# KONČAR – ELECTRICAL INDUSTRY, INC

## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

## 31 DECEMBER 2014

# Contents

## Responsibility for the financial statements

Pursuant to the Croatian Accounting Law in force (Official Gazette 109/07, 54/13, 121/14), the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards endorsed for use in the European Union which give a true and fair view of the financial position and results of the company Končar-Electrical Industry Inc. (hereinafter: the Company) for that period.

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

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

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

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

Signed on behalf of the Management Board:

Darinko Bago, president of the Management Board

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

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

27 March 2015

## *Independent Auditor's Report*

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

We have audited the accompanying financial statements of Končar – Electrical Industry Inc., Zagreb (the "Company"), which comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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*T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr*
Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Reconsult d.o.o. Trg hrvatskih velikana 4/1, Zagreb,
Trgovački sud u Zagrebu; MBS: 080091897; OIB: 89603242748; Žiro-račun: 2360000-1101271099 kod Zagrebačke banke d.d., Zagreb; IBAN: HR8923600001101271099; Temeljni kapital društva u iznosu od 250.000,00 kuna uplaćen u cijelosti. Uprava: Željko Trcin; Marija Zupančić

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revizija i konzalting

**Other matters**

The financial statements of Končar – Electrical Industry Inc. as at 31 December 2013 were audited by another auditor whose report as at 14 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.
REVIZIJA I KONZALTING
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.**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

| | Note | 2014 HRK | 2013 HRK |
|---|---|---|---|
| Sales | 4 | 52,721,824 | 52,783,759 |
| Other operating income | 5 | 36,188,142 | 86,027,335 |
| **Operating income** | | **88,909,966** | **138,811,094** |
| Cost of materials and energy | 6 | (5,804,109) | (5,900,332) |
| Cost of services | 7 | (30,237,407) | (32,629,214) |
| Personnel costs | 8 | (25,730,039) | (24,154,942) |
| Depreciation and amortization | | (11,670,006) | (10,841,703) |
| Other costs | 9 | (41,759,988) | (9,278,675) |
| Impairment losses | 10 | (733,080) | (2,097,311) |
| Provisions | 11 | (285,508) | (536,336) |
| **Operating expenses** | | **(116,220,137)** | **(85,438,513)** |
| **Operating result** | | **(27,310,171)** | **53,372,581** |
| Dividend income from associates | | 60,079,592 | 45,083,698 |
| Finance income | | 71,739,724 | 57,920,036 |
| Finance costs | | (14,916,921) | (14,549,517) |
| **Finance income - net** | 12 | **116,902,395** | **88,454,217** |
| **Profit before taxation** | | **89,592,224** | **141,826,798** |
| Corporate income tax | 13 | - | - |
| **NET PROFIT FOR THE PERIOD** | | **89,592,224** | **141,826,798** |
| **Other comprehensive income:** | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| Exchange differences | | 158,252 | (15,767) |
| **COMPREHENSIVE INCOME FOR THE YEAR** | | **89,750,476** | **141,811,031** |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (HRK) | 14 | 34.86 | 55.24 |

*The accompanying notes for an integral part of these financial statements*

**KONČAR – ELECTRICAL INDUSTRY Inc.**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2014**

| | Note | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 15 | 782,436 | 250,000 |
| Property, plant and equipment | 16 | 214,839,110 | 242,498,480 |
| Investment property | 17 | 136,936,351 | 107,373,940 |
| Investments in subsidiaries | 18 | 729,235,265 | 691,317,805 |
| Investments in associates | 19 | 67,722,257 | 67,722,257 |
| Financial assets | 20 | 1,576,791 | 3,105,055 |
| Receivables | 21 | 19,564,066 | 25,109,007 |
| | | **1,170,656,276** | **1,137,376,544** |
| **Current assets** | | | |
| Receivables from related companies | 22 | 69,576,420 | 63,354,921 |
| Trade accounts receivable | 23 | 899,247 | 553,984 |
| Advances given | | 171,965 | 33,435 |
| Prepaid corporate income tax | | 10,502,684 | 3,391,868 |
| Other receivables | 24 | 38,389,078 | 14,574,849 |
| Loans granted to related parties | 25 | 6,250,000 | 56,604,644 |
| Financial assets | 26 | 282,277,794 | 157,717,328 |
| Cash at bank and in hand | 27 | 5,212,190 | 115,212,162 |
| Prepaid costs and accrued income | | 8,252,451 | 1,171,651 |
| | | **421,531,829** | **412,614,842** |
| **TOTAL ASSETS** | | **1,592,188,105** | **1,549,991,386** |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | | 1,208,895,930 | 1,028,847,600 |
| Share premium | | 719,579 | 719,579 |
| Other reserves | | 235,357,615 | 273,520,895 |
| Retained earnings | | 9,052,844 | 37,997,206 |
| Profit of the year | | 89,592,224 | 141,826,798 |
| **EQUITY** | 28 | **1,543,618,192** | **1,482,812,078** |
| **Non-current provisions** | 29 | **36,276,734** | **57,068,690** |
| **Current liabilities** | | | |
| Liabilities to related companies | 30 | 3,682,023 | 3,391,942 |
| Trade accounts payable | 32 | 1,365,439 | 2,195,066 |
| Other current liabilities | 33 | 7,245,717 | 4,523,610 |
| | | **12,293,179** | **10,110,618** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,592,188,105** | **1,549,991,386** |

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

**KONČAR – ELECTRICAL INDUSTRY Inc.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

| | Note | 2014 HRK | 2013 HRK |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash receipts from trade accounts receivable | | 71,046,381 | 62,710,346 |
| Cash receipts from interests | | 7,441,843 | 15,023,621 |
| Other cash receipts | | 22,871,536 | 13,488,857 |
| **Total cash receipts from operating activities** | | **101,359,760** | **91,222,824** |
| Cash payments to trade accounts payable | | (53,055,832) | (48,193,958) |
| Cash payments to employees | | (23,271,134) | (22,053,221) |
| Cash payments for interests | | (1,644) | (1,854) |
| Cash payments for taxes | | (13,427,708) | (15,733,952) |
| Other cash payments | | (58,214,828) | (11,643,433) |
| **Total cash payments for operating activities** | | **(147,971,146)** | **(97,626,418)** |
| **Net cash flow used in operating activities** | | **(46,611,386)** | **(6,403,594)** |
| **Cash flow from investing activities** | | | |
| Receipts from the sale of non-current tangible and intangible assets | | 2,387,049 | 7,909,045 |
| Cash receipts from the sale of financial instruments | | 3,368,778 | 1,541,159 |
| Receipts from dividends | | 72,752,923 | 21,596,130 |
| Purchase of non-current tangible and intangible assets | | (10,532,534) | (16,274,137) |
| Purchase of financial instruments | | (26,997,974) | (46,299,990) |
| **Total cash inflow from/(used in) investing activities** | | **40,978,242** | **(31,527,793)** |
| **Cash flow from financing activities** | | | |
| Cash receipts from loans and borrowings | | 58,704,791 | 47,523,995 |
| Cash receipts from deposits | | 181,866,231 | 234,954,353 |
| Repayment of loans | | - | (170,000) |
| Dividends paid | | (30,875,795) | (30,784,505) |
| Deposits placed | | (305,737,055) | (264,543,349) |
| Other cash outflows for financing activities | | (8,235,000) | (32,759,182) |
| **Net cash used in financing activities** | | **(104,366,828)** | **(45,778,688)** |
| **Decrease in cash flow** | | **(109,999,972)** | **(83,710,075)** |
| Cash and cash equivalents at the beginning of the period | | 115,212,162 | 198,922,237 |
| **Cash and cash equivalents at the end of the period** | 27 | **5,212,190** | **115,212,162** |

