KONČAR D&ST

Annual Report 2014

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

ANNUAL REPORT
2 0 1 4

KONČAR DISTRIBUTION AND SPECIAL TRANSFORMERS, Inc.

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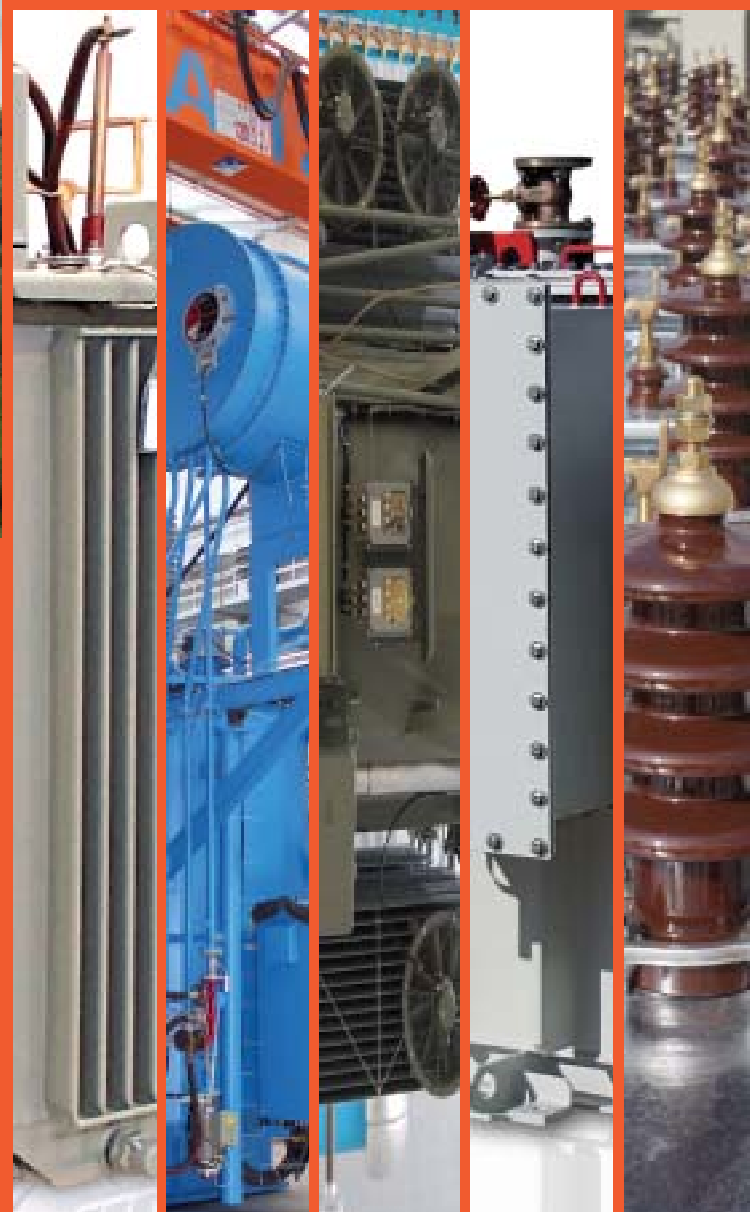
MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2014

The island of Visovac in the area
of the Krka National Park, Croatia



1. Introductory word by the Management Board

2014 - FIRST YEAR OF THE STRATEGIC INVESTMENT FULL OPERATION AND THE YEAR OF THE HIGHEST REVENUES

In 2014, Končar D&ST has continued a series of successful business years. Total sales of goods and services in 2014 reached up to HRK 712 million (HRK 646 million in 2013), which is a 10% increase on annual level. Export operations with HRK 563 million (HRK 513 million in 2013) reached 79% of sales and exceeded by 10% the preceding year exports.

The gross profit of HRK 27.7 million (net 27.2 million) in 2014 was by 14% lower than the gross profit in the 2013, when it amounted to HRK 32.5 million (net profit HRK 30.4 million).

The amount of total contracts at the end of the 2014 was 592 million which, compared to the end of the 2013, with HRK 640 million, means a reduction of 8%.

The investment for a strategic breakthrough in the field of medium power transformers from 63 MVA to 100 MVA under the name High Voltage Laboratory - put into operation in mid-2013 - proved to be very functional and adequate to the planned purpose. In the investment activities in 2014, mainly related to purchase of new production, testing and IT equipment and improvement of working conditions in the production, the amount of HRK 11.4 million was invested (in 2013 HRK 28.0 million).

In 2014, the project of strengthening of the sales and technical sector has been continued through hiring of new highly educated employees. A large number of employees has been hired and trained in the production in order to ensure the largest so far contracted quantity of transformers is manufactured in time.

In its operations, the Company acts in compliance with internationally recognized standards and the requirements of community responsible operations. Quality Management System according to ISO 9001:2008, Environmental Management System according to ISO 14001:2004 and Occupational Health and Safety Management System according to OHSAS 18001:2007, within the process of continuous improvement have been successfully maintained and verified.

In the regular market quotation of the Zagreb Stock Exchange in 2014, Končar D&ST ordinary and preferred shares were traded. At the beginning of the year, the price of ordinary Končar D&ST shares was around HRK 965 and at the end of the year it was around HRK 1,129.

Considering the conditions on the target markets of distribution, special and medium power transformers and taking into account an unforeseen technical problem that has been successfully resolved, the overall business performance of Končar D&ST in the demanding year of 2014 is regarded as successful and the company is well prepared for future business challenges. The harmonization of common interests and the mutual confidence of our shareholders, employees, business partners and banks have been of great importance for the achievement of good business results. Management of Končar D&ST d.d. is grateful for the support and trust and is pleased to present this Annual Report for 2014.

For the Management Board of Končar D&ST d.d.

Ivan Klapan
President of the Management Board

2. Major 2014 figures and their comparison with 2013, 2012 and 2011

	INDEX 2014/2013
Net profit	**89.8**
Sales	**110.2**
Exports	**109.9**
Balance of orders at year's end	**92.6**

	HRK ('000)				EUR ('000)		INDEX
	2014	2013	2012	2011	2014	2013	14/13
Sales							
Croatia	148,620	133,139	171,332	152,738	19,478	17,580	111.6
Exports	563,558	512,884	508,791	520,333	73,861	67,721	109.9
Total	712,178	646,023	680,123	673,071	93,339	85,301	110.2
Balance of orders at the year's end							
Croatia	79,952	59,337	65,017	36,173	10,478	7,835	134.7
Exports	512,833	580,594	447,013	424,533	67,213	76,661	88.3
Total	592,785	639,931	512,030	460,706	77,691	84,496	92.6
Annual sales per employee	1,506	1,411	1,553	1,606	197	186	106.7
Investments	11,464	28,045	86,150	33,258	1,502	3,703	40.9
Net profit	27,259	30,364	33,291	33,652	3,573	4,009	89.8
Dividend HRK/share							
Ordinary	*	47.52	52.10	52.66			
Preferred	*	47.52	52.10	52.66			
Net profit/sales in %	3.8%	4.7%	4.9%	5.0%			
Net profit per total equity	13.4%	16.4%	20.1%	23.0%			
Total equity and reserves as at 31/12	225,701	215,323	198,738	179,750	29,581	28,431	104.8
No. of employees							
Average	473	458	438	419			103.3
as at 31/12	482	466	447	428			103.4

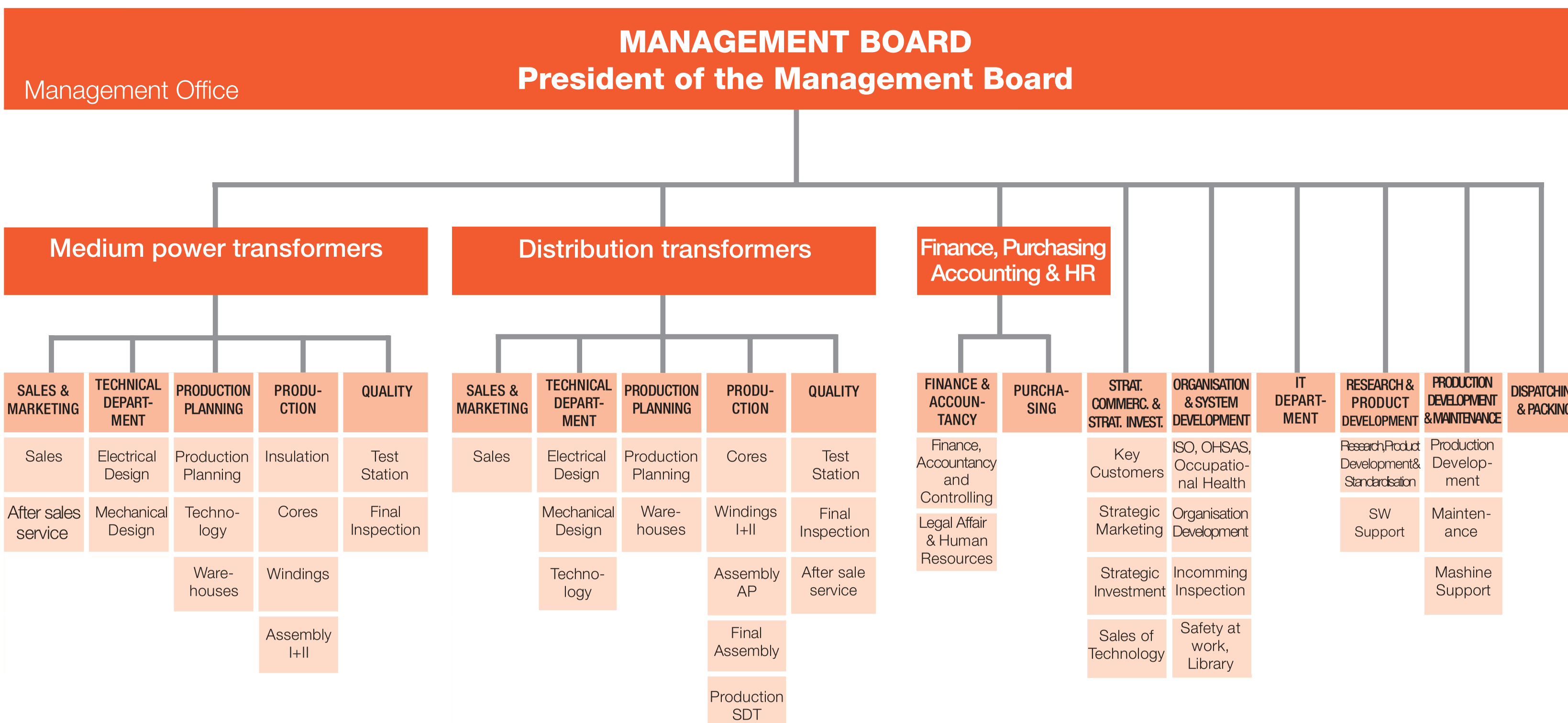
Note: Average exchange rate 2011 EUR 1 = 7.4342 HRK 2012 EUR 1 = 7.5173 HRK
2013 EUR 1 = 7.5735 HRK 2014 EUR 1 = 7.6300 HRK

* Dividend amount shall be known after the General Assembly.

