KONČAR – ELECTRICAL INDUSTRY GROUP

CONSOLIDATED ANNUAL REPORT
31 DECEMBER 2020

Contents

KONČAR - ELECTRICAL INDUSTRY Inc.

CONSOLIDATED MANAGEMENT REPORT AND DECLARATION ON THE IMPLEMENTATION OF PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

100 1921 2021

KONČAR

Excellent results in extraordinary circumstances

Orders	Backlog
+21,3%	+22,8%

Total operating income	EBITDA
+5,2%	+36,9%

EBITDA margin	Net profit HRK
+140 bps	+75,5 million

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Comment by Gordan Kolak, president of the Management Board

2020 will undoubtedly be remembered as the year when everyone's personal and professional lives were drastically changed.

The COVID - 19 virus pandemic impacted all aspects of life, from health to social and economic one, and spread rapidly across the world. In addition to the pandemic, Croatia was struck by two powerful earthquakes, one in Zagreb and the other in the area of Petrinja, Sisak and Glina. These unfortunate circumstances impacted not only KONČAR employees and their usual working practices, but also the company's overall operations.

Throughout our 100-year-long history, we have always been highly sensitive to societal events and have attempted to set an example as a socially responsible company. In a particularly trying year, we took seriously our responsibility to assist the society in overcoming the disaster that had afflicted us all. Through company donations, as well as personal contributions, KONČAR became involved in mitigating the effects of the pandemic and the earthquakes. Following the December earthquake in Sisak-Moslavina County, KONČAR employees made themselves available to HEP and HOPS, making on-site inspections and examining the plants, detecting the damage, and trying to repair it as soon as possible, in order to help normalize electricity supply in the affected areas.

Good results and continued stability in Group operations

For KONČAR Group, the business year 2020 was largely dominated by two factors - the impact of the pandemic caused by the COVID-19 virus and the appointment of new members of the Management Board.

Despite the many negative influences brought on by the COVID-19 pandemic (higher raw material and transport prices, more difficulty in contracting new business deals due to travel bans and restrictions) KONČAR Group nevertheless proved resilience during the crisis, achieving good results in 2020 and realizing its plans to the greatest extent possible. With great commitment on the part of its employees, the company proved to be sufficiently agile and capable of adapting to unforeseen, extraordinary circumstances. EBITDA amounted to HRK 182.8 million, representing a 36.9% increase compared to the result achieved in 2019. If we include the impact of the one-off items of value adjustment of non-current assets, normalised EBITDA amounts to HRK 219.9 million. Normalised EBITDA margin is 7.4%. Newly contracted transactions amounted to HRK 3,74 billion. Book-to-bill ratio, ratio of new orders to orders shipped and billed in the current year, was 1.26. Backlog at the end of 2020 amounted to HRK 4,1 billon, which represents a 22.8% increase compared to the value at the start of the year.

With good financial results, KONČAR was able to realize numerous business transactions in 2020, not only in the foreign markets but in the Croatian market as well. Share of export in total revenue amounted to over 62%, two thirds of which pertained to EU countries, which is indicative of the fact that KONČAR Group's products and services are certainly competitive in the area of power engineering and transport. In the Croatian market, the company completed and contracted several important projects. We commissioned Vis SPP, the largest solar power plant in Croatia. Although that particular contract is not that significant for the Group in terms of its value, it must be noted that the power plant management and monitoring system was developed and produced at KONČAR. Five frequency converters with a rated power of 720 kW, developed and produced entirely by KONČAR, were installed in the power plant as one of its key elements. Furthermore, in 2020, an annex was signed to the agreement concluded with HŽ Passenger Transport Ltd. in 2014, under which annex KONČAR is to supply twelve additional electric multiple units to that company. At the end of the year, another agreement was signed with the same buyer, for the purchase of 21 electric multiple units, eleven of which for urban-suburban traffic and ten for regional traffic. Purchase of new electric multiple units is of great importance for improving the quality of transport services with much lower operating costs and the possibility to increase the train frequency and capacity. The new units also contribute to the reduction of environmental pollution and saving energy. The units also come with integrated sophisticated equipment that is the result of an in-house development project involving the cooperation of several KONČAR Group companies.

Look into the future

In recent decades, KONČAR has been experiencing one of the most technologically dynamic periods of development, and over the past few years, the entire paradigm of the electric power system has changed. Primary resources in electric power generation are changing, and power grids will soon be different, as consumer habits and customer expectations change. Energy efficiency, self-sufficiency and e-mobility are elements of a new power engineering reality, in which KONČAR is an active participant.

The Company's new Management Board, whose members were appointed at the beginning of 2020, initiated the development of the Group 2020+ Integral Strategy and determined the strategic priorities for the upcoming period.

The strategic priorities focus on the Group's capacity for development and innovation, on key production capacities and their modernisation, and on further strengthening of synergy between the Group companies.

In the upcoming period, KONČAR Group sees great potential in renewable energy sources and further reduction of the harmful effects on the environment, as well as in making further steps forward toward digitalization of the existing products, services and production capacity.

Ensured liquidity, a low level of indebtedness and a substantial number of contracts concluded for the upcoming period will surely help us in fulfilling the plans and objectives we have set.

Appreciation for all the employees and shareholders

I would like to express my gratitude to all of our employees whose unwavering commitment, exceptional dedication and teamwork in all areas have enabled us to achieve our goals. I would also like to express my gratitude to our shareholders for the trust they have placed in us, as well as to our suppliers, business partners, and customers. Our efforts would not have yielded such results if it hadn't been for their loyalty and support.

Gordan Kolak, M.Sc.Eng.
President of the Management Board

Summary of key financial indicators

In HRK 000				Index	
Business performance indicators	**2019**	**2020**	**Δ**	**2020/2019**	
Operating income	**2.876.986**	**3.026.268**	**149.282**	**105,2**	
Sales revenue – total	2.810.951	2.972.558	161.607	105,7	
Sales revenue – export	1.650.471	1.849.588	199.117	112,1	
Operating expenses	**2.834.974**	**2.941.063**	**106.089**	**103,7**	
Operating profit	42.012	85.205	43.193	202,8	
Operating margin	1.49%	2.87%	1.37%	+ 138	bps
Net profit from continuing operations	52.052	127.576	75.524	245,1	
Profit from discontinued operations	2.902	0	-2.902		
Profit for the period	54.954	127.576	72.622	232,2	
Depreciation and amortisation	91.487	97.546	6.059	106,6	
EBITDA	**133.499**	**182.751**	**49.252**	**136,9**	
EBITDA margin	4.75%	6.15%	1.40%	+ 140	bps
Normalised EBITDA 1	169.521	219.859	50.338	129,7	
Normalised EBITDA margin	6.03%	7.40%	1.37%	+ 137	bps
Cash balance (deposits + cash)	662.635	819.337	156.702	123,6	
Loans (long-term + short-term)	327.893	224.939	-102.954	68,6	
Orders	**3.079.211**	**3.734.951**	**655.740**	**121,3**	
Backlog as at 31 December	3.341.235	4.103.628	762.393	122,8	
Book-to-bill ratio	1.10	1.26			

Normalised EBITDA[1]: EBITDA increased in 2020 by value adjustment of non-current assets, increased in 2019 by value adjustment of non-current assets and decreased by profit from discontinued operations

Overview of 2020

Effect of the COVID-19 pandemic to Group operations

The COVID-19 pandemic has caused the deepest economic crisis in decades.

The crisis impacted all aspects of life, from health to social to economic, and spread across the globe in a matter of weeks. Almost all countries experienced a massive lock down at the start of the pandemic, which resulted in supply chain and market disruptions that spread quickly from one market to the next.

This extraordinary situation required quick adjustment of all business processes in order to maintain business continuity and ensure the agreed delivery of contracted goods and services. Sufficient inventory of raw materials enabled production to go on unaffected during the first month of the pandemic outbreak, and the introduction of so-called "green corridors", as well as orientation toward local and alternative suppliers made it possible to ensure further continuity of production and operations.

In Q1 2020, performance projections were made for each company of KONČAR Group, involving adjustment of certain assumptions in the event of the crisis and pandemic continuing throughout the entire financial year. In line with the prescribed epidemiological measures and instructions given by the Civil Protection Headquarters of the Republic of Croatia, the company introduced working in shifts in the companies active in production, and as far as employees whose jobs entail working in an office are concerned, they were instructed to work from home.

Business meetings and contacts with customers took place via digital platforms. In such extraordinary circumstances, special attention was paid to keeping on board specific key know-how and key staff, which resulted in the fact that the number of employees has not dropped, nor have their earnings. Active financial control, cost monitoring, maintaining of liquidity and debt management made it possible for the Group to maintain financial stability and for the defined operating plans to be realised, for the most part.

In most Group companies, the contracting and production cycle takes a relatively long time to be completed, and precisely due to a sufficient number of contracts concluded at the beginning of the year, the operating result in 2020 was not significantly negatively affected by the pandemic. Limited travel and inability to actively engage with the customers have resulted in a drop in the number of new contracts on far-away markets and slowed down the company's entry into new markets. Apart from the EU market, a drop in the number of new contracts in 2020 occurred in all other foreign markets.

Restructuring

The Company's Management Board started the process of drafting the 2020+ Integral Strategy for Končar Group. Change of market-related and technological conditions of operating has become more dynamic in recent years and the Management Board's endeavours to respond to those challenges were the main drivers behind the drafting of this strategy.

The outbreak of COVID-19 has imposed new rules of doing business and being competitive, speeding up the process of development across all business segments and the Company as a whole, making the commitment to integrate the manufacturing process with safeguarding human welfare and protecting the environment the backbone of sustainable and successful operations.

Together with the drafting of the Integral Strategy for Končar Group, 2020 also saw the continuation of the process of business restructuring, in which context the company KONČAR – Low Voltage Switches and Circuit Breakers was merged with the company KONČAR – Switchgear at the end of the year, following the obtaining of consent from the Supervisory Board. This merger is expected to contribute to reduction of operational costs and increase in the company's and the Group's profitability.

Significant projects completed and new contracts in 2020

Financial results, substantial number of contracts in 2020 and relatively high backlog at the end of the business year prove that the Company is sufficiently agile and capable of adapting to unforeseen, extraordinary circumstances. With, primarily, great commitment on the part of its employees, 2020 saw a number of significant contracts, projects and deliveries, some of which are as follows:

January

- Refurbishment of Kamburu HPP in Kenya completed.
- Contract signed with Austria's largest electricity provider for the project of revitalization of the Ering Frauenstein HPP at the German-Austrian border.

February

- Contract signed with the North Macedonian transmission system operator for construction of TS Ohrid.
- Group company – KONČAR – Infrastructure and Services introduced the EMAS system, an environmental management system developed by the European Commission.
- Beginning of deliveries of the new N2 series 123 kV disconnectors to a Ukrainian customer.

March

- Two 130 MVA transformers and three 120 MVA transformers contracted with a Swedish power distributor. The contracted units are units with the highest power rating the company KONČAR – Distribution and Special Transformers has ever produced, confirming the company's market position when it comes to high-power transformers of up to 170 kV.
- Delivery of rectifier station equipment (part of Sljeme Cable Car project), marking KONČAR's return to manufacturing equipment for rectifier stations, as well as their design and commissioning, after 40 years.
- Completion of two contracts for the Austrian customer Global Hydro Energy. The project included the delivery of one 0.85 MVA horizontal synchronous generator to Finland and three 3.8 MVA vertical synchronous generators to the Philippines.

April

- Signing of Annex to the 2014 Agreement for purchase of 32 electric multiple units (EMU) with HŽ Passenger Transport. The Annex regulates the 2nd stage of contract realization, i.e., the supply of 12 EMUs (six for urban-suburban traffic, six for regional traffic). The first of the second-stage EMUs will be supplied in 14 months, after which, one will be supplied every month. The contract is worth HRK 465 million in total.
- Works completed on reconstruction of Sv. Stjepan pumping station and transformer station for the customer Istarski vodovod.

May

- A new expansion of the product range of KONČAR – Instrument Transformers through supply of nine transformers for substation own power supply, with voltage level of 525 kV and power output of 250 kVA, installed in the system of Dominion Energy, strategically one of the most important power companies in the USA. Those are the largest transformers the company has ever manufactured, and among the largest transformers of their type in the world, in terms of voltage level and power output.
- Beginning of on-site works under the contract for construction of a 110 kV plant in TS SPLIT 3 for customers HOPS and HEP-ODS.

June

- First delivery of 145 kV high voltage circuit breakers for a Turkish customer.
- Delivery of first sets of brackets for reactor coolant pump (RCP) of the Hinkley Point C - nuclear power plant in Somerset, for the French customer, Framatome. All eighteen brackets are planned to be delivered by the end of 2021.
- Contract signed for rehabilitation of Hallby HPP in Sweden.

July

- Contract concluded for supply of electrical and mechanical equipment for the construction of the new Mokrice HPP in Slovenia. The total value of the contracted equipment and works exceeds EUR 27 million. Installed power of the HPP Mokrice is 28 MW and its projected annual output is 131 GWh. KONČAR will supply three horizontal synchronous bulb-type generators with individual power of 13.8 MVA, with associated excitation systems and generation unit monitoring system.
- Contract concluded for generator refurbishment with Untra HPP in Sweden, marking that customer's return after several years. It is the eighth active contract in that market, confirming the company's position as the key supplier of generator equipment.
- Completed development of a new generation of monitoring systems based on the KonFID (Končar Field Intelligent Device) platform, a robust industrial edge computing platform primarily developed for the portfolio that includes a new generation of primary energy system monitoring solutions. KONČAR's first TMS system, which is based on this platform, was delivered to HPP Gojak to be used for three step-up transformers. Subsequently, it was delivered for the transformers of TS Konjsko and TS Tumbri.

August

- Agreement on purchase of six low-floor trams concluded with Latvian company Liepājas Tramvajs from the city of Liepāja. The agreement is valued at EUR 8.8 million. The Latvian agreements prove that KONČAR's products can compete with those of the world's largest companies in the challenging EU market.
- Agreement concluded with the Japanese buyer Hitachi. The new agreement provides for the delivery of 66 cooling systems (LCS) to be used for train propulsion converters as part of the East Midlands Railway project, in the United Kingdom.

September

- Commissioning of Vis SPP, the largest solar power plant in Croatia. Although the contract is not that significant for the Group in terms of its value, it must be noted that the power plant management and monitoring system was developed and produced at KONČAR. Five frequency converters with rated power of 720 kW, developed and produced by KONČAR, were installed in the power plant as one of its key elements. This has provided KONČAR with an opportunity for the placement of its products in the announced investments in the so-called green area and digitalisation.
- Commencement of deliveries for the Belgian transmission system operator Ellia, to which the company KONČAR – Distribution and Special Transformers will be delivering distribution, auxiliary and earthing transformers of different power during the next three years.
- Delivery of four static excitation systems for Al Massira HPP (2x77.5 MVA) and Daourat HPP (2x10 MVA) in Morocco.

October

- Completed reconstruction and expansion works on the 110 kV plant TS 110/35 kV Ivanić Grad for the Contracting Authority HOPS – Croatian Transmission System Operator. Five of KONČAR's companies took part in contract realisation.
- Delivery of 120 ATEX engines contracted with the German partner VEM. The 45 kW engines are integrated into the pumping stations.

November

- The first of 12 contracted low-floor electric trams delivered to the buyer Liepajās tramvajs. The trams are intended to be used in public transport in the city of Liepāja in Latvia.
- Agreement concluded with the Croatian Transmission System Operator (HOPS) on the revitalisation of central remote-control systems for the electric power system by upgrading them to a new version, which is a project worth HRK 49.9 million. This is an extremely complex project of upgrading HOPS's existing SCADA/EMS/AGC/OTS systems to a new version of hardware and software.
- Agreement signed with HŽ Passenger Transport for the purchase of 21 electric multiple units, for urban-suburban and regional traffic, with the value of HRK 844.7 million. Signing of this Agreement represents a continuation of cooperation with KONČAR - Electrical vehicles on the modernisation and upgrading of railway vehicle fleet. The new multiple units are compliant with the world's highest security and quality standards, confirming that the company is able to compete with the world's largest rolling stock manufacturers.
- Agreement signed with the Austrian local power company Ennskraftwerke on the refurbishment and generator power output increase from 31,4 MVA to 34 MVA in St. Pantaleon HPP.

December

- As part of the international Sincro.Grid Project, Volt-Var Control (VVC) advanced process system was put in place for Croatian Transmission System Operator (HOPS), for regulation of voltages and reactive power flows of the electric power system (EPS) in real time. The VVC and DTR processing systems are installed on a new joint IT infrastructure and virtual platform, and are integrated into the existing SCADA/EMS system. Consequently, the management, voltage and reactive power flow regulation, and monitoring of HOPS's entire transmission network can be performed from one location, while complying with the existing hierarchical structure of system management.
- Agreement on delivery and commissioning of a hydro generator monitoring system concluded with the Pakistani power company - WAPDA. The generators are located in Chashma HPP, in the Minawali region.
- Testing completed of metal enclosed, SF6 gas-insulated switchgear (GIS), which were now ready to be delivered. The end user is the Croatian Transmission System Operator, and the items in question are 110 kV GIS units intended to be used in new substations TS 110/35/10(20) kV Zamošće and TS 110/10(20) kV TTTS Terminal.
- Immediately after the devastating earthquake that struck Sisak-Moslavina County, KONČAR placed its teams at the disposal of HEP and HOPS. The teams went out in the field to help normalize electricity supply in the affected areas. KONČAR's team got the 400 kV main busbar system of substation TS 400/110 kV Tumbri, which includes the Žerjavinec, Krško 1 and GS/PS bays, back online. TS Tumbri, which is one of five substations connected to the 400 kV network, plays an important role in Croatia's power system. Consequently, its outage, along with other faults that occurred in TS Mraclin, TS Velika Gorica and TS Petrinja, caused an interruption in the electricity supply even in some parts of Zagreb. The earthquake also damaged Sisak thermal power/heating plant. Končar's team immediately went out in the field to examine the plant, detect damage, disconnect primary transformer connections and make the necessary repairs.

Organizational profile of the Group

KONČAR Group is a technological company with a 100-year-long tradition, whose power industry solutions have been recognized world-wide.

Export that started back in 1952, as well as the equipment installed in industrial and power plants on all the world's continents showcase the Company's competitiveness and prove the high quality and reliability of its products.

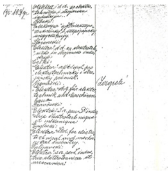
Core business activities of KONČAR Group are the manufacturing of equipment and plants for electricity generation, transmission and distribution, manufacturing of rolling stock, as well as of transport and industrial equipment.

Nowadays, KONČAR has an annual revenue amounting to HRK 3.1 billion, 62% of which pertains to export. It has 3400 employees in the parent company (KONČAR – Electrical Industry Inc.), 13 (mainly production-oriented) subsidiaries, 1 associated company and 1 joint venture.

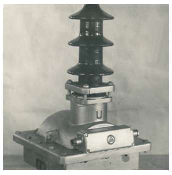
Origin and history

In its long hundred-year history, KONČAR has witnessed the changes of social order, different states, and even its name. However, one constant has always been creating the synergy of knowledge that has allowed it to deliver high-quality products in the field of electrical industry. The journey from a workshop founded in 1921 to a company that supplied the first transformer in 1947 and developed its own generator in 1948, and onwards, to one of Croatia's largest exporters today. Its products and equipment are present on all the continents, and the 6.4 billion USD export realized in its hundred-year-long history speaks volumes of its quality, reliability and constant technological progress.

Generations of employees have participated in creating its image and faced competition from the world's largest manufacturers of electrical industry equipment. Throughout its existence, KONČAR has always been at the forefront of development in its field of activity, but also in Croatian economy as a whole.

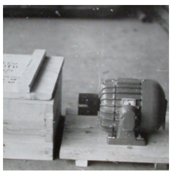


1921
Elektra company registered on 24 January



1947
Beginning of serial production of transformers

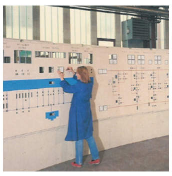
1948
First generator manufactured for Mariborski Otok HPP



1952
First deliveries of electric motors to Turkey paved the way for product placement on foreign markets

1961
Founding of Electrical Engineering Institute (now KONČAR – Electrical Engineering Institute)

1970
First electric locomotive manufactured

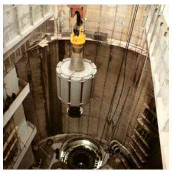


1987
Haditha HPP commissioned in Iraq

1991
KONČAR - Electrical Industry Inc. starts operating on 1 January

1993
First transformer with 30 MVA power output

1994
Commissioning of Bagre HPP in Burkina Faso



1995
Refurbishment of Velebit Pumped Storage Power Plant and Peruća HPP, both destroyed during the Homeland War

2003
Rehabilitation of TS Ernestinovo

2004
Construction of TS Žerjavinec

2005
Delivery of the first TMK 2200 series low-floor tram for the city of Zagreb

2010
Lešće HPP - the first (and still the only one) hydro power plant constructed in independent Croatia

2011
Delivered a prototype of an electric train for HŽ

2014
Contracts signed with HŽ Passenger Transport for purchase of 44 passenger trains (32 electro motor units and 12 diesel-electric units)

2020
Vis SPP, the largest solar power plant in Croatia

Corporate governance

Application of corporate governance principles

In 2020, the Company applied the Corporate Governance Code adopted by the Croatian Financial Services Supervisory Agency (HANFA) and Zagreb Stock Exchange Inc. Zagreb, applicable as of 1 January 2020, published on the official web site of the Stock Exchange (www.zse.hr) and of HANFA (www.hanfa.hr).

In addition to the applicable Corporate Governance Code of the Zagreb Stock Exchange and HANFA, KONČAR Group also applies its own Corporate Governance Code, furthering the business transparency standards that comply with EU Directives. Corporate Governance Code defines the procedures for the activities of the Supervisory Board, Management Board and other decision-making bodies, ensuring avoidance of the conflict of interest, efficient internal supervision and efficient responsibility system.

In 2020, the Management and Supervisory Boards adopted the Code of Conduct - the key document used to adopt and promote fundamental corporate values of both the Company and the Group as a whole, as well as to promote corporate social responsibility. The Company is a signatory of the Code of Business Ethics of the Croatian Chamber of Economy. By adopting the Code of Business Ethics, the Company has undertaken to act in compliance with the principles of responsibility, truthfulness, efficiency, transparency, quality, good faith and observance of fair business practices towards business partners, business and social environment and own employees.

By adopting and accepting the Code of Conduct, the Company has undertaken to promote equality of all employees, regardless of their gender, age, nationality, ethnic origin, race, religion, language, social or economic status, sexual orientation, affiliation to political or other organizations, as regards employment and work environment, including the requirements and selection criteria for recruitment, promotion and professional training.

Description of key elements of internal control and risk management is an important part of business operations, and those elements are indicated below. The composition and work of the Management Board, Supervisory Board and General Assembly and information about the Company's shareholders are an integral part of the Declaration on Corporate Governance, and are described below.

All of the documents are available on KONČAR web site (www.koncar.hr)

The Company complies with the recommendations of the Code, with the exception of the provisions whose application is not practical or not provided for in the applicable legal framework at a given time. Such exceptions are as follows:

- The Supervisory Board did not formally set a target for the percentage of female members on the Supervisory and Management Boards (Article 14 of the Code). However, all the international and national standards relating to gender representation and equality are implemented directly. At the moment, 22.2 percent of the Supervisory Board members are women. At Group level, women account for 21.5 percent of the total number of employees.
- The Appointments Committee performs all the tasks referred to in Article 15 of the Code, except for overseeing the Management Board in the appointment process for the members of the Management Boards in Group companies, which falls under the competence of the Supervisory Boards of Group companies.
- When re-electing the Supervisory Board members whose term of office ended in 2020, the materials for the General Assembly meeting did not include details of their attendance at the meetings of the Supervisory Board and its committees during their previous term of office, or the conclusions of the most recent evaluation of their performance (Article 17 of the Code). The Company will include this information in the materials for the General Assembly meeting next time it proposes the re-election of an existing Supervisory Board member.
- The majority of the members of the Audit Committee are not independent (Article 27 of the Code). All the Audit Committee members are also Supervisory Board members, therefore the Audit Committee is exempt from the requirement of independence, as stipulated by Article 65, paragraph 7 of the Audit Act.
- Members of the other committees are also not independent, but they are members of the Supervisory Board.
- Remuneration Committee performs all the tasks indicated in Article 50 of the Code, but decisions on the remuneration to be received by members of the Management Board in subsidiaries fall under the competence of their Supervisory Boards.
- The Company did not establish effective formal mechanisms to enable minority shareholders to raise questions directly with the presidents of the Supervisory and Management Boards (Article 76 of the Code). The Company established mechanisms to enable minority shareholders to raise questions via e-mail available for investors (ir@koncar.hr), in addition to raising any questions directly to the Supervisory and Management Board members at the General Assembly meeting.
- The Company does not use the means of modern communication technology for participation and voting in the General Assembly meetings (Article 79 of the Code), because in practice, the current manner of exercising votes has been shown to be the optimal solution, mostly due to many shareholders with a small number of shares.
- The external auditor did not attend the General Assembly meeting held in July 2020 (Article 81 of the Code). In accordance with the Company's Articles of Association, adoption of financial reports falls under the competence of the Management and Supervisory Boards, and the auditor attended the Supervisory Board meeting at which financial reports were adopted. The auditor will attend the General Assembly meeting to be held in 2021.
- Answers to the questions asked at the General Assembly meeting were not made freely available by the Company on its website (Article 82 of the Code). There were no questions asked by the shareholders attending the two General Assembly meetings held in 2020. Had there been any, such questions and the answers to them would have been included in the Minutes of the General Assembly meeting publicly available in the court register.
- Communication between the chairpersons and members of the committees and the Company's stakeholders (suppliers, buyers, etc.) is not provided for by the rules of procedure, and the purpose of the committees is to give recommendations and proposals to the Supervisory Board. The Audit Committee is the exception to that rule and it communicates directly with external and internal auditors (Article 87 of the Code).

