KONČAR – ELECTRICAL INDUSTRY GROUP

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2015

Content

Končar – Electrical Industry, Inc.

Responsibility for the consolidated financial statements

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 Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards endorsed for use in the European Union, which present fairly the financial position and results of Končar – Electrical Industry Inc. and its subsidiaries (the "Group") for that period.

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

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

- appropriate accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group 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 Group and must also 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management Board:

Darinko Bago, President of the Management Board

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

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

24 March 2016

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of KONČAR- Electrical Industry Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated 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 Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

PricewaterhouseCoopers d.o.o.
Zagreb, 24 March 2016

RECONSULT, d.o.o.
REVIZIJA I KONZALTING
ZAGREB

Reconsult d.o.o.
Zagreb, 24 March 2016

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 HRK	2014 HRK
Sales	3	3,049,074,117	2,648,756,225
Other operating income	4	132,638,842	182,664,973
Operating income		**3,181,712,959**	**2,831,421,198**
Changes in inventories (work in progress and finished goods)		(14,793,829)	34,110,042
Cost of materials and energy	5	(1,640,662,224)	(1,393,472,795)
Cost of goods sold		(167,474,457)	(174,074,312)
Cost of services	6	(375,575,029)	(364,312,011)
Staff costs	7	(509,926,132)	(492,282,905)
Depreciation and amortization	8	(89,518,168)	(89,495,937)
Other costs	9	(132,180,382)	(167,771,897)
Impairment losses	10	(32,634,901)	(13,848,429)
Provisions	11	(72,093,841)	(55,315,803)
Other operating expenses	12	(21,195,559)	(10,990,631)
Operating expenses		**(3,056,054,522)**	**(2,727,454,678)**
Operating profit		**125,658,437**	**103,966,520**
Finance income	13	64,630,909	53,423,921
Finance costs	14	(70,852,069)	(43,951,590)
Finance (costs)/income – net		**6,221,160**	**9,472,331**
Share in profit of investments accounted for using equity method	15	**50,117,737**	**62,643,786**
Profit before taxation		**169,555,014**	**176,082,637**
Corporate income tax	16	(18,234,642)	(15,985,686)
PROFIT FOR THE YEAR		**151,320,372**	**160,096,951**
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Gain on available-for-sale financial assets		549,795	-
Foreign exchange differences on translation of foreign operations		(31,058)	153,289
Cash flow hedge		4,734,344	(4,734,344)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**156,573,453**	**155,515,896**
Profit for the year attributable to:			
Owners of the Company		127,651,294	129,249,283
Non-controlling interest		23,669,078	30,847,668
Net profit for the period		**151,320,372**	**160,096,951**
Total comprehensive income for the year attributable to:			
Owners of the Company		130,630,134	127,185,546
Non-controlling interest		25,943,319	28,330,350
Earnings per share			
Basic and diluted earnings per share in HRK	17	49,74	50.29

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

ASSETS	Note	31 December 2015 HRK	31 December 2014 HRK
Goodwill	18	7,980,446	7,648,985
Intangible assets	19	53,288,682	44,238,283
Property, plant and equipment	20	1,004,575,879	1,046,731,243
Investment property	21	143,786,056	104,549,243
Investments in associates accounted for using the equity method	22	263,737,081	263,270,174
Financial assets	23	12,393,042	10,968,607
Receivables	24	17,595,561	23,234,086
Non-current assets		**1,503,356,747**	**1,500,640,621**
Inventories	25	502,669,833	512,675,068
Financial assets	29	399,573,719	440,129,180
Receivables from related companies	26	85,012,340	90,454,659
Trade receivables and receivables from construction contracts	27	720,175,786	861,192,402
Income tax receivable		16,428,434	17,718,232
Other receivables	28	58,164,980	82,539,693
Cash and cash equivalents	30	346,619,383	391,253,751
Prepaid costs and accrued income	31	12,077,169	15,919,363
Current assets		**2,140,721,646**	**2,411,882,348**
Non-current assets held for sale	32	5,960,000	5,960,000
TOTAL ASSETS		**3,650,038,393**	**3,918,482,969**
EQUITY AND LIABILITIES			
Share capital		1,208,895,930	1,208,895,930
Share premium		719,579	719,579
Reserves		483,706,422	400,090,992
Retained earnings		272,108,024	288,659,683
Profit for the current year		127,651,294	129,249,283
Equity attributable to owners		*2,093,081,249*	*2,027,615,467*
Non-controlling interest		228,414,785	257,389,371
TOTAL EQUITY	33	**2,321,496,034**	**2,285,004,838**
Provisions for warranty costs		234,030,916	242,214,327
Other provisions		63,919,619	61,448,509
Provisions	34	**297,950,535**	**303,662,836**
Deferred tax liability		137,449	-
Borrowings	35	142,988,558	161,907,630
Non-current liabilities		**143,126,007**	**161,907,630**
Liabilities toward related companies	36	18,304,764	40,587,416
Borrowings	37	87,973,492	143,444,866
Derivative hedge instruments	38	-	3,650,393
Trade payables	39	349,049,822	371,071,518
Liabilities under construction contracts	40	23,592,492	29,843,421
Income tax payable		4,471,611	3,547,230
Liabilities for advances received	41	182,349,546	416,855,472
Other liabilities	42	92,302,190	83,508,741
Accrued expenses and deferred income	43	129,421,900	75,398,608
Current liabilities		**887,465,817**	**1,167,907,665**
Total liabilities		**1,328,542,359**	**1,633,478,131**
TOTAL EQUITY AND LIABILITIES		**3,650,038,393**	**3,918,482,969**

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 HRK	2014 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		3,284,706,115	2,969,856,248
Cash receipts from insurance compensations		8,624,665	10,421,474
Cash receipts from tax returns		95,553,924	95,258,051
Cash receipts from interest		12,294,036	13,399,516
Other cash receipts		32,677,887	67,239,001
Total cash from operating activities		**3,433,856,627**	**3,156,174,290**
Cash payments to trade accounts payable		(2,434,570,686)	(2,139,060,318)
Cash payments to employees		(592,725,805)	(563,116,563)
Cash payments to insurance companies		(22,123,377)	(8,259,572)
Cash payments for interest		(10,608,690)	(12,844,527)
Cash payments for taxes		(140,498,545)	(145,390,711)
Other cash payments		(121,469,956)	(166,918,977)
Total cash used in operating activities		**(3,321,997,059)**	**(3,035,590,668)**
Net cash flow from operating activities		**111,859,568**	**120,583,622**
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		11,021,416	3,428,752
Cash receipts from the sale of equity and debt instruments		4,695,685	3,368,778
Receipts from dividends		63,011,096	47,746,396
Total cash from investing activities		**78,728,197**	**54,543,926**
Purchase of non-current tangible and intangible assets		(78,152,877)	(52,132,404)
Purchase of equity instruments		(69,220,012)	(64,974)
Total cash used in investing activities		**(147,372,889)**	**(52,197,378)**
Net cash flow from investing activities		**(68,644,692)**	**2,346,548**
Cash flow from financing activities			
Cash receipts from loans and borrowings		48,575,088	100,526,072
Cash receipts from repayment of term deposits and other financing activities		583,530,839	603,925,768
Cash receipts from the issuance of treasury and debt instruments		6,690	-
Total cash from financing activities		**632,112,617**	**704,451,840**
Repayment of principals of borrowings		(121,569,501)	(95,429,212)
Dividends paid		(49,352,291)	(45,286,601)
Purchase of treasury shares		2,804,803	-
Cash used for term deposits and other financing activities		(546,235,266)	(741,644,882)
Total cash used in financing activities		**(719,961,861)**	**(882,360,695)**
Net cash flow from financing activities		**(87,849,244)**	**(177,908,855)**
Total decrease in cash flow		**(44,634,368)**	**(54,978,685)**
Cash and cash equivalents at the beginning of the year		391,253,751	446,232,436
Cash and cash equivalents at the end for the year	30	**346,619,383**	**391,253,751**

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(in HRK)	Share capital	Capital reserves	Reserves from earnings	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Non-controlling interest	**Total**
As at 1 January 2014	**1,028,847,600**	**719,579**	**417,141,957**	**3,237,715**	**(3,237,715)**	**350,456,478**	**135,112,460**	**243,230,261**	**2,175,508,335**
Transactions with owners:									
Restatements	-	-	-	-	-	-	123,189	50,270	**173,459**
Allocation of profit for 2013.	-	-	55,204,734	-	-	80,030,915	(135,235,649)	-	**-**
Increase in share capital	180,048,330	-	(69,848,330)	-	-	(110,200,000)	-	-	**-**
Dividend paid	-	-	-	-	-	(30,843,095)	-	(14,389,710)	**(45,232,805)**
Formation of reserves for ow n shares from retained earnings	-	-	-	(1,898,733)	-	1,898,733	-	-	-
Share-based payments	-	-	-	-	1,898,733		-	-	**1,898,733**
Loss of control and change in ow nership structure	-	-	-	-	-	(2,795,785)	-	(62,995)	**(2,858,780)**
	180,048,330	-	*(14,643,596)*	*(1,898,733)*	*1,898,733*	*(61,909,232)*	*(135,112,460)*	*(14,402,435)*	*(46,019,393)*
Profit for the year	-	-	-	-	-	-	129,249,283	30,847,668	**160,096,951**
Other comprehensive income:									
Foreign exchange differences on translation of foreign operations	-	-	40,852	-	-	112,437	-	-	**153,289**
Loss on cash flow hedge	-	-	(2,448,221)	-	-	-	-	(2,286,123)	**(4,734,344)**
Total comprehensive income	-	-	*(2,407,369)*	-	-	*112,437*	*129,249,283*	*28,561,545*	***155,515,896***
As at 31 December 2014	**1,208,895,930**	**719,579**	**400,090,992**	**1,338,982**	**(1,338,982)**	**288,659,683**	**129,249,283**	**257,389,371**	**2,285,004,838**
Transactions with owners:									
Allocation of profit for 2014.	-	-	80,636,580	-	-	49,359,247	(129,995,827)	-	**-**
Dividend paid	-	-	-	-	-	(30,843,552)	-	(18,608,491)	**(49,452,043)**
Formation of reserves for ow n shares from retained earnings	-	-	-	2,804,802	-	(2,804,802)	-	-	-
Purchase of treasury shares	-	-	-	-	(2,804,802)	-	-	-	**(2,804,802)**
Change in ow nership structure and loss of control and	-	-	-	-	-	(32,262,552)	-	(36,550,046)	**(68,812,598)**
Restatements	-	-	-	-	-	-	746,544	240,632	**987,176**
	-	-	80,636,580	2,804,802	(2,804,802)	(16,551,659)	(129,249,283)	(54,917,905)	(120,082,267)
Profit for the year							127,651,294	23,669,078	**151,320,372**
Other comprehensive income:									-
Foreign exchange differences on translation of foreign operations	-	-	(19,166)	-	-	-	-	(11,882)	**(31,048)**
Gain on available for sale financial assets	-	-	549,795	-	-	-	-	-	**549,795**
Cash flow hw dge	-	-	2,448,221	-	-	-	-	2,286,123	**4,734,344**
Total comprehensive income	-	-	*2,978,850*	-	-	-	*127,651,294*	*25,943,319*	***156,573,463***
As at 31 December 2015	**1,208,895,930**	**719,579**	**483,706,422**	**4,143,784**	**(4,143,784)**	**272,108,024**	**127,651,294**	**228,414,785**	**2,321,496,034**

