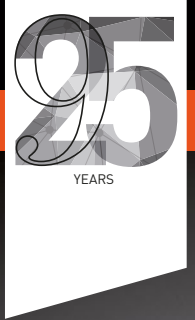


Tradition. Knowledge. Responsibility.



# Annual Report 2015





Annual Report

2015



Končar Distribution and Special Transformers, Inc.





**KONČAR**

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MANAGEMENT BOARD  
REPORT ON COMPANY  
POSITION IN 2015



## 1. Introductory Word by the Management Board



### 2015 - OUR 25<sup>th</sup> ANNIVERSARY SINCE THE REORGANISATION AND THE YEAR OF INCREASE IN ALL MAJOR FIGURES

The 2015 continued the sequence of successful business years of Končar D&ST. Total sales of goods and services in 2015 amounted to HRK 791 million (2014: HRK 712 million), which was an 11% increase on annual level. Export operations of HRK 640 million (2014: HRK 564 million) reached 81% of sales and exceeded by 14% the 2014 exports.

The gross profit of HRK 30.9 million (net profit: HRK 30.1 million) in 2015 was by 11% higher than the gross profit in 2014, when it was HRK 27.8 million (net profit: HRK 27.3 million).

The balance of total contracts at the end of the 2015 was HRK 690 million which, compared to HRK 592 million at the end of 2014, is an increase of 16%.

The 2015 investment activities, mostly for purchase of new production, testing and IT equipment and improvement of working conditions in the production, amounted to HRK 8.1 million (2014: HRK 11.4 million).

In the course of 2015, the number of employees grew for 10 to 492 and the project of strengthening the technical and sales sector continued through hiring of highly educated employees. Several internal training cycles were held throughout the year and the construction of a training centre in the Company premises started.

In its operations, the Company operates in compliance with internationally recognized standards and the requirements of corporate social responsibility. 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, have been successfully maintained and recertified within the continuous improvement process.

In 2015, Končar D&ST ordinary and preferred shares were listed in the regular market quotation of the Zagreb Stock Exchange. At the beginning of the year, the ordinary Končar D&ST share price was around HRK 1,129 and at the end of the year it was around HRK 1,250.

The Company faced an unforeseen problem in purchase of transformer electrical steel - one of the main raw materials in the transformer production, caused by antidumping measures on their import to the EU. For that reason and due to the conditions on the target markets of distribution, special and medium power transformers, total operating results of Končar D&ST in the very demanding year 2015 are in our opinion successful and the Company is well prepared for future business challenges. Mutual confidence and harmonized common interests of our shareholders, employees, business partners and banks have been of great importance for such good performance. Management of Končar D&ST d.d. is grateful for the support and trust and is pleased to present this Annual Report for 2015.

For the Management Board of Končar D&ST, Inc.

Ivan Klapan  
President of the Management Board



## 2. Major 2015 Figures and their Comparison with 2014, 2013 and 2012

	INDEX 2015/2014
Net profit	110.3
Sales	111.1
Exports	113.6
Balance of orders at year's end	116.4

	2015	2014	2013	2012	2015	2014	15/14
	HRK ('000)				EUR ('000)		index
<b>Sales</b>							
Croatia	150,969	148,620	133,139	171,332	19,839	19,478	101.6
Exports	640,265	563,558	512,884	508,791	84,139	73,861	113.6
Total	791,234	712,178	646,023	680,123	103,978	93,339	111.1
<b>Balance of orders at the year's end</b>							
Croatia	17,971	79,952	59,337	65,017	2,362	10,478	22.5
Exports	671,852	512,833	580,594	447,013	88,290	67,213	131.0
Total	689,823	592,785	639,931	512,030	90,652	77,691	116.4
<b>Annual sales per employee</b>	1,631	1,506	1,411	1,553	214	197	108.3
<b>Investments</b>	8,086	11,464	28,045	86,150	1,063	1,502	70.5
<b>Net profit</b>	30,065	27,259	30,364	33,291	3,951	3,573	110.3
<b>Dividend HRK/share</b>							
Ordinary	*	42.66	47.52	52.10			
Preferred	*	42.66	47.52	52.10			
<b>Net profit/sales in %</b>	3.8%	3.8%	4.7%	4.9%			
<b>Net profit per total equity</b>	13.7%	13.4%	16.4%	20.1%			
<b>Total equity and reserves as at 31/12</b>	249,595	225,701	215,323	198,738	32,800	29,581	110.6
<b>No. of employees</b>							
Average	485	473	458	438			102.5
as at 31/12	492	482	466	447			102.1

Note: Average exchange rate    2012: EUR 1 = HRK 7.5173  
     2013: EUR 1 = HRK 7.5735  
     2014: EUR 1 = HRK 7.6300  
     2015: EUR 1 = HRK 7.6096

\* Dividend amount shall be known after the General Assembly.





## 4. General Position of the Company

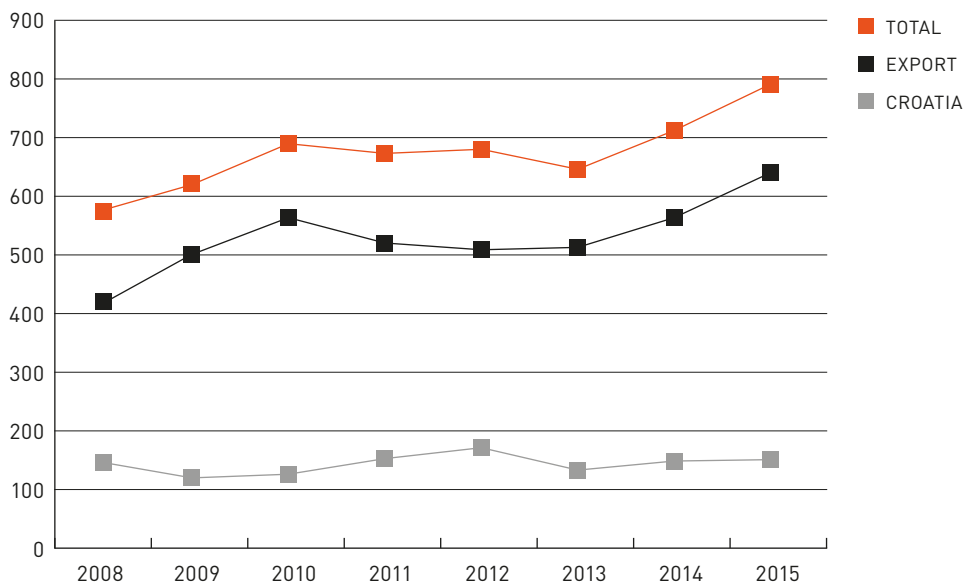


Through successful organization of the highest annual production levels so far - in the range of both distribution transformers and medium power transformers - and the resolution of certain unforeseen difficulties regarding the availability of transformer electrical steel on the EU market, the Company displayed the capacity to reach its business goals in quite demanding conditions.

Turning the sales and development activities into priority and by recruiting and systematically training young professionals, providing incentives to our employees, investments in product development and production modernization and by adapting the organisation to fit the new size and position of the Company, the Company is prepared for complex market requirements which may be expected in the future.

Good performance in 2015 and in the previous years strengthened the Company in financial aspect and the Company now has adequate financial stability and a good basis for further development of its operations.

### SALES TRENDS (HRK mil.)



## 5. Corporate Organisation and Management in 2015

During 2015, Končar D&ST d.d. was managed by the Management Board, consisting of:

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



The business processes in 2015 were organised 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 2015, within the common departments the project team for implementation of modern MRP / CRP planning system was established.

In 2015, the Company performed its activities on a single location, at the address: Josipa Mokrvića 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 operated 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](http://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](http://www.zse.hr)) and the company's website ([www.koncar-dst.hr](http://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 website at ([www.skdd.hr](http://www.skdd.hr)), while its status on 31 December 2015 and 2014 was also published in the audit report. Preferred shares of the Company do not provide any voting rights.



## 7. Market Position and Sales by Countries and Product Groups



The year 2015 will be remembered by transformer manufacturers as a year of instable market of transformer electrical steel. The problem of transformer electrical steel coincided with the beginning of implementation of the Ecodesign Directive setting the requirements for lower transformer losses, which had an additional impact on the stability of transformer deliveries and the completion of the planned business activities in the EU member state markets.

Despite the market disturbances as mentioned above the 2015 was a year of growth.

In 2015, the sales of goods and services grew by 11% from 2014 and amounted to HRK 791. Per product groups, changes from the preceding period were as follows:

- Distribution transformers: growth by 7.1%
- Medium power transformers: growth by 7.6%
- Dry and special transformers: growth by 104%
- Other goods and services: growth by 2%

Total 8.9% more transformers were produced when regarded by MVA and 4.7% more than in the preceding year regarded by total weight.

### Sales by major markets were as follows:

**Croatia:** in 2015, the sales reached HRK 150.8 million, which compared by HRK 148 million in 2014 means growth by 1.9%.

**Neighbouring European countries:** Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania - in 2015, the sales reached HRK 155.5 million, which compared to HRK 137 million in 2014 was growth by 13.5%.

**Other European countries:** Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Poland, Russia, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Luxembourg, Belarus, Malta, Netherlands - sales in 2015 reached HRK 344 million, which compared to HRK 262 million in 2014 was an increase by 31%.

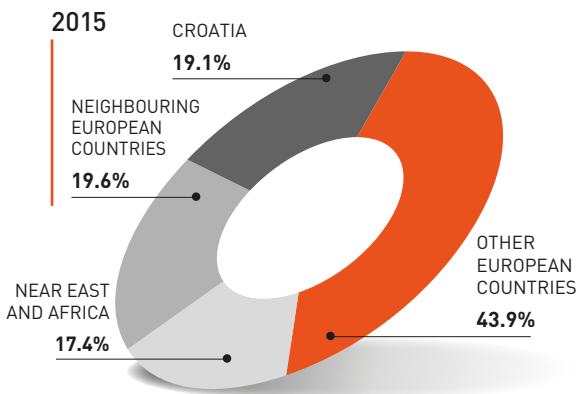
**Other Asian, African and American countries:** in 2015, we delivered HRK 141 million, which compared to HRK 165 million in 2014, constitutes a reduction by 14.5%.

The sales activities in 2015 have led to total new orders of HRK 859.8 million or 25.5% more than in 2014. The balance of orders at the year's end was HRK 689 million or 16% more than at the end of 2014.

