KONČAR – ELECTRICAL INDUSTRY INC.

ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2019

Contents

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Independent auditor's report

To the Shareholders of Končar – Electrical Industry Inc.:

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Končar – Electrical Industry Inc. (the "Company") as at 31 December 2019, and its separate financial performance and its separate 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 Company's separate financial statements comprise:

- The statement of comprehensive income for the year ended 31 December 2019;
- The statement of financial position as at 31 December 2019;
- The statement of cash flows for the year ended 31 December 2019;
- The statement of changes in equity for the year ended 31 December 2019; and
- The notes to the 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 separate 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 Company 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 Company 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 Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 1 to the separate financial statements.

Our audit approach

Overview

Materiality	• Overall materiality for the financial statements of the Company as a whole: HRK 8,000 thousand, which represents 0.5% of the Company's total assets.
Key audit matters	• Valuation and impairment of investments in subsidiaries

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate 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.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate 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 separate financial statements as a whole.

Overall Company materiality	HRK 8,000 thousand
How we determined it	0.5% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because we believe that this benchmark is adequate for holding companies whose primary income is derived from dividends and shares in the profit of subsidiaries and other management activities. We chose 0.5%, 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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
Valuation and impairment of investments in subsidiaries *See Note 2 to the separate financial statements under heading “Investments in subsidiaries and associates” (Significant accounting policies), Note 3 Critical accounting estimates and Notes 10 and 19* Investments in subsidiaries are reviewed annually for impairment. The procedure for reviewing and calculating the impairment of investments in subsidiaries is described in Notes 3, 10 and 19 to the financial statements. Based on an analysis performed, indicators of possible impairment have been identified in two subsidiaries with a net carrying amount of HRK 195,208 thousand as at 31 December 2019 (after impairment). In the current year, an impairment loss on the investment of HRK 27.2 million was recognised on the basis of the estimated recoverable investment value for one subsidiary (see Note 10). We have focused on this area due to significant judgments and estimates used by management when determining the required impairment loss for investments. We have specifically focused on management's judgments and assumptions used in the process of identifying impairment indicators and in the discounted cash flow model.	We have reviewed all investments in subsidiaries and performed an analysis by comparing the investment amount and the relevant share in net assets of companies and key indicators (EBIT, EBITDA) in order to assess the adequacy of management’s conclusions on the existence of any impairment indicators for the investments and we have not identified any inconsistencies For such investments in a subsidiary where an impairment indicator was identified, in assessing the management’s assumptions set out in Note 3 as well as used methodologies (discounted cash flows model), we used the assistance of internal valuation experts to assess used methodologies and the underlying assumptions: • We have compared the subsidiaries’ actual current-year and prior-year results with the forecasts as an indication of the quality of the budgeting process. We found the forecasts for the current and the previous year to be somewhat above the actual results but noted that management made appropriate adjustments in the impairment test. • We have compared the growth rate applied with historical results and identified that it does not exceed the estimates for that industry. • We have assessed and examined the discount rate used, comparing it to the rates used by comparable organisations and to market data. • We have verified and confirmed the mathematical accuracy of the discounted cash flow model, analysed the sensitivity of the estimated investment value and compared it to the disclosures in the separate financial statements. • We have compared the impairment loss amount determined in accordance with the above calculation to the amount recognised in the Company’s separate financial statements.

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 separate financial statements and our independent auditor's report thereon.

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

In connection with our audit of the separate 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 separate 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 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 separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 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 Company 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 separate financial statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 Annual Report

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that 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 financial position and results of Končar – Electrical Industry, Inc., Zagreb (hereinafter: the Company) for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on a 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 of the Company and their compliance with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The 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
8

KONČAR– ELECTRICAL INDUSTRY Inc.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HRK	2018 HRK (reclassified)
Revenue	4	95,624,715	148,602,063
Other operating income	5	21,736,762	20,322,076
Operating income		**117,361,477**	**168,924,139**
Cost of materials and energy	6	(6,216,940)	(5,725,565)
Cost of services	7	(25,267,161)	(21,672,137)
Staff costs	8	(22,085,220)	(23,223,513)
Depreciation and amortisation	16, 17	(9,309,434)	(8,091,285)
Other expenses	9	(19,331,190)	(20,211,612)
Impairment loss	10	(28,718,142)	(13,265,563)
Gains on impairment of financial assets		675,529	703,919
Provisions	11	(2,536,034)	(961,460)
Operating expenses		**(112,788,592)**	**(92,447,216)**
Operating profit		**4,572,885**	**76,476,923**
Finance income		4,925,354	4,506,516
Finance costs		(2,148,087)	(5,480,334)
Finance income - net	12	**2,777,267**	**(973,818)**
Profit before tax		**7,350,152**	**75,503,105**
Income tax	13	-	-
PROFIT FOR THE YEAR		**7,350,152**	**75,503,105**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**7,350,152**	**75,503,105**
Earnings per share			
Basic and diluted earnings per share in HRK	14	2.88	29.46

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

KONČAR – ELECTRICAL INDUSTRY Inc.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	31 December 2019 HRK	31 December 2018 HRK
ASSETS			
Intangible assets	15	3,161,796	1,441,796
Property, plant and equipment	16	248,421,219	239,591,678
Right-of-use assets	17	1,633,729	-
Investment property	18	163,159,694	152,625,470
Investments in subsidiaries	19	846,818,715	846,929,805
Investments in associates	20	67,722,257	67,722,257
Investments in joint ventures	21	37,054,110	37,054,110
Financial assets	22	1,443,050	1,331,330
Receivables	23	30,588,787	13,988,706
Non-current assets		**1,400,003,357**	**1,360,685,152**
Financial assets	27	201,075,667	466,462
Receivables from related parties	36	25,704,733	68,254,332
Trade receivables	24	1,246,441	1,015,951
Prepaid corporate income tax		-	25,715
Other receivables	25	8,072,849	2,924,299
Loans granted to subsidiaries	26	2,500,000	28,937,025
Cash and cash equivalents	28	43,379,092	261,470,980
Prepaid expenses		847,090	1,386,306
Current assets		**282,825,872**	**364,481,070**
TOTAL ASSETS		**1,682,829,229**	**1,725,166,222**
EQUITY AND LIABILITIES			
Share (registered) capital		1,208,895,930	1,208,895,930
Capital reserves		719,579	719,579
Reserves from profit		423,268,113	386,931,800
Retained earnings		4,764,752	4,764,752
Profit for the year		7,350,152	75,503,105
Capital and reserves	29	**1,644,998,526**	**1,676,815,166**
Non-current provisions	30	**2,579,172**	**3,715,146**
Non-current liabilities	31	**1,245,038**	-
Liabilities to related parties	36	25,066,835	35,961,383
Lease liabilities	31	403,245	-
Trade payables	32	1,075,733	2,487,462
Other current liabilities	33	3,158,488	5,628,317
Current provisions	34	4,302,192	558,748
Current liabilities		**34,006,493**	**44,635,910**
Total liabilities		**37,830,703**	**48,351,056**
TOTAL EQUITY AND LIABILITIES		**1,682,829,229**	**1,725,166,222**

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

	Note	2019 HRK	2018 HRK
Cash flows from operating activities			
Proceeds from trade receivables		24,665,015	25,215,598
Payments to trade payables		(37,077,909)	(22,533,800)
Payments to employees		(24,748,549)	(22,534,848)
Taxes paid		(2,003,984)	(3,193,339)
Other proceeds and payments		(2,855,233)	(3,311,681)
Cash from operations		**(42,020,660)**	**(26,358,070)**
Interest paid		(23,796)	(685)
Net cash flows from operating activities		**(42,044,456)**	**(26,358,755)**
Cash flows from investing activities			
Proceeds from sale of non-current intangible and tangible assets		35,553,358	35,021,895
Proceeds from sale of equity and debt instruments		5,115,798	8,219
Dividends received	4	92,664,103	39,594,248
Interest received		532,110	3,138,812
Cash proceeds from term deposits		-	146,578,534
Purchase of non-current intangible and tangible assets		(51,541,536)	(24,975,238)
Payments for acquisition of equity and debt financial instruments	19, 21	(45,479,600)	(119,083,910)
Placement of deposits	27	(200,229,246)	-
Loans granted	26	(2,500,000)	(29,250,000)
Cash proceeds from repayment of loans granted	26	29,299,000	59,075,456
Net cash flows (used in) / from investing activities		**(136,586,013)**	**110,108,016**
Cash flows from financing activities			
Purchase of treasury shares	29	(827,556)	(5,948,574)
Dividends paid	29	(38,283,920)	(35,933,866)
Principal elements of lease payments	17	(349,943)	-
Net cash used in financing activities		**(39,461,419)**	**(41,882,440)**
Net (decrease)/increase in cash and cash equivalents		**(218,091,888)**	**41,866,821**
Cash and cash equivalents at beginning of year		261,470,980	219,604,159
Cash and cash equivalents at end of year	28	**43,379,092**	**261,470,980**

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

KONČAR – ELECTRICAL INDUSTRY Inc.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital HRK	Share premium HRK	Reserves from profit HRK	Reserves for treasury shares HRK	Treasury shares HRK	Retained earnings HRK	Profit for the year HRK	Total capital and reserves HRK
At 1 January 2018	**1,208,895,930**	**719,579**	**359,719,093**	**4,143,785**	**(4,143,785)**	**4,764,752**	**69,074,443**	**1,643,173,797**
Profit for the year	-	-	-	-	-	-	75,503,105	75,503,105
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	***75,503,105***	***75,503,105***
Transactions with owners:								
Transfer to reserves as per annual schedule (Note 29)	-	-	27,146,831	6,000,000	-	-	(33,146,831)	-
Dividends paid (Note 29)	-	-	-	-	-	-	(35,927,612)	(35,927,612)
Purchase of treasury shares	-	-	-	-	(5,948,574)	-	-	(5,948,574)
Other	-	-	65,876	(51,426)	-	-	-	14,450
	-	-	*27,212,707*	*5,948,574*	*(5,948,574)*	-	*(69,074,443)*	*(41,861,736)*
At 31 December 2018	**1,208,895,930**	**719,579**	**386,931,800**	**10,092,359**	**(10,092,359)**	**4,764,752**	**70,503,105**	**1,676,815,166**
Profit for the year	-	-	-	-	-	-	7,350,152	7,350,152
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	***7,350,152***	***7,350,152***
Transactions with owners:								
Transfer to reserves as per annual schedule (Note 29)	-	-	37,144,235	-	-	-	(37,144,235)	-
Dividends paid (Note 28)	-	-	-	-	-	-	(38,358,870)	(38,358,870)
Formation of reserves for treasury shares	-	-	(25,000,000)	25,000,000	-	-	-	-
Purchase of treasury shares	-	-	-	-	(827,556)	-	-	(827,556)
Other	-	-	19,634	-	-	-	-	19,634
	-	-	*12,163,869*	*25,000,000*	*(827,556)*	-	*(75,503,105)*	*(39,166,792)*
At 31 December 2019	**1,208,895,930**	**719,579**	**399,095,669**	**35,092,359**	**(10,919,915)**	**4,764,752**	**7,350,152**	**1,644,998,526**

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

1. General information on the Company

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

As at 31 December 2019 the Company had 50 employees, while as at 31 December 2018 the Company had 51 employees.

