KONČAR – ELECTRICAL INDUSTRY GROUP

CONSOLIDATED ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2019

Contents

Independent auditor's report

To the Shareholders of Končar – Electrical Industry Inc.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Končar – Electrical Industry Inc. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 3 April 2020.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of profit or loss for the year ended 31 December 2019;
- The consolidated statement of comprehensive income for the year ended 31 December 2019;
- The consolidated statement of financial position as at 31 December 2019;
- The consolidated statement of cash flows for the year ended 31 December 2019;
- The consolidated statement of changes in equity for the year ended 31 December 2019; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 1 to the consolidated financial statements.

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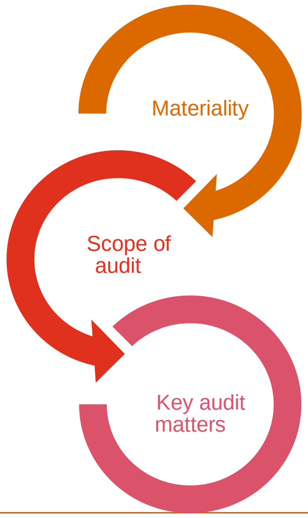
Our audit approach

Overview



Overall materiality for the financial statements of the Group as a whole: HRK 28 million, which represents 1% of total revenues.

- Our audit scope addressed 99% of the Group’s revenues and 91% of the Group’s absolute value of underlying profit.

Revenue recognition in accordance with IFRS 15

Warranty provisions

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group Materiality	HRK 28 million
How we determined it	1% of total revenues
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because we believe it is the benchmark which best reflects the Group’s performance in the period under review, during which significant variations in the realised results were identified. We chose 1%, which is within the range of commonly acceptable quantitative materiality thresholds in this sector.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition in accordance with IFRS 15 *See Note 2.5 to the consolidated financial statements under heading "Revenue recognition", Note 2.28 Critical accounting estimates and Notes 3 and 27 for further information. Revenue recognised in the Group's consolidated income statement amounted to HRK 2,810,951 thousand.* The Group's revenue recognition is determined by the requirements of the revenue recognition standard "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15). As part of its usual business activities, the Group enters into contracts on significant commercial and technically complex projects, which represents a significant portion of the business (in addition to the regular deliveries of energy equipment such as transformers, generators and similar products, the Group also enters into contracts on complex energy projects). Given the complexity of recognition and measurement, as well as the presentation of revenue and contract assets and liabilities under contracts with customers in accordance with IFRS 15, this area was of particular importance for our audit.	Taking into account that management estimates and assumptions lead to an increased risk of misstatement, we have considered the Group's revenue recognition processes and controls as part of our audit. Our audit approach included a test of controls and detailed audit procedures, including the following: • Obtaining an understanding of the process of sales and revenue recognition in accordance with IFRS 15 and of the moment when control is transferred to the customer and whether performance obligations are satisfied over time or at a point in time • Reviewing a sample of contracts, order forms, invoices, delivery notes and other relevant documentation relating to the correct presentation of revenue in accordance with IFRS 15 • Identifying the selected method for measuring performance obligations and testing the selected sample of contracts, including a review of approved estimates of total contract costs, summaries of actually incurred costs, sample invoices and time sheets, analytics etc. • Confirming, on a sample basis, trade receivables for satisfied performance obligations and the fees received from customers (advances) for unsatisfied performance obligations • Assessing the accuracy and completeness of presentation and disclosures related to revenue and contract assets and liabilities.

Key audit matter	How our audit addressed the key audit matter
Warranty provisions *See Note 2.23 to the consolidated financial statements under heading "Provisions" (accounting policies), Note 2.28 e) (Critical accounting estimates) and Notes 11, 32 and 40* Provisions for the costs of eliminating deficiencies within warranty periods relate to the estimated costs of possible repairs (corrections or replacement of defective products) of the Group's products and work performed under various contracted projects. The Group provides warranties for its products for a period of 2 to 10 years in accordance with signed contracts. As at 31 December 2019, the Group recognised warranty provisions in the total amount of HRK 230,928 thousand. Movements in provisions in the current period are presented in Notes 32 and 40. We focused on this area because management made provisions requiring significant judgements and estimates in respect of the amount of current and potential future customer complaints for losses or damages incurred within the warranty period.	We reviewed the calculation for the most significant provisions in detail and requested the appropriate documentation and management analyses as a basis for the selected provision amounts. We verified the mathematical accuracy of the calculations and reconciled the amounts used in the calculations with the Group's supporting documentation records. We made inquiries of the Management and reviewed a sample of the most significant sales contracts and compared the contractual terms regarding warranty periods and other warranty terms and conditions with the assumptions used in the calculation of provisions. We have not identified any significant inconsistencies. We also reviewed the sensitivity analyses relating to the changes in the percentage used for general provisions and compared them to the disclosures in the consolidated financial statements and we have not identified any irregularities.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on other information including the Management Report

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

Our opinion on the consolidated financial statements does not cover the other information.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

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

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's 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 ISAs 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 consolidated financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 control 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

Appointment

We were first appointed as auditors of the Company on 22 May 2014. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 6 June 2019, representing a total period of uninterrupted engagement appointment of 6 years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Dimitrov.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
10 April 2020

Responsibility for the consolidated Annual Report

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union which give a true and fair view of the consolidated financial position and consolidated financial performance of the company Končar – Electrical Industry d.d. and its subsidiaries (the "Group") for that period.

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

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

- appropriate accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the financial statements are prepared on the going concern basis unless this assumption is inappropriate.

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

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare a consolidated Annual Report comprising the consolidated financial statements, the consolidated Management Report and the Corporate Governance Statement. The consolidated Management Report was prepared in line with the requirements of Article 21 and 24 of the Accounting Act, and the Corporate Governance Statement in line with the requirements of Article 22 of the Accounting Act.

The consolidated Annual Report was authorised for issue by the Management Board on 10 April 2020.

Signed on behalf of the Management Board:

Gordan Kolak,
President of the Management Board

Ivan Bahun,
Deputy President and Member of the Management Board

Miki Huljić,
Member of the Management Board

Josip Lasić,
Member of the Management Board

Josip Ljulj,
Member of the Management Board

Božidar Poldrugač,
Member of the Management Board

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

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HRK	2018 HRK
Revenue	3	2,810,950,951	2,492,559,360
Other operating income	4	122,661,241	167,707,585
OPERATING INCOME		**2,933,612,192**	**2,660,266,945**
Increase/(decrease) in inventories of work in progress and finished goods		4,768,425	31,468,002
Cost of materials and energy	5	(1,581,866,410)	(1,336,024,904)
Cost of merchandise sold		(67,812,062)	(40,969,112)
Cost of services	6	(310,458,665)	(325,356,054)
Staff costs	7	(547,701,132)	(538,502,345)
Depreciation and amortisation	8	(91,487,404)	(88,678,513)
Other costs	9	(192,756,971)	(184,577,346)
Impairment losses on financial assets		(6,401,277)	(584,317)
Impairment losses on non-financial assets	10	(32,522,800)	(17,649,815)
Provisions	11	(55,228,142)	(60,686,049)
Other operating expenses		(10,133,311)	(7,056,446)
OPERATING EXPENSES		**(2,891,599,749)**	**(2,568,616,899)**
Operating profit		**42,012,443**	**91,650,046**
Finance income	12	35,348,792	35,276,097
Finance costs	13	(24,429,046)	(40,534,962)
Net finance (costs)/income		**10,919,746**	**(5,258,865)**
Share in profit of investments accounted for using the equity method	14	**16,156,399**	**46,326,686**
Profit before tax		**69,088,588**	**132,717,867**
Income tax	15	(17,036,889)	(13,497,280)
Profit from continuing operations		**52,051,699**	**119,220,587**
Profit from discontinued operation	41	2,902,039	9,487,440
Profit for the period		**54,953,738**	**128,708,027**
Profit is attributable to			
Owners of the Company		27,371,314	102,837,087
Non-controlling interests		27,582,424	25,870,940
Earnings per share for profit from continuing operations			
Basic and diluted earnings per share	16	9.57	36.43
Earnings per share			
Basic and diluted earnings per share	16	10.71	40.13

	Note	2019 HRK	2018 HRK
Profit for the period		**54,953,738**	**128,708,027**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		2,546,009	(668,540)
COMPREHENSIVE INCOME FOR THE YEAR		**57,499,747**	**128,039,487**
Comprehensive income for the period attributable to:			
Owners of the Company		28,713,825	102,484,566
Non-controlling interest		28,785,922	25,554,921
Comprehensive income for the period attributable to owners:			
Continuing operations		25,811,786	92,997,126
Discontinued operations		2,902,039	9,487,440

KONČAR – ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

ASSETS	Note	**31 December 2019 HRK**	**31 December 2018 HRK**
Goodwill	17	7,342,331	7,342,331
Intangible assets	18	40,083,706	37,870,261
Property, plant and equipment	19	1,073,997,948	993,688,775
Right of use assets		4,279,459	-
Investment property	20	149,283,683	138,934,263
Investments accounted for using the equity method	21	284,225,125	284,386,989
Financial assets	22	36,080,513	16,077,832
Receivables	23	31,234,634	14,648,913
Deferred tax assets		215,708	231,150
Non-current assets		**1,626,743,107**	**1,493,180,514**
Inventories	24	546,807,215	559,519,525
Receivables from related parties	25	46,170,267	77,733,844
Trade receivables	26	842,413,457	774,068,740
Contract assets	27	99,991,019	59,621,218
Prepaid income tax		13,418,244	14,462,211
Other receivables	28	80,930,776	54,464,735
Financial assets	29	293,808,189	70,178,154
Cash and cash equivalents	30	369,785,816	616,628,577
Prepaid expenses and accrued income		7,286,879	7,317,726
Current assets		**2,300,611,862**	**2,233,994,730**
TOTAL ASSETS		**3,927,354,969**	**3,727,175,244**
EQUITY AND LIABILITIES			
Share capital		1,208,895,930	1,208,895,930
Capital reserves		719,579	719,579
Other reserves		753,610,993	682,691,233
Retained earnings		303,376,297	312,124,544
Profit for the year		27,371,314	102,837,087
Attributable to owners of the Company		*2,293,974,113*	*2,307,268,373*
Non-controlling interests		248,187,203	230,213,919
EQUITY	31	**2,542,161,316**	**2,537,482,292**
Warranty provisions		151,477,087	153,720,462
Other provisions		49,907,059	52,431,695
Provisions	32	**201,384,146**	**206,152,157**
Borrowings	33	164,073,437	89,037,057
Lease liabilities		2,216,677	-
Other non-current liabilities	34	8,677,519	8,131,049
Non-current liabilities		**174,967,633**	**97,168,106**
Liabilities to related parties	35	13,987,694	13,039,342
Borrowings	36	163,819,720	85,843,390
Trade payables	37	437,375,989	413,302,173
Contract liabilities	27	180,592,250	181,025,585
Lease liabilities		1,296,879	-
Liabilities for advances received	38	16,399,077	6,394,205
Other liabilities	39	95,362,564	82,477,309
Current provisions	40	92,320,613	97,340,040
Deferred income and accrued expenses		7,687,088	6,950,645
Current liabilities		**1,008,841,874**	**886,372,689**
Total liabilities		**1,385,193,653**	**1,189,692,952**
TOTAL EQUITY AND LIABILITIES		**3,927,354,969**	**3,727,175,244**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HRK	2018 HRK
Cash flows from operating activities			
Proceeds from trade receivables		2,720,576,715	2,606,390,284
Proceeds from insurance reimbursements		12,847,304	32,966,359
Proceeds from tax returns		114,570,365	119,336,799
Payments to suppliers		(2,050,828,468)	(1,796,981,439)
Payments for employees		(610,527,688)	(606,745,505)
Cash payments to insurance companies		(10,385,496)	(9,635,660)
Taxes paid		(92,990,889)	(112,678,002)
Other cash payments		(110,362,297)	(120,722,963)
Cash from operations		**(27,100,454)**	**111,929,873**
Interest paid		(5,385,214)	(5,545,964)
Income tax paid		(17,730,241)	(18,515,924)
Net cash flows from operating activities		**(50,215,909)**	**87,867,985**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		2,526,316	5,687,415
Proceeds from sale of equity and debt instruments	41	27,004,172	8,219
Interest received		10,359,454	4,757,076
Dividends received	14	62,587,154	1,493,306
Proceeds from repayment of term deposits and other investing activities	29	146,022,023	302,636,936
Purchase of non-current tangible and intangible assets	18, 19	(152,034,670)	(100,325,276)
Purchase of own financial instruments	2.28, 21	-	(37,094,110)
Cash used for term deposits and other investing activities	29	(388,398,173)	(104,851,490)
Net cash flows from investing activities		**(291,933,724)**	**72,312,076**
Cash flows from financing activities			
Proceeds from borrowings	33, 36	205,993,175	28,491,246
Repayments of borrowings	33, 36	(57,180,112)	(41,501,510)
Dividends paid	31	(51,342,582)	(51,074,775)
Purchase of treasury shares	31	(827,556)	(5,948,574)
Other cash from financing activities		(1,091,098)	(1,785,008)
Net cash flow used in financing activities		**95,551,827**	**(71,818,621)**
Net increase in cash flows		**(246,597,806)**	**88,361,440**
Cash and cash equivalents at beginning of the period		616,628,577	520,696,817
Net cash flow from discontinued activities	41	(244,955)	7,570,320
Cash and cash equivalents at end of year	30	**369,785,816**	**616,628,577**

KONČAR – ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Non-controlling interest	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
At 1 January 2018	*1,208,895,930*	*719,579*	*623,292,539*	*4,143,784*	*(4,143,784)*	*329,895,821*	*83,625,614*	*229,523,563*	**2,475,953,046**
Profit for the year	-	-	-	-	-	-	102,837,087	25,870,940	**128,708,027**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	(352,521)	-	-	-	-	(316,019)	**(668,540)**
Total comprehensive income	*-*	*-*	*(352,521)*	*-*	*-*	*-*	*102,837,087*	*25,554,921*	*128,039,487*
Transactions with owners:									
Allocation of result for 2017	-	-	59,684,902	6,000,000	-	17,940,712	(83,625,614)	-	**-**
Purchase of treasury shares		-	-	-	(5,948,575)	-	-	-	**(5,948,575)**
Dividend paid	-	-	-	-	-	(36,929,036)	-	(15,139,773)	**(52,068,809)**
Transactions with non-controlling interest	-	-	-	-	-	1,204,442	-	(10,501,794)	**(9,297,352)**
Other	-	-	66,313	(51,425)	-	12,605	-	777,002	**804,495**
	-	-	*59,751,215*	*5,948,575*	*(5,948,575)*	*(17,771,277)*	*(83,625,614)*	*(24,864,565)*	***(66,510,241)***
At 31 December 2018	**1,208,895,930**	**719,579**	**682,691,233**	**10,092,359**	**(10,092,359)**	**312,124,544**	**102,837,087**	**230,213,919**	**2,537,482,292**
Profit for the year	-	-	-	-	-	-	27,371,314	27,582,424	**54,953,738**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	1,342,511	-	-	-	-	1,203,498	**2,546,009**
Total comprehensive income	*-*	*-*	*1,342,511*	*-*	*-*	*-*	*27,371,314*	*28,785,922*	***57,499,747***
Transactions with owners:									
Allocation of result for 2018	-	-	70,385,171		-	32,451,916	(102,837,087)	-	**-**
Allocation of other reserves to reserves for treasury shares	-	-	(25,000,000)	25,000,000	-	-	-	-	**-**
Purchase of treasury shares	-	-	-	-	(827,556)	-	-	-	**(827,556)**
Dividend paid	-	-	-	-	-	(38,358,860)	-	(13,030,069)	**(51,388,929)**
Other	-	-	19,634	-	-	(2,841,303)	-	2,217,431	**(604,238)**
	-	-	*45,404,805*	*25,000,000*	*(827,556)*	*(8,748,247)*	*(102,837,087)*	*(10,812,638)*	***(52,820,723)***
At 31 December 2019	**1,208,895,930**	**719,579**	**729,438,549**	**35,092,359**	**(10,919,915)**	**303,376,297**	**27,371,314**	**248,187,203**	**2,542,161,316**

1. General information on the Group

1.1. Activities

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

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

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

The Group comprises 12 subsidiaries involved in core business activities and 2 subsidiaries with special activities, research and development of products and infrastructural services.

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

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

As at 31 December 2019, the Group had 3,408 employees, while as at 31 December 2018 the Group had 3,508 employees.

Members of the Supervisory Board:

Joško Miliša	President as of 14 January 2020 and Member of the Management Board until 13 January 2020
Luka Gašpar	President as of 1 July 2019 until 31 December 2019
Petar Vlaić	President until 30 June 2019
Nikola Anić	Deputy President of the Supervisory Board as of 14 January 2020 and Member of the Management Board until 13 January 2020
Josip Lasić	Deputy President of the Supervisory Board until 13 January 2020 and Member of the Management Board from 14 January 2020 until 14 March 2020
Vicko Ferić	Member of the Supervisory Board
Jasminka Belačić	Member of the Supervisory Board
Vladimir Plečko	Member of the Supervisory Board
Branko Lampl	Member of the Supervisory Board

Members of the Management Board:

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

Compensations to members of the Management Board and Supervisory Board are presented in Notes 7 and 9 to the financial statements.

Other

In 2019, the auditors of the Company's and its related companies' financial statements have provided services of HRK 1,698 thousand (2018: HRK 2,275 thousand). In 2019, services mainly relate to costs of the audit and review of financial statements, as well as the audit of financial statements prepared for regulatory purposes. Other permitted non-audit services provided by the auditor of the financial statements include the preparation of a transfer pricing studies, IFRS 15 implementation services, accounting services and tax advisory services for foreign branches, provision of accounting seminars and training services in the total amount of HRK 748 thousand (2018: HRK 1,096 thousand).

The financial statements are presented in Croatian kuna (HRK). The stated amounts are rounded to the nearest HRK.

2. Significant accounting policies

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

2.1 Basis of preparation

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

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

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

In the consolidated financial statements, due to sale of two subsidiaries in the current period, the Group re-present the disclosures for discontinued operations for prior periods presented in the financial statements, so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented, as detailed in Note 41.

The discontinued operation in the comparative period is presented in the statement of comprehensive income and statement of cash flows in order to ensure that the amounts disclosed in these statements for continuing operations are comparable and provide a more useful basis for predicting the Group's future results.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 2.28.

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group. As at 31 December 2019, the exchange rate for USD 1 and EUR 1 was HRK 7.44 and HRK 6.65 (31 December 2018: HRK 7.42 and HRK 6.47).

New and amended standards adopted and effective

The Group has adopted the following new and revised standards, interpretations, amendments and improvements for its annual reporting period commencing 1 January 2019 which are relevant for the Group's financial statements:

- IFRS 16, Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRSs 2015-2017 cycle
    - IFRS 3 Business Combinations
    - IFRS 11 Joint Arrangements
    - IAS 12 Income Taxes
    - IAS 23 Borrowing Costs

The Group has applied IFRS 16 for the first time commencing 1 January 2019. The nature and effects of changes resulting from the adoption of new standards are detailed in Note 2.29.

