KONČAR – ELECTRICAL INDUSTRY GROUP

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2014

Content

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Act (Official Gazette 109/07, 54/13, 121/14), 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

27 March 2015

Independent Auditor's Report

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

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 2014 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 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 2014, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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

Reconsult d.o.o. Trg hrvatskih velikana 4/1, Zagreb;
Commercial Court in Zagreb; Reg. No.: 080091897; IBAN: HR8923600001101271099 with Zagrebačka banka d.d., Zagreb; Founding capital in the amount of HRK 250,000.00 paid in full. Management Board: Željko Trcin, Marija Zupančić
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Other matters

The consolidated financial statements of Končar - Electrical Industry Inc. and its subsidiaries as at 31 December 2013 were audited by another auditor whose report as at 21 March 2014 expressed an unqualified opinion on those financial statements.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 27 March 2015

Reconsult d.o.o.
Zagreb, 27 March 2015

RECONSULT, d.o.o.
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ZAGREB

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 HRK	2013 HRK
Sales	3	2,648,756,225	2,509,098,949
Other operating income	4	182,664,973	226,592,393
Operating income		**2,831,421,198**	**2,735,691,342**
Changes in inventories (work in progress and finished goods)		34,110,042	(10,800,947)
Cost of materials and energy	5	(1,393,472,795)	(1,267,980,212)
Cost of goods sold		(174,074,312)	(103,830,903)
Cost of services	6	(364,312,011)	(360,055,504)
Staff costs	7	(492,282,905)	(497,177,985)
Depreciation and amortization	8	(89,495,937)	(82,584,800)
Other costs	9	(167,771,897)	(140,379,017)
Impairment losses	10	(13,848,429)	(38,274,598)
Provisions	11	(55,315,803)	(105,018,393)
Other operating expenses	12	(10,990,631)	(13,471,935)
Operating expenses		**(2,727,454,678)**	**(2,619,574,294)**
Operating profit		**103,966,520**	**116,117,048**
Share in profit of investments accounted for using equity method	13	**62,643,786**	**47,494,718**
Finance income		53,423,921	67,792,536
Finance costs		(43,951,590)	(52,061,601)
Finance income – net	14	**72,116,117**	**63,225,653**
Profit before taxation		**176,082,637**	**179,342,701**
Corporate income tax	16	(15,985,686)	(15,647,324)
PROFIT FOR THE YEAR		**160,096,951**	**163,695,377**
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange differences on translation of foreign operations		153,289	(14,870)
Loss from cash flow hedge		(4,734,344)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAF		**155,515,896**	**163,680,507**
Profit for the year attributable to:			
Owners of the Company		129,249,283	135,112,460
Non-controlling interest		30,847,668	28,582,917
Net profit for the period		**160,096,951**	**163,695,377**
Total comprehensive income for the year attributable to:			
Owners of the Company		127,185,546	135,097,590
Non-controlling interest		28,330,350	28,582,917
Earnings per share			
Basic and diluted earnings per share in HRK	17	50.29	52.62

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

ASSETS	**Note**	**31 Dec 2014 HRK**	**31 Dec 2013 HRK**
Goodwill	18	7,648,985	7,646,618
Intangible assets	19	44,238,283	29,371,686
Property, plant and equipment	20	1,046,731,243	1,051,559,331
Investment property	21	104,549,243	100,366,943
Investments in associates accounted for using the equity method	22	263,270,174	258,254,309
Financial assets	23	10,968,607	9,130,152
Receivables	24	23,234,086	29,147,877
Non-current assets		**1,500,640,621**	**1,485,476,916**
Inventories	25	512,675,068	445,041,616
Receivables from related companies	26	90,454,659	71,896,272
Trade receivables and receivables from construction contracts	27	861,192,402	620,555,442
Income tax receivable		17,718,232	10,030,084
Other receivables	28	82,539,693	70,287,369
Financial assets	29	440,129,180	305,358,260
Cash and cash equivalents	30	391,253,751	446,232,436
Prepaid costs and accrued income	31	15,919,363	5,999,951
Current assets		**2,411,882,348**	**1,975,401,430**
Non-current assets held for sale	32	5,960,000	6,251,807
TOTAL ASSETS		**3,918,482,969**	**3,467,130,153**
EQUITY AND LIABILITIES			
Share capital	33	1,208,895,930	1,028,847,600
Share premium		719,579	719,579
Reserves		400,090,992	417,141,957
Retained earnings		288,659,683	350,456,478
Profit for the current year		129,249,283	135,112,460
Equity attributable for owners		*2,027,615,467*	*1,932,278,074*
Non-controlling interest		257,389,371	243,230,261
TOTAL EQUITY		**2,285,004,838**	**2,175,508,335**
Provisions for warranty costs		242,214,327	250,335,816
Other provisions		61,448,509	88,526,472
Provisions	34	**303,662,836**	**338,862,288**
Borrowings		161,907,630	206,519,645
Non-current liabilities	35	**161,907,630**	**206,519,645**
Liabilities toward related companies	36	40,587,416	3,785,564
Borrowings	37	143,444,866	94,205,601
Derivative hedge instruments	38	3,650,393	-
Trade payables	39	371,071,518	303,978,576
Liabilities under construction contracts	40	29,843,421	41,677,970
Income tax payable		3,547,230	474,442
Liabilities for advances received	41	416,855,472	141,868,566
Other liabilities	42	83,508,741	72,149,154
Accrued expenses and deferred income	43	75,398,608	88,100,012
Current liabilities		**1,167,907,665**	**746,239,885**
TOTAL EQUITY AND LIABILITIES		**3,918,482,969**	**3,467,130,153**

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 HRK	2013 HRK
Cash flow from operating activities			
Cash receipts from trade accounts receivable		2,969,856,248	3,002,048,393
Cash receipts from insurance compensations		10,421,474	18,730,475
Cash receipts from tax returns		95,258,051	131,336,421
Cash receipts from interest		13,399,516	35,312,417
Other cash receipts		67,239,001	39,140,817
Total cash from operating activities		**3,156,174,290**	**3,226,568,523**
Cash payments to trade accounts payable		(2,139,060,318)	(2,020,830,339)
Cash payments to employees		(563,116,563)	(573,545,511)
Cash payments to insurance companies		(8,259,572)	(13,439,221)
Cash payments for interest		(12,844,527)	(16,502,158)
Cash payments for taxes		(145,390,711)	(165,590,093)
Other cash payments		(166,919,387)	(142,700,962)
Total cash used in operating activities		**(3,035,591,078)**	**(2,932,608,284)**
Net cash flow from operating activities		**120,583,212**	**293,960,239**
Cash flow from investing activities			
Receipts from the sale of non-current tangible and intangible assets		3,428,752	4,319,667
Cash receipts from the sale of equity and debt financial instruments		3,368,778	1,541,159
Receipts from dividends		47,746,396	1,681,790
Total cash from investing activities		**54,543,926**	**7,542,616**
Purchase of non-current tangible and intangible assets		(52,132,404)	(59,732,034)
Purchase of equity and debt financial instruments		(64,974)	(2,578,120)
Other cash used in investing activities		-	(1,150,271)
Total cash used in investing activities		**(52,197,378)**	**(63,460,425)**
Net cash flow from investing activities		**2,346,548**	**(55,917,809)**
Cash flow from financing activities			
Cash receipts from loans and borrowings		100,526,072	75,599,326
Cash receipts from repayment of term deposits and other financing activities		603,925,768	300,880,169
Total cash from financing activities		**704,451,840**	**376,479,495**
Repayment of principals of borrowings and bonds		(95,429,212)	(69,122,509)
Dividends paid		(45,286,601)	(47,436,976)
Purchase of treasury shares		-	(11,869,090)
Cash used for term deposits and other financing activities		(741,644,882)	(451,528,676)
Total cash used in financing activities		**(882,360,695)**	**(579,957,251)**
Net cash flow from financing activities		**(177,908,855)**	**(203,477,756)**
Total (decrease)/increase in cash flow		**(54,978,685)**	**34,564,674**
Cash and cash equivalents at the beginning of the year	30	446,232,436	411,667,762
Cash and cash equivalents at the end for the year	30	**391,253,751**	**446,232,436**

