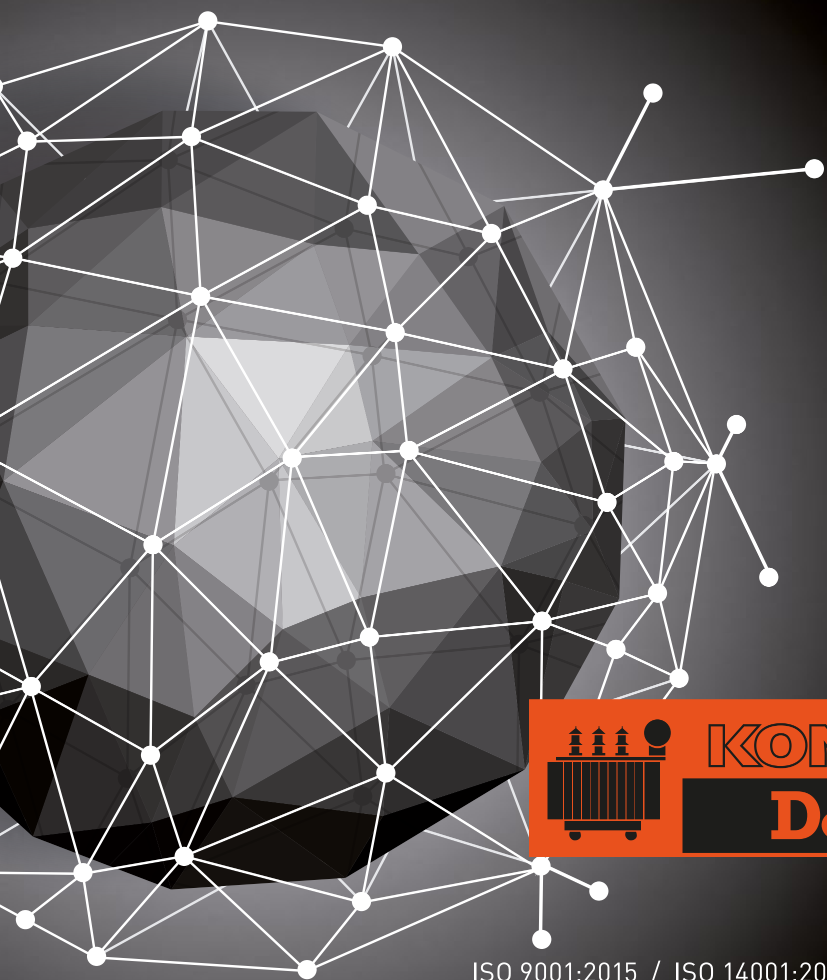
Tradition. Knowledge. Responsibility.

Annual Report

2019



KONČAR D&ST

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

Annual Report

2019

Končar Distribution and Special Transformers, Inc.

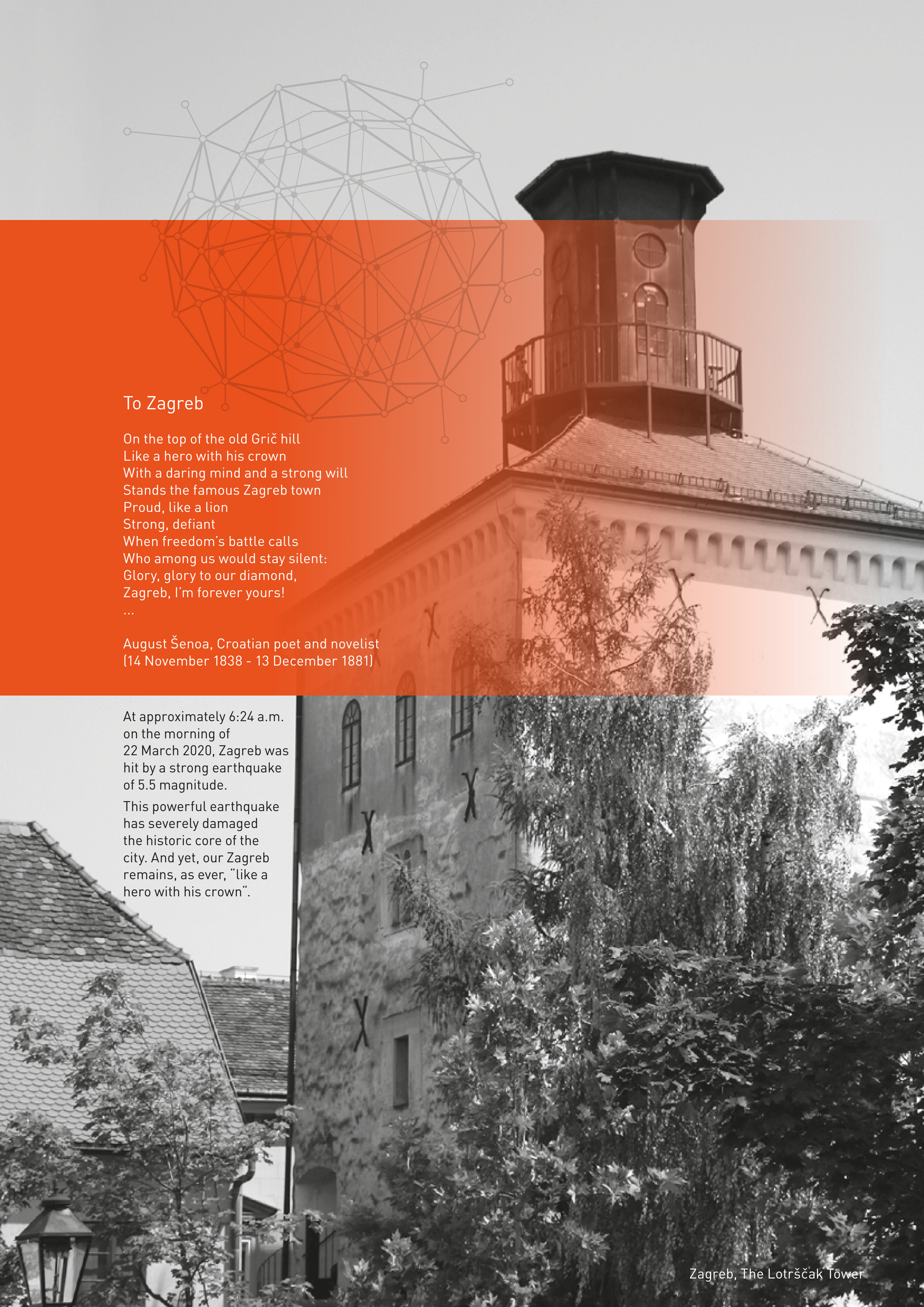
To Zagreb

On the top of the old Grič hill
Like a hero with his crown
With a daring mind and a strong will
Stands the famous Zagreb town
Proud, like a lion
Strong, defiant
When freedom's battle calls
Who among us would stay silent:
Glory, glory to our diamond,
Zagreb, I'm forever yours!
...

August Šenoa, Croatian poet and novelist
(14 November 1838 - 13 December 1881)

At approximately 6:24 a.m. on the morning of 22 March 2020, Zagreb was hit by a strong earthquake of 5.5 magnitude.

This powerful earthquake has severely damaged the historic core of the city. And yet, our Zagreb remains, as ever, "like a hero with his crown".



Zagreb, The Lotrščak Tower

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I

MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2019

1. Introductory Word by the Management Board

2019 - YEAR OF INVESTMENTS AND SIGNIFICANT OPERATING GROWTH

The 2019 continued the sequence of successful business years of Končar D&ST. Total sales of goods and services in 2019 amounted to HRK 1,031 million (2018: HRK 918 million), which was a 12% increase on annual level. Export operations of HRK 903 million (2018: HRK 763 million) accounted for 88% of sales and exceeded by 18% the preceding year exports.

The 2019 profit before taxation was HRK 51.1 million (net profit: HRK 49.2 million) which was by 1% higher than in 2018, when it had amounted to HRK 50.7 million (net profit: HRK 49.2 million).

Real growth in operating income and profit in 2019 compared to 2018 was higher due to the impact of IFRS 15 on the Company 2018 reports, causing the accounting increase of the operating income (transferred from 2017) by HRK 16.9 million and that of profit by HRK 5.1 million. This led to the real profit growth of 12%.

The balance of total contracts at the end of 2019 was HRK 691 million, which compared to the balance of HRK 606 million at the end of 2018, means an increase of 14%.

Investments activities in 2019, mostly for purchase of new production, testing and IT equipment and improvement of working conditions in the production, amounted to HRK 92.1 million (2018: HRK 11.8 million).

In the strategic investment project in the production of distribution transformers, the first project stage was completed in 2019 - Cutting Centre for Transformer Core Production was arranged on an area of 5,000 m2.

In 2019, the Company continued providing technical and organisational support to the acquired company PET Poland with the aim of raising its operation to the market level as soon as possible.

During 2019, the number of employees grew by 39 to total 623. The HR department was strengthened, and the onboarding of new employees was improved. Parallel with the hiring, significant funds were invested in specialised 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.

Končar D&ST ordinary and preferred shares were listed in the regular market quotation of the Zagreb Stock Exchange throughout 2019. At the beginning of the year, Končar D&ST ordinary share price was HRK 990 and at the year's end it was HRK 1,460, which was a 47% growth.

Considering highly demanding conditions of the transformer market, the overall operating results of Končar D&ST in 2019 were in our opinion successful and we believe the Company is well prepared for future challenges. Mutual confidence and harmonized interests among our shareholders, employees, partners and banks have been of great importance for such good performance. The Management of Končar D&ST is thankful for your support and trust and is pleased to present this Annual Report for 2019.

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

Ivan Klapan
Management Board President

2. Major 2019 Figures and their Comparison with 2018, 2017 and 2016

	INDEX 2019/2018
Net profit**	112.4
Sales	112.3
Export	118.3
Balance of orders at year's end	114.0

	2019	2018	2017	2016	2019	2018	19/18
	HRK ('000)				EUR ('000)		index
Sales							
Croatia	128,210	154,879	146,363	133,417	17,294	20,890	82.8
Export	902,665	763,105	745,654	719,950	121,758	102,926	118.3
Total*	1,030,875	917,984	892,017	853,367	139,052	123,816	112.3
Balance of orders at the year's end							
Croatia	32,279	23,720	22,827	51,460	4,354	3,199	136.1
Export	658,464	582,428	535,281	570,309	88,818	78,557	113.1
Total	690,743	606,148	558,108	621,769	93,172	81,756	114.0
Annual sales per employee	1,684	1,622	1,670	1,654	227	219	103.8
Investments	92,142	11,767	34,642	19,554	12,429	1,587	783.1
Net profit**	49,495	44,053	41,508	35,930	6,676	5,942	112.4
Dividend HRK/share							
Ordinary	***	32.54	81.20	56.23			
Preferred	***	32.54	81.20	56.23			
Net profit/sales in %	4.8%	4.8%	4.7%	4.2%			
Net profit per total equity	16.1%	15.7%	16.0%	15.1%			
Total equity and reserves as of 31/12	356,790	323,930	300,633	273,499	48,126	43,691	110.1
Number of employees							
Average	612	566	534	516			108.1
As of 31 December	623	586	539	532			106.3

Note: Average exchange rate
2016: EUR 1 = HRK 7.5294
2017: EUR 1 = HRK 7.4601
2018: EUR 1 = HRK 7.4141
2019: EUR 1 = HRK 7.4136

* Total 2018 sales include the IFRS 15 effect of HRK 16.9 million.
** Net 2018 profit does not include 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 2019

Supervisory Board
Darinko Bago, president
Gordan Kolak, deputy since 30 May 2019
Miroslav Poljak, member
Jozo Miloloža, member until 21 May 2019
Davor Mladina, member
Vlado Grund, member until 9 November 2019
Ana-Marija Markoč, member since 15 November 2019

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 I; Electrical Design II; 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; Windings II; Assembly AP; Final Assembly; Production SDT
  - QUALITY: Test Station; Final Inspection
- FINANCE, ACCOUNTING & PURCHASING
  - LEGAL AFAIRS & HR
  - FINANCE & ACCOUNTING: Finance, Accountancy; Controlling
  - 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

Tradition. Knowledge. Responsibility.

4. General Position of the Company

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.

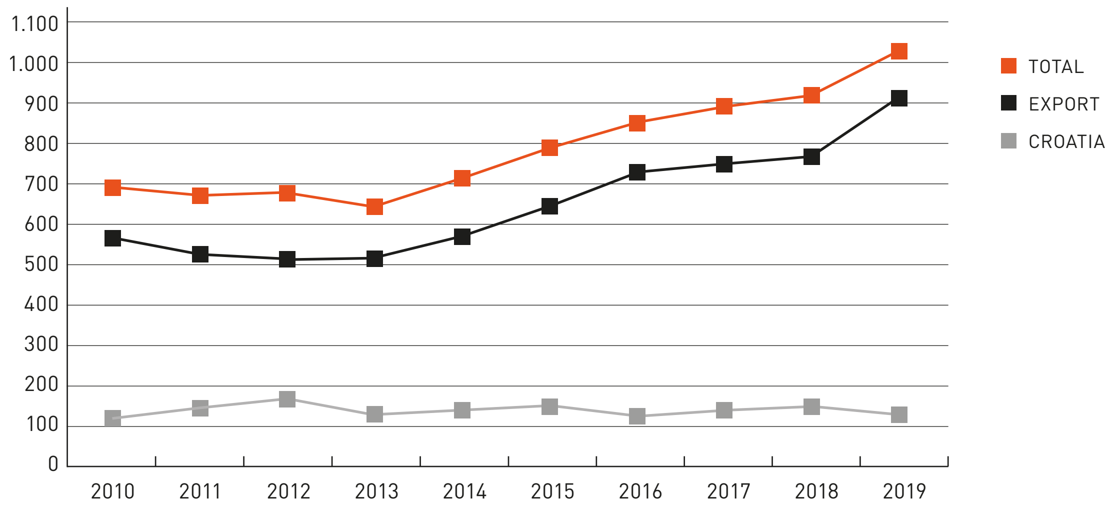
Due to prioritizing of sales and development, as well as through recruitment and systematic onboarding of young experts, providing incentives to the employees, investments in product development and production modernisation, the Company is well prepared to face challenges of complex market conditions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

Completion of the first stage and good preparation of the second stage of 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.

