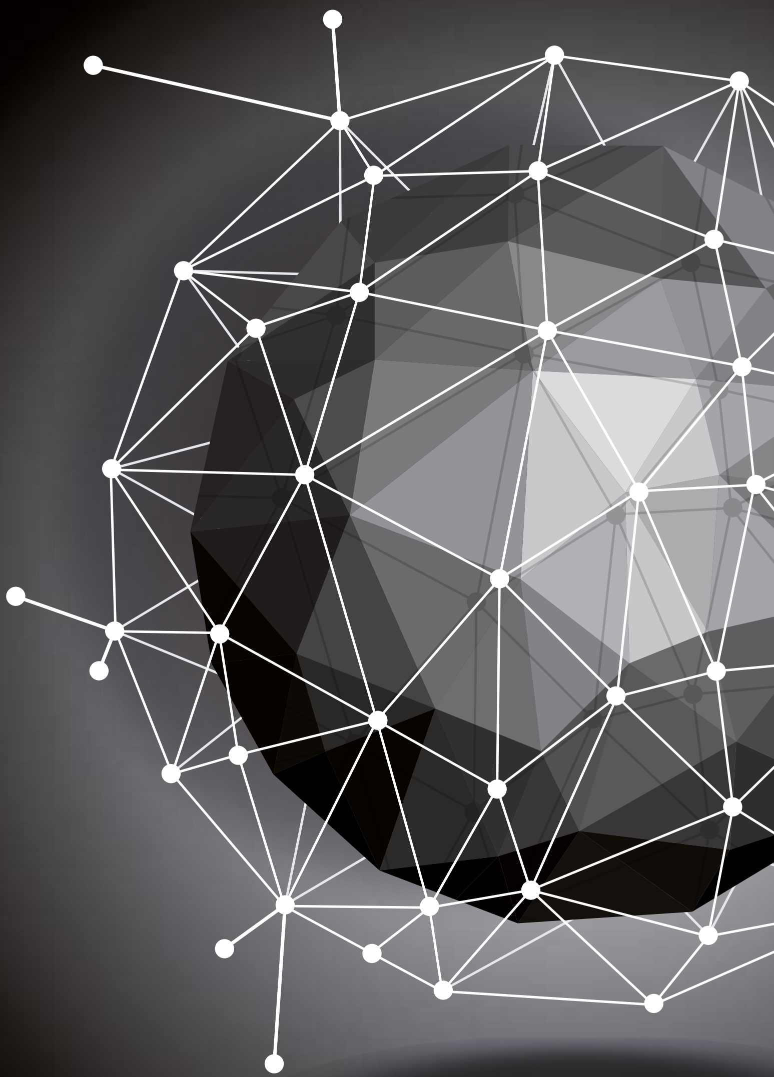
Tradition. Knowledge. Responsibility.

Annual Report 2018



KONČAR D&ST

ISO 9001:2015 / ISO 14001:2015 / OHSAS 18001:2007

Annual Report

2018

Končar Distribution and Special Transformers, Inc.

Velebit

Contents

I

MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2018

1. Introductory Word by the Management Board

2018 - YEAR OF GROWTH AND PREPARATION FOR A NEW STRATEGIC INVESTMENT

The 2018 continued the sequence of successful business years of Končar D&ST. Total sales of goods and services in 2018 amounted to HRK 918 million (2017: HRK 892 million), which was a 3% increase on annual level. Export operations of HRK 763 million (2017: HRK 746 million) reached 83% of sales and exceeded by 2% the preceding year exports.

The 2018 profit before taxation was HRK 50.7 million (net profit: HRK 49.2 million) which was by 18% higher than in 2017, when it was HRK 43.1 million (net profit: HRK 41.5 million).

As a result of the IFRS 15 application in the Company's 2018 Financial Statements, its operating revenues grew by HRK 16.9 million and the profits grew by HRK 5.1 million.

The balance of total contracts at the end of the 2018 was HRK 606 million which, compared to HRK 558 million at the end of 2017, represented a 9% increase.

Investment activities in 2018, mostly for purchase of new production, testing and IT equipment and improvement of working conditions in the production, amounted to HRK 11.8 million (2017: HRK 12.3 million).

In 2018, within the scope of the strategic investment project in the production of distribution transformers, the production hall and the main equipment were contracted.

Throughout 2018, the Company continued providing technical and organisational support to the acquired company PET Poland with the aim of raising its operations to the market level as soon as possible.

In 2018, the number of employees grew by 47 and reached 586. The project of strengthening the technical, sales and production sector through inclusion of new highly educated employees continued. Parallel with the hiring, significant funds were invested in specialized software for product development and design and business management system.

The Company operates in alignment with the internationally recognized standards and social responsibility requirements. Quality Management Systems according to ISO 9001:2015, Environmental Management System according to ISO 14001:2015 and Occupational Health and Safety Management System according to OHSAS 18001:2007 were successfully maintained and recertified within the continuous improvement process.

In 2018, a new issue of the Company stock was conducted by increasing the share capital through conversion of statutory reserves formed out of profits. Total number of shares after the new issue increased twice and now amounts to 511,232 shares.

Končar D&ST ordinary and preferred shares in 2018 were listed on the regular market quotation of the Zagreb Stock Exchange. At the beginning of the year, the ordinary Končar D&ST share price was around HRK 1,640 and at the end of the year it was around HRK 990 (adjusted price: HRK 1,980), which was a 21% growth.

Considering highly demanding conditions of the transformer market, the overall operating results of Končar D&ST in 2018 were in our opinion successful and we believe the Company is well prepared for future challenges. Harmonized interests and mutual confidence among our shareholders, employees, partners and banks have been of great importance for such good performance. The Management of Končar D&ST Inc. is thankful for such support and trust and is pleased to present this Annual Report for 2018.

For the Management Board of the Končar D&ST Inc.

Ivan Klapan
President of the Management Board

2. Major 2018 Figures and their Comparison with 2017, 2016 and 2015

	INDEX 2018/2017
Net profit	118.5
Sales revenues	102.9
Export	102.3
Balance of orders at year's end	108.6

	2018	2017	2016	2015	2018	2017	18/17
	HRK ('000)				EUR ('000)		index
Sales							
Croatia	154,879	146,363	133,417	150,969	20,890	19,619	105.8
Export	763,105	745,654	719,950	640,265	102,926	99,952	102.3
Total*	917,984	892,017	853,367	791,234	123,816	119,572	102.9
Balance of orders at the year's end							
Croatia	23,720	22,827	51,460	17,971	3,199	3,060	103.9
Export	582,428	535,281	570,309	671,852	78,557	71,752	108.8
Total	606,148	558,108	621,769	689,823	81,756	74,812	108.6
Annual sales per employee	1,622	1,670	1,654	1,631	219	224	97.1
Investments	11,767	34,642	19,554	8,086	1,587	4,644	34.0
Net profit**	49,182	41,508	35,930	30,065	6,634	5,564	118.5
Dividend HRK / share							
Ordinary	***	81.20	56.23	47.05			
Preferred	***	81.20	56.23	47.05			
Net profit / sales in %	5.4%	4.7%	4.2%	3.8%			
Net profit per total equity	17.9%	16.0%	15.1%	13.7%			
Total equity and reserves as of 31/12	323,930	300,633	273,499	249,595	43,691	40,299	107.7
No. of employees							
Average	566	534	516	485			106.0
As of 31/12	586	539	532	492			108.7

Note: Average exchange rate
2015: EUR 1 = HRK 7.6096
2016: EUR 1 = HRK 7.5294
2017: EUR 1 = HRK 7.4601
2018: EUR 1 = HRK 7.4141

* Total 2018 sales include the IFRS 15 effect of HRK 16.9 million.
** Net 2018 profit includes the IFRS 15 effect of HRK 5.1 million.
*** Dividend amount will be known after the General Assembly.

3. Organisation Scheme Končar D&ST Inc. in 2018

Supervisory Board
Darinko Bago, president
Miroslav Poljak, deputy
Jozo Miloloža, member
Davor Mladina, member
Vlado Grund, member

Auditors
PricewaterhouseCoopers d.o.o.

MANAGEMENT BOARD
President of the Management Board
Office of the Management Board

- **PROFIT CENTRE MEDIUM POWER TRANSFORMERS**
  - SALES & MARKETING: Sales North; Sales South; After sales service
  - TECHNICAL DEPARTMENT: Electrical Design; Development Mechanical Design; Mechanical Design MPT I; Mechanical Design MPT II
  - PRODUCTION PLANNING: Production planning; Technology; Warehouses
  - PRODUCTION: Insulation; Cores; Windings; Assembly I; Assembly II
  - QUALITY: Test station; Final Inspection
  - DISPATCHING & PACKING
- **PROFIT CENTRE DISTRIBUTION TRANSFORMERS**
  - SALES & MARKETING: Sales North; Sales South; After sales service
  - TECHNICAL DEPARTMENT: Electrical Design DT; Electrical Design ST; Development Mechanical Design; Operational Mechanical Design
  - PRODUCTION PLANNING: Production Planning; Warehouses
  - PRODUCTION: Cores; Windings I+II; Assembly AP; Final Assembly; Production SDT
  - QUALITY: Test Station; Final Inspection
- **FINANCE, ACCOUNTING & PURCHASING**
  - FINANCE & ACCOUNTING: Finance, Accountancy & Controlling; Legal Afairs & HR
  - PURCHASING
- **PRODUCT & BUSINESS DEVELOPMENT**
  - STRATEGIC COMMERCIAL & STRATEGIC INVESTMENT: Strategic Marketing; Maintenance; Strategic Investment; Transfer of Technology
  - PRODUCT & PRODUCTION DEVELOPMENT: Research, Product Development Standardisation; SW Support; Production Development
  - PROJECT PKP-DT
- **ORGANISATION & SYSTEM DEVELOPMENT**: ISO 9001, ISO14001, OHSAS 18001; Organisation Development; Incoming Inspection; Safety at work
- **IT DEPARTMENT**

4. General Position of the Company

Good operating results in 2018 and several preceding years have strengthened the Company's financial position and provided it with adequate financial stability and a good basis for further development.

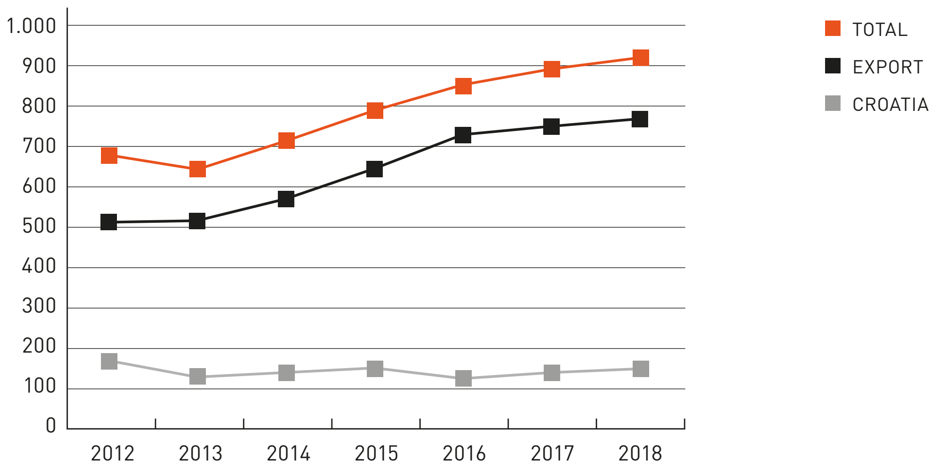
Constant organizational adjustments to new external and internal conditions - both in the range of distribution transformers and that of medium power transformers - have raised the Company's competitive advantage on the market in such demanding environment.

Due to prioritizing of sales and development, as well as through recruitment and systematic onboarding of young experts, providing incentives to the employees, investments in product development and production modernisation, the Company is ready to face challenges of complex market conditions expected in future.

The strategic investment named "Increasing the Distribution Transformer Production Capacities" will increase the technology and production capacities of Končar D&ST and enable even better positioning on the distribution transformer market.

Investment in Power Engineering Transformatory Sp. z o.o. (PET) Poland has opened another possibility of approaching new markets.

SALES TRENDS (HRK mil.)



5. Corporate Organisation and Management in 2018

During 2018, Končar D&ST Inc. was managed by the Management Board consisting of the following members:

Ivan Klapan	President of the Management Board
Petar Bobek	Board Member, Business Development Director (since 01 April 2018)
Vanja Burul	Board Member, Director of the MPT Profit Centre
Martina Mikulić	Board Member, Director of the DT Profit Centre
Petar Vlaić	Board Member, Director of Finance and Procurement

The business processes in 2018 were organised through Distribution Transformers (DT) Profit Centre and Medium Power Transformers (MPT) Profit Centre and the Common departments covering the entire company. The Profit Centres were managed by the team of directors consisting of the Profit Centre Director and Directors of Sales, Technique and Production.

In 2018, the Company operated on a single location in Croatia, at the address: Josipa Mokrovića 8, 10090 Zagreb.

PET Sp. z o.o., the company in which Končar D&ST d.d. acquired the majority share on 08 May 2017, operates in Czerwonak, Gdinjska 83, Poland.

In order to manage the transport and assembly of medium power transformers in Morocco, there is a branch office in Casablanca, Morocco operating under the name Koncar D&ST Succursale Maroc.

6. Affiliate Company PET Poland

Through the investment in Power Engineering Transformatory Sp. z o.o. Czerwonak (PET) Poland, Končar D&ST Inc. became, on 08 May 2017, its majority owner with the 74% share. The company is engaged in sales, development, production and repair of medium power transformers of 5 to 63 MVA and 145 kV.

The company operates mostly in the market of Poland. In 2018, through the adopted investment plan, it modernized its production and testing equipment and adopted advanced technology solutions and business organization, strengthening its position in the medium power transformer market in Poland. Considering the character of the investment, the return on investment is expected on medium term basis.

On 31 December 2018, the company PET had 58 employees.

7. Corporate Governance Code

The Company implements most of the provisions of the Code of Corporate Governance, prepared by Zagreb Stock Exchange and Croatian financial services supervisory agency and released on the Zagreb Stock Exchange official website (www.zse.hr). Exceptions are certain provisions the Company finds non-applicable in the prescribed form, in particular:

- Supervisory Board and Audit Committee consist mostly of non-independent members, which is deemed appropriate in the current Company position within the Končar Group
- The Company has no long-term succession plan established but it does have a sufficient number of highly qualified, experienced and capable candidates within the Company for assuming all key positions where required
- There is no commission for appointments and rewards, but the appointment of new Management Board members and key management staff takes place in a well-organized manner and the rewarding policy is deemed adequate to the Company's position and its performance.

Decisions on rewarding Supervisory Board members are made by General Assembly and decisions on rewarding Management Board members are made by Supervisory Board. The Supervisory Board rewards (in a total amount for all its members) and the Management Board rewards (in a total amount for all its members) are set out in the Auditor's Report.

The Company finds that the non-implementation of the respective Code provisions does not impair the high level of transparency of its operations and will not significantly affect investment decisions by either current or prospective investors.

A questionnaire with responses to 63 questions contains precise answers regarding the implemented and non-implemented provisions. The questionnaire is publicly available on the Zagreb Stock Exchange official website (www.zse.hr) and the Company's website (www.koncar-dst.hr).

Within its organizational model, in which the Company operates and in which all its business processes take place, the Company has developed internal control systems at all important levels. These systems, among other things, allow for an objective and fair presentation of the financial and business reports.

Information about significant shareholders is available on daily basis on the official Central Depository & Clearing Company website (www.skdd.hr), while its status on 31 December 2018 and 31 December 2017 was also published in the audit report. The shareholders are allowed the electronic voting with their attendance at General Assembly. Preferred shares do not provide any voting rights.

8. Market Position and Sales by Countries and Product Groups

Following the trends from the previous years, the market in 2018 may in general be characterized as stable in demand with a further increase of supply. In addition to the constant pressure of the Asian producers in the Near East and Africa, their engagement on the European market has also intensified. Also, the market supply and demand in 2018 were also under impact of the trend of consolidations and changes in transformer manufacturer ownership structure that will in future lead to market changes depending on the new owners' policies.

The continuous engagement on the market, improvement of relations with customers and stakeholders, monitoring the product development trends and organizational changes aimed to improve the market position on the new markets has led to a stable growth in sales.

In 2018, the sales of goods and services grew by 2.9% from 2017 and, with the included IFRS 15 effect of HRK 16.9 million, amounted to HRK 918 million.

Per product groups, changes in 2018 compared to 2017 were:

- Distribution transformers: growth by 18.1 %
- Medium power transformers: decline by 3.0 %
- Dry and special transformers: decline by 17.4 %
- Other goods and services: decline by 0.4 %

Compared to 2017, there were total 0.7% more transformers produced by MVA and 7.4% more by total weight.

Sales by major markets were as follows:

Croatia: the 2018 sales reached HRK 154.9 million which, compared to HRK 146.4 million in 2017, was a 5.8% growth.

Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania, Albania - in 2018, the sales reached HRK 196.1 million which, compared to HRK 203.5 million in 2017, was a 3.6% decline.

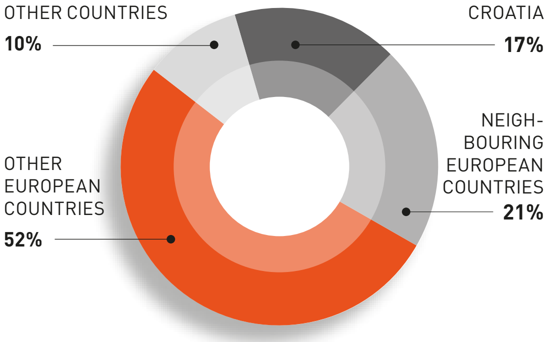
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, United Kingdom, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta - sales in 2018 reached HRK 479.3 million which, compared to HRK 478.9 million in 2017, was an increase by 0.1%.

Other Asian, African and American countries: in 2018, deliveries worth HRK 87.7 million were made that, compared to HRK 63.2 million in 2017, constituted a growth by 38.8%.