The employee structure is as follows:	31 December 2019	31 December 2018
PhD	1	1
Master's degree	7	6
University degree	30	32
Two-year degree	8	8
Secondary school qualifications	3	3
Primary school + training on the job	1	1
	50	**51**

Members of the Supervisory Board:

Joško Miliša	President of the Supervisory Board from 14 January 2020, Member of the Supervisory Board until 13 January 2020
Luka Gašpar	President of the Supervisory Board from 1 July 2019 until 31 December 2019
Petar Vlaić	President of the Supervisory Board until 30 June 2019
Nikola Anić	Deputy President of the Supervisory Board from 14 January 2020, Member of the Supervisory Board until 13 January 2020
Josip Lasić	Deputy President of the Supervisory Board until 13 January 2020, Member of the Supervisory 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 from 20 January 2020, Deputy President until 20 January 2020
Darinko Bago	President of the Management Board until 20 January 2020
Ivan Bahun	Deputy President and Member of the Management Board from 20 January 2020
Miki Huljić	Member of the Management Board
Josip Lasić	Member of the Management Board from 15 March 2020
Josip Ljulj	Member of the Management Board from 20 January 2020
Božidar Poldrugač	Member of the Management Board from 1 March 2020
Marina Kralj Miliša	Member of the Management Board until 20 January 2020
Miroslav Poljak	Member of the Management Board until 1 March 2020
Ivan Tomšić	Deputy member until 20 January 2020

Compensations paid to members of the Management Board and Supervisory Board are disclosed in Notes 8 and 9 to the financial statements.

In 2019, the auditors of the Company's financial statements have provided services of HRK 310 thousand (2018: HRK 672 thousand). In 2019 and 2018, 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 service of IFRS 15 implementation, transfer pricing services and training services in the total amount of HRK 166 thousand (2018: HRK 550 thousand).

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

2. Significant accounting policies

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

2.1 Basis of preparation

The Company's financial statements have been prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards adopted in the European Union.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

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

The Company has prepared these separate financial statements in accordance with the Croatian legal regulations. At the date of approval of these separate financial statements, the Company has prepared and approved the related consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the Company and its subsidiaries (the "Group") as required by IAS 27.

In the consolidated financial statements, subsidiaries - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated.

Users of these separate financial statements should read them with the Group's consolidated financial statements as at and for the year ended 31 December 2019 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The Group's consolidated financial statements have been published on the official web-site of the Zagreb Stock Exchange.

Adoption of New or Revised Standards and interpretations:

The Company has adopted the following new and amended standards, interpretations, amendments and improvements for its annual reporting period commencing 1 January 2019 which are relevant for the Company'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 Company 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 item A.

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 Company.

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 Company 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 202).

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 Company 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 Company 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 definition of a business. A business must have inputs 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 Company of similar assets). The amendments are prospective and the Company 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 Company’s financial statements.

2.2 Changes in accounting policies

The Company adopted IFRS 16 for the first time. The nature and effects of the change resulting from the adoption of the new standard 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 Company.

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

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

Each lease payment is allocated between the liability and 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 hardware and software	5 years
- right of use for vehicles	5 years

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

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

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

Accounting policies applicable until 31 December 2018 are presented in Note 39.

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 Company has adopted the new guidance applying a modified retrospective approach. Comparative prior year periods were not restated. Right-of-use asset is measured at an amount equal to the lease liability at the date of adoption of the standard. The Company elected to use certain practical expedients.

Explanation of the adoption effects

The Company 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 Company recognized a lease liability measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate at 1 January 2019.
- for all leases the Company 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.

For low-value assets which are sub-leased are accounted for as a right-of-use asset with the corresponding lease liability.

For leases that were classified as finance leases under IAS 17, the lessee continues to apply the carrying amount of the right-of-use asset and the lease liability measured in accordance with IAS 17 immediately before the date of initial application of IFRS 16 .

The Company 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 performing an impairment analysis. 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 assets as at 1 January 2019 were not adjusted for any impairment;
- 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 have been accounted for as short-term leases.
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The explanation of the difference between operating lease commitments as at 31 December 2018 when applying IAS 17 to the lease liabilities recognized as at 1 January 2019 is presented in the table below:

		31 December 2018 / 1 January 2019 HRK
	Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018	470,364
-	Future lease payments that are a result of a different treatment of extension and termination options	1,898,100
-	Effect of discounting to present value	(69,412)
-	Less short-term leases not recognized as a liability	(370,464)
	Total lease liabilities recognized as at 1 January 2019	**1,928,588**
	Of which are:	
	Short-term lease liabilities	375,000
	Long-term lease liabilities	1,553,588

* *Non-cancellable leases include those cancellable only: (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.*

The initial value of right-of-use assets was determined in the amount of the lease liability, without any additional adjustments.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

In HRK	**Note**	**Effect of IFRS 16 adoption**
Increase in right-of-use assets		1,928,588
Increase in lease liabilities		1,928,588

The weighted average incremental borrowing rate applied to lease liabilities is 1.4%.

Lease activities

The Company leases vehicles, hardware and software. 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:

- Vehicles are leased for a fixed period of up to 5 years.
- Hardware and software is leased for a period of up to 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 Company as a lessee is potentially exposed that are not reflected in the measurement of the lease liability are not significant.

The Company does not provide any residual value guarantees.

2.3 Changes in presentation due to presentation error

The Company has changed its classification of dividends received from subsidiaries and associates within the statement of profit or loss and other comprehensive income as presented below

The Parent Company is a holding company and its primary activity is holding investments in subsidiaries and associates. Therefore, the Company concluded that it is more appropriate to classify the respective dividend income within Company's operating activities as a part of revenue. Furthermore, the Company has changed its classification of impairment losses on investments in subsidiaries as described below to be consistent with the reclassification described above. The Company believes that such classification provides reliable and more relevant information due to the nature of its business.

In accordance with IAS 1, the change has been made retrospectively and comparatives in the statement of profit and loss and other comprehensive income have been reclassified accordingly. Third statement of financial position for the earliest comparable period has not been presented since the reclassification had no effect on the items stated within the statement of financial position.

The effect of reclassifications for the presentation purposes due to the nature of the Company's business was as follows:

	2018 as originally presented HRK	Reclassification HRK	2018 as reclassified HRK
Revenue	47,727,687	100,874,376	148,602,063
Operating income	**68,049,763**	**100,874,376**	**168,924,139**
Impairment losses on investments in subsidiaries	-	(13,265,563)	(13,265,563)
Operating expenses	**(79,181,653)**	**(13,265,563)**	**(92,447,216)**
Operating profit	**(11,131,890)**	**87,608,813**	**76,476,923**
Dividend income from associates	61,350,031	(61,350,031)*	-
Finance income	44,030,861	(39,524,345)**	4,506,516
Finance costs	(18,745,897)	13,265,563***	(5,480,334)
Finance income / (costs) - net	**86,634,995**	**(87,608,813)**	**(973,818)**
Profit for the year	**75,503,105**	-	**75,503,105**

** Dividend income received from Company's associates*

*** Dividend income received from Company's subsidiaries*

**** Impairment losses related to investments in Company's subsidiaries*

There were no effects on the statements of cash flows and changes in equity due to the reclassification described above.

a) Revenue recognition

The Company recognises revenue based on:

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

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

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

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

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

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

b) Finance income and costs

Finance income and costs comprise interest income on loans and borrowings using the effective interest method, interest income on funds invested, dividend income, foreign currency losses and gains, gains and losses on financial assets at fair value through profit or loss.

Foreign exchange gains/losses are recognised in Note 12 in gross amounts (the stated amounts include foreign exchange differences arising from principal activities as well foreign exchange differences arising from financing activities).

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

c) Income tax

The Company accounts for tax liabilities in accordance with Croatian law. Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, adjusted for amounts which are not included in the tax base or tax deductible expenses. Income tax is calculated by using tax rates in effect at the balance sheet date.

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

Current and deferred tax are recognised as income or expense in the income statement; except when they relate to items credited or debited directly in other comprehensive income or equity, in which case tax is also recognised directly in other comprehensive income or equity.

d) Earnings per share

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, less potential shares which arise from options.

e) Dividend distribution

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

f) Foreign currency transactions

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

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

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

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

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

Maintenance and repairs, replacements and improvements of minor scale lower extent are expensed as incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an asset beyond its originally assessed standard performance, the expenditures are capitalised i.e. included in the carrying value of the asset. Gains or losses on the retirement or disposal of assets are included in the income statement in the period when incurred.

The amortisation and depreciation of assets commence when the assets are ready for use, i.e. when the assets are at the required location and the conditions necessary for use have been met. Depreciation and amortisation cease when the asset is fully depreciated or amortised or when the asset is classified as held for sale. Depreciation and amortisation are charged so as to write off the cost of each asset, other than land and non-current intangible and tangible assets under construction and advances, over their estimated useful lives, using the straight line method, as follows:

	Amortisation and depreciation rates (from – to %)
Intangible assets	20
Buildings	1.2 – 7.7
Equipment	7.5 – 50
Tools, plant inventory and vehicles	5.6 - 25
Other tangible assets	20

Impairment of property, plant and equipment

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

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

When determining impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are modified. The recoverable amount is determined as the higher of an asset's fair value less costs of disposal and value in use.

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

h) Investment property

Investment property (land, buildings) owned by the Company is held for the purpose of earning rentals or as a short-term potential for issuing guarantees or solidarity guarantees for related parties and to increase the value of the property with the intention of future sale. Investment property is recognised as a long-term investment, unless it is intended to be sold in the next year, in which case it is classified within current assets. Investment property is initially measured at cost, less accumulated depreciation. The Company reviews at least annually the residual value and useful life of the property. The residual value is an estimated amount that the Company would gain selling the asset now, after the deduction of the estimated cost of sales, if assumed the asset is close to or at the end of its useful life. Since the Company has estimated that the residual value of the property exceeds its carrying accounting value, depreciation is not charged until the residual value is reduced to the amount below the carrying accounting value.

i) Financial assets and liabilities

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

Classification and measurement of financial assets

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

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

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

Business models for managing financial assets include:

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

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

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

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

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

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

Financial liabilities, classification and measurement

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

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

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

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

Derecognition of financial liabilities

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

j) Investments in subsidiaries and associates

Subsidiaries are companies in which the Company has the control, i.e. when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

k) Investments in joint venture

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

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

l) Merger

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

m) Receivables

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

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

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

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

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

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

n) Cash and cash equivalents

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

o) 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.

p) Borrowings

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

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

q) Provisions, contingent liabilities and assets

Provisions are recognised when the Company has a present obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the best current estimate.