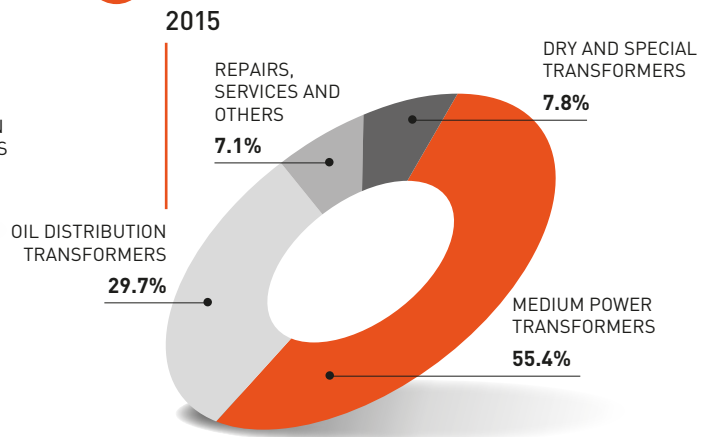




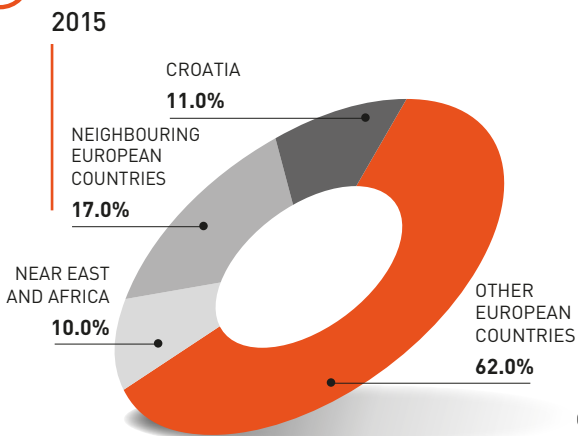
**SALES STRUCTURE PER MARKET**



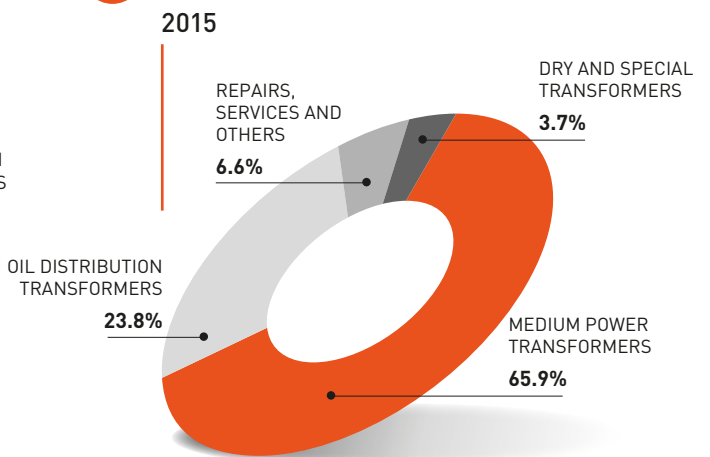
**SALES STRUCTURE PER PRODUCTS**



**NEW CONTACTS PER MARKETS**



**STRUCTURE OF NEW CONTRACTS PER PRODUCTS**



## 8. Financial Position (Balance Sheet)



On 31<sup>st</sup> December 2015, the Company's total assets amounted to HRK 558.8 million, and at the end of 2014 they had amounted to HRK 564.5 million.

In the structure of assets, the percentage of non-current assets is 28% and the percentage of current assets is 72%. The most significant share in the non-current assets is that of real property, plants and equipment (84%). In the current assets, the balance of inventories on 31<sup>st</sup> December 2015 grew from HRK 187.8 million to HRK 200.9 million, constituting 36% of total assets. Within the scope of inventories, only raw materials grew as a consequence of disturbances on the market of some strategic materials in 2015. Short-term receivables were reduced by 12% to HRK 152.3 million and they account for 27% of assets. The most liquid part of assets, namely cash and cash equivalents amounted to HRK 45.3 million and constituted 8% of assets on the last day of the year.

As for liabilities, the equity and reserves as well as the current year profit increased by HRK 23.9 million due to net profit growth and also due to the continuation of the policy of retaining a larger portion of net profits in reserves, hence these with HRK 249.6 million at the end of 2015 make up 45% of total assets sources.

Long-term reservations remained on the preceding year's level. Long-term borrowings at the end of the 2015 were HRK 31.5 million, which was a reduction of 5.9 million compared to 2014.

Long-term funding sources aggregately reached up to HRK 411 million and form approximately three fourths (3/4) of total liabilities, which makes them 2.7 times higher than the sum of non-current assets, and 1.2 times higher than the sum of non-current assets and inventories, which is an indicator of good financial stability of the Company.

Total debt to banks was reduced by HRK 35.9 million in 2015 due to full repayment of short-term loans and regular repayments of the short-term portion of the long-term loan and now amounts to HRK 37.2 million, accounting for 7% of the total equity and liabilities. As a result of the loan repayments, the debt ratios were improved when compared to the preceding year.

The decreasing trend of short-term liabilities, with a simultaneous mild growth in current assets, has improved the liquidity ratios of the Company.



## 9. Operating Results (Income Statement) and Share Price Trends



In 2015, Končar D&ST made HRK 811.5 million in revenues, which is a growth by 10% compared to the previous year. In the structure of total revenue, sales of products and services forms the majority of 97.6%. Most sales revenues were made from exports, which grew by 14%, reaching HRK 640.3 million and make 81% of sales revenues.

On the expenses side, variable operating costs (raw materials, energy sources, production services, etc.) have followed the revenues increase trends. In total, operating expenses grew at a smaller rate compared to the operating income and the profit from the main activity was HRK 40.1 million, which was a 25% growth compared to the year before. The growth is to a large extent consequence of currency gains related to dollar exchange rate which is then presented as counter-effect on the side of financial activities results.

In the area of financial activities, income of HRK 17.7 million was generated with the expenditures of HRK 26.8 million.

In the fiscal year 2015, gross profits were HRK 30.9 million or 11% higher than in the year before, when they amounted to HRK 27.8 million.

As the company is a beneficiary of incentives for the completed investment projects, according to the Investment Incentives Act, the calculated effective corporate income tax for 2015 amounts to 2.9%.

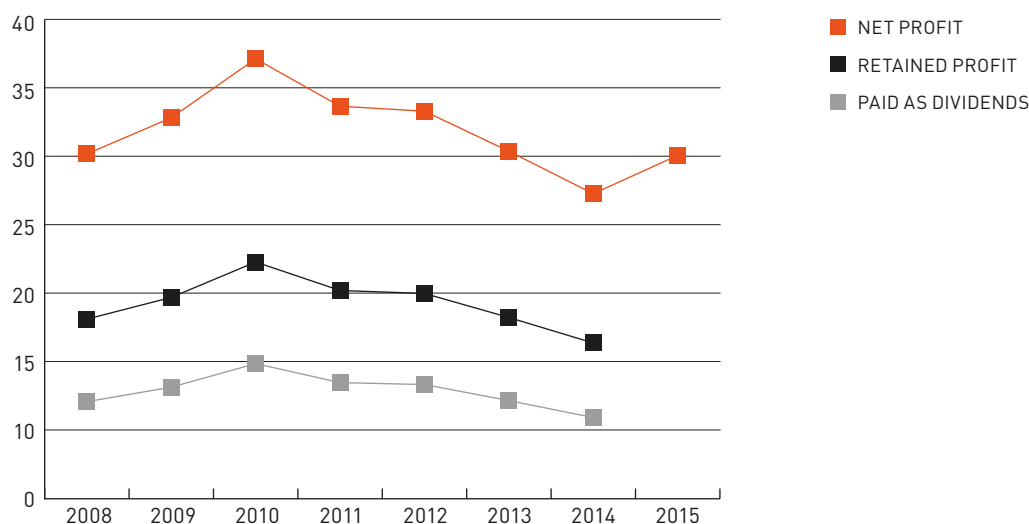
Profit after taxation in 2015 amounts to HRK 30.1 million and by 10% exceeds the net profit from 2014, which was HRK 27.3 million.

At the Zagreb Stock Exchange, 29,435 shares changed their owners during 2015. The price ranged from HRK 960.55 to 1,250 per share. The last transaction with ordinary shares was concluded at HRK 1,250 and the one with preferred shares was concluded at HRK 1,185.

According to the ordinary share price, the P/E ratio on the last day of 2015 was 10.6.

During the 2015, the Company did not acquire any treasury shares.

### NET PROFIT TROUGH YEARS (HRK mil.)





## 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 varied significantly in specific periods, depending on a number of factors. Periods of high demand (positive trends) are definitely periods of easier contracting. 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. 2015 was a year of increased demand on most of the target markets but also of high competitive pressure on the transformer price and profit margin.

**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 the 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. 2015 was also a year of strong competitive pressure and an increased supply of transformers on most target markets.

**Procurement market risks.** Prices of major raw materials and supplies for the production of transformers (copper, transformer metal sheets, transformer oil, insulation, steel, etc.) have been significantly volatile in the several recent years and sometimes with enormous growth or drop in a relatively short time period. In 2015, there were disturbances on the transformer electrical steel market in Europe due to the anti-dumping process led by the EU Commission. The disturbance was reflected in the lack of transformer metal sheets and a simultaneous high growth in prices of transformer sheets, particularly those of high-quality. The Company successfully surmounted the difficulties in 2015 and the EU Commission eventually gave up the introduction of anti-dumping customs duties and introduced minimum prices for import of transformer sheets from Japan, China, Korea, Russia and the USA.

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 book of orders. As for steel, transformer metal sheets and some important transformer 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 for harmonisation of currency inflow and outflow.

**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 of following technical and technological 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 the delivery was made without any security) will not be able or willing to pay its dues to the Company in compliance with the agreed terms, and the Company will therefore incur losses by writing off or reducing such 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 solvency and credit rating agencies. Certain trade receivables in respect of specific customers are secured at specialized institutions.

The Company has contracts with commercial banks about credit facilities which make possible for the Company to surmount current need for liquid funds promptly and under familiar 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 the 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 performance.

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



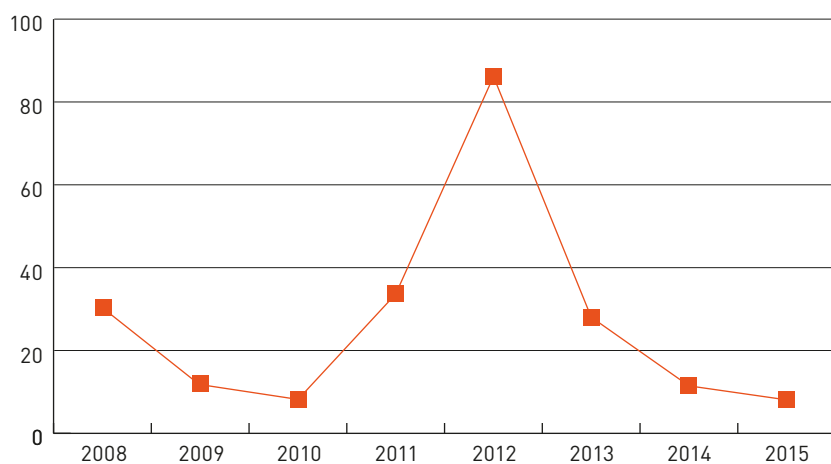
## 11. Investments and Technology Modernisation



After putting in full operation of the strategic investment under the working title “HV Laboratory” for production and testing of 40 to 100 MVA and 170 kV transformers, the investments in production processes in 2015 were somewhat lower than in the year before. Several specialized machines for the production process were purchased or modernized - including winding machines, cranes and logistics equipment - according to the plan.

There were some significant investments in IT equipment, particularly CAD CATIA v5 licences and a new Document Management System (DMS) software package. Investments were also made in the improvement of work conditions in the production facilities and new R&D offices are organised. The total value of investments in 2015 amounted to HRK 8.1 million.

**INVESTMENT TRENDS (HRK mil.)**



## 12. Technical Development and Product Innovation



In late 2015, the Product Development and the Production Development Departments, jointly forming the Technical Development Division, had 21 employees, out of which 5 graduate engineers of electrical engineering, 1 MSc and 1 PhD in electrical engineering, 13 graduate mechanical engineers, two of them with completed Specialized Course of Transformer Studies at the Faculty of Electrical Engineering and Computing and one graduate engineer of chemical technology.

In 2015, the Product Development Department completed a project of development of a power transformer with ODAF cooling system. In the field of medium power transformers, a system for traceability of coils and insulation parts has been implemented, which enabled reduction of insulation distances in SI123.