KONČAR – ELECTRICAL INDUSTRY, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(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 2013	**1,028,847,600**	**719,579**	**304,225,167**	**148,927**	**(148,927)**	**349,004,034**	**150,536,186**	**234,610,125**	**2,067,942,691**
Transactions with owners:									
Allocation of profit for 2012	-	-	114,778,999	-	-	35,757,187	(150,536,186)	-	**-**
Dividend paid	-	-	-	-	-	(30,857,460)	-	(16,651,847)	**(47,509,307)**
Formation of reserves for own shares from retained earnings	-	-	-	11,869,090	-	(11,869,090)	-	-	-
Share-based payments	-	-	(1,862,209)	(8,780,302)	8,780,302	8,780,302	-	-	**6,918,093**
Purchase of treasury shares	-	-	-	-	(11,869,090)	-	-	-	**(11,869,090)**
Change in ownership structure in subsidiaries	-	-	-	-	-	(343,625)	-	(3,310,934)	**(3,654,559)**
Profit for the year	-	-	-	-	-	-	135,112,460	28,582,917	**163,695,377**
Other comprehensive income:									
Foreign exchange differences on translation of foreign operations	-	-	-	-	-	(14,870)	-	-	**(14,870)**
Total comprehensive income	-	-	-	-	-	(14,870)	135,112,460	28,582,917	*163,680,507*
As at 31 December 2013	**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 own 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 ownership 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**

The accompanying notes form an integral part of these financial statements

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 16 subsidiaries within the Group involved in core business and 2 subsidiaries with special activities, research and development of products and infrastructural services, as well as one subsidiary registered abroad which acts as a representative office or the distributor of Group's products and supplier for raw materials.

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

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

As at 31 December 2014 the Group had 3,662 employees, while as at 31 December 2013 the Group had 3,783 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 (from 15 December 2014)
Nikola Plavec	Member (from 15 December 2014)
Tomislav Radoš	Member (until 15 December 2014)
Kristina Čelić	Member (until 15 December 2014)

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
Tomi Dužević	Member, in charge of export markets

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 2014, the exchange rate for USD 1 and EUR 1 was HRK 6.30 and HRK 7.66 (31 December 2013: HRK 5.55 and HRK 7.64).

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements.

It defines the principle of control, and establishes controls as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The standard did not have a significant impact on these consolidated financial statements.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. The standard did not have a significant impact on these consolidated financial statements.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off-balance sheet vehicles. The application of this new standard had no impact on these consolidated financial statements.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The standard did not have a significant impact on these consolidated financial statements.

IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)

IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The application of this amended standard has no significant impact on these consolidated financial statements.

Amendments to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January 2014)

These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The amendments did not have a significant impact on these consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment Entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014)

These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make. The amendment did not have a significant impact on these consolidated financial statements.

Amendment to IAS 32 Financial Instruments: Presentation on Asset and Liability Offsetting (issued in December 2012 and effective for annual periods beginning on or after 1 January 2014)

These amendments are to the application guidance in *IAS 32 Financial instruments: Presentation*, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendment does not have a significant impact on these consolidated financial statements.

Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014)

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment did not have a significant impact on these consolidated financial statements.

Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives (effective for annual periods beginning on or after 1 January 2014)

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The amendment does not have a significant impact on these consolidated financial statements.

IFRIC 21 Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014)

This is an interpretation of IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out the criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The application of IFRIC 21 had no impact on these consolidated financial statements.

Standards, interpretations and amendments issued but not yet effective

Management plans to adopt new standards, amendments and interpretations as of the effective date and following the adoption by the European Union and is in the process of assessing their impact on its financial statements:

Annual improvements to IFRSs 2012 (effective for annual periods beginning on or after1 July 2014, unless otherwise stated below)

The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual improvements to IFRSs 2013 (effective for annual periods beginning on or after 1 July 2014)

The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

Amendment to IAS 19, ‘Employee benefits’ regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014)

The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee’s working lives.

Amendment to IFRS 11, ‘Joint arrangements’ regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016)

This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a ‘business’. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

Amendment to IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’ regarding depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016)

This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IAS 16, ‘Property, plant and equipment’ and IAS 41, ‘Agriculture’ regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)

These amendments change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16 rather than IAS 41. The produce on bearer plants will remain in the scope of IAS 41.

Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business.

A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)

The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS 14, 'Regulatory deferral accounts' (effective for annual periods beginning on or after 1 January 2016)

This standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

Annual improvements 2014 (effective for annual periods beginning on or after 01 July 2016)

These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to four standards:

IFRS 5 – 'Non-current assets held for sale and discontinued operations' – The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution,' or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'.

IFRS 7 - There are two amendments:

- Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.
- Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.

IAS 19 - The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, when there is no active market of quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.

IAS 34 - the amendment clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. This amendment is retrospective.

IFRS 15, ‘Revenue from contracts with customers’ (effective for annual periods beginning on or after 1 January 2017)

This is the converged standard on revenue recognition. It replaces IAS 11, ‘Construction contracts,’ IAS 18, ‘Revenue’ and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 01 January 2018)

The complete version of IFRS 9 replaces most of the guidance in IAS 39 Financial instruments: *Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

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

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%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	6.8% - 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 amount paid for the reacquisition of the Group's own shares, including direct costs related to the repurchase, is deducted from equity. Repurchased shares are classified as own shares and represent a deduction from equity. Purchase of treasury shares is recorded at cost, and sale of treasury shares at negotiated prices. Consideration paid or received is recognized directly 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 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.

2.23 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.

2.24 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.

2.25 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 estimates of the number of options that are expected to vest.

2.26 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.

2.27 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.

2.28 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).

2.29 Subsidiaries:

	31 December 2014		31 December 2013	
	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 – Tools Inc. in bankruptcy, Zagreb	-	-	100.00	100.00
Končar – Catering Equipment Inc. in bankruptcy, Zagreb	-	-	100.00	100.00
Končar – Renewable Sources Ltd., Zagreb	100.00	100.00	100.00	100.00
Direct ownership	*85.27*	*85.27*	*81.43*	*81.43*
Indirect ownership	*14.73*	*14.73*	*18.57*	*18.57*
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	41.77	69.87	41.77	69.87
Končar – Instrument Transformers Inc., Zagreb	46.11	72.39	46.06	72.35
Končar – Distribution and Special Transformers Inc., Zagreb	51.71	67.80	51.71	67.80
Končar – High Voltage Switchgear Inc., Zagreb	97.49	98.25	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	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 – Medium Voltage Apparatus Inc., Zagreb (KONČAR EASN d.d.).
- Končar – Engineering for Plant Installation & Commissioning Inc., Zagreb (KONČAR MI d.d.)