Provisions are determined for warranties, costs of legal proceedings in progress, restructuring costs, termination benefits and awards to employees for long-term employment and retirement.

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.

The newly formed provisions and income from the reversal of provisions are stated on a gross basis (Notes 5 and 11).

Contingent liabilities are not recognised in the financial statements. They are only disclosed in the notes to the financial statements, unless the likelihood of an outflow of economic benefits is remote.

Contingent assets are not recognised in the financial statements, except when the realisation of income is virtually certain and the related asset is are not a contingent asset and its recognition is appropriate.

r) Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

The Company has post-employment benefits to be paid to the employees at the end of their employment with the Company (either upon retirement, termination or voluntary departure). The Company recognises a liability for these long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, the 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 Company'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 Company has a plan for share-based payments to the members of the Management Board which are settled with equity instruments of the Company. 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 reporting date, the Company reviews its estimated options number which complies with conditions for the acquisition of rights and makes necessary adjustments.

s) Events after the balance sheet date

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

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

a) Impairment of investments in subsidiaries

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

For the purpose of impairment tests, the DCF method is used which is based on the assumptions that the entity's value represents the present value of its future cash flows. When using the DCF method, the objectivity of calculations mostly depends on the reality of medium-term business plans and the discounted rate used in discounting future cash flows as well as the calculation of the residual value of entities.

Determining the discount rate depends on the interest rate for risk-free placements (government bonds) and the rate which reflects the risk premium depending on the entity's specifics, market position and technical capabilities.

In 2019 and in 2018, the Company performed impairment tests on investments in its subsidiaries.

During 2019, in determining the possibility of return of investment and loans in the company Končar - Renewable Energy Sources Ltd., the used expected rate of return on invested capital was 5% according to an investment study by the Energy Institute Hrvoje Pozar.

The terminal value of the wind farm location is 70% of investment in: research and analysis, obtaining a location permit, establishing easements, constructing an access road, constructing a substation and cable connection, which is at the level of 9.8% of the total initial CAPEX.

If the discount rate increased by 1%, this would have an impact on the recoverable amount determined in the amount of HRK 5.8 million. Also, if the discount rate decreased by 1%, this would have an impact on the recoverable amount of the investment determined in the amount of HRK 6.5 million.

If the residual value increased by 20% were applied, these would increase the recoverable amount of the investment by HRK 2.4 million. Similarly, if residual value reduced by 20% were applied, this would reduce the recoverable amount of HRK 2.4 million.

If the electricity price were increased by 1%, this would increase the recoverable amount of the investment by HRK 4.8 million. Also, if electricity prices were reduced by 1%, this would reduce the recoverable amount of the investment by HRK 4.5 million.

At the end of the reporting period the Company also made an estimate of the recoverable amount of the investment in the company Končar - Steel Structures Inc., and the main assumptions that can significantly affect the recoverable amount are:

- The discount rate was set at 8.24%
- The growth rate defined in the medium-term plans is set at 6%
- The residual value of the company was calculated assuming that even after the planning period (beyond 2024) stable cash flows equal to the cash flow in 2024 will be realized.

If the applied discount rate increased by 1%, this would decrease the recoverable amount of the investment by HRK 36.5 million. Also, if the growth rate decreased by 1%, this would decrease the recoverable amount of the investment by HRK 29.4 million.

According to the results of the impairment test of investment in Končar - Steel Structures Inc. impairment recognition was not necessary.

a) Estimated residual value of investment property

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

During 2019 and 2018, for properties whose present carrying value accounts for 100% of the total value, the Company engaged an independent valuator to determine their fair value, and the determined values exceeded the value of the properties recognised in the Company's books at the balance sheet date, except for the Zvečevo location for which an independent valuator determined that its value is HRK 1.5 million less than its carrying amount.

c) Impairment of trade receivables

When calculating and recognising expected credit losses of trade receivables, the methodology, model and inputs result from an estimate. The detailed methodology for calculating expected credit losses is disclosed in Note 37. The Company uses historical observations (over a minimum period of 3 years) arising from system reports from companies’ systems on days past due adjusted for estimated future expectations relating to the collection of receivables.

d) Critical judgments in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (extension option) or not terminated (termination option). The assessment of whether the Company is reasonably certain to exercise an extension option, or not to exercise a termination option is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Company.

The management has made the following judgments:

- For hardware and software used in business operations it is reasonably certain that the Company will exercisethe extension option resulting in a total lease term of 5 years
- The lease terms of parking lots and business premises were classified as a short-term leases as the alternative assets are easily available and there are no economic incentives to continue beyond the basic period of 12 months.

4. Revenue

	2019 HRK	2018 HRK
Dividend income /i/	47,201,778	100,874,376
Revenue from contracts with customers /ii/	48,422,937	47,727,687
	95,624,715	**148,602,063**

/i/ Dividend income

	2019 HRK	2018 HRK
Dividends from subsidiaries	31,158,360	39,524,345
Dividends from associates	16,043,418	61,350,031
	47,201,778	**100,874,376**

/ii/ Revenue from contracts with customers

	2019 HRK	2018 HRK
Type of service		
Brand usage fee (fee for the usage of company name, trademark and service mark)	21,270,399	21,209,676
Income from property management	24,000,000	24,000,000
Income from other fees	3,152,538	2,518,011
Total revenue from contracts with customers	**48,422,937**	**47,727,687**
Related parties (Note 36)	47,807,779	47,567,277
Unrelated parties	615,158	160,410
Total revenue from contracts with customers	**48,422,937**	**47,727,687**
Timing of revenue recognition		
At a point in time	27,152,538	26,518,011
Over time	21,270,399	21,209,676
Total revenue from contracts with customers	**48,422,937**	**47,727,687**

5. Other operating income

	2019 HRK	2018 HRK
Gain on sale of assets /i/	12,051,198	19,103,418
Gain on sale of investment /ii/	7,422,310	-
Release of provisions (Note 30)	1,424,731	556,236
Rental income	20,253	20,497
Rental income – related parties (Note 36)	29,577	24,575
Other income	788,693	617,350
	21,736,762	**20,322,076**

/i/ Gain on the sale of property mainly relates to the sale of land and buildings to the related company Končar-Steel Structures Inc. based on an independent appraisal in the amount of HRK 11,712,872 HRK (2018: 17,891,205).

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

6. Cost of materials and energy

	2019 HRK	2018 HRK
Energy costs	5,809,929	5,286,696
Cost of raw materials and supplies	311,487	333,338
Cost of small inventory	95,524	105,531
	6,216,940	**5,725,565**

7. Cost of services

	2019 HRK	2018 HRK
Supervisory services and property management services	5,243,571	4,670,000
Maintenance services (servicing)	5,299,242	2,795,828
Cleaning services	2,442,816	2,528,595
Utility and water protection fee	4,128,032	4,052,024
Security services	2,087,210	2,001,986
Administrative expenses	1,800,000	1,467,000
Costs of advertising and fairs	1,142,967	1,202,489
Graphic design services	1,287,922	968,000
Rent	414,486	806,798
Telephone, post and transport	639,951	739,417
Other services	780,964	440,000
	25,267,161	**21,672,137**

8. Staff costs

	2019 HRK	2018 HRK
Net salaries and wages	11,502,910	11,183,270
Taxes and contributions	7,466,564	8,636,516
Contributions on salaries	3,115,746	3,403,727
	22,085,220	**23,223,513**

Net salaries in the amount of **HRK 11,502,910** (2018: **HRK 11,183,270**) include compensations to members of the Company's Management Board in the amount of **HRK 3,109,371** (2018: HRK 3,290,230) and the accrued bonuses to the Management Board in the amount of **HRK 1,633,850** (2018: HRK 1,371,300), which are an integral part of staff costs.

In 2019, pension fund contributions amounted to **HRK 3,857,378** (2018: HRK 3,463,538).

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business travel expenses) in the amount of **HRK 1,895 thousand** (2018: HRK 2,173 thousand) are presented in Note 9.

9. Other expenses

	2019 HRK	2018 HRK
Intellectual services	5,620,582	7,240,682
Compensations to members of the Supervisory Board	2,824,167	2,554,037
Entertainment	1,961,865	1,920,643
Sponsorships and donations	1,553,948	1,358,517
Daily allowances for business trips and travel expenses	1,083,831	1,408,806
Piece work agreements, royalties	959,140	943,010
Professional training	685,125	752,250
Reimbursements of costs to employees, gifts and support	810,766	751,361
Insurance premiums	833,652	702,148
Taxes and contributions non-dependable on the results and similar costs	508,983	437,666
Membership fees, contributions and similar expenses	191,008	176,072
Administrative expenses	81,564	82,171
Bank charges and transaction fees	72,583	80,177
Other	2,143,976	1,804,072
	19,331,190	**20,211,612**

10. Impairment loss

In 2019, the Company performed an impairment test of investment in its subsidiary at the reporting date and recognized a loss of HRK 27.2 million (2018: HRK 13.2 million). When deciding whether to invest in a project of strategic interest to the Končar Group, the Management Board and the Supervisory Board accepted the expected rate of return on invested capital of 5%.

In addition, based on the appraisal of the certified appraiser, the Company recognized impairment of investment property in the amount of HRK 1.5 million.

11. Provisions

	2019 HRK	2018 HRK
Provisions for termination benefits and jubilee awards (Note 30)	1,926,034	402,712
Provisions for unused vacation days (Note 30)	610,000	558,748
	2,536,034	**961,460**

12. Finance income and costs

	2019 HRK	2018 HRK
Finance income		
From transactions with subsidiaries		
Interest income from loans granted	229,270	1,634,291
	229,270	*1,634,291*
From transactions with unrelated parties		
Interest income on term deposits	893,319	168,309
Interest income from sale of shares to employees	483,135	-
Interest income – other	158,048	201,717
Foreign exchange gains on foreign currency deposits	2,386,916	1,690,933
Foreign exchange gains – other	376,895	557,493
Income from dividends and shares in profit	155,711	69,902
	4,454,024	*2,688,354*
Other unrealised gains	242,060	183,871
	242,060	*183,871*
	4,925,354	**4,506,516**

Finance costs		
From transactions with unrelated parties		
Interest expense on lease liabilities	(25.160)	-
	(25.160)	-
From transactions with unrelated parties		
Foreign exchange losses on foreign currency deposits in foreign currency	(970,245)	(1,098,890)
Foreign exchange losses on loans granted for the sale of flats	(375,301)	(551,008)
Foreign exchange losses - other	(642,049)	(3,750,341)
	(1,987,595)	*(5,400,239)*
Unrealised losses		
Losses on impairment of shares - other	(130,340)	(79,135)
	(130,340)	*(79,135)*
Other finance costs	*(4,992)*	*(960)*
	(2,148,087)	**(5,480,334)**
Finance income/(costs)– net	**2,777,267**	**(973,818)**

13. Income tax

	2019 HRK	2018 HRK
Profit before tax	7,350,152	75,503,105
Tax at applicable tax rate of 18%	**1,323,027**	**13,590,559**
Tax effects of:		
Non-deductible expenses	5,695,597	2,771,197
Non-taxable income	(8,626,411)	(18,234,995)
Tax benefits (state aid for education and training)	(83,621)	(101,299)
Tax losses for which no deferred tax asset was recognised	1,691,408	1,974,538
Income tax	**-**	**-**

The Company did not recognise deferred tax assets in the total amount of HRK 12,741,792 (2018: HRK 13,796,312) due to the uncertainty of its usage within the period of five years (the Company as a holding mainly realises non-taxable revenue (dividends and shares in profits). The income tax rate for the application of the deferred tax calculation is 18% in accordance with the changes in the tax regulations in force.