In the field of distribution transformers, the overall review was made of the existing design, construction and technological solutions of small-size distribution transformers with rectangular cross-section of the core and the new transformers are thus significantly more competitive than the previous generation. There is already new software for the product, for design and offering of transformers (PRODIST1) with embedded updates.

In the field of production development of medium-size power transformers, has been adopted and introduced in daily use technology for stacking cores without upper yoke and a new 5 t capacity crane has been purchased for assembly requirements. An entirely new technology, with a hydrogen generator, was introduced for cleaning enamelled insulated wire and only occasional need for soldering. The software upgrade would raise the safety level of all drying vacuum plants. Technological options of cylinder production have been expanded. In the winding workshop of medium-size power transformers continued the project of long-term safety increase and winding capacity expansion.

In the production of distribution transformers, a new foil winding machine has been launched in operation with larger width of foil. This increased the winding capacity but also significantly improved the quality of windings. For special transformers production, a 3.5 tons core stacking table was reconstructed.

The cooperation with Končar Institute for Electrical Engineering, Faculty of Electrical Engineering and Computing and the Faculty of Mechanical Engineering and Naval Architecture has 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 about transformers (CIRED in Lyon, CIGRE in Šibenik) and worked in the SO2 study committee for transformers and in the technical committee HZN/TO E14 Power Transformers.



## 13. Human Resources

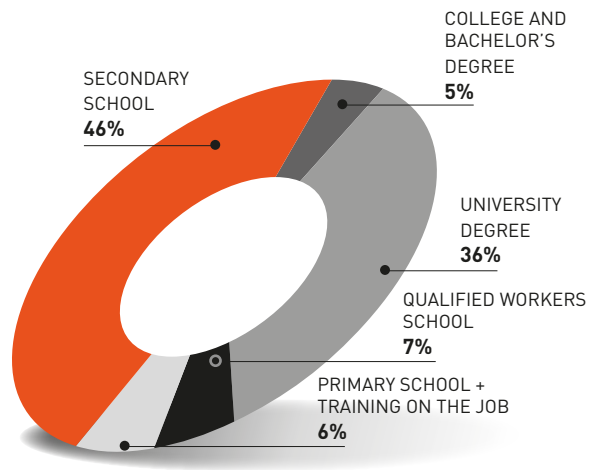


At the beginning of the 2015, there were 482 employees in Končar D&ST. By the end of the year, new 24 employees were employed and 14 left. The year ended with 492 employees. The employment policy is to continue the rejuvenation of the company so most of new employees in the 2015 were of young age, and 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 educated at various faculties. A rewarding approach and promotion of professional and scientific training significantly enriches the knowledge of the company and enables contacts with the relevant university institutions.

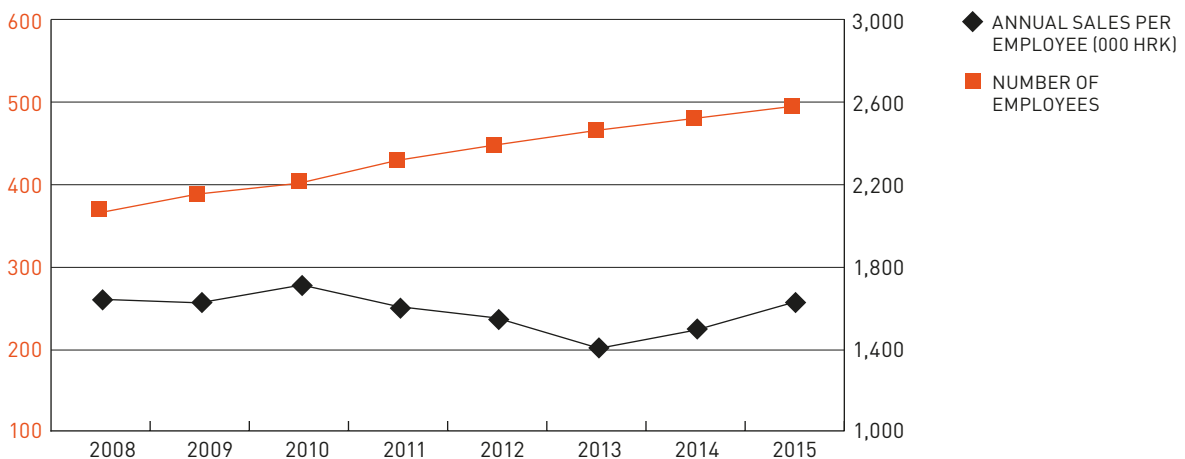
### Education structure of employees at year-end:

	years of education	2014	2015
University degree	16 +	168	178
College and Bachelor's degree	14 - 15	26	26
Secondary school	12	220	228
Qualified workers schools	11 - 13	37	33
Primary school + training on the job	8	31	27
<b>Total</b>		<b>482</b>	<b>492</b>



Productivity measured by sales per employee in 2015 was HRK 1.63 million

### PRODUCTIVITY AND NUMBER OF EMPLOYEES TREND





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



In 2015, Končar D&ST celebrated the 20<sup>th</sup> anniversary of the quality management system implementation according to the internationally recognized standard ISO 9001. Making business according to good business practice and quality principles is still the basis of our successful management.

Teamwork is still fostered as well as efficient communication through regular meetings on specific topics and the Committees aimed to finding optimal answers to business challenges.

The internal and external audits taking place twice per year systematically contribute to improvement of our regular operations and stimulate an efficient approach to resolution of any non-compliance.

In its operations, Končar D&ST is committed to environment preservation and protection. This is proven through the continuous improvement of its operations, selection of environmentally friendly materials embedded in our products, investments in machinery, equipment and infrastructure, in compliance with the Croatian legal provisions and implementation of international environmental standards. In this way, potential environment pollution is prevented and actively reduced. In 2015, intensive activities were made on waste management improvement and auditing of the accompanying documents.

Our environment management system was certified in 2002 according to the international standard ISO 14001 and is still maintained and improved in a successful manner.

In the field of occupational health and safety, same as in the previous years, continuous works have been performed within the certified system OHSAS 18001 based on the defined objectives concerning the incident and injury prevention. Employee health protection and corporate social responsibility includes occupational health and safety promotion and raising the awareness of the need for continuous supervision of employees health and safety.

## 15. Future Development Strategy

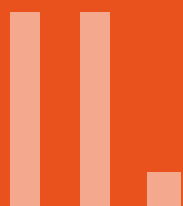


Development, sales and production of oil-immersed distribution transformers up to 3150 kVA and 36 kV, special transformers, medium power transformers up to 100 MVA and 170 kV, and the projects of selling the technology on the selected markets will continue being the main business activities of Končar D&ST.

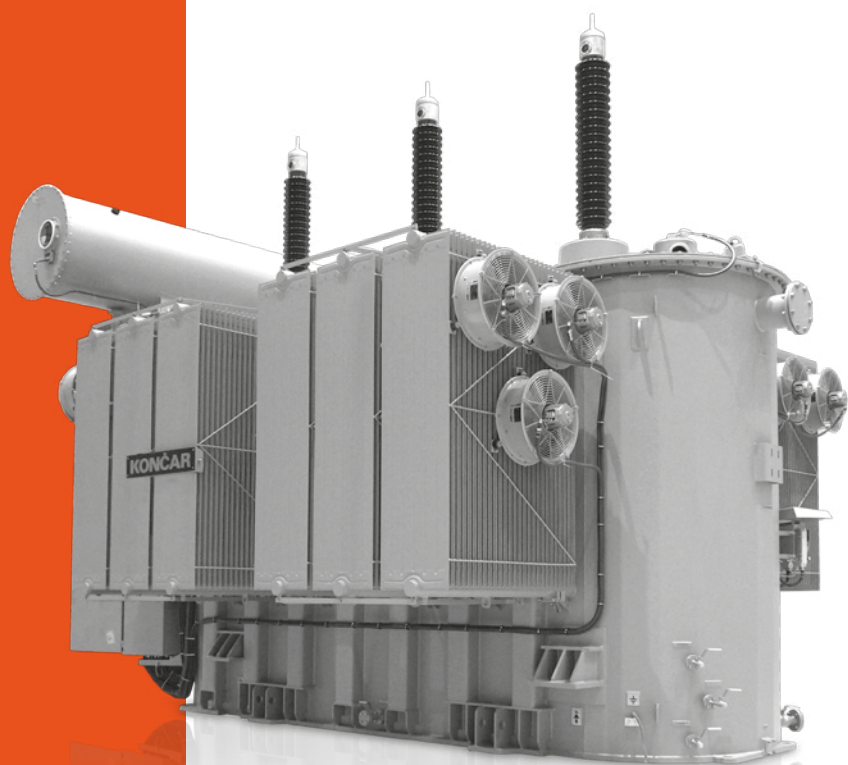
Končar D&ST will continue occupying a high position among the leading European manufacturers of distribution, special and medium power transformers, recognizing and fulfilling in the best possible way the needs of its target customers, through its commitment to quality and sustainable development, technical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

**Final remark: From the end of the year 2015 until the preparation of this report, there have been no unusual or significant events that could significantly change the view of the operations and position of the Company as presented in this report.**





DECLARATION AND  
DECISIONS PROVIDED  
BY LAW



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

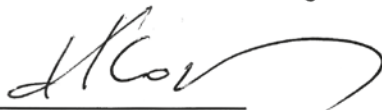
**DECLARATION BY PERSONS RESPONSIBLE  
FOR PREPARATION OF  
2015 ANNUAL REPORT**

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, Inc. for 2015 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, 3 March 2016

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 - Distribution and Special Transformers, Inc.**  
Josipa Mirovića 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, Inc. at Supervisory Board meeting of 17 March 2016, Supervisory Board and Management Board have adopted the following

**DECISION  
ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS  
FOR 2015**

Supervisory Board and Management Board of Končar D&ST, Inc. have jointly adopted the Annual Financial Statements for 2015.