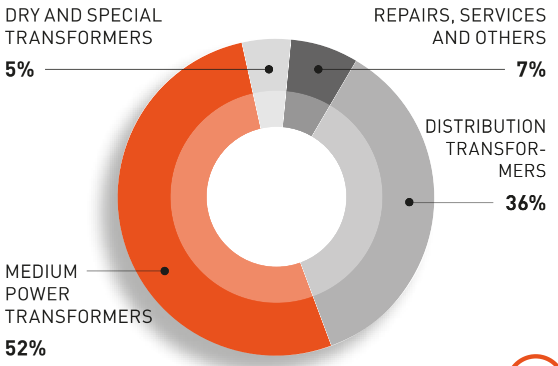
The sales activities in 2018 led to total new orders of HRK 949 million or 15.7% more than in 2017.

The balance of orders at the year's end was HRK 606 million or 8.6% more than at the end of 2017.

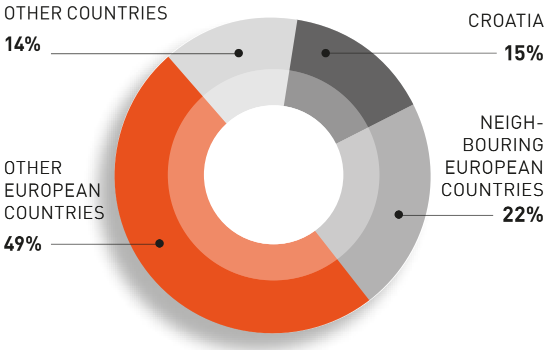
SALES STRUCTURE PER MARKET (2018)



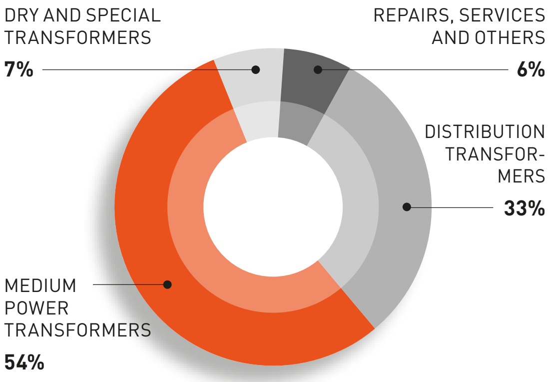
SALE STRUCTURE PER PRODUCTS (2018)



NEW CONTRACTS PER MARKETS (2018)



STRUCTURE OF NEW CONTRACTS PER PRODUCTS (2018)



9. Financial Position (Balance Sheet)

The Company's total assets on 31 December 2018 were HRK 721.3 million and their growth, compared to the balance on 31 December 2017, was HRK 74.8 million or 11.6%.

The share of fixed assets in the overall assets was HRK 165.9 million or 23%.
The balance of fixed assets was lower by HRK 7.6 million than on the last day of the preceding year. The reason for the reduction lies in long-term financial assets, where investments in the affiliated company PET Poland were adjusted by HRK 7.4 million.

Current assets in the amount of HRK 555.4 million formed 77% of the overall assets on 31 December 2018. Compared to the balance of the former year, the recorded growth was HRK 82.4 million or 17%. The growth was mostly result of growth in two largest items of current assets, namely inventories and receivables. On 31 December 2018, the inventories were HRK 259.3 million, which was an increase by approximately HRK 60 million or 30% compared to the same date the year before and formed 36% of the Company's total assets. All three classes of inventories recorded similar growth compared to the former balance. Receivables from customers grew by HRK 29.1 million or 19% compared to 31 December 2017 and amounted to HRK 181.3 million or 25% share in the overall assets. The most liquid item of assets, cash, formed 14% of total assets and, on the last day of 2018, amounted to HRK 101.9 million or 13.5% less than the year before, when it had amounted to HRK 117.9 million.

In alignment with the new IFRS 15 governing the revenue recognition issue, which came into effect on 01 January 2018, the Company recorded in its balance sheet the costs of contracts aquisition in form of agent commissions related to the record of orders on 31 December 2018. The value of the commissions was HRK 8.2 million, which was recorded in the assets and liabilities as contractual assets or contractual liabilities respectively.

On the side of the sources of assets i.e. liabilities, the permanent and long-term sources amounted to HRK 460.3 million and formed 64% of total liabilities while the share of short-term sources was HRK 261 million or 36%. Reserves and equity grew as a result of consistent policy of retaining part of profits in the reserves as well as growth in current year profit and they amounted to HRK 323,9 million or 45% of the liabilities. Within this item, there was a change from 2017 through increase in share capital from company funds, doubling the share capital to HRK 153.4 million through the issue of new ordinary and preferred shares in 1:1 ratio to the initial balance while statutory reserves were reduced by the same amount. In equity and reserves, the retained profit or transferred loss item appeared, which was negative and amounted to HRK -5,1 million as a result of application of the new IFRS 15 retroactively from 01 January 2018. All the effects of this application are detailed in the next section below.

Among other liabilities, the most significant growth was in liabilities to suppliers, which grew by HRK 19.5 million, to the amount of HRK 87.6 million or 12.1% share in total liabilities. They were followed by a significant growth (by HRK 17 million) in the liabilities for advances received. On 31 December 2018, they amounted to HRK 63.1 million or 8.7% of liabilities. Liabilities for the advances received were in 2018 reclassified within the Contract Liabilities item, jointly with the Contract Liabilities from Customer Contracts (HRK 10.1 million) and Contract Liabilities based on Agent Commissions (HRK 11.8 million).

In 2018, indebtedness towards banks did not grow. Instead, due to the timely repayments of the existing loans, the debt was reduced compared to the balance on the last day 2017 and, on 31 December 2018, the total interest-bearing debt was HRK 34.8 million or 4.8% of total sources.

The structure of balance on 31 December 2018 showed good liquidity and financial stability of the Company. Namely, its total fixed assets together with inventories, despite their significant growth, were covered from permanent and long-term sources. The 45% share of equity and reserves and the low interest-bearing debt level in the overall sources point out to relatively low indebtedness ratios.

10. Operating Results (Income Statement) and Share Price Trends

Total 2018 revenues amount to HRK 931.2 million, exceeding the 2017 revenues by HRK 24.5 million or 2.7%.

Revenues from sales amount to HRK 918 million which, compared to the year before, is a growth by HRK 26 million or 2.9%. The revenues were made in the Company's basic activity, through operations in more than 50 countries worldwide, and the value of goods delivered and services provided abroad amounts to HRK 764 million or 83% of sales revenues.

Due to the legal obligation to apply the International Financial Reporting Standard 15 (IFRS 15) governing the recognition of revenues, adopted by the Company retroactively as of 01 January 2018, the effects already recognized in 2017 were included in the 2018 revenues. In alignment with the Standard implementation rules, the effects of some contracts recognized in 2017 based on the principle of recognition "over time" through the percentage of completion were again recognized for 2018. The effect of such recognition were increased revenues from sales in 2018 by HRK 16.9 million and the related profit before taxation by HRK 5.1 million. Profit after taxation was higher by the same amount as the corporate income tax for the effects of these contracts had been paid in 2017. Such recognition of the effect in two different periods led to reduced retained profit in the amount of HRK 5.1 million as mentioned in the preceding section.
In the structure of expenses, the cost of materials and energy as the most significant cost, observed jointly with the change in the value of inventories compared to the revenues from sales was on approximately same levels as in 2017. Staff cost followed by significance and amounted to HRK 130.9 million, recording a 7.2% growth.

Provisions in 2018 amounted to HRK 2.6 million and were significantly lower than in the preceding year, when they were HRK 20.5 million, while all other operating expenses remained approximately on the same levels as in the year before.

Revenues from financial activities were HRK 12.3 million, approximately on the same level as in 2017, while financial expenses were HRK 17.5 million and exceeded the year before by HRK 7.5 million, mostly due to value adjustment of the investments in the affiliated company PET Poland.

All these trends and impacts included, profit before taxation in 2018 amounted to HRK 50.7 million. That was an increase from 2017 by HRK 7.6 million or 17.7%.
The 2018 profit after taxation was HRK 49.2 million and exceeded by 18.5% the 2017, when it was HRK 41.6 million.
Considering the HRK 5.1 million IFRS 15 effect on profit, profit before taxation without that effect would have been HRK 45.6 million and profit after taxation would have been HRK 44.1 million.

Due to the 2018 faster growth in assets compared to revenue, the turnover ratios (particularly of inventories) were lower than in 2017, while profitability ratios improved.

During 2018, the overall trade in both classes of the Company shares (KODT-R-A and KODT-P-A) at the Zagreb Stock Exchange reached HRK 6.3 million while in the year before, it was HRK 4.1 million, which was a growth in trade by more than 50%.

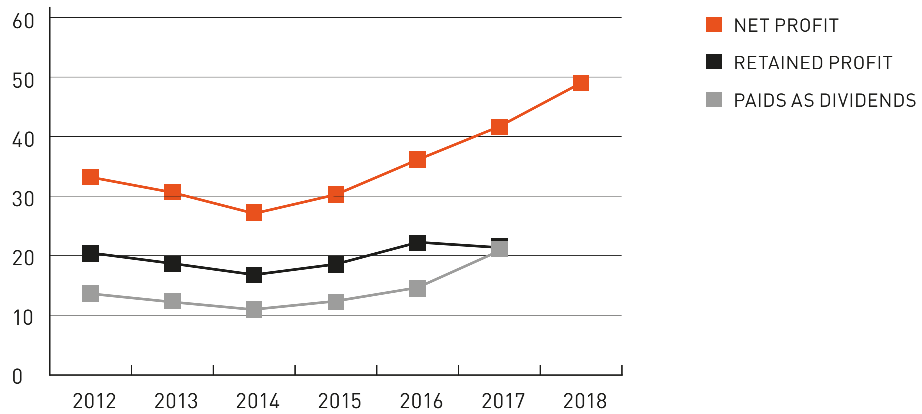
From the beginning of the year until the listing of the new issue of shares (infusion of additional capital), the ordinary share price ranged from HRK 1,640 to 2,180 and the range after that issue and until the year's end was from HRK 990 to 1,490. The last 2018 transaction involving a preferred share was at the price of HRK 1,000 (adjusted price: HRK 2,000), and the last transaction involving an ordinary share was at HRK 990 (adjusted price: HRK 1,980).

P/E ratio by ordinary share price on the last day of 2018 was 10.3.

Market capitalization on 31 December 2018 was HRK 507.3 million while on 31 December 2017, it had been HRK 413.7 million, which was an increase by 22.6%.

In 2018, the Company did not acquire any treasury shares.

NET PROFIT TROUGH YEARS (HRK mil.)



11. Main Operating Risks

Market Risks. Demand for transformers on the target markets of Končar D&ST is one of the main operating risk factors. Global demand for transformers as well as demand on target markets varies significantly in specific periods, depending on a number of factors. Periods of high demand (positive trends) are definitely periods of easier contracting. On the other hand, periods of global recession and economic crisis bring more difficult contracting of new works and the resulting decrease in profit margins.
Supply of transformers by other producers - competition pressure - is another significant risk factor for Končar D&ST operations. Transformer market is generally in most target export markets close to the full competition pattern or a form of mild oligopoly, and the market pressure on majority of the target markets is very strong. The entire transformer industry has been through major changes in the recent 10-20 years with a number of restructurings, winding-ups of plants, opening of new plants, take-overs and mergers (consolidations) and such trends will continue.

Procurement market risks. Prices of major raw materials and supplies for the production of transformers (copper, aluminium, transformer metal sheets, transformer oil, insulation, steel, etc.) have been volatile in the several recent years and sometimes with enormous growth or drop in a relatively short time period.
Considering the available options, the Company protects itself from the risk of sudden changes in prices of strategic raw materials in several ways. As for copper, being a raw material listed on commodity exchange markets (London Metal Exchange), forward contracts with the suppliers are used to agree on quantities and prices for the forward period based on the actual and forecast contracts. As for steel, transformer metal sheets and some important parts, their purchase is contracted with the suppliers on semi-annual or annual basis in order to reduce this risk. Also, in some several-year contracts with customers, the rolling formula is sometimes agreed based on change in the price in materials.

Currency risk is fairly expressed in the Company operations, considering a high percentage of exports and imports in its income and considering that majority of bank loans (both long-term and short-term ones) are expressed in EUR. The Company protects itself from currency risk by forward contracts with banks as well as by internal methods for harmonisation of currency inflow and outflow.

Technology and development risks. At this moment, the Company has at its disposal state-of-the-art technology for the transformer production and appropriate technical solutions for the majority of products within its range. The Company is capable of following technical and technological development at an enviable level. In future, technical and technological lag behind the major competitors is not expected.

Credit risk and liquidity risk. Credit risk is observed as a risk that a certain debtor of the Company (e.g. customer to whom the delivery was made without sufficient security) will not be able or willing to pay its dues to the Company in accordance with the agreed terms, and the Company will therefore incur losses by writing off or reducing such receivables.
Liquidity risk is expressed as a risk that the Company will not be able to fulfil the liabilities to its creditors in the agreed terms.
The Company protects itself from credit risk with collaterals (L/C, guarantees, etc.), and evaluation of customer solvency in cooperation with external solvency and credit rating agencies. Also, certain trade receivables in respect of specific customers are secured at specialized institutions.
The Company has contracts with commercial banks about credit facilities which make possible to surmount its current need for liquid funds promptly and under well-known conditions. Also, receivables with relatively long maturity terms are most frequently collected by sale to financial institutions (factoring, forfaiting).

Management and personnel risk. Usual fluctuations and changes of management and leading experts do not have major effect on corporate operations while sudden or major fluctuations of such personnel could affect the corporate performance.

In addition to those specified above, there are also design risks, production risks, political risks and other risk groups present to a certain extent.

12. Investments and Technology Modernisation

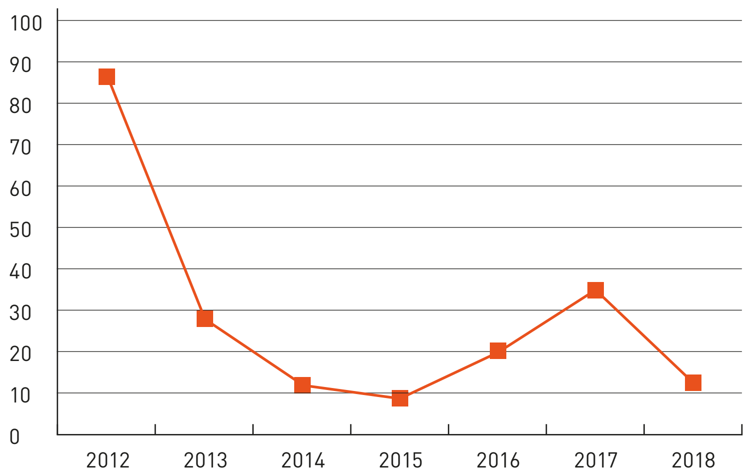
The Company makes continuous investments in the process improvements and modernisation, which need to be raised to a higher technological level. Several specialized machines for the production have been purchased or modernized - winding machines, transformer sheet processing machines, various specialized units, logistics and measuring equipment - in alignment with the adopted annual plan.

In 2018, Distribution Transformer Production Increase Project (DTPIP) was launched. The Project includes the expansion of production facilities and purchase of adequate quantity of required equipment. Through 2019, the project activities will intensify and the project completion is expected in the first half of 2020.

Parallel with the investment in the production equipment, investments were also made in ICT equipment development.

Total 2018 investments were HRK 11.76 million.

INVESTMENT TRENDS (HRK mil.)



13. Technical Development and Product Innovation

In late 2018, there were more than 20 professionals with university degree qualifications, 3 of them with the completed doctoral studies in Product Development and Production Development Departments.

In the field of medium power transformers, dimensioning of cooling system with forced oil flow significantly improved in 2018. In cooperation with the Electrical Engineering and Computing Faculty and the Electrical Engineering Institute, efforts were made to reduce additional losses and to improve the expert base for loss calculation of power transformer load. A step forward was made also in the transformer insulation system, where optimization of technical and technology solutions yielded significant savings.

In the medium power transformer production development, purchase of a new winding machine, with the tensioner and winding pressure arm, was contracted. Upon its delivery and assembly in June 2018, the machinery of the winding facility will be completely renewed and harmonized with the technology innovations in the field. For the assembly process, a specialized hydraulic platform was purchased which raised the safety and efficacy of the production to a higher level.

As for the distribution transformer range, the emphasis was on the improvement of expert base for noise through evaluation of the existing and the new transformer sheet types. Also, in cooperation with the Electrical Engineering Institute, the design and construction of the windings with graphite screens was revised. The new solution has accelerated the winding production process to a great extent without affecting the voltage conditions. As for special and large distribution transformers, the expert bases for no-load losses and the design software have been improved.

In the production of special distribution transformers, a new core stacker was installed, which increased the annual workshop capacity and the production efficacy. The main oil distribution line control was modernized and digitalized, ensuring higher productivity and reliability in the process. To increase the distribution transformer production capacities, key production equipment was contracted in 2018 including: transformer sheet longitudinal cutting line, transformer sheet cross cutting line and foil winding machine. In late 2018, a new HV winding machine was installed as a first step to the capacity increase.

The cooperation with various institutes and faculties has also continued (Končar Institute for Electrical Engineering, Faculty of Electrical Engineering and Computing, Faculty of Mechanical Engineering and Naval Architecture). There are several young professionals attending specialist and doctoral studies at the faculties of the University of Zagreb.

