končar-Renewable Sources, the parent (Končar-Electrical Industry Inc.) recorded 7% higher operating results compared to 2016.

The Group has a stable balance sheet. The balance of total consolidated and source funds on 31 December 2017 was HRK 3,709 million. In the structure of source funds, subscribed capital, reserves, retained earnings, the profit from current year and the non-controlling (minority) interest amounted to HRK 2,484.9 million, which was by HRK 36.6 million more than on 31 December 2016 and accounted for 67 % of total sources.

Good business results were recorded as a result of the company's own product and production development as well as research projects, a permanent determinant of Končar which will continue in the next period by innovating and developing leading to new products and expanding business activities.

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

Končar Group systematically encourages and supports a value system in which culture of work, creation and excellence gains a more significant place in every company. Corporate responsibility in Končar is a part of its everyday work processes across business segments and relies on human potential as a company development provider.

KONČAR produces the equipment which is installed in the environment as well as used by the municipal and regional transportation. Therefore, it represents an important element of our business operations as well as carries the responsibility for the product, its safety and quality. The compliance with the highest standards in the world is proven by means of certificates as well as by the satisfaction of our customers and product and equipment users. A number of our companies have set up management systems according to the international requirements of ISO 9001 for quality management, ISO 14001 for environmental management, OHSAS 18001 for health and work safety management, and ISO 27001 for information security management.

A sound number of signed contracts at the end of 2017 as well as additional efforts invested in finding new markets represent a realistic ground for Končar Group companies to meet the planned business plans in 2018 and to continue the positive business trend.

1. PERFORMANCE INDICATORS FOR THE PERIOD 2014 - 2017

in HRK 000	2014	2015	2016	2017	Index 4/3
	1	2	3	4	5
Total revenue	2,947,489	3,296,461	3,111,844	3,094,082	99
Sales revenues					
Croatia	1,350,740	1,742,432	1,445,514	1,256,987	87
Export	1,298,016	1,306,642	1,407,629	1,566,460	111
Total	**2,648,756**	**3,049,074**	**2,853,143**	**2,823,447**	**99**
Contracted works					
Croatia	2,878,470	1,413,281	1,203,281	1,212,442	101
Export	1,194,469	1,548,371	1,482,324	1,347,204	91
Total	**4,072,939**	**2,961,652**	**2,685,605**	**2,559,646**	**95**
Contracted works status at year end					
Croatia	2,379,665	2,050,514	1,665,712	1,621,128	97
Export	1,337,926	1,579,655	1,626,330	1,407,073	87
Total	**3,717,591**	**3,630,169**	**3,292,042**	**3,028,201**	**92**
Number of employees as of 31 Dec	**3,662**	**3,666**	**3,643**	**3,639**	**100**
Sales per employee	**723,3**	**831,7**	**783,2**	**775,9**	**99**
Profit of the Group	160,096	151,321	173,788	108,104	62
Minority stake	30,847	23,669	30,505	24,478	80
Profit attributable to shareholders of the parent	**129,249**	**127,652**	**143,283**	**83,626**	**58**
Fixed assets	1,506,601	1,503,356	1,494,777	1,436,402	96
Current assets	2,411,882	2,146,682	2,300,355	2,272,630	99
Fixed asset intended for sale			4,139		0
Total assets	**3,918,483**	**3,650,038**	**3,799,271**	**3,709,032**	**98**
Subscribed capital	1,208,895	1,208,895	1,208,895	1,208,895	100
Reserves, retained earnings, current year's profit	818,720	884,186	998,645	1,045,621	105
Total capital	**2,027,615**	**2,093,081**	**2,207,540**	**2,254,516**	**102**
Minority stake	257,389	228,414	240,785	230,385	96
Long-term provisions	303,663	259,351	234,352	220,046	94
Long-term liabilities	161,908	143,126	122,457	128,800	105
Current liabilities	1,167,908	926,066	994,137	875,285	88
Total capital and liabilities	**3,918,483**	**3,650,038**	**3,799,271**	**3,709,032**	**98**
EBIT	**189,232**	**181,833**	**205,453**	**131,441**	**64**
EBITDA	**278,729**	**271,351**	**298,305**	**225,214**	**75**
EBITDA margin	**9.5%**	**8.2%**	**9.6%**	**7.3%**	**76**
Parent RoC	**7.0%**	**6.5%**	**7.1%**	**4.4%**	**61**
Return on sales	**6.0%**	**5.0%**	**6.1%**	**3.8%**	**63**
Earning per share	**50.25**	**49.74**	**55.83**	**32.59**	**58**

2. ORGANIZATION AND MANAGEMENT

Končar Group's business areas are as follows:

- Energy and Transport: design and construction of electricity generation, transmission and distribution facilities and equipment, electric locomotives, electric trains, tramcars, and electric equipment for stable electric traction vehicles

- Industry: electric motor drives, low voltage electrical equipment

- Trade: electrical household appliances, off-the shelf products and low voltage electrical switchgear

- Special activities: product research and development, infrastructure services.

KONČAR Group consists of KONČAR - Electrical Industry Inc. as the parent company and 15 dependent companies, in which the parent company exercises predominant control (more than 50 per cent of votes at the General Assembly). Some of the companies have preferred shares subscribed in addition to the common shares issued. The Group has two affiliated companies as well as one joint venture in China.

The companies belonging to the Group's structure are legally autonomous entities, supervised, strategically directed and supported by the parent via companies' supervisory boards and general assemblies pursuant to the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc. and Articles of Association of said dependent companies. Furthermore, the parent company manages a portion of assets which is not invested into companies, but is directly and indirectly in function of the financial support of sales, products and the equipment of dependent companies as a credit /guarantee potential.

As a parent company, KONČAR – ELECTRICAL INDUSTRY Inc. invoices the dependent companies for the following services:

• Fees for corporate name, brand and trade mark use;

• A portion of costs incurred for joint presentations in fairs;

• A portion of costs of agencies abroad;

• A portion of joint marketing activities costs;

• Managers' seminars, quality and environment management systems.