Combating corruption and bribery

Members of the managing bodies, employees and business partners are familiar with anti-corruption policies and procedures and observe the principles of the Code of Ethics in their business and day-to-day activities. KONČAR enjoys the reputation of a loyal and fair business partner in the international market, and no cases of corruption have been reported at the Group level.

KONČAR - Electrical Industry Inc. has not made any direct or indirect financial or non-monetary contribution for political objectives to any state or beneficiary.

KONČAR promotes and executes fair and transparent competition principles across its businesses in dealing with all entities at all locations. No anti-competitive, antitrust or monopoly practices were recorded in KONČAR Group.

Corporate governance organization

In line with the best practices, KONČAR has set out to achieve high corporate governance standards and transparency of operations as the only proper course of action, which is the basis for all business activities in the Group.

Corporate governance structure is a two - tier board structure, composed of the Supervisory Board and the Management Board.

Together with the General Assembly, and pursuant to the Articles of Associations and the Companies Act, they constitute the three governance bodies of the Company.

General Assembly

The General Assembly is a body that allows shareholders to exercise their rights in Company matters. The work of the General Assembly, its authority and competence, shareholders rights and the manner in which they are exercised are set out in the Company's Articles of Association, publicly available on the Company website (www.koncar.hr).

The General Assembly is competent for the election and granting of discharge to Supervisory Board members, decides on the use of profit, grants discharges to Management and Supervisory Board members, appoints auditors and decides on amendments to the Articles of Association, increasing and reducing of share capital and other matters falling under its competence by law.

In 2020, two General Assembly meetings were held. At the meeting held on 2 July 2020, a decision was made to amend the Company's Articles of Association. At the meeting held on 9 July 2020, decisions were adopted on granting of discharge to the members of the Management and Supervisory Boards of the Company, on the allocation of profit realised in 2019, on the election of the Supervisory Board members elected by the General Assembly in accordance with the Articles of Association, on the approval of the Remuneration Policy and on the appointment of the auditor who is to review the financial reports for 2020. All decisions adopted at General Assembly meetings have been published in accordance with legal regulations and are available on the websites of the Company (www.koncar.hr), Zagreb Stock Exchange and HANFA.

Supervisory Board

In accordance with the Code of Corporate Governance adopted by the Zagreb Stock Exchange and HANFA, applicable as of 1 January 2020, the Supervisory Board consists mostly of independent members who have no business, family or other relations to the Company, a majority shareholder or a group of majority shareholders, or a member of the Management or Supervisory Board or a majority shareholder.

The Supervisory Board has nine members. Five members are appointed and recalled by the General Assembly, one member is appointed by employees in accordance with the Labour Act and three members are appointed, in accordance with the Companies Act (Article 256), by the shareholder Kapitalni fond d.d. as long as it holds Company shares representing 25% plus one share in the Company's share capital. In the event of decrease of the number of shares held by Kapitalni fond d.d., the number of Supervisory Board members it appoints shall be reduced accordingly.

The Supervisory Board is responsible for monitoring business management, representing the Company in dealings with the Management Board and adopting decisions on matters not falling under the General Assembly's competence. Direct management of the Company is not performed by the Supervisory Board. Rather, the Supervisory Board directs the Management Board when it comes to adopting strategic decisions and setting a governance framework. The Supervisory Board has also been granted additional authorisations by virtue of the Company's Articles of Association, stipulating that particular types of tasks can be performed only with the previous consent of the Supervisory Board.

The President of the Supervisory Board is appointed by the members, who are elected by the General Assembly. Deputy President is elected by the appointed members of Kapitalni fond d.d., from among their own ranks.

Supervisory Board members are appointed for a four-year term and may be reappointed. Members appointed by Kapitalni fond d.d. may be appointed for two consecutive terms at most.

Pursuant to the Decision of the General Assembly of KONČAR – Electrical Industry of 12 July 2016, monthly remuneration for Supervisory Board members was determined in the gross amount of 1.5 average (gross) salary paid in KONČAR Group in the month preceding the month of remuneration calculation.

Every member of the Supervisory Board is entitled to a fixed monthly remuneration starting from the date of appointment to that duty until the date of expiry thereof.

In order to maintain their independence and objectivity, remuneration of Supervisory Board members does not depend on the Company's performance and does not include variable remuneration.

Remuneration report for the members of the Management and Supervisory Boards includes information on the remuneration amount, it is drawn up pursuant to Article 272 of the Companies Act and the Company's Remuneration Policy, and it will be presented to the General Assembly for adoption.

Supervisory Board members in 2020:

Joško Miliša	President of the Supervisory Board:	until 12/07/2020
Nikola Anić	Deputy President of the Supervisory Board:	until 12/07/2020
Jasminka Belačić	Member of the Supervisory Board:	until 24/10/2020
Vicko Ferić	Member of the Supervisory Board:	until 12/07/2020
Branko Lampl	Member of the Supervisory Board:	until 12/07/2020
Josip Lasić	Member of the Supervisory Board:	until 15/03/2020
Vladimir Plečko	Member of the Supervisory Board:	until 01/06/2020

Joško Miliša	President of the Supervisory Board:	as of 13/07/2020
Darko Horvatin	Deputy President of the Supervisory Board:	as of 17/11/2020
Branko Lampl	Member of the Supervisory Board:	as of 13/07/2020
Ivan Milčić	Member of the Supervisory Board:	as of 13/07/2020
Maja Martinović	Member of the Supervisory Board:	as of 17/11/2020
Ruža Podborkić	Member of the Supervisory Board:	as of 29/10/2020
Mario Radaković	Member of the Supervisory Board:	as of 14/10/2020
Zvonimir Savić	Member of the Supervisory Board:	as of 17/11/2020
Danko Škare	Member of the Supervisory Board:	as of 13/07/2020

In 2020, the Supervisory Board held fourteen meetings. The quorum at the meetings of the Supervisory Board requires five Supervisory Board members. The Supervisory Board adjusted its functioning to the circumstances caused by the COVID-19 virus and recommendations given by the Civil Protection Headquarters, holding most of its meetings via teleconference or videoconference.

All the members participated in decision-making at all the meetings, casting their votes by videoconferencing or in writing, as provided for in the Rules of Procedure of Supervisory Board.

The Management and Supervisory Board closely cooperate in the best interests of the Company and the Group, through joint meetings and other communication channels as necessary. The Supervisory Board was duly and regularly informed by the Management Board on any business events of greater importance, the course of business operations, income and expenditure and the general status of the Company and the Group. The Management Board submitted to the Supervisory Board quarterly, semi-annual and annual business reports, within legally prescribed time limits. The Supervisory Board adopted them unanimously and without objections to the reports. In addition, the Supervisory Board was informed by the Management Board on corporate strategy, planning, business events, risk management, compliance, any deviations of business events from the original plans and estimates, as well as significant business transactions involving the Company and its affiliates.

The Supervisory Board evaluated the profile and competencies of individual Supervisory Board members and members of its committees. The evaluation was carried out by the president of the Supervisory Board with the assistance of appropriate committees, without engaging an external auditor.

The Supervisory Board consists of 9 members (optimal number) who all possess the knowledge, skills, as well as professional experience required for the performance of their duties. Diversity aspect is taken into consideration by ensuring the appropriate number of female members. Evaluation of the members of the Supervisory Board and its committees confirmed that every member makes an effective contribution, demonstrating commitment to their role and dedicating sufficient time to their duties.

Administrative support in preparing Supervisory Board meetings is provided by the Company Secretary, in an efficient and timely manner.

Out of 9 members of the Supervisory Board, women make 22%. When making proposals for appointment to the Supervisory Board of the Company, in addition to, primarily, the necessary expertise of the candidates, the Supervisory Board also considers the aspect of diversity.

Report on the supervision conducted in 2020, prepared for voting at the General Assembly meeting, contains the following:
- Manner and the extent to which the Supervisory Board oversaw the management of the Company in 2020,
- Results of review of annual financial statements prepared as at 31 December 2020,
- Auditor's reports and proposal on the distribution of profit,
- Results of review of the Management Board's report on the Company's performance in 2020,
- Results of the review of the report on relations with the parent company and its affiliates

Supervisory Board committees

Four committees operate within the Supervisory Board, assisting the Supervisory Board in the performance of its duties: Audit Committee, Strategic and Business Development Committee, Appointments Committee and Remuneration Committee. Members of all the committees are appointed from the ranks of the Supervisory Board.

Audit Committee

Audit Committee analyses financial statements in detail, supports the Company's accounting department and sets up appropriate and efficient internal control systems in the Company. The Committee ensures the integrity of financial information, specifically the validity and consistency of accounting methods used in the Company and KONČAR Group, including the criteria for consolidated financial reporting of Group companies. Moreover, the Committee is tasked with monitoring the internal control and risk management system with the aim of allowing the Company to identify, publicly disclose and appropriately manage the major risks to which it is exposed.

Darko Horvatin is the President of the Audit Committee, and Mario Radaković and Joško Miliša are its members.

The Audit Committee met three times in 2020. All the members of the Audit Committee participated in decision-making at all the meetings. At the meetings, the committee members discussed, made decisions and gave recommendations to the Supervisory Board on the following matters: reports on the implementation of the annual internal audit plan, implementation of the policy on the provision of non-audit services for 2020, supervision of the statutory audit and consolidated and unconsolidated annual financial statements for 2020, making recommendations for the adoption of those reports, and appointing auditors for 2020.

The Audit Committee is independent in its work and most of its members possess the appropriate expertise in the field of accounting and audit.

Strategic and Business Development Committee consists of five members. The Committee is tasked with providing support to the Supervisory Board as regards strategic planning, specifically: monitoring and assessing development and changes in the environment, evaluating the Group's short-term and long-term objectives, assisting with strategic decisions pertaining to acquisitions, joint investments, restructuring and development of strategic human resources. Ivan Milčić is the President of the Strategic and Business Development Committee and its members are: Branko Lampl, Zvonimir Savić, Joško Miliša and Maja Martinović. All members of the Committee are also members of the Supervisory Board.

In 2020, the Committee held 2 meetings and they were attended by all the Committee members.

Appointments Committee

Appointments Committee is a working body of the Supervisory Board formed for the purpose of preparing decisions to be made by the Supervisory Board. The Appointments Committee is competent for holding discussions and submitting proposals to the Supervisory Board regarding decisions on the appointment and election of Management Board members. The President of the Committee is Danko Škare, and Darko Horvatin and Ivan Milčić are its members. All members of the Committee are also members of the Supervisory Board.

In 2020, the Committee held 1 meeting, which was attended by all the Committee members.

Remuneration Committee outlines the content of Management Board member contracts and determines the structure of their remuneration.

The Committee is also in charge of drawing up the Remuneration Policy for Members of the Management and Supervisory Boards.

The President of the Committee is Branko Lampl, and Maja Martinović and Ruža Podborkić are its members. All members of the Committee are also members of the Supervisory Board.

In 2020, the Committee held 1 meeting, which was attended by all the Committee members.

Management Board

The Company's Management Board is the governing body solely responsible for overall business operations. It is appointed and recalled by the Supervisory Board.

The scope of work of the members of the Company's Management Board is determined by: business areas, activities and processes and markets. The Management Board is responsible for proper business risk management. At its regular meetings, it reviews the Company's economic, environmental and social impact.

At its regular meetings, the Supervisory Board evaluates the performance of the Company's Management Board and the Management Boards of Group companies based on business performance indicators and the maintaining and building of a positive reputation of the Company.

Through their membership in the Supervisory Boards and Assemblies and based on other rules adopted, Management Board members coordinate, direct, supervise and monitor performance in KONČAR Group companies. Members of the Management Board of KONČAR – Electrical Industry do not receive remuneration for their work in the Supervisory Boards of dependent companies.

In accordance with the Articles of Association, the Management Board may consist of three to seven members. At the moment, the Management Board has six members. Management Board members are appointed for a five-year term and may be reappointed without any limitations with regard to the number of terms. Every Management Board member manages the operations in their respective business area individually, at their own responsibility, with due care and diligence of a prudent businessman, and makes all their decisions only in the best interest of the Company. When deciding on key business policy matters or matters relating to business areas of other Management Board members, a Management Board member must present such matters to the Management Board, to be decided on by the Management Board as a whole.

The rights and obligations of Management Board members are defined by virtue of a Management Board Member Contract.

Remuneration report for the members of the Management and Supervisory Boards includes information on the remuneration amount, it is drawn up pursuant to Article 272 of the Companies Act and the Company's Remuneration Policy, and it will be presented to the General Assembly for adoption.

Members of the Management Board in 2020:

Gordan Kolak	President of the Management Board in charge of the area of energy (electricity generation, transmission and distribution)
Ivan Bahun	Deputy President of the Management Board in charge of the area of transport
Josip Ljulj	Member of the Management Board in charge of the area of industry
Miki Huljić	Member of the Management Board in charge of real estate management
Josip Lasić	Member of the Management Board in charge of the area of economics and finance
Božidar Poldrugač	Member of the Management Board in charge of digital solutions, ICT and urban infrastructure

In 2020, the term of office of the following members of the Management Board expired: Darinko Bago (19 January 2020), Marina Kralj Miliša (19 January 2020), and Miroslav Poljak (1 March 2020).

In 2020, the Company's Management Board held 47 meetings. All the meetings were attended by all the members of the Management Board. When prevented from attending in person, members of the Management Board attended the meetings through video conference calls and actively participated in the work and decisions of the Management Board.

In its first term of office, besides regular activities, the Company's Management Board also defined corporate priorities and the areas representing a foundation for defining further business strategies of the Company and KONČAR Group.

The Supervisory Board assessed that in 2020, the Management and Supervisory Boards cooperated effectively in the best interests of the Company, through regular contact. The Supervisory Board was duly and regularly informed by the Management Board on any business events of importance, the course of business operations, income and expenditure and the general status of the Company. The Management Board regularly submitted to the Supervisory Board quarterly, semi-annual and annual business reports, which were adopted by the Supervisory Board unanimously and without objections. The Management Board regularly informs the Supervisory Board on corporate strategy, planning, business events, risk management, compliance, any deviations of business events from the original plans and estimates, as well as significant business transactions involving the Company and its affiliates. The Management Board regularly submits legally prescribed reports to the Supervisory Board, and in between its meetings, the Management Board duly informs the Supervisory Board of any important events relating to the Company's operations.

The Company's Management Board has 6 members (optimal number) who all possess the knowledge, skills, as well as professional experience required for the performance of their duties. Every member makes an effective contribution, demonstrating commitment to their role and dedicating sufficient time to their duties.

Internal audit

KONČAR Group's Internal Audit Department performs the independent audit and control function. It informs the managers about performed audits through comprehensive reports (providing findings and recommendations for improvements).
The Internal Audit Charter was adopted in October 2018. It defines the scope of activities and main principles applied in the work of KONČAR Group's Internal Audit Department.

The Internal Audit Department is responsible for assessing the levels of risk management in business processes, auditing the effectiveness of the internal control system with the aim of improving risk management and compliance with procedures, examining and analysing the compliance of existing business systems with adopted policies, plans, procedures, laws and rules that may have a significant impact on business reports. It is tasked with recommending preventive measures in the areas of financial reporting, compliance, operations and control with the aim of eliminating risks and potential deficiencies that could lead to process inefficiencies or fraudulent practices. The Internal Audit Department informs the Management Board, the Audit Committee and the Supervisory Board about its work and the audit plan. Its findings and recommendations help the management with the improvement of processes, preventative elimination of potential risks the reduction of risks to acceptable levels.

In 2020, 7 audits were carried out in the following areas: audit of the procurement process in 4 subsidiaries, audit of the sales process in 1 subsidiary, audit of monitoring project profitability in 1 subsidiary and audit of the calculation of energy products and services in 1 company. The Overview of Findings and Recommendations presents in more detail all the findings and recommendations for all the performed audits with time limits and status reports. The report on the conducted audits was submitted and adopted by the Audit Committee.

The KOEI-R-A share

Shares of KONČAR – Electrical Industry Inc. are listed in the Official Market of the Zagreb Stock Exchange. The shares are identified by the symbol "KOEI-R-A", ISIN: HRKOEIRA0009.

In keeping with the Companies Act and Rules of Zagreb Stock Exchange, the Company ensures regular access to information on operations and activities and information on any facts and circumstances that may affect the share price (price sensitive information).

The Company's share capital amounts to HRK 1,208,895,930.00 and consists of 2,572,119 ordinary shares with a nominal value of HRK 470.00.

The Company applies the same conditions to all shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and their other characteristics. Voting rights encompass all shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession (one-share-one-vote rule).

In 2020, by virtue of decisions of the General Assembly, the profit generated in 2019 was allocated to retained earnings.
The outbreak of the COVID-19 virus in February 2020 and declaration of a pandemic resulted in high market volatility, extremely intense trading, and large index corrections. The second half of the year saw market stabilization, slight recovery of index value and recovery of market capitalization. Despite a better situation than in the first half of the year, the indices weakened, with CROBEX10 falling by -9.3% and CROBEX falling by -13.8%.

Consequently, at one point, the value of the KOEI-R-A share amounted to HRK 430.00, representing a 32.3% decrease compared to the closing price at the end of 2019. As the market situation stabilised, the price of KONČAR's shares grew and at the end of the reporting period, it amounted to HRK 580.00, representing an 8.9% decrease compared to the end of 2019.

Market capitalisation as at 31 December 2020 amounted to HRK 1,477.4 million.

In accordance with the decision on granting authorization to the Management Board for acquiring treasury shares, adopted at the General Assembly meeting on 15 January 2019, during 2020, the Company acquired a total of 11,350 treasury shares. By means of said decision, the Company's General Assembly authorized the Management Board to acquire treasury shares for a period of five years from the date of the decision, in the amount of HRK 25 million.

Acquisitions were done by trading in Zagreb Stock Exchange, and information on acquiring was published in accordance with legal regulations. Information is available on the web sites of the Company (www.koncar.hr), Zagreb Stock Exchange and HANFA.
Shares were acquired for the purpose of remuneration payable to employees and members of the Management Board.

As at 31 December 2020, the Company owned 26,670 treasury shares, which accounted for 1.04% of the Company's share capital.

On 26 January 2020, Končar – Electrical Industry Inc. and Interkapital vrijednosni papiri d.o.o. signed an Annex to the Market Making Contract. Interkapital vrijednosni papiri d.o.o. will continue to engage in market making for ordinary shares of KONČAR – Electrical Industry Inc., KOEI-R-A, ISIN: HRKOEIRA0009, listed on the Official Market of Zagreb Stock Exchange. Market maker's services include issuing simultaneous buy and sell orders regarding company shares, in accordance with the Rules of the Zagreb Stock Exchange.

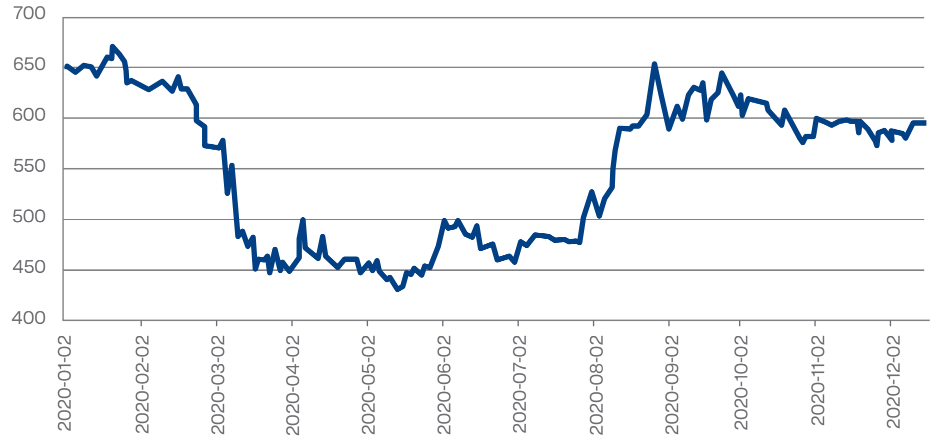
The market maker will continue to perform the tasks under the signed Annex until 31 December 2021.

Ownership Structure:

	31 December 2019		31 December 2020	
Shareholder	**No. of shares**	**Ownership stake %**	**No. of shares**	**Ownership stake %**
HPB d.d. (Capital Fund)	724.515	28,17	724.515	28,17
Addiko Bank /PBZ Croatia Osiguranje Mandatory Pension Fund	420.928	16,37	426.907	16,60
OTP Bank / AZ Mandatory Pension Fund	377.429	14,67	371.162	14,43
OTP Bank / Erste Plavi Mandatory Pension Fund	394.213	15,33	393.972	15,32
Restructuring and Sale Center / Republic of Croatia	73.162	2,84	60.000	2,33
Floričić Kristijan	50.714	1,97	40.714	1,58
Addiko Bank / RBA Mandatory Pension Fund	47.636	1,85	47.636	1,85
Zagrebačka banka / AZ Profit Voluntary Pension Fund	35.222	1,37	35.870	1,39
OTP Bank / OTP Index Fund– Open-ended investment fund with a public offering	23.189	0,90	21.345	0,83
Privredna banka Zagreb	17.536	0,68	20.493	0,80
Other shareholders	391.405	15,22	402.835	15,66
KONČAR (treasury shares)	16.170	0,63	26.670	1,04
	2.572.119	**100**	**2.572.119**	**100**

KOEI-R-A	**31/12/2019**	**31/12/2020**	**Index**
Final price (HRK)	636.47	580.00	91,1
Highest price (HRK)	710.00	670.00	94,4
Lowest price (HRK)	520.00	430.00	82,7
Volume	85.915	95.131	110,7
Turnover (HRK)	55.681.745	51.579.683	92,6
Market capitalisation (HRK)	1.626.960.526	1.477.360.533	90,8
EPS (HRK)	9.57	29.00	303,0
(profit of the parent company owner/weighted average number of shares)			

Fluctuations in the price of KOEI-R-A share in 2020



Social responsibility

KONČAR uses a comprehensive approach to corporate social responsibility, which includes care for employees, care for the environment and all the segments related to protection and conservation of natural resources, and cooperation with the community.

KONČAR systematically reports on its activities relating to corporate social responsibility to all its stakeholders, and detailed information can be found in the Corporate Social Responsibility Report (CSR Report), which has been published for fifteen years and is available on the website www.koncar.hr/drustvena-odgovornost/izvjesca-o-drustveno-odgovornom-poslovanju/. The report was prepared in accordance with the GRI Standards of the Global Reporting Initiative and the UN Global Compact Principles. Successful implementation of those world-renowned reporting frameworks is proven by the fact that KONČAR's CSR Report was also published on their websites. Following the global trends in corporate social responsibility, the CSR Report also looks at the UN Sustainable Development Goals of the 2030 Agenda and highlights the goals integrated by KONČAR into its business activities with special care.

Given that the year 2020 will be remembered for a pandemic of a previously unknown virus, as well as two devastating earthquakes in Croatia (the one in March whose epicentre was in Zagreb and the one in December whose epicentre was near Petrinja in Sisak-Moslavina County), most of the activities relating to corporate social responsibility were aimed at helping and mitigating the consequences of those events – both in the homes of employees and in the communities that suffered the most damage.

Following in the long-established tradition of corporate social responsibility, KONČAR Group companies donated HRK 1,000,000 for procurement of protective and medical equipment required for coronavirus prevention. The funds were donated to the "Croatia against Coronavirus" initiative. The equipment procured for health professionals includes FFP2 and FFP3 masks, protective clothing, gloves and face shields, respirators and vital signs monitors.

Management of KONČAR participated in the "Let's Return Preemies to Petrova hospital" initiative, organized by the Parents of Preemies Club "Palčići" to raise the funds needed to buy expensive medical equipment destroyed in the Zagreb earthquake. In an effort to help the little fighters and their parents create a better and healthier future, members of the Management and Supervisory Board of KONČAR – Electrical Industry joined in the initiative. By giving up a portion of their salaries for April, May and June 2020, they raised HRK 226.000 to purchase an incubator, which was donated to the University Hospital Merkur as part of the initiative.

Following the earthquake that hit Sisak-Moslavina County, KONČAR reacted promptly and extended a helping hand by donating HRK 500,000.00 to the State Budget through the special earthquake relief account, and by making its experts available to the services that eliminated the consequences of the earthquake, with the aim of rehabilitating the electric power infrastructure as soon as possible.

KONČAR made the 2020 Christmas donation to the Special Hospital for Chronic Diseases of Children in Gornja Bistra - the only medical institution in the Republic of Croatia that cares for children with diseases with a long course of treatment. With the aim of helping the Hospital, KONČAR decided to make a donation to improve the quality of life of patients and make the work of the hospital staff easier. In December 2020, medical equipment with needed educational toys was handed over to the Hospital Director by Gordan Kolak, M.Sc., President of the Management Board of KONČAR, and a sun shade was also set up for a playground located on hospital grounds used by the children with developmental problems.

2020 saw the continuance of traditional support of sports clubs named Končar, as well as some new projects being supported by sponsorships. One of them is the Special Power League project held in mid-June in Rovinj. It is a unique league for children with disabilities, organized as part of the umbrella project Youth Movement Power (YMP).