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

**KONČAR – ELECTRICAL INDUSTRY Inc.**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

| | Share capital | Capital reserves | Reserves from profit | Reserves for treasury shares | Treasury shares | Retained earnings | Profit for the year | Total |
|---|---|---|---|---|---|---|---|---|
| | HRK | HRK | HRK | HRK | HRK | HRK | HRK | HRK |
| **As at 1 January 2013** | **1,028,847,600** | **719,579** | **197,000,749** | **148,927** | **(148,927)** | **41,085,994** | **109,155,582** | **1,376,809,504** |
| *Transactions with owners:* | | | | | | | | |
| Allocation of 2012 profit | - | - | 78,298,122 | - | - | 30,857,460 | (109,155,582) | - |
| Dividends | - | - | - | - | - | (30,857,460 | - | (30,857,460) |
| Formation of reserves for treasury 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) |
| Profit for the year | - | - | - | - | - | - | 141,826,798 | 141,826,79 |
| *Other comprehensive* income*:* | | | | | | | | |
| FX differences from translating foreign operations | - | - | (15,767) | - | - | - | - | (15,767) |
| *Total comprehensive income* | *-* | *-* | *(15,767)* | *-* | *-* | *-* | *141,826,798* | *141,811,031* |
| **As at 31 December 2013** | **1,028,847,600** | **719,579** | **273,420,895** | **3,237,715** | **(3,237,715)** | **37,997,206** | **141,826,798** | **1,482,812,078** |
| *Transactions with owners:* | | | | | | | | |
| Allocation of profit to reserves | - | - | 31,747,687 | - | - | - | (31,747,687) | - |
| Increase in share capital (note 28) | 180,048,330 | - | (69,969,219) | - | - | - | (110,079,111) | - |
| Dividends (note 28) | - | - | - | - | - | (30,843,095) | - | (30,843,095) |
| Formation of reserves for treasury shares from retained earnings | - | - | - | (1,898,733) | - | 1,898,733 | - | - |
| Share-based payments | - | - | | - | 1,898,733 | - | - | 1,898,733 |
| | *180,048,330* | *-* | *(38,221,532)* | *(1,898,733)* | *1,898,733* | *(28,944,362)* | *(141,826,798)* | *(28,944,362)* |
| Profit for the year | - | - | | - | - | - | 89,592,224 | 89,592,224 |
| *Other comprehensive income:* | | | | | | | | |
| FX differences from translating foreign operations | - | - | 158,252 | - | - | - | - | 158,252 |
| *Total comprehensive income* | *-* | *-* | *158,252* | *-* | *-* | *-* | *89,592,224* | *89,750,476* |
| **As at 31 December 2014** | **1,208,895,930** | **719,579** | **235,357,615** | **1,338,982** | **(1,338,982)** | **9,052,844** | **89,592,224** | **1,543,618,192** |

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

## 1. General information on the Company

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

As at 31 December 2014 the Company had 51 employees, while on 31 December 2013 the Company had 53 employees.

Structure of employees is as follows:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Doctoral degree (PhD) | 1 | 1 |
| Master's degree | 12 | 12 |
| University degrees | 25 | 26 |
| College | 7 | 7 |
| Secondary school | 5 | 6 |
| Primary school + training on the job | 1 | 1 |
| | **51** | **53** |

**Members of the Supervisory Board:**

| | |
|---|---|
| Nenad Filipović | President |
| Jasminka Belačić | Deputy |
| Boris Draženović | Member |
| Ivan Rujnić | Member |
| Vicko Ferić | Member |
| Petar Vlaić | Member |
| Tomislav Radoš | Member |
| Dragan Marčinko | Member |
| Petar Mišura | Member (from 15 December 2014) |
| Nikola Plavec | Member (from 15 December 2014) |
| Tomislav Radoš | Member (to 15 December 2014) |
| Kristina Čelić | Member (to 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 IT and trade activities |
| Miroslav Poljak | Member, in charge of corporate development and ICT |
| Tomi Dužević | Member, in charge of foreign markets |

Remuneration paid to members of the Management Board and Supervisory Board is dislocsed in notes 8 and 9 to the financial statements.

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

# 2. Summary of significant accounting policies

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

## 2.1. Basis for preparation

Financial statements of the Company are prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards endorsed for use in the European Union (IFRS). Accounting policies remained unchanged when compared to the prior year. During the year, the Company has not applied any new or revised IFRS that might affect financial results or that might need additional significant disclosures in the financial statements.

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

The financial statements are denominated in Croatian Kuna (HRK) as the Company's functional and reporting currency. At 31 December 2014, the exchange rate for USD 1 and EUR 1 was 6.30 HRK and 7.66 HRK, respectively (31 December 2013: HRK 5.55 and HRK 7.64 respectively). All the amounts stated in these financial statements are expressed in kunas, unless otherwise stated.

The Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 27 March 2015.

**New standards, amendments and interpretations adopted by the Company**

The Company 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 Company, its impact is described below:

*IFRS 10 Consolidated financial statements (new standard 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 sets out the accounting requirements for the preparation of consolidated financial statements. Since these are separate financial statements, this standard is not relevant.

*IFRS 11 Joint arrangements (new standard 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 Company does not have investments in joint arrangements, so this standard is not relevant.

*IFRS 12 Disclosure of interests in other entities (new standard 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 standard does not have a significant impact on the financial statements of the Company.

*IAS 27 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 application of this amended standard does not have an impact on the financial statements of the Company.

*IAS 28 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 does not have an impact on the financial statements of the Company.

*Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance effective for the 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 are not relevant since these are the separate financial statements.

*Amendments to IFRS 10, IFRS 12 and IAS 27 – on consolidation for investment entities (effective for annual periods beginning on or after 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 profit or loss. 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 amendments are not relevant since these are the separate financial statements.

*IAS 32 – Financial instruments: Presentation – on asset and liability offsetting (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 balance sheet.

*Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 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 has no significant impact on Company's disclosures, and no impact on measurement and recognition of the assets in the Company's financial position or performance.

*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 counterparty meets specified criteria. This amendment did not have an impact on the Company's financial position or performance.

*IFRIC 21, 'Levies' (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 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 addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised. Application of this interpretation did not have an impact on the Company's financial position or performance.

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

The Management plans to adopt new standards, amendments and interpretations on their effective date and as of and when endorsed by the European union and currently is in a process of assessing the possible effects on its financial statements:

*Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014)*

It includes changes to 7 standards.

IFRS 2, 'Share based payments" is amended to clarify the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition. Amendment is effective for the share based payments transactions which grant date is on or after 1 July 2014.

IFRS 3 Business combinations is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in profit and loss. Amendments to IFRS 3 are effective for the business combinations if the acquisition date is on or after 1 July 2014.

IFRS 8 „Operating segments“ is amended to 1) require disclosure of the judgements made by the management in aggregating operating segments, including the description of the sum of segments and economic indicators which were determined as segments with similar economic characteristics and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

Basis of conclusion in IFRS 13 Fair value is amended to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial.

IAS 16,'Property, plant and equipment' and IAS 38,'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24,'Related party disclosures' is 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'). Disclosure of the amounts charged to the reporting entity is required.

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

These annual improvements include changes to 4 standards.

IFRS 1,'First time adoptions of IFRSs,' basis of conclusions is amended to clarify that where a new standard is not 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,'Business combinations' is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint venture under IFRS 11.

IFRS 13,'Fair value measurement' is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.

IAS 40,'Investment property' is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 assists users to distinguish between investment property and owner-occupied property. Preparers also need to consider 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 allow 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 1 July 2016)*

These annual improvements amend standards from the 2012 – 2014 reporting cycle. It includes changes to 4 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,'Financial instruments: Disclosures' – 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,'Emplyee benefits' – 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, where there is no deep market in high-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,'Interim financial reporting' – 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. The 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 1 January 2018)*

The complete version of IFRS 9 replaces most of the guidance in IAS 39. 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 by replacing the bright line hedge effectiveness tests. 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.

**a) Revenue recognition**

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

Revenue from services is recognized in the accounting period in which the services are rentered, using the percentage of completion method.

Revenues from fees and rent charged to related companies are recognized in the period when rendered, on the basis of contracted terms with related companies.

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

**b) Financial income and expenses**

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

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

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

**c) Taxation**

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

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

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset for the carry-forward of unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets and liabilities are expected to be collected or paid.

