

# **KONČAR – ELECTRICAL INDUSTRY, INC**

**INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS**

**31 DECEMBER 2015**

## Končar – Electrical Industry Inc. Contents

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## Končar – Electrical Industry Inc.

### Responsibility for the separate financial statements

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Pursuant to the Croatian Accounting Act (Official Gazette 109/07, 54/13, 121/14) in force for the reporting period ending 31 December 2015, the Management 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 the company Končar-Electrical Industry Inc. (hereinafter: the Company) for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Signed on behalf of the Management Board:



Darinko Bago, President of the Management Board

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

23 March 2016

**»KONČAR« d.d. ZAGREB**  
**FALLEROVO ŠETALIŠTE 22**  
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## ***Independent Auditor's Report***

**To the Owners and Management of Končar - Electrical Industry Inc.**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Končar – Electrical Industry Inc., Zagreb (the “Company”), which comprise the statement of financial position as at 31 December 2015 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

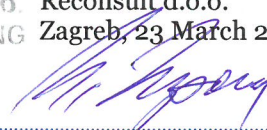
### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, 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.

*PricewaterhouseCoopers d.o.o.*

PricewaterhouseCoopers d.o.o.  
Zagreb, 23 March 2016

RECONSULT, d.o.o. Reconsult d.o.o.  
REVIZIJA I KONZALTING Zagreb, 23 March 2016  
Z A G R E B



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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Reconsult d.o.o. Trg hrvatskih velikana 4/1, Zagreb,

Trgovački sud u Zagrebu; MBS: 080091897; OIB: 89603242748; Žiro-račun: 2360000-1101271099 kod Zagrebačke banke d.d., Zagreb; IBAN: HR8923600001101271099; Temeljni kapital društva u iznosu od 250,000.00 kuna uplaćen u cijelosti. Uprava: Željko Trcin; Marija Zupanić

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 HRK	2014 HRK
Sales	4	54,957,694	52,721,824
Other operating income	5	7,277,169	36,188,142
<b>Operating income</b>		<b>62,234,863</b>	<b>88,909,966</b>
Cost of materials and energy	6	(6,310,421)	(5,804,109)
Cost of services	7	(30,783,552)	(30,237,407)
Staff costs	8	(24,073,938)	(25,730,039)
Depreciation and amortization	15, 16	(8,980,945)	(11,670,006)
Other costs	9	(6,475,313)	(41,759,988)
Impairment losses	10	(1,076,383)	(733,080)
Provisions	11	(832,742)	(285,508)
<b>Operating expenses</b>		<b>(78,533,294)</b>	<b>(116,220,137)</b>
<b>Operating loss</b>		<b>(16,298,431)</b>	<b>(27,310,171)</b>
Dividend income from associates		48,458,448	60,079,592
Finance income		82,578,334	71,739,724
Finance costs		(52,303,880)	(14,916,921)
<b>Finance income - net</b>	12	<b>78,732,902</b>	<b>116,902,395</b>
<b>Profit before taxation</b>		<b>62,434,471</b>	<b>89,592,224</b>
Corporate income tax	13	-	-
<b>NET PROFIT FOR THE PERIOD</b>		<b>62,434,471</b>	<b>89,592,224</b>
<b>Other comprehensive income:</b> <i>Items that may be subsequently reclassified to profit or loss:</i>			
Translation of foreign operations		-	158,252
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>62,434,471</b>	<b>89,750,476</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (HRK)	14	24,33	34.86

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

**KONČAR – ELECTRICAL INDUSTRY Inc.****STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2015**

	Note	31 December 2015 HRK	31 December 2014 HRK
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Intangible assets	15	1,007,436	782,436
Property, plant and equipment	16	207,098,692	214,839,110
Investment property	17	143,071,230	136,936,351
Investments in subsidiaries	18	798,122,323	729,235,265
Investments in associates	19	67,722,257	67,722,257
Financial assets	20	1,258,796	1,576,791
Receivables	21	15,169,144	19,564,066
		<b>1,233,449,878</b>	<b>1,170,656,276</b>
<b>Current assets</b>			
Financial assets	26	241,267,485	282,277,794
Receivables from related companies	22	63,903,714	69,576,420
Trade receivables	23	537,550	899,247
Prepaid corporate income tax		6,335,954	10,502,684
Other receivables	24	34,392,924	38,561,043
Loans granted to related parties	25	30,075,456	6,250,000
Cash at bank and in hand	27	8,431,842	5,212,190
Prepaid costs and accrued income		7,972,320	8,252,451
		<b>392,917,245</b>	<b>421,531,829</b>
<b>TOTAL ASSETS</b>		<b>1,626,367,123</b>	<b>1,592,188,105</b>
<b><u>EQUITY AND LIABILITIES</u></b>			
Share capital		1,208,895,930	1,208,895,930
Share premium		719,579	719,579
Other reserves		294,106,743	235,357,615
Retained earnings		6,248,041	9,052,844
Profit of the year		62,434,471	89,592,224
	28	<b>1,572,404,764</b>	<b>1,543,618,192</b>
<b>Non-current provisions</b>	29	<b>34,443,923</b>	<b>36,276,734</b>
<b>Current liabilities</b>			
Liabilities to related companies	30	12,356,500	3,682,023
Trade payables	31	903,616	1,365,439
Other current liabilities	32	5,760,262	7,245,717
Provisions	29	498,058	-
		<b>19,518,436</b>	<b>12,293,179</b>
<b>Total liabilities</b>		<b>53,962,359</b>	<b>48,569,913</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,626,367,123</b>	<b>1,592,188,105</b>

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

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 HRK	2014 HRK
<b>Cash flow from operating activities</b>			
Cash receipts from trade receivables		66,333,442	71,046,381
Cash receipts from interest		7,892,860	7,441,843
Cash receipts from prepaid corporate income tax		6,681,194	-
Other cash receipts		7,763,256	22,871,536
<b>Total cash receipts from operating activities</b>		<b>88,670,752</b>	<b>101,359,760</b>
Cash payments to trade payables		(50,196,354)	(53,055,832)
Cash payments to employees		(24,588,743)	(23,271,134)
Cash payments for interest		(809)	(1,644)
Cash payments for taxes		(10,996,271)	(13,427,708)
Other cash payments		(8,894,663)	(58,214,828)
<b>Total cash payments for operating activities</b>		<b>(94,676,840)</b>	<b>(147,971,146)</b>
<b>Net cash flow used in operating activities</b>		<b>(6,006,088)</b>	<b>(46,611,386)</b>
<b>Cash flow from investing activities</b>			
Receipts from the sale of non-current tangible and intangible assets		11,758,202	2,387,049
Cash receipts from the sale of financial instruments		4,695,685	3,368,778
Receipts from dividends		99,082,339	72,752,923
Purchase of non-current tangible and intangible assets		(3,845,022)	(10,532,534)
Investments in subsidiaries		(94,644,512)	(26,997,974)
Purchase of treasury shares		(2,804,803)	-
<b>Net cash from investing activities</b>		<b>14,241,889</b>	<b>40,978,242</b>
<b>Cash flow from financing activities</b>			
Cash receipts from loans and borrowings		6,621,218	58,704,791
Cash receipts from deposits		282,412,251	181,866,231
Other cash receipts from financing activities		6,648,159	-
Dividends paid		(30,735,901)	(30,875,795)
Deposits placed		(240,836,420)	(305,737,055)
Other cash outflows for financing activities		(29,125,456)	(8,235,000)
<b>Net cash used in financing activities</b>		<b>(5,016,149)</b>	<b>(104,366,828)</b>
<b>Total decrease in cash flow</b>		<b>3,219,652</b>	<b>(109,999,972)</b>
Cash and cash equivalents at the beginning of the period		5,212,190	115,212,162
<b>Cash and cash equivalents at the end of the period</b>	27	<b>8,431,842</b>	<b>5,212,190</b>