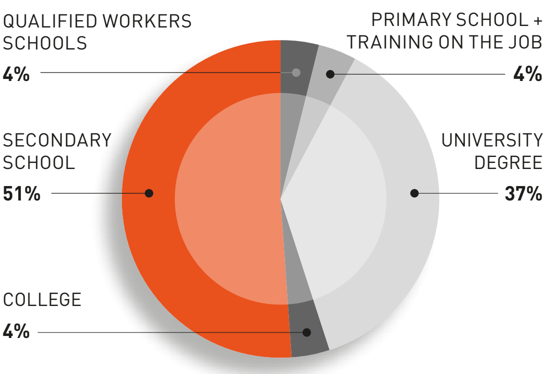
Experts from the Technical Development and other departments actively participated in symposiums and seminars about transformers (CIGRE Paris, HO CIRED Opatija, Wetex Dubai, EuroTechCon Cardiff) and worked in the SO2 study committee for transformers and in the technical committees HZN/TO E14 Power Transformers and HZN/TO E10 Fluids for Use in Electrical Engineering.

14. Human Resources

At the beginning of the 2018, there were 539 employees in Končar D&ST. By the end of the year, new 75 employees were employed and 28 left. Thus, the year ended with 586 employees. The age structure of the newly employed differs. The youngest person recruited in 2018 was 20, and the oldest 49. The average age of the employees is still 39.

In the area of employee training, continuous training is conducted at universities and polytechnics studies. The Company supports enrolment in postgraduate and graduate studies, the result of which is a growing number of employees attending courses at various faculties. Promotion of professional and scientific training significantly enriches the know-how of the Company and its contacts with the relevant university institutions.

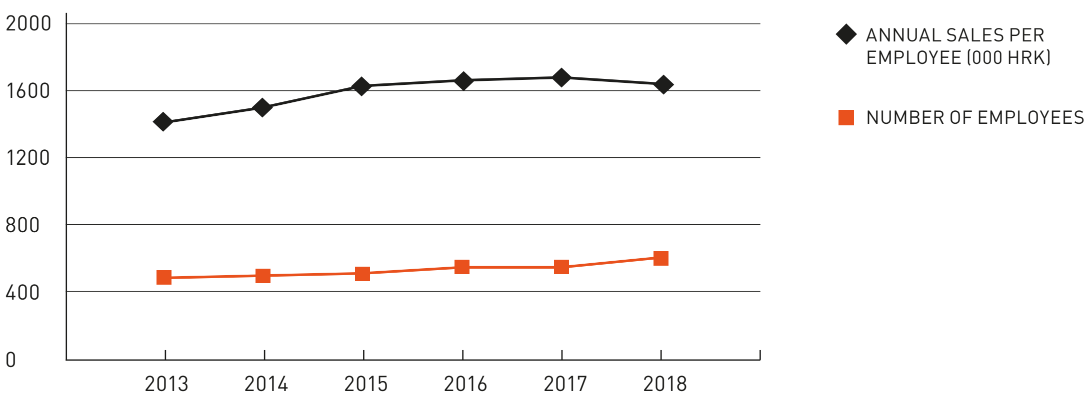
EMPLOYEE QUALIFICATIONS AT THE YEAR'S END



	years of education	2018	2017
University degree	16 and more	214	191
College and Bachelor's degree	14 do 15	25	27
Secondary school	12	299	267
Qualified workers schools	11 do 13	26	27
Primary school + training on the job	8	22	27
Total		**586**	**539**

Productivity measured by sales per employee in 2018 was HRK 1.62 million.

PRODUCTIVITY AND NUMBER OF EMPLOYEES TREND



15. Quality Management, Environment Management and OH&S Management

In May 2018, during the regular quality managements system audit, the transition to the new edition of ISO 9001:2015 standard was carried out. The transition included the review of the organisational procedures in the field of quality.

The schedule of internal and external (by certification company) audits was reviewed and the conclusion is that the selected schedule (twice a year) is still suitable.

As a responsible company, Končar D&ST manages its processes by reducing adverse environmental impact, promoting recycling, classifying waste, respecting the legal provisions, international laws and requirements of ISO 14001:2015 under which the company is certified.

Also, respecting the customer requirements, the verification process under ISO 14067:2018 „Greenhouse gases - Carbon Footprint of Products - Requirements and guidelines for quantification" has been initiated.

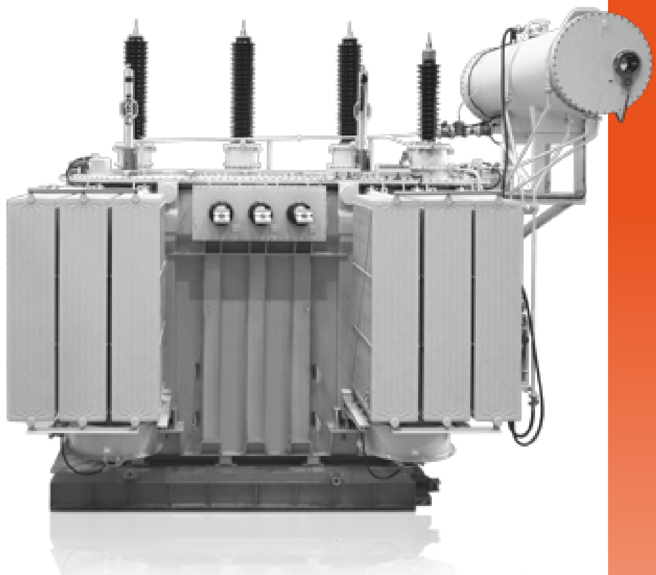
Končar D&ST continues its commitment to raise the awareness of care for health and safety of each person in the company and undertakes the activities to minimize health and safety risks. In that area, the Company systematically manages the occupational health and safety, which is confirmed by its certificate under the international standard OHSAS 18001:2007.

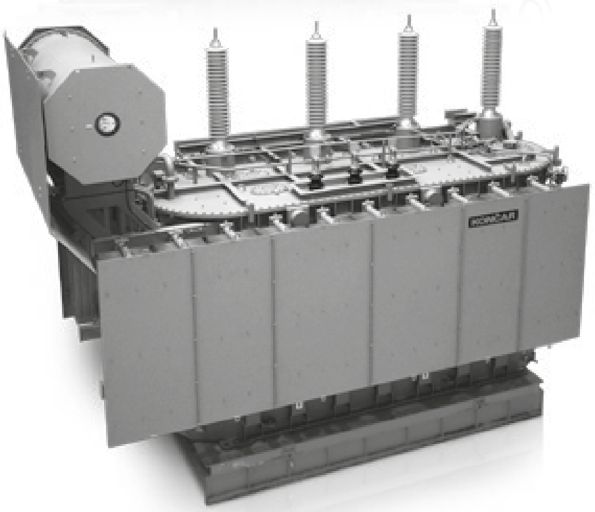
16. Future Development Strategy

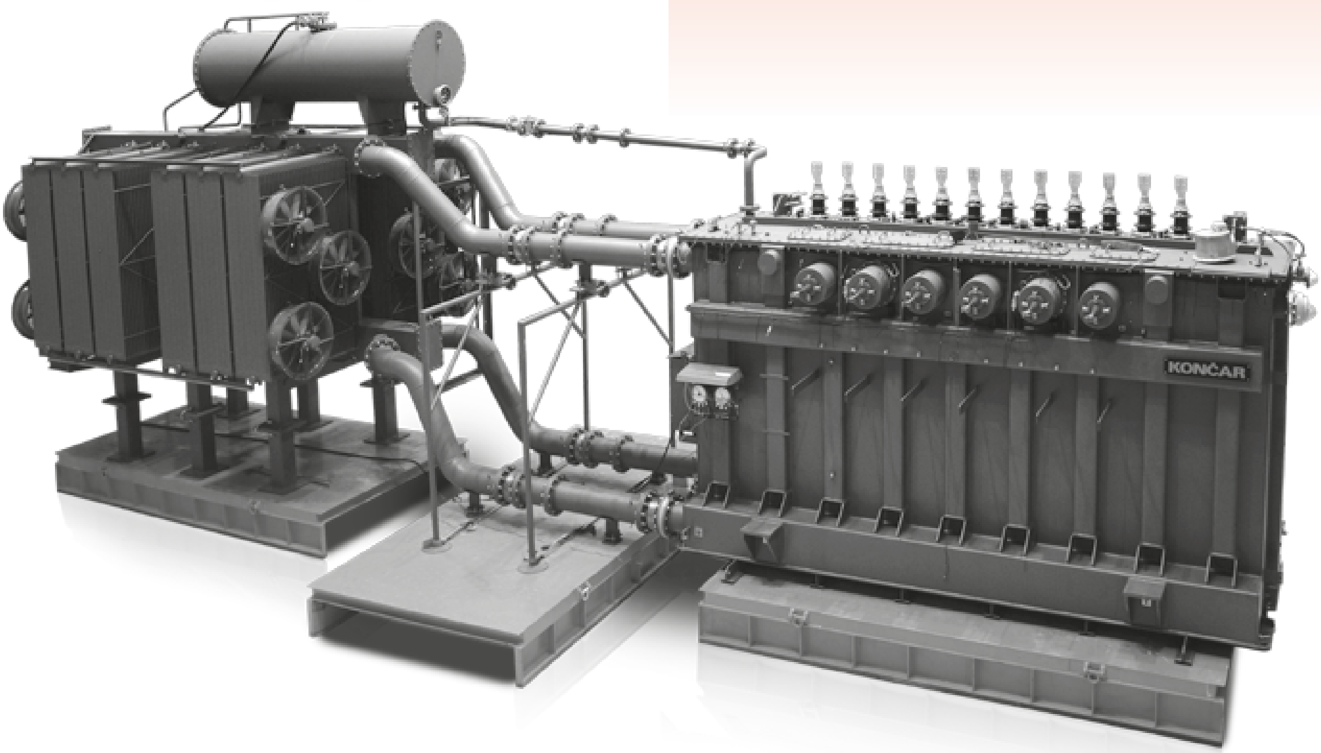
The core business activities of Končar D&ST will continue to be development, sales and production of distribution oil transformers up to 8 MVA and 36 kV, special transformers, medium power transformers up to 100 MVA and 170 kV, as well as technology sales projects on selected markets.

The Company will continue to secure its high position among the leading European manufacturers of distribution, special and medium power transformers through the recognition and best fulfilment of needs of its target customers, commitment to quality and sustainable development, technical and organisational development, as well as employee training and incentives aimed to the promotion of excellence and teamwork.

Final remark: From the end of 2018 until the preparation of this report, there have been no unusual or significant events that could significantly change the view of the operations and position of the Company as presented in this report.







II

DECISIONS PROVIDED BY LAW

Končar-Distribution and Special Transformers, Inc.
Zagreb, Josipa Mokrovića 8, PIN: 49214559889
(hereinafter: "the Company")

Pursuant to Articles 220 and 300d of the Croatian Act on Companies and Article 22 of the Articles of Association of KONČAR D&ST Inc., at the Supervisory Board meeting held on 26 March 2019, the Supervisory Board and the Management Board of the Company have adopted the following

DECISION

ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2018

The Supervisory Board and Management Board of Končar-D&ST Inc. have jointly adopted the Annual Financial Statements for 2018.

Explanation

The Management Board of the Company has submitted to the Supervisory Board for approval the Annual Financial Statements for 2018. The Supervisory Board has given approval to the Annual Financial Statements for 2018, whereby the Supervisory Board and the Management Board have jointly adopted the Annual Financial Statements for 2018 as follows:

Total income	HRK	931,162,284
Total expenses	HRK	880,481,476
Profit before taxation	HRK	50,680,808
Corporate income tax	HRK	1,499,222
Profit after taxation	HRK	49,181,586
Total assets/liabilities	HRK	721,304,030

Darinko Bago
President of the Supervisory Board

Ivan Klapan
President of the Management Board

Zagreb, 26 March 2019

Končar-Distribution and Special Transformers, Inc.
Zagreb, Josipa Mokrovića 8, PIN: 49214559889
(hereinafter: "the Company")

Pursuant to Article 220 of the Croatian Act on Companies and Articles 22, 23, 24 and 25 of Articles of Association of KONČAR D&ST Inc., at the Supervisory Board meeting held on 26 March 2019, Supervisory Board and Management Board adopted the following

DECISION

ON ALLOCATION OF PROFITS FOR 2018

1. Profits after taxation (net profits) for 2018 amount to HRK 49,181,585.97
2. Management Board and Supervisory Board have allocated part of the net profit in the amount of HRK 5,128,642.94 for covering negative retained earnings
3. Management Board and Supervisory Board have allocated a sum of HRK 2,459,079.30 into Legal reserves
4. Management Board and Supervisory Board have allocated a sum of HRK 24,958,374.45 into Statutory reserves
5. Management Board and Supervisory Board have proposed to General Assembly to make a decision on payment of dividends on ordinary shares and preferred shares at a sum of HRK 32.54 per share, which totals HRK 16,635,489.28 in respect of 511,232 shares.

   The dividends shall be paid to the shareholders registered in the depository of the Central Depository & Clearing Company Inc. (CDCC) as shareholders on a day 15 (fifteen) days after the date of the General Assembly. That will be the record date when shareholders become entitled to the payment of dividends.

   Dividends shall be paid at latest within 15 (fifteen) days from the record date.

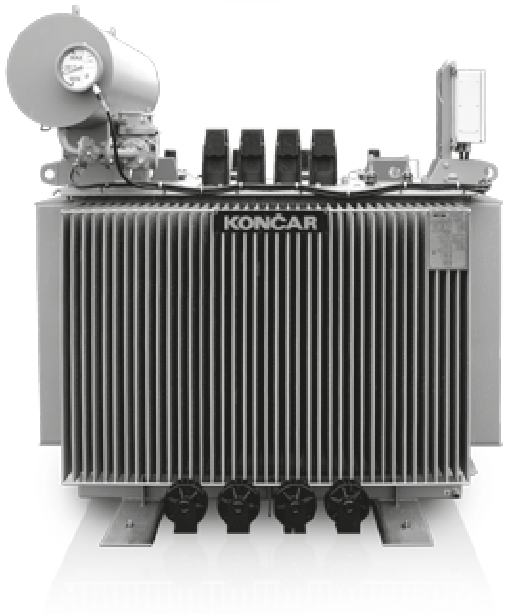
Darinko Bago
President of the Supervisory Board

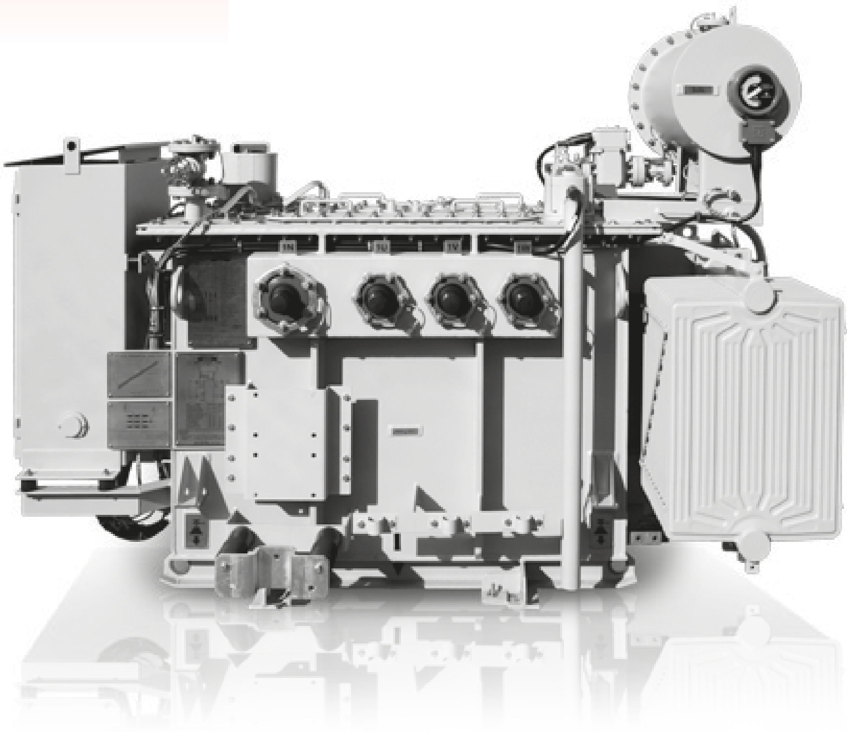
Ivan Klapan
President of the Management Board

Zagreb, 26 March 2019

III

INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS WITH NOTES





Responsibility for the Finanacial Statements

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 - Distribution and Special Transformers 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 financial statements.

In preparing the 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 issuance by the Management Board on 21 March 2019.

Ivan Klapan, President of the Management Board

Petar Vlaić, Member

Petar Bobek, Member

Martina Mikulić, Member

Vanja Burul, Member

KONČAR
Distributivni i specijalni transformatori d.d.
Zagreb

Končar - Distribution and Special Transformers Inc
Josipa Mokrovića 8
10 090 Zagreb

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Independent auditor's report
to the Shareholders of Končar – Distribution and Special Transformers Inc.

Report on the audit of the separate financial statements

Our opinion

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of Končar – Distribution and Special Transformers Inc. (the "Company") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate financial statements of the Company which comprise:

- The statement of comprehensive income for the year ended 31 December 2018;
- The statement of financial position as at 31 December 2018;
- The statement of cash flows for the year then ended;
- The statement of changes in equity for the year then ended; and
- The notes to the separate 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 the Republic of Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

The permitted non-audit services that we have provided to the Company, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 1 to the separate financial statements.

