2014 ANNUAL REPORT

LIVAR d. d.

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BUSINESS REPORT

1. INTRODUCTION

1.1. COMPANY PROFILE

Company name: Livar, proizvodnja in obdelava ulitkov, d. d.

Address: Ljubljanska cesta 43, 1295 Ivančna Gorica

Telephone: (01) 786-99-00

E-mail: info@livar.si

Registration number: 5504813

Tax ID number: 58984771

Activity: (24.510) casting of iron

Livar, proizvodnja in obdelava ulitkov, d.d. is registered in the Companies Register at the Ljubljana District Court under entry number 1/13026/00.

Ownership structure:

75.0%	Vimpro, d. o. o.
6.1%	Societa' finanziaria di promozione della
4.6%	Adriano Corsi, s. p. a.
4.5%	Niobe, d. o. o.
3.3%	Dinos, d. d.
1.6%	Mecum, d. o. o.
4.9%	Others

Equity as at 31 December 2014: EUR 4,302,311

Share capital at 31 December 2014: EUR 6,069,276

Number of issued stocks at 31 December 2014: 6,069,276

Number of full-time employees at 31 December 2014: 494

1.2. CORPORATE MANAGEMENT AND GOVERNANCE

In 2014, Livar, d.d. (hereinafter referred to also as 'Livar' or 'Company') switched from a two-tier system of management to a one-tier system.

Up until 17 December 2014, the Company had a two-tier management and governance system i.e. the Company was managed by the Management Board, while its actions were supervised by the Supervisory board. Their composition was as follows:

Management Board:

1 January – 21 May 2014

Chairman of the Board: Franc Rovere

21 May – 17 December 2014

Chairwoman of the Board: Alenka Rabuza
Board member: Andrej Selan
Board member: Nina Tušar Markež

Supervisory Board:

1 January – 29 May 2014

Chairman: Janko Čevka
Deputy Chairman: Jože Kaligaro
Member: Vojko Rovere
Member: Janko Šteharnik
Member: Mitja Škrbec
Member: Jože Strmole

29 May – 21 August 2014

Chairman: Vojko Rovere
Deputy Chairman: Jože Kaligaro
Member: Janko Čevka
Member: Janko Šteharnik
Member: Mitja Škrbec
Member: Jože Strmole

21 August – 28 August 2014

Chairman: Vojko Rovere
Deputy Chairman: /
Member: Janko Čevka
Member: Janko Šteharnik
Member: Mitja Škrbec
Member: Jože Strmole

28 August – 17 December 2014

Chairman: Vojko Rovere
Deputy Chairman: Janko Čevka
Member: Janko Šteharnik
Member: Mitja Škrbec
Member: Jože Strmole

During the 22nd General Meeting of Shareholders of Livar d.d. held on 17 December 2014, the change in management and corporate governance was confirmed, switching from a two-tier to a one-tier system. Thus, corporate governance of Livar was taken over by the Board of Directors consisting of following members:

Board of Directors:

17 December – 31 December 2014

Chairman: Vojko Rovere
Deputy Chairman: Jože Kaligaro
Member: Jože Strmole

Executive Directors:

17 December – 31 December 2014

Chief Executive Officer: Jože Kaligaro
Executive Director: Alenka Rabuza
Executive director: Andrej Selan

1.3. A WORD FROM THE CHIEF EXECUTIVE OFFICER

The 2014 fiscal year was one of Livar's most successful from the point of view of business performance and improving its financial standing.

The Company's actions were centred on finishing the first step in re-structuring the Company and balancing business processes, which are of the utmost importance for the continued success of business restructuring and the start of financial restructuring. This is a key step in managing basic process operations, increasing process transparency and improving process effectiveness. Content-wise, the restructuring process made it half-way in 2014. It was then followed by the second part that will require the implemented systems and processes to be upgraded in content and balanced in the long term. This was the fundamental task in 2014 and will continue to be so in 2015. During the second half of 2014, we began with financial restructuring procedures, the goal of which is to achieve the kind of financial position in the scope of company operations that will support and enable the successful termination of business restructuring and balanced long-term development.

In 2014, Livar consequently continued with the business, financial, HR and organisational (process) restructuring, adapting the company to market demands, while all these activities had a positive influence on achieving operating results. The planned revenue from sales was surpassed, as were the planned EBITDA and the net profit or loss figures. The 2014 fiscal year was thus concluded with an EBITDA amounting to EUR 8.3 M and a 15% EBITDA margin; this in itself places the Company among very well standing European foundries, i.e. with EUR 4.1 M of net profit. Company's financial position has improved significantly; the financial debt-to-EBITDA ratio has fallen under 3.0x and the EBITDA-to-interest ratio has gone over 8.0x, meaning the Company's ability to finance business operations and service its financial debt has gone up considerably.

We have set a basic strategic goal for the future, i.e. to become a foundry steeped in know-how and technology, known in all segments of our industrial activities. This is a key developmental and strategic goal of our Company's operations, supported by (1) investments functioning as a fundamental generator of process efficiency and development, (2) changes in the product range, increasing the demand, composition and price level of the products, (3) development of the HR structure by focusing on increasing employee competences and (4) achievement of an adequate financial position.

In 2014, we thus took the first steps leading to the above-mentioned strategic goal. Part of the investment in assets was already development-oriented, into technical and technological equipment, assuring the continued development of Livar. In 2015, we have already started implementing projects that will strengthen us on this path and enable us to improve our competitiveness. The successful implementation of the sales excellence project with the help of the Simon, Kucher & Partners consulting firm, one of the foremost consulting firms in the world, focusing on sales and marketing, the IT upgrade project, the process re-engineering project and the project aimed at changing the salary system, will guarantee the achievement of our ambitious goals in the future.

A key part of this will be the continuance of successful cooperation with the owners and financial creditors with which we are finishing the process of long-term debt rescheduling. The cooperation we have enjoyed up to the present has strengthened our partnership and enabled us to complete the process by the end of July 2015 – according to estimates – this in turn will enable us to carry out all of our strategic goals in the next five year period.

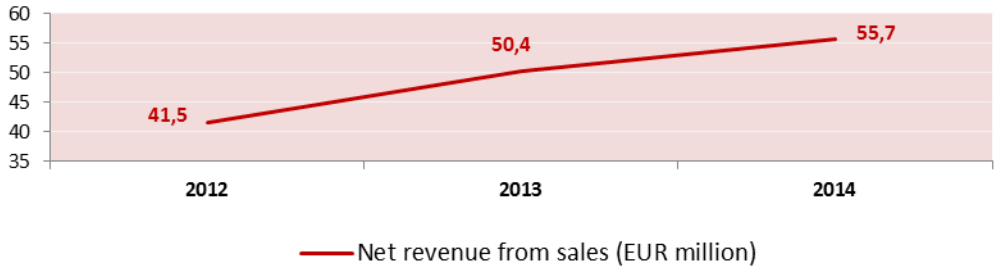
In closing, I would also like to draw attention to what is most important: you, the Livar employees, have, through selflessness and your readiness to sacrifice, enabled us to successfully conduct business for the second year in a row, reigniting our pride in the Livar name. During these last few years, you had a key and at the same type most difficult role, which you have fulfilled with excellence. I am certain that our future cooperation will also be based on the two values we hold in highest esteem: transparency of operations and trust.

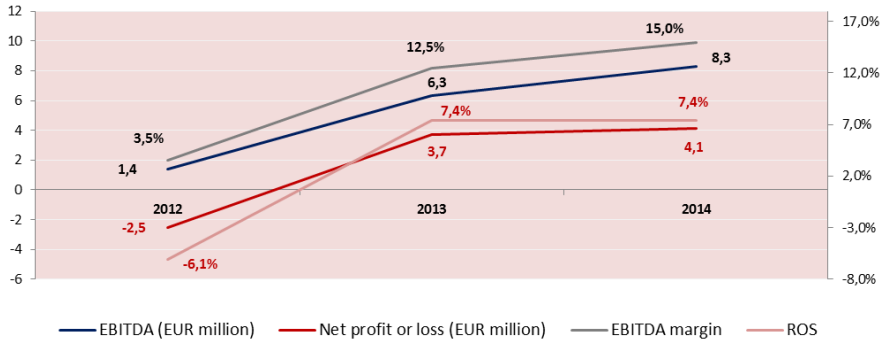
Jože Kaligaro
CEO

1.4. TRENDS IN KEY PERFORMANCE INDICATORS

Livar, d.d.

in EUR Key Performance Indicators	Jan - Dec 2012	Jan - Dec 2013	Jan - Dec 2014
Financial Position			
Capital	-2,956,554	397,886	4,302,311
Financial liabilities (debt)	22,535,971	24,957,997	22,960,812
Debt / EBITDA	15,6	4	2,8
Net financial liabilities (net debt)	22,157,889	24,762,865	22,522,976
Net debt / EBITDA	15,4	3,9	2,7
Debt / net capital invested (C + D)	115.1%	98.4%	84.2%
Interest	1,070,122	1,047,254	1,003,434
EBITDA / interest	1,35	6	8,32
ROE	85.0%	931.6%	95.3%
Operating profitability			
Net sales	41,483,323	50,398,211	55,675,746
Added value	12,885,715	18,582,998	22,807,441
Added value per employee	24,904	39,616	46,538
Added value in net sales	31.1%	36.9%	41.0%
Labour costs in added value	88.8%	66.2%	63.4%
EBIT	-828,863	4,627,961	6,413,692
EBIT margin	-2.0%	9.2%	11.5%
EBITDA	1,442,190	6,281,484	8,345,010
EBITDA margin	3.5%	12.5%	15.0%
Net operating result	-2,513,801	3,706,868	4,102,031
ROS	-6.1%	7.4%	7.4%
Generating cash flow			
Net cash flow (NCF)	-242,748	5,360,392	6,033,349
Free cash flow (FCF) prior to financing activities	-	-	-
Capex (EUR)	569,216	1,863,827	2,115,391
Capex (%)	1.4%	3.7%	3.8%
Change in w orking capital	-	-3,772,848	-1,133,605
Change in net w orking capital	-	-5,294,813	-727,883



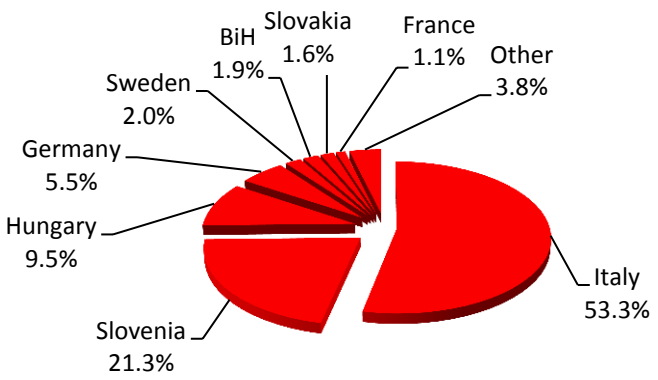


2. MANAGEMENT REPORT

2.1. SALES

In 2014, Livar recorded net sales in the amount of EUR 55.7 M. In doing so, it surpassed the level achieved in 2013 by 10% and the planned values by 3%. The year-on-year dynamics of orders fit the expected seasonal fluctuations in sales based on the presence of different industries in the customer portfolio and their seasonal influences. Fluctuations on the commodities exchange (e.g. steel, pig iron and coke) to which Livar's sales prices are bound had a negative, yet less significant influence on the height of some sales prices and consequently on the value of sales. This is because the prices on the exchange, as far as they related to raw materials, had a negative growth dynamics.

Sales structure by country



From the point of view of the geographical location, the customer portfolio looks risky at first glance, since the percentage of sales to Italian customers – and consequently the share in one market – is high. This risk is substantially reduced by the product / sectorial composition of the customer portfolio, showing that products are mainly intended for industrial manufacturers working at a global level. In the context of the 2015 goals, the Company's objectives include a stronger penetration onto West and North European markets using products that expand the existing product makeup into related industrial segments. Since Livar's key advantage lies exactly in the product structure's niche orientation, mainly neutralising the negative impact of the complexity through manufacturing and technological adaptability, the modified sales models for 2015 will also strongly take into account this element of success. This will be reasonably combined with the economy of scale at the level of our technical capabilities, which in turn will strongly improve the degree of production capacity utilisation and thus enable less costly operations.

In 2014, the Company achieved 40% of its entire sales in the mechanical and electrical industry segment, 32% in the agricultural machinery segment, a 9% share with its own utility program, an 8% share in the fitting and pumps segment, 6% in the home appliances segment and 5% in other industrial segments.

In accordance with the long-term Livar objectives, the sales area activities in 2014 were concentrated on increasing the sale of (1) mechanically processed castings, (2) castings from spheroidal-graphite casts and (3) more difficult grey castings with a higher degree of invested know-how. All three directions increased the average sales value of Livar products and improved the operating profitability, strengthening its financial position.

2.2. OPERATING PROFITABILITY

Livar's profitability in 2014

	2014	2013
Net sales	***55,675,746***	***50,398,211***
Costs of goods and material sold	***-23,879,258***	***-22,761,312***
Proceeds	***31,796,488***	***27,636,900***
Proceeds (margin in %)	***57.1%***	***54.8%***
Cost of auxiliary material	-439,836	-460,866
Capitalised own products and own services	205,735	400,292
Other cost of material	-5,040,780	-5,021,598
Cost of services	-3,692,856	-3,977,840
Other operating revenue	270,296	412,767
Other operating expenses	-291,606	-406,657
Added value (AV)	***22,807,441***	***18,582,998***
AV in net sales	***41.0%***	***36.9%***
Total labour costs	-14,462,430	-12,301,513
EBITDA	***8,345,010***	***6,281,484***
EBITDA margin	***15.0%***	***12.5%***
Write-downs in value	-1,931,319	-1,653,523
Operating profit or loss / EBIT	***6,413,692***	***4,627,961***
EBIT margin	***11.5%***	***9.2%***
Financial revenue from loans granted	46,958	48,558
Financial revenue from operating receivables	14,793	105,997
Financial expenses due to impairment and write-offs of investments	-587,524	-223,111
Financial expenses for financial liabilities	-1,618,619	-1,154,364
Financial expenses for operating liabilities	-150,658	-228,458
Balance of financial activities	-2,295,050	-1,451,377
Other revenue	76,896	202,872
Other expenses	-39,787	-215,451
Balance of extraordinary activities	37,109	-12,579
Profit or loss before tax	4,155,751	3,164,004
Income tax	-279,964	-142,922
Deferred taxes	226,244	685,786
Net profit or loss for the period	***4,102,031***	***3,706,868***
ROS	***7.4%***	***7.4%***

In 2014, the key categories from the income statement underwent significant improvement, surpassing planned values at all levels when compared to the previous year.
The net revenue from sales exceeded the planned numbers by 3%, while operating costs did so by 2%. When compared to the planned amount, the achieved costs of material and services achieved the same level, as did the costs of depreciation or amortisation. Labour costs, including the costs of the hired workforce, exceeded planned amounts by 7%.

In 2014, special attention was paid to optimising and monitoring operating costs. Together with preparing a business plan for 2014, we also introduced the cost administration instrument. When planning costs placed under their administration, the cost administrators cooperated and also agreed to the planned amount in the final step of planning. This is a process approach to costs management that has provided impressive and excellent results, setting up a culture of responsibility and authorisation for actions taken by responsible individuals connected to process management and costs. Concentrated investment into those segments of

operation, which contribute toward the creation of value for the Company, also played a vital role, enabling the optimisation of manufacturing processes and their support.

Key profitability categories

(in EUR)

	2014	2013	Index
Sales revenue	55,675,746	50,398,211	110
Net profit or loss	4,102,031	3,706,869	111
ROS (%)	7.4	7.4	100
EBITDA	8,345,011	6,281,484	133
EBITDA margin (%)	15.0	12.5	120
Added value	22,807,441	18,582,998	123
Added value per employee	46,538	39,616	117
Added value in income (%)	41.0	36.9	111

In 2014, the generated net profit or loss was 3% below the planned amount and exceeded the net profit or loss recorded in 2013 by 10%. The level of gross cash flow achieved (EBITDA) exceeded the planned amount by 6% and the amount achieved in 2013 by 33%.

