Tradition. Knowledge. Responsibility.

Annual Report

2020

KONČAR D&ST

ISO 9001:2015 / ISO 14001:2015 / ISO 45001:2018

Annual Report

2020

Končar Distribution and Special Transformers, Inc.

Končar D&ST, Zagreb, Croatia

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MANAGEMENT BOARD REPORT ON COMPANY POSITION IN 2020

The Zrmanja River Canyon, Croatia

1. Introductory Word by the Management Board

2020 - YEAR OF COVID-19, COMPLETION OF A STRATEGIC INVESTMENT IN DISTRIBUTION TRANSFORMER PRODUCTION CAPACITY INCREASE (DTPCI), AND SIGNIFICANT BUSINESS GROWTH

Despite difficulties caused in 2020 by the global COVID-19 pandemic, the year still continued the continued the sequence of successful business years of the Company. Total sales of goods and services in 2020 amounted to HRK 1,091 million (2019: HRK 1,031 million), which was a 6% increase on annual level. Export operations of HRK 937 million (2019: HRK 903 million) reached 86% of sales and exceeded by 4% the preceding year exports.

The 2020 profit before taxation was HRK 75.3 million (net: HRK 92.1 million), which was by 23% higher than in 2019, when it was HRK 61.3 million (net profit: HRK 59.7 million).

The real growth of operating revenues and profit in 2020 compared to the previous year was actually smaller because of a different approach used in the financial statements to record deferred tax assets, reservations for severance payments, and reservations for costs in warranty period. The effect of these changes brought in 2020 a one-time accounting increase in total revenues by HRK 17 million and an increase in profit before taxation by HRK 17 million. Without the cited one-time items, the 2020 profit before taxation would realistically amount to HRK 58.4 million (2019: HRK 51.1 million) which is by 14.3% higher than in 2019.

The balance of total contracts at the end of 2020 was HRK 849 million which, compared to HRK 691 million at the end of 2019, represented a 22.9% increase.

Investment activities in 2020, mostly for purchase of new production, testing, and IT equipment and improvement of working conditions, amounted to HRK 39.7 million (2019: 92.1 million).

Strategic investment project of distribution transformer production capacity increase (DTPCI) was completed in October 2020 by completion of a winding facility, assembly lines, and testing station of DT PC in the main production hall. By the end of the year, new sales offices were completed in the Cutting Centre as well as a technical office of MPT PC.

In May 2020, the Company took over 100% ownership in PET, Poland and continued providing its support with the aim of raising their operations to the market level as soon as possible.

In 2020, the number of employees grew by 28 and reached 651. The ICT and business informatics department has been strengthened to a significant extent, considering an increased number of projects and new goals in the field of business process digitalisation. Significant funds were invested in advanced software for business management system, business intelligence, work at home, and product development and design. Several organisation changes have been implemented to ensure a better follow-up of the new size and types of operations.

The Company operates in alignment with the internationally recognized standards and corporate 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 ISO 45001:2018 have been successfully maintained and recertified within the continuous improvement process.

in 2020, Končar D&ST ordinary and preferred shares were listed in the regular market quotation of the Zagreb Stock Exchange. At the beginning of the year, the ordinary Končar D&ST share price was HRK 1,460 and at the end of the year it was HRK 1,380, which was a 5% fall.

Considering the COVID-19 pandemic and demanding conditions on the transformer market, the overall operating results of Končar D&ST in 2020 were in our opinion successful and we believe the Company is well prepared for future challenges. Harmonized interests and mutual confidence among our shareholders, employees, partners and banks have been of great importance for such good performance. The Management of Končar D&ST would like to thank for the support and trust and is pleased to present this Annual Report for 2020.