Total tax losses expire as follows:

	2019 HRK	2018 HRK
Within 5 years	9,396,709	11,286,281
Within 4 years	11,286,281	22,595,043
Within 3 years	22,595,043	22,071,839
Within 2 years	22,071,839	5,437,862
In the next year	5,437,863	15,255,154
	70,787,735	**76,646,179**

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

14. Earnings per share

Basic and diluted earnings per share

	2019 HRK	2018 HRK
Profit for the year	7,350,152	75,503,105
Weighted average number of shares (net of treasury shares)	2,556,225	2,562,643
Earnings per share in HRK	**2.88**	**29.46**

Diluted earnings per share for 2019 and 2018 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either period.

15. Non-current intangible assets

	Concessions, patents, licences, software and other rights	Other	Intangible assets under construction	Total
	HRK	HRK	HRK	HRK
Cost				
At 1 January 2018	**468,629**	**653,207**	**1,441,796**	**2,563,632**
Additions	-	-	-	-
At 31 December 2018	**468,629**	**653,207**	**1,441,796**	**2,563,632**
Additions	-	-	1,720,000	1,720,000
At 31 December 2019	**468,629**	**653,207**	**3,161,796**	**4,283,632**
Accumulated amortisation				
At 1 January 2018	**468,629**	**653,207**	**-**	**1,121,836**
Amortisation for the year	-	-	-	-
At 31 December 2018	**468,629**	**653,207**	**-**	**1,121,836**
Amortisation for the year	-	-	-	-
At 31 December 2019	**468,629**	**653,207**	**-**	**1,121,836**
Net book amount				
31 December 2018	**-**	**-**	**1,441,796**	**1,441,796**
At 31 December 2019	**-**	**-**	**3,161,796**	**3,161,796**

The cost of fully amortised intangible assets still in use as at 31 December 2019 amounts to HRK 1,122 thousand (2018: HRK 1,122 thousand).

16. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction	Advances	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Cost								
At 1 January 2018	**74,199,079**	**288,233,040**	**55,027,932**	**5,658,461**	**69,446**	**6,416,686**	**2,592,299**	**432,196,943**
Additions	-	-	-	-	-	57,493,190	(1,101,728)	56,391,462
Transfer from assets under construction	2,298,825	8,360,019	3,395,045	1,206,053	-	(15,259,942)	-	-
Transfer to investment property	-	-	-	-	-	(1,726,113)	-	(1,726,113)
Disposals	(3,562,749)	(27,179,482)	(379,322)	(869,315)	-	-	-	(31,990,868)
At 31 December 2018	**72,935,155**	**269,413,577**	**58,043,655**	**5,995,199**	**69,446**	**46,923,821**	**1,490,571**	**454,871,424**
Additions	141,433	-	-	-	-	53,982,513	26,818,344	80,942,290
Transfer from assets under construction	25,520,308	36,538,272	907,145	-	-	(62,965,725)	-	-
Transfer to investment property	-	-	-	-	-	(34,226,494)	-	(34,226,494)
Disposals	-	(659,502)	(7,213,142)	(154,999)		-	(28,308,915)	(36,336,558)
At 31 December 2019	**98,596,896**	**305,292,347**	**51,737,658**	**5,840,200**	**69,446**	**3,714,115**	**-**	**465,250,662**
Accumulated depreciation								
At 1 January 2018	-	**178,700,773**	**43,960,066**	**2,856,214**	**-**	**-**	**-**	**225,517,053**
Depreciation for the year	-	5,220,286	1,746,585	1,124,414	-	-	-	8,091,285
Decrease	-	(17,138,438)	(364,400)	(825,754)	-	-	-	(18,328,592)
At 31 December 2018	-	**166,782,621**	**45,342,251**	**3,154,874**	**-**	**-**	**-**	**215,279,746**
Depreciation for the year	-	5,846,618	1,955,785	1,113,055	-	-	-	8,915,458
Disposals	-	(180,636)	(7,119,696)	(65,429)	-	-	-	(7,365,761)
At 31 December 2019		**172,448,603**	**40,178,340**	**4,202,500**				**216,829,443**
Net book amount								
31 December 2018	72,935,155	102,630,956	12,701,404	2,840,325	69,446	46,923,821	1,490,571	239,591,678
31 December 2019	**98,596,896**	**132,843,744**	**11,559,318**	**1,637,700**	**69,446**	**3,714,115**	**-**	**248,421,219**

The cost of fully depreciated property, plant and equipment still in use as at 31 December 2019 amounts to HRK 41,889 thousand (2018: HRK 55,656 thousand).

A mortgage is registered over land with a carrying value of HRK 4,739 thousand (2018: HRK 4,834 thousand) and business facilities with a carrying value of HRK 39,640 thousand (2018: HRK 40,075 thousand) as collateral for the subsidiaries' payment of their obligations in the amount of HRK 39,121 thousand (2018: HRK 90,186 thousand).

17. Right-of-use assets

Right-of-use asset comprises the following:

	31 December 2019 HRK	1 December 2019 HRK
Right-of-use assets (by class of assets)		
Vehicles	90,857	-
Equipment	1,542,872	1,928,588
	1,633,729	**1,928,588**

	Vehicles HRK	Equipment HRK	Total HRK
Balance at 31 December 2018	-	-	-
IFRS 16 adjustments (Note 2.2)	-	1,928,588	1,928,588
Balance at 1 January 2019	**-**	**1,928,588**	**1,928,588**
Additions – new lease contracts	99,117	-	99,117
Termination of the lease contract	-	-	-
Depreciation	(8,260)	(385,716)	(393,976)
Balance at 31 December 2019 - IFRS 16	**90,857**	**1,542,872**	**1,633,729**

Amounts relating to leases recognized for the reporting period

The following amounts are recognized in profit and loss

	Note	IFRS 16 2019 HRK	IAS 17 2018 HRK
Depreciation charge for the right-of-use assets by class of assets			
Equipment		8,260	-
Vehicles		385,716	-
	2.2	**393,976**	-
Interest expense on lease liabilities	12	25,160	-
Expense relating to short-term leases	7	414,486	-
Operating lease expense (IAS17)	7	-	806,798
Total expenses related to leases		**833,622**	**806,798**

The following amounts are recognized in the cash flow statement

	IFRS 16 2019 HRK	IAS 17 2018 HRK
Cash outflow for leases (IFRS 16) – operating activity		
Interest	23,202	-
Cash outflows for leases (IFRS 16) – financing activity		
Principal	349,943	-
Cash outflow for leases – operating activity	518,108	1,008,498
	891,253	**1,008,498**

18. Investment property

Investment property (located in Osijek, Sesvetski Kraljevec, Samobor, Požega-Zvečevo, Zagreb and Zlatar) in the amount of HRK 163,159,694 (2018: HRK 152,625,470) relates to investment property for capital appreciation intended for future sale. The residual value of these investments estimated by independent valuers exceeds their carrying value, and accordingly, depreciation is not charged to these investments.

The following table presents movements in investment property in 2019 and 2018 (at the transfer to investment property, the Company uses the gross presentation principle, i.e. increases the cost and the accumulated depreciation for these assets):

	Land	**Buildings**	**Total**
	HRK	**HRK**	**HRK**
Cost			
At 1 January 2018	**53,670,929**	**186,030,011**	**239,700,940**
Transfer from assets under construction	404,016	1,322,097	1,726,113
Disposals	(394,766)	-	(394,766)
At 31 December 2018	**53,680,179**	**187,352,108**	**241,032,287**
Transfer from assets under construction	-	34,226,494	34,226,494
Disposals	(815,047)	(26,866,414)	(27,681,461)
At 31 December 2019	**52,865,132**	**194,712,188**	**247,577,320**
Accumulated depreciation			
At 1 January 2018	**-**	**88,406,817**	**88,406,817**
Additions/(disposals)	-	-	-
At 31 December 2018	**-**	**88,406,817**	**88,406,817**
Impairment	554,987	950,154	1,505,141
Disposals	**-**	(5,494,332)	(5,494,332)
At 31 December 2019	**554,987**	**83,862,639**	**84,417,626**
Net book amount			
31 December 2018	53,680,179	98,945,291	152,625,470
At 31 December 2019	**52,310,145**	**110,849,549**	**163,159,694**

The fair value of investment property at the balance sheet date relates to fair value level 3 since the input variables are not based on observable market data. At the balance sheet date, the fair value of investment property amounted to HRK 217,6 million.

19. Investments in subsidiaries

	31 December 2019 HRK	31 December 2018 HRK
Investments in domestic subsidiaries		
Končar - Switchgear Inc.	198,720,684	198,720,684
Končar - Renewable Energy Sources Ltd., Zagreb	143,695,000	140,195,000
Končar - Steel Structures Inc., Zagreb	126,419,123	84,439,523
Končar - Generators and Motors Inc., Zagreb	116,347,127	116,347,127
Končar - Low Voltage Switches and Circuit Breakers, Inc., Zagreb	81,432,641	81,432,641
Končar - Distribution and Special Transformers, Inc., Zagreb	62,118,369	62,118,369
Končar - Electrical Engineering Institute Inc., Zagreb	60,936,110	60,936,110
Končar - Infrastructure and Services Ltd., Zagreb	56,691,318	56,691,318
Končar - Electronics and Informatics, Inc., Zagreb	55,435,705	55,435,705
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	51,773,266	51,773,266
Končar - Small Electrical Machines Inc., Zagreb	48,600,512	48,600,512
Končar - Electrical Vehicles Inc., Zagreb	36,409,158	36,409,158
Končar - Instrument Transformers, Inc., Zagreb	30,445,749	30,445,749
Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	6,908,942	6,908,942
Končar - Household Appliances, Inc., Zagreb	-	147,966,970
Impairment of share	*(229,114,989)*	*(331,491,269)*
	846,818,715	**846,929,805**

In 2019, impairment of investment in the company Končar - Renewable Energy Sources Ltd. was recognised in the amount of HRK 27.2 million. To estimate the value of this investment the discounted cash flow method (DCF method) was used, which is based on the assumption that the value of an investment is based on the present value of expected future cash flows.