1. General information on the Group

1.1. Activities

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

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

I. Energetic and transportation: design and construction of plants for the production, transfer and distribution of electrical energy, and related equipment, locomotives, trams, and electrical equipment for stable electric traction plants;

II. Industry: electromotive drivers, electrical equipment of low and high voltage and catering equipment;

III. Trade: electrical household appliances, serial products and electrical low voltage switchgears;

IV. Special activities: research and development of products and infrastructural services.

There are 15 subsidiaries within the Group involved in core business and 2 subsidiaries with special activities, research and development of products and infrastructural services.

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

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

As at 31 December 2014 the Group had 3,666 employees, while as at 31 December 2014 the Group had 3,662 employees.

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 industry and trade activities
Miroslav Poljak	Member, in charge of corporate development and ICT
Miki Huljić	Deputy Member, in charge for finance

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.29.

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group. As at 31 December 2015, the exchange rate for USD 1 and EUR 1 was HRK 6.99 and HRK 7.635 (31 December 2014: HRK 6.30 and HRK 7.66).

New and amended standards, amendments and interpretations adopted by the Group

The Group 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 Group'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.

Standards, interpretations and amendments 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 Group. None of these is expected to have significant effect on the Group's financial statements, except for the following standards:

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

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

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

Key changes to current practice are:

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

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

Management is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:

- The point of revenue recognition in the case of contracting projects without margin
- Extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue

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

b) *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 compete.

Following the changes approved by the IASB in December 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 hedging rules align hedge accounting more closely with the group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation, The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules

The Management plans to adopt the standard on its effective date and when endorsed by the European Union.

c) *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 of 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

2.2 Basis for consolidation

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries/loss of control over subsidiaries

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

2.3 Investments in associates and joint ventures

Associates

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

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

The Group’s share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate,

including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

Joint arrangements

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

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

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

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

2.4 Business combinations

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

Goodwill

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

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

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

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

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

2.5 Revenue recognition

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

Revenues from the sale of goods and finished products are recognized when all of the following conditions have been met:

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

Income from services is recognized in the period when the services have been rendered by the stage of completion method. Stage of completion is determined on the basis of share of service costs incurred until certain date in the total estimated service costs.

2.6 Finance income and costs

Finance income and costs comprise interest on loans calculated using the effective interest rate method, receivables for interest on investments, revenues from dividends, gains and losses from exchange rate differences, gains and losses from financial assets at fair value through profit and loss.

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in Notes 14 and 15 in gross amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

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

2.7 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by the reference to the stage of completion of the contract activity at the end of the reporting period, on the basis of the share of costs incurred to that date in total estimated contract costs. Variations in contract work, claims and incentive payments are included in contract revenue to the extent agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognized only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expense in the period in which are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

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

2.9 Borrowing costs

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

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

2.10 Foreign currency transactions

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

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

2.11 Income tax

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

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

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

Current and deferred tax are recognised as income or expense in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

2.12 Earnings per share

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

2.13 Related-party transactions

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

2.14 Segment information

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

During the identification of business segments, the Management mostly follows sales of goods and provision of services within certain economic area. Each of these business segments are separately managed since they are determined on the basis of specific market needs.

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

Furthermore, assets which cannot be directly attributable to certain business segments remain un-allocated.

There were no changes in the valuation methods used in the determination of profit or loss of business segment in comparison to previous periods.

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

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

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

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

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

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

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

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

Impairment of property, plant and equipment

The 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, on the basis of external and internal sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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

During the determination of impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are changed.

The recoverable amount is the higher of the fair value less costs to sell and value in use.

If the amount of a tangible asset is higher than its recoverable amount, the difference is charged to the current result (impairment loss on assets).

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

2.16 Investment property

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

2.17 Non-current assets held for sale

Non-current assets classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale when its carrying value will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition. Assets which are once classified as held for sale are no longer depreciated.

2.18 Financial assets and financial liabilities

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, 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 following categories:

- At fair value through profit or loss (FVTPL) – Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.
- Held to maturity – financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale – are non-derivative financial assets determined as such or financial assets which cannot be included within above determined categories. AFS is stated at fair value,

gains and losses arising from changes in fair value are recognized directly in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income is included in profit or loss for the period.

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

When the Group derecognises a financial asset in its entirety, the difference between the carrying amount and sum of consideration received and the consideration receivable and cumulative gains (losses), recognised in other comprehensive income, is transferred from equity to profit or loss.

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

Capital reserves includes share premium arising from the share issue. Incremental costs directly attributable to equity transaction (issue of ordinary shares) are accounted for as a deduction from equity.

Reserves are stated at nominal amounts representing allocation of retained earnings, especially legal reserves, statutory reserves and other reserves.

Share repurchase (treasury shares)

The consideration paid for the repurchase of the Group'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. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury share is recognised directly in 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 of a contractual obligation

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

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

Financial liabilities at fair value through profit and loss - Financial liabilities are classified as "at fair value through profit or loss" where the financial liability is either held for trading or it is designed as "at fair value through profit or loss". Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities – including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method, with 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 exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

2.19 Inventories

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

Semi-finished and finished products include the costs of raw materials, labour and overhead expenses allocated on the basis of normal capacity. Cost is calculated using the weighted average method.

Net realizable value is estimated selling price in an ordinary course of the business decreased by estimated completion costs and estimated selling costs.

In the cases when it is necessary to bring the inventory value at its net selling price the Group makes inventory value adjustments recognized as an expense in the profit and loss for the current year.

Small inventory, packaging and tyres are fully depreciated when put into use.

2.20 Receivables

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

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

2.21 Cash and cash equivalents

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

2.22 Trade payables

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

2.23 Borrowings

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

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

2.24 Government grants

Government grants are not recognized until there is a reasonable assurance that the Group will meet all requirements defined in the subsidy contract and that the grant will be received.

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets, are recognized as deferred income in the balance sheet and released in the income statement on a systematic and appropriate basis in accordance with the useful life of that asset. Government grants are recognized as income during the period to match related costs on a systematic basis.

Government grants received as compensation for expenses or losses already incurred, or for the purpose of immediate financial support to the Group without further related costs, are recognized in the income statement in the period when received.

2.25 Provisions

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

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

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

2.26 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits - bonuses

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

(iv) Share-based payments

The Parent company operates an equity-settled, share-based compensation plans. The total amount to be expensed over the vesting period and the amount that is credited to the equity is determined by the reference to the fair value of the options granted. The fair value of the equity accounted instruments is measured at the grant date. At each reporting date, management revises its estimate of options which complies with conditions for the acquisition of rights and makes necessary adjustments.

2.27 Contingent assets and liabilities

Contingent liabilities are not recognised in the Group's consolidated financial statements, but only disclosed in the notes to the financial statements.

Contingent assets are not recognised in the Group's consolidated financial statements, but only recognised when an inflow of economic benefits is virtually certain.

2.28 Events after the balance sheet date

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

2.27 Significant accounting estimates

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

a) Impairment of inventories

The Groups performs impairment of inventories for all inventories whose carrying amount exceeds their market value, i.e. realisable value, on the basis of direct review of inventories and management's estimation of the slow-moving inventory, inventory inadequate in technological sense, un-functional or inventory which can no longer be used in the production or realisable on the market.

b) Provisions for warranty periods

The Group provides warranties for its products for a period of 1 – 5 years. Management estimates a provision for future warranty fees based on historical information. Companies within the Group continuously take actions in order to decrease the exposure to contingent liabilities on the basis of warranties issued.

c) Estimation of construction contracts costs

The Group companies, which recognize revenues in accordance with IAS 11 Construction contracts (contracts which relate to different accounting periods), use the percentage of completion method when recognising its operating income. Using this method requires an estimation of contract costs incurred for work performed to that date, compared to the total estimated contract costs (projects).