Although numerous scientific, professional and educational projects and events were postponed or cancelled in 2020 due to the coronavirus pandemic, KONČAR maintained a good decades-long cooperation with the academic community. To celebrate KONČAR Day and the 99th Company anniversary, the traditional KONČAR Award was awarded to the best graduate students at the Zagreb University of Applied Sciences on 24 January 2020. Under the motto "Best investments are investments in people", awards for the best students in specialist studies in Electrical Engineering, Computing, Information Technologies and Mechatronics were presented for the 16th time.

The Annual KONČAR Doctoral Dissertation Award was awarded for the 17th time for outstanding scientific achievement in the area of technical industry-applied sciences. This year's winner was Anita Martinčević, PhD, for her paper titled "Hierarchical Model Predictive Control of Temperature in Building Zones". The award was traditionally presented during the celebration of the Day of the Faculty of Electrical Engineering and Computing of the University of Zagreb, which took place on 20 November on a much smaller scale and in accordance with all epidemiological measures in force at the time.

In 2020, KONČAR strengthened its cooperation with the scientific community by concluding an agreement on supporting membership in the Croatian Academy of Engineering (HATZ). Based on this agreement, KONČAR and HATZ intend to strengthen the cooperation between technical and biotechnical sciences on the one side, and industry and economy on the other, by means of joint projects, conferences, seminars and other activities. HATZ will make scientific and professional potential of its members available to KONČAR as a supporting member, including HATZ's possibilities available through its membership in international associations of engineering academies.

Quality, environment, safety of people and information security

An integral part of KONČAR's business policy is the achievement of customer satisfaction by delivering quality and reliable products, protecting the environment, protecting the health and safety of employees in the workplace, as well as information security. These policies are implemented in the Group companies by applying and certifying management systems according to the requirements of international standards ISO 9001 for quality management, ISO 14001 for environmental management, OHSAS 18001/ISO45001 for occupational health and safety management, ISO/IEC 27001 for information security management and ISO/IEC 50001 for energy management.

ISO 9001 Quality Management System has been certified in twelve Group companies. The core purpose of the system is related to the management of all processes in the Company aimed at ensuring the quality of products or services and achieving customer satisfaction. ISO 9001 Certificate, issued by authorised independent certification institutions, provides customers with a degree of assurance concerning the capacity of an organisation to meet their demands. Nevertheless, customers tend to audit their partners directly (by carrying out on-site verification of the quality of management system operations in order to ensure the company's capacity to deliver on their requirements and expectations), especially during pre-qualification process when contracting certain products.

ISO 14001 Environmental Management System has been certified in fourteen Group companies. By applying this system, Group companies continuously monitor and analyse various aspects of the environment while performing their business activities and carrying out their processes, by looking into environmental impact of products and services they deliver, and taking adequate measures to mitigate any adverse effects. ISO 14001 Certificate, issued by authorised independent certification institutions, assures all stakeholders, ranging from central governments to local communities, of the Company's responsible behaviour towards the environment.

OHSAS 18001/ISO 45001 Occupational Health and Safety Management System has been certified in ten Group companies. By applying this system, Group companies continuously monitor and analyse workplace hazards and carry out measures for prevention and mitigation of accidents which might lead to impaired health or death of an employee or to property loss. OHSAS 18001/ ISO45001 certificate issued by authorized independent certification institutions provides assurance to all stakeholders of the company's implementation of legal and other measures aimed at ensuring a safe working environment and protecting employees from work-related injuries.

ISO/IEC 27001 Information Security Management System has been certified in four Group companies. By applying this system, Group companies have achieved information system, property and business information protection. ISO 27001 Certificate issued by certified independent certification institutes proves that information security management system provides data protection under the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces fraud risk, loss of information or unauthorized disclosure of information, improves the organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

ISO/IEC 50001 Energy Management System has been certified in two Group companies. By applying this system, Group companies achieve ongoing improvement of energy management, better resource and infrastructure utilization, and lower energy consumption i.e., lower costs, while at the same time limiting and controlling environmental impacts.

Energy efficiency

Energy efficiency is one of the most cost-effective ways of improving security of power supply and reducing the emission of greenhouse gases and other pollutants. In order to determine the level of efficiency, energy audits were carried out (to determine current energy consumption and energy performance) of buildings used for non-production activities of KONČAR Group companies. All buildings were assigned an appropriate energy efficiency class and energy efficiency improvement measures were put in place.

In addition to energy audits of buildings, energy audits of large enterprises were also carried out in order to determine and improve energy efficiency (analysis of technical and energy performance of buildings, analysis of all technical and process systems, i.e., of all production, transformation and distribution systems and consumption of energy sources). KONČAR Group companies which were classified as large enterprises under the criteria prescribed by legal regulations decided to avail themselves of the option to introduce and certify ISO 50001 Energy Management System instead of prescribed legal obligation to conduct energy audits. All KONČAR Group companies, regardless of their size, are encouraged to introduce this system.

At the beginning of 2020, the Group company whose activity is related to infrastructure activities (KONČAR - Energy and Services) carried out the process of introducing the EMAS system and was entered in the national EMAS register. EMAS is a voluntary environmental management system developed by the European Commission for organizations to assess, report and improve their environmental performance. Before the EMAS system, ISO 14001 Environmental Management System and ISO 50001 Energy Management System had been introduced. KONČAR - Energy and Services was the first domestically-owned company in Croatia to be entered in the national EMAS register.

All the adopted principles are based on the regulations of the Republic of Croatia and the adopted international standards. KONČAR accepts and applies international and local principles, charters and standards which contribute to a better quality of products, work processes and production, as well as to preservation and improvement of the natural and social environment.

The main priorities of the Company's business operations are:
- Generating profit
- Development and growth of the Company and Group companies
- Ensuring high quality of life and work environment.

Environment

By adopting a systematic approach to operations, KONČAR implements the policy and fulfils the objectives of quality management, environmental protection and occupational health and safety, which has been confirmed by certificates obtained from accredited autonomous bodies. A number of other standards have also been applied to individual products as per requirements specified by customers and users.

Equipment and products manufactured by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility – primarily in terms of operational safety and reliability (so as not to generate additional problems in electricity supply) and in terms of protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trains and trams manufactured by KONČAR, along with a major environmental component. As KONČAR Group bears immense responsibility for the products it offers in the market, it has been managing the entire production chain by supervising the quality of individual production processes.

KONČAR Group companies cooperate only with those suppliers whose materials and components do not cause harm to humans and the environment and can be recycled after the end of their life cycle or disposed of without endangering people or the environment. Selection of a supplier of individual materials and services is subject to meeting defined quality levels, lead times and payment terms, taking into consideration occupational health and safety and environmental protection. Suppliers are required to provide evidence (certificates) of compliance.

KONČAR Group companies keep a database of existing and potential suppliers. In addition to basic information on suppliers (name, address, phone number, e-mail, contact person), the database contains other data that might be relevant for the selection of suppliers, such as suppliers' references, information about complaints, information about the quality system, occupational health and safety and environmental protection.

The issue of the environment is of utmost importance as a major part of our equipment is installed directly in the environment (substations, hydropower plants, other power facilities or rolling stock). KONČAR has defined an Environmental Management Policy, which is available on www.koncar.hr and which has been communicated to all employees.

KONČAR products and equipment meet the highest safety standards and have a minimal environmental impact, as evidenced by no recorded cases of complaints or incidents to date.

Investors that decide to construct facilities using equipment supplied by KONČAR are required to comply with environmental protection regulation and standards. Aware of the environmental risk, KONČAR implements the Precautionary Principle. This is especially important as our products and facilities are often delivered to areas of high biodiversity (rivers, lakes and rural areas). There have been no incidents of loss of biodiversity due to our products thus far.

Employees

The achievement of business goals and the maintaining of KONČAR's competitive ability are based on the experience, knowledge and innovation of our employees. Successful human resource management ensures the acquisition, development, retention and rewarding of employees who achieve the set goals and create the added value of KONČAR.

Employee satisfaction and good working conditions are the key factors of productivity and engagement of employees. Human resources management implies the performing of research and analysis of employee motivation factors. For this reason, the company conducts individual interviews with employees and performs satisfaction surveys, which give the best possible perspective on the perceptions, needs and preferences of each individual employee and indicate areas where there is room for improvement. Based on the findings of such analyses, action plans are designed with the aim of creating a stimulating work atmosphere that contributes to employee welfare.

As at 31 December 2020, KONČAR had 3,464 employees. According to job type, 2687 workers hold engineering/production jobs (78 percent) and 777 workers (22 percent) hold administrative jobs.

Out of the total number of employees, 1459 have university degrees, 76 of whom are masters of science and 38 hold a doctoral degree. The share of employees holding higher education qualifications was 42%.

In 2020, 384 workers left the Group and 433 new employees were hired. Compared to 2019, in 2020, 85 more employees were hired and 55 fewer employees left KONČAR Group.

In 2020, the majority of employees were aged 25-39, with 39.4% of employees falling under that age group. 31% of employees are in the 40-54 age group. The fewest employees ate between the ages of 18 and 25 (4 percent), while employees over the age of 55 make up 25.6 percent of the total number of employees.

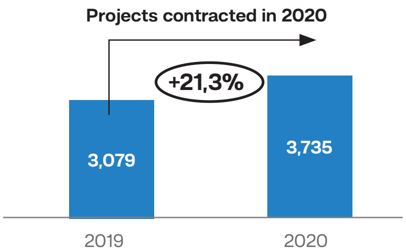
Considering the needs of employees for a good work-life balance and promotion of gender equality in the workplace, KONČAR – Electrical Industry Inc. conducted the MAMFORCE® assessment and, based on the proposals received, adopted an action plan as a prerequisite for obtaining the basic MAMFORCE® standard. The Action Plan envisages activities aimed at developing a culture of support, awareness and involvement, as well as maintaining a high level of employee engagement and satisfaction.

In 2020, the Company continued activities pertaining to compliance with the Whistleblower Protection Act (Official Gazette 17/19). After the Ordinance on the procedure for internal reporting of irregularities and the appointment of a confidential person was adopted in the previous reporting period, the Management Board of KONČAR – Electrical Industry, acting upon a written proposal of at least 20% of the employees, decided on the appointment of a confidential person for internal reporting of irregularities, and of that person's deputy. As published in the regular report, there were no irregularities reported in 2020.

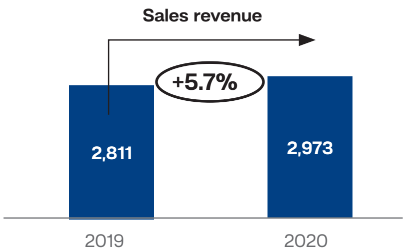
No case of racial, ethnic, gender, religious, political, national or social discrimination has been recorded during the reporting period. Under the provisions of the Collective Agreement, the Employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non-sexual harassment by the Employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

KONČAR Group financial operations

MARKET POSITION



Book-to-bill
1.26



a) Revenue from sale of products and services

In the period from January to December 2020, KONČAR Group companies generated consolidated revenue from sale of products and services in the amount of HRK 2,972.6 million, representing an increase by HRK 161.6 million (5.7%) compared to the result achieved in the same period of 2019.

Revenue generated in the Croatian market amounted to HRK 1,123.0 million, which was HRK 37.5 million (3.1%) less than was generated in 2019. The share of revenue generated in the Croatian market in total revenue from sale of products and services was 37.8%.

Regarding the structure of revenue from sale of products and services in the Croatian market, revenue generated from sale of products and services to HEP Group companies (HEP Generation, HEP Distribution System Operator, HEP Transmission System Operator) amounted to HRK 450.3 million (40% of total revenue generated from sale of products and services in the Croatian market). The company supplied HRK 133.6 million worth of products and services to the HEP Group indirectly via the companies Brodomerkur and Brodometalurgija, which resulted in total revenue from sale of products and services to the HEP Group amounting to HRK 583.9 million. Revenue from sale of products and services to HŽ Passenger Transport, HŽ Infrastructure and Rolling Stock Technical Services amounted to HRK 95.6 million (8.5% of total revenue generated in the Croatian market).

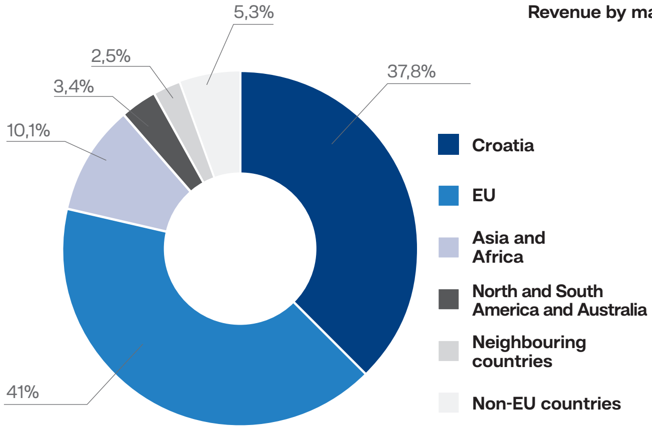
Revenue generated from sale of products and services in foreign markets amounted to HRK 1,849.6 million, representing an increase by HRK 199.1 million (12.1%) compared to the result achieved in the previous year. The share of export in total revenue from sale of products and services is 62.2%.

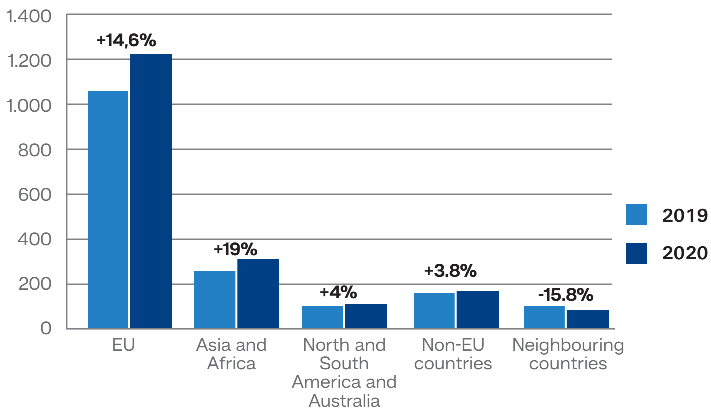
When it comes to export by individual countries, the most significant export volume pertains to the Swedish market, amounting to HRK 259.6 million or 14.0% of total export. Compared to the previous year, the value of goods and services exported to Sweden increased by HRK 63.3 million. Goods and services exported to Germany amounted to HRK 225.6 million (12.2% of total export); to Austria HRK 123.5 million (6.5% of total export); and to Bulgaria HRK 91.2 million (4.8% of total export).

Compared to the same period in the previous year, apart from Sweden, a significant increase in revenue from export sale of products and services pertained to the following markets: Great Britain (an HRK 55.3 million increase); Finland (an HRK 33.9 million); Iraq (an HRK 27.4 million increase); and Bulgaria (with HRK 27.3 million more in goods and services exported in comparison with the same period in the previous year).

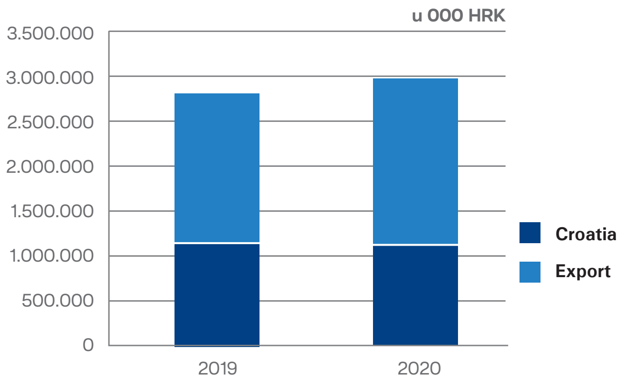
Sales revenue (in HRK 000)	2019	2020	Δ	Index 2020/2019
Croatia	**1,160,480**	**1,122,970**	**-37,510**	**96.8**
Export	**1,650,471**	**1,849,588**	**199,117**	**112.1**
EU	1,063,616	1,219,050	155,434	114.6
Asia and Africa	251,763	299,677	47,914	119.0
Non-EU countries	150,309	156,070	5,761	103.8
North and South America and Australia	97,013	100,923	3,910	104.0
Neighbouring countries	87,770	73,868	-13,902	84.2
Total sales revenue	**2,810,951**	**2,972,558**	**161,607**	**105.7**

Revenue by markets in 2020





Revenue from sales of products and services

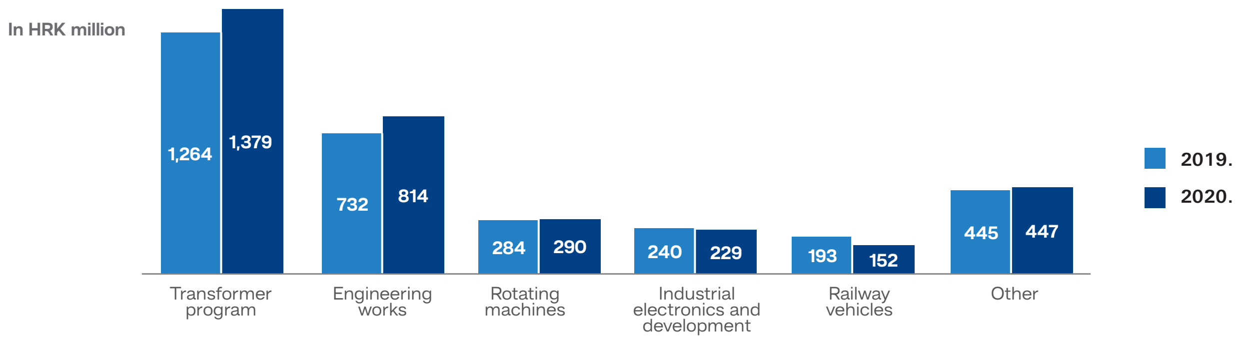


b) Revenue from sale of products and services by product group

In 2020, companies the activities of which are connected with transformers generated unconsolidated sales revenue of HRK 1,379 thousand, which was HRK 115 million more than in 2019. Out of the total sales revenue, 86% was generated on export markets, mostly in the EU. In 2020, companies the activities of which are connected with engineering generated revenue of HRK 814 thousand, which was HRK 82 thousand more than in 2019. Companies the activities of which are connected with rotating machines achieved the same results as in 2019, whereas companies active in industrial electronics and development and rolling stock generated sales revenue lower by HRK 52 million compared to the previous year. Lower revenue in the rolling stock segment was mostly the result the COVID-19 pandemic, which caused traffic restrictions, and even completely stopped traffic for a time, resulting in lower mileage travelled and lower revenue from services.
The company is currently developing KONČAR Group 2020+ Integral Strategy, which will define individual business segments and the reporting for the following reporting period will be based on that organisational structure.

In HRK million	2019	2020	Δ	2019/2020
Transformer program	1,264	1,379	115	109.1%
Engineering works	732	814	82	111.2%
Rotating machines	284	290	6	102.1%
Industrial electronics and development	240	229	-11	95.4%
Railway vehicles	193	152	-41	78.8%
Other*	445	447	2	100.4%
Adjustments **	-347	-338	9	n/p
Sales revenue	**2,811**	**2,973**	**162**	**105.8%**

Note:
** "Other" pertains to companies that are not categorised based on specific groups of products and services*
*** Adjustments pertain to inter-company relationships that are eliminated in consolidation procedures*



c) Projects contracted in 2020 and backlog as at 31 December 2020

In 2020, KONČAR Group companies signed contracts for new projects worth HRK 3,735 million. Compared to the previous year, the value of newly contracted projects was HRK 655.4 million (21.2%) higher. Book-to-bill ratio for 2020 was 1.26.

From the total amount of transactions contracted, HRK 1,907.3 million (51% of total transactions contracted) pertains to the Croatian market, whereas HRK 1,827.7 million (49% of total transactions contracted) pertains to export contracts.

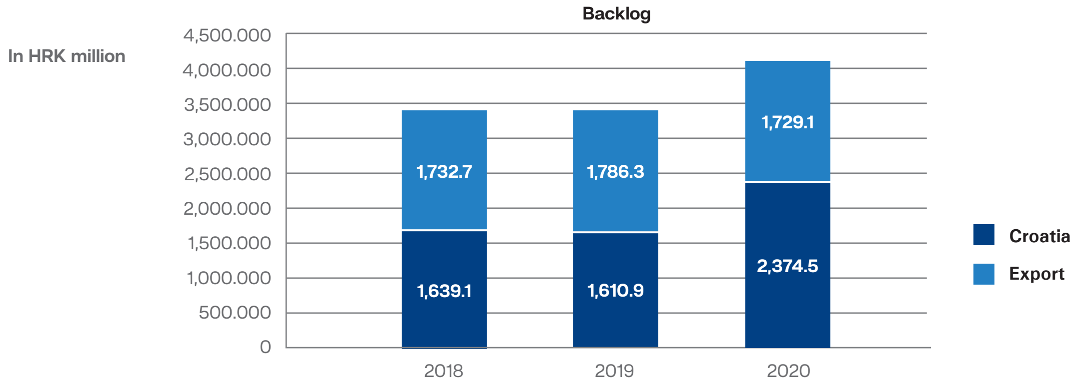
From the transactions contracted in the Croatian market in 2020, the most significant portion pertains to the contract for trains for HŽ Passenger Transport worth HRK 845.6 million (44.4% of total transactions contracted in the Croatian market) and to contracts for companies - members of the HEP Group (HEP Generation, HEP Distribution System Operator, HEP Transmission System Operator), which contracts are worth HRK 521.1 million. New contracts worth HRK 142.1 million were contracted for HEP indirectly via customers Brodomerkur and Brodometalurgija. Total amount of transactions contracted in 2020 for HEP Group companies was HRK 663.2 million or 34.8% of total contracts contracted in the Croatian market.

In the period from January to December 2020, the biggest portion of transactions contracted in the foreign markets pertained to EU countries, specifically HRK 1,372.1 million, which was HRK 156.5 million (12.9%) more than in 2019. The most significant increase in the number of contracts was in the German market, with HRK 307.8 million in concluded contracts, which represented an HRK 105.8 million increase compared to contracts concluded in 2019. For the Slovenian market, newly contracted transactions amounted to HRK 102.9 million, or HRK 70 million more than in the previous year. Increase in the number of concluded contracts was also present in the Latvian market, with HRK 75.9 million worth of new projects contracted, which was HRK 70.2 million more compared to 2019 (contract for trams for the city of Liepāja).

Due to travel bans and restrictions as well as reduced investments in the power engineering sector as a result of COVID-19 pandemic, there was a drop in the number of new contracts on other continents as well. Newly-contracted transactions in the Americas and Australia amounted to HRK 83.1 million, which was an HRK 53.9 million decrease compared to 2019. In Asia and Africa, there was HRK 182.2 million worth of new contracts concluded (which represents an HRK 52.2 million decrease). In non-EU countries, the newly-contracted transactions amounted to HRK 128.7 million, which was HRK 60 million less than in 2019. The biggest drop was recorded in neighbouring countries (former Yugoslavia countries and Albania), where newly-contracted transactions amounted to HRK 55.4 million, which was an HRK 117.6 million decrease compared to the previous year.

Based on the dynamics of delivery, HRK 1,258.7 million was contracted to be realised in 2020, which accounts for 33.7% of newly contracted transactions. HRK 1,314.2 million (35.1%) is scheduled to be realised in 2021, whereas HRK 1,162.1 million (31.2% of total new contracts concluded in 2020) is to be realised in 2022 and the subsequent years.

The value of transactions contracted (backlog) as at 31 December 2020 amounted to HRK 4,103.6 million, representing a 22.8% increase compared to the value at the beginning of the year.



Business results

Despite the many negative influences of the COVID-19 pandemic (higher raw material and transport prices, more difficulty in contracting new business deals due to travel bans or limitations), KONČAR Group nevertheless proved to be resilient to crisis, having achieved good results in 2020 and realized its plans to the greatest extent possible. With great commitment on the part of its employees, the company proved to be sufficiently agile and capable of adapting to unforeseen, extra-ordinary circumstances. EBITDA amounted to HRK 182.8 million, representing a 36.9% increase compared to the result achieved in 2019. If we include the impact of the one-off items of value adjustment of non-current assets, normalised EBITDA amounts to HRK 219.9 million. Normalised EBITDA margin is 7.4%.

Total consolidated operating income generated amounted to HRK 3,026.3 million, representing an increase by HRK 149.3 million (5.2%) compared to 2019. Total operating expenses amounted to HRK 2,941.1 million, representing a 3.7% increase compared to the result in the period from January to December last year.

EBIT amounted to HRK 85.0 million, representing an increase by HRK 43.2 million compared to 2019. Share in profit from investments accounted for by using the equity method amounted to HRK 25.7 million, representing an increase by HRK 9.5 million compared to 2019. Net finance income was HRK 7.2 million in total.