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

New standards and interpretations not yet adopted:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020) -The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Amendments to IAS 1 and IAS 8 - Definition of materiality – (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020) The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform - (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020) - The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimizes any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB, still not endorsed by the European Union. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 3 - Definition of a business –- issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020, still not endorsed by the European Union - The amendments revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

2.2 Basis for consolidation

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries/loss of control over subsidiaries

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

2.3 Investments in associates and joint ventures

Associates

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

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

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

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

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

Joint arrangements

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

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

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

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

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

2.4 Business combinations

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

Goodwill

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

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

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

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

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

2.5 Revenue recognition

The Končar Group recognises revenue based on:

- design and construction of plant and equipment for generation, transmission and distribution of electricity
- design and construction of rail vehicles, rail vehicles equipment and related services
- sale of electrical motor drives, low voltage electrical equipment;
- sale of electrical household appliances, serial products and low voltage electrical appliances

The Končar Group 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 Končar Group's customers. Revenue is recognised in the amount of the transaction price the Končar Group expects in exchange for transferring the promised goods or services to customers. The promised consideration may include fixed amounts, variable amounts, or both.

Revenue from construction contracts: Income is recognised over time by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations. The stage-of-completion method highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments.

Changes in these estimates can result in an increase or decrease in revenue. In addition, the Group estimates whether an individual contract will be extended or terminated, and also assesses the most probable scenario, taking into account all relevant facts and circumstances related to the contract. The estimate is made on an individual contract basis. The expected loss on a contract is recognised as an expense immediately.

Sales of services: Revenue is recognised over time on a straight-line basis or as services are rendered, i.e. according to the measurement of expenses incurred up to a certain date in relation to the total expected costs required for the performance of the contract obligations as described in the previous section.

Sales of goods: Revenue is recognised when control of the good has transferred, being when the goods are delivered to the customer. Invoices are issued at that time and are usually paid within the deadlines defined by contractual provisions. Revenue from licenses providing the right to access the intellectual property, payment terms are 60 days as of the invoice date, in line with the contractual provisions.

Revenue from the brand that provides the right to access the 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.

When a party to a contract with a customer satisfies its performance obligation, contracts with customers are presented as a contract liability, contract asset or receivable in the statement of financial position, depending on the relationship between the Group's performance and the customer's payment. Contract assets and liabilities are classified as current since they arise within the normal operating cycle.

Contract assets and liabilities

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

2.6 Finance income and costs

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

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in Notes 12 and 13 in gross amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

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

2.7 Borrowing costs

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

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

2.8 Foreign currency transactions

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

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

2.9 Income tax

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

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

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

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

2.10 Earnings per share

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

2.11 Related party transactions

The Group, as well as the Parent company, does not disclose within related-party transactions the relations with other state-owned companies, pursuant to the exemption related to state-owned companies as stated in IAS 24.

2.12 Segment information

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

In identifying operating segments, Management mostly considers the sale of goods and provision of services within a certain economic area. Each of these operating segments are separately managed since they are determined on the basis of specific market needs.

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

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

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

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

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

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

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

Maintenance and repairs, replacements and minor-scale improvements are expensed when 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 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. The amortisation and depreciation of assets ceases when the assets are fully expensed or classified as held for sale.

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

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

Impairment of property, plant and equipment

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

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

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

The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use.

If the amount of tangible assets exceeds its recoverable amount, the difference is charged to the operating result (impairment loss).

At each reporting date the Group reviews if there are indicators that the previously recognised impairment loss should be reversed or decreased.

2.14 Investment property

Investment property (land, buildings) owned by the Group are held to earn rentals or as a potential for issuing guarantees or solidarity guarantees for subsidiaries, and also for the future capital appreciations for the purpose of future sale. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets. Investment property is initially measured at cost less accumulated depreciation. The Group reviews at least annually the residual value and useful life of the property. The residual value is an estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Since the Group has estimated that the residual value of the property exceeds its carrying value, depreciation is not charged until the residual value is reduced to the amount below the carrying value.

2.15 Financial assets and liabilities

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

Classification and measurement of financial assets

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

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

The business model for managing financial assets depends on how the Group manages the financial assets for the purpose of generating cash flows. A reclassification of debt instruments is only possible if the business model changes.

Business models for managing financial assets include:

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

Derecognition of financial assets

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contracts

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

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

Financial liabilities, classification and measurement

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

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

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

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

Derecognition of financial liabilities

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

2.16 Non-current assets held for sale

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

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

2.17 Inventories

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

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

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

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

Small inventories, packaging and car tyres are fully written off when put into use.

2.18 Receivables

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

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

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

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

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

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

2.19 Cash and cash equivalents

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

2.20 Trade payables

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

2.21 Borrowings

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

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

2.22 Government grants

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

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

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

2.23 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is likely that the settlement of the obligation will require an outflow of economic benefits and when it is certain that the amount of the obligation can be measured reliably. Provisions are reviewed at each balance sheet date and adjusted to reflect the best current estimate.

Provisions are determined for costs of repairs within warranty periods, legal claims, restructuring costs, termination benefits and awards to employees for long-term employment and retirement.

Provisions for warranties are recognised at the moment when the underlying products are sold/projects are completed. Provisions are made based on estimates and experiences from other manufacturers of energy equipment within the Group’s environment and the best estimate of possible solutions against their probabilities.

Provisions for employee benefits for the number of years of service and retirement (regular jubilee awards and termination benefits) are determined as the present value of future cash outflows using a discount rate equal to the interest rate on government bonds.

2.24 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits - bonuses

A liability for employee benefits is recognised in provisions based on the Group's formal plan and when past practice has created a valid expectation by the Management Board/key employees that the bonus will be paid and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are expected to be settled within 12 months of the balance sheet date and are recognised at the amounts expected to be paid when they are settled.

(iv) Share-based payments

The Parent company operates an equity-settled, share-based compensation plans. The total amount recognised as expense and the relevant increase in share capital are measured by reference to the fair value of the provided equity instruments. The fair value of these equity instruments is measured at the grant date. At each balance sheet date, management revises its estimates of the number of options that are expected to vest.

2.25 Contingent assets and liabilities

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

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

2.26 Discontinued operations

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

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

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

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

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

2.27 Events after the balance sheet date (subsequent events)

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

2.28 Critical accounting estimates

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

a) Revenue recognition

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

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

b) Extended warranties

The Group provides warranties for its products/projects performed for a period of 1 – 10 years. The Group estimates the provision for costs of repair and correction of defects within warranty periods based on past experience. The Group analysed contracts in which a guarantee was issued beyond the above stated period and found that there were no significant non-standard guarantees and accordingly did not defer a portion of the transaction price over a time period other than the standard guarantee.

c) Significant financing component

In certain contracts, the Group contracted the sale of equipment whose production may last longer than one year after the signing of the contract. Depending on the type of product, the production period may last from 1 to 4 years. Accordingly, the period between payment by the customer and the transfer of the promised goods or services to the customer may be longer than one year. The amount received in advance for such contracts is considered a discounted transaction price.

At the Group level it has been defined that a significant financing component is the amount exceeding 3% - 5% of the contract price, depending on the type of contract as well as the effective interest rate on the market. The Group does not adjust the promised consideration for the effects of a significant financing component if, at contract inception, the Group expects that the period between the transfer of the promised goods or services to the customer and the date when the customer pays for the goods or services will be one year or less.

d) Impairment of inventories

The Group performs an impairment of inventories of raw materials and supplies, work in progress, finished goods and trade goods whose carrying amount exceeds their market, i.e. realisable value, based on the direct review of inventories and management's estimation of obsolete inventories, technologically inadequate and non-functional inventories or inventories which can no longer be used in production or realised on the market.

e) Warranty provisions

The Group provides warranties for its products/projects performed for a period of 1 – 10 years. The Group estimates the provision for costs within warranty periods based on past experience. Factors that could impact the estimated claim information include the success of the Group companies' quality initiatives, as well as spare parts and labour costs. If the required level of provisions made had increased by 1% in relation to performed deliverables/active contracts under warranty, provisions would have increased by HRK 41 million (2018: HRK 33.6 million).

f) Recoverability of non-financial assets

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

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

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

During 2019 the expected rate of return on invested capital of 5% was used in determining the possibility of return on investment in a windfarm, according to the investment study of the Energy Institute Hrvoje Požar.

The windfarm's residual value amounts to 70% of investment in: research and analysis, obtaining a location permit, obtaining a right to servitudes, constructing an access road, substation and cable connection, which is equal to 9.8% of the total initial CAPEX.

In case the applied discount rate had increased by 1%, this would decrease the estimated windfarm's recoverable amount by HRK 5.8 million. In case the applied discount rate had decreased by 1%, this would increase the estimated windfarm's recoverable amount by HRK 6.5 million.

In case the applied residual value had increased by 20%, this would increase the estimated windfarm's recoverable amount by HRK 2.4 million. In case the applied residual value had decreased by 20%, this would decrease the estimated windfarm's recoverable amount by HRK 2.4 million.

In case the applied electricity price had increased by 1%, this would increase the estimated windfarm's recoverable amount by HRK 4.8 million. In case the applied electricity price had decreased by 1%, this would decrease the estimated windfarm's recoverable amount by HRK 4.5 million.

g) Impairment of trade receivables

When calculating and recognising expected credit losses on trade receivables, an assessment is made in order to select the methodology, model and inputs. The detailed methodology for calculating expected credit losses is disclosed in Note 42. The Group uses historical observations (over a minimum period of 3 years) on days past due that are adjusted for estimated future expectations relating to the collection of receivables.

2.29 Adoption of new accounting policies

The Group adopted IFRS 16 for the first time. The nature and effects of the change resulting from the adoption of the new standards are set out below.

Accounting policy effective for annual periods from 1 January 2019

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

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

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

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

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

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

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

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

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

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

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

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

- right of use for the vehicles 3.3 - 5 years
- right of use for computer equipment 3 years

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

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

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

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

Accounting policies applicable until 31 December 2018 are presented in Note 47.

Adoption of the policy

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee recognizing the right to use an asset at the commencement date of the lease, and if lease payments are made over time, also recognizing financing. Accordingly, IFRS16 eliminates the classification of leases as either operating leases or finance leases as required by IAS17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a lease term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of right-of-use assets separately from interest on lease liabilities in profit or loss. IFRS16 substantially carries forward the lessor accounting requirements from IAS17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. For subleases, intermediate lessors should classify subleases based on the right-of-use asset from the head lease, rather than the underlying lease asset as it was under IAS 17, thus there is increased likelihood that a sublease previously classified as operating lease will be classified as a finance lease under IFRS16.

In accordance with the transitional provisions of IFRS 16, the Group has adopted the new guidance applying a modified retrospective approach. Comparative prior year periods were not restated. A right-of-use asset is measured at an amount equal to the lease liability at the date of adoption of the standard. The Group elected to use certain practical expedients.

Explanations of the effects of IFRS 16 adoption

The Group as a lessee

For all leases, except for short-term leases and certain leases of low-value assets, previously classified as operating leases the following applies:

- as at 1 January 2019 the Group recognized a lease liability measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019.
- for all leases the Group has elected to recognize a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to those leases recognized in the statement of financial position immediately before the date of initial application.

Low-value assets which are sub-leased are accounted for as right-of-use assets with the corresponding lease liability.

For leases classified as financial lease under IAS 17, the lessor retains the carrying value of right-of-use assets and lease liability measured according to IAS 17 immediately prior to IFRS 16 application date.

The Group elected to use the following practical expedients:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- relying on previous assessments of whether leases are onerous, applying IAS 37 immediately before 1 January 2019 as an alternative to perform an impairment analysis. As the analysis of the onerous contracts as at 31 December 2018 has not resulted in the need to recognize a provision, the right-of-use asset at 1 January 2019 was not adjusted by any impairment allowance;
- not to apply the new lessee accounting model to leases for which the lease term ends within 12 months after the date of initial application. Instead, those leases are accounted for as short-term leases.
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the performed analysis the Group has concluded that the effect of applying new standard is immaterial and as such shall not be recognised. The weighted average incremental borrowing rate used to measure lease liabilities ranges from 1.4 % to 4.25%.

Lease activities

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

- Small equipment (such as printers) is leased for a fixed period of 2 years with the purchase option at fair value.
- Cars are leased for a fixed period of 3,3 – 5 years

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

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

The Group does not provide any residual value guarantees.

2.30 Subsidiaries:

	31 December 2019		31 December 2018	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar - Small Electrical Machines Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical Engineering Institute Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Breakers Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Generators and Motors Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Steel Structures Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Switchgear Inc.	100.00	100.00	100.00	100.00
Končar - Household Appliances Ltd., Zagreb	-	-	100.00	100.00
Končar - Renewable Energy Sources Ltd., Zagreb	89.71	89.71	89.39	89.39
Direct ownership	89.71	89.71	89.39	89.39
Indirect ownership	10.29	10.29	10.64	10.64
Končar - Electric Vehicles Inc., Zagreb	75.04	75.04	75.04	75.04
Končar - Electronics and Informatics Inc., Zagreb	88.98	88.98	88.98	88.98
Končar - Instrument Transformers Inc., Zagreb	61.97	99.77	61.97	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	52.73	67.9	52.73	67.9
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05
Sunčana elektrana Vis d.o.o., Zagreb	100.00	100.00	100.00	100.00
Wind Farm Rust Ltd., Zagreb	100.00	100.00	100.00	100.00
Consolidated subsidiaries not registered in Croatia:				
Power Engineering Transformatory Sp. z o.o. (PET), Poznan, Poland *Indirect ownership***	74.00	74.00	74.00	74.00
Non-consolidated subsidiaries*:				
Konell Ltd., Sofia, Bulgaria	85.00	85.00	85.00	85.00
Končar - Inženjering Inc., Zagreb	-	-	100.00	100.00

* companies in indirect ownership by the Company. These companies are not consolidated since they are insignificant at the Group level.

**In 2017, the subsidiary Končar - Distribution and Special Transformers Inc. acquired a 74% share in the company Power Engineering Transformatory Sp. z.o.o., but the 100% share was accounted for.

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

- Končar - Distribution and Special Transformers Inc., Zagreb (KONČAR D&ST Inc.)
- Končar - Instrument Transformers Inc., Zagreb (KONČAR MT Inc.) and
- Končar - Engineering Co. for Plant Installation and Commissioning Inc., Zagreb (KONČAR MI Inc.)

These three companies represent 86.59% of the total amount of the Group's non-controlling interest at the balance sheet date.

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

	KONČAR D&ST Inc.		**KONČAR MT Inc.**		**KONČAR MI Inc.**	
	2019 HRK'000	**2018 HRK'000**	**2019 HRK'000**	**2018 HRK'000**	**2019 HRK'000**	**2018 HRK'000**
Statement of comprehensive income						
Income	1,041,747	931,162	198,513	182,559	125,127	102,668
Expenses	(990,656)	(880,481)	(189,585)	(177,550)	(122,530)	(99,092)
Profit before tax	51,091	50,681	8,928	5,009	2,597	3,576
Income tax	(1,596)	(1,499)	(1,295)	(274)	(697)	(873)
Profit after tax	**49,495**	**49,182**	**7,633**	**4,735**	**1,900**	**2,703**
Statement of financial position						
Non-current assets	237,767	165,929	61,899	58,243	9,856	10,037
Current assets	557,965	555,375	143,123	139,440	35,836	39,691
Total assets	**795,732**	**721,304**	**205,022**	**197,683**	**45,692**	**49,728**
Total liabilities	**438,942**	**397,374**	**97,721**	**98,615**	**21,586**	**25,630**
Cash flow						
Cash flow from operating activities	89,609	26,685	9,143	8,769	834	(1,615)
Cash flow from investing activities	(98,270)	(11,894)	(5,451)	(3,621)	(479)	(376)
Cash flow from financing activities	2,960	(30,704)	471	(3,952)	(2,329)	(2,672)
Net increase/(decrease) in cash	**(5,701)**	**(15,913)**	**4,163**	**1,196**	**(1,974)**	**(4,663)**
Cash at beginning of period	101,937	117,850	2,861	1,665	4,624	9,287
Cash at end of period	**96,236**	**101,937**	**7,024**	**2,861**	**2,650**	**4,624**

Associates:

	31 December 2019 Ownership share (in %)	31 December 2018 Ownership share (in %)
Associates accounted for by using the equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon d.o.o.., Zagreb*	50.00	50.00
Joint ventures accounted for using the equity method:		
KONČAR - XD High Voltage Switchgear Ltd.	50.00	50.00
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00

* company in indirect ownership by the Company

Details of investments accounted for using the equity method are presented in Note 21.

On 5 December 2018, the company KONČAR - XD High Voltage Switchgears Ltd. was incorporated with a contribution in cash, in line with its Articles of Association.

3. Revenue

	2019 HRK	**2018** HRK
Type of goods or services		
Sale of goods and services relating to energy and transport	2,629,017,963	2,306,363,432
Sale of small electrical machines	96,909,500	90,884,688
Sale of electrical household appliances and low voltage electrical appliances	10,409,089	13,765,902
Other	74,614,399	81,545,338
Total revenue from contracts with customers	**2,810,950,951**	**2,492,559,360**
Related parties	89,355,837	102,758,713
Unrelated parties	2,721,595,114	2,389,800,647
Total revenue from contracts with customers	**2,810,950,951**	**2,492,559,360**
Timing of revenue recognition		
At a point in time	2,035,867,504	1,802,466,896
Over time	775,083,447	690,092,464
Total revenue from contracts with customers	**2,810,950,951**	**2,492,559,360**

Analysis of revenue by geographic areas is given in Note 43.

4. Other operating income

Other operating income in the amount of HRK 122,661,241 (2018: HRK 167,707,585) mainly relates to income from the release of provisions, income from insurance claims, income from the sale of materials, income from collected receivables previously written off and other income.

5. Cost of materials and energy

	2019	**2018**
	HRK	HRK
Cost of raw materials and supplies	1,524,480,487	1,280,910,410
Energy cost	42,447,249	40,403,346
Cost of small inventories and spare parts	14,938,674	14,711,148
	1,581,866,410	**1,336,024,904**

6. Cost of services

	2019	**2018**
	HRK	HRK
External product design and selling services	155,892,155	146,267,303
Maintenance services (servicing)	38,929,740	32,096,766
Telephone, post and transport	27,226,459	29,329,912
Freight forwarding	32,415,169	26,052,142
Agent commission costs	16,320,835	17,605,930
Utility services	9,349,964	9,121,515
Research and development costs	6,067,390	5,088,665
Rent	4,833,489	6,723,341
Costs of advertising and fairs	5,634,326	5,575,730
Costs of claims	-	2,117,264
Outsourcing of employees	943,784	1,079,938
Other external costs	12,845,354	44,297,548
	310,458,665	**325,356,054**

7. Staff costs

	2019	**2018**
	HRK	HRK
Net salaries and wages	322,546,665	314,577,324
Taxes and contributions from salaries	149,953,007	146,848,812
Contributions on salaries	75,201,460	77,076,209
	547,701,132	**538,502,345**

Net salaries in the amount of HRK 322,546,665 (2018: HRK 314,577,324) include compensations to the Management Board of the Company and other related companies in the amount of HRK 16,325,519 (2018: HRK 17,159,539) and accrued bonuses for the Management Board in the amount of 6,205,450 (2018: HRK 7,201,685), and are an integral part of staff costs. In 2019, total number of key management personnel was 39 (2018: 39).