For Končar D&ST d.d. Management Board

Ivan Klapan
Board President

2. Major 2020 Figures Compared to 2019, 2018, and 2017

	Index 2020/2019
Net profit**	154.3
Sales	105.8
Exports	103.5
Balance of orders at the year's end	122.9

	2020	2019	2018	2017	2020	2019	20/19
	HRK ('000)				EUR ('000)		index
Sales							
Croatia	153,149	128,210	154,879	146,363	20,330	17,294	119.5
Exports	937,612	902,665	763,105	745,654	124,466	121,758	103.9
Total*	1,090,761	1,030,875	917,984	892,017	144,796	139,052	105.8
Balance of orders at the year's end							
Croatia	23,604	32,279	23,720	22,827	3,133	4,354	73.1
Exports	825,146	658,464	582,428	535,281	109,536	88,818	125.3
Total	848,750	690,743	606,148	558,108	112,669	93,172	122.9
Annual sales per employee	1,707	1,684	1,622	1,670	227	227	101.4
Investments	39,671	92,142	11,767	34,642	5,266	12,429	43.1
Net profit**	92,091	59,695	49,182	41,508	12,225	8,052	154.3
Dividend HRK/share							
Ordinary	***	37,66	32,54	81,20			
Preferred	***	37,66	32,54	81,20			
Net profit/sales in %	8,4%	5,8%	5,4%	4,7%			
Net profit per total equity	27,3%	19,4%	17,9%	16,0%			
Total equity and reserves as of 31/12	459,520	386,682	323,930	300,633	61,000	52,158	118.8
No. of employees							
Average	639	612	566	534			104.4
as of 31/12	651	623	586	539			104.5

Note: Average exchange rate
2017: EUR 1 = HRK 7.4601
2018: EUR 1 = HRK 7.4141
2019: EUR 1 = HRK 7.4136
2020: EUR 1 = HRK 7.5331

* Total 2018 sales include the IFRS 15 effect of HRK 16.9 million.
** Net 2020 profit includes the one-time cancellation of reservations (HRK 17 million) and recognition of deferred tax income (HRK 18.5 million).
Net 2019 profit includes the cancellation of provisions of HRK 10.2 million.
Net 2018 profit includes the IFRS 15 effect of HRK 5.1 million.
*** Dividend amount will be known after the ordinary General Assembly.

3. Organisation Scheme Končar D&ST Inc. in 2020

Supervisory Board
Gordan Kolak, Deputy President (until 30 June 2020), President (since 1 July 2020)
Ivan Bahun, member (since 1 July 2020)
Josip Ljulj, member (since 1 July 2020)
Miki Huljić, member (since 1 July 2020)
Ana Marija Markoč, member - employees' representative
Darinko Bago, President (until 20 January 2020)
Davor Mladina, member (until 30 June 2020)
Miroslav Poljak, member (until 30 June 2020)

Auditors
KPMG Croatia d.o.o. za reviziju

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; Core Stacking & Machining Workshop; Windings I; Windings II; Assembly
  - 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: Core Cutting; Core Stacking; Windings I and 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; Strategic Investment; Transfer of Technology; Maintenance
  - 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: ICT; Business IT

4. General Position of the Company

Good operating results in 2020 and several preceding years have strengthened the Company's financial position and provided it with adequate financial stability and a good basis for further development.