3. Organisation Scheme in 2014

Supervisory Board
Darinko Bago, president
Miroslav Poljak, vice-president
Jozo Miloloža, member
Davor Mladina, member
Josipa Šutalo, member

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



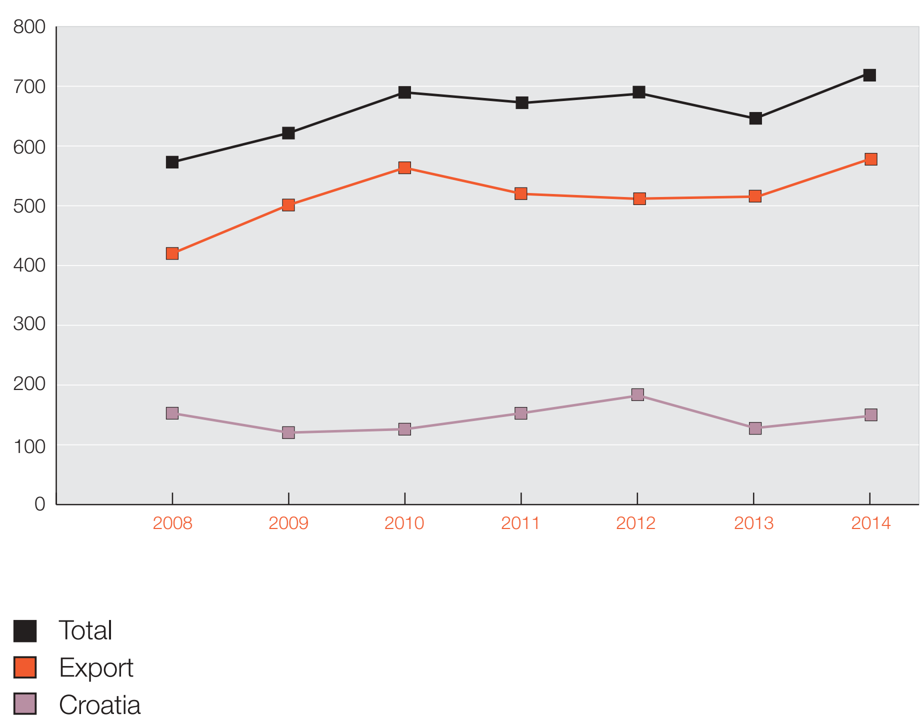
4. General position of the Company

Despite a small decline in the profitability in 2014, good operating results of this year and of several previous years have financially strengthened the company. The company has an adequate financial stability and a good basis for further business development.

Having successfully mastered a significantly higher production level - both in the range of distribution transformers and medium power transformers - along with the resolution of certain unforeseen difficulties which caused delays and additional costs, the company has acquired additional knowledge and capacities for management of significant changes in a short period of time.

By making sales and development activities our priority, as well as by recruiting and systematically training young professionals, providing incentives to our employees, making investments in product development and production modernisation and by adapting the organisation to fit the new size and position of the company, the company has been prepared for complex market requirements which may be expected in the future.

SALES TRENDS (HRK mil.)



5. Corporate organisation and management in 2014

During 2014, Management Board of Končar D&ST d.d. was composed of:

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

Business processes in 2014 were organized through Distribution Transformers (DT) Profit Centre and Medium Power Transformers (MPT) Profit Centre, with some common departments shared on the Company level. The Profit Centres were managed by the team of directors consisting of the Profit Centre Director and Directors of Sales, Engineering and Production.

In early 2014, the Sector of Strategic Sales and Strategic Investments was established within the common departments, for coordination of the sale of technologies, major investments and shared marketing activities.

In 2014, the Company has been operating at a single location, at the address: Josipa Mokrovića 8, 10090 Zagreb. For the purpose of conducting the works on the transport and assembly of medium power transformers in Morocco, a branch office in Casablanca, Morocco has been operating under the name Koncar D&ST Succursale Maroc.

6. Corporate Governance Code application

The Company implements most of the provisions of the Code of Corporate Governance, prepared by Zagreb Stock Exchange and HANFA and released on the official website of the Zagreb Stock Exchange (www.zse.hr). The only exceptions from this are certain provisions the Company considers non-applicable in the prescribed form. The Company believes that the non-implementation of the respective provisions does not impair the high level of transparency of the Company operations and will not have a significant impact on current and prospective investors in making their investment decisions.

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

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

Information on significant shareholders is available on daily basis on the official Central Depository & Clearing Company Inc. website at (www.skdd.hr), while its status on 31 December 2014 and 2013 was also published in the audit report. Preferred shares of the Company do not provide the voting rights.

7. Market position and sales by countries and product groups

In 2014, the crisis on some target markets is still felt and on global level, the supply still exceeds the demand. This leads to a further decline of transformer prices and the customers demanding shorter delivery terms, more favourable payment conditions and longer warranty terms. The USD/EUR rate is still unstable and the deepening of the political crisis in some areas also affects many global market trends. Majority of distributions in Europe continues to implement cost cutting programs, placing major emphasis on the procurement costs.

In the last year, the sales of goods and services grew by 10% from 2013 and amounted to HRK 712. Per product groups, changes from the preceding period are as follows:

- Distribution transformers: growth by 27%
- Medium power transformers: growth by 7%
- Dry and special transformers: decrease by 26%
- Other goods and services: decrease by 4%

Total 8% more transformers were produced when regarded by MVA and 22.7 % more than in the preceding year regarded by total weight.

Sales by major markets were as follows:

Croatia: in 2014, the sales reached HRK 148 million, which compared by HRK 133 million in 2013 means growth by 11%.

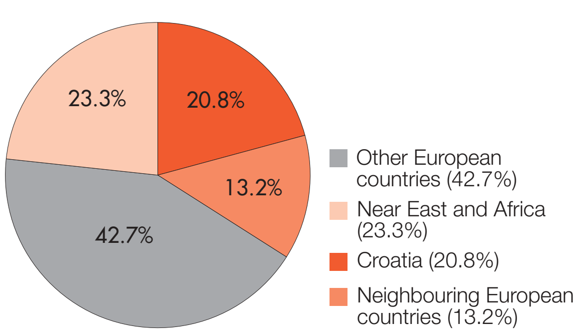
Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Czech Republic, Slovakia, Hungary, Kosovo, Bulgaria, Serbia - in 2014, the sales reached HRK 94 million, which compared to HRK 115 million in 2013 is a decrease by 18%.

Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Poland, Russia, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Italy, Norway, Romania, Luxembourg, Belarus, Malta, Netherlands, Belgium - sales in 2014 reached HRK 304 million, which compared to HRK 270 million in 2013 is an increase by 13%.

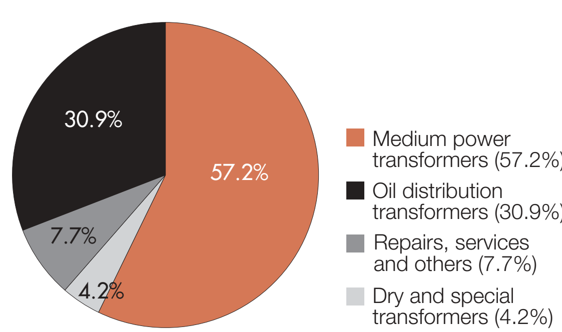
Other Asian, African and American countries: in 2014, we delivered HRK 166 million, which compared to HRK 130 million in 2013 is an increase by 28%.

The sales activities in 2014 have led to total new orders of HRK 684 million or 12% less than in 2013. The balance of orders at the year's end was HRK 593 million or 8% less than at the end of 2013.

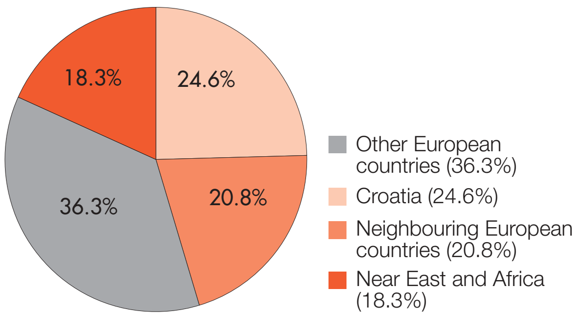
SALES STRUCTURE PER MARKETS



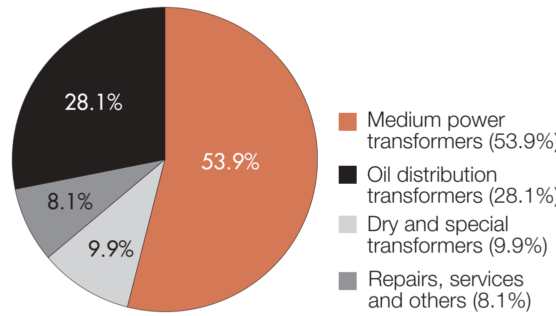
SALES STRUCTURE PER PRODUCTS



NEW CONTRACTS PER MARKETS



STRUCTURE OF NEW CONTRACTS PER PRODUCTS



8. Financial position (Balance Sheet)

On 31 December 2014, the company's total assets amounted to HRK 564.5 million, and at the end of 2013 they amounted to HRK 506.8 million.

In the structure of assets, the percentage of fixed assets is 29% and the percentage of current assets is 71%. In the current assets, the balance of inventories on 31 December 2014 grew from HRK 144.6 million to HRK 193.7 million and forms 34% of total assets.Short-term receivables grew by 26% to HRK 173.5 million and they form 31% of assets. The growth of inventories and short-term receivables was a result of the increased scope of activities and the extended contract delivery terms in a number of contracts. The most liquid part of assets, cash and deposits, have been reduced as a consequence of financing due to the increased inventories and receivables and, on the last day of 2014, amounted to HRK 33.5 million.

On the liabilities side, equity and reserves as well as the profit of the current year have increased by HRK 10.4 million, due to the continuing policy of retaining a larger portion of net profits in reserves, hence these HRK 225.7 million at the end of 2014 make up 40% of total assets sources.

Long-term reservations in 2014 have been reduced from HRK 139.6 million to HRK 130.3 million. Cancellation of a part of long-term reservations of HRK 9.3 million is mostly consequence of additional costs due to a system error discovered during the testing.

Long-term borrowings at the end of the 2014 amounted to HRK 37.3 million, which is a reduction of 21% compared to the previous year.

Long-term funding sources aggregately reached up to HRK 393.4 million and form approximately 70% of total liabilities, which makes them 2.4 times higher than the sum of fixed assets and can be regarded as an indicator of satisfactory financial stability. Short-term liabilities together with accruals and deferred income amount to HRK 171.2 million, which represents 30% of total liabilities. The liabilities to banks and suppliers and the liabilities for advances have grown as a result of financing of the increase in inventories and receivables.

In 2014, the hedge accounting was established and the secured transactions were identified as well as the financial instruments defined as risk protection instrument (IAS 39). The Company is protected from the currency risk mostly by forward contracts. By establishing the hedge accounting, the effects of risk protection instruments and the secured transactions are allocated by periods in a more appropriate way and in such a way they have a more appropriate impact on the financial statements. As a result of hedge accounting in 2014, the comprehensive profit was reduced by HRK 4.7 million and the equity has been reduced by the same amount. Such reductions are temporary.

9. Operating results (Income Statement) and share price trends

In 2014, Končar D&ST made HRK 736.5 million in revenues, which is a growth by 11% com- pared to the previous year. In the structure of total revenue, the operating income forms the majority of 98.6%. Revenues generated in exports, amounting to HRK 563.6 million, make 79% of sales.