In 2019, pension fund contributions amounted to HRK 101,205,726 (2018: HRK 102,472,294).Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business travel expenses) in the amount of HRK 79,362 thousand (2018: HRK 81,695 thousand) are presented in Note 9.

8. Depreciation and amortisation

	2019	2018
	HRK	HRK
Depreciation (Note 19)	82,055,947	79,704,477
Amortisation (Note 18)	8,553,432	8,803,815
Depreciation of right of use assets	693,223	-
Depreciation of investment property (Note 20)	184,802	170,221
	91,487,404	**88,678,513**

9. Other costs

	2019	2018
	HRK	HRK
Daily allowances for business trips and travel expenses	40,236,779	42,037,719
Reimbursements of costs to employees, gifts and support	39,125,385	39,656,901
Bank charges and payment transactions	14,141,630	12,788,188
Insurance premiums	16,200,932	15,914,846
Intellectual and similar services	18,748,194	23,858,245
IT services	3,788,010	-
Entertainment	14,467,454	14,195,269
Professional training costs	5,717,457	5,240,177
Environmental protection	487,151	7,212,536
Compensations to members of the Supervisory Board (gross)	6,125,894	6,159,059
Compensations for temporary service contracts and fees	5,021,390	4,232,684
Taxes irrespective of result and fees	2,012,521	2,423,140
Contributions, membership fees and similar charges	4,458,510	3,556,870
Sponsorships and donations	2,360,612	1,879,024
Voluntary pension fund premiums	1,840,690	1,918,313
Other costs	18,024,362	3,504,375
	192,756,971	**184,577,346**

10. Impairment losses

	2019	2018
	HRK	HRK
Impairment losses on non-current assets:		
Impairment losses on property, plant and equipment (Note 19)	25,348,000	40,000
Impairment losses on intangible assets (Note 18)	-	8,093,306
	25,348,000	*8,133,306*

10. Impairment losses (continued)

Impairment losses on investment property	*1,505,142*	-
Impairment losses on current assets:		
Impairment of inventories	5,669,658	9,516,509
	32,522,800	**17,649,815**

11. Provisions

	2019	2018
	HRK	HRK
Provisions for costs within warranty period (Note 32 and 40)	39,904,790	48,605,244
Provisions for termination benefits and jubilee awards (Note 32 and 40)	10,750,241	10,115,637
Provisions for legal claims	597,367	550,000
Other non-current and current provisions	3,975,744	1,415,168
	55,228,142	**60,686,049**

The movement in non-current provisions is presented in Note 32. Provisions for costs within warranty period include non-current provisions amounting to HRK 33,769 thousand (2018: HRK 26,657 thousand), and current provisions amounting to HRK 6,136 thousand (2018: HRK 21,949 thousand).

12. Finance income

	2019	2018
	HRK	HRK
Interest, foreign exchange gains, dividends and similar income from transactions with unrelated parties		
Interest income	11,868,584	4,665,702
Foreign exchange gains	20,911,079	28,701,243
Income from dividends and shares in profit	987,124	1,353,305
Other finance income	458,495	371,976
	34,225,282	35,092,226
Unrealised gains (income)	*1,123,510*	183,871
	35,348,792	**35,276,097**

13. Finance costs

	2019	**2018**
	HRK	HRK
Interest, foreign exchange losses, dividends and similar income from transactions with unrelated parties		
Interest expense	5,860,091	5,877,793
Foreign exchange losses	17,326,966	33,938,997
Other finance costs	866,444	718,172
	24,053,501	*40,534,962*
Unrealised losses		
Impairment losses on non-current financial assets	375,545	-
	375,545	-
	24,429,046	**40,534,962**

14. Share in profit of associate/joint ventures accounted for using the equity method

The share in profit of associates/joint ventures accounted for using the equity method in the amount of HRK 16,156,399 (2018: HRK 46,326,686) relates to the share in profit of the company Končar – Power Transformers Ltd. in which the Group owns a 49% share in the amount of HRK 16,043,417 (2018: HRK 50,472,031), to the share in profit of the company Elkakon d.o.o. in which the Group indirectly owns a 50% share in the amount of HRK 675,000 (2018: HRK 593,218), to the share in the profit of a joint venture – the company Tbea Končar Instrument Transformers Ltd., China in the amount of HRK 1,303,210 (2018: the share in the loss of HRK 4,738,563) and to the share in the loss of a joint venture – the company KONČAR - XD High Voltage Switchgear Ltd in the amount of HRK 1,865,228 (2018: HRK 0).

The above mentioned companies realised a total net profit/(loss) in 2019 as follows:

- Končar - Power Transformers Ltd.: profit of HRK 32,741,669 (2018: HRK 103,004,145).
- Elkakon Ltd.: profit of HRK 1,350,000 (2018: HRK 1,186,435).
- Tbea Končar Instrument Transformers Ltd.: profit of HRK 4,826,703 (2018: loss of HRK 17,550,235).
- KONČAR - XD High Voltage Switchgear Ltd.: loss of HRK 3.730.456 (2018: HRK 0)

The total dividend paid in 2019 amounts to HRK 62,587,154 while in 2018 the total cash inflow from dividends amounted to HRK 1,493,306.

15. Income tax

The income tax calculation for the year ended 31 December was as follows:

	2019	**2018**
	HRK	HRK
Consolidated profit before tax	69,088,588	132,717,867
Tax at applicable tax rate of 18%	**12,435,946**	**23,889,216**
Tax effect:		
Consolidation adjustments	4,433,923	13,474,677
Non-deductible expenses	19,517,369	13,013,460
Income not subject to tax	(15,493,200)	(26,784,165)
Utilisation of previously unrecognised tax losses	(1,256,775)	(3,090,829)
Tax losses for which no deferred tax asset is recognised	6,710,937	1,974,538
Income tax paid abroad	144,304	86,887
Investment incentives	(9,471,156)	(9,064,349)
Deferred tax asset recognised on temporary differences	15,541	(2,155)
Income tax	**17,036,889**	**13,497,280**
Income tax expense is attributable to:		
Profit from continuing operations	17,036,889	13,497,280
Profit from discontinued operation	-	-
	17,036,889	**13,497,280**

Income tax expense attributable to discontinued operation in 2019 amounts to HRK 0 (2018: HRK 0) due to related tax losses carried forward on discontinued operation.

The Group can carry forward tax losses for companies which incurred losses in 2019 and are not subject to taxation and for subsidiaries that realised a profit in 2019 but are not subject to taxation due to tax losses carried forward from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income within the following 5-year period. As at 31 December 2019, unrecognised deferred tax assets on tax losses carried forward amount to HRK 19,519 thousand (31 December 2018: HRK 17,765 thousand).

Gross tax losses expire as follows:

	31 December 2019	31 December 2018
	HRK	HRK
Within 1 year	8,020,185	19,675,535
Within 2 years	23,394,104	8,020,184
Within 3 years	26,546,714	30,376,181
Within 4 years	12,595,440	26,546,714
Within 5 years	37,883,601	12,278,812
	108,440,044	**96,897,426**

No deferred tax assets have been recognised in the financial statements in respect of the tax losses carried forward due to the uncertainty of their future use. In accordance with the regulations of the Republic of Croatia, the Tax Administration may at any time inspect the individual Group companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

16. Earnings per share

Basic and diluted earnings per share

	2019 HRK	2018 HRK
Net profit attributable to owners of the parent		
From continuing operations	24,469,275	93,349,647
From discontinued operation	2,902,039	9,487,440
	27,371,314	*102,837,087*
Weighted average number of shares (net of treasury shares)	2,556,225	2,562,643
Basic and diluted earnings per share		
From continuing operations	9.57	36.43
From discontinued operation	1.14	3.70
Earnings per share	**10.71**	**40.13**

Diluted earnings per share for 2019 and 2018 are the same as basic since the Group had no convertible instruments or options outstanding during either period.

17. Goodwill

Goodwill amounting to HRK 7,342,331 (2018: HRK 7,342,331) relates to goodwill recognised in the course of gaining control over the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc. and Končar - Engineering Co. for Plant Installation & Commissioning Inc.
The movement in goodwill during the year was as follows:

	HRK
At 1 January 2018	**7,342,331**
Decrease	-
As at 31 December 2018	**7,342,331**
Decrease	-
At 31 December 2019	**7,342,331**

Based on the performed goodwill impairment test, the Company's Management estimates that there is no need to impair goodwill at the reporting date since all three companies are profitable and realised income as planned (key indicators for the stated three companies are presented in Note 2.30).

18. Non-current assets

	Development expenditure	Concessions, patents, licences, software etc.	Other	Assets under construction	Total
Cost	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**
At 1 January 2018	**108,611,380**	**32,840,411**	**1,632,176**	**7,526,807**	**150,610,774**
Transfer from assets under construction	405,014	2,342,589	-	(2,747,603)	-
Additions	2,800,799	2,051,474	-	8,656,380	13,508,653
Disposals	-	-	(5,860)	(7,367)	(13,227)
At 31 December 2018	**111,817,193**	**37,234,474**	**1,626,316**	**13,428,217**	**164,106,200**
Additions	2,562,957	2,112,733	-	8,031,906	12,707,596
Transfer from assets under construction	8,091,904	6,944,501	-	(15,036,405)	-
Effect of sale of subsidiaries	-	(1,025,408)	-	-	(1,025,408)
Disposals	(29,068)	(1,052,494)	(118,756)	(1,336,552)	(2,536,870)
At 31 December 2019	**122,442,986**	**44,213,806**	**1,507,560**	**5,087,166**	**173,251,518**
Accumulated amortisation					
At 1 January 2018	**82,460,372**	**24,812,846**	**1,420,033**	**623,878**	**109,317,129**
Amortisation for the year	5,819,886	2,918,091	93,387	-	8,831,364
Disposals	-	-	(5,860)	-	(5,860)
Impairment	8,093,306	-	-	-	8,093,306
At 31 December 2018	**96,373,564**	**27,730,937**	**1,507,560**	**623,878**	**126,235,939**
Amortisation for the year	4,905,316	3,648,116	-	-	8,553,432
Effect of sale of subsidiaries	-	(878,483)	-	-	(878,483)
Disposals	(29,068)	(714,008)	-	-	(743,076)
At 31 December 2019	**101,249,812**	**29,786,562**	**1,507,560**	**623,878**	**133,167,812**
Net book amount					
31 December 2018	**15,443,629**	**9,503,537**	**118,756**	**12,804,339**	**37,870,261**
31 December 2019	**21,193,174**	**14,427,244**	**-**	**4,463,288**	**40,083,706**

The cost of fully amortised intangible assets still in use as at 31 December 2019 amounts to HRK 126,919 thousand (2018: HRK 84,494 thousand). During 2019 the Group started to use intangible assets in the amount of HRK 19,712,095, while acquisitions of those assets are settled through cash outflow presented in Note 19.

19. Property, plant and equipment

(in HRK)	Land	Buildings	Plant and equipment	Tools and office supllies	Other	Assets under construction	Advances	Total
Cost								
At 1 January 2018	**150.245.883**	**945.669.178**	**1.022.820.481**	**312.175.899**	**3.068.072**	**28.751.706**	**9.531.929**	**2.472.263.148**
Additions	3.558.399	47.794	1.569.871	2.716.616	476.589	108.941.795	21.503.265	138.814.329
Transfer from assets under construction	2.298.825	36.662.455	31.161.170	13.438.828	-	(83.561.278)	-	-
Transfer to investment property	-	-	-	-	-	(1.726.113)	-	(1.726.113)
Disposals	(3.699.482)	(37.690.290)	(8.707.144)	(7.415.718)	(488)	(65.765)	-	(57.578.887)
At 31 December 2018	**152.403.625**	**944.689.137**	**1.046.844.378**	**320.915.625**	**3.544.173**	**52.340.345**	**31.035.194**	**2.551.772.477**
Effect of application of new standard	-	(2.847.803)	(150.240)	(596.582)	-	-	-	(3.594.625)
At 1 January 2019	***152.403.625***	***941.841.334***	***1.046.694.138***	***320.319.043***	***3.544.173***	***52.340.345***	***31.035.194***	***2.548.177.852***
Additions	150.212	-	5.612.587	1.668.673	59.241	207.438.382	10.638.112	225.567.207
Transfer from assets under construction	16.564.428	100.247.102	47.628.074	16.426.794	-	(180.866.398)	-	-
Transfer to investment property	-	-	-	-	-	(34.226.494)	-	(34.226.494)
Sale of subsidiaries	(3.343.604)	(11.434.315)	(37.684.187)	(37.829.924)	(25.000)	(3.380.254)	-	(93.697.284)
Transfer from investment property	815.047	26.866.414	-	-	-	-	-	27.681.461
Disposals	-	(1.521.524)	(14.407.438)	(7.642.183)	(2.672.355)	-	-	(26.243.500)
At 31 December 2019	**166.589.708**	**1.055.999.011**	**1.047.843.174**	**292.942.403**	**906.059**	**41.305.581**	**41.673.306**	**2.647.259.242**
Accumulated depreciation								
At 1 January 2018	**-**	**598.946.179**	**658.143.074**	**246.129.130**	**2.036.556**	**3.380.255**	**-**	**1.508.635.194**
Depreciation for the year	-	22.008.038	40.926.546	18.899.983	3.644	-	-	81.838.211
Impairment	-	-	-	-	-	40.000	-	40.000
Disposals or write off	-	(18.704.719)	(7.411.749)	(6.312.747)	(488)	-	-	(32.429.703)
At 31 December 2018	**-**	**602.249.498**	**691.657.871**	**258.716.366**	**2.039.712**	**3.420.255**	**-**	**1.558.083.702**
Effect of application of new standard	-	(338.177)	(60.789)	(158.274)	-	-	-	(557.240)
At 1 January 2019	**-**	**601.911.321**	**691.597.082**	**258.558.092**	**2.039.712**	**3.420.255**	**-**	**1.557.526.462**
Depreciation for the year	-	22.456.811	42.080.691	17.516.417	2.028	-	-	82.055.947
Impairment	-	-	25.348.000	-	-	-	-	25.348.000
Sale of subsidiaries	-	(7.416.573)	(28.926.803)	(35.087.248)	-	(3.380.254)	-	(74.810.878)
Transfer from investment property	-	5.494.330	-	-	-	-	-	5.494.330
Disposals or write off	-	(157.997)	(13.120.576)	(7.192.529)	(1.881.465)	-	-	(22.352.567)
At 31 December 2019	**-**	**622.287.892**	**716.978.394**	**233.794.732**	**160.275**	**40.001**	**-**	**1.573.261.294**
Net book amount								
31 December 2018	152.403.625	342.439.639	355.186.507	62.199.259	1.504.461	48.920.090	31.035.194	993.688.775
31 December 2019	**166.589.708**	**433.711.119**	**330.864.780**	**59.147.671**	**745.784**	**41.265.580**	**41.673.306**	**1.073.997.948**

The Group’s properties and movables have been mortgaged and pledged in the amount of HRK 386,379 thousand (2018: HRK 379,755 thousand) as collaterals for long-term (Note 33) and short-term borrowings (Note 36).

As at 31 December 2019, the Group's property with the net book amount of HRK 20 million (2018: HRK 23million) was mortgaged as a collateral.

The cost of the Group’s fully depreciated property, plant and equipment still in use as at 31 December 2019 amounts to HRK 635,288 thousand (2018: HRK 587,345 thousand).

During 2019 the Group has started to use property, plant and equipment in the amount of HRK 188,357,111 while acquisitions of those assets together with acquisitions of intangible assets and investment property were settled through total cash outflow in the amount of HRK 152,034,670.

20. Investment property

Investment property relates to investment for capital appreciation of property intended for future sale. The residual value of these investments estimated by independent valuators exceeds their carrying value, and accordingly, depreciation is not charged to these investments. Movements in investment property in 2019 and 2018 are presented below:

	Land	**Buildings**	**Total**
Cost	**HRK**	**HRK**	**HRK**
At 1 January 2018	**45,547,129**	**181,247,659**	**226,794,788**
Transfer from property, plant and equipment	404,016	1,322,097	1,726,113
Disposals	(394,764)		(394,764)
At 31 December 2018	**45,556,381**	**182,569,756**	**228,126,137**
Transfer from property, plant and equipment	-	34,226,494	34,226,494
Transfer to property, plant and equipment	(815,047)	(26,866,414)	(27,681,461)
At 31 December 2019	**44,741,334**	**189,929,836**	**234,671,170**
Accumulated depreciation			
At 1 January 2018	**-**	**89,021,653**	**89,021,653**
Depreciation for the year	-	170,221	170,221
At 31 December 2018	**-**	**89,191,874**	**89,191,874**
Impairment	554,987	950,154	1,505,141
Depreciation for the year	-	184,802	184,802
Transfer to property, plant and equipment	-	(5,494,330)	(5,494,330)
At 31 December 2019	**554,987**	**84,832,500**	**85,387,487**
Net book amount			
31 December 2018	**45,556,381**	**93,377,882**	**138,934,263**
31 December 2019	**44,186,347**	**105,097,336**	**149,283,683**

The fair value of investment property at the balance sheet date amounting to HRK 221,5 million relates to fair value level 3 since the input variables are not based on observable market data. During 2019 the

Group has started to use investment property in amount of HRK 34,226,494, while acquisitions of those assets were settled through cash outflow presented in Note 19.

21. Investments accounted for using the equity method

	31 December 2019	31 December 2018
	HRK	HRK
Associates:		
Končar - Power Transformers Ltd., Zagreb (49%)	233,844,545	233,844,545
Other associates (indirect subsidiaries):		
Elkakon d.o.o., Zagreb (50% - indirect)	5,222,000	4,821,846
Joint ventures		
Tbea Končar Instrument Transformers, China (27%)	9,969,698	8,666,488
KONČAR - XD High Voltage Switchgear Ltd. (50%)	35,188,882	37,054,110
	284,225,125	**284,386,989**

The company Končar-Power Transformers Ltd. is primarily engaged in the production of all types of high efficiency power transformers intended for the production, transmission and distribution of electricity. This company is in majority ownership of Siemens and represents a strategic partnership for the Group.

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

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

KONČAR - XD High Voltage Switchgear Ltd. will produce and provide installation, testing, repair and maintenance services for electrical machinery and appliances as well as electricity distribution and control equipment.

Summary information for associates are shown in the following table:

	Končar - Power Transformers Ltd.		**Elkakon d.o.o.**	
	2019	**2018**	**2019**	**2018**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Income	727,524	890,672	89,789	76,854
Expenses	(687,258)	(760,737)	(88,142)	(75,407)
Profit before tax	40,266	129,935	1,647	1,447
Income tax	(7,542)	(26,931)	(297)	(261)
Profit after tax	**32,724**	**103,004**	**1,350**	**1,186**
Non-current assets	134,898	155,553	9,216	9,245
Current assets	618,548	715,234	17,550	19,390
Total assets	**753,446**	**870,787**	**26,766**	**28,635**
Total liabilities	**243,471**	**268,350**	**16,322**	**18,992**

For the associate Končar – Power Transformers Ltd. the financial year begins as at 1 October and ends as at 30 September.