Good operating results in 2019 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.

SALES TRENDS (HRK mil.)



5. Corporate Organisation and Management in 2019

In the course of 2019, Končar D&ST Inc. was managed by the Management Board consisting of the following members:

Ivan Klapan	Management Board President
Petar Bobek	Board Member, Business Development Director
Vanja Burul	Board Member, MPT Profit Centre Director
Martina Mikulić	Board Member, DT Profit Centre Director
Petar Vlaić	Board Member, Finance and Procurement Director

(DT) Profit Centre and Medium Power Transformers (MPT) Profit Centre and the common departments covering the whole company. The Profit Centres were managed by a team of directors consisting of the Profit Centre Director and Directors of Sales, Technology and Production.

In 2019, the Company operated on a single location in Croatia, at the address: Josipa Mokrovića 8, 10090 Zagreb.

PET Sp. z o.o. company in which Končar D&ST Inc. acquired the majority share on 8 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. Subsidiary PET, Poland

Through the investment in Power Engineering Transformatory Sp. z o.o. Czerwonak (PET) Poland, on 08 May 2017 Končar D&ST Inc. became 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 2019 - after completion of the adopted investment plan, including modernization of its production and testing equipment and adopting advanced technology solutions and business organisation, the Company significantly increased its sales and its share in the medium power transformer market in Poland. Considering the character of the investment, return on investment is expected on medium term basis.

On 31 December 2019, the company PET had 60 employees.

7. Corporate Governance Code

The Company implements most of the provisions of the Code of Corporate Governance, prepared by the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA) and published 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, 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 the 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 current or prospective investors.

A questionnaire with responses to 63 questions contains precise answers regarding the implemented and non-implemented provisions of the Code. The questionnaire is publicly available at 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 objective and fair presentation of the financial and business reports.

Information about significant shareholders is available on daily basis at the official Central Depository & Clearing Company website (www.skdd.hr), while its status as at 31 December 2019 and 31 December 2018 was also published in the audit report. The shareholders are allowed the electronic voting with their attendance at the General Assembly. Preferred shares do not provide any voting rights.

8. Market Position and Sales by Countries and Product Groups

The 2019 market followed the trends from the previous years of stable transformer demand and growing capacities on the supply side. In addition to the constant pressure of Asian producers in the Near East and Africa, their engagement in the European market has also intensified. Also, the market supply and demand in 2019 were also under impact of the trend of consolidations and changes in transformer manufacturer ownership structure, which already points out to future market changes resulting from the new owners' policies.

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 2019, the sales of goods and services grew by 12.3% from 2018 and amounted to HRK 1.031 million.

Changes per product groups in 2019, compared to 2018:

- Distribution transformers: growth by 11.9%
- Medium power transformers: growth by 10.6%
- Dry and special transformers: growth by 52.2%
- Other goods and services: growth by 11.3%

Compared to 2018, there were 17.5% more transformers delivered by MVA and 16.7% more by overall weight.

Sales by major markets were as follows:

Croatia: the 2019 sales were HRK 128.2 million, which was a 17.2% fall compared to HRK 154.9 million in 2018.

Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Italy, Czechia, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania, Albania - in 2019, there were HRK 270.6 million deliveries, compared to HRK 196.1 million in 2018, which was a 38.0% growth.

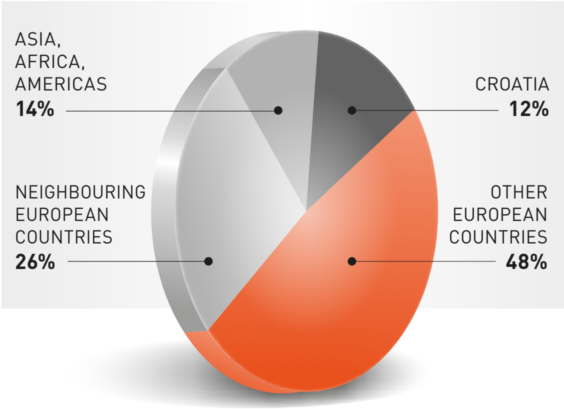
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, United Kingdom, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta - the 2019 sales amounted to HRK 491.2 million, which was a 2.5% growth compared to HRK 479.3 million in 2018.

Other Asian, African and American countries: the 2019 deliveries amounted to HRK 140,9 million, which was a 60.7% growth compared to HRK 87.7 million in 2018.

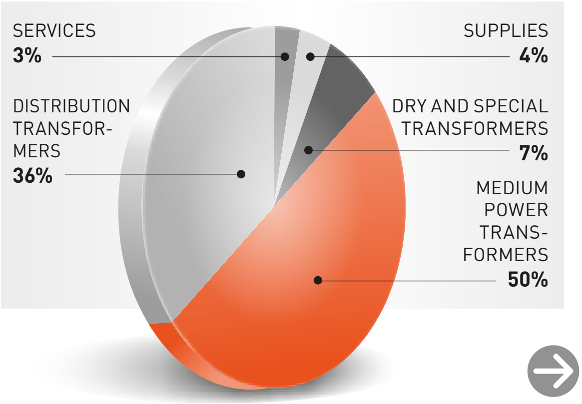
The sales activities in 2019 resulted in HRK 1,119 million or 17.9% more than in 2018.

The balance of contracts at the year's end amounted to HRK 691 million, which was by 14.0% more than at the end of 2018.

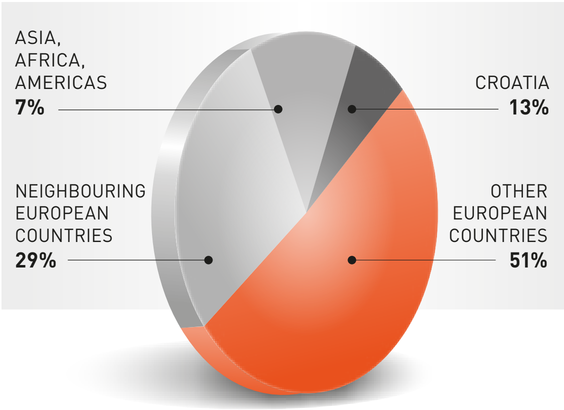
SALE STRUCTURE PER MARKET (2019)



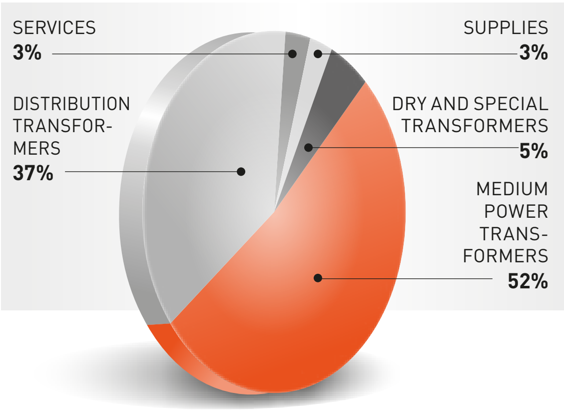
SALES STRUCTURE PER PRODUCT (2019)



NEW CONTRACTS PER MARKET (2019)



STRUCTURE OF NEW CONTRACTS PER PRODUCT (2019)



9. Financial Position (Balance Sheet)

Total assets of Končar D&ST as at 31 December 2019 amounted to HRK 795.7 million. Compared to the balance as at 31 December 2018, the assets increased by 10.3% or HRK 74.4 million.

The non-current assets amounted to HRK 237.8 million or 30% share in total assets.

The most important component of the non-current assets as at 31 December 2019 were tangible assets of HRK 222.4 million, which was by HRK 78.8 million or 54.8% higher than in the preceding year. This was result of high CAPEX in 2019, of HRK 92.1 million, which was mostly related to the current investment in distribution transformer production capacity increase. The first stage of the investment encompassing the conversion and equipping of new production hall has been successfully completed and launched in use in late 2019, which is reflected in the growth of non-current tangible assets (property, plant and equipment).

Non-current financial assets were reduced by HRK 7.4 million as consequence of impairment of the investment in the subsidiary PET, Poland.

As at 31 December 2019, current assets had approximately similar value as on the same day one year before, and with HRK 557.9 million formed 70% of overall assets. The most important portion of the current assets are inventories with the year's end value of HRK 251.7 million or 31.6% of assets and receivables at HRK 184.4 million (23.2% of assets). Both items were at approximately the same levels as in the year before.

The most liquid item of assets, cash, amounted to HRK 96.2 million and had a 12.1% share in the Company's overall assets.

Long-term sources of assets or liabilities make 64.7%.

As at 31 December 2019, share capital, reserves and profit of the current year jointly amounted to HRK 356.8 million or 44.8% of the liabilities. Compared to the previous year, they increased by HRK 32.9 million or 10.1%. The main reason for the growth is maintaining a portion of the profit in the Company reserves, enabling the realisation of the investment and improving the financial stability. In addition to the equity and reserves, there is significant growth of liabilities to banks within the scope of the long-term sources. As at 31 December 2019, the balance of long-term loans amounts to HRK 47.9 million (6.0% of the liabilities), which is a 91.4% growth in relation to the last day of the preceding year. The cause of the growth is a loan facility with Raiffeisenbank Zagreb concluded in 2019 at the amount of EUR 8 million, for funding a portion of the investment in distribution transformer capacity increase. Out of total approved amount until 31 December 2019, the amount of EUR 4 million was used, while the other half will be withdrawn in the first quarter of 2020.

Short-term sources of HRK 280.1 million form 35.3% of total sources of assets and grew by 31 December 2019, compared to the year before, by HRK 19.1 million or 7.3%. The highest growth recorded in this segment is that of liabilities based on advances received, which amounted to HRK 81.1 million at the year's end, having grown by HRK 18.1 million or 28.7%. Trade liabilities, as the highest individual item, amount to HRK 104.7 million and form 13.2% of total liabilities. Short-term liabilities to banks of HRK 7 million are actually a short-term component of long-term loan considering that in 2019 the Company did not use any short-term finance in this manner.

The balance structure of the Company shows that almost two thirds of operating assets are funded from long-term sources, covering non-current assets (30% of assets) but also complete inventories (31.6%) ensuring good financial stability.

In addition to the new long-term borrowing, the interest-based debt in the overall sources amounts to 6.9% only.

Throughout the year, the Company had good liquidity and fulfilled its financial liabilities in time.

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

Total 2019 revenues amounted to HRK 1,041.7 million, exceeding the 2018 revenues by HRK 110.5 million kuna or 12%.

Sales revenues amount to HRK 1,031 million which, compared to the year before, is a growth by HRK 113 million or 12%. The revenues are realised from the Company's basic activity, through operations in some 50 countries worldwide, and the value of goods delivered and services provided abroad amounts to HRK 903 million or 88% sales revenues.

The most significant operating expenses are material costs, growing due to the sales growth. Personnel cost follows by significance with HRK 140.1 million, with recorded 7% growth.

Among other significant items, provisions costs have grown from HRK 2.6 million in the preceding year to HRK 3.9 million.

Revenues from financial activities in 2019 amounted to HRK 8.6 million. Financial expenses amounted to HRK 14.9 million, out of which HRK 7.4 million was related to impairment of investment into the subsidiary PET Poland.

For a more accurate comparison, the impact of IFRS 15 on 2018 profits should be presented and explained. For that reason, a comparison is presented with and without the effect of IFRS 15 on the 2018 profits. According to the IFRS 15, in respect of some contracts recognized by the Company based on the accrual principle in 2017 based on the level of completion, the effects were again recognized in 2018. This resulted in an increase in profit before and after taxation in 2018 by HRK 5.1 million (effect on P&L) i.e. in negative retained profit of HRK 5.1 million (effect on Balance Sheet). The 2018 profits, without effects from 2017, decreased by HRK 5.1 million and therefore, profit before taxation for 2018 amounted to HRK 45.6 million while profit after taxation amounts to HRK 44.1 million.

Comparison with the effect of IFRS 15 in 2018

In 2019, the profit before taxation amounted to HRK 51.1 million, which was a 1% growth compared to 2018, when it had amounted to HRK 50.7 million. Profit after taxation in 2019 amounted to HRK 49.5 million and was by 1% higher than the 2018 net profit, which had amounted to HRK 49.2 million.

Comparison without the IFRS 15 effect in 2018

In 2019, the profit before taxation amounted to HRK 51.1 million, which was a 12% growth compared to 2018, when it had amounted to HRK 45.6 million. Profit after taxation in 2019 amounted to HRK 49.5 million and was by 12% higher than the 2018 net profit, which had amounted to HRK 44.1 million.

