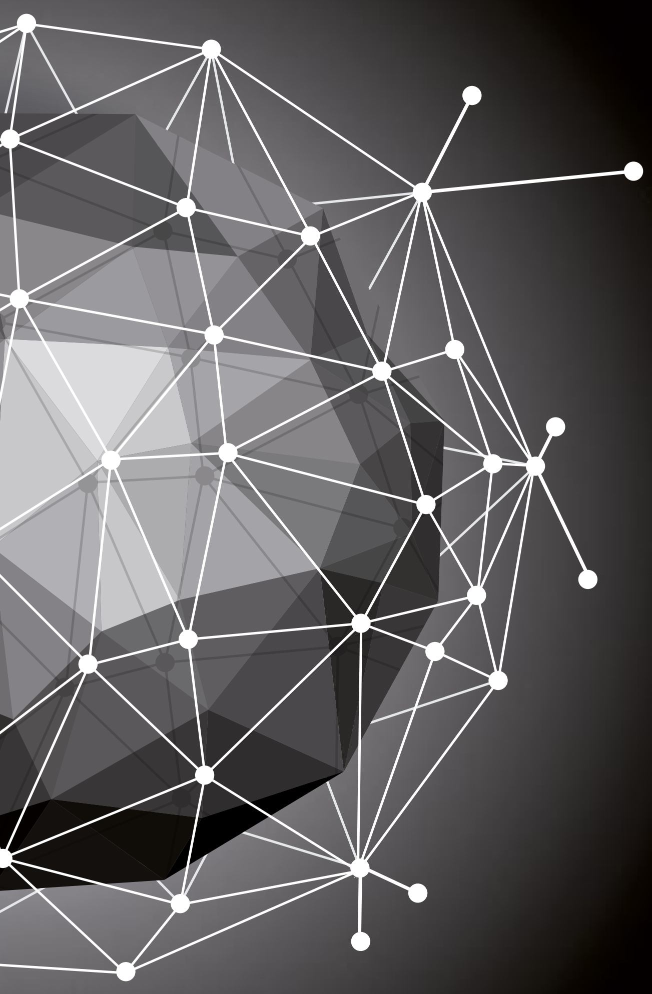
Tradition. Knowledge. Responsibility.



Annual Report

2016

KONČAR D&ST

ISO 9001:2008 / ISO 14001:2004 / OHSAS 18001:2007

Annual Report

2016

Končar Distribution and Special Transformers, Inc.


KONČAR

Contents

Zrmanja, Croatia

① MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2016

1 Introductory Word by the Management Board

2016 - YEAR OF SIGNIFICANT REVENUE, EXPORT AND PROFIT GROWTH

In 2016, Končar D&ST has continued a series of successful business years. Total sales of goods and services in 2016 amounted to HRK 853 million (2015: HRK 791 million), which was an 8% increase on annual level. The export operations of HRK 720 million (2015: HRK 640 million) reached 84% of sales and exceeded by 13% the preceding year exports.

The gross profit of HRK 37.3 million (net profit: HRK 35.9 million) in 2016 was by 20% higher than the gross profit in 2015, when it was HRK 31 million (net profit: HRK 30.1 million).

The balance of total contracts at the end of the 2016 was HRK 622 million which, compared to HRK 690 million at the end of 2015, representing a 10% reduction.

The 2016 investment activities, mostly for purchase of new production, testing and IT equipment and improvement of working conditions in the production, amounted to HRK 19.6 million (2015: HRK 8.1 million).

In 2016, the number of employees grew by 40 and reached 532 and the project of strengthening the technical and sales sector continued through the hiring of highly educated employees. A new generation of managers was promoted and successfully familiarized with their new tasks. In May 2016, the training centre in the Company premises was completed and 93 employees passed the internal professional training in several cycles.

Quality Management System according to ISO 9001:2008, Environmental Management System according to ISO 14001:2004 and Occupational Health and Safety Management System according to OHSAS 18001:2007, have been successfully maintained and recertified within the continuous improvement process. The Company adopted the Business Continuity Plan and has been operating in compliance with the international standards and as socially responsible company.

In 2016, Končar D&ST ordinary and preferred shares were listed in the Regular Market quotation of the Zagreb Stock Exchange. At the beginning of the year, the ordinary Končar D&ST share price was HRK 1,250 and at the end of the year it was HRK 1,530.

Total operating results of Končar D&ST in the demanding year 2016 are in our opinion successful and the Company is well prepared for future business challenges. Mutual confidence and harmonized common interests of our shareholders, employees, business partners and banks have been of great importance for such good performance. Management of Končar D&ST is grateful for the support and trust and is pleased to present this Annual Report for 2016.

for the Management Board
of the Končar D&ST, Inc

Ivan Klapan
President of the Management Board

2 Major 2016 Figures and their Comparison with 2015, 2014 and 2013

	INDEX 2016/2015
Net profit	119.5
Sales	107.9
Exports	112.4
Balance of orders at year's end	90.1

	2016	2015	2014	2013	2016	2015	16/15
	HRK ('000)				EUR ('000)		index
Sales							
Croatia	133,417	150,969	148,620	133,139	17,719	19,839	88.4
Exports	719,950	640,265	563,558	512,884	95,619	84,139	112.4
Total	853,367	791,234	712,178	646,023	113,338	103,978	107.9
Balance of orders at the year's end							
Croatia	51,460	17,971	79,952	59,337	6,835	2,362	286.4
Exports	570,309	671,852	512,833	580,594	75,744	88,290	84.9
Total	621,769	689,823	592,785	639,931	82,579	90,652	90.1
Annual sales per employee	1,654	1,631	1,506	1,411	220	214	101.4
Investments	19,554	8,086	11,464	28,045	2,597	1,063	241.8
Net profit	35,930	30,065	27,259	30,364	4,772	3,951	119.5
Dividend HRK/share							
Ordinary	*	47.05	42.66	47.52			
Preferred	*	47.05	42.66	47.52			
Net profit / sales in %	4.2%	3.8%	3.8%	4.7%			
Net profit per total equity	15.1%	13.7%	13.7%	16.4%			
Total equity and reserves as at 31/12	273,499	249,595	225,701	215,323	36,324	32,800	109.6
No. of employees							
Average	516	485	473	458			106.4
as at 31/12	532	492	482	466			108.1

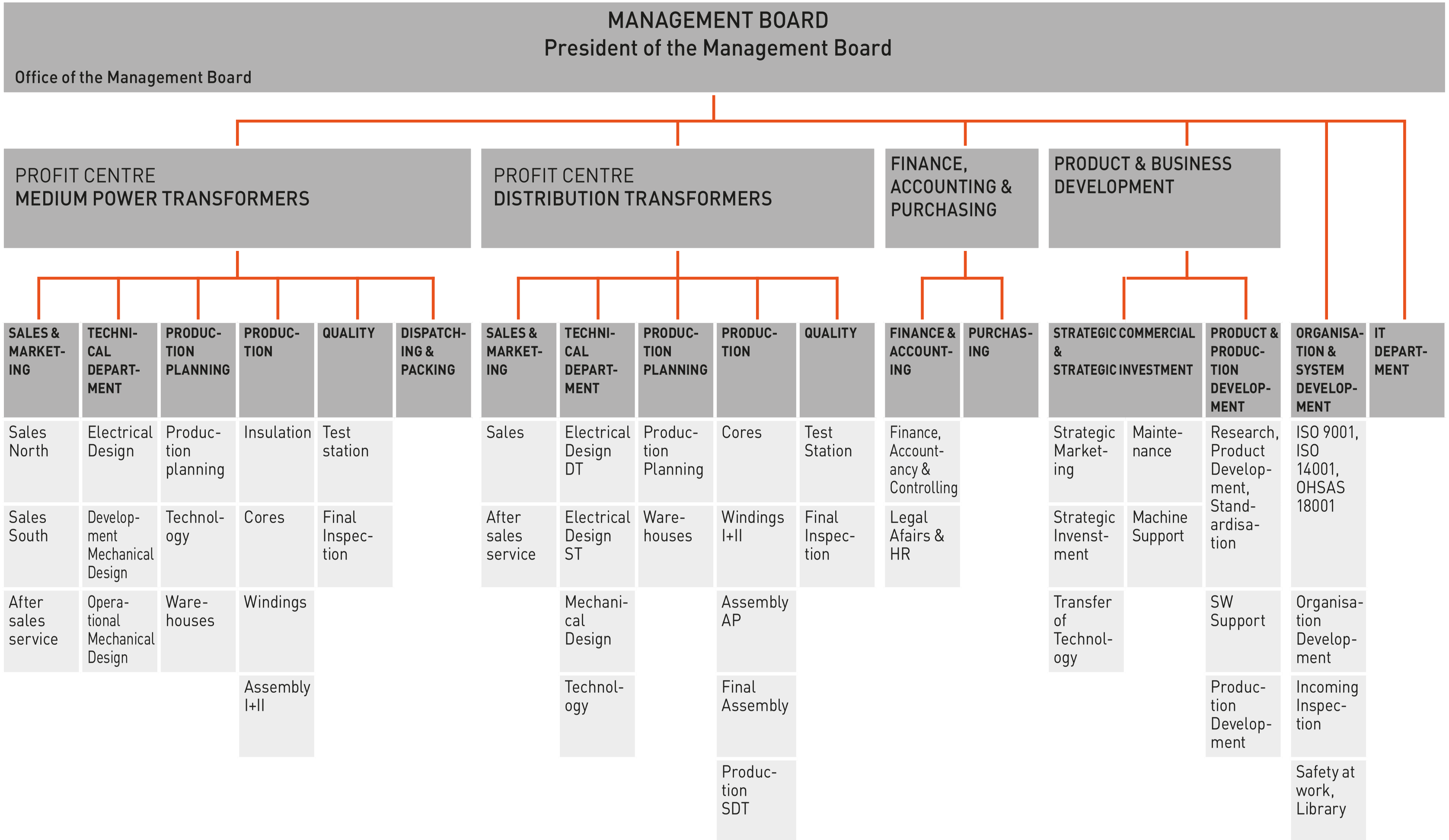
Note: Average exchange rate 2013: 1EUR = 7.5735 KN
2014: 1EUR = 7.6300 KN
2015: 1EUR = 7.6096 KN
2016: 1EUR = 7.5294 KN

* Dividend amount shall be known after the General Assembly.

3 Organisation Scheme Končar D&ST Inc. in 2016

Auditors
PricewaterhouseCoopers d.o.o.
RECONSULT d.o.o.

Supervisory Board
Darinko Bago, president
Miroslav Poljak, deputy
Jozo Miloloža, member
Davor Mladina, member
Vlado Grund, member



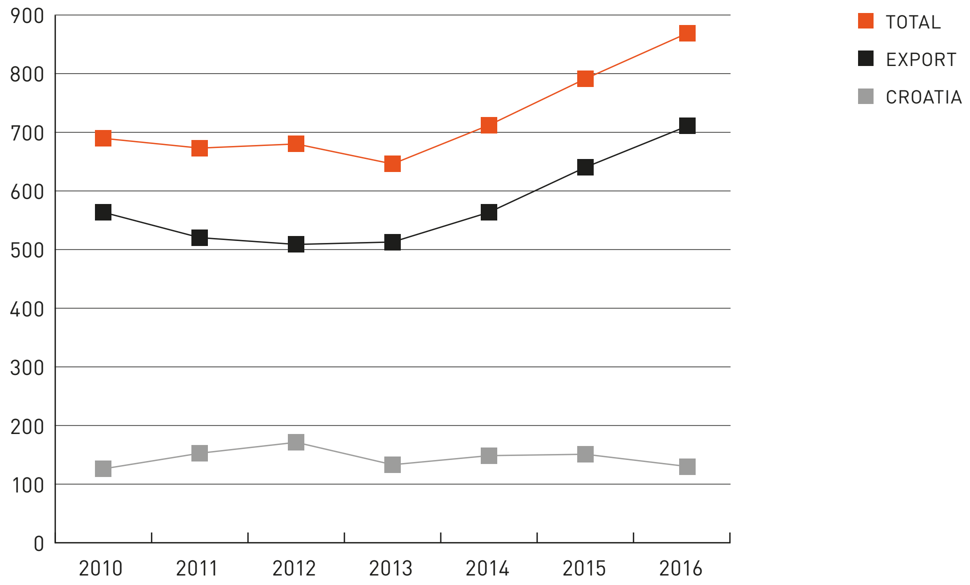
4 General Position of the Company

Through the organisational adjustment to the new size and position of the Company as well as prioritisation of sales and development activities, hiring young experts and systematic letting them in on their work tasks, providing incentives to the employees, investing in product development and production process modernisation, the Company is prepared for complex market demands which may be expected in future as well.

Through successful organization of the highest annual production levels so far - in the range of both distribution transformers and medium power transformers - the Company displayed the capacity to reach its business goals in quite demanding conditions.

Good operating results in 2016 and in the previous years strengthened the Company in financial aspect and the Company has adequate financial stability and a good basis for further development of its operations.

SALES TRENDS (HRK mil.)



5 Corporate Organisation and Management in 2016

During 2016, Končar D&ST was managed by the Management Board, consisting of:

Ivan Klapan	President of the Management Board
Vanja Burul	Board Member, Director of MPT Profit Centre
Martina Mikulić	Board Member, Director of DT Profit Centre
Petar Vlaić	Board Member, Finance and Purchasing Director
Ivan Sitar	Board Member, Business Development Director

Mr. Josip Belamarić was a member of the Management Board until 31 March 2016. After 13 years of work at the Končar-D&ST Management Board and more than 35 years in the Končar Group, he left for well-deserved retirement.

The business processes in 2016 were organised through Distribution Transformers (DT) Profit Centre and Medium Power Transformers (MPT) Profit Centre and the common departments covering the entire Company. The Profit Centres were managed by the teams of directors consisting of the Profit Centre Director and Directors of Sales, Engineering and Production.

Within the scope of the common departments, the Strategic Sales Department and the Product and Production Process Development Department were unified in early 2016 and the Business Development Sector was established. As the Dispatching Department provides most of its services to MPT PC, it has been placed within that Profit Centre at 1 April 2016.

Considering the retirements and the growth in operations, total 12 managers have been promoted to a higher position or appointed to the managerial position for the first time. Their selection, efforts and successful management will certainly contribute to the further strength of the Company.

In 2016, the Company performed its activities on a single location, at the address: Josipa Mokrovića 8, 10090 Zagreb. In order to manage the transport and assembly of medium power transformers in Morocco, there is a branch office in Casablanca, Morocco operating under the name Koncar D&ST Succursale Maroc.

6 Corporate Governance Code Application

The Company implements most of the provisions of the Code of Corporate Governance, prepared by Zagreb Stock Exchange and HANFA and released on the official website of the Zagreb Stock Exchange (www.zse.hr). The only exceptions from this are certain provisions the Company considers non-applicable in the prescribed form, in particular:

- The Supervisory Board and Audit Committee consist mostly of non-independent members, which is deemed appropriate in the current Company position within the Končar Group;
- The Company has no long-term succession plan established but it does have sufficient number of high quality educated, experienced and qualified candidates within the Company for assuming all key positions where required;
- No commission is established for appointments and rewards, but the appointment of new Management Board members and key management staff takes place in an organized manner and the rewarding is deemed adequate to the Company's position and its performance.