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

DEPENDENT COMPANIES	HRK SUBSCRIBED CAPITAL TOTAL	HRK SUBSCRIBED CAPITAL OF THE PARENT	% management OF THE PARENT 31 Dec 2017	% ownership OF THE PARENT 31 Dec 2017
KONČAR-Power Plant and Electric Traction Engineering Inc	50,577,000	50,577,000	100.0000	100.0000
KONČAR-Generators and Motors Inc	107,927,700	107,927,700	100.0000	100.0000
KONČAR-Switchgear Inc	105,033,000	105,033,000	100.0000	100.0000
KONČAR-Distribution and Special Transformers Inc	76,684,800	40,439,400	67.9000	52.7346
KONČAR-Instrument Transformers Inc	18,989,100	11,766,600	99,7700	61,9650
KONČAR-Electronics and Informatics Inc	47,027,280	35,286,420	75,0339	75,0339
KONČAR-Metal Structures Inc	24,645,600	24,645,600	100.0000	100.0000
KONČAR-Electric Vehicles Inc	47,026,800	35,288,700	75,0396	75,0396
KONČAR-Renewable Sources Ltd	130,312,400	130,312,400	100,0000	100,0000
Direct ownership	111,120,000	111,120,000	85.2700	85.2700
Indirect ownership	19,192,400	19,192,400	14.7300	14.7300
KONČAR-Plant Installation and Commissioning Inc	11,827,500	5,288,100	79.0500	44.7102
KONČAR-Small Electrical Machines Inc	41,641,800	41,641,800	100.0000	100.0000
KONČAR-Household Appliances Ltd	17,834,100	17,834,100	100.0000	100.0000
KONČAR-LV Switches and Circuit Breakers Ltd	60,499,300	60,499,300	100.0000	100.0000
KONČAR-Electrical Engineering Institute Inc	40,763,520	40,763,520	100.0000	100.0000
KONČAR-Infrastructure and Services Ltd	49,891,600	49,891,600	100.0000	100.0000
AFFILIATED COMPANY				
KONČAR-Power Transformers Ltd	72,764,000	35,654,400	49.0005	49.00005

Management Board

The Supervisory Board appoints and recalls the Chairman of the Board and Board members. Their term of office is five years with an option of reappointment. Pursuant to the Companies Act and the Company's Articles of Association, the Management Board is held personally responsible for running business operations and in doing so, they are obliged and authorised to take any actions and make decisions deemed necessary for successful Company management. The Supervisory Board's consent is required to make certain decisions defined under said Articles of Association.

The Management Board of Končar – Electrical Industry Inc. consists of the following members:

Darinko Bago	Chairman
Miki Huljić	Board member in charge of Finances
Marina Kralj Miliša	Board member in charge of Legal, General and HR Affairs
Davor Mladina	Board member in charge of Electricity Transmission and Distribution, Industry and Trade
Miroslav Poljak	Board member in charge of Electricity Generation, Corporate Development and ICT
Ivan Tomšić	Deputy Board member in charge of Corporate Development and ICT
Jozo Miloloža	Board member until 5 February 2017, deputy board member until 5 August 2017

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 the appointment and recall of the Supervisory Board. The Supervisory Board is responsible for appointing and recalling members of the Management Board and for supervising the Company's operations. Major transactions and business decisions (the amount of such transactions is defined by the Rules of Procedure of the Supervisory Board) require the Supervisory Board's consent.

The General Assembly held on 12 July 2016 adopted a decision on the election of Supervisory Board members as follows:

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

Members of the Supervisory Board were elected for a period of four years as of 12 July 2016.

Members of the Supervisory Board accepted the proposal for appointing Petar Vlaić the Chairman, and Josip Lasić 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 conduct of annual financial statements audits, monitors auditors' independence, makes recommendations to the Supervisory Board and proposes to the General Assembly the election of the audit company for reviewing annual financial statements.

The Audit Committee consists of the following four members:

Vicko Ferić - Chairman

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 which is assigned tasks by the Supervisory Board regarding the topics 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 need and the development of strategic human resources within Končar Group.

The Strategic Development Committee consists of the following 4 members:

Joško Miliša – Chairman

Branko Lampl - Member

Vladimir Plečko – Member

Petar Vlaić – Member

3. CORPORATE GOVERNANCE PRINCIPLES APPLICATION

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

The corporate governance principles are defined and refer to:

- accountable management,
- definition of corporate governance procedures based on adopted recognized international standards, and
- supervision of business operations, all for the purpose of establishing high corporate governance standards and the transparency of operations as the groundwork for protecting the shareholders, investors and other stakeholders, as well as for caring for the employees, the sustainable development and environmental protection.

The formal questionnaire including replies to which provisions of the Zagreb Stock Exchange Code and the HANFE Company are implemented by the 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 a majority of the provisions of the Corporate Governance Code with the exception of only certain provisions that the Company does not consider should be applied in the prescribed form, in particular:

- A nomination and reward committee has not been established. The appointment of new Management Board members as well as the key management is carried out in a well-organized manner.
- The remuneration of the Company Management Board members / Directors has been set under the Decision of the Management Board of KONČAR - Electrical Industry Inc. It is based on clearly defined business operation-related criteria including achieved performance, plan realization, consolidated plan realization, EBITDA, signed contracts.
- The remuneration of the Management Board of KONČAR - Electrical Industry Inc. is set under the Contract on Rights and Obligations signed by the MB Chairman

and members with the Supervisory Board Chairman. The award is considered to be an appropriate position of the Company and its results. Information on the overall revenue and fees of the Management Board members and directors is disclosed in the annual report.

- No internal control committee (department) has been established.
- KONČAR - Electrical Industry Inc., as a parent of the Group of Owned Associations that are autonomous in conducting legal transactions, has successfully established, maintained and developed a Business Information System that facilitates a coordinated current and strategic planning of business and development, members and the 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 a number of years, all KONČAR companies' financial statements have been audited by independent auditing companies, which has further contributed to the maintenance and development of a reliable and transparent business system. A majority of KONČAR's companies have adopted the International Standard ISO 9001 under which each process is described and set according to 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 respective 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.

  Internal Business Controls have so far 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 liquidate the accounts. All process controls are carried out according to prescribed procedures. We believe that documentation, control and business transparency is ensured by the consistent implementation of and compliance with prescribed procedures.

  The activities regarding the formal establishment of the internal control and the audit department commenced in late 2017.

The Company believes that the non-implementation of some of the provisions of the Code does not undermine the high level of transparency of the Company's business operations and will not have a significant adverse effect on current and potential future investors in 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 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 of operation within which all business processes are taking place, the Company has developed internal control systems across all important levels. These systems facilitate, among others, the objective and correct presentation of financial and business reports.

Data on significant shareholders is available daily on the official web site of SKDD (www.skdd.hr). As of 31 December 2017 and 2016, said data is 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 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 groundwork for protecting the shareholders, investors and other stakeholders, as well as for caring for the employees, sustainable development and the environmental protection.

4. MARKET POSITION

The scope of production of Končar Group companies is focused on the core business activity of electric power and transport. As the production capacities are being continuously upgraded through investments into modern production technologies, it must be mentioned that single products, designed to meet clients’ demands ('tailor made'), make the Group’s strategic distinction.

The HRK 2,559.6 m of new contracts was signed in 2017, of which HRK 1,502.3 m for 2017 and HRK 1,057.3 m for 2018 and the years after.

As of end December 2017, the balance of contracted projects (open contracts) amounted to HRK 3,028.2 million, which was 8% less than early that year.

HEP Group accounts for the major portion of the contracts signed on the domestic market in the amount of HRK 477 million or 39% of all domestically contracted works.