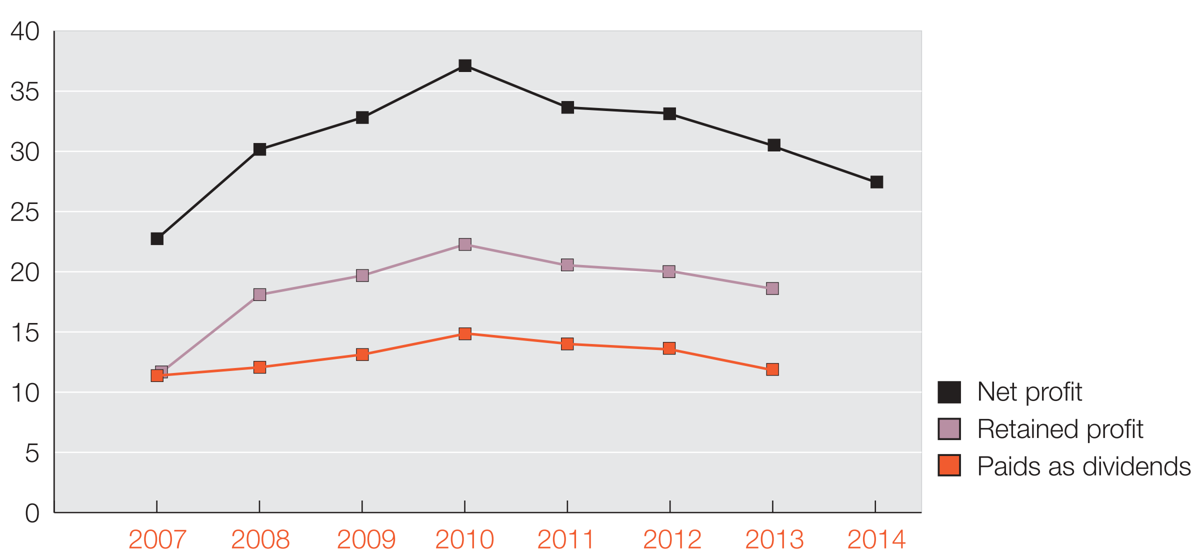
On the expenditure side, the most significant individual costs are the costs of raw materials which, together with the cost of goods sold, amount HRK 530.2 million. It makes a share of 71% in sales adjusted by growth in inventories of unfinished production and finished products.

Depreciation expenses are increased by 21% compared to the previous year and in 2014, they amount to HRK 17.8 million. This is mostly due to the depreciation of the investment in HV Laboratory, which was placed in operation in 2013.

In the area of financial activities, income of HRK 10 million was generated with the expenditures of HRK 14.2 million.

In the fiscal year 2014, gross profits were HRK 27.8 million or by 14% lower than in the year before, when they amounted to HRK 32.5 million. Due to an increased depreciation of HRK 3.1 million, EBITDA was HRK 48.2 million or 3% lower than in the preceding year, when it was HRK 49.8 million.

NET PROFIT THROUGH YEARS (HRK mil.)



Considering the Company has benefited from tax incentives on the investments, according to the Act on Investment Promotion, the effective profit tax rate for 2014 is 1.8%, and net profit amounts to HRK 27.3 million.

At the Zagreb Stock Exchange 13,714 shares changed owners during 2014. The price ranged from HRK 945 to 1,275 per share. The last transaction with the ordinary shares was concluded at HRK 1,129.98 and that with the preferred shares at HRK 1,047.

According to the ordinary share price, the P/E ratio on the last day of 2014 was 10.6. During the 2014, the Company did not acquire any treasury shares.

10. Main operating risks

Market Risks. Demand for transformers on the target markets of Končar D&ST is one of the main operating risk factors. Global demand for transformers as well as demand on target markets has varied significantly in specific periods, depending on a number of factors. Periods of high demand (positive trends) are definitely periods of easier contracting and lower competition pressure, with appropriate reflection on total growth and profitability. On the other hand, periods of global recession and economic crisis bring with them more difficult contracting of new works and the resulting decrease in profit margins. Several recent years may be characterised as years of recession and crisis.

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

Procurement market risks. Prices of major raw materials and supplies for the production of transformers (copper, transformer sheets, transformer oil, insulation, steel, etc.) have been significantly volatile in the several recent years and sometimes with enormous growth in a relatively short time period. Also, market disturbances are sometimes possible in terms of availability of appropriate raw materials and supplies in appropriate delivery terms. However, there were no such disturbances in deliveries in the several recent years.

Considering the available options, the Company protects itself from the risk of sudden changes in prices of strategic raw materials in several ways. As for copper, being a raw material listed on commodity exchange markets (London Metal Exchange), forward contracts are used to agree on quantities and prices for the forward period based on balance of contracts. As for steel, transformer oil and some significant parts, semi-annual or annual contracts with suppliers are used to reduce this risk.

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

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

Also, the hedge accounting has been introduced, the protected transactions have been identified and the financial instruments defined as risk protection instrument.

Technology and development risks. At this moment, the Company has at its disposal state-of-the-art technology for the transformer production and appropriate technical solutions for the majority of products within its range. The Company is capable to follow the technical and technology development at an enviable level. In the future we do not expect any technical or technological lagging behind our major competitors.

Credit risk and liquidity risk. Credit risk is observed as a risk that a certain debtor of the Company (e.g. customer to whom delivery is made without security) will not be able or willing to make a payment to the Company in compliance with the agreed terms, and the Company will therefore incur losses at write-off or reduction of receivables.

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

The Company protects itself from credit risk with collaterals (L/C, guarantees, etc.), and evaluation of customer solvency in cooperation with external credit rating agencies.The Company has contracts with commercial banks about credit facilities which make possible for the Company to surmount the current need for liquid funds fast and under known conditions. Also, receivables with relatively long maturity terms are most frequently collected by sale to financial institutions (factoring, forfeiting).

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

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

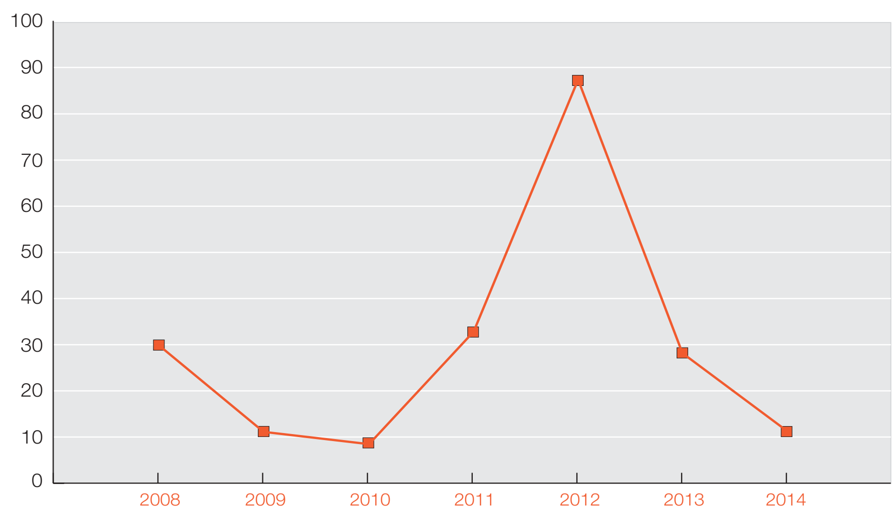
11. Investments and technology modernisation

In 2014, the company officially put into full operation a strategic investment under the working title "HV Laboratory" which displayed functionality and reliability in the operation for the production and testing of transformers of 40 to 100 MVA and 170 kV which it was designed for.

Other significant investments include those in IT equipment, particularly CAD CATIA licences and a new Infor XA server for ERP on a much stronger and more reliable IBM Power HA platform. Also, in addition to the investment in the improvement of work conditions in the production and cutting the costs of heating the halls, as well as construction of a special chamber for testing the noise of distribution transformers, several specialized production machines have been purchased and modernized.

The total value of investments in 2014 amounted to HRK 11.4 million.

INVESTMENT TRENDS (HRK mil.)



12. Technical development and products innovation

As part of the technical development, which includes Department of Product Development and Production Development, in the 2014 there were 21 graduate engineers employed, of which five graduate electrical engineers, one MSc. and one PhD in the field of electrical engineering, 13 graduate mechanical engineers and one graduate chemical technology engineer.

In 2014, the amorphous transformers of 100 and 250 kVA were successfully developed. Their losses at idle operation are by 50 percent lower than the standard minimum Ao level, which makes them absolutely suitable for the implementation of the loss reduction and higher energy efficacy policy. Also the development of a system for design of small distribution transformers (PRODIST1) has started in Windows environment, which will provide electronic archives and much faster preparation of bids and project designs.

In the field of medium power transformers, together with the Production Development, a system of traceability of windings and their parts has been improved, creating the conditions for the production of transformers with lower insulation intervals. The transformer noise calculations have been also revised. In the thermal field, all models of windings for ODAF cooling have been made and tested.

In compliance with the former practice, during 2014 the Production Development worked on the introduction of new technologies and modernisation of equipment. The reconstruction of oil distribution was completed and the project of automated transport of transformer oil has been completed with the supervision and registration of all activities. For the needs of the production of cylinders, the drying chamber has been replaced with a new one of higher capacity, better airflow direction and higher automation level. For the assembly needs, a new modern vacuum equipment has been designed, installed and put into operation.

In the field of production of distribution transformers, a new foil winding machine has been ordered, with the capacity up to 800 mm width of foil. Its delivery is expected in late March 2015. Due to constantly growing customer requirements for testing the transformers on overpressure at the point of acceptance, a special device for that purpose has been designed and produced.

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

Experts from the Technical Development Department and other departments actively participated in symposiums and seminars on transformers (CIRED in Trogir, CIGRE in Paris, 3rd International Transformer Colloquium in Split) and worked in the SO2 study committee for transformers and in the technical committee HZN/TO E14 Power Transformers.

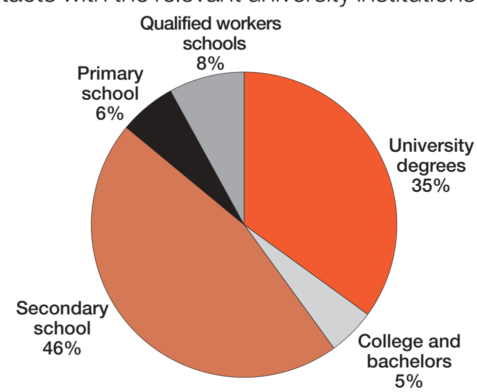
13. Human Resources

At the beginning of the 2014, there were 466 employees in Končar D&ST. By the end of the year, new 25 employees were employed and 9 left. The year ended with 482 employees. The employment policy is to continue rejuvenating the company so most of new employees in the 2014 were of young age, and the average age of the employees is still 40 years.

In the area of employee training, the continuous training is conducted at universities and polytechnics studies. The company supports enrolment in postgraduate studies, the result of which is a growing number of employees being educated at various faculties. Rewarding approach and promotion of professional and scientific training significantly enriches the knowledge of the company and enables contacts with the relevant university institutions.

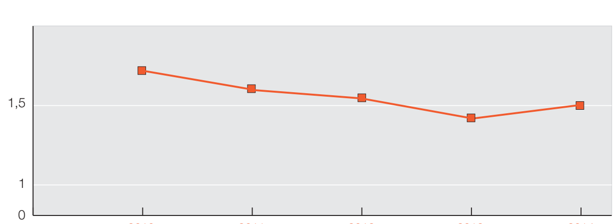
EDUCATION STRUCTURE OF EMPLOYEES AT YEAR-END:

Level of education	Years of education	2013	2014
University degree	16+	**160**	**168**
College and Bachelor's degree	14-15	**27**	**26**
Secondary school	12	**211**	**220**
Qualified workers schools	11-13	**37**	**37**
Primary school + training on the job	8	**31**	**31**
Total		**466**	**482**

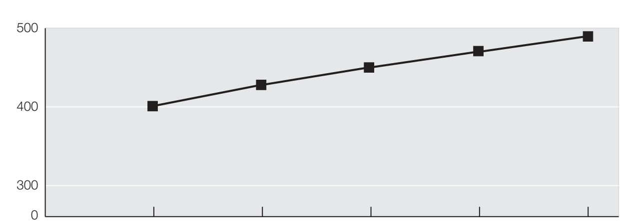


Productivity measured by sales per employee in 2014 was HRK 1.51 million.

ANNUAL SALES PER EMPLOYEE (HRK mil.)



