

UNAUDITED FINANCIAL STATEMENTS

KONČAR GROUP MANAGING BOARD BUSINESS REPORT FOR JANUARY – DECEMBER, 2017

The KONČAR Group consists of KONČAR – ELEKTROINDUSTRIJA d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) as a Mother Company and 15 Daughter Companies in which the Mother Company has the prevailing interest (more than 50 % of votes at the Annual / Extraordinary General Meeting). Privileged shares are registered in a part of companies in addition to ordinary shares. Besides, the Mother Company has a minority managing interest (49% votes at the Annual / Extraordinary General Meeting) in one company (the Associated Company).

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

The potential liability of Končar - Elektroindustrija d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) for the total issued warranties as of 31/12/2017 amounts to HRK 439.5 million representing an decrease by HRK 119,9 million compared to 31/12/2016.

Out of total guarantees and joint and severe warranties, the amount of HRK 300.9 million refers to performance guarantees.

The Končar Group business activities are divided into business areas:

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

On 29th December, 2017, the process of the merger of 3 companies that operated in the field of manufacture of the middle voltage and high voltage equipment was finished within the Group Business Operation Restructuring Plan. The achievement of a significant synergic effect was planned with the stated merger coordinating marketing, more efficient research and development of new products as well as decreasing of business operation expenses. Although the amount of reserved costs and risks was increased by the costs accrued due to the merger of companies operating in the field of the middle and high voltage and the value adjustment of the share in the company Končar – Obnovljivi izvori d.o.o. (Končar – Renewable Sources Ltd.), the business result of the Mother Company, Končar – Elektroindustrija d.d. (Končar – Electrical

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Industry Inc.) was generated in the amount of HRK 68.7 million making it higher by 6 per cent compared to the 2016 achievement.

The Končar Group Companies generated consolidated incomes in the amount of HRK 3.128 million in 2017 making the increase of 0.5 % compared to 2016. The share of the income from sales of products and services in total incomes amounts to HRK 2,824 million and they are at the level of the incomes achieved in the previous year.

The export was generated in the amount of HRK 1,569 million in 2017 making an increase of 12 % in the comparison with the achievement in 2016. The sales in export were higher by HRK 161 million compared to the previous year. The share of the export amounts to 56 % of the total generated incomes.

On the domestic market the incomes from sales of goods and services were lower by the amount of HRK 190 million or 13.2 % than the achievement of 2016.

Operating profits amount to HRK 100.2 million, if one off value adjusting expenditures are excluded. The value of adjustment amounted to HRK 51.6 million and the majority of it referred to the value adjustment of the long term assets in the company Končar – Obnovljivi izvori (Končar – Renewable Sources) in the amount of HRK 39 million.

The share in the profit of the associated entrepreneurs amounts to HRK 73 million making it HRK 6.9 million higher compared to the achievement of the same time period of the previous year.

The difference between the financial incomes and financial expenses is positive and it amounted HRK 7.2 million.

The generated profit before tax without one off value expenditures of the long term asset of the Company Končar – Obnovljivi izvori (Končar – Renewable Sources) amounts to HRK 166.5 million making it lower by 15 per cent than the achievement of 2016. The consolidated profit before tax including one off value expenditures of the long term asset amounts to HRK 128 million. The profit tax amounts to HRK 16.5 million. The profit allocated to the Group Mother Company shareholders amounts to HRK 87.1 million and the profit distributed to the minority interest to HRK 24.3 million.

The profit after tax amounts to HRK 111.4 million

Out of 16 Končar Group Companies, 14 Companies generated a positive financial result, while two companies expressed a loss in the total amount of HRK 40.9 million that belongs completely to the Mother Company Shareholders.

Regarding the structure of incomes from sales of goods and services on the domestic market, incomes from sales of products and services to companies within the Croatian Power Authority, i.e. the HEP Group (HEP - Generation, HEP – Distribution System Operator, i.e. HOPS) were generated in the amount of HRK 492 million (39 % of the total generated incomes of sales of products and services in the domestic market). Compared to the previous year, sales of products and services to the Croatian Power Authority (HEP) was higher by 3.2 %.

Regarding more significant buyers in the Croatian market, incomes from sales of goods and services to Končar – Energetski transformatori (Končar – Power Transformers) were generated in the amount of HRK 84.8 million (7 per cent of the total generated incomes in the domestic market) and to Zagrebački holding – ZET (Zagreb Holding – Zagreb Town Tramcar) in the amount of HRK 62.6 million or 5 per cent of the total generated incomes in the domestic market.

The incomes from sales of products and services in foreign markets were generated in the amount of HRK 1,569 million making it 12 % higher than the achievement of the same time period of the previous year.

The share of the export amounts to 56 per cent of the total incomes from sales of goods and services. The most important export was realised in Sweden in the amount of HRK 210.7 million or 13 per cent of the total

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export (Končar – Distributive and Special Transformers and Končar – Generators and Motors). In the market of Germany the export in the amount of HRK 181 million or 12 percent of the total generated export was performed (Končar – Distributive and Special Transformers and Končar – Metal Structures). The goods and services in the amount of HRK 96 million were exported to Finland, HRK 78.8 million to Kenya (the beginning of the performance of the contract for refurbishment of three generators for Kamburu HPP). Out of other countries to which goods and services were exported in a more significant amount, goods and services were exported to Bosnia and Herzegovina (HRK 76.6 million), Austria (HRK 70 million) El Salvador (HRK 54 million) and Netherlands (HRK 52 million).