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

**d) Earnings per share**

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

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

**e) Dividend distribution**

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

**f) Foreign currency translation**

Assets, receivables and liabilities reported in foreign currencies are translated into Kuna's by using Croatian National Bank's middle exchange rate at balance sheet date. Foreign exchange differences (gains or losses) are included in the profit and loss account as incurred.

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

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

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

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

Maintenance and repairs, replacements and improvements of lower extent are expensed as incurred. When it is probable that expenses incurred resulted in increase of expected future economic benefits to be derived from the use of an item of long-term intangible or tangible property in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of non-current asset are included in the statement of income in the period in which they occur.

Depreciation starts when the asset is available and ready for use, i.e. when it is appropriately located and in the right conditions needed for the intended use. Depreciation ceases when the assets is fully depreciated or when the asset is classified as held for sale. Depreciation is provided on a straight-line basis for each asset item over their useful economic life (except for land, advances and assets under construction), as follows:

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

***Impairment of non-financial assets***

The Company reviews the assets that are subject to depreciation/amortization for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, based on internal and external sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimated the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company's cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 useful life of an item is changed.

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

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

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

**h) Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Non-current assets 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.

**i) Investment property**

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

**j) Leases**

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

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

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

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

**k) Financial assets and financial liabilities**

***Financial assets***

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

Financial assets are classified into:

- At fair value through profit or loss" (FVTPL) - financial assets either held for trading or designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gain or loss arising recognized in profit or loss.
- Held-to-maturity – financial assets with fixed or determinable payments and fixed maturity dates for which there is a positive intent and ability to hold to maturity. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale (AFS) - non-derivative financial assets which is designated as such or it cannot be included in none of the above mentioned categories. AFS is stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income in revaluation reserves from investments, 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. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

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

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

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

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

*De-recognition of financial assets*

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

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

**Financial liabilities and equity instruments issued by the Company**

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

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

Share capital

*Ordinary shares*

Share capital represents nominal amount of issued shares.

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

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

*Share repurchase (treasury shares)*

The consideration paid for the repurchase of the Company's equity share capital (treasury shares), including any directly attributable incremental costs related to the repurchase, is deducted from equity. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity.

Financial guarantee contract liabilities

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

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

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

Other financial liabilities - financial liabilities, including borrowings that are initially measured at fair value, net of transaction cost. They are subsequently measured at amortized cost using the effective interest method, with 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.

*De-recognition of financial liabilities*

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

**l) Investment in subsidiaries and associates**

Subsidiaries are companies in which the Company has the control which means power to govern the financial and operating policies.

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

Investments in an associates and subsidiaries are stated at cost less impairment, if any.

**m) Receivables**

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

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

**n) Cash and cash equivalents**

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

**o) Borrowings**

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

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

**p) Provisions**

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

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

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

**q) Employee benefits**

*(i) Defined pension fund contributions*

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

*(ii) Long-term employee benefits*

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

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

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

*(iii) Share-based payments*

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

**r) Subsequent events**

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

## 3. Critical accounting judgements and estimates

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

*a) Residual value of investment property*

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

*b) Impairment tests for investments in subsidiaries*

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

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

Entity's residual value is calculated under the assumption that, following the business plan period (after 2019), the entity will achieve stable cash flows equal to cash flows estimated for 2019.

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

*c) Legal claims and disputes*

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

## 4. Sales

| | 2014<br>HRK | 2013<br>HRK |
|---|---|---|
| Fees charged to related parties | 28,516,642 | 28,621,220 |
| Rent charged to related parties | 24,000,000 | 24,000,000 |
| Other | 205,182 | 162,539 |
| | **52,721,824** | **52,783,759** |

## 5. Other operating income

| | 2014<br>HRK | 2013<br>HRK |
|---|---|---|
| Release of provisions and dispute resolutions (note 29) | 33,883,539 | 81,340,843 |
| Rent income | 892,556 | 20,133 |
| Refunds for value added tax | 476,382 | - |
| Net income from the asset disposal | 285,648 | 3,934,893 |
| Income from subventions and insurance claims | 82,309 | 35,972 |
| Other income | 567,708 | 695.494 |
| | **36,188,142** | **86,027,335** |

In accordance with the Resolution brought by High Commercial Court in Zagreb regarding the dispute between Končar - Arma initiated against the Company in previous years, the Company recognized release of provision previously recognized regarding this dispute in previous period, amount of claim recognized and costs incurred and fully settled (notes 9, 24 and 29).

## 6. Cost of materials and energy

| | 2014<br>HRK | 2013<br>HRK |
|---|---|---|
| Cost of energy | 5,299,995 | 5,421,292 |
| Cost of raw materials | 380,324 | 383,722 |
| Small inventory | 123,790 | 95,318 |
| | **5,804,109** | **5,900,332** |

## 7. Cost of services

| | 2014 | 2013 |
|---|---|---|
| | HRK | HRK |
| Intellectual services | 4,349,712 | 5,919,553 |
| Maintenance | 3,928,757 | 4,761,253 |
| Utilities | 3,583,403 | 3,924,734 |
| Supervisory services and property management at Sesvetski Kraljevec | 2,880,000 | 2,880,000 |
| Cleaning services | 2,438,991 | 2,528,742 |
| Security services | 1,922,708 | 1,764,410 |
| Entertainment | 1,563,093 | 1,761,305 |
| Lawyer and audit services | 1,347,662 | 1,304,573 |
| Advertising services and fair costs | 1,348,403 | 1,275,416 |
| Graphical services | 1,092,873 | 1,288,590 |
| Telephone cost, postal services and transport | 902,003 | 999,140 |
| Education and training services | 898,064 | 835,463 |
| Rent services and leases | 805,546 | 1,070,442 |
| Other services | 3,176,192 | 2,315,593 |
| | **30,237,407** | **32,629,214** |

## 8. Personnel costs

| | 2014 | 2013 |
|---|---|---|
| | HRK | HRK |
| Net wages and salaries | 11,665,897 | 10,086,243 |
| Costs of taxes and contributions from salaries | 9,889,715 | 8,433,481 |
| Contributions on salaries | 3,468,708 | 2,739,302 |
| Share-based payments | 705,719 | 2,895,916 |
| | **25,730,039** | **24,154,942** |

Net wages and salaries in the amount of **HRK 11,665,897** (2013 in the amount of **HRK 10,086,243**) include compensations to the Management Board consisted of theirs salary in the amount of HRK 3,400,135 (2013 in the amount of HRK 2,350,286) and accrued bonuses in the amount of HRK 1,836,000 (2013 in the amount of HRK 1,369,000), and are an integral part of personnel costs.

Contributions to Pension fund in 2014 amounted to HRK 2,876,721 (2013: HRK 3,060,850).

Compensations to employees (business trip compensations, travel to and from work, jubilee rewards and similar) in the amount of HRK 1,005 thousand (2913: HRK 762 thousand) are presented in note 9.

## 9. Other operating expenses

| | 2014 HRK | 2013 HRK |
|---|---|---|
| Costs of legal claims (note 5) | 33,817,538 | - |
| Court settlement cost | - | 2,788,329 |
| Sponsorships and donations | 1,840,806 | 852,967 |
| Compensations to members of the Supervisory Board | 1,438,579 | 1,606,379 |
| Work agreements and copyrights | 1,427,708 | 1,301,692 |
| Taxes and contributions non-dependable on the results and similar costs | 1,015,237 | 1,041,538 |
| Insurance premiums | 907,708 | 597,762 |
| Travelling costs and per-diems | 792,698 | 555,099 |
| Compensations to employees | 212,006 | 207,133 |
| Memberships, contributions and similar | 90,703 | 88,727 |
| Bank charges | 68,983 | 71,665 |
| Public notary, court dues, enforcements | 67,083 | 54,878 |
| Other | 80,939 | 112,506 |
| | **41,759,988** | **9,278,675** |

## 10. Impairment loss

| | 2014 HRK | 2013 HRK |
|---|---|---|
| Bad debt provision | 733,080 | 2,097,311 |
| | **733,080** | **2,097,311** |