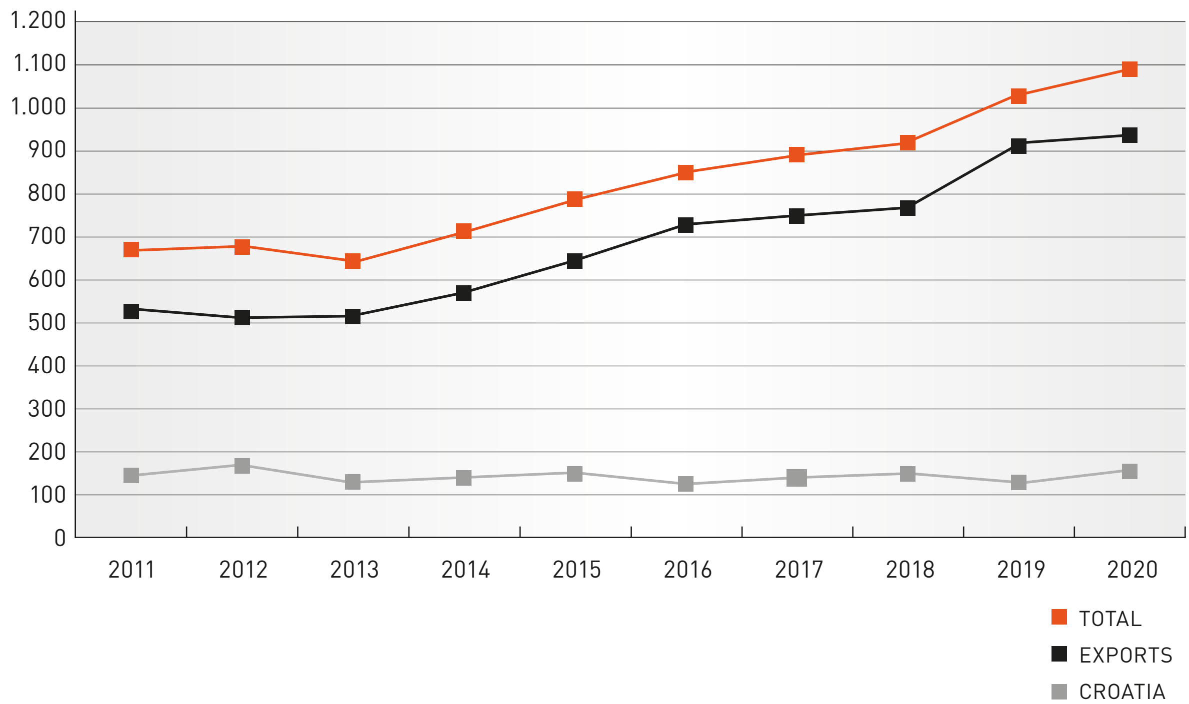
Constant organizational adjustments to new external and internal conditions - both in the range of distribution transformers and that of medium power transformers - have raised the Company's competitive market advantage in such demanding environment.

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 IT, product development and production modernisation, the Company is ready to face challenges of complex market conditions expected in future.

The strategic investment named "Distribution Transformer Production Capacities Increase" has increased the technology and production capacities of Končar D&ST, which will enable even better positioning in the distribution transformer market, in particular after taking effect of the new Tier 2 requirements of the ECO Directive in July 2021.

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

SALES TRENDS (HRK million)



5. Corporate Organisation and Management in 2020

Throughout 2020, Končar D&ST d.d. was managed by the Management Board consisting of the following members:

Ivan Klapan	Board President
Petar Bobek	Board Member, Operation 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

The business processes were in 2020 organised through Distribution Transformers (DT) Profit Centre and Medium Power Transformers (MPT) Profit Centre and the joint services covering the entire company. The Profit Centres were managed by the teams of directors consisting of the Profit Centre Director and Directors of Sales, Engineering and Production.

In 2020, the Company operated on a single location in Croatia, at the address: Josipa Mokrovića 8, 10090 Zagreb.

PET Sp. z o.o., the company in which Končar D&ST d.d. acquired the majority share on 08 May 2017 and increased its share to 100% in May 2020, operates in Czerwonak, Gdinjska 83, Poland.

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

6. Affiliated Company PET Poland

Through the investment in Power Engineering Transformatory Sp. z o.o. Czerwonak (PET) Poland, Končar D&ST d.d. became, on 08 May 2017, its majority owner with the 74% share. On 08 May 2020, the remaining share were acquired and since then, the company is a 100% subsidiary. 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. After implementation of the investment plan which modernized the production and testing equipment and adopting advanced technology solutions and business organization - in 2020, the company was strengthened with the Board president and a Board member from Zagreb and significantly increased its sales and share in the medium power transformer market in Poland. Considering the character of the investment, the return on investment is expected on medium term basis.

On 31 December 2020, PET had 67 employees.

7. Corporate Governance Code

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

- Supervisory Board and Audit Committee consist mostly of non-independent members, which is deemed appropriate in the current Company position within the Končar Group.

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

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

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

Information about significant shareholders is available on daily basis on the official Central Depository & Clearing Company website (www.skdd.hr), while the status on 31 December 2020 and 31 December 2019 were also published in the audit report. The shareholders are allowed the electronic voting with their attendance at General Assembly. Preferred shares do not provide any voting rights.