FINANCIAL SITUATION

Key categories of financial position

(in EUR)

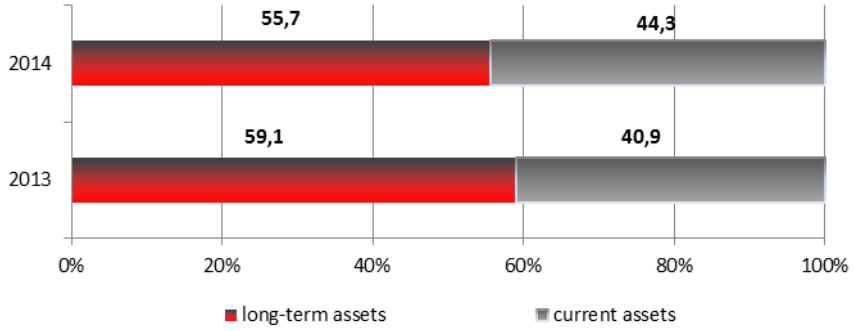
	2014	2013	Index
Capital (C)	4,302,311	397,886	1081
Debt (D)	22,960,812	24,957,997	92
Net debt*	22,522,976	24,762,865	91
Debt / EBITDA	2.8	4.0	70
Net debt / EBITDA	2.7	3.9	69
Debt / (C + D)	84.2%	98.4%	-
EBITDA / interest	8.3	6.0	138

* Net debt = financial liabilities – cash and cash equivalents

The operating profitability and the management of net working capital (net current assets) improved once again, which had an important impact on the strengthening of the Company's **financial position**. Compared to 2013, the value of registered capital fell by EUR 2.0 M when it comes to the total amount of realised payments to financial creditors (the principal amounts together with costs of financing), i.e. EUR 4.7 M. By achieving the **registered capital-to-EBITDA ratio**, which was 2.8x, the Company's ability to self-finance business and financial activities went up significantly, already achieving the level associated with good or excellent companies. This change also had an influence on the **interest multiplier**, which at 8.3x came even closer to the mid-term target level of above 10.0x. However, the share of registered capital in the entire invested capital is still too high at 84.2%, even though it improved by 14.2 percentage points compared to 2013. Such a high indebtedness share is the consequence of past negative operations until 2012; even with high profitability, which achieves the relative levels of the average best competition in the industry, it is still impossible to lower it sooner than in a few years.

In September 2013, the Company, together with its financial creditors, began preparing a **long-term restructuring of the financial debt**, wherein the financial creditors entrusted it with the role of activity coordinator. During the preparation and auditing of the annual report, the general terms and conditions for preparing the Master Restructuring Agreement (MRA) were harmonised and approved by the banks.

Asset structure



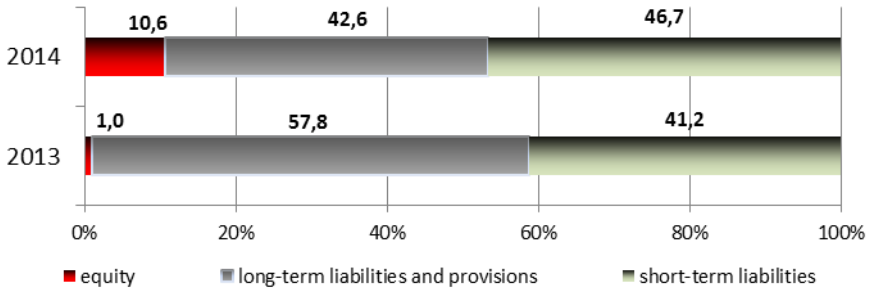
The state of **long-term assets** essentially achieved the same level during both years monitored.

The increase in **current assets** amounting to 11% or EUR 1.7 M is primarily attributable to the fluctuations in working capital items i.e. inventories and trade receivable. Their growth is the result of higher sales; despite the increase in value of both items, the Company improved their management quality in this segment by reducing the number of their turnover days. The balance of short-term liabilities has gone up by 140% due to the partial transfer from long-term to the short-term portion.

The increase in the value of **equity** is the sole consequence of the net profit generated through business operations in the current year.

In 2014, the balance of long-term liabilities declined by EUR 5.2 M, mainly because of transferring long-term financial liabilities to short-term ones. By taking into account the repayment of borrowings in the mount of EUR 2.0 M, the impact of the transfer to **short-term liabilities** amounted to EUR 3.2 M.

Liabilities structure



Livar's financial position as at 31 December 2014

(in EUR)

		31 Dec 2014	31 Dec 2013	Index
	ASSETS	**40,501,271**	**39,537,970**	**102**
A.	**LONG-TERM ASSETS**	**22,576,766**	**23,347,407**	**97**
I.	Intangible assets and long-term deferred costs and accrued revenue	174,020	86,759	200
II.	Property, plant and equipment	17,400,832	17,469,454	100
IV.	Long-term investments	2,665,876	3,681,400	72
V.	Long-term operating receivables	0	0	-
VI.	Deferred tax assets	2,336,038	2,109,794	111
B.	**CURRENT ASSETS**	**17,814,810**	**16,121,349**	**110**
I.	Assets (disposal groups) held for sale	0	0	-
II.	Inventories	4,241,425	3,980,300	106
III.	Short-term investments	662,000	275,500	240
IV.	Short-term operating receivables	12,473,549	11,670,417	107
V.	Cash	437,836	195,132	224
C.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**	**109,695**	**69,214**	**158**

		31 Dec 2014	31 Dec 2013	Index
	LIABILITIES	**40,501,271**	**39,537,970**	**102**
A.	**EQUITY**	**4,302,311**	**397,886**	**1080**
I.	Called-up capital	6,069,276	6,069,276	100
	1. Share capital	6,069,276	6,069,276	100
II.	Capital surplus (share premium)	7,156	7,156	100
IV.	Revaluation surplus	6,480,416	6,678,020	97
VI.	Retained loss from previous period	-8,254,537	-12,356,568	67
VIII.	Net profit or loss of the period	0	0	-
B.	**PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE**	**1,713,325**	**2,066,431**	**83**
C.	**LONG-TERM LIABILITIES**	**15,558,791**	**20,791,998**	**75**
I.	Long-term financial liabilities	14,254,866	19,436,394	73
III.	Deferred tax liabilities	1,303,924	1,355,604	97
D.	**SHORT-TERM LIABILITIES**	**17,684,708**	**15,121,453**	**117**
II.	Short-term financial liabilities	8,705,946	5,521,603	158
III.	Short-term operating liabilities	8,978,762	9,599,850	94
E.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**	**1,242,137**	**1,160,203**	**107**

2.3. INVESTMENTS

In 2014, the Company invested EUR 2.1 M into fixed assets, which shows a EUR 0.1 M increase compared to the planned scope and EUR 0.2 M more over the previous year's figures. The latter contributed to achieving a 3.8% share of capital expenditure (Capex), which puts 2014 on par with 2013. Due to many erroneous investment decisions made in years prior to 2012 and due to low operating profitability, the Company achieved a Capex under 1.4% before 2013, largely under the investment level necessary to guarantee an unaltered business capacity i.e. before development-related investments are taken into account.

Based on this, the greater part of the implemented investments in 2014 still refers to investments for ensuring smooth production processes. Notwithstanding, part of investments were already channelled into purchasing

technical and technological equipment that will ensure the development of Livar and its competitiveness. This is also the goal of the intensive investment cycle launched by Livar in 2015. In the period from 2015 to 2020, Livar plans to invest up to EUR 26 M into fixed assets, more than 85% thereof shall be invested into development projects. This in turn means that the average annual Capex, amounting to 6%, will achieve the levels of our competition, taking into account the important development gap that the Company suffered from over the last decade.

Key investments made in 2014 were as follows:

- CNC Koyama grinding machine

By 2020, Livar will for the most part switch from manual grinding to machine grinding. The purchase of the CNC Koyama machine is the beginning that will help us achieve this goal. In addition to markedly increased productivity, the chief advantage of machine grinding is also making employee work more humane.

- Setting up a central tool shop in Ivančna Gorica

Due to the ever growing need to shorten the development time for new castings and because of increasing expectations when it comes to manufacturing foundry tools using CNC technology, the capability and quality of these was increased through setting up a modern tool shop in Ivančna Gorica. The investment was intended to completely arrange and upgrade spaces by purchasing a new CNC milling machine.

- Tent for housing castings and organising logistic routes in Ivančna Gorica

Due to a lack of covered warehousing capacities, part of the castings was housed in the open air, which means they were subjected to weather conditions, deteriorating the quality of the castings.

- Automatic positioning system in mechanical processing in Črnomelj

This investment helped us to optimise the productivity of the pre-setting of the processing centre's process by 70%. This is an important acquisition from the point-of-view of increasing the productivity of mechanical processing.

2.4. EMPLOYEES

In 2014, the Company directed its HR development activities towards (1) the development of an organisational culture, representing key activities due to the finishing of the first step in the business restructuring, (2) the development of employee competences, and (3) the preparation of a new salary system.

Based on the principle of business transparency, we further upgraded activities with our social partners that helped us present employees with our values and the importance of developing an organisational or process culture, allowing for further business restructuring and Livar's future operations.

Due to the importance of improving processes, we increased the scope of activities that would help us improve the level of knowledge and training through an urgent systematic transfer of know-how to employees, which in turn provided for the renewal, updating and improvement of know-how and skills which the employees need for their work. By preparing LUN – Livar's Learning Plan, we set up a basis for the transfer of knowledge to employees that will enable them to achieve process excellence. The educational plan for 2015 has already defined in-house trainings that are an integral part of LUN.

Due to changes in the sectorial collective agreement, a new salary system is being set up in collaboration with our social partners that shall be bound by the collective agreement and will introduce elements of motivation

and remuneration of performance at work in a much greater scope than today. This means that based on the nature of employees' work, the variable part of bonuses will be significantly increased.

Number of employees in terms of professional education as at 31 December 2014

Level of professional education	No. of employees	%
I	107	21.7
II	26	5.3
III	25	5.1
IV	173	35.0
V	109	22.1
VI/1	15	3.0
VI/2	20	4.0
VII	12	2.4
VIII	7	1.4
Total	**494**	**100.0**

At the balance sheet date, Livar had 494 full-time employees and 74 hired workers. Employment was conducted in line with the employment plan, surpassing it by 0.4% which, however, depended on the market requirements and the sales programme. Compared to 2013, the number of employees increased by 21. In 2014, the average number of employees was 490; by making a calculation using effective working hours, an average of 147 contractual workers were also employed.

2.5. DEVELOPMENT

In 2014, a number of important milestones were set up in the development area.

A **research and development group (R&D group)** was set up. This group was successfully registered with the Slovenian Research Agency (ARRS) by entering it in the register of research organisations. All of Livar's important research-and-development projects are now being conducted in the scope of the R&D group.

By investing in the **central tool shop** in Ivančna Gorica, representing one of key investments of 2014, the development time for new castings declined significantly. Livar is thus capable of manufacturing up to 25 new medium-difficulty castings per month.

Main emphasis of the development and technology department lied on **developing and optimising the foundry technological processes** and the development of new casts with a spheroidal-graphite basis and with improved mechanical properties. The laboratory and industrial tests involving the development trials of new casts have been successfully completed, and we have also acquired the first order for a medium-difficulty casting.

Development engineers actively participated in the **sale, production and purchase** processes, while open communication with suppliers and buyers essentially contributed to the development of partnerships and to a swift and effective solving of technical and technological foundry problems.

At Livar, we are aware that **competitive advantages** need to be maintained and improved in the long-term. Competitiveness in the long-term can be increased by directing attention to the production and sale of complex

products by optimising manufacturing processes and relying on innovation and inventiveness at the level of the entire Company.

2.6. ENVIRONMENT

We are aware that care for a safe and clean environment is the basic condition for achieving the goals set. The guidelines of the environmental protection system, as defined in the ISO 14001 standard, give us ever greater awareness and consciousness for preventing or reducing negative influences on the environment.

When achieving our set goals, carrying out programs and managing the influences of our activities on the environment, we observe the legislation to the letter; we are thus bound to constantly improve our respect for the environment. We proved that we are on the right path since, based on environmental inspections and certification institutions, we fulfilled all the demands for environmental permits in 2014 as well as the requirements imposed by the ISO 14001 standard.

In 2014, we were very active in the area of ecology as we kick-started two larger projects, including (1) organising the discharge of industrial waste water at the Črnomelj location, and (2) re-qualifying waste into construction products. This in turn will greatly reduce damage to the environment due to dumping, also achieving a decline in the level of material exploitation of natural resources.

In 2014, based on environmental demands at the Ivančna Gorica location, we set up degassing at one of the cooling foundry lines as well as the suction of metal dust particles in the grinding section. This reduced the influence of material emissions into the air, which are now within allowed levels.

2.7. EVENTS AFTER THE BALANCE SHEET DATE

In early May 2015, when audit procedures were still in progress, the Company reached an agreement with the lending banks on the general terms and conditions for drafting the master restructuring agreement. By doing so, the Company eliminated the risk of failure to repay its financial liabilities and thereby the risk of material uncertainty as regards the going concern assumption.

3. RISK MANAGEMENT

The Company is daily exposed to various risks, both financial and business. Consequently, it is very important that we are conscious of the fact that risks exist and that their systematic and constant monitoring, as well as effective management, are essential for Livar's successful development.

Liquidity risk

Liquidity risks, which are connected with ensuring solvency, are managed through weekly and monthly planning of all expected and known expenditures, and by planning and ensuring sufficient cash flows to cover them. Quality and transparent business transactions with banks constitute a special area of this risk segment.

Credit risk

Credit risk is the risk that buyers will fail to meet their obligations i.e. settle all receivables due. The respective risk is managed through checking customers' credit ratings, in particular new clients, as well as through an effective debt collection.

Interest rate risk

These are managed by constantly monitoring events on the cash market and by having partnership relationship with banks. Long-term and short-term financial liabilities to banks and lease providers are linked to EURIBOR, which has an impact on Company's exposure to the risk of interest rate fluctuations.

Currency risk

Livar was not exposed to significant currency risks, such as changes to foreign currency rates during export and import, since the purchase and sales markets are mainly EU based. In addition, Company's short-term trade receivables and short-term operating liabilities are not expressed in foreign currency.

Risk of fair value decrease

The Company discloses real properties and investments that are valued according to fair value. The Company monitors value fluctuations at least on an annual basis when preparing annual financial statements.

Market risk

Market risks are managed by extending sales to various industrial sectors, by monitoring sales shares according to industry categories, and by monitoring the sales share by markets. Sales-related risks are managed by using adequate marketing strategies (competitive product prices). Sales risks are to the maximum extent mitigated through the ongoing development of new products and services that will be interesting, useful and well-priced.

Purchase risk

Purchase risks are linked to changes in prices of raw material and material, to quality and to delivery deadlines. These are balanced through managing contractual relationships with suppliers, which results in more stable and more predictable business operations. Regardless of the aforesaid, we do not have any influence over the prices of the main production materials, such as steel, pig iron and fuels. Changes in the prices of these materials are included in the sales prices of our products, in line with industrial practice.

Product risk

In the area of product risks, we are exposed to the risk of unsuitable operation or the quality of our products on the market. We limit product risks by ensuring quality in the manufacturing process and by taking into account all standards. Our guidelines include constant quality assessments, since only quality processes and original and

technologically superior and advanced products will consolidate our position among distinguished and renowned casting manufacturers.

HR risk

HR-related risks include the consequences of social dialogue with employees, the loss of key staff and a lack of professionally trained employees. We try to manage these risks through different forms of education and trainings, performance rewards, etc. Future requirements for professionally trained staff are managed through developing competences of existing staff and through an active monitoring of the labour market for key staff.

Investment risk

Investment-related risks are linked to focused implementation and successful capitalisation of investments, as well as to the launch of new technologies that are indispensable in the near future.

Key property-related risks, such as fires, machine breakdown and production shortfall, are through an insurances system management transferred to the insurance company.

4. PLANS FOR THE FUTURE

The strategic goals until 2020 are founded on Livar’s key objective to become a company of know-how and technology that is recognised throughout Europe. The core elements for compiling the 2015 Business Plan were already defined in the 2020 Strategic Plan that paved the way for Livar's development.