Trade in Končar D&ST shares at the Zagreb Stock Exchange in 2019 was marked with the price increase and trade volume increase.

In 2019, total trade of both Company shares (KODT-R-A i KODT-P-A) at the Zagreb Stock Exchange was HRK 13.3 million, while in the preceding year it had been HRK 6.3 million, which was a growth in trade by 111%.

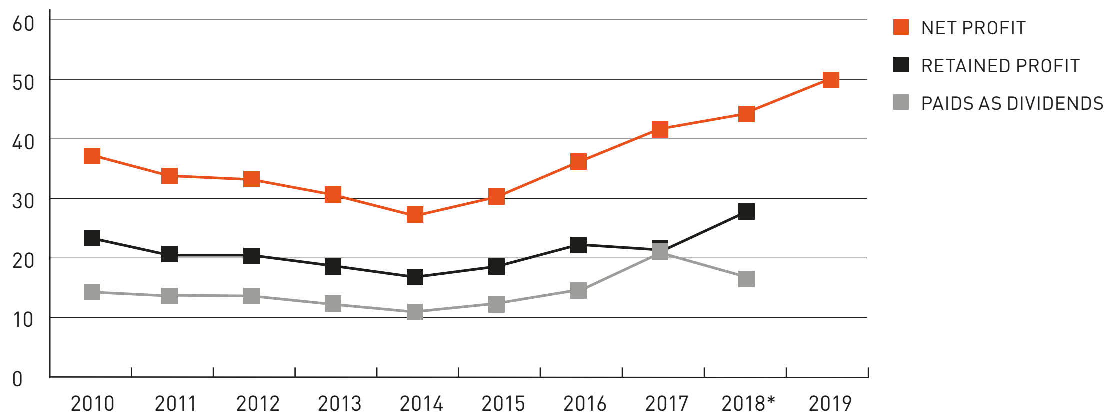
At the year's beginning, the price of a KODT-R-A share had been HRK 990, while at the year's end it was HRK 1,460, which was a 47% growth. At the year's beginning, the price of a KODT-P-A share had been HRK 1,000 and at the year's end it was HRK 1,460, which was a growth by 46%.

According to the ordinary share price on the last day of 2019, the P/E ratio was 15.1.

Due to the price growth of KODT shares, market capitalization grew to HRK 746.4 million by 31 December 2019, which was a 47% growth compared to the same date in the preceding year, when it had amounted to HRK 507.3 million.

In 2019, the Company did not acquire any treasury shares.

NET PROFIT AND PROFIT DISTRIBUTION (HRK mil.)



* Net profit in 2018 does not include the IFRS 15 effect of HRK 5.1 million.

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 hedges 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 sometimes 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

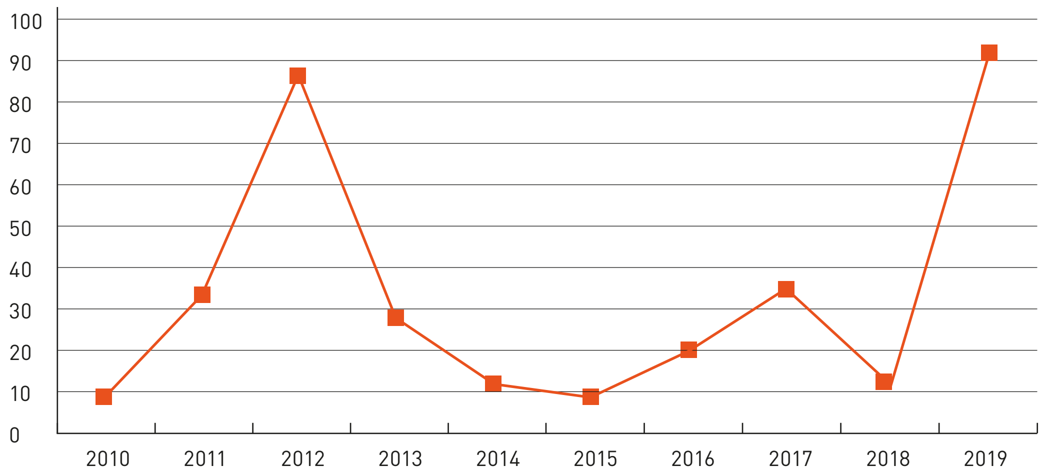
The Company has at its disposal state-of-the-art technology but still makes continuous investments in the process improvements and modernisation, which need to be raised to a higher technological level. In 2019, several specialized machines for the production have been purchased or modernized - winding machines for distribution and medium power transformer, longitudinal and transversal transformer sheet cutters, cranes, various specialized units, logistics and measuring equipment - in alignment with the adopted annual plan.

In 2019, the activities continued on the Distribution Transformer Production Increase Project (DTPIP). Launching of production in the new production facility - Cutting Centre was completed. All required equipment was ordered, and the activities were initiated to establish the new production flows. The project completion is expected in mid-2020.

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

Total 2019 investments were HRK 92.1 million.

INVESTMENT TRENDS (HRK mil.)



13. Technical Development and Product Innovation

In late 2019, there were more than 20 professionals with university degree qualifications in electrical engineering, mechanical engineering and software, 3 of them with the completed doctoral studies, in Product Development and Production Development Departments, which jointly form Technical Development Department.

The emphasis in the area of distribution transformers was on strengthening the competitive advantage of special distribution transformers through improvement of software for design and new bases. As for oval distribution transformers, the bases and the heating measurement system have been improved, and the optimum winding variety was researched with regard to short circuit.

In the production of distribution transformers, a new transversal transformer sheet cutting line was installed, as well as two winding machines, which increased the annual production capacity. For the requirements of the distribution transformer production capacity increase in 2019, the key production equipment was agreed as required for the installation of the new low frequency heating (LFH) drying plant, the test equipment was agreed for the new testing laboratory, new cranes were installed, high rack storage and assembly lines.

In the field of increasing the product quality, an estimate was made according to Failure Mode & Effect Analysis, while a verified Carbon Footprint estimate was made and verified for the product group to reduce the greenhouse gas effect.

In the medium power transformer range, bases were improved for calculation of no-load losses as well as bases for calculation of additional losses in three-winding transformers, with or without damper. In cooperation with the Electrical Engineering Institute, models of windings were made based on which new winding insulation dimensioning bases will be made. To confirm the technical solutions, an 80 MVA transformer was successfully tested on short circuit in KEMA laboratory (Arnhem, Netherlands).

In the development of medium power transformer production, a new winding machine was installed which completed the investment cycle of the machinery park reconstruction with state-of-the-art winding machines. The core production capacity was improved with a new longitudinal transformer sheet cutting line. For the assembly process, several special devices were provided to increase the production flow.

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.

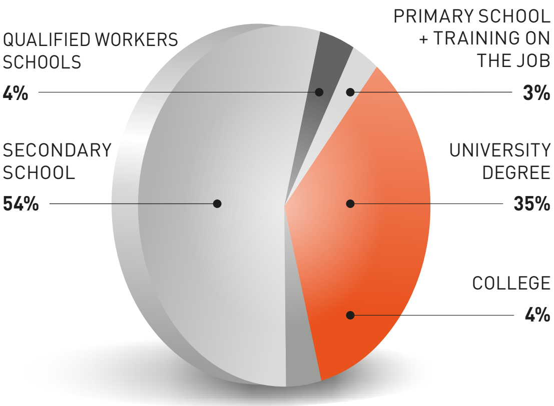
Experts from the Technical Development and other departments actively participated in symposiums and seminars about transformers (CIRED Madrid, HO CIGRE Šibenik, Colloquium Opatija) and worked in the SO2 study committee for transformers and in the technical committees HZN/TO E14 Power Transformers and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

14. Human Resources

At the beginning of the 2019, there were 586 employees in Končar D&ST. By the end of the year, new 60 employees were employed and 23 left. Thus, the year ended with 623 employees. The age structure of the employees differs. The youngest person recruited in 2019 was 20, and the oldest 44. The average age of the Končar D&ST employees is 38.

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. The awarding and promotion of professional and scientific training significantly augments the know-how of the Company as well as its contacts with the relevant university institutions.

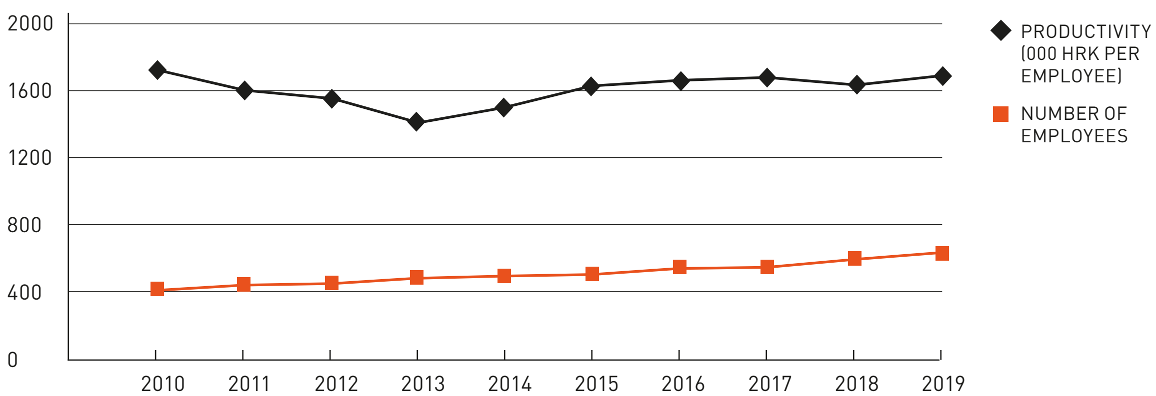
EMPLOYEE QUALIFICATIONS STRUCTURE AT THE YEAR'S END



	years of education	2019	2018
University degree	16 and more	219	214
College and Bachelor's degree	14 - 15	23	25
Secondary school	12	335	299
Qualified workers schools	11 - 13	25	26
Primary school + training on the job	8	21	22
Total		**623**	**586**

The 2019 productivity measured by sales per employee was HRK 1.7 million, which was a 3.8% growth compared to the year before.

EMPLOYEES NUMBER AND PRODUCTIVITY TRENDS



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

In 2019, regular audits were conducted of all three certified management systems (ISO 9001, ISO 14001 and OHSAS 18001) by Bureau Veritas certification company. The Document Management System (DMS) enables a transparent approach to the existing documents, faster traceability of documents and the appertaining enclosures.

Končar D&ST has maintained the audit maintenance evaluation schedule (both internal and external, by the certification company) twice a year as a good tool for the supervision, improvement and advancement of the system as a whole.

Končar D&ST has recognized and defined the processes affecting the environment and actively manages the recognized aspects of the environment related to the Company products and services considering the product lifecycle. The Company's own environmental impact is continuously managed with timely and effective prevention of potential pollution and rational use of natural resources. Environment preservation is contributed to by promotion of recycling and selection of environmentally acceptable raw materials.

In September 2019, Končar D&ST successfully completed Carbon Footprint of Products (CFP) study jointly with SGS certification company, verified by SGS Italy according to ISO 14067:2018 „Greenhouse gases - Carbon Footprint of Products - Requirements and guidelines for quantification" for a portion of the distribution transformer product range.

The CFP study enabled quantification, monitoring, reporting and validation of CFC gases emission, classifying Končar D&ST into the companies contributing to the sustainability and environment protection as a whole.

In line with our strong commitment to caring for the environment, community and sustainable development, Končar D&ST is a proud user of ZelEn product of HEP Opskrba and in its operations uses electricity generated solely from renewable energy sources.

In the 4th quarter 2019, preparations began on the transition of occupational health and safety management from OHSAS 18001:2007 to ISO 45001:2018. As most occupational health and safety management segments correspond, some documents of the two management systems will be integrated.

16. Future Development Strategy

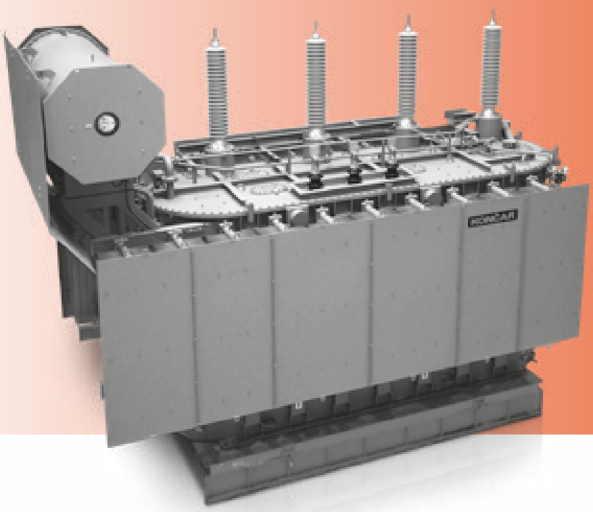
Development, sales and production of distribution oil transformers up to 8 MVA and 36 kV, special transformers, and medium power transformers up to 100 MVA and 170 kV will continue to be the core business activities of Končar D&ST.