The Management Board has evaluated its overall effectiveness, as well as the profiles and competencies of its members in 2020. The evaluation was led by the Board President.

The Management Board has established that its activities are effective, that it has a well-balanced system, and that its members possess the required knowledge, capacities, experience and expertise corresponding to the Company management requirements. The evaluation results have been reported by the Management Board to the Supervisory Board.

Supervisory Board

Supervisory Board of the Company has 5 members, 4 of them elected by the shareholders at the General Assembly, and 1 representative of the employees. At the Supervisory Board meeting held on 25 November 2020, Ms. Dalija Bat was appointed Secretary of the Company.

In 2020, the Supervisory Board members were:

Gordan Kolak, Deputy President (until 30 June 2020), President (since 1 July 2020)
Ivan Bahun, member (since 1 July 2020)
Josip Ljulj, member (since 1 July 2020)
Miki Huljić, member (since 1 July 2020)
Ana Marija Markoč, member - employees' representative
Darinko Bago, President (until 20 January 2020)
Davor Mladina, member (until 30 June 2020)
Miroslav Poljak, member (until 30 June 2020)

In 2020, the Supervisory Board held 32 meetings, including 3 regular meetings and 29 phone meetings, in which all the Supervisory Board members took part.

The Supervisory Board has evaluated its overall effectiveness, as well as the profiles and competencies of its members in 2020. The evaluation was led by the Supervisory Board President. No external evaluators took part in the evaluation process.

The Supervisory Board has established that its activities are effective, that it has a well-balanced system, and that its members possess the required knowledge, capacities, experience and expertise corresponding to the Company supervision requirements.

The Supervisory Board has set the target minimum share of 20% women among its members and among Management Board members, which is an adequate share corresponding to the share of women in the total number of the Company employees.

In 2020, the percentage of women in the Management Board and the Supervisory Board was 20%.

The Supervisory Board has evaluated the effectiveness of the cooperation arrangements between the Supervisory Board and the Management Board, as well as the adequacy of the support and information received from the latter.

The Supervisory Board has evaluated the cooperation as very successful and established that the Management Board has delivered timely and integral information and provided adequate support to the Supervisory Board activities.

Supervisory Board committees

There are three committees within the Supervisory Board: Audit Committee, Remuneration Committee, and Appointments Committee. Each committee has three members.

Audit Committee

Until 25 November 2020, the Audit Committee members were Miroslav Poljak - President, Gordan Kolak - member, and Davor Mladina - member. At the Supervisory Board meeting of 25 November 2020, the persons appointed at the Audit Committee were Miki Huljić - President, Gordan Kolak - member, and Ivan Bahun - member.

In 2020, the Audit Committee held a meeting on 20 March 2020, with all members present except for Davor Mladina.

Remuneration Committee

The Remuneration Committee was established at the Supervisory Board meeting dated 25 November 2020, and the persons appointed its members were Josip Ljulj - President, Božidar Poldrugač - member, and Josip Lasić - member. In 2020, the Committee did not hold any meetings.

Appointments Committee

The Appointments Committee was established at the Supervisory Board meeting dated 25 November 2020, and the persons appointed its members were Gordan Kolak - President, Ivan Bahun - member, and Božidar Poldrugač - member.

The Appointments Committee held a meeting on 27 November 2020, at which it unanimously decided to propose to the Supervisory Board to appoint Vanja Burul at the position of the Management Board president and to appoint Dominik Trstoglavec at the position of the Management Board member. All the Committee members were present at the meeting.

8. Market Position and Sales by Countries and Product Groups

The beginning of 2020 suggested another year of stable market conditions. However, the COVID-19 outbreak in early March led to adverse consequences such as disturbances in supply chains and caused uncertainty in project completion. At the same time, the uncertainty caused by the pandemic reflected in declining demand for distribution transformers, which have a shorter investment cycle, while medium power transformer investment cycles are longer and the demand remained on stable levels. Also, the current situation has led the political elites to rethink the sustainability of the current dependence on "carbon economy" and to focus on creating a framework enabling increased investments in renewable resource projects.