Decisions on rewarding the Supervisory Board members are made by the General Assembly and decisions on rewarding the Management Board members are made by the Supervisory Board. The Supervisory Board rewards (in total amount for all Supervisory Board members) and the Management Board rewards (in total amount for all Management Board members) are set out in the Auditor's Report.

The Company believes that the non-implementation of the respective Code provisions does not impair the high level of transparency of the Company's operations and will not have a significant impact on current and prospective investors in making their investment decisions.

A questionnaire with responses to 64 questions contains precise answers regarding the implemented and non-implemented provisions. The questionnaire is publicly available on the official website of the Zagreb Stock Exchange (www.zse.hr) and the Company's website (www.koncar-dst.hr).

Within its organizational model, in which the Company operates and in which all business processes take place, the Company has developed internal control systems at all important levels. These systems, among other things, allow for an objective and fair presentation of the financial and business reports.

Information on significant shareholders is available on daily basis on the official Central Depository & Clearing Company website at (www.skdd.hr), while its status on 31 December 2016 and 2015 was also published in the audit report. The shareholders are allowed the electronic voting with their presence at the General Assembly. Preferred shares of the Company do not provide any voting rights.

7 Market Position and Sales by Countries and Product Groups

Following the market instability in 2015 as a consequence of antidumping measures for metal sheet imports, the year 2016 was marked with stable demand growth on the transformer market. The demand growth has been observed in the last 3-4 years and such trends resulted in the capacity growth of the existing manufacturers but also an aggressive access to the market by the Asian competitors.

Stable activities on the existing markets and the intensive work on new target markets, with the global demand growth, resulted in a significant sales growth.

In 2016, the sales of goods and services grew by 8% from 2015 and amounted to HRK 853 million. Per product groups, changes from the preceding period were as follows:
- Distribution transformers: growth by 18.4 %
- Medium power transformers: growth by 6.4 %
- Dry and special transformers: fall by 23.6 %
- Other goods and services: growth by 10.8 %

Total 2.9% more transformers were produced when regarded by MVA and 5.7% more than in the preceding year regarded by total weight.

Sales by major markets were as follows:

Croatia: in 2016, the sales reached HRK 133.4 million, which compared to HRK 151 million in 2015, was a decline by 12%.

Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania - in 2016, the sales reached HRK 195 million which compared to HRK 155.5 million in 2015 was growth by 20%.

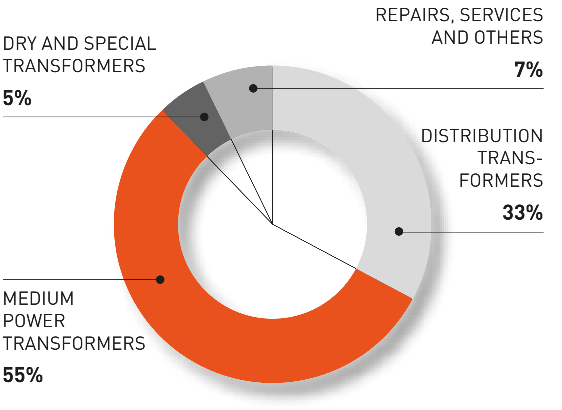
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Ireland, Poland, Russia, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Luxembourg, Belarus, Malta, the Netherlands - sales in 2016 reached HRK 424 million, which compared to HRK 344 million in 2015 was an increase by 18.8%.

Other Asian, African and American countries: in 2016, we delivered HRK 102 million, which compared to HRK 141 million in 2015, constitutes a reduction by 27.6%.

The sales activities in 2016 have led to total new orders of HRK 788.5 million or 8% less than in 2015.
The balance of orders at the year's end was HRK 622 million or 10% less than at the end of 2015.

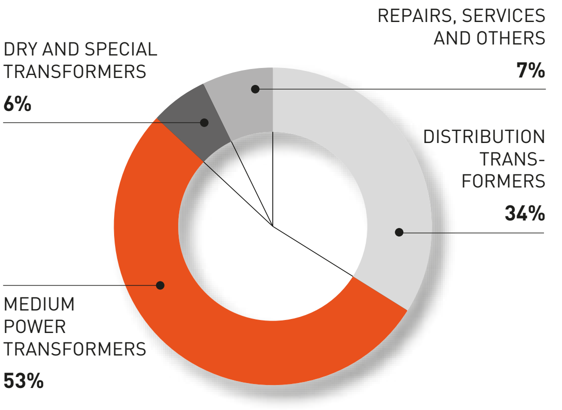
SALES STRUCTURE PER PRODUCTS

2016



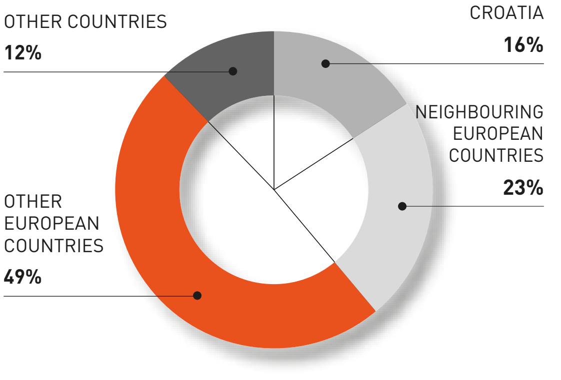
STRUCTURE OF NEW CONTRACTS PER PRODUCTS

2016



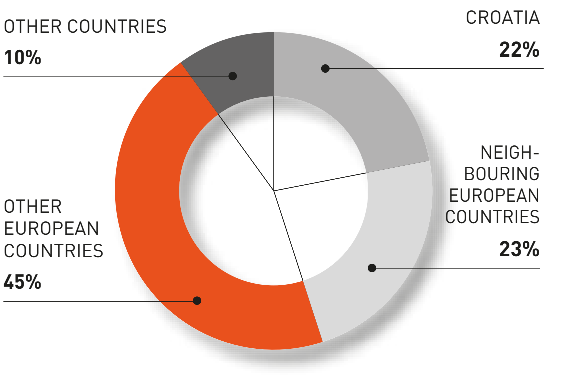
SALES STRUCTURE PER MARKET

2016



NEW CONTACTS PER MARKETS

2016



8 Financial Position (Balance Sheet)

On 31st December 2016, the Company's total assets amounted to HRK 590.1 million. Compared to the year before, the assets are higher by HRK 31.3 mil. or 5.6%.

The fixed assets form 26% of the total assets, amounting to HRK 153.6 mil., which is approximately equal to the balance a year ago. The fixed tangible assets form 95% of the fixed assets and one quarter of the total assets.

The current assets amount to HRK 436.5 mil. or 74% of the total assets. Compared to the preceding year, they are by 7% or HRK 31.2 mil. higher, which is identical to the growth in the overall assets. The increase in the current assets (and overall assets as well) was contributed to by the inventories which, as on 31 December 2016, amount to HRK 227.2 mil. and form 38.5% of the overall assets. The inventories are by HRK 26.2 mil. or 13.1% higher than a year ago. Even a higher growth was recorded in the cash at bank, exceeding by HRK 26.1 mil. on the balance date the amount recorded a year before. Its current value is HRK 71.5 mil. and forms 12.1% of the assets. As opposed to the foregoing items, the receivables are lower by 12.4% and with HRK 133.4 mil. have 22.6% share in the assets.

According to the liabilities aging, the long-term items form 66,6% while short-term items account for 33,4% of the total sources of assets.

The equity and reserves exceed by HRK 23.9 mil. the balance as on 31 December 2015 and with the amount of HRK 273.5 mil. account for 46.3% of the source of funding. The reason for the growth is consistent policy of retaining a part of the net profits of the previous years in the Company reserves as well as higher profit made in 2016 than in 2015. The long-term provisions amount to HRK 98.1mil. (16.6% of the liabilities) and grow by HRK 7.6 mil. mostly as a result of the increase in the provisions for warranty costs. In the long-term component of the liabilities, only the long-term liabilities to banks are reduced by HRK 10.2 mil. and as on 31 December 2016 their balance is HRK 21.3 mil. or only 3.6% of the overall sources of assets.

The short-term liabilities on the balance sheet date amount to HRK 197.2 mil., with the growth of HRK 10.1 mil. from the year before. This is mostly result of the growth in the liabilities for advances received whereby the manufacturing of the contract goods is financed by the buyers.

These trends in the balance sheet items, characterised with the increase of the current assets - primarily cash and inventories, and the strengthening of the long-term sources of liabilities - equity, contribute to the strengthening of the Company's financial stability and liquidity. The Company's indebtedness is also small as the Company is funded almost 50% from the equity and reserves and the external debt consists mostly of non-interest-bearing debt.

9 Operating Results (Income Statement) and Share Price Trends

In 2016, Končar D&ST made HRK 869.1 million in revenues. That means growth of HRK 57.6 mil. or 7% compared to 2015.

The growth in revenues is the result of the sales growth of HRK 853.4 mil. Their structure consists mostly of exports (HRK 720 mil. or 84.4%). The export growth compared to the year before was HRK 79.7 mil. or 12.4% made through the transformer sales in more than 40 countries. In Croatia, HRK 133.4 mil. was made, which is a decline by 17.6 mil. or 11.6% compared to the year before.

On the side of the operating expenses, the most significant are material expenses and personnel expenses, which follow the dynamics of the operating income growth. Among other items, the impairment charges and provisions have a significant relative growth compared to the previous period considering they were lower at the time.

The impact of the net results from financial activities on gross profits is negligible.

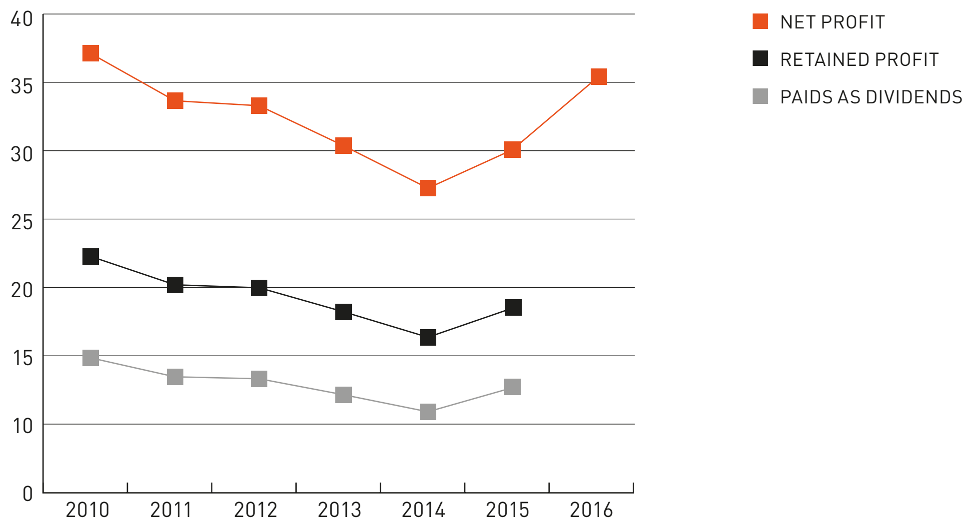
The gross profit of 2016 amounts to HRK 37.3 mil. which means 4.3% of the total revenue (a year before, it was HRK 31 mil. with 3.8% margin). The effective corporate income tax rate is 3.7% because of tax incentives granted to the Company due to the realized investments and new employments. The net profit is HRK 35.9 mil.

The year 2016 was marked with much lower trading dynamics at the Zagreb Stock Exchange compared to the year before. In the reference year, there were 7,623 stocks in trade as opposed to the year before when the number of the stocks in trade was 29,435. This is mostly the result of the significant trade made in 2015 by the institutional investors. The prices were within the range from HRK 1,105.05 to HRK 1,549 per share. The last transaction in 2016 with the preferred stock was done at the price of HRK 1,400 and with the preference stock at the price of HRK 1,530.

According to the ordinary stock price, the P/E ratio on the last day of 2016 was 10.9. The market capitalisation as at 31 December 2016 was HRK 383.1 mil. while on 31 December 2015, it was HRK 315.5 mil.

In 2016, the Company did not acquire any treasury shares.

NET PROFIT TROUGH YEARS (HRK mil.)



10 Main Operating Risks

Market Risks. Demand for transformers on the target markets of Končar D&ST is one of the main operating risk factors. Global demand for transformers as well as demand on target markets varied significantly in specific periods, depending on a number of factors. Periods of high demand (positive trends) are definitely periods of easier contracting. On the other hand, periods of global recession and economic crisis bring with them more difficult contracting of new works and the resulting decrease in profit margins. 2016 was a year of increased demand on most of the target markets.

Supply of transformers by other producers - competition pressure - is another significant risk factor for Končar D&ST operations. Transformer market is generally in most target export markets close to the full competition pattern or a form of mild oligopoly, and the market pressure on majority of the target markets is very strong. The entire transformer industry has been through major changes in the recent 10-20 years with a number of restructurings, winding-ups of plants, opening of new plants, take-overs and mergers (consolidations) and the trends are continuing. 2016 was also a year of strong competitive pressure and an increased supply of transformers on most target markets.

Procurement market risks. Prices of major raw materials and supplies for the production of transformers (copper, aluminium, transformer metal sheets, transformer oil, insulation, steel, etc.) have been volatile in the several recent years and sometimes with enormous growth or drop in a relatively short time period. In 2016, there was a significant decline in the transformer sheet price (approx. 25% decline) and copper price growth (20% growth).

Considering the available options, the Company protects itself from the risk of sudden changes in prices of strategic raw materials in several ways. As for copper, being a raw material listed on commodity exchange markets (London Metal Exchange), forward contracts are used to agree on quantities and prices for the forward period based on book of orders. As for steel, transformer metal sheets and some important transformer parts, semi-annual or annual contracts with suppliers are used to reduce this risk. Also, in some several-year contracts with customers, the price adjustment formula was based on the change of the price in materials.

Currency risk is highly expressed in our operations, considering a high percentage of exports and imports in our income and considering that majority of bank loans (both long-term and short-term ones) are expressed in EUR.

The Company protects itself from currency risk by forward contracts with banks as well as by internal methods for harmonisation of currency inflow and outflow.

Technology and development risks. At this moment, the Company has at its disposal state-of-the-art technology for the transformer production and appropriate technical solutions for the majority of products within its range. The Company is capable of following technical and technological development at an enviable level. In future, technical and technological lag behind the major competitors is not expected.

Credit risk and liquidity risk. Credit risk is observed as a risk that a certain debtor of the Company (e.g. customer to whom the delivery was made without any security) will not be able or willing to pay its dues to the Company in compliance with the agreed terms, and the Company will therefore incur losses by writing off or reducing such receivables.

Liquidity risk is observed as a risk that the Company will not be able to perform its liabilities to creditors in the agreed terms.

The Company protects itself from credit risk with collaterals (L/C, guarantees, etc.), and evaluation of customer solvency in cooperation with external solvency and credit rating agencies. Also, certain trade receivables in respect of specific customers are secured at specialized institutions.

The Company has contracts with commercial banks about credit facilities which make possible for the Company to surmount current need for liquid funds promptly and under familiar conditions. Also, receivables with relatively long maturity terms are most frequently collected by sale to financial institutions (factoring, forfeiting).