2.28 Subsidiaries:

	31 December 2015		31 December 2014	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar – Household Appliances Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar – Small Electrical Machines Inc., Zagreb	100.00	100.00	100.00	100.00
Končar – Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00	100.00	100.00
Končar – Infrastructure and Services Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar – Electrical Engineering Institute Inc., Zagreb	100.00	100.00	100.00	100.00
Končar – Low Voltage Switches and Circuit Breakers Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar – Generators and Motors Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar – Renewable Sources Ltd., Zagreb	100.00	100.00	100.00	100.00
Direct ownership	*85.27*	*85.27*	*85.27*	*85.27*
Indirect ownership	*14.73*	*14.73*	*14.73*	*14.73*
Končar – Electrical 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., Sesvetski 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	98.25
Končar – Engineering for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05
Consolidated subsidiary registered abroad:				
Kones AG, Zurich, Switzerland	-	-	100.00	100.00
Non-consolidated subsidiaries:				
Konell Ltd., Sofia, Bulgaria*	85.00	85.00	85.00	85.00
Končar-Inženjering Inc., Zagreb*	100.00	100.00	100.00	100.00

Non-consolidated subsidiaries are not consolidated since they are insignificant on the Group level.

* companies in indirect ownership by the Company

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

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

These three companies represent 74% of the total amount of the Group's non-controlling interest at the balance sheet date.

Summary of the stated companies with significant non-controlling interests are presented below:

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR MI Inc.	
	2015	2014	2015	2014	2015	2014
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Statement of comprehensive income						
Income	811,522	736,526	200,344	209,362	72,150	91,809
Expenses	(780,553)	(708,776)	(186,168)	(190,444)	(70,885)	(89,538)
Profit before tax	30,969	27,750	14,176	18,918	1,265	2,271
Income tax	(905)	(491)	(3,174)	(4,865)	(360)	(618)
Profit after taxation	**30,064**	**27,259**	**11,002**	**14,053**	**905**	**1,653**
Statement of financial position						
Non-current assets	153,542	163,367	54,350	46,970	9,216	9,335
Current assets	405,224	401,143	120,219	121,302	28,360	28,308
Total assets	**558,766**	**564,510**	**174,569**	**168,272**	**37,576**	**37,643**
Total liabilities	**309,171**	**338,809**	**83,434**	**82,646**	**17,431**	**17,244**
Cash flow						
Cash flow from operating activities	75,673	(12,384)	3,263	29,225	2,981	5,651
Cash flow from investing activities	(6,354)	(9,310)	(8,332)	(2,362)	(446)	(116)
Cash flow from financing activities	(57,476)	2,254	(9,075)	(14,231)	(1,157)	(2,662)
Net increase/decrease in cash	11,843	(19,440)	(14,144)	12,632	1,378	2,873
Cash at the beginning of the period	33,493	52,933	24,962	12,330	6,950	4,077
Cash at the end of the period	**45,336**	**33,493**	**10,817**	**24,962**	**8,328**	**6,950**

Associates:

	31 December 2015 Share in ownership (%)	31 December 2014 Share in ownership (%)
Associates accounted for by using equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon Ltd., Zagreb*	50.00	50.00
Joint venture accounted for by using equity method:		
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00

* company in indirect ownership by the Company

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

3. Sales

	2015 HRK	**2014** HRK
Domestic sales	1,632,098,951	1,297,878,613
Foreign sales	1,306,642,875	1,242,311,994
Sales to associates	110,332,291	108,565,618
	3,049,074,117	**2,648,756,225**

Segment information is presented in Note 45.

4. Other operating income

	2015 HRK	**2014** HRK
Income from the release of provisions (Note 34)	46,654,486	86,154,046
Income from the release of accrued expenses	21,028,334	19,100,092
Income from insurance claims	12,142,468	5,808,246
Income from sale of materials	5,572,792	4,930,417
Income from subsequent rebates, bonuses and similar	3,497,103	1,778,764
Collected receivables previously written off	3,202,490	7,006,727
Rent income	2,803,734	2,556,689
Inventory surpluses	1,665,114	1,035,085
Write-off of liabilities	37,310	6,211,271
Income from recognised legal claim	-	12,806,075
Other income	36,035,011	35,277,561
	132,638,842	**182,664,973**

5. Costs of materials and energy

	2015	2014
	HRK	HRK
Raw materials and supplies	1,578,728,662	1,333,574,071
Energy costs	46,656,504	45,831,834
Small inventory	13,845,799	12,543,218
Spare parts	1,431,259	1,523,672
	1,640,662,224	**1,393,472,795**

6. Cost of services

	2015	2014
	HRK	HRK
External products design and selling services	153,748,404	145,945,064
Maintenance	38,824,105	32,539,854
Costs of telephone, post and transportation	32,173,286	38,052,558
Intellectual and similar services	21,405,345	22,660,633
Entertainment costs	14,103,690	14,486,833
Utilities costs	10,044,544	9,356,306
Costs of research and development	6,740,209	10,301,110
Lease and rentals	5,586,146	4,518,810
Advertising services and trade fairs	5,352,439	5,796,406
Education	4,035,169	5,008,681
Other external costs	83,561,692	75,645,756
	375,575,029	**364,312,011**

7. Staff costs

	2015	2014
	HRK	HRK
Net wages and salaries	288,931,225	272,181,773
Taxes and contributions from salaries	147,323,004	149,464,211
Contributions on salaries	73,671,903	69,931,202
Share-based payment options	-	705,719
	509,926,132	**492,282,905**

Net wages and salaries in the amount of HRK **288,931,225** (2014: HRK 272.181.773) include compensations to the Management Board of the Company and other related companies in the amount of HRK 15,037,579 (2014: HRK 15,162,812) and accrued bonuses for the Management Board in the amount of 6,496,528 (2014: HRK 6,581,408), and are an integral part of staff costs.

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business trips) in the amount of HRK 68,702 thousand (2013: HRK 74,168 thousand) are presented in Note 9.

8. Depreciation and amortization

	2015	2014
	HRK	HRK
Depreciation of property, plant and equipment (note 20)	82,314,357	83,352,257
Amortization of intangible assets (note 19)	7,194,008	6,133,877
Depreciation of investment property (note 21)	9,803	9,803
	89,518,168	**89,495,937**

9. Other costs

	2015	2014
	HRK	HRK
Travelling costs and per diems	43,334,581	45,104,832
Compensations to employees, gifts and supports	25,367,334	29,063,032
Bank charges	20,823,773	18,120,266
Insurance premiums	15,744,656	14,794,808
Compensations to members of the Supervisory Board	6,428,958	6,229,075
Contributions, membership fees and similar duties	2,307,245	3,425,852
Taxes independent the results and similar costs	3,938,413	2,219,675
Sponsorships and donations	1,981,303	2,484,388
Costs of legal claims	-	33,817,538
Other	12,254,119	12,512,431
	132,180,382	**167,771,897**

10. Impairment losses

	2015	2014
	HRK	HRK
Impairment losses on non-current assets		
Impairment losses on tangible assets	7,947,789	-
Impairment losses on intangible assets	730	-
	7,948,519	**-**
Impairment losses on current assets		
Bad debt provision	6,961,016	3,336,201
Inventory provision	17,725,366	10,512,228
	24,686,382	**13,848,429**
	32,634,901	**13,848,429**

11. Provisions

	2015	**2014**
	HRK	HRK
Provisions for servicing costs within warranty periods – non-current (note 34)	48,990,437	44,431,946
Provisions for retirement and jubilee awards (note 34)	9,255,523	5,592,734
Provisions for legal claims (note 34)	1,277,948	645,931
Other non-current and current provisions	12,569,933	4,645,192
	72,093,841	**55,315,803**

Movement in non-current provisions is presented in Note 34.

12. Other operating expenses

	2015	**2014**
	HRK	HRK
Penalties, compensations and similar	19,044,446	4,343,784
Inventory shortages	893,884	1,490,749
Receivables write-off	-	2,440,201
Other operating expenses	1,257,229	2,715,897
	21,195,559	**10,990,631**

13. Finance income

	2015	**2014**
	HRK	HRK
Relations with related parties		
Dividend income	-	79,912
	-	*79,912*
Relations with unrelated parties		
Interest income	12,520,167	17,216,342
Foreign exchange gains	47,729,914	28,785,099
Dividend income	1,787,908	2,484,169
Other finance income	1,272,299	987,933
	63,310,288	*49,473,543*
Unrealised gains	*1,320,621*	*3,870,466*
	64,630,909	**53,423,921**

14. Finance costs

	2015	2014
	HRK	HRK
Interest, foreign exchange differences, dividends and similar income from relations with unrelated parties		
Interest expense	12,277,433	13,150,141
Foreign exchange losses	57,291,698	30,128,494
Other finance costs	883,946	672,955
	70,453,077	*43,951,590*
Unrealised losses		
Impairment losses on non-current financial assets	398,992	-
	398,992	-
	70,852,069	**43,951,590**

15. Share in profit of associate/joint venture

The share in profit of associates in the amount of HRK 50,117,737 (2014: HRK 62,643,786) relates to the share in profit of the company Končar – Power Transformers Ltd. in which the Group owns a share of 49% in the amount of HRK 48,458,448 (2014: HRK 60,079,592), to the share in profit of the company Elkakon Ltd. in which the Group indirectly owns 50% share in the amount of HRK 370,388 (2014: HRK 739,240) and to the share in profit of a joint venture – the company Tbea Končar Instrument Transformers Ltd., China in the amount of HRK 1,288,901 (2014: HRK 1,824,954).

The above mentioned companies realized a total net profit in 2015 as follows:

- Power Transformers Ltd. HRK 98,894,791 (2014: HRK 122,611,412)
- Elkakon Ltd. HRK 740,775 (2014: HRK 1,478,480)
- Tbea Končar Instrument Transformers Ltd. HRK 4,773,706 (2014: HRK 6,759,088).