In 2017 exports, the majority of contracts (15 percent) was signed with the Swedish market amounting to HRK 194 million (Končar-Distribution and Special Transformers account to the major part of contracts). HRK 142 million in new contracts was signed with German buyers, primarily for the delivery of distribution and special transformers (HRK 103 million) and small electrical machines (HRK 18 million). Končar – Generators and Motors concluded the contract for the delivery of two 56MVA generators in 2017 and for generator excitation, as well as for the assembly supervision of Khoda Afarin hydropower plant in Iran.

The consolidated revenue from sales of products and services amounted to HRK 2,823.4 million, retaining the 2016 level.

The 2017 exports amounted to HRK 1,566.4 million, which was a 11.2 percent increase compared to 2016 i.e. by HRK 158.8 million. Exports accounted for 55 percent of the overall earned revenue.

The revenue from sale on domestic market in 2017 decreased by 13 percent or HRK 188.5 million.

In the structure of revenue from the sale of products and services on domestic market, the revenue from the sales of products and services to HEP Group companies (HEP-Proizvodnja, HEP-Operator distribucijskog sustava, HOPS) amounted to HRK 492 million (39% of total revenue from the sale of products and services on domestic market). Compared to 2016, said sale to HEP rose by 3.2%.

Other significant customers on the Croatian market with a share in the revenue from the sale of products and services included KONČAR-Power Transformers in the amount of HRK 84.8 million (7% of total domestic revenue) and Zagreb Holding - ZET in the amount of HRK 62.6 million or 5% of the overall revenue earned domestically.

The revenue from the sale of products and services abroad amounted to HRK 1,566 million, which was by 12 percent more than in the same period the year before.

Exports accounted for 55 percent of the overall revenue from the sale of products and services. The biggest export contract was for Sweden in the amount of HRK 210.7 million or 13 percent of the overall export amount (Končar-Distribution and Special Transformers and Končar-Generators and Motors). The German market accounted for 12 percent of exports of HRK 181 million (Končar-Distribution and Special Transformers and Končar-Metal Structures). The export of goods and services to Finland amounted to HRK 96 million, to Kenya HRK 78.8 million (the commencement of contract delivery for the refurbishment of three generators in Kamburu hydropower plant). Other significant export of goods and services include Bosnia and Herzegovina (HRK 76.6 million), Austria (HRK 70 million), Salvador (HRK 54 million), and the Netherlands (HRK 52 million).

Compared to the same period 2016, a significant increase of revenue from sales of products and services abroad was experienced on the market of Kenya (increase of HRK 78 million), Salvador (increase of HRK 44 million), and Finland (increase of HRK 35 million).

Along with good financial results in 2017, a whole range of facilities was completed and contracted in Croatia and abroad.

Major completed facilities and products as well as newly-contracted jobs are as follows:

Major contracts executed in 2017

- **Export:**

  - delivery of the second generator unit and the testing start of the first generator in Plave hydropower plant (2x11MVA; SENG-Slovenia);
  - testing and commissioning of equipment in Brežice hydropower plant

(2x21,5MVA; HESS-Slovenia);
- delivery of equipment for Kamburu hydropower plant (3x37MVA; KenGEN, Kenya);
- delivery of the first equipment shipment (generators, excitation systems, power transformers and MV plants) for Chaparral hydropower plant (2x38MVA; CEL, Salvador);
- equipment delivery and assembly completion as part of the partial overhaul of no.1 generator in Kidatu hydropower plant (50MVA; Tanesco, Tanzania);
- completion of all works in Lusemfwa (4x6MVA) and Mulungushi hydropower plants (8MW) in Zambia;
- reconstruction of TS 110/x kV Mostar 2, Elektroprijenos a.d., Bosnia and Herzegovina;
- refurbishment of RP 110kV CS Buško Blato, Pump Station Buško Blato d.o.o. Livno, Bosnia and Herzegovina;
- MAADEN Saudi Arabia: delivery of SCADA system for facility automation (upgrade), GENE

- **Domestic market:**

  - CHE Fužine pump storage hydropower plant refurbished;
  - all necessary works completed as well as equipment assembly and testing, test run of Unit A in Gojak hydropower plant;
  - all necessary works completed as well as equipment assembly and testing, test run of Units B and C in Ozalj 1 hydropower plant;
  - modernization of 1142 locomotives for HŽ Passenger Transport by implementing a number of advanced technical and technological solutions; amongst others, the vehicle operation and regulation system was replaced by a new microprocessor control, the cab was reconstructed, new pneumatic brake elements and the monitoring system implemented;
  - TS 35/10(20) Brod substation erected;
  - first phase of TS 35/20(10) kV Hrvace substation completed;
  - reconstruction of TS 35/10(20) kV Trokut substation completed;
  - overhaul and maintenance of Plomin thermal power plant and TE-TO Zagreb CCGT

In addition to the above, the following major project were also contracted in Croatia and abroad:

- **Export:**

  - Kidatu hydropower plant (Tanzania);
  - Ruzizi hydropower plant (Ruanda);
  - Maaden Scada (Saudi Arabia);
  - TS Žepče substation (Bosnia and Herzegovina);
  - TS Pazarić substation (Bosnia and Herzegovina);
  - TS Kupres substation (Bosnia and Herzegovina)

- **Domestic market:**

  - Plomin thermal power plant, Unit 2;
  - KS Molve East;
  - BETO – Slatina cogeneration facility;
  - BETO – Đakovo cogeneration facility;
  - Plinacro Telereading maintenance;
  - TS Konjsko, Pračno, Lovran, Rakitje, Sinj, Tumbri substations……;
  - HOPS Split – ancillary equipment;
  - HOPS – maintenance of technical operations;
  - HOPS – grid structure

5. BUSINESS RESULTS AND FINANCIAL POSITION (BALANCE SHEET)

In the period between January and December 2017, KONČAR Group companies generated operating revenue of HRK 2,963.3 million, which was by 1% less than in 2016. In the structure of operating revenues, the revenue from the sale of products and services was HRK 2,823.4 million, accounting for 95.2% of total operating revenue.

Operating expenses of HRK 2,915.8 million were by 1.7% higher than in 2016. The increase of operating expenses were primarily the result of a one-off impairment of fixed assets in Končar-Renewable Sources Ltd. (HRK 37.6 million).

In the structure of operating expenses, the share of material costs (cost of materials and energy, cost of goods sold and cost of services) accounted for HRK 1,958.7 million. The share of material costs in operating expenses (corrected by any change in inventories) was 65.7%, which was a 2.6% decrease compared to the same period the year before. The share of staff costs in operating expenses (corrected by any change in inventories) was 18.6% i.e. a 0.5% increase compared to the year before.

The profit generated by business activities of HRK 47.5 million is a difference between operating revenues and operating expenses. The share of profits from affiliated companies amounted to HRK 72.2 million. The difference between financial revenues and expenses was negative amounting to HRK 4.1 million. The profit from favourable purchase (fair value of identified assets and the obligation on the part of affiliated Power Engineering Transformatory Sp. Z.o.o. (PET) from Poland) was HRK 8.9 million. Total pre-tax profit was HRK 124.5 million.