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

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share capital	Share premium	Other reserves	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
<b>As at 1 January 2014</b>	<b>1,028,847,600</b>	<b>719,579</b>	<b>273,420,895</b>	<b>3,237,715</b>	<b>(3,237,715)</b>	<b>37,997,206</b>	<b>141,826,798</b>	<b>1,482,812,078</b>
<i>Transactions with owners:</i>								
Allocation of profit to reserves	-	-	31,747,687	-	-	-	(31,747,687)	-
Increase in share capital (note 28)	180,048,330	-	(69,969,219)	-	-	-	(110,079,111)	-
Dividends (note 28)	-	-	-	-	-	(30,843,095)	-	(30,843,095)
Release of reserves for treasury shares to retained earnings	-	-	-	(1,898,733)	-	1,898,733	-	-
Share-based payments	-	-	-	-	1,898,733	-	-	1,898,733
	<u>180,048,330</u>	<u>-</u>	<u>(38,221,532)</u>	<u>(1,898,733)</u>	<u>1,898,733</u>	<u>(28,944,362)</u>	<u>(141,826,798)</u>	<u>(28,944,362)</u>
Profit for the year	-	-	-	-	-	-	89,592,224	89,592,224
<i>Other comprehensive income:</i>								
FX differences from translating foreign operations (note 28)	-	-	158,252	-	-	-	-	158,252
<i>Total comprehensive income</i>	<u>-</u>	<u>-</u>	<u>158,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,592,224</u>	<u>89,750,476</u>
<b>As at 31 December 2014</b>	<b>1,208,895,930</b>	<b>719,579</b>	<b>235,357,615</b>	<b>1,338,982</b>	<b>(1,338,982)</b>	<b>9,052,844</b>	<b>89,592,224</b>	<b>1,543,618,192</b>
<i>Transactions with owners:</i>								
Allocation of profit to reserves (note 28)	-	-	58,749,128	-	-	-	(58,749,128)	-
Dividends (note 28)	-	-	-	-	-	-	(30,843,096)	(30,843,096)
Formation of reserves for treasury shares from retained earnings	-	-	-	2,804,803	-	(2,804,803)	-	-
Purchase of treasury shares	-	-	-	-	(2,804,803)	-	-	(2,804,803)
	<u>-</u>	<u>-</u>	<u>58,749,128</u>	<u>2,804,803</u>	<u>(2,804,803)</u>	<u>(2,804,803)</u>	<u>(89,592,224)</u>	<u>(33,647,899)</u>
Profit for the year	-	-	-	-	-	-	62,434,471	62,434,471
<i>Other comprehensive income:</i>								
<i>Total comprehensive income</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,434,471</u>	<u>62,434,471</u>
<b>As at 31 December 2015</b>	<b>1,208,895,930</b>	<b>719,579</b>	<b>294,106,743</b>	<b>4,143,785</b>	<b>(4,143,785)</b>	<b>6,248,041</b>	<b>62,434,471</b>	<b>1,572,404,764</b>

The accompanying notes form an integral part of these financial statements



**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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**1. General information on the Company**

Končar-Electrical Industry Inc, Zagreb, Fallerovo šetalište 22, is the parent company of the Končar-Electrical Industry Group (the Končar Group). As the parent company, it prepares consolidated financial statements which are presented and audited separately. These separate financial statements represent the Company as a separate entity. The main activities of the Company are managing owned subsidiaries and associates.

As at 31 December 2015 the Company had 50 employees, while as at 31 December 2014 the Company had 51 employees.

The structure of employees is as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
PhD	1	1
Master's degree	12	12
University degree	24	25
College	7	7
Secondary school	5	5
Primary school + training on the job	1	1
	<u><b>50</b></u>	<u><b>51</b></u>

**Members of the Supervisory Board:**

Nenad Filipović	President
Jasminka Belačić	Deputy
Boris Draženović	Member
Ivan Rujnić	Member
Vicko Ferić	Member
Petar Vlaić	Member
Dragan Marčinko	Member
Petar Mišura	Member
Nikola Plavec	Member

**Members of the Management Board:**

Darinko Bago	President
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Jozo Miloloža	Member, in charge of finance
Davor Mladina	Member, in charge of IT and trade activities
Miroslav Poljak	Member, in charge of corporate development and ICT
Tomi Dužević	Member, in charge of foreign markets

The remuneration paid to members of the Management Board and Supervisory Board is disclosed in notes 8 and 9 to the financial statements.

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

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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## 2. Summary of significant accounting policies

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

### 2.1. Basis for preparation

The financial statements of the Company are prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards endorsed for use in the European Union (IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments that are carried at fair value. The financial statements are prepared on the accrual basis and on a going concern basis.

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

The financial statements are denominated in Croatian Kuna (HRK) as the Company's functional and reporting currency. At 31 December 2014, the exchange rate for USD 1 and EUR 1 was HRK 6.99 and HRK 7.635, respectively (31 December 2014: HRK 6.30 and HRK 7.66 respectively).

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 24 March 2016.

### **New and amended standards adopted by the Company**

The Company has adopted new and amended standards for their annual reporting period commencing 1 January 2015 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 28 and IAS 24).
- Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40).

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.

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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**Standards, amendments and interpretations issued but not yet effective**

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Company. None of these is expected to have significant effect on the Company's financial statements, except for the following standards:

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

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

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. The Company assessed that the debt instruments currently classified as available-for-sale financial assets 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. 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 and when endorsed by the European Union.

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

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the amendments on its financial statements.

**a) Revenue recognition**

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

Revenue from services is recognized in the accounting period in which the services are rendered, using the percentage of completion method. Revenues from fees and rent charged to related companies are recognized in the period when rendered, on the basis of contracted terms with related companies.

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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Dividend income from subsidiaries and associates is recognized when the right to receive payment is established, within Finance income and cost, note 12.

**b) Finance income and cost**

Finance income and cost comprises interest income on loans and borrowings using the effective interest method, interest income on funds invested, dividend income, foreign currency losses and gains, gains and losses from changes in the fair value of financial assets at fair value through profit or loss.

Foreign exchange gains/losses are recognized in the Statement of comprehensive income and note 12 in gross amounts (amounts include exchange differences from operations as well from financing activities).

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

**c) Taxation**

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

Current tax is the expected tax payable on the taxable income for the year, adjusted for amounts which are not included in the tax base or tax deductible expenses. Corporate tax is calculated by using tax rates enacted at the balance sheet date.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. A deferred tax asset for unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be realised on the basis of which the deferred tax assets will be utilised. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets or liabilities will be realised.

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

**d) Earnings per share**

The Company presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period less potential shares which arise from options.

**e) Dividend distribution**

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

**KONČAR – ELECTRICAL INDUSTRY Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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**f) Foreign currency translation**

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange losses and gains arising on translation are included in profit or loss for the current year.

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

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

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

Subsequent to the initial recognition, the assets are stated at historical cost less depreciation (or amortization) and any accumulated impairment losses.

Maintenance and repairs, replacements and improvements of minor scale are expensed as incurred. When it is clear that expenses incurred resulted in an increase in expected future economic benefits to be derived from the use of an item of non-current intangible or tangible assets in excess of the originally assessed standard performance of the asset, they are capitalised, i.e. added to the carrying amount of the asset. Gains or losses on the retirement or disposal of non-current asset are included in the income statement in the period when incurred.

Depreciation and amortisation start when the assets are available and ready for use, i.e. when they are appropriately located and in the right conditions needed for their intended use. Depreciation and amortisation cease when the assets are fully depreciated or when the assets are classified as held for sale. Depreciation and amortisation are provided on a straight-line basis for each asset, except for land and non-current intangible and tangible assets under construction and advances, over their estimated useful lives, using the straight line method, as follows:

	Depreciation/amortization rate (from - to %)
Intangible assets	20
Buildings	1.2 – 7.7
Plant and equipment	7.5 – 50
Tools, fittings and vehicles	5.6 – 25
Other assets	20

***Impairment of property, plant and equipment***

The Company reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, based on internal and external sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit (plant or line to which the asset belongs), and then the loss is allocated to individual assets within the unit.

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When determining impairment losses or reversal of impairment losses for an item of property, plant and equipment the depreciation rate is not changed but the useful life of an item is changed.

The recoverable amount is determined as higher of an asset's fair value less costs of disposal and value in use.

If the amount of tangible assets exceeds the recoverable amount, the difference is charged to the operating result (impairment loss).

Prior impairments of assets are reviewed for possible reversal or decrease at each reporting date.

**h) Investment property**

Investment property (land, buildings) owned by the Company is held for the purpose of earning rentals or as a potential for issuing guarantees or solidarity guarantees for subsidiaries, and to increase the value of the property with the intention of future sales. Investment property is recognised as a long-term investment, unless it is intended for sale within the next year, in which case it is recognised as a current asset. Investment property is initially measured at cost reduced by accumulated depreciation. The Company at least annually reviews the residual value and useful life of the property. The residual value is an estimated amount that the Company would gain selling the asset now, after reducing the estimated cost of sales, if assumed the asset is close to or at the end of its useful life. Since the Company has estimated that the residual value of the property exceeds its carrying value, depreciation is not charged until the residual value is reduced to the amount below the carrying value.