The 2015 Business Plan predicts an increase in sales of spheroidal-graphite castings and mechanically processed castings. Due to higher price range of these products, this in turn will increase the average sales price and profitability. Very ambitious goals have also been set in the area of quality, with special emphasis on reducing the scope of complaints. For 2015, we are planning investments in improving quality, development-related investments, and those necessary from the point of view of equipping work stations; the chief among these investments, taking up half of the available funds, will be concentrated on purchasing a recuperator for a cupola furnace at the Črnomelj foundry, an upgrade to the sand preparation profess at the Ivančna Gorica foundry, and an update to Livar's IT system. Investments will thus mainly be centred on technological development and the strengthening of basic operational processes.

As for 2015, Livar expects to improve its operating profitability, provide for uninterrupted liquidity and to enhance the financial position achieved in 2014.

ACCOUNTING REPORT

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Independent Auditor's Report

To the Shareholders of Livar, d.d., Ivančna Gorica

Report on the Financial Statements

We have audited the accompanying financial statements of the company Livar, d.d., Ivančna Gorica, which comprise the balance sheet as at 31 December 2014, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and 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 Slovene Accounting Standards, 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 Livar, d.d., Ivančna Gorica as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with Slovene Accounting Standards.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

Emphasis of Matter

Without qualifying our opinion, we draw attention to the notes within the accounting report under the section »Uncertainty with respect to the going concern assumption« and »Events after the balance sheet date«, outlining that in 2014 the Company generated a net profit of EUR 4,102 thousand, whereby the accumulated loss is as at 31 December 2014 recorded at EUR 8,255 thousand, which still exceeds 50% of the share capital and cannot be charged against other components of equity. As at the balance sheet date, the Company recorded a deficit in current assets in view of short-term liabilities in the amount of EUR 1,002 thousand with total financial liabilities at EUR 22,961 thousand. EUR 8,706 thousand thereof fall due in 2015 according to the currently agreed repayment schedule, whereby the residual amount in the next four years. According to management's assessment, the cash flow available in 2015 will not yet enable the repayment of the total short-term portion of financial liabilities. Negotiations with creditors on approving short-term and long-term reschedules of settling the financial debt reached a significant stage in May 2015 as the Company agreed with lending banks on material terms and conditions that form the basis for compiling a framework contract on restructuring the financial debt. The signing of the respective contract shall result in an essential lowering of the debt's annual amount to be repaid by the Company and its adjustment to the available cash flow. Should this contract failed to be signed, the stated circumstances indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj
Certified Auditor

Simona Korošec Lavrič, M.Sc.Econ
Audit Director

Ljubljana, 17 June 2015

KPMG Slovenija, d.o.o.
1

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

2. BALANCE SHEET

ASSETS

(in EUR)

		Note	31 Dec 2014	31 Dec 2013 (adjusted)	31 Dec 2013
	ASSETS		**40,501,271**	**39,537,970**	**43,052,970**
A.	**LONG-TERM ASSETS**		**22,576,766**	**23,347,407**	**26,862,407**
I.	**Intangible assets and long-term deferred costs and accrued revenue**	**1**	**174,020**	**86,759**	**86,759**
1.	Concessions, patents, licences, trademarks and similar rights		174,020	86,759	86,759
2.	Other long-term deferred costs and accrued revenue		0	0	0
II.	**Property, plant and equipment**	**2**	**17,400,832**	**17,469,454**	**17,469,454**
1.	Land and buildings		12,108,080	12,210,003	12,210,003
	a) Land		5,547,537	5,547,480	5,547,480
	b) Buildings		6,560,543	6,662,523	6,662,523
2.	Manufacturing plant and equipment		4,967,437	4,840,216	4,840,216
3.	Property, plant and equipment being acquired		325,315	419,235	419,235
	a) Property, plant and equipment in course of construction		325,315	419,235	419,235
	b) Cash disbursements to acquire property, plant and equipment		0	0	0
IV.	**Long-term investments**	**3**	**2,665,876**	**3,681,400**	**1,249,876**
1.	Long-term investments, excluding loans		2,665,876	3,253,400	821,876
	a) Shares and interests in Group companies		0	30,000	30,000
	b) Shares and interests in associates		2,663,000	3,220,524	789,000
	c) Other long-term investments		2,876	2,876	2,876
2.	Long-term loans		0	428,000	428,000
	Long-term loans to associates		0	428,000	428,000
	Other long-term loans		0	0	0
V.	**Long-term operating receivables**		**0**	**0**	**5,946,524**
VI.	**Deferred tax assets**	**30**	**2,336,038**	**2,109,794**	**2,109,794**
B.	**CURRENT ASSETS**		**17,814,810**	**16,121,349**	**16,121,349**
I.	**Assets (disposal groups) held for sale**		**0**	**0**	**0**
II.	**Inventories**	**4**	**4,241,425**	**3,980,300**	**3,980,300**
1.	Material		1,236,005	1,063,839	1,063,839
2.	Work in progress		693,065	813,478	813,478
3.	Products and merchandise		2,312,355	2,102,983	2,102,983
4.	Advances for inventories		0	0	0
III.	**Short-term investments**	**5**	**662,000**	**275,500**	**275,500**
1.	Short-term loans		662,000	275,500	275,500
	Short-term loans to associates		660,000	272,000	272,000
	Short-term loans to others		2,000	3,500	3,500
IV.	**Short-term operating receivables**	**6**	**12,473,549**	**11,670,417**	**11,670,417**
1.	Short-term operating receivables to Group companies		65,900	67,600	67,600
2.	Short-term trade receivables		10,317,642	9,443,462	9,443,462
3.	Short-term operating receivables due from others		2,090,007	2,159,355	2,159,355
V.	**Cash**	**7**	**437,836**	**195,132**	**195,132**
C.	**SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE**	**8**	**109,695**	**69,214**	**69,214**
	Off-balance-sheet assets	**14**	**175,322**	**206,262**	**206,262**

LIABILITIES

(in EUR)

		Note	31 Dec 2014	31 Dec 2013 (adjusted)	31 Dec 2013
	EQUITY AND LIABILITIES		**40,501,271**	**39,537,970**	**43,052,970**
A.	**EQUITY**	**9**	**4,302,311**	**397,886**	**3,599,643**
I.	**Called-up capital**		**6,069,276**	**6,069,276**	**6,069,276**
	1. Share capital		6,069,276	6,069,276	6,069,276
II.	**Capital surplus (share premium)**		**7,156**	**7,156**	**7,156**
IV.	**Revaluation surplus**		**6,480,416**	**6,678,020**	**6,678,020**
VI.	**Retained earnings or losses from previous periods**		**-8,254,537**	**-12,356,568**	**-9,154,810**
VIII.	**Net profit or loss of the period**		**0**	**0**	**0**
	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED	**10**			
B.	**REVENUE**		**1,713,325**	**2,066,431**	**2,066,431**
	1. Provisions for pensions and similar liabilities		337,233	362,943	362,943
	2. Other provisions		1,376,092	1,703,488	1,703,488
C.	**LONG-TERM LIABILITIES**	**11**	**15,558,791**	**20,791,998**	**20,791,998**
I.	**Long-term financial liabilities**		**14,254,866**	**19,436,394**	**19,436,394**
	1. Long-term financial liabilities to banks		10,719,897	15,058,447	15,058,447
	2. Long-term financial liabilities from bonds		0	0	0
	3. Other long-term financial liabilities		3,534,970	4,377,947	4,377,947
III.	**Deferred tax liabilities**	**30**	**1,303,924**	**1,355,604**	**1,355,604**
D.	**SHORT-TERM LIABILITIES**	**12**	**17,684,708**	**15,121,453**	**15,092,354**
II.	**Short-term financial liabilities**		**8,705,946**	**5,521,603**	**5,521,603**
	1. Short-term financial liabilities to banks		6,585,938	4,126,572	4,126,572
	2. Other short-term financial liabilities		1,300,008	575,030	575,030
	3. Short-term financial liabilities from bonds		820,000	820,000	820,000
III.	**Short-term operating liabilities**		**8,978,762**	**9,599,850**	**9,570,751**
	1. Short-term operating liabilities to Group companies		2,508	286,454	286,454
	2. Short-term trade payables		6,744,232	6,054,562	6,054,562
	3. Short-term bills payable		0	0	0
	4. Short-term operating liabilities from advances		29	3,729	3,729
	5. Other short-term operating liabilities		2,231,993	3,255,104	3,226,005
E.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**	**13**	**1,242,137**	**1,160,203**	**1,502,545**
	Off-balance-sheet liabilities	**14**	**175,322**	**206,262**	**206,262**

3. INCOME STATEMENT

(in EUR)

		Note	2014	2013 (adjusted)	Index
1.	**Net sales**	**15**	**55,675,746**	**50,398,211**	**110**
2.	**Change in inventories of products and work in progress**	**16**	**88,959**	**227,604**	**40**
3.	**Capitalised own products and own services**	**17**	**205,735**	**400,292**	**51**
4.	**Other operating revenue (with revaluation operating revenue)**	**18**	**270,296**	**412,767**	**65**
5.	**Costs of goods, material and services**	**19**	**35,605,963**	**34,125,058**	**104**
	a) Costs of goods and material sold and costs of material used		29,448,833	28,471,380	103
	b) Costs of services		6,157,129	5,653,678	109
6.	**Labour costs**	**20**	**11,998,157**	**10,625,675**	**113**
	a) Payroll costs		8,650,834	7,655,440	113
	b) Pension insurance costs		773,775	682,123	113
	c) Social security costs		769,551	685,608	112
	d) Other labour costs		1,803,997	1,602,504	113
7.	**Write-downs in value**	**21**	**1,931,319**	**1,653,523**	**117**
	a) Depreciation and amortisation expense		1,814,516	1,628,034	111
	b) Revaluation operating expenses associated with intangible assets and property, plant and equipment		32,953	7,382	446
	c) Revaluation operating expenses associated with current operating assets		83,849	18,107	463
8.	**Other operating expenses**	**22**	**291,606**	**406,657**	**72**
9.	**Financial revenue from shares and interests**		**0**	**0**	**-**
	a) Financial revenue from shares and interests in Group companies		0	0	-
	d) Financial revenue from other investments		0	0	-
10.	**Financial revenue from loans granted**	**23**	**46,958**	**48,558**	**97**
	a) Financial revenue from loans to Group companies		46,883	48,486	97
	b) Financial revenue from loans to others		75	72	104
11.	**Financial revenue from operating receivables**	**24**	**14,793**	**105,997**	**14**
	b) Financial revenue from operating receivables due from others		14,793	105,997	14
12.	**Financial expenses due to impairment and write-off of investments**	**25**	**587,524**	**223,111**	**263**
13.	**Financial expenses for financial liabilities**	**26**	**1,606,594**	**1,154,364**	**139**
	a) Financial expenses for loans received from banks		1,003,434	1,047,254	96
	b) Financial expenses for other financial liabilities		603,159	107,110	563
14.	**Financial expenses for operating liabilities**	**27**	**162,683**	**228,458**	**66**
	a) Financial expenses for trade payables and bills payable		55,820	96,565	58
	b) Financial expenses for other operating liabilities		106,864	131,893	72
15.	**Other revenue**	**28**	**76,896**	**202,872**	**38**
16.	**Other expenses**	**29**	**39,787**	**215,451**	**18**
17.	**Income tax**	**31**	**279,964**	**142,922**	**196**
18.	**Deferred taxes**	**30**	**226,244**	**685,786**	**33**
19.	**Net profit or loss of the period**	**32**	**4,102,031**	**3,706,869**	**111**

4. STATEMENT OF COMPREHENSIVE INCOME

(in EUR)

		2014	2013 (adjusted)	Index
19.	**Net profit or loss of the period**	**4,102,031**	**3,706,869**	**111**
20.	Change in revaluation surplus on intangible assets and equipment and property, plant and equipment	-197,606	-209,791	94
21.	Change in revaluation surplus on available-for-sale financial assets	0	-142,638	-
21.	Gains and losses arising on translation of financial statements of foreign operations	0	0	-
22.	Other components of comprehensive income	0	0	-
23.	**Total comprehensive income of the period**	**3,904,425**	**3,354,440**	**116**

5. CASH FLOW STATEMENT

(in EUR)

	2014	2013 (adjusted)
Cash flows from operating activities		
Income statement items		
Operating revenue (except from revaluation) and financial revenue from operating receivables	56,000,493	51,110,834
Operating expenses excluding depreciation or amortisation (except from revaluation) and financial expenses for operating liabilities	-47,875,327	-44,991,510
Income taxes and other taxes not included in operating expenses	53,720	542,864
	8,071,446	**6,662,188**
Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)		
Opening less closing operating receivables	-784,249	-3,787,850
Opening less closing deferred costs and accrued revenue	-40,483	-15,177
Opening less closing deferred tax assets	-174,564	-617,383
Opening less closing assets held for sale	0. 00	0. 00
Opening less closing inventories	-261,125	-379,324
Closing less opening operating liabilities	178,488	-1,217,705
Closing less opening accrued costs and deferred revenue, and provisions	-271,172	-280,105
Closing less opening deferred tax liabilities	-51,680	-68,403
	-1,404,785	**-6,365,946**
Net cash from operating activities (a + b)	**6,666,661**	**296,242**
Cash flows from investing activities		
Cash receipts from investing activities		
Interest and dividends from investing activities	28,075	83
Cash receipts from disposal of intangible assets and property, plant and equipment	37,238	29,933
Cash receipts from disposal of long-term investments	0	0
Cash receipts from disposal of short-term investments	41,500	0
	106,813	**30,016**
Cash payments from investing activities		
Cash payments to acquire intangible assets	-96,007	-5,740
Cash payments to acquire property, plant and equipment	-2,019,384	-1,858,086
Cash payments to acquire long-term investments	0	0
Cash payments to acquire short-term investments	0	0
	-2,115,391	**-1,863,826**
Net cash used in financing activities (a + b)	**-2,008,577**	**-1,833,811**
Cash flows from financing activities		
Cash receipts from financing activities		
Cash proceeds from paid-in capital	0	0
Cash proceeds from increase in long-term financial liabilities	303,400	3,311,715
Cash proceeds from increase in short-term financial liabilities	61,648	22,123
	365,048	**3,333,838**

(in EUR)

	2014	2013 (adjusted)
Cash disbursements from financing activities		
Interest paid on financing activities	-2,421,162	-1,062,688
Cash repayments of long-term financial liabilities	0	-891,531
Cash repayments of short-term financial liabilities	-2,359,266	-25,000
	-4,780,428	**-1,979,219**
Net cash used in financial activities	**-4,415,380**	**1,354,619**
Closing balance of cash	**437,836**	**195,132**
Net cash inflow or outflow for the period	**242,704**	**–182,949**
Opening balance of cash	**195,132**	**378,082**

6. STATEMENT OF CHANGES IN EQUITY

FINANCIAL YEAR 2014

(in EUR)

		Share capital	Capital surplus	Revaluation surplus	Retained loss	Net profit or loss of the period	Total
A.1.	**Opening balance of the previous period**	**6,069,276**	**7,156**	**6,678,022**	**-12,356,568**	**0**	**397,886**
A.2.	**Opening balance of the period**	**6,069,276**	**7,156**	**6,678,022**	**-12,356,568**	**0**	**397,886**
B.1.	**Changes within equity – transactions with owners**	**0**	**0**	**0**	**0**	**0**	**0**
B.2.	**Total comprehensive income of the period**	**0**	**0**	**-197,606**	**0**	**4,102,031**	**3,904,425**
a)	Net profit or loss for the period	0	0	0	0	4,102,031	4,102,031
c)	Change in revaluation surplus on properties	0	0	197,606	0	0	-197,606
d)	Change in revaluation surplus on investments	0	0	0	0	0	0
B.3.	**Changes in equity**	**0**	**0**	**0**	**4,102,031**	**-4,102,031**	**0**
a)	Allocation of the remaining portion of net profit of the comparative period to other equity components	0	0	0	0	0	0
b)	Allocation of net profit for the period to other equity components pursuant to the decision of management and supervisory bodies	0	0	0	4,102,031	-4,102,031	0
d)	Settlement of loss as a deduction component of equity	0	0	0	0	0	0
f)	Other changes in equity	0	0	0	0	0	0
C.	**Closing balance of the period**	**6,069,276**	**7,156**	**6,480,416**	**-8,254,537**	**0**	**4,302,311**