16. Corporate income tax

Calculation of corporate income tax liability for the year ended 31 December was as follows:

	2015	2014
	HRK	HRK
Consolidated profit before tax	169,555,014	176,082,637
Corporate income tax at rate of 20%	**33,911,003**	**35,216,527**
Tax effects from:		
Consolidation adjustments	(1,806,447)	(15,637,369)
Tax non-deductible expenses	9,697,655	3,996,733
Tax decreases	(9,175,539)	(5,161,447)
Utilisation of previously unrecognised tax assets	(1,648,940)	-
Income tax in foreign branches	451,384	354,944
Investment incentives	(13,194,474)	(2,783,702)
Income tax	**18,234,642**	**15,985,686**

The Group can carry forward tax losses for companies which incurred losses in 2015 and which had no tax liability and from subsidiaries who realized profit in 2015 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2015 unrecognized tax asset on tax losses carried forward amounts to HRK 33,061 thousand (31 December 2014: HRK 39,096 thousand).

Gross tax losses expire as follows:

	31 December 2015 HRK	31 December 2014 HRK
31 December 2015	-	33.567.215
31 December 2016	22,284,725	22.606.536
31 December 2017	38.115.573	40.081.891
31 December 2018	57.475.666	61.270.532
31 December 2019	20.008.425	22.951.369
31 December 2020	27.423.592	-
	165.307.981	**180.477.543**

Deferred tax asset on the basis of tax losses carried forward has not been recognized in the financial statements due to uncertainty of their usage in future periods.

To date, the Tax Authority did not perform a review of the income tax return of the Group companies. In accordance with local regulations, the Tax Authority may at any time inspect the Group 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 Group companies’ Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

17. Earnings per share

Basic and diluted earnings per share

	2015	**2014**
	HRK	HRK
Net profit attributable to owners of the parent	127,651,294	129,249,283
Weighted average number of shares (decreased by treasury shares)	2,566,258	2,570,258
Earnings per share in HRK	**49.74**	**50.29**

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

18. Goodwill

Goodwill amounting to HRK 7,980,446 (2014. 7,648,985) relates to goodwill recognized in business combinations when the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc and Končar - Engineering for Plant Installation & Commissioning Inc have been acquired). Movement in goodwill during the year was as follows:

	Goodwill
	HRK
As at 1 January 2014	**7,646,618**
Increase	2,367
As at 31 December 2014	**7,648,985**
Increase	331,461
As at 31 December 2015	**7,980,446**

The Company's management estimates there is no need to impair goodwill at the reporting date since all ~~four~~ three companies are profitable and realised income as planned.

19. Non-current intangible assets

	Development expenditure	Concessions, patents, software and other rights	Other	Intangible assets under construction	Advance payments	Total
	HRK	HRK	HRK	HRK	HRK	HRK
Cost						
As at 1 January 2014	**82,208,776**	**24,854,520**	**1,176,211**	**9,636,809**	-	**117,876,316**
Reclassifications and transfers	-	-	-	(431,459)	-	**(431,459)**
Transfer from assets under construction	1,310,413	1,549,486	-	(2,859,899)	-	-
Additions	4,074,251	1,284,698	304,249	14,825,260	3,200,794	**23,689,252**
Disposals	(12,011,052)	(543,865)	(2,674)	(431,222)	(409,322)	**(13,398,135)**
As at 31 December 2014	**75,582,388**	**27,144,839**	**1,477,786**	**20,739,489**	**2,791,472**	**127,735,974**
Reclassifications and transfers	(166,338)	(294,117)	-	(18,021)	-	**(478,476)**
Transfer from assets under construction	31,694,072	1,139,402	-	(32,833,474)	-	-
Additions	1,335,837	621,205	34,940	19,932,048	1,952,746	**23,876,776**
Disposals	(117,303)	(98,486)	-	(2,319,175)	(4,744,218)	**(7,279,182)**
As at 31 December 2015	**108,328,656**	**28,512,843**	**1,512,726**	**5,500,867**	-	**143,855,092**
Accumulated amortisation						
As at 1 January 2014	**69,710,671**	**17,929,535**	**864,424**	-	-	**88,504,630**
Amortisation for the year	3,621,084	2,417,112	95,681	-	-	**6,133,877**
Disposals	(10,723,450)	(417,366)	-	-	-	**(11,140,816)**
As at 31 December 2014	**62,608,305**	**19,929,281**	**960,105**	-	-	**83,497,691**
Amortisation for the year	4,605,539	2,440,563	147,906	-	-	**7,194,008**
Disposals	(27,533)	(97,756)	-	-	-	**(125,289)**
As at 31 December 2015	**67,186,311**	**22,272,088**	**1,108,011**	-	-	**90,566,410**
Net book amount						
As at 31 December 2014	12,974,083	7,215,558	517,681	20,739,489	2,791,472	44,238,283
As at 31 December 2015	**41,142,345**	**6,240,755**	**404,715**	**5,500,867**	-	**53,288,682**

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2015 amounts to HRK 62,441 thousand (2014: HRK 62,297 thousand).

20.Property, plant and equipment

(in HRK)	Land	Buildings	Plant & equipment	Tools and office equipment	Other	Assets under construction	Advance payments	Total
As at 1 January 2014	**160,269,850**	**966,808,927**	**978,451,815**	**361,434,651**	**2,714,626**	**15,862,148**	**14,613,042**	**2,500,155,059**
Transfer from assets under construction	-	11,605,545	34,469,169	11,269,231	-	(55,510,528)	(1,833,417)	-
Additions	-	824,849	2,360,075	5,799,207	-	83,729,777	18,163,049	**110,876,957**
Loss of control over companies	(2,015,923)	(11,711,983)	(9,390,450)	(11,079,147)	-	-	-	**(34,197,503)**
Sale or disposal	(702,258)	(10,803,814)	(2,616,647)	(5,446,233)	-	-	(25,774,973)	**(45,343,925)**
As at 31 December 2014	**157,551,669**	**956,723,524**	**1,003,273,962**	**361,977,709**	**2,714,626**	**44,081,397**	**5,167,701**	**2,531,490,588**
Reclassifications	2,389,916	(506,020)	(3,581,972)	1,968,243	(114,902)	402,484	(402,485)	**155,264**
Transfer from assets under construction	1,353,030	6,001,450	47,761,536	8,651,307	-	(63,767,323)	-	-
Additions	12,847	4,853,994	8,138,162	6,405,931	-	83,581,076	12,168,180	**115,160,190**
Transfer	-	-	(4,711,117)	4,711,117	-	-	-	-
Transfer to investment property	(11,768,723)	(70,597,595)	-	-	-	(3,659,820)	-	**(86,026,138)**
Sale or disposal	(862,066)	(225,727)	(23,001,639)	(7,983,565)	(2,154)	(3,236,070)	(14,724,185)	**(50,035,406)**
As at 31 December 2015	**148,676,673**	**896,249,626**	**1,027,878,932**	**375,730,742**	**2,597,570**	**57,401,744**	**2,209,211**	**2,510,744,498**
Accumulated depreciation								
As at 1 January 2014	-	**576,935,522**	**578,786,332**	**287,105,010**	**2,007,992**	**3,760,872**	-	**1,448,595,728**
Depreciation for the year	-	21,859,316	44,047,765	17,433,698	11,478	-	-	**83,352,257**
Additions	-	(1,286,717)	-	-	-	-	-	**(1,286,717)**
Sale or disposal	-	(7,280,286)	(5,939,938)	(4,974,788)	-	(346,687)	-	**(18,541,699)**
Loss of control over companies	-	(8,003,309)	(8,731,148)	(10,625,767)	-	-	-	**(27,360,224)**
As at 31 December 2014	-	**582,224,526**	**608,163,011**	**288,938,153**	**2,019,470**	**3,414,185**	-	**1,484,759,345**
Reclassifications	-	-	(3,557,000)	3,557,000	-	-	-	-
Depreciation for the year	-	21,287,159	42,870,364	18,147,923	8,911	-	-	**82,314,357**
Impairment of assets	-	-	4,843,641	3,143,508	-	-	-	**7,987,149**
Additions	-	56,018	4,002,938	-	-	-	-	**4,058,956**
Transfer to investment property	-	(46,779,522)	-	-	-	-	-	**(46,779,522)**
Sale or disposal	-	(140,672)	(18,292,729)	(7,702,182)	(2,153)	(33,930)	-	**(26,171,666)**
As at 31 December 2015	-	**556,647,509**	**638,030,225**	**306,084,402**	**2,026,228**	**3,380,255**	-	**1,506,168,619**
Net book amount								
31 December 2014	157,551,669	374,498,998	395,110,951	73,039,556	695,156	40,667,212	5,167,701	1,046,731,243
31 December 2015	**148,676,673**	**339,602,117**	**389,848,707**	**69,646,340**	**571,342**	**54,021,489**	**2,209,211**	**1,004,575,879**

As a collateral for long-term borrowings (Note 35) and short-term borrowings, on assets current value of HRK 494,412 thousand (2014: 509,816 thousand), (Note 37) mortgages have been registered over the real estates and movables of the Group in the amount of HRK 214 (2014: HRK 571,5 million) and EUR 43,2 million (2014: EUR 57.2 million).

The cost of the Group's tangible assets which are fully depreciated and still in use as of 31 December 2015 amounts to HRK 704,757 thousand (31 December 2014: HRK 610,940 thousand).

As at 31 December 2015 the Group had no contracted uncompleted investments.

The carrying value of Group's assets purchased on finance lease as at 31 December 2015 amounts to HRK 1.7 million (31 December 2014: HRK 1.9 million).

21. Investment property

Investment property in the amount of HRK 143,786,056 (2014: HRK 104,549,243) relates to the investments in properties for capital appreciation, intended for future sale. A portion of properties is subject to legal disputes over ownership. The residual value of this property estimated by independent evaluators is higher than their carrying amount, and it represents the basis for depreciation.