**i) Leases**

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

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

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

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

**j) Financial assets and financial liabilities**

***Financial assets***

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

Financial assets are classified into the following categories:

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- At fair value through profit or loss (FVTPL) - financial assets either held for trading or designated as at FVTPL at initial recognition. Financial assets at FVTPL are stated at fair value, with any gain or loss arising recognized in profit or loss.
- Held-to-maturity – financial assets with fixed or determinable payments and fixed maturity dates for which there is a positive intent and ability to hold to maturity. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale (AFS) - non-derivative financial assets which is designated as such or it cannot be included in any of the above mentioned categories. AFS is stated at fair value. Gains and losses arising from changes in fair value are recognized directly in other comprehensive income, in the investment's revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income in revaluation reserves from investments, is included in profit or loss for the period.
- Loans and receivables - trade receivables, loans, and other receivables with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

De-recognition of financial assets

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

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When the Company derecognises (writes off) all financial assets, the difference between the book value and the sum of received compensations and claims for compensations and cumulative profit (loss), recognised within other comprehensive income, transfers from equity to profit or loss.

**Financial liabilities and equity instruments**

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Share capital

*Ordinary shares*

Share capital represents the nominal amount of issued shares.

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

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

Share capital repurchase (treasury shares)

The consideration paid for the repurchase of the Company's equity share capital (treasury shares), including any directly attributable incremental costs related to the repurchase, is deducted from equity, until the shares are cancelled or reissued. Repurchased shares are classified as treasury shares and represent a deduction from equity where such ordinary shares are subsequently re issued any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

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

Financial liabilities at fair value through profit and loss - financial liabilities either held for trading or are classified as such at initial recognition. They are measured at their fair value, while the gains/losses relating to them are recognized in the income statement. The net gain/loss recognized in the income statement includes any interest paid on the financial liability.

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that



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exactly discounts the estimate future cash payments over the expected life of the financial instrument, or, where appropriate, a shorter period.

*De-recognition of financial liabilities*

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

**k) Investments in subsidiaries and associates**

Subsidiaries are entities in which the Company has control, i.e. when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates are entities in which the Company exercises significant influence, but not control, which generally involves a share between 20% and 50%.

Investments in subsidiaries and associates are presented using the cost method. If there are indicators of impairment, the recoverable amount of the investment is estimated. The difference between the investment and the recoverable amount is recognised in the statement of comprehensive income as a loss or gain (reversal of the previously recorded loss).

**l) Receivables**

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

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

**m) Cash and cash equivalents**

Cash and cash equivalents consist of bank deposits, cash on hand, demand deposits and securities or collectible within 3 months.

**n) Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are

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presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**o) Borrowings**

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

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

**p) Provisions**

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

Provisions are determined for warranties, costs of legal proceedings in progress, restructuring costs, termination benefits and awards to employees for long-term employment and retirement.

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

The newly formed provisions and income from the reversal of provisions are stated on a gross basis (Notes 5 and 9).

**q) Employee benefits**

*(i) Defined pension fund contributions*

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

*(ii) Long-term employee benefits*

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

*(iii) Short-term employee benefits - bonus plans*

A liability for employee benefits is recognized in provisions based on the Company's formal plan and when past practice has created a valid expectation by the Management Board/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial

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statements. For liability for bonuses it is expected that it will be settled within 12 months from the balance sheet date, and the liability is recognized in the amount expected to be paid.

*(iii) Share-based payments*

The Company has a plan for share-based payments to the members of the Management Board which are settled with equity instruments of the Company. The total amount that is recognized as a cost and the corresponding increase in equity are measured at the fair-value basis of given equity instruments granted. The fair value of those equity instruments is measured on the grant date. At each reporting date, the Company reviews its estimate of options which complies with conditions for the acquisition of rights and makes necessary adjustments.

**r) Subsequent events**

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

**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) Residual value of investment property*

The Company reviews at least annually the residual value and useful life of the property. The Company has estimated that the residual value of the property exceeds its carrying value, and therefore depreciation is not charged until the residual value is reduced to the amount below the accounting value.

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*b) Impairment tests for investments in subsidiaries*

At each reporting date the Company estimates whether the impairment indicators exists, which indicate that investments in subsidiaries could be impaired and estimates the recoverable amount of those investments.

For the purpose of impairment tests, the DCF method is used which is based on the assumptions that the entity's value represents the present value of its future cash flows. When using the DCF method, the objectivity of calculations mostly depends on the reality of medium-term business plans and the discounted rate used in discounting future cash flows as well as the calculation of the terminal value of entities.

The entity's residual value is calculated under the assumption that, following the business plan period (after 2020), the entity will achieve stable cash flows equal to cash flows estimated for 2020.

Determining the discount rate depends on the interest rate for risk-free placements (government bonds) and the rate which reflects the risk premium depending on the entity's specifics, market position and technical capabilities.

*c) Legal claims and disputes*

Provisions for legal claims and disputes are recognized based on Management's best estimate of probable losses after consultation with legal counsel.

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**4. Sales**

	2015	2014
	HRK	HRK
Fees charged to related parties	30,855,647	28,516,642
Rent charged to related parties	24,000,000	24,000,000
Fees charged to unrelated parties	102,047	205,182
	<b>54,957,694</b>	<b>52,721,824</b>

**5. Other operating income**

	2015	2014
	HRK	HRK
Release of provisions and dispute resolutions (note 29)	2,167,495	33,883,539
Net income from the asset disposal	3,567,900	285,648
Rent income	518,373	892,556
Refunds for value added tax	84,582	476,382
Income from subventions and insurance claims	197,902	82,309
Other income	740,917	567,708
	<b>7,277,169</b>	<b>36,188,142</b>

**6. Cost of materials and energy**

	2015	2014
	HRK	HRK
Cost of energy	5,926,210	5,299,995
Cost of raw materials	292,819	380,324
Small inventory	91,392	123,790
	<b>6,310,421</b>	<b>5,804,109</b>

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**7. Cost of services**

	2015	2014
	HRK	HRK
Intellectual services	5,076,461	4,349,712
Maintenance	4,011,558	3,928,757
Utilities	3,610,693	3,583,403
Security services	3,377,592	1,922,708
Supervisory services and property management at Sesvetski Kraljevec, Samobor, Jankomir, Zlatar	2,880,000	2,880,000
Cleaning services	2,361,587	2,438,991
Entertainment	1,405,355	1,563,093
Lawyer and audit services	193,952	1,347,662
Advertising services and fair costs	838,947	1,348,403
Graphical services	824,292	1,092,873
Telephone cost, postal services and transport	757,757	902,003
Education and training services	857,124	898,064
Rent services and leases	962,248	805,546
Other services	3,625,986	3,176,192
	<b>30,783,552</b>	<b>30,237,407</b>

**8. Staff costs**

	2015	2014
	HRK	HRK
Net wages and salaries	11,482,227	11,665,897
Costs of taxes and contributions from salaries	9,151,231	9,889,715
Contributions on salaries	3,440,480	3,468,708
Share-based payments	-	705,719
	<b>24,073,938</b>	<b>25,730,039</b>

Net wages and salaries in the amount of **HRK 11,482,227** (2014: in the amount of **HRK 11,665,897**) include compensations to the Management Board consisting of their salaries in the amount of HRK 3,348,633 (2014 in the amount of HRK 3,400,135) and accrued bonuses in the amount of HRK 1,600,000 (2014 in the amount of HRK 1,836,000), and are an integral part of staff costs.

Contributions to the Pension fund in 2015 amounted to HRK 2,917,527 (2014: HRK 2,876,721).

Compensations to employees (business trip compensations, travel to and from work, jubilee awards and similar) in the amount of HRK 730 thousand (2014: HRK 1,005 thousand) are presented in note 9.