FINANCIAL YEAR 2013 (adjusted)

(in EUR)

		Share capital	Capital surplus	Revaluation surplus	Retained loss	Net profit or loss of the period	Total
A.1.	**Opening balance of the previous period**	**6,069,276**	**4,821,497**	**7,030,451**	**-18,363,977**	**-2,513,801**	**-2,956,553**
A.2.	**Opening balance of the period**	**6,069,276**	**4,821,497**	**7,030,451**	**-18,363,977**	**-2,513,801**	**-2,956,553**
B.1.	**Changes within equity – transactions with owners**	**0**	**0**	**0**	**0**	**0**	**0**
B.2.	**Total comprehensive income of the period**	**0**	**0**	**-352,429**	**0**	**3,706,869**	**3,354,440**
a)	Net profit or loss for the period	0	0	0	0	3,706,869	3,706,869
c)	Change in revaluation surplus on properties	0	0	-209,791	0	0	-209,791
d)	Change in revaluation surplus on investments	0	0	-142,638	0	0	-142,638
B.3.	**Changes in equity**	**0**	**-4,814,341**	**0**	**6,007,409**	**-1,193,068**	**0**
a)	Allocation of the remaining portion of net profit of the comparative period to other equity components	0	0	0	-2,513,801	2,513,801	0
b)	Allocation of net profit for the period to other equity components pursuant to the decision of management and supervisory bodies	0	0	0	3,706,869	–3,706,869	0
d)	Settlement of loss as a deduction component of equity	0	–4,814,341	0	4,814,341	0	0
f)	Other changes in equity	0	0	0	0	0	0
C.	**Closing balance of the period**	**6,069,276**	**7,156**	**6,678,022**	**-12,356,568**	**0**	**397,886**

APPENDIX 1 TO THE STATEMENT OF CHANGES IN EQUITY

STATEMENT OF ACCUMULATED PROFIT OR LOSS

(in EUR)

	2014	**2013 (adjusted)**
NET PROFIT OR LOSS OF THE PERIOD	4,102,031	3,706,869
RETAINED EARNINGS OR LOSSES (NET)	-12,356,568	-16,063,436
DECREASE (REVERSAL) OF CAPITAL SURPLUS	0	0
DECREASE (REVERSAL) OF REVENUE RESERVES	0	0
a) Legal reserves	0	0
b) Reserves for own shares	0	0
c) Other revenue reserves	0	0
INCREASE IN REVENUE RESERVES PURSUANT TO DECISION ADOPTED BY MANAGEMENT	0	0
a) Legal reserves	0	0
b) Reserves for own shares	0	0
c) Statutory reserves	0	0
INCREASE IN REVENUE RESERVES PURSUANT TO DECISION ADOPTED BY THE MANAGEMENT AND SUPERVISORY BOARD	0	0
a) Other revenue reserves	0	0
ACCUMULATED PROFIT (LOSS) AND ITS ALLOCATION	**-8,254,537**	**–-12,356,568**
a) to shareholders	0	0
b) to other reserves	0	0
c) brought forward to the next year	**-8,254,537**	**-12,356,568**
d) other purposes (increase in share capital)	0	0

7. NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements of the company Livar, d.d. (hereinafter referred to as 'Livar' or 'Company') are in accordance with the Slovene Accounting Standards (SAS).

GENERAL DISCLOSURES

General disclosures (company and its registered office, activity, employees, names of Management and Supervisory Board members) and all risks are presented in the management report.

ACCOUNTING POLICIES

BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

The financial statements and the notes thereto are prepared on the basis of Slovene Accounting Standards, which came into force on 1 January 2006. When valuing items where the standards provide different methods of valuation, the Company used the policies described below. The accounting also takes into consideration all changes brought by the amended and changed SAS in 2010.
When compiling the financial statements, general rules were taken into account regarding the itemisation of the balance sheet, the income statement, the statement of other comprehensive income and valuation of items in the financial statements, the content of the appendices to the statements and requirements regarding the management report, which provides for a true and fair view of Company's operations in the annual report. Further, the preparation of financial statements took into account the fundamental accounting assumptions i.e. accrual and going concern.

The qualitative characteristics of financial statements, and thus the entire accounting, are primarily understandability, relevance, reliability, and comparability.

Financial statements are presented in euro (EUR), exclusive of cents.
The balance sheet includes only those assets and liabilities that apply to Company's business operations.
The financial statements were addressed and approved for release by Company's Board of Directors on 21 April 2015.

CORRECTION OF MATERIAL ERRORS FROM PREVIOUS PERIODS

In 2014, the Company eliminated a material error in the financial statements that applied to disclosing long-term investments and long-term operating receivables in past balance sheets. The correction of the material error was made retrospectively by re-calculating amounts for the comparative period (the 2013 fiscal year), disclosed in financial statements for past periods, so as to make the material error virtually non-existent. The reasons behind such accounting are given below.

During investments made in the equity interest of Jelšingrad Livar, a.d., Livar, d.d. did not manage to register (in the period from 2006 to 2009) due to legal reasons the additional equity interest of EUR 5.9 M relating to non-cash contributions made in form of fixed assets; these reasons were judged by legal experts to be controversial and thus Livar's interests needed legal protection. During investment activities (in 2009), long-term operating receivables were set up for this part due from the respective company, all with final maturity and re-payment in

instalments by 2024. The financial statements of Livar, d.d., all up to the end of the 2013, disclosed these receivables within long-term operating receivables. In 2014, Livar, d.d. received a legal opinions on the basis of which this kind of status was presented as inadequate with respect to the local legislation. Consequently, the contractual bases which resulted in the accounting of long-term operating receivables, were annulled. The balance of investments, once again transferred among long-term investments, was in turn recognised as vague or uncertain. Because of this uncertainty, there is a risk that Livar, d.d. would not be able to achieve formal registration of the additional equity interest in Livar Jelšingrad, a.d. when it comes to these already performed investments into Livar Jelšingrad, a.d. Accordingly, its future benefits from the already carried out investments would quite probably be lower than the book value of the reported investments.

When preparing the financial statements for the fiscal year 2014, Livar's position on the matter was that the 2014 established fact about the non-compliance of investments with the local legislation of Republika Srpska showed a false interpretation about the status of additional investments made into Jelšingrad Livar, a.d. in the scope of past financial statements. At the same time, the false interpretation also led to an inadequate valuation of long-term investments into the equity interest of Jelšingrad Livar, a.d, as shown in the past financial statements. By taking into account the correct interpretation of the content of the investments, Livar, d.d. would have demanded from the said company that it take into account more uncertainty when it comes to the possibility of their conversion into an additional equity interest in Jelšingrad Livar, a.d. This uncertainty would lead to additional investment impairment, as shown in the context of long-term investments. In 2014, Livar, d.d. recognised this important uncertainty in its financial statements by carrying out a revaluation of long-term investments due to impairment. Because of the presented matter, it was registered as a correction of material errors from past periods. The impairment of long-term investments into Jelšingrad Livar, a.d was carried out in the amount of EUR 3,515 T, representing the maximum exposure of Livar, d.d. thereunder, based on the assessments of the fair value of the investment carried out by a certified appraiser on 31 December 2014.

Together with this error, Livar, d.d. took the same action to correct the error relating to the surplus amount of disclosed negative effects after the liabilities assumed by Livar, d.d. in accordance with the futures contract on the purchase of the additional 25% equity interest in the associate Jelšingrad Livar, a.d. concluded with Exoterm Holding, d.d. (EUR 342 T of accrued costs and deferred revenue formed in excess in 2013). The presented error had the exact same origin as the above mentioned one, only it had the opposite effects.

Elimination of the material error from previous periods and its impact on the balance sheet:

(in EUR)

	1 Jan 2013	**1 Jan 2013 (adjusted)**
Long-term investments	1,412,876	3,844,400
Long-term operating receivables	5,946,524	0
Equity	558,447	-2,956,553
Retained earnings or losses	-17,362,778	-20,877,778
	31 Dec 2013	**31 Dec 2013 (adjusted)**
Long-term investments	1,249,876	3,681,400
Long-term operating receivables	5,946,524	0
Equity	3,599,643	397,886
Retained earnings or losses	-9,154,810	-12,356,568
Short-term operating liabilities	9,570,751	9,599,850
Short-term accrued costs and deferred revenue	1,502,545	1,160,203

Elimination of the material error from previous periods and its impact on the income statement:

(in EUR)

	1 Jan 2013	31 Dec 2013 (adjusted)
Financial expenses for financial liabilities	1,496,706	1,154,364
Income tax	113,823	142,922
Net profit or loss of the period	3,393,626	3,706,869

Elimination of the material error additionally impacted also the presentation of comparative data in the statement of comprehensive income, in the statement of changes in equity, and in the cash flow statement.

SUMMARY OF FUNDAMENTAL ACCOUNTING POLICIES

LONG-TERM ASSETS

Intangible assets and long-term accruals and deferrals

An item of intangible asset (IA) is an identifiable non-monetary asset that, usually without physical substance, appears as an intangible long-term asset and is classified as an asset with finite useful lives and those with indefinite useful lives. The Company does not record any assets with indefinite useful lives.
Intangible assets include:

- long-term deferred costs and accrued revenue, and deferred development costs,
- investments into acquired long-term property rights (patents, trademarks, licenses and other rights, the goodwill of a acquired company),
- advances made for intangible assets, which are shown in the balance sheet in connection with intangible assets and are accounted as receivables.

Upon initial recognition, an intangible asset is valued at cost, comprising its purchase price, import duties and other non-refundable purchase taxes, and directly attributable costs of acquisition, as well as all directly attributable costs of preparing the asset for its intended use.

The amortisation rates for software licenses amount to 10-25% p.a. and are amortised in the useful life period. Accumulated amortisation is charged against amortisation expense.
The revaluation of intangible assets is the change to their book value or carrying amount. Intangible assets are not subject to revaluation due to their increase in value. However, their carrying amount may decrease on the basis of impairment. Impairment loss is disclosed as revaluation operating expense relating to intangible assets.

Property, plant and equipment

Property, plant and equipment (PPA) are recognised in accounting records or in the balance sheet, if it is assumed that economic benefits will flow from them and their purchase cost can be measured reliably.

PPE include land, buildings, manufacturing plant and other equipment. Company's item of property, plant and equipment includes also equipment under finance lase, depreciated according to rates applied with Company's similar equipment. After the contractual lease comes to an end, the ownership is transferred to the borrower.

- **Land and buildings**

When valuing land and buildings, the Company uses the **revaluation model**. Revaluation is the change in the primarily reported value of economic categories or is every re-revaluation performed on the basis of valuation reports. The appraiser uses the sales model when assessing the fair value of land, while the assessment of the value of buildings uses the cost model.

The surplus generated on revaluation of land and buildings, as a component of equity, is transferred to retained earnings or losses when the land or the buildings are derecognised. Once the asset is eliminated from use or disposed, the total surplus is transferred.

- **Manufacturing plant and other equipment**

The Company uses the cost model and thus carries the manufacturing plant and other equipment at their cost, less accumulated depreciation and accumulated loss on impairment. Property, plant and equipment are depreciated based on their useful life. Value adjustments or accumulated depreciation is charged against depreciation expense.

Cost of an item of property, plant and equipment includes the purchase price and all costs that can directly be attributed to the fixed asset. Subsequent costs that enable higher future benefits compared with prior estimates, increase the purchase price. Costs that enable an extension of the asset's useful life decrease the accumulated depreciation.

Property, plant and equipment purchased in a foreign currency are translated into the local currency using the reference rate of the Bank of Slovenia valid as at the date of accrual. All subsequent exchange differences that arise upon the settlement of liabilities are treated as financial revenue or expenses.

Advances for fixed assets are valued at par value.

Property, plant and equipment are no longer the subject of bookkeeping once they are disposed or eliminated as no related benefits can be expected.

Depreciation and amortisation expense

The carrying amount of an item of property, plant and equipment or an intangible asset is reduced through depreciation or amortisation, respectively. The start of amortisation/depreciation is on the first day of the next month when the asset is available for use. Land, advances for fixed assets and assets in course of construction or manufacture are not subject to amortisation/depreciation.

Amortisation/depreciation is calculated according to rates that are determined individually (separately) based on the anticipated useful life of an individual item of asset using the straight-line method.

By switching to a new valuation model applied with land and buildings, we were able to re-calculate the amortisation/depreciation on the remaining useful life of individual fixed assets.

In addition to assessing the useful lives of buildings in cooperation with a certified appraiser, the Company also conducted a valuation of fair values in 2014. The appraiser established that no important changes in the useful lives of property, plant and equipment have occurred in 2014.

When calculating amortisation/depreciation, following rates are taken into account:

	(in %)
Intangible assets	10% - 25%
Investments in foreign fixed assets	10% - 20%
Buildings	1.43% - 10%
Equipment for conducting the core activity	2% - 33%
Other equipment	7% - 25%
Computer hardware	33% - 50%
Transport equipment	12.5% - 25%

Investments

Investments are part of financial instruments of an entity and represent financial assets held by the investor entity for the purpose of increasing its financial revenue through returns from investments; financial revenue differs from operating revenue which derives from the sale of products and provision of services within the scope of the entity's regular operation.

Investments are predominantly investments in the equity of a subsidiary or an associate, as well as in financial liabilities of other entities (investments in loans), and other financial assets.

Investments in equity of subsidiaries, associates and other investments are categorised as held for sale and disclosed at fair value. The fair value is assessed based on the valuation report of the certified appraiser, who is registered in the relevant register at the Slovene Institute of Auditors. The fair value of investments is determined as the present value of future returns using the discounted cash flow method.

Shares in profit received increase financial revenue.

The revaluation of investments is the change to their carrying amount. It usually appears as revaluation of investments to their fair value, as revaluation of investments due to their impairment or as revaluation of investments due to the elimination of their impairment. At each balance sheet date, the Company assesses whether there is objective evidence of possible impairment to financial assets. If such evidence exists, the investment is revalued due to impairment.
The Company discloses long-term and short-term investments separately.

Portion of long-term investments in loans that falls due within one year after the balance sheet date is recorded as a short–term investment.

Long-term and short-term investments denominated in foreign currencies are translated into the local currency at the exchange rate valid on the date of accrual. Exchange rate differences that occur after the balance sheet date are considered as financial revenue or as financial expenses in connection with long-term and short-term investments.

Given the appraisal report, the Company revalued in 2014 the long-term investment in the equity interest of the company Livnica Jelšingrad Livar, a. d. by using the method of present value of free cash flows and taking into account also the "statically" defined value of underperforming or non-operating assets.

CURRENT ASSETS

Inventories

The Company monitors inventories in subsidiary records and in the general ledger, harmonising their balance on a monthly basis after completion of all material and commodity accounts. SAS 4 is observed during their disclosure.

Inventories monitored by the Company, include raw materials, material and auxiliary materials, spare parts for routine maintenance, and small tools with a useful life of up to one year. The Company also monitors inventories of work in progress, semi-finished products, products and merchandise.

Inventories of material and merchandise are measured at purchase prices consisting of the cost of purchase, import and non-refundable purchase taxes and direct acquisition costs. In the process of reporting, the Company uses the standard price with variances. The consumption of inventories is valued at weighted average prices.

Inventories of work in progress, semi-finished products and products are valued at production cost, whereby the quantity unit of the product and semi-finished product is assessed by using direct costs of materials, direct labour costs, direct cost of amortisation or depreciation, and direct costs of services. The part of costs incurred in productive cost centres and which are by their content indirect production costs, are transferred to the cost unit using a key i.e. to the product or semi-finished product.

When disclosing inventories of work in progress, semi-finished products and products, the Company uses the standard price with variances.

Inventories are revalued due to impairment if their carrying amount exceeds their net realisable value. The amount of impairment is recognised as an increase in revaluation operating expenses related to current operating assets. It is vital that we take into account their movement or obsolescence.