In 2019, the Company made a share capital contribution in cash in the following companies:

- Končar - Steel Structures Inc. in the amount of HRK 41,979,600 (2018: HRK 52,954,800)
- Končar - Renewable Energy Sources Ltd. in the amount of HRK 3,500,000 (2018: HRK 29,075,000)

Shares in ownership and voting rights as at 31 December were as follows:

	31 December 2019		**31 December 2018**	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Domestic subsidiaries				
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 - Renewable Energy Sources Ltd., Zagreb	89.71	89.71	89.36	89.36
Končar - Electrical 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	67.90	52.73	67.90
Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05
Končar - Household Appliances, Inc., Zagreb	-	-	100.00	100.00

The summary data for subsidiaries with a significant non-controlling interest are disclosed in the consolidated financial statements of the Company.

20. Investments in associates

Investments in associates in the amount of HRK 67,722,257 thousand (2018: HRK 67,722,257) relate to the investment in the company Končar - Power Transformers Ltd., Zagreb (the Company holds a 49% share in the share capital of this company).

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

21. Investments in joint ventures

Investments in joint ventures in the amount of HRK 37,054,110 relate to the investment in Končar - XD High Voltage Switchgear Ltd., Zagreb (the Company holds a 50% share in the share capital of this company). The company was incorporated on 5 December 2018 with a contribution in cash.

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

22. Non-current financial assets

	31 December 2019 HRK	31 December 2018 HRK
Financial assets at fair value through other comprehensive income		
Shares in Tesla Savings Bank	3,500,010	3,500,010
Impairment of shares in Tesla Savings Bank	(3,500,010)	(3,500,010)
Financial assets at fair value through profit or loss		
Shares in Zagrebačka banka d.d., Zagreb	1.443.050	1.331.330
	1.443.050	**1.331.330**

23. Non-current receivables

	31 December 2019 HRK	31 December 2018 HRK
Receivables for flats sold /i/	3,962,859	5,274,037
Impairment of receivables for flats sold	(519,698)	(677,322)
Current portion (Note 25)	(724,888)	(786,900)
	2,718,273	*3,809,815*
Receivables for investment sold /ii/	20,891,907	-
Current portion (Note 53) /ii/	(2,322,000)	-
	18,569,907	-
Receivables for recognised claims /iii/	8,292,699	8,292,699
Receivable on the basis of foreign sales /iv/	1,892,109	2,656,724
Current portion (Note 24) /iv/	(884,640)	(770,971)
	1,007,469	*1,885,753*
Other financial assets	439	439
	30,588,787	**13,988,706**

/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 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. As a collateral the mortgage has been registered over the sold apartments.

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

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

/iv/ Receivable on the basis of foreign sales relates to the receivable for sales in Bosnia and Herzegovina realised by the company TAKRAF from Germany, acquired by KfW Bank, Berlin.

24. Trade receivables

	31 December 2019 HRK	31 December 2018 HRK
Domestic trade receivables	349,299	244,980
Foreign trade receivables	12,502	-
Foreign trade receivables (current portion, Note 23)	884,640	770,971
	1,246,441	**1,015,951**

As at 31 December, the ageing structure of the Company’s trade receivables was as follows (except for the current portion of foreign trade receivables):

	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	**361,801**	187,026	6,981	34,932	21,877	98,270	12,715
2018	**244,980**	120,793	15,749	3,125	17,030	79,283	9,000

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

25. Other receivables

	31 December 2019 HRK	31 December 2018 HRK
Receivables for prepaid value added tax	3,649,268	1,916,643
Receivables for shares sold (due) /i/	2,597,429	-
Receivables for sold flats	754,381	819,448
Interest receivable on bank deposits	883,128	19,734
Other receivables	188,643	168,474
	8,072,849	**2,924,299**

/i/ Receivables for shares sold relate to the current portion of long-term receivables from the sale of shares in the company Končar - Household Appliances, Inc.

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

26. Loans granted to subsidiaries

	31 December 2019 HRK	31 December 2018 HRK
Loans granted to subsidiaries	2,500,000	29,250,000
Impairment of loans	-	(312,975)
	2,500,000	**28,937,025**

Loans granted to subsidiaries are repayable within one year at an annual interest rate of 3,96% (2018: 5%) and are secured by own blank accepted bills of exchange and debentures.

The movement in the loss allowance for loans at amortised cost was as follows:

	HRK
At 1 January 2018	**575,583**
Reversal of previously recognised impairment	(262,608)
Total changes in expected credit loss through profit or loss	*(262,608)*
At 31 December 2018	**312,975**
Reversal of previously recognised impairment	(312,975)
Total changes in expected credit loss through profit or loss	*(312,975)*
At 31 December 2019	**-**

Movements in loans granted to related parties were as follows:

	HRK
1 January 2018	**59,075,456**
Loans granted	29,250,000
Loans repaid	(59,075,456)
31 December 2018	**29,250,000**
Loans granted	2,500,000
Loan repaid	(29,250,000)
31 December 2019	**2,500,000**

In calculating the expected credit loss, lifetime expected credit loss was used, which is equal to the 12-month expected credit loss, considering these are short-term loans and depending on the maturity of the financial instrument.

27. Deposits and loans granted

	31 December 2019 HRK	31 December 2018 HRK
Deposits over 3 months	200,949,660	-
Loans granted	126,007	466,462
	201,075,667	**466,462**

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

28. Cash and cash equivalents

	31 December 2019 HRK	31 December 2018 HRK
Foreign currency account balance	29,180,172	231,251,600
Giro account balance	14,184,434	30,200,138
Cash on hand – HRK	2,909	2,783
Cash on hand – foreign currencies	11,577	16,459
	43,379,092	**261,470,980**

29. Capital and reserves

Share (registered) 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 Company's ownership structure was 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 mandatory pension fund	394,213	15.33	359,239	13.97
5	Restructuring and Sale Center (CERP)/Croatia	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 voluntary pension fund	35,222	1.37	32,803	1.28
9	OTP banka d.d. / OTP Indeksni find - OIF s javnom ponudom	23,189	0.90	23,114	0.90
10	Zec Branislav	22,843	0.89	22,843	0.89
11	Other shareholders	386,098	15.01	416,427	16.19
12	KONČAR Inc. (treasury shares)	16,170	0.63	14,861	0.58
		2,572,119	**100.00**	**2,572,119**	**100.00**

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

During 2018, the Company started purchasing its treasury shares. In 2019, the Management Board is authorized to acquire treasury shares for a period of 5 years, based on a decision of the General Assembly. Part of other reserves in the amount of HRK 25 million, in accordance with the decision of the General Assembly, will be used for the purpose of acquiring treasury shares, thus forming reserves for the purchase of treasury shares.

In 2019, the Company purchased shares worth HRK 827,566 (HRK 5,948,574) and as at 31 December 2019 owns 16,170 treasury shares (31 December 2018: 14,861 shares).

In 2019, the 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 15,00 per share (2018: HRK 35,927,612 thousand which is HRK 14 per share). During 2019, the total dividend paid was HRK 38,283,920 (2018: HRK 35,933,866).

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

The movement in these reserves in 2019 and 2018 was as follows:

	Legal reserves	Statutory reserves	Other reserves	Total
	HRK	HRK	HRK	HRK
1 January 2018	**41,386,077**	**217,684,029**	**100,648,987**	**359,719,093**
Allocation of profit as per annual calculation	3,453,722	-	23,693,109	27,146,831
Other	-	-	65,876	65,876
31 December 2018	**44,839,799**	**217,684,029**	**124,407,972**	**386,931,800**
Allocation of profit as per annual calculation	3,775,155	-	33,369,080	37,144,235
Formation of reserves for treasury shares	-	-	(25,000,000)	(25,000,000)
Other	-	-	19,634	19,634
31 December 2019	**48,614,954**	**217,684,029**	**132,796,686**	**399,095,669**

30. Provisions

	Jubilee awards and termination benefits	Unused vacation	Total
	HRK	HRK	HRK
1 January 2018	**3,312,434**	**556,236**	**3,868,670**
Additional provisions	402,712	558,748	961,460
Release of provisions	-	(556,236)	(556,236)
31 December 2018	**3,715,146**	**558,748**	**4,273,894**
Additional provisions	1,926,034	610,000	2,536,034
Transfer to short term provision	(2,196,025)	-	(2,196,025)
Release of provisions	(865,983)	(558,748)	(1,424,731)
31 December 2019	**2,579,172**	**610,000**	**3,189,172**

	Jubilee awards and termination benefits	Unused vacation	Total
	HRK	**HRK**	**HRK**
Provisions mature as follows:			
Within 1 year	2,196,025	610,000	**2,806,025**
More than 1 year	2,579,172	-	**2,579,172**

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

The non-current portion of termination benefits in the amount of HRK 2,579 thousand (2018: HRK 3,715 thousand) relates to the estimated amount of termination benefits in line with the Collective Agreement, to which the employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure). The present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 1% (2018: 1.7%).

31. Lease liabilities

	31 December 2019	31 December 2018
	HRK	HRK
Lease liabilities		
Short-term portion (note 2.2)	403,245	375,437
Long-term portion (note 2.2)	1,245,038	1,522,100
	1,648,283	**1,897,537**

32. Current trade payables

	31 December 2019	31 December 2018
	HRK	HRK
Domestic trade payables	1,059,583	2,127,101
Foreign trade payables	16,150	360,361
	1,075,733	**2,487,462**

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

	Total	Not past due	Past due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
2019	**1,075,733**	861,145	214,588	-	-	-	-
2018	**2,487,462**	1,804,377	683,085	-	-	-	-

33. Other current liabilities

	31 December 2019 HRK	31 December 2018 HRK
Liabilities to employees		
Liabilities for net salaries	847,245	766,105
Bonus accruals	253,470	1,371,300
	1,100,715	***2,137,405***
Taxes, contributions and similar charges		
Personal income tax and surtaxes payable	940,359	1,263,087
Contributions payable	229,742	1,501,146
	1,170,101	***2,764,233***
Other liabilities		
Dividend payable	682,918	540,603
Liabilities toward state for apartments sold	15,142	13,998
Other liabilities	189,612	172,078
	887,672	***726,679***
	3,158,488	**5,628,317**

34. Current provisions

Current provisions in the amount of HRK 4,302,192 relate to provisions for short-term termination benefits in the amount of HRK 2,196,025 (2018: HRK 0), employee benefits for unused vacation days in the amount of HRK 610,000 (31 December 2018: HRK 558,748) and to accrued expenses for services not yet invoiced in the amount of HRK 1,496,167 (31 December 2018: HRK 0).