## 11. Provisions

| | 2014 HRK | 2013 HRK |
|---|---|---|
| Provisions for regular retirement and jubilee awards | 285,508 | 536,336 |
| | **285,508** | **536,336** |

## 12. Finance revenues and costs

| | 2014 HRK | 2013 HRK |
|---|---|---|
| **Finance revenues** | | |
| From the relations with associates | | |
| *Dividends from associates* | *60,079,592* | *45,083,698* |
| From the relations with subsidiaries | | |
| Dividends and shares in profits of subsidiaries | 27,635,476 | 21,546,388 |
| Revenues from shares obtained | 21,585,540 | 14,577,000 |
| Interest income from loans granted | 784,727 | 4,509,704 |
| | *50,005,743* | *40,633,092* |
| **From the relations with unrelated parties** | | |
| Interest income on deposits | 7,189,797 | 8,549,888 |
| Interest income from sale of shares to employees | 932,314 | 1,005,536 |
| Interest income – other | 451,629 | 367,631 |
| Foreign exchange gains on deposits | 4,682,994 | 6,092,340 |
| Foreign exchange gains – other | 1,272,913 | 817,521 |
| Revenues from dividends and share in profits | 33,749 | 49,742 |
| Other | 65,847 | 220,284 |
| | *14,629,243* | *17,102,942* |
| *Other unrealized gains* | *7,104,738* | *184,002* |
| | **131,819,316** | **103,003,734** |
| **Finance costs** | | |
| *From the relations with unrelated parties* | | |
| Foreign exchange losses on deposits in foreign currency | (4,204,430) | (4,020,156) |
| Foreign exchange losses on loans granted to employees | (685,067) | (551,874) |
| Foreign exchange losses - other | (83,540) | (122,473) |
| | *(4,973,037)* | *(4,694,503)* |
| *Impairment losses* | | |
| Impairment of shares in subsidiaries | (9,940,647) | (8,855,082) |
| Impairment of available for sale financial asset | - | (800,000) |
| | *(9,940,647)* | *(9,655,082)* |
| Other financial expenses | *(3,237)* | (199,932) |
| | **(14,916,321)** | **(14,549,517)** |
| **Finance revenues - net** | **116,902,395** | **88,454,217** |

At the reporting date the Company made impairment test of shares in subsidiaries and recognized an impairment loss in the amount of HRK 9,9 million (HRK 8,8 million in 2013).

## 13. Corporate income tax

| | 2014<br>HRK | 2013<br>HRK |
|---|---|---|
| Profit before tax | 89,592,224 | 141,826,798 |
| **Corporate income tax at 20%** | **17,918,445** | **28,365,360** |
| *Tax effects of:* | | |
| Tax non-deductible expenses | 4,591,031 | 3,042,864 |
| Income not subject to tax | (23,287,819) | (16,252,771) |
| Reinvested profit | - | (22,040,000) |
| Government subsidies for education | (128,899) | (113,259) |
| Tax losses for which no deferred tax asset was recognized | 907,242 | 6,997,806 |
| **Corporate income tax** | **-** | **-** |

The Company has not recognized deferred tax asset in the total amount of HRK 7,905,048 (2013: 6,997,806) due to uncertainty of its usage within the period of five years (the Company as holding mainly realises non-taxable revenue (dividends and shares in profits).

## 14. Earnings per share

*Basic and diluted earnings per share*

| | 2014<br>HRK | 2013<br>HRK |
|---|---|---|
| Net profit for the year | 89,592,224 | 141,826,798 |
| Weighted average number of shares (decreased by treasury shares) | 2,570,258 | 2,567,619 |
| **Earnings per share in HRK** | **34.86** | **55.24** |

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

### 15. Non-current intangible assets

| | Concessions, patents, licences, software and other rights | Other | Total |
|---|---|---|---|
| | HRK | HRK | HRK |
| **Cost** | | | |
| **As at 1 January 2013** | **468,629** | **653,207** | **1,121,836** |
| Additions | 250,000 | - | 250,000 |
| **As at 31 December 2013** | **718,629** | **653,207** | **1,371,836** |
| Additions | 532,436 | - | 532,436 |
| **As at 31 December 2014** | **1,251,065** | **653,207** | **1,904,272** |
| **Accumulated amortization** | | | |
| **As at 1 January 2013** | **468,629** | **653,207** | **1,121,836** |
| Amortization for the year | - | - | - |
| **As at 31 December 2013** | **468,629** | **653,207** | **1,121,836** |
| Amortization for the year | - | - | - |
| **As at 31 December 2014** | **468,629** | **653,207** | **1,121,836** |
| **Net carrying value** | | | |
| 31 December 2013 | **250,000** | **-** | **250,000** |
| **31 December 2014** | **782,436** | **-** | **782,436** |

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2014 amounts to HRK 1,122 thousand (2013: HRK 1,122 thousand).

## 16. Property, plant and equipment

| | Land | Buildings | Plant & equipment | Tools, fittings and transportation equipment | Other | Assets under construction | Advance payments | Total |
|---|---|---|---|---|---|---|---|---|
| | HRK | HRK | HRK | HRK | HRK | HRK | HRK | HRK |
| **Cost** | | | | | | | | |
| **As at 1 January 2013** | **76,201,035** | **287,847,442** | **50,095,344** | **4,822,592** | **63,376** | **446,616** | **13,387,643** | **432,864,048** |
| Transfer | - | 394,966 | 506,109 | 825,142 | - | (1,726,217) | - | - |
| Additions | 268,210 | 94,280 | 1,883,491 | - | - | 1,803,805 | 15,455,919 | 19,505,705 |
| Disposals | (1,235,310) | (1,580,324) | (807,798) | (426,726) | - | - | (8,186,537) | (12,236,695) |
| **As at 31 December 2013** | **75,233,935** | **286,756,364** | **51,677,146** | **5,221,008** | **63,376** | **524,204** | **20,657,025** | **440,133,058** |
| Transfer | - | 3,176,360 | 756,266 | 522,514 | - | (4,455,140) | - | - |
| Additions | 8,922,328 | 63,227,502 | - | - | - | 7,279,586 | 7,443,704 | 86,873,120 |
| Disposals | (9,624,586) | (74,031,316) | (212,706) | (682,712) | - | - | (27,626,068) | (112,177,388) |
| **As at 31 December 2014** | **74,531,677** | **279,128,910** | **52,220,706** | **5,060,810** | **63,376** | **3,348,650** | **474,661** | **414,828,790** |
| **Accumulated depreciation** | | | | | | | | |
| **As at 1 January 2013** | **-** | **158,990,834** | **25,619,251** | **2,206,442** | **-** | **-** | **-** | **186,816,527** |
| Depreciation for the year | - | 5,790,729 | 4,094,586 | 956,388 | - | - | - | 10,841,703 |
| Additions | - | - | 1,883,540 | - | - | - | - | 1,883,540 |
| Disposals | - | (683,027) | (797,439) | (426,726) | - | - | - | (1,907,192) |
| **As at 31 December 2013** | **-** | **164,098,536** | **30,799,938** | **2,736,104** | **-** | **-** | **-** | **197,634,578** |
| Depreciation for the year | - | 7,012,296 | 3,557,162 | 1,100,548 | - | - | - | 11,670,006 |
| Additions | - | 45,492,805 | - | - | - | - | - | 45,492,805 |
| Disposals | - | (54,059,808) | (210,443) | (537,458) | - | - | - | (54,807,709) |
| **As at 31 December 2014** | **-** | **162,543,829** | **34,146,657** | **3,299,194** | **-** | **-** | **-** | **199,989,680** |
| **Net carrying value** | | | | | | | | |
| 31 December 2013 | 75,233,935 | 122,657,828 | 20,877,208 | 2,484,904 | 63,376 | 524,204 | 20,657,025 | 242,498,480 |
| **31 December 2014** | **74,531,677** | **116,585,081** | **18,074,049** | **1,761,616** | **63,376** | **3,348,650** | **474,661** | **214,839,110** |

Additions in 2014 mostly relate to the purchase of property in Zagreb from the company Končar - Household Appliances Ltd, increase in assets under construction on the location Sesvetski Kraljevec, investments in buldings on Fallerovo and purchase of other equipment and vehicles.