As the initial instabilities were successfully surmounted in a relatively short term, our good market position on the target markets yielded a stable growth in revenues and increased new contract growth rates despite the usual competition pressures.

In 2020, the sales of goods and services grew by 5.8% compared to 2019 and amounted to HRK 1,091 million.

Changes per product groups in 2020, compared to 2019 were:

- Distribution transformers: decline by 2.9%
- Medium power transformers: growth by 16.7%
- Dry and special transformers: decline by 21.3%
- Other goods and services: growth by 16.1%

Compared to the preceding year, there were total 6.4% more transformers delivered by MVA and 2.5% more by total weight.

Sales by major markets were as follows:

Croatia: the 2020 sales reached HRK 153.1 million which, compared to HRK 128.2 million in 2019, was a 19.4% growth.

Neighbouring European countries: Bosnia and Herzegovina, Slovenia, Macedonia, Montenegro, Austria, Italy, Czechia, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania, Albania - in 2020, the sales reached HRK 271.3 million and, compared to HRK 270.6 million in 2019, remained at the same level.

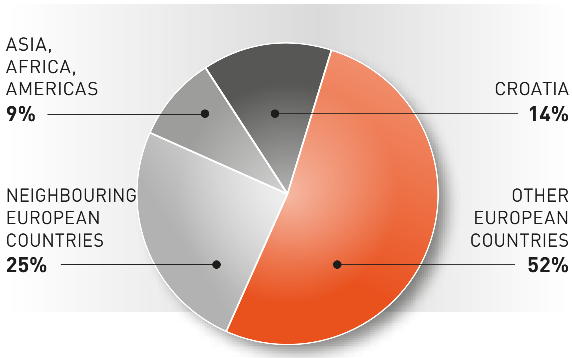
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, United Kingdom, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta, Netherlands, Belgium, Greece - sales in 2020 reached HRK 572.3 million which, compared to HRK 491.2 million in 2019, was an increase by 16.5%.

Other Asian, African, and American countries: the 2020 sales were worth HRK 94.1 million which, compared to HRK 140.9 million in 2019, was a decline by 33.2%.

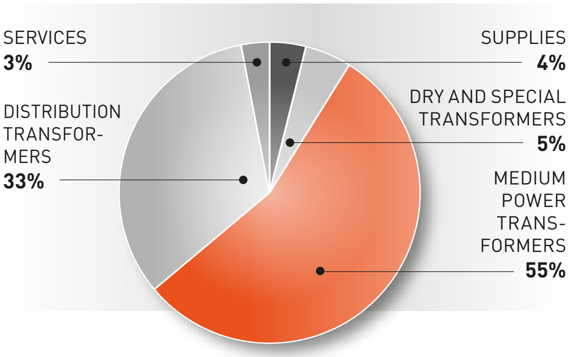
The sales activities in 2020 led to new contracts of HRK 1,235 million which is by 10.4% higher than in 2019.

The balance of contracts at the year's end was HRK 849 million which was by 22.9% higher than at the end of 2019.

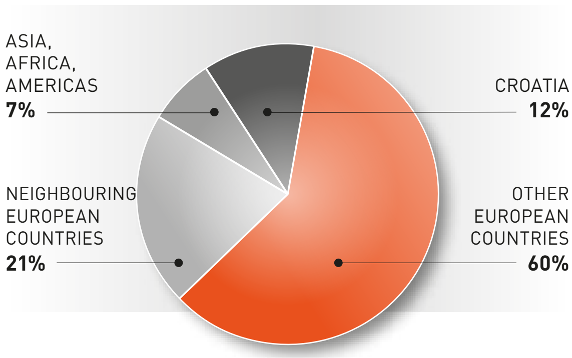
SALE STRUCTURE PER MARKET (2020)



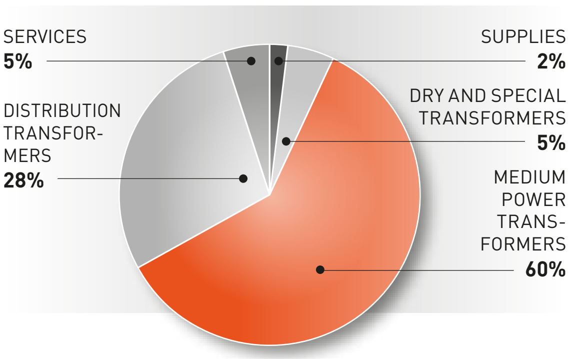
SALES STRUCTURE PER PRODUCT (2020)