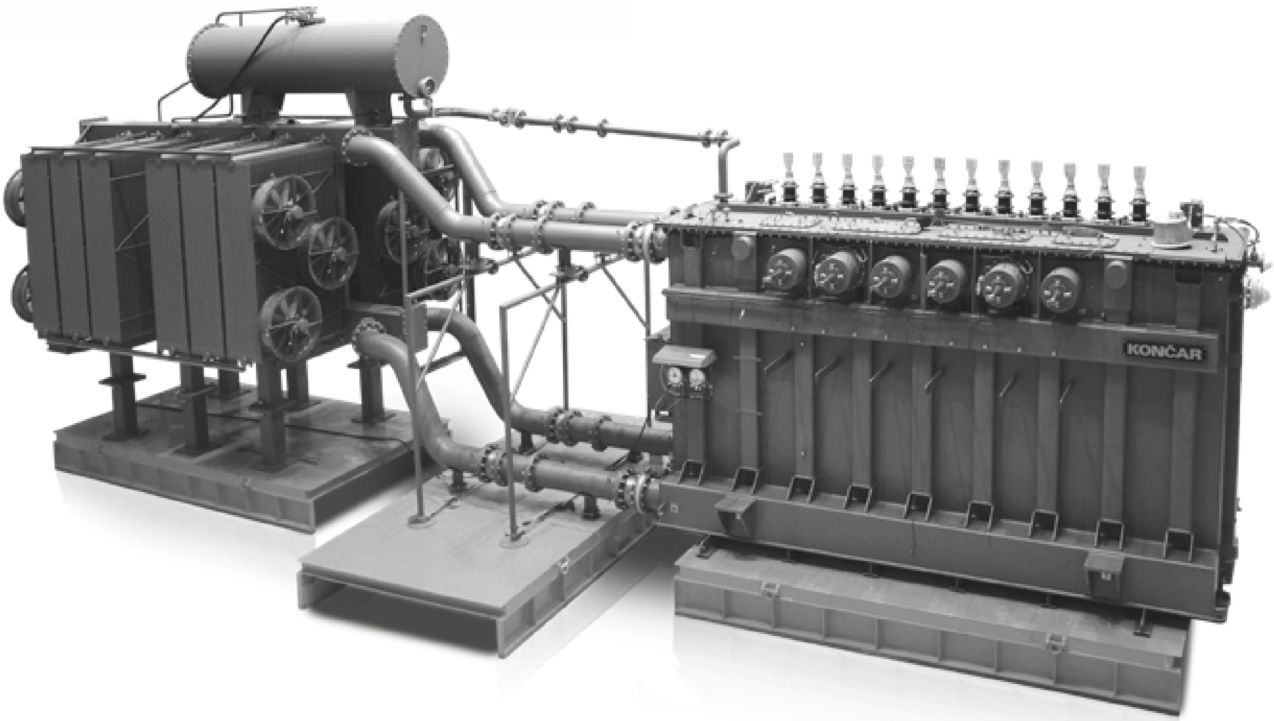
Končar D&ST will continue to secure its high position among the leading European manufacturers of distribution, special and medium power transformers through the recognition and best fulfilment of needs of its target customers, commitment to quality and sustainable development, technical and organisational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

Final remark: The outbreak of COVID-19 pandemic that occurred after the end of 2019 and before the issue of this report, might have negative effects on the future operations. Other than that, there has been no other uncommon or substantial operating events that could to a significant extent affect the operating figures 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 24 March 2020, the Supervisory Board and the Management Board of the Company have adopted the following

DECISION

ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2019

The Supervisory Board and Management Board of Končar-D&ST Inc. have jointly adopted the Annual Financial Statements for 2019.

Explanation

The Management Board of the Company has submitted to the Supervisory Board for approval the Annual Financial Statements for 2019.
The Supervisory Board has given approval to the Annual Financial Statements for 2019, whereby the Supervisory Board and the Management Board have jointly adopted the Annual Financial Statements for 2019 as follows:

Total income	HRK	1.041,746,681
Total expenses	HRK	990,655,793
Profit before taxation	HRK	51,090,888
Corporate income tax	HRK	1,595,866
Profit after taxation	HRK	49,495,022
Total assets/liabilities	HRK	795,732,074

Gordan Kolak
Vice President of the Supervisory Board

Ivan Klapan
President of the Management Board

Zagreb, 24 March 2020

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 24 March 2020, Supervisory Board and Management Board adopted the following

DECISION

ON ALLOCATION OF PROFITS FOR 2019

1. Profits after taxation (net profits) for 2019 amount to HRK 49,495,021.73
2. Management Board and Supervisory Board have allocated a sum of HRK 1,369,759.57 into Legal reserves
3. Management Board and Supervisory Board have allocated a sum of HRK 28,872,265.04 into Statutory reserves
4. 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 37.66 per share, which totals HRK 19,252,997.12 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.

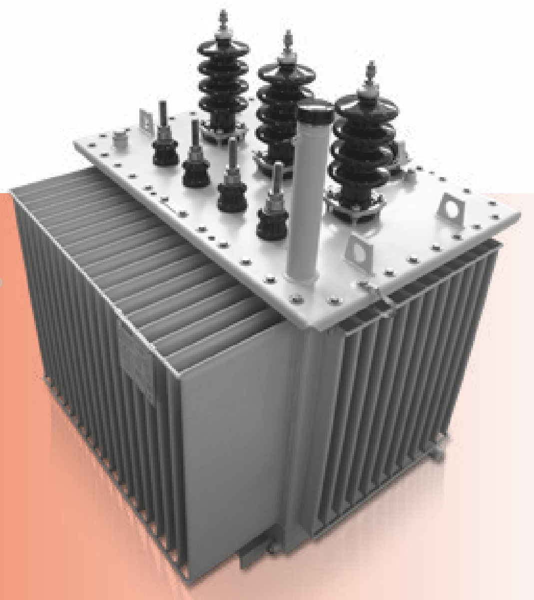
Gordan Kolak
Vice President of the Supervisory Board

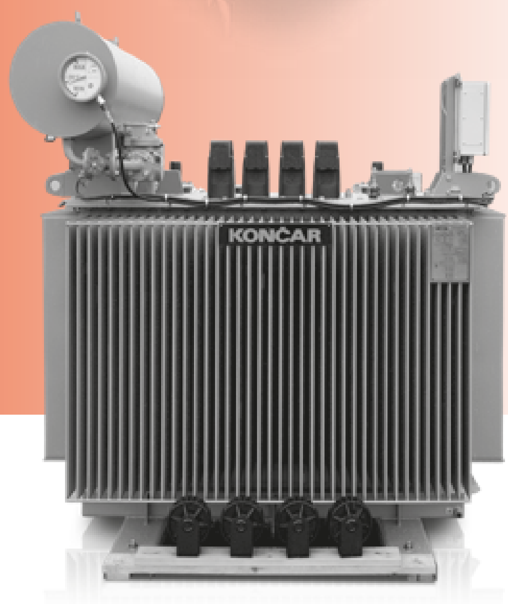
Ivan Klapan
President of the Management Board

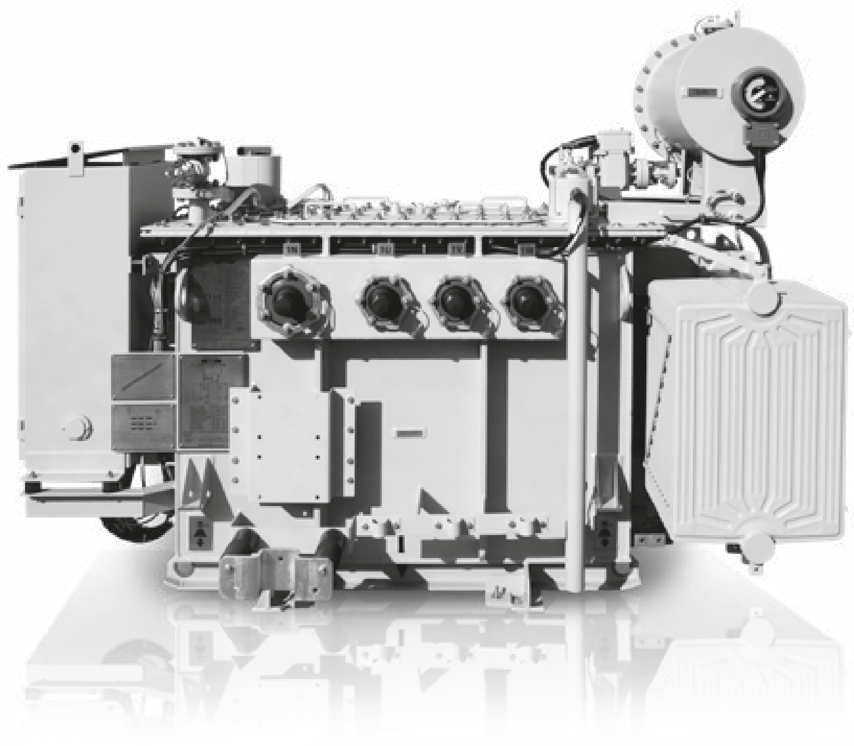
Zagreb, 24 March 2020

III

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES







Responsibility for the Annual Report

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union, which give a true and fair view of the financial position and results of Končar - 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;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting 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.

Besides, 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 19 March 2020.

Ivan Klapan, Management Board President

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 separate financial statements present fairly, in all material respects, the separate financial position of Končar – Distribution and Special Transformers Inc. (the "Company") as at 31 December 2019, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 18 March 2020.

What we have audited

The Company's separate financial statements comprise:

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

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014, and furthermore, we have not provided any other permitted non-audit services to the Company in the period from 1 January 2019 through 31 December 2019.

PricewaterhouseCoopers d.o.o., Heinzelova 70, 10000 Zagreb, Croatia
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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 financial statements of the Company as a whole: HRK 10,300 thousand, which is 1% of total revenue.
Key audit matters	• Revenue recognition in accordance with IFRS 15

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

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

Materiality

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

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

Overall Company Materiality	HRK 10,300 thousand
How we determined it	1% of total revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark 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.

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Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition in accordance with IFRS 15 *See Note 2d), 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 1,030,875 thousand.* The Company's revenue recognition is determined by the requirements of the revenue recognition standard "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15). The Company generates revenue primarily from the sale of distribution and medium-sized power transformers, with revenue being recognised at a point in time as detailed in Note 2d) and 3a). Notes 3b) and c) explain the extended guarantee estimates and significant financing components. Given the complexity of applying the standard, the recognition and presentation of revenue and the related contract liability for contracts with customers in accordance with IFRS 15 was of particular importance for our audit.	Taking into account that management estimates and assumptions lead to an increased risk of misstatement, we have considered the 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 time when control is transferred to the customer • Analysing a sample of customer contracts for performance obligations identified at the balance sheet date • Confirming, on a sample basis, the amounts received from customers (advances) for unsatisfied performance obligations • Reviewing a sample of contracts, purchase orders, invoices, delivery notes and other relevant documentation relating to the correct presentation of revenue under IFRS 15 • Considering key management conclusions regarding the identification of extended warranties and significant financing components based on an analysed sample of transactions in 2019 and the related relevant documentation • Assessing the accuracy and completeness of presentation and disclosures related to revenue and the contract liability.

Reporting on other information including the Management Report

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

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

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

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- 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 with the most recent reappointment on 21 May 2019, representing a total period of uninterrupted engagement appointment of 6 years.

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
19 March 2020

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Statement of Comprehensive Income

for the Year Ended 31 December 2019

	Note	2019	2018
		HRK	*HRK*
Revenue	4	1,030,874,967	917,919,419
Other operating income	5	2,248,495	981,581
Operating income		**1,033,123,462**	**918,901,000**
Increase/(decrease) in inventories of work in progress and finished goods		(8,304,773)	23,833,141
Cost of materials and energy	6	(648,926,572)	(602,937,658)
Cost of goods sold		(38,092,316)	(30,592,598)
Cost of services	7	(82,823,953)	(67,954,946)
Personnel costs	8	(140,100,240)	(130,871,509)
Depreciation and amortisation	9	(19,903,784)	(17,864,709)
Other costs	10	(32,602,157)	(30,464,489)
Impairment		-	(2,053,036)
Impairment of financial assets		(202,228)	(70,995)
Provisions	11	(3,924,140)	(2,643,863)
Other operating expenses		(1,044,033)	(1,321,113)
Operating expenses		**(975,924,196)**	**(862,941,775)**
Operating profit		**57,199,266**	**55,959,225**
Financial income	12	8,623,219	12,261,284
Financial expenses	13	(14,731,597)	(17,539,701)
Net financial result		**(6,108,378)**	**(5,278,417)**
Total income		**1,041,746,681**	**931,162,284**
Total expenses		**(990,655,793)**	**(880,481,476)**
Profit before tax		**51,090,888**	**50,680,808**
Corporate income tax	14	(1,595,866)	(1,499,222)
PROFIT FOR THE YEAR		**49,495,022**	**49,181,586**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**49,495,022**	**49,181,586**
Earnings per share (basic and diluted) in HRK	15	**96.82**	**96.20**

The accompanying notes form an integral part of these Financial Statements.