Management and personnel risk. Usual fluctuations and changes in the management and leading experts do not have significant effect on corporate operations while sudden or major fluctuations of such personnel categories might affect the corporate performance.

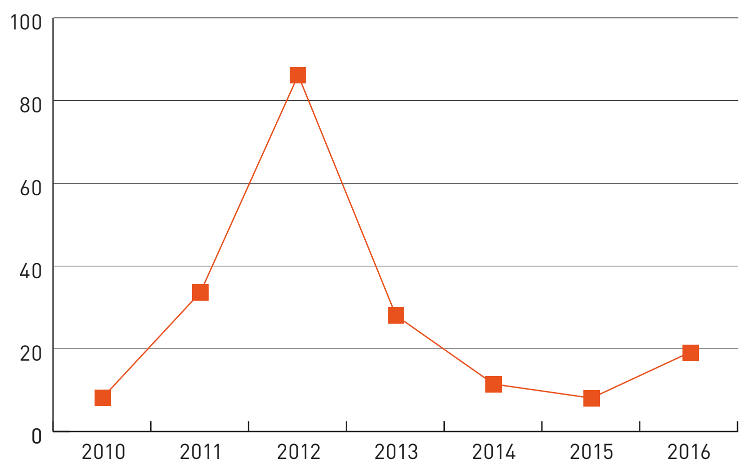
In addition to those specified above, design risks, production risks, political risks and other risk groups are also present to a certain extent.

11 Investments and Technology Modernisation

Following the most recent large investment cycle, the Company makes targeted investments in the process improvements and modernisation, which need to be raised to a higher technological level. Thus, the investment was made in 2016 of HRK 19.6 mil. compared to HRK 8.1 mil. in 2015. Several specialized machines for the production process were purchased or modernized - transformer winding machines, a 70-ton capacity crane, various tools and logistics equipment - in compliance with the adopted plan.

Significant investments were made in the infrastructure, new wardrobes, offices and training centre and particularly in the IT equipment. Several dozens of CAD CATIA v5 licenses have been purchased as well as File Net as the new software package for Document Management System (DMS).

INVESTMENT TRENDS (HRK mil.)



12 Technical Development and Product Innovation

The Product Development and the Production Development Departments, jointly forming the Technical Development Division, had 21 employees, out of which 5 graduate engineers of electrical engineering, 1 MSc and 1 PhD in electrical engineering, 13 graduate mechanical engineers and one graduate engineer of chemical technology. Two employees have completed the Specialist Programme of Studies in Transformers at the Faculty of Electrical Engineering and Computing in Zagreb.

In the distribution transformer development field, software was revised for the optimisation of project design solutions of the assemblies mostly affecting the transformer price. The calculation templates were made, several prototypes were made and type tested with success, including the test of resistance to short circuit. All bids and projects are from now on made in the new software system. A program for evaluation of measurement uncertainty has been completed and implemented according to the requirements of the most recent standard FprEN 50588-1.

In the distribution transformer production process, the capacity of the winding plant has been increased through the procurement of new modern winding machines. Continuous efforts have been made for the equipment modernisation and improvement of all production processes aimed to increased productivity and product competitiveness both on the existing and the new markets.

In the range of medium power transformers, methods have been studied for noise reduction and loss reduction in the core, the impact of new transformer sheet types has been evaluated, as well as the impact of the number of sheets in the stack and the number of stacks in the cycle to the amount of losses and noise in the core. New templates have been made for sizing of the main insulation for the voltage range Si 170. The templates for the calculation of the transformer heating and cooling were worked upon.

In the production of medium power transformers, a higher capacity crane and new mobile platforms have been put in operation. The winding production technology with epoxy coating is introduced and special equipment was procured for compression and stabilisation during the winding drying process. A modern vertical winding machine was ordered, with the plan for its launching in the operation in the 2nd quarter of 2017. The maintenance department obtained a new mobile device for oil processing in the field.

The cooperation with Končar Institute for Electrical Engineering, Faculty of Electrical Engineering and Computing and the Faculty of Mechanical Engineering and Naval Architecture in Zagreb has continued. There are several young professionals attending specialist and doctoral studies at the faculties of the University of Zagreb.

Experts from the Technical Development Department and other departments actively participated in symposiums and seminars about transformers (CIRED in Osijek, CIGRE in Paris) and worked in the SO2 study committee for transformers and in the technical committee HZN/TO E14 Power Transformers.

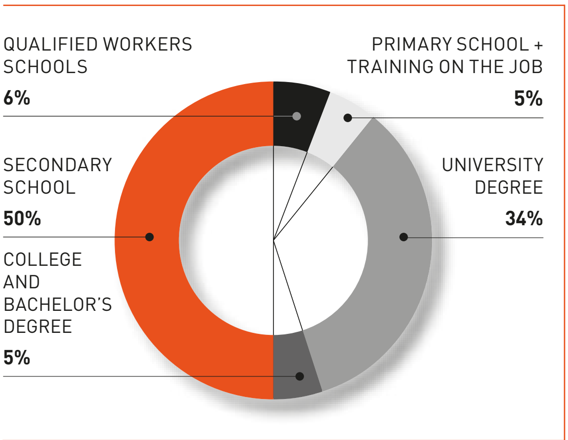
Končar D&ST also participates in the operation of IEC TC14 expert task force for adoption of new standards in the field of distribution transformers.

13 Human Resources

At the beginning of the 2016, there were 492 employees in Končar D&ST. By the end of the year, new 60 employees were employed and 20 left. Thus, the year ended with 532 employees. The employment policy is to continue the rejuvenation of the company so most of the new employees in 2016 were of young age, and the average age of the employees is still 40 years.

In the area of employee training, continuous training is conducted at universities and polytechnics studies. The Company supports enrolment in postgraduate studies, the result of which is a growing number of employees educated at various faculties. A rewarding approach and promotion of professional and scientific training significantly enriches the know-how of the Company and its contacts with the relevant university institutions.

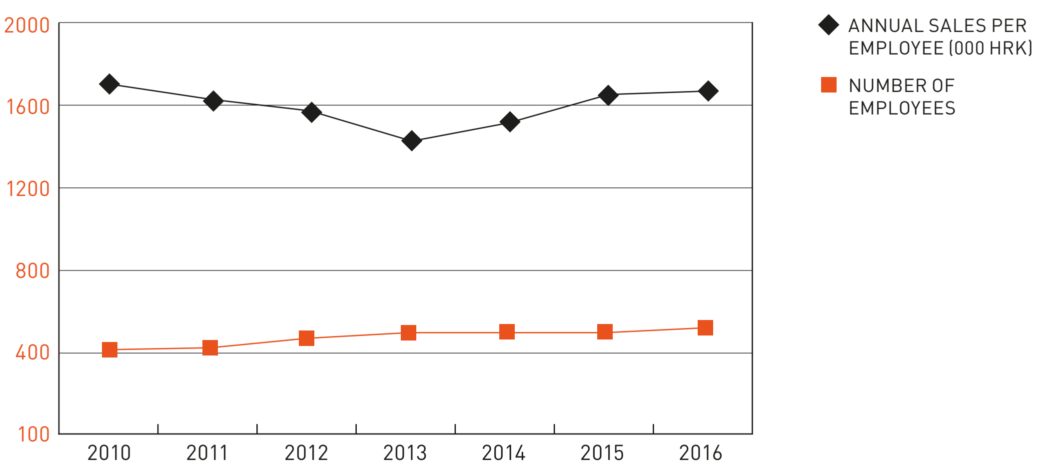
EDUCATION STRUCTURE OF EMPLOYEES AT YEAR-END



	years of education	2015	2016
University degree	16 +	178	183
College and Bachelor's degree	14 - 15	26	27
Secondary school	12	228	264
Qualified workers schools	11 - 13	33	31
Primary school + training on the job	8	27	27
Total		**492**	**532**

Productivity measured by sales per employee in 2016 was HRK 1.65 million.

PRODUCTIVITY AND NUMBER OF EMPLOYEES TREND



14 Quality Management, Environment Management and OH&S Management

In 2016, the quality management system recertification was conducted according to ISO 9001:2008 standard edition, and the transition to the new edition from 2015 is scheduled for 2018. The new DMS (Document Management System) enables a better and more transparent approach to the existing documents as well as faster search capacities of documents and accompanying appendices.

The internal audits and the external audits by Bureau Veritas are still conducted two times per year where the results of the audits of processes and products are used for improvements and advancements of the system as a whole.

Končar D&ST recognized and defined the processes affecting the environment and actively manages the recognized environmental aspects, reducing possible adverse impacts of its activities to the environment. In its operations, Končar D&ST complies with the Croatian laws and regulations, international standards in the environment protection field as well as obligations arising from adoption of ISO 14001 according to which the system is certified.

The environment protection is contributed to by promoting the recycling and through selection of environmentally acceptable raw materials.

Within the scope of its corporate social responsibility, Končar D&ST expresses its care for welfare of the company and the community and supports the efforts of human rights organisations in bringing an end to the violence in the conflict afflicted and high risk areas and the Policy on conflict minerals was adopted for that purpose.

Končar D&ST has harmonized its operations with the Commission Regulation (EU) no. 548/125/EZ, related to Eco-Design. The aims of Eco-Design include the improvement of energy efficiency and general harmonization with the environment protection requirements, through the reduction of CO2 emissions. The Regulation is focused on reduction of transformer losses and more clear and visible labelling of transformer technical characteristics.

Through the established model of data collection and analysis for recognition of possible damages (property damages and personal injuries), Končar D&ST promotes occupational health and safety and raises the awareness of the care for health and safety of each person in the Company. In 2016, specialised software has been implemented which could help in the realisation of that aim.

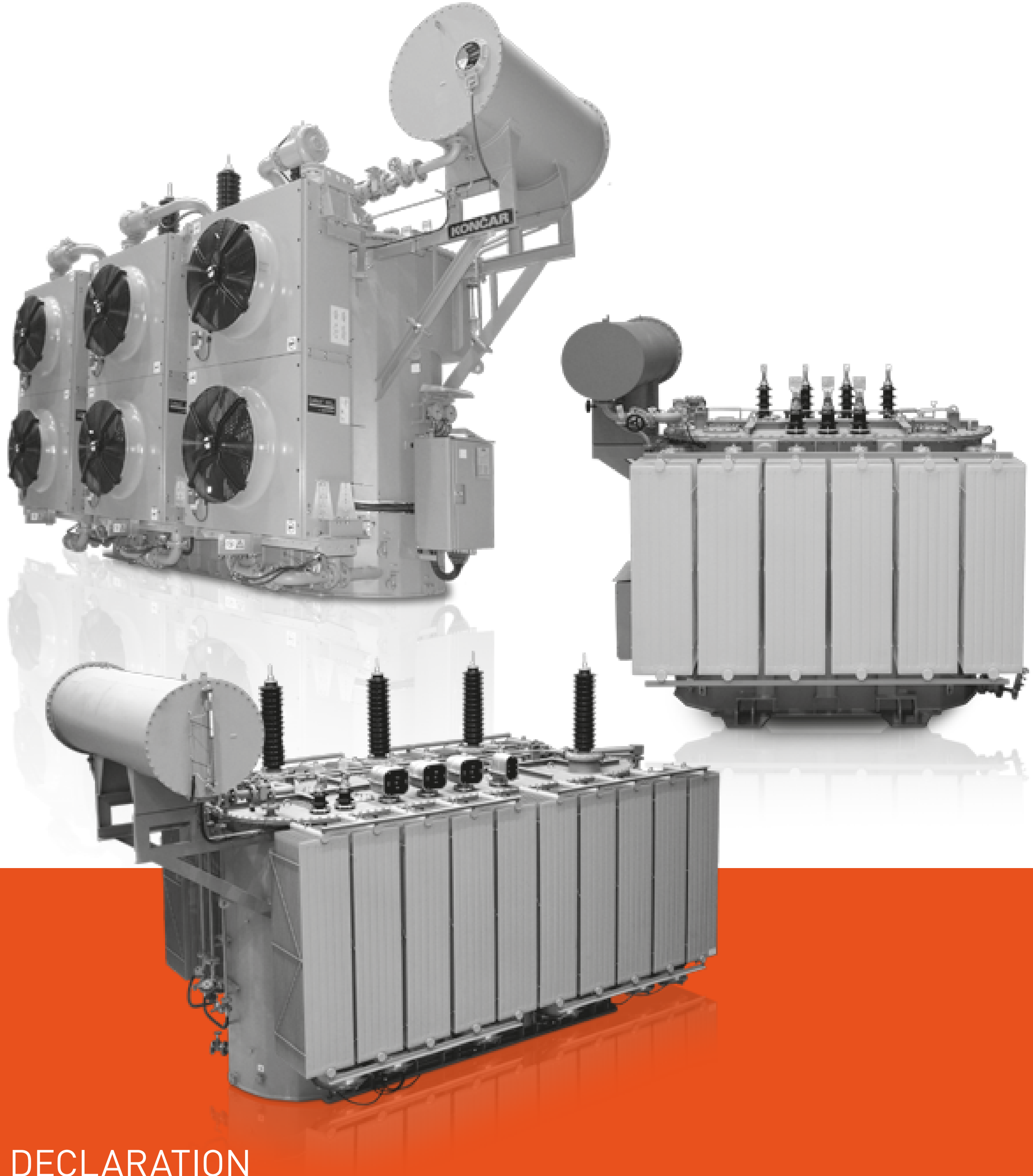
The system is documented, implemented and certified according to the international standard OHSAS 18001:2007.

15 Future Development Strategy

In future, the core business activities of Končar D&ST will continue to be development, sales and production of distribution oil transformers up to 8 MVA and 36 kV, special transformers, medium power transformers up to 100 MVA and 170 kV, as well as technology sales projects on selected markets.

Recognition and best fulfilment of the requirements of our target customers, commitment to the quality and sustainable development, technical and organisational development, training and incentives for our employees aimed to excellence and teamwork fostering, Končar D&ST shall provide high position among the leading European manufacturers of distribution, special and medium power transformers.

Final remark: From the end of the year 2016 until the preparation of this report, there have been no unusual or significant events that could significantly change the view of the operations and position of the Company as presented in this report.



2 DECLARATION AND DECISIONS PROVIDED BY LAW

Končar - Distribution and Special Transformers, Inc.
Josipa Mokrovića 8, ZAGREB
CROATIA

Pursuant to Articles 220 and 300 d of the Croatian Act on Companies, and Article 22 of Articles of Association of KONČAR D&ST, Inc. at Supervisory Board meeting of 14 March 2017, Supervisory Board and Management Board have adopted the following

DECISION
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS
FOR 2016

Supervisory Board and Management Board of Končar D&ST, Inc. have jointly adopted the Annual Financial Statements for 2016.