NEW CONTRACTS PER MARKET (2020)



STRUCTURE OF NEW CONTRACTS PER PRODUCT (2020)



9. Financial Position (Balance Sheet)

The Company's total assets on 31 December 2020 were HRK 887.7 million.
Compared to the balance on the last day of 2019, the assets have grown by HRK 92 million or 12%.
The share of fixed assets in the overall assets was HRK 268 million or 30%, which is approximately the same as at the end of the preceding year. Fixed tangible assets are by 6% higher than in the year before, which is a consequence of CAPEX primarily in equipment and production premises that in 2020 amounted to HRK 40 million and was partially related to the completion of the investment in expansion of distribution transformer production capacities. Besides, the investment of HRK 9.5 million was made to acquire the 26% remaining minority share in the affiliated company PET Poland, which made Končar D&ST the sole owner.
Deferred tax assets on 31 December 2020 amounted to HRK 20.2 million and their significant growth was a consequence of recording of tax incentives received by the Company based on the Investment Incentives Act for the Distribution Transformer Production Capacities Increase Project. In accordance with the IAS governing the recognition of government supports, total support value was expressed as Deferred Tax Assets which increased this Balance Sheet item by HRK 18.6 million. Such method of recognition affects the growth in net profits in 2020 by reducing the accounting corporate income tax item.
Current assets on the last day of 2020 amounted to HRK 618.9 million or 70% of total assets.
The most important component of the current assets are inventories in the amount of 334.3 million or 38% share in total assets. Compared to the same day last year, the inventories have grown by 33%. Considering that in the reference one-year period, the growth of performance ratios or sales ratios directly affecting inventories has lagged behind the growth of inventories, this indicates a decrease in turnover ratio of such assets. On the other side, the balance of receivables from customers which on 31 December 2020 amounted to HRK 141.2 million was by 29.7 million or 17% lower, which shows these assets were more efficiently managed.
The most liquid item of assets, cash, at the end of 2020 amounted to HRK 108 million or 12% of the assets.
In the structure of asset sources, the equity and reserves form 52%.
Their value on 31 December 2020 was HRK 459.5 million, which is a 19% growth compared to the balance one year before.
The growth of equity by HRK 72.8 million is a result of continuous policy of retaining part of previous year profits in the reserves (HRK 30.2 million).
Besides, the equity growth was contributed to by the growth of retained profits (HRK 10.2 million) and growth of current year profit (HRK 32.4 million). A significant impact on the growth of these two items in 2020 but also in 2019 was exerted by one-time reduction of reservations for repairs in warranty term by HRK 36.9 million and reduction of reservations for anniversary awards and severance payments in the amount of HRK 9.9 million. One-time reduction of reservations actually led to a change in the structure of liabilities by reallocation of the sums from the long-term and short-term reservations (contingencies) into equity. Also, there is a one-time effect on 2020 profit growth by HRK 18.6 million due to the accounting recognition of total supports obtained as investment incentives as mentioned above.
Loan-based liabilities to banks on 31 December 2020 amounted to HRK 60.3 million, which referred to a long-term loan used to finance a portion of the last major investment in the expansion of distribution transformer production capacities. Accordingly, the share of interest-bearing debt in the liabilities is below 7%.
Short-term liabilities to suppliers amount to HRK 97.4 million and approximately in the same amount (HRK 102.7 million) are liabilities for advances received from customers. Together, they make a 23% share in the total equity and liabilities.
The long-term sources of assets still cover total fixed assets jointly with inventories, which shows the stable financial position of the Company.
Despite all challenges affecting the Company operations in 2020, there were no problems with liquidity and all financial liabilities have been, as before, met within the agreed terms.

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

The 2020, the Company operations have continued to follow the growing trend despite all challenges caused by the COVID-19 outbreak.