NUMBER OF EMPLOYEES



14. Quality Management, Environment Management and OH&S Management

As early as 1994, Končar D&ST recognized the importance of operation in compliance with the good business practice principles and the internationally recognized standard ISO 9001. Such principles represent the basis of the successful management of the company.

The requirements of the Quality Management System and the two other certified systems, namely the Environmental Management System (ISO 14001) and the Occupational Health and Safety Management System (OHSAS 18001) are applied in daily operations of the company.

Končar D&ST is committed to teamwork, and various aspects are communicated through the expert Boards aimed to comprehensive review and finding optimal responses to business challenges.

The internal and external audits taking place several times per year contribute to identification of deficiencies and to a large extent stimulate the ideas about the ways how to improve the company operations and make them more efficient.

Systematic and planned investments are made into the knowledge and education of our own experts, modern testing equipment for detection and diagnostics and production equipment aimed to increase the overall efficiency of operations.

15. Future development strategy

Development, sales and production of oil distribution transformers up to 2500 kVA and 36 kV, special transformers, medium power transformers up to 100 MVA and 170 kV, and the projects of selling the technology on the selected markets remain the main business activities of Končar D&ST.

Končar D&ST will continue occupying a high position among the leading European manufacturers of distribution, special and medium power transformers, recognizing and fulfilling in the best possible way the needs of its target customers, through its commitment to quality and sustainable development, technical and organisational development, training and motivation of employees for excellent performance and fostering the teamwork.

Final remark: From the end of the year 2014 until the preparation of this report, there were no unusual or significant events that could significantly change the image of the operations and position of the Company as presented in this report.

II

DECLARATION AND DECISIONS PROVIDED BY LAW

KONČAR – Distribution and Special Transformers, Inc.
Josipa Mokrovića 8, ZAGREB
CROATIA

DECLARATION BY PERSONS RESPONSIBLE FOR PREPARATION OF 2014 ANNUAL REPORT

Pursuant to Article 403 of the Croatian Act on Capital Market (Official Journal NN 18/15), we herewith declare that according to our best knowledge and belief:

- Annual Financial Statements of Končar D&ST d.d. for 2014 have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

- Management Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that Company faces.

Zagreb, 6 March 2015

On behalf of Končar D&ST Management Board:

Ivan Klapan, CEO
President of the Management Board

Petar Vlaić, CFO
Member of the Management Board

KONČAR
Distributivni i specijalni
transformatori d.d.
Zagreb
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Končar-Distribution and Special Transformers, Inc.
Josipa Mokrovića 8, ZAGREB
CROATIA

Pursuant to Articles 220 and 300 d of the Croatian Act on Companies, and Article 22 of Articles of Association of KONČAR D&ST d.d., at Supervisory Board meeting of 18 March 2015, Supervisory Board and Management Board have adopted the following

DECISION
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2014

Supervisory Board and Management Board of Končar-D&ST d.d. have jointly adopted the Annual Financial Statements for 2014.

Explanation

Supervisory Board and Management Board of Končar-D&ST d.d. have jointly adopted the Annual Financial Statements for 2014 as follows:

Total income	HRK 736,526,341
Total expenses	HRK 708,776,038
Profits before taxation	HRK 27,750,303
Corporate income tax	HRK 491,241
Profits after taxation	HRK 27,259,062
Total assets / liabilities	HRK 564,509,928

Zagreb, 18 March 2015

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

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

Pursuant to Article 220 of the Croatian Act on Companies and Articles 22, 24 and 25 of Articles of Association of KONČAR D&ST d.d., at Supervisory Board meeting held on 18 March 2015, Supervisory Board and Management Board adopted the following

DECISION
ON ALLOCATION OF PROFITS FOR 2014

1. Profits after taxation (net profits) for 2014 amount to HRK 27,259,061.80.

2. Management Board and Supervisory Board have allocated a sum of HRK 16,354,483.24 into statutory reserves of the Company.

3. Management Board and Supervisory Board have proposed to General Assembly to make a decision on payment of dividends on ordinary shares and preferred shares at a sum of HRK 42.66 per share, which totals HRK 10,904,578.56 in respect of 255,616 shares.

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

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

Zagreb, 18 March 2015

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

III

AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES


KONČAR



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 Končar - Distribution and Special Transformers Inc., Zagreb (the "Company") for that period.

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

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

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

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

Signed on a behalf of the Management Board:

Ivan Klapan, President of the Board

KONČAR
Distributivni i specijalni transformatori d.d.
Zagreb

Končar - Distribution and Special Transformers Inc
Josipa Mokrovića 8, 10 090 Zagreb
6 March 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Končar – Distribution and Special Transformers 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
Commerciai Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

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

The financial statements of Končar – Distribution and Special Transformers Inc. as at 31 December 2013 were audited by another auditor whose report as at 25 February 2014 expressed an unqualified opinion on those financial statements.

Report on Other Legal and Regulatory Requirements

We have read the accompanying Annual Report of the Company for the year ended 31 December 2014 set out on pages 53 to 66. We have verified that the information included in the Annual Report which describes matters that are also presented in the financial statements is consistent, in all material respects, with the financial statements referred to above.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 6 March 2015

Reconsult d.o.o.
Zagreb, 6 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.

Statement of comprehensive income

31 December 2014

	Notes	2014 in HRK	2013 in HRK
Sales	4	712,178,181	646,022,798
Other operating income	5	14,320,172	4,846,175
Operating revenues		**726,498,353**	**650,868,973**
Changes in inventories (work in progress and finished goods)		36,090,649	3,367,654
Cost of materials and energy	6	(496,964,570)	(406,318,060)
Cost of goods sold		(33,253,699)	(26,005,553)
Cost of services	7	(59,775,155)	(60,068,478)
Personnel costs	8	(104,861,127)	(99,090,252)
Depreciation and amortization	9	(17,848,091)	(14,740,413)
Other costs	10	(16,474,094)	(16,988,488)
Impairment of current assets		—	(383,780)
Provisions	11	(1,032,107)	(493,521)
Other operating expenses		(506,193)	(1,514,812)
Operating expenses		**(694,624,387)**	**(622,235,703)**
Operating profit		**31,873,966**	**28,633,270**
Financial income	12	10,027,988	14,149,491
Financial expenses	13	(14,151,651)	(10,307,087)
Net financial result		**(4,123,663)**	**3,842,404**
Total revenues		**736,526,341**	**665,018,464**
Total expenses		**(708,776,038)**	**(632,542,790)**
Profit before taxation		**27,750,303**	**32,475,674**
Corporate income tax	14	(491,241)	(2,111,623)
PROFIT FOR THE YEAR		**27,259,062**	**30,364,051**
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge		(4,734,344)	—
Other comprehensive income for the year		**(4,734,344)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,524,718**	**30,364,051**
Earnings per share	15	106.64	118.79

The accompanying notes form an integral part of these financial statements

Statement of financial position

31 December 2014

	Notes	31/12/2014 HRK	31/12/2013 HRK
ASSETS			
Intangible assets	16	1,901,796	1,942,003
Property, plant and equipment	17	156,927,649	162,450,685
Investments in associates	18	1,732,458	1,732,458
Available for sale financial assets	18	2,804,837	2,812,364
Non-current assets		**163,366,740**	**168,937,510**
Inventories	19	187,773,642	138,657,407
Receivables from related companies	20	32,973,234	13,985,094
Trade accounts receivable	21	135,797,634	117,455,488
Prepaid corporate income tax		1,774,507	495,451
Other receivables	22	2,944,458	6,132,817
Financial assets at fair value through profit or loss	23	297,729	1,913,754
Cash and cash equivalents	24	33,492,657	52,932,968
Prepaid expenses and accrued income		129,327	353,009
Current assets		**395,183,188**	**331,925,988**
Non-current assets held for sale	25	**5,960,000**	**5,960,000**
TOTAL ASSETS		**564,509,928**	**506,823,498**

Statement of financial position - continued

	Notes	31/12/2014 HRK	31/12/2013 HRK
EQUITY AND LIABILITIES			
Share capital	26	**76,684,800**	**76,684,800**
Legal reserves		3,839,641	3,839,641
Statutory reserves		111,280,233	93,063,054
Other reserves		11,371,723	11,371,723
Other components of equity (cash flow hedge)		(4,734,344)	—
Profit for the year		**27,259,062**	**30,364,051**
EQUITY		**225,701,115**	**215,323,269**
Provisions for warranty costs		128,466,483	138,049,087
Other provisions		1,842,138	1,592,164
Non-current provisions	27	**130,308,621**	**139,641,251**
Liabilities toward banks - borrowings		37,345,269	47,091,522
Non-current liabilities	28	**37,345,269**	**47,091,522**
Liabilities toward related companies	29	6,148,110	4,438,930
Liabilities toward banks - borrowings	30	35,717,173	11,279,044
Derivative financial instruments	31	3,650,393	—
Trade accounts payable	32	55,115,450	43,380,708
Liabilities for advance payments received	33	51,276,700	28,744,546
Other liabilities	34	13,579,505	12,776,320
Accrued expenses and deferred income	35	5,667,592	4,147,908
Current liabilities		**171,154,923**	**104,767,456**
TOTAL EQUITY AND LIABILITIES		**564,509,928**	**506,823,498**

The accompanying notes form an integral part of these financial statements

Statement of cash flows

31 December 2014

	Notes	2014 in HRK	2013 in HRK
Cash flow from operating activities			
Cash receipts from customers		738,624,938	721,191,949
Cash receipts from insurance compensations		100,495	264,358
Cash receipts from tax returns		30,030,431	72,309,599
Cash receipts from interests		145,539	285,101
Other cash receipts		2,338,690	7,273,775
Total cash receipts from operating activities		**771,240,093**	**801,324,782**
Cash paid to suppliers		(652,178,959)	(557,693,725)
Cash paid to employees		(99,939,625)	(94,939,762)
Cash payments to insurance companies		(575,858)	(1,383,265)
Cash payments for interests		(3,113,100)	(3,853,562)
Cash payments for taxes		(7,650,064)	(48,438,697)
Other cash payments		(20,167,302)	(18,936,253)
Total cash payments for operating activities		**(783,624,908)**	**(725,245,264)**
Net cash flow from operating activities		**(12,384,815)**	**76,079,518**
Cash flow from investing activities			
Proceeds from sale of non-current assets		901,068	1,256,215
Dividends received		1,764,308	1,614,110
Purchases of intangible and tangible assets		(11,975,282)	(21,246,227)
Net cash used in investing activities		**(9,309,906)**	**(18,375,902)**
Cash flow from financing activities			
Proceeds from borrowings		61,127,844	—
Other proceeds from financial activities		—	14,000,000
Repayment of borrowings		(46,704,179)	(7,108,961)
Dividends paid		(12,169,255)	(13,322,338)
Other cash payments for financial activities		—	(14,000,000)
Net cash used in financing activities		**2,254,410**	**(20,431,299)**
Increase (decrease) in cash		**(19,440,311)**	**37,272,317**
Cash and cash equivalents at the beginning of the year	24	52,932,968	15,660,651
Cash and cash equivalents at the end of the year	24	**33,492,657**	**52,932,968**

The accompanying notes form an integral part of these financial statements

Statement of changes in equity

31 December 2014

	Share capital HRK	Reserves from earnings HRK	Current year profit HRK	Total HRK
Balance at 1 January 2013	**76,684,800**	**88,762,356**	**33,291,160**	**198,738,316**
Transactions with owners:				
Allocation of the profit for 2012	—	19,973,567	(19,973,567)	—
Dividends paid	—	—	(13,317,593)	**(13,317,593)**
Other decreases	—	(461,505)	—	**(461,505)**
Profit for the year	—	—	30,364,051	**30,364,051**
Total comprehensive income for the year	—	—	**30,364,051**	**30,364,051**
Balance at 31 December 2013	**76,684,800**	**108,274,418**	**30,364,051**	**215,323,269**
Transactions with owners:				
Allocation of the profit for 2013	—	18,217,179	(18,217,179)	—
Dividends paid	—	—	(12,146,872)	(12,146,872)
Profit for the year			27,259,062	27,259,062
Other comprehensive income:				
Cash flow hedge	—	(4,734,344)	—	(4,734,344)
Total comprehensive income for the year	—	**(4,734,344)**	**27,259,062**	**22,524,718**
Balance at 31 December 2014	**76,684,800**	**121,757,253**	**27,259,062**	**225,701,115**

The accompanying notes form an integral part of these financial statements

Notes to the financial statements

31 December 2014

1. GENERAL DATA

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

As at 31 December 2014 the Company had 482 employees, while on 31 December 2013 the Company had 466 employees.