Explanation

Supervisory Board and Management Board of Končar D&ST, Inc. have jointly adopted the Annual Financial Statements for 2016 as follows:

Total income	HRK 869,131,221
Total expenses	HRK 831,830,602
Profits before taxation	HRK 37,300,619
Corporate income tax	HRK 1,370,462
Profits after taxation	HRK 35,930,157
Total assets / liabilities	HRK 590,103,112

Zagreb, 14 March 2017

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

Končar-Distribution and Special Transformers, Inc.
Josipa Mokrovića 8, ZAGREB
CROATIA

Pursuant to Article 220 of the Croatian Act on Companies and Articles 22, 24 and 25 of Articles of Association of KONČAR D&ST, Inc. at Supervisory Board meeting held on 14 March 2017, Supervisory Board and Management Board adopted the following

DECISION
ON ALLOCATION OF PROFITS FOR 2016

1. Profits after taxation (net profits) for 2016 amount to HRK 35,930,157.28.

2. Management Board and Supervisory Board have allocated a sum of HRK 7,697,097.15 into statutory reserves of the Company.

3. Management Board and Supervisory Board have allocated a sum of HRK 13,859,772.45 into other reserves of the Company.

4. Management Board and Supervisory Board have proposed to General Assembly to make a decision on payment of dividends on ordinary shares and preferred shares at a sum of HRK 56.23 per share, which totals HRK 14,373,287.68 in respect of 255,616 shares.

   The dividends shall be paid to the shareholders registered in the depository of the Central Depository & Clearing Company Inc. (CDCC) as shareholders on a day 15 (fifteen) days after the date of the General Assembly. That will be the record date when shareholders become entitled to the payment of dividends.

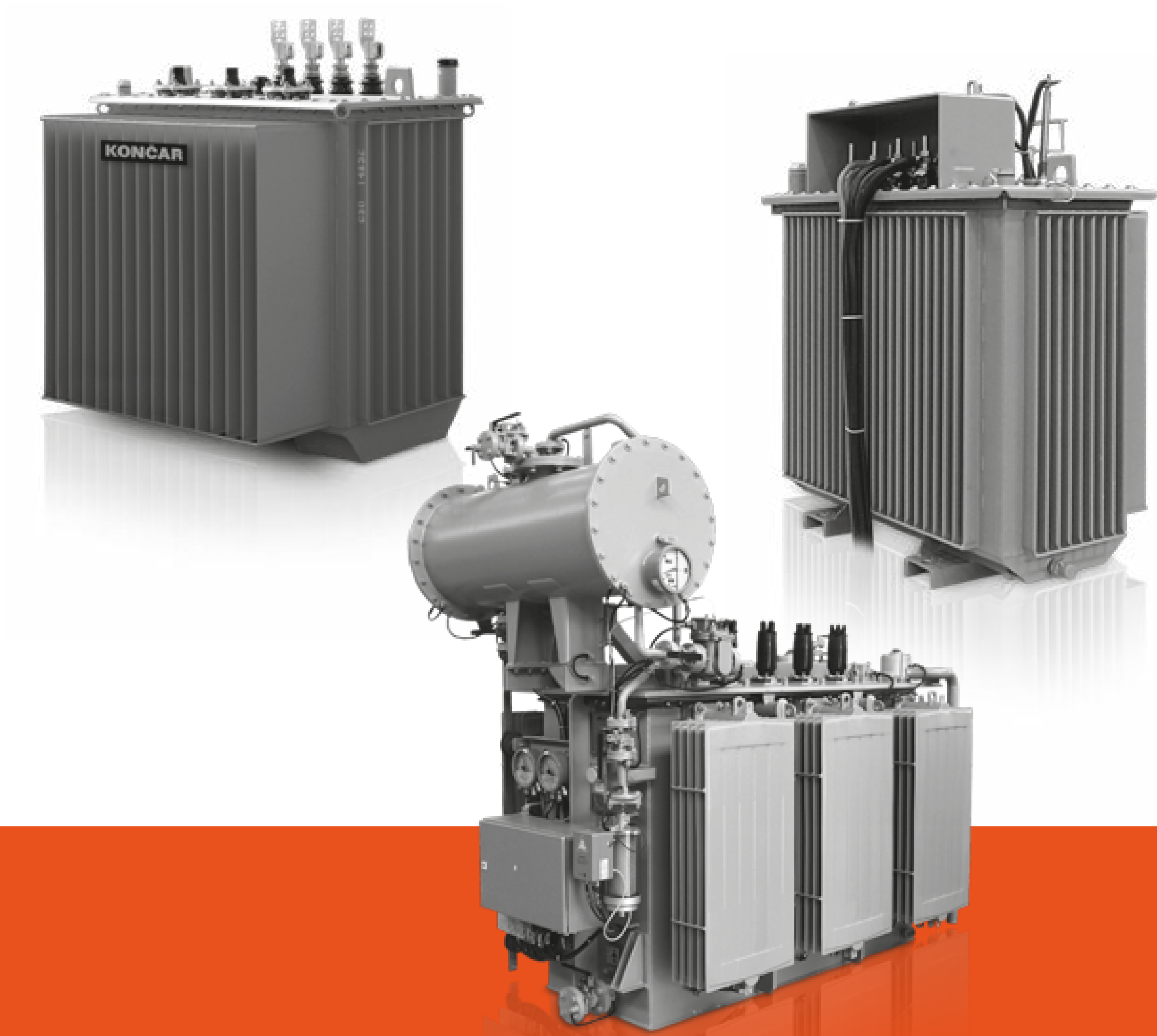
   Dividends shall be paid at latest within 15 (fifteen) days from the record date.

Zagreb, 14 March 2017

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

Tradition. Knowledge. Responsibility.



3 INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards endorsed for use in the European Union which give a true and fair view of the financial position and results of Končar - Distribution and Special Transformers Inc., Zagreb (the "Company") for that period.

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

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:
- 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 financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Ivan Klapan, President of the Board

Petar Vlaić, Member

Ivan Sitar, Member

Martina Mikulić, Member

Vanja Burul, Member

KONČAR
Distributivni i specijalni transformatori d.d.
Zagreb

Končar - Distribution and Special Transformers Inc
Josipa Mokrovića 8
10 090 Zagreb

9 March 2017

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Independent auditor's report

To the shareholders and Management Board of Končar - Distribution and Special Transformers Inc.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Končar - Distribution and Special Transformers Inc. (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Our audit approach

Overview	
Materiality	• Overall Company materiality: Croatian kuna ("HRK") 5,900 thousand, which represents 0.7% of revenues.
Key audit matters	• Provision for warranty costs • Inventory write down

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

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

Materiality

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

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

Overall Company materiality	HRK 5,900 thousand
How we determined it	0.7% of 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 Company over a period of time. We chose 0.7% which is within the range of acceptable quantitative materiality thresholds used for companies in this sector.

Key audit matters

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

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Key audit matter	How our audit addressed the Key audit matter
Provision for warranty costs *See note 2 of the financial statements under the headings "Provisions, Contingent assets and liabilities", note 3 (Critical accounting judgements and estimates) and note 28* Provisions for servicing during warranty periods relate to estimated costs of possible repairs (rectifications or replacement of faulty items) of Company's products (mid-power and distribution transformers). The Company provides warranties for its products for a period of 2 to 5 years in accordance with the contracts signed. The Company recognises warranty provision amounting to HRK 9,225 thousand for the year ended 31 December 2016. Movements within current period are disclosed in note 28. Warranties include general and specific provisions. General provision is calculated using the estimations (2% is applied on the value of sold goods under warranty) based on the Company's past experience and other manufacturers of similar energy equipment experience taking into account specific design and performance requirements. Specific provisions relate to possible quality problems in relation to equipment sold to certain customers (the Company estimates total costs which will be incurred for resolving quality problems for particular customer). We focused on this area because the management made provisions that require significant judgements in relation to the amount of current and potential future claims from customers for losses or damages within warranty period.	In the view of the significant judgements involved in the calculation of warranty provisions, we examined the most material provisions in details and sought relevant supporting evidence and analysis made by management. We have made inquiries to the management and inspected a sample of significant sales agreements with a focus on contractual terms related to warranty periods and warranty terms. In relation to general provisions where the management applied 2% as appropriate percentage for its portfolio, we compared the used percentage with the percentage used by the manufacturer of similar energy equipment in order to assess whether the assumption used in provision calculation was appropriate. We found no significant issues. In respect of specific provisions related to possible quality problems of equipment sold to certain customers we reviewed the matrix defined by the Company involving the probabilities of small, medium and big errors in order to assess whether the provided amount was appropriate. We found calculations to be reasonable. As set out in the note 3 to the financial statements, because management's assumptions concern future events, the calculations of the provisions are inherently uncertain. We verified the mathematical accuracy of calculations and agreed data used in calculations with the Company's records. We have also reviewed the sensitivity analysis in the financial statements disclosing the effect of change in percentage used for general provision 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 2016 to be consistent with previous periods and based on the information currently available to the Company. We found assumptions used by the management in the determination of warranty provision to be reasonable and consistently applied.

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Key audit matter	How our audit addressed the Key audit matter
Inventory write down ***Refer to note 2 of the financial statements under the heading "Inventories" (Accounting policies) , note 3 (Critical accounting judgements and estimates) and notes 12 and 21*** As disclosed in note 2 to the financial statements, inventory write downs are recognized in case when the management assesses there is a need to reduce inventory from cost to net realisable value based on the predetermined criteria. The calculation of net realisable value takes into account the intended use of the inventory (for example inventories held to satisfy a particular service maintenance contract are based on the contract price). In case when the management assesses that the decline in price of materials indicates that the cost of goods will exceed their net realisable value, materials are written down and in such case the replacement cost is the best available measure of their net realisable value. The write down of stock to net realisable value is calculated by applying judgement to the period-end stock levels, with this judgement being affected by stock ageing structure as well as management's view of the current stock profile and age. The write down expense recognized in the current period amounted to HRK 9,511 thousand (2015: HRK 2,202 thousand). The valuation of stock was focused on because of the significance of inventory balance and the nature of the judgements made by the management when assessing the carrying value of inventory. We particularly focused on the management assessment of the stock ageing structure, intended use and estimated net realisable value.	We attended the stock counts performed near the year-end at a sample of the Company's stock locations, mostly manufacturing locations. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation at each location. We evaluated the results of other stock counts performed by the management at the year-end to assess the level of count variances. We performed test of details involving comparison of net realisable value with cost on the selected sample of finished goods, noting no significant issues. We have performed detailed test on the sample basis of the stock ageing structure used by management in determination of write down, no errors have been found. We have also reviewed stock analysis made by management describing the current stock profile, age, intended use and estimated net realisable values, and found no inconsistencies. We held discussions with management to understand the basis for management views. Based on the work performed, we accept the reasonableness of management's assumptions used in determination of stock write down expense.

Other information

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

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

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

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

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

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

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

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

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

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

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

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

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

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

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

The certified auditors engaged as partners on the audit resulting in this independent auditor's report are Kristina Dimitrov and Marija Zupančić

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Ulica kneza Ljudevita Posavskog 31, Zagreb
9 March 2017

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Trg hrvatskih velikana 4/I, Zagreb
9 March 2017

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Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016	2015
		HRK	*HRK*
Sales	4	853,366,620	791,233,750
Other operating income	5	4,454,364	2,636,555
Operating revenues		**857,820,984**	**793,870,305**
Changes in inventories (work in progress and finished goods)		37,939,218	(7,546,665)
Cost of materials and energy	6	(572,841,114)	(503,682,085)
Cost of goods sold		(29,302,376)	(30,952,029)
Cost of services	7	(73,011,763)	(64,476,635)
Staff costs	8	(117,023,507)	(107,215,470)
Depreciation and amortization	9	(19,031,584)	(18,061,694)
Other costs	10	(23,246,253)	(18,341,201)
Impairment charge - current assets	11	(11,720,416)	(2,202,002)
Provisions	12	(9,248,529)	(389,218)
Other operating expenses		(3,165,712)	(891,448)
Operating expenses		**(820,652,036)**	**(753,758,447)**
Operating profit		**37,168,948**	**40,111,858**
Finance income	13	11,310,237	17,652,462
Finance expenses	14	(11,178,566)	(26,795,014)
Net finance result		**131,671**	**(9,142,552)**
Total revenues		**869,131,221**	**811,522,767**
Total expenses		**(831,830,602)**	**(780,553,461)**
Profit before taxation		**37,300,619**	**30,969,306**
Corporate income tax	15	(1,370,462)	(904,786)
PROFIT FOR THE YEAR		**35,930,157**	**30,064,520**
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Cash flow hedge		-	4,734,344
Other comprehensive income for the year		**-**	**4,734,344**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**35,930,157**	**34,798,864**
Earnings per share	16	140.56	117.62

The accompanying notes form an integral part of these financial statements

Statement of Financial Position

as at 31 December 2016

	Notes	31 December 2016	31 December 2015
		HRK	*HRK*
ASSETS			
Non-current assets			
Intangible assets	17	2,935,724	1,730,017
Property, plant and equipment	18	145,810,830	146,178,259
Investments in associates	19	1,732,458	1,732,458
Financial assets	19	2,843,285	3,901,193
Deferred tax asset	15	327,071	-
		153,649,368	**153,541,927**
Current assets			
Inventories	20	227,172,100	200,896,950
Receivables from related companies	21	15,256,027	13,974,684
Trade accounts receivable	22	110,914,829	130,045,509
Prepaid corporate income tax		-	1,425,192
Other receivables	23	7,158,889	6,831,375
Financial assets	24	241,611	636,254
Cash and cash equivalents	25	71,450,771	45,335,652
Prepaid expenses and accrued income		259,517	118,726
		432,453,744	**399,264,342**
Non-current assets held for sale	26	**4,000,000**	**5,960,000**
TOTAL ASSETS		**590,103,112**	**558,766,269**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	27	**76,684,800**	**76,684,800**
Legal reserves	27	3,839,641	3,839,641
Statutory reserves	27	145,672,503	127,634,716
Other reserves	27	11,371,723	11,371,723
Profit for the year		**35,930,157**	**30,064,520**
		273,498,824	**249,595,400**
Non-current provisions			
Provisions for warranty costs		95,836,420	88,281,301
Provisions for retirement and jubilee rewards		2,255,022	2,231,356
	28	**98,091,442**	**90,512,657**
Non-current liabilities			
Liabilities toward banks - borrowings	29	21,253,771	31,490,857
		21,253,771	**31,490,857**
Current liabilities			
Liabilities toward related companies	30	6,297,259	7,280,371
Borrowings	31	8,501,508	5,725,610
Trade accounts payable	32	57,547,949	69,310,509
Liabilities for advance payments received	33	62,461,555	47,493,238
Other liabilities	34	15,074,253	13,143,094
Accrued expenses and deferred income	35	6,299,416	4,807,142
Provisions	36	41,077,135	39,407,391
		197,259,075	**187,167,355**
Total liabilities		**316,604,288**	**309,170,869**
TOTAL EQUITY AND LIABILITIES		**590,103,112**	**558,766,269**