Total revenues amounted to HRK 1.094 billion, which was a 6% growth (HRK 59 million) compared to the preceding year, when they amounted to HRK 1.035 billion.

Revenues from transformer sales and related services in 2020 amounted to HRK 1.091 billion and formed 99% of total revenues. This growth in sales by 6% or HRK 59.9 million was reached in exports (HRK 35 million) and in Croatian market (HRK 24.9 million).

Revenues from exports are dominating and with the amount of HRK 937.6 million form 86% sales revenues.

Total revenues, and particularly 2020 profit, were significantly affected by extraordinary one-time recognition of revenues due to cancellation of reservations. The impact was also applied to the reference year 2019 considering that, according to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the preceding period was amended.

The reason for such one-time impact is cancellation of a portion of reservations for costs in warranty period as consequence of change of methodology and way of calculating the sum of liabilities based on which the reservations are estimated. This led to recognition of revenues due to cancellation of reservations in 2020 by HRK 17.0 million while the revenues recognized in 2019 amounted to HRK 10.2 million.

On the side of expenses, material expenses were the most significant individual item, as they are variable and directly related to delivers. Due to growth in sales, they also grew but their growth is corrected by changes in the value of inventories at a lower rate, which has a positive effect on profitability.

The number of employees based on work hours in 2020 was 656 and the cost of salaries was HRK 151.6 million or 13% of total revenues. Depreciation has grown significantly, by HRK 6.2 million or 32% compared to the preceding year and amounts to HRK 26.1 million. The reason for such growth are investments in increase of production capacities which were made in the two preceding years.

In the reference year, the value of investment in the affiliated company PET Poland was adjusted, which reduced the value of the investment by HRK 10.8 million.

The year 2020 was characterized by a high volatility of exchange rates, primarily of European currencies, which the Company is exposed to, which resulted in negative result of financial operations of HRK 2 million.

In addition to the already mentioned impact of one-time revenue from the reduction in reservations (HRK 17 million), gross profit was HRK 75.3 million, forming 6.7% share in total revenues.

The corporate income tax expressed in accounting is negative and amounts to HRK -16.8 million. Higher net profit of the period compared to gross profit is result of recognition and recording of total obtained tax support for investments which, according to relevant accounting standards (IAS 12 and IAS 20) led to the negative corporate income tax.

With all the cited one-time impacts, the net profit of 2020 amounts to HRK 92.1 million or 8.2% of total revenues.

Trade in Končar D&ST shares at the Zagreb Stock Exchange in 2020 was marked with price reduction and trade volume growth.

In 2020, the overall trade in both classes of the Company shares (KODT-R-A and KODT-P-A) reached HRK 15.6 million while in the year before, it was HRK 13.3 million, which was a growth in trade by 17%.