Real estate on locations Žitnjak and Zlatar have been transferred to investment property in accordance with its intended purpose in the amount of HRK 29,562,411 (the transfer has not changed its valuation since the investment property is carried in accordance with IAS 16).

Gross carrying value of fully depreciated property, plant and equipment, still in use as at 31 December 2014 amounts to HRK 34,906 thousand (31 December 2013: HRK 25,467 thousand).

The mortgage is registered over the land at carrying value of HRK 45,254 thousand (31 December 2013: HRK 45,254 thousand) and business facilities at carrying value of HRK 67,830 thousand (31 December 2013: HRK 70,442 thousand) as collateral for subsidiaries' obligations.

## 17. Investment property

Investment property (located in Osijek, Sesvetski Kraljevec, Samobor, Požega-Zvečevo, Zagreb and Zlatar) in the amount of HRK 136,936,351 (2012: HRK 99,664,965) relates to the investments in real estates for the capital appreciation intended for future sale. Part of the assets is under the court proceedings, regarding their ownership. Fair value of these investments estimated by independent evaluators is higher than their carrying value, accordingly, depreciation is not charged to these investments.

The following table disloses movements in investment property in 2014 and 2013 (during the transfer from property, plant and equipment to investment property, the Company transfers gross carrying value and accumulated depreciation for these assets):

| | Land HRK | Buildings HRK | Total HRK |
|---|---|---|---|
| **Cost** | | | |
| **As at 1 January 2013** | **34,888,118** | **88,271,896** | **123,160,014** |
| Additions | 635,261 | 8,730,094 | 9,365,355 |
| **As at 31 December 2013** | **35,523,379** | **97,001,990** | **132,525,369** |
| Additions | 9,624,586 | 73,840,846 | 83,465,432 |
| **As at 31 December 2014** | **45,147,965** | **170,842,836** | **215,990,801** |
| **Accumulated depreciation** | | | |
| **As at 1 January 2013** | **-** | **23,495,049** | **23,495,049** |
| Additions | - | 1,656,380 | 1,656,380 |
| **As at 31 December 2013** | **-** | **25,151,429** | **25,151,429** |
| Additions | - | 53,903,021 | 53,903,021 |
| **As at 31 December 2014** | **-** | **79,054,450** | **79,054,450** |
| **Net carrying vale** | | | |
| 31 December 2013 | **35,523,379** | **71,850,561** | **107,373,940** |
| **31 Decemer 2014** | **45,147,965** | **91,788,386** | **136,936,351** |

The fair value of investment property at the reporting date determined by the Company's Management amounts to HRK 137 million (2013: HRK 107 million) and relates to fair value level 3 since the input variables are not based on observable market dana.

## 18. Investments in subsidiaries

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| **Investments in domestic subsidiaries** | | |
| Končar-Infrastructure and Services Ltd, Zagreb | 56,691,318 | 56,691,318 |
| Končar-Electrical Engineering Institute Inc, Zagreb | 60,936,110 | 60,936,110 |
| Končar-Electronics and Informatics Inc, Zagreb | 38,709,693 | 38,709,693 |
| Končar-Small Electrical Machines Inc, Zagreb | 48,600,512 | 48,600,512 |
| Končar-Generators and Motors Inc, Zagreb | 94,761,587 | 73,176,047 |
| Končar-Instrument Transformers Inc, Zagreb | 14,441,743 | 14,376,769 |
| Končar-Distribution and Special Transformers Inc, Zagreb | 58,962,301 | 58,962,301 |
| Končar-Medium Voltage Apparatus Inc, Zagreb | 12,212,808 | 12,212,807 |
| Končar-Electric Vehicles Inc, Zagreb | 36,409,158 | 36,409,158 |
| Končar-Switchgear Inc, Sesvetski Kraljevec | 28,647,123 | 28,647,123 |
| Končar-Household Appliances Ltd, Zagreb | 147,966,970 | 147,966,970 |
| Končar-High Voltage Switchgear Inc, Zagreb | 71,104,847 | 71,104,847 |
| Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb | 81,432,641 | 81,432,641 |
| Končar-Catering Equipment Inc, Zagreb | - | 21,571,287 |
| Končar-Tools Inc, Zagreb | - | 31,278,153 |
| Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb | 6,908,942 | 6,908,942 |
| Končar-Power Plant and Electric Traction Engineering Inc, Zagreb | 51,773,266 | 51,773,266 |
| Končar-Renewable Sources Ltd, Zagreb | 111,120,000 | 84,187,000 |
| Končar-Steel Structures Inc, Zagreb | 16,703,123 | 16,703,123 |
| Impairment of investments | (215,537,893) | (257,563,026) |
| | ***721,844,249*** | ***684,085,041*** |
| **Investment in foreign subsidiary** | | |
| KONES AG, Zurich, Switzerland | 7,391,016 | 7,232,764 |
| | ***7,391,016*** | ***7,232,764*** |
| | **729,235,264** | **691,317,805** |

Increase in investments in subsidiaries during 2014 relates to increases in shares in the following companies:

- Končar-Renewable Sources Ltd. in the amount of HRK 26,933,000 via payment in cash,
- Končar-Generators and Motors Inc. in the amount of HRK 21,585,540 from reinvested profit,
- Končar-Instrument Transformers Inc. in the amount of HRK 64,974 through the purchase of ordinary shares.

Decresae in investments relates to loss of control over the companies which started bankruptcy procedure.

Shares in ownership and voting rights as at 31 December 2014 and 31 December 2013 were as follows:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Ownership share (%) | Voting rights share (%) | Ownership share (%) | Voting rights share (%) |
| **Domestic subsidiaries** | | | | |
| Končar-Household Appliances Ltd, Zagreb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Small Electrical Machines Inc, Zagreb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Power Plant and Electric Traction Engineering Inc, Zagreb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Infrastructure and Services Ltd, Zagreb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Electrical Engineering Institute Inc, Zagreb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Low Voltage Switches and Circuit Breakers Ltd, Zgb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Generators and Motors Inc, Zagreb | 100.00 | 100.00 | 100.00 | 100.00 |
| Končar-Renewable Sources Ltd, Zagreb | 85.27 | 85.27 | 81.43 | 81.43 |
| Končar-Electric Vehicles Inc, Zagreb | 75.04 | 75.04 | 75.04 | 75.04 |
| Končar-Tools Inc, Zagreb | - | - | 100.00 | 100.00 |
| Končar-Catering Equipment Inc, Zagreb | - | - | 100.00 | 100.00 |
| 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 | 98.23 | 97.49 | 98.23 |
| Končar-Engineering for Plant Installation and Commissioning Inc, Zagreb | 44.71 | 79.05 | 44.71 | 79.05 |
| **Foreign subsidiary** | | | | |
| Kones AG, Zurich, Switzerland | 100.00 | 100.00 | 100.00 | 100.00 |

The Company recognized impairment loss for investments in subsidiaries at the reporting date on the basis of impairment tests performed (note 12).

## 19. Investments in associates

Investments in associates in the amount of HRK 67,722,257 (31 December 2013: HRK 67,722,257) relate to the investment in the company Končar - Power Transformers Ltd, Zagreb (Company holds a 49% stake in the share capital of this company).

Summary data of associates are disclosed in the consolidated financial statements of the Company.

## 20. Non-current financial assets

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| *Available for sale financial assets* | | |
| Shares in Tesla Savings Bank | 3,500,010 | 3,500,010 |
| Impairment of shares in Tesla Savings Bank | (2,702,932) | (2,702,932) |
| *Financial assets at fair value through profit and loss* | | |
| Shares in Zagrebačka Bank d.d., Zagreb | 779,713 | 674,975 |
| Shares in Croatia osiguranje d.d., Zagreb | - | 1,633,002 |
| | **1,576,791** | **3,105,055** |

## 21. Long term receivables

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| *Receivables on the basis of credit sales* | | |
| Receivables for apartments sold /i/ | 13,545,987 | 11,491,853 |
| Impairment of the receivables for the apartments sold | (3,180,752) | (3,180,752) |
| Current portion (note 24) | (1,353,346) | (1,554,535) |
| Receivables for shares sold /ii/ | 10,293,339 | 13,724,452 |
| Current portion (note 24) | (4,348,973) | (3,431,114) |
| Other loans receivable | 50,049 | 71,658 |
| Other financial assets | 438 | 438 |
| *Receivable on the basis of foreign sales /iii/* | 5,002,565 | 5,362,474 |
| Current portion (note 23) | (445,241) | (375,467) |
| | **19,564,066** | **25,109,007** |

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

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

/iii/ Receivable on the basis of foreign sales relates to the receivable for sales in Bosnia and Herzegovina realized by the company TAKRAF from Germany, acquired by KfW Bank, Berlin.