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**9. Other costs**

	2015	2014
	HRK	HRK
Costs of legal claims	-	33,817,538
Sponsorships and donations	1,435,302	1,840,806
Compensations to members of the Supervisory Board	1,929,508	1,438,579
Work agreements and copyrights	630,837	1,427,708
Taxes and contributions independent of the results and similar costs	502,816	1,015,237
Insurance premiums	904,924	907,708
Travelling costs and per-diems	551,580	792,698
Compensations to employees, gifts and support	178,046	212,006
Membership fees and similar expenses	101,166	90,703
Bank charges and payment transaction expenses	99,533	68,983
Public notary, court dues, enforcements	92,699	67,083
Other	48,902	80,939
	<b>6,475,313</b>	<b>41,759,988</b>

**10. Impairment losses**

	2015	2014
	HRK	HRK
Bad debt provision (note 24)	1,076,383	733,080
	<b>1,076,383</b>	<b>733,080</b>

**11. Provisions**

	2015	2014
	HRK	HRK
Provisions for regular retirement and jubilee awards (note 29)	334,684	285,508
Provision for unused vacation (note 29)	498,058	-
	<b>832,742</b>	<b>285,508</b>

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**12. Finance income and costs**

	2015 HRK	2014 HRK
<b>Finance income</b>		
<u>From relations with associates</u>		
Dividend income	48,458,448	60,079,592
<u>From relations with subsidiaries</u>		
Dividend income	64,218,857	49,221,016
Interest income from loans granted	1,122,076	784,727
	<u>65,340,933</u>	<u>50,005,743</u>
<u>From relations with unrelated parties</u>		
Interest income on deposits	4,763,133	7,189,797
Interest income from sale of shares to employees	849,103	932,314
Interest income – other	732,050	451,629
Foreign exchange gains on foreign currency deposits	4,765,657	4,682,994
Foreign exchange gains – other	4,723,047	1,272,913
Dividend income	83,790	33,749
Other	-	65,847
	<u>15,916,780</u>	<u>14,629,243</u>
Unrealized gains	<u>1,320,621</u>	<u>7,104,738</u>
	<b><u>131,036,782</u></b>	<b><u>131,819,316</u></b>
<b>Finance costs</b>		
<i>From relations with unrelated parties</i>		
Foreign exchange losses on foreign currency deposits	(6,577,507)	(4,204,430)
Foreign exchange losses on loans granted for the sale of apartments	(706,582)	(685,067)
Foreign exchange losses - other	(496,255)	(83,540)
	<u>(7,780,344)</u>	<u>(4,973,037)</u>
Impairment of shares in subsidiaries	(43,666,340)	(9,940,647)
Impairment of available-for-sale financial asset	(398,992)	-
	<u>(44,065,332)</u>	<u>(9,940,647)</u>
<i>Other finance costs</i>	<u>(458,204)</u>	<u>(3,237)</u>
	<b><u>(52,303,880)</u></b>	<b><u>(14,916,321)</u></b>
<b>Finance income - net</b>	<b><u>78,732,902</u></b>	<b><u>116,902,395</u></b>

At the reporting date the Company made an impairment test of shares in subsidiaries and recognized an impairment loss in the amount of HRK 43.7 million (2014: HRK 9.9 million).



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**13. Corporate income tax**

	2015	2014
	HRK	HRK
Profit before tax	62,434,471	89,592,224
<b>Corporate income tax at 20%</b>	<b>12,486,894</b>	<b>17,918,445</b>
<i>Tax effects of:</i>		
Tax non-deductible expenses	9,359,083	2,447,242
Income not subject to tax	(22,816,343)	(23,287,819)
Government subsidies for education	(117,206)	(128,899)
Tax losses for which no deferred tax asset was recognized	1,087,572	3,051,031
<b>Corporate income tax</b>	<b>-</b>	<b>-</b>

The Company has not recognized deferred tax assets in the total amount of HRK 11,136,409 (2014: 10,048,837) due to the uncertainty of its usage within the period of five years (the Company as a holding mainly realises non-taxable revenue (dividends)).

Gross tax losses expire as follows:

	2015	2014
	HRK	HRK
Within five years	5,437,862	15,255,154
Within four years	15,255,154	34,989,035
Within three years	34,989,035	-
	<b>55,682,051</b>	<b>50,244,189</b>

To date, the Tax Authority did not perform a review of the income tax return of the Company. In accordance with local regulations, the Tax Authority may at any time inspect the Companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

**14. Earnings per share**

*Basic and diluted earnings per share*

	2015	2014
	HRK	HRK
Net profit for the year	62,434,471	89,592,224
Weighted average number of shares (decreased by treasury shares)	2,566,258	2,570,258
<b>Earnings per share in HRK</b>	<b>24.33</b>	<b>34.86</b>

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Diluted earnings per share for 2015 and 2014 are the same as basic earnings per share, as the Company had no convertible instruments or options during both periods.

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**15. Non-current intangible assets**

	<b>Concessions, patents, licences, software and other rights</b>	<b>Other</b>	<b>Total</b>
	<b>HRK</b>	<b>HRK</b>	<b>HRK</b>
<b>Cost</b>			
<b>As at 1 January 2014</b>	<b>718,629</b>	<b>653,207</b>	<b>1,371,836</b>
Additions	532,436	-	532,436
<b>As at 31 December 2014</b>	<b>1,251,065</b>	<b>653,207</b>	<b>1,904,272</b>
Additions	225,000	-	225,000
<b>As at 31 December 2015</b>	<b>1,476,065</b>	<b>653,207</b>	<b>2,129,272</b>
<b>Accumulated amortization</b>			
<b>As at 1 January 2014</b>	<b>468,629</b>	<b>653,207</b>	<b>1,121,836</b>
Amortization for the year	-	-	-
<b>As at 31 December 2014</b>	<b>468,629</b>	<b>653,207</b>	<b>1,121,836</b>
Amortization for the year	-	-	-
<b>As at 31 December 2015</b>	<b>468,629</b>	<b>653,207</b>	<b>1,121,836</b>
<b>Net carrying value</b>			
31 December 2014	782,436	-	782,436
<b>31 December 2015</b>	<b>1,007,436</b>	<b>-</b>	<b>1,007,436</b>

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2015 amounts to HRK 1,122 thousand (2014: HRK 1,122 thousand).

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**16. Property, plant and equipment**

	Land	Buildings	Plant & equipment	Tools, fittings and transportation equipment	Other	Assets under construction	Advance payments	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
<b>Cost</b>								
<b>As at 1 January 2014</b>	<b>75,233,935</b>	<b>286,756,364</b>	<b>51,677,146</b>	<b>5,221,008</b>	<b>63,376</b>	<b>524,204</b>	<b>20,657,025</b>	<b>440,133,058</b>
Transfer	-	3,176,360	756,266	522,514	-	(4,455,140)	-	-
Additions	8,922,328	63,227,502	-	-	-	7,279,586	7,443,704	86,873,120
Disposals	(9,624,586)	(74,031,316)	(212,706)	(682,712)	-	-	(27,626,068)	(112,177,388)
<b>As at 31 December 2014</b>	<b>74,531,677</b>	<b>279,128,910</b>	<b>52,220,706</b>	<b>5,060,810</b>	<b>63,376</b>	<b>3,348,650</b>	<b>474,661</b>	<b>414,828,790</b>
Transfer	-	2,494,080	505,002	45,063	-	(3,044,145)	-	-
Additions	12,847	172,065	4,023,951	-	-	12,417,260	75,242	16,701,364
Disposals	(350,005)	-	(20,143,373)	(111,683)	-	-	(549,903)	(21,158,963)
Transfer to investment property	-	(2,475,059)	-	-	-	(3,659,820)	-	(6,134,879)
<b>As at 31 December 2015</b>	<b>74,194,519</b>	<b>279,319,996</b>	<b>36,602,285</b>	<b>4,994,190</b>	<b>63,376</b>	<b>9,061,945</b>	<b>-</b>	<b>404,236,311</b>
<b>Accumulated depreciation</b>								
<b>As at 1 January 2014</b>	<b>-</b>	<b>164,098,536</b>	<b>30,799,938</b>	<b>2,736,104</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>197,634,578</b>
Depreciation for the year	-	7,012,296	3,557,162	1,100,548	-	-	-	11,670,006
Additions	-	45,492,805	-	-	-	-	-	45,492,805
Disposals	-	(54,059,808)	(210,443)	(537,458)	-	-	-	(54,807,709)
<b>As at 31 December 2014</b>	<b>-</b>	<b>162,543,829</b>	<b>34,146,657</b>	<b>3,299,194</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>199,989,680</b>
Depreciation for the year	-	5,472,217	2,635,129	873,599	-	-	-	8,980,945
Additions	-	56,018	4,002,938	-	-	-	-	4,058,956
Disposals	-	(34,247)	(15,825,141)	(32,574)	-	-	-	(15,891,962)
<b>As at 31 December 2015</b>	<b>-</b>	<b>168,037,817</b>	<b>24,959,583</b>	<b>4,140,219</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>197,137,619</b>
<b>Net carrying value</b>								
31 December 2014	74,531,677	116,585,081	18,074,049	1,761,616	63,376	3,348,650	474,661	214,839,110
<b>31 December 2015</b>	<b>74,194,519</b>	<b>111,282,179</b>	<b>11,642,702</b>	<b>853,971</b>	<b>63,376</b>	<b>9,061,945</b>	<b>-</b>	<b>207,098,692</b>

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The gross carrying value of fully depreciated property, plant and equipment, still in use as at 31 December 2015 amounts to HRK 43,761 thousand (31 December 2014: HRK 34,906 thousand).