35. Contingent liabilities and off-balance sheet items

	31 December 2019 HRK	31 December 2018 HRK
Subsidiarity guarantee	386,407,989	290,909,271
Bills of exchange related to loans	2,500,000	29,250,000
Corporate guarantees / Končar Inc.	49,153,717	24,237,073
Apartments sold (65%)	16,127,702	17,865,831
Received guarantees	2,402,089	3,453,178
Debentures	3,254,640	3,254,640
	459,846,137	**368,969,992**

36. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions. Related parties include companies included in the Končar Group. These companies are subsidiaries, associates (companies with participating interests). All related party transactions are based on arm's length conditions (purchase of goods, sale of products and provision of services).

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

2018	**Receivables HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expenses HRK'000**
Operating activities				
Subsidiaries	6,892	35,961	45,880	24,164
Associates	105	-	1,712	-
Impairment (expected credit losses)	(218)	-	-	-
Total operating activities	*6,779*	*35,961*	*47,592*	*24,164*
Financing activities				
Subsidiaries	29,375	-	1,634	-
Associates	-	-	-	-
Impairment (expected credit losses)	(313)	-	-	-
Total financing activities	*29,062*	-	*1,634*	-

Receivables for dividend from associates amount to HRK 16,043 thousand at 31 December 2019 (2018: HRK 61,350 thousand).

Dividend income, i.e. Income from shares in profit (subsidiaries and associates) is presented in Note 4.

37. Financial risk management and financial instruments

The Company is exposed in its business to market (foreign exchange) and credit risk.

The Company does not use derivative financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the adverse effects on the Company'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 Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Company 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 Company 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 Company monitors capital on the basis of the gearing ratio, which is calculated as follows:

	31 December 2019	1 January 2019	31 December 2018
	HRK'000	HRK'000	HRK'000
Financial liabilities	1,648	-	-
IFRS 16 adjustment	-	1,898	-
Less cash and cash equivalents (deposits)	(43,379)	(261,471)	(261,471)
Net debt	**-**	**-**	**-**
Capital	1,644,999	1,676,815	1,676,815
Gearing ratio	-	-	-

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 significant 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 and receivables	30,589	1,443	-	**32,032**
Current financial assets	203,576	-	-	**203,576**
Trade and other receivables	31,186	-	-	**31,186**
Cash and cash equivalents	43,379	-	-	**43,379**
	308,730	**1,443**	**-**	**310,173**

	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 and receivables	13,989	1,331	-	**15,320**
Current financial assets	29,403	-	-	**29,403**
Trade and other receivables	70,109	-	-	**70,109**
Cash and cash equivalents	261,471	-	-	**261,471**
	374,972	**1,331**	**-**	**376,303**

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

Fair value of financial assets and liabilities

The following table represents financial assets and liabilities valued at fair value in the Statement of financial position according to the fair value hierarchy. This hierarchy groups financial assets and liabilities into 3 levels depending on the input variables used in measuring the fair value of financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted market prices for identical assets or liabilities traded on active markets
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: inputs for assets or liabilities that are not based on observable market data.

The level within which financial assets/liabilities are stated are classified based on the lowest level of significant inputs used in measuring fair value. 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 2018

	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	1,443	-	-	1,443
	1,443	**-**	**-**	**1,443**

31 December 2018

	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets				
Listed shares	1,331	-	-	1,331
	1,331	**-**	**-**	**1,331**

The Company used the following methods and assumptions in estimating the fair value of financial instruments:

Receivables and bank deposits

For assets due within three months and cash funds, the accounting value is approximate to their fair value due to the short-term nature of these instruments. For longer-term assets, the interest rate does not deviate significantly from the current market rates and, consequently, their fair value approximates their carrying value.

Borrowings

The fair value of current liabilities approximates their carrying value due to the short maturities of these instruments. The Management Board believes that their fair value is not materially different from their carrying value.

Other financial instruments

The Company's financial instruments not carried 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 Company monitors and manages the financial risk that could affect the Company's operations 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 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 Company'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 Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

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

a) Foreign exchange risk

The Company is exposed to this risk through sales, purchase and loans denominated in foreign currency which is not the Company's functional currency. Currencies that are subject to risks are primarily EUR and CHF. The Company exposes itself to foreign currency risk through sales, purchasing and depositing of funds denominated in foreign currencies.

The Company's exposure to foreign exchange risk is as follows:

31 December 2019	EUR HRK'000	CHF HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Non-current receivables	1,007	-	-	1,007	29,582	30,589
Trade and other receivables	1,772	-	-	1,772	3,709	5,481
Current financial assets	200,950	-	-	200,950	126	201,076
Cash and cash equivalents	28,843	314	34	29,191	14,188	43,379
Trade payables	(16)	-	-	(16)	(1,060)	(1,076)
	232,556	**314**	**34**	**232,904**	**46,545**	**279,449**

31 December 2018	EUR HRK'000	CHF HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Non-current receivables	1,886	-	-	1,886	12,103	13,989
Trade receivables	771	-	-	771	1,084	1,855
Cash and cash equivalents	230,928	303	37	231,268	30,203	261,471
Trade payables	(360)	-	-	(360)	(2,127)	(2,487)
	233,225	**303**	**37**	**233,565**	**41,263**	**274,828**

In the above tables, receivables for apartments 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 CHF by 4% (2018: 2%) at the reporting date would have decreased profit before tax as follows:

	2019 Effect on profit before tax HRK'000	2018 Effect on profit before tax HRK'000
EUR	2,325	(2,332)
CHF	12	7

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 percentages at the reporting date would have had the equal but opposite effect on the profit before tax, on the basis that all other variables are held constant.

b) Interest rate risk

The Company is not exposed to interest rate risk since it has no interest-bearing liabilities.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses information gathered from specialized credit agencies and the Croatian Chamber of Economy, as well as other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

A significant portion 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 Company has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables arising from the sale of services
- Financial assets at amortised cost
- Financial assets at fair value through profit or loss

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

Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared characteristics - the risk of the country in which the customer operates and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 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 Company has identified the GDP and the unemployment rate of the countries in which it operates to be the most relevant factors, and accordingly adjusted the historical loss rates based on expected changes in these factors.

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

31 December 2019 *HRK'000*	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
Current receivables	**10,048**	**8,266**	**904**	**269**	**498**	**111**	**-**
Default rate %	-	0.05	0.11	0.54	0.90	1.90	100.00
Expected credit loss	**12**	**4**	**1**	**1**	**4**	**2**	**-**

31 December 2018 *HRK*	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
Current receivables	**7,149**	**5,001**	**1,056**	**155**	**584**	**353**	**-**
Default rate %	-	0.43	1.24	7.97	12.35	27.9	100.00
Expected credit loss	**217**	**22**	**13**	**12**	**72**	**98**	**-**

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery of trade receivables and contract assets include, amongst others, a failure to make contractual payments for a period of greater than one year past due.

Other financial assets at amortised cost

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

The loss allowance for other financial assets at amortised cost as at 31 December reconciles to the opening loss allowance as follows:

	Receivables for apartments sold	**Receivables for loans given**	**Total**
	HRK 000	**HRK 000**	**HRK 000**
As at 1 January 2018	**1,187,787**	**575,583**	**1,763,370**
Increase/(decrease) in the allowance recognised in profit or loss during the period	(510,465)	(262,608)	(773,073)
As at 31 December 2018	**677,322**	**312,975**	**990,297**
Increase/(decrease) in the allowance recognised in profit or loss during the period	(157,624)	(312,975)	(470,599)
As at 31 December 2019	**519,698**	**-**	**519,698**

The analysis performed has shown that the effect of applying IFRS 9 to 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 Company will not be able to meet its financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Board, which has built a quality frame for monitoring short-, middle- and long-term financing and all liquidity risk requirements. The Company manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities.

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

	Carrying amount	Contractual cash flows	0 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2019						
Lease liabilities	1,648	1,693	105	315	1,273	-
Trade payables, liabilities to related parties and other liabilities	26,841	26,841	26,841	-	-	-
	28,489	**28,534**	**26,946**	**315**	**1,273**	**28,489**

	Carrying amount	Contractual cash flows	0 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2018						
Trade payables, liabilities to related parties and other liabilities	38,989	38,989	38,989	-	-	-
	38,989	**38,989**	**38,989**	**-**	**-**	**-**

38. Events after the reporting date

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

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

The Company and all Končar Group companies follow the recommendations of the Emergency Task Force and the Croatian Institute of Public Health. All workers that are able to work from home do so, while the production has been organised in shifts to allow for social distancing. Workers who have spent some time in the areas affected by the outbreak or who have been in contact with infected persons are implementing the measure of self-isolation. Of 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 on the operations of subsidiaries, which would consequently affect the operations of the Company itself, depend primarily on how long the extraordinary measures will be applied for, and on several factors that can be described as follows:

- 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 finalisation 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 to a segment of production employees who cannot work from home.

The market activity of subsidiaries is therefore exposed to global disruptions in supply chains and product delivery, which may have a negative impact on the Company's 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 this novel coronavirus on the Company. 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 Company considers this event to be a non-adjusting event after the reporting period.

After the reporting date and until the date of approval of these financial statements, other than the events stated above, there were no events that would have a significant impact on the financial statements of the Company for 2019, and that should, consequently, be disclosed.

39. 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 in the lessee's balance sheet at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs and 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 – ELECTRICAL INDUSTRY INC.

MANAGEMENT REPORT

AND

CORPORATE GOVERNACE STATEMENT

INTRODUCTION

Končar – Electrical Industry a public limited company, is the Parent Company of the Končar – Electrical Industry Group. As the Parent Company, the Company also prepares consolidated reports that are presented separately.

This 2019 Management Report on the State of the Company is a report of the Company as a separate entity. The Company manages its wholly-owned subsidiaries and associated companies.