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016	2015
		HRK	*HRK*
Cash flow from operating activities			
Cash receipts from customers		930,439,731	844,362,468
Cash receipts from insurance compensations		126,963	481,053
Cash receipts from tax return		45,198,584	30,868,899
Cash paid to suppliers		(764,448,042)	(660,106,381)
Cash paid to employees		(112,431,290)	(104,178,761)
Cash paid for tax		(19,881,146)	(19,232,998)
Cash payments to insurance companies		(1,901,787)	(1,108,336)
Other cash receipts and payments		(15,869,177)	(13,367,773)
Net cash from operations		**61,233,836**	**77,718,171**
Interest paid		(2,105,441)	(2,124,134)
Net cash flow from operating activities		**59,128,395**	**75,594,037**
Cash flows from investing activities			
Proceeds from sale of non-current assets		2,040,264	105,521
Dividends received		1,928,202	2,050,212
Interest received		73,291	78,767
Deposits released		-	13,510,481
Acquisition of intangible and tangible assets		(17,909,628)	(8,509,657)
Deposit placements		-	(25,119,844)
Net cash used in investing activities		**(13,867,871)**	**(17,884,520)**
Cash flow from financing activities			
Proceeds from borrowings		105,688,042	15,189,986
Repayment of borrowings		(112,848,794)	(50,150,029)
Dividends paid		(12,028,542)	(10,906,479)
Other proceeds/payments		43,889	-
Net cash used in financing activities		**(19,145,405)**	**(45,866,522)**
Net increase in cash and cash equivalents		**26,115,119**	**11,842,995**
Cash and cash equivalents at the beginning of the year		45,335,652	33,492,657
Cash and cash equivalents at the end of the year	25	**71,450,771**	**45,335,652**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital	Legal reserves	Statutory reserves	Other reserves	Current year profit	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Balance at 1 January 2015	**76,684,800**	**3,839,641**	**111,280,233**	**6,637,379**	**27,259,062**	**225,701,115**
Profit for the year	-	-	-	-	30,064,520	**30,064,520**
Other comprehensive income:						
Cash flow hedge - reclassification to Profit and loss	-	-	-	4,734,344	-	**4,734,344**
Total comprehensive income for the year	*-*	*-*	*-*	*4,734,344*	*30,064,520*	*34,798,864*
Transactions with owners:						
Transfer to reserves	-	-	16,354,483	-	(16,354,483)	-
Dividends paid	-	-	-	-	(10,904,579)	**(10,904,579)**
	-	*-*	*16,354,483*	*-*	*(27,259,062)*	*(10,904,579)*
Balance at 31 December 2015	**76,684,800**	**3,839,641**	**127,634,716**	**11,371,723**	**30,064,520**	**249,595,400**
Profit for the year	-	-	-	-	35,930,157	**35,930,157**
Other comprehensive income:	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**35,930,157**	**35,930,157**
Transactions with owners:						
Transfer to reserves	-	-	18,037,787	-	(18,037,787)	-
Dividends paid	-			-	(12,026,733)	**(12,026,733)**
	-	*-*	*18,037,787*	*-*	*(30,064,520)*	*(12,026,733)*
Balance at 31 December 2016	**76,684,800**	**3,839,641**	**145,672,503**	**11,371,723**	**35,930,157**	**273,498,824**

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements

for the year ended 31 December 2016

1. General data

Končar - Distribution and Special Transformers Inc, Zagreb, Josipa Mokrovića 8, ("the Company") is a subsidiary of the Končar - Electrical Industry Group ("the Group") where the ultimate parent is the company Končar - Electrical Industry Inc, Zagreb, Fallerovo šetalište 22, and deals with the design, production, sales and servicing of distribution, special and mid-power transformers with a power rating of up to 100 MVA and a voltage rating of up to 170 kV.

As at 31 December 2016 the Company had 532 employees, while on 31 December 2015 the Company had 492 employees.

The Company has a branch in Morocco, and its financial information is also included in the financial statements of the Company.

The employee structure is as follows:

	31 December 2016	31 December 2015
University degrees	183	178
College	27	26
High school (secondary)	264	228
Qualified workers schools	31	33
Primary school + training on the job	27	27
	532	**492**

Members of the Supervisory Board

- Darinko Bago, president,
- Miroslav Poljak, deputy
- Jozo Miloloža, member
- Davor Mladina, member
- Vlado Grund, member

Members of the Management Board

- Ivan Klapan, president
- Petar Vlaić, member
- Ivan Sitar, member
- Josip Belamarić, member until 31 March 2016
- Martina Mikulić, member from 1 April 2016
- Vanja Burul, member from 1 April 2016

Compensation to the members of the Management and Supervisory Board are presented in Notes 8 and 10 of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis for preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

The financial statements have been prepared using the historical cost convention except for Available for sale financial assets and financial assets and liabilities at FVTPL and liabilities carried at fair value. The financial statements are prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Company. At 31 December 2016, the exchange rate for USD 1 and EUR 1 was 7.17 HRK and 7.56 HRK, respectively (31 December 2015: HRK 6.99 and HRK 7.635 respectively). All the amounts stated in these financial statements are expressed in kunas, unless otherwise stated.

New and amended standards adopted by the Company

The Company has adopted new and amended standards for their annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38.
- Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).

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

Standards, amendments and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Company. None of these is expected to have significant effect on the Company's financial statements, except for the following standards:

Notes to the Financial Statements

for the year ended 31 December 2016

IFRS 15 Revenue from contracts with customer 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 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; and
- As with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.
Management is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:
- Extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue

At this stage, the Company is not able to estimate the impact of the new rules on the Company's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date.

IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

The Management of the Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:
- Following the changes approved by the IASB in July 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.
- While the Company has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) based on their current business model for these assets. Hence there will be no change to the accounting for these assets.
- There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.

Notes to the Financial Statements

for the year ended 31 December 2016

- The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.

The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.
The Management plans to adopt the standard on its effective date.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)
- IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
- Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At this stage, the Company is not able to estimate the impact of the new standard on the Company's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date and when endorsed by the European Union.

a) Revenue recognition

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

Revenues from the sale of goods and own products

Revenues from the sale of goods and own products are recognized when all of the following conditions have been met:
- the Company has transferred all significant risks and benefits arising from the ownership of the goods or products to the buyer;
- the Company does not retain constant involvement in the control of the assets sold up to a point usually related with ownership nor does it have control over the sale of goods;
- the amount of income can be measured reliably;
- it is probable that the economic benefits arising from the transaction will flow to the Company; and
- costs, arising or that will arise in relation to the transaction, can be measured reliably.

Income from services is recognized in the period when the services are rendered on the basis of the stage of completion.

Notes to the Financial Statements

for the year ended 31 December 2016

b) Financial revenues and expenses

Financial revenues and expenses comprise of interest on loans granted calculated using the effective interest rate method, interest receivables from funds invested, income from dividends, foreign exchange gains/losses, gains/losses from financial assets held at fair value through the profit and loss account.

Interest revenues are recognized in the income statement on an accrual basis using the effective interest rate method. Income from dividends is recognized in the profit and loss account on the date when the Company's right to receive dividends is established.

Financial expenses are consist from the interest on borrowings, changes in the fair value of financial assets held at fair value through the profit and loss account, impairment losses on financial assets and losses from exchange rate differences.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period indispensable for the finalization and preparation of the asset for its intended use or sale. Other borrowing costs are recognized in the income statement using the effective interest rate method.

c) Taxation

The Company provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax.

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

Deferred tax reflects the net tax effect of the temporary differences between the book values of the assets and the liabilities for the purpose of the financial reporting and the values used for the purpose of establishing profit tax. A deferred tax asset for the carry-forward of unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can 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 and liabilities are expected to be collected or paid.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited to other comprehensive income or directly to equity, in which case the tax is also recognized in other comprehensive income of directly in equity.

d) Reporting segments

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 Supervisory/Management Board that makes the strategic decisions.

The Company's Management considers Company's business operations as one operating segment while only the sales revenues are considered as two operating segments: Medium power transformers and Distribution transformers as presented in Note 4.

e) Earnings per share

The Company 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 and preference shareholders by the weighted average number of ordinary shares outstanding during the period.

Notes to the Financial Statements

for the year ended 31 December 2016

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 potential shares arising from realised options.

f) Dividend distribution

Dividends are recognized in Statement of changes in equity and recognized as a liability in the period when declared by the shareholders.

g) Transactions in foreign currency

Transactions in foreign currency are initially translated into Kuna's by using the spot rates at the transaction date. Cash, receivables and liabilities reported in foreign currencies are translated into Kuna's by using middle exchange rate at balance sheet date. Foreign exchange differences (gains or losses) are included in the profit and loss account as incurred and stated in gross amounts in P&L and in the notes 13 and 14 (these amounts include both foreign exchange differences from operating as well as from financing activities).

h) Intangible assets and property, plant and equipment

Non-current intangible and tangible assets are initially recognized at cost which includes purchase price, import duties and non-refundable taxes after discounts and rebates, as well as all other costs directly linked to bringing the assets into working condition for intended use.

Items of intangible and tangible asset are recognized when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequently after the initial recognition assets are stated at cost less accumulated depreciation or amortisation and less impairment losses.

Costs of current repairs and maintenance, replacement and investment maintenance of lower extent are recognized as an expense in a period in which are incurred. In the situation when it is clear that the expenses resulted with the increase in future economic benefits which should be realised by the asset usage beyond its originally assessed standard of performance, these expenses are capitalized i.e. included in the carrying value of the related asset. Any gain or loss arising from disposal of the asset is included in the income statement under the other operating income or expenses.

Depreciation starts when the fixed asset is available and ready for use, i.e. when it is appropriately located and in the right conditions needed for the use. Depreciation ceases when the assets is fully depreciated or when the asset is classified as the non-current asset held for sale. Depreciation is provided on a straight-line basis for each fixed asset item over their useful economic life.

Depreciation and amortization are provided on a straight-line basis for each fixed asset item over their useful economic life (except for land and assets under construction which are not depreciated/amortised), as follows:

	Depreciation and amortization rates (from - to)
Concessions, patents, licences, software etc.	25%
Buildings	3% - 5%
Plant and equipment	5% -25%
Tools and furniture	5% - 25%

Notes to the Financial Statements

for the year ended 31 December 2016

Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimated the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company's cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

i) Leases

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

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

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

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

j) Financial assets and financial liabilities

Financial assets

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories:

• **"At fair value through profit or loss" (FVTP)"**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as

Notes to the Financial Statements

for the year ended 31 December 2016

at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. All derivative financial instruments are included in this category, except if designated and effective as hedge instruments in which case the hedge accounting is applied.

- **"Held-to-maturity"**

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company 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)"**

Financial assets available for sale is non-derivative financial assets which is designated as such or it cannot be included in none of the above mentioned categories. AFS is stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income is included in profit or loss for the period.

- **"Loans and receivables"**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows or the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are objectively assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

De-recognition of financial assets

The Company derecognizes 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.

Notes to the Financial Statements

for the year ended 31 December 2016

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recorded at the proceeds received, net of direct issue costs.

Share capital

a. Ordinary shares

Share capital represents the nominal value of shares issued.

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

b. Share repurchase

The amount paid for the repurchase of the Company's own shares, including direct costs related to the repurchase, is recognized as a decrease within equity and reserves. Repurchased shares are classified as own shares and represent a deduction of equity and reserves.

Financial guarantee of a contractual obligation

Financial guarantee of a contractual obligation is initially measured at its fair value and subsequently measured at the higher of:

- the contractual amount of liability determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue).

Financial liabilities at fair value through profit and loss

Financial liabilities are classified as financial liabilities at fair value through profit and loss when they are either intended to be traded or are classified as such by the Company.

Financial liabilities at fair value through the profit and loss account are measured at their fair value, while the gains/losses relating to them are recognized in the profit and loss account. The net gain/loss recognized in the profit and loss account includes any interest paid in the name of the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction cost.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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for the year ended 31 December 2016

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

De-recognition of financial liabilities

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

k) Investments in associates

Associates are entities over which the Company exercises significant influence, but not control, which generally accompanies a shareholding of 20% and 50% of voting rights.

Investments in associates are stated at cost in the Company's standalone financial statements, less impairment if any.

The Company does not separately disclose financial statements in which the investment in associate is accounted for using the equity method since the Company's share in this company is not significant and does not have significant impact on the Company's financial statements. Also, this associate is accounted for using the equity method in the consolidated financial statements of Končar group (including all required disclosures).

l) Inventories

Inventories are measured at the lower of cost or net realizable value. Costs of inventories comprise all purchase costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories is determined using the weighted average cost method.

The cost of work in progress and finished products comprises materials, direct labour costs and related fixed and variable overheads based on normal operating capacity. It excludes borrowing costs.

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, 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 inventory is fully expensed when put into use.

Notes to the Financial Statements

for the year ended 31 December 2016

m) Receivables

Receivables are initially measured at fair value. At the balance sheet date, receivables, whose collection is expected in the period longer than one year, are stated at amortized cost by using the effective interest rate method decreased for impairment loss. Current receivables are stated at initially recognized nominal amount decreased for appropriate value adjustment for estimated uncollectible amounts and impairment losses.

Value of the receivables is decreased and impairment losses are incurred if and only if there is objective evidence on the impairment as a result of one or more events which happened after the initial recognition when this event influences the estimated future cash flows for the receivables which can be reliably estimated. At every balance sheet date the Company estimates if there is objective evidence on the impairment of certain receivable. If the objective evidence on the impairment exists, impairment loss is measured as a difference between carrying value and estimated future cash flows. Carrying value of receivables is decreased directly or by the usage of separate value adjustment account. Impairment loss is recognized as an expense in the profit and loss account for the current year.

n) Cash and cash equivalents

Cash and cash equivalents consist of deposits, cash at banks and similar institutions and cash on hand, shares in cash funds at demand or collectible within 3 months.

o) Borrowings

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

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

p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are re-evaluated at every balance sheet date and adjusted according to the newest best estimates.

Provisions are determined for costs of repairs within warranty periods, awards to employees for long term employment and retirement (jubilee awards and severance payments).

Provisions for warranties are recognized in the period when the underlying products are sold. Provisions are made based on estimates and experiences from other manufacturers of energy transformers within the Group's environment and best estimate of potential outcomes in accordance with their probabilities.

Provisions for awards to employees for long term employment and retirement (regular jubilee awards and severance payments) are determined as the present value of future cash outflows using the government bond interest rate as the discount rate.

q) Employee benefits

(i) Defined pension fund contributions

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds

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for the year ended 31 December 2016

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits - bonus plans

A liability for employee benefits is recognized in provisions based on the Company's formal plan and when past practice has created a valid expectation by the Management Board/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements. For liability for bonuses it is expected that it will be settled within 12 months from balance sheet date, and the liability is recognized in the amount expected to be paid.

r) Contingent assets and liabilities

Contingent liabilities are not recognised in financial statements, but only disclosed in the notes to the financial statements, unless the possibility of the outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements except when the inflow of economic benefits is virtually certain.

s) Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Critical accounting judgements and 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 the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Impairment of inventories

The Company recognizes an impairment for all inventories for which it determines that its cost is higher than its net realizable value based on best estimate. Estimate is based on the observable prices which can be achieved on the market involving this kind of industry (for example, prices of cuprum declined in 2015, and the Company recognized provision for impairment for cuprum items present in stock).

Notes to the Financial Statements

for the year ended 31 December 2016

b) Warranty provisions

The Company provides warranties for its products for an average period of 3-5 years. The Management estimates the provision on the basis of past experience. Factors which could influence information regarding the estimated claims include success of the Company's initiatives to improve the quality of its products and the cost of labour and parts needed. If the level of estimated provision needed had increased by 1% in comparison to deliveries made in the last three years, the Company's provisions recognised within the balance sheet would have increased by HRK 22 million (2015: HRK 21 million).