Decrease in the value of inventories of raw materials, material and small tools is recorded as an increase in costs of material or as increase in operating expenses in case of a decrease in the value of product and merchandise inventories.

Normal and excess waste and deficits incurred by the Company are recorded as a decrease in inventories and as an increase in operating expenses.

The amount of normal loss is defined by a decision of the management and harmonised with the published regulations in the Official Journal of the Republic of Slovenia no. 101/1999.

Receivables

The majority of trade receivables consists of receivables arising from sold products, merchandise, material and services. All receivables are initially recognised in the amounts arising from the relevant documents under the assumption that they will be paid. Initial receivables may be subsequently increased or, with respect to payment or any other settlement, decreased by any amount concluded with an agreement.

They are classified as long-term and short-term operating receivables. Receivables due from foreign operations or companies are translated into the local currency using the reference rate of the Bank of Slovenia with effects increasing financial revenue or expenses. Interest is calculated on the basis of contracts and increases financial revenue.

Receivables for which it is assumed that they will not be settled in due time or in full are classified as bad and doubtful receivables.

While forming allowances for receivables, the Company took into account an individual assessment of the recoverability of individual receivables and the limitation periods of individual receivables.
The creation of allowances is founded primarily on experience from previous years relating to repayment of receivables. Commercial contracts entered into by the Company were taken into account as well. An expert evaluation and the opinion of the commercial department was used as the basis for reasonably formed allowances or adjustments.

Write-downs and value adjustments of receivables refer to revaluation operating expenses arising on current operating assets.

Cash

The item of cash consists of ready cash, deposit money and cash in transit. Ready cash is cash on hand in the form of bank notes and coins. Deposit money is cash in bank accounts or deposited with another financial institution to be used for payments. Cash in transit is the cash being transferred from a cash register to a relevant account in a bank or another financial institution, and is not credited to that account on the same day. Cash is initially recognised in the amounts arising from the relevant documents under the assumption that it has such a nature. Assets in foreign currencies are translated at the reference exchange rate of the Bank of Slovenia on the balance sheet day, while exchange differences are recorded under financial revenue and expenses.

Equity

Equity reflects the equity financing of an entity and is the entity's liability to owners. It is determined by both the amounts invested by owners and the amounts generated in the course of operation.

Total equity consists of called-up capital, capital surplus, revenue reserves, retained earnings or retained net loss, revaluation surplus and temporarily undistributed net profit or unsettled net loss for the financial year. The share capital is recorded in the local currency.

The revaluation of equity is the change in its carrying amount resulting from revaluation of assets. Accounting of new payments, pay-outs and amounts from current net profit or net loss is not considered as a revaluation. It is performed during or at the end of the financial year.
Revaluation surplus results from the increase in the carrying amount of property, plant and equipment, intangible assets, and long-term and short-term investments in accordance with the revaluation model used; it shall be separately presented in terms of accrual. It enables the entity to balance any subsequent decreases in the carrying amount or impairment of the same economic categories.

Long-term provisions

The value of long-term provisions represents the value of the expenditure required to settle long-term liabilities recorded on the balance sheet date with respect to risks and uncertainties.

Long-term provisions for accrued costs or expenses are reduced directly by the costs or expenses for which they were created.

Long-term provisions at the expense of deferred revenue are transferred to operating revenue for the financial year in which the costs or expenses occurred.

The purpose of provisions is to accumulate in the form of accrued costs or expenses the amounts, what will in the future be available to cover the then incurred costs or expenses. Such provisions include for example provisions for jubilee benefits and retirement benefits. The Company verifies on an annual basis the amount of provisions formed and makes proper adjustments with respect to calculations.
The carrying amount of provisions equals their initial value less amounts used, until the need for their increase or decrease arises.
Provisions are not revalued and are at the end of the accounting period adjusted to the amount equalling the present value of expenditure that is expected to be required to settle the obligation.

Provisions are formed when the liability can be measured reliably. At the end of the fiscal year, they should not be displayed with the amount that would have been an unfounded hidden reserve.
In accordance with legal regulations, the collective agreement and its in-house rules, the Company is obliged to pay jubilee benefits and termination benefits to employees upon their retirement, for which provisions are formed. Other pension liabilities do not exist. Provisions are formed in the amount of the estimated future payments for retirement benefits and jubilee benefits, discounted as at the balance sheet date. The calculation is performed for each employee in order to take into account the cost of retirement benefits and the cost of all expected jubilee benefits until retirement. The calculation uses the projected unit method and is prepared by a certified actuary. The value of long-term provisions includes the present value of the expenditure required to settle long-term liabilities recorded at the balance sheet date with respect to risks and uncertainties.

The Company calculates provisions for jubilee benefits and retirement benefits every 3 years or more frequently if assumptions used in the calculation significantly change or if the number of employees or their age structure materially changes.

The last calculation made at the end of 2013 used following actuarial assumptions:

- a discount rate of 4.89%;
- expected growth of wages in the country of 0.5% p.a.;
- employee turnover is estimated by age classes based on the current fluctuation, realistic expectations for the future and experience about fluctuations in the Republic of Slovenia;
- employee mortality is estimated using mortality tables of the Slovenian population between 2000-2002, separately by gender;
- growth of wages in the country of 0.5% p.a.

LIABILITIES

Short-term and long-term liabilities

Liabilities are initially recognised at the amounts arising from the relevant documents which evidence the receipt of cash or the settlement of an operating liability; in case of long-term operating liability the receipt of property, plant and equipment, while in case of short-term operating liabilities the relevant document evidences the receipt of a product or service, the work performed or costs accrued, an expense or a share in profit or loss.

Financial and operating liabilities

Liabilities are classified either as financial or operating liabilities.

Short-term financial liabilities are short-term loans raised on the basis of loan agreements and are broken down into those that the entity receives from banks or other financial institutions, and those where the entity is

provided funds by another company or individual. Liabilities are classified also with respect to whether they refer to related entities or other entities.

Short-term operating liabilities are short-term supplier loans for goods or services purchased, short-term liabilities to employees for their work, short-term liabilities to financiers relating to interest and similar items, and short-term liabilities to the state arising from taxes, including the value added tax (VAT). A special type are also liabilities to customers for advances and short-term securities received.

Long-term financial liabilities are long-term loans based on loan agreements and long-term debt securities issued. A sub-type of long-term loans are liabilities to landlords in the event of a finance lease.

Long-term operating liabilities are long-term supplier loans for goods or services purchased. A sub-type of long-term operating liabilities are liabilities to customers from long-term securities.

Liabilities may subsequently be increased by the amount of accrued benefits (interest or other compensations), if an agreement has been made to that effect with the creditor. Liabilities may be decreased by paid amounts or by other forms of settlement approved by the creditor. Long-term liabilities are decreased also for the part that shall be settled in less than a year, which is disclosed among short-term liabilities.

Short-term and long-term liabilities expressed in a foreign currency are translated into local currency at the reference exchange rate of the Bank of Slovenia applicable as at the balance sheet date. The increase in short-term liabilities increases regular financial expenses, while a decrease increases regular financial revenue.

Short-term accruals and deferrals

The item of short-term accruals and deferrals comprises receivables, other assets and liabilities that are expected to arise within a year and whose accrual is probable, whereas their size can be measured reliably.
Short-term accruals and deferrals may include:

Deferred costs and accrued revenue are construed as receivables in a broader sense, since they do not only refer to cash or things. They include short-term deferred costs that are defined as pre-paid amounts that have not yet been classified as a cost when the payment was made and charged against profit or loss.

Accrued costs and deferred revenue are considered liabilities in a broader sense, since they differ from equity as a liability to entity's owners. They comprise short-term deferred revenue and accrued expenses and arise from charging the expected and not yet incurred costs against an entity's activities or its profit or loss, or inventories, on a straight line basis.

Short-term accruals and deferrals are not revalued. During the compilation of the financial statements, their realistic need is verified and substantiated.

RECOGNITION OF REVENUE

Revenue

Revenue is inflow of economic benefits during the accounting period in the form of enhancements of assets (i.e. cash or receivables arising from goods sold) or decreases in liabilities (i.e. resulting from abandonment of their settlement); through their effect on profit or loss such inflows result in increases in equity. Revenue shall be classified into operating revenue, financial revenue and other revenue. Operating revenue and financial revenue are considered to be ordinary revenue.

Sales revenue comprises revenue generated during the accounting period by sales of products, merchandise, materials and services on the domestic and foreign market. They are actually recognised when the goods leave the warehouse and the corresponding documents are registered. They are measured on the basis of selling prices stated in invoices or other documents, reduced by the amount of discounts approved upon sale or subsequently, including early payment. Possible approved discounts reduce the sales revenue and are not recognised as financial expenses. In principle, they are recorded according to the invoiced realisation. Sales revenue shall be recognised when all the following conditions have been satisfied:

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

If there is any uncertainty, the revenue is temporarily deferred and recognised when doubts no longer exist. For consignment sales where the consignee undertakes to sell the goods on behalf of the transferors, revenue is recognised when goods are sold.

Revenue from services rendered are measured at selling prices of completed services or selling prices of uncompleted services, depending on the degree of completion (there must not be any doubts as to the completion or doubts about whether the service will be paid or not).

Revenue from services rendered, other than services from which financial revenue is earned, shall be measured at the selling prices of services completed, or at the selling prices of uncompleted services with respect to the stage of their completions.

Operating revenue comprise also other operating revenue together with revaluation operating revenue which are associates with products and services as well. The item herein includes subsidies, grants, allowances, compensations, premiums and similar revenue that are otherwise disclosed in the account. This also includes revenue from reversal of provisions and income from business mergers.
Revaluation operating revenue includes gains from the sale of property, plant and equipment, decreases in allowances for operating receivables arising upon eliminating their impairment, and write-offs of operating liabilities.
The item of financial revenue includes:

- Financial revenue from shares and interests in Group companies and other entities, and financial revenue from other investments. Revaluation financial revenue includes primarily positive differences arising from the sale of shares and interests when their sales value exceeds the carrying amount, less possible revaluation surplus if the revaluation was previously recognised in equity.
- Financial revenue from loans to Group companies or other entities. These loans are investments in debts of other companies. The balance sheet separately discloses long-term and short-term loans, while financial revenue from both are disclosed together in the income statement. Interest is accounted based on the contractually defined interest rate.
- Financial revenue from operating receivables due from Group companies or other entities comprises interest and exchange gains that arise from both long-term and short-term operating receivables. Interest is accounted at the contractually defined interest rate, whereby an entity normally charges default interest due to the late payment of receivables.

The item of other revenue comprises unusual items that during the respective fiscal year have nothing in common with ordinary operations. Other revenue includes financial revenue from valuation of investment property at fair value, grants, subsidies not connected to the quantities sold or costs determined, compensations and penalties received, and others. Other operating revenue increases profit or loss of an entity during the financial period.

RECOGNITION OF EXPENSES

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of decreases in assets (i.e. arising on a sale of inventories) or increases in liabilities (i.e. arising from accrued interest). They have an impact on profit or loss through equity.
Expenses shall be classified into operating, financial and other expenses. Operating and financial expenses are considered as regular expenses.

Operating expenses are in principle equal to the calculated cost of the accounting period, increased by the cost held in the opening inventories of products and work in progress, and reduced by the cost held in the closing inventories of products and work in progress. The latter includes also purchase costs of goods and material sold.
Operating expenses shall by function be classified as production costs of goods sold, and in trading companies as cost of goods sold plus purchasing and selling overheads, direct selling costs, and indirect administrative overheads.

Revaluation operating expenses comprise the negative difference between the net sales value and the book value of intangible assets and property, plant and equipment sold. The impairment loss on intangible assets, property, plant and equipment, impairment of raw materials inventories, material, small tools, products and work in progress is treated in the same way. The impairment of receivables is also included in these expenses.

Financial expenses include:

- Financial expenses for financial liabilities arising from borrowings from Group companies, from banks and from other entities. They disclose interest expenses and exchange losses from short-term and long-term financial liabilities. Liabilities of debts bear interest according to contractually agreed interest rates and do not significantly differ from effective interest rates; they are measured according to the initial value and decreased by any payments. Exchange losses relating to liabilities expressed in a foreign currency are established on the balance sheet date on the basis of then valid exchange rate.
- Financial expenses for operating liabilities to Group companies and other entities, and financial expenses for other operating liabilities. This item comprises also interest expenses and exchange losses arising from short-term and long-term operating liabilities. Financial expenses include also interest charged due to late payment of trade payables.
- Financial expenses due to impairment and write-off of investments.

Other expenses comprise expenses related to investment property, which include the amortisation of investment property as well related as impairments. Other expenses include fines and compensation as well as other unusual items.

Foreign currency transactions

Assets and sources denominated in foreign currencies are in the balance sheet as at 31 December 2014 translated by applying the reference exchange rate of Bank of Slovenia. Exchange gains and exchange losses are recognised in the income statement.

Income tax

Income tax is calculated based on revenue and expenses as disclosed in the income statement and pursuant to the applicable tax legislation.

Deferred tax liabilities

Deferred tax liabilities are recognised by amounts of tax on profits that an entity will have to additionally pay in future tax periods and are the result of taxable temporary differences. These are amounts that are to be added in determining the taxable profit (tax loss) in future periods when the carrying amount of the asset will be recovered or the carrying value of the liability is settled. Deferred tax liabilities are not discounted.

Deferred tax assets

Deferred tax assets are recognised by amounts of tax on profits that will be returned in future periods and are the result of deductible temporary differences, the transfer of unused tax losses and unused tax credits into the next periods; therefore, these amounts are to be deducted while establishing taxable profit (tax loss) in the future periods when the carrying amount of the asset will be recovered or the carrying value of the liability is settled. Deferred tax assets are recognised only when it is probable that future taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be used. Deferred tax receivables are not discounted.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. In the preparation and presentation of financial statements, the Company does not disclose the segments because it deals with only one activity. The Company equally does not report geographical segments, because it does not keep adequate records that would allow this.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method on the basis of balance sheets as of 31 December 2014 and 31 December 2013, the income statement for 2014, and the additional data required for adjustment of inflows and outflows and corresponding breakdown of relevant items.

8. NOTES TO THE BALANCE SHEET

..... NOTE 1

INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUE

(in EUR)

	31 Dec 2014	31 Dec 2013
Concessions, patents, licences, trademarks and similar rights	174,020	86,759
Other long-term deferred costs and accrued revenue	0	0
Total	**174,020**	**86,759**

Movement of intangible assets (IA) in 2014:

(in EUR)

	Concessions, patents, licences, trademarks and similar rights	Long-term deferred expenses	Concessions, patents, licences, trademarks and similar rights being acquired	Total
COST OF PURCHASE				
Balance at 31 Dec 2013	**392,519**	**0**	**10,000**	**402,519**
Acquisitions	0	0	96,008	96,008
Disposals	0	0	0	0
Transfer from current investments	96,008	0	-96,008	0
Transfer among PPE	56,873	0	0	56,873
Balance at 31 Dec 2014	**545,400**	**0**	**10,000**	**555,400**
ACCUMULATED AMORTISATION				
Balance at 31 Dec 2013	**315,760**	**0**	**0**	**315,760**
Disposals	0	0	0	0
Amortisation	38,131	0	0	38,131
Transfer among PPE	27,489	0	0	27,489
Balance at 31 Dec 2014	**381,380**	**0**	**0**	**381,380**
Carrying amount at 31 Dec 2013	**76,759**	**0**	**10,000**	**86,759**
Carrying amount at 31 Dec 2014	**164,020**	**0**	**10,000**	**174,020**

In 2014, the value of intangible assets doubled compared with 2013. Investments into foreign fixed assets are recorded under property, plant and equipment.

Concessions, patents, licences, trademarks and similar rights (EUR 164,020) and assets being acquired (EUR 10,000) apply to computer software.