Consolidated profit and loss statement

Items (in HRK 000)	2019	2020	Δ	Index 2020/2019
OPERATING INCOME	**2,876,986**	**3,026,268**	**149,282**	**105.2**
OPERATING EXPENSES	**2,834,974**	**2,941,063**	**106,089**	**103.7**
Material costs and change in value of inventories	1,890,513	1,983,851	93,338	104.9
Staff costs	655,309	685,997	30,688	104.7
Depreciation and amortisation	91,487	97,546	6,059	106.6
Other costs	158,741	136,561	-22,180	86.0
Value adjustment of non-current and current assets	38,924	37,108	-1,816	95.3
OPERATING PROFIT	42,012	85,205	43,193	202.8
SHARE IN PROFIT OF ASSOCIATED PARTIES	18,022	26,908	8,886	149.3
SHARE IN LOSS OF ASSOCIATED PARTIES	1,865	1,246	-619	66.8
FINANCE INCOME	18,022	13,115	-4,907	72.8
FINANCE COSTS	7,102	5,963	-1,139	84.0
TOTAL INCOME	**2,913,030**	**3,066,291**	**153,261**	**105.3**
TOTAL EXPENSES	**2,843,941**	**2,948,272**	**104,331**	**103.7**
Profit before tax	69,089	118,019	48,930	170.8
Corporate tax	17,037	-9,557	-26,594	-56.1
PROFIT FOR THE PERIOD	**52,052**	**127,576**	**75,524**	**245.1**

Material Costs

Regarding operating expenses, material costs (cost of raw materials and supplies, costs of goods sold and other external costs) amounted to HRK 1,983.9 million. The share of material costs in operating income, adjusted for inventory changes, increased by 0.7 percentage points compared to the same period in the previous year. The increase resulted from the structure of sales and increased price of raw materials and supplies.

Staff Costs

Staff costs for the reporting period amounted to HRK 686 million, representing a nominal increase by 4.7% compared to the same period in the previous year. Staff costs increased in relation to the comparative period due to an increase in the number of employees (52 more employees at the Group level). The share of staff costs in operating income was 22%, representing a decrease by 0.7 percentage points compared to the period from January to December 2019.

Net Financial Expenses

Net financial result is positive and amounts to HRK 7.2 million. In the comparative period, it amounted to HRK 10.9 million. This is mostly related to fluctuations in foreign currency exchange rates in the largest markets for the Group.

EBITDA and EBITDA margin by product group (unconsolidated data)

In 2020, companies the activities of which are connected with transformers generated EBITDA of HRK 137 million, which was HRK 52 million more than in 2019. EBITDA margin was 10%. Companies active in other areas retained their EBITDA margin at approximately the same level, except the companies that produce rotating machines, which recorded a significant drop, primarily due to postponement of previously contracted projects.

In HRK million

EBITDA in HRK million	EBITDA 2019	EBITDA margin 2019	EBITDA 2020	EBITDA margin 2020
Transformer program	85	6.8%	137	10%
Engineering works	17	2.3%	20	2.5%
Rotating machines	27	9.4%	1	2.2%
Industrial electronics and development	20	8.2%	19	8.1%
Railway vehicles	21	11.0%	16	10.4%
Other	-3	-0.7%	34	7.5%

Financial position

The structure of the consolidated balance sheet indicates a balance between funding sources and investments and an overall financial stability of KONČAR Group.

Current assets are 2.1 times greater than total current liabilities. The structure of the consolidated balance sheet indicates a balance between funding sources and investments and an overall financial stability of KONČAR Group also in the upcoming period.

Summarised balance sheet

In HRK 000	31/12/2019	31/12/2020	Δ	Index 2020/2019
Assets	**3,930,278**	**4,174,893**	**244,615**	**106.2**
Non-current assets	1,638,846	1,598,223	-40,623	97.5
Current assets	2,291,432	2,576,670	285,238	112.4
Liabilities	**1,358,225**	**1,504,373**	**146,148**	**110.8**
Non-current liabilities	366,439	300,896	-65,543	82.1
Current liabilities	991,786	1,203,477	211,691	121.3
Equity	**2,572,053**	**2,670,520**	**98,467**	**103.8**

Current ratio

In HRK 000	31/12/2019	31/12/2020	Δ
Current assets	2,291,432	2,576,670	285,238
Current liabilities	991,786	1,203,477	211,691
Current ratio	**2,3**	**2,1**	

Capital expenditure (CAPEX)

Capital expenditure includes payments made for the purpose of acquiring property, plant and equipment and other intangible assets. In early 2020, after it became evident that a crisis will occur as a result of COVID-19 outbreak, measures to rationalise expenses were introduced and investment plans were reviewed, postponing a portion of planned investments that were not necessary for business operations. Despite that, CAPEX incurred in 2020 amounted to HRK 123,8 million. The most significant portion of investments pertained to completion of the project of increasing production capacities for production of distribution transformers, and investments in equipment and machinery in production companies.

Net debt

Total loans (long-term and short-term) amount to HRK 224,9 million, representing s reduction by HRK 103.0 million compared to the balance as at 31 December 2019. The Group has a low level of indebtedness to financial institutions and total loans account for 5,3% of total sources.

In HRK 000	31/12/2019	31/12/2020	Δ
Non-current liabilities to banks	120,406	164,073	43,667
Current liabilities to banks	104,533	163,820	59,287
Financial assets	293,357	76,621	-216,736
Cash and cash equivalents	369,786	743,747	373,961
Net debt	**-438,204**	**-492,475**	**-54,271**
Normalised EBITDA	169,521	219,859	50,338
Net debt / normalised EBITDA	**-2.6**	**-2.2**	

Operational risks

KONČAR Group is exposed to various market-related and financial operating conditions. The business environment risk is affected by political, economic and social conditions existing in markets in which the companies operate. Group companies monitor all the risks and take measures to mitigate their potential impact on financial stability.

Pursuant to the Code on Corporate Governance, which was created jointly by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange and entered into effect on 1 January 2020, the Management Board of KONČAR–Electrical Industry Inc. and its Supervisory Board adopted in 2020 the Risk Management Policy.

In order to ensure effective risk management, all companies members of the KONČAR Group operate in accordance with the following principles:

- Risk management is an integral part of the governance process.
- Risk management is an integral part of the decision-making process in the organisation.
- Risk management pertains to all activities that involve any uncertainty.
- Risk management is structured and timely.
- The risk management system is based on precise available information and data.
- Risk management is situation-specific.
- Risk management takes into account human and cultural factors.
- Risk management is transparent and inclusive.
- Risk management is dynamic and sensitive to change.
- Risk management supports measures and procedures conducted with the aim of improvement and development.

All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacies, set measures focused on illiquidity cause, prevention or elimination, take measures focusing on companies' sufficient long-term sources of funding in view of scope and type of their business activity, and regularly monitor capital adequacy level.

At Group level, long-term sources of funding (capital, long-term provisions and long-term liabilities) exceed non-current assets and average inventory balance, which indicates a sound funding maturity structure. The structure of consolidated balance sheet indicates financial soundness of the Group.

The companies within the Group manage risks that might affect the Group's operations by monitoring business processes and internal reports on the risks to identify and analyse the exposure by degree and magnitude of risks.

Impact of COVID-19 virus

The extraordinary situation caused by the COVID-19 outbreak required quick adjustment of all business processes in all companies in the Group in order to maintain business continuity and ensure delivery of contracted goods or services as agreed. Sufficient inventory of raw materials enabled production to go on unaffected during the first month of the pandemic outbreak, and the introduction of so-called "green corridors", as well as orientation toward local and alternative suppliers made it possible to ensure further continuity of production and operations. In Q1 2020, performance projections were made for each company, involving adjustment of certain assumptions in the event of the crisis and pandemic continuing throughout the entire financial year. In line with the prescribed epidemiological measures and instructions given by the Civil Protection Headquarters of the Republic of Croatia, the company introduced working in shifts in the companies active in production, and as far as employees whose jobs entail working in an office are concerned, they were instructed to work from home. Business meetings and contacts with customers took place via digital platforms. In such extraordinary circumstances, special attention was paid to keeping on board specific key know-how and key staff, which resulted in the fact that the number of employees has not dropped, nor have their earnings. Active financial control, cost monitoring, maintaining of liquidity and debt management made it possible for the Group to maintain financial stability and for the defined operating plans to be realised, for the most part.

In most Group companies, the contracting and production cycle takes a relatively long time to be completed, and precisely due to a sufficient number of contracts concluded at the beginning of the year, the operating result in 2020 was not significantly negatively affected by the pandemic. Limited travel and inability to actively engage with the customers have resulted in a drop in the number of new contracts on far-away markets and slowed down the company's entry into new markets.

Apart from the EU market, a drop in the number of new contracts in 2020 occurred in all other foreign markets as well.

Market risk

Market risk emerges as a result of potential losses stemming from less-than-favourable economic conditions and decline in market demand.

KONČAR Group operates domestically and internationally. The Group's core activity is energy and transportation-related equipment and products. The scope of production heavily depends on investments in those areas. Periods of straightforward contracting of new business correlate with periods of increased demand. Conversely, contracting new business is more challenging in periods of general recession and economic downturn, often coupled with a decline in profit margin.

Due to the impacts of crisis and geopolitical instability in certain parts of the world, there is risk that some markets might become limited or even completely closed, and as a result there is a growing tendency to award contracts to domestic enterprises.

In addition to volatile prices of key raw materials in 2020 in the power engineering equipment market, there has also been a strong competitive pressure on the price of equipment and profit margins. Competitiveness of our products and services is also impacted by changes of operating conditions for both the Group and our customers.
Management Boards of individual companies price their products autonomously.

Risk in the procurement market

In the last few years, the prices of the main raw material and other materials (copper, transformer sheet, steel and alike) have been subject to unpredictable changes (enormous increase or decrease in a short period of time).

Within the transformer program, the Group companies protect themselves from the risk of sudden price changes of strategic raw materials in several ways. In case of copper, given that it is a London Metal Exchange listed raw material, are used to negotiate with copper suppliers on the quantities and prices for future periods according to available stock and estimates of signed contracts. In case of steel, transformer sheet and some of the most important supply parts, risk is mitigated by having semi-annual or annual contracts with suppliers. Also, certain long-term customer contracts employ a sliding formula based on material price changes.

Technological and development risks
Group companies have continuously invested significant assets in key technologies and strategically important segments of production to mitigate risks of falling behind the competition in technology and development. In the upcoming period, KONČAR Group companies are planning to invest significant resources in new product development and upgrade of the existing product portfolio.

Human resources risks
Usual turnover and changes in the HR structure have not significantly affected the Group's operations. Sudden or bigger turnover of employees with specialist knowledge (e.g., EU labour markets opening to workers from Croatia) might affect business operations. Continuous investments in training and financial incentives offered to key company employees tend to hedge against HR risks.

Capital management risk
KONČAR Group manages capital to ensure operating as a going concern while maximising shareholder return through optimisation of debt-to-equity ratio. The Group manages capital and makes appropriate adjustments in line with changes of economic conditions on the market and risk-relevant characteristics of its assets.

Currency risk
The official currency of the Group is Croatian Kuna. However, certain foreign currency transactions are translated into the Croatian Kuna using the exchange rates in effect on the date of the balance sheet. Resulting exchange rate gains and losses are credited or debited against profit and loss account. The companies hedge against F/X risk by continuously planning and monitoring their cash flow, contracting sales and procurement in the same currency where possible, adjusting inflow and outflow dynamics by F/X forward purchases in accordance with cash inflows and outflows plan. Companies with a higher share of exports in the total revenue employ financial derivatives to hedge against financial risk exposure.

Interest rate risk
KONČAR Group companies are exposed to interest rate risk because a portion of the loans is subject to floating (variable) interest rates while the majority of assets are non-interest-bearing. Individual companies within the Group hedge exposure to interest rate risk in contractual relations with foreign currency payments.

Credit risk
Credit risk is the risk that one party to a contractual relationship will fail to discharge its obligations and thus cause a financial loss to the other party. The Group has adopted a policy of conducting business mainly with creditworthy organizations, thereby reducing the possibility of incurring financial losses due to default. The Group uses data and opinions collected from specialized credit rating companies or the Chamber of Commerce, as well as publicly released information on the financial position of customers and its own database to rank significant customers. The Group's risk exposure and the credit ratings of its partners are continuously monitored. In principle, transactions are contracted with creditworthy partners and appropriate payment security instruments (L/C, guarantees, etc.) are obtained.

Exposure to credit risk is affected mainly by individual characteristics of each customer. The Group performs impairments of trade receivables as an estimation of expected losses from receivables and investments.

Liquidity risk
Liquidity risk reflects the Group's inability to meet financial obligations as they mature. Risk management is a responsibility of the Management Boards of Group companies. The Group manages this risk by continuously monitoring estimated cash flow, comparing and adjusting it to the actual revenue and expenses. Overall, there has been no significant exposure of the Group to liquidity risk.

Business plan for 2021

KONČAR Group intends to maintain its high-level performance in the upcoming period as well and consequently, the Business Plan for 2021 predicts further growth and improvement of operating efficiency.

In the upcoming year and period, the Group's operations will be based on the following considerations and business commitments:

- **Sustainable development** – more strongly incorporates digital transformations into the development of new products and services in the area of core business (energy and transport)
- **Production** – individual products with a high level of complexity and added value (tailor-made products)
- **Product development** – own development in cooperation with scientific institutions and partner organizations
- **Export** – increasing export/domestic market ratio (up to 60% in export)
- **Personnel policy** – scholarships, specialist education, scientific education, human resources development
- **Synergy** – encouraging and optimizing the joint operations of the Group's companies
- **Social responsibility** – stronger involvement in all areas of society
- **Investment** – expanding the production capacity of strategic products, optimizing existing assets.

Final note:

The company KONČAR XD – High Voltage Switchgear is scheduled to be wound up in the first half of 2021.

The company KONČAR – XD High Voltage Switchgear was established as a joint venture of KONČAR – Electrical Industry and China XD Electric CO., Ltd. in 2018. During 2020, the business operations of KONČAR – XD High Voltage Switchgear were constantly hindered, primarily due to the impact and spread of the SARS-CoV-2 pandemic. In agreement with our partner from the People's Republic of China, it was concluded that the project cannot be realised as planned in the feasibility study. Therefore, we have made a joint decision on the activities necessary to terminate the Company's operations.

The Group does not find this to be an event after the balance sheet date that would require any adjustments to be made.

Apart from the foregoing, there have been no other events occurring between the reporting date and the date of approval of the financial statements that could have a significant impact on annual financial statements for the Company and the Group for 2020 and as a result, those financial statements are appropriate for publication.

BALANCE SHEET (in HRK 000)	GFI POD	MSFI	Difference	Explanation
Intangible assets (AOP 003)	45,901	38,559	7,342	Goodwill is disclosed in the IFRS statement as a separate category, while in the GFI-POD form it is included in intangible assets.
Goodwill	-	7,342	(7,342)	
Total	45,901	45,901	-	
Advances for purchase of intangible assets (AOP 007)	75	-	75	Advances and intangible assets in preparation are disclosed in the IFRS statement as a single category, while in the GFI-POD form they are disclosed as separate categories.
Intangible assets in preparation (AOP 008)	5,523	-	5,523	
Assets in preparation and advances	-	5,598	(5,598)	
Total	5,598	5,598	-	
Tangible assets (AOP 010)	1,191,745	1,036,061	155,684	Investment property and right-of-use assets are disclosed in the IFRS statement as separate items in accordance with the requirements of IAS 40 and IFRS 16.
Investment property	-	6,585	(6,585)	
Right-of-use assets	-	149,099	(149,099)	
Total	1,191,745	1,191,745	-	
Advances for purchase of tangible assets (AOP 116)	8,871	-	8,871	Advances and tangible assets in preparation are disclosed in the IFRS statement as a single category, while in the GFI-POD form they are disclosed as separate categories.
Tangible assets in preparation (AOP 017)	66,245	-	66,245	
Assets in preparation and advances	-	75,116	(75,116)	
Total	75,116	75,116	-	
Non-current financial assets (AOP 020)	298,568		298,568	Non-current financial assets are disclosed in the IFRS statement under investments accounted for using the equity method and other investments, while the difference in the amount of HRK 2,649 thousand pertaining to loans granted, deposits and alike is disclosed as non-current financial assets in the GFI forms and under loans and receivables in the IFRS statement. Receivables disclosed in the GFI form are included under loans and receivables in the IFRS statement.
Receivables (AOP 031)	24,655		24,655	
Investments accounted for using the equity method	-	287,223	(287,223)	
Loans and receivables	-	27,304	(27,304)	
Other investments	-	8,696	(8,696)	
Total	323,223	323,223	-	
Non-current assets held for sale (AOP 044)	8,985	-	8,985	Under IFRS 5, non-current tangible assets are recognised in the balance sheet as a separate, standalone item, whereas in the GFI-POD form they are recognised under inventories.
Non-current assets held for sale (Note 23)	-	8,985	(8,985)	
Total	8,985	8,985	-	
Receivables (AOP 046)	1,001,565	-	1,001,565	Receivables recognised by the method of measurement of progress in accordance with IFRS 15 are recognised as contract assets, while the same item is recognised as trade receivables in the GFI-POD form. Amounts included under receivables and prepaid expenses and accrued income in the GFI form are recognised in the IFRS statement under loans and receivables, receivables for prepaid corporate income tax and contract assets. Loans granted in the amount of HRK 824 thousand are included in the GFI form under current financial assets, while in the IFRS statement they are recognised under loans and receivables.
Prepaid expenses and accrued income (AOP 064)	9,497	-	9,497	
Loans and receivables	-	870,922	(870,922)	
Contract assets	-	135,110	(135,110)	
Receivables for prepaid corporate income tax	-	5,854	(5,854)	
Total	1,011,062	1,011,062	(824)	
Current financial assets (AOP 053)	77,085	-	77,085	Loans granted in the amount of HRK 824 thousand are included in the GFI form under current financial assets, while in the IFRS statement they are recognised under loans and receivables.
Current financial assets	-	76,261	(76,261)	
Total	77,085	76,261	824	
Retained earnings or accumulated loss (AOP 81)	319,397	-	319,397	Retained earnings and profit for the year are recognised in the GFI form separately, while in the IFRS statement they are recognised under retained earnings.
Profit or loss for the year (AOP 084)	73,889	-	73,889	
Retained earnings	-	393,286	(393,286)	
Total	393,286	393,286	-	
Provisions (AOP 088)	177,780	-	177,780	Provisions and non-current liabilities are recognised in the GFI form as separate categories, while in the IFRS statement they are recognised under non-current liabilities.
Non-current liabilities (AOP 095)	123,116	-		
Non-current liabilities	-	300,896	(300,896)	
Total	300,896	300,896	-	

BALANCE SHEET (in HRK 000)	GFI POD	MSFI	Difference	Explanation
Liabilities toward banks and other financial institutions (AOP 101)	120,407	-	120,407	The Group recognised long-term loan liabilities and liabilities towards banks under borrowings, while in the GFI-POD form, they are recognised under liabilities toward banks and other financial institutions and other non-current liabilities. Long-term loan liabilities are recognised in the GFI form under other financial liabilities.
Other non-current liabilities (AOP 105)	2,710	-	2,710	
Borrowings	-	122,006	(122,006)	
Other financial liabilities	-	1,111	(1,111)	
Total	**123,117**	**123,117**	**-**	
Current liabilities (AOP 107)	1,052,203	-	1,052,203	GFI form includes a separate category for accrued expenses and deferred income, while in the IFRS statement they are recognised under current provisions, depending on the category for which they meet the recognition criteria. In accordance with IFRS 15, contract liability from contracts with customers and contract liability – advances received from customers are recognised under contract liabilities, while in the GFI-POD form they are recognised under advances received/accrued expenses and deferred income. In addition, current provisions are recognised as a separate item in the IFRS statement, while in the GFI-POD form they are recognised under accrued expenses and deferred income. Items under trade payables and other liabilities classified in the GFI form in accordance with corresponding categories are recognised in aggregate in the IFRS statement.
Accrued expenses and deferred income (AOP 122)	151,274	-	151,274	
Current liabilities		1,203,477	(1,203,477)	
Total	**1,203,477**	**1,203,477**	**-**	

STATEMENT OF PROFIT OR LOSS (in HRK thousand)	GFI POD	MSFI	Difference	Explanation
Staff costs (AOP 137)	635,237	-	635,237	In the IFRS statement, staff costs also include employee benefits recognised in the GFI form under other costs.
Staff costs	-	685,997	(685,997)	
	635,237	*685,997*	*(50,760)*	
Other costs (AOP 142)	170,579	-	170,579	In the IFRS statement, staff costs also include employee benefits recognised in the GFI form under other costs. Other operating expenses recognised in the GFI form as a separate category are recognised under other operating costs in the IFRS statement.
Other operating expenses (AOP 153)	16,742	-	16,742	
Other operating costs	-	136,561	(136,561)	
	187,321	*136,561*	*50,760*	
Share in profit from investments accounted for using the equity method	-	25,662		Shares in profit/loss from associates and share in profit/loss of joint ventures are recognised in the GFI form under separate categories, while in the IFRS statement they are recognised under a single category.
Share in profit of associates (AOP 173)	22,784	-		
Share in profit of joint ventures (AOP 174)	4,124	-		
Share in loss of joint ventures (AOP 176)	(1,246)	-		
	25,662	*25,662*	-	

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Statement of Management's responsibilities

Pursuant to the Croatian Accounting Act, the Management Board of Končar – Electrical Industry Inc. (hereinafter: the Company) is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and its subsidiaries (together referred to as "the Group") and of the results of their operations and their cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for:

- selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the separate financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Management is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Statement of implementation of the corporate governance code, as well as the accompanying consolidated financial statements comprise the Annual Report of the Group and were authorised and signed by the Management Board on 12 April 2021 for issue to the Supervisory Board.

Signed on behalf of Management :

Gordan Kolak,
President of the Management Board

Ivan Bahun,
Deputy President and Member of the Management Board

Miki Huljić,
Member of the Management Board

Josip Lasić,
Member of the Management Board

Josip Ljulj,
Member of the Management Board

Božidar Poldrugač,
Member of the Management Board

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

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Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Končar – ELECTRICAL INDUSTRY Inc. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2020, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - comparative information

We draw attention to Note 2.2 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2019 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The financial statements of the Group as at and for the year ended 31 December 2019 and 31 December 2018 from which the statement of financial position as at 1 January 2019 has been derived, excluding the adjustments described in Note 2.2 to the financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 April 2020 and 10 April 2019, respectively.

As part of our audit of the financial statements as at and for the year ended 31 December 2020, we audited the adjustments described in Note 2.2 that were applied to restate the comparative information presented as at and for the year ended 31 December 2019 and the statement of financial position as at 1 January 2019. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended 31 December 2019 or 31 December 2018 (not presented herein) or to the statement of financial position as at 1 January 2019, other than with respect to the adjustments described in Note 2.2 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 2.2 are appropriate and have been properly applied.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Revenue from customer contracts recognized in profit or loss in 2020 amounts to HRK 2,972,558 thousand (2019: HRK 2,810,951 thousand). Please refer to the notes 2.6, 2.29a) and note 3 in the financial statements.

Key audit matter	How we addressed the matter
The Group's core activities include manufacturing, construction and sales of plant and equipment in the energy and transportation sector as well as related services such as design, engineering and maintenance. The applicable financial reporting standard governing the accounting for revenues, IFRS 15 *Revenue from Contracts with Customers*, requires management to exercise judgement in determining an appropriate revenue recognition pattern (point-in-time vs over time) as well as identifying all goods or services provided to customers and if to account for each such good or service as a separate performance obligation. Where requirements for recognition of revenue over time are met, the Group recognises revenue by reference to the 'progress to complete satisfaction' of the performance obligation which is typically calculated using the 'cost-to-cost' input method measuring the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation. This requires management to make reliable estimates with respect to future costs to completion of a contract and fulfilment of contractual obligations and directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract.	Our procedures performed in this area included: • Evaluating the design, implementation of controls over the revenue cycle and evaluating the controls within the information technology (IT) systems that support the recording of revenue; • Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the revenue standard; • Assessing the accuracy of contract budgets by analysing historical accuracy of prior year budgets for completed contracts and contracts with significant change in the stage of completion in the current year; • For a sample of contracts or contract equivalents with key customers in force during the reporting period: - challenging the Group's identification of performance obligations included therein; - critically assessing the Group's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations; - based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents with particular attention paid to amounts recognised at or around the reporting date;

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Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue recognition (continued)	
Key audit matter	**How we addressed the matter**
As also discussed in note 2.6, revenue is recognised at a point in time when the performance obligation relevant to the contract is executed and when control over the products and transfers to the customer which is typically upon delivery to the customer. In addition to the above, in relation to its contracts with customers, the Group typically receives advance payments which it accounts for as contract liabilities while goods or services transferred to the customer are recognised as either trade receivables or contract assets depending on whether the Group's right to receive consideration for such goods or services is subject to conditions other than the passage of time. Due to the above factors, accounting for revenues requires management to exercise significant judgment and making complex estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.	• For a sample of contracts where revenue is recognised over time, evaluating the appropriateness of the estimated 'progress to complete satisfaction' as at year-end by reference to the provisions of the contract and other supporting documents (such as budgets, progress reports and/or surveys of the progress reports); • For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Group's accounting records, and inspecting the underlying documentation; • Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items; • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for customer contracts.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Warranty provisions	
Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2020 amounted to HRK 182,307 thousand (31 December 2019: HRK 209,788 thousand). Please refer to the notes 2.24, 2.29b) and note 27 in the financial statements.	
Key audit matter	**How we addressed the matter**
The Group's customer arrangements include product warranties given to customers granted for a period ranging from 3 to 5 years from the delivery of products. The product warranties primarily cover expected costs to repair or replace components with defects or functional and/or serial errors as well as financial losses suffered by the Group's customers in connection with unplanned suspension of operations. As stated in note 2.29b), the Group estimates general provisions for product warranties by reference to: historical costs related to product warranties; industry statistics of products failure incidence levels; and market experience from other manufacturers. In addition, where applicable, specific risks attributable to individual customer contracts and related products (as explained in note 2.29b)) are taken into account when assessing the need for additional specific warranty provisions for such individual cases. The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.	Our procedures performed in this area included: • Testing the relevant controls regarding completeness of warranty provisions and how the Group assesses valuation of provisions. • Challenging the assumptions underlying the valuation of provisions by reference to relevant information from customer contracts (such as warranty duration and expiry), available industry information and historical information on costs related to product warranties. • Where specific warranty provisions were recognised in relation to individual customer contracts and related products, assessing the reasonableness of warranty provisions at year-end by: - obtaining an understanding of the nature of the specific provision through interviews with management and project managers; - inspecting relevant customer contracts and warranty terms as well as source documentation such as relevant warranty claims; - inspecting correspondence with customers, where applicable; • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for warranty provisions related to customer contracts.