Summary information for joint ventures is shown in the following table:

	Tbea Končar Instrument Transformers Ltd.		KONČAR - XD High Voltage Switchgears Ltd.	
	2019	**2018**	**2019**	**2018**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Income	95,282	75,003	301	-
Expenses	(89,788)	(92,693)	(4,032)	-
Profit before tax	5,494	(17,690)	-	-
Income tax	(667)	140	-	-
Profit after tax	**4,827**	**(17,550)**	**(3,731)**	**-**
Non-current assets	2,983	3,800	79	-
Current assets	127,734	105,835	70,706	74,108
Total assets	**130,717**	**109,635**	**70,785**	**74,108**
Total liabilities	**84,703**	**72,537**	**407**	**-**

Movements in investments in associates during the year were as follows:

	Power Transformers Ltd. HRK	**Elkakon d.o.o. HRK**
1 January 2018	**244,722,545**	**4,389,180**
Profit of associate (Note 14)	50,472,031	593,218
Dividend payment by associate	(61,350,031)	(140,000)
Other	-	(20,552)
31 December 2018	**233,844,545**	**4,821,846**
Profit of associate (Note 14)	16,043,418	675,000
Dividend payment by associate	(16,043,418)	(250,000)
Other	-	(24,846)
31 December 2019	**233,844,545**	**5,222,000**

Movements in investments in joint ventures are as follows:

	Tbea Končar Instrument Transformers Ltd. HRK	**KONČAR - XD High Voltage Switchgears Ltd.**
1 January 2018	**13,405,051**	**-**
Loss of joint venture (Note 14)	(4,738,563)	-
Incorporation od joint venture	-	37,054,110
31 December 2018	**8,666,488**	**37,054,110**
Profit/(Loss) of joint venture (Note 14)	1,303,210	(1,865,228)
31 December 2019	**9,969,698**	**35,188,882**

22. Non-current financial assets

	31 December 2019	31 December 2018
	HRK	HRK
Other subsidiaries (indirect subsidiaries):		
Končar - Inženjering Inc., Zagreb	-	227,787
Konell Ltd., Bulgaria	62,280	62,280
Sunčana elektrana Vis d.o.o.	-	20,000
Wind Farm Rust Ltd.	-	20,000
	62,280	**330,067**
Financial assets at fair value through other comprehensive income		
Dalekovod d.d. Zagreb	271,990	271,990
Novi Fermot d.o.o., Donji Kraljevec	1,717,200	1,717,200
Ferokotao d.o.o., Donji Kraljevec	1,048,128	1,048,128
Centar proizvodnog strojarstva i analitičarstva d.o.o.	30,000	30,000
IGH d.d.	248,271	327,085
	3,315,589	**3,394,403**
Financial assets at fair value through profit or loss		
Investment in bond fund	20,399,524	-
Derivative financial assets	-	57,444
Investments in shares (ZABA, PBZ, Tesla)	4,982,060	4,870,330
Impairment of shares	(3,500,010)	(3,500,010)
	21,881,574	**1,427,764**
Financial assets at amortised costs		
Loans, deposits and similar assets	9,477,385	9,618,519
Impairment	(1,675)	(6,676)
Loans granted to employees	1,569,719	1,626,331
Current portion of loans granted to employees	(317,700)	(312,576)
Other receivables	93,341	-
	10,821,070	**10,925,598**
	36,080,513	**16,077,832**

23. Non-current receivables

	31 December 2019 HRK	31 December 2018 HRK
Receivables from credit sales		
Receivables for flats sold /i/	3,962,859	5,274,037
Impairment of receivables for flats sold	(519,698)	(677,322)
Current portion – flats sold (Note 29)	(724,888)	(786,900)
Receivables for shares sold /iv/	20,891,907	-
Current portion of shares sold	(2,322,000)	-
Receivables on the basis of foreign sales /ii/	1,892,109	2,656,724
Current portion of foreign sales (Note 26)	(884,640)	(770,971)
	22,295,649	**5,695,568**
Other receivables		
Receivables for recognised claims /iii/	8,292,699	8,292,699
Other non-current receivables	646,286	660,646
	8,938,985	**8,953,345**
	31,234,634	**14,648,913**

/i/ In accordance with the Act on the Sale of Flats with Tenancy Rights, the flats owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables increase/decrease if the EUR exchange rate of EUR changes more than 5.1% compared to the rate that existed at the signing date of the Sale agreements. The amounts of unpaid annuities in DEM have been converted into EUR at a fixed rate of EUR 1 = DEM 1.95583. A mortgage has been registered over the sold apartments as a collateral.

/ii/ Receivables on the basis of foreign sales relates to receivables for sales in Bosnia and Herzegovina through the company TAKRAF from Germany, acquired by KfW Bank, Berlin.

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

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

24. Inventories

	31 December 2019	31 December 2018
	HRK	HRK
Raw materials and supplies	348,179,149	315,278,609
Work in progress	136,668,749	157,964,309
Unfinished and semi-finished goods	35,871,785	42,365,269
Finished goods	92,981,888	78,100,430
Trade goods	279,302	31,971,049
Goods in transit	66,308	13,974
Spare parts	168,145	211,698
Small inventory and packaging	4,220,293	3,963,002
Less: Impairment of raw materials and supplies, spare parts, and small inventory and packaging	(61,745,279)	(65,717,999)
Impairment of work in progress, finished goods and trade goods	(17,902,633)	(18,344,509)
	538,787,707	**545,805,832**
Advance payments for inventories		
Domestic advances	3,476,003	7,913,951
Advances given – foreign	4,543,505	5,799,742
Total advances	**8,019,508**	**13,713,693**
	546,807,215	**559,519,525**

In 2019, the cost of goods sold recognised in the income statement amounted to HRK 1,625,540 thousand (2018: HRK 1,541,426 thousand).

25. Receivables from related parties

	31 December 2019	31 December 2018
	HRK	HRK
Receivables from associates	45,878,598	77,269,132
Receivables from joint ventures	291,669	464,712
	46,170,267	**77,733,844**

The analysis performed has shown that the effect of applying the simplified model in accordance with IFRS 9 on trade receivables is immaterial for the financial statements as at 31 December 2018 and 31 December 2019 and as such was not recognised.

26. Trade receivables

	31 December 2019	31 December 2018
	HRK	HRK
Trade receivables – domestic	440,162,636	419,123,261
Trade receivables – foreign	461,433,166	453,673,817
Current portion of foreign sales (Note 23)	884,640	770,971
Impairment	(60,066,985)	(99,499,309)
	842,413,457	**774,068,740**

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

	Total	**Not past due**	**Past due but collectible**				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2019	**842,413,457**	725,681,017	89,642,774	7,983,337	6,363,246	5,132,703	7,610,380
2018	**774,068,740**	643,369,146	80,193,981	19,099,116	19,645,137	9,231,460	2,529,900

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the period:

	2018
	HRK
At 1 January 2018	145,679,681
Decrease in expected credit loss	(1,442,137)
Collected during the year	(13,076,657)
Impaired during the year	2,503,864
Total changes in expected credit loss through profit or loss	*(12,014,930)*
Written off during the year	(2,147,284)
Derecognition during the year	(30,759,136)
Foreign exchange differences	(1,259,022)
At 31 December	**99,499,309**
Decrease in expected credit loss	(2,642,883)
Collected during the year	(1,866,759)
Impaired during the year	8,297,368
Total changes in expected credit loss through profit or loss	*3,787,726*
Sale of subsidiary	(26,256,305)
Written off during the year	(4,120,029)
Derecognition during the year	(12,945,726)
Foreign exchange differences	102,010
At 31 December	**60,066,985**

27. Contract assets and liabilities

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

	31 December 2019	31 December 2018
	HRK	HRK
Contract assets from contracts with customers	85,663,883	49,869,656
Assets recognised on the basis of costs incurred to obtain a contract	14,385,230	9,790,425
Expected credit loss	(58,094)	(38,863)
Total current assets from contracts with customers	**99,991,019**	**59,621,218**
Contract liability from contracts with customers	52,715,783	44,403,088
Contract liability - advances received from customers	109,405,760	122,487,006
Contract liability - sales commission	18,470,707	14,135,491
Total contract liability	**180,592,250**	**181,025,585**

Recognised revenue relating to contract liability

Revenue recognised in the reporting period, which was included in the balance sheet of contract liabilities at the beginning of the period, relating to the design and construction services of the plant and equipment for generation, transmission and distribution of electricity amounted to HRK 99,976 thousand (2018: HRK 53,883 thousand).

The total amount of transaction price allocated to the performance obligations not satisfied (or partially satisfied) at the end of the reporting period amount to HRK 594,760 thousand (2018: HRK 768,065 thousand).

The company's management expects that 63% of the transaction price allocated to the unsatisfied performance obligations as at 31 December 2019 will be recognised as revenue during the next reporting period (HRK 372,659 thousand). The remaining 37% will be recognised in 2020.

All other contracts in which the company is entitled to a consideration from the customer in an amount that directly corresponds with the value obtained by the customer from the company's performance with an initial expected duration of one year or less is recognised by the company in the amount it is entitled to invoice. In accordance with IFRS 15, the transaction price allocated to the contracts that were not completed is not disclosed.

28. Other receivables

	31 December 2019	31 December 2018
	HRK	HRK
Receivables from state and other institutions		
Receivables for value added tax	26,913,507	22,249,466
Receivables from the Croatian Health Insurance Fund	1,127,466	818,922
Other	3,307,876	1,820,807
	31,348,849	**24,889,195**

28. Other receivables (continued)

Other current receivables		
Receivables for advances given for services	15,215,024	17,699,730
Receivables for recognised claims	22,341,776	8,044,841
Receivables for flats sold (plus current portion) (Note 23)	754,381	786,900
Receivables for shares sold (plus current portion) (Note 23)	2,597,429	-
Receivables for insurance claims	4,005,754	-
Interest receivables	971,449	-
Other receivables	2,560,152	2,054,839
	48,445,965	**28,586,310**
Receivables from employees	**1,135,962**	**989,230**
	80,930,776	**54,464,735**

29. Current financial assets

	31 December 2019 HRK	31 December 2018 HRK
Deposits over 3 months	292,849,426	69,192,322
Derivative financial instruments – forward contracts	56,736	293,340
Loans granted (5%)	132,674	468,962
Current portion of loans given	317,700	312,576
Impairment of loans	-	(89,640)
Other financial assets	451,653	594
	293,808,189	**70,178,154**

In 2019, the Group realised proceeds from deposits in the amount of HRK 146,022,023 (2018: HRK 302,636,936), while it placed HRK 388,398,173 of deposits during the year (2018: HRK 104,851,490).

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

30. Cash and cash equivalents

	31 December 2019 HRK	31 December 2018 HRK
Giro account balance	152,696,612	161,123,543
Foreign currency account balance	216,784,850	454,845,029
Cash on hand	241,027	219,452
Investments in money market funds	51,327	434,429
Short-term securities	-	191,116
Less: Impairment	-	(184,992)
Deposits up to 3 months	12,000	-
	369,785,816	**616,628,577**

31. Equity

Share capital is determined in the nominal amount of HRK 1,208,895,930 (31 December 2018: HRK 1,208,895,930) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The ownership structure of the Parent company is as follows:

		31 December 2019		31 December 2018	
	Shareholder	Number of shares	Ownership share %	Number of shares	Ownership share %
1	HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
2	Addiko Bank d.d./PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
3	OTP Banka d.d. / AZ OMF	377,429	14.67	377,429	14.67
4	OTP Banka d.d./ Erste Plavi obvezni mirovinski fond	394,213	15.33	359,239	13.97
5	Restructuring and sale center (CERP),RH	73,162	2.84	81,610	3.17
6	Floričić Kristijan	50,714	1.97	50,714	1.97
7	Addiko Bank/RBA OMF	47,636	1.85	47,636	1.85
8	Zagrebačka banka d.d. /AZ Profit DMF	35,222	1.37	32,803	1.28
9	OTP banka d.d. / OTP Indeksni fond - OIF s javnom ponudom	23,189	0.90	23,114	0.90
10	Zec Branislav	22,843	0.89	22,843	0.89
11	Ostali dioničari	386,098	15.01	416,427	16.19
12	KONČAR d.d. (trezorske dionice)	16,170	0.63	14,861	0.58
		2,572,119	**100.00**	**2,572,119**	**100.00**

In 2019, the Parent company's General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 38,358,870 which is HRK 15 per share (2018: HRK 35,927,612 which is HRK 14,00 per share).

During 2019, the total paid dividend of the Končar Group amounted to HRK 51,342,582 (2018: HRK 51,074,775).

During 2018, the Company started purchasing its treasury shares. In 2019 based on a decision of General Assembly, the Management Board is authorized to acquire treasury shares over a period of 5 years. The part of other reserves in amount of HRK 25 million in accordance with General Assembly's decision will be used for the purpose of the acquisition of treasury shares, while reserves for treasury shares are formed accordingly.

During 2019, the Company purchased shares worth HRK 827,556 (2018: HRK 5,948,574) and as at 31 December 2019 the Group owns 16,170 treasury shares (31 December 2018: 14,861 shares).

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

32. Provisions

	Warranty provisions	Provisions for legal disputes	Jubilee awards and termination benefits	Other	**Total**
	HRK	HRK	HRK	HRK	HRK
1 January 2018	**163,630,766**	**6,125,589**	**48,661,974**	**1,628,134**	**220,046,463**
Additional provisions	26,656,725	550,000	10,311,940	62,082	37,580,747
Release of provisions	(15,426,921)	(4,720,189)	(9,693,439)	(501,994)	(30,342,543)
Foreign exchange differences and similar	(532,526)	-	76,098	-	(456,428)
Transfer to current provisions	(20,607,582)	-	(68,500)	-	(20,676,082)
31 December 2019	**153,720,462**	**1,955,400**	**49,288,073**	**1,188,222**	**206,152,157**
Effect of sale of subsidiary	(4,542,617)	-	(728,078)	-	(5,270,695)
Additional provisions	33,768,651	597,367	10,750,241	59,218	45,175,477
Release of provisions	(12,514,621)	(639,782)	(10,232,281)	-	(23,386,684)
Foreign exchange differences and similar	166,690	-	14,704	-	181,394
Transfer to current provisions	(19,121,478)	-	(2,346,025)	-	(21,467,503)
31 December 2019	**151,477,087**	**1,912,985**	**46,746,634**	**1,247,440**	**201,384,146**

Warranty provisions

Warranty provisions relate to estimated costs of possible repairs in warranty periods for companies within the Group. Provisions for warranty costs are determined on the basis of Management's best estimate and includes general and specific provisions. General provisions are based on estimates and experience of other similar producers of energy equipment within this type of industry. The Group regularly issues warranties for a minimum of 2 years for sold equipment/performed energy projects. Management assesses and recognises a provision representing 2% - 8% of the sales value of sold products/projects completed under warranty obligation. Individual/specific provisions refer to potential quality problems with regard to sold energy equipment/projects executed to individual customers. The non-current portion of provision for costs within warranty periods amounts to HRK 151,477,087 (31 December 2018: HRK 153,720,462), while current provisions amount to HRK 79,450,792 (31 December 2018: HRK 90,144,183).

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of HRK 1,912,985 (2018: HRK 1,955,400) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes.

Provisions for jubilee awards and termination benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 46,746,634 (2018: HRK 49,288,073) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 1% (2018: 1.7%).

Other non-current provisions in the amount of HRK 1,247,440 (31 December 2018: HRK 1,188,222) relate to decommissioning provisions upon completion of the wind farm project.

33. Long-term borrowings

	31 December 2019 HRK	31 December 2018 HRK
Liabilities to banks	193,465,948	119,941,057
Less: Current portion (Note 37)	(29,392,511)	(30,904,000)
	164,073,437	**89,037,057**

Changes in bank borrowings were as follows:

	HRK
1 January 2018	**120,798,248**
New borrowings	371,987
Repayment of borrowings	(98,310)
Foreign exchange differences	(1,130,868)
Less: current portion	(30,904,000)
31 December 2018	**89,037,057**

Changes in bank borrowings were as follows (continued):

Effect of new standards	(337,770)
1 January 2019	**88,699,287**
New borrowings	90,273,116
Non-cash increase of borrowings	15,102,326
Foreign exchange differences	(608,781)
Less: current portion	(29,392,511)
31 December 2019	**164,073,437**

Long-term bank borrowings mature as follows:

	31 December 2019 HRK	31 December 2018 HRK
Within one year	29,392,511	30,904,000
From 1 to 2 years	64,392,511	13,764,509
Between 2 and 5 years	49,441,840	60,408,837
More than 5 years	50,239,086	14,863,711
Less: current portion	(29,392,511)	(30,904,000)
	164,073,437	**89,037,057**

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

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

In accordance with the contractual terms, the Group has met the required covenants for the reporting period.

The carrying amount of the immovable property mortgaged and movable property pledged as collateral is presented in Note 19.

The fixed interest rate on the Group's borrowings ranges from 1.5% to 3.5% and the variable interest rate from 3% to 3.5%.

34. Other non-current liabilities

Non-current liabilities in the amount of HRK 8,677,519 (31 December 2018: HRK 8,131,049) relate mostly to liabilities arising from the put/call option agreed at acquisition, providing the Group with the call option on the shares currently held by the seller in the subsidiary PET .

35. Liabilities to related parties (associates and joint ventures)

	31 December 2019 HRK	31 December 2018 HRK
Liabilities to associates	13,952,571	13,039,342
Liabilities to joint ventures	35,123	-
	13,987,694	**13,039,342**

36. Current liabilities to banks (borrowings) and other loans

	31 December 2019 HRK	31 December 2018 HRK
Liabilities to banks and other financial institutions	134,427,209	54,939,390
Plus: Current portion (Note 34)	29,392,511	30,904,000
	163,819,720	**85,843,390**

Movements in bank borrowings during the year can be summarised as follows:

	HRK
1 January 2018	**63,928,234**
New borrowings	35,549,182
Repayment of borrowings	(44,123,222)
Foreign exchange differences	(414,804)
Plus: current portion of long-term borrowings	30,904,000
31 December 2018	**85,843,390**
New borrowings	115,720,059
Non-cash increase of borrowings	17,353,496
Repayment of borrowings	(57,180,112)
Non-cash repayment of borrowings	(20,995,233)
Effect of sale of subsidiary	(7,539,949)
Foreign exchange differences	1,225,558
Plus: current portion of long-term borrowings	29,392,511
31 December 2019	**163,819,720**

Bank borrowings are secured by mortgages over the Group's immovable property and pledges over its movable property. Lease liabilities are secured by the right to return the leased assets recognised in the financial statements to the lessor in the event the obligation is not satisfied.

