

KONČAR— ELECTRICAL INDUSTRY INC.

**ANNUAL REPORT
31 DECEMBER 2020**

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KONČAR – ELECTRICAL INDUSTRY Inc.

MANAGEMENT REPORT AND CORPORATE GOVERNANCE STATEMENT





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Introduction

KONČAR – Electrical Industry Inc. is the Parent Company of the KONČAR – Electrical Industry Group. As the Parent Company, the Company also prepares consolidated reports, which are presented separately.

This 2020 Management Report on the State of the Company is a report of the Company as a separate entity. The Company manages its wholly-owned subsidiaries and associated companies.

The companies within the Group are legally autonomous companies and the Parent Company oversees, strategically directs and supports them through the Supervisory Boards and General Assemblies of companies, all in accordance with the Companies Act, the Articles of Association of KONČAR – Electrical Industry Inc. and the Articles of Association and Articles of Incorporation of the companies. The Parent Company also manages the part of the assets that are not invested in companies but are directly and indirectly in the function of financial support for the marketing, products and equipment of affiliated companies as a credit-guarantee potential.

As the Parent Company of the Group, KONČAR – Electrical Industry Inc. invoices the following services to its subsidiaries:

- Fees for using the company name, trademark and service mark,
- Part of the cost of organized joint appearance at fairs,
- Part of the cost of branch offices abroad,
- Part of the cost of joint marketing activities,
- Seminars for managers, quality and environmental systems.

Summary of key financial indicators

	2020 HRK'000	2019 HRK'000	Index 2020/2019
Total operating income	113,883	116,163	-2.0%
Sales income	111,661	95,624	16.8%
Income from dividends	60,729	47,202	28.7%
Income from contracts with customers	50,932	48,422	5.2%
Other income	2,222	20,539	-89.2%
Operating expenses	(111,213)	(111,478)	-0.2%
EBIT	2,670	4,685	-43.0%
EBIT margin	2.39%	4.90%	-51.2%
EBITDA	12,395	13,994	-11.4%
EBIT margin	11.10%	14.63%	-24.1%
EBITDA normalized	46,394	31,659	46.5%
EBITDA margin normalized	41.55%	33.11%	25.5%
Market capitalization	1,477,361	1,626,961	-9.2%

EBITDA¹ - normalized EBITDA, impact of one-off items excluded. One-off items represent the value adjustments of investments in subsidiaries and the value adjustment of tangible and intangible assets (+), income from the sale of assets and profit/loss from the reversal of provisions (+, -)

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 nine 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 nine 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 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 six 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, seven audits were carried out in the following areas: audit of the procurement process in four subsidiaries, audit of the sales process in one subsidiary, audit of monitoring project profitability in one subsidiary and audit of the calculation of energy products and services in one 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.

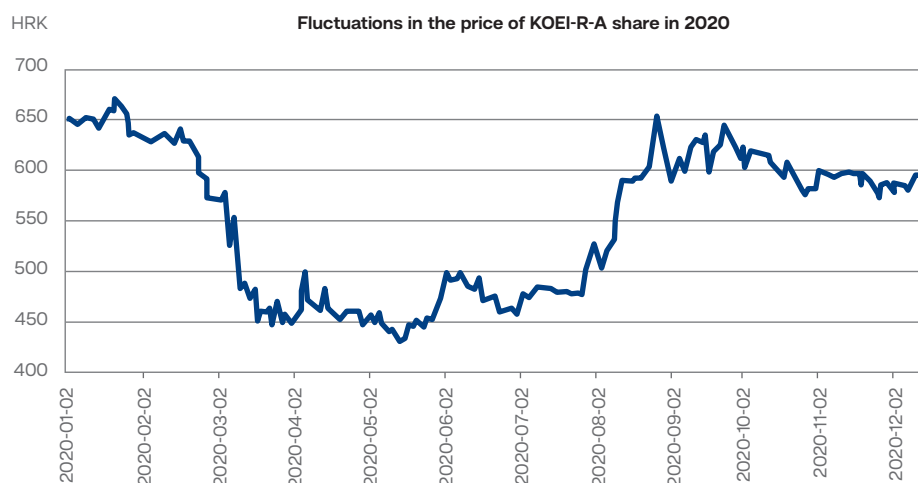
In accordance with the decision on granting authorization to the Management Board for acquiring treasury shares, adopted at the General Assembly meeting on 15 January 2019, during 2020, the Company acquired a total of 11,350 treasury shares. By means of said decision, the Company's General Assembly authorized 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:

Stakeholder	31 December 2019		31 December 2020	
	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)	2.88	2.67	92.7
(profit of the parent company owner/weighted average number of shares)			



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 Premies to Petrova hospital" initiative, organized by the Parents of Premies 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 playgro-und 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. KONČAR has defined an Environmental Management Policy, which is available on www.koncar.hr and which has been communicated to all employees.

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.

OHSAS 18001/ISO 45001 Occupational Health and Safety Management System has been certified in eleven 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 three 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 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.

In addition to above certificates for sustainable management 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.

Furthermore, 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 (substations, hydropower plants, other power facilities or rolling stock) are often delivered to areas of high biodiversity (rivers, lakes and rural areas). 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.

These management systems and compliance with the necessary standards help the Company in performing its activities and to achieve the main priorities of the Company:

- Generating profit
- Development and growth of the Company and Group companies
- Ensuring high quality of life and work environment.

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, the Company had 51 employees (2 employees less than as at 31 December 2019). Employee structure was as follows:

	31 December 2020	31 December 2019
PhD	1	1
Master's degree	7	7
University degree	34	32
Two-year degree	6	8
Secondary school qualifications	3	4
Primary school + training on the job	-	1
	51	53

Considering the needs of employees for a good work-life balance and the promotion of gender equality in the workplace, Končar – Electrical Industry Inc. conducted the MAMFORCE® assessment and, on the basis of 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, activities to align with the Whistle-blower Protection Act (OG 17/19) were continued in Končar. 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.

Business results

In 2020, KONČAR – Electrical Industry Inc. generated HRK 113.8 million in operating income, which was 2% less than in the same period in the previous year. Operating income of HRK 113.8 million comprised sales income of HRK 111.7 million and other operating income of HRK 2.2 million.

Sales income pertained to income from dividends in the amount of HRK 60.7 million and income from contracts with customers in the amount of HRK 50.9 million. Income from dividends from Group companies amounted to HRK 35.1 million, whereas income from dividends of associated companies amounted to HRK 25.6 million. Income from contracts with customers pertained to income from the fee payable for using the company name, trademark and service marks in the amount of HRK 24.3 million, income from real estate management in the amount of HRK 24 million and income from other fees in the amount of HRK 2.6 million. Other operating income in the amount of HRK 2.2 million mostly pertained to profits realized through sale of fixed assets.

Total operating expenses in 2020 amounted to HRK 111.2 million, and these were HRK 0.2 million lower than in 2019. Operating expenses comprised the following:

- Costs of materials and services in the amount of HRK 26.4 million
- Staff costs in the amount of HRK 34.4 million
- Depreciation in the amount of HRK 9.7 million
- Value adjustment costs in the amount of HRK 26.4 million, mostly pertaining to value impairment of the share in the company KONČAR - Renewable Energy Sources Ltd, and to value adjustment of intangible assets and receivables.
- Other costs amounted to HRK 14.1 million, and they pertained to intellectual services, board members' remuneration, entertainment costs, sponsorships and donations, daily allowances and business trip costs, fees under piece-work arrangements, insurance premiums and other similar costs.

The positive difference between operating income and operating expenses in the amount of HRK 2.7 million and the positive difference between financial income and expenses in the amount of HRK 4.1 million resulted in profit for 2020 in the amount of HRK 6.8 million, which represents a 0.5 million decrease compared to the same period in the previous year. According to the 2019 tax return, Company is under no obligation to pay the 2020 income tax advance.

Financial position

The value of total assets of KONČAR – Electrical Industry Inc. as at 31 December 2020 amounted to HRK 1,689.6 million. Compared to 31 December 2019, that is a HRK 6.8 million increase.

Total non-current assets amounted to HRK 1,374.4 million, which was HRK 25.6 million (or 1.8%) less than as at 31 December 2019. The most significant portion of non-current assets (97%) relates to property, plant and equipment and investments in subsidiaries, associated companies and joint ventures. During 2020, a capital injection in cash was made in the company KONČAR – Renewable Energy Sources Ltd. in the amount of HRK 6.4 million, and shares in the company KONČAR – Engineering Co. for Plant Installation & Commissioning worth HRK 11.9 million were bought. Apart from that, based on the impairment tests, the Company conducted value adjustment of the share in the joint venture in the amount of HRK 3.1 million and impairment of the share in the company Končar - Renewable Sources Ltd. in the amount of HRK 20.1 million.