A mortgage is registered over land with a carrying value of HRK 44,917 thousand (31 December 2014: HRK 45,254 thousand) and business facilities with a carrying value of HRK 67,153 thousand (31 December 2014: HRK 67,830 thousand) as collateral for the subsidiaries' obligations.

**17. Investment property**

Investment property (located in Osijek, Sesevetski Kraljevec, Samobor, Požega-Zvečevo, Zagreb and Zlatar) in the amount of HRK 143,071,230 (2014: HRK 136,936,351) relates to investment property for capital appreciation intended for future sale. Part of the assets are subject to court proceedings due to ownership issues. The fair value of this property estimated by independent evaluators is higher than their carrying value, and accordingly, depreciation is not charged to this property.

The following table discloses movements in investment property in 2015 and 2014 (during the transfer from to investment property, the Company uses the gross presentation principle, i.e. increases the carrying value and accumulated depreciation for these assets):

	<u>Land</u> <u>HRK</u>	<u>Buildings</u> <u>HRK</u>	<u>Total</u> <u>HRK</u>
<b>Cost</b>			
<b>As at 1 January 2014</b>	<b>35,523,379</b>	<b>97,001,990</b>	<b>132,525,369</b>
Additions	9,624,586	73,840,846	83,465,432
<b>As at 31 December 2014</b>	<b>45,147,965</b>	<b>170,842,836</b>	<b>215,990,801</b>
Additions	-	6,134,879	6,134,879
<b>As at 31 December 2015</b>	<b>45,147,965</b>	<b>176,977,715</b>	<b>222,125,680</b>
<b>Accumulated depreciation</b>			
<b>As at 1 January 2014</b>	-	<b>25,151,429</b>	<b>25,151,429</b>
Additions	-	53,903,021	53,903,021
<b>As at 31 December 2014</b>	-	<b>79,054,450</b>	<b>79,054,450</b>
Additions	-	-	-
<b>As at 31 December 2015</b>	-	<b>79,054,450</b>	<b>79,054,450</b>
<b>Net carrying value</b>			
31 December 2014	45,147,965	91,788,386	136,936,351
<b>31 December 2015</b>	<b>45,147,965</b>	<b>97,923,265</b>	<b>143,071,230</b>

The fair value of investment property at the reporting date relates to fair value level 3 since the input variables are not based on observable market data.

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**18. Investments in subsidiaries**

	31 December 2015	31 December 2014
	HRK	HRK
<b><u>Investments in domestic subsidiaries</u></b>		
Končar-Infrastructure and Services Ltd, Zagreb	56,691,318	56,691,318
Končar-Electrical Engineering Institute Inc, Zagreb	60,936,110	60,936,110
Končar-Electronics and Informatics Inc, Zagreb	42,424,053	38,709,694
Končar-Small Electrical Machines Inc, Zagreb	48,600,512	48,600,512
Končar-Generators and Motors Inc, Zagreb	116,347,127	94,761,587
Končar-Instrument Transformers Inc, Zagreb	30,228,943	14,441,743
Končar-Distribution and Special Transformers Inc, Zagreb	58,962,301	58,962,301
Končar-Medium Voltage Apparatus Inc, Zagreb	65,576,811	12,212,808
Končar-Electric Vehicles Inc, Zagreb	36,409,158	36,409,158
Končar-Switchgear Inc, Sesevetski Kraljevec	28,647,123	28,647,123
Končar-Household Appliances Ltd, Zagreb	147,966,970	147,966,970
Končar-High Voltage Switchgear Inc, Zagreb	96,598,157	71,104,847
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb	81,432,641	81,432,641
Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb	6,908,942	6,908,942
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	51,773,266	51,773,266
Končar-Renewable Sources Ltd, Zagreb	111,120,000	111,120,000
Končar-Steel Structures Inc, Zagreb	16,703,123	16,703,123
Impairment of investments	(259,204,232)	(215,537,893)
	<b>798,122,323</b>	<b>721,844,250</b>
<b><u>Investment in foreign subsidiary</u></b>		
KONES AG in bankruptcy, Zurich, Switzerland	-	7,391,016
	-	<b>7,391,016</b>
	<b>798,122,323</b>	<b>729,235,265</b>

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Shares in ownership and voting rights as at 31 December were as follows:

	<b>31 December 2015</b>		<b>31 December 2014</b>	
	<b>Ownership share (%)</b>	<b>Voting rights share (%)</b>	<b>Ownership share (%)</b>	<b>Voting rights share (%)</b>
<b><u>Domestic subsidiaries</u></b>				
Končar-Household Appliances Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Small Electrical Machines Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Infrastructure and Services Ltd, Zagreb	100.00	100.00	100.00	100.00
Končar-Electrical Engineering Institute Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb	100.00	100.00	100.00	100.00
Končar-Generators and Motors Inc, Zagreb	100.00	100.00	100.00	100.00
Končar-Renewable Sources Ltd, Zagreb	85.27	85.27	85.27	85.27
Končar-Electric Vehicles Inc, Zagreb	75.04	75.04	75.04	75.04
Končar-Steel Structures Inc, Zagreb	75.01	75.01	75.01	75.01
Končar-Electronics and Informatics Inc, Zagreb	75.03	75.03	75.03	75.03
Končar-Switchgear Inc, Sesevetski Kraljevec	70.03	81.70	70.03	81.70
Končar-Medium Voltage Apparatus Inc, Zagreb	100.00	100.00	41.77	69.87
Končar-Instrument Transformers Inc, Zagreb	61.73	99.77	46.11	72.39
Končar-Distribution and Special Transformers Inc, Zagreb	51.71	67.80	51.71	67.80
Končar-High Voltage Switchgear Inc, Zagreb	98.61	99.03	97.49	98.23
Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb	44.71	79.05	44.71	79.05
<b><u>Foreign subsidiary</u></b>				
Kones AG, Zurich, Switzerland	-	-	100.00	100.00

At the balance sheet date, the Company recognized an impairment loss for investments in subsidiaries at the reporting date on the basis of impairment tests performed (note 12).

Summary data for related companies with significant non-controlling interest are disclosed in the Company's consolidated financial statements.

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**19. Investments in associates**

Investments in associates in the amount of HRK 67,722,257 (31 December 2014: HRK 67,722,257) relate to the investment in the company Končar - Power Transformers Ltd, Zagreb (Company holds a 49% stake in the share capital of this company).

The summary data of associates are disclosed in the Company's consolidated financial statements.

**20. Non-current financial assets**

	31 December 2015	31 December 2014
	HRK	HRK
<i>Available-for-sale financial assets</i>		
Shares in Tesla Savings Bank	3,500,010	3,500,010
Impairment of shares in Tesla Savings Bank	(3,101,924)	(2,702,932)
<i>Financial assets at fair value through profit and loss</i>		
Shares in Zagrebačka banka d.d., Zagreb	860,710	779,713
	<b>1,258,796</b>	<b>1,576,791</b>

**21. Non-current receivables**

	31 December 2015	31 December 2014
	HRK	HRK
<i>Receivables on the basis of credit sales</i>		
Receivables for apartments sold /i/	10,834,147	12,628,127
Impairment of receivables for apartments sold	(1,941,128)	(3,180,752)
Current portion (note 24)	(1,208,443)	(1,353,346)
	7,684,576	8,094,029
Receivables for shares sold /ii/	6,862,225	11,211,199
Current portion (note 24)	(3,431,113)	(4,348,973)
	3,431,112	6,862,226
Other loans receivable	27,503	50,049
Other financial assets	438	438
<i>Receivable on the basis of foreign sales /iii/</i>	4,541,607	5,002,565
Current portion (note 23)	(516,092)	(445,241)
	<b>15,169,144</b>	<b>19,564,066</b>

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



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/ii/ Receivables for shares sold relate to non-current receivables for sold shares of related companies Končar-Electronics and Informatics Inc, Končar - Electric Vehicles Inc. and Končar – Steel Structures Inc. within the employee share ownership plan that includes instalment payments over 10 years.