The carrying amount of the immovable property mortgaged and movable property pledged as collateral is presented in Note 19.

The fixed interest rate on the Group's short-term borrowings ranges from 1.2% to 2.15 % and the variable interest rate on short-term borrowings ranges from 1.6% to 2.23%.

37. Trade payables

	31 December 2019 HRK	31 December 2018 HRK
Domestic trade payables	269,361,912	247,276,521
Foreign trade payables	167,564,310	165,685,440
Goods received not invoiced	449,767	340,212
	437,375,989	**413,302,173**

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

	Total	Not past due	Past due < 60 days	Past due 60-90 days	Past due 90-180 days	Past due 180-365 days	Past due > 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2019	**437,375,989**	376,672,536	52,600,990	5,096,996	2,720,092	282,939	2,436
2018	**413,302,173**	358,548,205	49,219,649	1,905,493	2,050,361	563,283	1,015,182

38. Advances received

	31 December 2019	31 December 2018
	HRK	HRK
From domestic customers	13,624,562	3,688,914
From foreign customers	2,774,515	2,705,291
	16,399,077	**6,394,205**

39. Other liabilities

	31 December 2019	31 December 2018
	HRK	HRK
Liabilities to the state and other institutions		
VAT payable	27,677,134	13,064,247
Liabilities for contributions on and from salaries and taxes and surtaxes	27,450,383	30,496,942
Other liabilities	83,026	39,794
	55,210,543	**43,600,983**
Other current liabilities		
Interest payable	1,044,624	1,083,495
Liabilities from share in result	814,621	691,040
Other liabilities	3,819,378	2,812,717
	5,678,623	**4,587,252**
Current liabilities to employees		
Liabilities for net salaries	30,925,776	28,892,901
Termination benefits payable	8,000	132,000
Liabilities toward Management Boards of companies for bonuses	3,487,582	5,049,671
Other liabilities	52,040	214,502
	34,473,398	**34,289,074**
	95,362,564	**82,477,309**

39. Current provisions

in HRK	Warranty provisions	Provisions for unused vacation days	Other current provisions	**Total**
1 January 2018	**104,443,211**	**1,978,711**	**6,339,985**	**112,761,907**
Release of provisions	(56,855,130)	(1,194,834)	(1,349,590)	(59,399,554)
Calculated during the year	21,948,519	1,104,276	248,810	23,301,605
Transfer from non-current liabilities	20,607,582	-	68,500	20,676,082
31 December 2018	**90,144,182**	**1,888,153**	**5,307,705**	**97,340,040**
Reclassification	(3,003,428)	1,610,536	1,392,892	-
Release of provisions	(32,647,073)	(1,152,088)	(2,439,926)	(36,239,087)
Calculated during the year	6,136,139	1,402,090	2,514,436	10,052,665
Other	(300,508)	-	-	(300,508)
Transfer from non-current liabilities	19,121,478	-	2,346,025	21,467,503
31 December 2019	**79,450,790**	**3,748,691**	**9,121,132**	**92,320,613**

40. Discontinued operation

In 2019, the Program of Continuing Ownership Restructuring of KONČAR-Household Appliances Inc. was implemented through the M&E buyout model. All the shares of KONČAR-Household Appliances Inc. were offered for sale in the tender, of which 60% of the shares are offered for sale to all Group employees and 40% of the shares are offered to the management of the Company. The share price was HRK 434.00 and was based on an independent valuer's estimate. The subsidiary was sold on 5 April 2019.

Additionally, the restructuring for Končar-Low Voltage Switches and Circuit Breakers Ltd. was conducted, which includes the establishment of a Special Purpose Vehicle (SPV) which was sold to Lovato Electric S.P.A. from Bergamo, immediately after it has been established. The subsidiary was sold on 11 April 2019.

Both subsidiaries are presented in the current period as discontinued operations (with the comparable information restated in the consolidated statement of profit and loss so as to ensure comparability of information).

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

Financial performance and cash flow information

	2019 HRK	2018 HRK
Sales	48,568,705	209,798,454
Other operating income	464,715	3,342,290
Total operating income	**49,033,420**	**213,140,744**
Material costs	(39,121,594)	(177,318,311)
Staff costs	(3,075,769)	(13,190,642)
Depreciation and amortisation	(463,709)	(2,161,283)
Other expenses	(2,369,485)	(8,110,442)
Impairment losses	-	(426,924)
Provisions	-	(196,303)
Other operating expenses	(212,291)	(1,973,730)
Total operating expenses	**(45,242,848)**	**(203,377,635)**
Finance income	35,255	826,757
Finance costs	(38,092)	(1,102,426)
Net finance (costs)/income	**(2,837)**	**(275,669)**
Profit before tax	**3,787,735**	**9,487,440**
Income tax	-	-
Profit from discontinued operation	**3,787,735**	**9,487,440**
Loss on sale of discontinued operation	(885,696)	-
Profit from discontinued operation	**2,902,039**	**9,487,440**

	2019 HRK	2018 HRK
Net cash flows from operating activities	(190,327)	3,686,502
Net cash flows from investing activities	(50,979)	(826,083)
Net cash flows from financing activities	(3,649)	4,709,901
Net increase /(decrease) in cash flows	**(244,955)**	**7,570,320**

Details of the sale of the subsidiary

	2019 HRK
Consideration received or receivable:	
Cash	27,004,172
Receivable for shares sold	21,685,291
	48,689,463
Carrying amount of net assets sold	(49,575,159)
Loss on sale of the subsidiaries	**(885,696)**

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

	2019 HRK
Intangible assets (Note 18)	146,925
Property, plant and equipment (Note 19)	18,886,406
Inventories	36,542,522
Trade receivables	38,948,308
Cash	1,628,007
Prepaid expenses and accrued income	90,606
Total assets	**96,242,774**
Provisions (note 32)	5,270,695
Non-current liabilities	112,697
Current liabilities	39,877,963
Deferred income and accrued expenses	1,406,260
Total liabilities	**46,667,615**
Net assets	**49,575,159**

41. Financial risk management and financial instruments

The Group is exposed in its business to market (interest and foreign currency risk), credit risk and liquidity risk.

Certain companies within the Group use derivative financial instruments to hedge against these risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the adverse effects on the Group's financial statements. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summarised as follows:

a) Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity ratio in order to reduce the cost of capital.

The Group manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Group may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2019 and 31 December 2018. The Group monitors capital on the basis of the gearing ratio, which is calculated as follows.

	31 December 2019 HRK'000	31 December 2018 HRK'000
Financial liabilities	340,084	183,011
Less: cash and cash equivalents (deposits)	(662,635)	(685,821)
Net debt	-	-

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity are disclosed in Note 2 to these financial statements.

The accounting policies for financial instruments have been applied to the following balance sheet items:

	Assets at amortised cost	Assets at fair value through P&L	Assets at fair value through OCI	Total assets classified under IFRS 9
	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2019				
Non-current financial assets	10,821	21,882	3,316	**36,019**
Non-current receivables	31,235	-	-	**31,235**
Current financial assets	293,751	57	-	**293,808**
Trade receivables, receivables from related parties and other receivables	919,255	-	-	**919,255**
Cash and cash equivalents	369,786	-	-	**369,786**
	1,624,848	**21,939**	**3,316**	**1,650,103**

	Assets at amortised cost	Assets at fair value through P&L	Assets at fair value through OCI	Total assets classified under IFRS 9
	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2018				
Non-current financial assets	11,279	1,637	3,161	16,077
Non-current receivables	14,649	-	-	14,649
Current financial assets	69,885	293	-	70,178
Trade receivables, receivables from related parties and other receivables	852,589	-	-	852,589
Cash and cash equivalents	616,629	-	-	616,629
	1,565,031	**1,930**	**3,161**	**1,570,122**

All of the Group's liabilities have been classified as “At amortised cost”. The Group does not have any liabilities classified as “Liabilities at fair value through profit or loss”.

Fair value of financial assets and liabilities

The Group presents the fair value hierarchy consisting of three levels of inputs included in the valuation techniques as follows:

1. Level 1 - Definition of inputs: Quoted (unadjusted) prices for identical assets or liabilities in active markets that are available at the measurement date.
2. Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
3. Level 3 - Unobservable inputs for the asset or liability, i.e. that are derived from market data.

The level within which a financial asset/liability is classified is based on the lowest level of a significant input variable used in the fair value measurement. Financial assets and liabilities measured at fair value in the statement of financial position are grouped within the fair value hierarchy as follows:

31 December 2019	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	2,002	-	-	2,002
Fair value of derivative financial instruments	-	57	-	57
Financial assets at fair value through OCI	-	-	2,795	2,795
Units in cash funds	20,451	-	-	20,451
	22,453	**57**	**2,795**	**25,305**

31 December 2018	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	1,968	-	-	1,968
Fair value of derivative financial instruments	-	351	-	351
Financial assets at fair value through OCI	-	-	2,795	2,795
Units in cash funds	434	-	-	434
	2,402	**351**	**2,795**	**5,548**

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities traded according to the standard terms and conditions of the market is determined to reflect the market price;
- The fair value of other financial assets and financial liabilities (including derivatives) is determined in accordance with generally accepted pricing models based on the discounted cash flow analysis using prices used for market transactions and quoted prices for similar instruments;
- The fair value of derivative instruments is determined according to quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group used the following methods and assumptions during its financial asset fair value estimation:

- Receivables and deposits with banks - for assets due within three months and cash funds, the carrying amount approximates their fair value due to the short maturity of these instruments. For non-current assets, the contracted interest rates do not significantly deviate from the current market rates and, accordingly, their fair value approximates their carrying amount.
- Borrowings - the fair value of current liabilities approximates their carrying value due to the short-term maturities of these instruments. The Management Board believes that their fair value is not materially different from their carrying value.
- Other financial instruments - financial instruments that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

c) Financial risk

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign exchange risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, such as the change in foreign currencies and interest rates, would influence the Group’s result or the value of its financial instruments. The objective of market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

The Group’s activities expose it primarily to the market risks of changes in foreign currency exchange rates and interest rates. There were no significant changes to the Group’s exposure to market risk or the manner in which it manages and measures the risk.

a) Foreign exchange risk

The Group is exposed to this risk through sales, purchase and loans stated in foreign currency which is not the Group's functional currency. Foreign currencies to which the Company is mostly exposed are EUR and USD.

Group companies are exposed to foreign currency risk through sales, purchase and short-term deposits denominated in foreign currencies. Certain companies within the Group make agreements for the purpose of hedging this risk.

The Group's exposure to currency risk is as follows:

31 December 2019	EUR HRK'000	USD HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Non-current receivables	1,342	-	-	1,342	29,893	31,235
Non-current financial assets	29,416	-	-	29,416	6,602	36,018
Trade receivables, receivables from related parties and other receivables	386,411	8,547	2,557	397,515	521,739	919,254
Derivative instruments	57	-	-	57	-	57
Deposits over 3 months	280,586	1,330	-	281,916	11,892	293,808
Cash and cash equivalents	225,911	2,131	295	228,337	141,449	369,785
	923,723	**12,008**	**2,852**	**938,583**	**711,575**	**1,650,158**
Trade payables and liabilities to related parties	(166,541)	(2,421)	(383)	(169,345)	(282,019)	(451,364)
Borrowings	(149,307)	-	-	(149,307)	(182,100)	(331,407)
	(315,848)	**(2,421)**	**(383)**	**(318,652)**	**(464,119)**	**(782,771)**

31 December 2018	EUR HRK'000	USD HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Non-current receivables	1,886	-	-	1,886	12,763	14,649
Non-current financial assets	7,931	129	-	8,060	8,017	16,077
Trade receivables, receivables from related parties	353,646	4,142	69,984	427,772	424,817	852,589
Derivative instruments	328	-	-	328	23	351
Deposits over 3 months	32,022	1,617	-	33,639	35,553	69,192
Cash and cash equivalents	454,431	7,325	10,465	472,221	144,408	616,629
	850,244	**13,213**	**80,449**	**943,906**	**625,581**	**1,569,487**
Trade payables and liabilities to related parties	(188,531)	(1,617)	(343)	(190,491)	(235,851)	(426,342)
Borrowings	(116,099)	-	-	(116,099)	(66,912)	(183,011)
	(304,630)	**(1,617)**	**(343)**	**(306,590)**	**(302,763)**	**(609,353)**

In the above tables, receivables for flats sold are not included in the amounts in EUR because of a contractual clause on the increase/decrease in receivables if the change in EUR currency rate is more than 5.1% compared to the currency rate that existed at the time of concluding the contracts.

Sensitivity analysis

A change in the HRK exchange rate against the EUR by 1% (2018: -1%), and a change against the USD by 3 % (2018: -3 %) and changes in other currencies at the reporting date would have (decreased)/increased profit before tax as follows:

	2019 Effect on profit before tax HRK'000	2018 Effect on profit before tax HRK'000
EUR	6,046	(4,830)
USD	277	(65)
Other currencies	310	(1,742)

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

A reverse proportional change of the HRK against the above currencies by the same average percentage changes at the reporting date would have had the equal but opposite effect on the profit before tax, provided that all other variables are held constant.

b) Interest rate risk

The Group's companies are mainly exposed to interest risk arising from borrowings agreed at variable interest rates while an immaterial portion of the assets is exposed to interest rate risk. Certain Group companies contract a hedge against interest rate risk stated in foreign currencies.

The following table shows the sensitivity of changes in interest rates relating to the Group's borrowings as at 31 December, provided that all other variables are held constant, on profit before tax.

2019	Increase/ decrease in percentage	Effect on profit before tax HRK'000
HRK	+1%	(144)
HRK	-1%	144
2018	Increase/ decrease in percentage	Effect on profit before tax HRK'000
HRK	+1%	(538)
HRK	-1%	538

Credit risk

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

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

Impairment of financial assets

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

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

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

Trade receivables and contract assets

The Group applies the simplified approach to measuring expected credit losses which uses a 12-month expected loss allowance for all trade and other receivables.

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

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2019 and 31 December 2018 respectively and the corresponding historical credit losses experienced within this period.

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

The Group has identified the GDP and the unemployment rate of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The impairment of trade receivables and contract assets as at 31 December 2019 and 31 December 2018 is as follows:

31 December 2019	Total	Not past due	Past due 1-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due over 365 days
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Trade receivables	**948,651**	**767,202**	**94,946**	**8,252**	**8,902**	**6,256**	**63,093**
Contract assets	**99,991**	**99,991**	-	-	-	-	-
Expected loss rate%	**-**	0.01-1.5	0.01-3.30	0.11-16.71	0.15-35.48	0.44-62.98	5.38-100
Expected credit loss	**5,018**	**530**	**205**	**268**	**2,458**	**1,123**	**434**
Individual provision	**55,049**						55,049

31 December 2018	Total	Not past due	Past due 1-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due over 365 days
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Trade receivables	856,708	722,050	81,084	19,247	20,491	10,199	3,637
Contract assets	59,660	59,660					
Expected loss rate%	0.01 - 100	0.01 - 2	0.01 - 3.44	0.01 - 23.21	0.13 - 42.41	0.54 - 100	8.97 - 100
Expected credit loss	**4,906**	**921**	**890**	**174**	**846**	**968**	**1,107**
Individual provision	94,594						

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

Other financial assets at amortised cost

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

The expected credit loss for other financial assets at amortised cost as at 31 December is as follows:

	Receivables for flats sold	**Total**
	HRK 000	**HRK 000**
At 1 January 2018	**1,187,787**	**1,187,787**
Increase//decrease) in the loss allowance recognised in profit or loss	(510,465)	(510,465)
At 31 December 2018	**677,322**	**677,322**
Increase/(decrease in the loss allowance recognised in profit or loss	(157,624)	(157,624)
At 31 December 2019	**519,698**	**519,698**

The analysis performed has shown that the effect of applying IFRS 9 on receivables for recognised claims, receivables for dividends and receivables from foreign sales is immaterial and as such was not recognized at 31 December 2018 and at 31 December 2019.

Liquidity risk

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

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

	Carrying amount	Contractual cash flows	0 - 3 months	3 - 12 months	2 - 5 years	More than 5 years
31 December 2019	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current trade payables and liabilities to related parties	451,364	451,364	395,725	52,442	3,127	70
Interest-bearing liabilities	331,407	351,973	50,095	117,335	132,041	52,502
	782,771	**803,337**	**445,820**	**169,777**	**135,168**	**52,572**

	Carrying amount	Contractual cash flows	0 - 3 months	3 - 12 months	2 - 5 years	More than 5 years
31 December 2018	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Current trade payables and liabilities to related parties	426,342	426,342	397,601	28,263	478	-
Interest-bearing liabilities	183,011	185,691	22,232	68,246	80,369	14,844
	609,353	**612,033**	**419,833**	**96,509**	**80,847**	**14,844**

42. Segment reporting

2019	Industry	Energy and transport	Trade	Special activities	Končar-Electrical Industry Inc.	Eliminations and reclassifications	Group
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Revenue	92,889,124	2,600,765,014	10,409,090	53,728,787	635,411	(36,832,312)	2,721,595,114
Income from related parties	6,541,178	256,466,608	2,064,690	79,021,197	95,039,133	(349,776,969)	89,355,837
Other operating income	1,526,263	106,359,774	6,000,437	9,762,308	14,264,622	(15,252,163)	122,661,241
Total operating income	100,956,565	2,963,591,396	18,474,217	142,512,292	109,939,166	(401,861,444)	2,933,612,192
Total operating expenses	(89,251,803)	(2,899,947,851)	(23,358,241)	(132,539,024)	(113,464,122)	366,961,292	(2,891,599,749)
Operating profit/loss	*11,704,762*	*63,643,545*	*(4,884,024)*	*9,973,268*	*(3,524,956)*	*(34,900,152)*	*42,012,443*
Financial result	314,599	(3,649,984)	3,977,063	842,430	10,875,108	14,716,929	27,076,145
Profit/(loss) before tax	**12,019,361**	**59,993,561**	**(906,961)**	**10,815,698**	**7,350,152**	**(20,183,223)**	**69,088,588**
Income tax	(2,564,073)	(12,568,415)		(1,904,401)	-	-	(17,036,889)
Profit from continuing operations	**9,455,288**	**47,425,146**	**(906,961)**	**8,911,297**	**7,350,152**	**(20,183,223)**	**52,051,699**
Profit from discontinued operations	-	-	2,902,039	-	-	-	**2,902,039**
Profit for the period	**9,455,288**	**47,425,146**	**1,995,078**	**8,911,297**	**7,350,152**	**(20,183,223)**	**54,953,738**
Non-controlling interest							27,582,424
Profit of the Parent company owner							27,371,314
Non-current assets	24,460,243	880,375,868	36,990,187	72,191,521	1,400,003,358	(787,278,070)	1,626,743,107
Current assets	87,045,364	1,974,303,412	19,039,669	187,038,280	282,825,871	(249,640,734)	2,300,611,862
Total assets	**111,505,607**	**2,854,679,280**	**56,029,856**	**259,229,801**	**1,682,829,229**	**(1,036,918,804)**	**3,927,354,969**
Total liabilities	**14,417,940**	**1,574,004,557**	**4,995,238**	**42,147,722**	**37,830,703**	**(288,202,507)**	**1,385,193,653**