These four companies represent 70% 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 EASN Inc.		KONČAR MI Inc.	
	2014	2013	2014	2013	2014	2013	2014	2013
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Statement of comprehensive income								
Income	736,526	665,018	209,362	184,120	73,902	66,721	91,809	81,991
Expenses	(708,776)	(632,542)	(190,444)	(169,038)	(64,135)	(57,819)	(89,538)	(81,544)
Profit before tax	27,750	32,476	18,918	15,082	9,767	8,902	2,271	447
Income tax	(491)	(2,112)	(4,865)	(2,949)	(1,914)	(1,667)	(618)	(215)
Profit after taxation	**27,259**	**30,364**	**14,053**	**12,133**	**7,853**	**7,235**	**1,653**	**232**
Statement of financial position								
Non-current assets	163,367	168,938	46,970	43,609	11,694	12,675	9,335	9,617
Current assets	401,143	337,886	121,302	120,062	51,467	51,561	28,308	30,975
Total assets	**564,510**	**506,824**	**168,272**	**163,671**	**63,161**	**64,236**	**37,643**	**40,592**
Total liabilities	**338,809**	**291,500**	**82,646**	**87,308**	**15,494**	17,188	**17,244**	**21,686**
Cash flow								
Cash flow from operating activities	(12,384)	76,081	29,225	22,661	7,423	4,867	5,651	3,393
Cash flow from investing activities	(9,310)	(18,375)	(2,362)	(1,695)	(127)	(661)	(116)	(142)
Cash flow from financing activities	2,254	(20,431)	(14,231)	(16,448)	(7,236)	(7,011)	(2,662)	301
Net increase/decrease in cash	(19,440)	37,275	12,632	4,518	60	(2,805)	2,873	3,552
Cash at the beginning of the period	52,933	15,661	12,330	7,812	18,602	21,406	4,077	525
Cash at the end of the period	**33,493**	**52,936**	**24,962**	**12,330**	**18,662**	**18,601**	**6,950**	**4,077**

Associates:

	31 December 2014 Share in ownership (%)	31 December 2013 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

	2014 HRK	2013 HRK
Domestic sales of goods	1,300,787,613	1,216,650,896
Foreign sales of goods	1,239,402,994	1,225,380,252
Sales to associates	108,565,618	67,067,801
	2,648,756,225	**2,509,098,949**

Segment information is presented in Note 46.

4. Other operating income

	2014 HRK	2013 HRK
Income from the release of provisions (Note 34)	86,154,046	148,077,838
Income from the release of accrued expenses	19,100,092	20,032,796
Income from recognised legal claim	12,806,075	-
Collected receivables previously written off	7,006,727	2,942,741
Write-off of liabilities	6,211,271	142,576
Income from insurance claims	5,808,246	4,962,371
Income from sale of materials	4,930,417	5,405,888
Income from subsequent rebates, bonuses and similar	1,778,764	3,024,301
Inventory surpluses	1,035,085	935,104
Rent income	2,556,689	1,594,344
Other income	35,277,561	39,474,434
	182,664,973	**226,592,393**

5. Costs of materials and energy

	2014 HRK	2013 HRK
Raw materials and supplies	1,333,574,071	1,200,737,267
Energy costs	45,831,834	52,933,077
Small inventory	12,543,218	13,112,923
Spare parts	1,523,672	1,196,945
	1,393,472,795	**1,267,980,212**

6. Cost of services

	2014 HRK	2013 HRK
External products design and selling services	145,945,064	142,547,249
Costs of telephone, post and transportation	38,052,558	34,609,423
Maintenance	32,539,854	34,324,923
Intellectual and similar services	22,660,633	20,516,859
Entertainment costs	14,486,833	14,663,946
Costs of research and development	10,301,110	10,425,071
Utilities costs	9,356,306	10,790,592
Advertising services and trade fairs	5,796,406	5,659,276
Education services	5,008,681	5,023,559
Lease and rentals	4,518,810	6,917,814
Other external costs	75,645,756	74,576,792
	364,312,011	**360,055,504**

7. Staff costs

	2014 HRK	2013 HRK
Net wages and salaries	272,181,773	278,738,103
Taxes and contributions from salaries	149,464,211	150,834,040
Contributions on salaries	69,931,202	64,709,926
Share-based payment options	705,719	2,895,916
	492,282,905	**497,177,985**

Net wages and salaries in the amount of HRK **272,181,773** (2013: HRK 278,738.103) include compensations to the Management Board of the Company and other related companies in the amount of HRK 15,162,812 (2013: HRK 13,674,227) and accrued bonuses for the Management Board in the amount of 6,581,408 (2013: HRK 5,775,424), 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 74,168 thousand (2013: HRK 76,548 thousand) are presented in Note 9.

8. Depreciation and amortization

	2014	2013
	HRK	HRK
Depreciation of property, plant and equipment	83,352,257	75,514,012
Amortization of intangible assets	6,133,877	7,060,985
Depreciation of investment property	9,803	9,803
	89,495,937	**82,584,800**

9. Other costs

	2014	2013
	HRK	HRK
Travelling costs and per diems	45,104,832	48,073,600
Legal dispute expenses	33,817,538	-
Compensations to employees, gifts and supports	29,063,032	28,474,299
Bank charges	18,120,266	15,386,317
Insurance premiums	14,794,808	15,444,566
Compensations to members of the Supervisory Board	6,229,075	6,171,891
Contributions, membership fees and similar duties	3,425,852	2,897,322
Taxes non-dependable on the income and fees	2,219,675	3,001,648
Sponsorships and donations	2,484,388	621,571
Other	12,512,431	20,307,803
	167,771,897	**140,379,017**

10. Impairment losses

	2014	2013
	HRK	HRK
Impairment losses on non-current tangible assets	-	17,107,475
Impairment losses on non-current intangible assets	-	2,762,705
	-	**19,870,180**
Impairment losses on current receivables	3,336,201	7,962,272
Impairment on inventories	10,512,228	10,442,146
	13,848,429	**18,404,418**
	13,848,429	**38,274,598**

11. Provisions

	2014 HRK	2013 HRK
Provisions for servicing costs within warranty periods – non-current	44,431,946	55,536,590
Provisions for servicing costs within warranty periods - current	-	32,457,114
Provisions for retirement and jubilee awards	5,592,734	12,755,976
Provisions for legal claims	645,931	1,079,206
Other non-current and current provisions	4,645,192	3,189,507
	55,315,803	**105,018,393**

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

12. Other operating expenses

	2014 HRK	2013 HRK
Penalties, compensations and similar	4,343,784	6,563,068
Receivables write-off	2,440,201	800,533
Inventory shortages	1,490,749	1,921,197
Other operating expenses	2,715,897	4,187,137
	10,990,631	**13,471,935**

13. Share in profit of associate/joint venture

The share in profit of associates in the amount of HRK 62,643,786 (2013: HRK 47,494,718) 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 60,079,592 (2013: HRK 45,083,698), to the share in profit of the company Elkakon Ltd. in which the Group indirectly owns 50% share in the amount of HRK 739,240 (2013: HRK 255,935) and to the share in profit of a joint venture – the company Tbea Končar Instrument Transformers Ltd., China in the amount of HRK 1,824,954 (2013: HRK 2,155,085).

The above mentioned companies realized a total net profit in 2014 as follows:

- Power Transformers Ltd. HRK 122,611,412 (2013: HRK 92,007,546)
- Elkakon Ltd. HRK 1,478,480 (2013: HRK 511,871)
- Tbea Končar Instrument Transformers Ltd. HRK 6,759,088 (2013: HRK 7,981,795).