/iii/ Receivable on the basis of foreign sales relates to the sales in Bosnia and Herzegovina to customer Takraf, Germany assigned to KfW bank.

**22. Receivables from related companies**

	31 December 2015	31 December 2014
	HRK	HRK
<b><i>Trade receivables</i></b>		
<u>Domestic subsidiaries</u>		
Končar-Infrastructure and Services Ltd, Zagreb	5,811,404	1,875,000
Končar-Electrical Engineering Institute Inc, Zagreb	279,932	186,836
Končar-Electronics and Informatics Inc, Zagreb	296,520	97,002
Končar-Small Electrical Machines Inc., Zagreb	339,893	328,879
Končar-Generators and Motors Inc, Zagreb	607,545	774,907
Končar-Instrument Transformers Inc, Zagreb	950,275	605,740
Končar-Distribution and Special Transformers Inc, Zagreb	1,124,630	1,077,728
Končar-Medium Voltage Apparatus Inc, Zagreb	113,831	122,863
Končar-Electric Vehicles Inc, Zagreb	1,271,552	1,034,100
Končar-Switchgear Inc, Sesvetski Kraljevec	1,373,803	745,247
Končar-Household Appliances Ltd, Zagreb	357,932	-
Končar-High Voltage Switchgear Inc, Zagreb	194,688	271,780
Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb	132,189	255,774
Končar- Engineering for Plant Installation and Commissioning Inc	109,033	197,512
Končar-Power Plant and Electric Traction Engineering Inc, Zagreb	731,272	498,918
Končar-Steel Structures Inc, Zagreb	445,855	284,270
Končar-Renewable Sources Ltd, Zagreb	468,001	484,648
<u>Associates</u>		
Končar-Power Transformers Ltd, Zagreb	49,141,403	60,716,722
	<u>63,749,758</u>	<u>69,557,926</u>
<b><i>Interest receivable (total)</i></b>	<u>153,956</u>	<u>18,494</u>
	<b><u>63,903,714</u></b>	<b><u>69,576,420</u></b>

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
2015	<b>63,903,714</b>	61,613,964	1,031,434	272,234	296,676	689,406	-
2014	<b>69,576,420</b>	68,577,525	680,595	60,355	257,945	-	-

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

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

**23. Trade receivables**

	31 December 2015	31 December 2014
	HRK	HRK
Domestic customers	21,458	477,131
Bad debt provision	-	(23,125)
Domestic customers, net	21,458	454,006
Foreign customers (current portion, note 21)	516,092	445,241
	<b>537,550</b>	<b>899,247</b>

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
<b>2014</b>	<b>21,458</b>	13,670	7,788	-	-	-	-
<b>2013</b>	<b>477,131</b>	237,165	216,841	-	-	-	23,125

For receivables which are past due at the reporting date, for which the Company has not made a provision, there has not been a significant change in credit quality and the amounts are still considered recoverable. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The movement in the allowance for bad debts was as follows:

	2015	2014
	HRK	HRK
Balance as at 1 January	<b>23,125</b>	-
Collected in the current year	(23,125)	-
Impaired in the current year	-	23,125
<b>Balance as at 31 December</b>	<b>-</b>	<b>23,125</b>

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**24. Other receivables**

	31 December 2015	31, December 2014
	<u>HRK</u>	<u>HRK</u>
Receivables from companies no longer within Končar group /i/	9,837,148	14,013,687
Impairment of above receivables	(1,076,383)	(2,792,311)
Receivables for shares sold (due)	10,750,238	10,247,847
Current portion of non-current receivables (note 21)	3,431,113	4,348,973
Receivable for claims recognised	8,292,699	8,292,699
Interest receivables on bank deposits	667,006	2,355,264
Receivables for apartments sold	1,208,443	1,353,346
Receivables for prepaid value added tax	1,016,069	476,382
Other receivables	126,481	93,191
	<b><u>34,252,814</u></b>	<b><u>38,389,078</u></b>

/i/ The recoverable amount of receivables from companies which are no longer part of the Končar group (Končar-Alati and Končar-Ugostiteljska oprema) is determined on the basis of the estimated value of the net assets of those companies.

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

**25. Loans granted to related parties**

	31 December 2015	31 December 2014
	<u>HRK</u>	<u>HRK</u>
Končar- High Voltage Switchgear Inc, Zagreb	8,000,000	-
Končar-Renewable Sources Ltd, Zagreb	20,075,456	4,250,000
Končar-Household Appliances Ltd, Zagreb	2,000,000	2,000,000
	<b><u>30,075,456</u></b>	<b><u>6,250,000</u></b>

Loans granted to related parties are repayable within one year bearing an annual interest rate of 7% (secured by blank bills of exchange and debentures).

**26. Loans and deposits**

	31 December 2015	31 December 2014
	<u>HRK</u>	<u>HRK</u>
Deposits over 3 months	241,267,485	280,977,794
Loans receivable	-	1,300,000
	<b><u>241,267,485</u></b>	<b><u>282,277,794</u></b>

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Deposits over 3 months are related to deposits placed in a commercial bank bearing an annual interest rate in the range from 0.70% to 1.70% (2014: 0.70% to 3.20%).

**27. Cash and cash equivalents**

	31 December 2015	31 December 2014
	<u>HRK</u>	<u>HRK</u>
Balance at gyro accounts in HRK	8,140,122	4,727,409
Balance at accounts in foreign currency	270,290	459,318
Petty cash – HRK	27	9,982
Petty cash – foreign currencies	21,403	15,481
	<u><b>8,431,842</b></u>	<u><b>5,212,190</b></u>

**28. Equity**

Share capital is determined in the nominal value of HRK 1,208,895,930 (as at 31 December 2014: HRK 1,208,895,930) and includes 2,572,119 shares at the nominal value of HRK 470 per share (2014: the same). In 2014, the Company increased its share capital by the total amount of HRK 180,048,330 by the reinvestment of the profit realised in 2013 in the amount of HRK 110,079,111 (reinvested earnings), and by the amount of HRK 69,969,219 from the other reserves formed in previous years. The increase in share capital was carried out by increasing the nominal value of the shares by HRK 70 per share, from HRK 400 to HRK 470 respectively.

The Company's ownership structure is as follows:

Shareholder	31 December 2015		31 December 2014	
	<u>Number of shares</u>	<u>Ownership share %</u>	<u>Number of shares</u>	<u>Ownership share %</u>
1. HPB d.d. (Kapitalni fond Inc.)	724,515	28.17	724,515	28.17
2. State office for state property management/Croatian pension fund	384,628	14.95	384,628	14.95
3. Restructuring and sale centre/Croatia	142,298	5.53	142,298	5.53
4. State office for state property management/Croatia	117,982	4.59	117,982	4.59
5. SOCIETE GENERALE - Splitska bank Inc./ Erste Plavi mandatory pension fund	202,149	7.86	202,149	7.86
6. HYPO ALPE ADRIA BANK d.d./PBZ Croatia Osiguranje OMF	255,928	9.95	255,928	9.95
7. Societe Generale Bank/ AZ OMF	161,110	6.26	106,438	4.14
8. Valamar Rivijera d.d.	39,791	1.55	39,791	1.55
9. Florinčić Kristijan	60,714	2.36	82,682	3.21
10. Hypo Alpe Adria Bank/RBA OMF	28,491	1.11	29,504	1.15
11. PBZ d.d. (custodian account)	30,208	1.17	27,366	1.06
12. Other shareholders	418,444	16.27	456,977	17.77
13. KONČAR Inc. (treasury shares)	5,861	0.23	1,861	0.07
	<u><b>2,572,119</b></u>	<u><b>100.00</b></u>	<u><b>2,572,119</b></u>	<u><b>100.00</b></u>

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On 21 December 2010, ordinary shares of the Company are listed on the Official market at the Zagreb Stock Exchange under the name KOEI-R-A in accordance with the resolution of the Zagreb Stock Exchange Management from 20 December 2010.