The corporate income tax was HRK 16.4 million. After-tax profit amounted to HRK 108.1 million, of which HRK 24.5 million allocated to the minority interest, and the remaining HRK 83.6 million to the shareholders of the parent.

14 out of 16 Končar Group companies had positive business results. Two reported the loss of HRK 42.4 million in total, which was fully attributable to the shareholders of the parent. The major share of said loss (HRK 37.6 million) was incurred by a one-off impairment of fixed assets in Končar-Renewable Sources Ltd (HRK 37.6 million).

The balance of total consolidated assets and liabilities as of 31 December 2017 was HRK 3,709 million, a 90.2 million kuna decrease (2.4%) compared to 31 December 2016.

In the structure of assets, fixed assets amounted to HRK 1,436.4 million i.e. a 3.9% decrease by HRK 58.4 million compared to 31 December 2016. Decreased by HRK 27.7 million compared to end 2016, current assets amounted to HRK 2,272.6 million.

As of 31 December 2017, current assets were reduced by HRK 27.7 million compared to 31 December 2016, whereby the following changes occurred:

- inventories were reduced by HRK 18 million;
- total short-term receivables increased by HRK 10.9 million;
- financial assets decreased by HRK 102.4 million;
- at the level of the Group, cash and cash equivalents increased by HRK 79.2 million;
- prepaid expenses and accrued income increased by HRK 1.9 million

The following changes occurred in the financial sources as of 31 December 2017:

- capital, reserves, retained profit and profit for the year amounted to HRK 2,254.5 m, which was by HRK 47 m more compared to the balance on 31 December 2016;
- non-controlling (minority interest) amounted to HRK 230.4 m, a decrease by HRK 10.4 m compared to 31 December 2016;
- long-term provisions amounted to HRK 220 m, a decrease of HRK 14.3 million;
- long-term liabilities amounted to HRK 128.8 m, an increase by HRK 6.3 million compared to 31 December 2016; loan-related liabilities accounted for the major share thereof in the amount of HRK 120 million; other long-term liabilities of HRK 8 million included the put/call option agreed on purchase under which Končar-Distribution and Special Transformers has been given a possibility to purchase shares in affiliated PET Poland;
- current liabilities amounted to HRK 875.3 m, a decrease by HRK 118.8 m compared to 31 December 2016; in the structure of short-term liabilities, there were significant changes in advances, which decreased by HRK 67.5 million; a decrease of short-term advances occurred in KONČAR - Power Plant and Electric Traction Engineering in the amount of HRK 50 million and KONČAR – Distribution and Special Transformers in the amount of HRK 16 million;
- current liabilities towards banks decreased by HRK 2 million to HRK 63.9 million;
- trade liabilities increased by HRK 16.4 million to HRK 364.6 million

In the structure of financial sources, the subscribed capital, reserves, retained earnings, profit for the year and the equity belonging to the non-controlling interest amounted to HRK 2,484.9 accounting for 67% of total sources. Long-term provisions amounted to HRK 220 m accounting for 5.9% of total sources. Long-term and short-term liabilities were HRK 1,004.1 m, which was by HRK 112.5 m less than at the end of 2016, accounting for 27.1% of total sources. In short-term liabilities, trade liabilities amounted to HRK 364.6 m accounting for 9.8% of total sources. Total loans (long-and short-term) amounted to HRK 184 m, accounting for 4.9% of total sources.

Long-term financial sources (equity, long-term provisions and long-term liabilities) increased by HRK 935.3 m compared to non-current assets and average inventories. Current assets increased by 2.6 times compared to current liabilities. The structure of consolidated balance sheet reflects the balance of finances sources and investments as well as the financial soundness of Končar Group.

Operating performance from January-December 2017 by Končar Group companies (in HRK)

	No.of employed 31 Dec 2017	TOTAL REVENUE			Index	Index	TOTAL EXPENSES			Index	Index
		Plan 2017	Achieved Jan-Dec 2016	Achieved Jan-Dec 2017	4/2	4/3	Plan 2017	Achieved Jan-Dec 2016	Achieved Jan-Dec 2017	9/7	9/8
	1	2	3	4	5	6	7	8	9	10	11
Power Plant and Electric Traction Engineering	271	636.557.425	599.812.848	572.271.081	89,9	95,4	628.557.425	583.000.336	563.474.209	89,6	96,7
Generators and Motors	501	354.104.378	284.267.770	290.349.306	82,0	102,1	325.531.664	263.849.921	276.133.802	84,8	104,7
Switchgear and Apparatus**	221	188.553.573	158.581.826	155.214.165	82,3	97,9	175.682.748	157.560.836	154.541.157	88,0	98,1
Distribution and Special Transformers	539	814.500.000	869.131.221	906.640.302	111,3	104,3	781.000.000	831.830.602	863.582.209	110,6	103,8
Instrument Transformers	259	178.080.000	173.733.104	181.221.501	101,8	104,3	168.080.000	164.574.206	174.132.239	103,6	105,8
Electronics and Informatics	256	169.791.865	154.322.270	158.845.803	93,6	102,9	160.910.000	148.155.797	156.787.773	97,4	105,8
Metal Structures	407	208.871.835	195.532.039	219.170.735	104,9	112,1	200.970.295	188.459.528	218.656.263	108,8	116,0
Electric Vehicles	256	275.926.609	214.374.149	155.523.937	56,4	72,5	250.573.809	191.579.539	137.595.324	54,9	71,8
Renewable Sources	4	24.990.000	27.329.185	24.076.374	96,3	88,1	24.932.525	28.627.807	64.578.260	259,0	225,6
Engineering for Power Plant Installation and Commissioning	125	103.636.010	152.348.063	126.963.659	122,5	83,3	100.699.100	148.144.283	122.733.291	121,9	82,8
Small Electrical Machines	185	107.635.000	108.332.375	97.502.184	90,6	90,0	93.850.000	95.072.728	86.928.979	92,6	91,4
Household Appliances	65	165.651.000	156.950.520	182.908.095	110,4	116,5	163.451.000	155.240.050	177.389.547	108,5	114,3
LV Switches and Circuit Breakers	183	52.385.000	49.683.097	49.144.685	93,8	98,9	52.345.000	52.582.012	51.097.051	97,6	97,2
Electrical Engineering Institute	170	90.443.000	98.522.250	84.904.780	93,9	86,2	82.102.000	88.741.721	77.460.090	94,3	87,3
Infrastructure and Services	149	60.256.344	59.569.636	61.392.473	101,9	103,1	56.258.423	56.036.918	55.407.215	98,5	98,9
TOTAL DEPENDENT COMPANIES	**3.591**	**3.431.382.039**	**3.302.490.353**	**3.266.129.080**	**95,2**	**98,9**	**3.264.943.989**	**3.153.456.284**	**3.180.497.409**	**97,4**	**100,9**
Končar Inc.	48	171.748.000	198.614.665	184.850.712	107,6	93,1	80.882.000	133.846.594	115.776.268	143,1	86,5
TOTAL PARENT AND DEPENDENT COMPANIES	**3.639**	**3.603.130.039**	**3.501.105.018**	**3.450.979.792**	**95,8**	**98,6**	**3.345.825.989**	**3.287.302.878**	**3.296.273.677**	**98,5**	**100,3**

umanjenje za dio prihoda ovisnih društava i Kdd-a nastalih iz internih odnosa

Power Transformers*	515	1.186.562.700	1.114.609.351	1.161.497.325	**97,9**	**104,2**	1.009.796.700	948.012.030	974.702.630	**96,5**	**102,8**
ELKAKON d.o.o. (DIST 50% equity share)											
TBEA (Instrument Transformers 27% equity share)											
TOTAL AFFILIATED COMPANIES											