14. Finance income

	2014 HRK	2013 HRK
Interest, foreign exchange differences, dividends and similar income from relations with related parties		
Dividend income and share in profit	79,912	-
	79,912	-
Interest, foreign exchange differences, dividends and similar income from relations with unrelated parties		
Interest income	17,216,342	25,351,749
Foreign exchange gains	28,785,099	33,144,547
Dividend income and share in profit	2,484,169	1,416,084
Other finance income	987,933	2,040,743
	49,473,543	*61,953,123*
Unrealised gains (income)	*3,870,466*	*5,839,413*
	53,423,921	**67,792,536**

15. Finance costs

	2014 HRK	2013 HRK
Interest, foreign exchange differences, dividends and similar income from relations with unrelated parties		
Interest expense	13,150,141	14,562,071
Foreign exchange losses	30,128,494	34,882,795
Other finance costs	672,955	731,347
	43,951,590	*50,176,213*
Unrealised losses		
Impairment losses on current financial assets	-	835,456
Impairment losses on non-current financial assets	-	1,049,932
	-	*1,885,388*
	43,951,590	**52,061,601**

16. Corporate income tax

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

	2014 HRK	2013 HRK
Consolidated profit before tax	176,082,637	179,342,701
Corporate income tax at rate of 20%	**35,216,527**	**35,868,540**
Tax effects from:		
Consolidation adjustments	(15,637,369)	(12,498,843)
Tax non-deductible expenses	3,996,733	11,944,039
Tax decreases	(5,161,447)	(10,347,946)
Utilisation of previously unrecognised tax assets	-	(1,162,595)
Income tax in foreign subsidiaries	354,944	
Investment incentives	(2,783,702)	(8,155,871)
Income tax	**15,985,686**	**15,647,324**

The Group can carry forward tax losses for companies which incurred losses in 2014 and which had no tax liability and from subsidiaries who realized profit in 2014 but had tax losses from previous periods. These tax losses can be carried forward for maximum period of 5 years. As at 31 December 2014 unrecognized tax asset on tax losses carried forward amounts to HRK 33,952 thousand (31 December 2013: HRK 42,313 thousand).

Gross tax losses expire as follows:

	31 December 2014 HRK	31 December 2013 HRK
31 December 2014	-	30,940,470
31 December 2015	33,567,215	39,393,725
31 December 2016	22,606,540	27,200,350
31 December 2017	40,081,890	46,967,915
31 December 2018	61,270,530	67,060,740
31 December 2019	12,232,425	-
	169,758,600	**211,563,200**

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.

17. Earnings per share

Basic and diluted earnings per share

	2014	2013
	HRK	HRK
Net profit attributable to owners of the parent	129,249,283	135,112,460
Weighted average number of shares (decreased by treasury shares)	2,570,258	2,567,619
Earnings per share in HRK	**50.29**	**52.62**

Diluted earnings per share for 2014 and 2013 are the same as basic since the Group had no convertible instruments or options during both periods.

18. Goodwill

Goodwill amounting to HRK 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 2013	**7,500,898**
Decrease (foreign exchange differences and similar)	145,720
As at 31 December 2013	**7,646,618**
Increase	2,367
As at 31 December 2014	**7,648,985**

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

19. Non-current intangible assets

	Development expenditure	Concessions, patents, software and other rights	Other	Intangible assets under construction	Advance payments	Total
	HRK	HRK	HRK	HRK	HRK	HRK
Cost						
As at 1 January 2013	**69,807,310**	**21,189,844**	**1,166,261**	**12,878,487**	**477,797**	**105,519,699**
Transfer to tangible assets	-	-	-	(1,553,564)	-	**(1,553,564)**
Transfer from tangible assets	-	-	-	2,054,932	-	**2,054,932**
Transfer from assets under cons	7,309,305	2,291,845	-	(9,601,150)	-	**-**
Additions	5,092,161	1,912,805	9,950	6,741,360	451,598	**14,207,874**
Disposals	-	(539,974)	-	(883,256)	(929,395)	**(2,352,625)**
As at 31 December 2013	**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 cons	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**
Accumulated amortisation						
As at 1 January 2013	**62,166,435**	**16,148,736**	**779,245**	**-**	**-**	**79,094,416**
Amortisation for the year	4,950,286	2,025,520	85,179	-	-	**7,060,985**
Transfer from tangible assets	126,499	-	-	-	-	**126,499**
Impairment	2,467,451	295,253	-	-	-	**2,762,704**
Disposals	-	(539,974)	-	-	-	**(539,974)**
As at 31 December 2013	**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**
Net book amount						
As at 31 December 2013	12,498,105	6,924,985	311,787	9,636,809	-	29,371,686
As at 31 December 2014	**12,974,083**	**7,215,558**	**517,681**	**20,739,489**	**2,791,472**	**44,238,283**

The cost of fully amortized intangible assets still in use as at 31 December 2014 amounts to HRK 62,297 thousand (31 December 2013: HRK 18,288 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 2013	**158,130,608**	**908,871,115**	**792,556,593**	**358,554,165**	**2,665,385**	**255,452,147**	**7,570,446**	**2,483,800,459**
Corrections and reclassifications	-	-	(188,651)	-	-	1,644,181	-	**1,455,530**
Transfer from intangible assets	-	-	1,553,564	-	-	-	-	**1,553,564**
Transfer to intangible assets	-	-	-	-	-	(2,054,932)	-	**(2,054,932)**
Transfer to assets held for sale	-	-	(21,156,807)	(5,823,081)	-	-	-	**(26,979,888)**
Transfer from assets under construction	3,106,342	59,574,823	231,303,869	15,567,084	-	(309,552,118)	-	-
Additions	268,210	1,075,423	790,100	9,063,569	51,527	74,066,507	31,180,490	**116,495,826**
Sale or disposal	(1,235,310)	(2,712,434)	(26,406,853)	(15,927,086)	(2,286)	(3,693,637)	(24,137,894)	**(74,115,500)**
As at 31 December 2013	**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**
Accumulated depreciation								
As at 1 January 2013	-	**557,687,357**	**571,393,008**	**284,167,384**	**1,975,212**	**3,760,872**	-	**1,418,983,833**
Transfer to intangible assets	-	-	(126,498)	-	-	-	-	**(126,498)**
Transfer to assets held for sale	-	-	(21,132,602)	(5,555,480)	-	-	-	**(26,688,082)**
Impairment	-	-	10,526,294	6,581,181	-	-	-	**17,107,475**
Depreciation for the year	-	20,256,545	37,522,975	17,699,426	35,066	-	-	**75,514,012**
Other additions	-	-	615,605	-	-	-	-	**615,605**
Additions	-	679,867	1,883,540	-	-		-	**2,563,407**
Sale or disposal	-	(1,688,247)	(21,895,990)	(15,787,501)	(2,286)	-	-	**(39,374,024)**
As at 31 December 2013	-	**576,935,522**	**578,786,332**	**287,105,010**	**2,007,992**	**3,760,872**	-	**1,448,595,728**
Impairment	-	-	-	79,846	-	-	-	**79,846**
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)	(5,054,634)	-	(346,687)	-	**(18,621,545)**
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**
Net book amount								
31 December 2013	**160,269,850**	**389,873,405**	**399,665,483**	**74,329,641**	**706,634**	**12,101,276**	**14,613,042**	**1,051,559,331**
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**

As a collateral for long-term borrowings (Note 35) and short-term borrowings (Note 37) mortgages have been registered over the real estates and movables of the Group in the amount of HRK 571.5 million and EUR 57.2 million.

The cost of the Group's tangible assets which are fully depreciated and still in use as of 31 December 2014 amounts to HRK 610,940 thousand (31 December 2013: HRK 643,980 thousand).

As at 31 December 2014 the Group had no contracted uncompleted investments.

The carrying value of Group's assets purchased on finance lease as at 31 December 2014 amounts to HRK 1.9 million (31 December 2013: HRK 2.2 million).

21. Investment property

Investment property in the amount of HRK 104,549,243 (2013: HRK *100,366,943*) 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 these investments estimated by independent evaluators is higher than their carrying amount, and it represents the basis for depreciation.