In 2015, the Company's General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 30,795,096 which is HRK 12,00 per share (2014: HRK 30,843,096 which is HRK 12,00 per share).

The Company states legal, statutory and other reserves in accordance with the Company's Act made on the basis of profit distribution according to the General Assembly's resolutions. Statutory and other reserves are distributable. The movement in these reserves in 2015 and 2014 were as follows:

	<b>Legal reserves</b>	<b>Statutory reserves</b>	<b>Other reserves</b>	<b>Total</b>
	<b>HRK</b>	<b>HRK</b>	<b>HRK</b>	<b>HRK</b>
<b>1 January 2014</b>	<b>23,454,999</b>	<b>138,879,053</b>	<b>111,086,843</b>	<b>273,420,895</b>
Allocation of 2013 profit	7,091,340	24,656,347	-	31,747,687
Share capital increase	-	-	(69,969,219)	(69,969,219)
FX differences from translating foreign operations	-	-	158,252	158,252
<b>31 December 2014</b>	<b>30,546,339</b>	<b>163,535,400</b>	<b>41,275,876</b>	<b>235,357,615</b>
Allocation of 2014 profit	4,479,611	54,269,518	-	58,749,128
<b>31 December 2015</b>	<b>35,025,950</b>	<b>217,684,029</b>	<b>41,396,764</b>	<b>294,106,743</b>

**29. Provisions**

	<b>Legal court cases</b>	<b>Retirement and jubilee rewards</b>	<b>Unused vacation</b>	<b>Total</b>
	<b>HRK</b>	<b>HRK</b>	<b>HRK</b>	<b>HRK</b>
<b>1 January 2014</b>	<b>55,344,959</b>	<b>1,723,731</b>	<b>-</b>	<b>57,068,690</b>
Additional provisions	-	285,508	-	285,508
Release of provisions	(21,077,464)	-	-	(21,077,464)
<b>31 December 2014</b>	<b>34,267,495</b>	<b>2,009,239</b>	<b>-</b>	<b>36,276,734</b>
Additional provisions	-	334,684	498,058	832,742
Release of provisions	(2,167,495)	-	-	(2,167,495)
<b>31 December 2015</b>	<b>32,100,000</b>	<b>2,343,923</b>	<b>498,058</b>	<b>34,941,981</b>

Provisions mature as follows:

Within 12 months	-	-	498,058	<b>498,058</b>
More than 12 months	32,100,000	2,343,923	-	<b>34,443,923</b>

*Provisions for legal claims*

Long-term provisions for legal claims in the amount of HRK 32,100,000 (2014: in the amount of HRK 34,267,495) relate to legal cases in progress initiated against the Company in Croatia in the amount of HRK 31,800,000 (2014: HRK 31,800,000) and for the estimated costs of legal proceedings in the amount of HRK 300,000 (2014: HRK 2,467,495).

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*Provisions for long-term employee benefits (termination benefits and jubilee awards)*

The non-current portion of provisions for termination benefits and jubilee rewards in the amount of HRK 2,344 thousand (2014: HRK 2,009 thousand) comprises the estimated amount of long-term employee benefits relating to termination benefits and jubilee awards in accordance with the Collective agreement to which the employees are entitled to receive at the moment of employment termination (during the retirement or dismissal). The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service within the Company at the balance sheet date and the discount rate of 4.85% (2014: 5.65%).

*Current provisions*

Provisions for unused vacation in the amount of HRK 498 thousand relates to employee benefit for unused vacation days related to 2015.

**30. Current liabilities to related parties**

	31 December 2015	31 December 2014
	HRK	HRK
Končar - Infrastructure and Services Ltd, Zagreb	11,880,808	3,542,516
Končar - Electronics and Informatics Inc, Zagreb	110,964	-
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	352,310	2,807
Končar – Low Voltage Switches and Circuit Breakers Ltd., Zagreb	12,418	-
Končar-Household Appliances Ltd, Zagreb	-	136,700
	<b>12,356,500</b>	<b>3,682,023</b>

**31. Trade payables**

	31 December 2015	31 December 2014
	HRK	HRK
Domestic suppliers	843,013	1,071,928
Foreign suppliers	60,603	293,511
	<b>903,616</b>	<b>1,365,439</b>

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

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
<b>2015</b>	<b>903,616</b>	902,167	1,449	-	-	-	-
<b>2014</b>	<b>1,365,439</b>	1,218,706	146,733	-	-	-	-

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**32. Other current liabilities**

	31 December 2015	31 December 2014
	HRK	HRK
<i><u>Liabilities toward employees</u></i>		
Liabilities for net salaries	664,403	673,863
Bonus accruals	1,600,000	1,836,000
	<b>2,264,403</b>	<b>2,509,863</b>
<i><u>Liabilities for taxes, contributions and similar</u></i>		
Liabilities for taxes	1,696,849	1,935,998
Liabilities for value added tax	-	1,073,740
Liabilities for contributions	1,214,047	1,209,340
	<b>2,910,896</b>	<b>4,219,078</b>
<i><u>Other liabilities</u></i>		
Liabilities toward state for apartments sold	1,946	76,308
Liabilities for dividends	429,642	322,447
Other liabilities	153,375	118,021
	<b>584,963</b>	<b>516,776</b>
	<b>5,760,262</b>	<b>7,245,717</b>

**33. Contingent liabilities and off-balance sheet items**

	31 December 2015	31 December 2014
	HRK	HRK
Subsidiarity guarantee (Zagrebačka banka d.d.)	563,850,871	861,989,012
Corporative guarantees / Končar Inc.	132,685,051	150,601,520
Corporative guarantees / other banks	2,481,390	8,719,934
Apartments sold (65%)	23,677,933	25,636,064
Bills of exchange	28,075,456	7,550,000
Debentures	2,000,000	10,200,000
	<b>752,770,701</b>	<b>1,064,696,530</b>

Several domestic legal cases are initiated against the Company and as at 31 December 2015 the Company recognized a provision in the amount of HRK 32,100 thousand (2014: HRK 34,267 thousand) for these legal claims. The Management Board does not expect additional costs to arise from other court cases.

Total guarantees issued by the Company as disclosed in the above table include performance guarantees amounting to HRK 431,145 thousand (2014: HRK 701,658 thousand).

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**34. Related party transactions**

Parties are considered to be related if one party has control over the other party, if they are under common control or under significant influence or are part of a joint arrangement. Related parties include companies within the Končar Group – subsidiaries and an associate. All intercompany transactions are based on the usual business terms (purchase of goods and sale of products and provision of services).

2015 Company	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000	Receivables HRK'000	Revenues HRK'000
Končar-Infrastructure and Services Ltd.	5,811	11,881	24,505	12,865	-	-
Končar-Household Appliances Ltd.	358	-	1,149	42	2,011	136
Končar-Electric Vehicles Inc.	1,271	-	5,061	180	-	-
Končar-High Voltage Switchgear Inc.	195	-	544	-	8,027	147
Končar-Generators and Motors Inc.	608	-	2,769	-	-	-
Končar-Power Plant and Electric Traction Engineering Inc. Zagreb	730	352	3,084	2,650	-	-
Končar-Steel Structures Inc.	445	-	1,351	-	-	-
Končar-Switchgear Inc.	1,374	-	778	-	-	-
Končar-Instrument Transformers Inc.	950	-	1,659	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	132	12	654	124	-	-
Končar-Distribution and Special Transformers Inc.	1,125	-	5,461	-	-	-
Končar-Electrical Engineering Institute Inc.	280	-	877	81	-	-
Končar-Small Electrical Machines Inc.	340	-	868	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc.	109	-	510	-	-	-
Končar-Electronics and Informatics Inc.	297	111	1,093	1,717	-	-
Končar-Medium Voltage Apparatus Inc.	114	-	560	-	-	-
Končar – Power Transformers Ltd.	683	-	1,883	-	-	-
Končar-Renewable Sources Ltd.	468	-	2,051	-	20,191	839
	<b>15,290</b>	<b>12,356</b>	<b>54,857</b>	<b>17,659</b>	<b>30,229</b>	<b>1,122</b>

The transactions presented in the table do not include receivables and dividend income. Dividend income is recognized in the amount of HRK 109,761 thousand (2014: HRK 109,335 thousand).