The Company has a branch (which is not a legal entity) in Morocco, and its financial information are also included in the financial statements of the Company.The employee structure is as follows:

	31/12/2014	31/12/2013
University degrees	168	160
College	26	27
High school (secondary)	220	211
Qualified workers schools	37	37
Primary school + training on the job	31	31
Total	**482**	**466**

Members of the Supervisory Board:

Darinko Bago, president
Miroslav Poljak, deputy
Jozo Miloloža, member
Davor Mladina, member
Josipa Šutalo, member

Members of the Management Board

Ivan Klapan, president
Josip Belamarić, member
Petar Vlaić, member
Ivan Sitar, member
Martina Mikulić, Board member's deputy
Vanja Burul, Board member's deputy

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

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.

Basis for preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS). The financial statements have been prepared using the historical cost convention except for Available for sale financial assets and financial assets at FVTPL and liabilities carried at fair value. The financial statements are prepared on a going concern basis.

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

The financial statements are denominated in Croatian Kuna (HRK) as the functional and reporting currency of the Company. At 31 December 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.

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. The Company does not prepare consolidated financial statements, so 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 an 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 because the Company does not prepare consolidated 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 amendment is not relevant because the Company does not prepare consolidated 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 allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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

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

- *Annual improvements 2014 (effective for annual periods beginning on or after 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.

Revenues from the sale of goods and own products

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

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

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

b) Financial revenues and expenses

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

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

Financial expenses are comprised from the interests calculated on loans, changes in the fair value of financial assets held at fair value through the profit and loss account, losses on value adjustments (impairments) of financial assets and losses from exchange rate differences.

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

c) Taxation

The Company provides for taxation liabilities in accordance with Croatian law.

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

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

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

d) Reporting segments

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

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

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

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

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

g) Transactions in foreign currency
Transactions in foreign currency are initially translated into Kuna's by using the spot rates at the transaction date. Cash, receivables and liabilities reported in foreign currencies are translated into Kuna's by using middle exchange rate at balance sheet date. Foreign exchange differences (gains or losses) are included in the profit and loss account as incurred and stated in gross amounts in P&l and in the notes 12 and 13 (these amounts include both foreign exchange differences from operating as well as from financing activities).

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

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

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

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

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

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

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

Impairment of property, plant and equipment and intangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revaluated amount, in which case the impairment loss is treated as a revaluation decrease within the comprehensive income.

i) Leases

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

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

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

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

j) Financial assets and financial liabilities

Financial assets

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

Financial assets are classified into the following categories:

- “At fair value through profit or loss (FVTP)”

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

- “Held-to-maturity”

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

- “Available for sale (AFS)”

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

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

- “Loans and receivables”

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

Impairment of financial assets

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

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

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Share capital

a. Ordinary shares

Share capital represents the nominal value of shares issued.

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

b. Share repurchase

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

Financial guarantee of a contractual obligation

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

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

Financial liabilities at fair value through profit and loss

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

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

Other financial liabilities

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

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

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

De-recognition of financial liabilities

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

k) Investments in associates

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

Investments in associates are stated at cost in the Company's standalone financial statements.The Company does not separately disclose financial statements in which the investment in associate is accounted for using the equity method since the Company's share in this company is not significant and does not have significant impact on the Company's financial statement and this associate is accounted for using the equity method in the consolidated financial statements of Končar group.

l) Inventories

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

The cost of work in progress and finished products comprises materials, direct labour costs and related fixed and variable overheads under normal operating capacity.

In the cases when it is necessary to bring the inventory value at to its net selling price the Company makes inventory' value adjustments recognized as an expense in the SOCI for the current year.

Small inventory is fully expensed when put into use.

m) Receivables

Receivables are initially measured at fair value. At the balance sheet date, receivables, whose collection is expected in the period longer than one year, are stated at amortized cost by using the effective interest rate method decreased for impairment loss.

Current receivables are stated at initially recognized nominal amount decreased for appropriate value adjustment for estimated uncollectible amounts and impairment losses.

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

n) Cash and cash equivalents

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

o) Borrowings

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

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

p) Provisions

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

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

Provisions for warranties are recognized at the moment the underlying products are sold. Provisions are made based on estimates and experiences from other manufacturers of energy transformers within the Company and estimate of possible solutions in accordance with their probabilities.

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

q) Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits - bonus plans

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

r) Contingent assets and liabilities

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

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

s) Subsequent events

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

t) Comparatives and reclassifications

Where necessary, comparative figures have been adjusted to conform with the presentation in the current year.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

a) Impairment of inventories

The Company recognizes an impairment for all inventories for which it determines that its cost is higher than its net realizable value based on best estimate.

b) Warranty provisions

The Company provides warranties for its products for the average period of 3 years. The Management estimates the provision on the basis of past data. Factors which could influence information regarding the estimated claims include success of Company's initiatives to improve the quality of the products and the cost of labour and parts needed.

4. SALES

	Notes	2014 in HRK	2013 in HRK
Foreign sales of goods		563,558,578	512,884,112
Domestic sales of goods		148,619,603	133,138,686
Total		**712,178,181**	**646,022,798**

Domestic and foreign sales include revenue from the sale to related parties as presented in Note 38.

Sales by operating segments in 2014:

	Medium power transformers HRK	Distribution transformers HRK	Total HRK
Sales to unrelated parties	385,978,941	242,101,477	**628,080,418**
Sales to related parties	36,229,911	47,867,852	**84,097,763**
Total	**422,208,852**	**289,969,329**	**712,178,181**

Sales by operating segments in 2013:

	Medium power transformers HRK	Distribution transformers HRK	Total HRK
Sales to unrelated parties	373,587,398	204,462,028	**528,049,426**
Sales to related parties	27,894,238	40,079,134	**67,973,372**
Total	**401,481,636**	**244,541,162**	**646,022,798**

Total assets and capital investments are located in Republic of Croatia.

5. OTHER OPERATING INCOME

	2014 in HRK	2013 in HRK
Income from the release of provisions	10,064,737	873,156
Income from collected penalties, awards and similar	945,546	131,378
Income from the reversal of inventory impairment	882,687	728,437
Income from rebates and discounts	264,395	486,612
Gain from the sale of non-current assets	172,283	1,388,930
Income from insurance claims	100,495	264,358
Inventory surpluses	70,020	314,711
Other income	1,820,009	658,593
Total	**14,320,172**	**4,846,175**

6. COSTS OF MATERIALS AND ENERGY USED

	2014 in HRK	2013 in HRK
Raw materials	489,689,581	398,727,825
Energy	6,293,913	6,587,719
Small inventory	981,076	1,002,516
Total	**496,964,570**	**406,318,060**

7. COSTS OF SERVICES

	2014 in HRK	2013 in HRK
Transportation costs	18,767,785	19,665,970
Services related to product design and sale	8,362,384	10,209,669
Agent commissions	7,559,084	7,305,368
Maintenance costs	5,028,304	6,107,149
Royalty fees (usage of company's name and trade mark - Končar Inc.)	4,277,697	4,162,970
Entertainment	2,974,149	2,535,771
Costs of telephone and post	2,375,684	1,708,368
Worker assignment	2,525,108	387,659
Rent	1,497,570	1,592,834
Intellectual services	1,187,148	1,218,799
Utilities costs	714,324	707,906
Advertising services	878,733	680,040
Other costs	3,627,185	3,785,975
Total	**59,775,155**	**60,068,478**

8. PERSONNEL COSTS

	2014 in HRK	2013 in HRK
Net salaries and wages	55.745.843	53.185.509
Taxes and contributions from salary	34.062.969	32.796.658
Contributions on salary	15.052.315	13.108.085
Total	**104.861.127**	**99.090.252**

Net salaries in the amount of HRK 55,745,843 (2013: HRK 53,185,509) contain compensations to the Management Board consisting of salaries in the amount of HRK 1,557,258 (2013: HRK 1,588,666) and an accrual for the Management Board bonus in the amount of HRK 909,900 (2013: HRK 909,900), which are an integral part of the personnel expenses.

Contributions to Pension fund in 2014 amount to HRK 17,810,231 (2013: HRK 14,459,264).

Compensations to employees (travel to and from work, jubilee rewards, retirement fees, business travel compensations etc) in the amount of HRK 7,717,246 (2013: HRK 7,618,981) are presented in note 10.

9. DEPRECIATION AND AMORTIZATION

	Notes	2014 in HRK	2013 in HRK
Property, plant and equipment	17	17,221,611	14,051,251
Intangible assets	16	626,480	689,162
Total		**17,848,091**	**14,740,413**

10. OTHER COSTS

	2014 in HRK	2013 in HRK
Employee transportation costs	2,958,978	2,945,718
Bank charges	2,928,885	2,211,804
Travelling costs and per-diems	2,705,227	3,050,681
Compensations to employees	2,053,041	1,622,582
Insurance premiums	1,630,426	1,845,163
Compensations to members of the Supervisory Board	452,957	454,569
Contributions, memberships and similar costs	238,811	265,672
Taxes and contributions independent of the results and similar costs	12,722	37,236
Other	3,493,047	4,555,063
Total	**16,474,094**	**16,988,488**

11. PROVISIONS

	2014 in HRK	2013 in HRK
Provisions for warranty costs	782,133	—
Provisions for retirement and jubilee awards	249,974	128,784
Provisions for legal claims	—	364,737
Total	**1,032,107**	**493,521**

Movement in provisions by categories is presented in Note 27.

12. FINANCE REVENUES

	2014 in HRK	2013 in HRK
From relations with related parties		
Foreign exchange gains on receivables	71,703	110,634
Revenues from share in profits	100,000	250,000
	171,703	***360,634***
From relations with un-related parties		
Foreign exchange gains	6,574,258	8,029,590
Gains on fair value of derivate instruments	455,884	2,754,965
Revenues from dividends and share in profit of an associate	2,450,420	2,652,010
Interest income on deposits	250,140	252,337
Other interest income	125,583	99,955
	9,856,285	***13,788,857***
Total	**10,027,988**	**14,149,491**

13. FINANCE EXPENSES

	2014 in HRK	2013 in HRK
From the relations with related parties		
Foreign exchange losses	9,348	14,173
	9,348	***14,173***
From the relations with un-related parties		
Interest on borrowings	2,605,374	2,592,035
Foreign exchange losses	7,039,619	7,700,879
Foreign exchange losses - forward contracts	4,497,310	—
	14,142,303	***10,292,914***
Total	**14,151,651**	**10,307,087**

14. CORPORATE INCOME TAX

The Company calculates its corporate income tax liability at the preferential rate representing the decrease in basis tax rate by 85% (in 2013 preferential rate represented the decrease in basic tax rate by 65%) as it is the beneficiary of incentives in line with the Law on incentives for the “High-Voltage Laboratory - Development of the Laboratory and extension of production capacities” project. The Government issued a confirmation that the aforementioned investments fulfil the requirements in accordance with the Law on incentives on 3 September 2010 and that the Company can use these incentives. The maximum amount of granted incentive amounts to HRK 37,327,421.