4. Sales

	2016	2015
	HRK	*HRK*
Foreign sales of goods	719,950,239	640,265,283
Domestic sales of goods	133,416,381	150,968,467
	853,366,620	**791,233,750**

Domestic and foreign sales include revenue from the sale to related parties as presented in Note 39.

Sales by operating segments in 2016:

	Medium power transformers	Distribution transformers	Total
	HRK	*HRK*	*HRK*
Sales to unrelated parties	475,635,879	315,541,629	**791,177,508**
Sales to related parties	20,181,226	42,007,886	**62,189,112**
	495,817,105	**357,549,515**	**853,366,620**

Sales by operating segments in 2015:

	Medium power transformers	Distribution transformers	Total
	HRK	*HRK*	*HRK*
Sales to unrelated parties	435,203,903	278,331,800	**713,535,703**
Sales to related parties	20,031,318	57,666,729	**77,698,047**
	455,235,221	**335,998,529**	**791,233,750**

Notes to the Financial Statements

for the year ended 31 December 2016

5. Other operating income

	2016	2015
	HRK	*HRK*
Gain from sale of non-current assets	1,666,912	84,417
Income from collected receivables	1,154,888	9,459
Insurance claims	151,472	360,985
Subsequent rebates and discounts	97,115	1,131,432
Inventory surpluses	39,928	43,981
Income from collected penalties and similar	11,103	110,784
Other income	1,332,946	117,707
Release of provisions (note 28)	-	777,790
	4,454,364	**2,636,555**

6. Costs of materials and energy used

	2016	2015
	HRK	*HRK*
Raw materials	566,730,157	496,455,352
Energy	5,600,679	6,453,223
Small inventory	510,278	773,510
	572,841,114	**503,682,085**

7. Costs of services

	2016	2015
	HRK	*HRK*
Transportation costs	19,099,379	18,720,936
Services related to product design and sale	14,254,891	10,184,486
Agent commissions	12,030,858	8,399,250
Maintenance costs	7,596,127	6,967,542
Royalty fees (usage of Končar Inc. name and trade mark)	4,814,258	5,193,708
Entertainment	3,930,183	2,645,887
Worker assignment	2,033,612	4,440,321
Intellectual services	1,539,500	1,454,024
Telephone and post	1,509,951	1,276,353
Rent	1,022,800	914,791
Advertising services	936,657	684,823
Utilities costs	808,670	770,952
Audit	62,568	62,667
Other costs	3,372,309	2,760,895
	73,011,763	**64,476,635**

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for the year ended 31 December 2016

8. Staff costs

	2016	2015
	HRK	*HRK*
Net salaries and wages	63,923,184	58,800,461
Taxes and contributions from salary	35,998,169	32,726,335
Contributions on salary	17,102,154	15,688,674
	117,023,507	**107,215,470**

Net salaries in the amount of HRK 63,923,184 (2015: HRK 58,800,461) include compensation to the six members of the Management Board (one Board member until 31 March 2016) consisting of salary and wages in the amount of HRK 1,584,155 (2015: HRK 1,746,101) and an accrual for the Management Board bonus in the amount of HRK 1,300,000 (2015: HRK 909,900), which are an integral part of the personnel expenses.

Contributions to Pension fund in 2016 amount to HRK 18,786,737 (2015: HRK 17,410,091).

Compensation to employees (travel to and from work, jubilee rewards, retirement fees, business travel compensations etc) in the amount of HRK 9,065,239 (2015: HRK 8,459,293) are disclosed in note 10.

9. Depreciation and amortization

	2016	2015
	HRK	*HRK*
Property, plant and equipment (Note 18)	18,365,860	17,261,373
Intangible assets (Note 17)	665,724	800,321
	19,031,584	**18,061,694**

10. Other costs

	2016	2015
	HRK	*HRK*
Bank charges	3,765,965	3,623,999
Employee transportation costs (note 8)	3,370,561	3,115,887
Travel costs and per-diems (note 8)	2,626,931	2,905,408
Compensation to employees (note 8)	3,067,747	2,437,998
Costs for unused vacation days	3,062,752	-
Insurance premiums	1,863,338	1,583,111
Compensation to members of the Supervisory Board	539,051	527,096
Contributions, memberships and similar costs	271,315	245,375
Other	4,678,593	3,902,327
	23,246,253	**18,341,201**

Notes to the Financial Statements

for the year ended 31 December 2016

11. Impairment charges

Impairment amounting to HRK 11,720,416 relates to impairment of non-current and current assets. The Company has assessed the value of non-current asset held for sale and has impaired their value by HRK 1,960,000 based on asses of independent evaluator (Note 26). The value adjustment of current asset relates to impairment of inventories in amount of HRK 9,511,122 and impairment of trade receivables in amount of HRK 249,294.

12. Provisions

	2016	2015
	HRK	*HRK*
Provisions for warranty costs	9,224,863	-
Provisions for employee retirement benefits and jubilee awards	23,666	389,218
	9,248,529	**389,218**

Movement in provisions by categories is presented in Note 28.

13. Finance revenues

	2016	2015
	HRK	*HRK*
From relations with related parties		
Foreign exchange gains on receivables	100,434	-
Revenues from share in profits	200,000	350,000
	300,434	**350,000**
From relations with un-related parties		
Foreign exchange gains	9,205,571	13,321,589
Fair value gains on derivative financial instruments	-	2,127,707
Revenues from dividends and share in profit of an associate	1,728,202	1,693,210
Interest income on deposits	3,312	72,367
Other interest income	72,718	87,589
	11,009,803	**17,302,462**
	11,310,237	**17,652,462**

Notes to the Financial Statements

for the year ended 31 December 2016

14. Finance expenses

	2016	2015
	HRK	*HRK*
From the relations with related parties		
Foreign exchange losses	40,348	445
	40,348	**445**
From the relations with un-related parties		
Interest on borrowings	1,817,135	1,971,408
Foreign exchange losses	7,891,625	11,864,079
Foreign exchange losses - forward contracts	1,429,458	12,959,082
	11,138,218	**26,794,569**
	11,178,566	**26,795,014**

15. Corporate income tax

The Company calculates its corporate income tax liability at the preferential rate representing the decrease the basic tax rate by 85% as it is the beneficiary of investment incentives in line with the Law on incentives for the "High-Voltage Laboratory - Development of the Laboratory and extension of production capacities" project. The Government issued a confirmation that the aforementioned investments fulfil the requirements in accordance with the Law on incentives on 3 September 2010 and that the Company can use these investment incentives. The maximum amount of granted incentive amounts to HRK 37,327,421.

Furthermore, the Ministry of economy issued Approval for the revision of the maximum amount of granted incentive of 6 October 2014 due to increased invested financial funds and increased number of employees in relation to planned figures. The new maximum amount of granted investment incentive amounts to HRK 46,678,233. The utilised amount at the balance sheet date amounts to HRK 32,543,054. The unused amount amounts HRK 14,135,179 and can be utilised until 2020.

	2016	2015
	HRK	*HRK*
Current tax	1,697,533	904,786
Deferred tax	(327,071)	-
Income tax expense	**1,370,462**	**904,786**

Notes to the Financial Statements

for the year ended 31 December 2016

The tax on the Company's profit before tax differs from the theoretical amount that would arise using actual tax rate applicable to profits of the Company as follows:

	2016	2015
	HRK	*HRK*
Profit before taxation	37,300,619	30,969,306
Corporate income tax at 20% (2015: 20%)	7,460,124	6,193,861
Tax effects of:		
Tax non-allowable expenses (20%)	4,339,593	934,064
Decreases in taxes (20%)	(482,831)	(1,096,018)
Investment incentives (2016: 85%, 2015: 85%)	(9,619,353)	(5,127,121)
Current tax	**1,697,533**	**904,786**
Effective tax rate	3.7%	2.9%
Advances paid	859,766	2,329,978
Prepaid corporate income tax	-	1,452,192
Liability for corporate income tax	837,767	-

Movement in the deferred tax asset is presented as follows:

	2016	2015
	HRK	*HRK*
As at 1 January 2016	-	-
Deferred tax recognized on temporary difference in the current year	327,071	-
	327,071	**-**

16. Earnings per share

Basic earnings per share

	2016	2015
	HRK	*HRK*
Net profit for the year	35,930,157	30,064,520
Weighted average number of shares (ordinary and preference)	255,616	255,616
Earnings per share in HRK	**140.56**	**117.62**

In previous years, the dividend declared on ordinary and preference shares was the same. The Company does not hold any treasury shares.

Diluted earnings per share

Diluted earnings per share for the year 2016 and 2015 is the same as basic since the Company had no convertible instruments or options in both periods.

Notes to the Financial Statements

for the year ended 31 December 2016

17. Intangible assets

	Concessions, patents, licences, software and other	Assets under construction	Total
Cost	*HRK*	*HRK*	*HRK*
Balance at 1 January 2015	**7,567,554**	**413,781**	**7,981,335**
Additions	-	628,542	**628,542**
Transfer	455,782	(455,782)	**-**
Balance at 31 December 2015	**8,023,336**	**586,541**	**8,609,877**
Additions	-	1,871,431	**1,871,431**
Transfer	2,457,972	(2,457,972)	**-**
Disposals	(45,068)	-	**(45,068)**
Balance at 31 December 2016	**10,436,240**	**-**	**10,436,240**
Accumulated amortization			
Balance at 1 January 2015	**6,079,539**	**-**	**6,079,539**
Amortization for the year	800,321	-	**800,321**
Balance at 31 December 2015	**6,879,860**	**-**	**6,879,860**
Amortization for the year	665,724	-	**665,724**
Disposals	(45,068)	-	**(45,068)**
Balance at 31 December 2016	**7,500,516**	**-**	**7,500,516**
Net carrying value			
31 December 2015	1,143,476	586,541	**1,730,017**
31 December 2016	**2,935,724**	**-**	**2,935,724**

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2016 amounts to HRK 5,853,261 (31 December 2015: HRK 2,687,150).

Notes to the Financial Statements

for the year ended 31 December 2016

18. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and furniture	Advances	Assets under con-struction	Total
Cost	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Balance at 1 January 2015	**9,012,529**	**122,815,590**	**182,566,147**	**25,202,716**	**943,676**	**1,356,572**	**341,897,230**
Additions	-	-	-	-	3,424,533	7,457,006	**10,881,539**
Transfer	-	-	7,598,817	827,890	-	(8,426,707)	**-**
Disposals	-	-	(17,747)	(394,591)	(4,353,743)	-	**(4,766,081)**
Balance at 31 December 2015	**9,012,529**	**122,815,590**	**190,147,217**	**25,636,015**	**14,466**	**386,871**	**348,012,688**
Additions	-	-	-	-	581,088	17,596,534	**18,177,622**
Transfer	-	2,052,180	8,137,263	3,404,135	-	(13,593,578)	**-**
Disposals	-	-	(7,760,867)	(1,023,953)	-	-	**(8,784,820)**
Balance at 31 December 2016	**9,012,529**	**124,867,770**	**190,523,613**	**28,016,197**	**595,554**	**4,389,827**	**357,405,490**
Accumulated depreciation							
Balance at 1 January 2015	**-**	**58,851,185**	**110,055,720**	**16,062,676**	**-**	**-**	**184,969,581**
Depreciation charge	-	5,039,387	10,255,960	1,966,026	-	-	**17,261,373**
Disposals	-	-	(10,558)	(385,967)	-	-	**(396,525)**
Balance at 31 December 2015	**-**	**63,890,572**	**120,301,122**	**17,642,735**	**-**	**-**	**201,834,429**
Depreciation charge	-	5,070,877	11,230,258	2,064,725	-	-	**18,365,860**
Disposals	-	-	(7,743,910)	(861,719)	-	-	**(8,605,629)**
Balance at 31 December 2016	**-**	**68,961,449**	**123,787,470**	**18,845,741**	**-**	**-**	**211,594,660**
Net carrying value							
31 December 2015	9,012,529	58,925,018	69,846,095	7,993,280	14,466	386,871	146,178,259
31 December 2016	**9,012,529**	**55,906,321**	**66,736,143**	**9,170,456**	**595,554**	**4,389,827**	**145,810,830**

The carrying value of real estates under mortgage as at 31 December 2016 amounts to HRK 63,168,073 (31 December 2015: HRK 66,094,606). The total amount of mortgages registered over these assets amounts to EUR 40 million, furthermore a pledge exists over the movables (with carrying value amounting to HRK 19.1 million) in the amount of EUR 25 million (31 December 2015: EUR 5.9 million) (Note 29).

The gross carrying value of all property, plant and equipment fully depreciated and still in use on 31 December 2016 amounts to HRK 110,613,056 (2015: HRK 77,714,536).

Notes to the Financial Statements

for the year ended 31 December 2016

19. Non-current financial assets

	31 December 2016	31 December 2015
	HRK	*HRK*
Shares in associate		
Elkakon d.o.o., Zagreb (50% share)	1,732,458	1,732,458
	1,732,458	**1,732,458**
Financial assets available for sale		
Shares in companies (up to 20% of equity)		
Ferokotao d.o.o., Donji Kraljevec (16% share)	1,048,128	1,048,128
Novi Feromont d.o.o., Donji Kraljevec (18.9% share)	1,717,200	1,717,200
	2,765,328	**2,765,328**
Shares		
Shares in Zagrebačka Bank d.d., Zagreb	**39,000**	**39,000**
Other financial assets		
Derivative instruments - FX Forward contracts	**38,957**	**1,096,865**
	4,575,743	**5,633,651**

20. Inventories

	31 December 2016	31 December 2015
	HRK	*HRK*
Raw materials	73,129,850	84,084,642
Work in progress	74,970,911	61,774,889
Unfinished and semi-finished products	7,399,759	9,589,943
Finished goods	75,403,890	48,470,509
Less: Provision for impairment of raw materials	(3,811,481)	(3,242,711)
Less: Provision for impairment of finished goods	(561,795)	-
	226,531,134	**200,677,272**
Advances	640,966	219,678
	227,172,100	**200,896,950**

The cost of goods sold amounts to HRK 615,972,317 in 2016 (2015: HRK 585,263,384).