Statement of Financial Position

as at 31 December 2019

	Note	31 Dec 2019	31 Dec 2018
		HRK	*HRK*
ASSETS			
Non-current assets			
Intangible assets	16	3,189,605	2,613,760
Property, plant and equipment	17	218,233,193	140,259,572
Right-of-use assets	18	955,558	-
Investment property	19	3,164,582	3,339,582
Investments in subsidiary	20	7,471,605	14,914,185
Investments in associates	21	1,732,458	1,732,458
Financial assets	22	2,804,328	2,838,665
Deferred tax assets		215,708	231,150
		237,767,037	**165,929,372**
Current assets			
Inventories	23	251,654,360	259,314,520
Receivables from related parties	39	6,034,319	18,069,935
Trade receivables	24	164,970,531	163,147,724
Contract assets	25	8,970,999	8,160,665
Other receivables	26	13,293,911	4,251,845
Financial assets	27	16,623,361	293,340
Cash and cash equivalents	28	96,235,546	101,936,633
Prepaid expenses		182,010	199,996
		557,965,037	**555,374,658**
TOTAL ASSETS		**795,732,074**	**721,304,030**
EQUITY AND LIABILITIES			
Share capital	29	**153,369,600**	**153,369,600**
Legal reserves	29	6,298,720	3,839,641
Statutory reserves	29	101,643,175	76,684,800
Other reserves	29	45,982,991	45,982,991
Retained earnings		-	(5,128,643)
Profit for the year		**49,495,022**	**49,181,586**
EQUITY AND RESERVES		**356,789,508**	**323,929,975**
Warranty provisions		94,827,181	96,150,278
Provisions for pensions, termination benefits and similar liabilities		15,326,352	15,242,578
Provisions	30	**110,153,533**	**111,392,856**
Liabilities to banks (borrowings)	31	47,911,609	25,033,824
Lease liabilities	31	719,044	-
Financial liabilities		66,608	-
Non-current liabilities		**48,697,261**	**25,033,824**
Liabilities to related parties	39	9,617,562	8,233,655
Liabilities to banks (borrowings)	32	6,976,926	9,734,584
Lease liabilities	31	242,705	-
Trade payables	33	89,531,276	87,615,411
Contract liabilities	25	95,466,932	84,970,726
Other liabilities	34	16,233,763	15,346,443
Accrued expenses and deferred income	35	2,718,325	905,736
Current provisions	36	59,304,283	54,140,820
Current liabilities		**280,091,772**	**260,947,375**
Total liabilities		**438,942,566**	**397,374,055**
TOTAL EQUITY AND LIABILITIES		**795,732,074**	**721,304,030**

The accompanying notes form an integral part of these Financial Statements.

Statement of Cash Flows

for the Year Ended 31 December 2019

	Note	2019	2018
		HRK	*HRK*
Cash flows from operating activities			
Cash proceeds from trade receivables		1,053,609,689	908,283,276
Cash proceeds from insurance reimbursements		583,063	65,874
Cash proceeds from tax returns		53,376,010	45,340,663
Cash paid to suppliers		(832,904,196)	(760,117,413)
Cash paid to employees		(135,944,471)	(126,280,678)
Taxes paid		(31,037,107)	(23,877,823)
Cash paid for insurance related to reimbursements		(1,823,480)	(2,024,237)
Other cash proceeds and payments		(15,518,859)	(13,971,821)
Cash from operations		**90,340,649**	**27,417,841**
Interest paid		(732,096)	(733,209)
Net cash flows from operating activities		**89,608,553**	**26,684,632**
Cash flows from investment activities			
Cash proceeds from sale of non-current tangible and intangible assets		98,332	595,282
Cash proceeds from dividend		1,060,237	1,423,404
Cash proceeds from interest		50,311	28,560
Cash expenses for purchase of non-current tangible and intangible assets		(82,781,117)	(13,940,895)
Loans given		(16,697,502)	-
Net cash used in investing activities		**(98,269,739)**	**(11,893,649)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	31	29,578,660	-
Repayment of principal portion of loans and borrowings	32	(9,729,622)	(8,340,195)
Principal portion of lease payments	18	(224,854)	-
Dividends paid	29	(16,664,085)	(20,756,975)
Other cash proceeds and payments		-	(1,607,283)
Net cash used in financing activities		**2,960,099**	**(30,704,453)**
Net decrease in cash and cash equivalents		**(5,701,087)**	**(15,913,470)**
Cash and cash equivalents at the beginning of the period		101,936,633	117,850,103
Cash and cash equivalents at the end of the period	28	**96,235,546**	**101,936,633**

The accompanying notes form an integral part of these Financial Statements.

Statement of Changes in Equity

for the Year Ended 31 December 2019

	Share capital	Legal reserves	Statutory reserves	Other reserves	Retained earnings	Profit for the year	Total equity
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
As 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:							
Capital increase from company own funds	76,684,800	-	(76,684,800)	-	-	-	-
Transfer to reserves as per annual schedule	-	-	-	20,751,496	-	(20,751,496)	-
Dividends	-	-	-	-	-	(20,756,019)	**(20,756,019)**
	76,684,800	-	*(76,684,800)*	*20,751,496*	-	*(41,507,515)*	***(20,756,019)***
As 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**
As at 1 January 2019	**153,369,600**	**3,839,641**	**76,684,800**	**45,982,991**	**(5,128,643)**	**49,181,586**	**323,929,975**
Profit for the year	-	-	-	-	-	49,495,022	**49,495,022**
Total comprehensive income	-	-	-	-	-	**49,495,022**	**49,495,022**
Transactions with owners:							
Transfer to reserves as per annual schedule	-	2,459,079	24,958,375	-	5,128,643	(32,546,097)	-
Dividends	-	-	-	-	-	(16,635,489)	**(16,635,489)**
	-	*2,459,079*	*24,958,375*	-	-	*(49,181,586)*	***(16,635,489)***
As at 31 December 2019	**153,369,600**	**6,298,720**	**101,643,175**	**45,982,991**	**-**	**49,495,022**	**356,789,508**

The accompanying notes form an integral part of these Financial Statements.

Notes to the Financial Statements

for the Year Ended 31 December 2019

1. General Information about 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 company is Končar - Electrical Industry Inc., Zagreb, Fallerovo šetalište 22, and is engaged in design, production, sale and servicing of distribution, special and medium power transformers up to 100 MVA power rating and up to 170 kV voltage.

As at 31 December 2019, the Company had 623 employees, while as at 31 December 2018, there had been 586 employees in the Company.

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 2019	31 December 2018
University degree, Master's degree and PhD	219	214
Associate degree	23	25
Secondary school qualifications	335	299
Skilled workers	25	26
Uskilled workers	21	22
Total	**623**	**586**

Members of the Supervisory Board

- Darinko Bago, President
- Gordan Kolak, Supervisory Board member since 22 May 2019; Deputy President of the Supervisory Board since 30 May 2019
- Miroslav Poljak, Supervisory Board member; Deputy President of the Supervisory Board until 21 May 2019
- Jozo Miloloža, Supervisory Board member until21 May 2019
- Davor Mladina, member
- Vlado Grund, ceased being member on 09 November 2019
- Ana-Marija Markoč, member since 15 November 2019

Members of the Management Board

- Ivan Klapan, President
- Petar Vlaić, Member
- Martina Mikulić, Member
- Vanja Burul, Member
- Ivan Sitar, ceased being Member on 02 January 2018
- Petar Bobek, Member since 01 April 2018

Remunerations payable to members of the Management Board and Supervisory Board are presented in Notes 8 and 10 to the financial statements. In 2019, other than the audit of the financial statements, the auditor also performed an additional audit engagement regarding the Report on Related Party Transactions prepared for regulatory purposes. The fee was included in the overall agreed fee for the services (Note 10). In 2019, there were no non-audit services provided to the Company (2018.: HRK 29,722 net).

Notes to the Financial Statements

for the Year Ended 31 December 2019

2. Significant accounting policies

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

Basis of preparation

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

The 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 the International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgment 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 2019, the exchange rate for EUR 1 and USD 1 was HRK 7.44 and HRK 6.65 HRK respectively (31 December 2018: HRK 7.42 HRK and HRK 6.47 respectively). All amounts disclosed in these financial statements are expressed in HRK unless stated otherwise.

The Company has prepared these non-consolidated financial statements in accordance with the Croatian laws. 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 19 March 2020. 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 2019 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.

Adoption of new and amended standards and interpretations

The Company has adopted the following new and revised IFRS, interpretations, amendments, and improvements for its reporting period beginning on 1 January 2019, which are relevant for the Company's financial statements:

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

Notes to the Financial Statements

for the Year Ended 31 December 2019

The Company adopted IFRS 16 for the first time as at 1 January 2019. The nature and effects of changes resulting from the adoption of the new standard are detailed in Item A.

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

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods ending 31 December 2019, that have not been early adopted by the Company :

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

Amendments to IAS 1 and IAS 8: Definition of materiality - issued on 31 October 2018 and effective for the 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 of 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 financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform issued on 26 September 2019 and effective for the annual periods beginning on or after 1 January 2020.

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

Amendments to IFRS 10 and IAS 28 - Sale or Contributions of Assets between an Investor and its Associate or Joint Venture - issued on 11 September 2014 and effective for the annual periods beginning on or after the date to be determined by the IASB, not yet endorsed by the European Union.

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 3 - Definition of a Business - issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020, not yet endorsed by the European Union.

The amendments revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate where an input and a substantive process are present, including for early stage companies that have not generated outputs. To be classified as a business without outputs, there needs to be an organised workforce. 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'. Where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

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

Notes to the Financial Statements

for the Year Ended 31 December 2019

a) Adoption of new accounting policies

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

Accounting policy effective for annual periods from 1 January 2019

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

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

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

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company under residual value guarantees;
- exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

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

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

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

Right-of-use assets are measured initially at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

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

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

• right of use for commercial buildings	5 years
• right of use for vehicles	5 years

Notes to the Financial Statements

for the Year Ended 31 December 2019

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

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

Short-term leases are leases with a lease term of 12 months or less.
Low-value assets comprise printers.
Accounting policies applied until 31 December 2018 are presented in Note 18.

Adoption of the policy

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee recognizing the right to use an asset at the commencement date of the lease, and if lease payments are made over time, also recognizing the financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a lease term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of right-of-use assets separately from interest on lease liabilities in profit or loss. IFRS16 substantially carries forward the lessor accounting requirements from IAS 17. Accordingly, lessors continue to classify their leases as operating leases or finance leases, and to account for those two types of leases differently. For subleases, intermediate lessors should classify subleases based on the right-of-use asset from the main lease, rather than the underlying lease asset as it was under IAS 17. Thus, there is increased likelihood that a sublease previously classified as operating lease will be classified as a finance lease under IFRS 16.

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

Explanation of the effects of adoption

The Company as a lessee

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2019

For low-value assets where the asset is sub-leased, a right-of-use asset is recognized with the corresponding lease liability.

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

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

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

'000 HRK	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018	1,596
Future lease payments that are a result of a different treatment of extension and termination options	303
Effect of discounting to present value	(41)
Less short-term leases not recognized as a liability	(1,009)
Total lease liabilities recognised as at 1 January 2019	**849**
Of which:	
Short-term lease liabilities	175
Long-term lease liabilities	674

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

Right-of-use assets are initially measured at the amount of the lease liability, without any additional adjustments.

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

'000 HRK	**Note**	**Effect of adoption of IFRS 16**
Increase in right-of-use assets	*18*	*849*
Increase in lease liabilities	18	849

Notes to the Financial Statements

for the Year Ended 31 December 2019

The weighted average incremental borrowing rate applied to measure lease liabilities is 2% for both buildings and vehicles.

Lease activities

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

- The building is leased for a fixed period of 5 years with an option to renew the contract. The lease payments are fixed.
- The means of transport are leased for a fixed period of 5 years.

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

There are no future cash outflows which the Company is potentially exposed to that are not reflected in the measurement of the lease liability.

The Company does not provide any residual value guarantees.

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 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 enforceable rights and obligations and, among other things, where collection of the consideration is probable, taking into account the credit rating 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.

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 and the Company has not transferred goods or services to the customer.

Notes to the Financial Statements

for the Year Ended 31 December 2019

If the Company has transferred 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 trade receivable is recognised.

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

c) Financial income and expenses

Finance income and expenses 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 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.

Financial expenses comprise interest on loans, changes in fair value of financial assets at fair value through profit or loss, impairment losses of 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.

d) 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 of the current 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 financial statements and the values expressed for determination of income 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.

e) Segment information

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

Notes to the Financial Statements

for the Year Ended 31 December 2019

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.

f) 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 of the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the profit or loss of the year 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.

g) 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.

h) 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).

i) 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 location and into the working condition for their intended use.

Non-current intangible and tangible assets are recognised if it is probable that future economic benefits attributable to 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 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.

Notes to the Financial Statements

for the Year Ended 31 December 2019

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 in the conditions necessary for use have been met. The amortisation and depreciation of assets cease when the assets are fully amortised or depreciated 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 in preparation, over their estimated useful lives, using the straight-line method.

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

Impairment of property, plant and equipment

At each balance sheet date, the Company reviews the present 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 estimates 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 present 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.

j) 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.

Notes to the Financial Statements

for the Year Ended 31 December 2019

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

Derecognition of financial assets

A financial asset is derecognized only when the contractual rights to the cash flows from the asset expire; or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred 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.

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

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

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

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

Impairment of financial assets

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

The expected credit losses are estimated on an individual or a portfolio level 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 substantiated information that is available (without undue cost and effort) about past events, current conditions and forecasts of future conditions and circumstances.

Notes to the Financial Statements

for the Year Ended 31 December 2019

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 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; and/or
- probability that the borrower will enter bankruptcy or financial restructuring.