Movements in investment property in 2014 and 2013 are presented below:

	Land	**Buildings**	**Total**
	HRK	**HRK**	**HRK**
Cost			
At 1 January 2013	**34,888,118**	**89,025,932**	**123,914,050**
Transfer to non-current tangible assets	(2,846,395)	(4,895,032)	(7,741,427)
Additions	635,261	8,730,094	9,365,355
At 31 December 2013	**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**
Accumulated depreciation			
At 1 January 2013	**-**	**23,504,852**	**23,504,852**
Additions	-	1,656,380	1,656,380
Depreciation charge for the year	-	9,803	9,803
At 31 December 2013	**-**	**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**
Net carrying value			
31 December 2013	32,676,984	67,689,959	100,366,943
31 December 2014	**33,379,242**	**71,170,001**	**104,549,243**

The fair value of investment property determined by management amounts to HRK 105 million (2013: HRK 100 million) and 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 2014	31 December 2013
	HRK	HRK
Associates:		
Končar – Power Transformers Ltd., Zagreb (49%)	**244,722,545**	244,722,545
Other associates (indirect subsidiaries):		
Elkakon Ltd., Zagreb (50% - indirect)	4,198,513	3,567,965
Joint venture:		
Tbea Končar Instrument Transformers, China (27%)	14,349,116	9,963,799
	263,270,174	**258,254,309**

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.**	
	2014	**2013**	**2014**	**2013**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Revenues	1,001,459	834,851	67,048	56,868
Expenses	(848,102)	(719,700)	(65,249)	(56,235)
Profit before taxation	153,357	115,151	1,799	633
Corporate income tax	(30,746)	(23,144)	(370)	(138)
Net profit for the year	**122,611**	**92,007**	**1,429**	**495**
Non-current assets	203,909	224,676	5,654	5,668
Current assets	853,587	794,171	14,094	9,650
Total assets	**1,057,496**	**1,018,847**	**19,748**	**15,318**
Total liabilities	**435,451**	**427,375**	**11,400**	**8,199**

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

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

	Tbea Končar Instrument Transformers Ltd.	
	2014	2013
	HRK'000	HRK'000
Revenues	162,506	103,636
Expenses	(153,459)	(94,048)
Profit before taxation	9,047	9,588
Corporate income tax	(2,288)	(1,606)
Net profit for the year	**6,759**	**7,982**
Non-current assets	12,616	15,303
Current assets	156,120	110,096
Total assets	**168,736**	**125,399**
Total liabilities	**105,584**	**71,593**

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

	Power Transformers Ltd. HRK	Elkakon Ltd. HRK
1 January 2013	289,806,243	3,321,799
Profit of associate (Note 13)	45,083,698	511,871
Dividend payment by associate	(45,083,698)	(265,705)
31 December 2013	**244,722,545**	**3,567,965**
Profit of associate (Note 13)	60,079,592	730,548
Dividend payment by associate	(60,079,592)	(100,000)
31 December 2014	**244,722,545**	**4,198,513**

Movements in investment in the joint venture were as follows:

	HRK
1 January 2013	**5,254,620**
Profit of joint venture (Note 13)	2,155,085
Increase in value of investment in joint venture in China – partial reversal of impairment loss	2,554,094
31 December 2013	**9,963,799**
Profit of joint venture (Note 13)	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**

23. Non-current financial assets

	31 December 2014 HRK	31 December 2013 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	262,016
Centar proizvodnog strojarstva i analitičarstva Ltd.	60,000	60,000
Bio plinifikacija	10,000	10,000
	2,835,328	**2,049,216**
Financial assets at fair value through profit or loss:		
Shares	5,191,669	6,102,115
Impairment of shares	(2,722,855)	(2,722,855)
	2,468,814	**3,379,260**
Loans granted, deposits and similar	**5,346,633**	**2,605,489**
Other financial assets	**27,765**	**806,120**
	10,968,607	**9,130,152**

24. Non-current receivables

	31 December 2014 HRK	31 December 2013 HRK
Receivables on the basis of credit sale		
Receivables for apartments sold /i/	13,545,987	12,937,318
Impairment of receivables for apartments sold	(3,180,752)	(3,180,752)
Receivables for shares sold /ii/	10,293,339	13,724,452
Current portion – apartments and shares sold (Note 29)	(5,702,319)	(3,431,114)
Other receivables	50,049	71,658
	15,006,304	**20,121,562**
Other receivables		
Receivables on the basis of foreign sales /iii/	5,002,565	5,362,474
Current portion of foreign sales (Note 27)	(445,241)	(375,467)
Loans granted to employees	4,409,133	4,797,053
Current portion of loans grated to employees (note 29)	(858,287)	(952,494)
Other non-current receivables	119,612	194,749
	8,227,782	**9,026,315**
	23,234,086	**29,147,877**

/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 through the company TAKRAF from Germany, assigned to KfW Bank, Berlin.

25. Inventories

	31 December 2014 HRK	31 December 2013 HRK
Raw materials and supplies	294,146,538	281,822,309
Work in progress	116,321,737	115,557,883
Unfinished and semi-finished products	46,483,897	40,099,532
Finished goods	78,550,983	63,620,166
Merchandise	18,605,714	11,770,656
Goods in transit	267,011	-
Spare parts	136,585	90,908
Small inventory and packaging	3,124,717	3,139,077
Stock from discontinued activity for disposal	-	2,863,775
Less: Impairment of raw materials and supplies, spare parts, and small inventory and packaging	(50,302,024)	(54,438,403)
Impairment of work in progress, finished goods and merchandise	(23,403,795)	(24,465,388)
	483,931,363	**440,060,515**
Advances for inventories		
Domestic advances	9,331,367	2,526,616
Advances given to related parties	-	95,267
Impairment	-	(8,942)
	9,331,367	**2,612,941**
Foreign advances	19,575,726	2,531,304
Impairment of advances given	(163,388)	(163,144)
	19,412,338	**2,368,160**
Total advances	**28,743,705**	**4,981,101**
	512,675,068	**445,041,616**

Cost of goods sold recognized in the income statement in 2014 amounted to HRK 1,224,014 thousand (2013: HRK 1,199,783 thousand).

26. Receivables from related parties

	31 December 2014 HRK	31 December 2013 HRK
Končar- Power Transformers Ltd., Zagreb	78,586,504	64,650,324
TBEA China	1,955,031	837,468
Elkakon Ltd. Zagreb	6,728,401	3,233,662
Konell Ltd.	3,184,723	3,174,818
	90,454,659	**71,896,272**

27. Trade receivables and gross amounts due from customers

	31 December 2014	31 December 2013
	HRK	HRK
Trade receivables (invoiced) /i/	686,692,767	584,156,129
Receivables under construction contracts (un-invoiced) /ii/	174,499,635	36,399,313
	861,192,402	**620,555,442**

/i/ Trade receivables

	31 December 2014	31 December 2013
	HRK	HRK
Domestic customers	418,250,410	374,007,839
Impairment	(47,612,063)	(58,777,367)
Total domestic customers	**370,638,347**	**315,230,472**
Foreign customers	416,064,740	370,456,376
Current portion – foreign sales (Note 24)	445,241	375,467
Bad debt provision	(100,455,561)	(101,906,188)
Total foreign customers	**316,054,420**	**268,925,657**
Total domestic and foreign customers	**686,692,767**	**584,156,129**

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
2014	**686,692,767**	607,590,081	56,965,752	7,517,185	5,745,273	7,938,806	935,670
2013	**584,156,129**	493,986,774	61,525,886	10,662,383	10,582,919	5,264,653	2,133,514

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:

	2014	2013
	HRK	HRK
Balance as at 1 January	**160,683,554**	**156,145,536**
Impaired during the year	2,896,855	7,962,272
Collected during the year	(5,155,332)	(2,942,741)
Written – off during the year	(10,675,625)	(1,805,449)
Foreign exchange differences	318,172	1,323,937
Balance as at 31 December	**148,067,624**	**160,683,555**

/ii/ Gross amounts due from customers

	31 December 2014 HRK	31 December 2013 HRK
Incurred costs plus recognized gains less recognized losses	802,047,107	1,034,884,555
Less invoiced amounts	(627,547,472)	(998,485,242)
	174,499,635	**36,399,313**

The amount of construction contract revenues, which are recognized as revenues in 2014, amount to HRK 575,366 thousand (2013: HRK 461,735 thousand). The total amount of advances received for contracts which are not completed as at 31 December 2014 amounts to HRK 349,336 thousand (2013: HRK 69,827 thousand), and total amount of retentions for construction contracts amounts to HRK 36,576 thousand (2013: HRK 16,851 thousand).