Furthermore, the Ministry of economy issued Approval for the revision of the maximum amount of granted incentive of 6 October 2014 due to increased invested financial funds and increased number of employees in relation to planned figures. The new maximum amount of granted incentive amounts to HRK 46,578,233.

The adjustment of accounting income to taxable income is as follows:

	2014 in HRK	2013 in HRK
Profit before taxation	27,750,303	32,475,674
Corporate income tax at 20%	5,550,061	6,495,135
Tax effects of:		
Tax non-allowable expenses (20%)	515,237	374,427
Decreases in taxes (20%)	(2,790,355)	(836,353)
Adjusted corporate income tax	3,274,943	6,033,209
Incentives (2014: 85%, 2013: 65%)	(2,783,702)	(3,921,586)
Corporate income tax charge	**491,241**	**2,111,623**
Effective tax rate	1,8%	6,5%
Advances paid	2,265,748	2,607,054
Prepaid corporate income tax	1,774,507	495,431

15. EARNINGS PER SHARE

Basic earnings per share

	2014 in HRK	2013 in HRK
Net profit for the year	27,259,062	30,364,051
Weighted average number of shares (ordinary and preference)	255,616	255,616
Earnings per share in HRK	**106.64**	**118.79**

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

Diluted earnings per share

Diluted earnings per share for the year 2014 and 2013 is the same as basic since the Company had no convertible instruments or options in both periods.

16. INTANGIBLE ASSETS

	Concessions, patents, licences, software and other HRK	Assets under construction HRK	Total HRK
Cost			
Balance at 1 January 2013	**5,804,425**	**829,852**	**6,634,277**
Additions	—	773,830	**773,830**
Transfer	1,189,343	(1,189,343)	—
Balance at 31 December 2013	**6,993,768**	**414,339**	**7,408,107**
Additions	—	1,017,732	**1,017,732**
Transfer	586,831	(586,831)	—
Disposals	(13,045)	—	**(13,045)**
Transfer to property, plant & equipment	—	(431,459)	**(431,459)**
Balance at 31 December 2014	**7,567,554**	**413,781**	**7,981,335**
Accumulated amortization			
Balance at 1 January 2013	**4,776,942**	—	**4,776,942**
Amortization for the year	689,162	—	**689,162**
Balance at 31 December 2013	**5,466,104**	—	**5,466,104**
Amortization for the year	626,480	—	**626,480**
Disposals	(13,045)	—	**(13,045)**
Balance at 31 December 2014	**6,079,539**	—	**6,079,539**
Net carrying value			
31 December 2013	**1,527,664**	**414,339**	**1,942,003**
31 December 2014	**1,488,015**	**413,781**	**1,901,796**

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2014 amounts to HRK 2,687,150 (31 December 2013: HRK 4,538,211).

17. PROPERTY, PLANT AND EQUIPMENT

in HRK	Land	Buildings	Plant and equipment	Tools and furniture	Advances	Assets under construction	Total
Cost							
Balance at 1 January 2013	**9,012,529**	**63,696,871**	**122,463,942**	**17,782,633**	**5,213,586**	**98,627,585**	**316,797,146**
Additions	—	—	—	—	7,613,800	27,269,901	**34,883,701**
Transfer	—	54,004,063	51,976,749	7,303,025	—	(113,283,837)	—
Disposals	—	(425,639)	(6,502,259)	(1,097,760)	(12,709,614)	—	**(20,735,272)**
Balance at 31 December 2013	**9,012,529**	**117,275,295**	**167,938,432**	**23,987,898**	**117,772**	**12,613,649**	**330,945,575**
Reclassifications	—	—	(935,044)	935,044	—	—	—
Additions	—	—	—	—	4,077,108	10,877,236	**14,954,344**
Transfer	—	5,540,295	16,115,304	478,712	—	(22,134,311)	—
Disposals	—	—	(552,545)	(198,938)	(3,251,204)	—	**(4,002,687)**
Balance at 31 December 2014	**9,012,529**	**122,815,590**	**182,566,147**	**25,202,716**	**943,676**	**1,356,574**	**341,897,232**
Accumulated depreciation							
Balance at 1 January 2013	—	**51,467,290**	**97,295,356**	**12,954,024**	—	—	**161,716,670**
Depreciation for the year	—	3,605,654	8,396,731	2,048,866	—	—	**14,051,251**
Other decreases	—	—	615,605	—	—	—	**615,605**
Disposals	—	(303,267)	(6,502,258)	(1,083,111)	—	—	**(7,888,636)**
Balance at 31 December 2013	—	**54,769,677**	**99,805,434**	**13,919,779**	—	—	**168,494,890**
Depreciation for the year	—	4,081,508	10,866,384	2,273,719	—	—	**17,221,611**
Other decreases	—	—	(68,116)	68,116	—	—	—
Disposals	—	—	(547,980)	(198,938)	—	—	**(746,918)**
Balance at 31 December 2014	—	**58,851,185**	**110,055,722**	**16,062,676**	—	—	**184,969,583**
Net carrying value							
31 December 2013	**9,012,529**	**62,505,618**	**68,132,998**	**10,068,119**	**117,772**	**12,613,649**	**162,450,685**
31 December 2014	**9.012.529**	**63.964.405**	**72.510.425**	**9.140.040**	**943.676**	**1.356.574**	**156.927.649**

The carrying value of real estate under mortgage as at 31 December 2014 amounts to HRK 72,976,934 (31 December 2013: HRK 58,363,266). The total amount of mortgages registered over these assets amounts to EUR 36.7 million, furthermore RBA has pledge over the movables in the amount of EUR 3.3 million (31 December 2013: EUR 36.7 million) (Note 29).

Assets under construction in the amount of HRK 1,356,572 mainly relate to IBM server P729.

The gross carrying value of all non-current assets fully depreciated and still in use on 31 December 2014 amounts to HRK 95,047,768 (2013: HRK 103,091,614).

18. NON-CURRENT FINANCIAL ASSETS AND INVESTMENTS IS ASSOCIATES

	31/12/2014 HRK	31/12/2013 HRK
Shares in associates		
Elkakon d.o.o., Zagreb (50% share)	1,732,458	1,732,458
Total	***1,732,458***	***1,732,458***
Financial assets available for sale		
Shares in companies (up to 20% of equity)		
Ferokotao d.o.o., Donji Kraljevec (16% share)	1,048,128	262,016
Novi Feromont d.o.o., Donji Kraljevec (18.9% share)	1,717,200	1,717,200
	2,765,328	**1,979,216**
Shares in Zagrebačka Bank d.d., Zagreb	**39,000**	**39,000**
Other financial assets		
Derivative instruments - FX Forward contracts	**509**	**794,148**
Total	**4,537,295**	**4,544,822**

19. INVENTORIES

	31/12/2014 HRK	31/12/2013 HRK
Raw materials	61,348,421	49,127,768
Work in progress	63,472,149	56,150,270
Unfinished and semi-finished products	8,304,018	5,778,535
Finished products	55,605,839	29,362,552
Less: Impairment of raw materials	(1,040,709)	(1,923,396)
	187,689,718	**138,495,729**
Advances	83,924	161,678
Total	**187,773,642**	**138,657,407**

The cost of finished goods sold amounts to HRK 545,220,343 in 2014 (2013: HRK 469,066,525).

20. RECEIVABLES FROM RELATED COMPANIES

	31/12/2014 HRK	31/12/2013 HRK
Končar — Power Plant and Electric Traction Engineering Inc, Zagreb	24,552,969	5,926,352
Končar — Engineering for Plant Installation and Commissioning Inc, Zagreb	855	—
Končar — Switchgear Inc, Zagreb	384,350	908,834
Končar — Generators and Motors Inc, Zagreb	19,323	—
Končar — Electronics and Informatics Inc, Zagreb	148,076	—
Končar — Instrument Transformers Inc, Zagreb	15,000	15,000
Končar — Infrastructure and Services Ltd, Zagreb	—	35,938
Kones AG	—	3,743,565
Elkakon Ltd, Zagreb	6,728,401	3,233,662
	31,848,974	**13,863,351**
Končar — Power Transformers Ltd, Zagreb	1,124,260	121,743
Total	**32,973,234**	**13,985,094**

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

	Total HRK	Undue and collectible HRK	Due but collectible < 60 days HRK	60-90 days HRK	90-180 days HRK	180-365 days HRK	> 356 days HRK
2014	**32,973,234**	32,588,029	385,205	—	—	—	—
2013	**13,985,094**	13,288,638	189,243	—	507,213	—	—

21. TRADE ACCOUNTS RECEIVABLE

	31/12/2014 HRK	31/12/2013 HRK
Domestic customers	35,400,636	25,949,314
Less: Provision for bad debt	(3,927,105)	(3,934,790)
	31,473,531	***22,014,524***
Foreign customers	107,262,531	98,448,271
Less: Provision for bad debt	(2,938,428)	(3,007,307)
	104,324,103	***95,440,964***
Total	**135,797,634**	**117,455,488**

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

	Total HRK	Undue and collectible HRK	Due but collectible < 60 days HRK	60-90 days HRK	90-180 days HRK	180-365 days HRK	> 356 days HRK
2014	**135,797,634**	128,198,806	7,043,358	200	166,445	68,896	319,929
2013	**117,455,488**	102,642,560	13,924,682	166,162	617,674	75,781	28,629

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 in HRK	2013 in HRK
Balance at 1 January	6,942,097	6,577,201
Impaired in the current year	—	377,021
Collected in the current year	(7,685)	—
Written off in the current year	(78,018)	(44,277)
Written off in the year (foreign exchange)	9,139	32,152
Balance at 31 December	**6,865,533**	**6,942,097**

22. OTHER RECEIVABLES

	31/12/2014 HRK	31/12/2013 HRK
Receivables for value added tax	2,788,188	5,918,512
Other receivables	156,270	214,315
Total	**2,944,458**	**6,132,817**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31/12/2014 HRK	31/12/2013 HRK
Other current financial assets		
Derivative instruments — FX Forward contracts	297,729	1,913,754
Total	**297,729**	**1,913,754**

24. CASH AND CASH EQUIVALENTS

	31/12/2014 HRK	31/12/2013 HRK
Balance on gyro accounts	8,469,958	4,627,547
Balance at accounts in foreign currency	24,955,644	21,519,643
Petty cash - HRK	44,879	21,007
Petty cash - foreign currencies	22,176	33,020
Deposits up to three months	—	26,731,751
Total	**33,492,657**	**52,932,968**

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

25. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in the amount of HRK 5,960,000 relates to real estate taken over in exchange for uncollected secured receivables from the company Elektromaterijal Inc. in bankruptcy. Management of the Company made a decision to sell this real estate and it is working actively towards its achievement given the existing constraints due to inactive real estate market in Croatia.

26. SHARE CAPITAL

Share capital is determined in the nominal value of HRK 76,684,800 (31 December 2013: HRK 76,684,800) and consists of 255,616 shares at the nominal value of HRK 300.

The ownership structure of the Company is as follows:

	31 December 2014		31 December 2013	
Shareholder	**Number of shares**	**Ownership %**	**Number of shares**	**Ownership %**
Končar — Electrical Industry Inc.	132,184	51.71	132,184	51.71
Floričić Kristijan	9,916	3.88	9,916	3.88
Knežević Nikola	8,358	3.27	8,358	3.27
Erste & Steiermarkische Bank d.d./CSC	6,985	2.73	5,301	2.07
Radić Antun	3,472	1.36	3,315	1.30
HPB d.d./HPB GLOBAL	2,599	1.02	4,299	1.68
Vulić Tomislav	2,470	0.97	2,470	0.97
Other	89,632	35.06	89,773	35.12
Total	**255,616**	**100.00**	**255,616**	**100.00**

Share capital of the Company consists of 194,188 ordinary shares and 61,428 preference shares.