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

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Our audit approach

Overview

Materiality	• Overall materiality for the separate financial statements as a whole: HRK 9,000 thousand, which is 1% of revenue
Key audit matters	• Revenue recognition and adoption of IFRS 15 • Impairment of investment in subsidiary

How we tailored our audit scope

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 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 materiality for the financial statements as a whole	HRK 9,000 thousand
How we determined it	1% of revenue
Rationale for the materiality benchmark applied	We chose revenue as the key metric, because we consider it to be the benchmark which best reflects the Company's performance in the period under review. We selected 1%, which is within the range of commonly acceptable quantitative materiality thresholds in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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 matters	How our audit addressed the Key audit matter
Revenue recognition and adoption of IFRS 15 *See Note 2B Revenue recognition, Note 3 Critical accounting estimates and Note 4 Revenue. In the statement of comprehensive income the Company reported revenue in the amount of HRK 917,984 thousand.* The adoption of the new standard for revenue recognition "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15) has a significant impact from 2018 going forward. In line with the transitional provisions, the Company applied the expedient allowing it to recognise the cumulative effect of transition at initial adoption of the standard directly in equity (within retained earnings) as at 1 January 2018. As a result, initial recognition of contract liabilities resulted in a decrease in retained earnings within equity of HRK 5,129 thousand as at 1 January 2018, as detailed in Note 2B. Given the complexity of the adoption of the new standard, the recognition and presentation of the impact of the IFRS 15 adoption was of particular importance for our audit.	Taking into account that management estimates and assumptions lead to an increased risk of misstatement, we have assessed the Company's revenue recognition processes and controls as part of our audit. Our audit approach included audit procedures comprising controls and substantive testing, which includes the following: • Obtaining an understanding of the sales process and revenue recognition under IFRS 15 and the point the control is transferred to the customer • Reviewing a sample of contracts, orders, invoices, delivery notes and other relevant documentation relating to the correct presentation of revenue under IFRS 15. We have satisfied ourselves as to the appropriateness of the existing systems, processes and controls and we have not identified any significant irregularities. Among other things, our audit approach included the following: • We have obtained a detailed overview of the calculation of the cumulative effect of applying the new standard on 1 January 2018 and verified its completeness and compliance with appropriate documentation in order to confirm the appropriateness of revenue recognition in the relevant period. • We have analysed samples of contracts with customers for all identified performance obligations and assessed the Company's revenue recognition policy based on our experience with the Company and the known impact of IFRS 15 on the Company's operations. • We have assessed the accuracy and completeness of the presentation and disclosure of revenue and the effects of the first-time adoption of IFRS 15 on the Company's financial statements. Based on the obtained evidence, we have determined that the processes established by the Management Board and the assumptions used are sufficient and appropriate to ensure that the impact of the first-time adoption of IFRS 15 is recognised and disclosed correctly and that the revenue for 2018 is reported in accordance with the requirements of IFRS 15.

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Key audit matters	How our audit addressed the Key audit matter
Impairment of investments in subsidiary	
See Note 3 Critical accounting estimates and Note 20 Investments in subsidiary The Company identified the existence of indicators of a potential impairment of investment in the subsidiary PET, Poland, and has engaged an independent valuer to estimate the fair value of this investment. In the current year, an impairment loss on the investment of HRK 7 million was recognised on the basis of the estimated fair value of the investment. We have focused our attention on this matter as significant judgments and estimates were used to estimate the amount of this investment impairment. We have especially focused on the judgments and assumptions used in the estimation model, specifically the discount rate, the operating income growth rate and the residual growth rate.	In assessing Management's assumptions set out in Note 3 as well as the methodology used (discounted cash flows model), we used the assistance of internal valuation experts to assess the methodology used and the underlying assumptions. We have discussed with Management and reviewed, where necessary, their estimated projections of future cash flows and processes based on which they were made. We have not identified any significant deviations. We have reconciled the input relating to historical business operations with the subsidiary's audited financial statements. We have assessed and examined the discount rate used, comparing it with the rates used by comparable organisations and with market data. We have verified and confirmed the mathematical accuracy of the cash flows model and carried out a sensitivity analysis of the Company's equity as part of the discount rate analysis. We have identified that the discount rate used by Management was consistent with market data and that the growth rate used was consistent with historical results and was not higher than industry-specific estimates. Based on our performed procedures, we have not identified material exceptions in respect of this matter as at 31 December 2018. We have verified the completeness and accuracy of impairment loss recognised in accordance with impairment tests performed in the Company's financial statements.

Reporting on other information including the Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Annual Report of the Company, which includes 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, including the Management Report and Corporate Governance Statement.

In connection with our audit of the separate financial statements, our responsibility is to read the other information 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 includes the disclosures required by 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.

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

Responsibilities of management and those charged with governance for the 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 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.

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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.

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Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company on 23 May 2014. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 5 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
21 March 2019

Statement of Comprehensive Income

for the Year Ended 31 December 2018

	Note	2018	2017
		HRK	*HRK*
Revenue	4	917,984,300	892,017,205
Other operating income	5	916,700	1,978,335
Operating income		**918,901,000**	**893,995,540**
Increase/(decrease) in inventories of work in progress and finished goods		23,833,141	(23,340,883)
Cost of materials and energy	6	(602,937,658)	(534,790,351)
Cost of goods sold		(30,592,598)	(30,414,572)
Service costs	7	(74,096,648)	(74,594,116)
Staff costs	8	(130,871,509)	(122,093,801)
Depreciation and amortisation	9	(17,864,709)	(18,278,597)
Other costs	10	(24,322,787)	(22,705,211)
Impairment	11	(2,053,036)	(6,255,236)
Impairment of financial assets		(70,995)	(39,915)
Provisions	12	(2,643,863)	(20,658,484)
Other operating expenses		(1,321,113)	(445,276)
Operating expenses		**(862,941,775)**	**(853,616,442)**
Operating profit		**55,959,225**	**40,379,098**
Finance income	13	12,261,284	12,644,762
Finance costs	14	(17,539,701)	(9,965,767)
Net finance result		**(5,278,417)**	**2,678,995**
Total income		**931,162,284**	**906,640,302**
Total expenses		**(880,481,476)**	**(863,582,209)**
Profit before tax		**50,680,808**	**43,058,093**
Income tax	15	(1,499,222)	(1,550,578)
PROFIT FOR THE YEAR		**49,181,586**	**41,507,515**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**49,181,586**	**41,507,515**
Earnings per share (basic and diluted) in HRK	16	**96.20**	**81.19**

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

Statement of Financial Position

as at 31 December 2018

	Note	31 December 2018	31 December 2017
		HRK	*HRK*
ASSETS			
Non-current assets			
Intangible assets	17	2,613,760	2,376,372
Property, plant and equipment	18	140,259,572	140,493,165
Investment property	19	3,339,582	3,500,000
Investments in subsidiary	20	14,914,185	22,331,760
Investments in associates	21	1,732,458	1,732,458
Financial assets	22	2,838,665	2,862,110
Deferred tax assets	15	231,150	228,995
		165,929,372	**173,524,860**
Current assets			
Inventories	23	259,314,520	199,492,183
Receivables from related parties	24	18,069,935	43,057,121
Trade receivables	25	163,147,724	109,124,546
Contract assets	26	8,160,665	-
Other receivables	27	4,251,845	1,996,442
Financial assets	28	293,340	882,706
Cash and cash equivalents	29	101,936,633	117,850,103
Prepaid expenses		199,996	538,178
		555,374,658	**472,941,279**
TOTAL ASSETS		**721,304,030**	**646,466,139**
EQUITY AND LIABILITIES			
Share capital	30	**153,369,600**	**76,684,800**
Legal reserves	30	3,839,641	3,839,641
Statutory reserves	30	76,684,800	153,369,600
Other reserves	30	45,982,991	25,231,495
Retained earnings		(5,128,643)	-
Profit for the year		**49,181,586**	**41,507,515**
EQUITY		**323,929,975**	**300,633,051**
Warranty provisions		96,150,278	99,084,669
Provisions for pensions, termination benefits and similar liabilities		15,242,578	14,847,466
Provisions	31	**111,392,856**	**113,932,135**
Liabilities to banks (borrowings) and financial institutions	32	25,033,824	35,218,731
Non-current liabilities		**25,033,824**	**35,218,731**
Liabilities to related parties	33	8,233,655	6,696,470
Liabilities to banks (borrowings) and financial institutions	34	9,734,584	8,451,858
Trade payables	35	87,615,411	68,100,735
Contract liabilities	26	84,970,726	-
Advances received	26	-	45,943,641
Other liabilities	36	15,346,443	15,180,040
Accrued expenses and deferred income	37	905,736	3,351,800
Current provisions	38	54,140,820	48,957,678
Current liabilities		**260,947,375**	**196,682,222**
Total liabilities		**397,374,055**	**345,833,088**
TOTAL EQUITY AND LIABILITIES		**721,304,030**	**646,466,139**

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

Statement of Cash Flows

for the Year Ended 31 December 2018

	Note	2018	2017
		HRK	*HRK*
Cash flows from operating activities			
Cash proceeds from trade receivables		908,283,276	854,199,012
Cash proceeds from insurance reimbursements		65,874	15,797
Cash proceeds from tax returns		45,340,663	43,096,205
Cash paid to suppliers		(760,117,413)	(664,157,629)
Cash paid to employees		(126,280,678)	(117,906,946)
Taxes paid		(23,877,823)	(17,289,278)
Cash paid for insurance related to reimbursements		(2,024,237)	(1,122,968)
Other cash proceeds and payments		(13,971,821)	(15,947,104)
Cash from operations		**27,417,841**	**80,887,089**
Interest paid		(733,209)	(930,136)
Net cash flows from operating activities		**26,684,632**	**79,956,953**
Cash flows from investing activities			
Proceeds from sale of non-current tangible and intangible assets		595,282	338,798
Dividends received		1,423,404	2,113,086
Interest received		28,560	33,315
Purchase of non-current tangible and intangible assets		(13,940,895)	(13,028,427)
Capital increase of subsidiary		-	(22,331,760)
Net cash used in investing activities		**(11,893,649)**	**(32,874,988)**
Cash flows from financing activities			
Proceeds from borrowings		-	22,213,581
Repayment of borrowings	34	(8,340,195)	(8,404,368)
Dividend payment	30	(20,756,975)	(14,373,288)
Other cash proceeds and payments		(1,607,283)	(118,558)
Net cash used in financing activities		**(30,704,453)**	**(682,633)**
Net (decrease)/increase in cash and cash equivalents		**(15,913,470)**	**46,399,332**
Cash and cash equivalents at the beginning of the period		117,850,103	71,450,771
Cash and cash equivalents at the end of the period	29	**101,936,633**	**117,850,103**

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

Statement of Changes in Equity

for the Year Ended 31 December 2018

	Share capital	Legal reserves	Statutory reserves	Other reserves	Retained earnings	Profit for the year	Total equity
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
At 1 January 2017	**76,684,800**	**3,839,641**	**145,672,503**	**11,371,723**	**-**	**35,930,157**	**273,498,824**
Profit for the year	-	-	-	-	-	41,507,515	**41,507,515**
Total comprehensive income	-	-	-	-	-	*41,507,515*	*41,507,515*
Transactions with owners:							
Transfer to reserves as per annual schedule	-	-	7,697,097	13,859,772	-	(21,556,869)	-
Dividends paid	-	**-**	**-**	**-**	-	(14,373,288)	**(14,373,288)**
	-	-	*7,697,097*	*13,859,772*	-	*(35,930,157)*	***(14,373,288)***
At 31 December 2017	**76,684,800**	**3,839,641**	**153,369,600**	**25,231,495**	**-**	**41,507,515**	**300,633,051**
Effects of the adoption of new standards (Note 2B)	-	-	-	-	(5,128,643)	-	**(5,128,643)**
At 1 January 2018	**76,684,800**	**3,839,641**	**153,369,600**	**25,231,495**	**(5,128,643)**	**41,507,515**	**295,504,408**
Profit for the year	-	-	-	-	-	49,181,586	**49,181,586**
Total comprehensive income	-	-	-	-	-	**49,181,586**	**49,181,586**
Transactions with owners:							
Conversion of reserves into share capital	76,684,800	-	(76,684,800)	-	-	-	-
Transfer to reserves as per annual schedule	-	-	-	20,751,496	-	(20,751,496)	-
Dividends paid	-	-	-	-	-	(20,756,019)	**(20,756,019)**
	76,684,800	-	*(76,684,800)*	*20,751,496*	-	*(41,507,515)*	***(20,756,019)***
At 31 December 2018	**153,369,600**	**3,839,641**	**76,684,800**	**45,982,991**	**(5,128,643)**	**49,181,586**	**323,929,975**

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

Notes to the Financial Statements

for the Year Ended 31 December 2018

1. General information on the Company

Končar - Distribution and Special Transformers Inc., Zagreb, Josipa Mokrovića 8, ("the Company") is a subsidiary of the Končar - Electrical Industry Group ("the Group") where the ultimate parent is the company Končar - Electrical Industry Inc., Zagreb, Fallerovo šetalište 22, and deals with the production, sale and servicing of distribution, special and mid-sized energy transformers with a power rating of up to 100 MVA and a voltage rating of up to 170 kV.

As at 31 December 2018, the Company had 586 employees, while as at 31 December 2017 the Company had 539 employees.

The Company has a subsidiary in Morocco (which is not a legal entity), and its financial information is included in the Company's financial statements.

The employee structure is as follows:

	31 December 2018	31 December 2017
University degree, Master's degree and PhD	214	191
College	25	27
Secondary school qualifications	299	267
Skilled workers	26	27
Primary school + training on the job	22	27
Total	**586**	**539**

Members of the Supervisory Board

- Darinko Bago, President
- Miroslav Poljak, Deputy
- Jozo Miloloža, Member
- Davor Mladina, Member
- Vlado Grund, Member

Members of the Management Board

- Ivan Klapan, President
- Petar Vlaić, Member
- Martina Mikulić, Member
- Vanja Burul, Member
- Ivan Sitar, ceased to be a member as of 2 January 2018
- Petar Bobek, Member as of 1 April 2018

Compensations paid to members of the Management and Supervisory Board of the Company are disclosed in Notes 8 and 10 to the financial statements. In 2018, non-audit services provided to the Company amounted to HRK 29,722 net (2017: HRK 27,180).

Notes to the Financial Statements

for the Year Ended 31 December 2018

2. Summary of 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.

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.

These financial statements have been prepared using the historical cost convention, except for held-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and liabilities stated 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 where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements are denominated in Croatian Kuna (HRK) as the Company's functional and reporting currency. As at 31 December 2018, the exchange rate for EUR 1 and USD 1 was HRK 7.42 and HRK 6.47 (31 December 2017: HRK 7.51 and HRK 6.27). All amounts disclosed in these financial statements are expressed in HRK unless otherwise stated.

The Company has prepared these separate financial statements in accordance with the Croatian legal regulations. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 21 March 2019. In the consolidated financial statements, the subsidiary (Note 20) is fully consolidated. Users of these separate financial statements should read them together with the consolidated financial statements of the Group for the year ended 31 December 2018 in order to obtain complete information about the financial position, results of operations and changes in the financial position of the Group as a whole.

The Company has adopted the following new and amended IFRS, interpretations and improvements for its annual reporting period commencing 1 January 2018 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- IFRS 15 Revenue from Contracts with Customers and associated amendments to various other standards
- Amendments to IFRS 15, Revenue from Contracts with Customers
- IFRS 9 Financial instruments and associated amendments to various other standards
- Amendments to IAS 40 - Transfers of Investment Property
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Annual Improvements to 2014-2016 Reporting Cycle
  - IAS 28 Investments in Associates and Joint Ventures
  - IFRS 1 First-time Adoption of International Financial Reporting Standards

Notes to the Financial Statements

for the Year Ended 31 December 2018

The Company adopted IFRS 15 and IFRS 9 for the first time as of 1 January 2018. 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.

Standards, interpretations and amendments issued but not yet effective

Certain new standards and amendments to IFRS and IFRIC guidance have been issued that are not yet effective for the reporting periods ending 31 December 2018 and which the Company has not early adopted. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)

- IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
- Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, 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.

The standard will affect primarily the accounting for the Company's operating leases. During 2018, the Company has made a preliminary assessment and calculation of effects of applying IFRS 16 as of 1 January 2019 for operating lease contracts and the application of new rules would result in the disclosure of right-of-use assets in the amount of HRK 823 thousand and lease liabilities in the amount of HRK 823 thousand.

The Company plans to adopt this standard on its effective date. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

IFRIC 23 - Uncertainty over Income Tax Treatments was issued in June 2016 and is effective for annual periods beginning on or after 1 January 2019.

The following is considered in particular:

- how to determine the appropriate accounting unit and that each uncertain tax treatment should be determined separately or together as a group, based on which approach better predicts the resolution of the uncertainty
- an entity should assume that a taxation authority will examine the uncertain tax treatments and obtain all related information, i.e. It should disregard the risk of detection.

Notes to the Financial Statements

for the Year Ended 31 December 2018

- an entity should reflect the effect of uncertainty in determining the income tax when it is not probable that the taxation authority will accept the treatment
- the effect of uncertainty should be measured by using either the most likely amount or the expected value, depending on which method better predicts the resolution of the uncertainty, and
- the judgments or estimates must be reassessed whenever the circumstances change or new information is available that affects the judgements.

Although there are no new disclosure requirements, entities are reminded of the general requirement to provide information on judgments and estimates when preparing financial statements.

The Management Board estimates that the adoption of the amendments will not have a material effect on the financial statements of the Company and plans to adopt the amendments on their effective date.

Standards, interpretations and amendments issued by the IASB, which have not been adopted by the EU:

Amendments to IAS 28 - Long-term interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019 - IASB)

The amendments clarify the accounting treatment of long-term investments in associates or joint ventures, that form part of a net investment in an associates or a joint venture, but to which the equity method does not apply. Before applying the loss allocation requirement and impairment losses from AASB 128 Investments in associates and joint ventures, entities must account for such investments in accordance with AASB 9 Financial Instruments.

The Management does not expect the adoption of the amendments to have a material impact of the Company's financial statements and plans to adopt the amendments at their effective date.

Annual Improvements to 2015-2017 Cycle were issued in December 2017 and are effective for annual periods beginning on or after 1 January 2019, and they include clarifications to the following standards:

- IFRS 3 Business Combinations - clarifies that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - Joint Arrangements - clarifies that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 - Income Taxes - clarifies that the tax consequences of dividends on financial instruments classified as equity should be recognised depending on where the entity recognises the past transactions or events that generated distributable profits.
- IAS 23 Borrowing Costs - clarifies that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the general borrowings.

The Company plans to adopt these standards on their effective date.