Total current assets have increased by HRK 32.5 million compared to the balance as at 31 December 2019, as a result of the following major changes:

- Increase in cash at hand and in bank by HRK 221 million, mostly due to decrease in deposits in the amount of HRK 200.8 million (return of term deposit)
- HRK 9 million increase due to reclassification of non-current assets held for sale (located in Belgrade)
- HRK 4.3 million increase in receivables caused by increased receivables from associated companies in the amount of HRK 10.5 million, decreased receivables under loans in the amount of HRK 2.6 million and decreased receivables from the state in the amount of HRK 3.6 million.

Total capital and reserves as at 31 December 2020 amounted to HRK 1,649.9 million, which is a HRK 1.9 million increase compared to the balance as at 31 December 2019.

Provisions for years-of-service rewards and retirement benefits amounted to HRK 9.3 million, which was HRK 6.7 million more than as at 31 December 2019, due to calculated severance pay liabilities.

Current trade payables and other liabilities increased by HRK 1.7 million compared to the balance as at 31 December 2019, mostly pertaining to increased liabilities payable to the employees and to the state in the amount of HRK 4.3 million as a result of calculated bonus for 2020, with decreased trade payables, which dropped by HRK 0.3 million and decreased other current liabilities, which dropped by HRK 2.2 million.

Short-term provisions for severance pay dropped by HRK 2.1 million compared to 31 December 2019, as a result of payment of severance pay to members of the Management Board whose term of office expired.

Contingent liabilities of KONČAR – Electrical Industry Inc. as at 31 December 2020 amounted to HRK 1,437.2 million, which was a HRK 977.4 million increase compared to 31 December 2019, which was mostly caused by posting of payment security instruments received from associated companies in the amount of HRK 690 million.

Operational risks

KONČAR – Electrical Industry Inc., as the parent Company in the Group, does not engage in significant legal transactions with third parties (except when it comes to credit and payment security instrument granting) and consequently it is less exposed to financial and market-related risks. 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 the balance sheet, liquidity and capital adequacy, determine the measures to prevent or eliminate the causes of illiquidity, take the necessary measures to ensure that the companies have sufficient long-term sources of financing in view of the scope and type of business activity, and regularly monitor whether capital adequacy has been realized.

Impact of COVID-19

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.

Currency risk

The Company's functional currency is the 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. Foreign exchange differences that arise are credited or charged to the profit and loss statement. The Company's currency risks are hedged by continuous planning and monitoring of inflows and outflows. The Company is exposed to currency risk through sales, purchase of foreign currency and deposits denominated in a currency other than the Company's functional currency. The currency that is exposed to risks is primarily the euro.

Considering that HRK exchange rate is linked to EUR to some extent, the Company is exposed to currency risks through its deposits in EUR.

Liquidity risk

Liquidity risk is the risk that the Companies will not be able to meet its financial obligations on time. Liquidity risk management is the responsibility of the Management Board, which has created a high-quality framework for monitoring short-term, mid-term and long-term financing and all requirements pertaining to liquidity risk. The Company manages liquidity risk by constantly monitoring its projected and actual cash flow, by comparing it to the maturity of financial assets and liabilities. The Company is not significantly exposed to liquidity risk because it has at its disposal and is able to quickly cash in assets that significantly exceed its contingent liabilities.

Capital management risk

Capital management is carried out by the Company in such a way as to ensure further development and operations with efficient asset management.

The Company manages capital and makes the necessary adjustments to it in accordance with changes in economic conditions in the market and risk characteristics of its assets. In order to adjust or maintain its capital structure, the Company may decide, with the consent of competent bodies, to pay dividends to owners, increase/decrease share capital, sell assets to reduce its liabilities, and similar.

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 Company has adopted a policy of conducting business mainly with creditworthy companies, thereby reducing the possibility of incurring financial losses due to default. The Company uses data and opinions collected from specialized credit rating companies, the Chamber of Commerce, as well as publicly released information on the financial position of companies and its own database to rank significant customers. The impact of credit risk on the Company as well as changes in the credit ranking of partners are constantly monitored. In principle, transactions are contracted with creditworthy partners and appropriate payment security instruments (L/C, guarantees, etc.) are obtained. Apart from deposits with commercial banks and receivables from associated companies, the Company has no significant receivables from third parties and consequently there is no significant credit risk present.

Interest risk

The Company is not exposed to interest risk because it is not exposed to debt. Owing to a sound structure of the Company's sources of funding, and lack of any interest-related liabilities toward third parties, the Company is not exposed to interest risk.

Operational plan

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.

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 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.

The strategy is 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** – increase of the export/domestic market ratio (up to 60% – 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

Difference between the GFI POD form and the presented financial statements

The difference between the balance sheet items presented in the GFI POD form and the audited financial statements is presented below:

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Tangible assets (AOP 010)	399,485	236,325	163,160	Investment property and right-of-use assets are presented separately in IFRS financial statements as required by IAS 40.
Investment property (Note 14)	-	163,160	(163,160)	
Total	399,485	399,485	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Investments in participating interests (AOP 024)	101,672	-	101,672	According to the requirements of IFRS 11, items pertaining to investments in associated companies and joint ventures are presented separately in the IFRS statements.
Investments in associated companies (Note 16)	-	67,722	(67,722)	
Investments in joint ventures (Note 17)	-	33,950	(33,950)	
Total	101,672	101,672	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Trade receivables (AOP 034)	17,976	-	17,976	Non-current receivables are grouped in the IFRS statements under "Loans and receivables", whereas in the GFI POD form they are separated by relevant items.
Other receivables (AOP 035)	6,634	-	6,634	
Loans and receivables (Note 18)	-	24,610	(24,610)	
Total	24,610	24,610	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Non-current assets held for sale (AOP 044)	8,985	-	8,985	Under IFRS 5, non-current tangible assets are presented in the balance sheet as a separate, standalone item, whereas in the GFI POD form they are presented under inventories.
Non-current assets held for sale (Note 22)	-	8,985	(8,985)	
Total	8,985	8,985	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Receivables (AOP 046)	41,251	-	41,251	In the IFRS statements, the note pertaining to total loans granted includes prepaid expenses, which are intended to be presented as a standalone item in the GFI POD form (AOP 064), but were included in other receivables according to the note. In the IFRS note, there is a subdivision into trade receivables, which include GFI POD items AOP 047, AOP 048 and AOP 049.
Trade and other receivables (Note 19)	-	41,951	(41,951)	
Prepaid expenses (AOP 064)	700	-	700	
Total	41,951	41,951	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Reserves for treasury shares (AOP 072)	34,518	-	34,518	In the balance sheet that is part of the IFRS statements, provisions for treasury shares and treasury shares are presented under the "profit reserves" item, and they are presented in more detail in the statement of changes in equity.
Reserves for treasury shares (AOP 073)	(15,870)	-	(15,870)	
Total	18,649	-	18,649	

Difference between the GFI POD form and the presented financial statements (continued)

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Current liabilities (AOP 107)	32,762	-	32,762	Total current liabilities are classified in the IFRS statements as trade payables and other liabilities. The relevant note reveals that trade payables include items AOP 108 and AOP 115, employee-related liabilities AOP 117, tax and contributions-related liabilities AOP 118, whereas other liabilities are equal to the sum of items AOP 119 and AOP 121.
Accrued expenses (AOP 122)	721	-	721	
Trade and other payables (Note 25)	-	33,483	(33,483)	

Total	33,483	33,483	-	
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The difference between the profit and loss statement items presented in the GFI POD form and the audited financial statements is presented below:

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Cost of raw materials and supplies (AOP 134)	4,921	-	4,921	In the profit and loss statement compiled in accordance with the IFRS, items AOP 134 and AOP 136 are grouped under the "cost of material and services" item.
Other external costs (AOP 136)	21,540	-	21,540	
Raw materials, products, consumables and services used (Note 6)	-	26,461	(26,461)	
Total	26,461	26,461	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Other costs (AOP 142)	14,459	-	14,459	In the IFRS statements, items AOP 142 and AOP 153 are grouped as "other costs".
Other operating expenses (AOP 153)	577	-	577	
Other operating expenses (Note 8)	-	14,089	(14,089)	
Total	15,036	14,089	947	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Staff costs (AOP 137)	26,670	-	26,670	In the IFRS statements, costs of provisions for severance pay (AOP 146) are presented under the "staff costs" item, together with the costs of other remuneration payable to employees in the amount of HRK 947 thousand, which is presented in the GFI POD form under the "other costs" item (AOP 142).
Provisions (AOP 146)	6,852	-	6,852	
Staff costs	-	34,469	(34,469)	
Total	33,522	34,469	(947)	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Financial income (AOP 154)	4,679	-	4,679	U MSFI izvještaju prihodi od svodenja dionica na fer vrijednosti kao i prihodi od ukidanja očekivanog kreditnog gubitka sukladno MSFFI-ju 9, prikazani u ostali prihodima, dok se isti u GFI POD nalaze pod stavkom financijski prihodi.
Other operating income (outside of the Group) (AOP 130)	1,558	-	1,558	
Other operating income (intra-Group transactions) (AOP 129)	135	-	135	
Other operating income (Note 5)	-	2,222	(2,222)	
Finance income (Note 9)	-	4,150	(4,150)	
Total	6,372	6,372	-	



KONÇAR



Končar – Electrical Industry Inc.