Notes to the Financial Statements

for the year ended 31 December 2016

21. Receivables from related companies

	31 December 2016	31 December 2015
	HRK	*HRK*
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	7,619,836	3,691,157
Končar - Switchgear Inc, Zagreb	1,037,865	847,018
Končar - Instrument Transformers Inc, Zagreb	15,262	10,642
Končar - Electronics and Informatics Inc, Zagreb	7,322	-
Končar - Electrical vehicles Inc, Zagreb	-	3,375,000
	8,680,285	**7,923,817**
Elkakon Ltd, Zagreb	6,095,354	5,666,279
Končar - Power Transformers Ltd, Zagreb	480,388	384,588
	6,575,742	**6,050,867**
	15,256,027	**13,974,684**

As at 31 December, the ageing structure of receivables from related parties was as follows:

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**15,256,027**	14,168,984	1,042,591	-	-	44,452	-
2015	**13,974,684**	13,525,359	449,325	-	-	-	-

22. Trade accounts receivable

	31 December 2016	31 December 2015
	HRK	*HRK*
Domestic customers	25,453,260	29,088,106
Less: Provision for bad debt	(3,908,187)	(3,917,646)
	21,545,073	**25,170,460**
Foreign customers	90,808,863	107,803,342
Less: Provision for bad debt	(1,439,107)	(2,928,293)
	89,369,756	**104,875,049**
	110,914,829	**130,045,509**

Notes to the Financial Statements

for the year ended 31 December 2016

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**110,914,829**	94,008,995	15,532,069	-	1,260,398	45,347	68,020
2015	**130,045,509**	106,167,820	20,725,462	1,577,696	1,456,613	113,398	4,520

For receivables which are past due at the reporting date, the Company has not made a provision, as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Movement in the provision for bad debts was as follows:

	2016	2015
	HRK	*HRK*
Balance at 1 January	6,845,939	6,865,533
Collected in the current year	(1,154,888)	(9,459)
Written off in the current year	(381,560)	-
Written off in the year (foreign exchange)	37,803	(10,135)
Balance at 31 December	**5,347,294**	**6,845,939**

23. Other receivables

	31 December 2016	31 December 2015
	HRK	*HRK*
Receivables for value added tax	6,687,004	6,588,949
Other receivables	471,885	242,426
	7,158,889	**6,831,375**

24. Financial assets

	31 December 2016	31 December 2015
	HRK	*HRK*
Other current financial assets		
Derivative instruments - FX Forward contracts	241,611	636,254
	241,611	**636,254**

Notes to the Financial Statements

for the year ended 31 December 2016

25. Cash and cash equivalents

	31 December 2016	31 December 2015
	HRK	*HRK*
Balance at accounts in foreign currency	56,533,695	43,996,997
Balance on gyro accounts	10,886,425	1,288,834
Petty cash - HRK	40,968	32,620
Petty cash - foreign currencies	12,852	17,201
Deposits at call	3,976,831	-
	71,450,771	**45,335,652**

The Company mainly deposits its cash at financial institutions that are part of international banking groups with A / A-1 credit ratings by Standard & Poor's.

26. Non-current assets held for sale

Non-current assets held for sale in the amount of HRK 4,000,000 relates to real estate taken over in exchange for uncollected secured receivables from the company Elektromaterijal Inc. in bankruptcy. Management of the Company made a decision to sell this real estate and it is working actively towards its achievement given the existing constraints due to inactive real estate market in Croatia. During 2016 the Company has impaired value of the real estate by HRK 1,960,000 (note 11).

27. Equity

Share capital is determined in the nominal value of HRK 76,684,800 (31 December 2015: HRK 76,684,800) and consists of 255,616 shares at nominal value of HRK 300.

The ownership structure of the Company is as follows:

	31 December 2016		31 December 2015	
Shareholder	*Number of shares*	*Ownership %*	*Number of shares*	*Ownership %*
Končar - Electrical Industry Inc.	134,798	52.73	132,184	51.71
AZ OMF B category	13,550	5.30	13,117	5.13
Floričić Kristijan	9,916	3.88	9,916	3.88
Knežević Nikola	7,158	2.80	7,558	2.96
Radić Antun	3,834	1.50	3,834	1.50
AZ OMF A category	3,287	1.29	3,210	1.26
Primorska bank, Rijeka	2,800	1.10	2,800	1.10
Other	80,273	31.40	82,997	32.46
	255,616	**100.00**	**255,616**	**100.00**

Notes to the Financial Statements

for the year ended 31 December 2016

Share capital of the Company consists of 194,188 ordinary shares and 61,428 preference shares at 31 December 2016 and 2015.

Dividend per share paid in 2016 to Company's shareholders amounted to HRK 47.05 per share (2015: HRK 42.66 per share).

Statutory, legal and other reserves have been formed in accordance with the Decisions brought by the General Assembly in accordance with the provisions of the Croatian Companies Act (statutory and other reserves are distributable in accordance with this Act).

28. Provisions

	Warranty costs	Retirement and jubilee rewards	Total
	HRK	*HRK*	*HRK*
31 December 2015	**88,281,301**	**2,231,356**	**90,512,657**
Additional provisions	9,224,863	23,666	9,248,529
Transfer to current provisions	(1,669,744)	-	(1,669,744)
31 December 2016	**95,836,420**	**2,255,022**	**98,091,422**

Provisions for warranty costs

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 transformers within this type of industry. The Company regularly issues warranty for minimum of 3 years for each transformer sold. The Management made assessment and recognizes provision representing 2 percent of the sales value of sold products under warranty's obligation (2015: 2%). Specific provisions relate to potential quality issues with Company's customers in relation to sold transformers in amount of HRK 92 million (2015: HRK 84.7 million).

Provisions for employee benefits

The non-current portion of provisions for retirement and jubilee rewards in the amount of HRK 2,255,022 (2015: HRK 2,231,356) comprises the estimated amount of long-term employee benefits relating to termination benefits and jubilee rewards in accordance with Collective agreement which the employees are entitled to receive upon employment termination (during retirement or dismissal and fulfilling conditions for jubilee rewards). The net present value of the provision is calculated on the basis of number of employees, average gross salary, years of service within the Company at the balance sheet date and the discount rate of 3.5% (2015: 4.85%).

29. Long term liabilities

	31 December 2016	31 December 2015
	HRK	*HRK*
Liabilities toward banks - borrowings		
Raiffeisenbank Austria d.d., Zagreb	29,755,279	37,216,467
Less: Current portion	(8,501,508)	(5,725,610)
	21,253,771	**31,490,857**

Notes to the Financial Statements

for the year ended 31 December 2016

Long term liabilities towards banks relate to the loan from Raiffeisen bank Austria Inc. granted in August 2016 in the amount of EUR 4,499,469.64 bearing an annual interest rate of 2.3%, used for refinancing loan from HBOR programme related to funding the development of economic developments for financing investment in HV laboratory.

The collateral for the loan are: 4 blank bills of exchange, 1 ordinary debenture in amount EUR 4,500,000 and a mortgage over the Company's real estates and movables in the amount of EUR 25,000,000 (note 18).

Furthermore, the Company contracted certain covenants for these loans, the most important of which are as follows:

- 60% of all domestic currency payment and minimum of EUR 10,000,000 foreign currency payment through RBA accounts
- Bank's continuously monitoring of usage of real estate, which is the subject of pledge

The bank has a right to cancel the loan and to call it as due in the following cases:

- Late payment of any cash obligation under the contract
- Misuse of loan or part of the loan
- In case of partly of completely breach of special contracted terms
- In case of material adverse change in the business, assets, liabilities or financial position of the Company
- In case when assurance on the loan is not enough for the bank and the Company does not offer appropriate.

Changes in borrowings are as follows:

	HRK
1 January 2015	**37,345,269**
Foreign exchange gains	(128,802)
Less: Current portion	(5,725,610)
31 December 2015	**31,490,857**
1 January 2016	**31,490,857**
Loan repayment	(30,833,822)
New loan	29,472,415
Foreign exchange gains	(374,171)
Less: Current portion	(8,501,508)
31 December 2016	**21,253,771**

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Long-term borrowings fall due as follows:

	31 December 2016	31 December 2015
	HRK	*HRK*
From 1 to 2 years	8,501,508	5,725,610
From 2 to 3 years	8,501,508	5,725,610
From 3 to 4 years	4,250,755	5,725,610
From 4 to 5 years	-	5,725,610
Over 5 years	-	8,588,417
	21,253,771	**31,490,857**

30. Current liabilities toward related parties

	31 December 2016	31 December 2015
	HRK	*HRK*
Companies within the Group:		
Končar - Electrical Industry Inc, Zagreb	1,449,189	1,124,631
Končar - Infrastructure and Services Ltd, Zagreb	906,317	1,007,468
Končar - Electrical Engineering Institute Inc, Zagreb	305,144	758,277
Končar - Switchgear Inc, Sesvetski Kraljevec	148,885	271,463
Končar - Instrument Transformers Inc, Zagreb	120,463	99,981
Končar - Low Voltage Switches and Circuit brakers Inc, Zagreb	113,641	349,357
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	39,230	25,649
Končar - Electronics and Informatics Inc, Zagreb	38,821	63,851
Končar - Small Electrical Machines Inc, Zagreb	3,575	52,146
Končar - Electrical Vehicles Inc, Zagreb	-	2,344
	3,125,265	**3,755,167**
Associates:		
Elkakon Ltd, Zagreb	3,118,994	3,525,204
Končar - Power Transformers Ltd, Zagreb	53,000	-
	3,171,994	**3,525,204**
	6,297,259	**7,280,371**

As at 31 December, the ageing structure of liabilities to related parties liabilities was as follows:

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**6,297,259**	5,909,612	387,647	-	-	-	-
2015	**7,280,371**	7,229,377	50,994	-	-	-	-

Notes to the Financial Statements

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31. Current borrowings from banks

	31 December 2016	31 December 2015
	HRK	*HRK*
Current borrowings		
Current portion (Note 29)	8,501,508	5,725,610
	8,501,508	**5,725,610**

Changes in borrowings during the year were as follows:

	HRK
As at 1 January 2015	**35,717,173**
Loan repayment	(50,899,259)
New loan	15,236,706
Foreign exchange gains	(54,620)
Plus: Current portion of long-term loans	5,725,610
As at 31 December 2015	**5,725,610**
Loan repayment	(82,016,017)
New loan	76,215,627
Foreign exchange gains	74,780
Plus: Current portion of long-term loans	8,501,508
As at 31 December 2016	**8,501,508**

Fair value of liabilities does not differ from its net book value due to short-term nature of liabilities.

32. Current trade accounts payable

	31 December 2016	31 December 2015
	HRK	*HRK*
Domestic suppliers	16,624,539	18,434,273
Foreign suppliers	40,923,410	50,876,236
	57,547,949	**69,310,509**

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

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2016	**57,547,949**	56,501,686	979,337	-	15,468	51,458	-
2015	**69,310,509**	69,088,085	217,518	-	4,906	-	-

Notes to the Financial Statements

for the year ended 31 December 2016

33. Liabilities for advance payments received

	31 December 2016	31 December 2015
	HRK	*HRK*
Liabilities for advance payments received		
From foreign customers	61,123,429	46,489,837
From domestic customers	1,102,142	167,417
Related parties		
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	235,984	235,984
Končar - Electric vehicles, Zagreb	-	600,000
	62,461,555	**47,493,238**

34. Other current liabilities

	31 December 2016	31 December 2015
	HRK	*HRK*
Liabilities toward employees		
Liabilities for salaries	6,514,829	5,707,850
	6,514,829	**5,707,850**
Liabilities for taxes and contributions and similar		
Liabilities for taxes and contributions	7,755,307	6,710,652
Corporate income tax	272,340	-
Liabilities for value added tax	92,361	110,738
	8,120,008	**6,821,390**
Other liabilities		
Liabilities for sick leave and similar	74,955	83,477
Liabilities for interest	183,648	394,933
Other liabilities	85,856	38,678
	344,459	**517,088**
Liabilities for dividends	**94,957**	**96,766**
	15,074,253	**13,143,094**

Notes to the Financial Statements

for the year ended 31 December 2016

35. Accrued expenses and deferred income

Accrued expenses and deferred income in the amount of HRK 6,299,416 (31 December 2015: HRK 4,807,142) relate to accrued unused vacation days in amount of HRK 3,062,752 and accrued agent commissions and accrued expenses based on installation in 2016 in amount of HRK 3,236,664.

36. Current provisions

Current provisions in the amount of HRK 41,077,135 (31 December 2015: HRK 39,407,391) relate to current provisions for costs in warranty period (note 28).

37. Commitments

Contractual liabilities of the Company for unfinished projects as of 31 December 2016 amount to HRK 623 million (31 December 2015: HRK 690 million).

38. Contingent liabilities - off balance sheet items

The Company had at 31 December the following contingent liabilities:

	31 December 2016	31 December 2015
	HRK	*HRK*
Guarantees (issued by the banks)		
- in foreign currencies	171,613,696	179,221,260
- in HRK	3,182,794	21,226,794
	174,796,490	**200,448,054**

Notes to the Financial Statements

for the year ended 31 December 2016

39. Transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions. The Company's principal activity includes performing related party activities, including the purchase and sale of goods and services. The nature of services with related parties is based on usual commercial terms. In addition to companies within the Končar Group, related parties of the Company are the Company's Management and Supervisory Board.

During 2016 the Company engaged in transactions with related parties (Končar group companies and associate) and incurred revenues and expenses based on the trade of goods and services which can be analysed as follows:

2016	**Operating activities**				
Company	Receivables	Liabilities	Advances	Income	Expense
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Companies within the Group:					
Končar - Electrical Industry Inc.	-	1,449	-	-	5,557
Končar - Power Plant and Electric Traction Engineering Inc.	7,620	39	236	22,330	-
Končar - Infrastructure and Services Inc.	-	906	-	1	1,964
Končar - Elect.Engineering Institute Inc.	-	305	-	19	2,173
Končar - Electronics and Informatics Inc.	7	39	-	11	1,487
Končar - Small Electrical Machines Ltd.	-	4	-	-	2,383
Končar - Generators and Motors Inc	-	-	-	-	43
Končar - Instrument Transformers Inc.	15	120	-	67	981
Končar - Medium Voltage Apparatus Inc.	-	-	-	-	69
Končar - Electrical Vehicles Inc.	-	-	-	6,000	-
Končar - Switchgear Inc.	1,038	149	-	2,153	1,074
Končar - High Voltage Switchgears Inc.	-	-	-	-	-
Končar - LV Switches and C.Breakers Ltd	-	114	-	-	238
Končar - Engineering for PI&C Inc	-	-	-	6	1
Končar - Steel Structures Inc.	-	-	-	-	-
	8,680	**3,125**	**236**	**30,587**	**15,970**
Associates:					
Elkakon Ltd, Zagreb	6,095	3,119	-	30,607	39,357
Končar - Power Transformers Ltd.	480	53	-	996	582
	6,575	**3,172**	**-**	**31,603**	**39,939**
	15,255	**6,297**	**236**	**62,190**	**55,909**

Notes to the Financial Statements

for the year ended 31 December 2016

During 2015 the Company had transaction with related parties and incurred revenues and expenses based on the trade of goods and services which can be analysed as follows:

2015	Operating activities				
Company	Receivables	Liabilities	Advances	Income	Expense
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Companies within the Group:					
Končar - Electrical Industry Inc.	-	1,125	-	-	5,735
Končar - Power Plant and Electric Traction Engineering Inc.	3,691	26	236	20,246	-
Končar - Infrastructure and Services Inc.	-	1,008	-	17	2,281
Končar - Electrical Engineering Institute Inc.	-	758	-	-	2,944
Končar - Electronics and Informatics Inc.	-	64	-	399	525
Končar - Small Electrical Machines Ltd.	-	52	-	-	1,807
Končar - Generators and Motors Inc	-	-	-	-	-
Končar - Instrument Transformers Inc.	11	100	-	191	1,134
Končar - Medium Voltage Apparatus Inc.	-	-	-	5	4
Končar - Electrical Vehicles Inc.	3,375	2	600	24,000	38
Končar - Switchgear Inc.	847	272	-	2,263	1,064
Končar - High Voltage Switchgears Inc.	-	-	-	-	15
Končar - Low Voltage Switches and Circuit Breakers Ltd	-	349	-	-	838
Končar - Engineering for Plant Installation and Commissioning Inc	-	-	-	20	2
Končar - Steel Structures Inc.	-	-	-	-	373
	7,924	**3,756**	**836**	**47,141**	**16,760**
Elkakon Ltd, Zagreb	5,666	3,525	-	28,153	34,918
Končar - Power Transformers Ltd.	385	-	-	2,404	367
	6,051	**3,525**	**-**	**30,557**	**35,285**
	13,975	**7,281**	**836**	**77,698**	**52,045**