..... NOTE 2

PROPERTY, PLANT AND EQUIPMENT (PPE)

(in EUR)

	31 Dec 2014	31 Dec 2013
Land and buildings	12,108,080	12,210,003
a) land	5,547,537	5,547,480
b) buildings	6,560,543	6,662,523
Manufacturing plant and equipment	4,967,437	4,840,216
Property, plant and equipment being acquired	325,315	419,235
a) property, plant and equipment in course of construction	325,315	419,235
b) advances for acquiring property, plant and equipment	0	0
Total	**17,400,832**	**17,469,454**

Movement of property, plant and equipment in 2014:

(in EUR)

	Land	Buildings	Equipment and spare parts	Investments in foreign fixed assets	Property, plant and equipment in course of construction	Total
COST OF PURCHASE						
Balance at 31 Dec 2013	**5,547,480**	**6,662,523**	**28,632,977**	**126,877**	**419,235**	**41,389,091**
Transfer among PPE	0	46,056	-102,930	0	0	-56,873
Additions	0	0	0	0	2,018,420	2,018,420
Adjustment of the PPE register upon inventory-taking	0	0	13,698	0	0	13,698
Decrease / revaluation	0	-499,958	0	0	0	-499,958
Increase / revaluation	57	0	0	0	0	57
Transfer from current investments	0	351,922	1,760,418	0	-2,112,341	0
Disposal / decrease	0	0	-493,931	0	0	-493,931
Balance at 31 Dec 2014	**5,547,537**	**6,560,543**	**29,810,232**	**126,877**	**325,314**	**42,370,504**
ACCUMULATED DEPRECIATION						
Balance at 31 Dec 2013	**0**	**0**	**23,858,212**	**61,425**	**0**	**23,919,638**
Transfer among PPE	0	44,521	-72,010	0	0	-27,489
Adjustment of the PPE register upon inventory-taking	0	0	13,698	0	0	13,698
Disposal / decrease	0	0	-461,944	0	0	-461,944
Decrease / revaluation	0	-250,616	0	0	0	-250,616
Depreciation	0	206,095	1,548,603	21,688	0	1,776,385
Balance at 31 Dec 2014	**0**	**0**	**24,886,559**	**83,113**	**0**	**24,969,671**
Carrying amount at 31 Dec 2013	**5,547,480**	**6,662,523**	**4,774,764**	**65,452**	**419,235**	**17,469,454**
Carrying amount at 31 Dec 2014	**5,547,537**	**6,560,543**	**4,923,673**	**43,764**	**325,314**	**17,400,832**

Land and buildings were revalued to their fair value as at 31 December 2014 based on the valuation report compiled by a certified appraiser. If the Company would not have revalued its land and buildings, the carrying amount of land would as at 31 December 2014 be recorded in the amount of EUR 1,220,418, while the carrying amount of buildings at EUR 3,103,322.

In 2014, the Company capitalised equipment in the carrying amount of EUR 1,760,418 and invested EUR 351,922 into buildings.

Equipment that was capitalised and accounts for major amounts comprises following:

- purchase of the Koyama Standard 400-S grinding machine(EUR 174,380);
- purchase of clamping systems for machines (EUR 159,520);
- lighting renovation (EUR 154,201);
- restoration of the pavement and reconstruction of floors at the mechanical treatment site (EUR 123,510);
- purchase of the AQC washing machine (EUR 112,328);
- purchase of the vertical Pinnacle processing centre (EUR 88,310);
- restoration of a mixing machine (EUR 54,870);
- set-up of a warehouse (EUR 43,570);
- renovation of the assembly hall's roof (EUR 43,490).
- manufacture of a new crank conveyor on the BMD line (EUR 41,770).
- purchase of other equipment disclosed in smaller individual amounts.

The carrying amount of fixed assets acquired through finance lease amounted as at the balance sheet date to EUR 1,411,664. As at 31 December 2014, liabilities arising from the finance lease amounted to EUR 4,354,513. The difference between the carrying value of property, plant and equipment under finance lease and the value of related financial liabilities arises from rescheduled repayments of financial liabilities under the finance lease made in previous years.
Land (EUR 5,547,537) and buildings (EUR 6,560,543) are pledged as collateral for long-term and short-term borrowings raised.
As of 31 December 2014, the Company does not record any obligations to acquire property, plant and equipment.

.... NOTE 3

LONG-TERM INVESTMENTS

(in EUR)

	31 Dec 2014	**31 Dec 2013 (adjusted)**
1. Long-term investments, excluding loans	2,665,876	3,253,400
a) shares and interests in Group companies	0	30,000
b) shares and interests in associates	2,663,000	3,220,524
c) other long-term investments	2,876	2,876
2. Long-term loans	0	428,000
a) long-term loans to associates	0	428,000
b) long-term loans to other companies	0	0
Total	**2,665,876**	**3,681,400**

Movement of investments in 2014:

(in EUR)

	Interests in Group companies	Shares in associates at fair value	Other long-term investments	Long-term loans granted	Total
PURCHASE OR FAIR VALUE					
Balance at 31 Dec 2013	**722,217**	**3,220,524**	**332,971**	**428,000**	**4,703,712**
Increase	0	0	0	0	0
Transfer to short-term investments	0	0	0	-428,000	-428,000
Correction of book-keeping in previous years	0	379,000	0	0	379,000
Balance at 31 Dec 2014	**722,217**	**3,599,524**	**332,971**	**0**	**4,654,712**
VALUE ADJUSTMENT					
Balance at 31 Dec 2013	**-692,217**	**0**	**-330,095**	**0**	**-1,022,312**
Increase	-30,000	-557,524	0	0	-587,524
Decrease – sale	0	0	0	0	0
Correction of book-keeping in previous years	0	-379,000	0	0	-379,000
Balance at 31 Dec 2014	**-722,217**	**-936,524**	**-330,095**	**0**	**-1,988,836**
Balance at 31 Dec 2013	**30,000**	**3,220,524**	**2,876**	**428,000**	**3,681,400**
Balance at 31 Dec 2014	**0**	**2,663,000**	**2,876**	**0**	**2,665,876**

As required by the policy of valuating investments and their value, the Company impaired investments in the amount of EUR 557,524 (see Note 26) and thus affecting the operating result. Further, the Company impaired its investments in a subsidiary in the total amount of EUR 30,000. All additional clarifications are provided in the section 'Corrections of material errors from previous years'.

Shares and interests in Group companies include investments in four Slovenian companies with a 100 percent equity interest, and investments in the company Topola Livar MO – in bankruptcy, and the company Topola Livar a.d. – in liquidation.

(in EUR)

Subsidiary	Registered office	Country	Equity interest at 31 Dec 2014	Equity of subsidiary at 31 Dec 2014	Profit or loss in 2014
Topola Livar MO, d.o.o. – currently bankrupt.	Ul. Milana Blagojeviča 9, Topola	Serbia	97.95%	N/A	N/A
Topola Livar, a.d. – in liquidation.	Pilota Zorana Tomiča 23, Topola	Serbia	14.04%	N/A	N/A
Livar Belt, d.o.o.	Ulica Heroja Stariha 17, 8340 Črnomelj	Slovenia	100%	-56,430	-7,516
Livar FMO, d.o.o.	Ulica Heroja Stariha 17, 8340 Črnomelj	Slovenia	100%	-48,733	-6,787
Livar LNL, d.o.o.	Ljubljanska cesta 43, 1295 Ivančna Gorica	Slovenia	100%	-22,166	-32
Livar STORITVE, d.o.o. – currently bankrupt	Ljubljanska cesta 43, 1295 Ivančna Gorica	Slovenia	100%	N/A	N/A

In 2013, a bankruptcy request was filed for Livar storitve, d.o.o. The bankruptcy procedure started on 21 August 2013 and since then the Company no longer has access to the business books of Livar storitve, d.o.o.

Shares and interests in associates include a 43.03 percent share in the company Jelšingrad Livar, a.d. The investment worth EUR 2,663,000 is valued at fair value through equity and is pledged as collateral for the borrowing received (see Note 12). The fair value valuation was carried out by applying a model that is founded on the income approach. The respective valuations take account of the data on Company's business operations and assets, as well as analysis results on the macroeconomic environment and the line of business. When performing the calculation, the Company considered the environmental and activity-related factors of the required return rate of equity and debt, as well as the growth of free cash flow in the residual. Long-term loans granted in 2014 declined due to the changed maturity structure.

(in EUR)

Associate	Registered office	Country	Equity interest at 31 Dec 2014	Equity of associate at 31 Dec 2014	Profit or loss in 2014
Jelšingrad Livar, a.d.	Ul. Brače Podgornika 8, Banja Luka	Republika Srpska, Bosnia and Herzegovina	43.03%	EUR 15,299,867	EUR 2,257,339

..... NOTE 4

INVENTORIES

(in EUR)

	31 Dec 2014	31 Dec 2013
Material	1,375,228	1,108,275
Value adjustment of inventories of material	-154,819	-56,729
Small tools	15,596	12,293
Work in progress and semi-finished products	693,065	813,478
Products	2,385,878	2,184,328
Value adjustment of inventories of products	-73,697	-81,411
Merchandise	174	66
Total	**4,241,425**	**3,980,300**

As for the inventory structure, the share of raw materials and material account for 29%, work in progress 16%, and products and merchandise account for 55%. In 2014, inventories indicate an increase of 7% if compared to the year-end balance of 2013.

The annual inventory-taking did not reveal any inventory deficits or surpluses.
Inventories are not pledged as collateral for borrowings made or other liabilities.

..... NOTE 5

SHORT-TERM INVESTMENTS

- Short-term loans

(in EUR)

	31 Dec 2014	31 Dec 2013
Short-term loans	662,000	275,500
Total	**662,000**	**275,500**

In 2014, short-term investments increased by 140% compared to 2013, which is attributable to the changed maturity structure of the borrowing raised. Land owned by the Jelšingrad Livar, a.d. was mortgaged in 2013 in order to secure the borrowing,

Short-term investments include:

- a short-term loan granted to the associate Jelšingrad Livar, a.d. in the amount of EUR 460,000, which bears interest at 3-month EURIBOR + 7% p.a.;
- a short-term loan granted to the associate Jelšingrad Livar, a.d. in the amount of EUR 200,000, which bears a fixed interest rate of 6% p.a.;
- a short-term deposit worth EUR 2,000 granted to the customs administration.

..... NOTE 6

SHORT-TERM OPERATING RECEIVABLES

(in EUR)

	31 Dec 2014	31 Dec 2013
Short-term operating receivables due from subsidiaries and associates	65,900	67,600
Short-term trade receivables	10,317,642	9,443,462
Short-term operating receivables due from others	2,090,007	2,159,355
Total	**12,473,549**	**11,670,417**

Short-term operating receivables increased by 6% if compared to previous year's balance.

- Short-term operating receivables due from subsidiaries and associates

(in EUR)

	Gross value	Revaluation	Net value at 31 Dec 2014	Net value at 31 Dec 2013
Jelšingrad Livar, a.d.	65,900	0	65,900	67,600
Total	**65,900**	**0**	**65,900**	**67,600**

The Company formed no allowances for receivables due from subsidiaries and associates in 2013.

- Short-term trade receivables

(in EUR)

	Gross value	Allowances	Net value at 31 Dec 2014	Net value at 31 Dec 2013
Customers - Slovenia	2,937,956	126,508	2,811,448	1,777,275
Customers - abroad	9,422,772	1,916,578	7,506,194	7,666,187
Total	**12,360,728**	**2,043,086**	**10,317,642**	**9,443,462**

In 2014, EUR 79,195 of additional allowances were formed for trade receivables. Company's trade receivables are not secured.

Aging structure of trade receivables as at 31 December 2014:

(in EUR)

Maturity	Customers - Slovenia	Customers - abroad	Group companies	Total
Undue	2,052,214	5,742,095	0	7,794,309
Past due up to 30 days	694,649	1,257,193	0	1,951,842
Past due up to 60 days	51,661	236,424	0	288,085
Past due up to 90 days	3,938	109,529	0	113,467
Past due over 90 days	8,986	160,953	65,900	235,839
Total	**2,811,448**	**7,506,194**	**65,900**	**10,383,542**

Movement of allowances for receivables in 2014:

(in EUR)

	Subsidiaries and associates	Other customers	Total
Balance at 1 Jan 2014	**745,604**	**1,218,287**	**1,963,891**
Increase	0	79,196	79,196
Decrease	0	0	0
Balance at 31 Dec 2014	**745,604**	**1,297,483**	**2,043,087**

Short-term trade receivables amounting to EUR 2,581,414 are pledged to banks for borrowings received.

- Short-term operating receivables due from others

Short-term operating receivables due from others are recorded at EUR 2,090,007 and comprise:

- receivables due from the state and state institutions in the amount of EUR 114,663 (most of the relevant amount refers to VAT refund),
- receivables for advances made in the amount of EUR 814,676 and referring to an advance payment to the company Exoterm Holding, d.d.,
- receivables arising from the sale of receivables in the amount of EUR 383,718,
- receivables from consignment sales in the amount of EUR 369,083,
- claims of recourse relating to Topola Livar, a.d. and arising in connection with paying the principal amount and related interest based on a given guarantee in the amount of EUR 242,960,
- other receivables in the amount of EUR 164,907.

An impairment of 90% was carried out for the gross value of claims of recourse due from Topol Livar, a.d. in the amount of EUR 2,431,342.

..... NOTE 7

CASH

(in EUR)

	31 Dec 2014	31 Dec 2013
Cash in hand	1,242	2,338
bank balances	436,594	192,794
Total	**437,836**	**195,132**

Bank balances on domestic bank accounts amounted to EUR 298,538 and EUR 138,056 on foreign bank accounts.

..... NOTE 8

DEFERRED COSTS AND ACCRUED REVENUE

The item of deferred costs and accrued revenue comprises deferred costs and expenses.

(in EUR)

	31 Dec 2014	31 Dec 2013
Short-term deferred costs and accrued revenue	109,695	69,214
Total	**109,695**	**69,214**

..... NOTE 9

EQUITY

(in EUR)

	31 Dec 2014	31 Dec 2013 (adjusted)
Called-up capital	6,069,276	6,069,276
• share capital	6,069,276	6,069,276
Capital surplus	7,156	7,156
Revaluation surplus	6,480,416	6,678,021
Retained earnings or losses	-8,254,537	-12,356,568
Net profit or loss for the period	0	0
Total	**4,302,311**	**397,886**

Company's equity amounted to EUR 4,302,311 at 31 December 2014. The item of equity consists of 6,069,276 shares, whose book value amounted to EUR 0.71/share as at 31 December 2014. In accordance with the applicable legislation, the Company's management used the profit for 2014 to cover the loss from previous years.

The capital surplus refers to payments exceeding the par value of subscribed shares.

Movement of revaluation surplus in 2014:

(in EUR)

	Properties	Long-term investment in Jelšingrad	Deferred taxes	Total
Opening balance at 1 Jan 2014	**8,033,625**	**0**	**–1,355,603**	**6,678,021**
Revaluation	-249,285	0	51,679	-197, 605
Change in the tax rate	0	0	0	0
Closing balance at 31 Dec 2014	**7,784,340**	**0**	**–1,303,924**	**6,480,416**

Should equity be revalued or restated by using the cost-of-living index for 2014 (0.2 %), the net profit would amount to EUR 4,101,630.

..... NOTE 10

PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE

(in EUR)

	31 Dec 2014	31 Dec 2013
Provisions for onerous contracts	262,279	218,404
Provisions for jubilee benefits and termination benefits	337,233	362,943
Provisions for warranties given	1,113,813	1,485,084
Total	**1,713,325**	**2,066,431**

(in EUR)

	31 Dec 2014	31 Dec 2013
Provisions for onerous contracts	**262,279**	**218,404**
• ongoing lawsuits	262,279	218,404
Provisions for pensions, jubilee benefits and termination benefits	**337,233**	**362,943**
• provisions for jubilee benefits	110,399	128,236
• provisions for retirement benefits	226,834	234,707
Provisions for warranties given	**1,113,813**	**1,485,084**
• guarantee given to associate for the borrowing from a foreign bank	1,113,813	1,485,084
Total	**1,713,325**	**2,066,431**

Provisions and long-term accrued costs and deferred revenue declined by 17% in 2014.