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Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement included in the Annual Report of the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and the Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 9 July 2020 to audit the consolidated financial statements of Končar – ELECTRICAL INDUSTRY Inc. for the year ended 31 December 2020. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 12 April 2021;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditor's report is Igor Gošek.

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12 April 2021

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HRK'000	Restated* 2019 HRK'000
Revenue	3	2,972,558	2,810,951
Other operating income	4	53,710	66,035
		3,026,268	**2,876,986**
Change in inventory of work in progress and finished goods		86,249	4,768
Raw materials, products, consumables and services used	5	(2,070,100)	(1,895,281)
Staff costs	6	(685,997)	(655,309)
Depreciation and amortisation		(97,546)	(91,487)
Impairment losses	7	(37,108)	(38,924)
Other operating expenses	8	(136,561)	(158,741)
		(2,941,063)	**(2,834,974)**
Operating profit		**85,205**	**42,012**
Finance income		13,115	18,022
Finance expenses		(5,963)	(7,102)
Net finance income	9	**7,152**	**10,920**
Share in profit of equity accounted investees	16	**25,662**	**16,157**
Profit before tax		**118,019**	**69,089**
Income tax	10	9,557	(17,037)
Profit from continuing operations		**127,576**	**52,052**
Profit from discontinued operations, net of tax	30	-	2,902
Net profit for the period		**127,576**	**54,954**
Profit is attributable to			
Owners of the Company		73,889	27,372
Non-controlling interests		53,687	27,582
Earnings per share for profit from continuing operations			
Basic and diluted earnings per share	11	29.00	9.57
Earnings per share			
Basic and diluted earnings per share	11	29.00	10.71

**for restatements see note 2.2*

	Note	2020 HRK'000	Restated* 2019 HRK'000
Profit for the period		**127,576**	**54,954**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(2,405)	2,546
COMPREHENSIVE INCOME FOR THE YEAR		**125,171**	**57,500**
Comprehensive income for the period attributable to:			
Owners of the Company		72,621	28,714
Non-controlling interest		52,550	28,786
Comprehensive income for the period attributable to owners:			
Continuing operations		72,621	25,812
Discontinued operations		-	2,902

**for restatements see note 2.2*

KONČAR – ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

			*Restated**	*Restated**
		31.12.2020	**31.12.2019**	**1.1.2019**
ASSETS	Note	**HRK'000**	**HRK'000**	**HRK'000**
Goodwill	12	7,342	7,342	7,342
Intangible assets	13	38,559	40,084	37,870
Property, plant and equipment	14	1,036,061	1,073,998	993,689
Right of use assets		6,586	4,279	-
Investment property	15	149,099	149,284	138,934
Investments in equity accounted investees	16	287,223	284,225	284,387
Other investments	17	8,696	25,260	5,152
Loans and receivables	18	27,304	42,055	25,576
Deferred tax assets		37,353	12,319	10,131
Non-current assets		**1,598,223**	**1,638,846**	**1,503,081**
Inventories	19	735,791	555,946	567,680
Loans and receivables	20	870,922	979,337	914,276
Contract assets	21	135,110	88,768	51,461
Prepaid income tax		5,854	4,238	7,213
Financial assets	22	76,261	293,357	69,486
Cash and cash equivalents	23	743,747	369,786	616,629
Assets held for sale	24	8,985	-	-
Current assets		**2,576,670**	**2,291,432**	**2,226,745**
TOTAL ASSETS		**4,174,893**	**3,930,278**	**3,729,826**
EQUITY AND LIABILITIES				
Share capital		1,208,896	1,208,896	1,208,896
Capital reserves		720	720	720
Other reserves		777,637	753,611	682,691
Retained earnings		393,286	346,509	430,921
Attributable to owners of the Company		*2,380,539*	*2,309,736*	*2,323,228*
Non-controlling interests	*25*	289,981	262,317	244,146
EQUITY AND RESERVES	26	**2,670,520**	**2,572,053**	**2,567,374**
Borrowings	28	122,006	166,290	89,037
Warranty provisions	27	133,242	151,372	153,720
Other provisions	27	44,537	40,099	42,519
Other financial liabilities		1,111	8,678	8,131
Non-current liabilities		**300,896**	**366,439**	**293,407**
Borrowings	28	108,081	165,117	85,843
Trade and other payables	29	636,166	597,071	541,106
Contract liabilities	21	408,738	166,266	169,252
Warranty provisions	27	49,065	58,416	70,165
Other provisions	27	1,427	4,916	2,679
Current liabilities		**1,203,477**	**991,786**	**869,045**
Total liabilities		**1,504,373**	**1,358,225**	**1,162,452**
TOTAL EQUITY AND LIABILITIES		**4,174,893**	**3,930,278**	**3,729,826**

**for restatements see note 2.2*

	Note	2020. HRK'000	2019. HRK'000
Cash flows from operating activities			
Proceeds from trade receivables		3,361,548	2,720,577
Proceeds from insurance reimbursements		11,512	12,847
Proceeds from tax returns		132,121	114,570
Payments to suppliers		(2,293,053)	(2,050,828)
Payments for employees		(644,992)	(610,528)
Cash payments to insurance companies		(10,968)	(10,385)
Taxes paid		(129,869)	(92,991)
Other cash payments		(86,154)	(110,362)
Cash from operations		**340,145**	**(27,100)**
Interest paid		(5,507)	(5,386)
Income tax paid		(22,389)	(17,730)
Net cash flows from operating activities		**312,249**	**(50,216)**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		2,337	2,526
Proceeds from collection of receivables		2,916	-
Proceeds from sale of subsidiary	30	23,522	27,004
Interest received		6,505	10,359
Dividends received		16,895	62,587
Proceeds from repayment of term deposits and other investing activities		304,520	146,022
Purchase of non-current tangible and intangible assets	13, 14	(85,151)	(152,035)
Deferred consideration for acquisition of shares in subsidiary		(9,775)	-
Acquisition of additional interest in subsidiaries		(14,789)	-
Cash used for term deposits and other investing activities		(56,740)	(388,397)
Net cash flows from investing activities		**190,240**	**(291,934)**
Cash flows from financing activities			
Proceeds from borrowings	28	51,853	205,994
Other cash inflow from financing activities		1,257	-
Repayments of borrowings	28	(159,965)	(57,180)
Dividends paid		(13,118)	(51,343)
Purchase of treasury shares		(4,951)	(828)
Other outflow cash from financing activities		(3,604)	(1,091)
Net cash flow from financing activities		**(128,528)**	**95,552**
Net increase in cash flows		**373,961**	**(246,598)**
Cash and cash equivalents at beginning of the period		369,786	616,629
Net cash flow from discontinued activities	30	-	(245)
Cash and cash equivalents at end of year	23	**743,747**	**369,786**

KONČAR – ELECTRICAL INDUSTRY Inc.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

(in HRK thousand)	Share capital HRK'000	Capital reserves 000 HRK	Reserves from profit 000 HRK	Reserves for treasury shares 000 HRK	Treasury shares 000 HRK	Retained earnings 000 HRK	Profit for the year 000 HRK	Non-controlling interest 000 HRK	Total 000 HRK
As at 1 January 2019 (reported)	1,208,896	720	682,691	10,092	(10,092)	312,124	102,837	230,214	2,537,482
Restatements *	-	-	-	-	-	15,762	-	14,130	29,892
As at 1 January 2019 (restated)	**1,208,896**	**720**	**682,691**	**10,092**	**(10,092)**	**327,886**	**102,837**	**244,344**	**2,567,374**
Profit for the year	-	-	-	-	-	-	27,372	27,582	**54,954**
Other comprehensive income	-	-	-	-	-	-	-	-	**-**
Translation reserves	-	-	1,343	-	-	-	-	1,203	**2,546**
Total comprehensive income	*-*	*-*	*1,343*	*-*	*-*	*-*	*27,372*	*28,785*	***57,500***
Transactions with owners:									
Transfers	-	-	70,385	-	-	32,452	(102,837)	-	**-**
Allocation to reserves for treasury shares	-	-	(25,000)	25,000	-	-	-	-	**-**
Purchase of treasury shares	-	-	-	-	(828)	-	-	-	**(828)**
Dividends	-	-	-	-	-	(38,359)	-	(13,030)	**(51,389)**
Other	-	-	20	-	-	(2,842)	-	2,218	**(604)**
	-	*-*	*45,405*	*25,000*	*(828)*	*(8,749)*	*(102,837)*	*(10,812)*	***(52,821)***
As at 31 December 2019 (restated)	**1,208,896**	**720**	**729,439**	**35,092**	**(10,920)**	**319,137**	**27,372**	**262,317**	**2,572,053**
Profit for the year	-	-	-	-	-	-	73,889	53,686	**127,575**
Other comprehensive income									
Translation reserves	-	-	(1,269)	-	-	-	-	(1,137)	**(2,406)**
Total comprehensive income	*-*	*-*	*(1,269)*	*-*	*-*	*-*	*73,889*	*52,549*	***125,169***
Transactions with owners:									
Transfers	-	-	30,820	(574)	-	(2,874)	(27,372)	-	-
Purchase of treasury shares	-	-	-	-	(4,951)	-	-	-	**(4,951)**
Dividends	-	-	-	-	-	-	-	(13,096)	**(13,096)**
Effect of sales / acquisitions of subsidiaries	-	-	-	-	-	3,134		(11,789)	**(8,655)**
	-	*-*	*30,820*	*(574)*	*(4,951)*	*260*	*(27,372)*	*(24,885)*	***(26,702)***
As at 31 December 2020	**1,208,896**	**720**	**758,990**	**34,518**	**(15,871)**	**319,397**	**73,889**	**289,981**	**2,670,520**

**for restatements see note 2.2*

1. General information on the Group

1.1. Activities

The principal activities of the Končar – Electrical industry Group, Zagreb (hereinafter: "the Group") include the production of electrical machinery and appliances, production of transportation vehicles, machinery and metalworking.

The Group's principal activities are divided into four main areas:

I. Energetics and transportation: design and construction of plants and equipment for the production, transfer and distribution of electrical energy, electric locomotives, electromotive trains, trams and electrical equipment for stable electric traction plants;
II. Industry: electromotive drivers, low-voltage electrical equipment;
III. Trade: electrical household appliances, serial products and electrical low voltage switchgears;
IV. Special activities: research and development of products and infrastructural services.

Group structure

The Group comprises 11 subsidiaries involved in core business activities and 2 subsidiaries with special activities, research and development of products and infrastructural services.

The Group has two associates and two joint ventures, in China and Croatia.

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

Number of employees

As at 31 December 2020, the Group had 3,464 employees, while as at 31 December 2019 the Group had 3,411 employees.

Members of the Supervisory Board:

Joško Miliša	President of the Supervisory Board from 14 January 2020., Member until 13 January 2020
Luka Gašpar	President of the Supervisory Board from 1 July 2019 until 31 December 2019
Petar Vlaić	President of the Supervisory Board until 30 June 2019
Nikola Anić	Deputy President from 14 January 2020 until 12 July 2020 Member until 13 January 2020
Josip Lasić	Deputy President until 13 January 2020 Member from 14 January 2020 until 14 March 2020
Branko Lampl	Member of the Supervisory of the Supervisory Board
Ivan Milčić	Member from 13 July 2020.
Danko Škare	Member of the Supervisory Board from 13 July 2020
Mario Radaković	Member of the Supervisory Board from 14 October 2020
Ruža Podborkić	Member of the Supervisory Board from 29 October 2020
Zvonimir Savić	Member of the Supervisory Board from 17 November 2020
Maja Martinović	Member of the Supervisory Board from 17 November 2020
Darko Horvatin	Member of the Supervisory Board from 17 November 2020
Vicko Ferić	Member of the Supervisory Board until 12 July 2020
Jasminka Belačić	Member of the Supervisory Board until 29 October 2020
Vladimir Plečko	Member of the Supervisory Board until 31 May 2020

Members of the Management Board:

Gordan Kolak	President of the Management Board as of 20 January 2020 and Deputy President until 20 January 2020
Darinko Bago	President of the Management Board until 20 January 2020
Ivan Bahun	Deputy President as of 20 January 2019
Miki Huljić	Member
Josip Lasić	Member, as of 15 March 2020
Josip Ljulj	Member, as of 20 January 2020
Božidar Poldrugač	Member, as of 1 March 2020
Marina Kralj Miliša	Member until 20 January 2020
Miroslav Poljak	Member, until 1 March 2020
Ivan Tomšić	Deputy President until 20 January 2020

Compensations to members of the Management Board and Supervisory Board are presented in note 6 to the financial statements.

The financial statements are presented in HRK thousands (000 HRK). The stated amounts are rounded to the nearest HRK thousand.

2. Significant accounting policies

The principal accounting policies used for the preparation of these consolidated financial statements are presented below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards adopted in the European Union (EU).

The Group's consolidated financial statements have been prepared under the accrual basis of accounting, whereby the transaction effects are recognised when incurred and recorded in the financial statements for the period to which they relate, as well as under the going concern assumption.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 2.29.

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group.

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods ending 31 December 2020 and that have not been early adopted by the Group in the preparation of these financial statements. Management does not expect any of these standards to have a significant impact on the financial statements of the Group.

2.2 Restatement of comparatives

In these consolidated financial statements, the Group made a number of restatements of comparative information previously reported which result from the following:

- Reclassification adjustments - reclassifications of financial statement captions in the statement of comprehensive income and statement of financial position made in order to achieve better consistency and comparability of financial information;
- Corrections - restatements due to correction of accounting errors stemming from prior periods;

(i) Reclassifications adjustments

In 2020, the Group changed the classifications of certain categories in its financial statements in order to achieve a simpler and more transparent presentation of the its operations. These reclassifications have no effect on the net result of the comparative period.

Statement of comprehensive income

Part of the reclassifications relates to a change in the presentation of the statement of comprehensive income where certain cost classes are merged into one class to simplify presentation:

- Classes "Other costs", "Provisions" are merged into the class "Other operating expenses" while Impairment of non-financial assets” and "Impairment of financial assets” are merged into one class “Impairment losses”
- Classes "Cost of materials and energy", "Cost of goods sold" and “Cost of services” are merged into the class "Materials, consumables, goods and services used"

The Group also netted of foreign exchange gains and losses within net financial result and corrected an error in presentation whereby a portion of production and other staff related costs was previously incorrectly recognised within cost of materials and other operating costs instead of in staff costs. Additionally, certain items were reclassified from operating income (such as income release of provisions) and netted against relevant costs within “Other operating expenses”.

The above restatements did not have an impact on the net result or total comprehensive income of the Group.

Statement of financial position

Part of the reclassifications relates to a change in the presentation of the statement of financial position in which certain classes were merged into one class to simplify presentation:

- Class of non-current “Financial assets” was reclassified to “Other investments” or “Loans and receivables”
- Non-current asset class “Receivables” was reclassified to “Loans and receivables”
- Classes "Receivables from related parties", "Trade receivables", “Prepaid expenses and accrued income” and "Other receivables " are merged into the class "Loans and receivables".
- Class “Profit for the year” was reclassified to “Retained earnings”
- Classes "Liabilities to banks (borrowings)" and "Lease liabilities" are merged into the class "Borrowings".
- Classes "Liabilities to related parties", “Trade payables”, “Accrued expenses and deferred income” and "Other liabilities" are merged into the class "Trade and other payables". Additionally, certain accruals included in previous periods with provisions were re-classified to “Trade and other payables”.

(i) Reclassifications adjustments (continued)

In addition, the Group corrected classification errors whereby part of the liabilities which was misclassified into contract liabilities have been re-classified into “Trade and other payables” while part of assets which was misclassified into contract assets have been re-classified into “Inventory”.

Additionally, the Group misclassified “Deferred tax asset” as “Prepaid income tax” and also netted off amounts of prepaid income tax and income tax liabilities. Relevant corrections were made in each period presented.

(ii) Corrections

Restatement of provisions for warranty repairs

- In previous periods, provisions for warranty repairs erroneously included provisions for contracts with respect to which warranties have expired and for which consequently provision should have been derecognised in accordance with IAS 37. During 2020, the Group corrected this error by recognizing a decrease in provisions of HRK 19,979 thousand as at 1 January 2019 with the corresponding effect recognised in retained earnings. Furthermore, the Group also corrected the error in classification whereby provisions which were presented as a mezzanine category in previous periods were re-classified to current and non-current liabilities according to their maturity and renamed according to their nature.

Restatement of provisions for termination benefits

- In previous periods prior to 1 January 2019, the Group’s provisions included amounts provided for termination benefits to employees which do not satisfy the criteria for recognition as per IAS 19. During 2020, the Group corrected this error by recognizing a decrease in provisions of HRK 9,913 thousand as at 1 January 2019 and 31 December 2019 with corresponding effects recognised in retained earnings.

Restatement of the statement of financial position as at 1 January 2019

	Reported	Restatements		Restated
	1 Jan 2019	(i)	(ii)	1 Jan 2019
ASSETS	HRK'000	HRK'000	HRK'000	HRK'000
Goodwill	7,342	-	-	7,342
Intangible assets	37,870	-	-	37,870
Property, plant and equipment	993,689	-	-	993,689
Investment property	138,934	-	-	138,934
Investments in equity accounted investees	284,387	-	-	284,387
Financial assets	16,078	(16,078)	-	-
Other investments	-	5,152	-	5,152
Receivables	14,649	(14,649)	-	-
Loans and receivables	-	25,576	-	25,576
Deferred tax assets	231	9,900	-	10,131
Non-current assets	**1,493,180**	**9,901**	**-**	**1,503,081**
Inventories	559,520	8,160	-	567,680
Receivables from related parties	77,734	(77,734)	-	-
Loans and receivables	-	914,276	-	914,276
Trade receivables	774,069	(774,069)	-	-
Contract assets	59,621	(8,160)	-	51,461
Prepaid income tax	14,462	(7,249)	-	7,213
Other receivables	54,465	(54,465)	-	-
Financial assets	70,178	(692)	-	69,486
Cash and cash equivalents	616,629	-	-	616,629
Prepaid expenses	7,318	(7,318)	-	-
Current assets	**2,233,996**	**(7,251)**	**-**	**2,226,745**
TOTAL ASSETS	**3,727,176**	**2,650**	**-**	**3,729,826**
EQUITY AND LIABILITIES				
Share capital	1,208,896	-	-	1,208,896
Capital reserves	720	-	-	720
Other reserves	682,691	-	-	682,691
Retained earnings	312,125	102,837	15,960	430,922
Profit for the year	102,837	(102,837)	-	-
Attributable to the owners of the Company:	*2,307,269*	-	*15,960*	*2,323,229*
Non-controlling interest	230,214	-	13,932	244,146
EQUITY AND RESERVES	**2,537,483**	**-**	**29,892**	**2,567,375**
Warranty provisions	153,720	(153,720)	-	-
Other provisions	52,432	(52,432)	-	-
Provisions	**206,152**	**(206,152)**	**-**	**-**
Liabilities to banks (borrowings)	89,037	(89,037)	-	-
Borrowings	-	89,037	-	89,037
Warranty provisions	-	153,720	-	153,720
Other provisions	-	52,432	(9,913)	42,519
Other financial liabilities	8,131	-	-	8,131
Non-current liabilities	**97,168**	**206,152**	**(9,913)**	**293,407**
Liabilities to related parties	13,039	(13,039)	-	-
Liabilities to banks (borrowings)	85,843	(85,843)	-	-
Borrowings	-	85,843	-	85,843
Trade payables	413,302	(413,302)	-	-
Trade and other payables	-	541,105	-	541,105
Contract liabilities	181,026	(11,774)	-	169,252
Liabilities for advances received	6,394	(6,394)	-	-
Other liabilities	82,477	(82,477)	-	-
Current provisions	97,340	(97,340)	-	-
Warranty provisions	-	90,144	(19,979)	70,165
Other provisions	-	2,679	-	2,679
Accrued expenses and deferred income	6,952	(6,952)	-	-
Current liabilities	**886,373**	**2,650**	**(19,979)**	**869,044**
Total liabilities	**1,189,693**	**2,650**	**(29,892)**	**1,162,451**
TOTAL EQUITY AND LIABILITIES	**3,727,176**	**2,650**	**-**	**3,729,826**

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Restatement of the statement of financial position as at 31 December 2019

	Reported	Restatements		Restated
	31 Dec 2019	(i)	(ii)	31 Dec 2019
ASSETS	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Goodwill	7,342	-	-	7,342
Intangible assets	40,084	-	-	40,084
Property, plant and equipment	1,073,998	-	-	1,073,998
Right of use assets	4,279	-	-	4,279
Investment property	149,284	-	-	149,284
Investments in equity accounted investees	284,225	-	-	284,225
Financial assets	36,081	(36,081)	-	-
Other investments	-	25,260	-	25,260
Receivables	31,235	(31,235)	-	-
Loans and receivables	-	42,055	-	42,055
Deferred tax assets	216	12,103	-	12,319
Non-current assets	**1,626,744**	**12,102**	**-**	**1,638,846**
Inventories	546,807	9,139	-	555,946
Receivables from related parties	46,170	(46,170)	-	-
Trade receivables	842,413	(842,413)	-	-
Loans and receivables	-	979,337	-	979,337
Contract assets	99,991	(11,223)	-	88,768
Prepaid income tax	13,418	(9,180)	-	4,238
Other receivables	80,931	(80,931)	-	-
Financial assets	293,808	(451)	-	293,357
Cash and cash equivalents	369,786	-	-	369,786
Prepaid expenses	7,287	(7,287)	-	-
Current assets	**2,300,611**	**(9,179)**	**-**	**2,291,432**
TOTAL ASSETS	**3,927,355**	**2,923**	**-**	**3,930,278**
EQUITY AND LIABILITIES				
Share capital	1,208,896	-	-	1,208,896
Capital reserves	720	-	-	720
Other reserves	753,611	-	-	753,611
Retained earnings	303,376	27,371	15,762	346,509
Profit for the year	27,371	(27,371)	-	-
Attributable to the owners of the Company:	*2,293,974*	-	15,762	*2,309,736*
Non-controlling interest	248,187	-	14,130	262,317
EQUITY AND RESERVES	**2,542,161**	**-**	**29,892**	**2,572,053**
Warranty provisions	151,477	(151,477)	-	-
Other provisions	49,907	(49,907)	-	-
Provisions	**201,384**	**(201,384)**	**-**	**-**
Warranty provisions	-	151,372	-	151,372
Other provisions	-	50,012	(9,913)	40,099
Liabilities to banks (borrowings)	164,073	(164,073)	-	-
Borrowings	-	166,290	-	166,290
Lease liability	2,217	(2,217)	-	-
Other financial liabilities	8,678	-	-	8,678
Non-current liabilities	**174,968**	**201,384**	**(9,913)**	**366,439**
Liabilities to related parties	13,988	(13,988)	-	-
Liabilities to banks (borrowings)	163,820	(163,820)	-	-
Borrowings	-	165,117	-	165,117
Trade payables	437,376	(437,376)	-	-
Trade and other payables	-	597,071	-	597,071
Contract liabilities	180,592	(14,326)	-	166,266
Lease liabilities	1,297	(1,297)	-	-
Liabilities for advances received	16,399	(16,399)	-	-
Other liabilities	95,363	(95,363)	-	-
Current provisions	92,321	(92,321)	-	-
Warranty provisions	-	78,395	(19,979)	58,416
Other provisions	-	4,916	-	4,916
Accrued expenses and deferred income	7,686	(7,686)	-	-
Current liabilities	**1,008,842**	**2,923**	**(19,979)**	**991,786**
Total liabilities	**1,385,194**	**2,923**	**(29,892)**	**1,358,225**
TOTAL EQUITY AND LIABILITIES	**3,927,355**	**2,923**	**-**	**3,930,278**

Restatement of the statement of comprehensive income for 2019

	Reported 2019 HRK'000	Restatements (i) HRK'000	Restated 2019 HRK'000
Revenue	2,810,951	-	2,810,951
Other operating income	122,661	(56,626)	66,035
Operating income	**2,933,612**	**(56,626)**	**2,876,986**
Change in inventories of work in progress and finished goods	4,768	-	4,768
Cost of materials and energy	(1,581,866)	1,581,866	-
Cost of goods sold	(67,812)	67,812	-
Cost of services	(310,459)	310,459	-
Raw materials, products, consumables and services used	-	(1,895,280)	(1,895,280)
Staff costs	(547,701)	(107,608)	(655,309)
Depreciation and amortisation	(91,487)	-	(91,487)
Other operating expenses	(192,757)	34,016	(158,741)
Impairment of financial assets	(6,401)	6,401	-
Impairment of non-financial assets	(32,523)	32,523	-
Impairment losses	-	(38,924)	(38,924)
Provisions	(55,228)	55,228	-
Other costs	(10,133)	10,133	-
Operating expenses	**(2,891,599)**	**56,626**	**(2,834,973)**
Operating profit	**42,013**	**-**	**42,013**
Finance income	35,349	(17,327)	18,022
Finance expenses	(24,429)	17,327	(7,102)
Net financial result	**10,920**	**-**	**10,920**
Share in profit of equity accounted investees	**16,156**	-	**16,156**
Profit before tax	**69,089**	**-**	**69,089**
Income tax	(17,037)	-	(17,037)
Profit from continuing operations	**52,052**	**-**	**52,052**
Profit from discontinued operations, net of tax	2,902	-	2,902
Net profit for the period	**54,954**	**-**	**54,954**
Profit for the year attributable:			
Owners of the Company	27,372	-	27,372
Non-controlling interest	27,582	-	27,582
Earnings per share for profit from continuing operations			
Basic and diluted earnings per share in HRK	9.57	-	9.57
Earnings per share			
Basic and diluted earnings per share in HRK	10.71	-	10.71
PROFIT FOR THE PERIOD	54,954	-	54,954
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	2,546	-	2,546
COMPREHENSIVE INCOME FOR THE YEAR	57,500	-	57,500
Comprehensive income for the period attributable to:			
Owners of the Company	28,714	-	28,714
Non-controlling interest	28,786	-	28,786
Comprehensive income for the period attributable to the owners:			
Continued operations	25,812	-	25,812
Discontinued operations	2,902	-	2,902

2.3 Basis for consolidation

The consolidated financial statements of the Group include the financial statements of the Parent company and the financial statements of the companies controlled by the Parent company (subsidiaries). The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All intra--group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests in subsidiaries without change of control

The Group applies a policy of treating transactions with non-controlling interests that do not result in loss of control as equity transactions – that is, as transactions with the owners in their capacity as owners. For purchases from minority shareholders, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries/loss of control over subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

2.4 Investments in associates and joint ventures

Associates

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Dividends received or receivable from joint ventures are deducted from the carrying value of the investment.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Business combinations

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.

Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.6 Revenue recognition

Končar Group recognises revenue from:

- Manufacturing and sales of products, equipment and machines (e.g. transformers, rotary machines and other equipment and machinery) in the energy sector
- design and construction of rail vehicles and related equipment
- projects for construction of plant and equipment for generation, transmission and distribution of electricity as well as related design and engineering services

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer. The transfer of control of a good or service may take place continuously (revenue recognition on a progress towards completion basis) or at a point in time (recognition on completion). Before revenue is recognised, the Group identifies both the contract and the various performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activities. Most of the Group's contracts involve only one performance obligation. Revenue recognition policies under IFRS 15 applicable to revenue streams are as follows:

- *Revenue from sale of products, equipment and machinery*

Revenue from the manufacturing and sale of products, equipment and machinery is recognized by the Group in part over time as the performance obligation is performed, and in part upon completion, ie upon fulfilment of the performance obligation, depending on the specifics of a relevant contract.

With respect to the manufacturing and sale of products such as transformers, small motors and small generators, revenue is generally recognized at a point in time when control of goods passes to the buyer, usually after the delivery of the goods. Invoices are issued at that time and are usually paid within the deadlines defined by the contractual provisions. When one of the parties to the contract with the customer fulfils its obligation, the contracts with the customers are presented in the statement of financial position as a contractual obligation, contractual assets or as a receivable, depending on the relationship between the Group's performance and the customer's payment. Contractual assets and liabilities are stated as current, as they arose within the normal operating period.

Revenue from the manufacturing and sale of large generators (rotary machines) is recognised over time similar to the recognition policy for sale of rail vehicles.

- *Revenue from the sale of rail vehicles and related services*

Part of the Group's operations includes the manufacture and sale of rail vehicles and related maintenance services. Revenues from sale of rail vehicles are recognized over time in accordance with the fulfilment of the performance obligation by measuring the costs incurred up to a certain date in relation to the total expected costs required to perform the obligations under the contract. Typically, customer arrangements for sale of rail vehicles will either include maintenance services as a component of the main customer contract or such services would be contracted for separately. In either case, maintenance services are treated by the Group as a separate performance obligation and recognised over time as they are rendered.

- *Revenue from construction projects*

Revenue from project to construct plant and equipment in the energy sector is generally recognise over time as the performance obligation is satisfied.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the duration of the contract. Contract costs are recognized as incurred.

The Group estimates the ‘progress to satisfaction’ of the performance obligation to determine the appropriate amount of revenue and costs to recognize in a given period. The ‘progress to satisfaction’ is calculated using the ‘cost-to-cost’ input method which measures the proportion of contracts costs incurred up to the reporting date compared to total estimated contract costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the ‘progress to satisfaction’ and are presented as inventories, prepayments or other assets, depending on their nature. The Group present as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within ‘trade and other receivables’. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

When contractual terms of a customer arrangement do not give the Group an enforceable right to payment for performance completed to date, revenue from such project is recognised on completion and full satisfaction of the performance obligation until which time costs related to such projects are recognised within inventory.

- *Sales of services*

The Group generates revenue from services such as engineering, design and maintenance which may be contracted for separately or within a wider customer arrangement. When such services are included as a component of a customer contract (in case of contracts for construction of plants or complex products), they are typically treated as a separate performance obligation. Revenue from these services is generally recognised over time on a straight-line basis or as services are rendered, i.e. according to the measurement of expenses incurred up to a certain date in relation to the total expected costs required for the performance of the contract obligations as described in the previous section.

Contract assets and liabilities

A contract liability is recognised when the customer has paid a consideration and the Company has not fulfilled its contractual obligation by transferring goods or services. If the Company has transferred goods or services to the customer before the consideration is paid by the customer and the right to the consideration is only subject to the passage of time before the payment of the consideration is due, a trade receivable is recognised. Contract assets are recognised if the right to consideration is subject to a condition (for example, performance of another obligation).

2.7 Finance income and costs

Finance income and costs comprise interest on loans and borrowings calculated using the effective interest method, receivables for interest on investments, dividend income, foreign exchange gains and losses, gains and losses from financial assets at fair value through profit or loss.

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in notes in net amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

Finance costs comprise interest on loans, changes in fair value of financial assets at fair value through profit or loss, impairment losses from financial assets and foreign exchange losses.

2.8 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time for its intended use or sale, is added to the cost of that asset until the asset is substantially ready for its intended use or sale.

Other borrowing costs are charged to the income statement in the period in which they are incurred.

2.9 Foreign currency transactions

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in the income statement for the current year.

On consolidation, assets and liabilities of the Group's foreign operations are translated into the Group’s presentation currency at the exchange rates prevailing at the reporting date. Income and expenses are translated at the foreign exchange rates ruling at the dates of the transactions and the exchange differences are recognized in other comprehensive income. All foreign exchange gains and losses are recognised in the period in which the transaction occurred.

2.10 Income tax

The parent company as well as domestic Group companies account for their tax liabilities in accordance with Croatian law. Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates in effect at the balance sheet date.

Deferred taxes arise from temporary differences between the amounts of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. A deferred tax asset for the carry-forward of unused tax losses and unused tax credits is recognised to the extent that it is probable that future taxable profit will be realised on the basis of which the deferred tax assets will be utilised. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets or liabilities will be realised.

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

2.11 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares. Diluted earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares and potential shares arising from realised options.

2.12 Segment information

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

In identifying operating segments, Management mostly considers the sale of goods and provision of services within a certain economic area. Each of these operating segments are separately managed since they are determined on the basis of specific market needs. During the year the Group re-presented segment under a new structure to enhance transparency.

Policies of valuation/measurement used by the Group for segment reporting are the same as those used during the preparation of the financial statements.

Furthermore, assets which cannot be directly attributable to certain business segments remain unallocated.

There were no changes in the valuation methods used when determining the profit/loss of an operating segment compared to previous periods.

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

Non-current intangible assets and property, plant and equipment are initially carried at cost, which includes the purchase price, including import duties and non-refundable tax after deducting trade discounts and rebates, as well as all other costs directly attributable to bringing the asset to their working condition for their intended use.

Non-current intangible and tangible assets are recognised if it is probable that future economic benefits associated with the item will flow to the Group, if the cost of the asset can be reliably measured, and when the cost is higher than HRK 3,500.

After initial recognition, assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred. Gains or losses on the retirement or disposal of assets are included in the income statement in the period when incurred.

The amortisation and depreciation of assets commence when the assets are ready for use, i.e. when the assets are at the required location and the conditions necessary for use have been met. The amortisation and depreciation of assets ceases when the assets are fully expensed or classified as held for sale.

Amortisation and depreciation are charged so as to write off the cost of each asset, other than land, advances and non-current intangible and tangible assets under construction, over their estimated useful lives, using the straight-line method, as follows:

	Amortisation and depreciation rates (from – to %)
Development expenditure	20%
Concessions, patents, licences, software etc.	20%-25%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	2.9% - 25%
Tools and equipment, transport vehicles	3.4% – 25%
Other tangible assets	20%

Impairment of property, plant and equipment

The Company reviews the carrying amount of its property, plant and equipment to determine whether there is any indication of impairment of such assets. If any such indication exists, based on internal and external sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit (plant or line to which the asset belongs), and then the loss is allocated to individual assets within the unit.

When determining impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are changed.

The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If the amount of tangible assets exceeds its recoverable amount, the difference is charged to the operating result (impairment loss). At each reporting date the Group reviews if there are indicators that the previously recognised impairment loss should be reversed or decreased.

2.14 Investment property

Investment property is property (land, buildings or a part of a building, or both) held to earn rentals or for capital appreciation (or both). Investment property is treated as long-term investments. Investment property is carried at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Land is not depreciated. Depreciation of other investment property (buildings) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date and when necessary. The estimated useful life of the majority of investment properties, as assessed by management, is 5 years.

Subsequent expenditure is capitalised when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred. If the Group starts using the investment property, it is reclassified to property, plant and equipment. The Group discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers. Based on these estimates, the Group has estimated that the residual value of these properties is higher than its carrying amount and, accordingly, depreciation is not calculated until this residual value is reduced to a value lower than its carrying amount.

2.15 Financial assets and liabilities

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial asset or equity instrument of another entity.

Classification and measurement of financial assets

Financial assets are classified into three categories, depending on the selected business model for managing financial assets and the cash flow characteristics of the asset as follows:

- financial assets carried at amortised cost,
- financial assets at fair value through other comprehensive income and
- financial assets at fair value through profit or loss.

The business model for managing financial assets depends on how the Group manages the financial assets for the purpose of generating cash flows. A reclassification of debt instruments is required if the business model changes. Business models for managing financial assets include:

- amortised cost model - business model whose objective is to hold financial assets in order to collect contractual cash flows (principal and interest),
- fair value through other comprehensive income - business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- fair value through profit or loss - business model whose objective is to hold the financial assets for trading or for managing the financial asset on a fair value basis.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, when it has transferred the financial asset and substantially all the risks and rewards of ownership of this asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and financial liability for the proceeds received.

On derecognition of financial assets at fair value through profit or loss, all gains or losses arising from the derecognition of such assets are recognised in profit or loss.

On derecognition of financial assets carried at fair value through other comprehensive income (other than equity instruments classified in this category), cumulative gains or losses previously recognised in other comprehensive income are reclassified and transferred from equity to profit or loss.

On derecognition of equity instruments classified as financial assets at fair value through other comprehensive income, amounts previously recognised in other comprehensive income are not reclassified to profit or loss.

On derecognition of financial assets at amortised cost all gains and losses arising from the derecognition are recognised in profit or loss.

Impairment of financial assets

At each reporting date, the Group recognises impairment allowances for financial assets (except at fair value through profit or loss) using the expected credit loss model.

Expected credit losses are estimated on an individual or a portfolio basis in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money and
- reasonable and supportable information that is available (without undue cost and effort) about past events, current conditions and forecasts of future conditions and circumstances.

The credit loss allowance for trade receivables and contract assets is measured at an amount equal to lifetime expected credit losses, i.e. by using the simplified approach to ECL measurement.

In measuring expected credit losses, the Group uses historical observations (over a minimum period of 3 years) on days past due adjusted for estimated future expectations relating to the collection of receivables. Trade receivables are divided into portfolios depending on the country rating of the customer's registered office and maturity.

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when assessing credit loss, a general impairment approach is applied consisting of three stages: Stage 1, Stage 2 and Stage 3.

- Stage 1 - when determining the impairment of financial assets, a 12-month expected credit loss model is applied. This model applies if there is no significant increase in credit risk.
- Stage 2 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk.
- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

For the amount of expected credit losses, the value of the financial asset is impaired and the gain or loss on the impairment is recognised in profit or loss, except for debt instruments where the credit losses are recognised in profit or loss but the carrying amount is not impaired, instead revaluation reserves are recognised.

Objective evidence of impairment of financial assets for expected credit losses includes:

- significant financial difficulty of the issuer or debtor and/or
- breach of a contract, such as a default or delinquency in interest or principal payments; and/or
- probability that the borrower will enter bankruptcy or financial restructuring

The past due presumption itself is not an absolute indicator that credit risk has increased after initial recognition. The presumption that there has been a significant increase in credit risk after initial recognition due to default may be rebutted by the Company if it has reasonable and supportable information that there has been no significant increase in credit risk, but this may be an indicator of an increase in credit risk unless there is no other information available.

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

Share premium includes premium at the issue of shares. Transaction costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

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

Share capital repurchase

The amount paid for the repurchase of the share capital, including direct costs related to the repurchase, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury shares is recognised directly in equity.

Financial guarantee contracts

A financial guarantee contract is a financial liability measured initially at fair value and subsequently measured at the higher of:

- the amount determined under the expected credit loss model in accordance with IFRS 9 and
- the amount initially recognised less, where appropriate, the cumulative effect recognised in accordance with the revenue recognition policies.

Financial liabilities, classification and measurement

Financial liabilities, including borrowings that are initially measured at fair value, net of transaction cost. They are subsequently measured at amortised cost using the effective interest method, with an interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of a financial asset or to the amortised cost of a financial liability, except for credit-impaired financial assets.

Financial liabilities are classified as financial liabilities at fair value through profit or loss where the financial liability is either held for trading or designated by the company as such.

They are measured at fair value and the associated profit or loss is recognised through profit or loss, except for the changes in the fair value of the liabilities resulting from the changes in the company's own credit risk which are recognised in other comprehensive income. The net gain or loss recognised in the income statement includes any interest paid on the financial liability.

Derecognition of financial liabilities

A financial liability is derecognised when, and only when, it is discharged, cancelled or has expired.

2.16 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale when their carrying value will be recovered principally through a sale transaction rather than through continuing use.

This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition. Assets which are once classified as held for sale are no longer depreciated.

2.17 Inventories

Inventories are stated at the lower of cost or net realisable value. The cost of inventories comprises all purchase costs, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method.

Costs of conversion comprise costs that are specifically attributable to units of production such as direct labour and similar. They also comprise a systematic allocation of fixed and variable production overheads incurred in converting raw materials into finished goods. Fixed production overheads are indirect costs of production that remain relatively constant regardless of the level of production, such as depreciation, maintenance of factory buildings, the costs of factory management and similar. Variable production overheads are those that vary directly with the volume of production such as indirect materials and indirect labour.

The allocation of fixed production overheads is based on the normal level of productive capacity. The normal level of capacity is the average production expected to be achieved over a number of periods in normal circumstances, taking into account a production loss due to planned maintenance. Unallocated overheads are expensed in the period in which they are incurred.

Slow-moving and obsolete inventories are written off to its net realisable value by using value adjustment for these inventories. Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

2.18 Receivables

Receivables are initially measured at fair value. At each balance sheet date, receivables, whose collection is expected within a period of more than one year, are stated at amortised cost using the effective interest method, less any impairment loss. Current receivables are stated at the initially recognised nominal amount less the corresponding allowance for the estimated uncollectible amounts and impairment losses.

The credit loss allowance for trade receivables and contract assets is measured at an amount equal to lifetime expected credit losses, i.e. by using the simplified approach to ECL measurement.

In measuring expected credit losses, the Company uses historical observations (over a minimum period of 3 years) on days past due with regard to the collection of receivables adjusted for estimated future expectations relating to the collection of receivables. Trade receivables are divided into portfolios depending on the country rating of the customer's registered office and maturity.

The value of receivables is impaired and impairment losses for individual customers are incurred only if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of an asset when such event affects estimated future cash flows from receivables which can be reliably estimated.

Objective evidence of impairment of financial assets for expected credit losses includes:

- significant financial difficulty of the issuer or debtor and/or
- breach of contract, such as a default or delinquency in interest or principal payments; and/or
- probability that the borrower will enter bankruptcy or financial restructuring

2.19 Cash and cash equivalents

Cash consists of bank demand deposits, cash on hand and deposits and securities payable on demand or collectible within three months.

2.20 Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less, or in the regular operating cycle of the business if longer. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Borrowings

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

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

2.22 Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognized as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

The right-of-use assets are presented separately in the statement of financial position.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group’s incremental borrowing rate.

Each lease payment is allocated between the liability and the finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortization periods for the right-of-use assets are as follows:

- right of use for the vehicles 4 - 5 years

For a contract that contains a lease component and one or more additional lease or non-lease components, the consideration in the contract is allocated to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. Non-lease components are accounted for applying other applicable accounting policies

Payments associated with all short-term leases and certain leases of all low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognized with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognized as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise printers, small items of office furniture, business premises, tents and gas bottles.

The weighted average marginal lending rate used to measure lease liabilities is 2% to 4.25%.

Lease activities

The Group leases various properties cars, other small equipment (e.g. printers). Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights). The main lease features are summarized below:

- Small equipment (such as printers) is leased for a fixed period of 2 years with the purchase option at fair value.
- Cars are leased for a fixed period of 4 – 5 years

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The future cash outflows to which the Group as a lessee is potentially exposed that are not reflected in the measurement of the lease liability are not significant.

The Group does not provide any residual value guarantees.

2.23 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognised as deferred income in the balance sheet and released in the income statement on a systematic and appropriate basis in accordance with the useful life of that asset. Government grants are recognised as income over the periods necessary to match them with the costs (for which they are intended to compensate), on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

2.24 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

2.25 Employee benefits

i. Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to privately operated mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group is not obliged to provide any other post-employment benefits with respect to these pension schemes.

ii. Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as expenses when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

iii. Regular retirement benefits

Retirement benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

iv. Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

v. Short-term employee benefits

The Group recognises a liability for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.26 Contingent assets and liabilities

Contingent liabilities are not recognised in the Group's consolidated financial statements, but only disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the Group's consolidated financial statements, except in case where the realisation of income is certain and the assets in question are not contingent assets and their recognition is appropriate.

2.27 Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that:

a) represents a separate major line of business or geographical area of operations,

b) is part of a single co-ordinated plan to dispose of such a line of business or area of operations,

c) or is a subsidiary acquired exclusively with a view to resale.

The results and cash flows of discontinued operations, if any, are presented separately in the statement of profit or loss and the statement of cash flow with comparable information restated.

2.28 Events after the balance sheet date (subsequent events)

Events after the balance sheet date, which provide additional information on the Group's position at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements, if material.

2.29 Key accounting estimates and judgments

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

a) Revenue recognition

The Group recognises revenue both over time and at a point in time, depending on the specifics of a customer arrangement as described in accounting policy 2.6. When recognising revenue over time, the method of measuring progress highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments. The Group has determined the input method as the best method for measuring progress in providing services because there is a direct link between Group effort (total project costs incurred) and the transfer of services to the customer. If revenue is recognised over time, this is done by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations.

The Group also recognises revenue at a point in time for the delivery of goods by recognising revenue when the customer obtains control of a particular item, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unsatisfied obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

- *Extended warranties*

As part of its customer arrangements, the Group typically provides warranties for its products/projects performed for a period of 3 – 5 years. However, certain customer arrangements may include warranty periods which exceed those typically granted by the Group which is primarily related to contracts with customers in geographies where longer warranty periods are standard market practice. The Group nevertheless analyses contracts in which a warranty period significantly exceeds the typical warranty duration and assesses whether such warranties represent a separate performance obligation. As a result of its assessment, the Group did not identify significant contracts with extended warranties.

- *Significant financing component*

In certain contracts, the Group may agree to sell the equipment whose production may last longer than one year after the signing of the contract. Given the fact that the Group typically receives advances from customers, the period between payment by the customer and the transfer of the products to the customer may be longer than one year. In such cases, which are considered outliers, the amount received as an advance is considered a discounted transaction price. The Group analysed its contracts with customers and noted that the performance obligation in a majority of the Group's customer contracts is satisfied within one year. As a result, the Group did not identify contracts with a significant financing component.

b) Warranty provisions

The Group provides warranties for its products and completed projects for an average period of 3 - 5 years. In certain cases where warranties extend past this range, the Group analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a general provision for warranty repairs based on historical information and industry statistics (such as those related to incidence of major failure of certain equipment, primarily transformers and generators). Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances. Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of products as a result of technical analyses and correspondence with customers. Factors which affect these individual provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs. The Group has identified several contracts where defects have been identified which carry specific significant risks (exposure to extreme climate conditions, non-standard technical complexities) of substantial costs of rectification and/or replacement up to the expiry of these warranties. Further details are disclosed in note 27 to the financial statements.

c) Recoverability of non-financial assets

At the end of each reporting period, the Group assesses whether there are any indications that the value of non-financial assets should be impaired and estimates the recoverable amount of non-financial assets.

The impairment is based on many factors such as change in expected industry growth, increase in capital expense, changes in market conditions, changes in future funding possibilities, technological obsolescence, termination of provision of services or sale of goods, exchange costs, amounts paid in comparable transactions and other changes in circumstances that indicate the existence of impairment.

The calculation of fair value less costs to sell is based on the data available from related arm's length transactions for similar assets or observable market prices less any additional costs of asset disposal. The calculation of value in use is based on the discounted cash model, which is derived from the medium-term financial plan, and after that planning period they are extrapolated by using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflow and the rate used to extrapolate the data.

During the year, the Group conducted an impairment test related to the assets that constitute the wind farm owned by the subsidiary Končar – Renewable Energy Sources Ltd and recognised an impairment loss of HRK 17.4 million. The impairment test is based on the present value of discounted future cash flows from the wind farm over its expected useful life. The weighted average cost of capital (discount rate) used in the impairment test was 5.89%. In addition to the discount rate, the key variable that affects the impairment test is the expected price of electricity.

In case the applied discount rate had increased by 1%, this would decrease the estimated windfarm's recoverable amount by HRK 4.8 million. In case the applied electricity price had decreased by 1%, this would decrease the estimated windfarm's recoverable amount by HRK 1.4 million.

2.30 Subsidiaries:

	31 December 2020	31 December 2019
	Voting rights (%)	Voting rights (%)
Consolidated subsidiaries registered in Croatia:		
Končar - Small Electrical Machines Inc., Zagreb	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00
Končar - Electrical Engineering Institute Inc., Zagreb	100.00	100.00
Končar - Low Voltage Switches and Circuit Breakers Inc., Zagreb	-	100.00
Končar - Generators and Motors Inc., Zagreb	100.00	100.00
Končar - Steel Structures Inc., Zagreb	100.00	100.00
Končar - Switchgear Inc.	100.00	100.00
Končar - Renewable Energy Sources Ltd., Zagreb	100.00	100.00
Direct ownership	*90.30*	89.71
Indirect ownership	*9.70*	10.29
Končar - Electric Vehicles Inc., Zagreb	75.04	75.04
Končar - Electronics and Informatics Inc., Zagreb	88.98	88.98
Končar - Instrument Transformers Inc., Zagreb	99.77	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	67.90	67.90
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	100.00	79.05
Sunčana elektrana Vis d.o.o., Zagreb	-	100.00
Consolidated subsidiaries not registered in Croatia:		
Power Engineering Transformatory Sp. z o.o. (PET), Poznan, Poland *(Indirect ownership through subsidiary Končar - Distribution and Special Transformers Inc.)*	100.00	100.00
Non-consolidated subsidiaries due to imateriality:		
Konell Ltd., Sofia, Bulgaria	85.00	85.00
Windfarm Rust d.o.o. *(Indirect ownership through Končar – Renewable Energy Sources Ltd)*	100.00	100.00

In several subsidiaries, the Group has control through the majority of voting rights. However, the ownership share in these companies does not correspond to the share in voting rights since these companies also have preference shares that have all the rights as the ordinary shares have, except for voting rights. The share in the ownership of these companies is as follows:

	31 December 2020	31 December 2019
	Ownership share (%)	Ownership share (%)
Končar - Instrument Transformers Inc., Zagreb	61,97	61,97
Končar - Distribution and Special Transformers Inc., Zagreb	52,73	52,73
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	96,79	44,71

As at 30 December 2020, subsidiary Končar - Low Voltage Switches and Circuit Breakers Inc., Zagreb was merged to Končar - Switchgear Inc.