Note:

* Revised operating results for 1 Oct 2016-30 Sep 2017

** as of 29 Dec 2017 merger of Končar-EASNA, Končar-EVA, Končar-SP

Operating performance from January-December 2017 by Končar Group companies (in HRK)

	Profit/loss before taxes	Corporation tax	PROFIT/LOSS AFTER TAXES Plan 2017	Achieved Jan-Dec 2016	Achieved Jan-Dec 2017	Index 16/14	Indeks 16/15	SUSCRIBED CAPITAL TOTAL	SUSCRIBED CAPITAL PARENT	% OWNERSHIP BY PARENT 31 DEC 2017	SHARE OF PROFIT/LOSS ATTRIBUTABLE TO EQUITY OWNERS
	12	13	14	15	16	17	18	19	20	21	22
Power Plant and Electric Traction Engineering	8.796.872	1.633.254	6.200.000	12.844.455	7.163.618	115,5	55,8	50.577.000	50.577.000	100,0000	7.163.618
Generators and Motors	14.215.504	3.685.635	23.429.625	17.678.015	10.529.869	44,9	59,6	107.927.700	107.927.700	100,0000	10.529.869
Switchgear and Apparatus**	673.008		10.749.825	134.926	673.008	6,3	498,8	105.033.440	105.033.440	100,0000	673.008
Distribution and Special Transformers	43.058.093	1.550.578	26.800.000	35.930.157	41.507.515	154,9	115,5	76.684.800	40.439.400	52,7346	21.888.810
Instrument Transformers	7.089.262	1.087.030	8.000.000	8.110.454	6.002.232	75,0	74,0	18.989.100	11.766.600	61,9650	3.719.284
Electronics and Informatics	2.058.030		7.181.865	4.655.822	2.058.030	28,7	44,2	47.027.280	35.286.420	75,0339	1.544.221
Metal Structures	514.472		6.321.232	6.708.877	514.472	8,1	7,7	24.645.600	24.645.600	100,0000	514.472
Electric Vehicles	17.928.613	2.939.098	20.625.400	19.306.208	14.989.515	72,7	77,6	47.026.800	35.288.700	75,0396	11.248.065
Renewable Sources	-40.501.886		57.475	-1.298.622	-40.501.886		3.118,8	130.312.400	130.312.400	100,0000	-40.501.886
Engineering for Power Plant Installation and Commissioning	4.230.368	1.074.931	2.350.100	3.123.496	3.155.437	134,3	101,0	11.827.500	5.288.100	44,7102	1.410.802
Small Electrical Machines	10.573.205	1.975.631	10.820.000	10.443.481	8.597.574	79,5	82,3	41.641.800	41.641.800	100,0000	8.597.574
Household Appliances	5.518.548		2.200.000	1.710.470	5.518.548	250,8	322,6	17.834.100	17.834.100	100,0000	5.518.548
LV Switches and Circuit Breakers	-1.952.366		40.000	-2.898.915	-1.952.366	-4.880,9		60.499.300	60.499.300	100,0000	-1.952.366
Electrical Engineering Institute	7.444.690	1.319.267	6.841.000	7.577.937	6.125.423	89,5	80,8	40.763.520	40.763.520	100,0000	6.125.423
Infrastructure and Services	5.985.258	1.090.640	3.190.341	2.709.320	4.894.618	153,4	180,7	49.891.600	49.891.600	100,0000	4.894.618
TOTAL DEPENDENT COMPANIES	**85.631.671**	**16.356.064**	**134.806.863**	**126.736.081**	**69.275.607**	**51,4**	**54,7**	**830.681.940**	**757.195.680**		**41.374.061**
Končar Inc.	69.074.444		90.866.000	64.768.071	69.074.444	76,0	106,6	1.208.895.930		100,00	69.074.444
TOTAL PARENT AND DEPENDENT COMPANIES	**154.706.115**	**16.356.064**	**225.672.863**	**191.504.152**	**138.350.051**	**61,3**	**72,2**	**2.039.577.870**	**757.195.680**		**110.448.505**
											-102.423.534
Power Transformers*	186.794.695	37.868.767	144.946.000	133.220.087	148.925.928	**102,7**	**111,8**	72.764.000	35.654.400	49,00005	**72.973.704**
ELKAKON d.o.o. (DIST 50% equity share)								3.092.000	799.466	25,85559	***305.052***
TBEA (Instrument Transformers 27% equity share)								40.869.289	4.803.199	11,75250	***-1.101.361***
TOTAL AFFILIATED COMPANIES											**72.177.395**
				Profit attributable to owners of parent							**83.625.614**
				Profit attributable to minority interest							**24.478.298**
				Profit of the Group							**108.103.912**

6. RESTRUCTURING

The Management Board of Končar-Electrical Industry Inc. with the consent of the Supervisory Board has been continuously involved in the process of operational restructuring in order to ensure Group's market position, profitability and its further development.

During 2016, the Management Board, with the consent of the Supervisory Board, made the decision on conducting a business analysis with the aim of increasing the synergy effects in KONČAR Group. For the purpose of the analysis, the Boston Consulting Group was commissioned to work with the representatives of KONČAR in identifying operating rationalization and optimization measures and improving the Group's market position. Said analysis was completed in 2017 and presented to the Company Supervisory Board in the form of the document titled 'The Analysis of Business Operations aimed at Increasing the Synergy Effect in Končar Group'.

One of the recommendations presented by the consultants was to merge the switchgear and medium- and low voltage apparatus companies (Končar-Switchgear, Končar-Medium Voltage Apparatus and Končar-High Voltage Switchgear).

The Management Board of the parent launched the activities regarding said merger. The process was completed on 29 December 2017. Said merger of those three companies was aimed at achieving a major synergy effect by coordinating market presence, a more efficient development of new products, and reducing operating costs.

As per previously defined Gantt chart, the activities connected with the investment in the Metal Processing Center continued in 2017 in Končar-Metal Structures having adopted the findings of the Boston Consulting Group findings.