The past due presumption itself is not an absolute indicator that credit risk has increased after initial recognition. The presumption that there has been a significant increase in credit risk after initial recognition due to default may be rebutted by the company if there is 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 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 transaction costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Notes to the Financial Statements

for the Year Ended 31 December 2019

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

Share capital repurchase

The consideration paid for the repurchase of the Company's equity share capital, including any directly attributable costs, is deducted from equity and reserves. Repurchased shares are classified as treasury shares and presented as a deduction from total equity and reserves. 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 and reserves.

Financial guarantee contracts

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

- the amount determined based on the expected credit loss model, in accordance with IFRS 9, 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, 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 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 loss impaired financial assets.

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

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

Derecognition of financial liabilities

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

k) 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 control over the entity.

Notes to the Financial Statements

for the Year Ended 31 December 2019

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).

l) Inventories

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

Costs of conversion comprise costs that are specifically attributable to products such as direct labour and similar. They also comprise a systematic allocation of fixed and variable production overheads incurred in converting raw materials into finished goods. Fixed production overheads are indirect costs of production that remain relatively constant regardless of the level of production, such as depreciation, maintenance of factory buildings, 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 or seasons in normal circumstances, taking into account planned maintenance. Unallocated fixed overheads are expensed in the period in which they are incurred.

Slow moving and obsolete inventories are written off to their net realisable value by using value adjustment for these inventories due to their aging. 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 (100%) written off when put into use.

m) Receivables

Receivables are initially measured at fair value. At each balance sheet date, receivables, whose collection is expected within a period exceeding 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 of impairment allowance for the expected credit losses and impairment losses.

n) 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.

o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently

Notes to the Financial Statements

for the Year Ended 31 December 2019

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.

p) Provisions

Provisions are recognised only when the Company has a present obligation as a result of a past event and it is more likely than not that an outflow of resources with economic benefits 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 power transformers within the Group and the estimate of possible solutions in accordance with their probabilities.

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

q) Employee benefits

(i) Mandatory pension fund contributions

In the normal course of business, the Company makes payments to mandatory pension funds on behalf of its employees when paying salaries, 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 when 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 whom the benefit will be payable to, the estimated benefit cost and the discount rate.

(iii) Short-term employee benefits - bonuses

A liability for employee bonuses is recognised in provisions of costs 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 bonus 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.

Notes to the Financial Statements

for the Year Ended 31 December 2019

r) 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.

s) Events after the balance sheet date

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

3. Key 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.

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 provisions for cost 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 for the effects of a significant financing component if, at contract inception, the Company expects that the period between the transfer of the promised goods or services to the customer and the date when the customer makes the payment for the goods or services will be 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 2020 to 2024 and on the 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 12.7% per annum, the average growth rate of operating income was 0.7%, and the residual value was calculated at a residual growth rate of 2,5%.

In 2019, using the DCF method, an impairment loss was recognised for the Power Engineering Transformatory (PET) subsidiary in the amount of HRK 7.443 million (Note 20), (2018: HRK 7.418 million).
Had the discount rate increased by 1% been applied, this would have affected the determined recoverable amount of HRK 2.5 million.

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 copper declined in 2018, and the Company recognised a provision for impairment for copper 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-based compensations on the basis of 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 27 million (2018: HRK 25 million).

g) Critical judgments in determining the lease term

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

The management has applied the following judgments:

- For the premises used for operations, it is reasonably certain the Company will exercise an extension option and the overall lease term will be 64 months.

The lease period of a separate warehouse is classified as a short-term lease as alternative assets are easily available.

Notes to the Financial Statements

for the Year Ended 31 December 2019

4. Revenue

	2019	2018
	HRK	*HRK*
Type of goods or services		
Sales of distribution transformers	483,603,034	429,503,516
Sales of medium power transformers	525,059,033	466,469,317
Sales of services	22,212,900	21,946,586
Total revenue from contracts with customers	**1,030,874,967**	**917,919,419**
Geographic areas		
Croatia	128,209,587	154,814,355
EU member states	695,765,038	602,107,119
Bosnia & Herzegovina, Macedonia, Serbia, Montenegro	**15,938,514**	**21,203,813**
Other European countries	50,071,495	75,504,091
Africa	**54,525,285**	**34,479,867**
Asia	80,478,823	24,210,382
Other countries worldwide	5,886,225	5,599,792
Total revenue from contracts with customers	**1,030,874,967**	**917,919,419**
Revenue recognition time:		
At a point in time	1,030,874,967	917,919,419
Total revenue from contracts with customers	**1,030,874,967**	**917,919,419**

5. Other operating income

	2019	2018
	HRK	*HRK*
Income from indemnifications	509,603	93,390
Income from impairment of written off inventories	416,970	-
Income from approved discounts, rebates, etc,	297,601	28,077
Lease income	199,930	64,881
Inventory surpluses	139,021	107,201
Net gain from sale of non-current assets	108,479	427,557
Income from collected receivables previously written off	5,834	160,542
Other income	571,057	99,933
	2,248,495	**981,581**

Notes to the Financial Statements

for the Year Ended 31 December 2019

6. Cost of materials and energy

	2019	2018
	HRK	*HRK*
Raw materials and supplies consumed	641,482,382	596,123,412
Energy cost	6,302,063	5,689,638
Cost of small inventory	1,142,127	1,124,608
	648,926,572	**602,937,658**

7. Cost of services

	2019	2018
	HRK	*HRK*
Transport services	27,075,520	20,025,932
External product design and sales services	14,445,231	14,180,356
Agent commission costs	13,668,105	10,460,057
Maintenance services (servicing)	11,038,447	9,335,735
Compensation for the usage of company name and trademark - Končar Inc.	6,505,507	5,354,404
Telephone, post and transport etc.	1,651,545	1,520,650
Research costs	1,338,868	1,226,099
Utility services	1,273,191	970,720
Lease and rent services	1,009,119	965,962
Security services	868,527	667,670
Cost of advertising and fairs	831,057	988,468
Outsourcing of employees	485,430	955,415
Other external costs	2,633,406	1,303,478
	82,823,953	**67,954,946**

8. Personnel costs

	2019	2018
	HRK	*HRK*
Net salaries and wages	81,891,935	74,751,568
Taxes and contributions	38,878,229	37,375,069
Contributions on salaries	19,330,076	18,744,872
	140,100,240	**130,871,509**

Net salaries in the amount of HRK 81,891,935 (2018: HRK 74,751,568) include the compensations to five members of the Company's Management Board in the amount of HRK 1,648,284 (2018: HRK 1,726,327) and the accrued Management bonus in the amount of HRK 1,683,870 (2018: HRK 1,614,310), which are an integral part of personnel costs.

Notes to the Financial Statements

for the Year Ended 31 December 2019

In 2019, pension fund contributions amounted to HRK 22,314,753 (2018: HRK 20,714,046).

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 12,589,352 (2018: HRK 11,946,433) are disclosed in Note 10.

9. Depreciation and amortisation

	2019	2018
	HRK	*HRK*
Property, plant and equipment (Note 17)	18,198,115	16,728,845
Intangible assets (Note 16)	1,301,175	975,446
Use-of-right assets depreciation (Note 18)	229,494	-
Investments in property (Note 19)	175,000	160,418
	19,903,784	**17,864,709**

10. Other costs

	2019	2018
	HRK	*HRK*
Employee transportation costs (Note 8)	4,448,104	3,955,099
Bank charges and commissions	3,814,651	3,273,899
Daily allowances for business trips and travel expenses (Note 8)	3,760,338	3,412,525
Business entertainment costs	3,341,200	3,799,112
Reimbursement of costs to employees, gifts and grants (Note 8)	2,540,220	2,660,496
Insurance premiums	2,364,216	2,222,734
Premiums and contributions to voluntary pension fund (Note 8)	1,840,690	1,918,313
Intellectual and similar services	1,267,003	316,658
Professional training costs	1,206,830	1,040,409
Compensation to Supervisory Board members	470,501	422,473
Contributions, membership fees and similar charges	323,456	289,541
Audit costs	84,075	66,726
Other	7,140,873	7,086,504
	32,602,157	**30,464,489**

Notes to the Financial Statements

for the Year Ended 31 December 2019

11. Provisions

	2019	2018
	HRK	*HRK*
Provisions for costs within warranty period	3,399,382	2,194,941
Other provision costs	440,984	53,810
Provisions for regular termination benefits and jubilee awards	83,774	395,112
	3,924,140	**2,643,863**

The movement in provisions by categories is presented in Notes 30 and 36.

12. Financial income

	2019	2018
	HRK	*HRK*
From transactions with related parties		
Share in profit	250,000	140,000
Interest income	154,932	-
Foreign exchange gains	52,380	3,689
	457,312	**143,689**
From transactions with unrelated parties		
Foreign exchange gains	6,208,473	8,174,617
Foreign exchange gains on forward contracts	1,146,070	2,567,640
Dividend income and shares in profit	810,238	1,283,404
Other interest income	933	91,934
Unrealised income from financial assets	193	-
	8,165,907	**12,117,595**
	8,623,219	**12,261,284**

Notes to the Financial Statements

for the Year Ended 31 December 2019

13. Financial expenses

	2019	2018
	HRK	HRK
From transactions with related parties		
Unrealised expenses from financial assets (impairment of investment in subsidiary) - Note 20	7,442,580	7,417,575
Foreign exchange losses	-	163,126
Foreign exchange losses on lease liabilities	5,666	-
	7,448,246	**7,580,701**
From transactions with unrelated parties		
Foreign exchange losses	5,770,313	8,413,554
Interest expense on borrowings and other financing forms	825,888	786,220
Foreign exchange losses from forward contracts	687,150	759,226
	7,283,351	**9,959,000**
	14,731,597	**17,539,701**

14. Corporate income tax

The Company calculates corporate income tax at a preferential rate obtained when reducing the corporate income tax rate by 85%, as the Company is the beneficiary of incentives in accordance with the Investment Promotion Act for a project entitled "High-Voltage Laboratory - Laboratory Development and Expansion 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 Company may use the incentives.

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. Ending with 2019, the Company used the amount of the incentive of HRK 49,843,343 in form of tax benefits based on this project. According to the Act, the Company is entitled to use these incentives for maximum 10 years from the commencement of the investment, which means that 2020 is the last year of the use. The Company still has the amount of HRK 14,733,713 to use.

	2019	2018
	HRK	HRK
Current tax	1,580,425	1,501,377
Deferred tax	15,441	(2,155)
Income tax expense	**1,595,866**	**1,499,222**

Notes to the Financial Statements

for the Year Ended 31 December 2019

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:

	2019	2018
	HRK	*HRK*
Accounting profit (profit before tax)	51,090,888	50,680,808
Corporate income tax at 18%	9,196,360	9,122,545
Adjustments for tax effects of:		
Non-deductible expenses	1,808,322	2,286,674
Tax-deductible profit reductions	(468,517)	(1,400,040)
Investment incentives (2019: 85%; 2018: 85%)	(8,955,740)	(8,507,802)
Current tax expense	**1,580,425**	**1,501,377**
Effective tax rate	3,09%	2,96%
Advances paid in	1,518,123	1,480,140
Difference to be paid	62,302	21,237

15. Earnings per share

Basic earnings per share:

	2019	2018
	HRK	*HRK*
Net profit	49,495,022	49,181,586
Number of shares		
Total number of shares for the entire year	511,232	255,616
Capitalisation on 17 September 2019 (Note 29)	-	255,616
Number of shares	**511,232**	**511,232**
Earnings per shares	**96.82**	**96.20**

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 2019 and 2018 are 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 2019

16. Non-current intangible assets

	Concessions, patents, licences, software and other rights	Assets under construction	Total
	HRK	*HRK*	*HRK*
Cost			
At 1 January 2018	**10,880,460**	**-**	**10,880,460**
Additions	-	1,212,834	**1,212,834**
Transfer	1,212,834	(1,212,834)	**-**
As at 31 December 2018	**12,093,294**	**-**	**12,093,294**
Additions	-	1,877,020	**1,877,020**
Transfer	1,877,020	(1,877,020)	**-**
As at 31 December 2019	**13,970,314**	**-**	**13,970,314**
Accumulated amortisation			
At 1 January 2018	**8,504,088**	**-**	**8,504,088**
Amortisation for the year	975,446	-	**975,446**
At 31 December 2018	**9,479,534**	**-**	**9,479,534**
Amortisation for the year	1,301,175	-	**1,301,175**
At 31 December 2019	**10,780,709**	**-**	**10,780,709**
Net book amount			
31 December 2018	2,613,760	-	**2,613,760**
31 December 2019	**3,189,605**	**-**	**3,189,605**

The cost of intangible assets fully amortised and still in use as at 31 December 2019 amounts to HRK 5,588,903 (31 December 2018: HRK 4,674,592).