(in EUR)

	Provisions for onerous contracts	Provisions for jubilee benefits	Provisions for retirement benefits	Provisions for warranties given	Other provisions	Total
Balance at 31 Dec 2013	**218,404**	**128,236**	**234,707**	**1,485,083**	**0**	**2,066,431**
Formation	100,404	0	0	0	0	100,404
Reversal	-30,911	-1,054	0	0	0	-31,965
Use	-25,618	-16,783	-7,874	0	0	-50,275
Transfer from/to the short-term portion	0	0	0	371,271	0	-371,271
Balance at 31 Dec 2014	**262,279**	**110,399**	**226,833**	**1,113,813**	**0**	**1,713,325**

Due to ongoing lawsuits worth EUR 262,279, provisions for onerous contracts include accrued costs under the lawsuits and refer to suppliers, former employees and others.

Given the accounting policies that an actuarial calculation is carried out on a 3-year basis (the last was conducted in 2013) if there is no or less significant change in circumstances, the Company performed accordingly no such calculation in 2014. The Company further assesses that in 2014 no material changes occurred with respect to assumptions used in the actuarial calculation, the number of employees and their aging structure, which would significantly impact the balance of disclosed provisions for jubilee benefits and retirement benefits as at 31 December 2014.

Provisions for warranties given include the guarantee provided to Topola Livar, a.d., which as the main debtor raised a borrowing from NLB, d. d. Provisions were formed on the basis of past experiences and the probability

that the guarantor will be obliged to settle the liabilities on behalf and in the name of the primary debtor. The adequate short-term portion of provisions in the amount of EUR 371,271 is recorded among accrued costs and deferred revenue.

..... NOTE 11

LONG-TERM FINANCIAL LIABILITIES

(in EUR)

	31 Dec 2014	31 Dec 2013
Long-term financial liabilities to banks	10,719,897	15,058,447
Long-term financial liabilities from bonds	0	0
Other long-term financial liabilities	3,534,970	4,377,947
Total	**14,254,866**	**19,436,394**

Long-term financial liabilities to banks:

(in EUR)

	31 Dec 2014	31 Dec 2013
Banks in Slovenia	10,719,897	15,009,366
Banks abroad	0	49,081
Total	**10,719,897**	**15,058,447**

Long-term liabilities to banks indicate a decline as at the balance sheet date if compared to the 2013 balance, which is primarily the result of the transfer to the short-term portion of bank borrowings.

The short-term portion of long-term borrowings from banks in the amount of EUR 5,896,857 is recorded under short-term liabilities to banks.

Long-term borrowings from banks are denominated (in EUR) and mostly subject to variable interest rates. Reference interest rates range from 1-month EURIBOR, 3-month EURIBOR to 6-month EURIBOR. The mark-ups amount from 4 to 6.2 p.p. per reference interest rate. In accordance with agreements valid as of 31 December 2014, the borrowings are due by 2020 and are collateralised with a mortgage on the Company's properties and/or through pledged trade receivables. All financial liabilities to banks mature within 5 years after the balance sheet date.

- Other long-term financial liabilities

Other long-term financial liabilities include:

- Company's liabilities arising on finance lease agreements that in view of currently valid annuity plans mature by 2020 and amount to EUR 3,534,970. Short-term maturity under the lease agreements is recorded at EUR 744,452 and is disclosed among short-term financial liabilities. Finance lease agreements bear interest at 3-month or 6-month EURIBOR and a mark-up from 4 to 7%.

..... NOTE 12

SHORT-TERM LIABILITIES

Short-term liabilities according to contractual provisions valid as at 31 December 2014 are outlined in tables below.

- Short-term Liabilities

(in EUR)

	31 Dec 2014	31 Dec 2013 (adjusted)
Short-term financial liabilities	8,705,946	5,521,603
Short-term operating liabilities	8,978,762	9,599,850
Total	**17,684,708**	**15,121,453**

- Short-term financial liabilities

(in EUR)

	31 Dec 2014	31 Dec 2013
Short-term financial liabilities to banks	6,585,938	4,126,573
Short-term financial liabilities from bonds	820,000	820,000
Other short-term financial liabilities	1,300,008	575,030
Total	**8,705,946**	**5,521,603**

- Short-term financial liabilities to banks

(in EUR)

	31 Dec 2014	31 Dec 2013
Banks in Slovenia	6,536,857	3,842,366
Banks abroad	49,081	284,207
Total	**6,585,938**	**4,126,573**

Short-term financial liabilities to banks include:

- the short-term portion of long-term borrowings from banks (EUR 5,896,857),
- a short-term borrowing from bank (EUR 640,000) that bears interest at 6% p.a. and is collateralised by trade receivables pledged,
- the short-term portion of a borrowing raised at a bank abroad (EUR 49,081).

- Short-term financial liabilities from bonds

In 2009, Company's management adopted a decision on issuing 340 subordinated registered bonds, each at the par value of EUR 10,000 and the maturity at 31 December 2014. The annual interest rate is 6%.

As of 31 December 2009, the company Mecum, d.o.o. (major shareholder in Livar at that time) issued a statement on acquiring 100 registered subordinated bonds in the total par value of EUR 1 M. Liabilities arising under these bonds were settled in part by means of offsetting receivables relating to a loan granted in 2011 and 2012. As at the balance sheet date, the respective liability amounted to EUR 820,000 and was not settled due to the onset of bankruptcy proceedings, the recognition of the creditor, and the lack of a call from the trustee in bankruptcy.

- Other short-term financial liabilities

As for other short-term financial liabilities, the Company discloses following:

- short-term liabilities relating to the short-term portion of finance lease agreements in the total amount of EUR 744,452,
- short-term liabilities arising from the short-term portion of the long-term borrowing from Exoterm Holding, d.d. (EUR 555,556). The borrowing bears interest at 6-month EURIBOR + 4.95% p.a. The last instalment is due for payment in 2015. The borrowing hereunder is collateralised by stocks of the associate (see Note 3).

- Short-term operating liabilities

(in EUR)

	31 Dec 2014	31 Dec 2013
Short-term operating liabilities to subsidiaries	2,508	286,454
Short-term trade payables to suppliers	6,744,232	6,054,562
Short-term operating liabilities from advances	29	3,729
Other short-term operating liabilities	2,231,993	3,255,104
Total	**8,978,762**	**9,599,850**

Company's short-term liabilities to associates were in 2014 settled at EUR 283,946. These liabilities include mostly costs of services that were charged to the parent company by its subsidiaries. The costs refer primarily to hired workforce that redeployed to subsidiaries in 2010 due to restructuring activities.
Short-term operating liabilities have dropped by 7% if compared to 2013.

Trade payables to domestic suppliers are recorded at EUR 4,659,850, whereas to foreign suppliers at EUR 2,084,382.
Other operating liabilities (EUR 2,231,933) include payables to employees for wages and salaries (EUR 1,028,788), payables to state institutions (EUR 510,385), interest payable for borrowings from banks and others (EUR 170,948), payables for interest charged by suppliers (EUR 85,767), liabilities to the company Pirex, d.o.o. (EUR 276,922), liabilities under lease agreements (EUR 75,091), and other liabilities totalling to EUR 95,340.

..... NOTE 13

ACCRUED COSTS AND DEFERRED REVENUE

- Short-term accrued costs and expenses

(in EUR)

	31 Dec 2014	31 Dec 2013 (adjusted)
Accrued bank interest	12,183	7,593
Accrued loss from forward contracts (purchase of shares)	394,000	0
Other accrued costs	824,102	671,840
Accrued costs of salary cuts in 2012	0	425,097
Accrued costs of interest on liabilities to subsidiaries	0	0
Other accrued costs and deferred revenue	11,852	55,673
Total	**1,242,137**	**1,160,203**

Accrued costs and deferred revenue in the amount of EUR 1,242,137 refer entirely to short-term accrued costs or expenses and indicate an increase of 7% if compared to the 2013 balance.

In 2014, the Company accounted EUR 394,000 of loss-related costs for the forward purchase of shares of Livar Jelšingrad, a.d. Other accrued costs include accrued costs for which the Company received an invoice in 2015 (EUR 136,364), the short-portion of accrued provisions for a guarantee given to the associate in connection with a borrowing from a bank abroad (EUR 464,089), accrued bonuses paid to employee (EUR 125,249), and accrued liabilities for bond-related interest (EUR 98,400).

Other accrued costs and deferred revenue (EUR 11,852) relate to accrued costs of complaints.

..... NOTE 14

OFF-BALANCE-SHEET ASSETS AND LIABILITIES

(in EUR)

	31 Dec 2014	**31 Dec 2013**
Undrawn credit lines at banks	0	0
Guarantees	0	0
Collaterals provided	175,322	206,262
Total	**175,322**	**206,262**

The off-balance-sheet records refer to the guarantee given to Topola Livar, a.d. for the borrowing raised. 90% of the loan's unpaid principal amounts is recorded among long-term provisions or accrued costs and deferred revenue, while the remaining 10% is disclosed among off-balance records.

No other contingent liabilities exist that have not been adequately disclosed in the Company's financial statements as at 31 December 2014.

9. NOTES TO THE INCOME STATEMENT

INCOME STATEMENT

In accordance with SAS 25, Company's income statement is presented in a report form and compiled according to Format I. An overview of costs by their function is presented below.

(in EUR)

	2014	2013
Cost of goods sold	491,343	373,918
Manufacturing costs of products sold	44,148,561	41,726,825
Selling expenses	1,812,764	1,633,257
General and administrative costs	3,168,614	2,823,819
Revaluation operating expenses	116,802	25,489
Total	**49,738,085**	**46,583,308**

..... NOTE 15

NET SALES

(in EUR)

	2014	2013
Sales revenue from products	55,315,309	49,961,126
Sales revenue from services	277,772	289,913
Sales revenue from goods	9,819	5,592
Sales revenue from material	72,846	141,580
Total	**55,675,746**	**50,398,211**

(in EUR)

	2014	2013
Sales revenue generated on the domestic market	11,674,638	10,812,110
• products and services	11,592,736	10,762,865
• goods and material	81,902	49,245
Sales revenue generated on foreign markets	44,001,108	39,586,101
• products and services	44,000,345	39,586,101
• goods and material	763	0
Total	**55,675,746**	**50,398,211**

Net sales recorded in 2014 show a growth of 10% with respect to the previous year's figures. Most of these net sales (79%) was generated on foreign markets.

..... NOTE 16

CHANGE IN INVENTORIES OF FINISHED PRODUCTS AND WORK IN PROGRESS

		(in EUR)
	2014	**2013**
Change in inventories of products and work in progress	88,959	227,604
Total	**88,959**	**227,604**

In 2014, inventories increased in the amount of EUR 88,959, which improves the operating result in view of the rules governing the presentation of the income statement.

..... NOTE 17

CAPITALISED OWN PRODUCTS AND OWN SERVICES

		(in EUR)
	2014	**2013**
Capitalised own products	205,735	400,292
Total	**205,735**	**400,292**

Capitalised own products in the amount of EUR 205,735 include the value of own products and services that are used to meet Company's requirements but primarily also the value of own investments carried out with own labour and funds.

..... NOTE 18

OTHER OPERATING REVENUE (WITH REVALUATION OPERATING REVENUE)

		(in EUR)
	2014	**2013**
Revenue from use and reversal of long-term provisions	82,240	239,062
Other revaluation operating revenue	188,056	173,705
Total	**270,296**	**412,767**

Revenue from the use and reversal of provisions includes provisions relating to onerous contracts, jubilee benefits and retirement benefits (see Note 11).

Other revaluation operating revenue in the amount of EUR 188,056 comprises:

- revenue from insurance compensations and bonuses (EUR 122,848),
- revenue from write-off of trade payables (EUR 16,349),
- gains on sale of property, plant and equipment (EUR 37,238),
- other revenue (EUR 11,621).

..... NOTE 19

COSTS OF GOODS, MATERIAL AND SERVICES

(in EUR)

	2014	2013
Purchase cost of goods and material sold	491,344	373,918
Costs of material	28,957,490	28,097,461
Costs of services	6,157,129	5,653,679
Total	**35,605,963**	**34,125,058**

Although costs were higher in 2014 over the 2013 period, the volume of production and sales activities has significantly increased as well. Costs of material have gone up by 2% if compared to 2013, whereas costs of services increased by 9%.

A detailed breakdown of individual type of costs of material and services is provided below

- Costs of material

(in EUR)

	2014	2013
Costs of material	23,476,874	22,614,997
Costs of auxiliary material	439,836	460,866
Energy costs	3,252,819	3,391,549
Costs of spare parts for fixed assets and material for fixed-asset maintenance	1,103,306	976,730
Write-off of small tools and packaging	642,798	603,949
Costs of office stationary and professional literature	26,428	25,014
Other costs of material	15,429	24,356
Total	**28,957,490**	**28,097,461**

- Costs of services

(in EUR)

	2014	2013
Production-related services	2,998,760	2,317,339
Transport services	757,051	748,483
Maintenance of property, plant and equipment	434,332	422,523
Rentals	336,011	276,268
Refund of work-related costs to employees	79,262	55,894
Payment transactions and banking services, insurance premiums	222,914	286,728
Intellectual performance and professional services	821,095	839,463
Fairs, advertising and entertainment	11,360	33,289
Costs of services rendered by individuals, who are not involved in any activity, including taxes charged to the Company	33,161	29,913
Costs of other services	463,183	643,779
Total	**6,157,129**	**5,653,679**

If compared to previous year's balance, the production-related services have grown by 28% in 2014 and amounted to EUR 2,998,760. The latter amount includes costs of hired workforce abroad, which amounted to EUR 2,464,274 in 2014.

Costs of other services (EUR 463,183) comprise costs of waste deposit and removal (EUR 244,961), security services (EUR 177,480), costs of inspection services (EUR 20,548), and other costs (EUR 20,194).

KPMG SLOVENIJA, d.o.o. from Ljubljana was appointed to audit the Company's annual report for 2014. A related contract was signed in the amount of EUR 15,500 (exclusive of VAT). No other business transactions were carried out or recorded in connection with the auditor.

..... NOTE 20

LABOUR COSTS

(in EUR)

	2014	2013
Payroll costs	8,650,834	7,655,440
Social security costs	1,543,326	1,367,731
• pension insurance costs	773,775	682,123
• other social security costs	769,551	685,608
Other labour costs	1,803,997	1,602,504
Total	**11,998,157**	**10,625,675**

In view of 2013, labour costs increased by 13% in the reporting period (attributable to the 20-25% decrease in salaries in first half-year of 2013). Labour costs comprise also costs from unused annual leave for 2014 (in the gross amount of EUR 261,653 and contributions in the amount of EUR 42,265.32). Other labour costs are associated with the annual vacation bonus (EUR 517,300), retirement benefits in the amount of EUR 63,266 (costs of retirement benefits amounted to EUR 14,620, while termination benefits under business reasons amounted to EUR 48,646), jubilee benefits (EUR 28,564), the costs of transport to and from work (EUR 543,081), costs of meal allowance (EUR 561,174), costs of estimated and accounted bonuses paid to Company's management (EUR 89,397), and other costs (EUR 1,215).

Earnings and income paid in 2014 to the Board of Directors and Supervisory Board members, and to employees who are not subject to the tariff part of the collective agreement:

(in EUR)

Board of Directors	410,760
Employees not subject to the tariff part of the collective agreement	546,474
Supervisory Board members	5,729
Total	**962,963**

The above listed earnings and payments made include gross salaries, remunerations, holiday pay, and the reimbursement of travel expenses. The Company was in the period from 1 January 2014 to 20 May 2014 managed by the President of the Management Board, in the period from 21 May 2014 to 16 December 2014 by had a three-member management and since 17 December 2014 the Company has been managed by a Board of Directors.
Members of the Supervisory Board received attendance fees.
The Company did not issue any guarantees or collaterals for liabilities of Management or Supervisory Board members.

..... NOTE 21

WRITE-DOWNS IN VALUE

(in EUR)

	2014	2013
Depreciation and amortisation expense	1,814,516	1,628,034
Revaluation operating expenses associated with intangible assets and property plant and equipment	32,954	7,382
Revaluation operating expenses associated with current operating assets	83,849	18,107
Total	**1,931,319**	**1,653,523**

- Depreciation and amortisation expense

(in EUR)

	2014	2013
Amortisation of intangible assets	59,819	38,747
Depreciation of buildings	206,095	196,038
Depreciation of equipment and spare parts	1,548,602	1,393,249
Total	**1,814,516**	**1,628,034**

- Revaluation operating expenses

(in EUR)

	2014	2013
Revaluation operating expenses associated with intangible assets and property, plant and equipment	32,954	7,382
Revaluation operating expenses associated with current operating assets	83,849	18,107
Total	**116,803**	**25,489**

Revaluation operating expenses associated with intangible assets and property, plant and equipment refer to losses from the sale or write-off of fixed assets in the amount of EUR 32,954.