The Digital Transformation Programme, consisting of a number of projects which aim is to change the method of operations in key segments and production units, commenced in 2017. The training course for the management structures in KONČAR Group companies was organized to inform them of the importance, possibilities and objectives of said project, which would be conducted in several phases in cooperation with relevant partners for individual areas and based on the implementation of new production and business process technologies.

7. RISK EXPOSURE

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

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

At the Group level, long-term funding sources (capital, long-term provisions and long-term liabilities) exceed its non-current assets and an average inventory balance which indicates a sound funding maturity structure. In relation to short-term liabilities, current assets are 2.6 times higher, which indicates a sound liquidity of the system. The structure of the consolidated balance sheet indicates the financial soundness of KONČAR Group.

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

- *Market risk*

Market risk emerges as a result of potential losses stemming from less-than-favourable economic conditions and a decline in the market demand.

The Group companies operate domestically and abroad. The Group's core activity is energy and transport-related equipment and products. The production scope heavily depends on such investments. As a result of the global crisis and recession, some markets may become unfavourable which shall provide an incentive for awarding contracts to domicile enterprises. In addition to the volatile prices of basic raw material in 2017, there was also a strong competitive pressure on the price of equipment and profit margins.

The competitiveness of our companies' products and services is also impacted by the changes of operating conditions for both the Group and our customers.

Management Boards of individual companies price their products autonomously.

- *Risk in the procurement market*

The prices of major raw materials and materials (copper, sheet metal, steel ...) have been subject to unpredictable changes in recent years (huge growth or decline over a short period of time).

Within the transformer program, the Group companies are protected from the risk of sudden price changes of strategic raw materials in several ways. In case of copper, given that it is a London Metal Exchange listed raw material, forward contracts with copper suppliers negotiate the quantities and prices for a period ahead of time and the estimates of contractility. In case of steel, transformer sheet and some of the most important supply parts, risk is mitigated under semi-annual or annual contracts with suppliers. Also, in some long-term customer contracts, a sliding formula is sometimes contracted based on material price changes.

- *Technological and development risks*

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

- *Staff risks*

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

- *Capital risk management*

The Group manages its capital to ensure the operation 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 in line with the changes of economic conditions on the market and risk characteristics of its assets. The Group can make a decision if the retained earnings should be distributed to shareholders, if the equity needs increase or decrease, if the assets should be sold in order to decrease liabilities and similar.

- *Currency risk*

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

- *Interest rate risk*

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

- *Credit risk*

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

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

- *Liquidity risk*

Liquidity risk reflects the Group's inability to meet its financial obligations in a due period. Risk management is the responsibility of the Management Boards of Group companies. The Group manages this risk by continuously monitoring the estimated cash flow, comparing and adjusting it to actual revenue and expenses. As a whole, there was no significant exposure of the Group to liquidity risk.

8. SHARES

The shares of KONČAR - Electrical Industry Inc. are 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 2017, the price movement of KONČAR Electrical Industry shares followed the overall market trend. The highest share price was recorded in February 2017 (HRK 870.00), and the lowest in October (HRK 660.03). Until the end of 2017, the average price of the share was HRK 714.95.

The total turnover of KONČAR share amounted to HRK 68.5 million, which was by 14 million kuna less than the achieved turnover in 2016 except for the turnover recorded in early June 2016 when the Mandatory Pension Funds of the Republic of Croatia purchased 526,926 shares worth HRK 360 million from the Restructuring and Sale Center in the value of HRK 360 million.

The overall number of shares traded was 88,655 (28% less compared to 2016 if the above stated transaction is excluded).

Market capitalization is HRK 1,834.7 million, which was by HRK 64 million or 4% more compared to the recorded in 2016.

KONČAR – Electrical Industry Inc. signed a contract for the performance of specialist jobs with InterCapital Securities Inc. in October 2015 under which 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. Said contract is renewed annually.

As of 31 December2017, the Company owned 5,861 shares, accounting for 0.23% of the company's equity.

The Company's ownership structure is as follows:

		31 December 2017		31 December 2016	
	Shareholder	No. of shares	Ownership stake %	No. of shares	Ownership stake %
1	HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
2	ADDIKO BANK d.d./PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
3	SOCIETE GENERALE / AZ OMF	377,429	14.67	377,429	14.67
4	SOCIETE GENERALE - Splitska banka d.d./ Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
5	RESTRUCTURING AND SALE CENTER/REPUBLIC OF CROATIA	83,610	3.25	57,982	2.25
6	FLORIČIĆ KRISTIJAN	50,714	1.97	50,714	1.97
7	ADDIKO BANK/RBA OMF	47,636	1.85	48,291	1.88
8	ZAGREBAČKA BANKA D.D. /AZ PROFIT VOLUNTARY PENSION FUND	32,803	1.28	28,928	1.12
9	PBZ d.d. /collective client custodian account	24,251	0.94	29,050	1.13
10	ZEC BRANISLAV	22,843	0.89	22,843	0.89
11	Other shareholders	422,290	16.41	446,339	17.35
12	KONČAR d.d. (treasury stock)	5,861	0.23	5,861	0.23
		2,572,119	**100.00**	**2,572,119**	**100.00**

9. PRODUCTS AND PRODUCTION DEVELOPMENT

An integral part of the Group’s long-term business policy is relying on products manufactured as a result of own development.

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

The following strategic development areas have been defined:

• Power generation;

• Substations and electrcity transmission;

• Rolling stock;

• Renewable sources;

• Advanced networks and computer communications;

• Information technologies.

Development in 2017

- eco distribution transformer brings together all existing EU market ecological requirements. The transformer is equipped with the load regulation switch, has very low losses pursuant to the requirements of the Commission Regulation (EU) 548/2014 – level 2, which will enter into force on 1 July 2021, low noise level, reduced magnetic field, and runs on environmentally friendly ester;
- monitoring of electromagnetic fields via the system of permanent frequency band monitoring used by private and public companies for information distribution; the insight into the actual radiation values is available to local communities. Interested citizens may compare real radiation levels with the ones defined under the Rulebook on the Protection from Electromagnetic Field Radiation Exposure;
- plug-and-play for SCADA applications in the electric power system showing the advantages from the implementation of IEC 61850 together with the possibility of introducing middleware as well as the manner in which the introduction of the plug and play integration of new distributed electricity sources in SCADA applications has been facilitated;
- high voltage reactor is an optimum solution for the high resistance neutral point earthing in modern HVDC facilities (electricity transmission by HV direct current); due to its unique open core concept, the flexibility of its characteristics facilitates more possibilities in HVDC facility design;
- 'SafeTRAM – the system for increasing the security of public urban traction-based

transportation', the project developed by KONČAR – Electrical Engineering Institute in cooperation with the Faculty of Electrical Engineering and Computing Zagreb. The Institute was granted EU funds under the Operational Programme Competitiveness and Cohesion 2014-2020 for the development of an innovative system of increasing the security of traffic, which will implement a number of functions in tram traffic thus significantly reducing the number of accidents;

- regulated source of alternate current and frequency (KonLab) is used for charging and regulating AC test voltage circuits of volatile voltage and frequency; particularly used in testing power and instrument transformers;
- launch of the Digital Transformation Programme, which consists of a number of projects aimed at changing the method of operations in key segments and production units; education courses were organized for key personnel in KONČAR Group to acquaint them with the meaning, possibilities and objectives of the project which will be conducted in several phases in cooperation with relevant partners for respective areas based on the implementation of new production and business process technologies.