2018	Industry	Energy and transport	Trade	Special activities	Končar-Electrical Industry Inc.	Eliminations and reclassifications	Group
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Revenue	86,770,838	2,237,706,748	13.765.901	51,376,252	180,908	-	2,389,800,647
Income from related parties	7,387,131	240,545,925	2.190.344	88,686,554	47,591,852	(283,643,093)	102,758,713
Other operating income	1,762,631	164,253,646	1.361.956	9,008,936	20,277,004	(28,956,588)	167,707,585
Total operating income	95,920,600	2,642,506,319	17.318.201	149,071,742	68,049,764	(312,599,681)	2,660,266,945
Total operating expenses	(84,828,877)	(2,531,020,094)	(24.170.325)	(136,528,183)	(79,885,572)	287,816,152	(2,568,616,899)
Operating profit/loss	11,091,723	111,486,225	(6.852.124)	12,543,559	(11,835,808)	(24,783,529)	91,650,046
Financial result	(748,387)	(2,502,372)	(15.879)	(793,560)	87,338,914	(42,210,895)	41,067,821
Profit/(loss) before tax	**10,343,336**	**108,983,853**	**(6.868.003)**	**11,749,999**	**75,503,106**	**(66,994,424)**	**142,205,307**
Income tax	(2,185,708)	(9,410,361)	-	(1,901,211)	-	-	(13,497,280)
Profit from continuing operations	**8,157,628**	**99,573,492**	**(6.868.003)**	**9,848,788**	**75,503,106**	**(66,994,424)**	**128,708,027**
Profit from discontinued operations	-	-	**9,487,440**	-	-	-	**9,487,440**
Profit for the period	**8,157,628**	**99,573,492**	**2,619,437**	**9,848,788**	**75,503,106**	**(66,994,424)**	**128,708,027**
Non-controlling interest							25,870,940
Profit of the Parent company owner							102,837,087
Non-current assets	25,930,881	752,702,363	36,790,196	72,764,456	1,360,685,151	(755,692,533)	1,493,180,514
Current assets	82,796,262	1,785,457,748	99,283,536	170,630,855	364,481,069	(268,654,740)	2,233,994,730
Total assets	**108,727,143**	**2,556,009,371**	**136,073,732**	**243,395,311**	**1,725,166,220**	**(1,042,196,533)**	**3,727,175,244**
Total liabilities	**12,937,136**	**1,344,251,270**	**57,644,729**	**33,683,165**	**48,351,055**	**(307,174,403)**	**1,189,692,952**

Sales by regions:

	2019		2018	
	HRK'000	**%**	**HRK'000**	**%**
Croatia	**1,156,430**	**41.14%**	**1,049,571**	**42.11%**
Countries in the European Union	1,079,920	38.42%	926,947	37.19%
	2,236,350	**79.56%**	**1,976,518**	**79.30%**
Asia and Africa	135,493	4.82%	101,666	4.08%
Neighbouring countries	107,830	3.84%	105,319	4.23%
America and Australia	83,228	2.96%	77,440	3.11%
Other countries	248,050	8.82%	231,617	9.29%
	574,601	**20.44%**	**516,042**	**20.70%**
	2,810,951	**100.00%**	**2,492,560**	**100.00%**

43. Contingent liabilities and off-balance sheet items

The Group's off-balance sheet items in the amount of HRK 2,245 million (2018: HRK 1,840 million) mainly relate to the issued collaterals (guarantees, bills of exchange, promissory notes), solidary/subsidiary guarantees, liabilities to the state for flats sold (65%), etc.

Several legal disputes have been initiated against the subsidiaries and the Parent company which are currently in process.

Except for the legal disputes for which the Group recognised provisions (Note 32), the Group companies' Management Boards estimate that other legal disputes will not bear any costs which could have a significant effect on the Group's financial statements and, accordingly, has not recognised provisions at the balance sheet date.

44. Order book

The Group's balance for the consolidated negotiated deals (order book) based on active projects as at 31 December 2019 amounts to HRK 3,342 million (31 December 2018: HRK 3,081 million).

45. Events after the reporting date

The existence of the novel coronavirus (COVID-19) was confirmed in early 2020 and it has spread to a large number of countries around the world, causing disruptions to businesses and economic activity.

Končar – Electrical Industry is closely monitoring the situation regarding the impact of COVID-19 and its potential impact on business. The outbreak of COVID-19 did not have a significant impact on the operations of the Končar Group companies during January and February 2020.

All companies of the Končar Group follow the recommendations of the Emergency Task Force and the Croatian Institute for Public Health.

All workers who are able to work from home do so, while the production has been organized in shifts to allow for social distancing, and workers who have been in the areas affected by the outbreak or in contact with infected persons are in self-isolation. From a total of 3,960 workers (including the employees of the company working at the Jankomir site) no cases of COVID-19 were reported by 1 April 2020.

Any negative effects depend, first and foremost, on the duration of the emergency measures and on several factors that can be described as:

- Downtime and decline in sales activities due to a decrease in overall activities in the Group's major markets
- Downtime and delay in deliveries of individual suppliers that are significantly exposed to COVID-19
- Limited possibilities of using other sources due to various constraints and capacities of suppliers in less affected areas
- Disruption of road transport due to various restrictions in the supply of materials and shipping of products to customers
- Limited travel and finalization of contracts involving contracted assembly projects at clients' premises and Contract handover
- Risk of production downtime due to unavailability of workers in case the infection spreads among employees who work in production and who cannot work from home

Consequently, the Končar Group's market activity is exposed to global disruptions in the supply chain and delivery of products, which could have a negative impact on its business operations if the situation deteriorates significantly and if the complete market downtime lasts for a longer period of time. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of the outbreak of this novel coronavirus on the Group. However, given the sufficient amount of own funds and opportunities in the financial market, we believe that, if appropriate measures are taken, in these circumstances we can respond to the challenges and continue as a going concern.

The Group further considers this event to be a non-adjusting event after the reporting date.

46. Accounting policy applicable prior to 1 January 2019

The accounting policy applicable to the comparative period ended 31 December 2018 that has been replaced by the new standard, IFRS 16, is as follows:

Leases

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

Assets held under finance leases are initially recognised as assets or liabilities in the lessee's balance sheet at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss. Operating lease payments are recognised in profit or loss as an expense on a straight-line basis over the lease term.

KONČAR – ELEKTROINDUSTRIJA d.d.

CONSOLIDATED MANAGEMENT REPORT

AND

DECLARATION ON
THE IMPLEMENTATION OF PRINCIPLES
OF THE CORPORATE GOVERNANCE CODE

COMMENT BY GORDAN KOLAK, PRESIDENT OF THE MANAGEMENT BOARD

First of all, we would like to thank the former members of the Management Board, as well as the President of the Management Board, Darinko Bago, for everything they have done in the formation and development of the Končar Group. With minor changes in composition, the Management Board has worked for more than two decades to foster the values that have been created in Končar's 100-year history.

The Končar Group is one of the more important economic entities in the manufacturing sector in Croatia, not only because of its size, but also its presence in domestic and foreign markets, its technological potential and its multiform impact on other companies, stakeholders and society as a whole. All of this represents an obligation for the new Management Board to continue in the direction of preserving the company, but also an obligation to create new value.

The Management Board is facing an intense period in which certain changes are expected, and the best solutions for the further development and growth of Končar are sought. As the Management Board, we will clearly define the strategic direction and, with socially responsible operations as our guideline, make continuous efforts to motivate all employees in order for Končar to truly follow that direction with their contribution.

Despite facing numerous challenges, most notably the blockades and delays in the implementation of several significant contracts, business results in 2019 are an indicator of continued stable operations. Thanks to appropriate activities and measures, by expanding operations to new foreign markets, the Končar Group generated income from sales in the amount of 2,810.9 million in 2019, which is 12.8% more than in the previous year. The share of exports in total sales is 59%. Newly contracted projects amount to HRK 3,079.2 million, which is HRK 448 million more than contracted projects in 2018. Of the total amount of new contracts, 63% were contracted in exports, which confirms the strategy of orientation to new markets and retention and growth in markets where Končar has traditionally been present.

The Group recorded a positive result in the amount of HRK 55 million. Compared to the previous year, the result is lower due to one-off items of value adjustments, mostly in long-term tangible assets and a significantly smaller share of profit from associated companies.

In 2019, the restructuring of non-core companies continued. Končar - Household Appliances company shares have been sold through the M&E buyout model, and the said company is no longer an integral part of the Group. Also, a part of the programme of the company Končar - Low Voltage Switches and Circuit Breakers was separated and was sold to the buyer Lovato Electric s.p.a. from Bergamo, which continues the production of reef switches along with taking over an adequate number of workers while protecting their vested rights under the Collective Bargaining Agreement, demonstrating concern for jobs and continued production.

Good results have been achieved and are based on our own product and production development, while research projects are a permanent feature of Končar, and they will continue in the upcoming period with innovations and developments that should result in new products and expansion of business activities primarily in foreign markets.

Gordan Kolak
President of the Management Board

SUMMARY OF KEY FINANCIAL INDICATORS

in HRK 000				Index
Performance indicator	**2019**	**2018**	**Δ**	**2019/2018**
Operating income	2,933,612	2,660,267	273,345	110.3
Revenue	2,810,951	2,492,560	318,391	112.8
Operating expenses	2,891,600	2,568,617	322,983	112.6
Operating profit	42,012	91,650	-49,638	45.8
Net profit	54,954	128,708	-73,754	42,7
Amortisation and depreciation	91,487	88,679	2,808	103.2
EBIDTA	133,499	180,329	-46,830	74.0
EBIDTA margin	4.75%	7.23%		-248 bb
EBIDTA[1] normalised	155,407	138,489	16,918	112.2
EBIDTA [1] margin	5.53%	5.56%		-3 bb
Return on sales	1.95%	5.16%		-291 bb
Earnings per share	10.71	40.13	-29	26.7
CAPEX	152,086	101,213	50,873	150.3

EBIDTA[1] - 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 (+, -).

DECLARATION ON THE APPLICATION OF THE PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

The company Končar – Electrical Industry Inc., as well as the Group, is continuously developing and operating in accordance with good corporate governance practices. Through its business strategy, policies, key acts and business practices, it strives to contribute to transparent and efficient business operations and quality links with the environment in which it operates.

In 2008, the Company adopted the Principles of Corporate Governance based on the positive regulations of the Republic of Croatia and the adopted international standards. The Principles are publicly available on the Company website (**www.koncar.hr**), and on the official website of Zagreb Stock Exchange (**www.zse.hr**).

Since the listing of shares on the regulated market of the Zagreb Stock Exchange Inc., the Company has applied the Code of Corporate Governance of the Zagreb Stock Exchange. The Company complies with and applies corporate governance measures prescribed by law, as detailed in the annual questionnaire, which is published in accordance with the regulations on the websites of the Zagreb Stock Exchange and Končar – Electrical Industry Inc.The General Assembly of the Company is convened, acts and has powers in accordance with the provisions of the Companies Act and the provisions of the Articles of Association of the Company, and the call and decision proposals, as well as the decisions that have been made, are published in line with the provisions of the Companies Act, Capital Market Act and the Regulations of Zagreb Stock Exchange Inc.

There is a time limit regarding the exercise of voting rights at the General Assembly in accordance with the provisions of the Companies Act – shareholders are required to declare their participation within the time limit prescribed by law. There are no securities with special controlling rights in the Company, nor are there any restrictions on voting rights. Each share entitles its owner to one vote.

The rules on the appointment and removal of members of the Management Board and members of the Supervisory Board are laid down in the Articles of Association, in accordance with the provisions of the Companies Act. The rules on the appointment do not contain any restrictions on diversity with respect to gender, age, education, profession and similar restrictions.

The powers of the members of the Management Board are harmonized with the provisions of the Companies Act and are regulated by the provisions of the Articles of Association and the Rules of Procedure of the Management Board.

The Company acquires treasury shares on the basis and in accordance with the conditions determined by the General Assembly decisions on acquisition of treasury shares.

Each individual acquisition and release of treasury shares during 2019 was made public by the Company in accordance with the provision of Article 474, paragraph 3 of the Capital Market Act.

The Company declares that it holds 16,170 treasury shares at the time of submission of the Company's financial statements for 2019, that is, as of the day of their publication, which represents 0.63% of the share capital.

ADMINISTRATIVE BODIES OF THE COMPANY

The corporate governance structure of Končar – Electrical Industry Inc.and the Končar Group is based on a dualistic system, consisting of the Supervisory Board and the Management Board of the Company. Together with the General Assembly, in accordance with the Articles of Association and the Companies Act, they represent the three basic bodies of the Company.

The General Assembly is the body in which the shareholders exercise their rights in the affairs of the Company. The manner of operation of the General Assembly, its powers, the rights of shareholders and the manner of their realization are prescribed by the Articles of Association of the Company.

In order to take decisions on issues determined by law and the Articles of Association of the Company, a regular General Assembly of the Company was held on 6 June 2019. The aforementioned Assembly adopted resolutions on the discharge of the members of the Management Board and the Supervisory Board of the Company, the decision on payment of dividend to the shareholders of the Company in proportion to the number of shares they hold in the amount of HRK 15.00 per share, the election of the President of the Supervisory Board, and the appointment of the Company's auditor for the current business year. All decisions of the General Assembly have been published in accordance with legal regulations and are available on the website of Končar – Electrical Industry Inc. **(www.koncar.hr),** the Zagreb Stock Exchange (**www.zse.hr**) and the Croatian Financial Services Supervisory Agency (**www.hanfa.hr**).

The Supervisory Board of Končar – Electrical Industry Inc. has eight members as of 31 December 2019.

The members of the Supervisory Board of the Company are: Luka Gašpar, President; Josip Lasić, Deputy President; Nikola Anić, Jasminka Belačić, Vicko Ferić, Branko Lampl, Joško Miliša and Vladimir Plečko, Members.

The members of the Supervisory Board of the Company are compensated for their work and are entitled to remuneration appropriate to the time of their engagement, the tasks they perform and the status and operations of the Company. The remuneration amount is determined by a decision of the General Assembly.

Supervisory Board committees:

There are three committees within the Supervisory Board that support the work and operation of the Supervisory Board: the Auditing Committee, the Appointment and Remuneration Committee and the Strategic Development Committee. Each Committee has four members, and all are appointed from among the members of the Supervisory Board.

The Auditing Committee thoroughly analyses the financial statements, supports the accounting of the Company and establishes good and quality internal controls in the Company. It monitors the integrity of the financial information, in particular the soundness and consistency of the accounting methods used by the Company and the Group to which it belongs, including the criteria for the consolidation of the financial statements of companies belonging to the Group. It is also the task of the Committee to monitor the quality of the internal control and risk management system, with a view to properly identifying and publicly exposing the major risks to which the Company is exposed and managing them appropriately. The Committee is presided by Vicko Ferić and the members are Nikola Anić, Jasminka Belačić and Josip Lasić.

The Appointment and Remuneration Committee proposes candidates for membership in the Management Board and proposes the content of contracts with the members of the Management Board and the structure of their remuneration. The members of the Committee are Branko Lampl President, Nikola Anić, Vicko Ferić, Vladimir Plečko, Committee members.

The Strategic Development Committee receives tasks from the Supervisory Board to cover topics and activities from the activities of the Supervisory Board with special reference to the long-term viability of the Končar Group, risk assessment, strategic priorities of the Group, the need for restructuring and the development of strategic human resources within the Končar Group. The Strategic Development Committee is presided by Joško Miliša and its members are Nikola Anić, Branko Lampl and Vladimir Plečko.

In 2019, the Management Board of Končar – Electrical Industry Inc.was made up of: Darinko Bago, President of the Management Board, Gordan Kolak, Deputy President of the Management Board, Miki Huljić, Member of the Management Board for finance, Marina Kralj Miliša, Member of the Management Board in charge of legal, general and personnel affairs, Miroslav Poljak, Member of the Management Board in charge of the area of electricity production, corporate development and ICT and Ivan Tomšić, Deputy Member of the Management Board in charge of coordinating the export of complex projects and digital transformation.

The election of the President and Deputy President of the Supervisory Board and decisions on appointment of members of the Management Board

At the meeting of the Supervisory Board held on 20 December 2019, the former Deputy President of the Management Board Gordan Kolak was appointed President of the Management Board of Končar – Electrical Industry Inc.At the meeting of the Supervisory Board held on 14 January 2020, Josip Lasić resigned as the Deputy President of the Supervisory Board, and he resigned as a member of the Supervisory Board as of 14 March 2020 due to his appointment and transfer to the position of member of the Management Board. At the same meeting, Joško Miliša was elected President of the Supervisory Board and Nikola Anić was elected as Deputy President.

At the proposal of the President of the Management Board, the Supervisory Board appointed the Management Board of the Company as follows: Ivan Bahun as the Deputy President of the Management Board and Josip

Ljulj, Božidar Poldrugač and Josip Lasić as members of the Management Board. The President of the Management Board Gordan Kolak and members of the Management Board Ivan Bahun and Josip Ljulj assumed office as of 20 January 2020, Božidar Poldrugač as of 2 March 2020, and Josip Lasić as of 15 March 2020.

At the proposal of the President of the Management Board, at its session held on 12 March 2020, the Supervisory Board appointed Miki Huljić as a member of the Management Board. Miki Huljić was appointed as of 16 March 2020.

The President, Deputy President and members of the Management Board have been appointed for a term of four years.

Internal audit

In 2019, the Department of Internal Audit was established at the Končar Group level.

The Corporate Internal Audit of the Končar Group performs the function of independent audit and control and informs managers through comprehensive audit reports (findings and suggestions for improvement). The Internal Audit is responsible for assessing the level of risk management in business processes, auditing the effectiveness of internal control systems, 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 informs the Management Board, the Auditing 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, or the reduction of risk to acceptable levels.

THE KOEI-R-A SHARE

The shares of Končar – Electrical Industry Inc. are listed on the Official Market of the Zagreb Stock Exchange. The share is marked by the symbol KOEI-R-A. In accordance with positive regulations, the Company ensures regular access to information about its operations and activities as well as information about facts and circumstances that may affect the price of shares (price-sensitive information).

The share capital of the Company 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 treats all shareholders equally and under the same conditions regardless of the number of shares in their possession, their country of origin, and their other characteristics. Voting rights shall include all shareholders of the Company in such a way that the number of votes belonging to them in the General Assembly is equal to the number of their shares.

In 2019, according to the decisions of the General Assembly, on the basis of the results achieved in 2018, the shareholders were paid a dividend in the total amount of HRK 38.3 million, which represents an amount of HRK 15.00 per share.

In 2019, the price of the shares of Končar – Electrical Industry Inc.followed the overall market trend. The highest share price was reached in May 2019 and amounted to HRK 710.00 and the lowest, HRK 520, was reached in January. On 31 December 2019 the average share price was HRK 636.47. The total trading volume of Končar shares amounted to HRK 55.7 million, which is HRK 17.2 million more than in 2018. The total amount of shares traded is 85,915 shares, or 45.7% more than in 2018.