Comparing it to the same time period of the previous year, a more significant increase of incomes from sales of products and services abroad was achieved in the markets of Kenya (HRK 78 million more), El Salvador (HRK 44 million more) and Finland (HRK 35 million more).

During the time period January to December, 2017, the Končar Group Companies contracted new projects in the amount of HRK 2,481 million. Out of the total contracted new projects, the amount of HRK 1,209.5 million refers to contracts in the domestic market (48 per cent of the total contracted projects), and the amount of HRK 1,271.2 million (52 % of the total contacted projects) refers to exporting contracts.

On the domestic market the most significant amount of the contracted projects refers to the Croatian Power Authority, i.e. the HEP Group in the amount of HRK 477 million or 39 per cent of the total amount of the total contract for the market of Croatia.

The majority of the contracted projects (15 %) in the foreign market contracted during the time period from January to December 2017 refers to the market of Sweden in the amount of HRK 194 million (the biggest part refers to projects of delivery of distributive and special transformers). For the market of Germany, the new projects were contracted in the amount of HRK 142 million, the majority part referring to the delivery of distributive and special transformers and small electrical machines. The delivery and erection of generators for Khoda Afarin HPP in Iran were contracted in 2017 as well.

According to the performance time schedule, new projects contracted in 2017 in the amount of HRK 1,484 million will be performed in 2018, and project in the amount of HRK 997 million will be performed during following years.

On 31st December, 2017, the contracted project status (due liabilities) amounted to HRK 2,949 million.

The import of HRK 651 million was realised for the time period from January to December, 2017. The import of raw materials and materials amounted to HRK 632 million, while the investment purchases amounted to HRK 19 million. During the same time period of 2017, incomes from sales of products and services in export were generated in the amount of HRK 1,569 million. The import export coverage coefficient amounts to 2.4.

The level of the total consolidated assets and asset sources as of 31st December, 2017 amounted to HRK 3,710.5 million representing a decrease of HRK 88.7 million or 2.3 per cent compared to the level as of 31st December, 2016.

Within the structure of asset sources, the registered capital, reserves, retained profits, profits of the current year and not controlling interest capital amounts to HRK 2,488.2 million that was HRK 39.9 million more compared to the level on 31st December, 2016 and they make 67 per cent of the total sources. Long term reservations amounts to HRK 234.5 million and make 6.3 per cent of the total sources. Long term and current liabilities amount HRK 850.5 million making them lower by HRK 49.3 million lower than at the end of 2016 and make 23 per cent of the total sources.

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Within the current liabilities, account payables amount to HRK 376 million and make 10.1 per cent of the total sources. Total loans (both, current and long term) amount to HRK 182 million and they are lower by HRK 1.5 million compared to the situation as of 31st December, 2016 making 4.9 per cent of the total sources.

Long term asset sources (capital, long term reservations and long term liabilities) are higher by HRK 943 million compared to the long term assets and the average level of stocks showing a good term structure of the asset sources. Current assets are 3.1 times higher than the current liabilities showing a good liquidity of the system. The consolidated balance sheet structure shows equivalence of asset sources and investments and a good financial stability of the Končar Group.

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KONČAR GROUP FINANCIAL INDICATORS (in 000 HRK)

	2015	2016	2017
Total incomes	3,296,461	3,111,844	3,128,786
Incomes from sales	3,049,074	2,853,143	2,823,919
Export	1,306,642	1,407,632	1,568,857
Share of export in total incomes from sales	43	49	56
EDITDA (without one off items)*	279,299	301,027	267,284
EBITDA margin	8,5	9,7	8,5
Net profit (without one off items)	159,269	176,510	149,991
Net profit	151,321	173,288	111,422
Total assets	3,650,038	3,799,271	3,710,579
Total capita	2,093,081	2,207,539	2,278,746
Minority interest	228,414	240,785	209,482
Money and money equivalents	346,619	441,470	529,337
Financial debt (loans)	230,847	183,976	182,480
Number of employees at the end of period	3,666	3,643	3,646
Sales per employee	831,7	783,2	774,5
Profit per employee	43	48	41
Return on capital	6,9	7,2	6,0
Return on sales	5,2	6,2	5,3
Note: one off items = value adjustment of the long term tangible assets			

Signed in the name of the Managing Board:

Končar – Electrical Industry Inc.

Managing Board President

Darinko Bago

28th February, 2018

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

This Statement of the Končar – Electrical Industry Inc., Zagreb, Managing Board is given regarding compilation and publishing of the Končar Group Consolidated Financial Reports for the time period January – December 2017.

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

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

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

Signed in the name of the Managing Board:

Končar – Electrical Industry Inc.

Managing Board President

Darinko Bago

28th February, 2018

- Note:

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

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