

KONČAR GROUP MANAGING BOARD BUSINESS REPORT
January – June 2019

The KONČAR Group consists of KONČAR – ELEKTROINDUSTRIJA d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) as the Mother Company and 14 Daughter Companies in which the Mother Company has the prevailing interest (more than 50 % of votes at the Annual / Extraordinary General Meeting). Besides, the Mother Company has a minority managing interest in three companies, 2 Associated Companies, i.e. Končar – Energetski transformatori (Končar – Power Transformers) and Elkakon d.o.o (Elkakon Ltd.) and a joint venture, i.e. TBEA Končar Instrument Transformers Ltd, China. Elkakon Ltd. and TBEA Končar Instrument Transformers Ltd, China are indirectly owned by the Mother Company. KONČAR-XD Visokonaponska sklopna postrojenja (in English: KONČAR – XD High Voltage Switchgear) with headquarters in Zagreb was established as a joint undertaking of Končar – Electrical Industry Inc. and XD Group from China, each partner owing 50 per cent of the company, in December, 2018.

Investments into associated companies are presented in consolidated financial statements using the equity method.

The number of dependant companies operating within the Group is changed compared to the previous reporting period. Stocks of Končar – Kućanski aparati (in English: Končar – Household Appliances) were sold pursuant the M&E buyout model during the second quarter on the basis of the previously passed decisions on the restructuring of companies that did not run business within the frames of the core business of the Group and the stated company does not belong to the Končar Group any more. A part of the production programme of the company Končar – Niskonaponske sklopke i prekidači (in English: Končar – Low Voltage Switches and Circuit Breakers) was selected and sold to the Buyer - Lovato Electric s.p.a. from Bergamo. Lovato Electric s.p.a. has continued manufacture of rotary cam switches taking over an adequate number of employees whose vested rights from the Collective Labour Agreement were protected showing the care about the continuation of the manufacture and keeping of jobs.

It is expected that the stated transactions would have a positive influence on the profitability of the Končar Group business operations during the following period.

Companies belonging to the Group are legally independent companies supervised, strategically directed and supported by the Mother Company through company supervisory boards and annual general / extraordinary meetings in accordance with the Law on Trading Companies, Statutes of KONČAR - ELEKTROINDUSTRIJA d.d. (KONČAR – ELECTRICAL INDUSTRY Inc.) and Statutes of the Group Companies. The Mother Company also manages a part of assets that are not invested into companies, but they offer a direct or indirect financial support to the marketing and sales of products and equipment of associated companies as a credit and warranty potential.

The potential liability of Končar - Elektroindustrija d.d. (Končar – Electrical Industry Inc.) for the total issued warranties as of 30/06/2019 amounts to HRK 405.4 million representing an increase by HRK 90.3 million compared to 31/12/2018.

Out of the total warranties and joint and severe securities HRK 220.4 million belongs to performance guarantees.

The Končar Group business activities are divided into business areas:

- **Generation, Transmission and Distribution of Electrical Power and Transport:** designing and construction of plants and equipment for generation, transmission and distribution of electric energy, electric locomotives, Electric Multiple Units, tramcars and side-line electric traction equipment;
- **Industry:** electric motor drives, low voltage electric equipment;

- Trade: serial products and low voltage electrical apparatuses;
- Special activities: research and development of products and infrastructural services.

As of 30/06/2019 the Končar Group employed 3,384 employees

Managing Board:

Darinko Bago	President of the Managing Board
Gordan Kolak	Deputy President of the Managing Board
Miki Huljić	Member of the Managing Board in Charge of Finances
Marina Kralj Miliša	Member of the Managing Board in Charge of Legal, Common and Personnel Affairs
Miroslav Poljak	Member of the Managing Board in Charge of Generation of Electric Power, Corporate Development and ICT
Ivan Tomšić	Deputy Member of the Managing Board in Charge of Complex Project Export Coordination and Digital Transformation

Supervisory Board:

Petar Vlaić	President of the Supervisory Board by 30 th June, 2019
Luka Gašpar	President of the Supervisory Board since 1 st July, 2019
Josip Lasić	Deputy President of the Supervisory Board
Nikola Anić	Member
Jasminka Belačić	Member
Vicko Ferić	Member
Branko Lampl	Member
Joško Miliša	Member
Vladimir Plečko	Member

Končar – Electrical Industry Inc. Annual General Meeting of 6th June, 2019, passed the decision nominating Luka Gašpar, a master of technical sciences, to be a Supervisory Board Member with the term of office from 1st July 2019 to 12th July, 2020. The Supervisory Board elected Luka Gašpar to be the President of the Supervisory Board anonymously. The term of office of Končar – Electrical Industry Inc. Supervisory Board President and Member, Petar Vlaić, terminated on the basis of his resignation pursuant the Law on Amendment of the Law on Obligatory Pension Funds, Article 42 (Official Gazette of the Republic of Croatia NN 115/18) on 30th June, 2019.

As of 30/06/2019 the share capital of Končar – Electrical Industry Inc. amounted to HRK 1,208,895,930 divided into 2,572,119 shares each one having the nominal value of HRK 470.00.