Amendments to IFRS 10 and IAS 28 Investments in Associates and Joint Ventures - In December, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

Notes to the Financial Statements

for the Year Ended 31 December 2018

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. However, any gain or loss (as a result of a sale or non-operational asset) is recognised only to the amount invested by another investor in an associate or a joint venture. The amendments apply prospectively. The Management Board estimates that the adoption of the improvements will not have a material effect on the financial statements of the Company and plans to adopt the standard on its effective date and when endorsed by the European Union.

Amendments to IFRS 3 Business Combinations - issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020.

The amendment revise the 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 organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

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.

Amendments to the Conceptual Framework for Financial Reporting - issued on 29 March 2018 and 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.

Notes to the Financial Statements

for the Year Ended 31 December 2018

a) Adoption of new accounting policies

The Company adopted IFRS 15 and IFRS 9 for the first time. The nature and effects of the change resulting from the adoption of the new standard are set out below.

A. Financial assets and liabilities

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability 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:

- 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.

A business model for managing financial assets depends on how a 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 a financial asset 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 a financial asset 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; or it transfers the financial asset and substantially all the risks and rewards of ownership of the 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.

Notes to the Financial Statements

for the Year Ended 31 December 2018

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 or losses on termination of recognition are recognised in the income statement.

Impairment of financial assets

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

The 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,
- time value of money and
- all reasonable and supportable information that is available (without undue cost and effort) about past events, current conditions and forecasts of future conditions and circumstances.

Provisions for the impairment of trade receivables and contract assets are measured in the amount of lifetime expected credit loss allowance, i.e. by applying a simplified approach to expected credit losses.

In measuring the 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 rating of the customer's domicile country and age structure.

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when determining the credit loss assessment, 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 difficulties of the issuer or debtor and/or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- probability that the borrower will enter bankruptcy or financial restructuring.

Notes to the Financial Statements

for the Year Ended 31 December 2018

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 refuted 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 company's assets 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 issuance of shares. Any transactions 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 consideration paid for the repurchase of the Company's equity share capital, including any directly attributable incremental costs related to the repurchase, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury shares is recognised directly in equity.

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37 and
- the amount initially recognised less, where appropriate, cumulative effect recognised in accordance with the revenue recognition policies.

Financial liabilities, classification and measurement

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2018

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. The net gain or loss recognised in profit or loss 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 expires.

Effects

The Company applied the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

In accordance with the permitted practice under IFRS 9, the Company has not restated the comparative information and it is presented in accordance with IAS 39. The information presented for 2017 and 2018 is not comparable since it has been prepared in accordance with different accounting policies as described in the notes. Consequently, the revised requirements under IFRS 7 Financial Instruments, Disclosures apply only to the current period.

Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings. The Company has not recognised the differences resulting from IFRS 9 adoption as they are not material.

The nature of reconciliation is explained below:

	Total under IAS 39	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Classification under IAS 39				
Loans and receivables				
Trade receivables	109,125	109,125	-	-
Receivables from related customers	43,057	43,057	-	-
Cash and cash equivalents	117,850	117,850	-	-
Available-for-sale assets				
Non-current financial assets	2,804	-	-	2,804
Assets at fair value through P&L				
Derivative financial assets - non-current	58	-	58	-
Derivative financial assets - current	883	-	883	**-**
	273,777	**270,032**	**941**	**2,804**

Notes to the Financial Statements

for the Year Ended 31 December 2018

a) Classification and measurement

- The Company's investments that were classified as available for sale as at 31 December 2017 meet the criteria to be classified at fair value in other comprehensive income (FVOCI) and are classified as assets at fair value through other comprehensive income as at 1 January 2018.
- Non-current financial assets, current financial assets, trade receivables, cash and cash equivalents classified as loans and receivables at 31 December 2017 meet the criterion under which the contractual cash flows on debt instruments represent solely payment of principal and interest and are classified accordingly as assets at amortised cost as at 1 January 2018.
- The Company continued to measure all financial assets at fair value that were previously classified at fair value in accordance with IAS 39.

There is no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.

b) Impairment

The Company did not recognise any additional impairment losses on assets at amortised cost and equity instruments at fair value through other comprehensive income because the analysis carried out showed that they are not material for the financial statements. The impairment has not changed the value of equity instruments in the balance sheet since they are still measured at fair value.

B. Revenue recognition

The Company recognises revenue from:

- Sales of distribution transformers
- Sales of medium power transformers
- Sales of services

The Company recognises revenue when control over particular goods or services is transferred on to a customer, i.e. when a customer acquires the right to manage the transferred goods or services provided that there is an agreement that creates the enforceable rights and obligations and, among other things, where collection of the consideration is probable, taking into account the credit quality of the Company's customers. The revenue is recognised in the amount of transaction price the Company expects in return for the transfer of the promised goods or services to customers.

The promised consideration includes fixed amounts.

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

Sales of goods: Revenue is recognised at a time when control of goods passes to the buyer, usually after the delivery of the goods. Invoices are issued at that time and are usually paid within the deadlines defined by the contractual provisions.

Notes to the Financial Statements

for the Year Ended 31 December 2018

When a party to a contract with a customer meets its obligation, contracts with customers are presented as a contract liability, contract asset or receivable in the statement of financial position, depending on the relationship between the Company's performance and the customer's payment. Contract assets and liabilities are presented as short-term because they arose within the usual operating period.

Contract assets and liabilities

A contract liability is presented when a customer has paid the consideration before the Company transfers a good or service to the customer.

If the Company performs by transferring goods or services to a customer before the customer pays consideration and the Company's right to consideration is only subject to the passage of time before payment of the consideration is due, the receivable is recognised.

Contract assets are recognised if the right to consideration is subject to a condition (for example, performance of some other obligation).

The Company has adopted this standard partially retrospectively with the effective date on 1 January 2018, keeping the amounts relating to the previous periods and presented them in accordance with the previous standards, showing the cumulative effect of applying IFRS 15 as an adjustment of the initial equity with the date of the first application of the standard. In accordance with this method, the Company has selected to apply the standard to all contracts that were not completed as at the date of first adoption.

Effects of IFRS 15 adoption as of 1 January 2018 are as follows:

	Note	IAS 18 carrying amount at 31 December 2017	Reclassification	Re-measurement	IFRS 15 carrying amount at 1 January 2018
		HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Inventories	a)	199,492	-	11,753	211,245
Contract assets	b)	-	-	3,258	3,258
Total assets		**199,492**	**-**	**15,011**	**214,503**
Contract liabilities	a)	-	45,944	20,140	66,084
Advances received	c)	45,944	(45,944)	-	-
Total liabilities		**45,944**	**-**	**20,140**	**66,084**
Total effect on equity					
Retained earnings	a), b)	**-**	**-**	**(5,129)**	**(5,129)**

Notes to the Financial Statements

for the Year Ended 31 December 2018

The nature of reconciliation as at 1 January 2018 and the reasons for significant changes in the statement of financial position are presented as follows:

a) Inventories

When applying the 5-step model set out in IFRS 15, the Group has determined that there were certain contracts that do not meet the criteria for recognition of income over time, that is, under the said contracts the revenue is recognised at a point in time (which were not met in the previous period). Accordingly, for the said contracts which were recognised by the Company based on stage of completion in the previous period, the Company increased the amount of work in progress by HRK 14,375 thousand, increased the amount of the contract liability by HRK 20,139 and reduced the amount of retained earnings by HRK 5,764 thousand.

b) Contract assets

After applying the 5-step model, the Company determined that there were certain contracts that meet the terms of recognition over time and consequently increased the contract assets in the amount of HRK 3,258 thousand, reduced inventories in the amount of HRK 2,622 thousand and increased retained earnings in the amount of HRK 636 thousand.

c) Long-term advances received from the customer

The Company sells transformers, whose design and construction lasts in some cases for more than a year once the contract has been signed. Prior to the adoption of IFRS 15, the Company presented these advances as liabilities on received advances in the statement of financial position, with no interest expense accrued. In accordance with the analysis, the Company has concluded that there is no significant financing component for these contracts in which the customer decided to pay a portion of the transaction price when the contract was signed. It has been defined at the Company level that an amount exceeding more than 5% of the contract price is a significant financing component, depending on the contract type. Upon adoption of IFRS 15, a reclassification of liabilities from advances received to contract liabilities was recorded in the observed period.

An overview of individual financial statement line items that were affected by the adoption of IFRS 9 and IFRS 15 as at and for the year ended 31 December 2018 is provided below. The adoption of IFRS 9 and IFRS 15 did not have a significant impact on the Group's other comprehensive income or on the Company's operating, investing or financial cash flows. The first column shows the amounts recorded in accordance with IFRS 9 and IFRS 15, and the second column shows the amounts that would have been recorded had IFRS 9 and IFRS 15 not been adopted:

Notes to the Financial Statements

for the Year Ended 31 December 2018

Statement of comprehensive income for the period ended 31 December 2018

	31 December 2018 IFRS 9, IFRS 15	31 December 2018 IAS 39, IAS 18	Difference
	HRK	*HRK*	*HRK*
Revenue	917,984,300	911,231,833	6,752,467
Other operating income	916,700	916,700	-
Operating income	**918,901,000**	**912,148,533**	**6,752,467**
Increase in value of work in progress and finished goods	23,833,141	28,598,487	(4,765,346)
Cost of materials and energy	(602,937,658)	(602,937,658)	-
Cost of goods sold	(30,592,598)	(30,592,598)	-
Service costs	(74,096,648)	(74,096,648)	-
Staff costs	(130,871,509)	(130,871,509)	-
Depreciation and amortisation	(17,864,709)	(17,864,709)	-
Other costs	(24,322,787)	(24,322,787)	-
Impairment	(2,053,036)	(2,053,036)	-
Losses on impairment of financial assets	(70,995)	(50,004)	(20,991)
Provisions	(2,643,863)	(2,643,863)	-
Other operating expenses	(1,321,113)	(1,321,113)	-
Operating expenses	**(862,941,775)**	**(858,155,438)**	**(4,786,337)**
Operating profit	**55,959,225**	**53,993,095**	**1,966,130**
Net finance result	**(5,278,417)**	**(5,278,417)**	**-**
Profit before tax	**50,680,808**	**48,714,678**	**1,966,130**
Income tax	(1,499,222)	(1,499,222)	-
PROFIT FOR THE YEAR	**49,181,586**	**47,215,456**	**1,966,130**
Other comprehensive income	**-**	**-**	**-**
COMPREHENSIVE INCOME FOR THE YEAR	**49,181,586**	**47,215,456**	**1,966,130**

Notes to the Financial Statements

for the Year Ended 31 December 2018

Statement of financial position as at 31 December 2018

	31 December 2018 IFRS 9, IFRS 15	31 December 2018 IAS 39, IAS 18	Difference
	HRK	*HRK*	*HRK*
ASSETS			
Non-current assets			
Intangible assets	2,613,760	2,613,760	-
Property, plant and equipment	140,259,572	140,259,572	-
Investment property	3,339,582	3,339,582	-
Investment in subsidiary	14,914,185	14,914,185	-
Investments in associates	1,732,458	1,732,458	-
Financial assets	2,838,665	2,838,665	-
Deferred tax assets	231,150	231,150	-
	165,929,372	**165,929,372**	**-**
Current assets			
Inventories	259,314,520	252,326,534	6,987,986
Receivables from related parties	18,069,935	18,070,227	(292)
Trade receivables	163,147,724	163,168,422	(20,698)
Contract assets	8,160,665	-	8,160,665
Other receivables	4,251,845	4,251,845	-
Financial assets	293,340	293,340	-
Cash and cash equivalents	101,936,633	101,936,633	-
Prepaid expenses	199,996	199,996	-
	555,374,658	**540,246,997**	**15,127,661**
TOTAL ASSETS	**721,304,030**	**706,176,369**	**15,127,661**
EQUITY AND LIABILITIES			
Share capital	**153,369,600**	**153,369,600**	**-**
Legal reserves	3,839,641	3,839,641	-
Statutory reserves	76,684,800	76,684,800	-
Other reserves	45,982,991	45,982,991	-
Retained earnings	**(5,128,643)**	-	(5,128,643)
Profit for the year	**49,181,586**	**47,215,456**	1,966,130
EQUITY	**323,929,975**	**327,092,488**	**(3,162,513)**
Provisions	**111,392,856**	**111,392,856**	**-**
Non-current liabilities	**25,033,824**	**25,033,824**	**-**
Liabilities to related parties	8,233,655	8,233,655	-
Bank borrowings	9,734,584	9,734,584	-
Trade payables	87,615,411	87,615,411	-
Contract liabilities	84,970,726	-	84,970,726
Advances received	-	63,066,932	(63,066,932)
Other liabilities	15,346,443	15,346,443	-
Accrued expenses and deferred income	905,736	4,519,356	(3,613,620)
Current provisions	54,140,820	54,140,820	-
Current liabilities	**260,947,375**	**242,657,200**	**18,290,174**
Total liabilities	**397,374,055**	**379,083,880**	**18,290,174**
TOTAL EQUITY AND LIABILITIES	**721,304,030**	**706,205,381**	**15,127,661**

Notes to the Financial Statements

for the Year Ended 31 December 2018

b) Finance income and costs

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

Interest income is recognised in the income statement on an accrual basis using the effective interest rate method. Dividend income and income from share in profit is recognised in the income statement at the date when the Company's right to receive payment is established.

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period indispensable for the finalisation and preparation of the asset for its intended use or sale. Other borrowing costs are recognised in profit or loss using the effective interest method.

c) Taxes

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

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

Deferred taxes arise from temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax base. A deferred tax asset for unused tax losses and unused tax benefits is recognised to the extent that it is probable that future taxable profit will be realised on the basis of which the deferred tax assets will be utilised. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets or liabilities will be realised.

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

d) Segment information

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

The Company's Management Board monitors its operations as a single operating segment, while only sales revenues are monitored as two operating segments: Medium power transformers and Distribution transformers as presented in Note 4.

e) 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 by the weighted average number of ordinary shares outstanding during the period.

Notes to the Financial Statements

for the Year Ended 31 December 2018

Diluted earnings per share are calculated by dividing the profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary shares outstanding during the period decreased by potential shares arising from realised options.

f) 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.

g) 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. Foreign exchange losses and gains arising on translation are included in profit or loss for the current year and are presented in Notes 13 and 14 in gross amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences on borrowings).

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

Non-current intangible and tangible assets 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 assets to their working condition for their intended use.

Non-current intangible and tangible assets are recognised if it is probable that future economic benefits associated with the item will flow to the Company and if the cost of the asset can be reliably measured.

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

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

	Amortisation and depreciation rates (from - to)
Concessions, patents, licences, software etc	25%
Buildings	3% - 5%
Plant and equipment	5% -25%
Tools	5% - 25%

Notes to the Financial Statements

for the Year Ended 31 December 2018

Impairment of property, plant and equipment

At each balance sheet date, the Company reviews the carrying amount value of its property, plant and equipment to determine whether there is any indication that those assets should be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimated the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the Company's smallest cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to an asset.

If the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in the income statement.

i) 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.

j) Investments in subsidiaries and associates

Subsidiaries are entities in which the Company has 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) Inventories

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

Notes to the Financial Statements

for the Year Ended 31 December 2018

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

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

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

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

l) Receivables

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

m) Cash and cash equivalents

Cash consists of bank demand deposits, cash on hand and deposits and securities payable on demand or at the latest within a period of three months.

n) 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.

o) Provisions

Provisions are recognised only 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 costs of repairs within warranty periods, awards to employees for long-term employment and retirement (regular jubilee awards and termination benefits).

Provisions for warranties are recognized at the moment the underlying products are sold. Provisions are made based on estimates and experiences of the Company and other manufacturers of energy transformers within the Group and the estimate of possible solutions in accordance with their probabilities.

Notes to the Financial Statements

for the Year Ended 31 December 2018

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.

p) 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.

(ii) 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.

q) Contingent assets and liabilities

Contingent liabilities are not recognised in the financial statements. They are only disclosed in the notes to the financial statements, unless the probability of an outflow is insignificant.

Contingent assets are not recognised in the Group's consolidated financial statements, unless the realisation of income is certain and these assets are not contingent assets and can be recognised.

r) 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) Revenue recognition

The Company recognises revenue at a point in time for delivery of goods since the asset created has an alternative use because it can be sold in the area of the same or similar energy network. This criterion will be even more pronounced in the future, due to the intention to harmonise energy networks in the EU.

Notes to the Financial Statements

for the Year Ended 31 December 2018

Revenue is recognised when a customer obtains control of specific goods, usually when the goods are delivered, when the buyer has full discretionary powers over the goods and when there are no unsatisfied performance obligations that might affect the buyer's acceptance of the goods.

Delivery usually occurs when the goods are delivered to the agreed location and the risk of loss is transferred to the buyer and the buyer accepted the goods in accordance with the contractual provisions, or the terms of acceptance of the goods expired or if the company has objective evidence that all acceptance criteria have been met.

b) Extended warranties

The Company provides warranties for its products/projects performed for a period of 3 - 5 years. Management estimates the provision for costs of repair and correction of defects within warranty periods based on past experience. The Company analysed contracts in which a guarantee was issued beyond the above stated period and found that there were no significant non-standard guarantees and accordingly did not defer a portion of the transaction price over a time period other than the standard guarantee.

c) Significant financing component

In certain contracts, the Company agreed to sell the equipment whose production may last longer than one year after the signing of the contract. Depending on the type of product, the production can take up to 2 years. Accordingly, the period between payment by the buyer and the transfer of the promised goods or services to the buyer may be longer than one year. The amount received in advance for such contracts is considered a discounted transaction price. At the Company level it has been defined that a significant financing component is the amount exceeding 5% of the contract price, depending on the type of contract as well as the effective market interest rate. The Company does not adjust the promised amount of compensation in accordance with the effects of a significant financing component if the Company concludes that the period between the transfer of the promised goods or services to the buyer and the date when the buyer makes the payment for the goods or services will last one year or less.

d) 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 assessing the investments, 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 business plans for a 5-year period from 2019 to 2023 and the discounted rate used in discounting future cash flows, as well as the calculation of the residual value of the company. The discount rate used to estimate the value of the investment was 12.1% per annum, the average growth rate of operating income was 6.8%, and the residual value was calculated at a residual growth rate of 5%.