Statement of Management's responsibilities

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 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 Company 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 Company will continue in business.

The Management Board has a reasonable expectation that the Company 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 financial statements comprise the Annual Report of the Company and were authorised and signed by the Management Board on 12 April 2021 for issue to the Supervisory Board.

Signed on behalf of Management Board:


Gordan Kolak,
President of the Management Board


Miki Huljić,
Member of the Management Board


Josip Ljulj,
Member of the Management Board


Ivan Bahun,
Deputy President and Member of the
Management Board


Josip Lasić,
Member of the Management Board


Božidar Poldrugac,
Member of the Management Board

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

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
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Independent Auditors' Report to the shareholders of KONČAR – ELECTRICAL INDUSTRY Inc

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of KONČAR - ELECTRICAL INDUSTRY Inc ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2020, and the separate statements of comprehensive income, cash flows and changes in equity of the Company 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 unconsolidated financial position of the Company as at 31 December 2020 and of its unconsolidated financial performance and its unconsolidated 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 Company 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.

Key Audit Matters

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

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES

As at 31 December 2020, investments in subsidiaries in the separate financial statements amounted to HRK 845,127 thousand. During the year the Company recognized an impairment loss with respect to investments in subsidiaries in the amount of HRK 20,146 thousand.

Please refer to notes 2.3(j) *Investment in subsidiaries and associates*, 3(a) *Key accounting estimates and judgments*, 8 *Impairment* and note 16 *Investment in subsidiaries* to the financial statements.

Key audit matter	How our audit addressed the matter
<p>In accordance with the relevant financial reporting standards, the Company is required to perform an impairment test for assets for which impairment indicators were identified.</p> <p>Due to the magnitude of investments in subsidiaries (as well as total exposure toward these entities, calculated as the sum of the carrying amounts of the investments and related loans and receivables, net of related liabilities), identification of the impairment indicators for any such subsidiaries at the reporting date and testing for potential impairment requires significant management judgement.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • valuating, against the relevant requirements of the financial reporting standards, the process of management's identification of impairment indicators, considering factors such as unfavourable developments in the industry, negative or insufficient net assets, changing laws and regulations, declining financial performance, existence of any overdue loans and receivables and/or rolling of existing facilities, and changing business models;

This version of our audit report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our audit report takes precedence over this translation.



Independent Auditors' Report to the shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES (CONTINUED)	
Key audit matter	How our audit addressed the matter
<p>Where impairment indicators are identified for a certain exposure, the Company tests the impairment by determining the recoverable amount of the assets and comparing it with their carrying values.</p> <p>The recoverable amounts are determined, with the assistance from external and internal appraisers, as fair values of the underlying subsidiaries, measured using appropriate valuation techniques, e.g. discounted cash flow models of the underlying entity, supplemented, where available, by comparable valuation multiples or prices achieved in actual market transactions for comparable entities.</p> <p>The determination of the recoverable amount requires making a number of assumptions and judgements, in particular those relating to the selection and application of valuation models, future cash flow projections and the appropriateness of used valuation multiples, and comparable transactions. Future cash flow projections are subject to significant variability due to changing market conditions and environment. Key assumptions relate to discount rate used and cash flows growth rate in the residual period. A minor change in these assumptions may have a significant impact on the recoverable amount.</p> <p>As a result, this area required our significant judgment and increased attention in the course of our audit and consequently we considered it to be a key audit matter.</p>	<ul style="list-style-type: none"> • assessing the appropriateness of valuation methodology applied for impairment testing against the relevant requirements of financial reporting standards. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements; • assessing competence, capabilities and objectivity of internal and external appraisers engaged by the Company; • assisted by our own valuation specialists, challenging the key assumptions used by management in its impairment testing, which specifically involved: <ul style="list-style-type: none"> ○ evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes; ○ challenging the key macroeconomic assumptions applied (such as discount rates and growth rates in the residual period) by reference to publicly available external sources and data on historical financial performance; ○ analysing sensitivity of the impairment test results to changes in key assumptions and considering whether the level of key assumptions indicates management bias; • evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing against the relevant requirements of the financial reporting standards.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 April 2020.



Independent Auditors' 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 Company, 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 Article 21 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 Article 21 of the Accounting Act;
- 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



Independent Auditors' 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 Company'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 Company'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 Company 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.



Independent Auditors' 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 separate financial statements of KONČAR – ELECTRICAL INDUSTRY d.d. 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 auditors' report is Igor Gošek.


KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
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Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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12 April 2021

KONČAR– ELECTRICAL INDUSTRY Inc.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HRK'000	2019 HRK'000
Revenue	4	111,661	95,624
Other operating income	5	2,222	20,539
		113,883	116,163
Cost of materials and services	6	(26,461)	(31,485)
Staff costs	7	(34,469)	(23,447)
Depreciation and amortisation		(9,725)	(9,309)
Impairment losses	8	(26,469)	(28,718)
Other operating expenses	9	(14,089)	(18,519)
		(111,213)	(111,478)
Operating profit		2,670	4,685
Finance income		4,150	2,696
Finance costs		(8)	(31)
Finance income - net	10	4,142	2,665
Profit before tax		6,812	7,350
Income tax	11	-	-
PROFIT FOR THE YEAR		6,812	7,350
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		6,812	7,350
Basic and diluted earnings per share in HRK	12	2,67	2,88

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

KONČAR – ELECTRICAL INDUSTRY Inc.
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	31 December 2020 HRK'000	31 December 2019 HRK'000
<u>ASSETS</u>			
Intangible assets	13	1,787	3,162
Property, plant and equipment	14	236,325	248,421
Right-of-use assets		-	1,634
Investment property	15	163,160	163,160
Investments in subsidiaries	16	845,127	846,819
Investments in associates	17	67,722	67,722
Investments in joint ventures	18	33,950	37,054
Financial assets at FVTPL		1,677	1,443
Loans and receivables	19	24,610	30,588
Non-current assets		1,374,358	1,400,003
Trade and other receivables	20	41,951	37,617
Current financial assets	21	-	201,833
Cash and cash equivalents	22	264,354	43,379
Assets held for sale	23	8,985	-
Current assets		315,290	282,829
TOTAL ASSETS		1,689,648	1,682,832
<u>EQUITY AND LIABILITIES</u>			
Share (registered) capital		1,208,896	1,208,896
Capital reserves		720	720
Reserves from profit		421,602	423,268
Retained earnings		8,830	4,765
Profit for the year		6,812	7,350
Capital and reserves	24	1,646,860	1,644,999
Non-current provisions	25	9,305	2,579
Non-current liabilities		-	1,245
Non-current liabilities		9,305	3,824
Trade and other payables	26	33,483	31,813
Current provisions	25	-	2,196
Current liabilities		33,483	34,009
Total liabilities		42,788	37,833
TOTAL EQUITY AND LIABILITIES		1,689,648	1,682,832