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

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

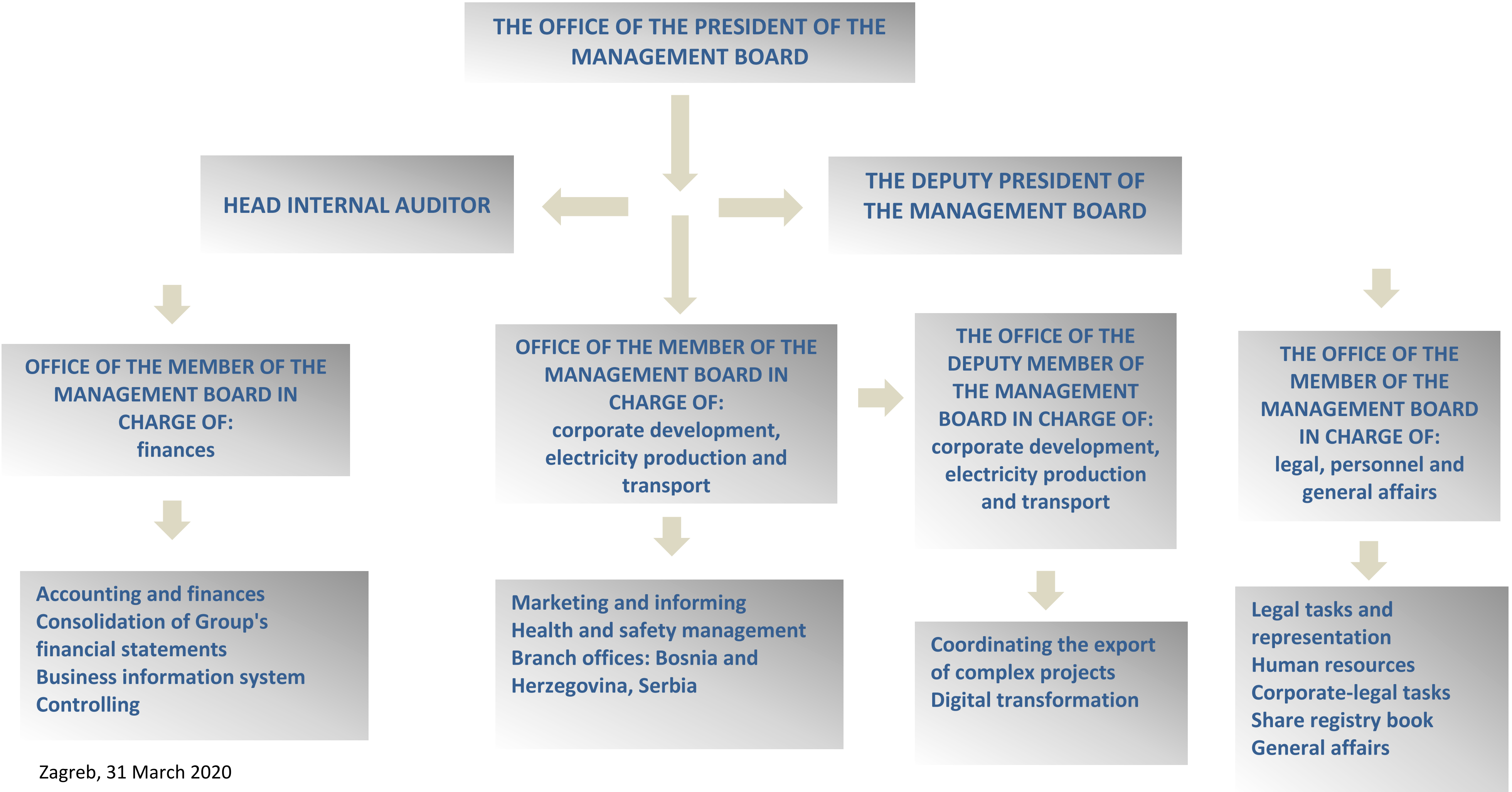
- fees for using the company name, trademark and service mark,
- part of the cost of organized joint appearance at fairs,
- part of the cost of branch offices abroad,
- part of the cost of joint marketing activities,
- seminars for managers, quality and environmental systems.

SUMMARY OF KEY FINANCIAL INDICATORS

	2019	2018	Index 2019/2018
Total operating income	**117,361**	**168,924**	**69.5**
Revenue	95,625	148,602	64.3
Income from dividends	47,202	100,874	46.8
Income from contracts with customers	48,423	47,728	101.5
Other operating income	21,736	20,322	107.0
Operating expenses	**112,789**	**92,447**	**122.0**
EBIT	4,572	76,477	
EBIT margin	4.8%	51.5%	
EBIDTA	13,881	84,568	**16.4**
EBIDTA margin	14.5%	56.9%	
EBIDTA normalized[1]	31,659	78,510	**40.3**
EBIDTA margin normalized[1]	33.1%	52.8%	
Capital investments	**51,542**	**24,975**	**206,4**
Market capitalization	**1,626,784**	**1,372,608**	**118.5**

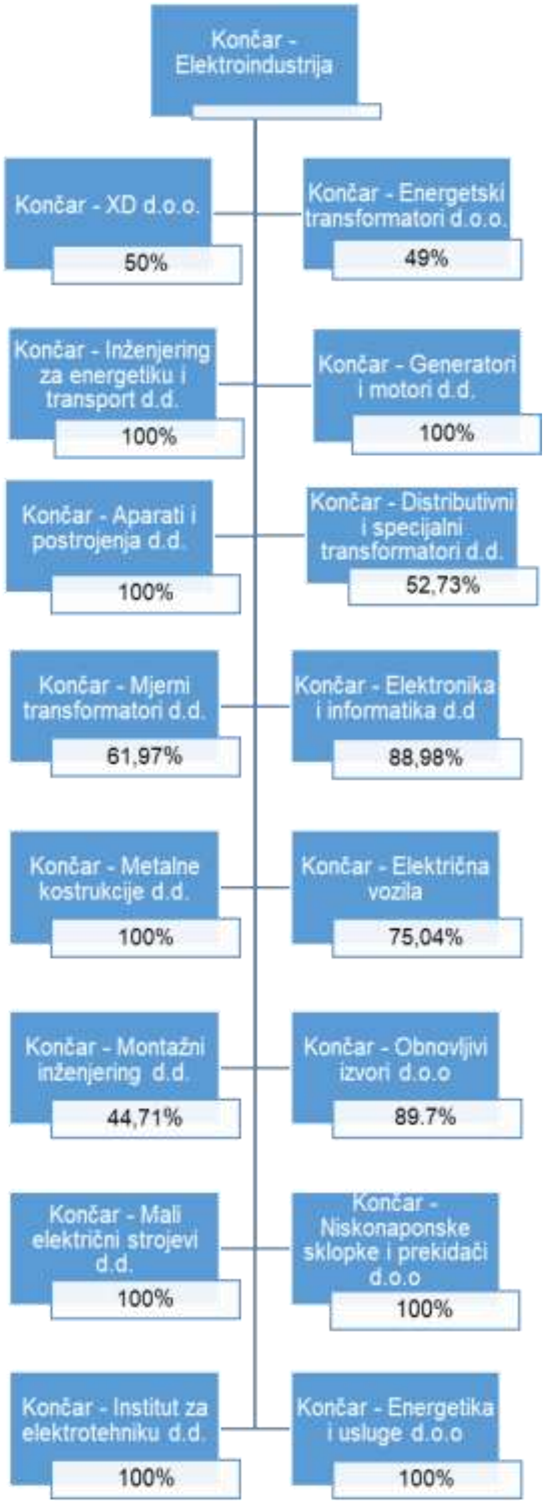
EBIDTA[1] - normalized EBITDA, impact of one-off items excluded. One-off items represent the value adjustments of investments in subsidiaries and the value adjustment of tangible and intangible assets (+), income from the sale of assets and profit/loss from the reversal of provisions (+, -).

ORGANIZATION OF KONČAR – ELECTRICAL INDUSTRY INC.



Zagreb, 31 March 2020

Ownership of the Parent Company in the subsidiaries as at 31 December 2019



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 Zagrebačka burza d.d., 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 Zagrebačka burza d.d.

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 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

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 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:

No	Shareholder	31 December 2019		31 December 2018	
		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**

BUSINESS RESULT

In 2019, Končar – Electrical Industry Inc. generated operating income in the amount of HRK 117.3 million, which is HRK 51.6 million or 30.5% less than in 2018.

During 2019, the Company reclassified its income from dividends in such a way that it disclosed it within the items of revenue due to its core business of managing subsidiaries and associated companies. In 2018, income from dividends was presented in the financial statements in the position of financial income. The Company also reclassified losses from the reduction of its stake in subsidiaries that are presented under operating expenses.

The Company has changed the presentation of its financial statements because it believes that the amended presentation provides the users of the financial statements with more objective information about the income generated at the Company level.

Total operating income in the amount of HRK 117.3 million comprises income from sales in the amount of HRK 95.6 million and other operating income in the amount of HRK 21.7 million.

Revenue includes income from dividends in the amount of HRK 47.2 million and income from contracts with customers in the amount of HRK 48.4 million. Income from dividends of subsidiaries was HRK 31.2 million and income from dividends of associated companies was HRK 16 million. Income from contracts with customers relates to income from the use of the company name, trademark and service mark in the amount of HRK 21.2 million, income from real estate management in the amount of HRK 24 million and income from other fees in the amount of HRK 3.2 million.

Other operating income in the amount of HRK 21.7 million mainly relates to the realized profit from the sale of land and building to the associated company Končar - Steel Structures Inc.in the amount of HRK 11.7 million, the realized profit from the sale of business shares in the company Končar - Household Appliances, Inc.in the amount of HRK 7.4 million and other income in the amount of HRK 2.6 million.

Total operating expenses for 2019 amount to HRK 112.8 million and are HRK 20.4 million higher than in 2018.

The operating expenses are as follows:

- Material costs in the amount of HRK 31.5 million.
- Staff costs in the amount of 22.1 million.
- Depreciation in the amount of HRK 9.3 million.
- Other expenses amount to HRK 19.3 million and are related to: intellectual services, compensation for committee members, representation services, sponsorships and donations, per diems and travel expenses, royalties, insurance premiums and similar.
- Value adjustments of long-term assets in the amount of HRK 28.7 million. The stated amount relates to the reduction of the stake in the company Končar - Renewable Energy Sources Ltd.in the amount of HRK 27.2 million, and to the revaluation of real estate investment in the Zvečevo location in the amount of HRK 1.5 million.
- Provisioning expenses in the amount of HRK 2.5 million related to provisions for years of service awards and severance pay as well as for unused vacations.
- Income from the revaluation of financial assets in the amount of HRK 0.7 million.

The positive difference between operating income and expenses in the amount of HRK 4.6 million, and the positive difference between financial income and expenses in the amount of HRK 2.8 million equals a profit for 2019 in the amount of HRK 7.4 million, which is a decrease of HRK 68.2 million compared to 2018.

The lower result compared to the previous year was largely achieved for the following reasons:

- Compared to the previous year, the income from dividends of subsidiaries decreased by HRK 8.4 million.
- The dividend from the associated company decreased by HRK 45.3 million.
- The value adjustments of long-term assets increased by HRK 15.5 million.

According to the 2018 tax return, the Company is under no obligation to pay the 2019 income tax advance.

FINANCIAL POSITION (BALANCE SHEET)

The value of total assets of Končar – Electrical Industry Inc. as of 31 December 2019 amounted to HRK 1,682.8 million. Compared to 31 December 2018 that is a decrease of HRK 42.3 million.