Končar Group Business Results for January to June, 2019

The Končar Group Companies generated consolidated incomes from sales of products and services in the amount of HRK 1,255.9 million for the time period from January to June, 2019 that is higher by 4.3 % compared to the achievement for the same time period of 2018. If the data for the Company Končar – Household Appliances that does not operate within the Končar Group were excluded due to the comparability of data from the achievement of the second quarter of 2018, the achieved incomes from sales

of products and services for the first quarter of 2019, would be higher by 8.7 % compared to the achievement of the same time period of the previous year.

Operating incomes were generated in the amount of HRK 1,300.8 million making them higher by 0.7 % than the achieved for January to June of 2018. If operating incomes of the company Končar – Household Appliances were excluded from the operating incomes achieved during the same reporting period of 2018, the increase of the operating income would amount to 4.7 %.

Within operating incomes, incomes from sales of products and services amount to HRK 1,255.9 million or 96.5 % of the total operating incomes. Incomes from cancellation of provisions amount to HRK 26.5 million and they are lower by HRK 28.2 million compared to the achievement of the same time period of the previous year. Other operating incomes are achieved in the amount of HRK 18.5 million and they are lower by HRK 14.9 million compared to the time period from January to June of 2018.

Operating expenses were generated in the amount of HRK 1,278.5 million and they are higher by 2.5 % than the achievement for the same time period of 2018. Out of operating expenses material costs (costs of raw materials and consumables, costs of sold goods and other external costs) were generated in the amount of HRK 884.1 million. A share of material costs in operating incomes (adjusted by changes in inventories) amounted to HRK 66.1 % representing an increase by 1.8 % compared to the same time period of the previous year.

Personnel costs for the first half year of 2019 amounted to HRK 305,7 million and they were lower by 2.7 % compared to the same time period of the previous year. A share of personnel costs in operating incomes (adjusted by changes in inventories) amounted to 22.8 % making it lower by 0.3 percentage points compared to the time period from January to June of 2018.

Other operating incomes amounted to HRK 66.6 million and they are lower by 1.1 million compared to the first half year of 2018. Other operating expenses referred to non-productive services, intellectual services, insurance premiums and other.

Provisions for the time period from January to June of 2019 were at the level of the achievement of the same time period of the previous year and amounted to HRK 9.1 million.

The difference between operating incomes and operating expenses gives the profit of operating activities in the amount of HRK 22.4 million that is lower by HRK 21.8 million than the achievement for January to June of 2018.

A share in profits of associated entrepreneurs amounts to HRK 3.4 million (a part of profits of Končar Power Transformers in the amount of HRK 4.3 million and a part of the loss of Končar XD in the amount of HRK 0.9 million). The share in profits of associated entrepreneurs is lower by HRK 8,7 million compared to the achievement during the same time period of the previous year.

The difference between financial incomes and expenses is positive and it amounts to HRK 0.7 million.

The profits from operating activities in the amount of HRK 22.4 million, the share in the profit of the associated entrepreneurs in the amount of HRK 3.4 million and the positive difference between financial incomes and expenses in the amount of HRK 0.7 million make consolidated profits before tax in the amount of HRK 26.5 million. The profit tax cost amounts to HRK 10.3 million, while the profit after tax amounts to HRK 16.2 million distributed to the non-controlling interest (the minority interest) in the amount of HRK 10.5 million and to the Group Mother Company shareholders HRK 5.7 million.

The generated consolidated financial result of the Group is lower than the achieved during the same time period of the previous year utmost due to the blockage of several significant agreements, among others the project of construction of Vranduk Hydro Power Plant in Bosnia and Herzegovina. Performance of an agreement for the delivery of equipment to an Iranian buyer was blocked due to a new cycle of sanctions applied to Iran.

Out of 15 Končar Group Companies, 14 Companies generated a positive financial result, while a company expressed a loss in the total amount of HRK 19.5 million that is completely attributable to the Mother Company shareholders.

On the domestic market the income was generated in the amount of HRK 444.8 million making it lower by HRK 57.6 million or 11.5 % than the achievement of the second quarter of 2018.

Within the structure of incomes from sales of products and services on the domestic market, incomes from sales of products and services to companies within the Croatian Power Authority (HEP) (HEP – Generation, HEP – ODS – Distribution System Operator, HOPS – Croatian Transmission System Operator) were generated in the amount of HRK 161.1 million (36.2 % of the total generated incomes from sales of products and services in the domestic market).

Incomes from sales of products and services on the foreign market were generated in the amount of HRK 811.1 million that was higher than the achievement for the same time period of the previous year by 15.6 %. If the income achieved by the Company Končar – Household Appliances was excluded from the achievement of 2018 due to the comparability of data the export generated from January to June of 2019 would be higher by 17.3 % compared to the achievement of the same time period of 2018.

The share of the export amounted to 65 % of the total incomes from sales of products and services. The most significant export was performed to Germany in the amount of HRK 113.6 million or 14 % of the total export. In the market of Sweden, the export in the amount of HRK 91.6 million or 11.3 % of the total generated export was achieved. Goods and services in the amount of HRK 74.8 million were exported to Austria, HRK 49.3 million to the U.A.E., and 39.7 million to the Netherlands.