Market capitalization amounts to HRK 1,626.8 million and it is HRK 254.2 million higher than market capitalization at the end of 2018.

During 2019 the Company acquired 1,309 treasury shares (KOEI-R-A), accounting for 0.051% of the total share capital of the Company. The shares were purchased on the regulated market of the Zagreb Stock Exchange at a price of HRK 630.00 per share. As of 31 December 2019 the Company holds 16,170 treasury shares, which represents 0.63% of the Company's capital.

Končar – Electrical Industry Inc.signed an agreement on the performance of specialist work with the company InterCapital vrijednosni papiri d.o.o. in October 2015, whereby InterCapital vrijednosni papiri d.o.o. assumed the obligation of performing specialist work for the shares of Končar – Electrical Industry Inc., labelled: KOEI-R-A, ISIN: HRKOEIRA0009, listed on the Official Market of the Zagreb Stock Exchange. The specialist trade service includes the simultaneous presentation of purchase orders and sales orders of the Company share in accordance with the Rules of the Zagreb Stock Exchange. The contract is renewed every year.

The ownership structure of the Company is as follows:

		31 December 2019		31 December 2018	
	Shareholder	**Number of shares**	**Ownership share**	**Number of shares**	**Ownership share**
1.	HPB d.d./Kapitalni fond d.d.	724,515	28.17	724,515	28.17
2.	Addiko Bank d.d./PBZ Croatia Osiguranje mandatory pension fund	420,928	16.37	420,928	16.37
3.	OTP Banka d.d./Erste Plavi mandatory pension fund	394,213	15.33	359,239	13.97
4.	OTP Banka d.d./AZ mandatory pension fund	377,429	14.67	377,429	14.67
5.	Restructuring and sales centre/the Republic of Croatia	73,162	2.84	81,610	3.17
6.	Filončić Kristijan	50,714	1.97	50,714	1.97
7.	Addiko Bank d.d./RBA mandatory pension fund	47,636	1.85	47,636	1.85
8.	Zagrebačka banka d.d./AZ Profit voluntary pension fund	35,222	1.37	32,803	1.28
9.	OTP Banka d.d./OTP index fund – open investment fund with public offering	23,189	0.90	20,009	0.78
10.	Zec Branislav	22,843	0.89	22,843	0.89
11.	Other shareholders	386,098	15.01	419,532	16.31
12.	Končar d.d./treasury shares	16,170	0.63	14,861	0.58
TOTAL		**2,572,119**	**100.00**	**2,572,119**	**100.00**

MARKET POSITION

For the period of January to December 2019, the companies of Končar Group generated consolidated income from sales of products and services which amounted to HRK 2,811 million, which is 12.8% more than in the same period of 2018.

In the domestic market, income was generated in the amount of HRK 1,156.5 million, which is HRK 106.9 million or 10.2% more than in 2018. In the domestic market, the most significant share of income from sales relates to companies within Hrvatska elektroprivreda (Croatian electricity company) and Hrvatske željeznice (Croatian railways).

Income from the sales of products and services on the foreign market amounted to HRK 1,654.5 million, which is HRK 211.5 million or 14.7% more than in the same period of the previous year. Exports accounted for 58.9% of total sales of products and services.

Exports were made to 90 countries world-wide: goods and services exported to EU countries amounted to HRK 1,079.9 million or 65.2% of total exports, to Asia and Africa – HRK 135.5 million or 8.2 percent, to Countries of the region (Serbia, Montenegro, Northern Macedonia, Albania) – HRK 107.8 million or 6.5%, to North and South America and Australia – HRK 83.2 million or 5% of total exported goods and services. Exports to other countries amount to HRK 249 million.

By individual country, the most significant exports were realized in the German market, amounting to HRK 211.7 million or 12.7% of total exports, in Sweden – HRK 196.3 million or 11.9%, in Austria – HRK 113.5 million or 6.8%, in Hungary – 67.6 million or 4%, in Bulgaria – HRK 64 million or 3.8% and in the United Arab Emirates – HRK 60.5 million or 3.6% of total exports. Compared to the same period of the previous year, the following markets have experienced a significant increase in sales of products and services in exports: Bulgaria (HRK 56.9 million more), Guinea (HRK 55.6 million more), Austria (HRK 38.9 million more) and the United Arab Emirates, where HRK 32.1 million more goods and services were exported in comparison with the same period of the previous last year.

In 2019, the companies of the Končar Group contracted new projects in the amount of HRK 3,079.2 million. Of the total amount of contracted projects, HRK 1,139.3 million or 37% were contracted for the domestic market and HRK 1,939.9 million or 63% relate to export contracts. Compared to last year's contracts, HRK 448 million or 17% more new projects were contracted in 2019.

The balance of contracted projects ("backlog") as of 31 December 2019 amounts to HRK 3,348.9 million, which is 8.7% more than at the beginning of the year.

				Index
Income from sales (in HRK 000)	**2019**	**2018**	**Δ**	**2019/2018**
CROATIA	**1,156,430**	**1,049,571**	**106,859**	**110.2**
EXPORT	**1,654,521**	**1,442,989**	**211,532**	**114.7**
European Union	1,079,920	926,947	152,973	116.5
Asia and Africa	135,493	101,666	33,827	133.3
America and Australia	83,228	77,440	5,788	107.5
Countries of the region	107,830	105,319	2,511	102.4
Other countries	248,050	231,617	16,433	107.1
TOTAL REVENUE	**2,810,951**	**2,492,560**	**318,391**	**112.8**

BUSINESS RESULT

Results for 2019 show continued growth in income from sales in export markets but also growth in the domestic market. Compared to the same period of the previous year, income from sales, which accounts for 95.8% of total operating income, increased by 12.8%. Operating income, which accounts for 98.1% of total income, is up 10.3%. Total income was 8.8% higher than in the same period of the previous year.

Total expenses are 11.6% higher than in 2018. The income from the share of profit of associated companies has decreased by 65.1% compared to the same period of the previous year. Financial income, which accounts for 1.2% percent of total income, is up 8.8%. Financial expenses, whose share in total expenses was 0.8%, decreased by 39.7% compared to the same period of the previous year.

The Group's total after-tax profit amounts to HRK 55 million, which is HRK 73.8 million less than in the same period of the previous year. The owners of the Parent Company shares are entitled to a profit of HRK 27.4 million and profit attributable to minority interest amounts to HRK 27.6 million.

If the profit from discontinued operations is excluded from the Group's profit, the Group's profit is HRK 52.7 million. The net profit of the Group belonging to the holders of the Parent Company is HRK 25.3 million and the net profit of the Group attributable to minority interest is HRK 27.4 million.

Of the 15 companies in the Končar Group, 13 companies achieved a positive result, while two companies generated a loss in the total amount of HRK 44.5 million, which is entirely attributable to the owners of the Parent Company shares.

Consolidated profit or loss account				
				Index
Positions (in HRK 000)	**2019**	**2018**	**Δ**	**2019/2018**
OPERATING INCOME	**2,933,612**	**2,660,267**	**273,345**	**110.3**
OPERATING EXPENSES	**2,891,600**	**2,568,617**	**322,983**	**112.6**
Material costs and changes in inventories	1,955,370	1,670,883	284,487	**117.0**
Staff costs	547,701	538,502	9,199	**101.7**
Depreciation	91,487	88,679	2,808	**103.2**
Other costs	202,890	191,633	11,257	**105.9**
Value adjustment of long-term and short-term assets	38,924	18,234	20,690	**213.5**
Provisions	55,228	60,686	-5,458	**91.0**
OPERATING PROFIT	42,012	91,650	-49,638	**45,8**
Share in profit of investments accounted for using the equity method	18,021	51,065	-33,044	**35.3**
Share in loss of investments accounted for using the equity method	1,865	4,738	-2,873	**39.4**
FINANC INCOME	35,349	35,276	73	**100.2**
FINANCE COSTS	24,429	40,535	-16,106	**60.3**
TOTAL INCOME	**2,986,982**	**2,746,608**	**240,374**	**108.8**
TOTAL EXPENSES	**2,917,894**	**2,613,890**	**304,004**	**111.6**
Pre-tax profit	69,088	132,718	-63,630	**52.1**
Income tax	17,036	13,497	3,539	**126.2**
PROFIT FOR THE PERIOD from discontinued operation	**52,052**	**119,221**	**-67,169**	**43.7**
PROFIT FOR THE PERIOD from discontinued operation	2,902	9,487		
PROFIT FOR THE PERIOD	**54,954**	**128,708**	**-73,754**	**42.7**

FINANCIAL POSITION

The financial position is stable and indicates an alignment between asset sources and investments and good financial stability of the Končar Group.

In the structure of asset sources, subscribed capital, provisions, retained profit, current year profit and capital belonging to non-controlling interest amounted to HRK 2,542.2 million, which is HRK 4.7 million more than on 31 December 2018. Capital and provisions account for 64.7 percent of total sources. Long-term provisions amount to HRK 201.4 million and account for 5.1% of total sources. Long-term and short-term liabilities amount to HRK 1,183.8 million, which is HRK 200.3 million more than at the end of 2018, and they account for 30.1% of total sources. In short-term liabilities, liabilities to suppliers amount to HRK 437.4 million and account for 11.1% of total sources. Total loans (long-term and short-term) amount to HRK 327.9 million, up by HRK 153 million compared to 31 December 2018 and they accounted for 8.3% of total sources.

Long-term asset sources (capital, non-current provisions and non-current liabilities) are higher by HRK 745 million than non-current assets and inventories. Current assets are 2.3 times higher than current liabilities.

in HRK 000				**Index**
Summarised balance sheet	**2019**	**2018**	**Δ**	**2019/2018**
Assets	**3,927,355**	**3,727,175**	**200,180**	105.4
Non-current assets	1,626,743	1,493,180	133,563	108.9
Current assets	2,300,612	2,233,995	66,617	103.0
Liabilities	**1,385,194**	**1,189,693**	**195,501**	116.4
Provisions	201,384	206,152	-4,768	97.7
Non-current liabilities	174,968	97,168	77,800	180.1
Current liabilities	1,008,842	886,373	122,469	113,8
Capital	**2,541,161**	**2,537,482**	**4,679**	100.2

RESTRUCTURING

With the consent of the Supervisory Board, the Management Board of Končar – Electrical Industry Inc.. continuously carries out the restructuring of its operations in order to secure its market position, profitability and further development of the Group.

In 2019, the restructuring of non-core companies of the Group continued. Končar - Household Appliances shares were sold through the M&E buyout model, and the said company is no longer an integral part of the Group. Also, a part of the programme of the company Končar - Low Voltage Switches and Circuit Breakers, was separated and sold to the customer Lovato Electric s.p.a. from Bergamo. Lovato Electric s.p.a. is continuing the production of reef switches while taking over an adequate number of workers and protecting their vested rights under the Collective Bargaining Agreement, whereby concern for jobs and continued production has been demonstrated.

In 2019, according to the previously determined Gantt chart, activities related to the investment in the Steel processing centre in the company Končar - Steel Structures continued. Based on the prepared Feasibility Study, a decision was made to reorganize and set up the company Končar - Steel Structures as a Steel Processing Centre (SPC) at the level of the Končar Group. The establishment of this centre is expected to strengthen synergistic effects among the Companies and to increase the profitability of all the Companies involved.

Activities around the digital transformation programme continued into 2019. The key activities identified were the necessary monitoring of the sales of the existing portfolio, the definition of new digital solutions, the choice of technology platforms, the development of a digital strategy, the development of implementation plans and the establishment of coordination processes and procedures. At the Končar Group, digital transformation can be defined as a program consisting of several components:

- modernization and improvement of internal IT infrastructure
- computerization and optimization of business processes
- innovation and enhancement of the Group's classic product range using sensors and digital technology
- development and enhancement of existing digital products and services
- organization of individual production segments according to the principle of industry 4.0.

RISK EXPOSURE

The Končar Group companies are exposed to various market and financial conditions. The risk of the business environment is determined by the political, economic and social conditions in the markets in which the Companies operate. The Group's companies monitor these risks and take measures to reduce their potential impact on financial stability.

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.

At the Group level, long-term asset sources (capital, non-current provisions and non-current liabilities) are higher than non-current assets and average level of inventories, indicating a good maturity structure of asset sources. Current assets are 2.3 times higher than current liabilities, indicating good system liquidity. The structure of the consolidated balance sheet indicates the sound financial stability of the Končar Group.

The Group's companies manage risks that could affect the Group's operations by monitoring business processes and internal risk reports that identify and analyse exposures based on the degree and significance of the risk.

Market risk

Market risk arises from possible losses resulting from adverse economic conditions and a decrease in market demand.

The Končar Group companies operate in the Croatian and international markets. The Group's core business is related to the production of energy and transport equipment and products. The volume of production depends to a large extent on investments in the area. The periods of high demand are certainly periods of easier contracting of new jobs. On the other hand, periods of general recession and economic crisis bring more difficult contracting, often accompanied by falling profit margins.

Influenced by the crisis and the volatility of the geopolitical situation in some parts of the world, there is also the risk of shrinking and closing of some markets and of encouraging the contracting of local enterprises.

In the power engineering equipment market 2019, in addition to the volatile prices of basic raw materials, there is also a great competitive pressure on the price of equipment and profit margins. The competitiveness of our companies' products and services is affected by changes in the conditions in which the companies of the Group operate, as well as the conditions in which our customers operate.

The Management Boards independently determine the prices of their products.

Procurement market risk

The prices of the main raw materials and other materials (copper, transformer sheet, steel ...) in recent years are subject to unpredictable changes (enormous growth or decline in a short period of time).

Within the transformer program, the Group companies hedge against the risk of sudden changes in the price of strategic raw materials in several ways. For copper, since it is a commodity listed on the commodities exchange (London Metal Exchange), forward contracts with copper suppliers are used to contract quantities and prices for the period in advance according to the condition and estimates of contracts. In the case of steel, transformer sheet and some of the major procured parts, semi-annual or annual contracts with suppliers are used in an attempt to reduce this risk. Also, in some multi-year contracts with customers, a sliding formula is sometimes negotiated based on changes in material prices.

Technological-developmental risks

The Group's Companies continuously invest significant resources in key technologies and strategically important segments of production in order to reduce the risk of technological-developmental lag behind the competition. In the forthcoming period, the Group's Companies plan to invest significant funds in the development of new products and the innovation of existing ones.

Personnel risks

The usual fluctuations and changes in the personnel structure do not significantly affect the operations of the Group's Companies. Sudden or major fluctuations in specialist knowledge (e.g. opening of the EU to Croatian workers) could affect business. The Companies seek to protect themselves against personnel risks by means of continuous investment in education and stimulation through the remuneration of key employees.

Capital management risk

Capital management is carried out in such a way as to ensure business continuity and at the same time to increase the return to shareholders through optimization of the relationship between capital and debt. The Group 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. The Group's Companies may decide to pay dividends to owners, increase/decrease share capital, sell assets to reduce their liabilities, and similar.

Currency risk

The Group's official 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 and, where warranted, by contracting sales and purchases in the same currency and adjusting the inflow and outflow dynamics by the forward purchase of currencies in accordance with the cash inflow and outflow plan. Companies with a higher share of exports in total revenues use derivative financial instruments to hedge their exposure to financial risks.

Interest risk

The Group's companies are exposed to interest rate risk as some of the loans are contracted at variable interest rates, while most of the assets are non-interest bearing. Individual companies of the Group contract hedges against interest rate risk in contractual relationships with foreign currency.

Credit risk

Credit risk is the risk that one party to a contractual relationship will fail to discharge its obligations and thus cause a financial loss to the other party. The Group has adopted a policy of conducting business mainly with creditworthy companies, thereby reducing the possibility of incurring financial losses due to default. The Group's companies use data and opinions collected from specialized credit rating companies, the Chamber of Commerce, as well as publicly released information on the financial position of the companies and their database to rank significant customers. The impact of credit risk on the Group 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.

Credit risk exposure is mainly influenced by the individual characteristics of a specific customer. The Group's companies determine the adjusted value of receivables as an estimate of expected losses on receivables and investments.

Liquidity risk

Liquidity risk is the risk that the Group's companies will not be able to meet their financial obligations on time. Liquidity risk management is the responsibility of the Management Boards of the Group's Companies. The Group manages liquidity risk by constantly monitoring its projected cash flow by comparing and adjusting it to the actual cash inflow and outflow. The Group as a whole is not significantly exposed to liquidity risk.

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.

As in the previous period, in 2019, employers in Croatia faced difficulties in finding and retaining employees as a result of the decrease in the working population. In KONČAR, this is especially true when it comes to attracting and retaining experienced and quality staff and retaining young people for whom, after they have gained high-quality experience in KONČAR, doors of employers across Europe and beyond are opened. For the time being, KONČAR manages to secure and retain the required number of quality workers through collaborations with educational institutions and student associations, investment in lifelong learning, socially responsible business and other activities that ensure employee well-being, and which need to be continuously developed and improved.

KONČAR ended 2019 with a total of 3,408 employees. Of the total number of employees 1,343 workers are highly educated, of which 68% are of technical professions (46% electrical and 22% mechanical), 15% are of economic professions and 17% are of other professions.

In 2019, 40 PhD holders, 46 MSc holders, 28 university specialists and 108 professional specialists were employed in KONČAR. The average age of employees in KONČAR in 2019 is 43. Of the newly employed workers, 42% were between 25 and 34 years old.

Most new employees are in the fields of electrical engineering, mechanical engineering and computer science. The 2019 outflow of workers was most pronounced in the jobs of electrical and mechanical technicians, locksmiths and welders.

Since lifelong learning is a guarantee of business success, constant investment in the knowledge of its employees is KONČAR's priority. Special attention is given to recognizing talented and exceptional employees and investing in their development and creating space for further advancement through the Educational Programs for potential managers within the KONČAR ACADEMY, which has been in operation since 2010.

In 2019, two Training Cycles for Potential Managers (5th and 6th) were started, involving a total of 52 KONČAR employees. The 5th educational cycle was completed in December 2019 with the presentation of the final papers, and the completion of the 6th educational cycle was in February 2020.

In 2019, successful cooperation with a number of scientific and educational institutions continued, enabling the identification, definition and implementation of a series of projects in which the parties participate as equal partners, in a way that each brings its expertise and encourages cooperation between the scientific/educational and economic sectors.

An agreement on cooperation with the Effectus University College was signed and cooperation with student associations was established with the aim of connecting final year students with employers. KONČAR participated in various events, such as BEST Career Day, Career Speed Dating and forums, thus connecting with potential employees.

In April 2019, an Organizational Climate Assessment was conducted at KONČAR, which included a brief assessment of perceptions of organizational justice. Based on the results, the companies have adopted plans of activities aimed at improving the satisfaction of the employees, which they are continuing to work on in the coming period.

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.

As of 28 May 2018 the General Data Protection Regulation - "GDPR” began to be applied directly in all EU Member States, and in 2018 the necessary activities to comply with GDPR requirements and the implementation of GDPR at KONČAR were completed, and in 2019, work to improve and implement all activities and procedures continued.