## 22. Receivables from related companies

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| ***Trade receivables*** | | |
| Domestic subsidiaries | | |
| Končar-Infrastructure and Services Ltd, Zagreb | 1,875,000 | 9,296,716 |
| Končar-Electrical Engineering Institute Inc, Zagreb | 186,836 | 197,920 |
| Končar-Electronics and Informatics Inc, Zagreb | 97,002 | 147,406 |
| Končar-Small Electrical Machines Inc., Zagreb | 328,879 | 293,567 |
| Končar-Generators and Motors Inc, Zagreb | 774,907 | 806,371 |
| Končar-Instrument Transformers Inc, Zagreb | 605,740 | 651,379 |
| Končar-Distribution and Special Transformers Inc, Zagreb | 1,077,728 | 961,566 |
| Končar-Medium Voltage Apparatus Inc, Zagreb | 122,863 | 136,902 |
| Končar-Electric Vehicles Inc, Zagreb | 1,034,100 | 293,894 |
| Končar-Switchgear Inc, Sesvetski Kraljevec | 745,247 | 460,192 |
| Končar-Household Appliances Ltd, Zagreb | - | 573,619 |
| Končar-High Voltage Switchgear Inc, Zagreb | 271,780 | 328,411 |
| Končar-Low Voltage Switches and Circuit Breakers Ltd, Zagreb | 255,774 | 494,806 |
| Končar-Catering Equipment Inc, Zagreb | - | 300,059 |
| Končar-Tools Inc, Zagreb | - | 2,097,311 |
| Končar- Engineering for Plant Installation and Commissioning Inc | 197,512 | 227,843 |
| Končar-Power Plant and Electric Traction Engineering Inc, Zagreb | 498,918 | 832,487 |
| Končar-Steel Structures Inc, Zagreb | 284,270 | 957,558 |
| Končar-Renewable Sources Ltd, Zagreb | 484,648 | 489,105 |
| Value adjustment of receivables | - | (2,097,311) |
| Associates | | |
| Končar-Power Transformers Ltd, Zagreb | 60,716,722 | 45,529,492 |
| | *69,557,926* | *62,979,293* |
| *Interest receivable (total)* | *18,494* | *375,628* |
| | **69,576,420** | **63,354,921** |

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

| | Total | Undue and collectible | < 60 days | Due but collectible 60-90 days | 90-180 days | 180-365 days | > 365 days |
|---|---|---|---|---|---|---|---|
| | HRK | HRK | HRK | HRK | HRK | HRK | HRK |
| 2014 | **69,576,420** | 68,577,525 | 680,595 | 60,355 | 257,945 | - | - |
| 2013 | **63,354,921** | 57,305,166 | 5,000,609 | 440,716 | 543,140 | 65,290 | - |

The average collection days from subsidiaries and customers during 2013 were 136 days (2012: 212 days). For receivables which are past due at the reporting date, for which the Company has not made a provision, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

## 23. Trade accounts receivable

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | HRK | HRK |
| Domestic customers | 477,131 | 178,517 |
| Bad debt provision | (23,125) | - |
| Domestic customers, net | 454,006 | 178,517 |
| Foreign customers (current portion, note 22) | 445,241 | 375,467 |
| | **899,247** | **553,984** |

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

| | Total | Undue and collectible | < 60 days | Due but collectible 60-90 days | 90-180 days | 180-365 days | > 365 days |
|---|---|---|---|---|---|---|---|
| | HRK | HRK | HRK | HRK | HRK | HRK | HRK |
| **2014** | **477,131** | 237,165 | 216,841 | - | - | - | 23,125 |
| **2013** | **178,517** | 42,181 | 39,678 | 41,272 | 27,717 | 18,048 | 9,621 |

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

Movement in allowance for bad debts was as follows:

| | 2014 | 2013 |
|---|---|---|
| | HRK | HRK |
| Balance as at 1 January | - | 143,360 |
| Collected in the current year | - | (143,360) |
| Impaired in the current year | 23,125 | - |
| **Balance as at 31 December** | **23,125** | **-** |

## 24. Other receivables

| | 31 December 2014 HRK | 31, December 2013 HRK |
|---|---|---|
| Receivables from companies no longer within Končar group /i/ | 14,013,687 | - |
| Impairment of above receivables | (2,792,311) | |
| Receivables for shares sold (due) | 10,247,847 | 8,472,208 |
| Current portion of long-term receivables (note 21) | 4,348,973 | 3,431,114 |
| Receivable for claims recognised (note 29) | 8,292,699 | - |
| Interest receivables on deposits | 2,355,264 | 1,027,942 |
| Receivables for apartments sold | 1,353,346 | 1,554,535 |
| Receivables for prepaid value added tax | 476,382 | - |
| Other receivables | 93,191 | 89,050 |
| | **38,389,078** | **14,574,849** |

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

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

## 25. Loans granted to related parties

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| Končar-Electric Vehicles Inc, Zagreb | - | 42,010,268 |
| Končar-Renewable Sources Ltd, Zagreb | 4,250,000 | 11,344,376 |
| Končar – Catering equipment Ltd., Zagreb | - | 750,000 |
| Končar – Steel Structures Inc., Zagreb | 2,000,000 | 2,500,000 |
| | **6,250,000** | **56,604,644** |

Loans granted to related parties are repayable within one year bearing the annual interest rate of 7%, unsecured.

## 26. Current financial assets

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | HRK | HRK |
| Deposits over 3 months | 280,977,794 | 157,717,328 |
| Loan receivable | 1,300,000 | - |
| | **282,277,794** | **157,717,328** |

Deposits over 3 months are related to deposits placed in Zagrebačka Bank d.d. bearing the annual interest rate in the range from 0.70% to 3.20%.

## 27. Cash and cash equivalents

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | HRK | HRK |
| Deposits up to 3 months | - | 99,879,264 |
| Balance at gyro accounts in HRK | 4,727,409 | 14,655,744 |
| Balance at accounts in foreign currency | 459,318 | 651,016 |
| Petty cash – HRK | 9,982 | 7,983 |
| Petty cash – foreign currencies | 15,481 | 18,155 |
| | **5,212,190** | **115,212,162** |

## 28. Share capital

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

In 2014, the Company's inceased its share capital by the total amount of HRK 180,048,330 by the reinvestment of the profit realised in 2013 in the amount of HRK 110,079,111 (reinvested earnings), and by the amount of HRK 69,969,219 from the other reserves formed in previous years. The increase in share capital was carried out by increasing the nominal value of the shares by HRK 70 per share, from HRK 400 to HRK 470 respectively.

The ownership structure of the Company is as follows:

| Shareholder | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Number of shares | Ownership share % | Number of shares | Ownership share % |
| HPB d.d. (Kapitalni fond 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 /RH | 260,280 | 10.12 | 260,280 | 10.12 |
| SOCIETE GENERALE - Splitska bank Inc./ Erste Plavi mandatory pension fund | 202,149 | 7.86 | 184,189 | 7.16 |
| HYPO ALPE ADRIA BANK d.d./PBZ Croatia Osiguranje OMF | 255,928 | 9.95 | 257,117 | 10.00 |
| LINTEUM SAVJETOVANJE Ltd. | 39,791 | 1.55 | 39,791 | 1.55 |
| Societe Generale Bank/ AZ OMF | 106,438 | 4.14 | 106,438 | 4.14 |
| Florinčić Kristijan | 82,682 | 3.21 | 60,714 | 2.36 |
| Hypo Alpe Adria Bank/RBA OMF | 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 |
| | **2,572,119** | **100.00** | **2,572,119** | **100.00** |

Ordinary shares of the Company are listed on the Official market at the Zagreb stock exchange under the name KOEI-R-A.