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):

	Land	**Buildings**	**Total**
	HRK	**HRK**	**HRK**
Cost			
At 1 January 2014	**32,676,984**	**92,860,994**	**125,537,978**
Additions	702,258	10,613,344	11,315,602
At 31 December 2014	**33,379,242**	**103,474,338**	**136,853,580**
Reclassification (transfer from property, plant and equipment)	11,768,723	74,257,415	86,026,138
At 31 December 2015	**45,147,965**	**177,731,753**	**222,879,718**
Accumulated depreciation			
At 1 January 2014	**-**	**25,171,035**	**25,171,035**
Additions	-	7,123,499	7,123,499
Depreciation charge for the year	-	9,803	9,803
At 31 December 2014	**-**	**32,304,337**	**32,304,337**
Reclassification (transfer from property, plant and equipment)	-	46,779,522	46,779,522
Depreciation charge for the year	-	9,803	9,803
At 31 December 2015	**-**	**79,093,662**	**79,093,662**
Net carrying value			
31 December 2014	33,379,242	71,170,001	104,549,243
31 December 2015	**45,147,965**	**98,638,091**	**143,786,056**

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

22. Investments accounted for using the equity method

	31 December 2015 HRK	31 December 2014 HRK
Associates:		
Končar – Power Transformers Ltd., Zagreb (49%)	244,722,545	244,722,545
Other associates (indirect subsidiaries):		
Elkakon Ltd., Zagreb (50% - indirect)	4,194,161	4,198,513
Joint venture:		
Tbea Končar Instrument Transformers, China (27%)	14,820,375	14,349,116
	263,737,081	**263,270,174**

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

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

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

Summary information for associates are shown in the following table:

	Končar - Power Transformers Ltd.		**Elkakon Ltd.**	
	2015 HRK'000	**2014 HRK'000**	**2015 HRK'000**	**2014 HRK'000**
Revenues	871,481	1,001,459	62,038	67,048
Expenses	747,650	(848,102)	61,112	(65,249)
Profit before taxation	123,831	153,357	926	1,799
Corporate income tax	(24,936)	(30,746)	(185)	(321)
Net profit for the year	**98,895**	**122,611**	**741**	**1,478**
Non-current assets	196,680	203,909	5,903	5,654
Current assets	825,182	853,587	12,884	14,094
Total assets	**1,021,861**	**1,057,496**	**18,787**	**19,748**
Total liabilities	**423,533**	**435,451**	**10,398**	**11,400**

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

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

	Tbea Končar Instrument Transformers Ltd.	
	2015	**2014**
	HRK'000	**HRK'000**
Revenues	203,698	162,506
Expenses	(198,064)	(153,459)
Profit before taxation	5,634	9,047
Corporate income tax	(860)	(2,288)
Net profit for the year	**4,774**	**6,759**
Non-current assets	9,241	12,616
Current assets	218,748	156,120
Total assets	**227,989**	**168,736**
Total liabilities	**159,936**	**105,584**

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

	Power Transformers Ltd.	**Elkakon Ltd.**
	HRK	**HRK**
1 January 2014	**244,722,545**	**3,567,965**
Profit of an associate (Note 15)	60,079,592	730,548
Dividend payment by associate	(60,079,592)	(100,000)
31 December 2014	**244,722,545**	**4,198,513**
Profit of an associate (Note 15)	48,458,448	345,648
Dividend payment by associate	(48,458,448)	(350,000)
31 December 2015	**244,722,545**	**4,194,161**

Movements in investment in a joint venture were as follows:

	HRK
1 January 2014	**9,963,799**
Profit of joint venture (Note 15)	1,824,954
Dividend payment by joint venture	(854,219)
Increase in value of investment in joint venture in China – partial reversal of impairment loss	3,414,581
31 December 2014	**14,349,115**
Profit of joint venture (Note 15)	1,288,902
Dividend payment by joint venture	(786,593)
Foreign currency from translation of foreign operation through other comprehensive income	(31,049)
31 December 2015	**14,820,375**

23. Non-current financial assets

	31 December 2015	31 December 2014
	HRK	HRK
Other subsidiaries (indirect subsidiaries):		
Končar-Inženjering Inc., Zagreb	227,787	227,787
Konel Ltd., Bulgaria	62,280	62,280
	290,067	**290,067**
Financial assets available for sale (shares in capital up to 20%):		
Novi Fermot Ltd., Donji Kraljevec	1,717,200	1,717,200
Ferokotao Ltd., Donji Kraljevec	1,048,128	1,048,128
Centar proizvodnog strojarstva i analitičarstva Ltd.	60,000	60,000
Pevec d.d.	699,715	-
Bio plinifikacija	-	10,000
	3,525,043	**2,835,328**
Financial assets at fair value through profit or loss:		
Derivative instruments	1,096,865	-
Shares	5,167,870	5,191,669
Impairment of shares	(3,121,924)	(2,722,855)
	3,142,811	**2,468,814**
Loans granted, deposits and similar	**5,421,451**	**5,346,633**
Other financial assets	**13,670**	**27,765**
	12,393,042	**10,968,607**

24. Non-current receivables

	31 December 2015 HRK	31 December 2014 HRK
Receivables on the basis of credit sale		
Receivables for apartments sold /i/	10,834,147	13,545,987
Impairment of receivables for apartments sold	(1,941,128)	(3,180,752)
Receivables for shares sold /ii/	6,862,225	10,293,339
Current portion – apartments and shares sold (Note 28)	(4.639.556)	(5.702.319)
Other receivables	27,503	50,049
	11,143,191	**15,006,304**
Receivables on the basis of foreign sales /iii/	4,541,607	5,002,565
Current portion of foreign sales (Note 27)	(516,092)	(445,241)
Loans granted to employees	3,028,498	4,409,133
Current portion of loans grated to employees (note 29)	(690,264)	(858,287)
Other non-current receivables	88,621	119,612
	6,452,370	**8,227,782**
	17,595,561	**23,234,086**

/i/ In accordance with the Law on Sale of apartments with Tenancy Rights, the flats owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables are increased or decreased, if the exchange rate of EUR is changed for 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 into EUR at fixed rate of 1 EUR =1.95583 DEM. As a collateral the mortgage has been registered over the sold apartments.

/ii/ Receivables for sold shares relate to long-term receivable for sold shares in subsidiaries Končar-Electronics and Informatics Inc., Končar - Electric Vehicles Inc and Končar – Steel Structures Inc. within the employee's stock-ownership program and with instalment payments through 10 years.

/iii/ Receivable on the basis of foreign sales relates to receivable for the sale in Bosnia and Herzegovina from the customer TAKRAF from Germany, assigned to KfW Bank, Berlin.

25. Inventories

	31 December 2015 HRK	31 December 2014 HRK
Raw materials and supplies	338,206,266	294,146,538
Work in progress	107,952,818	116,321,737
Unfinished and semi-finished products	39,866,452	46,483,897
Finished goods	63,566,763	78,550,983
Merchandise	20,405,456	18,605,714
Goods in transit	1,018,852	267,011
Spare parts	135,356	136,585
Small inventory and packaging	3,702,889	3,124,717
Less: Impairment of raw materials and supplies, spare parts, and small inventory and packaging	(62,110,156)	(50,302,024)
Impairment of work in progress, finished goods and merchandise	(14,998,329)	(23,403,795)
	497,746,367	**483,931,363**
Advances for inventories		
Domestic advances	2,443,527	9,331,367
Advances given to related parties	44,769	-
	2,488,296	**9,331,367**
Foreign advances	2,557,488	19,575,726
Impairment of advances given	(122,318)	(163,388)
	2,435,170	**19,412,338**
Total advances	**4,923,466**	**28,743,705**
	502,669,833	**512,675,068**

Cost of goods sold recognized in the income statement in 2015 amounted to HRK 1,986,632 thousand (2014: HRK 1,456,653 thousand).

26. Receivables from related parties

	31 December 2015 HRK	31 December 2014 HRK
Končar- Power Transformers Ltd., Zagreb	77,431,133	78,586,504
TBEA China	1,914,928	1,955,031
Elkakon Ltd. Zagreb	5,666,279	6,728,401
Konell Ltd.	-	3,184,723
	85,012,340	**90,454,659**

27. Trade receivables and gross amounts due from customers

	31 December 2015	31 December 2014
	HRK	HRK
Trade receivables (invoiced) /i/	603,486,715	686,692,767
Receivables under construction contracts (un-invoiced) /ii/	116,689,071	174,499,635
	720,175,786	**861,192,402**

/i/ Trade receivables

	31 December 2015	31 December 2014
	HRK	HRK
Domestic customers	372,319,659	418,250,410
Bad debt provision	(41,546,392)	(47,612,063)
Total domestic customers	**330,773,267**	**370,638,347**
Foreign customers	375,537,440	416,064,740
Current portion – foreign sales (Note 24)	516,092	445,241
Bad debt provision	(103,340,084)	(100,455,561)
Total foreign customers	**272,713,448**	**316,054,420**
Total domestic and foreign customers	**603,486,715**	**686,692,767**

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

			Due but collectible				
	Total	**Undue**	< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2015	**603,486,715**	504,740,591	71,277,931	8,826,592	6,284,810	9,748,366	2,608,425
2014	**686,692,767**	607,590,081	56,965,752	7,517,185	5,745,273	7,938,806	935,670

The quality of receivables that are past due but not impaired did not significantly change and they are considered collectible. The maximum exposure to credit risk at the balance sheet date is the carrying amount of each receivables category stated above.

Movement in the bad debt allowance was as follows:

	2015	2014
	HRK	HRK
Balance as at 1 January	**148,067,624**	**160,683,554**
Impaired during the year	5,884,688	2,896,855
Collected during the year	(3,163,475)	(5,155,332)
Written – off during the year	(5,462,428)	(10,675,625)
Foreign exchange differences	(439,933)	318,172
Balance as at 31 December	**144,886,476**	**148,067,624**

/ii/ Gross amounts due from customers

	31 December 2015 HRK	31 December 2014 HRK
Incurred costs plus recognized gains less recognized losses	1,140,854,987	802,047,107
Less invoiced amounts	(1,024,165,916)	(627,547,472)
	116,689,071	**174,499,635**

The amount of construction contract revenues, which are recognized as revenues in 2015, amount to HRK 1,089,466 thousand (2014: HRK 575,366 thousand). The total amount of advances received for contracts which are not completed as at 31 December 2015 amounts to HRK 88,304 thousand (2014: HRK 349,336 thousand), and total amount of retentions for construction contracts amounts to HRK 15,843 thousand (2014: HRK 36,576 thousand).