10. EMPLOYEES

The starting point of KONČAR's strategy is that its employees constitute the company's core asset, and that the entire operation depends on the participation of each and every employee. This resulted in KONČAR's decision to base its competitiveness on the experience, knowhow and innovativeness of the staff.

KONČAR ended 2017 with 3,668 employees, of whom 1,405 were university graduates. 69% of the latter graduated in technical sciences (47% electrical engineers and 22% mechanical engineers), 15% in economics and 16% in other fields.

KONČAR had 32 employees with PhDs, 48 with Master degrees, 28 university specialists and 102 specialist graduates in 2017. Their average age was 44. The age of 52% of the newly employed in 2017 was between 24 and 30.

Young, highly-educated workers with electrical engineering and mechanical engineering degrees prevailed. Labour turnover in 2017 was more pronounced in the ICT segment and among welders.

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

KONČAR pays special attention to the selection of its managers and to the timely recognition of their managerial potentials by investing into their development and creating space for further advancement through educational programmes within the KONČAR Academy, which has been in continuous operation for the last 8 years.

The analysis showed that more than 50 percent of the workers who graduated from the KONČAR Academy, or after having completed the education cycle, were promoted.

As regular communication with the workers and the provision of performance feedback has a major impact on staff motivation, the pilot project of introducing the (semi)annual assessments was conducted in 2017 in KONČAR-ELECTRICAL INDUSTRY Inc. The process of conducting annual assessments aimed at work efficiency management will continue in the following period with the purpose of its introduction in as many KONČAR companies as possible.

The successful co-operation continued with a number of scientific and educational institutions in 2017 facilitating the identification, definition and implementation of a number of projects in which the parties participate as equal partners by bringing their own expertise and encouraging the collaboration between the scientific/educational and economic sectors.

As the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) of 28 May 2018 is applied directly in all EU member states, harmonization activities with the GDPR requirements and the GDPR implementation across KONČAR were launched. GDPR is the first regulation in the EU history which harmonizes the protection of EU citizens' personal data.

As KONČAR adheres to the principle of equal pay for work of equal value, there are no recorded cases of gender pay, position, bonus, advancement opportunities or any other work-related status gap.

As KONČAR attaches great importance to respecting human rights in conducting its operations, no issues were recorded in this area. As a socially responsible company which respects human rights, KONČAR does not support child work, nor implements mandatory or forced labour in any of its business activities or forms.

No case of racial, skin, gender, religious, political, national or social origin discrimination was recorded during the reporting period. Under the provisions of the Collective Agreement, the Employer has undertaken to protect employee dignity in the course of his/her work, and to ensure work conditions in which said workers will not be exposed to sexual and non-sexual harassment by the Employer, managers, colleagues, or other persons with whom said worker comes in regular contact in the course of his/her work.

All KONČAR employees are entitled to a freedom of association and collective bargaining. KONČAR employees may choose to become members of either the Union of Metalworkers of Croatia or the Union of Electrical Industry Workers of Croatia.

KONČAR has set up in-house mechanisms for obtaining advice regarding ethical and legal behaviour as well as issues related to the organisational integrity. General responsibility has been assigned to the Board member in charge of Legal, General and HR Affairs and (depending on the size of respective KONČAR Group company) to works councils, trade union commissioners and/or persons in charge of HR. There are also mechanisms in place for making requests not related to the organization including regional trade union commissioners, State Inspectorate Office and labour inspectorate.

11. QUALITY, ENVIRONMENT, SECURITY OF PEOPLE AND INFORMATION

An integral part of KONČAR’s business policy includes reaching client satisfaction through the delivery of high quality and reliable products, environmental and health protection, as well as safety of employees and the security of information. These policies are implemented across the Group by the application and certification of the management systems as per the requirements of the international ISO 9001 standard for Quality Management, ISO 14001 for Environmental Management, OHSAS 18001 for Occupational Health and Safety Management, ISO/IEC 27001 for Information Security Management, and ISO/IEC 50001 for Energy Management.

The ISO 9001 Quality Management System is certified in 15 Group 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 however, 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 operation in order to be sure of the Company’s capacity to deliver on their requirements and expectations.

The ISO 14001 Quality Management System is certified in 16 Companies. By applying this system, 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 9 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/IEC 27001 Information Security Management System is certified in 3 Companies. By applying this system, Companies achieve the protection of the information system, property, and business information. The ISO 27001 Certificate issued by Certified Independent Certification Institutes proves that the information security management system provides data protection under 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.

The ISO/IEC 50001 Energy Management System is certified in 2 Companies. By applying this system, Companies shall achieve an ongoing improvement of energy management, better resouce and infrastructure utilization, and lower energy consumption i.e. lower costs while limiting and controlling environmental impacts.

These principles are based on the positive regulations of the Republic of Croatia as well as on adopted international standards. KONČAR accepts and applies international and local principles, charters and standards which contribute to a better quality of products, work processes and production as well as to the preservation and the improvement of the environment and social surrounding.

KONČAR's business policy is based on:

- satisfaction of its clients, suppliers and other stakeholders;
- protection of environment, health and safety;
- permanent upgrade of products and processes; and
- participation and motivation of all employees.

Environmental issues

The systematic approach generates the policy and objectives of quality management, environment, health and work safety protection, acknowledged by the certificates obtained from accredited autonomous bodies. A number of other standards and norms is applied to individual products as per the requirements specified by customers and users.

The equipment and products made by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility – primarily operational safety and reliability (not to generate additional problems in electricity supply) and the preservation of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trams and trains produced in KONČAR along with the major environmental component. As KONČAR Group bears huge responsibility for products it offers on the market, it has been trying to manage the entire production chain by supervising the quality of individual production processes.

KONČAR Group companies cooperate only with the suppliers whose materials and components are harmless to humans and the environment and can be recycled after the end of their life or disposed without jeopardizing people or the environment. The selection of a supplier of respective materials and services is subject to meeting defined quality level, delivery period, payment term requirements as well as taking care of health, work safety and environment protection. Suppliers are required to submit the proof (certificates) of meeting said requirements.

Companies have created databases of the existing and potential suppliers. Apart from basic information (name, address, phone, e-mail, contact person), said database also contains other information which may affect the selection of a supplier such as their references, complaint information, quality system data, health and work safety data, environment protection data.

The issue of the environment is of utmost importance as a major part of the equipment is installed directly in the environment (substations, hydropower plants, other power facilities or traction vehicles). KONČAR has defined the Environmental Management Policy, which is available on www.koncar.hr and which has been communicated to all employees.