Explanation

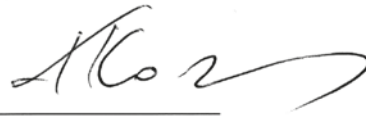
Supervisory Board and Management Board of Končar D&ST, Inc. have jointly adopted the Annual Financial Statements for 2015 as follows:

Total income	HRK 811,522,767
Total expenses	HRK 780,553,461
Profits before taxation	HRK 30,969,306
Corporate income tax	HRK 904,786
Profits after taxation	HRK 30,064,520
Total assets / liabilities	HRK 558,766,269

Zagreb, 17 March 2016



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, Inc. at Supervisory Board meeting held on 17 March 2016, Supervisory Board and Management Board adopted the following

**DECISION  
ON ALLOCATION OF PROFITS FOR 2015**

1. Profits after taxation (net profits) for 2015 amount to HRK 30,064,520.07.
2. Management Board and Supervisory Board have allocated a sum of HRK 18,037,787.27 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 47.05 per share, which totals HRK 12,026,732.80 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, 17 March 2016

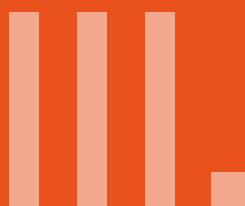


Darinko Bago  
President of the Supervisory Board

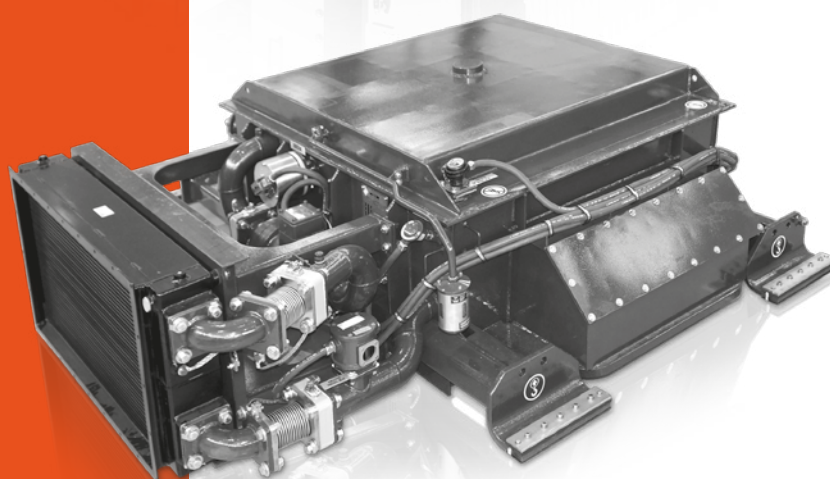
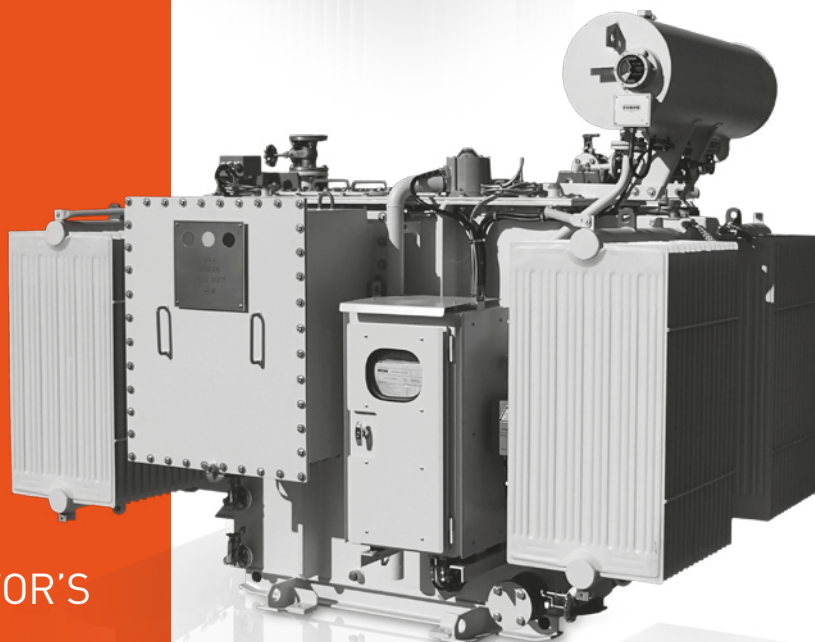


Ivan Klapan  
President of the Management Board





INDEPENDENT AUDITOR'S  
REPORT AND FINANCIAL  
STATEMENTS WITH NOTES



## Responsibility for the financial statements



Pursuant to the Croatian Accounting Law (Official Gazette 109/07, 54/13, 121/14) in force for reporting periods ending 31 December 2015; 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 - Distribution and Special Transformers Inc  
Josipa Mokrovića 8  
10 090 Zagreb

3 March 2016





## **Independent Auditor's Report**

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

#### **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 2015 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

#### **Auditor's Responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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*PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia  
T: +385 (1) 6328 888, F: +385 (1) 6111 556, [www.pwc.hr](http://www.pwc.hr)*

Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080236978; 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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**Report on Other Legal and Regulatory Requirements**

We have read the accompanying Annual Report of the Company for the year ended 31 December 2015 set out on pages 50 to 63. 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, 3 March 2016

**RECONSULT, d.o.o.**  
REVIZIJA I KONZALTING  
ZAGREB  
Reconsult d.o.o.  
Zagreb, 3 March 2016



## Statement of Comprehensive Income

for the year ended 31 December 2015

	Notes	2015 HRK	2014 HRK
Sales	4	791,233,750	712,178,181
Other operating income	5	2,636,555	14,320,172
<b>Operating revenues</b>		<b>793,870,305</b>	<b>726,498,353</b>
Changes in inventories (work in progress and finished goods)		(7,546,665)	36,090,649
Cost of materials and energy	6	(503,682,085)	(496,964,570)
Cost of goods sold		(30,952,029)	(33,253,699)
Cost of services	7	(64,476,635)	(59,775,155)
Personnel costs	8	(107,215,470)	(104,861,127)
Depreciation and amortization	9	(18,061,694)	(17,848,091)
Other costs	10	(18,341,201)	(16,474,094)
Impairment charge - current assets	11	(2,202,002)	-
Provisions	12	(389,218)	(1,032,107)
Other operating expenses		(891,448)	(506,193)
<b>Operating expenses</b>		<b>(753,758,447)</b>	<b>(694,624,387)</b>
<b>Operating profit</b>		<b>40,111,858</b>	<b>31,873,966</b>
Finance income	13	17,652,462	10,027,988
Finance expenses	14	(26,795,014)	(14,151,651)
<b>Net financial result</b>		<b>(9,142,552)</b>	<b>(4,123,663)</b>
<b>Total revenues</b>		<b>811,522,767</b>	<b>736,526,341</b>
<b>Total expenses</b>		<b>(780,553,461)</b>	<b>(708,776,038)</b>
<b>Profit before taxation</b>		<b>30,969,306</b>	<b>27,750,303</b>
Corporate income tax	15	(904,786)	(491,241)
<b>PROFIT FOR THE YEAR</b>		<b>30,064,520</b>	<b>27,259,062</b>
Other comprehensive income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Cash flow hedge		4,734,344	(4,734,344)
<b>Other comprehensive income for the year</b>		<b>4,734,344</b>	<b>(4,734,344)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>34,798,864</b>	<b>22,524,718</b>
Earnings per share	16	117,62	106.64

The accompanying notes form an integral part of these financial statements



# Statement of Financial Position

as at 31 December 2015

	Notes	31 December 2015	31 December 2014
		HRK	HRK
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	17	1,730,017	1,901,796
Property, plant and equipment	18	146,178,259	156,927,649
Investments in associates	19	1,732,458	1,732,458
Available for sale financial assets	19	3,901,193	2,804,837
		<b>153,541,927</b>	<b>163,366,740</b>
<b>Current assets</b>			
Inventories	20	200,896,950	187,773,642
Receivables from related companies	21	13,974,684	32,973,234
Trade accounts receivable	22	130,045,509	135,797,634
Prepaid corporate income tax		1,425,192	1,774,507
Other receivables	23	6,831,375	2,944,458
Financial assets at fair value through profit or loss	24	636,254	297,729
Cash and cash equivalents	25	45,335,652	33,492,657
Prepaid expenses and accrued income		118,726	129,327
		<b>399,264,342</b>	<b>395,183,188</b>
<b>Non-current assets held for sale</b>	26	<b>5,960,000</b>	<b>5,960,000</b>
<b>TOTAL ASSETS</b>		<b>558,766,269</b>	<b>564,509,928</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital</b>			
Legal reserves	27	3,839,641	3,839,641
Statutory reserves	27	127,634,716	111,280,233
Other reserves	27	11,371,723	6,637,379
<b>Profit for the year</b>		<b>30,064,520</b>	<b>27,259,062</b>
<b>EQUITY</b>		<b>249,595,400</b>	<b>225,701,115</b>
Provisions for warranty costs		127,688,692	128,466,483
Other provisions		2,231,356	1,842,138
<b>Non-current provisions</b>	28	<b>129,920,048</b>	<b>130,308,621</b>
Liabilities toward banks - borrowings	29	31,490,857	37,345,269
<b>Non-current liabilities</b>		<b>31,490,857</b>	<b>37,345,269</b>
Liabilities toward related companies	30	7,280,371	6,148,110
Liabilities toward banks - borrowings	31	5,725,610	35,717,173
Derivative financial instruments	32	-	3,650,393
Trade accounts payable	33	69,310,509	55,115,450
Liabilities for advance payments received	34	47,493,238	51,276,700
Other liabilities	35	13,143,094	13,579,505
Accrued expenses and deferred income	36	4,807,142	5,667,592
<b>Current liabilities</b>		<b>147,759,964</b>	<b>171,154,923</b>
<b>Total liabilities</b>		<b>309,170,869</b>	<b>338,808,813</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>558,766,269</b>	<b>564,509,928</b>

The accompanying notes form an integral part of these financial statements



## Statement of Cash Flows

for the year ended 31 December 2015

	Notes	2015 HRK	2014 HRK
<b>Cash flow from operating activities</b>			
Cash receipts from customers		844,362,468	738,624,938
Cash receipts from insurance compensations		481,053	100,495
Cash receipts from tax returns		30,868,899	30,030,431
Cash receipts from interests		78,767	145,539
Other cash receipts		2,060,915	2,338,690
<b>Total cash receipts from operating activities</b>		<b>877,852,102</b>	<b>771,240,093</b>
Cash paid to suppliers		(660,106,381)	(652,178,959)
Cash paid to employees		(104,178,761)	(99,939,625)
Cash payments to insurance companies		(1,108,336)	(575,858)
Cash payments for interests		(2,124,134)	(3,113,100)
Cash payments for taxes		(19,232,998)	(7,650,064)
Other cash payments		(15,428,688)	(20,167,302)
<b>Total cash payments for operating activities</b>		<b>(802,179,298)</b>	<b>(783,624,908)</b>
<b>Net cash flow from operating activities</b>		<b>75,672,804</b>	<b>(12,384,815)</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of non-current assets		105,521	901,068
Dividends received		2,050,212	1,764,308
Purchases of intangible and tangible assets		(8,509,657)	(11,975,282)
<b>Net cash used in investing activities</b>		<b>(6,353,924)</b>	<b>(9,309,906)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		15,189,986	61,127,844
Other proceeds from financial activities		13,510,481	-
Repayment of borrowings		(50,150,029)	(46,704,179)
Dividends paid		(10,906,479)	(12,169,255)
Other cash payments for financial activities		(25,119,844)	-
<b>Net cash (used in)/from financing activities</b>		<b>(57,475,885)</b>	<b>2,254,410</b>
<b>Increase/(Decrease) in cash</b>		<b>11,842,995</b>	<b>(19,440,311)</b>
Cash and cash equivalents at the beginning of the year		33,492,657	52,932,968
<b>Cash and cash equivalents at the end of the year</b>	25	<b>45,335,652</b>	<b>33,492,657</b>

The accompanying notes form an integral part of these financial statements

## Statement of Changes in Equity

for the year ended 31 December 2015

	Share capital	Legal reserves	Statutory reserves	Other reserves	Current year profit	Total
	HRK	HRK	HRK	HRK	HRK	HRK
<b>Balance at 1 January 2014</b>	<b>76,684,800</b>	<b>3,839,641</b>	<b>93,063,054</b>	<b>11,371,723</b>	<b>30,364,051</b>	<b>215,323,269</b>
Transactions with owners:						
Allocation of 2013 profit	-	-	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
<b>Balance at 31 December 2014</b>	<b>76,684,800</b>	<b>3,839,641</b>	<b>111,280,233</b>	<b>6,637,379</b>	<b>27,259,062</b>	<b>225,701,115</b>
Transactions with owners:						
Allocation of 2014 profit	-	-	16,354,483	-	(16,354,483)	-
Dividends paid	-	-	-	-	(10,904,579)	(10,904,579)
Profit for the year	-	-	-	-	30,064,520	30,064,520
Other comprehensive income:						
Cash flow hedge - reclassification to Profit and loss	-	-	-	4,734,344	-	4,734,344
Total comprehensive income for the year	-	-	-	4,734,344	30,064,520	34,798,864
<b>Balance at 31 December 2015</b>	<b>76,684,800</b>	<b>3,839,641</b>	<b>127,634,716</b>	<b>11,371,723</b>	<b>30,064,520</b>	<b>249,595,400</b>

The accompanying notes form an integral part of these financial statements



# Notes to the Financial Statements

for the year ended 31 December 2015



## 1. General data

Končar - Distribution and Special Transformers Inc, Zagreb, Josipa Mokrovića 8, ("the Company") is a subsidiary of the Končar - Electrical Industry Group ("the Group") where the ultimate parent is the company Končar - Electrical Industry Inc, Zagreb, Fallerovo šetaliste 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 2015 the Company had 492 employees, while on 31 December 2014 the Company had 482 employees.