In 2018, using the DCF method, an impairment loss was recognised for the Power Engineering Transformation (PET) subsidiary in the amount of HRK 7.4 million (Note 20).

e) Impairment of inventories

The Company performs an impairment of inventories for all inventories whose carrying amount exceeds the market value, i.e. realisable value. The estimate is based on the observable prices which can be achieved on the market involving this kind of industry (for example, prices of cuprum declined in 2016, and the Company recognised a provision for impairment for cuprum items on stock).

f) Warranty provisions

The Company provides warranties for its products for an average period of 3-5 years. The Management Board estimates a provision for future warranty fees based on historical information. Factors that could affect the information on estimated receivables include the success of the Company's product quality initiatives, as well as spare parts and labour costs. If the required level of general provisions made had increased by 1% in relation to performed deliveries in the past three years, provisions would have increased by HRK 25 million (2017: HRK 24 million).

Notes to the Financial Statements

for the Year Ended 31 December 2018

4. Revenue

Revenue analysis by categories in accordance with the application of new revenue recognition guidance as at 1 January 2018:

	2018
	HRK
Type of goods or services	
Sales of distribution transformers	429,503,516
Sales of medium power transformers	466,469,317
Sales of services	22,011,467
Total revenue from Contracts with Customers	**917,984,300**
Geographic areas	
Croatia	154,879,236
European Union countries	602,107,119
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	21,203,813
Other European countries	75,504,091
Africa	34,479,867
Asia	24,210,382
Other countries	5,599,792
Revenue from Contracts with Customers	**917,984,300**
Revenue recognition	
At a point in time	917,984,300
Total revenue from Contracts with Customers	**917,984,300**

Revenue analysis by categories in accordance with the application of new revenue recognition guidance applicable until 1 January 2018:

	2017
	HRK
Foreign sales	745,654,086
Domestic sales	146,363,119
	892,017,205

Revenue by segments in 2017:

	Medium Power transformers	Distribution transformers	Total
	HRK	*HRK*	*HRK*
Sales to unrelated parties	465,715,147	332,680,682	798,395,829
Sales to related parties	51,501,145	42,120,231	93,621,376
	517,216,292	**374,800,913**	**892,017,205**

Notes to the Financial Statements

for the Year Ended 31 December 2018

5. Other operating income

	2018	2017
	HRK	*HRK*
Net gain on sale of non-current assets	427,557	511,098
Income from collected receivables previously written off	160,542	259,490
Inventory surpluses	107,201	106,020
Insurance reimbursements	93,390	15,797
Income from collected penalties, awards etc.	70,596	59,452
Income from approved discounts, rebates, etc.	28,077	45,798
Other income	29,337	980,680
	916,700	**1,978,335**

6. Cost of materials and energy

	2018	2017
	HRK	*HRK*
Raw materials and supplies consumed	596,123,412	528,999,168
Energy cost	5,689,638	5,091,568
Cost of small inventory	1,124,608	699,615
	602,937,658	**534,790,351**

7. Service costs

	2018	2017
	HRK	*HRK*
Transport services	20,025,932	20,803,396
External product design and selling services	14,180,356	14,410,564
Agent commission costs	10,460,057	9,666,394
Maintenance services (servicing)	9,335,735	9,438,743
Compensation for the usage of company name and trade mark - Končar Inc.	5,354,404	5,284,643
Entertainment	3,799,112	2,745,940
Intellectual and similar services	1,542,758	2,317,046
Outsourcing of employees	955,415	1,902,430
Telephone, post and transport	1,520,650	1,505,011
Costs of advertising and fairs	988,468	1,081,291
Rent services and leases	965,962	969,002
Utility services	970,720	888,824
Audit costs	66,726	62,568
Other external costs	3,930,353	3,518,264
	74,096,648	**74,594,116**

Notes to the Financial Statements

for the Year Ended 31 December 2018

8. Staff costs

	2018	2017
	HRK	*HRK*
Net salaries and wages	74,751,568	68,297,446
Taxes and contributions	37,375,069	35,888,815
Contributions on salaries	18,744,872	17,907,540
	130,871,509	**122,093,801**

Net salaries in the amount of HRK 74,751,568 (2017: HRK 68,297,446) include the compensations to five members of the Company's Management Board in the amount of HRK 1,726,327 (2017: HRK 1,841,308) and the accrued Management bonus in the amount of HRK 1,971,450 (2017: HRK 1,910,790), which are an integral part of staff costs.

In 2018, pension fund contributions amounted to HRK 20,714,046 (2017: HRK 19,773,698).

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business travel expenses, contributions to voluntary pension fund) in the amount of HRK 11,946,433 (2017: HRK 11,423,200) are disclosed in Note 10.

9. Depreciation and amortisation

	2018	2017
	HRK	*HRK*
Depreciation (Note 18)	16,728,845	17,272,245
Amortisation (Note 17)	975,446	1,006,352
Depreciation of investment property (Note 19)	160,418	-
	17,864,709	**18,278,597**

10. Other costs

	2018	2017
	HRK	*HRK*
Bank charges and commissions	3,273,899	3,000,203
Employee transportation costs (Note 8)	3,955,099	3,575,295
Daily allowances for business trips and travel expenses (Note 8)	3,412,525	3,147,081
Compensations to employees, gifts and grants (Note 8)	2,660,496	2,709,614
Voluntary pension fund premiums and fees (Note 8)	1,918,313	1,991,210
Insurance premiums	2,222,734	1,998,224
Compensation to Supervisory Board members	422,473	471,193
Contributions, membership fees and similar charges	289,541	277,978
Other	6,167,707	5,534,413
	24,322,787	**22,705,211**

Notes to the Financial Statements

for the Year Ended 31 December 2018

11. Value adjustments (impairment losses)

	2018	2017
	HRK	*HRK*
Impairment of inventories	2,053,036	5,755,236
Impairment of investment property	-	500,000
	2,053,036	**6,255,236**

12. Provisions

	2018	2017
	HRK	*HRK*
Provision for risks within warranty period	2,194,941	6,665,398
Provisions for termination benefits and jubilee awards	395,112	12,592,444
Provisions for penalties	-	1,243,762
Other provisions	53,810	156,880
	2,643,863	**20,658,484**

The movement in provisions by categories is presented in Notes 31 and 38.

13. Finance income

	2018	2017
	HRK	*HRK*
Related parties		
Share in profit	140,000	200,000
Foreign exchange gains	3,689	97,745
	143,689	**297,745**
Unrelated parties		
Foreign exchange gains	8,174,617	8,525,459
Dividend income and shares in profit	1,283,404	1,913,086
Other interest income	91,934	322,226
Foreign exchange losses on forward contracts	2,567,640	1,586,246
	12,117,595	**12,347,017**
	12,261,284	**12,644,762**

Notes to the Financial Statements

for the Year Ended 31 December 2018

14. Finance costs

	2018	2017
	HRK	*HRK*
Arising from transactions with related parties		
Unrealised gains from financial assets	7,417,575	-
Foreign exchange losses	163,126	159,526
	7,580,701	**159,526**
Arising from transactions with unrelated parties		
Foreign exchange losses	8,413,554	8,202,592
Interest expense on borrowings and other forms of financing	786,220	880,360
Foreign exchange losses on forward contracts	759,226	723,289
	9,959,000	**9,806,241**
	17,539,701	**9,965,767**

15. Income tax

The Company calculates income tax at a preferential rate obtained when reducing the income tax rate by 85%, as the Company is the beneficiary of incentive measures in accordance with the Investment Promotion Act for a project entitled "High-Voltage Laboratory - Laboratory development and extension of production capacities". On 3 September 2010, the Ministry of Economy, Labour and Entrepreneurship issued a certificate confirming that these investments meet the requirements of the Act and that the Parent company may use the incentive measures. The maximum amount of the granted incentive is HRK 37,327,421.

On 6 October 2014, the Ministry of Economy issued an Approval for the revision of the maximum amount of the granted incentive for the "High-Voltage Laboratory" project due to increased invested financial funds and an increased number of newly created jobs in relation to the planned ones. The new maximum amount of the granted investment incentive amounts to HRK 63,437,498, and the cumulative amount used to date is HRK 49,843,342. The Company has not yet used maximum of the granted incentive whitch has to be used until 2020. The Company does not expect to use the total maximum of the granted incentive received for this investment by this point in time.

	2018.	2017.
	HRK	*HRK*
Current tax	1,501,377	1,779,573
Deferred tax (change)	(2,155)	(228,995)
Income tax expense	**1,499,222**	**1,550,578**

Notes to the Financial Statements

for the Year Ended 31 December 2018

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

	2018	2017
	HRK	*HRK*
Accounting profit (profit before tax)	50,680,808	43,058,093
Income tax at 18%	9,122,545	7,750,457
Adjustments for tax effects of:		
Non-deductible expenses	2,286,674	4,651,814
Income not subject to tax	(1,400,040)	(538,450)
Investment incentives (2018: 85%; 2017: 85%)	(8,507,802)	(10,084,248)
Current income tax charge	**1,501,377**	**1,779,573**
Effective tax rate	2.96%	4.13%
Advances paid	1,480,140	766,264
Income tax payable	21,237	1,013,309

16. Earnings per share

Basic earnings per share:

	2018	2017
	HRK	*HRK*
Net profit	49,181,586	41,507,515
Number of shares		
Total number of shares for the entire year	255,616	255,616
Capitalisation at 17 September 2018 (Note 30)	255,616	255,616
Number of shares	**511,232**	**511,232**
Earnings per share	**96.20**	**81.19**

In the previous years, distributed dividends for ordinary and preference shares were the same. The Company does not hold any treasury shares.

Diluted earnings per share

Diluted earnings per share for 2018 and 2017 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either period.

Notes to the Financial Statements

for the Year Ended 31 December 2018

17. Non-current intangible assets

	Concessions, patents, licences, software and other rights	Assets under construction	Total
	HRK	*HRK*	*HRK*
Cost			
At 1 January 2017	**10,436,240**	**-**	**10,436,240**
Additions	-	447,000	**447,000**
Transfer	447,000	(447,000)	**-**
Disposals	(2,780)	-	**(2,780)**
At 31 December 2017	**10,880,460**	**-**	**10,880,460**
Additions	-	1,212,834	**1,212,834**
Transfer	1,212,834	(1,212,834)	**-**
At 31 December 2018	**12,093,294**	**-**	**12,093,294**
Accumulated amortisation			
At 1 January 2017	**7,500,516**	**-**	**7,500,516**
Amortisation charge for the year	1,006,352	-	**1,006,352**
Disposals	(2,780)	-	**(2,780)**
At 31 December 2017	**8,504,088**	**-**	**8,504,088**
Amortisation charge for the year	975,446	-	**975,446**
At 31 December 2018	**9,479,534**		**9,479,534**
Net book amount			
31 December 2017	2,376,372	-	**2,376,372**
31 December 2018	**2,613,760**	**-**	**2,613,760**

The cost of intangible assets fully amortised and still in use as at 31 December 2018 amounts to HRK 4,674,592 (31 December 2017: HRK 4,674,592).

Notes to the Financial Statements

for the Year Ended 31 December 2018

18. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Advances	Assets under con-struction	Total
Cost	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
At 1 January 2017	**9,012,529**	**124,867,770**	**190,523,613**	**28,016,197**	**595,554**	**4,389,827**	**357,405,490**
Additions	-	2,183,835	425,848	-	3,589,005	9,253,802	**15,452,490**
Transfer to use	-	2,962,288	7,796,162	2,805,855	-	(13,564,305)	**-**
Disposals	-	-	(1,756,803)	(2,367,373)	(3,428,951)	-	**(7,553,127)**
At 31 December 2017	**9,012,529**	**130,013,893**	**196,988,820**	**28,454,679**	**755,608**	**79,324**	**365,304,853**
Additions	-	-			10,453,732	10,550,721	**21,004,453**
Transfer to use	-	11,588	5,494,929	1,155,767	-	(6,662,284)	**-**
Disposals	-	-	(579,214)	(1,596,763)	(4,290,387)	-	**(6,466,364)**
At 31 December 2018	**9,012,529**	**130,025,481**	**201,904,535**	**28,013,683**	**6,918,953**	**3,967,761**	**379,842,942**
Accumulated depreciation							
At 1 January 2017	**-**	**68,961,449**	**123,787,470**	**18,845,741**	**-**	**-**	**211,594,660**
Depreciation charge for the year	-	5,211,370	9,555,069	2,505,806	-	-	**17,272,245**
Disposals	-	-	(1,687,844)	(2,367,373)	-	-	**(4,055,217)**
At 31 December 2017	**-**	**74,172,819**	**131,654,695**	**18,984,174**	**-**	**-**	**224,811,688**
Depreciation charge for the year	-	5,238,644	9,319,483	2,170,718	-	-	**16,728,845**
Disposals	-	-	(532,191)	(1,424,972)	-	-	**(1,957,163)**
At 31 December 2018	**-**	**79,411,463**	**140,441,987**	**19,729,920**	**-**	**-**	**239,583,370**
Net book amount							
31 December 2017	9,012,529	55,841,074	65,334,125	9,470,505	755,608	79,324	140,493,165
31 December 2018	**9,012,529**	**50,614,018**	**61,462,548**	**8,283,763**	**6,918,953**	**3,967,761**	**140,259,572**

As at 31 December 2018, the net book amount of mortgaged properties amounts to HRK 58,060,100 (31 December 2017: HRK 63,567,806). Mortgages have been registered over these properties in the total amount of EUR 40 million, and there is a pledge on movable assets (net carrying amount of HRK 14.9 million) in the amount of EUR 25 million (31 December 2017: EUR 25 million) (Note 31).

The cost of fully depreciated tangible assets still in use as at 31 December 2018 amounts to HRK 77,528,273 (31 December 2017: HRK 83,663,602).

Notes to the Financial Statements

for the Year Ended 31 December 2018

19. Investment property

Cost	
At 1 January 2017	**-**
Transfer from non-current assets held for sale	4,000,000
At 31 December 2017	**4,000,000**
Additions	-
At 31 December 2018	**4,000,000**
Accumulated depreciation	
At 1 January 2017	**-**
Impairment	500,000
Depreciation charge for the year	-
At 31 December 2017	**500,000**
Depreciation charge for the year	160,418
At 31 December 2018	**660,418**
Net book amount	
31 December 2017	3,500,000
31 December 2018	**3,339,582**

20. Investments in subsidiary

	31 December 2018	31 December 2017
	HRK	*HRK*
Investment in subsidiary		
Power Engineering Transformatory (PET)	22,331,760	22,331,760
Impairment of investment	(7,417,575)	-
Total	**14,914,185**	**22,331,760**

On 8 May 2017, a contract was signed on the acquisition of the majority ownership share (74% share) in Power Engineering Transformatory Sp. z o.o. (PET) from Czerwonak, Poznan, Poland. The principal activity of the stated company is the design, production, placement and servicing of medium power transformers up to 63 MVA and voltage up to 145 kV. The consideration paid for the acquisition of the 74% share was contributed to the capital of the acquired company.

Notes to the Financial Statements

for the Year Ended 31 December 2018

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

	31 December 2018		31 December 2017	
	Ownership share (%)	*Voting rights share (%)*	*Ownership share (%)*	*Voting rights share (%)*
Power Engineering Transformatory (PET)	74	74	74	74

In 2018, using the DCF method, an impairment allowance was made for the Power Engineering Transformation (PET) subsidiary in the amount of HRK 7.4 million.

21. Investments in associates

Investments in associates in the amount of HRK 1,732,458 (2017: HRK 1,732,458) relates to investments in the company Elkakon Ltd., Zagreb (the Company holds a share of 50% share in the share capital of this company).
The summary data for this company are disclosed in the consolidated financial statements of the Company.

22. Non-current financial assets

	31 December 2018	31 December 2017
	HRK	*HRK*
Financial assets at fair value through other comprehensive income		
Shares in companies up to 20% of the share capital		
Ferokotao Ltd., Donji Kraljevec(16% share)	1,048,128	1,048,128
Novi Feromont Ltd., Donji Kraljevec (18.9% share)	1,717,200	1,717,200
	2,765,328	**2,765,328**
Financial assets at fair value through profit or loss		
Shares in Zagrebačka banka d.d., Zagreb	**39,000**	**39,000**
Derivative instruments - FX Forward contracts	**34,337**	**57,782**
	2,838,665	**2,862,110**

23. Inventories

	31 December 2018	31 December 2017
	HRK	*HRK*
Raw materials and supplies	99,348,882	73,313,204
Work in progress	93,538,302	72,744,927
Unfinished and semi-finished goods	4,659,276	7,320,862
Finished goods	71,260,776	53,806,092
Less: Impairment of raw materials and supplies	(5,536,039)	(4,044,877)
Less: Impairment of finished goods	(6,083,715)	(5,521,840)
	257,187,482	**197,618,368**
Advances given	2,127,038	1,873,815
	259,314,520	**199,492,183**

In 2018, the cost of own goods sold amounted to HRK 651,990,508 (2017: HRK 624,270,892).