28. Other receivables

	31 December 2014 HRK	31 December 2013 HRK
Receivables from the state and other institutions		
Receivables for value added tax	28,201,336	22,943,427
Receivables from Croatian Health Insurance Fund	538,928	603,057
Other	37,581	80,602
	28,777,845	**23,627,086**
Other current receivables		
Receivables for shares sold	10,247,847	8,472,208
Receivables for advances given for services	11,937,091	21,082,684
Receivables from companies that are no longer part of the Group	11,221,376	-
Receivables for recognised claims	8,292,699	-
Other	4,758,511	3,639,909
Current portion of receivables for shares sold (Note 24)	4,348,973	3,431,114
Receivables for apartments sold (current portion) (note 24)	1,353,346	1,554,535
Current portion of loans granted to employees (Note 24)	862,287	952,494
Receivables for loans granted to employees	22,244	22,302
Receivables for compensation claims	-	6,435,323
	53,044,374	**45,590,569**
Receivables from employees		
Receivables from employees	1,044,945	1,397,185
Impairment of receivables from employees	(327,471)	(327,471)
	717,474	**1,069,714**
	82,539,693	**70,287,369**

29. Current financial assets

	31 December 2014 HRK	31 December 2013 HRK
Deposits over 3 months	438,529,339	302,405,387
Derivative financial instruments – forward contracts	297,729	1,913,754
Loans given (7%)	1,300,000	-
Other financial assets	2,112	1,039,119
	440,129,180	**305,358,260**

The contractual interest on deposits over 3 months in commercial banks is set between 0.7% – 3.20% (2013: 0.43% – 4.9%).

30. Cash and cash equivalents

	31 December 2014 HRK	31 December 2013 HRK
Deposits up to 3 months	187,186,045	251,424,291
Giro accounts	117,297,775	114,740,081
Foreign currency accounts	75,751,860	78,269,681
Cash funds	10,800,400	1,619,110
Cash in hand	211,547	173,149
Short-term securities	191,116	191,116
Less: Impairment	(184,992)	(184,992)
	391,253,751	**446,232,436**

The contractual interest on deposits over 3 months in commercial banks is set between 0.3% - 2.75% (2013: 0.4% - 3.75%). The Company mainly deposits its cash with financial institutions that are part of international banking groups with an 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 15,919,363 (31 December 2013: HRK 5,999,951) relate to paid expenses related to future periods amounting to HRK 15,387,959 (31 December 2013: HRK 5,484,972) and accrued income in the amount of HRK 531,403 (31 December 2013: HRK 514,979).

32. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2014 in the amount of HRK 5,960,000 relate to real estate owned by the subsidiary DST acquired in exchange for unsettled receivable from the company Elektromaterijal Ltd. in bankruptcy.

33. Share capital

Share capital is determined in the nominal value amounting to HRK 1,208,895,930 (31 December 2013: HRK 1,028,847,600) and consist of 2,572,119 shares at nominal value of HRK 470 (2013: HRK 400).

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 2014**		**31 December 2013**	
	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB Inc. (Capital fund Inc.)	724,515	28.17	724,515	28.17
State office for state property management /HZMO	384,628	14.95	384,628	14.95
State office for state property management /CRO	260,280	10.12	260,280	10.12
Societe Generale - Splitska bank/ Erste Blue mandatory pension fund	202,149	7.86	184,189	7.16
Hypo-Alpe-Adria-Bank/ PBZ Croatia insurance mandatory pension fund	255,928	9.95	257,117	10.00
Linteum savjetovanje Ltd.	39,791	1.55	39,791	1.55
Societe Generale/AZ mandatory pension fund	106,438	4.14	106,438	4.14
Floričić Kristijan	82,682	3.21	60,714	2.36
Hypo-Alpe-Adria-Bank/Raiffeisen mandatory pension fund	29,504	1.15	33,213	1.29
PBZ d.d. (custodian account)	27,366	1.06	69,731	2.71
Other shareholders	456,977	17.77	447,003	17.38
Končar Inc. (treasury shares)	1,861	0.07	4,500	0.17
	1,572,119	**100.00**	**2,572,119**	**100.00**

The parent Company's General Assembly made the decision in 2014 on the payment of dividends to shareholders in the amount of HRK 30,843,095 which is HRK 12.00 per share (2013: HRK 30,857,460 or 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 stated reserves are not subject to any restrictions as to their distribution.

Share-based payments

During 2014, the Group made share-based payments to members of the Management Board in accordance with the provisions of the Management Agreements in the amount of HRK 705,719 (2013: HRK 2,895,916).

34. Provisions

	Servicing during warranty periods	Court case provisions	Jubilee and retirement rewards	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
1 January 2013	**329,945,204**	**60,415,267**	**24,519,744**	**2,572,836**	**417,453,051**
Additional provisions	55,536,590	1,079,206	12,755,976	150,974	69,522,746
Release of provisions	(135,110,307)	(3,252,558)	(9,114,131)	(600,842)	(148,077,838)
Other (exchange differences etc.)	(35,671)	-	-	-	(35,671)
31 December 2013	**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)	(11,380,311)	(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**

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 242,214,327 (31 December 2013: HRK 250,335,816).

Provisions for court cases

Non-current provisions for court cases in the amount of HRK 37,382,645 (2013: HRK 58,241,915) 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 21,722,159 (2013: HRK 28,161,589) 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 5.65%.

Other long-term provisions in the amount of HRK 2,343,705 (as at 31 December 2013: HRK 2,122,968) relate to provisions for product testing in the amount of HRK 1,471,994 (31 December 2013: HRK 1,971,994), and other provisions in the amount of HRK 871,711 (31 December 2013: HRK 150,974).

35. Long-term borrowings

	31 December 2014	31 December 2013
	HRK	HRK
Due to banks	219,016,568	257,457,587
Less: Current portion (Note 37)	(57,108,938)	(51,107,942)
	161,907,630	**206,349,645**
Borrowings from third parties	170,000	510,000
Less: Current portion (Note 37)	(170,000)	(340,000)
	-	**170,000**
	161,907,630	**206,519,645**

Changes in borrowings from banks were as follows:

	HRK
1 January 2013	**245,571,105**
New borrowings	14,869,488
Repayment of borrowings	(3,818,938)
Foreign exchange differences	835,932
Less: current portion	(51,107,942)
31 December 2013	**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**

Long-term bank borrowings mature as follows:

	31 December 2014	31 December 2013
	HRK	HRK
Within 1 year	57,108,938	51,107,942
From 1 to 2 years	16,300,917	31,002,364
From 2 to 5 years	93,217,185	101,348,065
More than 5 years	52,389,528	73,999,216
Less: current portion	(57,108,938)	(51,107,942)
	161,907,630	**206,349,645**