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

### The employee structure is as follows:

	31 December 2015	31 December 2014
University degrees	178	168
College	26	26
High school (secondary)	228	220
Qualified workers schools	33	37
Primary school + training on the job	27	31
	<b>492</b>	<b>482</b>

### Members of the Supervisory Board

- Darinko Bago, president
- Miroslav Poljak, deputy
- Jozo Miloloža, member
- Davor Mladina, member
- Josipa Šutalo, member until 6 December 2015
- Vlado Grund, member from 7 December 2015

### 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

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

# Notes to the Financial Statements

for the year ended 31 December 2015



## 2. Summary of significant accounting policies

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

### 2.1 Basis for preparation

The financial statements of the Company have been prepared in accordance with the applicable laws in the Republic of Croatia and 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 and liabilities 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 2015, the exchange rate for USD 1 and EUR 1 was 6.99 HRK and 7.635 HRK, respectively (31 December 2014: HRK 6.30 and HRK 7.66 respectively). All the amounts stated in these financial statements are expressed in kunas, unless otherwise stated.

### New and amended standards adopted by the Company

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

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

The adoption of the improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

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



## Notes to the Financial Statements

for the year ended 31 December 2015

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

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

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

Key changes to current practice are:

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

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

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

- Extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue

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

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

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

Following the changes approved by the IASB in July 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities. The Company assessed that the debt instruments currently classified as available-for-sale financial assets would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) based on their current business model for these assets. Hence there will be no change to the accounting for these assets. The new hedging



# Notes to the Financial Statements

for the year ended 31 December 2015

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

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

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

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

### **a) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, excise duties, 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 interest on loans granted calculated 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.



## Notes to the Financial Statements

for the year ended 31 December 2015

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 consist from the interest on borrowings, changes in the fair value of financial assets held at fair value through the profit and loss account, impairment losses on 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.

# Notes to the Financial Statements

for the year ended 31 December 2015

## 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 13 and 14 (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 amortization 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 in period when incurred.

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 and amortization are 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 and Amortization 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 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.



## Notes to the Financial Statements

for the year ended 31 December 2015

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.

### **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” (FVTPL)**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. 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.

# Notes to the Financial Statements

for the year ended 31 December 2015

- **“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.



## Notes to the Financial Statements

for the year ended 31 December 2015

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

#### **Classification as debt or equity**

Debt and equity instruments are classified either as 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.



# Notes to the Financial Statements

for the year ended 31 December 2015

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 entities over which the Company exercises significant influence, but not control, which generally accompanies a shareholding of 20% to 50% of voting rights.

Investments in associates are stated at cost in the Company's standalone financial statements, less impairment if any.

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 statements. Also, this associate is accounted for using the equity method in the consolidated financial statements of Končar group (including all required disclosures).

#### **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 determined using the weighted average cost method.

The cost of work in progress and finished products comprises materials, direct labour costs and related fixed and variable overheads based on normal operating capacity. It excludes borrowing costs.

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



## Notes to the Financial Statements

for the year ended 31 December 2015

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 Končar group 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

# Notes to the Financial Statements

for the year ended 31 December 2015

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, unless the possibility of the outflow of resources embodying economic benefits is remote.

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.



## 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. Estimate is based on the observable prices which can be achieved on the market involving this kind of industry (for example, prices of cuprum declined in 2015, and the Company recognized provision for impairment for cuprum items present in stock).

### b) Warranty provisions

The Company provides warranties for its products for an average period of 3-5 years. The Management estimates the provision on the basis of past data. Factors which could influence information regarding the estimated claims include success of the Company's initiatives to improve the quality of its products and the cost of labour and parts needed. If the level of estimated provision needed had increased by 1% in comparison to deliveries made in the last three years, the Company's provisions recognised within the balance sheet would have increased by HRK 21 million (2014: HRK 19 million).



## Notes to the Financial Statements

for the year ended 31 December 2015



### 4. Sales

	2015	2014
	<i>HRK</i>	<i>HRK</i>
Foreign sales of goods	640,265,283	563,558,578
Domestic sales of goods	150,968,467	148,619,603
	<b>791,233,750</b>	<b>712,178,181</b>

Domestic and foreign sales include revenue from the sale to related parties as presented in Note 39.

#### Sales by operating segments in 2015:

	Medium power transformers	Distribution transformers	Total
	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>
Sales to unrelated parties	435,203,903	278,331,800	<b>713,535,703</b>
Sales to related parties	20,031,318	57,666,729	<b>77,698,047</b>
	<b>455,235,221</b>	<b>335,998,529</b>	<b>791,233,750</b>

#### Sales by operating segments in 2014:

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

## Notes to the Financial Statements

for the year ended 31 December 2015

### → 5. Other operating income

	2015	2014
	HRK	HRK
Income from rebates and discounts	1,131,432	264,395
Income from the release of provisions (note 28)	777,791	10,064,737
Income from insurance claims	360,985	100,495
Income from collected penalties, awards and similar	110,784	945,546
Gain from sale of non-current assets	84,417	172,283
Inventory surpluses	43,981	70,020
Income from the reversal of inventory impairment	-	882,687
Other income	127,165	1,820,009
	<b>2,636,555</b>	<b>14,320,172</b>

### → 6. Costs of materials and energy used

	2015	2014
	HRK	HRK
Raw materials	496,455,352	489,689,581
Energy	6,453,223	6,293,913
Small inventory	773,510	981,076
	<b>503,682,085</b>	<b>496,964,570</b>

### → 7. Costs of services

	2015	2014
	HRK	HRK
Transportation costs	18,720,936	18,767,785
Services related to product design and sale	10,184,486	8,362,384
Agent commissions	8,399,250	7,559,084
Maintenance costs	6,967,542	5,028,304
Royalty fees (usage of Končar Inc. name and trade mark)	5,193,708	4,277,697
Worker assignment	4,440,321	2,525,108
Entertainment	2,645,887	2,974,149
Intellectual services	1,516,691	1,187,148
Telephone and post	1,276,353	2,375,684
Rent	914,791	1,497,570
Utilities costs	770,952	714,324
Advertising services	684,823	878,733
Other costs	2,760,895	3,627,185
	<b>64,476,635</b>	<b>59,775,155</b>



## Notes to the Financial Statements

for the year ended 31 December 2015



### 8. Personnel costs

	2015	2014
	<i>HRK</i>	<i>HRK</i>
Net salaries and wages	58,800,461	55,745,843
Taxes and contributions from salary	32,726,335	34,062,969
Contributions on salary	15,688,674	15,052,315
	<b>107,215,470</b>	<b>104,861,127</b>

Net salaries in the amount of HRK 58,800,461 (2014: HRK 55,745,843) include compensation to the 6 members of Management Board consisting of salary and wages in the amount of HRK 1,746,101 (2014: HRK 1,557,258) and an accrual for the Management Board bonus in the amount of HRK 909,900 (2014: HRK 909,900), which are an integral part of the personnel expenses.

Contributions to Pension fund in 2015 amount to HRK 18,261,628 (2014: HRK 17,074,391).

Compensation to employees (travel to and from work, jubilee rewards, retirement fees, business travel compensations etc) in the amount of HRK 8,459,294 (2014: HRK 7,717,246) are disclosed in note 10.



### 9. Depreciation and amortization

	2015	2014
	<i>HRK</i>	<i>HRK</i>
Property, plant and equipment (Note 18)	17,261,373	17,221,611
Intangible assets (Note 17)	800,321	626,480
	<b>18,061,694</b>	<b>17,848,091</b>



### 10. Other costs

	2015	2014
	<i>HRK</i>	<i>HRK</i>
Bank charges	3,623,999	2,928,885
Employee transportation costs (note 8)	3,115,887	2,958,978
Travel costs and per-diem (note 8)	2,905,408	2,705,227
Compensation to employees (note 8)	2,437,998	2,053,041
Insurance premiums	1,583,111	1,630,426
Compensation to members of the Supervisory Board	527,096	452,957
Contributions, memberships and similar costs	245,375	238,811
Other	3,902,327	3,505,769
	<b>18,341,201</b>	<b>16,474,094</b>



## Notes to the Financial Statements

for the year ended 31 December 2015

### → 11. Impairment charges - current assets

Impairment of current assets amounting to HRK 2,202,002 relates to impairment of inventories.

### → 12. Provisions

	2015	2014
	HRK	HRK
Provisions for warranty costs	-	782,133
Provisions for employee retirement benefits and jubilee awards	389,218	249,974
	<b>389,218</b>	<b>1,032,107</b>

Movement in provisions by categories is presented in Note 28.

### → 13. Finance revenues

	2015	2014
	HRK	HRK
<b>From relations with related parties</b>		
Foreign exchange gains on receivables	-	71,703
Revenues from share in profits	350,000	100,000
	<b>350,000</b>	<b>171,703</b>
<b>From relations with un-related parties</b>		
Foreign exchange gains	13,321,589	6,574,258
Fair value gains on derivative financial instruments	2,127,707	455,884
Revenues from dividends and share in profit of an associate	1,693,210	2,450,420
Interest income on deposits	72,367	250,140
Other interest income	87,589	125,583
	<b>17,302,462</b>	<b>9,856,285</b>
	<b>17,652,462</b>	<b>10,027,988</b>



## Notes to the Financial Statements

for the year ended 31 December 2015



### 14. Finance expenses

	2015	2014
	<i>HRK</i>	<i>HRK</i>
<b>From the relations with related parties</b>		
Foreign exchange losses	445	9,348
	<b>445</b>	<b>9,348</b>
<b>From the relations with un-related parties</b>		
Interest on borrowings	1,971,408	2,605,374
Foreign exchange losses	11,864,079	7,039,619
Foreign exchange losses - forward contracts	12,959,082	4,497,310
	<b>26,794,569</b>	<b>14,142,303</b>
	<b>26,795,014</b>	<b>14,151,651</b>



### 15. Corporate income tax

The Company calculates its corporate income tax liability at the preferential rate representing the decrease the basic tax rate by 85% 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 investment 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 on 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 investment incentive amounts to HRK 46,678,233. The utilised amount at the balance sheet date amounts to HRK 22,923,701. The remaining amount of incentive amounts to HRK 23,574,532. The unused amount can be utilised until 2020.