28. Other receivables

	31 December 2015 HRK	31 December 2014 HRK
Receivables from the state and other institutions		
Receivables for value added tax	12,588,497	28,201,336
Receivables from Croatian Health Insurance Fund	647,721	538,928
Other	78,133	37,581
	13,314,351	**28,777,845**
Other current receivables		
Receivables for shares sold (due)	10,750,238	10,247,847
Receivables for advances given for services	6,546,747	11,937,091
Receivables from companies that are no longer part of the Group	8,760,765	11,221,376
Receivables for recognised claims	8,292,699	8,292,699
Other	3,024,287	4,758,511
Current portion of receivables for shares sold (Note 24)	3,431,113	4,348,973
Receivables for apartments sold (current portion) (note 24)	1,208,443	1,353,346
Current portion of loans granted to employees (Note 24)	690,264	862,287
Receivables loans granted to employees	29,181	22,244
	42,733,737	**53,044,374**
Receivables from employees		
Receivables from employees	2,444,365	1,044,945
Impairment of receivables from employees	(327,471)	(327,471)
	2,116,894	**717,474**
	58,164,982	**82,539,693**

29. Current financial assets

	31 December 2015 HRK	31 December 2014 HRK
Deposits over 3 months	398,936,121	438,529,339
Derivative financial instruments – forward contracts	636,254	297,729
Loans given (7%)	-	1,300,000
Other financial assets	1,344	2,112
	399,573,719	**440,129,180**

The contractual interest on deposits over 3 months in commercial banks is set between 0.6% – 2,8% (2014: 0.7% - 3,20 %).

30. Cash and cash equivalents

	31 December 2015 HRK	31 December 2014 HRK
Deposits up to 3 months	116,144,881	187,186,045
Giro accounts	135,287,497	117,297,775
Foreign currency accounts	88,321,943	75,751,860
Cash funds	6,643,570	10,800,400
Cash in hand	215,368	211,547
Short-term securities	191,116	191,116
Less: Impairment	(184,992)	(184,992)
	346,619,383	**391,253,751**

The contractual interest on deposits over 3 months in commercial banks is set between 0.1% - 1.5% (2014: 0.3% - 2.75%). The Company mainly deposits its cash with financial institutions that are part of international banking groups with an AAA/A/A-1/NEG/B/BB/BBB+ (2014: A/negative/A-1/negative/B/BB) credit rating by Standard & Poor's.

31. Prepaid expenses and accrued income

Prepaid expenses and accrued income amounting to HRK 12,077,169 (31 December 2014: HRK 15,919,363) relate to paid expenses related to future periods amounting to HRK 11,528,950 (31 December 2014: HRK 15,387,959) and accrued income in the amount of HRK 548,219 (31 December 2014: HRK 531,403).

32. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2015 in the amount of HRK 5,960,000 elate to real estate owned by the subsidiary Končar Distribution and Special Transformers Inc. acquired in exchange for unsettled receivable from the company Elektromaterijal Ltd. in bankruptcy.

33. Equity

Share capital is determined in the nominal value amounting to HRK 1,208,895,930 (31 December 2014: HRK 1,208,895,930) and consist of 2,572,119 shares at nominal value of HRK 470.

In 2014, the Parent company increased the share capital by the total amount of HRK 180,048,330 from profit realised in 2013 in the amount of HRK 110,200,000 and other reserves formed in previous years in the amount of HRK 69,848,330. The share capital was increased by increasing the nominal amount of each share from the amount of HRK 400.00 by HRK 70.00 to HRK 470.00.

The ownership structure of the Parent company is as follows:

Shareholder	**31 December 2015**		**31 December 2014**	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB Inc. (Capital fund Inc.)	724,515	28.17	724,515	28.17
Centre for Reconstruction and sale /HZMO	384,628	14.95	384,628	14.95
Centre for Reconstruction and sale /RH	142,298	5.53	142,298	5.53
State office for state property management /CRO	117,982	4.59	117,982	4.59
Societe Generale - Splitska bank/ Erste Blue mandatory pension fund	202,149	7.86	202,149	7.86
Hypo-Alpe-Adria-Bank/ PBZ Croatia insurance mandatory pension fund	255,928	9.95	255,928	9.95
Societe Generale/AZ mandatory pension fund	161,110	6.26	106,438	4.14
VALAMAR RIVIJERA d.d.	39,791	1.55	39,791	1.55
Floričić Kristijan	60,714	2.36	82,682	3.21
Hypo-Alpe-Adria-Bank/Raiffeisen mandatory pension fund	28,491	1.11	29,504	1.15
PBZ d.d. (custodian account)	30,208	1.17	27,366	1.06
Other shareholders	418,444	16.27	456,977	17.77
Končar Inc. (treasury shares)	5,861	0.23	1,861	0.07
	2,572,119	**100**	**2,572,119**	**100**

In 2015, the parent Company's General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 30,795,096 which is HRK 12.00 per share (2014: HRK 30,843,095 which is HRK 12.00 per share).

The Group has formed legal, statutory and other reserves in line with the Companies Act that are defined on the basis of profit distribution in accordance with the General Assembly's decision. The statutory and other reserves are not subject to any restrictions as to their distribution.

34. Provisions

	Servicing during warranty periods	Court case provisions	Jubilee and retirement rewards	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
1 January 2014	**250,335,816**	**58,241,915**	**28,161,589**	**2,122,968**	**338,862,288**
Additional provisions	44,431,946	645,931	5,592,734	-	50,670,611
Release of provisions	(52,768,533)	(21,505,201)	(11,380,312)	(500,000)	(86,154,046)
Other (exchange differences etc.)	215,098	-	-	871,711	1,086,809
Loss of control	-	-	(651,852)	(150,974)	(802,826)
31 December 2014	**242,214,327**	**37,382,645**	**21,722,159**	**2,343,705**	**303,662,836**
Additional provisions	48,990,437	1,277,948	9,255,523	541,644	60,065,552
Release of provisions	(38,182,481)	(3,321,838)	(4,680,167)	(470,000)	(46,654,486)
Exchange differences and similar	169,231	-	-	-	169,231
Transfer to current provisions	(19,160,598)	-	(132,000)	-	(19,292,598)
31 December 2015	**234,030,916**	**35,338,755**	**26,165,515**	**2,415,349**	**297,950,535**

Provisions for servicing during warranty periods

Provisions for servicing during warranty periods relate to estimated costs of possible repairs in warranty periods for companies within the Group in the amount of HRK 234,030,916 (31 December 2014: HRK 242,214,327).

Provisions for court cases

Non-current provisions for court cases in the amount of HRK 35,338,755 (2013: HRK 37,382,645) relate to court cases in progress initiated against the companies within the Group and estimated costs of legal proceedings.

Provisions for jubilee awards and termination benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 26,165,515 (2014: HRK 21,722,159) relate to regular compensations to employees (regular termination benefits and jubilee awards), and severance payments to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The present value calculation of these provisions is based on the number of employees, the pension amount, the number of years of service at the balance sheet date and the discount rate of 4.85% (2014: 5.65%).

Other long-term provisions in the amount of HRK 2,415,349 (as at 31 December 2014: HRK 2,343,705) relate to provisions for product testing in the amount of HRK 1,001,994 (31 December 2014: HRK 1,471,994), and other provisions in the amount of HRK 1,413,355 (31 December 2014: HRK 871,711).

35. Long-term borrowings

	31 December 2015 HRK	31 December 2014 HRK
Due to banks	176,600,244	219,016,568
Less: Current portion (Note 37)	(33,611,686)	(57,108,938)
	142,988,558	**161,907,630**
Borrowings from third parties	-	170,000
Less: Current portion (Note 37)	-	(170,000)
	-	**-**
	142,988,558	**161,907,630**

Changes in borrowings from banks were as follows:

	HRK
1 January 2014	**206,349,645**
New borrowings	14,069,394
Repayment of borrowings	(1,879,914)
Foreign exchange differences	477,443
Less: current portion	(57,108,938)
31 December 2014	**161,907,630**
New borrowings	18,729,549
Repayment of borrowings	3,615,868
Foreign exchange differences	(421,067)
Less: current portion	(33,611,686)
31 December 2015	**142,988,558**

Long-term bank borrowings mature as follows:

	31 December 2015 HRK	31 December 2014 HRK
Within 1 year	33,611,686	57,108,938
From 1 to 2 years	15,158,289	16,300,917
From 2 to 5 years	92,885,868	93,217,185
More than 5 years	34,944,401	52,389,528
Less: current portion	(33,611,686)	(57,108,938)
	142,988,558	**161,907,630**

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

Name of the company	Creditor	Loan purpose	Loan amount	Interest rate	Maturity	Collateral for the loan
Renewable Sources Ltd.	HBOR	Financing of project "Vjetroelektrana Pometeno brdo".	EUR 9,480,936	4%	21.12.2022	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Renewable Sources Ltd.	ZABA	Financing of project "Vjetroelektrana Pometeno brdo".	EUR 2,100,000	3m EURIBOR-a + 4%	31.12.2022	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Power transformers Ltd.	ZGB d.d.	Financing of investment	HRK 2,257,491	4,2% fixed	31.03.2022	3 blank accepted bills of exchange
Power transformers Ltd.	ZGB d.d.	Financing of investment	HRK 4,056,213	3,0% variable	30.09.2022	3 blank accepted bills of exchange
Distribution and Special Transformers Inc.	RBA & CBRD	Financing construction and equipment for laboratries, and production, warehouse and administrative facilities	EUR 5,999,292.84	4%	30.06.2022	Mortage over that company's property, 4 blank bills of exchange, 1 debenture
Končar Electric Vehicles Inc.	HBOR	Loan from credit programme for financing permanent working capital needs	Up to HRK 28 million	5.5% variable	31.05.2019	Mortgage over that company's property in the amount of EUR 28 million, 16 blank accepted bills of exchange, 1 debenture
Household Appliances Ltd	Erste&Staiermarkische S-Leasing	Investment in property, plants and equipment	EUR 33,069.96	6.99%	9.2.2019	1 debenture
Household Appliances Ltd	VB leasing	Investment in property, plants and equipment	EUR 21,850.9	6.82%	15.2.2020	1 debenture
Low Voltage Switches and Circuit Breakers Ltd	Partner banka	Credit for investments	EUR 1,169,938	4%	31.8.2017	Mortagage over company's property