Notes to the Financial Statements

for the Year Ended 31 December 2019

17. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Advances	Assets under construction	Total
Cost	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
As at 1 January 2018	**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)**
As 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**
Additions	-	-	-	-	22,393,151	97,267,673	**119,660,824**
Transfer to use	7,907,171	58,978,261	28,099,385	4,675,231	-	(99,660,048)	**-**
Disposals	-	-	(2,360,167)	(744,532)	(23,392,121)	-	**(26,496,820)**
As at 31 December 2019	**16,919,700**	**189,003,742**	**227,643,753**	**31,944,382**	**5,919,983**	**1,575,386**	**473,006,946**
Accumulated depreciation							
As at 1 January 2018	**-**	**74,172,819**	**131,654,695**	**18,984,174**	**-**	**-**	**224,811,688**
Depreciation for the year	-	5,238,644	9,319,483	2,170,718	-	-	**16,728,845**
Disposals	-	-	(532,191)	(1,424,972)	-	-	**(1,957,163)**
As at 31 December 2018	**-**	**79,411,463**	**140,441,987**	**19,729,920**	**-**	**-**	**239,583,370**
Depreciation for the year	-	5,464,361	10,384,118	2,349,636	-	-	**18,198,115**
Disposals	-	-	(2,264,052)	(743,680)	-	-	**(3,007,732)**
As at 31 December 2019	**-**	**84,875,824**	**148,562,053**	**21,335,876**	**-**	**-**	**254,773,753**
Net book amounts							
31 December 2018	9,012,529	50,614,018	61,462,548	8,283,763	6,918,953	3,967,761	140,259,572
31 December 2019	**16,919,700**	**104,127,918**	**79,081,700**	**10,608,506**	**5,919,983**	**1,575,386**	**218,233,193**

As at 31 December 2019, the net book amount of mortgaged properties amounts to HRK 119,606,829 (31 December 2018: HRK 58,060,100). Mortgages have been registered over these properties in the total amount of EUR 45 million, and there is a pledge on movable assets (net carrying amount of HRK 10.6 million) in the amount of EUR 30 million (31 December 2018: EUR 25 million) (Note 31).

The cost of fully depreciated tangible assets still in use as at 31 December 2019 amounts to HRK 108,686,867 (31 December 2018: HRK 77,528,273).

Notes to the Financial Statements

for the Year Ended 31 December 2019

18. Right-of-use assets

Right-of-use assets include:

	31 December 2019	1 January 2019
	HRK	*HRK*
Right-of-use assets (by class)		
Buildings	248,815	306,234
Transport vehicles	706,743	542,490
	955,558	**848,724**

	Buildings	Vehicles	Total
	HRK	*HRK*	*HRK*
As at 31 December 2018	-	-	-
Reconciliation according to IFRS 16 (Note 2A)	306,234	542,490	848,724
As at 1 January 2019	**306,234**	**542,490**	**848,724**
Additions - new lease contracts	-	336,328	336,328
Depreciation of tangible assets	(57,419)	(172,075)	(229,494)
As at 31 December 2019 - IFRS 16	**248,815**	**706,743**	**955,558**

Lease-related amounts recognized in the reporting period

The following amounts are recognized in the income statement

(in HRK)	Notes	IFRS 16 2019	IAS 17 2018
Depreciation charge of right-of-use assets by class:			
Buildings	9	57,419	-
Transport vehicles	9	172,075	-
		229,494	**-**
Interest expense on lease liabilities (included in finance costs)		18,472	-
Costs relating to short-term leases	7	1,009,119	-
Operating lease costs (Note 17)	7	-	965,962
Total lease-related expenses		**1,027,591**	**965,962**

The following amounts are recognized in the statement of cash flows

(in HRK)	IFRS 16 2019	MRS 17 2018
Cash outflows for leases (IFRS 16) - Operating activity - Interest	18,472	-
Cash outflows for leases (IFRS 16) - Financial activity - Principal portion	224,854	-
Cash outflows for leases - operating activity	1.261,399	1,207,453
Total cash outflows	**1,504,725**	**1,207,453**

Notes to the Financial Statements

for the Year Ended 31 December 2019

19. Investment property

Cost	*HRK*
As at 1 January 2018	**3,500,000**
Increase	-
As at 31 December 2018	**3,500,000**
Increase	-
As at 31 December 2019	**3,500,000**

Accumulated depreciation	
As at 1 January 2018	**-**
Depreciation for the year	160,418
As at 1 December 2018	**160,418**
Depreciation for the year	175,000
As at 31 December 2019	**335,418**

Net book amount	
31 December 2018	3,339,582
31 December 2019	**3,164,582**

20. Investments in subsidiary

	31 December 2019	31 December 2018
	HRK	*HRK*
Investment in subsidiary		
Power Engineering Transformatory (PET)	22,331,760	22,331,760
Impairment of investment	(14,860,155)	(7,417,575)
Total	**7,471,605**	**14,914,185**

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 company is the design, production, placement and servicing of medium power transformers up to 63 MVA power and up to 145 kV voltage. The consideration paid for the acquisition of the 74% share was contributed to the capital of the acquired company.

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

	31 December 2019		31 December 2018	
	Ownership share (%)	*Voting rights share (%)*	*Ownership share (%)*	*Voting rights share (%)*
Power Engineering Transformatory (PET)	74	74	74	74

In 2019, using the DCF method, an impairment allowance was made for the Power Engineering Transformatory (PET) subsidiary in the amount of HRK 7.4 million.

Notes to the Financial Statements

for the Year Ended 31 December 2019

21. Investments in associates

Investments in associates in the amount of HRK 1,732,458 (2018: HRK 1,732,458) relate to investments in the company Elkakon Ltd., Zagreb (the Company holds a share of 50% share in its share capital).

Summary data for that company are disclosed in the consolidated financial statements of the Company.

22. Non-current financial assets

	31 December 2019	31 December 2018
	HRK	*HRK*
Financial assets at fair value through other comprehensive income		
Shares in companies up to 20% share capital		
Ferokotao d.o.o., Donji Kraljevec (16% share)	1,048,128	1,048,128
Novi Feromont d.o.o., 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**
	2,804,328	**2,838,665**

23. Inventories

	31 December 2019	31 December 2018
	HRK	*HRK*
Raw materials and supplies	101,559,516	99,348,882
Work in progress	78,835,583	93,538,302
Unfinished and semi-finished goods	5,813,640	4,659,276
Finished goods	76,454,322	71,260,776
Less: impairment of raw materials and supplies	(5,119,069)	(5,536,039)
Less: impairment of finished goods	(6,083,715)	(6,083,715)
	251,460,277	**257,187,482**
Advances made	194,083	2,127,038
	251,654,360	**259,314,520**

In 2019, the cost of goods sold amounted to HRK 750,897,662 (2018: HRK 651,990,508).

Notes to the Financial Statements

for the Year Ended 31 December 2019

24. Trade receivables

	31 December 2019	31 December 2018
	HRK	*HRK*
Domestic trade receivables	21,878,895	33,697,182
Less: impairment	(821)	(3,489,812)
	21,878,074	**30,207,370**
Foreign trade receivables	143,737,136	133,933,064
Less: impairment	(644,679)	(992,710)
	143,092,457	**132,940,354**
	164,970,531	**163,147,724**

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

	Total	Not due	Past due, but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2019	**164,970,531**	152,876,537	11,366,775	140,833	116,581	53,021	416,784
2018	**163,147,724**	128,750,942	23,800,835	8,546,887	748,839	532,040	768,181

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 expected credit loss for trade receivables between the beginning and the end of the period:

	HRK
Opening balance as at 1 January 2018	5,027,720
Increase in the expected credit loss during the year	70,703
Collected receivables	(160,542)
Total changes in the expected credit loss through profit or loss	**(89,839)**
Written off during the year	(428,140)
Foreign exchange differences	(27,219)
As at 31 December 2018	**4,482,522**
Increase in the expected credit loss during the year	23,049
Collected receivables	(5,834)
Total changes in the expected credit loss through profit or loss	**17,215**
Written off during the year	(3,859,553)
Foreign exchange differences	5,316
As at 31 December 2019	**645,500**

Notes to the Financial Statements

for the Year Ended 31 December 2019

25. Contract assets and liabilities

	31 December 2019	31 December 2018
	HRK	*HRK*
Current assets recognised from the costs incurred to obtain a contract	**8,970,999**	**8,160,665**
Contract liability from contracts with customers	-	10,129,508
Contract liability - advances received from customers	81,140,669	63,066,394
Accrued agent commissions	5,355,264	3,614,159
Contract liability arising from agent commissions	8,970,999	8,160,665
Total contract liability	**95,466,932**	**84,970,726**

Recognised revenue related 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 10,130 thousand.

At the end of the reporting period, unsatisfied performance obligations arising from advances received from customers amounted to HRK 378,929 thousand.

26. Other receivables

	31 December 2019	31 December 2018
	HRK	*HRK*
VAT receivable	12,429,698	3,850,584
Other receivables	864,213	401,261
	13,293,911	**4,251,845**

Notes to the Financial Statements

for the Year Ended 31 December 2019

27. Current financial assets

	31 December 2019	31 December 2018
	HRK	*HRK*
Loans to a subsidiary i	16,745,805	-
Expected credit loss	(179,180)	-
	16,566,625	**-**
Other current financial assets		
Derivative instruments - FX Forward contracts	56,736	293,340
	16,623,361	**293,340**

In 2019, the Company granted short-term working capital loans to its subsidiary Power Engineering Transformatory Sp, z o.o. Poland in the total amount of EUR 2,250,000.00. The loans were granted at the fixed interest rate of 4.00% p.a. with maturity date by the end of 2020.

28. Cash and cash equivalents

	31 December 2019	31 December 2018
	HRK	*HRK*
Foreign currency account balance	93,155,400	57,761,520
HRK currency accounts	3,069,105	44,104,382
Cash in hand - foreign currencies	1,600	39,781
Cash in hand - HRK	9,441	30,950
	96,235,546	**101,936,633**

Disclosures related to credit risk are presented in Note 40 - Financial instruments.

Notes to the Financial Statements

for the Year Ended 31 December 2019

29. Equity and reserves

Share capital is determined in the nominal amount of HRK 153,369,600 (31 December 2018: HRK 153,369,600) and consists of 511,232 shares with the nominal value of HRK 300 per share (31 December 2018: 511,232 shares),

The General Assembly of Končar D&ST held on 28 May 2018 made a decision to increase the share capital from the Company's own funds. By the General Assembly decision, 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-R-A shares and 122,856 preferential KODT-P-A 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 2019		31 December 2018	
Shareholder	*Number of shares*	*Ownership share %*	*Number of shares*	*Ownership share %*
Končar - Electrical Industry Inc.	269,596	52.73	269,596	52.73
AZ Mandatory Pension Fund B class	27,100	5.3	27,100	5.3
Knežević Nikola (1/1)	21,304	4.17	21,304	4.17
Floričić Kristijan	19,832	3.88	19,832	3.88
Radić Antun (1/1)	7,886	1.54	7,886	1.54
Berkopić Dražen (1/1)	7,801	1.53	4,163	0.81
Levačić Juraj (1/1)	7,555	1.48	4,702	0.92
AZ Mandatory Pension Fund A class	6,704	1.31	7,604	1.49
Other	143,454	28.06	149,045	29.16
	511,232	**100.00**	**511,232**	**100.00**

As at 31 December 2019, the Company's share capital consists of 388,376 ordinary shares and 122,856 preference shares (31 December 2018: 388,376 ordinary shares and 122,856 preference shares).

Dividend per share paid to the Company's shareholders in 2019 amounted to HRK 32.54 (2018: HRK 81.20 per share) and totalled HRK 16,664,085 (2018: HRK 20,756,975).

Statutory, legal and other reserves were formed on the basis of profit distribution in compliance with the General Assembly decisions, in accordance with the provisions of the Companies Act (statutory and other reserves are available 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 2019

30. Provisions

	Warranty provisions	Jubilee awards and termination benefits	Total
	HRK	*HRK*	*HRK*
1 January 2018	**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**
Additional provisions	3,399,382	83,774	3,483,156
Transfer to current provisions	(4,722,479)	-	(4,722,479)
31 December 2019	**94,827,181**	**15,326,352**	**110,153,533**

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate and include general and specific provisions. General provisions are based on estimates and experience of other transformer producers. As a rule, the Company 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 products sold under warranty (2018: 2%). Specific provisions refer to potential quality issues with regard to transformers sold to individual customers in the total amount of HRK 95 million (2018: HRK 95 million) and have been estimated based on a table of estimates of total warranty provisions according to the probability of warranty events and damage repair costs. Sums of specific and general provisions equal total value of such calculated provisions.

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

The long-term portion of the provisions for termination benefits and jubilee awards in the amount of HRK 15,326,352 (2018: HRK 15,242,578) 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 of these provisions is calculated 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 4 years preceding the balance sheet date and the discount rate of 1% (2018: 1.7%).

Notes to the Financial Statements

for the Year Ended 31 December 2019

31. Non-current liabilities

	31 December 2019	31 December 2018
	HRK	*HRK*
Liabilities to banks (borrowings)		
Raiffeisenbank Austria d.d., Zagreb	29,770,320	-
Raiffeisenbank Austria d.d., Zagreb	20,932,256	22,252,725
Raiffeisenbank Austria d.d., Zagreb	4,185,959	12,515,683
Less: current portion	(6,976,926)	(9,734,584)
	47,911,609	**25,033,824**
Lease liabilities	961,749	-
Current portion	(242,705)	-
	719,044	**-**
Other non-current financial liabilities		
Derivative instruments - FX Forward contracts	66,607	-
	66,607	**-**
	48,697,260	**25,033,824**

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

The first borrowing, amounting to EUR 3,000,000.00, was granted in June 2017, with a fixed interest rate of 2.05% p.a. to finance the acquisition of the 74% share in Power Engineering Transformatory Sp. z o.o. Poland. Security instruments are 2 blank bills of exchange with related B/E statement, 1 ordinary 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. 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 in turn used to refinance the loan from HBOR's lending programme for the development of economic activities for financing the investment in High-Voltage Laboratory. Security instruments are 4 blank bills of exchange with related B/E statement, 1 ordinary 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.