Dividend per share paid in 2014 to Company's shareholders amounted to HRK 47.52 per share (2013: HRK 52.10 per share).

27. PROVISIONS

	Warranty costs HRK	Legal claims HRK	Retirement and jubilee rewards HRK	Total HRK
1 January 2013	**138,557,506**	—	**1,463,380**	**140,020,886**
Additional provisions	—	364,737	128,784	493,521
Release of provisions	(873,156)	—	—	(873,156)
31 December 2013	**137,684,350**	**364,737**	**1,592,164**	**139,641,251**
Additional provisions	782,133	—	249,974	1,032,107
Payments	—	(300,000)	—	(300,000)
Release of provisions	(10,000,000)	(64,737)	—	(10,064,737)
31 December 2014	**128,466,483**	—	**1,842,138**	**130,308,621**

Provisions for warranty costs

Provisions for warranty costs are calculated on the basis of Management's best estimate. Release of provision amounting to HRK 10 million in 2014 relate to system error identified in particular set of special transformers which incurred high warranty costs.

Provisions for employee benefits

The non-current portion of provisions for retirement and jubilee rewards in the amount of HRK 1,842,138 comprises estimated amount of long-term employee benefits relating to termination benefits and jubilee rewards in accordance with Collective agreement which the employees are entitled to receive upon of employment termination (during the retirement or dismissal). The net present value of the provision is calculated on the basis of number of employees, years of service within the Company at the balance sheet date and the discount rate of 5.65%.

28. LONG TERM LIABILITIES

	31/12/2014 HRK	31/12/2013 HRK
Liabilities toward banks - borrowings		
Raiffeisen bank Austria d,d,, Zagreb — CBRD programme	45,254,848	48,722,597
Splitska bank SG — CBRD programme	4,823,181	9,647,969
Less: Current portion	(12,732,760)	(11,279,044)
Total	**37,345,269**	**47,091,522**

Long-term borrowings relate to loan from Raiffeisen bank Austria Inc. and loan from Splitska bank Inc, from the CBRD program for financing the economy's development.

The loan from Raiffeisen bank Austria Inc. was granted in October 2011 in the amount of EUR 5,999,293 bearing an annual interest rate of 4% for financing investment in HV laboratory. The repayment started on 30 September 2014 and due date is on 30 June 2022. The collateral for the loan is a mortgage over the Company's real estates and movables (note 18).

The loan from CBRD program is realized through Splitska bank Inc., and was granted in September 2012. Part of this loan is granted by CBRD in amount of HRK 7,5 million and part granted by Splitska bank Inc. in amount of EUR 1,014,288 at the annual interest rate of 4%. The repayment started on 31 March 2013 and due date is on 30 September 2015. The collateral for the loan is a mortgage over the Company's real estates. Purpose of the loan is the settlement of trade payables.

The mortgage over the Company's non-current assets amounts to EUR 36.7 million (Note 17). Furthermore, the Company contracted certain covenants for these loans, the most important are as follows:

- Maintenance of total credit exposure and value of EBITDA at annual level up to 2,5x maximum
- Maintenance of EBITDA and total operating revenues of 0,05x, minimum

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

- Late payment of any cash obligation under the contract
- Misusage of loan or part of the loan
- In case of partly of completely breach partly of special contracted terms.

Changes in borrowings during year are as follows:

	HRK
1 January 2013	**66,071,551**
Loan repayments	(8,346,736)
Foreign exchange gains	645,751
31 December 2013	**58,370,566**
Loan repayments	(8,429,307)
Foreign exchange gains	136,770
	50,078,029
Less: Current portion	(12,732,760)
31 December 2014	**37,345,269**

Long term borrowings fall due as follows:

	HRK
From 1 to 2 years	5,745,426
From 2 to 3 years	5,745,426
From 3 to 4 years	5,745,426
From 4 to 5 years	5,745,426
Over 5 years	14,363,565
Total	**37,345,269**

29. CURRENT LIABILITIES TOWARD RELATED PARTIES

	31/12/2014 HRK	31/12/2013 HRK
Končar — Infrastructure and Services Ltd, Zagreb	1,078,692	1,112,682
Končar — Electrical Industry Inc, Zagreb	1,077,729	961,566
Končar — Electrical Engineering Institute Inc, Zagreb	374,126	455,739
Kones AG, Zürich, Switzerland	90,206	385,882
Končar — Switchgear Inc, Sesvetski Kraljevac	28,738	103,875
Končar — Small Electrical Machines Inc, Zagreb	113,897	94,909
Končar — Instrument Transformers Inc, Zagreb	44,865	12,580
Končar — Electronics and Informatics Inc, Zagreb	48,458	52,847
Končar — Medium Voltage Apparatus, Zagreb	—	3,546
Končar — Steel structures Inc,, Zagreb	—	370,500
Elkakon d.o.o., Zagreb	3,291,399	804,304
	6,148,110	**4,358,430**
Končar - Power Transformers Ltd, Zagreb	—	80,500
Total	**6,148,110**	**4,438,930**

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

	Total HRK	Undue HRK	Due < 60 days HRK	60-90 days HRK	90-180 days HRK	180-365 days HRK	> 356 days HRK
2014	**6,148,110**	5,743,353	404,757	—	—	—	—
2013	**4,438,930**	4,420,780	18,150	—	—	—	—

30. CURRENT BORROWINGS FROM BANKS

	Notes	31/12/2014 HRK	31/12/2013 HRK
Current borrowings			
Current loan from banks		22,984,413	—
Current portion	28	12,732,760	11,279,044
Total		**35,717,173**	**11,279,044**

Changes in borrowings during the year were as follows:

	HRK
As at 1 January 2013	**8,346,736**
Loan repayment	(8,346,736)
Plus: Current portion of long-term loans	11,279,044
As at 31 December 2013	**11,279,044**
Loan repayment	(49,401,941)
New loan	61,107,310
Plus: Current portion of long-term loans	12,732,760
As at 31 December 2014	**35,717,173**

31. DERIVATIVE FINANCIAL INSTRUMENTS

	31/12/2014 HRK	31/12/2013 HRK
Derivative instruments — Forward foreign exchange contracts	3,650,393	—
Total	**3,650,393**	—

32. CURRENT TRADE ACCOUNTS PAYABLE

	31/12/2014 HRK	31/12/2013 HRK
Domestic suppliers	17,027,506	14,862,524
Foreign suppliers	38,087,944	28,518,184
Total	**55,115,450**	**43,380,708**

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

	Total	Undue	Due				
	HRK	HRK	< 60 days HRK	60-90 days HRK	90-180 days HRK	180-365 days HRK	> 356 days HRK
2014	**55,115,450**	54,048,133	1,067,317	—	—	—	—
2013	**43,380,708**	41,413,400	1,967,308	—	—	—	—

33. LIABILITIES FOR ADVANCE PAYMENTS RECEIVABLES

	31/12/2014 HRK	31/12/2013 HRK
Liabilities for advance payments received		
From domestic customers	383,110	346,210
From foreign customers	46,502,506	27,936,885
Related parties		
Končar — Power Plant and Electric Traction Engineering Inc, Zagreb	1,391,084	461,451
Končar — Electric vehicles, Zagreb	3,000,000	—
Total	**51,276,700**	**28,744,546**

34. OTHER CURRENT LIABILITIES

	31/12/2014 HRK	31/12/2013 HRK
Liabilities toward employees		
Liabilities for salaries	5,662,928	5,233,004
	5,662,928	**5,233,004**
Liabilities for taxes and contributions and similar		
Liabilities for taxes and contributions	6,700,585	6,470,067
Liabilities for value added tax	498,529	198,174
	7,199,114	**6,668,241**
Other liabilities		
Liabilities for sick leave and similar	72,844	74,073
Liabilities for interest	543,234	510,309
Other liabilities	9,721	190,733
	625,799	***775,115***
Liabilities for dividends	**91,664**	**99,960**
Total	**13,579,505**	**12,776,320**

35. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income in the amount of HRK 5,667,592 (31 December 2013: HRK 4,147,908) relate to accrued agent commissions and other accruals for 2014 and to accrued expenses based on deliveries to customer NDPHC Abuja from Nigeria.

36. COMMITMENTS

Contractual liabilities of the Company for unfinished projects as of 31 December 2014 amount to HRK 593 million (31 December 2013: HRK 640 million).

37. CONTINGENT LIABILITIES - OFF BALANCE SHEET ITEMS

The Company had at 31 December the following contingent liabilities:

	31/12/2014 HRK	31/12/2013 HRK
Guarantees		
- in foreign currencies	129,434,607	142,320,648
- in HRK	1,251,363	2,709,169
Total	**130,685,970**	**145,029,817**

38. TRANSACTIONS WITH RELATED PARTIES

During 2014 the Company had transaction with related parties (Končar group companies and associate) and incurred revenues and expenses based on the trade of goods and services which can be analysed as follows:

2014

Company	Receivables	Liabilities	Operating activities Advences liability	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Končar — Electrical Industry Inc.	—	1,078	—	12	4,795
Končar — Power Plant and Electric Traction Engineering Inc.	24,553	—	1,391	34,012	—
Končar — Infrastructure and Services Inc.	—	1,079	—	14	2,276
Končar — electrical Engineering Institute Inc.	—	374	—	7	1,444
Končar — Electronics and Informatics Inc.	149	48	—	152	704
Končar — Small Electrical Machines Ltd.	—	114	—	—	2,174
Končar — Generators and Motors Inc	19	—	—	637	—
Končar — Instrument Transformers Inc.	15	45	—	242	941
Končar — Power Transformers Ltd.	1,124	—	—	1,409	335
Končar — Mediumm Voltage Apparatus Inc.	—	—	—	5	8
Končar — Electrical Vehicles Inc.	—	—	3,000	—	18
Končar — Switchgear Inc.	384	29	—	2,960	1,317
Končar — Low Voltage Switches and Circuit Breakers Ltd	—	—	—	3	28
Končar — Tools Inc.	—	—	—	—	—
Končar — Engineering for Plant Installation and Commissisioning Inc	1	—	—	2	40
Končar — Steel Structures Inc.	—	—	—	—	2
Kones AG. Switzerland	—	90	—	9,373	873
Elkakon Ltd, Zagreb	6,728	3,291	—	35,270	42,393
Total	**32,973**	**6,148**	**4,391**	**84,098**	**57,348**

During 2013 the Company had transaction with related parties and incurred revenues and expenses based on the trade of goods and services which can be analysed as follows:

2013

Company	Receivables	Liabilities	Operating activities Advences liability	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Končar — Electrical Industry Inc.	—	961	—	—	4,588
Končar — Power Plant and Electric Traction Engineering Inc.	5,926	—	461	23,238	2,670
Končar — Infrastructure and Services Inc.	36	1,113	—	520	2,308
Končar — electrical Engineering Institute Inc.	—	456	—	3	2,898
Končar — Electronics and Informatics Inc.	—	53	—	275	3,578
Končar — Small Electrical Machines Ltd.	—	95	—	—	1,865
Končar — Generators and Motors Inc	—	—	—	—	41
Končar — Instrument Transformers Inc.	15	13	—	651	644
Končar — Power Transformers Ltd.	122	80	—	1,021	605
Končar — Mediumm Voltage Apparatus Inc.	—	4	—	5	23
Končar — Electrical Vehicles Inc.	—	—	—	18	—
Končar — Switchgear Inc.	909	104	—	1,566	1,151
Končar — Low Voltage Switches and Circuit Breakers Ltd	—	—	—	—	504
Končar — Tools Inc.	—	—	—	—	9
Končar — Engineering for Plant Installation and Commissisioning Inc	—	—	—	555	1
Končar — Steel Structures Inc.	—	370	—	—	503
Kones AG. Switzerland	3,743	386	—	14,550	1,046
Elkakon Ltd, Zagreb	3,234	804	—	25,571	33,728
Total	**13,985**	**4,439**	**461**	**67,973**	**56,162**