3. Revenue

	2020	**2019**
	HRK'000	HRK'000
Major products/service lines		
Transformers	1,331,729	1,231,297
Rotating machines	278,569	243,301
Engineering services	759,350	668,194
Rail vehicles	151,870	192,476
Industrial electronic and development	132,417	161,699
Other	318,623	313,984
Total revenue from contracts with customers	**2,972,558**	**2,810,951**
Related parties	104,724	89,356
Unrelated parties	2,867,834	2,721,595
Total revenue from contracts with customers	**2,972,558**	**2,810,951**
Timing of revenue recognition		
At a point in time	2,165,852	1,851,510
Over time	806,706	959,441
Total revenue from contracts with customers	**2,972,558**	**2,810,951**

Ravenue by regions:

	2020		**2019**	
	HRK'000	**%**	**HRK'000**	**%**
Croatia	**1,122,970**	**37,80%**	**1,160,480**	**41,14%**
Other countries in the European Union	1,219,050	41,00%	1,063,616	38,42%
	2,342,020	**78,80%**	**2,224,096**	**79,56%**
Asia and Africa	299,677	10,10%	251,763	4,82%
Neighboring countries	73,868	2,40%	87,770	3,84%
America and Australia	100,923	3,40%	97,013	2,96%
Europe countries not part of European Union	156,070	5,30%	150,309	8,82%
	630,538	**21,20%**	**586,855**	**20,44%**
	2,972,558	**100,00%**	**2,810,951**	**100,00%**

4. Other operating income

Other operating income relates to, amongst other items, income from insurance claims, income from the sale of materials, income from collected receivables previously written off and other income.

5. Raw materials, products, consumables and services used

	2020	**2019**
	HRK'000	HRK'000
Cost of raw materials and supplies	1,648,780	1,474,515
External product design and selling services	35,346	42,447
Cost of goods sold	84,778	64,540
Energy cost	140,597	147,444
Maintenance services (servicing)	34,313	36,890
Freight forwarding	22,348	25,800
Telephone, post and transport	35,669	32,415
Agent commission costs	15,963	16,321
Other external costs	52,306	54,909
	2,070,100	**1,895,281**

6. Staff costs

	2020	**2019**
	HRK'000	HRK'000
Net salaries and wages	377,080	356,934
Taxes and contributions from salaries	172,377	165,501
Contributions on salaries	85,780	82,984
Reimbursements of costs to employees, gifts and support	45,363	42,823
Compensations to members of the Supervisory Board (gross)	3,423	6,126
Voluntary pension funds	1,974	1,841
	685,997	**655,309**

In 2020, pension fund contributions amounted to HRK 105,330 thousand (2019: HRK 101,206 thousand).

During 2020 termination benefits and severances amounted to HRK 3,362 thousand (2019: HRK 4,219 thousand).

Average number of employees during 2020 was 3,436 (2019: 3,434 employees).

During the year, the Group capitalized salaries in the total amount of HRK 2,381 thousand (net salaries and wages in the amount of HRK 1,399 thousand, taxes, surcharges and contributions from salaries in the amount of HRK 731 thousand and salary contributions in the amount of HRK 251 thousand).

7. Impairment losses

	2020	2019
	HRK'000	HRK'000
Impairment losses on non-financial assets::		
Impairment losses on non-current assets:		
Impairment losses on property, plant and equipment	17,412	25,348
Impairment losses on intangible assets	1,560	-
Impairment losses on investment property	-	1,505
Impairment losses on current assets:		
Impairment of inventories	11,713	5,670
	30,685	**32,523**
Impairment losses on financial assets	**6,423**	**6,401**
Total impairment losses	**37,108**	**38,924**

8. Other operating expenses

	2020	2019
	HRK'000	HRK'000
Daily allowances for business trips and travel expenses	35,565	44,577
Net release of provisions	(17,048)	(4,215)
Intellectual and similar services	18,194	18,748
Insurance premiums	16,924	16,201
Bank charges and payment transactions	12,155	14,142
Entertainment	7,904	14,467
Professional training costs	4,568	5,717
Compensations for temporary service contracts and fees	3,286	5,021
Contributions, membership fees and similar charges	3,264	4,459
IT services	9,802	3,788
Sponsorships and donations	2,342	2,361
Taxes irrespective of result and fees	2,539	2,013
Accrued expenses	6,301	2,817
Other costs	30,765	28,645
	136,561	**158,741**

9. Net financial result

	2020	2019
	HRK'000	HRK'000
Finance income		
Interest income	11,194	11,869
Net foreign exchange gains	315	3,584
Income from dividends and shares in profit	623	987
Other finance income	952	458
Unrealised gains (income)	31	1,124
	13,115	**18,022**
Finance cost		
Interest expense	5,337	5,860
Other finance costs	533	866
Impairment losses on non-current financial assets	93	376
	5,963	**7,102**
Net financial result	**7,152**	**10,920**

10. Income tax

	2020	2019
	HRK'000	HRK'000
Current tax	16,012	17,037
Deferred tax	(25,569)	-
Income tax expense	**(9,557)**	**17,037**

The Group's current income tax differs from the theoretical amount that would arise using the actual tax rate applicable to profits of the Group as follows:

	2020	2019
	HRK'000	HRK'000
Consolidated profit before tax	118,018	69,089
Tax at applicable tax rate of 18%	**21,243**	**12,436**
Tax effect:		
Non-deductible expenses	7,798	15,325
Income not subject to tax	(5,918)	(6,867)
Utilisation of previously unrecognised tax losses	(2,731)	(1,257)
Tax losses for which no deferred tax asset is recognised	2,660	6,711
Change in recognised temporary differences	(1,063)	16
Recognition of deferred tax asset on investment tax credit	(19,935)	-
Income tax paid abroad	75	144
Investment tax credit utilisation	(11,686)	(9,471)
Income tax	**(9,557)**	**17,037**
Income tax expense is attributable to:		
Profit from continuing operations	(9,557)	17,037
Profit from discontinued operation	-	-
	(9,557)	**17,037**

Investment incentives

Investment incentives relate mainly to an investment tax credit received by the subsidiary Končar - Distribution and Special Transformers Inc. During previous periods, pursuant to the Investment Promotion and Development of Investment Climate Act, the subsidiary became eligible to receive incentive measures related to its investment project "High-Voltage Laboratory". The subsidiary was granted with tax incentives based on qualifying costs of new employment linked to the investment project and qualifying capital expenditure related to the investment project, in the form of an investment tax credit in the total approved amount of HRK 64,577 thousand. This amount is available to the subsidiary for reduction of its future income tax liabilities up to a maximum reduction of the corporate income tax rate by 85% ending by 31 December 2019. The incentive expired in the previous year and the unutilised amount of the incentive was HRK 14,734 thousand.

Furthermore, during October 2020, the subsidiary became eligible to receive incentive measures related to its investment project "Expansion of Production Capacity for Transformers" in the amount of HRK 28,114 thousand which is available to the subsidiary for reduction of its future income tax liabilities up to a maximum reduction of the corporate income tax rate by 75% ending by 31 December 2028. Based on the assessment of the recoverability of the tax incentive made by the management, the subsidiary recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit out of which HRK 9,551 thousand was utilised already in 2020.

Tax losses carried forward

Income tax attributed to the discontinued operations is equal to HRK 0 in 2019, considering the corresponding tax losses carried forward of the discontinued operation.

The Group can carry forward tax losses for companies which incurred losses in 2020 and are not subject to taxation and for subsidiaries that realised a profit in 2020 but are not subject to taxation due to tax losses carried forward from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income within the following 5-year period. As at 31 December 2020, unrecognised deferred tax assets on tax losses carried forward amount to HRK 18,549 thousand (31 December 2019: HRK 19,519 thousand). Tax losses relate to Group entities for which it was assessed that there will not be sufficient future taxable profits to utilise the losses.

Gross tax losses expire as follows:

	31 December 2020	31 December 2019
	HRK'000	HRK'000
Within 1 year	22,072	8,020
Within 2 years	24,821	23,394
Within 3 years	11,286	26,547
Within 4 years	25,456	12,595
Within 5 years	19,418	37,884
	103,053	**108,440**

In accordance with the regulations of the Republic of Croatia, the Tax Administration may at any time inspect the individual Group companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

11. Earnings per share

	2020 HRK'000	**2019** HRK'000
Profit for the year attributable to the owners		
From continuing operations	73,889	24,469
From discontinued operation	-	2,902
	73,889	*27,371*
Weighted average number of shares (net of treasury shares)	**2,547,936**	**2,556,226**
Basic and diluted earnings per share		
From continuing operations	29.00	9.57
From discontinued operation	-	1.14
Earnings per share	**29.00**	**10.71**

Diluted earnings per share for 2020 and 2019 are the same as basic since the Group had no convertible instruments or options outstanding during either period.

Weighted average number of shares is as follows:

	2020 **HRK**	**2019** **HRK**
Issued ordinary shares at 1 January	2,572,119	2,572,119
Effect of treasury shares held	(24,183)	(15,893)
Average number of shares	**2,547,936**	**2,556,226**

12. Goodwill

Goodwill was recognised in the course of gaining control over the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc. and Končar - Engineering Co. for Plant Installation & Commissioning Inc. Goodwill recognized per each company amounts to:

	HRK'000
Končar - Instrument Transformers Inc.	1,184
Končar - Distribution and Special Transformers Inc	6,090
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	68
At 31 December 2020	**7,342**

The group tests goodwill for impairment on an annual basis. No impairment losses were recognised in this respect as the amount is assessed as recoverable.

13. Intangible assets

	Development expenditure	Concessions, patents, licences, software etc.	Other	Assets under construction and advances	Total
Cost	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
At 1 January 2019	**107,801**	**35,793**	**1,626**	**18,886**	**164,106**
Additions	2,068	393	-	10,247	12,708
Transfer from assets under construction	8,092	6,944	-	(15,036)	-
Effect of sale of subsidiaries	-	(1,025)	-	-	(1,025)
Disposals	(29)	(1,052)	(119)	(1,337)	(2,537)
At 31 December 2019	**117,932**	**41,053**	**1,507**	**12,760**	**173,252**
Transfer from property, plant and equipment	-	4,074	-	-	4,074
Additions	1,101	3,394	-	8,625	13,120
Transfer from assets under construction	8,446	4,162	-	(12,608)	-
Disposals	-	(798)	-	(995)	(1.793)
At 31 December 2020	**127,479**	**51,885**	**1,507**	**7,782**	**188,653**
Accumulated amortisation					
At 1 January 2019	**96,374**	**27,730**	**1,507**	**624**	**126,235**
Amortisation for the year	4,905	3,649	-	-	8,554
Disposals	-	(878)	-	-	(878)
Impairment	(29)	(714)	-	-	(743)
At 31 December 2019	**101,250**	**29,787**	**1,507**	**624**	**133,168**
Transfer from property, plant and equipment	-	3,391	-	-	3,391
Amortisation for the year	5,674	7,013	-	-	12,687
Impairment	-	-	-	1,560	1,560
Effect of sale of subsidiaries	-	-	-	-	-
Disposals	-	(712)	-	-	(712)
At 31 December 2020	**106,924**	**39,479**	**1,507**	**2,184**	**150,094**
Net book amount					
31 December 2019	**16,682**	**11,266**	**-**	**12,136**	**40,084**
31 December 2020	**20,555**	**12,406**	**-**	**5,598**	**38,559**

14. Property, plant and equipment

in HRK thousand	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction and advances	Total
Cost							
At 1 January 2019	**152,405**	**941,841**	**1,046,694**	**320,319**	**3,544**	**83,375**	**2,548,178**
Additions	150	-	5,613	1,669	59	218,076	225,567
Transfer from assets under construction	16,564	100,247	47,628	16,427	-	(180,866)	-
Transfer to investment property	0	-	-	-	-	(34,226)	(34,226)
Sale of subsidiaries	(3,344)	(11,434)	(37,684)	(37,830)	(25)	(3,380)	(93,697)
Transfer from investment property	815	26,866	-	-	-	-	27,681
Disposals	-	(1,521)	(14,408)	(7,643)	(2,672)	-	(26,244)
At 31 December 2019	**166,590**	**1,055,999**	**1,047,843**	**292,942**	**906**	**82,979**	**2,647,259**
Reclassification	-	-	6,787	(6,787)	-	-	-
Additions	192	10,749	2,333	5,576	1,151	90,703	110,704
Transfer from assets under construction	-	7,440	46,152	12,757	-	(66,349)	-
Transfer to intangible assets	-	-	-	(4,031)	-	(43)	(4,074)
Transfer to assets held for sale	(2,586)	(19,441)	-	-	-	-	(22,027)
Sale of subsidiaries	-	-	(1,524)	-	-	(21,742)	(23,266)
Disposals	(198)	(737)	(16,758)	(11,045)	-	(10,432)	(39,170)
At 31 December 2020	**163,998**	**1,054,010**	**1,084,833**	**289,412**	**2,057**	**75,116**	**2,669,426**
Accumulated depreciation							
At 1 January 2019	**-**	**601,911**	**691,597**	**258,558**	**2,040**	**3,420**	**1,557,526**
Depreciation for the year	-	22,457	42,081	17,516	2	1	82,057
Impairment	-	-	25,348	-	-	-	25,348
Sale of subsidiaries	-	(7,417)	(28,927)	(35,087)	-	(3,380)	(74,811)
Transfer from investment property	-	5,494	-	-	-	-	5,494
Disposals and write offs	-	(157)	(13,121)	(7,192)	(1,882)	(1)	(22,353)
At 31 December 2019	**-**	**622,288**	**716,978**	**233,795**	**160**	**40**	**1,573,261**
Reclassification	-	-	6,314	(6,314)	-	-	-
Depreciation for the year	-	25,836	43,990	15,568	2	-	85,396
Impairment	-	-	17,412	-	-	-	17,412
Transfer to intangible assets	-	-	-	(3,391)	-	-	(3,391)
Transfer from assets under construction	-	(13,042)	-	-	-	-	(13,042)
Disposals and write offs	-	(284)	(16,107)	(9,840)	-	(40)	(26,271)
At 31 December 2020	**-**	**634,798**	**768,587**	**229,818**	**162**	**-**	**1,633,365**
Ne book amount							
At 31 December 2019	**166,590**	**433,711**	**330,865**	**59,147**	**746**	**82,939**	**1,073,998**
At 31 December 2020	**163,998**	**419,212**	**316,246**	**59,594**	**1,895**	**75,116**	**1,036,061**

The Group's property and plant in the carrying amount of HRK 355,807 thousand (2019: HRK 386,379 thousand) and equipment and movables in the amount of HRK 17,705 thousand (2019: HRK 18,570 thousand) has been pledged as collateral for long-term and short-term borrowings (note 28).

15. Investment property

Movements in investment property in 2020 and 2019 are presented below:

	Land	Buildings	Total
Cost	**HRK'000**	**HRK'000**	**HRK'000**
At 1 January 2019	**45,556**	**182,570**	**228,126**
Transfer from property, plant and equipment	-	34,226	34,226
Transfer to property, plant and equipment	(815)	(26,866)	(27,681)
At 31 December 2019	**44,741**	**189,930**	**234,671**
Reclassification	14,200	(14,200)	-
At 31 December 2020	**58,941**	**175,730**	**234,671**
Accumulated depreciation			
At 1 January 2019	**-**	**89,192**	**89,192**
Impairment	555	950	1,505
Depreciation for the year	-	184	184
Transfer to property, plant and equipment	-	(5,494)	(5,494)
At 31 December 2019	**555**	**84,832**	**85,387**
Reclassification	10,396	(10,396)	-
Depreciation for the year	-	185	185
At 31 December 2020	**10,951**	**74,621**	**85,572**
Net book amount			
31 December 2019	**44,186**	**105,098**	**149,284**
31 December 2020	**47,990**	**101,109**	**149,099**

The fair value of land amounting to HRK127.8 million and fair value of buildings amounting to HRK 161.8 million relates to fair value level 3 since the input variables are not based on observable market data.

16. Investments accounted for using the equity method

	31 December 2020 Ownership share (in %)	31 December 2019 Ownership share (in %)
Associates accounted for by using the equity method:		
Končar - Power Transformers Ltd., Zagreb	49,00	49,00
Elkakon d.o.o.., Zagreb*	50,00	50,00
Joint ventures accounted for using the equity method:		
KONČAR - XD High Voltage Switchgear Ltd.	50,00	50,00
TBEA Končar Instrument Transformers Ltd., China *	27,00	27,00
Male hidre d.o.o.*	51,00	-

* company in indirect ownership by the Company

The company Končar-Power Transformers Ltd. is primarily engaged in the production of all types of high efficiency power transformers intended for the production, transmission and distribution of electricity. This company is in majority ownership of Siemens and represents a strategic partnership for the Group. Associate Končar - Power Transformers Ltd., Zagreb has a financial year end as at 30 September each year. The Group presented the financial position of the associate as at 31 December while the share in profit is recognised based on the financial performance of the associate for its financial year as presented further.

The company Elkakon d.o.o. produces industrial conductors and is primarily a strategic partner to the subsidiary Končar D&ST d.d.

The company Tbea Končar Instrument Transformers, China produces electric transformers, power transformers, combined instrument transformers and their components and represents strategic partnership for the Group that enables access to new customers and eastern markets.

KONČAR - XD High Voltage Switchgear Ltd. is in the process of liquidation and does not have active operations.

The company Male hidre d.o.o. was incorporated during 2020 and will primarily be in electricity generation segment.

Movements in investments in associates and joint ventures are as follows:

	Power Transformers Ltd.	Elkakon d.o.o.	Tbea Končar Instrument Transformers Ltd.	KONČAR - XD High Voltage Switchgears Ltd.	Male hidre d.o.o.	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
1 January 2019	**233,845**	**4,822**	**8,666**	**37,054**	-	284,387
Profit/(Loss)	16,043	675	1,303	(1,865)	-	16,156
Dividend payment	-	(250)	-	-	-	(250)
Dividend declared	(16,043)	-	-	-	-	(16,043)
Other	-	(25)	-	-	-	(25)
31 December 2019	**233,845**	**5,222**	**9,969**	**35,189**	-	**284,225**
Incorporation	-	-	-	-	3,164	3,164
Profit/(Loss)	21,836	947	4,124	(1,239)	(7)	25,660
Dividend payment	-	(200)	-	-	-	(200)
Dividend declared	(25,614)	-	-	-	-	(25,614)
Other	-	(12)	-	-	-	(12)
31 December 2020	**230,067**	**5,957**	**14,093**	**33,950**	**3,157**	**287,223**

Dividends declared by the associate reduce the equity accounted investment and are presented as dividends receivable within note 20 "Loans and receivables". The total dividend paid in 2020 amounts to HRK 16,243 thousand while in 2019 the total cash inflow from dividends amounted to HRK 62,587 thousand.

Summary information on the financial position of associates and joint ventures as at 31 December 2020 is shown in the following table:

	Associates			**Joint ventures**		
	Končar - Energetski transformatori d.o.o.	**Elkakon d.o.o.**	**Tbea Končar Instrument tranformers Ltd.**	**KONČAR - XD Visokonaponska sklopna postrojenja d.o.o.**	**Male hidre d.o.o.**	**Total**
	2020	**2020**	**2020**	**2020**	**2020**	**2020**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Non-current assets	72,061	9,216	2,717	44	3,040	87,078
Current assets	758,458	17,550	166,133	68,119	3,150	1,013,410
Total assets	**830,519**	**26,766**	**168,850**	**68,163**	**6,190**	**1,100,488**
Total liabilities	**352,419**	**16,322**	**109,016**	**110**	-	**477,867**
						-
Revenues	870,795	95,644	115,063	1,367	-	1,082,869
Expenses	(816,349)	(93,333)	(99,571)	(3,845)	(14)	(1,013,112)
Profit before tax	54,446	2,311	15,492	(2,478)	(14)	69,757
Income tax	(9,882)	(416)	(219)	-	-	(10,517)
Profit after tax	*** 44,564**	**1,895**	**15,274**	**(2,478)**	**(14)**	**59,241**
	49%	50%	27%	50%	51%	
Share in profit for equity accounted investments	**21,836**	**948**	**4,124**	**(1,239)**	**(7)**	**25,662**

**based on the financial year of the associate*

Summary information on the financial position of associates and joint ventures as at 31 December 2019 is shown in the following table

	Associates			Joint ventures	
	Končar - Energetski transformatori d.o.o.	**Elkakon d.o.o.**	**Tbea Končar Instrument tranformers Ltd.**	**KONČAR - XD Visokonaponska sklopna postrojenja d.o.o.**	**Total**
	2019	**2019**	**2019**	**2019**	**2019**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Non-current assets	101,227	9,216	2,983	79	113,505
Current assets	640,829	1,755	127,734	70,706	841,024
Total assets	**742,056**	**26,766**	**130,717**	**70,785**	**954,529**
Total liabilities	**325,264**	**16,322**	**84,703**	**407**	**426,696**
Revenues	727,524	89,789	95,282	301	912,896
Expenses	(687,258)	(88,142)	(89,788)	(4,032)	(869,220)
Profit before tax	40,266	1,647	5,494	(3,731)	47,407
Income tax	(7,542)	(297)	(667)	-	(8,506)
Profit after tax	*** 32,724**	**135**	**4,827**	**(3,731)**	**33,955**
	49%	50%	27%	50%	
Share in profit for equity accounted investments	**16,044**	**675**	**1,303**	**(1,865)**	**16,157**

**based on the financial year of the associate*

17. Other investments

	31 December 2020	31 December 2019
	HRK'000	HRK'000
Financial assets at FVOCI	6,378	3,378
Financial assets at FVTPL		
Investment in bond fund	-	20,400
Investments in shares	2,318	1,482
	8,696	**25,260**

18. Loans and receivables

	31 December 2020	31 December 2019
	HRK'000	HRK'000
Receivables for shares sold /i/	16,243	18,571
Loans, deposits and similar assets	2,649	10,729
Receivables for recognised claims /ii/	6,634	8,293
Receivables for flats sold	1,733	2,718
Other	45	1,744
	27,304	**42,055**

/i/ Receivables for shares sold relate to non-current receivables from sales of shares of related company Končar – Household Appliances in instalments over the period of 10 years (note 30).

/ii/ Receivables for recognised claims toward an entity in receivership for which there is a court deposit for payment of the claim.

19. Inventories

	31 December 2020 HRK'000	31 December 2019 HRK'000
Raw materials and supplies	359,898	286,434
Work in progress	244,361	154,638
Finished goods	90,229	92,981
Trade goods and goods in transit	199	346
Small inventory and packaging	4,679	4,388
Advance payments and other	36,425	17,159
	735,791	**555,946**

20. Loans and receivables

	31 December 2020 HRK'000	31 December 2019 HRK'000
Trade receivables	744,448	835,875
Receivables from related parties	42,665	46,170
Receivables for value added tax	18,802	26,914
Receivables for advances given for services	8,118	21,753
Prepaid expenses and accrued income	6,721	9,371
Other receivables	50,168	39,254
	870,922	**979,337**

Receivables from related parties include dividends declared and receivable from equity accounted investees in the amount of HRK 25,614 thousand (2019: HRK 16,043 thousand).

Trade receivables are as follows:

	31 December 2020 HRK'000	31 December 2019 HRK'000
Trade receivables – domestic, gross	371,291	440,162
Trade receivables – foreign, gross	405,308	462,318
Impairment	(32,151)	(31,101)
	744,448	**835,875**

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

	31 December 2020 HRK'000	31 December 2019 HRK'000
Not yet due	665,661	725,681
< 60 days	67,725	83,105
60-90 days	4,451	7,983
90-180 days	3,232	6,363
180-365 days	2,285	5,133
> 365 days	1,094	7,610
	744,448	**835,875**

Maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above.

The following table explains the changes in the expected credit loss for trade receivables between the beginning and the end of the period:

	HRK'000
At 1 January 2019	70,533
Decrease in expected credit loss	(2,642)
Collected during the year	(1,867)
Impaired during the year	8,297
Total changes in expected credit loss through profit or loss	3,788
Sale of subsidiary	(26,256)
Written off during the year	(4,120)
Derecognition during the year	(12,946)
Foreign exchange differences	102
At 31 December 2019	31,101
Decrease in expected credit loss	106
Collected during the year	(1,025)
Impaired during the year	4,589
Total changes in expected credit loss through profit or loss	*3,670*
Written off during the year	(2,627)
Foreign exchange differences	7
At 31 December 2020	**32,151**

21. Contract assets and contract liabilities

The Group has recognized the following assets and liabilities from contracts with customers:

	31 Dec 2020 HRK'000	31 Dec 2019 HRK'000
Contract assets from contract with customers	135,218	88,826
Expected credit loss	(108)	(58)
Total current assets from contract with customers	**135,110**	**88,768**
Total contract liabilities	**408,738**	**166,266**

Revenue recognized in the reporting period that was included in the balance sheet of contract liabilities at the beginning of the period amounts to HRK 72,249 thousand (2019: HRK 99,976 thousand).

Advances received from customers relate to contracts with customers totalling HRK 1,612,800 thousand (31 December 2019: HRK 594,760 thousand) to be fulfilled in the following reporting period.

22. Current financial assets

	31 December 2020	31 December 2019
	HRK	HRK
Deposits over 3 months	75,590	292,849
Other financial assets	671	508
	76,261	**293,357**

The contractual interest rate on the Group's deposits of over 3 months held at commercial banks ranges from 0,01% to 1.7%.

23. Cash and cash equivalents

	31 December 2020	31 December 2019
	HRK	HRK
Cash in bank	743.624	369.481
Cash on hand	123	241
Investments in money market funds	-	52
Deposits up to 3 months	-	12
	743.747	**369.786**

Interest rate on the Group's cash in bank and deposits up to 3 months is 0.01%.

Disclosures related to credit risk are presented in note Risk management

24. Non-current assets held for sale

In accordance with the decision of the Management Board from December 2020, the sale of a building on the location of Belgrade is planned. Accordingly, the building with the associated land in the amount of HRK 8,985 thousand was presented as assets held for sale. The activities related to the sale of the property were initiated by the Management Board and the sale is expected by the end of 2021.