## Notes to the Financial Statements

for the year ended 31 December 2015

The tax on the Company's profit before tax differs from the theoretical amount that would arise using actual tax rate applicable to profits of the Company as follows:

	2015	2014
	HRK	HRK
Profit before taxation	30,969,306	27,750,303
Corporate income tax at 20% (2014: 20%)	6,193,861	5,550,061
Tax effects of:		
Tax non-allowable expenses (20%)	934,064	515,237
Decreases in taxes (20%)	(1,096,018)	(2,790,355)
Investment incentives (2015: 85%, 2014: 85%)	(5,127,121)	(2,783,702)
<b>Corporate income tax charge</b>	<b>904,786</b>	<b>491,241</b>
Effective tax rate	2,9%	1,8%
Advances paid	2,329,978	2,265,748
Prepaid corporate income tax	1,452,192	1,774,507



### 16. Earnings per share

#### Basic earnings per share

	2015	2014
	HRK	HRK
Net profit for the year	30,064,520	27,259,062
Weighted average number of shares (ordinary and preference)	255,616	255,616
Earnings per share in HRK	<b>117,624</b>	<b>106,64</b>

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

#### Diluted earnings per share

Diluted earnings per share for the year 2015 and 2014 is the same as basic since the Company had no convertible instruments or options in both periods.



## Notes to the Financial Statements

for the year ended 31 December 2015



### 17. Intangible assets

	Concessions, patents, licences, software and other	Assets under construction	Total
	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>
<b>Cost</b>			
<b>Balance at 1 January 2014</b>	<b>6,993,768</b>	<b>414,339</b>	<b>7,408,107</b>
Additions	-	1,017,732	<b>1,017,732</b>
Transfer	586,831	(586,831)	-
Transfer to property, plant & equipment	(13,045)	-	<b>(13,045)</b>
Disposals	-	(431,459)	<b>(431,459)</b>
<b>Balance at 31 December 2014</b>	<b>7,567,554</b>	<b>413,781</b>	<b>7,981,335</b>
Additions	-	628,542	<b>628,542</b>
Transfer	455,782	(455,782)	-
<b>Balance at 31 December 2015</b>	<b>8,023,336</b>	<b>586,541</b>	<b>8,609,877</b>
<b>Accumulated amortization</b>			
<b>Balance at 1 January 2014</b>	<b>5,466,104</b>	-	<b>5,466,104</b>
Amortization for the year	626,480	-	<b>626,480</b>
Disposals	(13,045)	-	<b>(13,045)</b>
<b>Balance at 31 December 2014</b>	<b>6,079,539</b>	-	<b>6,079,539</b>
Amortization for the year	800,321	-	<b>800,321</b>
<b>Balance at 31 December 2015</b>	<b>6,879,860</b>	-	<b>6,879,860</b>
<b>Net carrying value</b>			
31 December 2014	1,488,015	413,781	<b>1,901,796</b>
<b>31 December 2015</b>	<b>1,143,476</b>	<b>586,541</b>	<b>1,730,017</b>

The gross carrying value of fully amortized intangible assets still in use as at 31 December 2015 amounts to HRK 2,687,150 (31 December 2014: HRK 2,687,150).

# Notes to the Financial Statements

for the year ended 31 December 2015



## 18. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and furniture	Advances	Assets under construction	Total
<b>Cost</b>	HRK	HRK	HRK	HRK	HRK	HRK	HRK
<b>Balance at 1 January 2014</b>	<b>9,012,529</b>	<b>117,275,295</b>	<b>167,938,432</b>	<b>23,987,898</b>	<b>117,772</b>	<b>12,613,649</b>	<b>330,945,575</b>
Reclassifications	-	-	(935,044)	935,044	-	-	-
Additions	-	-	-	-	4,077,108	10,877,234	<b>14,954,342</b>
Transfer	-	5,540,295	16,115,304	478,712	-	(22,134,311)	-
Disposals	-	-	(552,545)	(198,938)	(3,251,204)	-	<b>(4,002,687)</b>
<b>Balance at 31 December 2014</b>	<b>9,012,529</b>	<b>122,815,590</b>	<b>182,566,147</b>	<b>25,202,716</b>	<b>943,676</b>	<b>1,356,572</b>	<b>341,897,230</b>
Additions	-	-	-	-	3,424,533	7,457,006	<b>10,881,539</b>
Transfer	-	-	7,598,817	827,890	-	(8,426,707)	-
Disposals	-	-	(17,747)	(394,591)	(4,353,743)	-	<b>(4,766,081)</b>
<b>Balance at 31 December 2015</b>	<b>9,012,529</b>	<b>122,815,590</b>	<b>190,147,217</b>	<b>25,636,015</b>	<b>14,466</b>	<b>386,871</b>	<b>348,012,688</b>
<b>Accumulated depreciation</b>							
<b>Balance at 1 January 2014</b>	-	<b>54,769,677</b>	<b>99,805,433</b>	<b>13,919,779</b>	-	-	<b>168,494,889</b>
Depreciation for the year	-	4,081,508	10,866,383	2,273,720	-	-	<b>17,221,611</b>
Other decreases	-	-	(68,116)	68,116	-	-	-
Disposals	-	-	(547,980)	(198,939)	-	-	<b>(746,919)</b>
<b>Balance at 31 December 2014</b>	-	<b>58,851,185</b>	<b>110,055,720</b>	<b>16,062,676</b>	-	-	<b>184,969,581</b>
Depreciation for the year	-	5,039,387	10,255,960	1,966,026	-	-	<b>17,261,373</b>
Disposals	-	-	(10,558)	(385,967)	-	-	<b>(396,525)</b>
<b>Balance at 31 December 2015</b>	-	<b>63,890,572</b>	<b>120,301,122</b>	<b>17,642,735</b>	-	-	<b>201,834,429</b>
<b>Net carrying value</b>							
31 December 2014	9,012,529	63,964,405	72,510,427	9,140,040	943,676	1,356,572	156,927,649
<b>31 December 2015</b>	<b>9,012,529</b>	<b>58,925,018</b>	<b>69,846,095</b>	<b>7,993,280</b>	<b>14,466</b>	<b>386,871</b>	<b>146,178,259</b>

The carrying value of real estates under mortgage as at 31 December 2015 amounts to HRK 66,094,606 (31 December 2014: HRK 72,976,934). The total amount of mortgages registered over these assets amounts to EUR 35,3 million, furthermore a pledge exists over the movables (with carrying value amounting to HRK 21.6 million) in the amount of EUR 5,9 million (31 December 2014: EUR 3.3 million) (Note 29).

The gross carrying value of all property, plant and equipment fully depreciated and still in use on 31 December 2015 amounts to HRK 77,714,536 (2014: HRK 95,047,768).



## Notes to the Financial Statements

for the year ended 31 December 2015



### 19. Non-current financial assets and investments in associates

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
<b>Shares in associate</b>		
Elkakon d.o.o., Zagreb (50% share)	1,732,458	1,732,458
	<b>1,732,458</b>	<b>1,732,458</b>
<b>Financial assets available for sale</b>		
<b>Shares in companies (up to 20% of equity)</b>		
Ferokotao d.o.o., Donji Kraljevec (16% share)	1,048,128	1,048,128
Novi Feromont d.o.o., Donji Kraljevec (18.9% share)	1,717,200	1,717,200
	<b>2,765,328</b>	<b>2,765,328</b>
Shares in Zagrebačka Bank d.d., Zagreb	<b>39,000</b>	<b>39,000</b>
Other financial assets		
Derivative instruments - FX Forward contracts	<b>1,096,865</b>	<b>509</b>
	<b>5,633,651</b>	<b>4,537,295</b>



### 20. Inventories

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
Raw materials	84,084,642	61,348,421
Work in progress	61,774,889	63,472,149
Unfinished and semi-finished products	9,589,943	8,304,018
Finished products	48,470,509	55,605,839
Less: Provision for impairment	(3,242,711)	(1,040,709)
	<b>200,677,272</b>	<b>187,689,718</b>
Advances	219,678	83,924
	<b>200,896,950</b>	<b>187,773,642</b>

The cost of goods sold amounts to HRK 585,263,384 in 2015 (2014: HRK 545,220,343).

# Notes to the Financial Statements

for the year ended 31 December 2015

## 21. Receivables from related companies

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	3,691,157	24,552,969
Končar - Electrical vehicles Inc, Zagreb	3,375,000	-
Končar - Switchgear Inc, Zagreb	847,018	384,350
Končar - Instrument Transformers Inc, Zagreb	10,642	15,000
Končar - Engineering for Plant Installation and Commissioning Inc, Zagreb	-	855
Končar - Generators and Motors Inc, Zagreb	-	19,323
Končar - Electronics and Informatics Inc, Zagreb	-	148,076
	<b>7,923,817</b>	<b>25,120,573</b>
Elkakon Ltd, Zagreb	5,666,279	6,728,401
Končar - Power Transformers Ltd, Zagreb	384,588	1,124,260
	<b>13,974,684</b>	<b>32,973,234</b>

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>
2015	<b>13,974,684</b>	13,525,359	449,325	-	-	-	-
2014	<b>32,973,234</b>	32,588,029	385,205	-	-	-	-

## 22. Trade accounts receivable

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
Domestic customers	29,088,106	35,400,636
Less: Provision for bad debt	(3,917,646)	(3,927,105)
	<b>25,170,460</b>	<b>31,473,531</b>
Foreign customers	107,803,342	107,262,531
Less: Provision for bad debt	(2,928,293)	(2,938,428)
	<b>104,875,049</b>	<b>104,324,103</b>
	<b>130,045,509</b>	<b>135,797,634</b>





## Notes to the Financial Statements

for the year ended 31 December 2015

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

	Total	Undue and collectible	Due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2015	<b>130,045,509</b>	106,167,820	20,725,462	1,577,696	1,456,613	113,398	4,520
2014	<b>135,797,634</b>	128,198,806	7,043,358	200	166,445	68,896	319,929

For receivables which are past due at the reporting date, 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 the provision for bad debts was as follows:

	2015	2014
	HRK	HRK
Balance at 1 January	6,865,533	6,942,097
Collected in the current year	(9,459)	(7,685)
Written off in the current year	-	(78,018)
Written off in the year (foreign exchange)	(10,135)	9,139
<b>Balance at 31 December</b>	<b>6,845,939</b>	<b>6,865,533</b>



### 23. Other receivables

	31 December 2015	31 December 2014
	HRK	HRK
Receivables for value added tax	6,588,949	2,788,188
Other receivables	242,426	156,270
	<b>6,831,375</b>	<b>2,944,458</b>



### 24. Financial assets at fair value through profit or loss

	31 December 2015	31 December 2014
	HRK	HRK
Other current financial assets		
Derivative instruments - FX Forward contracts	636,254	297,729
	<b>636,254</b>	<b>297,729</b>

# Notes to the Financial Statements

for the year ended 31 December 2015



## 25. Cash and cash equivalents

	31 December 2015	31 December 2014
	HRK	HRK
Balance at accounts in foreign currency	43,996,997	24,955,644
Balance on gyro accounts	1,288,834	8,469,958
Petty cash - HRK	32,620	44,879
Petty cash - foreign currencies	17,201	22,176
	<b>45,335,652</b>	<b>33,492,657</b>

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.



## 26. 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.



## 27. Equity

Share capital is determined in the nominal value of HRK 76,684,800 (31 December 2014: HRK 76,684,800) and consists of 255,616 shares with a nominal value of HRK 300.

The ownership structure of the Company is as follows:

	31 December 2015		31 December 2014	
	Number of shares	Ownership %	Number of shares	Ownership %
Končar - Electrical Industry Inc.	132,184	51.71	132,184	51,71
AZ OMF B category	13,117	5.13	-	-
Floričić Kristijan	9,916	3.88	9,916	3,88
Knežević Nikola	7,558	2.96	8,358	3,27
Radić Antun	3,834	1.50	3,472	1,36
AZ OMF A category	3,210	1.26	1,577	0,62
Primorska bank, Rijeka	2,800	1.10	-	0,00
Other	82,997	32.46	100,109	39,16
	<b>255,616</b>	<b>100.00</b>	<b>255,616</b>	<b>100,00</b>



## Notes to the Financial Statements

for the year ended 31 December 2015

Share capital of the Company consists of 194,188 ordinary shares and 61,428 preference shares at 31 December 2015 and 2014.