Notes to the Financial Statements

for the Year Ended 31 December 2018

24. Receivables from related parties

	31 December 2018	31 December 2017
	HRK	*HRK*
Power Engineering Transformatory Sp. z o.o., Czerwonak, Poland	138,047	150,273
	138,047	**150,273**
Sister companies within the Končar Group:		
Končar - Power Plant and Electric Traction Engineering Inc. Zagreb	9,148,976	28,469,694
Končar - Switchgear Inc., Zagreb	823,700	687,802
Končar - Electronics and Informatics Inc., Zagreb	219,000	-
Končar - Electrical Engineering Institute Inc, Zagreb	28,250	
Končar - Electrical Vehicles Inc., Zagreb	13,029	-
Končar - Instrument Transformers Inc., Zagreb	750	750
	10,233,705	**29,158,246**
Associates:		
Elkakon Ltd., Zagreb	7,432,299	6,791,986
Končar - Power Transformers, Ltd., Zagreb	266,176	6,956,616
	7,698,475	**13,748,602**
Impairment of receivables from related parties	(292)	-
	18,069,935	**43,057,121**

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

	Total	Not past due	Past due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**18,069,935**	12,651,679	2,498,351	-	-	2,919,905	-
2017	**43,057,121**	42,071,817	629,300	-	257,852	98,152	-

25. Trade receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Domestic trade receivables	33,697,182	29,905,883
Less: Impairment	(3,489,812)	(3,648,697)
	30,207,370	**26,257,186**
Foreign trade receivables	133,933,064	84,246,383
Less: Impairment	(992,710)	(1,379,023)
	132,940,354	**82,867,360**
	163,147,724	**109,124,546**

Notes to the Financial Statements

for the Year Ended 31 December 2018

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

	Total	Not past due	Past due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**163,147,724**	128,750,942	23,800,835	8,546,887	748,839	532,040	768,181
2017	**109,124,546**	82,480,041	18,574,261	647,451	1,648,534	5,720,088	54,171

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

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

	2018
	HRK
Opening balance 1 January 2018	5,027,720
Increase in the expected credit loss during the year	70,703
Collected receivables	(160,542)
Total movement in the expected credit losses through profit or loss	**(89,839)**
Written-off during the year	(428,140)
Foreign exchange differences	(27,219)
At 31 December	**4,482,522**

The effect of the first adoption of the IFRS 9 simplified approach on trade receivables is not significant and as such was not recorded as at 1 January 2018.

The movement in the impairment of the Company's trade receivables was as follows:

	2017
	HRK
At 1 January	5,347,294
Collected during the year	(259,490)
Written off during the year	(51,983)
Written off during the year (foreign exchange difference)	(8,101)
At 31 December	**5,027,720**

Notes to the Financial Statements

for the Year Ended 31 December 2018

26. Contract assets and liabilities

	31 December 2018	1 January 2018
	HRK	*HRK*
Contract assets from Contracts with Customers	-	3,257,505
Total current assets from Contracts with Customers	**-**	**3,257,505**
Current assets recognised for costs incurred to obtain a contract	**8,160,665**	**-**
Contract liability from Contracts with Customers	10,129,508	20,139,480
Contract liability - advances received from customers	63,066,394	45,943,641
Accrued agent commissions	3,614,159	-
Contract liability arising from agent commissions	8,160,665	-
Total contract liability	**84,970,726**	**66,083,121**

Recognised revenue relating to contract liability

Revenue recognised in the reporting period, which was included in the contract liability balance at the beginning of the period, related to the design and construction services of the plant and equipment for production, transmission and distribution of electricity, amounted to HRK 20,140 thousand.

The total amount of transaction price allocated to the performance obligations not satisfied (or partially satisfied) at the end of the reporting period amount to HRK 10,129 thousand.

The Company's management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue during the next reporting period (HRK 10,129 thousand).

All other contracts in which the Group is entitled to a consideration from the customer in an amount that directly corresponds to the benefits received by the buyer from the Company's performance for the periods of one year or less is recognised by the Company in the amount it is entitled to bill. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

27. Other receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
VAT receivable	3,850,584	1,448,500
Other receivables	401,261	547,942
	4,251,845	**1,996,442**

Notes to the Financial Statements

for the Year Ended 31 December 2018

28. Current financial assets

	31 December 2018	31 December 2017
	HRK	*HRK*
Other current financial assets		
Derivative instruments - FX Forward contracts	293,340	882,706
	293,340	**882,706**

29. Cash and cash equivalents

	31 December 2018	31 December 2017
	HRK	*HRK*
Foreign currency account balance	57,761,520	107,816,056
HRK currency accounts	44,104,382	9,991,902
Cash in hand - foreign currencies	39,781	26,009
Cash in hand - HRK	30,950	16,136
	101,936,633	**117,850,103**

Disclosures relating to credit risk are presented in the note Financial instruments.

Notes to the Financial Statements

for the Year Ended 31 December 2018

30. Capital and reserves

Share capital is determined in the nominal amount of HRK 153,369,600 (31 December 2017: HRK 76,684,800) and comprises 511,232 shares with a nominal value of HRK 300 per share (31 December 2017: 255,616 shares).

The General Assembly of Končar D&ST held on 28 May 2018 made a decision to increase the share capital from reserves. By the decision of the General Assembly, the share capital was increased by converting the statutory reserves from HRK 76,684,800 to HRK 153,369,600 by issuing new 255,616 shares and the total number of shares after the new issue was 511,232 shares (out of which 388,376 ordinary KODT-RA shares and 122,856 preferential KODT-PA shares, each with the nominal value of HRK 300). The Company's shareholders obtained new shares in proportion to their participation in the company's existing share capital.

The ownership structure of the Company is as follows:

	31 December 2018		**31 December 2017**	
Shareholder	*Number of shares*	*Share in ownership %*	*Number of shares*	*Share in ownership %*
Končar- Electrical Industry Inc.	269,596	52.73	134,798	52.73
AZ Mandatory Pension Fund B category	27,100	5.3	13,550	5.3
Knežević Nikola	21,304	4.17	7,852	3.07
Floričić Kristijan	19,832	3.88	9,916	3.88
Radić Antun	7,886	1.54	3,943	1.54
AZ Mandatory Pension Fund A category	7,604	1.49	3,628	1.42
Other	157,910	30.89	79,129	30.96
SZAIF d.d.	-	-	2,800	1.1
	511,232	**100.00**	**255,616**	**100.00**

As at 31 December 2018, the Company's share capital consists of 388,376 ordinary shares and 122,856 preference shares (31 December 2017: 194,188 ordinary shares and 61,428 preference shares).

The dividend per share paid to the Company's shareholders in 2018 amounted to HRK 81.20 per share (2017: HRK 56.23 per share).

Statutory, legal and other reserves were formed on the basis of profit distribution compliant with the decisions of the General Assembly, in accordance with the provisions of the Companies Act (statutory and other reserves are eligible for distribution pursuant to the provisions of the above Act and the Company's Articles of Association).

Notes to the Financial Statements

for the Year Ended 31 December 2018

31. Provisions

	Warranty provisions	Jubilee awards and termination benefits	Total
	HRK	*HRK*	*HRK*
1 January 2017	**95,836,420**	**2,255,022**	**98,091,442**
Additional provisions	6,665,398	12,592,444	19,257,842
Transfer to current provisions	(3,417,149)	-	(3,417,149)
31 December 2017	**99,084,669**	**14,847,466**	**113,932,135**
Additional provisions	2,194,941	395,112	2,590,053
Transfer to current provisions	(5,129,332)	–	(5,129,332)
31 December 2018	**96,150,278**	**15,242,578**	**111,392,856**

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate and includes general and specific provisions. General provisions are based on estimates and experience of other similar producers of transformers. The Company regularly issues warranties for a minimum of 3 years for each transformer sold. Management assesses and recognises a provision representing 2% of the sales value of sold products under warranty obligation (2017: 2%). Specific provisions refer to potential quality issues with regard to sold transformers to individual customers in the total amount of HRK 95 million (2017: HRK 95 million).

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

The non-current portion of termination benefits and jubilee awards in the amount of HRK 15,242,578 (2017: HRK 14,847,466) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which Company employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure, meeting the conditions for obtaining jubilee awards). The present value calculation of these provisions is based on the number of employees, average gross salary, number of years of service at the Company and the statistics of paid termination benefits in the past 4 years at the balance sheet date and the discount rate of 1,7% (2017: 2%).

32. Non-current liabilities

	31 December 2018	31 December 2017
	HRK	*HRK*
Bank borrowings		
Raiffeisenbank Austria d.d., Zagreb	22,252,725	22,540,944
Raiffeisenbank Austria d.d., Zagreb	12,515,683	21,129,645
Less: Current portion	(9,734,584)	(8,451,858)
	25,033,824	**35,218,731**

Notes to the Financial Statements

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Non-current liabilities to banks and financial institutions relate to two foreign currency borrowings from Raiffeisenbank Austria d.d.

The borrowing amounting to EUR 3,000,000.00 was granted in June 2017, with a fixed interest rate of 2.05% p.a. used to finance the 74% share in the company Power Engineering Transformatory Sp. z.o.o., Poland. Security instruments are 2 blank bills of exchange with bill of exchange statement, 1 general debenture of EUR 3,000,000.00, pledge over Company property and movables based on the Security Agreement amounting to EUR 25,000,000.00.

The second borrowing was granted in December 2017 in the amount of EUR 3,093,385.39 with a fixed interest rate of 1.85% p.a. used to refinance the long-term foreign currency borrowing at RBA d.d. granted in August 2016 in the amount of EUR 4,499,469.64, which was used to refinance the borrowing from HBOR's lending programme for the development of economic activities for financing the investment called High-Voltage Laboratory. Security instruments are 4 blank bills of exchange with bill of exchange statement, 1 general debenture of EUR 4,500,000.00, pledge over Company property and movables based on the Security Agreement amounting to EUR 25,000,000.00.

Furthermore, the Company contracted certain covenants for these borrowings, the most important of which are as follows:

- direct 60% of all domestic currency payment and a minimum of EUR 10,000,000.00 foreign currency payments through RBA accounts
- enable the bank to continuously monitor the use of pledged properties
- The bank has a right to cancel the loan and to call it as due in the following cases
  - late payment of any cash obligation under the contract
  - misuse of the borrowing or part of the borrowing
  - in the event that it does not partially or fully meet or partially violates any of the special contracted terms
  - in the event of material adverse change in the business, assets, liabilities or financial position of the Company
  - in the event that security instruments are no longer sufficient for the bank for any reason, and the Company does not offer another security instrument, suitable for the bank.

Movements in liabilities to banks and other financial institutions during the year can be summarised as follows:

	HRK
1 January 2017	**21,253,771**
New borrowings	22,213,581
Foreign exchange differences	203,237
Less: Current portion	(8,451,858)
31 December 2017	**35,218,731**
Foreign exchange differences	(450,323)
Less: Current portion	(9,734,584)
31 December 2018	**25,033,824**

Notes to the Financial Statements

for the Year Ended 31 December 2018

Long-term bank borrowings mature as follows:

	31 December 2018	31 December 2017
	HRK	*HRK*
From 1 to 2 years	6,953,485	9,860,667
From 2 to 3 years	2,781,591	7,043,547
From 3 to 4 years	2,781,591	2,817,618
From 4 to 5 years	2,781,591	2,817,618
Due in more than 5 years	9,735,566	12,679,281
	25,033,824	**35,218,731**

33. Liabilities to related parties

	31 December 2018	31 December 2017
	HRK	*HRK*
Končar Group companies:		
Končar - Electrical Industry Inc., Zagreb	1,394,356	1,277,422
Končar - Infrastructure and Services Ltd., Zagreb	1,006,257	868,297
Končar - Electrical Engineering Institute Inc, Zagreb	508,416	593,033
Končar - Switchgear Inc.	341,385	2,125
Končar - Electronics and Informatics, Inc, Zagreb	97,545	129,983
Končar - Small Electrical Machines Inc, Zagreb	51,275	124,315
Končar - Instrument Transformers Inc., Zagreb	23,670	62,696
Končar - Steel Structures Inc, Zagreb	23,250	-
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	1,289	35,784
	3,447,443	**3,093,655**
Associates:		
Elkakon Ltd., Zagreb	4,712,212	3,582,824
Končar - Power Transformers, Ltd., Zagreb	74,000	19,991
	4,786,212	**3,602,815**
	8,233,655	**6,696,470**

As at 31 December, the ageing structure of liabilities to related parties 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*
2018	**8,233,655**	7,070,584	1,163,071	-	-	-	-
2017	**6,696,470**	6,443,567	252,903	-	-	-	-

Notes to the Financial Statements

for the Year Ended 31 December 2018

34. Bank borrowings

	31 December 2018	31 December 2017
	HRK	*HRK*
Short-term borrowings		
Current portion of long-term borrowing (Note 32)	9,734,584	8,451,858
	9,734,584	**8,451,858**

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

	HRK
1 January 2017	**8,501,508**
Repayment of borrowings	(8,404,368)
Foreign exchange differences	(97,140)
Plus: Current portion	8,451,858
31 December 2017	**8,451,858**
Repayment of borrowings	(8,340,195)
Foreign exchange differences	(111,663)
Plus: Current portion	9,734,584
31 December 2018	**9,734,584**

The fair value of current borrowings does not differ significantly from its carrying value due to the short-term nature of these liabilities.

35. Trade payables

	31 December 2018	31 December 2017
	HRK	*HRK*
Domestic trade payables	26,260,832	18,190,700
Foreign trade payables	61,354,579	49,910,035
	87,615,411	**68,100,735**

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*
2018	**87,615,411**	87,148,684	466,727	-	-	-	-
2017	**68,100,735**	67,488,597	604,957	2,350	900	3,931	-

Notes to the Financial Statements

for the Year Ended 31 December 2018

36. Other current liabilities

	31 December 2018	31 December 2017
	HRK	*HRK*
Liabilities to employees		
Liabilities for net salaries	6,854,736	6,395,032
	6,854,736	**6,395,032**
Taxes, contributions and similar charges		
Contributions, taxes and surtaxes payable	7,989,456	7,710,770
Income tax payable	21,237	686,238
VAT payable	3,429	18,606
	8,014,122	**8,415,614**
Other liabilities		
Liabilities for sick leave, deductions, etc.	85,551	83,487
Interest payable	182,964	131,251
Other liabilities	58,633	53,040
	327,148	**267,778**
Liabilities for distribution of profit	**150,437**	**101,616**
	15,346,443	**15,180,040**

37. Accrued expenses and deferred income

	31 December 2018	31 December 2017
	HRK	*HRK*
Uninvoiced agent commissions	-	2,677,103
Deferred income	671,011	669,691
Other accrued expenses	234,725	5,006
	905,736	**3,351,800**

Notes to the Financial Statements

for the Year Ended 31 December 2018

38. Current provisions

	Warranty provisions	Other current provisions	Total
	HRK	*HRK*	*HRK*
At 1 January 2017	**41,077,135**	**3,062,752**	**44,139,887**
Additional provisions	-	1,400,642	1,400,642
Transfer from non-current liabilities	3,417,149	-	3,417,149
At 31 December 2017	**44,494,284**	**4,463,394**	**48,957,678**
Additional provisions	-	53,810	53,810
Transfer from non-current liabilities	5,129,332	-	5,129,332
At 31 December 2018	**49,623,616**	**4,517,204**	**54,140,820**

39. Off-balance-sheet items

As at 31 December, the Company has the following off-balance sheet items:

	31 December 2018	31 December 2017
	HRK	*HRK*
Guarantees		
- in foreign currency	268,738,209	190,967,153
- in HRK	8,440,327	6,182,794
	277,178,536	**197,149,947**

Notes to the Financial Statements

for the Year Ended 31 December 2018

40. 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. The Company's principal activity includes performing related party activities, including the purchase of goods and services. The nature of services with related parties is based on arm's length conditions. In addition to sister companies within the Končar Group, the Company's related are the Company's Management Board and Supervisory Board.

During 2018, the Company engaged in transactions with related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows:

2018	Operating activities				
Company	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
PET, Poland	138	-	-	138	-
	138	**-**	**-**	**138**	**-**
Končar Group companies:					
Končar- Electrical Industry Inc.		1,394		-	6,108
Končar - Power Plant and Electric Traction Engineering Inc.	9,149	1	36	28,876	80
Končar - Infrastructure and Services Ltd.	-	1,006	-	65	1,970
Končar - Electrical Engineering Institute Inc.	28	509	-	117	4,315
Končar - Electronics and Informatics Inc.	219	98	-	245	1,403
Končar - Small Electrical Machines, Inc., Zagreb	-	51	-	-	2,775
Končar - Instrument Transformers Inc.	1	24	-	34	1,037
Končar - Switchgear Inc.	824	341	-	2,877	562
Končar - Household Appliances Ltd.	-	-	-	-	1
Končar - Electric Vehicles Inc.	13	-	-	136	
Končar - Generators and Motors Inc.	-	-	-	-	88
Končar - Low Voltage Switches and Circuit Breakers Ltd.	-	-	-	-	157
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	-	-	-	-	-
Končar Steel Structures Inc.	-	23	-	-	186
	10,234	**3,447**	**36**	**32,350**	**18,682**
Associates:					
Elkakon Ltd., Zagreb	7,432	4,712	-	31,750	39,077
Končar - Power Transformers Ltd.	266	74	-	829	59
	7,698	**4,786**	**-**	**32,579**	**39,136**
	18,070	**8,233**	**36**	**65,067**	**57,818**

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for the Year Ended 31 December 2018

During 2017, the Company engaged in transactions with related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows:

2017	Operating activities				
Company	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
PET, Poland	150	-	-	151	-
	150		**-**	**151**	**-**
Končar Group companies:					
Končar- Electrical Industry Inc.	**-**	1,278	**-**	-	6,101
Končar - Power Plant and Electric Traction Engineering Inc.	28,469	36	118	54,608	-
Končar - Infrastructure and Services Ltd.	-	868	-	129	1,908
Končar - Electrical Engineering Institute Inc.	-	593	-	-	1,818
Končar - Electronics and Informatics Inc.	-	130	-	6	543
Končar - Small Electrical Machines, Inc., Zagreb	-	124	-	-	2,096
Končar - Instrument Transformers Inc.	1	63	-	17	1,282
Končar - Switchgear Inc.	-	2	-	-	10
Končar - Electric Vehicles Inc.	-	-	-	450	-
Končar - Switchgear Inc. (from 29 December 2017 Končar - Switchgear Inc.)	688	-	-	1,442	429
Končar - Generators and Motors Inc.	-	-	-	8	29
Končar - Low Voltage Switches and Circuit Breakers Ltd.	-	-	-	-	131
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	-	-	-	51	-
Končar Steel Structures Inc.	-	-	-	-	171
	29,158	**3,094**	**118**	**56,711**	**14,518**
Associates:					
Elkakon Ltd., Zagreb	6,792	3,583	-	30,837	36,682
Končar - Power Transformers Ltd.	6,957	20	-	5,924	586
	13,749	**3,603**	**-**	**36,761**	**37,268**
	43,057	**6,697**	**118**	**93,623**	**51,786**

41. Financial instruments

In this note the following information will be disclosed:

A) The significance of financial instruments for the financial position and performance of the Company, and

B) The types and the nature of risks arising from financial instruments to which the Company is exposed at the end of the reporting period, and the method used by the Company to manage those risks.