36. Liabilities toward related parties (associates)

	31 December 2015	31 December 2014
	HRK	HRK
Končar-Power transformers Ltd., Zagreb:	14,779,560	37,296,017
Elkakon Ltd.	3,525,204	3,291,399
	18,304,764	**40,587,416**

37. Current liabilities toward banks (borrowings) and other loans

	31 December 2015	31 December 2014
	HRK	HRK
Liabilities to banks and other financial institutions	54,361,806	86,165,928
Plus: Current portion (Note 35)	33,611,686	57,108,938
Current portion of borrowings from third parties	-	170,000
	87,973,492	**143,4,866**

Changes in liabilities toward banks during the year were as follows:

	HRK
1 January 2014	**93,865,601**
New borrowings	97,772,112
Repayment of borrowings	(104,202,151)
Foreign exchange differences	38,416
Loss of control over companies	(1,308,050)
Plus: current portion of long-term borrowings	57,108,938
31 December 2014	**143,274,866**
New borrowings	29,845,539
Repayment of borrowings	(117,953,633)
Foreign exchange differences	(804,966)
Plus: current portion of long-term borrowings	33,611,686
31 December 2015	**87,973,492**

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

Name of the company	Creditor	Loan purpose	Loan amount	Interest rate	Maturity	Collateral for the loan
Instrument transformers Inc.	PBZ d.d.	Financing of working capital: a) Obligation to supplier, B)obligation to financial institutions, c) other-payroll	HRK 1,125,000	2.8%	30.09.2016	2 blank accepted bills of exchange 2 debentures
Instrument transformers Inc.	PBZ d.d.	Financing of working capital: a) Obligation to supplier, B)obligation to financial institutions, c) other-payroll	HRK 1,687,500	3.58% variable	30.09.2016	2 blank accepted bills of exchange 2 debentures
Instrument transformers Inc.	PBZ d.d.	Financing of working capital: a) Obligation to supplier, B)obligation to financial institutions, c) other-payroll	HRK 312,500	1.8%	30.03.2016	2 blank accepted bills of exchange 2 debentures
Instrument transformers Inc.	PBZ d.d.	Financing of working capital: a) Obligation to supplier, B)obligation to financial institutions, c) other-payroll	HRK 312,500	4.4% variable	30.03.2016	2 blank accepted bills of exchange 2 debentures
Končar Household Appliances Ltd.	PBZ & CBRD	Financing of working capital	HRK 15 million	Interest rate on PBZ share is equal to the yield on MF treasury bills + 3.3% per annum, and on CBRD share 2.8% per annum	30.09.2016	1 blank accepted bill of exchange of that company and Končar - Electrical Industry Inc., and 1 debenture of that company and Končar Electrical Industry Inc., per shares of PBZ and CBRD separately
Household Appliances Ltd	ZABA	Financing of working capital	EUR 350,000	5.5%	31.12.2016	3 blank accepted bills of exchange 1 debentures
Switchgear Inc	ZABA	Financing of bussines	HRK 3,200,000	4%	22.01.2016	letter of credit Dubai
Switchgear Inc	ZABA	Financing of bussines	HRK 10,000,000	4.2%	30.06.2016	3 blank accepted bills of exchange
Low Voltage Switches and Circuit Breakers Ltd	PABA	Credit for invetments	EUR 1,559,920	4%	30.11.2016	Mortagage over company's property

38. Other current financial liabilities

	31 December 2015 HRK	31 December 2014 HRK
Derivative financial instruments – forward contracts	-	3,650,393

39. Trade payables

	31 December 2015 HRK	31 December 2014 HRK
Domestic suppliers	226,103,138	261,072,310
Foreign suppliers	122,236,859	105,481,238
Liabilities for un-invoiced goods	709,825	4,517,970
	349,049,822	**371,071,518**

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
2015	**349,049,822**	308,931,316	33,987,939	1,142,852	1,788,734	2,005,524	1,193,457
2014	**371,071,518**	325,912,958	38,231,758	4,328,171	1,044,605	287,553	1,266,473

40. Gross amounts due to customers

	31 December 2015 HRK	31 December 2014 HRK
Invoiced in the year under contracts	350,417,561	229,143,439
Less costs incurred plus recognized profits less the sum of recognized losses	(326,825,069)	(199,300,018)
	23,592,492	**29,843,421**

41. Liabilities for advances received

	31 December 2015 HRK	31 December 2014 HRK
From domestic customers	75,819,993	270,092,969
From foreign customers	106,529,553	146,762,503
	182,349,546	**416,855,472**

42. Other liabilities

	31 December 2015 HRK	31 December 2014 HRK
Liabilities to the state and other institutions		
Liability for value added tax	12,164,097	8,550,709
Liabilities for contributions on and from salary and taxes and surtaxes	38,278,894	37,020,618
	50,442,991	**45,571,327**
Current other liabilities		
Interest payable	1,638,257	2,195,927
Liabilities to shareholders	547,066	515,804
Other liabilities	4,807,472	982,634
	6,992,795	**3,694,365**
Current liabilities toward employees		
Net salaries	29,919,957	29,022,605
Liabilities for severance pay	37,300	26,000
Liabilities toward Management Boards of companies for bonuses	4,654,646	4,754,240
Other liabilities	254,501	440,204
	34,866,404	**34,243,049**
	92,302,190	**83,508,741**

43. Accrued expenses and deferred income

	31 December 2015 HRK	31 December 2014 HRK
Deferred income	88,526,740	44,497,975
Current provisions	33,675,459	21,882,839
Accrued expenses	7,219,701	8,544,754
Other	-	473,040
	129,421,900	**75,398,608**

44. Financial risk management and financial instruments

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

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

a) Capital risk management

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

The Group manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Group may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2015 and 31 December 2014. The Group monitors capital on the basis of the gearing ratio, which is calculated as follows.

	31 December 2015	31 December 2014
	HRK'000	HRK'000
Financial liabilities	230,962	305,352
Decrease for cash and cash equivalents (deposits)	(346,619)	(391,254)
Net debt	-	-

b) Significant accounting policies

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

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

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Total assets classified under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2015				
Long-term financial assets	5,726	1,958	4,709	**12,393**
Non-current receivables	17,596	-	-	**17,596**
Current financial assets	398,938	636	-	**399,574**
Trade receivables, receivables from related parties and other receivables	724,686	-	-	**724,686**
Cash and cash equivalents	339,975	6,664	-	**346,619**
	1,486,921	**9,238**	**4,709**	**1,500,868**

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Total assets classified under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2014				
Long-term financial assets	5,347	2,469	3,153	**10,969**
Non-current receivables	23,234	-	-	**23,234**
Current financial assets	439,831	298	-	**440,129**
Trade receivables, receivables from related parties and other receivables	818,254	-	-	**818,254**
Cash and cash equivalents	380,454	10,800	-	**391,254**
	1,667,120	**13,567**	**3,153**	**1,683,840**

All of the Group's liabilities have been classified as “At amortized cost”. The Group does not have liabilities which are 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 into 3 levels depending on the input variables used in measuring the fair value of financial assets and liabilities. The fair value hierarchy has the following levels:

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

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

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

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

31 December 2015

	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	1,599	-	-	**1,599**
Investments in unlisted shares	507	-	398	**905**
Fair value of the derivative financial instruments	-	1,733	-	**1,733**
Available for sale financial assets	-	-	2,765	**2,765**
Cash funds	6,644	-	-	**6,644**
	8,750	**1,733**	**3,163**	**13,646**

31 December 2014

	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	1,749	-	-	**1,749**
Investments in unlisted shares	-	-	797	**797**
Fair value of the derivative financial instruments	-	298	-	**298**
Available for sale financial assets	-	-	2,765	**2,765**
Cash funds	10,800	-	-	**10,800**
	12,549	**298**	**3,562**	**16,409**

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

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

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

- Receivables and deposits with banks – for assets due within three months and cash funds, the carrying amount approximates their fair value due to the short maturity of these instruments. For long-term assets, the contracted interest rates do not significantly deviate from the current market rates and, accordingly, their fair value approximates their carrying amount.
- Borrowings – current liability fair value approximates their carrying amount due to the short maturities of these instruments. The Management Board believes that their fair value does not significantly differ from their carrying amount.
- Other financial instruments – financial instruments that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical 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.

c) Financial risk

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including 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, such as the change in foreign currencies and interest rates, would influence the Group's result or the value of its financial instruments. The objective of market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

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

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

a) Foreign exchange risk

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

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

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

31 December 2015	EUR HRK'000	USD HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Trade receivables and receivables from related parties	228,193	7,377	43,041	278,611	409,888	688,499
Derivative instruments	1,733	-	-	1,733	-	1,733
Other receivables	4,026	93	-	4,119	49,663	53,782
Deposits over 3 months	390,642	2,517	7,110	400,269	4,088	404,357
Cash and cash equivalents	139,845	18,689	112,560	271,094	75,525	346,619
	764,439	**28,676**	**162,711**	**955,826**	**539,164**	**1,492,990**
Trade payables and liabilities to related parties	(273,084)	(547)	(5,353)	(278,984)	(88,371)	(367,355)
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	-	-	-	-	(6,993)	(6,993)
Borrowings	(146,559)	-	-	(146,559)	(84,403)	(230,962)
	(419,643)	**(547)**	**(5,353)**	**(425,543)**	**(179,767)**	**605,310**