25. Equity

Share capital is determined in the nominal amount of HRK 1,208,896 thousand (31 December 2019: HRK 1,208,896 thousand) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The ownership structure of the Parent company is as follows:

		31 December 2020		31 December 2019	
	Shareholder	Number of shares	Ownership share %	Number of shares	Ownership share %
1	HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
2	Addiko Bank d.d./PBZ Croatia Osiguranje OMF	426,907	16.60	420,928	16.37
3	OTP Banka d.d./ Erste Plavi obvezni mirovinski fond	393,972	15.32	394,213	15.33
4	OTP Banka d.d. / AZ OMF	371,162	14.43	377,429	14.67
5	Centar za restrukturiranje i prodaju / RH	60,000	2.33	73,162	2.84
6	Addiko Bank/RBA OMF	47,636	1.85	47,636	1.85
7	Floričić Kristijan	40,714	1.58	50,714	1.97
8	Zagrebačka banka d.d. /AZ Profit DMF	35,870	1.39	35,222	1.37
9	OTP banka d.d. / OTP Indeksni find - OIF s javnom ponudom	21,345	0.83	23,189	0.90
10	Privredna banka Zagreb	20,493	0.80	17,536	0.68
11	Ostali dioničari	402,835	15.66	391,405	15.22
12	KONČAR d.d. (treasury shares)	26,670	1.04	16,170	0.63
		2,572,119	**100**	**2,572,119**	**100**

In 2020, the Parent company's General Assembly did not reach a decision on dividend payments (2019: payment of dividends to shareholders in the amount of HRK 38,359 thousand which is HRK 15 per share).

During 2018, the Company started purchasing its treasury shares. In 2019 based on a decision of General Assembly, the Management Board is authorized to acquire treasury shares over a period of 5 years. The part of other reserves in amount of HRK 25 million in accordance with General Assembly's decision will be used for the purpose of the acquisition of treasury shares, while reserves for treasury shares are formed accordingly. As at 31 December 2020 the Group owns 26,670 treasury shares (31 December 2019: 16,170 shares).

The Group has formed legal, statutory and other reserves that are defined on the basis of profit distribution in accordance with the General Assembly's decision.

26. Non-controlling interests

The following are the companies in which the Parent company has a significant non-controlling interest:

- Končar - Distribution and Special Transformers Inc., Zagreb (KONČAR D&ST Inc.)
- Končar - Instrument Transformers Inc., Zagreb (KONČAR MT Inc.) and
- Končar - Electric Vehicles Inc., Zagreb (KONČAR EV Inc.)

These three companies represent 96.68% of the total amount of the Group's non-controlling interest at the balance sheet date.

Summary of the stated companies with significant non-controlling interests are presented below:

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR EV Inc.	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Statement of comprehensive income						
Income	1,093,782	1,041,747	215,391	198,513	169,813	207,575
Expenses	(1,018,442)	(990,656)	(202,988)	(189,585)	(148,827)	(183,792)
Profit before tax	75,340	51,091	12,403	8,928	20,986	23,783
Income tax	16,751	(1,596)	(1,205)	(1,295)	(3,274)	(3,733)
Profit after tax	**92,091**	**49,495**	**11,198**	**7,633**	**17,712**	**20,050**
Statement of financial position						
Non-current assets	268,767	237,767	65,175	61,899	56,953	58,211
Current assets	618,920	557,965	143,452	143,123	399,643	223,163
Total assets	**887,687**	**795,732**	**208,627**	**205,022**	**456,596**	**281,374**
Total liabilities	**428,168**	**438,942**	**96,148**	**97,721**	**345,176**	**178,642**
Cash flow						
Cash flow from operating activities	78,537	89,609	14,937	9,143	233,851	(78,381)
Cash flow from investing activities	(51,708)	(98,270)	(7,860)	(5,451)	(4,222)	(2,537)
Cash flow from financing activities	(15,100)	2,960	(9,470)	471	(96,023)	97,643
Net increase/(decrease) in cash	**11,729**	**(5,701)**	**(2,393)**	**4,163**	**133,606**	**16,725**
Cash at beginning of period	**93,236**	**101,937**	**7,024**	**2,861**	**38,546**	**21,821**
Cash at end of period	**104,965**	**96,236**	**4,631**	**7,024**	**172,152**	**38,546**

27. Provisions

	Warranty provisions	Provisions for legal disputes	Jubilee awards and retirement benefits	Other provisions	Unused holiday accrual	Total
	000´HRK	000´HRK	000´HRK	000´HRK	000’ HRK	000´HRK
31 December 2019 (reported)	**229,767**	**1,912**	**50,254**	**8,022**	**3,750**	**293,705**
Restatement*	*(19,979)*	-	*(9,913)*	*(5,654)*	(3,750)	*(39,296)*
31 December 2019 (restated)	**209,788**	**1,912**	**40,341**	**2,368**	-	**254,409**
Additional provisions	25,022	225	14,075	2,254	-	41,576
Usage of provisions	(8,572)	(130)	(2,806)	(1,120)	-	(12,628)
Release of provision	(43,928)	(867)	(10,173)	-	-	(54,968)
Foreign exchange differences and similar	(3)	-	(115)	-	-	(118)
31 December 2020	**182,307**	**1,140**	**41,322**	**3,502**	-	**228,271**
Current provision	49,065	66	1,281	80	-	50,492
Non-current provision	133,242	1,074	40,041	3,422	-	177,779
	182,307	**1,140**	**41,322**	**3,502**	-	**228,271**

*for restatements see note 2.2

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate and include general and specific provisions. General provisions are based on estimates and experience of the Group and other manufacturers of power equipment. The Group generally issues warranties for a period of 3 to 5 years for each product sold or project completed. Based on historical data regarding expenses for warranty repairs and industry statistics (such as those related to failure incidence rates for transformers and generators), Management assesses and recognises a general provision for warranty repairs.

In addition, Management recognised individual provisions related to specific customer contracts for sale of transformers where it has identified specific quality issues with regard to transformers sold which amount to HRK 58,9 million (2019: HRK 75,9 million). The provisions are related to several contracts for sales of products in geographies where the Group identified specific risks arising from atypical defects related to extreme climate exposures and technical complexities which are considered non-standard. The Group has formed this provision based on the expected cost of rectification of these defects and/or replacement of transformers.

During the year, the Group released a total of HRK 43,9 million of provisions out of which HRK 17 million related to specific provisions provided for in previous years due to the fact that the Group managed to successfully rectify product defects and avoid product replacement costs prior to warranty expiry as initially assessed. During the year there were no significant costs of warranty repairs as a result of travel and transport restrictions imposed by the pandemic for both the Group and the customers. The Group continuously communicates with customers and co-operates in rectifying any defects noted in order to minimize risks related to warranty costs.

Furthermore, the Group restated the amounts of provisions to correct and error in calculation whereby provisions in previous periods included those where warranty periods have expired (see note 2.2).

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of HRK 1,149 thousand (2019: HRK 1,912 thousand) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes.

Provisions for jubilee awards and retirement benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 41,322 thousand (2019: HRK 40,341 thousand) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 0,7% (2019: 1%).

28. Borrowings

	31 December 2020 HRK'000	31 December 2019 HRK'000
Liabilities to banks and other financial institutions		
Liabilities to banks	171,843	193,466
Less: Current portion	(51,437)	(29,393)
Long term liabilities to banks	**120,406**	**164,073**
Liabilities to banks and other financial institutions	53,096	134,427
Plus: Current portion	51,437	29,393
Short term liabilities to banks and other financial institutions	**104,533**	**163,820**
	224,939	**327,893**

	31 December 2020 HRK'000	31 December 2019 HRK'000
Lease liabilities		
Long term	1,600	2,217
Short term	3,548	1,297
	5,148	**3,514**

Changes in bank borrowings were as follows:

	HRK'000
1 January 2019	**174,543**
New borrowings	205,993
Foreign exchange differences	616
Repayment of borrowings	(57,180)
Non-cash transactions	11.461
Effect of sale of subsidiary	(7,540)
31 December 2019	**327,893**
New borrowings	51,853
Foreign exchange differences	1,324
Repayment of borrowings	(159,965)
Non-cash repayment of borrowings	3,834
31 December 2020	**224,939**

Long-term bank borrowings mature as follows:

	31 December 2020 HRK'000	31 December 2019 HRK'000
Within one year	103,545	163,820
From 1 to 2 years	21,095	64,393
Between 2 and 5 years	48,820	49,442
More than 5 years	51,479	50,239
	224,939	**327,893**

Bank borrowings are secured by mortgages over the Group's immovable property and pledges over its movable property.

Lease liability are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The fixed interest rate on the Group's long term borrowings ranges from 1.5% to 3.5% and the variable interest rate from 3%, while the fixed interest rate on the Group's short-term borrowings ranges from 1.05% to 2%.

29. Trade and other payables

	31 December 2020 HRK'000	31 December 2019 HRK'000
Domestic trade payables	319,835	269,362
Foreign trade payables	138,703	167,564
Liabilities for net salaries	40,832	34,473
VAT payable	44,133	27,677
Liabilities for contributions on and from salaries and taxes and surtaxes	29,711	27,450
Advances received	5,372	16,399
Income tax payable	2,752	2,923
Other liabilities	54,828	51,223
	633,414	**594,148**

30. Discontinued operation

In 2019, the Group sold the subsidiary KONČAR-Household Appliances Inc. through a tender whereby shares of the company were offered for sale at a price based on an independent valuer's estimate. The subsidiary was sold on 5 April 2019. Additionally, the Group also sold the operations of Končar-Low Voltage Switches and Circuit Breakers Ltd. on 11 April 2019. Both transactions are presented in the comparative period as discontinued operations.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance and cash flow information

	2019 HRK'000
Revenue	48,569
Other operating income	465
Total operating income	**49,033**
Raw materials, products, consumables and services used	(39,122)
Staff costs	(3,076)
Depreciation and amortisation	(464)
Other operating expenses	(2,581)
Total operating expenses	**(45,243)**
Finance income	35
Finance costs	(38)
Net finance costs	**(3)**
Profit before tax	**3,788**
Income tax	-
Profit from discontinued operation	**3,788**
Loss on sale of discontinued operation	(886)
Profit from discontinued operation	**2,902**

	2019 HRK'000
Net cash flows from operating activities	(190)
Net cash flows from investing activities	(51)
Net cash flows from financing activities	(4)
Net increase /(decrease) in cash flows	**(245)**

Details of the sale of the subsidiary

	2019 HRK'000
Consideration received or receivable:	
Cash	27,004
Receivable for shares sold	21,685
	48,689
Carrying amount of net assets sold	(49,575)
Loss on sale of the subsidiaries	**(886)**

The carrying amounts of assets and liabilities as at the date of sale were:

	2019 HRK'000
Intangible assets (Note 13)	147
Property, plant and equipment (Note 14)	18,886
Inventories	36,543
Trade receivables	38,948
Cash	1,628
Prepaid expenses and accrued income	91
Total assets	**96,242**
Provisions (note 27)	5,271
Non-current liabilities	113
Current liabilities	39,878
Deferred income and accrued expenses	1,406
Total liabilities	**46,668**
Net assets	**49,575**

31. Financial risk management and financial instruments

Capital risk management

Financial leverage ratio

The finance function of the Group reviews the capital structure on an annual basis. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital. One of the ratios monitored is the financial leverage ratio which was as follows at the reporting date:

	31 December 2020 HRK'000	31 December 2019 HRK'000
Debt (current and non-current) = D	(230,087)	(331,407)
Bank deposits (current)	75,590	292,849
Cash and cash equivalents	743,747	369,786
Net cash / (debt)	589,250	331,228
Equity = E	2,670,520	2,542,161
Financial leverage ratio = D/(D+E)	**8%**	**11%**

Financial risk management

The Group operates with international customers and finances its operations to an extent using foreign currency denominated borrowings. The Group's operations are therefore exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. Categories of financial instruments and method for measuring fair values are as follows:

	FV hierarchy	31 December 2020	31 December 2019
		HRK'000	HRK'000
Quoted shares	Level 1	2,318	1,482
Share in cash funds	Level 1	-	20,452
Derivative instruments	Level 2	-	57
Total financial assets at FVTPL		**2,318**	**21,991**
Financial assets at FVOSD	Level 3	6,378	3,378
Total financial assets at FVOSD		**6,378**	**3,378**
Non-current financial assets	n/a	2,649	10,729
Non-current receivables	n/a	24,635	31,326
Current financial assets	n/a	76,261	293,357
Trade and other receivables	n/a	829,091	919,255
Cash and cash equivalents	n/a	743,747	369,786
Total financial assets at amortised cost		**1,676,383**	**1,624,453**
Total financial assets		**1,685,079**	**1,649,822**
Loans payable	n/a	224,939	327,893
Leases payable	n/a	5,148	3,514
Trade payables	n/a	458,538	436,926
Total financial liabilities at amortised cost		**688,625**	**768,333**
Derivative instruments	Level 2	4,161	67
Total financial liabilities at FVTPL		**4,161**	**67**
Total financial liabilities		**692,786**	**768,400**

A) <u>Fair value of financial assets and liabilities</u>

Fair value of a financial instrument is the amount at which it could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The Group uses the following hierarchy for determining the fair value of financial instruments:

- level 1: quoted prices (unadjusted) in active markets for such assets or liabilities
- level 2: other techniques where all inputs which have a significant effect on the fair value are observable on the market, directly or indirectly
- level 3: techniques where all inputs which have a significant effect on the fair value are not based on the observable market data.

The fair value of the Group's financial assets and liabilities generally approximates the carrying amount of the Group's assets and liabilities.

Derivative financial instruments

The fair value of financial instruments that are not traded in an active market presented in level 2 is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where available and rely as little as possible on entity-specific estimates.

In addition to investing in equity instruments, the Group used the following methods and assumptions in estimating the fair value of financial instruments:

Receivables and bank deposits

For assets that mature within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the contracted interest rates do not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Borrowings

Fair value of current liabilities approximates their carrying value due to the fact that the interest rates on said loans are approximated by relevant market interest rates. The Management Board believes that their fair value is not materially different from their carrying value.

Other financial instruments

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

B) Financial instrument risks

The Group's operations are exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk.

1. Market risk

Market risk is the fluctuation risk of fair value or future cash flows of financial instruments resulting from changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risks.

There were no significant changes to the Group's exposure to market risk or the manner in which it measures and manages the risk.

a) Foreign currency risk and cash flow hedge accounting

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to this risk through sales, purchase and loans stated in a foreign currency which is not the Group's functional currency. Foreign currency primarily exposed to such risks is EUR. The Group is, therefore, exposed to the risk that movements in exchange rates will affect both its net income and financial position, as expressed in HRK.

The relevant exchange rate for EUR were as follows:

	Spot exchange rate		Average exchange rate	
	31.12.2020.	31.12.2019.	2020.	2019.
	HRK	HRK	HRK	HRK
EUR	7.5369	7.44258	7.53308	7.41361

The carrying amounts of the Group's EUR denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Denominated in EUR	
	31 December 2020	**31 December 2019**
	HRK'000	**HRK'000**
Non-current receivables	-	1,342
Non-current financial assets	21	29,416
Trade and other receivables	333,462	386,411
Derivative instruments	-	57
Deposits (over 3 months)	68,903	280,586
Cash and cash equivalents	449,673	225,911
Trade and other payables	(140,598)	(166,541)
Borrowings	(148,308)	(149,307)
Derivative instruments	(4,161)	-
	558,992	**607,875**
Effect of the change in exchange rates by 1% on profit	**5,590**	**6,079**

The sensitivity analysis includes outstanding balances of monetary assets and liabilities in foreign currencies recalculated at the reporting date by applying a percentage change in foreign exchange rates. A negative number indicates a decrease in profit where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact.

b) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The variable interest rates currently applicable on the carrying values of floating rate debt as at the reporting dates are based on the following:

	31 Dec 2020	31 Dec 2019
	HRK'000	HRK'000
Bank and other loans based on fixed interest rates	196,164	313,451
Bank and other loans based on floating interest rates	28,775	14,442
	224,939	**327,893**

The Group analyses the exposure to interest rates at the reporting date by taking into account the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is deemed a reasonably possible change in interest rates. The estimated effect of the reasonably possible change in variable interest rates on the result before tax is not material. The Group does not hedge against interest rate risk.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the other party. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Group uses data and opinions of specialised rating companies, the Chamber of Economy and other publicly available financial information on the financial positions of companies as well as its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and measured and the aggregate value of contracts concluded is spread amongst creditworthy counterparties.

A significant part of credit risk arises from the Company's operating activities (primarily trade receivables) and from the Company's financial activities, including deposits with banks and financial institutions.

Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables arising from the sale of goods and services
- Contract assets
- Debt instruments at amortised costs
- Debt instruments at fair value through other comprehensive income

Although cash and cash equivalents are also subject to impairment in accordance with IFRS 9 requirements, the impairment identified is immaterial.

Trade receivables and contract assets

The Group applies the simplified approach to measuring expected credit losses which uses a life time expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics – country risk of the customer and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2020 and 31 December 2019 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are impaired directly if there are no reasonable expectations that they will be recovered. Indicators that there is no reasonable expectation that trade receivables and contract assets will be recovered include, inter alia, a failure to make contractual payments for a period of more than one year.

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables for flats sold, receivables for shares sold, receivables for loans given, receivables for recognised claims, receivables for dividends from associates and receivables from foreign sales.

The analysis performed has shown that the effect of applying IFRS 9 on receivables for recognised claims, receivables for dividends and receivables from foreign sales is immaterial and as such was not recognized at 31 December 2019 and at 31 December 2020.

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Boards of the Group companies, while the Company's Management Board has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements. The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities.

The following table presents the maturity of financial liabilities of the Group as at 31 December in accordance with contracted undiscounted payments:

	Net book value	Contractual cash flows	up to 1 year	2 – 5 years	over 5 years
31 December 2020	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non interest bearing liabilities					
Trade and other payables	458,538	458,538	449,549	8,918	71
Interest bearing liabilities	230,086	235,495	111,109	72,460	51,926
	688,624	**694,033**	**560,658**	**81,378**	**51,997**

	Net book value	Contractual cash flows	up to 1 year	2 – 5 years	over 5 years
31 December 2019	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non interest bearing liabilities					
Trade and other payables	436,926	436,926	433,729	3,127	70
Interest bearing liabilities	331,407	351,973	167,430	132,041	52,502
	768,333	**788,899**	**601,159**	**135,168**	**52,572**

32. Segment reporting

For management purposes, the Group is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Group are as follows:

- Transformers: includes activities of production and sale of distribution, special, instrument and other transformers, mainly in the energy segment;
- Rotary machines: includes activities of production and sale of generators and motors and small electrical machines, mainly in the energy segment;
- Engineering: includes the execution of more complex projects for construction of plant and equipment in the energy and transport sector and related design and engineering services;
- Industrial electronics: includes the production and sale of devices and solutions for electronics systems in the energy sector and similar;
- Rail vehicles: includes construction and sale of rail vehicles such as trains and trams and related maintenance services in the transport sector;

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Other includes the activity of renting real estate, production and sale of switches, circuit breakers and small appliances and machines and metal processing, which do not represent a separate operating segment.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 Operating segments and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. Inter-segment revenues are eliminated on consolidation.

32. Segment reporting (continued)

2020 in HRK thousands	Transformers	Rotary machines	Rail vehicles	Engineering	Industrial electronics	Total reportable segments	Other	Total
External revenue	1,331,729	278,569	151,870	759,350	132,416	2,653,934	318,624	**2,972,558**
Intersegment revenue	46,426	11,819	279	54,569	96,418	209,511	127,709	**337,220**
Revenue	**1,378,155**	**290,388**	**152,149**	**813,919**	**228,834**	**2,863,445**	**446,333**	**3,309,778**
Segment operating profit / (loss)	**103,907**	**(12,352)**	**9,944**	**13,168**	**9,473**	**124,140**	**(38,935)**	**85,205**
Net financial result	(7,158)	(256)	11,042	1,471	423	5,522	1,630	**7,152**
Share of result in equity accounted investee	24,416	-	-	-	-	24,416	1,246	**25,662**
Profit / (loss) before tax	**121,165**	**(12,608)**	**20,986**	**14,639**	**9,896**	**154,078**	**(36,059)**	**118,019**
Income tax	15,546	2,638	(3,274)	(3,465)	(777)	10,668	(1,111)	**9,557**
Profit / (loss) after tax	**136,712**	**(9,970)**	**17,712**	**11,174**	**9,119**	**164,747**	**(37,171)**	**127,576**
Non-controlling interest								**53,687**
Profit attributable to owners								**73,889**
Non-current assets	358,102	116,614	56,953	39,319	80,802	651,790	946,358	**1,598,148**
Current assets	761,493	244,217	399,643	467,302	203,288	2,075,943	500,793	**2,576,736**
Total assets	**1,119,594**	**360,831**	**456,597**	**506,621**	**284,091**	**2,727,733**	**1,447,151**	**4,174,884**
Total liabilities	**535,758**	**111,918**	**345,176**	**370,112**	**56,503**	**1,419,467**	**84,897**	**1,504,364**

32. Segment reporting (continued)

2019 in HRK thousands	Transformers	Rotary machines	Rail vehicles	Engineering	Industrial electronics	Total reportable segments	Other	Total
External revenue	1,231,297	243,301	192,746	668,194	161,699	2,497,237	313,714	**2,810,951**
Intersegment revenue	32,365	40,807	136	64,504	78,098	215,909	170,996	**386,905**
Revenue	**1,263,662**	**284,108**	**192,882**	**732,698**	**239,797**	**2,713,146**	**484,710**	**3,197,856**
Segment operating profit / (loss)	58,504	12,410	14,106	10,183	10,218	105,421	(63,409)	**42,012**
Net financial result	(410)	406	9,676	(320)	887	10,239	681	**10,920**
Share of result in equity accounted investee	14,292	-	-	-	-	14,292	1,865	**16,157**
Profit / (loss) before tax	**72,386**	**12,816**	**23,782**	**9,863**	**11,105**	**129,952**	**(60,863)**	**69,089**
Income tax	(4,161)	(2,708)	(3,733)	(4,596)	(1,794)	(16,992)	(45)	**(17,037)**
Net result from discontinued operation	-	-	-	-	-	-	2,902	**2,902**
Profit / (loss) after tax	**68,225**	**10,108**	**20,049**	**5,267**	**9,311**	**112,960**	**(58,006)**	**54,954**
Non-controlling interest								**27,582**
Profit attributable to owners								**27,372**
Non-current assets	326,906	101,768	58,211	48,906	83,278	619,069	1,019,777	**1,638,846**
Current assets	708,063	260,258	223,163	465,431	199,698	1,856,613	434,819	**2,291,432**
Total assets	**1,034,969**	**362,026**	**281,374**	**514,337**	**282,976**	**2,475,682**	**1,454,596**	**3,930,278**
Total liabilities	**538,524**	**93,685**	**178,642**	**386,974**	**63,268**	**1,261,093**	**97,132**	**1,358,225**

33. Order book

The Group's balance for the consolidated negotiated deals (order book) based on active projects as at 31 December 2020 amounts to HRK 4,104 million (31 December 2019: HRK 3,341 million).

34. Related party transactions

Parties are considered related if one party has the ability to control the other party, if it is under joint control or has a significant influence on the business of the other party. The Group is also in a significant part owned by the Republic of Croatia and other companies in control or under significant influence of the Republic of Croatia. In that respect, the Group is in a related party relationship with state institutions and other companies where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Group does not consider routine transactions (such as taxes, levies, etc.) with various local communal entities (directly or indirectly owned by the State) or with other bodies to be related party transactions. More significant transactions with state—owned companies relate to supply of electricity, gas similar utilities. During 2020 the Group has realised total of HRK 647,5 million (2019: HRK 684,9 million) of sale revenues with state institutions and other companies where the State is a majority owner or has a significant influence, which mostly relate to engineering services in energy sector, rail vehicles and industry equipment.

All related party transactions are based on arm's length conditions (purchase of goods, sale of products and provision of services).

2020	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000
Related party				
Associates	41,971	69,965	101,540	114,233
Joint venture	694	-	3,182	64,713
Total business operations	***42,665***	***69,965***	***104,722***	***178,946***

2019	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000
Related party				
Associates	45,879	13,953	87,532	36,689
Joint venture	292	35	1,824	54,931
Total business operations	***46,171***	***13,988***	***89,356***	***91,620***

As at 31 December 2020, the Group has receivables for declared dividend from associates in the amount of HRK 25,614 thousand which have been paid out in the first quarter of 2021 (receivable of HRK 16,043 thousand as at 31 December 2019 paid out in first quarter of 2020). In 2019, the Group received total dividends from associates in the amount of HRK 62,587 thousand based on dividends declared by associates and accounted for as receivables at 31 December 2018.

Key management remuneration

Net salaries in the amount of HRK 346,873 thousand (2019: HRK 322,547 thousand) include compensations to the Management Board of the Company and other related companies in the amount of HRK 17,536 thousand (2019: HRK 16,326 thousand) and accrued bonuses for the Management Board in the amount of HRK 6,752 thousand (2019: HRK 6,205 thousand), and are an integral part of staff costs. In 2020, total number of key management personnel was 34 (2019: 39).

35. Events after the reporting date

During 2020, the parent company, with the consent of the joint venture partner, initiated the termination of the joint venture, and activities related to the initiation of the liquidation procedure of the company Končar - XD Visokonaponska postrojenja d.o.o. The process is expected to be completed during 2021.

Apart from the above, and after the reporting date, until the date of approval of the consolidated financial statements, there were no events that would significantly affect the Group's annual consolidated financial statements for 2020, which should, consequently, be adjusted and/or disclosed.