The equipment and products supplied by KONČAR meet the highest security standards with the minimum environmental effect, as proved by zero complaints or incidents in this area.

Investors that make decisions on the construction of facilities supplied by KONČAR's equipment must adhere to environmental regulation and standards. Aware of the environmental risk, KONČAR implements the precautinary principle. This is especially important as said products and facilities are often delivered to areas of high biodiversity (rivers, lakes, rural areas). There have been no incidents of the loss of biodiversity due to our products so far.

12. CORPORATE SOCIAL RESPONSIBILITY

KONČAR complies with Corporate Social Responsibility principles in all its segments and production-business processes. Relying on the comprehensive operation principles, KONČAR assumes full responsibility for the activities within the Group as well as in the proactive cooperation with all stakeholders. More information is provided in the Corporate Social Responsibility Report, which 12th consecutive issue is published on www.koncar.com available to all interested stakeholders. The report is prepared in accordance with the UN Global Compact principles and the Global Reporting Initiative guidelines. KONČAR has thus become a part of a small group of Croatian companies that publish such reports.

User safety and keeping the environmental impact to a minimum are priorities of our production facilities and office premises as well as locations on which our equipment and products are used. The process starts with the quality control of raw material, components, production processes and technologies as well as strict exit controls and testings of finished products and plants.

Apart from the work process that encompasses product development, design, production and delivery, KONČAR is trying to reduce adverse environmental impacts by numerous other activities. KONČAR has been organizing volunteering activities on the

Earth Day for years, and every year numerous employees become a part of 'Let’s Embellish our Environment' drive. This is an opportunity to get involved in the landscaping of one's environment as well as to raise awareness of the need to preserve it, which has been permanently emphasized as one of the topics during meetings with pupils and students who come and visit our companies.

KONČAR is aware that success can only be the result of motivated and educated employees. Therefore, it has been conducting a number of activities in order to improve its business operations as well as work conditions. Especially important is continuous training and education of employees, health prevention and organized recreation. One of the best popular activities is the traditional KONČAR Soccer Tournament. This was its 17th issue with the participation of more than 300 sports fans in 26 teams from 12 KONČAR Group companies. Let us not forget mountaineering, skiing excursions, marathons and amateur sports competitions.

The KONČAR Pensioners’ Club is organized for those who have ended their professional careers offering various cultural, health, humanitarian and other activities, while the 'Homeland War Veterans Club' brings together participants of the Homeland War.

Sponsorships of various academic and extracurricular activities for children as well as the social and humanitarian support, as a part of the cooperation with the social community, was successfully continued in 2017. Sponsorships and donations support projects, organizations and activities of the humanitarian, sport, cultural and educational character. Among numerous requests, the advantage is given to youth-related activities, their better and more comprehensive education, achievements in culture, organization and participation in various competitions, stimulation of pupils' and students' excellence, doing sports and recreation. Traditional prizes are awarded to students attending the Zagreb University of Applied Sciences, the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, the Faculty of Electrical Engineering and Computing Zagreb, the Faculty of Chemical Engineering and Technology Zagreb. A special award is presented at the Faculty of Electrical Engineering and Computing for the best doctoral disseration for best scientific achievements with industry applications. On the Day of KONČAR, a donation is awarded to one of selected projects. In 2017, funds were awarded to the Zagreb Computing Association for furnishing new and renovated premises in order to encourage programming talent and creativity in informatics and computing among pupils.

A part of our continuous support is encouraging the work of amateur sports clubs and talented athletes in table tennis, archery, handball, canoe, skiing, basketball, sailing, hockey, soccer, judo, skating, taekwondo and chess. The support provided to several clubs and competitions for the people with disabilities must be highlighted. KONČAR’ Chess Club, one of the oldest in Croatia, regularly participates in competitions in various categories as well as organizes a free chess school for the employees’ children who continue to play chess and compete in their categories.

13. ANTI-CORRUPTION AND ANTI-BRIBERY POLICY

Members of management boards, employees and busines partners are acquainted with anti-corruption policies and procedures and adhere to the principles of the Code of Ethics in the course of their business operations and everyday activities. KONČAR enjoys the international reputation of a loyal and correct business partner. No cases of corruption have been recorded at Group level.

KONČAR – Electrical Industry Inc. has not made any financial or in-kind contribution to any political goals, directly or indirectly, to the state or a user. KONČAR promotes and executes correct and transparent competition principles across its businesses in dealing with all entities at all locations. No anti-competitive, antitrust or monopoly-related practices have been recorded in the Group.

14. BUSINESS PLAN FOR 2018

The 2018 Business Plan was adopted by the Supervisory Board at its meeting held on 14 December 2017.

Consolidated income from the sale of products and services is planned in the amount of HRK 3,063.5 million, which is by 8.5% more compared to the 2017 result. Domestic income of HRK 1,355.1 million is planned i.e. a 7.8% increase compared to 2017. Exports, accounting for 56% of total sales revenue, are planned in the amount of HRK 1,708.4 million or 9.1%.

The consolidated pre-tax profit of the Group is set at HRK 180 million, corporation tax at HRK 25.5 million, after-tax profit at HRK 153.5 million, minority interest at HRK 24.8 million, and the equity share of the parent at HRK 128.7 million.

New contracts of HRK 3,357.7 million are planned for 2018, which would result in planned contracts at the end of the year worth HRK 3,583.5 million.

15. FUTURE DEVELOPMENT STRATEGY

Končar Group bases its development strategy on its priority task of producing the most complex products for the end customer in its core business, electric power engineering and transport. This includes complex products such as high voltage substations, hydropower plants, wind farms, trams, electric and diesel-electric trains and alike.

The future period is particularly focused on export markets and the presence of Končar thereon with an emphasis on export activities aimed at decreasing a dependence on domestic economic market. Export orientation is recognized as a guarantee of the Group's long-term viability, its profitable and liquid operations.

The strategy is based on the following assumptions and business objectives:

- **Sustainable development** – stronger participation of digital transformation in development of new products and services in core business (energy and tranport)
- **Production** – individual products of high complexity level and value added (tailor made)

- **Product development** – own development in cooperation with scientific institutions and partners
- **Export**- increasing the export/domestic market ratio (up to 60% - export)
- **HR policy** – scholarships, specialist education, scientific education, HR development
- **Synergy** – encouraging and optimizing Group's joint business processes
- **Social responsibility** – stronger participation across the Group
- **Investments** – expanding production capacity of strategic products, optimization of existing resources

Closing remark:

From the reporting date until the date of adopting financial statements, there were no events which might have significantly impacted the 2017 financial reports of both Končar-Electrical Industry Inc. and of the Group, and which publication would be required as a consequence.

Zagreb, 3 April 2018

Chairman of the Management Board

Končar – Electrical Industry Inc.

Darinko Bago

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8