Compared to the same time period of the previous year, a significant increase of incomes from sales of goods and services in export was generated in the markets of U.A.E (HRK 44.5 million more), Austria (HRK 35.4 million more) and Germany (HRK 29.2 million more).

During the time period January to June, 2019, the Končar Group Companies contracted new projects in the amount of HRK 1,699.3 million. Out of the total contracted new projects the amount of HRK 631 million (37 % of the total contracted projects) referred to the domestic market, and the amount of HRK 1,068.3 million (63 % of the total contracted projects) referred to contracts for export. Compared to the same time period of the previous year, it was contracted HRK 147.5 million or 9.5 % more new projects.

Out of the projects contracted in the domestic market during the time period from January to June of 2019, the majority refers to the HEP Group Companies (Croatian Power Authority - HEP – Generation, HEP – ODS – Distribution System Operator, HOPS – Croatian Transmission System Operator) in the amount of HRK 200.6 million or 31.8 % of the total new project contracted in the domestic market and newly contracted projects for the Croatian Railways - HŽ Infrastructure and HŽ Passenger Transport in the amount of HRK 86.2 million or 13.7 % of the total projects contracted in the first half year of 2019.

The majority of project contracted in the foreign market during the time period from January to June of 2019 (16 %) refers to the market of Sweden in the amount of HRK 172.6 million. For the market of Germany new projects in the amount HRK 125.9 were contracted and for the market of Austria the amount of HRK 89.4 million was contracted. During the first half year new projects in the amount of HRK 54.8 million were contracted for the market of Norway, while the newly contracted projects for Finland amount to HRK 49.8 million.

As of 30th June, 2019, the contracted project status amounted to HRK 3,815.2 million that was higher by 13 % than the contracted project status at the beginning of the year.

Within the status of the contracted projects as of 30th June, 2019, the Contract for Vranduk Hydro Power Plant in Bosnia and Herzegovina is placed in the amount of HRK 366.9 million. In the estimation of the contracted projects for the 3rd and 4th quarter of 2019, corrections were made in the amount of the stated contract.

The status of the total consolidated assets and the asset sources as of 30th June, 2019 amounts to HRK 3,712.5 resulting in a decrease by HRK 14.7 million or 0.4 %.

Within the structure of asset sources, the registered capital, provisions, retained profits, profits of the current year and the equity belonging to the not controlling interest amounted to HRK 2,501.6 million that was by HRK 35.9 million less compared to the level as of 31st December, 2018 and they made 67.4 % of the total sources. Long term provisions amounted to HRK 198 million and they made 5.3 % of the total sources. Long term and current liabilities amounted to HRK 894,3 million making them higher by HRK 67.3 million then the status at the end of 2018 and they made 24.1 % of the total sources.

Within the current liabilities, trade payables amounted to HRK 357.8 million and made 9.6 % of the total sources. Total loans (long term and current) amounted to HRK 215.9 million and they were higher by HRK 40.9 million compared to the status as of 31st December, 2018 and they made 5.8 % of the total sources.

Long term asset sources (equity, long term provisions and long-term liabilities) were higher by HRK 626.7 million compared to the long-term assets and the average level of inventories. Current assets were 2.7 times higher than current liabilities. The consolidated balance sheet structure shows adjustment of asset sources and investments as well as a good financial stability of the Končar Group

Signed in the name of the Managing Board

Končar – Electrical Industry Inc.
Managing Board President
Darinko Bago

26th July, 2019

**STATEMENT OF PERSONS RESPONSIBLE FOR COMPILATION OF THE KONČAR GROUP CONSOLIDATED
FINANCIAL STATEMENTS**

This Statement of the Končar – Electrical Industry Inc. Zagreb Managing Board is given regarding compilation and publishing of unaudited unconsolidated Financial Statements of Končar – Electrical Industry Inc. and unaudited unconsolidated Financial Statements of the Končar Group for the time period from January to June of 2019.

Unaudited unconsolidated Financial Statements of Končar – Electrical Industry Inc. and unaudited unconsolidated Financial Statements of the Končar Group are made in accordance with the Accounting Law of the Republic of Croatia and the International Standards for Financial Reporting applied in the European Union and they show a complete and true presentation of assets and liabilities, profit and loss, financial position and business operation of the Mother Company and business operation of the Group and all of its associated companies included into consolidation.

Unaudited unconsolidated Financial Statements of Končar – Electrical Industry Inc. and unaudited unconsolidated Financial Statements of the Končar Group for the time period from January to June of 2019 are approved by the Company Managing Board and while the Company Supervisory Board has took notice of them.

Signed in the name of the Managing Board

Končar – Electrical Industry Inc.
Managing Board President
Darinko Bago

26th July, 2019

Note:

Consolidated Financial Statements were compiled by expert services of Končar – Electrical Industry Inc.

Contract persons:

- Ervin Filipčić, Managing Board Office Head, ervin.filipcic@koncar.hr
- Ivana Baždar, Financial Manager of Končar – Electrical Industry Inc.
- Marina Markušić, Accounting Expert, marina.markusic@koncar.hr