Dividend per share paid in 2015 to Company's shareholders amounted to HRK 42.66 per share (2014: HRK 47.52 per share).

Statutory, legal and other reserves have been formed in accordance with the Decisions brought by the General Assembly in accordance with the provisions of the Croatian Companies Act (statutory and other reserves are distributable in accordance with this Act).



### 28. Provisions

	Warranty costs	Legal claims	Retirement and jubilee rewards	Total
	HRK	HRK	HRK	HRK
<b>1 January 2014</b>	<b>137,684,350</b>	<b>364,737</b>	<b>1,592,164</b>	<b>139,641,251</b>
Additional provisions	782,133	-	249,974	1,032,107
Usage of provisions/unused amounts reversed	-	(300,000)	-	(300,000)
31 December 2014	(10,000,000)	(64,737)	-	(10,064,737)
<b>Additional provisions</b>	<b>128,466,483</b>	<b>-</b>	<b>1,842,138</b>	<b>130,308,621</b>
Usage of provisions/unused amounts reversed		-	389,218	389,218
31 December 2015	(777,791)	-	-	(777,791)
<b>31. prosinca 2015. godine</b>	<b>127,688,692</b>	<b>-</b>	<b>2,231,356</b>	<b>129,920,048</b>

#### Provisions for warranty costs

Provisions for warranty costs are determined on the basis of Management's best estimate.

#### Provisions for employee benefits

The non-current portion of provisions for retirement and jubilee rewards in the amount of HRK 2,231,356 (2014: HRK 1,842,138) comprises the 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 employment termination (during 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 4.85% (2014: 5.65%).



### 29. Long term liabilities

	31 December 2015	31 December 2014
	HRK	HRK
<b>Liabilities toward banks - borrowings</b>		
Raiffeisen Bank Austria Inc., Zagreb - CBRD programme	37,216,467	45,254,848
Splitska bank SG - CBRD programme	-	4,823,181
Less: Current portion	(5,725,610)	(12,732,760)
	<b>31,490,857</b>	<b>37,345,269</b>

## Notes to the Financial Statements

for the year ended 31 December 2015

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. Loan matures on 30 June 2022. The collateral for the loan is a mortgage over the Company's real estates and movables in the amount of EUR 5,999,293 (note 18).

The loan from CBRD program realized through Splitska bank Inc. was fully repaid in 2015.

Furthermore, the Company contracted certain covenants for these loans, the most important of which 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
- Misuse of loan or part of the loan
- In case of partly of completely breach of special contracted terms.

### Changes in borrowings are as follows:

	<i>HRK</i>
<b>1 January 2014</b>	<b>58,370,566</b>
Loan repayments	(8,429,307)
Foreign exchange gains	136,770
	<b>50,078,029</b>
Less: Current portion	(12,732,760)
<b>31 December 2014</b>	<b>37,345,269</b>
Foreign exchange gains	(128,802)
Less: Current portion	(5,725,610)
<b>31 December 2015</b>	<b>31,490,857</b>

### Long-term borrowings fall due as follows:

	<i>HRK</i>
From 1 to 2 years	5,725,610
From 2 to 3 years	5,725,610
From 3 to 4 years	5,725,610
From 4 to 5 years	5,725,610
Over 5 years	8,588,417
	<b>31,490,857</b>



## Notes to the Financial Statements

for the year ended 31 December 2015



### 30. Current liabilities toward related parties

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
Končar - Infrastructure and Services Ltd, Zagreb	1,007,468	1,078,692
Končar - Electrical Industry Inc, Zagreb	1,124,631	1,077,729
Končar - Electrical Engineering Institute Inc, Zagreb	758,277	374,126
Končar - Low Voltage Switches and Circuit breakers Inc, Zagreb	349,357	-
Končar - Switchgear Inc, Sesvetski Kraljevac	271,463	28,738
Končar - Small Electrical Machines Inc, Zagreb	52,146	113,897
Končar - Instrument Transformers Inc, Zagreb	99,981	44,865
Končar - Electronics and Informatics Inc, Zagreb	63,851	48,458
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	25,649	-
Končar - Electrical Vehicles Inc, Zagreb	2,344	-
Kones AG, Zürich, Switzerland	-	90,206
	<b>3,755,167</b>	<b>2,856,711</b>
Elkakon d.o.o., Zagreb	3,525,204	3,291,399
	<b>7,280,371</b>	<b>6,148,110</b>

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

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>
2015	<b>7,280,371</b>	7,229,377	50,994	-	-	-	-
2014	<b>6,148,110</b>	5,743,353	404,757	-	-	-	-



### 31. Current borrowings from banks

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
<b>Current borrowings</b>		
Current loan from banks	-	22,984,413
Current portion (Note 28)	5,725,610	12,732,760
	<b>5,725,610</b>	<b>35,717,173</b>

## Notes to the Financial Statements

for the year ended 31 December 2015

Changes in borrowings during the year were as follows:

	<i>HRK</i>
<b>As at 1 January 2014</b>	<b>11,279,044</b>
Loan repayment	(49,401,941)
New loan	61,107,310
Plus: Current portion of long-term loans	12,732,760
<b>As at 31 December 2014</b>	<b>35,717,173</b>
Loan repayment	(50,953,879)
New loan	15,236,706
Plus: Current portion of long-term loans	5,725,610
<b>As at 31 December 2015</b>	<b>5,725,610</b>

Fair value of liabilities does not differ from its net book value due to short-term nature of liabilities.

### ➔ 32. Derivative financial instruments

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
Derivative instruments - Forward foreign exchange contracts	-	3,650,393
	-	<b>3,650,393</b>

### ➔ 33. Current trade accounts payable

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
Domestic suppliers	18,434,273	17,027,506
Foreign suppliers	50,876,236	38,087,944
	<b>69,310,509</b>	<b>55,115,450</b>

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

	Total	Undue	Due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>	<i>HRK</i>
2015	<b>69,310,509</b>	69,088,085	217,518	-	4,906	-	-
2014	<b>55,115,450</b>	54,048,133	1,067,317	-	-	-	-



## Notes to the Financial Statements

for the year ended 31 December 2015



### 34. Liabilities for advance payments received

	31 December 2015	31 December 2014
	HRK	HRK
<i>Liabilities for advance payments received</i>		
From foreign customers	46,489,837	46,502,506
From domestic customers	167,417	383,110
<b>Related parties</b>		
Končar - Power Plant and Electric Traction Engineering Inc, Zagreb	235,984	1,391,084
Končar - Electric vehicles, Zagreb	600,000	3,000,000
	<b>47,493,238</b>	<b>51,276,700</b>



### 35. Other current liabilities

	31 December 2015	31 December 2014
	HRK	HRK
<i>Liabilities toward employees</i>		
Liabilities for salaries	5,707,850	5,662,928
	<b>5,707,850</b>	<b>5,662,928</b>
<i>Liabilities for taxes and contributions and similar</i>		
Liabilities for taxes and contributions	6,710,652	6,700,585
Liabilities for value added tax	110,738	498,529
	<b>6,821,390</b>	<b>7,199,114</b>
<i>Other liabilities</i>		
Liabilities for sick leave and similar	83,477	72,844
Liabilities for interest	394,933	543,234
Other liabilities	38,678	9,721
	<b>517,088</b>	<b>625,799</b>
<i>Liabilities for dividends</i>		
	<b>96,766</b>	<b>91,664</b>
	<b>13,143,094</b>	<b>13,579,505</b>



## Notes to the Financial Statements

for the year ended 31 December 2015

### ➔ 36. Accrued expenses and deferred income

Accrued expenses and deferred income in the amount of HRK 4,807,142 (31 December 2014: HRK 5,667,592) relate to accrued agent commissions and other accruals for 2015 deliveries and to accrued expenses based on deliveries to customer NDPHC Abuja from Nigeria.

### ➔ 37. Commitments

Contractual liabilities of the Company for unfinished projects as of 31 December 2015 amount to HRK 690 million (31 December 2014: HRK 593 million).

### ➔ 38. Contingent liabilities - off balance sheet items

	31 December 2015	31 December 2014
	HRK	HRK
<i>Guarantees (issued by the banks)</i>		
- in foreign currencies	179,221,260	129,434,607
- in HRK	21,226,794	1,251,363
	<b>200,448,054</b>	<b>130,685,970</b>



## Notes to the Financial Statements

for the year ended 31 December 2015



### 39. Transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions. The Company's principal activity includes performing related party activities, including the purchase and sale of goods and services. The nature of services with related parties is based on usual commercial terms. In addition to companies within the Končar Group, related parties of the Company are the Company's Management and Supervisory Board.

During 2015 the Company engaged in transactions 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:

2015 Company	Operating activities				
	Receivables	Liabilities	Advances liability	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Končar - Electrical Industry Inc.	-	1,125	-	-	5,735
Končar - Power Plant and Electric Traction Engineering Inc.	3,691	26	236	20,246	-
Končar - Infrastructure and Services Inc.	-	1,008	-	17	2,281
Končar - Electrical Engineering Institute Inc.	-	758	-	-	2,944
Končar - Electronics and Informatics Inc.	-	64	-	399	525
Končar - Small Electrical Machines Ltd.	-	52	-	-	1,807
Končar - Generators and Motors Inc	-	-	-	-	-
Končar - Instrument Transformers Inc.	11	100	-	191	1,134
Končar - Power Transformers Ltd.	385	-	-	2,404	367
Končar - Medium Voltage Apparatus Inc.	-	-	-	5	4
Končar - Electrical Vehicles Inc.	3,375	2	600	24,000	38
Končar - Switchgear Inc.	847	272	-	2,263	1,064
Končar - High Voltage Switchgears Inc.	-	-	-	-	15
Končar - Low Voltage Switches and Circuit Breakers Ltd	-	349	-	-	838
Končar - Engineering for Plant Installation and Commissioning Inc	-	-	-	20	2
Končar - Steel Structures Inc.	-	-	-	-	373
Elkakon Ltd, Zagreb	5,666	3,525	-	28,153	34,918
	<b>13,975</b>	<b>7,281</b>	<b>836</b>	<b>77,698</b>	<b>52,045</b>

## Notes to the Financial Statements

for the year ended 31 December 2015

During 2014 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:

2014 Company	Operating activities				
	Receivables <i>HRK'000</i>	Liabilities <i>HRK'000</i>	Advances liability <i>HRK'000</i>	Income <i>HRK'000</i>	Expense <i>HRK'000</i>
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 - Medium 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 - Engineering for Plant Installation and Commissioning 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
	<b>32,973</b>	<b>6,148</b>	<b>4,391</b>	<b>84,098</b>	<b>57,348</b>



### 40. 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.



## Notes to the Financial Statements

for the year ended 31 December 2015

### 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 2015				
	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
Derivative financial instruments - non-current	-	1,097	-	<b>1,097</b>
AFS financial assets	-	-	2,804	<b>2,804</b>
Derivative financial instruments - current	-	636	-	<b>636</b>
Trade and other receivables	130,046	-	-	<b>130,046</b>
Trade receivables from related parties	13,975	-	-	<b>13,975</b>
Cash & cash equivalents	45,336	-	-	<b>45,336</b>
	<b>189,357</b>	<b>1,733</b>	<b>2,804</b>	<b>193,894</b>