40. Financial instruments

In this note the following information will be disclosed:

A) The significance of financial instruments for the financial position and performance of the Company, and

B) The types and the nature of risks arising from financial instruments to which the Company is exposed at the end of the reporting period, and the method used by the Company in order to manage those risks,

Notes to the Financial Statements

for the year ended 31 December 2016

A) The significance of financial instruments for the Company's financial position and its performance

The significance of financial instruments for the financial position and performance of the Company is presented in the following table:

31 December 2016

	Loans and receivables	Fair value through	Available for sale	**Assets under IAS 39**
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Derivative financial instruments - non-current	-	39	-	**39**
AFS financial assets	-	-	2,804	**2,804**
Derivative financial instruments - current	-	242	-	**242**
Trade and other receivables	110,915	-	-	**110,915**
Trade receivables from related parties	15,256	-	-	**15,256**
Cash & cash equivalents	71,451	-	-	**71,451**
	197,622	**281**	**2,804**	**200,707**

31 December 2015

	Loans and receivables	Fair value through	Available for sale	**Assets under IAS 39**
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Derivative financial instruments - non-current	-	1,097	-	**1,097**
AFS financial assets	-	-	2,804	**2,804**
Derivative financial instruments - current	-	636	-	**636**
Trade and other receivables	130,046	-	-	**130,046**
Trade receivables from related parties	13,975	-	-	**13,975**
Cash & cash equivalents	45,336	-	-	**45,336**
	189,357	**1,733**	**2,804**	**193,894**

All of the Company's liabilities have been classified as „At amortised cost", except for derivative financial instruments as explained in this note.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Notes to the Financial Statements

for the year ended 31 December 2016

	31 December 2016	31 December 2015
	HRK	*HRK*
Debt (interest-bearing)	**29,755,279**	**37,216,467**
Long-term borrowings	21,253,771	31,490,857
Short-term borrowings (including the current portion of long-term borrowings)	8,501,508	5,725,610
Less: Cash and cash equivalents	**(71,450,771)**	**(45,335,652)**
Net debt	**(41,695,492)**	**(8,119,185)**
Equity	273,498,824	249,595,400
Equity and net debt	**231,803,332**	**241,476,215**
Gearing	**-**	**-**

Fair value of financial assets and liabilities

Fair value of a financial instrument is the amount at which an asset could be exchanged or a liability be settled between knowledgeable and willing parties in a transaction. The Company uses the following hierarchy for determining fair value of financial instruments:

- level 1: quoted market prices for identical assets or liabilities traded on active markets
- level 2: input variables that do not represent the above stated prices from level 1 but are visible for assets or liabilities, be it directly or indirectly
- level 3: input variables for assets or liabilities which are not based on available market data.

31 December 2016	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Shares listed on stock exchange	39	-	-	39
Fair value of derivative financial instruments	-	281	-	281
AFS financial assets (note 19)	-	-	2,765	2,765
	39	**281**	**2,765**	**3,085**
31 December 2015				
Shares listed on stock exchange	39	-	-	39
Fair value of derivative financial instruments	-	1,733	-	1,733
AFS financial assets (note 19)	-	-	2,765	2,765
	39	**1,733**	**2,765**	**4,537**

Fair value of financial assets and liabilities approximates to carrying amounts of the Company's assets and liabilities.

Notes to the Financial Statements

for the year ended 31 December 2016

Investments in equity instruments

Of all financial assets of the Company, only shares in Zagrebačka Bank d.d. are listed on the active market. The carrying value of these shares amounts to HRK 39,000 and the fair value (according to the closing price at the Zagreb Stock Exchange) amounts to HRK 123,120 (2015: HRK 84,314).

Other investments in equity instruments (shares in Ferokotao Ltd. and Novi Feromont Ltd.) are investments not listed on the active market; therefore those investments are measured at the cost under IAS 39 since the fair value of those instruments cannot be measured reliably and included in level 3.

Derivative financial instruments

Fair value of derivative financial instruments which are not traded at active market included in level 2 is determined on the basis of valuation techniques. Valuation techniques maximally use observable market data when available and are based on specific estimations for particular subject to the minimum extent.

Except for investments in equity instruments, the Company used the following methods and assumptions for the determination of fair value of financial instruments:

Receivables and deposits at banks

For assets due within three months, the carrying value is approximate to their fair value due to the short term nature of the assets. For longer term assets, the contracted interest rates do not significantly deviate from the current market rates and their fair value is, therefore, approximate to their carrying value.

Liabilities per loans received

Current liability fair value is approximate to their carrying value due to the short term nature of these instruments. The Management Board believes that their fair value doesn't differ significantly from their carrying value.

Other financial instruments

Financial instruments of the Company that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical carrying value of receivables and liabilities, including provisions that are in line with the usual terms of business, is approximately equal to their fair value.

B) Risks arising from financial instruments

The Company's operations are exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risk includes currency risk, interest rate risk and other price risk.

There have been no significant changes to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the Financial Statements

for the year ended 31 December 2016

a) Foreign currency risk management and hedge accounting

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to this risk through sales, purchase and loans denominated in foreign currency which is not the Company's functional currency. Foreign currencies to which the Company is primarily exposed are EUR, USD, SEK, MAD, CZK, CHF, NOK, PLN, RON, GBP and HUF.

The Company exposes itself to foreign currency risk through sales, purchasing, loans and depositing of funds denominated in foreign currencies. EUR is not considered a significant risky currency and the Company does not hedge itself against it, as opposed to all other currencies where the Company protects itself through forward contracts on the trade of currencies with banks.

The Company's foreign currency exposure arises from:
- highly probable forecast transactions (sales/purchases) denominated in foreign currencies,
- firm commitments denominated in foreign currencies; and
- monetary items (mainly trade receivables, trade payables and borrowings) denominated in foreign currencies.

The Company's policy is to hedge all material foreign exchange risk associated with highly probable forecast transactions, firm commitments and monetary items denominated in foreign currencies.

The Company's policy is to hedge the risk of changes in the relevant spot exchange rate.

Hedging instruments

The Company mainly uses only forward contracts as well as swap foreign exchange contracts to hedge foreign exchange risk. All derivatives must be entered into with counterparties with a credit rating of A or A negative.

Extracts of effectiveness testing policies for currency risks

Strategy: Cash flow hedges of foreign currency exposure in highly probable forecast transactions

Effectiveness testing policy for currency risk

Prospective effectiveness testing for cash flow hedges

Prospective effectiveness testing is performed at the inception of the hedge and at each reporting date. The hedge relationship is highly effective if the changes in fair value or cash flow of the hedged item that are attributable to the hedged risk are expected to be offset by the changes in fair value or cash flows of the hedging instrument.

Prospective effectiveness testing is performed by comparing the numerical effects of a shift in the exchange rate (for example, EUR/USD rate) on: the fair value of the hedged cash flows measured using a hypothetical derivative; and the fair value of the hedging instrument. Consistent with Company's risk management policy, the hedged risk is defined as the risk of changes in the spot exchange rate. Changes in interest rates are excluded from the hedge relationship (for both the hedging instrument and the hedged forecast transaction) and do not affect the calculations of effectiveness. Only the spot component of the forward contract is included in the hedge relationship (that is, the forward points are excluded).

At least three scenarios should be assessed unless the critical terms of the hedging instrument perfectly match the critical terms of the hedged item, in which case one scenario is sufficient.

Notes to the Financial Statements

for the year ended 31 December 2016

Retrospective effectiveness testing for cash flow hedges

Retrospective effectiveness testing is performed at each reporting date using the dollar offset method on a cumulative basis. The hedge is demonstrated to be effective by comparing the cumulative change in the fair value of the hedged cash flows measured using a hypothetical derivative; and the fair value of the hedging instrument. A hedge is considered to be highly effective if the results of the retrospective effectiveness tests are within the range 80% -125%.

$$\textbf{Effectiveness} = \frac{\textbf{Cumulative change in fair value of hedging instrument}}{\textbf{Cumulative change in fair value of hedged item (hypothetical derivative)}}$$

Change in the fair value of the spot component of the hedging instrument (the forward contract) is the difference between the fair value of the spot component at the inception of the hedge, and the end of the testing period based on translating the foreign exchange leg of the forward contract at the current spot rate and discounting the net cash flows on the derivative using the zero-coupon rates curve derived from the swap yield curve.

Change in fair value of the hedged cash flows of the hedged item (hypothetical derivative) is the difference between the value of the hypothetical derivative at the inception of the hedge, and the end of the testing period based on translating the foreign exchange leg of the hypothetical derivative at the current spot rate and discounting the net cash flows on the hypothetical derivative using the zero-coupon rates curve derived from the swap yield curve.

The Company's exposure to the currency risk as at the balance sheet date is as follows:

31 December 2016

(in thousand kuna)	EUR	USD	MAD	SEK	CZK	CHF	GBP	NOK	HUF	Total foreign currencies	HRK	Total
Trade receivables and receivables from related parties	80,889	1,295	114	2,453	-	1,160	-	3,853	-	89,764	36,407	126,171
Derivative instruments	281	-	-	-	-	-	-	-	-	281	-	281
Cash and cash equivalents	46,762	9	75	6,402	-	1,580	27	5,667	1	60,523	10,927	71,450
Total assets	**127,932**	**1,304**	**189**	**8,855**	**-**	**2,740**	**27**	**9,520**	**1**	**150,568**	**47,334**	**197,902**
Trade and other payables	38,546	374	8	1,926	-	-	-	68	-	40,922	22,922	63,844
Financial liabilities	29,755	-	-	-	-	-	-	-	-	29,755	-	29,755
Total liabilities	**68,301**	**374**	**8**	**1,926**	**-**	**-**	**-**	**68**	**-**	**70,677**	**22,922**	**93,599**

Notes to the Financial Statements

for the year ended 31 December 2016

31 December 2015

(in thousand kuna)	EUR	USD	MAD	SEK	CZK	CHF	GBP	PLN	RON	NOK	Total foreign currencies	HRK	Total
Trade receivables and receivables from related parties	83,355	3,823	511	7,828	547	166	-	478	8,167	-	104,875	39,146	144,021
Derivative instruments	1,733	-	-	-	-	-	-	-	-	-	1,733	-	1,733
Cash and cash equivalents	33,168	966	100	546	1,088	5,595	30	1,684	474	363	44,014	1,322	45,336
Total assets	**118,256**	**4,789**	**611**	**8,374**	**1,635**	**5,761**	**30**	**2,162**	**8,641**	**363**	**150,622**	**40,468**	**191,090**
Trade and other payables	48,905	465	9	1,497	-	-	-	-	-	-	50,876	25,714	76,590
Financial liabilities	37,216	-	-	-	-	-	-	-	-	-	37,216	-	37,216
Total liabilities	**86,121**	**465**	**9**	**1,497**	**-**	**-**	**-**	**-**	**-**	**-**	**88,092**	**25,714**	**113,806**

Sensitivity analysis

The (weakening)/strengthening of the Croatian kuna (HRK) in relation to the following currencies by the presented percentages at the balance sheet date would increase/(decrease) the profit before tax by the following amounts:

			2016	2015
	Change % 2016	Change % 2015	Effect on profit before tax HRK'000	Effect on profit before tax HRK'000
EUR	(1)%	(1)%	(602)	43
USD	3%	11%	23	448
SEK	(5)%	3%	(363)	39
CZK	(1)%	2%	-	36
CHF	0%	11%	(8)	625
NOK	4%	(6)%	381	(51)
Other currencies	-	1%	(8)	121

This analysis assumes that all other variables, interest rates especially, remain unchanged.

The percentage changes in exchange rates are determined/based on the average change in these currencies over the past 12 months.

A change in HRK against the above currencies for the same average % at the reporting date would have had the equal but opposite effect on the profit before tax, on the basis that all other variables remain constant.

b) Interest rate risk

The Company is not exposed to interest rate risks because all loans are contracted with a fixed interest rate, there are no variable interest rates, while most assets are not interest-bearing.

c) Other price risks

The Company is not exposed to other price risks of the financial instruments.

Notes to the Financial Statements

for the year ended 31 December 2016

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Company only transacts with entities with good credibility, The Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transaction concluded is spread amongst approved counterparties.

The most significant part of credit risk relates to trade receivables.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. From customers with low creditworthiness the Company requires common payment collateral, such as letters of credit, bank collateral, mortgages, debentures, etc. The Company establishes an allowance for bad debts that represents its estimate of incurred losses in respect of trade and other receivables.

The Company has not used derivative financial instruments to protect itself against those risks.

3) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Risk management is the responsibility of the Management Board which has built quality frame for the monitoring of current, middle and long-term financing and all depends related to liquidity risk. The Company manages this risk by constant monitoring of estimated and actual cash flow with the maturity of financial assets and liabilities.

The following table shows the maturity of financial liabilities of the Company at 31 December 2016 according to the contractual undiscounted cash flows:

31 December 2016	Contracted cash flows	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Liabilities					
Current liabilities to related parties	6,298	5,355	943	-	-
Current trade accounts payable	57,549	31,984	22,985	2,520	60
Long-term borrowings	21,925	-	-	-	21,925
Short-term borrowings	9,112	-	2,294	6,818	-
Total liabilities	**94,884**	**37,339**	**26,222**	**9,338**	**21,985**

Notes to the Financial Statements

for the year ended 31 December 2016

The following table shows the maturity of financial liabilities of the Company at 31 December 2015 according to the contracted un-discounted cash flows:

31 December 2015	Contracted cash flows	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Liabilities					
Current liabilities to related parties	7,280	6,501	779	-	-
Current trade accounts payable	69,311	50,651	18,030	570	60
Other current liabilities	395	395	-	-	-
Long-term borrowings	35,198	-	-	-	35,198
Short-term borrowings	7,167	-	1,898	5,229	-
Total liabilities	**119,351**	**57,547**	**20,707**	**5,799**	**35,258**

41. Subsequent events

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company as at 31 December 2016 and that should, consequently, be disclosed.

42. Preparation and the approval of the financial statements

The financial statements presented on the pages above were authorised for issue by the Company's Management Board on 9 March 2017 and were signed on its behalf.

Ivan Klapan, President of the Board

Petar Vlaić, Member

Ivan Sitar, Member

Martina Mikulić, Member

Vanja Burul, Member

KONČAR
Distributivni i specijalni transformatori d.d.
Zagreb
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Publisher: Končar Distribution and Special Transformers, Inc.
Design & Prepress: Studio Prodomo d.o.o.

May 2017

Tradition. Knowledge. Responsibility.

357017 en V17

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