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
Distribution and Special Transformers Inc.	RBA & CBRD	Purchase of equipment and reconstruction of production capacities	HRK 15 million	4%	31/12/2014	Mortage over that company's equipment
Distribution and Special Transformers Inc.	RBA & CBRD	Financing investments in production facilities - plant construction	EUR 1,025,233	4%	31.12.2014.	Mortgage over that company's property, in the total amount of EUR 28.2 million
Distribution and Special Transformers Inc.	RBA & CBRD	Financing construction and equipment for laboratries, and production, warehouse and administrative facilities	EUR 6 million	4%	30.06.2022.	Mortage over that company's property
Distribution and Special Transformers Inc.	SG-SB & CBRD	Financing working capital	HRK 7.5 million + EUR 1,014,288	4%	30.09.2015.	Mortage over that company's property
Instrument Transformers Inc.	ZABA	Financing working capital	EUR 500,000	3m EURIBOR + 4.92% per annum, variable	31.12.2015.	Mortgage over property in Jankomir, land registry entries 1055, 1060 and 1063; co-borrower Končar-Electrical Industry Inc.
Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward financial institutions c) Other - salaries	HRK 2,625,000	2.8%	30.09.2016.	2 blank accepted bills of exchange without recourse and 2 debentures per bank share
Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward financial institutions c) Other - salaries	HRK 3,937,500	3.89% variable	30.09.2016.	2 blank accepted bills of exchange without recourse and 2 debentures per bank share
Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward financial institutions c) Other - salaries	HRK 1,562,500	1.8%	30.03.2016.	2 blank accepted bills of exchange without recourse and 2 debentures per bank share
Instrument Transformers Inc.	PBZ	Financing working capital: a) Trade payables; b) Liabilities toward financial institutions c) Other - salaries	HRK 1,562,500	5.3% variable	30.03.2016.	2 blank accepted bills of exchange without recourse and 2 debentures per bank share
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
Končar Household Appliances	PBZ & CBRD	Financing 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

36. Liabilities toward related parties (associates)

	31 December 2014 HRK	31 December 2013 HRK
Končar-Power transformers Ltd., Zagreb:	37,296,017	2,981,260
Elkakon Ltd.	3,291,399	804,304
	40,587,416	**3,785,564**

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

	31 December 2014 HRK	31 December 2013 HRK
Liabilities to banks and other financial institutions	86,165,928	42,757,659
Plus: Current portion (Note 35)	57,108,938	51,107,942
Current portion of borrowings from third parties	170,000	340,000
	143,274,866	**94,205.601**

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

	HRK
1 January 2013	**101,666,247**
New borrowings	9,723,351
Repayment of borrowings	(68,692,022)
Foreign exchange differences	60,083
Plus: current portion of long-term borrowings	51,107,942
31 December 2013	**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**

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.	Erste bank	Financing export preparation or export	HRK 10,000,000	4.00% per annum	15.2.2014.	5 blank accepted bills of exchange of the loan user w ithout recourse and bill of exchange statement
Instrument Transformers Inc.	ZABA	Financing export preparation or export	HRK 15,000,000	4.00% per annum	15.4.2014.	Mortgage over property in Jankomir, land registry entries 1055, 1060 and 1063; co-borrow er Končar - Electrical Industry Inc.
Renew able Sources Ltd.	CBRD	Financing "Wind pow er plant Pometeno brdo" project.	EUR 10,835,352	4%	31.3.2014.	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Renew able Sources Ltd.	ZABA	Financing "Wind pow er plant Pometeno brdo" project.	EUR 2,400,000	3-month EURIBOR + 4% per annum margin	31.3.2014.	Bills of exchange, debentures, endorsed insurance policies, mortgages, cessions, pledge agreement on project accounts
Končar Electric Vehicles Inc.	CBRD	Financing the Agreement on the production and delivery of one four-section low -floor electric train for the purposes of regional passenger railw ay traffic in Bosnia	HRK 7.9 million	4% fixed	15.07.2014.	Mortgage over property through bills of exchange,3 blank accepted bills of exchange, 1 debenture
Končar Household Appliances I	ZABA	Financing periodical w orking capital needs	EUR 350,000	3-month EURIBOR + 5.5% per annum, variable	15.1.2015.	3 blank accepted bills of exchange and 1 debenture of the company solemnized by the notary public
Distribution and Special Transformers Inc.	RBA	Financing w orking capital	EUR 3 million	3.5%	20.11.2015.	Loan from the Frame: bills of exchange, debentures, mortgage over property

38. Other current financial liabilities

	31 December 2014 HRK	31 December 2013 HRK
Derivative financial instruments – forward contracts	3,650,393	-

39. Trade payables

	31 December 2014 HRK	31 December 2013 HRK
Domestic suppliers	261,072,310	222,644,048
Foreign suppliers	105,481,238	80,583,832
Liabilities for un-invoiced goods	4,517,970	750,696
	371,071,518	**303,978,576**

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
2014	**371,071,518**	325,912,958	38,231,758	4,328,171	1,044,605	287,553	1,266,473
2013	**303,978,576**	246,302,568	48,476,841	4,301,220	2,122,193	350,120	2,425,634

40. Gross amounts due to customers

	31 December 2014 HRK	31 December 2013 HRK
Invoiced in the year under contracts	229,143,439	130,023,071
Less costs incurred plus recognized profits less the sum of recognized losses	(199,300,018)	(88,345,101)
	29,843,421	**41,677,970**

41. Liabilities for advances received

	31 December 2014 HRK	31 December 2013 HRK
From domestic customers	270,092,969	41,587,226
From foreign customers	146,762,503	100,281,340
	416,855,472	**141,868,566**

42. Other liabilities

	31 December 2014 HRK	31 December 2013 HRK
Liabilities to the state and other institutions		
Liability for value added tax	8,550,709	7,634,676
Liabilities for contributions on and from salary and taxes and surtaxes	37,020,618	29,124,231
	45,571,327	**36,758,907**
Current other liabilities		
Interest payable	2,195,927	2,719,419
Liabilities to shareholders	515,804	474,678
Other liabilities	982,634	1,137,624
	3,694,365	**4,331,721**
Current liabilities toward employees		
Net salaries	29,022,605	27,189,791
Liabilities for severance pay	26,000	27,500
Liabilities toward Management Boards of companies for bonuses	4,754,240	3,466,113
Other liabilities	440,204	375,122
	34,243,049	**31,058,526**
	83,508,741	**72,149,154**

43. Accrued expenses and deferred income

	31 December 2014 HRK	31 December 2013 HRK
Deferred income	44,497,975	41,908,189
Current provisions	21,882,839	39,488,092
Accrued expenses	2,877,162	1,082,439
Other provisions	6,140,632	5,621,292
	75,398,608	**88,100,012**

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 2014 and 31 December 2013. The Group monitors capital on the basis of the gearing ratio, which is calculated as follows.

	31 December 2014	31 December 2013
	HRK'000	HRK'000
Financial liabilities	305,352	300,725
Decrease for cash and cash equivalents (deposits)	(391,254)	(446,232)
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	Held-to-maturity investments	Total assets classified under IAS 39
	HRK'000	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	877,406	-	-	-	**877,406**
Cash and cash equivalents	380,454	10,800	-	-	**391,254**
	1,726,272	**13,567**	**-**	**-**	**1,742,992**

	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Held-to-maturity investments	Total assets classified under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2013					
Long-term financial assets	2,629	3,626	2,875	-	**9,130**
Non-current receivables	29,148	-	-	-	**29,148**
Current financial assets	303,370	1,914	-	74	**305,358**
Trade receivables, receivables from related parties and other receivables	736,370	-	-	-	**736,370**
Cash and cash equivalents	444,613	1,619	-	-	**446,232**
	1,516,130	**7,159**	**2,875**	**74**	**1,526,238**

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”.