In 2014, the Company's General Assembly made the decision 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 which is HRK 12,00 per share).

The Company states legal, statutory and other reserves in accordance with Company's Act made on the basis of profit distribution according to General Assembly's resolutions. Movement on these reserves in 2014 and 2013 were as follows:

| | Legal reserves | Statutory reserves | Other reserves | Total |
|---|---|---|---|---|
| | HRK | HRK | HRK | HRK |
| **1 January 2013** | **17,997,220** | **102,458,881** | **74,682,438** | **195,138,539** |
| Allocation of profit for 2012 | 5,457,779 | 36,420,172 | 36,420,172 | 78,298,123 |
| FX differences from translating foreign operations | - | - | (15,767) | (15,767) |
| **31 December 2013** | **23,454,999** | **138,879,053** | **111,086,843** | **273,420,895** |
| Allocation of profit for 2013 | 7,091,340 | 24,535,459 | - | 31,626,798 |
| Share capital increase | - | - | (69,848,330) | (69,848,330) |
| FX differences from translating foreign operations | - | - | 158,252 | 158,252 |
| **31 December 2014** | **30,546,339** | **163,414,511** | **41,396,764** | **235,357,615** |

**Share-based payments**

During 2014, the Company 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).

## 29. Provisions

| | Provisions for guarantees | Legal court cases | Retirement and jubilee rewards | Total |
|---|---|---|---|---|
| | HRK | HRK | HRK | HRK |
| **1 January 2013** | **80,511,279** | **56,174,523** | **1,187,395** | **137,873,197** |
| Additional provisions | - | - | 536,336 | 536,336 |
| Release of provisions | (80,511,279) | (829,564) | - | (81,340,843) |
| **31 December 2013** | **-** | **55,344,959** | **1,723,731** | **57,068,690** |
| Additional provisions | **-** | **-** | 285,508 | 285,508 |
| Release of provisions | **-** | (21,077,464) | - | (21,077,464) |
| **31 December 2014** | **-** | **34,267,495** | **2,009,239** | **36,276,734** |

*Provisions for legal claims*

Long-term provisions for legal claims in the amount of HRK 34,267,495 (2013: in the amount of HRK 55,344,959) relate to legal cases in progress initiated against the Company in Croatia in the amount of HRK 31,800,000 and for the estimated costs of legal proceedings in the amount of HRK 2,467,495. During 2014 the Company released provisions for court case Končar-Arma on the basis of Court resolution (note 5).

*Provisions for employee benefits*

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

## 30. Current liabilities toward related parties

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | HRK | HRK |
| Končar - Infrastructure and Services Ltd, Zagreb | 3,542,516 | 2,554,278 |
| Končar - Electronics and Informatics Inc, Zagreb | - | 193,358 |
| Končar - Power Plant and Electric Traction Engineering Inc, Zagreb | 2,807 | 606,290 |
| Končar - Electrical Engineering Institute Inc, Zagreb | - | 25,000 |
| Končar – Low Voltage Switches and Circuit Breakers Ltd., Zagreb | 136,700 | 13,016 |
| | **3,682,023** | **3,391,942** |

## 31. Trade accounts payable

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | HRK | HRK |
| Domestic suppliers | 1,071,928 | 1,906,477 |
| Foreign suppliers | 293,511 | 288,589 |
| | **1,365,439** | **2,195,066** |

The average payment days to suppliers during 2014 were 63 days (2013: 44 days).

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

| | Total | Undue | Due | | | | |
|---|---|---|---|---|---|---|---|
| | | | < 60 days | 60-90 days | 90-180 days | 180-365 days | > 365 days |
| | HRK | HRK | HRK | HRK | HRK | HRK | HRK |
| **2014** | **1,365,439** | 1,218,706 | 146,733 | - | - | - | - |
| **2013** | **2,195,066** | 2,141,175 | 53,891 | - | - | - | - |

## 32. Other current liabilities

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| *Liabilities toward employees* | | |
| Liabilities for salaries | 673,863 | 372,422 |
| Bonus accruals | 1,836,000 | 1,369,000 |
| | ***2,509,863*** | ***1,741,422*** |
| *Liabilities for taxes, contributions and similar* | | |
| Liabilities for taxes | 1,935,998 | 1,327,139 |
| Liabilities for value added tax | 1,073,740 | 481,676 |
| Liabilities for contributions | 1,209,340 | 694,512 |
| | ***4,219,078*** | ***2,503,327*** |
| Other liabilities | | |
| Liabilities toward state for apartments sold | 76,308 | 3,721 |
| Liabilities for dividends | 322,447 | 271,568 |
| Other liabilities | 118,021 | 3,572 |
| | ***516,776*** | ***278,861*** |
| | **7,245,717** | **4,523,610** |

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

Company's off-balance sheet commitments at the balance sheet date were as follows:

| | 31 December 2014 HRK | 31 December 2013 HRK |
|---|---|---|
| Subsidiarity guarantee (Zagrebačka Bank Inc.) | 861,989,012 | 485,621,820 |
| Corporative guarantees / Končar Inc. | 150,601,520 | 48,882,597 |
| Corporative guarantees / other banks | 8,719,934 | 11,005,761 |
| Apartments sold (65%) | 25,636,064 | 27,716,452 |
| Bills of exchange | 7,550,000 | 56,604,644 |
| Debentures | 10,200,000 | 9,000,000 |
| | **1,064,696,530** | **638,831,274** |

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

Total guarantees issued by the Company as dislosed in above table include performance guarantees amounting to HRK 701,658 thousand (2013: HRK 335,349 thousand).

## 34. Transaction with related parties

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

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

Transactions with related parties presented in the below table do not include receivables for and income from dividends i.e. profit shares. Dividends income, i.e. profit share is recognized in the amount of HRK 87,715 thousand (2013: HRK 66,630 thousand).

| 2013<br>Company | Operating activities<br>Receivables<br>HRK'000 | Liabilities<br>HRK'000 | Revenues<br>HRK'000 | Expenses<br>HRK'000 | Financial activities<br>Receivables<br>HRK'000 | Revenues<br>HRK'000 |
|---|---|---|---|---|---|---|
| *Subsidiaries:* | | | | | | |
| Končar-Infrastructure and Services Ltd. | 9,297 | 2,554 | 24,507 | 11,189 | - | - |
| Končar-Household Appliances Ltd. | 574 | - | 1,195 | 36 | - | 411 |
| Končar-Electric Vehicles Inc. | 294 | - | 1,331 | 180 | 42,256 | 3,121 |
| Končar-High Voltage Switchgear Inc. | 328 | - | 488 | - | - | 94 |
| Končar-Generators and Motors Inc. | 806 | - | 3,356 | - | - | - |
| Končar-Power Plant and Electric Traction Engineering Inc. Zagreb | 832 | 606 | 3,971 | 1,719 | - | - |
| Končar-Steel Structures Inc. | 958 | - | 1,254 | - | 2,560 | 60 |
| Končar-Switchgear Inc. | 460 | - | 543 | - | - | 175 |
| Končar-Instrument Transformers Inc. | 651 | - | 1,793 | - | - | - |
| Končar-Low Voltage Switches and Circuit Breakers Ltd. | 495 | 13 | 726 | 121 | - | - |
| Končar-Distribution and Special Transformers Inc. | 962 | - | 4,329 | - | - | - |
| Končar-Electrical Engineering Institute Inc. | 198 | 25 | 775 | 256 | - | - |
| Končar-Tools Inc. | - | - | 1,220 | - | - | - |
| Končar-Catering Equipment Inc. | 300 | - | 271 | - | 754 | 27 |
| Končar-Small Electrical Machines Inc.. | 294 | - | 778 | - | - | - |
| Končar-Engineering for Plant Installation and Commissioning Inc. | 228 | - | 514 | - | - | - |
| Končar-Electronics and Informatics Inc. | 147 | 194 | 1,073 | 2,575 | - | - |
| Končar-Medium Voltage Apparatus Inc. | 137 | - | 537 | - | - | - |
| Končar-Power Transformers Ltd. | 446 | - | 1,936 | - | - | - |
| Končar-Renewable Sources Ltd. | 489 | - | 2,024 | - | 11,410 | 622 |
| | **17,896** | **3,392** | **52,621** | **16,076** | **56,980** | **4,510** |

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## 35. Financial risk management and financial instruments

The Company is exposed in its business to market and financial risk.