Non-current assets amounted to HRK 1,400.0 million and increased by HRK 39.3 million compared to 31 December 2018. The most significant portion of non-current assets (86%) relates to property, plant and equipment and investments in subsidiaries, associated companies and investments in joint ventures. During 2019, a capital injection in cash was made in the company Končar - Steel Structures Inc. in the amount of HRK 42 million and in the company Končar – Obnovljivi izvori in the amount of HRK 3.5 million. The company Končar - Household Applianceswas sold in its entirety through the M&E buyout model to Group employees, and the value of the parent share was reduced by HRK 18.4 million.

Non-current receivables as of 31 December 2019 amount to HRK 30.6 million, which is an increase of HRK 16.6 million. The increase in non-current receivables relates to receivables from the sale of shares of Končar - Household Appliances, Inc.The shares have been sold for a period of 10 years.

There was a decrease in the total current assets, including prepayments and accruals, as compared to 31 December 2018 in the amount of HRK 81.7 million as a result of the following significant changes:

- decrease in cash and cash equivalents by HRK 218.0 million, with an increase in deposits over 3 months by HRK 200.6 million,
- decrease of receivables from affiliated companies for dividends from the associated company in the amount of HRK 42.5 million
- reductions in loans given by HRK 26.4 million through repayments from an affiliated company
- increase in trade receivables and other receivables by HRK 5.3 million
- and reductions in prepaid expenses by HRK 0.5 million

Total equity with reserves as of 31 December 2019 amounts to HRK 1,645.0 million, which is HRK 31.8 million less than on 31 December 2018.

Non-current provisions amount to HRK 2.6 million and are HRK 1.1 million less compared to 31 December 2018. The entire amount of non-current provisions relates to provisions for termination benefits and jubilee awards to employees.

Non-current liabilities amount to HRK 1.2 million.

Current liabilities as of 31 December 2019 amount to HRK 34 million, down HRK 10.6 million compared to the end of the previous year.

Contingent liabilities of Končar – Electrical Industry Inc. as of 31 December 2019 amount to HRK 459.8 million. Of the total amount, the most significant portion in the amount of HRK 435.6 million relates to guarantees issued, which increased by HRK 120.4 million compared to 31 December 2018.

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, Inc.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 Končar - Low Voltage Switches and Circuit Breakers, Inc 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 Inc.Inc.continued. Based on the prepared Feasibility Study, a decision was made to reorganize and set up the company Končar - Steel Structures Inc.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

As the Parent Company of the Group, Končar – Electrical Industry Inc. is not engaged in significant legal transactions with third parties (except in credit-guarantee activities) and is less exposed to financial and market risks.

The Management Board of Končar – Electrical Industry *nc.* manages the risks of the Company, adopts policies, coordinates and directs risk management in affiliated companies. The Management Boards of each subsidiary manage the risks of their KONČAR Group company. Operational, development, market and financial risks are systematically taken into account when developing, adopting and controlling the implementation of mid-term, annual and operational business and development plans.

Currency risk

The Company is exposed to currency risk through the sale, purchase of foreign currency and loans that are denominated in a currency other than the functional currency of the Company. The currency subject to risk is primarily EUR.

As the HRK exchange rate is to some extent linked to the EUR exchange rate, the Company is exposed to a limited extent to currency risk on deposits in EUR.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations on time. Liquidity risk management is the responsibility of the Management Board, which has built a quality framework for monitoring short, medium and long-term financing and all requirements related to liquidity risk. The Company manages liquidity risk by constantly monitoring its projected and actual cash flows by comparing it with the maturity of its financial assets and liabilities. The Company is not significantly exposed to liquidity risk because it has at its disposal and can quickly raise funds that are significantly higher than its contingent liabilities.

Risk of capital management

The Company's capital management is carried out in such a way as to ensure further development and operations with efficient asset management.

The Company manages its capital and makes the necessary adjustments to it in accordance with changes in economic conditions on the market and risk characteristics of its assets. For the purpose of adjusting or maintaining the capital structure, the Company may make decisions with the consent of the respective bodies to pay dividends to the owners, increase/decrease the share capital, sell assets to reduce liabilities and similar.

Credit risk

With the exception of deposits held with commercial banks and receivables from affiliated companies, the Company has no significant receivables from third parties, so no credit risk is expressed in this respect.

Interest rate risk

The Company is not exposed to interest rate risk because it is not exposed to debt. As the Company has a good structure of asset sources and has no interest obligations in its relations with third parties, it is not exposed to interest rate risk.

EMPLOYEES

Starting from the strategic determination of KONČAR that employees are the Company's core capital and that its entire business depends on the engagement of each employee, maintaining KONČAR's competitive ability is based on the experience, knowledge and innovation of its employees.

As of 31 December 2019, the Company employs fifty people (1 person less compared to 31 December 2018).

KONČAR adheres to the principle of equal pay for work of equal value and there have been no recorded cases of inequality in remuneration, position, incentives, promotion or any status in the workplace in relation to gender.

In its operations, KONČAR attaches great importance to respect for human rights, and in that sense, there have been no problems recorded. As a socially responsible company that respects human rights, KONČAR does not support the employment of children in its business, nor does it carry out compulsory or forced labour in any business activities in any form.

During the reporting period no discrimination was reported on the basis of race, 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 by the Employer, superiors, associates or other persons they regularly come into contact with during the performance of their work.

At the KONČAR level, all employees enjoy the right to freedom of association and collective negotiations. Employees may choose to be members of the Metal Workers' Trade Union of Croatia and the Union of Electrical Industry of Croatia.

In KONČAR, there are internal mechanisms for seeking advice on ethical and legal conduct, and issues related to organizational integrity. General responsibility is allocated to the member of the Management Board in charge of legal, general and personnel affairs, and (depending on the size of each company of the KONČAR Group) the workers' councils, trade union commissioners and/or HR personnel are responsible for this.

There are also request-seeking mechanisms that are independent of the organization, such as union regional commissioners and the State Inspectorate and labour inspectorates.

The structure of employees is as follows:

	31 Dec 2019	31 Dec 2019
PhD holders	1	1
MSc holders	7	6
Master’s degree holders (VSS)	30	32
Bachelor’s degree holders (VŠS)	8	8
Secondary school diploma holders (SSS)	3	3
Non-qualified workers	1	1
Total	**50**	**51**

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 its business activities, the implementation of its 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 Company achieves 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 – Electrical Industry 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 – Electrical Industry 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.

DIFFERENCE BETWEEN THE GFI POD FORM AND THE PRESENTED FINANCIAL STATEMENTS

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

(HRK)	**GFI POD**	**IFRS**	**Difference**	**Explanation**
Property, plant and equipment (AOP 010)	413,214,642	248,421,219	164,793,423	Investment property and right-of-use assets are presented separately in IFRS financial statements as required by IAS 40 and IFRS 16.
Investment property	-	163,159,694	(163,159,694)	
Right-of-use assets	-	1,633,729	(1,633,729)	
Total	*413,214,642*	*413,214,642*	-	

(HRK)	**GFI POD**	**IFRS**	**Difference**	**Explanation**
Receivables from Group entities (AOP 47)	9,447,805	-	9,447,805	Receivables from related parties in IFRS report include receivables from Group entities and receivables from associates and joint ventures while the GFI POD form categorizes separately receivables from Group entities and associates
Receivables from associates (AOP 48)	16,256,928	-	16,256,928	
Receivables from related parties	-	25,704,733	(25,704,733)	
Total	*25,704,733*	*25,704,733*	-	

(HRK)	**GFI POD**	**IFRS**	**Difference**	**Explanation**
Liabilities to Group entities (AOP 096)	1,173,304	-	1,173,304	According to the new requirements of IFRS 16, the Company presented separately long-term and short-term lease liabilities, while in the GFI POD form lease liabilities are presented as long-term and short-term liabilities to Group entities and other than to Group entities
Other short-term liabilities (AOP 105)	71,734		71,734	
Long-term lease liabilities	-	1,245,038	(1,245,038)	
Short-term lease liabilities	-	403,245	(403,245)	
Liabilities to Group entities (AOP 108)	25,470,080	25,066,835	403,245	
Total	*26,715,118*	*26,715,118*	-	

The Company has changed classification of dividends received from subsidiaries and associates within the statement of profit or loss and other comprehensive income as presented in Note 2.23. In accordance with IAS 1, the change has been made retrospectively and comparatives in the statement of profit and loss and other comprehensive income have been reclassified accordingly. The difference between profit and loss statement items presented in the GFI POD form and audited financial statements is presented below:

(HRK)	**GFI POD**	**IFRS**	**Difference**	**Explanation**
Other costs (AOP 142)	(18.655.661)	-	(18.655.661)	As required by IFRS 9 impairment gains/losses on financial assets are presented separately in the IFRS report while in the GFI POD form they are presented within other costs.
Other costs	-	(19.331.190)	19.331.190	
Gains on impairment of financial assets	-	675.529	(675.529)	
	(18.655.661)	*(18.655.661)*	-	

BUSINESS EXPECTATIONS FOR 2020

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

In 2020, Končar – Electrical Industry Inc. plans to achieve a positive business result in the amount of HRK 27.2 million. Compared to the result achieved in 2019, the projected profit is higher by HRK 19.8 million.

Total operating income is planned in the amount of HRK 114.3 million. In the operating income, income from sales amounts to HRK 113.2 million. Income from sales is planned to include income from fees for using the company name, trademark and service mark and fees for joint marketing activities in the amount of HRK 26.3 million, income from property management in the amount of HRK 24.0 million and other operating income in the amount of HRK 2.6 million, income from dividends of subsidiaries in the amount of HRK 35 million and income from dividends of the associated company in the amount of HRK 25.3 million. Other operating income amounts to HRK 1.1 million.

Total operating expenses are projected at HRK 88.1 million, down 2.1% from the 2019 estimate.

Financial income is projected to amount to HRK 1.0 million.

Final note:

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

The Company is closely monitoring the situation regarding the impact of COVID-19 and its potential impact on business. The outbreak of COVID 19 has not had a significant impact on the operations of the the Company and all Končar Group companies follow the recommendations of the Emergency Task force and the Croatian Institute of Public Health. Workers that are able to work from home do so, while the production has been organized in shifts to allow for social distancing. Workers who have spent some time in the areas affected by the outbreak or who have been in contact with infected persons are implementing the measure of self-isolation. Of 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 on the operations of subsidiaries, which would consequently affect the operations of the Company itself, depend primarily on how long the extraordinary measures will be applied for, and on several factors that can be described as follows:

- 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 finalisation of contracts by involving contracted assembly projects at clients' premises and Contract handover
- Risk of production downtime due to unavailability of workers in case the infection spreads to a segment of production employees who cannot work from home

The market activity of subsidiaries is therefore exposed to global disruptions in supply chains and product delivery ducts, which may have a negative impact on the Company's 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 this novel coronavirus on the Company. 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 Company considers this event to be a non-adjusting post balance sheet event.

After the reporting date and until the date of approval of these financial statements, other than the events stated above, there were no events that would have a significant impact on the financial statements of the Company for 2019, and that should, consequently, be disclosed.