Revaluation operating expenses associated with current operating assets include the write-off of trade receivables worth EUR 83,849.

.... NOTE 22

OTHER OPERATING EXPENSES

(in EUR)

	2014	2013
Formation of provisions	100,404	34,350
Other costs	191,202	372,307
Total	**291,606**	**406,657**

- Provisions

(in EUR)

	2013	2012
Provisions for complaints	0	46,301
Provisions for lawsuits filed	100,404	76,793
Provisions for jubilee benefits and retirement benefits	0	52,245
Total	**100,404**	**175,339**

- Other costs

(in EUR)

	2014	2013
Taxes independent of labour costs or other types of costs	59,240	57,751
Environmental levies	118,905	303,688
Bonuses for secondary school pupils and university students, inclusive of taxes	4,157	1,349
Scholarships for secondary school pupils and university students	5,021	5,069
Other costs	3,879	4,450
Total	**191,202**	**372,307**

..... NOTE 23

FINANCIAL REVENUE FROM LOANS GRANTED

(in EUR)

	2014	2013
Financial revenue from loans to associates	46,883	48,486
Financial revenue from loans to others	75	72
Total	**46,958**	**48,558**

Financial revenue in the amount of EUR 46,883 includes interest from loans granted to Jelšingrad Livar, a.d.

..... NOTE 24

FINANCIAL REVENUE FROM OPERATING RECEIVABLES

(in EUR)

	2014	2013
Financial revenue from operating receivables due from others	14,793	105,997
Total	**14,793**	**105,997**

Financial revenue from operating receivables worth EUR 14,793 includes primarily subsequently acquired discounts in the amount of EUR 14,494.

..... NOTE 25

FINANCIAL EXPENSES FOR IMPAIRMENT AND WRITE-OFF OF INVESTMENTS

The value of the investment made in Jelšingrad Livar, a.d. was in 2014 lowered through the income statement in the amount of EUR 557,524. The relevant investment in Jelšingrad Livar, a.d. is valued at fair value based on the report submitted by the certified appraiser.

Furthermore, value adjustments were in 2014 formed for investments in subsidiaries through the income statement in the total amount of EUR 30,000, namely:

- Livar Belt, d.o.o. in the amount of EUR 7,500,
- Livar Fmo, d.o.o. in the amount of EUR 7,500,
- Livar Lnl, d.o.o. in the amount of EUR 7,500,
- Livar storitve, d.o.o. in the amount of EUR 7,500.

..... NOTE 26

FINANCIAL EXPENSES FOR FINANCIAL LIABILITIES

(in EUR)

	2014	2013 (adjusted)
Expenses for borrowings from banks and expenses for bonds	1,003,434	1,047,254
Financial expenses for other financial liabilities	603,159	107,110
Total	**1,606,594**	**1,154,364**

Financial expenses for borrowings from banks include interest on related borrowings worth EUR 954,234 (whereof EUR 98,711 refers to payments under the collateral provided for a subsidiary) and interest expenses for bonds issued (EUR 49,200).

Financial expenses for other financial liabilities include interest arising under finance lease agreements (EUR 209,159) and financial expenses incurred through the forward purchase of shares of Jelšingrad Livar, a.d. stock (EUR 394,000).

..... NOTE 27

FINANCIAL EXPENSES FOR OPERATING LIABILITIES

(in EUR)

	2014	2013
Financial expenses for trade payables and bills payable	55,820	96,565
Default interest of other operating liabilities	12,025	16,959
Other financial expenses	94,838	114,934
Total	**162,683**	**228,458**

Financial expenses for trade payables and bills payable include default interest charged by suppliers. Interest expenses referring to FURS (Financial Administration of the Republic of Slovenia) amount to EUR 11.768, while interest to other state institutions are recorded at EUR 257. Other financial expenses include interest expenses for financing the purchase of receivables (EUR 31,856), interest expenses in connection with the purchase of shares in Jelšingrad Livar, a.d. (EUR 27,371), interest expenses arising on wages and salaries paid for 2012 (EUR 27,006), and subsequently granted discounts (EUR 8,605).

..... NOTE 28

OTHER REVENUE

(in EUR)

	2014	2013
Other revenue	76,896	202,872
Total	**76,896**	**202,872**

The largest share among other revenue refers to the refund of scholarships and elimination of accrued costs and deferred revenue.

..... NOTE 29

OTHER EXPENSES

(in EUR)

	2014	2013
Compensations and fines	29,669	53,013
Other expenses	10,118	162,439
Total	**39,787**	**215,452**

Other expenses include expenses for refunding the scholarships due to non-compliance.

..... NOTE 30

DEFERRED TAXES

DEFERRED TAX LIABILITIES

Deferred tax liabilities are recognised in connection Company's properties by applying the revaluation model and a tax rate of 17%. Movement of deferred tax liabilities in 2014 was as follows:

(in EUR)

	Properties	Total
Balance at 31 Dec 2013	**1,355,604**	**1,355,604**
Chargeable to / (credit) the income statement	0	0
Chargeable to / (credit) the equity	-51,680	-51,680
• recognition of deferred tax liabilities	9	9
• elimination of deferred tax liabilities	-51,689	-51,689
• difference due to the change in the tax rate	0	0
Balance at 31 Dec 2014	**1,303,924**	**1,303,924**

DEFERRED TAX ASSETS

EUR 754,190 of deferred tax assets were recognised in relation to unused tax losses at the tax rate of 17%.
In 2014, the Company recognised deferred tax assets from part of the existing deductible tax differences and unused tax losses that exceed the amount of deferred tax liabilities. Given the established positive tax base in 2014 and other positive changes within Company's business operations in 2014, it is almost certain that significant amounts of positive tax bases shall occur in the coming years that can be reduced by using deductible temporary tax differences, unused tax losses and unused tax credits.

Movement of deferred tax assets in 2014:

(in EUR)

	Unused tax loss	Total
Balance at 31 Dec 2013	**2,109,793**	**2,109,793**
Chargeable to / (credit) the equity	0	0
(Chargeable) to / credit the income statement	226,244	226,244
• recognition of deferred tax assets	277,924	277,924
• elimination of deferred tax assets	-51,680	-51,680
• difference due to change in the tax rate	0	0
Balance at 31 Dec 2014	**2,336,038**	**2,336,038**

..... NOTE 31

INCOME TAX

In 2014, the Company disclosed a taxable base in the amount of EUR 1,646,846, while the total tax loss brought forward amounted to EUR 15,488,968. Thus, the income tax liability for 2014 amounted to EUR 297,964.

As at the balance sheet date, the amount of deductible temporary differences, the unused tax loss and the unused tax credits for which deferred tax assets were not formed, has the following structure:

- unused tax loss (EUR 1,747,568),
- long-term provisions (EUR 1,162,739),
- allowances for operating receivables (EUR 3,368,705),
- depreciation/amortisation exceed the amount recognised for tax purposes (EUR 469,954),
- investments (EUR 810,635).

Adjustment of the income tax expense calculated on the basis of accounting profit before tax for 2014:

(in EUR)

Comparison of the actual and calculated tax rate		**2014**		**2013 (adjusted)**
Profit before tax		4,155,751		3,164,005
• income tax using the official rate	17%	706,478	17%	479,683
Amounts with negative impact on the tax base		139,294		73,228
• amounts reducing taxes to the level of tax-deductible expenses		129,994		63,116
• amounts increasing the tax base		9,301		10,112
Amounts with positive impact on the tax base		-30,613		-50,118
• amounts increasing expenses to the level of tax-deductible expenses		-27,942		-9,662
• amounts reducing revenue to the level of tax-deductible expenses		-2,671		-40,456
Tax incentives		-535,196		-388,970
• applied and reducing the tax liability		-535,196		-388,970
Change in the tax rate		0		0
Tax losses for the current year for which deferred tax assets were not recognised		0		0
Current tax	6.74%	279,964	4.52%	142,922
Increase/decrease in deferred taxes		-226,244		-685,786
Tax in the income statement	1.29%	53,720	-17.16%	-542,864

..... NOTE 32

NET PROFIT OR LOSS OF THE PERIOD

(in EUR)

	2014	2013 (adjusted)
Profit or loss from ordinary operations	4,118,642	3,176,583
• profit or loss from operations	6,413,692	4,627,961
• profit or loss from financing	-2,295,050	-1,451,378
Profit or loss from extraordinary operations	37,109	-12,579
Total profit or loss	4,155,751	3,164,004
Income tax	-279,964	-142,922
Deferred taxes	226,244	685,786
Net profit or loss of the period	**4,102,031**	**3,706,869**
Accumulated loss	**-8,254,537**	**-12,356,568**

10. RELATED PARTY TRANSACTIONS

Balance as at 31 December 2014:

(in EUR)

Company		Short-term operating receivables	Long-term operating receivables	Long-term loans granted	Short-term loans granted
Livar LNL, d.o.o.	Subsidiary	0	0	0	0
Livar Belt, d.o.o.	Subsidiary	0	0	0	0
Livar FMO, d.o.o.	Subsidiary	0	0	0	0
Livar storitve, d.o.o. – currently bankrupt.	Subsidiary	0	0	0	0
Topola Livar MO, d.o.o.	Subsidiary	0	0	0	0
Jelšingrad Livar, a.d.	Associate	65,900	0	0	660,000
Total		**65,900**	**0**	**0**	**660,000**

(in EUR)

Company		Short-term operating liabilities	Long-term financial liabilities
Livar LNL, d.o.o.	Subsidiary	0	0
Livar Belt, d.o.o.	Subsidiary	2,508	0
Livar FMO, d.o.o.	Subsidiary	0	0
Livar storitve, d.o.o. – currently bankrupt	Subsidiary	0	0
Topola Livar MO, d.o.o.	Subsidiary	0	0
Jelšingrad Livar, a.d.	Associate	0	0
Total		**2,508**	**0**

Turnover generated with related entities in 2014:

(in EUR)

Company		Cumulative turnover of operating receivables	Cumulative turnover of operating liabilities	Cumulative turnover of interest from borrowings	Cumulative turnover of interest from loans granted
Livar LNL, d.o.o.	Subsidiary	0	0	0	0
Livar Belt, d.o.o.	Subsidiary	0	0	0	0
Livar FMO, d.o.o.	Subsidiary	0	0	0	0
Livar storitve, d.o.o.	Subsidiary	0	0	0	0
Topola Livar MO, d.o.o.	Subsidiary	0	0	0	0
Jelšingrad Livar, a.d.	Associate	0	0	0	46,883
Total		**0**	**0**	**0**	**46,883**

11. RISK MANAGEMENT

Exposure to liquidity risk

Exposure to liquidity risk at 31 December 2014:

(in EUR)

	Balance	Maturity of principal amounts up to 1 year	Maturity of principal amounts up to 5 years	Maturity of principal amounts over 5 years
Borrowings from banks	17,305,835	6,585,938	10,719,897	0
Liabilities from bonds	820,000	820,000	0	0
Borrowings from others	555,556	555,556	0	0
Liabilities under finance lease	4,279,422	744,452	3,534,970	0
Short-term operating liabilities	8,978,762	8,978,762	0	0
Total	**31,939,575**	**17,684,708**	**14,254,867**	**0**

Exposure to credit risk

Exposure to credit risk as at 31 December 2014:

(in EUR)

Item	Carrying amount
Long-term operating receivables	0
Long-term loans granted	0
Short-term loans granted	660,000
Receivables for associates	65,900
Trade receivables	10,317,642
Other short-term operating receivables	2,090,007
TOTAL	**13,133,549**

Short-term granted loans are not exposed to high credit risk; short-term loans are in part secured.

Most of trade receivables are not due. In 2014, additional allowances for receivables were formed in the amount of EUR 79,195. Short-term operating receivables are not secured.

Exposure to interest rate risk

Short-term financial liabilities to banks and lease providers are subject to EURIBOR which has an impact on the risk of interest rate fluctuations. As at the balance sheet date, the interest rate exposure was as follows:

(in EUR)

Financial instruments at fixed interest rate	
Financial assets	160,000
Financial liabilities	1,460,000
Financial instruments at variable interest rate	
Financial assets	500,000
Financial liabilities	21,500,812

Fair value risk

The table below shows the impact of the fair value change on equity through revaluation surplus or through profit profit/loss as at 31 December 2014 (deferred taxes are taken into account – in case of valuation at fair value through equity).

(in EUR)

Item	Carrying amount At 31 Dec 2014	Fair value change		
		1%	5%	10%
Company's properties	12,108,080	100,497	502,485	1,004,971
Long-term investments	2,663,000	22,103	110,515	221,029
Total on equity	**14,771,080**	**122,600**	**613,000**	**1,226,000**

12. UNCERTAINTY WITH RESPECT TO THE GOING CONCERN ASSUMPTION

The financial statements herein were prepared on the basis of the going-concern assumption. In 2014, the Company generated a net profit of EUR 4,102 T, which was in its full amount allocated by the Board of Directors for covering the losses from previous years. As at 31 December 2014, the Company disclosed an accumulated loss of EUR 8,255 T, which exceeds 50% of share capital and cannot be charged against other equity components. As of the balance sheet date, the Company recorded a deficit in current assets in view of short-term liabilities in the amount of EUR 1,002 T. Total financial liabilities amounted as at 31 December 2014 to EUR 22,961 T (exclusive of guarantee liabilities that are disclosed among provisions and accrued costs and deferred revenue) and should be fully repaid in the next five years if considering the present repayment dynamics, which is - prior to approving the general terms and conditions - envisaged in the applicable agreements on financing. Short-term financial liabilities arising from valid financing contracts prior to the approval of general terms amount to EUR 8,706 T and thus exceed the available cash flow that will be recorded once the 2015 projected results are realised.

Accordingly, the Company and the lending banks began in September with the compilation of a financial restructuring plan that shall balance the financial liabilities also with the cash flow available. In course of audit procedures, <u>the general terms and conditions were approved in May</u> thus paving the way for drafting the Master Restructuring Agreement - MRA. The respective restructuring programme enables the Company to reduce its cost of financing, an essential lowering of the debt's annual amount and its monthly adjustment to the available cash flow, which eliminates the high risk of Company's failure to repay financial liabilities and thereby the risk of material uncertainty as regards the going concern assumption.

13. EVENTS AFTER THE BALANCE SHEET DATE

Since the balance sheet date, the Company has reconciled the general terms and conditions of the financial debt restructuring plan, submitted them to the lending banks for final confirmation, and reached and achieved their final approval.

14. STATEMENTS

14.1. STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Board of Directors of Livar, d. d. is responsible for the preparation of the annual report and the financial statements with accompanying notes in a manner that gives a true and fair view of its financial position and the results of its operations for 2014 in compliance with the Slovene Accounting Standards and the Companies Act (ZGD-1).

The Board of Directors hereby approves the management report, the financial statements and the notes thereto for the year ended 31 December 2014, and hereby confirms that:

- the financial statements have been prepared under the going concern assumption,
- the relevant accounting policies have consistently been applied and possible changes to accounting principles disclosed,
- accounting estimates have been prepared under the principles of prudence and due diligence,
- the financial statements have been prepared in compliance with the applicable legislation and the Slovene Accounting Standards.

The Board of Directors is also responsible for proper accounting, for introducing, operating and maintaining the internal control relevant to the entity's preparation and fair presentation of the financial statements which are free of material misstatements due to fraud or error, for adopting proper measures to safeguard assets and other funds, and for implementing measures to maintain the value of entity's assets.

Ivančna Gorica, 17 June 2015

Jože Kaligaro
CEO

Vojko Rovere
Chairman of the Board of Directors

14.2. CORPORATE GOVERNANCE STATEMENT

The Company does not apply a code while conducting its business operations.

14.3. AFFILIATES STATEMENT

The Company has no affiliates.