The Whistle-blower Protection Act (OG 17/19) came into force in 2019, and activities to align with the provisions were carried out in KONČAR. The Rulebook on the procedure for internal reporting of irregularities and the appointment of a confidential person was adopted in November and further necessary activities were initiated.

In December 2019, amendments to the KONČAR Collective Agreement were adopted, which, among other things, increased the lowest basis for calculation of wages per worker from HRK 1,800.00 gross to HRK 2,270.00 gross, in effect from 1 January 2020.

No discrimination was reported during the reporting period on the basis of race, skin colour, gender, religion, political opinion, national or social origin. According to the KONČAR Collective Agreement, the employer is obliged to protect the dignity of the worker in the performance of their work and to provide them with working conditions in which they will not be exposed to harassment or sexual harassment of the employer, superiors, associates or other persons they regularly come into contact with during the performance of their work.

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 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 health and safety management at work, ISO/IEC 27001 for information security management and ISO/IEC 50001 for energy management.

Thirteen Companies own a certified quality management system according to ISO 9001. The basic purpose of this system is to manage all business processes in the Company with the aim of achieving quality of products and services and, along with this, customer satisfaction. The ISO 9001 certification issued by accredited independent certification institutions gives customers a certain level of confidence in the organization's ability to meet the set requirements. However, increasingly often, especially when it comes to qualifications for contracting certain products, customers carry out "third party auditing", that is, they check the functioning of the quality management system directly in the Company in order to be assured that the Company is capable of meeting their requirements and expectations.

The environmental management system according to ISO 14001 is certified in 15 Companies. By applying this system, the Companies continuously monitor and analyses aspects of the environment in the performance of their business activities, the implementation of the processes, the environmental impact of the delivered products and services, and take measures to reduce the negative impacts. The ISO 14001 certification issued by accredited independent certification institutions assures all stakeholders, from the state to the local community, that the Company is responsible when it comes to environmental protection.

The Occupational health and safety management system under OHSAS 18001/ISO45001 is certified in nine Companies. By applying this system, the Companies continuously monitor and analyse workplace hazards and take measures to prevent and reduce incidents and accidents that cause loss of health and life of workers and loss of material goods. OHSAS 18001/ISO45001 certification issued by accredited independent certification institutions assures all interested parties that the Companies are taking legal and other measures to ensure a safe working environment and protect workers from occupational injuries.

The Information security management system according to ISO/IEC 27001 is certified in four Companies. By applying this system, the Companies achieve the protection of the information system, assets as well as business information. The ISO 27001 certification issued by accredited independent certification institutions demonstrates that the information security management system provides data protection on the principles of secrecy, integrity and controlled availability, enables the implementation of information security and reduces the risk of possible fraud, loss of information or unauthorized disclosure, improves organization credibility and opens business opportunities for collaboration with customers aware of security needs.

The Energy management system according to ISO/IEC 50001 is certified in two Companies. By applying this system, the Companies achieve continuous improvement of energy management, better use of resources and infrastructure, and reduced energy consumption and cost reduction, while limiting and controlling environmental effects.

Energy Efficiency

Energy efficiency is one of the most cost-effective ways to improve the security of energy supply and reduce emissions of greenhouse gases and other pollutants. With the aim of assessing efficiency, energy audits of buildings (ascertaining the existing energy consumption and energy performance of buildings) in which the non-production activities of the KONČAR Group companies take place were carried out, energy classes were assigned to each building, and energy efficiency improvement measures were identified.

In addition to energy audits of buildings, energy audits of large enterprises (analysis of technical and energy performance of buildings and analysis of all technical and process systems, that is, all systems of production, transformation, distribution and consumption of energy) are carried out in order to determine and improve energy efficiency. The companies of the KONČAR Group, which, according to legislation criteria, belong to "large companies", have decided to use the option of introducing and certifying the energy management system in accordance with ISO 50001 instead of the statutory energy audit obligations. All Companies of the KONČAR Group are encouraged to introduce this system, regardless of their size.

One Company has been verified for EMAS and has received a report submitted to the Environmental Protection Agency, the Ministry responsible for environmental protection.

These principles are based on the positive regulations of the Republic of Croatia and the adopted international standards. KONČAR accepts and implements international and local principles, charters and standards that contribute to better quality products, work and production processes, and preservation and improvement of the natural and social environment.

KONČAR's business policy is based on:

- the satisfaction of customers, suppliers and other stakeholders,
- environmental protection, health and safety protection,
- continuous improvement of products and processes; and
- involvement and motivation of all employees.

The Environment

Using a systematic approach, the policies and objectives of quality management, environmental protection, health and safety at work are achieved, as evidenced by certificates obtained from accredited independent bodies. For individual products, a number of other norms and standards are also adhered to in accordance with the requirements of customers and users.

The equipment and products of the KONČAR Group for electricity generation, transmission and distribution require a high degree of responsibility in two aspects – above all, safety and reliability (so as not to cause additional problems in electricity supply) and the preservation of the natural environment in which the equipment is installed. In addition, passenger transport must also be safe, which is an essential feature of trains and trams produced in KONČAR, with a significant environmental component. The KONČAR Group has a great responsibility for the products it offers in the market and therefore strives to manage the entire production chain by overseeing the quality of each individual production process.

The KONČAR Group companies select only suppliers whose materials and components are harmless to humans and the environment and can be recycled after the end of the lifespan of the product for which they are intended or disposed of safely. When selecting suppliers for particular groups of materials and services, the condition is that they meet the defined requirements for quality, delivery times, payment terms, but also take into account occupational health and safety, as well as environmental protection. Suppliers are required to provide evidence (certificates) of compliance.

Companies maintain a database of existing and potential suppliers. In addition to basic supplier information (name, address, telephone, email, contact person), the database also contains other information that may influence supplier selection, such as supplier references, complaint data, quality system information, information about occupational health and safety as well as environmental protection.

The environmental field is of particular importance as a large part of the equipment is installed directly into the environment (transformer stations, hydroelectric power plants and other energy facilities or railway vehicles). KONČAR has a defined Environmental Management Policy available on the web site www.koncar.hr and all employees are familiar with it.

The equipment and products that KONČAR supplies meet the highest safety standards, with minimal environmental impact – as evidenced by the fact that there have been no complaints or incidents in this area so far.

Investors who make decisions on the construction of facilities for which KONČAR supplies equipment are required to comply with environmental regulations and standards. Due to the awareness of environmental risks, the principle of precaution is applied in KONČAR. This is especially important considering that products and plants are often shipped to areas of high biodiversity (rivers, lakes and rural areas), and so far, no biodiversity loss due to our products has been reported.

SOCIAL RESPONSIBILITY

In all business and production activities, KONČAR respects the principles of corporate social responsibility, the basic premise of which is that the Company must assume full responsibility that goes beyond the sphere of purely economic interests. The approach to corporate social responsibility places particular emphasis on the care for employees, the environment and all segments related to the protection and conservation of natural resources, and cooperation with the community.

KONČAR systematically reports on its activities in the area of corporate social responsibility to all stakeholders, and the detailed information can be found in the Corporate Social Responsibility Report (CSR Report), which has been published for fourteen years and is available on the website **https://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, and KONČAR's CSR Report has also been published on the websites of these world-renowned reporting frameworks. Following global trends, the CSR Report also looks at the UN Sustainable Development Goals of the 2030 Agenda and highlights those goals that KONČAR integrates into its business activities with particular emphasis.

One of the aspects of corporate social responsibility is cooperation with educational institutions, which KONČAR has been doing for years. From the very beginning, the "Soela" event organized by the Sisak Technical School has been sponsored by Končar. Each year, a solar-powered vehicle race also takes place, with students from about twenty technical and vocational schools participating by using a vehicle that they designed and built themselves. Through the Vocational School of Electrical Engineering, KONČAR also participates in Erasmus+, a European Union education and training programme aimed at enhancing knowledge and skills and connecting with the business sector.

Cooperation with higher education institutions is another tradition, which includes a number of awards and financial rewards to the best students of various faculties (Faculty of Electrical Engineering and Computing, Faculty of Mechanical Engineering and Naval Architecture, Faculty of Chemical Engineering and Technology), and on the occasion of the celebration of the Day of KONČAR, awards are given to the most successful students of professional studies of Electrical Engineering, Computer Science, Informatics and Mechatronics at the Zagreb College of Applied Sciences (TVZ). In addition, as part of the Day of the Faculty of Electrical Engineering and Computing, the annual KONČAR Award for doctoral dissertations is presented for distinguished scientific achievements in the field of technical sciences with application in industry.

Another form of support for higher education is the sponsorship of various student activities. KONČAR thus supports the students of the Faculty of Electrical Engineering and Computing at the international competition of STEM faculties, STEMGames, as well as at the international competition of electrical engineering faculties – Elektrijada.
Cooperation is upgraded with new activities every year, so in 2019 KONČAR supported the platform "Better Education, Better Croatia", which promotes the importance of knowledge, and the initiative "Education 4.0. – school tailored to industry" aimed at improving education, preventing the emigration of young people from Croatia and preparing future employees for the needs of the modern labour market.

The annual donation on the occasion of KONČAR Day in 2019 also went to an educational institution – the Zagreb 5th High School, for the purchase of new computer and other modern didactic equipment.
The employees of the Company are responsible for the development of each company, and KONČAR is aware that success is created only by motivated and educated people. That is why every year a number of activities are carried out related to continuous training of employees: education within the regular education system, attending specialized training sessions inside and outside the company, learning and improving foreign languages, and much emphasis is placed on the development of presentation and communication skills, computer skills and updating other knowledge relevant to performance and professionalism. In 2019, two new cycles of the KONČAR Academy's Educational Programmes have been launched, recognizing and investing in the development of potential managers and creating space for their further advancement.

As a testament to its competences in implementing a family-responsible and gender-aware human resources management policy, KONČAR – Elektroindustrija was awarded the Basic Mamforce Company Standard certificate at the end of November 2019 as a company (employer) seeking to improve policies and working conditions in the area of responsibility towards family and gender equality. On the eve of Christmas and New Year, a traditional gift is made in the form of the holiday play "Sweet Fairy Tale" for employees' children, and in 2019 a five-day children's camp summer was held on lake Jarun. Many KONČAR companies have traditionally held Open Door Days when production facilities and offices are visited by employees' families. It's a great way to connect families, especially children, with the organization where their loved ones work.

Within the KONČAR Volunteers Club, employees participate in several activities each year. In addition to the traditional landscaping on Earth Day, the campaign "Plant a Tree, Don't Be a Stump" was held in October 2019 as part of the national initiative "Days of Collective Tree Planting in Croatia". KONČAR volunteers joined the action by planting 11 seedlings in the factory surroundings on Faller's promenade.

COMBATING CORRUPTION AND BRIBERY

The members of management bodies, employees and business partners are familiar with anti-corruption policies and procedures and respect 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 – Elektroindustrija d.d. has not provided any financial or non-monetary contribution for political purposes, directly or indirectly, to any state or beneficiary.

KONČAR promotes and implements fair and transparent market competition relations in all business operations, with all entities and in all places. The Group has not observed any conduct contrary to the principle of market competition and antitrust or monopolistic practices.

BUSINESS EXPECTATIONS FOR 2020

At the meeting of the Supervisory Board held on 17 December 2019 the Business Plan for 2020 was adopted.

Consolidated income from the sale of products and services is planned in the amount of HRK 3,059.3 million, which is 9.7% more than in 2019. Income from the domestic market is projected to amount to 1,196.6 million, which is 2.9% more than in 2019. Exports are planned in the amount of HRK 1,862.7 million or 14.6% more than in the previous year. The share of exports in total sales is 61%.
The Group's consolidated pre-tax profit is estimated at HRK 141.3 million.

The planned EBIDTA is HRK 211.5 million and the EBIDTA margin is 6.9%.
The planned CAPEX is HRK 237 million.
In 2020, the contracting of new jobs is planned in the amount of HRK 3,226.9 million, and the planned balance of contracted jobs at the end of the year would amount to HRK 3,577 million.

DIFFERENCE BETWEEN THE AFS (GFI POD) REPORT AND THE IFRS REPORT

Below, we provide an overview of the significant differences in the amounts disclosed in the Group's AFS (GFI POD) and the Group's financial statements:

BALANCE SHEET (in HRK)	**AFS (GFI-POD)**	**IFRS**	**Difference**	**Explanation**
Intangible assets (AOP 003)	47,426,037	40,083,706	7,342,331	Goodwill is disclosed in the IFRS report as a separate category, while in the GFI-POD form it is included in intangible assets.
Goodwill	-	7,342,331	(7,342,331)	
Total	47,426,037	47,426,037	-	

	AFS (GFI-POD)	**IFRS**	**Difference**	**Explanation**
Tangible assets (AOP 010)	1,227,561,090	1,073,997,946	153,563,144	Items of property investment and right-of-use assets in the IFRS report are reported as separate items in accordance with the requirements of IAS 40 and IFRS 16.
Investment property	-	149,283,683	(149,283,683)	
Right-of-use assets	-	4,279,461	(4,279,461)	
Total	*1,227,561,090*	*1,227,561,090*	-	

	AFS (GFI-POD)	**IFRS**	**Difference**	**Explanation**
Trade receivables (AOP 049)	928,019,246	842,413,457	85,605,789	Receivables recognized by the method of measurement of progress and assets recognized on the basis of costs incurred to obtain contracts in accordance with IFRS 15 are stated as contract assets, while the same items in GFI-POD are reported as trade receivables/prepaid expenses and accrued income
PREPAID EXPENSES AND ACCRUED INCOME	21,672,109	7,286,879	14,385,230	
Contract asset	-	99,991,019	(99,991,019)	
Total	*949,691,355*	*949,691,355*	-	

	AFS (GFI-POD)	**IFRS**	**Difference**	**Explanation**
Other non-current liabilities (AOP 105)	10,894,196	8,677,519	2,216,677	In accordance with the new requirements of IFRS 16, the Group disclosed non-current lease liabilities as separate items, while categorizing them under other long-term liabilities in the GFI POD form)
Lease liabilities	-	2,216,677	(2,216,677)	
Total	*10,894,196*	*10,894,196*	-	

BALANCE SHEET (in HRK)	**AFS (GFI-POD)**	**IFRS**	**Difference**	**Explanation**
Other non-current liabilities (AOP 105)	6,160,881	4,864,002	1,296,879	In accordance with the new requirements of IFRS 16, the Group disclosed non-current lease liabilities on special items, while categorizing them under other short-term liabilities in the GFI POD form)
Lease liabilities	-	1,296,879	(1,296,879)	
Total	*6,160,881*	*6,160,881*	-	

	AFS (GFI-POD)	**IFRS**	**Difference**	**Explanation**
Advances received (AOP 114)	125,804,837	16,399,077	109,405,760	Items of contract liabilities from contracts with customers, contract liabilities - advances received from the customer and contract liabilities- agent fee in accordance with IFRS 15 are stated under contract liabilities, while those in AFS POD are presented under categories of advances received/deferred costs and accrued income. In addition, short-term provisions are disclosed as a separate item in the IFRS report, while in the AFS-POD they are presented within the item deferred costs and accrued income.
Deferred expenses and accrued income	171,194,191	7,687,088.00	163,507,103	
Contract liabilities	-	180,592,250	(180,592,250)	
Short-term provisions	-	92,320,613		
Total	*296,999,028*	*296,999,028*	-	

PROFIT AND LOSS ACCOUNT (in HRK)	**AFS (GFI-POD)**	**IFRS**	**Difference**	**Explanation**
Value adjustments (AOP 144 +145)	(38,924,077)	-	(38,924,077)	In accordance with the requirements of IFRS 9, impairment losses on financial assets are stated as a separate item in the IFRS report, while in the GFI POD form they are presented within the item of value adjustments.
Value adjustments of non-financial assets	-	(32,522,800)	32,522,800	
Impairment losses on financial assets	-	(6,401,277)	6,401,277	
Total	*(38,924,077)*	*(38,924,077)*	-	

CASH FLOW (in HRK)	**AFS (GFI-POD)**	**IFRS**	**Difference**	**Explanation**
Other cash inflows and outflows (AOP 008)	(203,598,141)	-	(203,598,141)	The Group disclosed separately the net cash flows from discontinued operations in the cash flow of IFRS report, which is explained in detail in Note 41.
Other cash inflows and outflows (AOP 008)	-	(203,353,186)	203,353,186	
Net cash flow from discontinued activity	-	(244,955)	244,955	
Total	*(203,598,141)*	*(203,598,141)*	-	

FUTURE DEVELOPMENT STRATEGY

The development strategy of the Končar Group is based on the fact that the priority task of Končar is the production of the most complex products for the end customer in the area of core business, electricity and transportation. This category includes complex products such as high voltage transformer stations, hydroelectric power plants, wind power plants, trams, electric and diesel electric trains, and the like.

In the forthcoming period, a special emphasis is placed on the orientation towards export markets and onward processes that will focus on export activities, all with the aim of reducing the dependence of business on the economic situation in the domestic market. Export orientation is recognized as a guarantee of the Group's long-term viability and profitable and liquid business.

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 streams of society
- **Investment** - expanding the production capacity of strategic products, optimizing existing assets

Final note:

The existence of the novel coronavirus (COVID-19) was confirmed in early 2020, and it has spread to a large number of countries around the world, causing disruptions to businesses and economic activity.

Končar-Elektroindustrija is closely monitoring the situation regarding the impact of COVID-19 and its potential impact on business. The outbreak of COVID-19 did not have a significant impact on the operations of the Končar Group companies during January and February 2020.

All companies of the Končar Group follow the recommendations of the Emergency Task Force and the Croatian Institute for Public Health. All workers who are able to work from home do so, while the production has been organized in shifts to allow for social distancing, and workers who have been in the areas affected by the outbreak or in contact with the infected persons are in self-isolation. From a total of 3,960 workers (including the employees of the associate company working at the Jankomir site) no cases of COVID-19 were reported by 1 April 2020.

Any negative effects depend, first and foremost, on the duration of the emergency measures and on several factors that can be described as:

- Downtime and decline in sales activities due to a decrease in overall activities in the Group's major markets
- Downtime and delay in deliveries from individual suppliers that are significantly exposed to COVID-19
- Limited possibilities of using other sources due to the various constraints and capacities of suppliers in less affected areas
- Disruption of road transport due to various restrictions in the supply of materials and shipping of products to customers
- Limited travel and finalization of contracts involving contracted assembly projects at clients’ premises and Contract handover
- Risk of production downtime due to unavailability of workers in case the infection spreads among employees who work in production who cannot work from home

Consequently, the Končar Group's market activity is exposed to global disruptions in the supply chain and delivery of products, which could have a negative impact on its business operations if the situation deteriorates significantly and if the complete market downtime lasts for a longer period of time. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of the outbreak of this novel coronavirus on the Group. However, given the sufficient amount of own funds and opportunities in the financial market, we believe that, if appropriate measures are taken, in these circumstances we can respond to the challenges and continue as a going concern.

The Group further considers this event to be a non-adjusting post balance sheet event.

In addition, after the reporting date and until the date of approval of the financial statements there were no events that would have a material effect on the 2019 annual financial statements of the Company and the Group, and that should, consequently, be disclosed.