<u>Fair value of financial instruments</u>

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 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
Cash funds	10,800	-	-	10,800
	12,549	**298**	**797**	**13,644**

31 December 2013

	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	2,659	-		2,659
Investments in unlisted shares			797	797
Fair value of the derivative financial instruments	-	2,708	-	2,708
Cash funds	1,619	-	-	1,619
	4,278	**2,708**	**797**	**7,783**

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 2014	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Trade receivables and receivables from related parties	269,347	43,050	14,831	327,228	449,920	777,148
Other receivables	19,775	360	258	20,393	79,865	100,258
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
	963,883	**47,119**	**52,485**	**1,063,487**	**645,302**	**1,708,789**
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	(64,748)	(6,818)	(6,413)	(77,979)	(425,932)	(503,911)
Borrowings	(196,428)	-	-	(196,428)	(108,925)	(305,353)
	(379,305)	**(9,169)**	**(13,227)**	**(401,701)**	**(822,872)**	**(1,224,573)**

31 December 2013	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Trade receivables and receivables from related parties	259,327	9,552	21,240	290,119	365,933	656,052
Other receivables	26,782	144	1,106	28,032	52,285	80,317
Deposits over 3 months	283,424	-	7,130	290,554	14,804	305,358
Cash and cash equivalents	149,753	4,728	24,977	179,458	266,774	446,232
	719,286	**14,424**	**54,453**	**788,163**	**699,796**	**1,487,959**
Trade payables and liabilities to related parties	(117,417)	(484)	(4,888)	(122,789)	(184,975)	(307,764)
Other liabilities	(97,331)	(61)	(1,527)	(98,919)	(115,573)	(214,492)
Borrowings	(204,849)	-	-	(204,849)	(95,876)	(300,725)
	(419,597)	**(545)**	**(6,415)**	**(426,557)**	**(396,424)**	**(822,981)**

	Short-term exposure			**Long-term exposure**		
	EUR	USD	Other currencies	EUR	USD	Other currencies
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2014						
Financial assets	963,883	47,119	52,485	5,898	-	-
Financial liabilities	(252,346)	(9,169)	(13,227)	(128,958)	-	-
Total exposure	**711,537**	**37,950**	**39,258**	**(123,060)**	**-**	**-**

	Short-term exposure			**Long-term exposure**		
	EUR	USD	Other currencies	EUR	USD	Other currencies
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2013						
Financial assets	711,401	14,424	54,453	7,885	-	-
Financial liabilities	(257,161)	(545)	(6,415)	(162,436)	-	-
Total exposure	**454,240**	**13,879**	**48,038**	**(154,551)**	**-**	**-**

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

Sensitivity analysis

The strengthening of the HRK exchange rate in relation to changes to the following currencies by the presented percentages at the reporting date would decrease the profit before tax by the following amounts:

	2014 Effect on profit before tax HRK'000	2013 Effect on profit before tax HRK'000
EUR (1%) (2013: 1%)	3,413	3,655
USD (14%) (2013: 3%)	5,176	(431)
Other currencies	3,392	(3,149)

This analysis assumes that all other variables, interest rates especially, remain unchanged.
A weakening of HRK against the above currencies by the presented percentages at the reporting date would have had the equal but opposite effect on the profit before tax, on the basis that all other variables are held constant.

b) Interest rate risk

The Group is exposed to interest risk since a portion of borrowings is agreed at variable interest rates while the majority of assets is non-interest bearing. Certain 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.

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

2013	Increase/ decrease in percentage	Effect on income before taxes HRK'000
HRK	+1%	(2,796)
HRK	-1%	2,796

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 28.

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 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	87,056	87,056	79,908	4,477	2,761	-
Derivative instruments	3,650	3,650	-	3,650	-	-
Interest-bearing liabilities	305,353	341,700	54,594	105,2211	139,328	42,557
	807,717	**844,064**	**218,596**	**140,912**	**141,999**	**42,557**

	Carrying amount	Contracted cash flows	0 – 3 months	3 – 12 months	2 – 5 years	Over 5 years
31 December 2013	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current trade payables and liabilities to related parties	307,764	307,764	204,345	102,238	1,181	-
Other current liabilities	72,624	72,624	68,655	3,704	265	-
Interest-bearing liabilities	300,726	324,082	28,696	76,025	162,273	57,088
	681,114	**704,470**	**301,696**	**181,967**	**163,719**	**57,088**

45. Segment reporting

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**

2013	**Industry**	**Energy and transport**	**Trade**	**Special activities**	**Company**	**Eliminations**	**Group**
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Sales	111,028,820	2,139,398,279	146,527,323	45,808,299	193,497	-	2,442,956,218
Sales to related companies	6,923,327	288,551,378	6,841,179	83,361,104	52,621,220	(371,210,394)	67,087,814
Other operating income	3,799,161	104,858,412	9,630,683	19,648,242	85,996,377	1,714,435	225,647,310
Total operating income	*121,751,308*	*2,532,808,069*	*162,999,185*	*148,817,645*	*138,811,094*	(369,495,959)	*2,735,691,342*
Total operating expenses	(124,115,016)	(2,432,366,984)	(202,370,275)	(144,264,866)	(84,603,057)	368,145,904	(2,619,574,294)
Operating profit/loss	*(2,363,708)*	*100,441,085*	*(39,371,090)*	*4,552,779*	*54,208,037*	*(1,350,055)*	*116,117,048*
Financial result	1,514,357	810,259	(1,399,766)	(144,967)	87,618,762	(25,172,992)	63,225,653
Profit/loss before taxation	**(849,351)**	**101,251,344**	**(40,770,856)**	**4,407,812**	**141,826,799**	**(26,523,047)**	**179,342,701**
Corporate income tax	(1,594,990)	(13,247,670)		(804,664)			(15,647,324)
Net profit/loss for the year	**(2,444,341)**	**88,003,674**	**(40,770,856)**	**3,603,148**	**141,826,799**	**(26,523,047)**	**163,695,377**
Non-controlling interest							28,582,917
Profit of the Parent company owner							135,112,460
Non-current assets	33,069,288	721,441,859	88,322,945	67,095,835	1,130,865,597	(555,318,608)	1,485,476,916
Current assets	80,194,001	1,432,469,822	78,638,012	143,986,631	419,125,789	(172,761,018)	1,981,653,237
Total assets	**113,263,289**	**2,153,911,681**	**166,960,957**	**211,082,466**	**1,549,991,386**	**(728,079,626)**	**3,467,130,153**
Total liabilities	**29,327,576**	**1,271,324,287**	**83,270,636**	**35,526,863**	**67,179,311**	**(195,006,855)**	**1,291,621,818**

Sales by regions:

	2014		2013	
	HRK'000	%	HRK'000	%
Croatia	**1,350,740**	**51.0%**	**1,283,719**	**51.3%**
Countries in European Union	713,096	26.9%	683,612	27.2%
	2,063,836	**77.9%**	**1,967,331**	**78.5%**
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	123,865	4.7%	133,234	5.3%
Other European countries	35,922	1.4%	100,374	4.0%
Asia	180,836	6.8%	32,325	1.3%
America and Australia	45,263	1.7%	55,084	2.2%
Other countries	199,034	7.5%	220,751	8.7%
	584,920	**22.1%**	**541,768**	**21.5%**
	2,648,756	**100%**	**2,509,099**	**100%**

46. Off-balance sheet items

Off-balance sheet items of the Group amounting to HRK 2,609 million (2013: HRK 2,115 million) mostly relate to the issued collateral (guarantees, bills of exchange, promissory notes), solidary/subsidiary guarantees, liabilities toward the state for apartments sold (65%), etc.

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, increased by legal penalty interest. As at 31 December 2014 the Parent company recognized the provision in the amount of HRK 31,800 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 2014 amounted to HRK 3,718 million (31 December 2013: HRK 2,370 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 2014, 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 27 March 2015.

Signed on behalf of the Management Board:

Darinko Bago,

President of the Management Board

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