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2014 Company	Operating activities				Financial activities	
	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000	Receivables HRK'000	Revenues HRK'000
Končar-Infrastructure and Services Ltd.	1,875	3,542	24,498	11,326	-	-
Končar-Household Appliances Ltd.	-	137	1,007	793	2,017	161
Končar-Electric Vehicles Inc.	1,034	-	3,043	180	-	546
Končar-High Voltage Switchgear Inc.	272	-	474	-	-	-
Končar-Generators and Motors Inc.	775	-	3,122	-	-	-
Končar-Power Plant and Electric Traction Engineering Inc. Zagreb	499	3	3,263	1,988	-	-
Končar-Steel Structures Inc.	284	-	1,314	-	-	15
Končar-Switchgear Inc.	745	-	751	-	-	-
Končar-Instrument Transformers Inc.	606	-	1,760	-	-	-
Končar-Low Voltage Switches and Circuit Breakers Ltd.	256	-	681	123	-	-
Končar-Distribution and Special Transformers Inc.	1,078	-	4,473	12	-	-
Končar-Electrical Engineering Institute Inc.	187	-	734	56	-	-
Končar-Small Electrical Machines Inc.	329	-	816	-	-	-
Končar-Engineering for Plant Installation and Commissioning Inc.	198	-	526	-	-	-
Končar-Electronics and Informatics Inc.	97	-	818	1,473	-	-
Končar-Medium Voltage Apparatus Inc.	123	-	568	-	-	-
Končar – Power Transformers Ltd.	637	-	2,624	-	-	-
Končar-Renewable Sources Ltd.	485	-	2,044	-	4,252	63
	<b>9,480</b>	<b>3,682</b>	<b>52,516</b>	<b>15,951</b>	<b>6,269</b>	<b>785</b>

The transactions presented in the table do not include receivables and dividend income.

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**35. Financial risk management and financial instruments**

The Company is exposed in its business to market (foreign currency) and credit risk.

The Company does not use derivative financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial statements. The risk management policies related to current and non-current financial assets, current and non-current receivables, management of cash, debt and liabilities may be summarised as follows:

**a) Capital risk management**

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

The Company manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Company may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2014 and 31 December 2013. The Company monitors capital on the basis of the gearing ratio, which is calculated as follows:

	31 December 2015	31 December 2014
	HRK'000	HRK'000
Long-term borrowings	-	-
Short-term borrowings	-	-
Less: cash and cash equivalents (deposits)	(8,432)	(5,212)
<b>Net debt</b>	<b>-</b>	<b>-</b>
Capital	1,572,405	1,543,618
Gearing ratio	-	-

**b) Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial assets, financial liabilities and equity instrument are disclosed in note 2 to the financial statements.

Accounting policies for financial instruments are applied on the following items in the Statement of financial position:

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**31 December 2015**

	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
Non-current financial assets and receivables	15,169	861	398	<b>16,428</b>
Current financial assets	271,343	-	-	<b>271,343</b>
Trade and other current receivables	97,679	-	-	<b>97,679</b>
Cash and cash equivalents	8,432	-	-	<b>8,432</b>
	<b>392,623</b>	<b>861</b>	<b>398</b>	<b>393,882</b>

**31 December 2014**

	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
Non-current financial assets and receivables	19,564	780	797	<b>21,141</b>
Current financial assets	288,528	-	-	<b>288,528</b>
Trade and other current receivables	108,388	-	-	<b>108,388</b>
Cash and cash equivalents	5,212	-	-	<b>5,212</b>
	<b>421,692</b>	<b>780</b>	<b>797</b>	<b>423,269</b>

All of the Company's liabilities have been classified as "At amortized cost". The Company has no liabilities that have been classified as "Liabilities at fair value through profit and loss".

Fair value of financial instruments

The following table represents financial assets and liabilities valued at fair value in the Statement of financial position according to the fair value hierarchy. This hierarchy groups financial assets and liabilities in three levels, depending on the significance of input variables used in the measurement of their fair values. The fair value hierarchy has the following levels:

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

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The level within which a financial asset/liability is classified is based on the lowest level of a significant input variable used in the fair value measurement. Financial assets and liabilities measured at fair value in the Statement of financial position are grouped within the hierarchy as follows:

**31 December 2015**

<i>In thousands of HRK</i>	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Listed securities	861	-	-	861
Unlisted securities	-	-	398	398
	<b>861</b>	<b>-</b>	<b>398</b>	<b>1.259</b>

**31 December 2014**

<i>In thousands of HRK</i>	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Listed securities	780	-	-	780
Unlisted securities	-	-	797	797
	<b>780</b>	<b>-</b>	<b>797</b>	<b>1,577</b>

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

***Receivables and bank deposits***

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

***Liabilities per loans received***

The current liability fair value is approximate to their accounting value due to the short-term nature of these instruments. The Management Board believes that their fair value does not differ significantly from their accounting value.

***Other financial instruments***

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

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**c) Financial risk**

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

**Market risk**

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

The Company's activities are primarily exposed to the foreign currency exchange rate risk.

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

**a) Foreign currency risk management**

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

The Company exposes itself to foreign currency risk through sales, purchasing and depositing of funds denominated in foreign currencies.

The Company's exposure to foreign currency risk is as follows:

	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
<b>31 December 2015</b>	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Non-current receivables	4,025	-	-	4,025	11,144	15,169
Trade receivables	516	-	-	516	21	537
Current financial assets	241,267	-	-	241,267	-	241,267
Cash and cash equivalents	251	6	35	292	8,140	8,432
Trade payables	(61)	-	-	(61)	-	(61)
	<b>245,998</b>	<b>6</b>	<b>35</b>	<b>246,039</b>	<b>19,305</b>	<b>265,344</b>

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	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
<b>31 December 2014</b>	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK	000' HRK
Non-current receivables	4,557	-	-	4,557	15,007	19,564
Trade receivables	445	-	-	445	454	899
Current financial assets	264,321	16,657	-	280,978	1,300	282,278
Cash and cash equivalents	452	8	15	475	4,737	5,212
Trade payables	(293)	-	-	(293)	-	(293)
	<b>269,482</b>	<b>16,665</b>	<b>15</b>	<b>286,162</b>	<b>21,498</b>	<b>307,660</b>

In the above tables, receivables for apartments sold are not included in the amounts in EUR because of a contractual clause on the increase/decrease in receivables if the change in EUR currency rate is more than 5.1% compared to the currency rate that existed at the time of concluding the contracts.

**Sensitivity analysis**

The weakening of the HRK in relation to EUR for 1% (2014: strengthening od 1%), the strengthening in relation to of CHF by 11% (2014: 2%) at the date of reporting would increase/(decrease) the profit before tax by the following amounts:

	2015	2014
	Effect on income before taxes	Effect on income before taxes
	HRK'000	HRK'000
EUR	(2,461)	2,300
CHF	1	105

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

A strengthening/(weakening) of HRK against the above currencies for the same average % at the reporting date would have had the equal but opposite effect on the profit before tax, with assumption that all other variables remain constant.

**b) Interest rate risk**

The Company is not exposed to interest rate risk since it has no interest-bearing liabilities.

**Credit risk**

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses information gathered from specialized credit agencies and the Croatian Chamber of Economy, as well as other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the

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credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The age structure of trade receivables (related and unrelated) which are past due but are considered collectable are shown in the notes 22 and 23.

Liquidity risk

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

The following table shows the maturity of the Company's financial liabilities at 31 December 2015 and 2014 according to the contracted undiscounted payments:

	Carrying value	Contracted cash flows	0 – 12 Months	1 – 2 Years	2 – 5 Years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>31 December 2015</b>						
Trade and other payables	13,845	13,845	13,845	-	-	-
	<b>13,845</b>	<b>13,845</b>	<b>13,845</b>	-	-	-
	Carrying value	Contracted cash flows	0 – 12 Months	1 – 2 Years	2 – 5 Years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>31 December 2014</b>						
Trade and other payables	5,564	5,564	5,564	-	-	-
	<b>5,564</b>	<b>5,564</b>	<b>5,564</b>	-	-	-

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**36. Subsequent events**

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company for 2015, and that should, consequently, be disclosed.

**37. Approval of financial statements**

The financial statements presented on the pages above were authorised for issue by the Company's Management Board on 23 March 2016 and were signed on its behalf.

Darinko Bago

*President of the Management Board*



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