The third borrowing was granted in April 2019 in the amount of EUR 8,000,000.00 with a fixed interest rate of 1.85% p.a. to finance the purchase of a property in Jankomir, procurement of new equipment and reconstruction of the property within the scope of the "Distribution Transformer Production Capacity Increase" project. Until now, the amount of EUR 4,000,000.00 has been used for specific purposes. Security instruments are 2 blank bills of exchange with related B/E statement, 1 ordinary debenture of EUR 8,000,000.00, pledge over Company property and movables based on the Security Agreement amounting to EUR 30,000,000.00.

Notes to the Financial Statements

for the Year Ended 31 December 2019

Furthermore, the Company contracted certain restrictive conditions for the said loans, the most important of which are the following:

- directing 60% of its HRK payment transactions and min. EUR 10,000,000.00 of foreign currency payment transactions through the accounts with RBA d.d.
- enabling the bank to continuously monitor the use of pledged properties,
- the bank may cancel the loan and call it early due in the following cases:
  - late payment of any cash obligations under the contract
  - use of the loan or portion thereof for unintended purposes
  - in the event that any of its special contract obligations has not been fully or partially met or has been breached
  - in the event of any material adverse change in the operations, assets, liabilities, or financial position of the borrower
  - in the event that security instruments are no longer sufficient for the bank for any reason, unless the borrower offers another security, satisfactory for the bank.

Changes in liabilities to banks during the year are as follows:

	HRK
1 January 2018	**35,218,731**
Foreign exchange differences	(450,323)
Less: current portion	(9,734,584)
31 December 2018	**25,033,824**
New borrowing (cash flow)	29,578,660
Foreign exchange differences	276,051
Less: current portion	(6,976,926)
31 December 2019	**47,911,609**

Non-current liabilities to banks mature as follows:

	31 December 2019	31 December 2018
	HRK	*HRK*
From 1 to 2 years	5,581,935	6,953,485
From 2 to 3 years	6,512,258	2,781,591
From 3 to 4 years	6,512,258	2,781,591
From 4 to 5 years	6,512,258	2,781,591
Due in more than 5 years	22,792,900	9,735,566
	47,911,609	**25,033,824**

	31 December 2019	31 December 2018
	HRK	*HRK*
Lease liabilities		
Short-term portion	242,705	115,710
Long-term portion	719,044	673,771
	961,749	**789,481**

Notes to the Financial Statements

for the Year Ended 31 December 2019

32. Liabilities to banks (borrowings)

	31 December 2019	31 December 2018
	HRK	*HRK*
Short-term borrowings		
Current portion of long-term borrowing (Note 31)	6,976,926	9,734,584
	6,976,926	**9,734,584**

Changes in liabilities to banks during the year are as follows:

	HRK
1 January 2018	**8,451,858**
Repayment of borrowings (cash flow)	(8,340,195)
Foreign exchange differences	(111,663)
Plus: current portion	9,734,584
31 December 2018	**9,734,584**
1 January 2019	**9,734,584**
Repayment of borrowings (cash flow)	(9,729,622)
Foreign exchange differences	(4,962)
Plus: current portion	6,976,926
31 December 2019	**6,976,926**

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

33. Trade payables

	31 December 2019	31 December 2018
	HRK	*HRK*
Domestic trade payables	22,446,074	26,260,832
Foreign trade payables	67,085,202	61,354,579
	89,531,276	**87,615,411**

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

	Total	Not due	Past due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2019	**89,531,276**	86,790,392	2,737,490	3,394	-	-	-
2018	**87,615,411**	87,148,684	466,727	-	-	-	-

Notes to the Financial Statements

for the Year Ended 31 December 2019

34. Other current liabilities

	31 December 2019	31 December 2018
	HRK	*HRK*
Liabilities to employees		
Liabilities for net salaries	7,980,140	6,854,736
	7,980,140	**6,854,736**
Taxes, contributions and similar charges		
Contributions, taxes and surtaxes payable	7,555,064	7,989,456
Corporate income tax payable	62,302	21,237
VAT payable	24,853	3,429
	7,642,219	**8,014,122**
Other liabilities		
Liabilities for sick leave, deductions, etc.	129,508	85,551
Interest payable	279,130	182,964
Other liabilities	71,063	58,633
	479,701	**327,148**
Liabilities based on share in result	**131,703**	**150,437**
	16,233,763	**15,346,443**

35. Accrued expenses and deferred income

	31 December 2019	31 December 2018
	HRK	*HRK*
Deferred income	2,435,014	671,011
Other accrued expenses	283,311	234,725
	2,718,325	**905,736**

Notes to the Financial Statements

for the Year Ended 31 December 2019

36. Current provisions

	Warranty provisions	Other current provisions	Total
	HRK	*HRK*	*HRK*
1 January 2018	**44,494,284**	**4,463,394**	**48,957,678**
Additional provisions	-	53,810	53,810
Transfer from non-current provisions	5,129,332	-	5,129,332
31 December 2018	**49,623,616**	**4,517,204**	**54,140,820**
Additional provisions	-	440,984	440,984
Transfer from non-current provisions	4,722,479	**-**	4,722,479
31 December 2019	**54,346,095**	**4,958,188**	**59,304,283**

37. Off-balance-sheet items

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

	31 December 2019	31 December 2018
	HRK	*HRK*
Guarantees		
- in foreign currency	284,374,096	268,738,209
- in HRK	9,419,264	8,440,327
	293,793,360	**277,178,536**

38. Order book

Balance of the Company's transactions concluded (order book) based on active projects as of 31 December 2019 amounts to HRK 690.7 million (31 December 2018: HRK 594,8 million).

Notes to the Financial Statements

for the Year Ended 31 December 2019

39. 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's operations. The Company's principal activity includes performing related party activities, including the purchase and sale 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 and the associates, the Company's related parties are the Company's Management Board and Supervisory Board.

During 2019, the Company engaged in transactions with its related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows.

2019	Operating activities				
Company	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Subsidiaries	399	-	-	1,432	-
Končar Group companies:	1,342	3,877	1,280	14,611	11,241
Končar - Electrical Industry, Inc.	-	1,417	-	-	6,658
Associates	4,293	4,323	-	36,993	47,367
	6,034	**9,617**	**1,280**	**53,036**	**65,266**

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*
Subsidiaries	138	-	-	138	-
Končar Group companies:	10,234	2,053	36	32,350	12,574
Končar - Electrical Industry, Inc.	-	1,394	-	-	6,108
Associates	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 2019

40. 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 which the Company is exposed to during the reporting period and at the reporting date, and the method used by the Company to manage those risks.

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 2019	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*
Non-current financial assets	-	39	2,765	**2,804**
Derivative financial assets - current	-	57	-	**57**
Trade receivables	164,971	-	-	**164,971**
Receivables from related parties	6,034	-	-	**6,034**
Receivables from loans given	16,567			**16,567**
Cash	96,236	-	-	**96,236**
	283,808	**96**	**2,765**	**286,669**

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	-	39	2,765	**2,804**
Derivative financial assets - current	-	293	-	**293**
Trade receivables	163,148	-	-	**163,148**
Receivables from related parties	18,070	**-**	**-**	**18,070**
Cash	101,937	-	-	**101,937**
	283,155	**366**	**2,765**	**286,286**

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2019

	31 December 2019	1 January 2019	31 December 2018
	HRK	HRK	HRK
Debt (interest bearing)			
Long-term borrowings	47,911,609	25,033,824	25,033,824
Current portion of long-term borrowings	6,976,926	9,734,584	9,734,584
IFRS 16 reconciliation	961,749	848,724	-
Less: Cash and cash equivalents	**(96,235,546)**	**(101,936,633)**	**(101,936,633)**
Net debt	**(40,385,262)**	**(66,319,501)**	**(67,168,225)**
Total equity	356,789,508	323,929,975	323,929,975
Equity and net debt	**316,404,246**	**257,610,474**	**256,761,750**
Net debt-to-equity ratio	**-**	**-**	**-**

Fair value of financial assets and liabilities

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

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

31 December 2019	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	-	57	-	57
Assets at fair value through other comprehensive income (OCI)	-		2,765	2,765
	39	**57**	**2,765**	**2,861**

31 December 2018	Level 1	Level 2	Level 3	Total
Listed shares	39	-	-	39
Fair value of derivative financial instruments	-	328	-	328
Assets at fair value through other comprehensive income (OCI)	-	-	2,765	2,765
	39	**328**	**2,765**	**3,132**

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

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for the Year Ended 31 December 2019

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 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 contracted interest rates do not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Borrowings

Fair value of current liabilities approximates their carrying value due to the 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) Financial instrument risks

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

a) Foreign currency risk and cash flow 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 loans stated in a foreign currency which is not the Company's functional currency. Foreign currencies primarily exposed to such 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.

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 effectiveness testing policies for currency risk

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

Effectiveness testing policy for currency risk

<u>Prospective effectiveness test for cash flow hedges</u>

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 calculation 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 key terms of the hedging instrument perfectly match the critical terms of the hedged item, in which case one scenario is sufficient.

<u>Retrospective effectiveness testing for cash flow hedges</u>

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

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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 was as follows:

31 December 2019

('000 HRK)	EUR	USD	MAD	SEK	CHF	GBP	CZK	NOK	HUF	Total foreign curr-encies	HRK	Total
Trade receivables and receivables from related parties	124,264	-	94	9,295	1,089	-	7,507	1,286	-	143,535	27,470	171,005
Receivables from loans given	16,567	-	-	-	-	-	-	-	-	16,567	-	16,567
Derivative instruments	57	-	-	-	-	-	-	-	-	57	-	57
Cash and cash equivalents	75,207	377	168	7,822	1,210	514	-	7,859	-	93,157	3,079	96,236
Total assets	**216,095**	**377**	**262**	**17,117**	**2,299**	**514**	**7,507**	**9,145**	**-**	**253,316**	**30,549**	**283,865**
Trade and other payables	64,516	-	8	2,101	50	57	7	347	-	67,086	32,063	99,149
Borrowings and lease liabilities	55,141	-	-	-	-	-	-	-	-	55,141	709	55,850
Derivative instruments	67	-	-	-	-	-	-	-	-	67	-	67
Total liabilities	**119,724**	**-**	**8**	**2,101**	**50**	**57**	**7**	**347**	**-**	**122,294**	**32,772**	**155,066**

31 December 2018

('000 HRK)	EUR	USD	MAD	SEK	CHF	GBP	CZK	NOK	HUF	Total foreign curr-encies	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 assts	**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**

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for the Year Ended 31 December 2019

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:

	2019 % Change	2018 % Change	2019 Effect on profit before tax HRK'000	2018 Effect on profit before tax HRK'000
EUR	1%	(1)%	968	(740)
USD	3%	3%	11	153
SEK	(2)%	(5)%	(234)	(1,516)
CZK	2%	(2)%	125	-
CHF	4%	2%	86	79
GBP	6%	(3)%	29	(130)
NOK	2%	(3)%	138	(7)
Other currencies	-	-	6	2

This analysis assumes that all other variables, interest rates especially, remain unchanged. Percentage of changes in exchange rates are determined based 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 presented 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 to credit risk 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 of the country in which customers

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operate, has lower 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 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
• Receivables on extended loans
• Contract assets
• Debt instruments carried at amortised cost
• Debt instruments carried at FV through OCI

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 12-month expected credit loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics - country in which the customer operates 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 credit loss rates for trade receivables are a reasonable approximation of the credit loss rates for the contract assets as well.

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

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

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

31 December 2019	Total	Not due	Past due 1-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due over 365 days
	HRK' 000	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*
Trade receivables	164,970,531	152,876,537	11,366,775	140,833	116,581	53,021	**416,784**
Receivables from related parties	6,034,319	5,667,346	359,285	-	-	7,688	**-**
Default rate (0%-9%)	-	0.00	0.01	0.11	0.21	0.61	**8.97**
Expected credit loss	**43.216**	**4.475**	**628**	**148**	**243**	**326**	**37.396**

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for the Year Ended 31 December 2019

31 December 2019	Total	Not due	Past due 1-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due over 365 days
	HRK' 000	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*	*HRK' 000*
Trade receivables	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**	**-**

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 expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to make contractual payments for a period exceeding 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 comparing it with the maturity of financial assets and liabilities.

31 December 2019	Contractual cash flows	Less than 1 month	1 - 3 months	3 - 12 months	2 - 5 years	Exceeding 5 years
Liabilities	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Current liabilities to related parties	9,617	7,677	1,940	-	-	-
Current trade and other payables	89,663	53,018	31,336	5,309	-	-
Long-term borrowings	51,576	-	-	-	34,829	16,747
Short-term borrowings	8,246	279	3,054	4,913	-	-
Lease liabilities	1,003	20	56	229	698	-
Total liabilities	**160,105**	**60,994**	**36,386**	**10,451**	**35,527**	**16,747**

Notes to the Financial Statements

for the Year Ended 31 December 2019

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	Exceeding 5 years
Liabilities	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
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**

41. Events after the balance sheet date

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. . As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. Its impact on macroeconomic forecasts will be incorporated into the Company's estimates of expected credit loss provisions (IFRS 9) in 2020.

42. Accounting policies applicable until 1 January 2019

Leases

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

Assets held under finance leases are initially recognised as assets and liabilities 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.

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Tradition. Knowledge. Responsibility.

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