Notes to the Financial Statements

for the Year Ended 31 December 2018

A) The significance of financial instruments for the financial position and performance of the Company

The significance of financial instruments for the financial position and performance of the Company is presented in the following tables:

31 December 2018

	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*
Derivative financial assets - non-current	-	34	-	**34**
Non-current financial assets	-	-	2,804	**2,804**
Derivative financial assets - current	-	293	-	**293**
Trade receivables	163,148	-	-	**163,148**
Receivables from related customers	18,070	-	-	**18,070**
Contract assets	8,161	-	-	**8,161**
Cash	101,937	-	-	**101,937**
	291,316	**327**	**2,804**	**294,447**

31 December 2017

	Loans and receivables	Assets at fair value through P&L	Available-for-sale assets	**Assets classified under IAS 39**
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Derivative financial assets - non-current	-	58	-	**58**
Available-for-sale financial assets	-	-	2,804	**2,804**
Derivative financial assets - current	-	883	-	**883**
Trade receivables	109,125	-	-	**109,125**
Receivables from related customers	43,057	-	-	**43,057**
Cash	117,850	-	-	**117,850**
	270,032	**941**	**2,804**	**273,777**

All the Company's liabilities have been classified as "At amortised cost", except for derivative financial instruments as explained in the following text.

Notes to the Financial Statements

for the Year Ended 31 December 2018

The Company manages its capital to ensure its ability to continue as a going concern while maximising the return to shareholders by optimising the debt to equity ratio.

	31 December 2018	31 December 2017
	HRK	*HRK*
Debt (interest-bearing)		
Long-term borrowings	25,033,824	35,218,731
Current portion of long-term borrowings	9,734,584	8,451,858
Less: Cash and cash equivalents	**(101,936,633)**	**(117,850,103)**
Net debt	**(67,168,225)**	**(74,179,514)**
Total equity	323,929,975	300,633,051
Equity and net debt	**256,761,750**	**226,453,537**
Net debt-to-equity ratio	**-**	**-**

Fair value of financial assets and liabilities

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

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

31 December 2018	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Listed shares	39	-	-	39
Fair value of derivative financial instruments	-	328	-	328
Assets at fair value through OCI	-	-	2,765	2,765
	39	**328**	**2,765**	**3,132**
31 December 2017				
Listed shares	39	-	-	39
Fair value of derivative financial instruments	-	941	-	941
Available-for-sale financial assets	-	-	2,765	2,765
	39	**941**	**2,765**	**3,745**

The fair value of the Company's financial assets and liabilities approximates the carrying amounts of the Company's assets and liabilities.

Notes to the Financial Statements

for the Year Ended 31 December 2018

Derivative financial instruments

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

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

Receivables and bank deposits

For assets that mature within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the interest rate does not deviate significantly from the current market rates and, consequently, the fair value approximates the 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 value of receivables and liabilities, including provisions that are in line with the usual terms of business is approximately equal to their fair value.

B) Other financial instruments

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

1 Market risk

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

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

a) Foreign currency risk management and hedge accounting

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

The Company is exposed to this risk through sales, purchase and borrowings stated in foreign currency which is not the Company's functional currency. Foreign currencies primarily exposed to risks are EUR, USD, SEK, MAD, CZK, CHF, NOK, PLN, RON, GBP and HUF.

The Company is, therefore, exposed to the risk that movements in exchange rates will affect both its net income and financial position, as expressed in HRK.

The Company exposes itself to foreign currency risk through sales, purchasing, borrowings and depositing of funds denominated in foreign currencies. EUR is not considered a currency of significant risk and the Company does not hedge against it, as opposed to all other currencies where the Company hedges through forward contracts on the trade of currencies with banks.

Notes to the Financial Statements

for the Year Ended 31 December 2018

The Company's foreign currency exposure arises from:

- highly probable forecast transactions (sales/purchases) denominated in foreign currencies;
- commitments denominated in foreign currencies; and
- monetary items (mainly trade receivables, trade payables and borrowings) denominated in foreign currencies.

The Company's policy is to hedge all material foreign exchange risk associated with highly probable forecast transactions, firm commitments and monetary items denominated in foreign currencies.

The Company's policy is to hedge the risk of changes in the relevant spot exchange rate.

Hedging instruments

The Company mainly uses forward contracts as well as swap foreign exchange contracts to hedge foreign exchange risk. All derivatives must be entered into with counterparties with a credit rating of A or A negative.

Extracts of efectiveness testing policies for currency risk:

Strategy: Cash flow hedges of foreign currency exposure in highly probable forecast transactions.

Effectiveness testing policy for currency risk

Prospective effectiveness testing for cash flow hedges

Prospective effectiveness testing is performed at the inception of the hedge and at each reporting date. The hedge relationship is highly effective if the changes in fair value or cash flow of the hedged item that are attributable to the hedged risk are expected to be offset by the changes in fair value or cash flows of the hedging instrument.

Prospective effectiveness testing should be performed by comparing the numerical effects of a shift in the exchange rate (for example, EUR/USD rate) on: the fair value of the hedged cash flows measured using a hypothetical derivative; and the fair value of the hedging instrument. Consistent with the Company's risk management policy, the hedged risk is defined as the risk of changes in the spot exchange rate Changes in interest rates are excluded from the hedge relationship (for both the hedging instrument and the hedged forecast transaction) and do not affect the calculations of effectiveness. Only the spot component of the forward contract is included in the hedge relationship (that is, the forward points are excluded). At least three scenarios should be assessed, unless the re terms of the hedging instrument perfectly match the critical terms of the hedged item, in which case one scenario is sufficient.

Retrospective effectiveness testing for cash flow hedges

Retrospective effectiveness testing is performed at each reporting date using the dollar offset method on a cumulative basis. The hedge is demonstrated to be effective by comparing the cumulative change in the fair value of the hedged cash flows measured using a hypothetical derivative, and the fair value of the hedging instrument. A hedge is considered to be highly effective if the retrospective effectiveness test results are within the 80% - 125% range.

$$\textbf{Effectiveness} = \frac{\textbf{Cumulative change in fair value of hedging instrument}}{\textbf{Cumulative change in fair value of hedged item (hypothetical derivative)}}$$

Notes to the Financial Statements

for the Year Ended 31 December 2018

The change in the fair value of the spot component of the hedging instrument (the forward contract) is the difference between the fair value of the spot component at the inception of the hedge and at the end of the testing period. The difference is derived based on translating the foreign exchange leg of the forward contract at the current spot rate and discounting the net cash flows on the derivative using the zero-coupon rates curve derived from the swap yield curve.

The change in the fair value of the hedged cash flows of the hedged item (hypothetical derivative) is the difference between the value of the hypothetical derivative at the inception of the hedge and at the end of the testing period. The difference is derived based on translating the foreign exchange leg of the hypothetical derivative at the current spot rate and discounting the net cash flows on the hypothetical derivative using the zero-coupon rates curve derived from the swap yield curve.

The Company's exposure to currency risk at the reporting date is as follows:

31 December 2018

(In thousands of HRK)	EUR	USD	MAD	SEK	CHF	GBP	CZK	NOK	HUF	Total foreign currencies	HRK	Total
Trade receivables and receivables from related parties	105,199	5		26,239	2,570	2,949	112	-	-	137,074	44,144	181,218
Derivative instruments	328	-	-	-	-	-		-	-	328	-	328
Cash and cash equivalents	45,594	4,828	242	4,468	1,062	1,253	107	247	1	57,802	44,135	101,937
Total assets	**151,121**	**4,833**	**242**	**30,707**	**3,632**	**4,202**	**219**	**247**	**1**	**195,204**	**88,279**	**283,483**
Trade and other payables	57,999	-	8	2,755	362	-	230	-	-	61,354	34,494	95,848
Financial liabilities	34,768	-	-	-	-	-	-	-	-	34,768	-	34,768
Total liabilities	**92,767**	**-**	**8**	**2,755**	**362**	**-**	**230**	**-**	**-**	**96,122**	**34,494**	**130,616**

31 December 2017

(In thousands of HRK)	EUR	USD	MAD	SEK	CZK	CHF	GBP	HUF	Total foreign currencies	HRK	Ukupno
Trade receivables and receivables from related parties	87,075	85	91	7,959	-	245	-	-	95,455	56,727	152,182
Derivative instruments	940	-	-	-	-	-	-	-	940	-	940
Cash and cash equivalents	95,976	764	256	6,028	2,957	1,857	3	1	107,842	10,008	117,850
Total assets	**183,991**	**849**	**347**	**13,987**	**2,957**	**2,102**	**3**	**1**	**204,237**	**66,735**	**270,972**
Trade and other payables	46,697	708	8	2,326	-	171	-	-	49,910	24,887	74,797
Financial liabilities	43,671	-	-	-	-	-	-	-	43,671	-	43,671
Total liabilities	**90,368**	**708**	**8**	**2,326**	**-**	**171**	**-**	**-**	**93,581**	**24,887**	**118,468**

Notes to the Financial Statements

for the Year Ended 31 December 2018

Sensitivity analysis

A (weakening)/strengthening of the HRK exchange rate in relation to the following currencies by the presented percentages at the reporting date would increase/(decrease) profit before tax by the following amounts:

	% Change 2018	% Change 2017	2018 Effect on profit before tax HRK'000	2017 Effect on profit before tax HRK'000
EUR	(1)%	(1)%	(740)	(541)
USD	3%	(13)%	153	(18)
SEK	(5)%	(3)%	(1,516)	(371)
CZK	(2)%	5%	-	149
CHF	2%	(9)%	79	(166)
GBP	(3)%	(4)%	(130)	-
Other currencies	-	-	(5)	(12)

This analysis assumes that all other variables, interest rates especially, remain unchanged. Percentage of changes in exchange rates are determined on the average change in these currencies over the past 12 months.

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

b) Interest rate risk

The Company is not exposed to interest rate risks because all loans are contracted with a fixed interest rate, there are no variable interest rates, while most of the assets are not interest bearing.

C) Other price risks

The Company is not exposed to other price risks related to financial instruments.

2) Credit risk

Credit risk refers to the risk that one party to a financial instrument will default on its contractual obligations resulting in financial loss to the other party. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities with good credibility. The Company uses publicly available information on entities' financial position, reports on creditworthiness by independent credit rating agencies 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 measured and the aggregate value of contracts concluded is spread amongst creditworthy counterparties.

A significant part of credit risk arises from trade receivables.

Trade and other receivables

The Company's exposure to credit risk is mainly affected by the individual characteristics of each customer.

The demographics of the customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions

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are offered. The customers with insufficient creditworthiness are required to provide common payment collaterals, such as letters of credit (L/C), bank collaterals, mortgages, debenture notes, bills of exchange, etc. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables.

The Company has not used derivative instruments to hedge these risks.

Impairment of financial assets

The Company has the following types of financial assets that are subject to the expected credit loss model:
- trade receivables for sales of goods and services
- contract assets
- debt instruments carried at amortised cost
- debt instruments carried at FVOCI

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 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 sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The impairment as at 31 December 2018 and 1 January 2018 for trade receivables and contract assets is as follows:

31 December 2018	**Total**	**Not past due**	**Past due 1-60 days**	**Past due 61-90 days**	**Past due 91-180 days**	**Past due 181-365**	**Past due over 365 days**
	HRK' 000	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*
Trade receivables	163,147,724	128,750,942	23,800,835	8,546,887	748,839	532,040	**768,181**
Receivables from related parties	18,069,935	12,651,679	2,498,351	-	-	2,919,905	**-**
Default rate (0%-9%)		0.00	0.01	0.12	0.24	0.54	**8.97**
Expected credit loss	**20,991**	**5,108**	**2,716**	**2,140**	**-**	**11,027**	**-**

Notes to the Financial Statements

for the Year Ended 31 December 2018

The Company did not recognise additional impairment losses on assets at amortised cost and equity instruments at fair value through other comprehensive income, as the analysis found that they are not material for the financial statements as at 1 January 2018. The impairment has not changed the value of the disclosed equity instruments in the balance sheet since they are still carried at fair value.

Trade receivables and contract assets are written off when there is no reasonable expectations of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than one year.

3) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet their financial obligations as they fall due or that it will face difficulties in meeting these obligations. 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 as at 31 December 2018 in accordance with contracted undiscounted payments:

31 December 2018	Contractual cash flows	Less than 1 month	1 - 3 months	3 - 12 months	2 - 5 Years	More than 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Liabilities						
Current liabilities to related parties	8,234	7,396	838	-	-	-
Current trade and other payables	87,766	44,146	43,014	606	-	-
Long-term borrowings	26,721	-	-	-	19,571	7,150
Short-term borrowings	10,543	183	2,255	8,105	-	-
Total liabilities	**133,264**	**51,725**	**46,107**	**8,711**	**19,571**	**7,150**

The following table presents the maturity of financial liabilities of the Company as at 31 December 2017 in accordance with contracted undiscounted payments:

31 December 2017	Contractual cash flows	Less than 1 month	1 - 3 months	3 - 12 months	2 - 5 Years	More than 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Current liabilities to related parties	6,697	5,874	823	-	-	-
Current trade and other payables	68,202	40,722	26,493	987	-	-
Long-term borrowings	37,561	-	-	-	24,265	13,296
Short-term borrowings	9,377	131	2,323	6,923	-	-
Total liabilities	**121,837**	**46,727**	**29,639**	**7,910**	**24,265**	**13,296**

Notes to the Financial Statements

for the Year Ended 31 December 2018

42. Events after the balance sheet date (subsequent events)

After the reporting date and up to the date of approval of the financial statements, there were no events that could significantly affect the annual financial statements of the Company for 2018, which should be disclosed.

43. Accounting policies applicable until 1 January 2018

A. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value added tax, excise tax, estimated returns, rebates and discounts.

Sales of goods and products

Revenue from the sale of goods and own products is recognised when all the following conditions have been met:

- the Company has transferred all significant risks and benefits arising from the ownership of the goods or products to the buyer;
- the Company does not retain constant involvement in the control of the assets sold up to a point usually related with ownership nor does it have control over the sale of goods;
- the amount of income can be measured reliably;
- it is probable that the economic benefits arising from the transaction will flow to the Company; and
- the costs incurred or to be incurred on those transactions can be measured reliably.

Income from services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

B. Financial assets and financial liabilities

Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require the delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories:

o 'Financial assets at fair value through profit or loss (FVTPL)'

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL by the Company. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. All derivative financial instruments are included in this category, except if designated and effective as hedging instruments in which case hedge accounting is applied.

Notes to the Financial Statements

for the Year Ended 31 December 2018

o 'Held-to-maturity investments'

Bills of exchange and promissory notes with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

o 'Available-for-sale financial assets'

Financial assets available for sale are non-derivative financial assets which are designated as such or cannot be included in any of the above mentioned categories. These assets are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income in the investments revaluation reserve is included in profit or loss for the period.

o 'Loans and receivables'

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired if there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of an asset when the event affects the estimated future cash flows from the financial asset.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Notes to the Financial Statements

for the Year Ended 31 December 2018

Share capital

a. Ordinary shares

Share capital represents the nominal value of shares issued.

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

b. Share capital repurchase

The consideration paid for the repurchase of the Company's equity share capital, including any directly attributable incremental costs related to the repurchase, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from total 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 of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue).

Financial liabilities at fair value through profit or loss

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

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with 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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial risk management and disclosures in accordance with IFRS 7 are set out in Note 41 to these financial statements.

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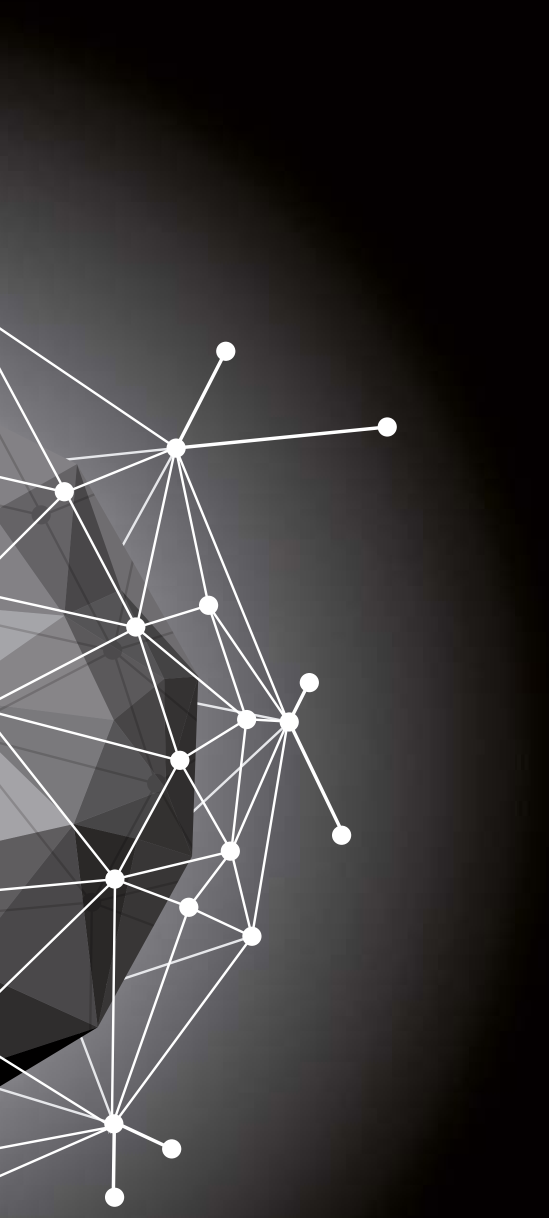

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