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

KONČAR – ELECTRICAL INDUSTRY Inc.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HRK'000	2019 HRK'000
Cash flows from operating activities			
Proceeds from trade receivables		26,631	24,665
Payments to trade payables		(18,525)	(37,078)
Payments to employees		(25,652)	(24,747)
Taxes paid		(1,143)	(2,004)
Other proceeds and payments		(107)	(2,913)
Cash from operations		(18,796)	(42,077)
Interest paid		-	(24)
Net cash flows from operating activities		(18,796)	(42,101)
Cash flows from investing activities			
Proceeds from sale of non-current intangible and tangible assets		2,122	35,553
Proceeds from sale of equity and debt instruments		2,916	5,116
Dividends received		51,187	92,664
Interest received		1,390	532
Cash proceeds from term deposits	21	204,744	-
Purchase of non-current intangible and tangible assets		(991)	(51,542)
Payments for acquisition of equity and debt financial instruments	16	(18,454)	(45,480)
Placement of deposits	21	-	(200,229)
Loans granted	20	(32,900)	(2,500)
Cash proceeds from repayment of loans granted	20	35,400	29,299
Net cash flows (used in) / from investing activities		245,414	(136,587)
Cash flows from financing activities			
Purchase of treasury shares		(4,951)	(828)
Dividends paid	24	(11)	(38,284)
Principal elements of lease payments		-	(350)
Net cash used in financing activities		(4,962)	(39,462)
Net (decrease)/increase in cash and cash equivalents		221,656	(218,150)
Cash and cash equivalents at beginning of year	22	43,379	261,471
Effect of change in foreign exchange differences		(681)	58
Cash and cash equivalents at end of year	22	264,354	43,379

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

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

	Share capital	Share premium	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Total capital and reserves
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January 2019	1,208,896	720	386,932	10,092	(10,092)	4,765	75,503	1,676,816
<i>Profit for the year</i>	-	-	-	-	-	-	7,350	7,350
<i>Total comprehensive income</i>	-	-	-	-	-	-	7,350	7,350
Transfer	-	-	37,144	-	-	-	(37,144)	-
Dividends paid	-	-	-	-	-	-	(38,359)	(38,359)
Reserves for own shares	-	-	(25,000)	25,000	-	-	-	-
Purchase of treasury shares	-	-	-	-	(828)	-	-	(828)
Other	-	-	20	-	-	-	-	20
Total transactions with the owners	-	-	12,164	25,000	(828)	-	(75,503)	(39,167)
At 31 December 2019	1,208,896	720	399,096	35,092	(10,920)	4,765	7,350	1,644,999
<i>Profit for the year</i>	-	-	-	-	-	-	6,812	6,812
<i>Total comprehensive income</i>	-	-	-	-	-	-	6,812	6,812
Transfer	-	-	3,859	(574)	-	4,065	(7,350)	-
Purchase of treasury shares	-	-	-	-	(4,951)	-	-	(4,951)
Total transactions with the owners	-	-	3,859	(574)	(4,951)	4,065	(7,350)	(4,951)
At 31 December 2020	1,208,896	720	402,955	34,518	(15,871)	8,830	6,812	1,646,860

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

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. General information on the Company

Končar-Electrical Industry Inc., Zagreb, Fallerovo šetalište 22, (the "Company") is the parent company of the Končar-Electrical Industry Group. As the parent company, it prepares consolidated financial statements which are presented and audited separately. These separate financial statements represent the Company as a separate entity. The principal activities of the Company are managing owned subsidiaries and associates.

As at 31 December 2020 the Company had 51 employees, while as at 31 December 2019 the Company had 53 employees.

Members of the Supervisory Board:

Joško Miliša	President of the Supervisory Board from 14 January 2020., Member until 13 January 2020
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 Board
Ivan Milčić	Member of the Supervisory Board 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 24 October 2020
Vladimir Plečko	Member of the Supervisory Board until 1 June 2020

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Members of the Management Board:

Gordan Kolak	President of the Management Board as of 20 January 2020 and Deputy President until 19 January 2020
Darinko Bago	President of the Management Board until 19 January 2020
Ivan Bahun	Deputy President as of 20 January 2020
Miki Huljić	Member
Josip Lasić	Member, as of 16 March 2020
Josip Ljulj	Member, as of 20 January 2020
Božidar Poldrugač	Member, as of 1 March 2020
Marina Kralj Miliša	Member until 19 January 2020
Miroslav Poljak	Member, until 29 February 2020
Ivan Tomšić	Deputy member until 19 January 2020

Compensations paid to members of the Management Board and Supervisory Board are disclosed in note 28 to the financial statements.

The financial statements are presented in thousands of Croatian kuna ('000 HRK).

2. Significant accounting policies

The significant accounting policies used for the preparation of these 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 Company's 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.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company'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 disclosed in Note 3.

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

The Company has prepared these separate financial statements in accordance with the Croatian legal regulations. At the date of approval of these separate financial statements, the Company has prepared and approved the related consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiaries (note 16) have been fully consolidated. Users of these separate financial statements should read them with the Group's consolidated financial statements as at and for the year ended 31 December

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2020 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

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 Company 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 Company.

2.2 Changes in presentation due to reclassifications

In these separate financial statements, the Company made a number of reclassifications of comparative information previously reported. These reclassification adjustments of financial statement captions in the statement of comprehensive income and statement of financial position were made in order to achieve better consistency and comparability of financial information;

In 2020, the Company changed the classifications of certain categories in its statement of comprehensive income 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.

(i) 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 (class "Other costs", "Provisions" are merged in class "Other operating expenses"; while classes "Cost of material and energy" and "Cost of services" were merged in "Cost of material and services"). Reclassifications are disclosed in the following tables and explained in more details below.

- Other operating income in the amount of HRK 1,985 thousand were netted off with staff costs, while gains from financial assets in the amount of HRK 676 thousand were reclassified from other costs to other operating income, same as income from fair value adjustment of HRK 112 thousand which was reclassified from finance income.
- Cost of materials and energy in the amount of HRK 6,217 thousand and cost of services in the amount of HRK 25,268 thousand were merged to class Cost of material and services totalling 31,485 thousand.

KONČAR – ELECTRICAL INDUSTRY Inc.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2.2 Changes in presentation due to reclassifications (continued)

- Staff costs were netted off with other operating income in the amount of HRK 1,985 thousand and provisions of HRK 2,536 thousand were reclassified to staff costs, similar as other employee costs in the amount of HRK 811 thousand which were previously disclosed within other costs.
- Foreign exchange losses of HRK 2,117 thousand were netted off with foreign exchange gains.

(ii) Statement of financial position

Part of the reclassifications made by the Company in 2020 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.

Reclassifications made were as follows:

- Classes "Receivables from related parties" of HRK 25,705 thousand, "Trade receivables", of HRK 1,249 thousand, "Other receivables" of HRK 8,073 thousand, "Loans receivable" of HRK 2,500 thousand and "Prepaid expenses and accrued income" of HRK 847 thousand are merged into the class "Trade and other receivables" totalling HRK 38,374 thousand, while HRK 757 thousand was further reclassified to a separate class "Financial assets", resulting in total amount of HRK 37,617 thousand shown under "Trade and other receivables".
- Classes "Liabilities to related parties" of HRK 25,067 thousand, "Lease liabilities" of HRK 403 thousand, "Trade payables" of HRK 1,077 thousand, and "Other liabilities" of HRK 3,159 thousand with part of a "Current provisions" class of HRK 2,107 thousand are merged into the class "Trade and other payables" totalling HRK 31,813 thousand.

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2.2 Changes in presentation due to reclassifications (continued)

Reclassification of comparative information in the statement of comprehensive income:

	2019		2019
	HRK'000	Reclassification	HRK'000
	Reported		Reclassified
Revenue	95,624	-	95,624
Other operating income	21,736	(1,197)	20,539
Operating income	117,360	(1,197)	116,163
Cost of material and energy	(6,217)	6,217	-
Cost of services	(25,268)	25,268	-
Cost of material and services	-	(31,485)	(31,485)
Staff costs	(22,085)	(1,362)	(23,447)
Depreciation and amortisation	(9,309)	-	(9,309)
Other operating expenses	(19,330)	811	(18,519)
Impairment losses	(28,718)	-	(28,718)
Gain from financial assets	676	(676)	-
Provisions	(2,536)	2,536	-
Operating expenses	(112,787)	1,309	(111,478)
Operating profit	4,573	112	4,685
Finance income	4,925	(2,229)	2,696
Finance expenses	(2,148)	2,117	(31)
Net financial result	2,777	(112)	2,665
Profit before tax	7,350	-	7,350
Income tax	-	-	-
PROFIT FOR THE PERIOD	7,350	-	7,350

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2.2 Changes in presentation due to reclassifications (continued)

Reclassification of comparative information in the statement of financial position:

	31 December 2019 Reported HRK'000	Reclassification	31 December 2019 Reclassified HRK'000
<u>ASSETS</u>			
Intangible assets	3,162	-	3,162
Property, plant and equipment	248,421	-	248,421
Right of use assets	1,634	-	1,634
Investment property	163,160	-	163,160
Investment in subsidiaries	846,819	-	846,819
Investment in equity accounted investees	67,722	-	67,722
Investment in joint ventures	37,054	-	37,054
Financial assets	1,443	-	1,443
Loans and receivables	30,588	-	30,588
Non-current assets	1,400,003	-	1,400,003
Financial assets	201,076	757	201,833
Related party receivables	25,705	(25,705)	-
Trade receivables	1,249	(1,249)	-
Trade and other receivables	-	37,617	37,617
Other receivables	8,073	(8,073)	-
Loans given	2,500	(2,500)	-
Cash and cash equivalents	43,379	-	43,379
Prepaid expenses and accrued income	847	(847)	-
Current assets	282,829	-	282,829
TOTAL ASSETS	1,682,832	-	1,682,832
<u>EQUITY AND LIABILITIES</u>			
Share capital	1,208,896	-	1,208,896
Capital reserves	720	-	720
Reserves from profit	423,268	-	423,268
Retained earnings	4,765	-	4,765
Profit for the period	7,350	-	7,350
Equity and reserves	1,644,999	-	1,644,999
Non-current provisions	2,579	-	2,579
Non-current liabilities	1,245	-	1,245
Non-current liabilities	3,824	-	3,824
Related party payables	25,067	(25,067)	-
Lease liabilities	403	(403)	-
Trade payables	1,077	(1,077)	-
Trade and other payables	-	31,813	31,813
Other current liabilities	3,159	(3,159)	-
Current provisions	4,303	(2,107)	2,196
Current liabilities	34,009	-	34,009
Total liabilities	37,833	-	37,833
TOTAL EQUITY AND LIABILITIES	1,682,832	-	1,682,832

2.3 Summary of significant accounting policies

a) Revenue recognition

The Company recognises revenue based on:

- brand usage fee (fee for the usage of company name, trademark and service mark)
- property management fee
- other fees (solidary guarantees, representative offices)

The Company recognises revenue when the control over particular goods or services is transferred to a customer or when the customer acquires the right to manage the transferred goods or services provided that there is an agreement resulting in enforceable rights and obligations and, among other things, a consideration is likely to be charged taking into account the creditworthiness of the Company's customers. Revenue is recognised in the amount of the transaction price to which the Company expects to be entitled in exchange for transferring the promised service to customers.

The promised consideration may include fixed amounts, variable amounts, or both.

Sales of services: Revenue is recognised over time on a straight-line basis or as services are rendered. Revenue from property management charged to a related party is recognised in the period when the services were rendered and are determined on the basis of parameters agreed with the related party.

Revenue from the brand that provides the right to access the Company's intellectual property is recognised over time. The fee is charged and paid on a monthly basis, and divided into a fixed and variable portion. The variable fee is defined based on the results realised by the subsidiary.

Income from dividends, i.e. shares in profit: Income from dividends, i.e. shares in profit of subsidiaries and associates, is recognised when the right to receive payment is established.

b) Finance income and costs

Finance income and costs comprise interest income on loans and borrowings using the effective interest method, interest income on funds invested, dividend income, foreign currency losses and gains.

Interest income is recognised in the income statement on an accrual basis using the effective interest rate method.

c) Income tax

The Company accounts for 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, adjusted for amounts which are not included in the tax base or tax deductible expenses. Income tax is calculated by using tax rates in effect at the balance sheet date.

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c) Income tax (continued)

Deferred taxes arise from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. Deferred tax assets for unused tax losses and unused tax benefits are recognised if 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 as income or expense in the income statement; except when they relate to items credited or debited directly in other comprehensive income or equity, in which case tax is also recognised directly in other comprehensive income or equity.

d) Earnings per share

The Company 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 of the Company by the weighted average number of ordinary shares outstanding during the period.

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, less potential shares which arise from options.

e) Dividend distribution

Dividends are recognised in the statement of changes in equity and recorded as liabilities in the period in which they are approved by the Company's shareholders.

f) 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. Negative and positive exchange differences arising on translation are included in the income statement for the current year and are presented in Note 9 in net amounts (these amounts include exchange differences from operating activities).

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

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

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

Maintenance and repairs, replacements and improvements of minor scale lower extent are expensed as incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an asset beyond its originally assessed standard performance, the expenditures are capitalised i.e. included in the carrying value of the asset. 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. Depreciation and amortisation cease when the asset is fully depreciated or amortised or when the asset is classified as held for sale. Depreciation and amortisation are charged so as to write off the cost of each asset, other than land and non-current intangible and tangible assets under construction and advances, over their estimated useful lives, using the straight line method, as follows:

	Amortisation and depreciation rates (from – to %)
Intangible assets	20
Buildings	1.2 – 7.7
Equipment	7.5 – 50
Tools, plant inventory and vehicles	5.6 - 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 modified. The recoverable amount is determined as the higher of an asset's fair value less costs of disposal and value in use.

If the amount of an property, plant and equipment exceeds its recoverable value, the difference is charged to profit or loss (impairment loss is recognised). At each reporting date, the Company makes assessment whether the previously recognised impairment loss should be reversed or decreased.

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h) 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 Company 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 Company 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 Company starts using the investment property, it is reclassified to property, plant and equipment. The Company discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers. Based on these estimates, the Company 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.

i) 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 company manages the financial assets for the purpose of generating cash flows. A reclassification of debt instruments is only possible if the business model changes.

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i) Financial assets and liabilities (continued)

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

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i) Financial assets and liabilities (continued)

Credit loss allowance for trade receivables 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.

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when estimating 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 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 assumption 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.

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i) Financial assets and liabilities (continued)

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, especially legal reserves, statutory reserves and other reserves.

Share capital repurchase

The amount paid for the repurchase of the share capital, including direct costs related to the repurchase, is recognised as a decrease within 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 contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are 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, 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.

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i) Financial assets and liabilities (continued)

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.

j) Investments in subsidiaries and associates

Subsidiaries are companies in which the Company has the control, i.e. when it 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.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries and associates are presented using the cost method. If there are indicators of impairment, the recoverable amount of the investment is estimated. The difference between the investment and the recoverable amount is recognised in the statement of comprehensive income as a loss or gain (reversal of the previously recorded loss).

k) Investments in joint venture

The Company has assessed the nature of its joint arrangement in accordance with IFRS 11 and determined it to be a joint venture. In the Company's separate financial statements, investments in the joint venture are measured at cost less impairment losses, i.e. at the realisable value of the investment.

Joint control is the agreed distribution of control over an arrangement which exists only when the decision-making on relevant arrangements requires the unanimous consent of the parties sharing such control.

l) Merger

The predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated, recognising the present value of net assets merged within equity.

m) 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 initially recognised at their nominal value less corresponding allowances for estimated uncollectible amounts and impairment losses.

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m) Receivables (continued)

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 are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of an asset when this 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

n) Cash and cash equivalents

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

o) 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.

p) 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.

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p) Leases (continued)

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 Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company'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.

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p) Leases (continued)

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 of hardware and software 5 years
- right of use for the vehicles 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 Company 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.

q) 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 payables 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.

r) Borrowings

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

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

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s) 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.

t) Employee benefits

i. Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company 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 Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

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t) Employee benefits (continued)

iv. Long-term employee benefits

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

u) Contingent assets and liabilities

Contingent liabilities are not recognised in the Company's 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 Company's 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.

v) Events after the balance sheet date

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

3. 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Impairment of investments in subsidiaries

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

For the purpose of impairment tests, the DCF method is used which is based on the assumptions that the entity's value represents the present value of its future cash flows. When using the DCF method, the objectivity of calculations mostly depends on the reality of medium-term business plans and the discounted rate used in discounting future cash flows as well as the calculation of the residual value of entities. Determining the discount rate depends on the interest rate for risk-free placements (government bonds) and the rate which reflects the risk premium depending on the entity's specifics, market position and technical capabilities.

In 2020 and in 2019, the Company performed impairment tests on investments in its subsidiaries.

During 2020, in determining the possibility of return of investment and loans in the company Končar - Renewable Energy Sources Ltd., the used expected rate of return on invested capital was 5.89%, terminal value was HRK 24.5 million, which resulted in impairment of HRK 20.1 million.

If the discount rate increased by 1%, this would have an impact on the recoverable amount determined in the amount of HRK 3.8 million. If the residual value reduced by 20% were applied, this would decrease the recoverable amount of the investment by HRK 2.1 million. If the electricity prices were reduced by 1%, this would reduce the recoverable amount of the investment by HRK 4.1 million.