The Company does not use derivative financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company's management linked to short-term and long-term financing of buyers, management of the funds, credits and liabilities and can be summarised as follows:

### a) Capital risk management

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

The Company manages capital and for the purpose of proper capital structure, in accordance with the economic conditions present on the market, decides if the retained earnings should be distributed to shareholders, if the capital needs increase or decrease, etc. Goals, policies and processes have not been changed during the period ending 31 December 2014 nor for the period ending 31 December 2013.

| | 31 December 2014<br>HRK'000 | 31 December 2013<br>HRK'000 |
|---|---|---|
| Long-term borrowings | - | - |
| Short-term borrowings | - | - |
| Less: cash and cash equivalents | (5,212) | (115,212) |
| Net debt | - | - |
| Capital | 1,543,618 | 1,482,812 |
| Gearing ratio | - | - |

### b) Significant accounting policies

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

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

**31 December 2014**

| | Loans and receivables | Fair value through P&L | Available for sale | Held to maturity | Assets under IAS 39 |
|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| Long-term financial assets and receivables | 19,564 | 780 | 797 | - | **21,141** |
| Short-term financial assets | 288,528 | - | - | - | **288,528** |
| Trade and other current receivables | 119.367 | - | - | - | **119.367** |
| Cash and cash equivalents | 5,212 | - | - | - | **5,212** |
| | **432.671** | **780** | **797** | **-** | **434.248** |

**31 December 2013**

| | Loans and receivables | Fair value through P&L | Available for sale | Held to maturity | Assets under IAS 39 |
|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| Long-term financial assets and receivables | 25,109 | 2,308 | 797 | - | **28,214** |
| Short-term financial assets | 214,322 | - | - | - | **214,322** |
| Trade and other current receivables | 81,876 | - | - | - | **81,876** |
| Cash and cash equivalents | 115,212 | - | - | - | **115,212** |
| | **436,519** | **2,308** | **797** | **-** | **439,624** |

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

Fair value of financial instruments

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

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

- level 3: input variables for assets or liabilities which are not based on observable market data.

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

**31 December 2014**

| *In thousands of HRK* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Listed securities | 780 | - | - | 780 |
| Not-listed securities | - | - | 797 | 797 |
| | **780** | **-** | **797** | **1,577** |

**31 December 2013**

| *In thousands of HRK* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Listed securities | 2,308 | - | - | 2,308 |
| Not-listed securities | - | - | 797 | 797 |
| **Total** | **2,308** | **-** | **797** | **3,105** |

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

***Receivables and deposits at bank***

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

***Liabilities per loans received***

Current liability fair value is approximate to their accounting value due to the short-termless of these instruments. The Management Board believes that their fair value doesn't differ significantly from their accounting value. The Company is not exposed to the credit risk, since the Company at the balance sheet has not liabilities for loans.

***Other financial instruments***

Financial instruments of the Company that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical 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 Company's Management monitors and manages the financial risks relating to the operations of the Company 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. The Company has no significant exposure to the above mentioned financial risks.

**Market risk**

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

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

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

**a) Foreign currency risk management**

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

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

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

| **31/12/2014** | EUR | CHF | Other currencies | Total foreign currencies | HRK | Total |
|---|---|---|---|---|---|---|
| | 000' HRK | 000' HRK | 000' HRK | 000' HRK | 000' HRK | 000' HRK |
| Long-term receivables | 4,557 | - | - | 4,557 | 15,007 | 19,564 |
| Trade receivables | 445 | - | - | 445 | 454 | 899 |
| Short-term financial asset | 264,321 | 16,657 | - | 280,978 | 1,300 | 282,278 |
| Cash and cash equivalents | 452 | 8 | 15 | 475 | 4,737 | 5,212 |
| Foreign trade accounts payable | (293) | - | - | (293) | - | (293) |
| | **269,482** | **16,665** | **15** | **286,162** | **21,498** | **307,660** |

| 31/12/2013 | EUR | CHF | Other currencies | Total foreign currencies | HRK | Total |
|---|---|---|---|---|---|---|
| | 000' HRK | 000' HRK | 000' HRK | 000' HRK | 000' HRK | 000' HRK |
| Long-term receivables | 4,987 | - | - | 4,987 | 20,122 | 25,109 |
| Trade receivables | 374 | - | - | 374 | 180 | 554 |
| Short-term financial asset | 157,717 | - | - | 157,717 | - | 157,717 |
| Cash and cash equivalents | 24,173 | 16,313 | - | 40,486 | 74,726 | 115,212 |
| Foreign trade accounts payable | (289) | - | - | (289) | - | (289) |
| | **186,962** | **16,313** | **-** | **203,275** | **95,028** | **298,303** |

| | **Short-term exposure** | | | **Long term exposure** | | |
|---|---|---|---|---|---|---|
| | EUR | CHF | Other | EUR | USD | CHF |
| | 000 HRK | 000 HRK | 000 HRK | 000 HRK | 000 HRK | 000 HRK |
| **31/12/2014** | | | | | | |
| Financial assets | 264,766 | 16,665 | - | 4,557 | - | - |
| Financial liabilities | (293) | - | - | - | - | - |
| **Total exposure** | **264,473** | **16,665** | **-** | **4,557** | **-** | **-** |
| | | | | | | |
| **31/12/2013** | | | | | | |
| Financial assets | 182,264 | 16,313 | - | 4,987 | - | - |
| Financial liabilities | (289) | - | - | - | - | - |
| **Total exposure** | **181,975** | **16,313** | **-** | **4,987** | **-** | **-** |

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

Sensitivity analysis

The weakening of the HRK in relation to EUR for 1% (2013: 1%, CHF for 2% (2013: 1%) at the date of reporting would increase/(decrease) the profit before tax by the following amounts:

| | 2014 Effect on income before taxes HRK'000 | 2013 Effect on income before taxes HRK'000 |
|---|---|---|
| EUR | 2,695 | 1,870 |
| CHF | 365 | (35) |

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

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

**b) Interest rate risk**

The company is not exposed to interest rate risk.

**Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses information gathered from specialized credit agencies and Croatian Chamber of Economy, as well as other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the 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 Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The age structure of trade receivables (related and unrelated) which are past due but are considered collectable are shown in the notes 22 and 23.

**Liquidity risk**

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

The following table shows the maturity of financial liabilities of the Company at 31 December 2014 and 2013 according to the contracted non-discounted payments:

| | Carrying value | Contracted cash flows | 0 – 12 Months | 1 – 2 Years | 2 – 5 Years | More than 5 years |
|---|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **31 December 2014** | | | | | | |
| Trade accounts and other payables | 12,293 | 12,293 | 12,293 | - | - | - |
| | **12,293** | **12,293** | **12,293** | **-** | **-** | **-** |

| | Carrying value | Contracted cash flows | 0 – 12 Months | 1 – 2 Years | 2 – 5 Years | More than 5 Years |
|---|---|---|---|---|---|---|
| | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 | HRK'000 |
| **31 December 2013** | | | | | | |
| Trade accounts and other payables | 10,111 | 10,111 | 10,111 | - | - | - |
| | **10,111** | **10,111** | **10,111** | **-** | **-** | **-** |

## 36. Subsequent events

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company for 2014, and that should, consequently, be disclosed.

## 37. Approval of financial statements

The financial statements presented on the pages above were authorised for issue by the Company's Management Board on 27 March 2015 and were signed on its behalf.

Darinko Bago

*President of the Management Board*

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8