31 December 2014	EUR HRK'000	USD HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Trade receivables and receivables from related parties	269,347	43,050	14,831	327,228	449,920	777,148
Other receivables	24,332	360	258	24,950	80,499	105,449
Deposits over 3 months	408,216	2,520	29,393	440,129	-	440,129
Cash and cash equivalents	266,545	1,189	8,003	275,737	115,517	391,254
	968,440	**47,119**	**52,485**	**1,068,044**	**645,936**	**1,713,980**
Trade payables and liabilities to related parties	(114,479)	(2,351)	(6,814)	(123,644)	(288,015)	(411,659)
Derivative financial instruments	(3,650)	-	-	(3,650)	-	(3,650)
Other liabilities	-	-	-	-	(3,694)	(3,694)
Borrowings	(196,428)	-	-	(196,428)	(108,925)	(305,353)
	(314,557)	**(2,351)**	**(6,814)**	**(323,722)**	**(400,634)**	**(724,356)**

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

At 31 December 2015, if the Croatian kuna weakened against the Euro by -1% (2014: strengthened by 1%) and strengthened against the USD by 11% (2014: strengthened by14%) and changes in other currencies the recalculation of profit before tax for the year would have increased / (decreased) as follows:

	2015 Effect on profit before tax HRK'000	2014 Effect on profit before tax HRK'000
EUR -1% (2014: +1%)	(4,162)	3,413
USD +11% (2014: +14%)	619	5,176
Other currencies	785	3,392

This analysis assumes that all other variables, interest rates especially, remain unchanged.
Opposite currency change in kuna against the above currencies at the reporting date would have had the equal but opposite effect on the profit before tax, on the basis that all other variables remain constant.

b) Interest rate risk

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

The following table shows sensitivity of changes in interest rates relating to Group's loans as of 31 December, with the assumptions that all other variables are constant, on income before taxes.

2015	Increase/ decrease in percentage	Effect on income before taxes HRK'000
HRK	+1%	(940)
HRK	-1%	940

2014	Increase/ decrease in percentage	Effect on income before taxes HRK'000
HRK	+1%	(1,743)
HRK	-1%	1,743

Credit risk

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

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

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Boards of the Group companies, while the Company's Management Board has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements.

The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities. The following table presents the maturity of financial liabilities of the Group at 31 December in accordance with contracted undiscounted payments:

	Carrying amount	Contracted cash flows	0 – 3 months	3 – 12 months	2 – 5 years	Over 5 years
31 December 2015	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current trade payables and liabilities to related parties	367,355	367,355	245,737	103,848	17,770	-
Other current liabilities	6,993	6,993	2,482	4,511		-
Interest-bearing liabilities	230,962	235,848	25,909	65,263	109,410	35,266
	605,310	**610,196**	**274,128**	**173,622**	**127,180**	**35,266**

	Carrying amount	Contracted cash flows	0 – 3 months	3 – 12 months	2 – 5 years	Over 5 years
31 December 2014	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current trade payables and liabilities to related parties	411,658	411,658	384,094	27,564	-	-
Other current liabilities	3,694	3,694	3,694	-	-	-
Derivative instruments	3,650	3,650	-	3,650	-	-
Interest-bearing liabilities	305,353	341,700	54,594	105,2211	139,328	42,557
	724,356	**760,702**	**442,382**	**136,435**	**139,328**	**42,557**

45. Segment reporting

2015	**Industry**	**Energy and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	93,117,569	2,609,954,508	202,194,929	32,804,400	670,420	-	2,938,741,826
Sales to related companies	7,568,543	399,725,179	4,212,652	96,645,073	54,855,647	(452,674,803)	110,332,291
Other operating income	2,136,503	99,314,608	3,522,533	21,347,564	6,708,796	(391,162)	132,638,842
Total operating income	*102,822,615*	*3,108,994,295*	*209,930,114*	*150,797,037*	*62,234,863*	*(453,065,965)*	*3,181,712,959*
Total operating expenses	(87,851,991)	(2,985,279,193)	(218,304,674)	(137,087,167)	(78,533,294)	(451,001,797)	(3,056,054,522)
Operating profit/loss	*14,970,624*	*123,715,102*	*(8,374,560)*	*13,709,870*	*(16,298,431)*	*(2,064,168)*	*125,658,437*
Financial result	532,828	(14,134,227)	(1,379,859)	328,814	78,732,902	(20,183,881)	43,896,577
Profit/loss before taxation	**15,503,452**	**109,580,875**	**(9,754,419)**	**14,038,684**	**62,434,471**	**(22,248,049)**	**169,555,014**
Corporate income tax	(3,271,700)	(12,949,894)	**-**	(2,013,048)	-	-	(18,234,642)
Net profit/loss for the year	**12,231,752**	**96,630,981**	**(9,754,419)**	**12,025,636**	**62,434,471**	**(22,248,049)**	**151,320,372**
Non-controlling interest							23,669,678
Profit of the Parent company owner							**127,651,294**
Non-current assets	28,251,570	768,824,034	45,813,157	67,961,603	1,233,449,878	(640,943,495)	1,503,356,747
Current assets	75,968,991	1,618,921,151	73,159,783	152,960,778	392,917,245	(167,246,304)	2,146,681,644
Total assets	**104,220,561**	**2,387,745,185**	**118,972,940**	**220,922,381**	**1,626,367,123**	**(774,761,839)**	**3,683,466,351**
Total liabilities	**15,187,152**	**1,346,906,541**	**44,991,309**	**37,081,306**	**53,962,359**	**(169,586,307)**	**1,328,542,360**

2014	**Industry**	**Energy and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	84,105,603	2,224,053,411	193,175,833	37,746,471	1,109,289		2,540,190,607
Sales to related companies	7,836,074	329,501,475	4,876,376	88,226,063	52,516,643	(374,391,013)	108,565,618
Other operating income	1,777,418	111,434,882	14,491,168	19,674,679	35,284,035	2,791	182,664,973
Total operating income	*93,719,095*	*2,664,989,768*	*212,543,377*	*145,647,213*	*88,909,967*	*(374,388,222)*	*2,831,421,198*
Total operating expenses	(83,154,208)	(2,553,760,741)	(211,844,018)	(139,863,007)	(116,220,137)	377,387,433	(2,727,454,678)
Operating profit/loss	*10,564,887*	*111,229,027*	*699,359*	*5,784,206*	*(27,310,170)*	*2,999,211*	*103,966,520*
Financial result	1,015,850	(1,066,150)	(1,203,426)	1,137,842	116,902,395	(44,670,394)	72,116,117
Profit/loss before taxation	**11,580,737**	**110,162,877**	**(504,067)**	**6,922,048**	**89,592,225**	**(41,671,183)**	**176,082,637**
Corporate income tax	(2,505,671)	(12,923,169)	**-**	(556,846)	-	-	(15,985,686)
Net profit/loss for the year	**9,075,066**	**97,239,708**	**(504,067)**	**6,365,202**	**89,592,225**	**(41,671,183)**	**160,096,951**
Non-controlling interest							30,847,668
Profit of the Parent company owner							129,249,283
Non-current assets	26,033,287	750,168,762	57,791,217	66,774,640	1,170,656,945	(570,784,230)	1,500,640,621
Current assets	68,317,360	1,880,890,353	75,697,670	143,185,408	421,531,160	(171,779,603)	2,417,842,348
Total assets	**94,350,647**	**2,631,059,115**	**133,488,887**	**209,960,048**	**1,592,188,105**	**(742,563,833)**	**3,918,482,969**
Total liabilities	**13,011,458**	**1,666,230,820**	**50,302,632**	**29,445,456**	**48,569,914**	**(174,082,149)**	**1,633,478,131**

Sales by regions:

	2015		2014	
	HRK'000	%	HRK'000	%
Croatia	**1,742,432**	**57.2%**	**1,350,740**	**51.0%**
Countries in European Union	774,672	25.4%	713,096	26.9%
	2,517,104	**82.6%**	**2,063,836**	**77.9%**
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	75,312	2.5%	123,865	4.7%
Other European countries	100,846	3.3%	35,922	1.4%
Asia	290,950	9.5%	180,836	6.8%
America and Australia	52,308	1.7%	45,263	1.7%
Other countries	12,554	0.4%	199,034	7.5%
	531,970	**17.4%**	**584,920**	**22.1%**
	3,049,074	**100%**	**2,648,756**	**100%**

46. Off-balance sheet items

Off-balance sheet items of the Group amounting to HRK 2,092 million (2014: HRK 2,609 million) mostly relate to the issued collateral (guarantees, bills of exchange, promissory notes), solidary/subsidiary guarantees, liabilities toward the state for apartments sold (65%) and similar.

47. Contingencies

Several court cases have been initiated against the subsidiaries (labour cases) and the Parent company which are currently in process. The most significant court cases are initiated against the Parent company in the amount of HRK 31,800 thousand (2014.: HRK 31.800 thousand), increased by legal penalty interest, As at 31 December 2015 the Parent company recognized the provision in the amount of HRK 32,100 thousand (principal plus interest) for these court cases.

48. Contractual commitments

The Group's contractual commitments on the basis of unfinished construction projects as at 31 December 2015 amounted to HRK 3,630 million (31 December 2014: HRK 3,718 million).

49. Events after the reporting date

After the reporting date and up to the date of approval of the financial statements, there were no events that could significantly affect the annual financial statements of the Company for 2015, which should be disclosed.

51. Preparation and approval of the consolidated financial statements

The consolidated financial statements set out on the previous pages were prepared and approved by the Company's Management Board on 24 March 2016.

Signed on behalf of the Management Board:

Darinko Bago,

President of the Management Board

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