During 2020 the Company also made an estimate of the recoverable amount of the investment in the company Končar - Steel Structures Inc. and Končar – Generators and Motors Inc. The calculation of recoverable amount is based on five-year business plans of these subsidiaries, which are based on their order books, taking into account planned capital investments and applying a rate of return on capital in the range of 8% - 8.5%. Impairment tests assume a terminal growth rate after a five-year period of 1.5% and 2%, respectively.

3. Key accounting estimates and judgments (continued)

Regarding the sensitivity of impairment tests to changes in key variables, the sensitivity analysis indicates that a reasonably expected change in one of the key variables (terminal growth rate and weighted average cost of capital), with the other variable remaining unchanged, does not result in impairment of investments in subsidiaries Končar - Steel Structures Inc. and Končar – Generators and Motors Inc. A reasonably expected change in key variables by management is considered to be a change of 50 basis points.

b) Estimated residual value of investment property

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

During 2020 and 2019, the Company engaged an independent valuator to determine fair value of the investment property. During 2019, an impairment loss of HRK 1.5 million was recognised based on the values determined by the independent valuator. During 2020 there were no impairment losses regarding investment property.

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4. Revenue

	2020 HRK'000	2019 HRK'000
Dividend income /i/	60,729	47,202
Revenue from contracts with customers /ii/	50,932	48,422
	111,661	95,624

/i/ Dividend income

	2020 HRK'000	2019 HRK'000
Dividends from subsidiaries	35,115	31,158
Dividends from associates	25,614	16,043
	60,729	47,201

/ii/ Revenue from contracts with customers

	2020 HRK'000	2019 HRK'000
<i>Type of service</i>		
Brand usage fee (fee for the usage of company name, trademark and service mark)	24,315	21,885
Income from property management	24,000	24,000
Income from other fees	2,617	2,537
Total revenue from contracts with customers	50,932	48,422

<i>Related parties (Note 28)</i>	50,239	47,807
Unrelated parties	693	615
Total revenue from contracts with customers	50,932	48,422

Timing of revenue recognition

At a point in time	26,617	26,537
Over time	24,315	21,885
Total revenue from contracts with customers	50,932	48,422

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5. Other operating income

	2020 HRK'000	2019 HRK'000
Gain on sale of assets /i/	823	12,051
Unrealised gains from financial assets	528	788
Write off of liabilities	341	-
Gain on sale of investment /ii/	-	7,422
Other income	530	278
	2,222	20,539

/i/ Gain on the sale of property mainly relates to the sale of land and buildings to the related company Končar-Steel Structures Inc. based on an independent appraisal in the amount of HRK 11.8 million.

/ii/ Gain on sale of investment relates to sale of investment in the company Končar - Household Appliances, Inc. to the employees and former management of the company Končar - Household Appliances, Inc.

6. Cost of materials and services

	2020 HRK'000	2019 HRK'000
Supervisory services and property management services	7,819	7,331
Energy costs	4,653	5,810
Utility and water protection fee	3,282	4,128
Maintenance services (servicing)	2,979	5,299
Cleaning services	2,647	3,138
Administrative expenses	1,415	1,800
Costs of advertising and fairs	466	1,142
Telephone, post and transport	569	640
Other services	2,631	2,197
	26,461	31,485

7. Staff costs

	2020 HRK'000	2019 HRK'000
Net salaries and wages	13,574	10,500
Taxes and contributions	8,947	6,781
Contributions on salaries	4,149	3,386
Reimbursements of costs to employees	7,799	2,780
	34,469	23,447

In 2020, pension fund contributions amounted to HRK 3,413 thousand (2019: HRK 3,857 thousand).
The Company had average of 52 employees (2019: average of 54 employees).

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8. Impairment losses

	2020 HRK'000	2019 HRK'000
Impairment losses on investment in subsidiaries (note 16)	20,146	27,213
Impairment losses on investment in joint ventures (note 18)	3,104	-
Impairment losses on receivables	1,659	-
Impairment losses on intangible assets (note 13)	1,560	-
Impairment losses on investment property (note 15)	-	1,505
	26,469	28,718

9. Other operating expenses

	2020 HRK'000	2019 HRK'000
Intellectual services	6,576	7,085
Piece work agreements	2,547	3,783
Sponsorships and donations	1,737	1,554
Entertainment	637	1,962
Daily allowances for business trips and travel expenses	324	1,084
Other costs	2,268	3,051
	14,089	18,519

10. Finance income and costs

	2020 HRK'000	2019 HRK'000
Finance income		
Interest income	1,100	1,763
Net foreign exchange gains	3,021	777
Income from dividends and shares in profit	28	156
	4,149	2,696
Finance cost		
Interest expense based on lease contracts	-	(25)
Other finance costs	(7)	(6)
	(7)	(31)
Net finance income	4.142	2.665

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11. Income tax

	2020 HRK'000	2019 HRK'000
Profit before tax	6,812	7,350
Tax at applicable tax rate of 18%	1,226	1,323
<i>Tax effects of:</i>		
Non-deductible expenses	6,253	5,696
Non-taxable income	(10,952)	(8,626)
Tax benefits (state aid for education and training)	(22)	(84)
Tax losses for which no deferred tax asset was recognised	3,495	1,691
Income tax	-	-

The Company did not recognise deferred tax assets in the total amount of HRK 15,258 thousand (2019: HRK 12,742 thousand) due to the uncertainty of its usage within the period of five years (the Company as a holding mainly realises non-taxable revenue (dividends and shares in profits). The income tax rate for the application of the deferred tax calculation is 18% in accordance with the changes in the tax regulations in force. Total tax losses expire as follows:

	2020 HRK'000	2019 HRK'000
Within 5 years	19,418	9,397
Within 4 years	9,397	11,286
Within 3 years	11,286	22,595
Within 2 years	22,595	22,072
In the next year	22,072	5,438
	84,768	70,788

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

12. Earnings per share

	2020 HRK	2019 HRK
Basic and diluted earnings per share		
Profit for the year	6,812,307	7,350,152
Weighted average number of shares (net of treasury shares)	2,547,936	2,556,225
Earnings per share in HRK	2.67	2.88

Diluted earnings per share for 2020 and 2019 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either period.

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12. Earnings per share (continued)

Weighted average number of shares is as follows:

	2020	2019
	HRK	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

13. Non-current intangible assets

	Concessions, patents, licences, software and other rights	Other	Intangible assets under construction	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Cost				
At 1 January 2019	469	653	1,442	2,564
Additions	-	-	1,720	1,720
At 31 December 2019	469	653	3,162	4,284
Transfer	1,602	-	(1,602)	-
Additions	314	-	-	314
Disposals	(404)	-	-	(404)
At 31 December 2020	1,981	653	1,560	4,194
Accumulated amortisation				
At 1 January 2019	469	653	-	1,122
Amortisation for the year	-	-	-	-
At 31 December 2019	469	653	-	1,122
Amortisation for the year	129	-	-	129
Impairment	-	-	1,560	1,560
Disposals	(404)	-	-	(404)
At 31 December 2020	194	653	1,560	2,407
Net book amount				
31 December 2019	-	-	3,162	3,162
At 31 December 2020	1,787	-	-	1,787

The cost of fully amortised intangible assets still in use as at 31 December 2020 amounts to HRK 653 thousand (2019: HRK 1,122 thousand).

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14. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Cost							
At 1 January 2019	72,935	269,414	58,044	5,995	69	48,415	454,872
Additions	141	-	-	-	-	52,491	52,632
Transfer from assets under construction	25,520	36,538	907	-	-	(62,965)	-
Transfer to investment property	-	-	-	-	-	(34,226)	(34,226)
Disposals	-	(660)	(7,213)	(155)	-	-	(8,028)
At 31 December 2019	98,596	305,292	51,738	5,840	69	3,715	465,250
Additions	-	-	-	-	-	7,098	7,098
Transfer from assets under construction	-	3,700	765	687	-	(5,152)	-
Transfer to assets held for sale	(2,586)	(19,441)	-	-	-	-	(22,027)
Disposals	(85)	(202)	(215)	(1,409)	-	(438)	(2,349)
At 31 December 2020	95,925	289,349	52,288	5,118	69	5,223	447,972
Accumulated depreciation							
At 1 January 2019	-	166,783	45,342	3,155	-	-	215,280
Depreciation for the year	-	5,847	1,956	1,113	-	-	8,916
Disposals	-	(181)	(7,121)	(65)	-	-	(7,367)
At 31 December 2019	-	172,449	40,177	4,203	-	-	216,829
Depreciation for the year	-	6,568	1,909	1,119	-	-	9,596
Transfer to assets held for sale	-	(13,042)	-	-	-	-	(13,042)
Disposals	-	(202)	(213)	(1,321)	-	-	(1,736)
At 31 December 2020	-	165,773	41,873	4,001	-	-	211,647
Net book amount							
31 December 2019	98,596	132,843	11,561	1,637	69	3,715	248,421
31 December 2020	95,925	123,576	10,415	1,117	69	5,223	236,325

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14. Property, plant and equipment (continued)

The cost of fully depreciated property, plant and equipment still in use as at 31 December 2020 amounts to HRK 44,464 thousand (2019: HRK 41,889 thousand).