31 December 2014				
	Loans and receivables	Fair value through P&L	Available for sale	Assets under IAS 39
	HRK'000	HRK'000	HRK'000	HRK'000
Derivative financial instruments - non current	-	1	-	<b>1</b>
AFS financial assets	-	-	2,804	<b>2,804</b>
Derivative financial instruments - current	-	298	-	<b>298</b>
Trade and other receivables	135,798	-	-	<b>135,798</b>
Trade receivables from related parties	32,973	-	-	<b>32,973</b>
Cash & cash equivalents	33,493	-	-	<b>33,493</b>
	<b>202,264</b>	<b>299</b>	<b>2,804</b>	<b>205,367</b>

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

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

## Notes to the Financial Statements

for the year ended 31 December 2015

	31 December 2015	31 December 2014
	<i>HRK</i>	<i>HRK</i>
<b>Debt (interest-bearing)</b>	<b>37.216.467</b>	<b>76.712.835</b>
Long-term borrowings	31.490.857	37.345.269
Short-term borrowings (including the current portion of long-term borrowings)	5.725.610	35.717.173
Derivative financial instruments	-	3.650.393
<b>Less: Cash and cash equivalents</b>	<b>(45.335.652)</b>	<b>(33.492.657)</b>
<b>Net debt</b>	<b>(8.119.185)</b>	<b>43.220.178</b>
Equity	249.595.400	225.701.115
<b>Equity and net debt</b>	<b>241.476.215</b>	<b>268.921.293</b>
<b>Gearing</b>	<b>-</b>	<b>19%</b>

### 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 a transaction. 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 December 2015				
	Level 1	Level 2	Level 3	Total
	<i>HRK'000</i>	<i>HRK'000</i>	<i>HRK'000</i>	<i>HRK'000</i>
Shares listed on stock exchange	39	-	-	39
Fair value of derivative financial instruments	-	1,733	-	1,733
AFS financial assets (note 19)	-	-	2,765	2,765
	<b>39</b>	<b>1,733</b>	<b>2,765</b>	<b>4,537</b>
31 December 2014				
Shares listed on stock exchange	39	-	-	39
Fair value of derivative financial instruments	-	298	-	298
AFS financial assets (note 19)	-	-	2,765	2,765
	<b>39</b>	<b>298</b>	<b>2,765</b>	<b>3,102</b>

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



## Notes to the Financial Statements

for the year ended 31 December 2015

### ***Investments in equity instruments***

Of all financial assets of the Company, only shares in Zagrebačka Bank Inc, 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 84,314.

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

# Notes to the Financial Statements

for the year ended 31 December 2015

## **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 denominated in foreign currency which is not the Company's functional currency. Foreign currencies to which the Company is primarily exposed are EUR, USD, SEK, MAD, CZK, CHF, NOK, PLN, RON and GBP.

Therefore, the Company is exposed to change in net income and financial position based on currency change.

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 significant 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.

The 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.

The 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.

The Company's policy is to hedge the risk of changes in the relevant spot exchange rate.

### **Hedging instruments**

The Company mainly uses only forward contracts as well as swap foreign exchange contracts to hedge foreign exchange risk. All derivatives must be entered into with 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.





## Notes to the Financial Statements

for the year ended 31 December 2015

### 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%.

#### **Cumulative change in fair value of hedging instrument**

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

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:**

<b>31 December 2015</b>													
<i>in 000 HRK</i>													
	EUR	USD	MAD	SEK	CZK	CHF	GBP	PLN	RON	NOK	Total foreign currencies	HRK	Total
Trade receivables	83,355	3,823	511	7,828	547	166	-	478	8,167	-	104,875	25,171	130,046
Derivative instruments	1,733	-	-	-	-	-	-	-	-	-	1,733	-	1,733
Cash and cash equivalents	33,168	966	100	546	1,088	5,595	30	1,684	474	363	44,014	1,322	45,336
<b>Total assets</b>	<b>118,256</b>	<b>4,789</b>	<b>611</b>	<b>8,374</b>	<b>1,635</b>	<b>5,761</b>	<b>30</b>	<b>2,162</b>	<b>8,641</b>	<b>363</b>	<b>150,622</b>	<b>26,493</b>	<b>177,115</b>
Trade and other payables	48,905	465	9	1,497	-	-	-	-	-	-	50,876	18,829	69,705
<b>Financial liabilities</b>	<b>37,216</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,216</b>	<b>-</b>	<b>37,216</b>
<b>Total liabilities</b>	<b>86,121</b>	<b>465</b>	<b>9</b>	<b>1,497</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,482</b>	<b>88,092</b>	<b>18,829</b>	<b>106,921</b>

# Notes to the Financial Statements

for the year ended 31 December 2015

## 31 December 2014

*in 000 HRK*

	EUR	USD	MAD	SEK	CHF	GBP	Total foreign currencies	HRK	Total
Trade receivables	63,336	37,281	666	2,589	451	1	104,324	31,474	135,798
Cash and cash equivalents	24,275	209	46	139	306	-	24,975	8,518	33,493
<b>Total assets</b>	<b>87,611</b>	<b>37,490</b>	<b>712</b>	<b>2,728</b>	<b>757</b>	<b>1</b>	<b>129,299</b>	<b>39,992</b>	<b>169,291</b>
Trade and other payables	36,916	424	8	739	90	-	38,177	17,482	55,659
Derivative financial instruments	3,650	-	-	-	-	-	3,650	-	3,650
Financial liabilities	73,062	-	-	-	-	-	73,062	-	73,062
<b>Total liabilities</b>	<b>113,628</b>	<b>424</b>	<b>8</b>	<b>739</b>	<b>90</b>	<b>-</b>	<b>114,889</b>	<b>17,482</b>	<b>132,371</b>

### Sensitivity analysis

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

	% Change 2015	% Change 2014	2015 Effect on profit before tax HRK'000	2014 Effect on profit before tax HRK'000
EUR	-1%	1%	43	-540
USD	11%	14%	448	4.126
SEK	3%	-6%	39	82
CZK	2%	-1%	36	9
CHF	11%	2%	625	15
NOK	-6%	-6%	-51	-
Ostale currencies	1%	-1%	121	-

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

The percentage changes in exchange rates are determined/based on the average change in these currencies over the past 12 months.

A change in 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 assets are not interest-bearing.

### c) Other price risks

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



## Notes to the Financial Statements

for the year ended 31 December 2015

### **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 from 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 relates to 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 2015 according to the contractual undiscounted cash flows:

31 December 2015	Contracted cash flows	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Liabilities</b>					
Current liabilities to related parties	7,280	6,501	779	-	-
Current trade accounts payable	69,311	50,651	18,030	570	60
Other current liabilities	395	395	-	-	-
Long-term borrowings	35,198	-	-	-	35,198
Short-term borrowings	7,167	-	1,898	5,229	-
<b>Total liabilities</b>	<b>119,351</b>	<b>57,547</b>	<b>20,707</b>	<b>5,799</b>	<b>35,258</b>

## Notes to the Financial Statements

for the year ended 31 December 2015

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	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years
	<i>HRK'000</i>	<i>HRK'000</i>	<i>HRK'000</i>	<i>HRK'000</i>	<i>HRK'000</i>
<b>Liabilities</b>					
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 liabilities	543	543	-	-	-
Derivative financial instruments	3,650	-	-	3,650	-
Long-term borrowings	42,085	-	-	-	42,085
Short-term borrowings	37,482	-	24,651	12,831	-
<b>Total liabilities</b>	<b>145,024</b>	<b>39,332</b>	<b>46,108</b>	<b>17,499</b>	<b>42,085</b>



### 41. 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 2015 and that should, consequently, be disclosed.



### 42. 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 3 March 2016 and were signed on its behalf.

Ivan Klapan

President of the Management Board



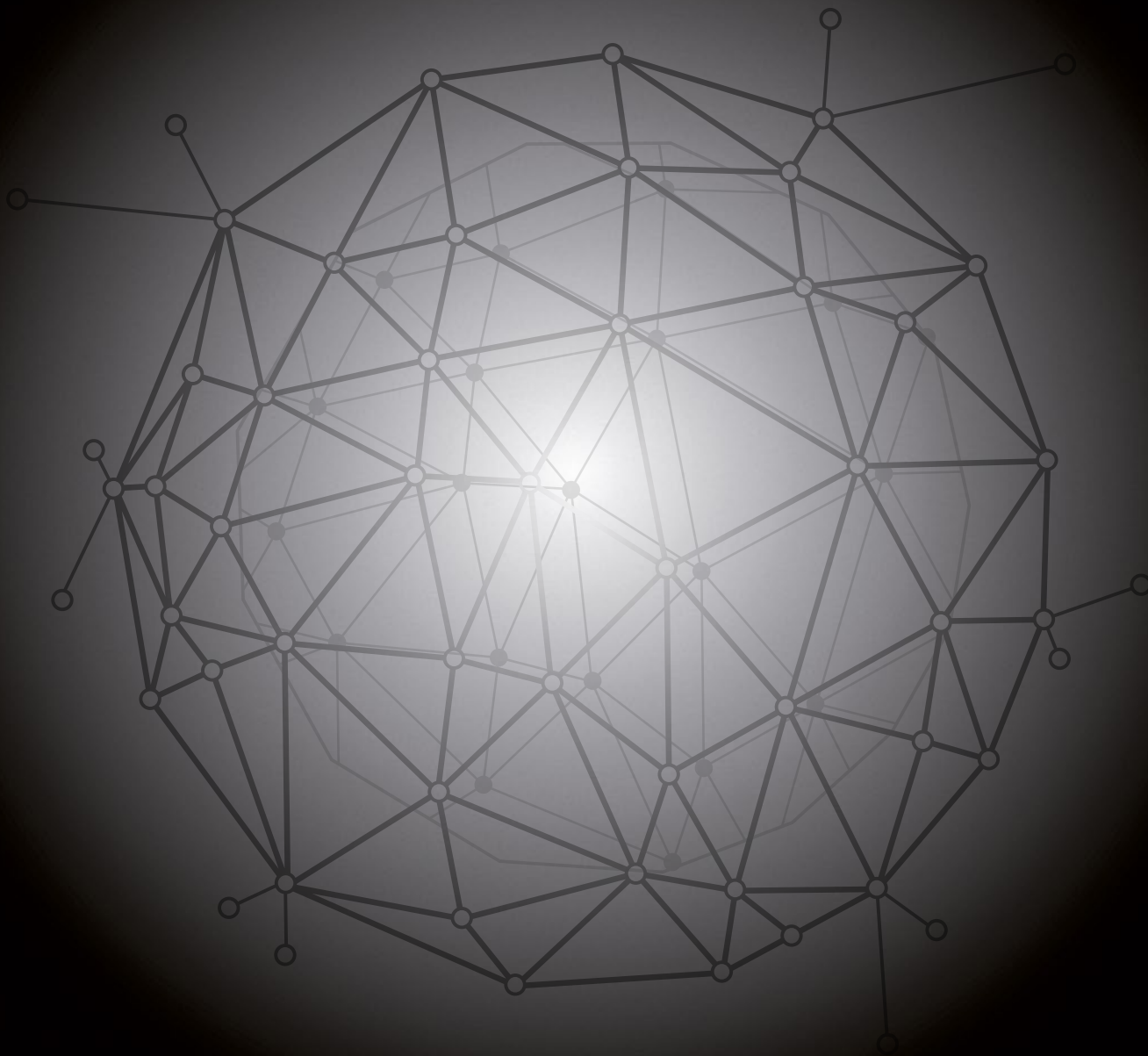
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Tradition. Knowledge. Responsibility.



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