39. FINANCIAL INSTRUMENTS

In this note the following information will be disclosed:

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

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

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

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

31 December 2014	Loans and receivables HRK'000	Fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	**Assets under IAS 39 HRK'000**
Derivative financial instruments — non current	—	1	—	—	**1**
AFS financial assets	—	—	2,804	—	**2,804**
Derivative financial instruments — current	—	298	—	—	**298**
Trade and other receivables	140,517	—	—	—	**140,517**
Trade receivables from related parties	32,973	—	—	—	**32,973**
Cash & cash equivalents	33,493	—	—	—	**33,493**
Total	**206,983**	**299**	**2,804**	**—**	**210,086**

31 December 2013	Loans and receivables HRK'000	Fair value through P&L HRK'000	Available for sale HRK'000	Held to maturity HRK'000	**Assets under IAS 39 HRK'000**
Derivative financial instruments — non current	—	794	—	—	794
AFS financial assets	—	—	2,018	—	2,018
Derivative financial instruments — current	—	1,914	—	—	1,914
Trade and other receivables	124,083	—	—	—	124,083
Trade receivables from related parties	13,985	—	—	—	13,985
Cash & cash equivalents	52,933	—	—	—	52,933
Total	**191,001**	**2,708**	**2,018**	**—**	**195,727**

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

	31/12/2014 HRK	31/12/2013 HRK
Debt (interest-bearing)	**76,712,835**	**58,370,566**
Long-term borrowings	37,345,269	47,091,522
Short-term borrowings (including the current portion of long-term borrowings)	35,717,173	11,279,044
Derivative financial instruments	3,650,393	—
Less: Cash and cash equivalents	**(33,492,657)**	**(52,932,968)**
Net debt	**43,220,178**	**5,437,598**
Equity	225,701,115	215,323,269
Equity and net debt	**268,921,293**	**220,760,867**
Gearing	**16%**	**3%**

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

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

31/12/2014	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Shares listed on stock exchange	39	—	—	39
Fair value of derivative financial instruments	—	298	—	298
AFS financial assets (note 18)	—	—	2,765	2,765
Total	**39**	**298**	**2,765**	**3,102**

31/12/2013	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Shares listed on stock exchange	39	—	—	39
Fair value of derivative financial instruments	—	2.708	—	2,708
AFS financial assets (note 18)	—	—	1.979	1,979
Total	**39**	**2,708**	**1,979**	**4,726**

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

Investments in equity instruments
Of all financial assets of the Company, only shares in Zagrebačka Bank d,d, are listed on the active market, The carrying value of these shares amounts to HRK 39,000 and the fair value (according to the closing price at the Zagreb Stock Exchange) amounts to HRK 76,380.

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

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

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

Receivables and deposits at banks
For assets due within three months, the carrying value is approximate to their fair value due to the 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 carrying value due to the short-term nature of these instruments. The Management Board believes that their fair value doesn't differ significantly from their carrying value.

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

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

1) Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risk includes currency risk, interest rate risk and other price risk.
There have been no significant changes to the Company's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk management and hedge accounting
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
The Company is exposed to this risk through sales, purchase and loans stated in foreign currency which is not the Company's functional currency, Foreign currencies to which the Company is mostly exposed are EUR, USD, SEK, MAD, CZK, CHF and GBP.
The Company exposes itself to foreign currency risk through sales, purchasing, loans and depositing of funds denominated in foreign currencies. EUR is not considered a significantly risky currency and the Company does not hedge itself against it, as opposed to all other currencies where the Company protects itself through forward contracts on the trade of currencies with banks.
Company's foreign currency exposure arises from:
- highly probable forecast transactions (sales/purchases) denominated in foreign currencies,
- firm commitments denominated in foreign currencies; and
- monetary items (mainly trade receivables, trade payables and borrowings) denominated in foreign currencies.
Company's policy is to hedge all material foreign exchange risk associated with highly probable forecast transactions, firm commitments and monetary items denominated in foreign currencies.
Company's policy is to hedge the risk of changes in the relevant spot exchange rate.

Hedging instruments
Company mainly uses only forward contracts as well as swap foreign exchange contracts to hedge foreign exchange risk. All derivatives must be entered into counterparties with a credit rating of A or A negative.
Extracts of effectiveness testing policies for currency risks
Strategy: Cash flow hedges of foreign currency exposure in highly probable forecast transactions

Effectiveness testing policy for currency risk
Prospective effectiveness testing for cash flow hedges
Prospective effectiveness testing is performed at the inception of the hedge and at each reporting date. The hedge relationship is highly effective if the changes in fair value or cash flow of the hedged item that are attributable to the hedged risk are expected to be offset by the changes in fair value or cash flows of the hedging instrument.
Prospective effectiveness testing is performed by comparing the numerical effects of a shift in the exchange rate (for example, EUR/USD rate) on: the fair value of the hedged cash flows measured using a hypothetical derivative; and the fair value of the hedging instrument. Consistent with Company's risk management policy, the hedged risk is defined as the risk of changes in the spot exchange rate. Changes in interest rates are excluded from the hedge relationship (for both the hedging instrument and the hedged forecast transaction) and do not affect the calculations of effectiveness. Only the spot component of the forward contract is included in the hedge relationship (that is, the forward points are excluded). At least three scenarios should be assessed unless the critical terms of the hedging instrument perfectly match the critical terms of the hedged item, in which case one scenario is sufficient.

Retrospective effectiveness testing for cash flow hedges
Retrospective effectiveness testing is performed at each reporting date using the dollar offset method on a cumulative basis. The hedge is demonstrated to be effective by comparing the cumulative change in the fair value of the hedged cash flows measured

using a hypothetical derivative; and the fair value of the hedging instrument. A hedge is considered to be highly effective if the results of the retrospective effectiveness tests are within the range 80% -125%.

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

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

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

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

31/12/2014	EUR '000	USD '000	MAD '000	SEK '000	CZK '000	CHF '000	GBP '000	Total foreign currencies	HRK '000	Total '000
Trade receivables	63,336	37,281	666	2,589	—	451	1	104,324	64,446	168,771
Other receivables	172	—	122	—	—	—	63	357	4,362	4,719
Advances	938	—	—	—	—	—	—	938	7	945
Cash and cash equivalents	24,275	209	46	139	—	306	—	24,975	8,518	33,493
Total assets	**88,721**	**37,490**	**834**	**2,728**	**—**	**757**	**64**	**130,594**	**77,333**	**207,928**
Trade and other payables	36,916	424	8	739	—	90	—	38,177	17,268	55,445
Derivative financial instr.	32,789	6,660	372	3,421	2,620	—	—	45,862	5,415	51,277
Advances	3,650	—	—	—	—	—	—	3,650	—	3,650
Financial liabilities	73,062	—	—	—	—	—	—	73,062	—	73,062
Total liabilities	**146,417**	**7,084**	**380**	**4,160**	**2,620**	**90**	**—**	**160,751**	**22,683**	**183,434**

31/12/2013	EUR '000	USD '000	MAD '000	SEK '000	CZK '000	CHF '000	GBP '000	Total foreign currencies	HRK '000	Total '000
Trade receivables	88,473	5,155	1,191	1,404	3,744	214	1	100,182	31,259	131,441
Other receivables	172	—	108	—	—	—	—	280	6,348	6,628
Advances	260	—	—	—	—	—	—	260	—	260
Cash and cash equivalents	17,345	203	17	2,258	—	1,724	—	21,547	31,386	52,933
Total assets	**106,250**	**5,358**	**1,316**	**3,662**	**3,744**	**1,938**	**1**	**122,269**	**68,993**	**191,262**
Trade payables and other liabilities	26,406	75	838	232	—	1,352	—	28,903	31,693	60,596
Advances	26,613	61	602	926	—	—	—	28,202	542	28,744
Financial liabilities	53,598	—	—	—	—	—	—	53,598	4,773	58,371
Total liabilities	**106,617**	**136**	**1,440**	**1,158**	**—**	**1,352**	**—**	**110,703**	**37,008**	**147,711**

	Short-term exposure EUR HRK '000	USD HRK '000	SEK HRK '000	CZK HRK '000	CHF HRK '000	MAD HRK '000	GBP HRK '000	Long-term exposure EUR HRK '000
31 December 14								
Financial assets	88,821	37,490	2,728	1	757	834	64	—
Financial liabilities	(109,072)	(7,084)	(4,160)	—	(90)	(380)	—	(37,345)
Total exposure	**(20,351)**	**30,406**	**(1,432)**	**1**	**667**	**454**	**64**	**(37,345)**
31 December 13								
Financial assets	106,250	5,358	3,662	3,744	1,938	1,316	1	—
Financial liabilities	(61,572)	(136)	(1,158)	—	(1,352)	(1,440)	—	(45,045)
Total exposure	**44,678**	**5,222**	**2,504**	**3,744**	**586**	**(124)**	**1**	**(45,045)**

Sensitivity analysis

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

	2014 % Change	2013 % Change	2014 Effect on income before taxes HRK'000	2013 Effect on income before taxes HRK'000
EUR	1%	1%	(540)	(5)
USD	14%	(3)%	4,126	(162)
SEK	(6)%	(3)%	82	(63)
CZK	(1)	(7)%	9	(275)
CHF	2	(1)%	15	(1)

This analysis assumes that all other, variables, interest rates especially, remain unchanged. Percentage of changes in exchange rates are determined on the average change in these currencies over the past 12 months.

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, on the basis that all other variables remain constant.

b) Interest rate risk

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

c) Other price risks

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

2) Credit risk

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

The most significant part of credit risk is based on trade receivables.

Trade and other receivables

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

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

3) Liquidity risk

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

The following table shows the maturity of financial liabilities of the Company at 31 December 2014 according to the contracted un-discounted cash flows:

31 December 2014	Contracted cash flows HRK '000	Less than 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 5 years HRK '000
Liabilities					
Current liabilities to related parties	6,148	4,643	1,505	—	—
Current trade accounts payable	55,116	34,146	19,952	1,018	—
Other current liabiities	13,580	11,383	2,197	—	—
Derivative financial instruments	3,650	—	—	3,650	—
Long-term loan liabilities	42,085	—	—	—	42,085
Short-term loan liabilities	37,482	—	24,651	12,831	—
Total liabilities	**158,060**	**50,172**	**48,305**	**17,498**	**42,085**

The following table shows the maturity of financial liabilities of the Company at 31 December 2013 according to the contracted un-discounted cash flows:

31 December 2013	Contracted cash flows HRK '000	Less than 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 5 years HRK '000
Liabilities					
Current liabilities to related parties	4,439	3,315	697	427	—
Current trade accounts payable	43,381	28,700	13,165	1,516	—
Other current liabilities	12,776	10,442	2,334	—	—
Long-term loan liabilities	53,534	—	—	—	53,534
Short-term loan liabilities	13,480	—	2,820	10,660	—
Total liabilities	**127,610**	**42,457**	**19,016**	**12,603**	**53,534**

40. SUBSEQUENT EVENTS

After the reporting date and until the approval date of these financial statements there were no events that would significantly influence the financial statements of the Company as at 31 December 2014 and that should, consequently, be disclosed.

41. PREPARATION AND THE APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements presented on the pages above were authorised for issue by the Company's Management Board on 6 March 2015 and were signed on its behalf.

Ivan Klapan

President of the Management Board

Končar – Distribution and Special Transformers, Inc.

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