During 2020 the Company did not have mortgages on its property. In 2019, a mortgage was registered over land with a carrying value of HRK 4,739 thousand and business facilities with a carrying value of HRK 39,640 thousand as collateral for the subsidiaries' payment of their obligations in the amount of EUR 13,822 thousand.

15. Investment property

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

	Land	Buildings	Total
	HRK'000	HRK'000	HRK'000
Cost			
At 1 January 2019	53,680	187,352	241,032
Transfer from property, plant and equipment	-	34,226	34,226
Disposals (note 5 and 28)	(815)	(26,865)	(27,680)
At 31 December 2019	52,865	194,713	247,578
Reclassification	14,200	(14,200)	-
At 31 December 2020	67,065	180,513	247,578
Accumulated depreciation			
At 1 January 2019	-	88,407	88,407
Impairment	555	950	1,505
Disposals (note 5 and 28)	-	(5,494)	(5,494)
At 31 December 2019	555	83,863	84,418
Reclassification	10,396	(10,396)	-
At 31 December 2020	10,951	73,467	84,418
Net book amount			
31 December 2019	52,310	110,850	163,160
31 December 2020	56,114	107,046	163,160

The fair value of investment property at the balance sheet date relates to fair value level 3 since the input variables are not based on observable market data. Fair value of investment property at the balance sheet date amounts to HRK 284.6 million, from which:

- HRK 127.8 million relates to land;
- HRK 156.7 million relates to buildings.

During 2020, a real estate management department was established with the task of updating and improving the current state of the real estate register, and determining new guidelines for future real estate management in relation to the real estate owned by the Company.

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16. Investment in subsidiaries

	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	HRK'000	HRK'000	% ownership share	% ownership share
<u>Domestic subsidiaries</u>				
Končar - Switchgear Inc.	134,364	112,817	100.00	100.00
Končar - Steel Structures Inc., Zagreb	126,419	126,419	100.00	100.00
Končar - Generators and Motors Inc., Zagreb	107,928	107,928	100.00	100.00
Končar - Distribution and Special Transformers, Inc., Zagreb	62,118	62,118	52.73	52.73
Končar - Electrical Engineering Institute Inc., Zagreb	60,936	60,936	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	56,691	56,691	100.00	100.00
Končar - Electronics and Informatics Inc., Zagreb	55,436	55,436	88.98	88.98
Končar - Renewable Energy Sources Ltd., Zagreb	55,207	68,789	90.30	89.71
Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	51,773	51,773	100.00	100.00
Končar - Small Electrical Machines Inc., Zagreb	48,601	48,601	100.00	100.00
Končar - Electric Vehicles Inc., Zagreb	36,409	36,409	75.04	75.04
Končar - Instrument Transformers, Inc., Zagreb	30,446	30,446	61.97	61.97
Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	18,799	6,909	96.79	44.71
Končar - Low Voltage Switches and Circuit Breakers, Inc., Zagreb	-	21,547	-	100.00
	845,127	846,819		

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16. Investment in subsidiaries (continued)

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
As at 1 January	846,819	846,930
Increase /i/	18,454	45,480
Decrease /ii/	-	(18,391)
Impairment /iii/	(20,146)	(27,200)
As at 31 December	845,127	846,819

/i/ The increases relate to the recapitalization of Končar - Renewable Energy Sources Ltd., Zagreb, and to the purchase of shares in Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb (in 2019, the Company made a share capital contribution in cash in the following companies: Končar - Steel Structures Inc. and Končar - Renewable Energy Sources Ltd.).

/ii/ Decrease in 2019 relates to sale of shares in the company Končar - Household Appliances, Inc., Zagreb.

/iii/ Impairment in 2020 and 2019 relates to subsidiary Končar - Renewable Energy Sources Ltd.

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

17. Investments in associates

Investments in associates in the amount of HRK 67,722 thousand (2019: HRK 67,722 thousand) relate to the investment in the company Končar - Power Transformers Ltd., Zagreb (the Company holds a 49% share in the share capital of this company).

The summary data for this company are disclosed and equity accounted in the consolidated financial statements of the Company.

18. Investments in joint ventures

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
As at 1 January	37,054	37,054
Impairment	(3,104)	-
As at 31 December	33,950	37,054

Investments in joint ventures relate to the investment in Končar - XD High Voltage Switchgear Ltd., Zagreb (the Company holds a 50% share in the share capital of this company).

The summary data for this company are disclosed and equity accounted in the consolidated financial statements of the Company.

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19. Non-current loans and receivables

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
Receivables for shares sold	16,243	18,570
Receivables for recognised claims	6,634	8,293
Receivables for sold flats	1,733	2,718
Other receivables	-	1,007
	24,610	30,588

/i/ Receivables for shares sold relate to long term receivable for sold shares of the company Končar - Household Appliances, Inc. with repayment in instalments over a 10-year period.

/ii/ Receivables for recognised claims relate to receivables for a court deposit.

20. Trade and other receivables

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
Related party receivable	36,243	25,699
Receivables for shares sold	2,600	2,597
Third party receivables	1,296	1,248
Receivables for sold flats	929	755
Loans given and interest	13	2,632
Receivables from the state	-	3,649
Other receivables	870	1,037
	41,951	37,617

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

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
Undue	35,677	25,165
< 60 days	1,384	873
60-90 days	222	301
90-180 days	243	497
180-365 days	13	111
	37,539	26,947

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

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20. Trade and other receivables (continued)

/i/ Loans granted to subsidiaries are repayable within one year at an annual interest rate of 3.42 % (2019: 3.96%) and are secured by own blank accepted bills of exchange and debentures.

Movements in loans granted to related parties were as follows:

	HRK'000
1 January 2019	29,250
Loans granted	2,500
Loans repaid	(29,250)
31 December 2019	2,500
Loans granted	32,900
Loan repaid	(35,400)
31 December 2020	-

21. Current financial assets

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
Deposits over 3 months	-	201,833
	-	201,833

In 2019, the Company placed a deposit for a one-year period at the interest rate of 0.55%. Deposit was placed in EUR.

22. Cash and cash equivalents

	31 Dec 2020	31 Dec 2019
	HRK' 000	HRK'000
Cash in bank	264,348	43,365
Cash on hand	6	14
	264,354	43,379

23. 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. Actions regarding the sale of the property have been started by the Management Board, and the sale is expected by the end of 2021.

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24. Capital and reserves

Share (registered) capital is determined in the nominal amount of HRK 1,208,895,930 (31 December 2019: HRK 1,208,895,930) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The Company's ownership structure was as follows:

Shareholder	31 December 2020		31 December 2019	
	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. / AZ OMF	371,162	14.43	377,429	14.67
4 OTP Banka d.d. / Erste Plavi mandatory pension fund	393,972	15.32	394,213	15.33
5 Restructuring and Sale Center (CERP)/Croatia	60,000	2.33	73,162	2.84
6 Florićić Kristijan	40,714	1.58	50,714	1.97
7 Addiko Bank/RBA OMF	47,636	1.85	47,636	1.85
8 Zagrebačka banka D.D. /AZ PROFIT voluntary pension fund	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 Other shareholders	402,835	15.66	391,405	15.22
12 KONČAR Inc. (treasury shares)	26,670	1.04	16,170	0.63
	2,572,119	100	2,572,119	100

On 21 December 2010, ordinary shares of the Company were listed on the Official market at the Zagreb Stock Exchange under the name KOEI-R-A in accordance with the resolution of the Zagreb Stock Exchange Management from 20 December 2010.

During 2018, the Company started purchasing its treasury shares. In 2019, the Management Board is authorized to acquire treasury shares for a period of 5 years, based on a decision of the General Assembly. Part of other reserves in the amount of HRK 25 million, in accordance with the decision of the General Assembly, will be used for the purpose of acquiring treasury shares, thus forming reserves for the purchase of treasury shares. As at 31 December 2020 the Company owns 26,670 treasury shares (31 December 2019: 16,170 shares).

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

The Company has established legal, statutory and other reserves in accordance with the Companies Act that are formed on the basis of profit distribution according to the General Assembly's decisions.

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25. Provisions

	Jubilee awards and termination benefits
	HRK'000
1 January 2019	3,715
Additional provisions	1,926
Release of provisions	(866)
31 December 2019	4,775
-from which current	2,196
Additional provisions	6,746
Transfer to short term provision	(2,196)
Release of provisions	(20)
31 December 2020	9,305
-out of which current	-

Provisions for long-term employee benefits (termination benefits and jubilee awards)

Provisions for termination benefits in the amount of HRK 9,305 thousand (2019: HRK 4,775 thousand) relates to termination benefits for members of the Management Board.

Remaining portion of HRK 310 thousand (2019: HRK 394 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which the employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure, eligibility for jubilee awards). The 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, statutory non-taxable value of severance pay and the discount rate of 0.7% (2019: 1%).

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26. Trade and other payables

	31 December 2020	31 December 2019
	HRK	HRK
Related party payables	23,414	25,067
Trade payables	2,377	1,075
Liabilities for contributions on and from salaries and taxes and surtaxes	3,430	1,169
Bonus accruals	2,120	253
Liabilities for net salaries	912	838
Other employees related liabilities	717	610
Other liabilities	513	2,801
	33,483	31,813

27. Contingent liabilities and off-balance sheet items

Off-balance sheet records as at 31 December 2020 include collaterals issued (including corporate guarantees to third parties) at the request of the Group's subsidiaries to financial institutions and suppliers in the amount of HRK 738,830 thousand (31 December 2019: HRK 435,562 thousand), while subsidiaries issued collateral to the Company from the aforementioned transactions in the amount of HRK 691,794 thousand (31 December 2019: HRK 2,402 thousand).

28. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions. Related parties include companies included in the Končar Group. These companies are subsidiaries, associates (companies with participating interests). 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	Income HRK'000	Expenses HRK'000
Operating activities				
Subsidiaries	10,289	23,414	47,843	19,140
Associates	25,954	-	2,426	-
Total operating activities	36,243	23,414	50,269	19,140
Financing activities				
Subsidiaries	13	-	144	-
Associates	-	-	-	-
Total financing activities	13	-	144	-

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28. Related party transactions (continued)

2019	Receivables HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Operating activities				
Subsidiaries	9,455	25,067	46,243	21,516
Associates	214	-	1,565	-
Impairment (expected credit losses)	(13)	-	-	-
Total operating activities	9,656	25,067	47,808	21,516
Financing activities				
Subsidiaries	2,506	-	229	-
Associates	-	-	-	-
Total financing activities	2,506	-	229	-

Revenue from the sale of assets to subsidiaries in 2020 amounts to HRK 126 thousand, and in 2019 to HRK 33,993 thousand.

Dividend receivables from associates as at 31 December 2020 of HRK 25,614 thousand (31 December 2019: HRK 16,043 thousand) was collected during the first quarter of 2021 (2019: collected during the first quarter of 2020). During 2019, the Company received a total of HRK 62,587 thousand in dividends related to declared and uncollected dividends as at 31 December 2018. Dividend income, Income from shares in profit (subsidiaries and associates) is presented in detail in note 4, while receivables from declared but uncollected dividends are shown within note 20.

/i/ Transactions with key management and members of the Supervisory Board

Regular remuneration of key management personnel in 2020 amounts to HRK 8,823 thousand (2019: HRK 6,852 thousand), and relates to 6 members of the Management Board (2019: 6 members of the Management Board).

Remuneration to key personnel in 2020 also includes a variable part of the salary in the amount of HRK 5,595 thousand (2019: HRK 1,371 thousand), and the accruals for termination benefits in the amount of HRK 6,809 thousand (2019: HRK 1,950 thousand).

Total remuneration to the members of the Supervisory Board in 2020 amounted to HRK 2,164 thousand (2019: HRK 2,824 thousand) for an average of 6 members of the Supervisory Board (2019: 6 members of the Supervisory Board). As of 31 December 2020, the Supervisory Board had 9 members.

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29. Financial risk management and financial instruments

Capital risk management

Financial leverage ratio

	31 December 2020	31 December 2019
	HRK'000	HRK'000
Debt (current and non-current) = D	-	(1,648)
Bank deposits (current)	-	201,833
Cash and cash equivalents	264,354	43,379
Net cash / (debt)	264,354	243,564
Equity = E	(1,646,860)	(1,644,999)
Financial leverage ratio = D/(D+E)	0,00%	0,10%

Financial risk management

The Company operates with international customers and finances its operations to an extent using foreign currency denominated borrowings. The Company'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
Equity instruments at FVTPL	Level 1	1,677	1,443
Total financial assets at FVTPL		1,677	1,443
Trade receivables	n/a	37,539	27,954
Receivables for sold shares	n/a	18,843	21,167
Receivables for claims recognised	n/a	6,634	8,293
Receivables for flats sold	n/a	2,662	3,473
Loans granted and interest	n/a	13	2,632
Deposits	n/a	-	201,833
Cash and cash equivalents	n/a	264,354	43,379
Total financial assets at amortised cost		330,045	308,731
Total financial assets		331,722	310,174
Leases payable	n/a	-	1,648
Trade payables	n/a	25,791	26,142
Total financial liabilities at amortised cost		25,791	27,790
Total financial liabilities		25,791	27,790

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A) Fair value of financial assets and liabilities

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. This hierarchy groups financial assets and liabilities into 3 levels depending on the significance of the input variables used in measuring the fair value of financial assets and liabilities. The Company 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 not included in level 1. where all inputs which have a significant effect on the fair value are observable on the market, directly (i.e. prices) or indirectly (i.e. derived from prices)
- level 3: techniques where all inputs which have a significant effect on the fair value are not based on the observable market data.

The level within which a financial asset / liability is classified is based on the lowest level of the significant input variable used in measuring fair value. The Company 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.

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B) Financial instrument risks

The Company manages and controls financial risk that could affect the Company's operations through internal risk reports that analyze the exposure based on the degree and significance of the risk. This risk includes market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk and interest rate 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.

The goal of market risk management is to manage and control market risk exposure within acceptable parameters, optimizing returns. The Company is primarily exposed to the financial risk of changes in foreign exchange rates.

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

a) Foreign currency risk

The Company is exposed to this risk through sales, purchase and loans stated in a foreign currency which is not the Company's functional currency. Foreign currency primarily exposed to such risks is EUR. The Company is therefore exposed to currency risk when selling, purchasing and placing short-term time deposits denominated in foreign currency.

The relevant exchange rate for EUR were as follows:

	Spot exchange rate		Average exchange rate	
	31 Dec 2020	31 Dec 2019	2020	2019
	HRK	HRK	HRK	HRK
EUR	7,5369	7,44258	7,53308	7,41361

Exposure of the Company to foreign currency risk is as follows:

	Denominated in EUR	
	31 December 2020	31 December 2019
	HRK'000	HRK'000
Trade receivables	1,020	1,257
Deposits	-	201,833
Cash and cash equivalents	248,403	28,843
Trade payables	(21)	(16)
	249,402	231,917
Effect of the change in exchange rates by 1% on profit	2,494	2,319

The above table under the amounts in euros do not include receivables for sold flats due to the agreed clause on increase / decrease of receivables in relation to the euro exchange rate when the exchange rate changes by more than 5.1% compared to the exchange rate existing at the time of the contract.

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B) Financial instrument risks (continued)

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 Company is not exposed to the interest rate risk, since there is no interest bearing liabilities.

2. 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 Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses 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 Company'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.

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

3. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Board of the Company which has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements. The Company 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 Company as at 31 December 2020 in accordance with contracted undiscounted payments:

	Net book value	Contractual cash flows	up to 1 year	1 – 2 years	2 – 5 years	over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2020						
Trade payables	26,128	26,128	25,791	-	337	-
	26,128	26,128	25,791	-	337	-

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B) Financial instrument risks (continued)

The following table presents the maturity of financial liabilities of the Group as at 31 December 2019 in accordance with contracted undiscounted payments:

	Net book value	Contractual cash flows	up to 1 year	1 – 2 years	2 – 5 years	over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2019						
<i>Interest bearing liabilities:</i>						
Lease liabilities	1,648	1,693	105	315	1,273	-
<i>Non interest bearing liabilities:</i>						
Trade payables	26,841	26,841	26,841	-	-	-
	28,489	28,534	26,946	315	1,273	-

30. Events after the reporting date

During 2020, the 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 Company's annual financial statements for 2020, which should, consequently, be adjusted and/or disclosed.