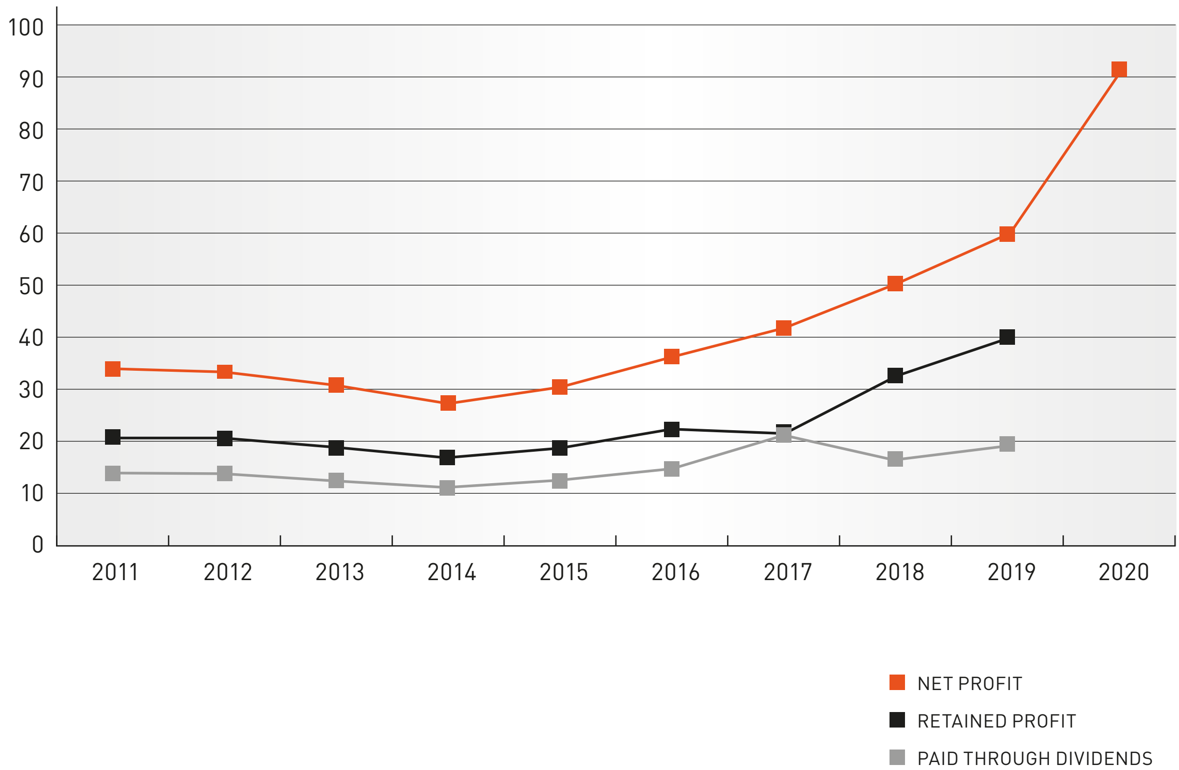
At the beginning of the year, the price of KODT-R-A was HRK 1,460 while at the end of the year it was HRK 1,380, which is a 5% reduction. KODT-P-A was traded at HRK 1,460 at the beginning of the year and HRK 1,330 at the year's end, which is a fall by 9%.

Based on ordinary share price on the last day of 2020, the P/E ratio was 7.7.

Due to reduced price of KODT shares, the market capitalisation was reduced. On 31 December 2020, it was HRK 699.4 million, or 6% lower than on the same date of the preceding year, when it was HRK 746.4 million.

In 2020, the Company did not acquire any treasury shares.

NET PROFIT AND PROFIT ALLOCATION (HRK mil.)



11. Main Operating Risks

In 2020, the Company adopted the new Risk Management Rules and issued Risk Management Policy, which are in accordance with ISO 31000:2018 (Risk Management - Guidelines), and in accordance with ERM (Enterprise Risk Management) principles. Based on the Policy, the risk management in the Company is:

- Integrated in all business processes and decision-making processes in the Company. It is structured and comprehensive, taking into consideration the external and the internal context of the Company, and based on the best available information.
- Inclusive, and involving a wide circle of persons, starting from Management Board and Supervisory Board, directors of sectors and areas, managers of departments and workshops, and extending to all employees and outsourced providers.
- Dynamic, as new risks may appear, change or disappear according to changes of the external and the internal context.
- Based on continuous improvement of such management and based on the learning and acquisition of experience.

In accordance with the defined methodology of risk management, Catalogue of Risks was drawn up, identifying, analysing, and evaluating the main strategic, operating, and financial risks, and measures were defined to reduce the risks, as well as risk owners. The risks were identified in all units of the Company.

The 2020 business year was marked with the COVID-19 pandemic, generating numerous risks, the most expressed among them being those related to employee health, organisation of operating, production, and business processes, logistic risks in procurement of raw materials and supplies, and in delivery of finished products, risks related to customer behaviour change in product ordering, and similar risks. The Company adequately responded to such risks and mitigated them with available measures and actions, so that 2020 ended without major adverse impact of the pandemics to the Company performance.

The COVID-19 pandemic has however led to a global economic crisis and recession with still unknown consequences for the global, European, and Croatian economy.

Demand for transformers on the target markets of Končar D&ST is one of the main operating risk factors for the Company operations. In addition to the COVID-19 pandemic, Tier 2 of the EU regulations aimed for higher energy efficiency, loss reduction and noise reduction of transformers is scheduled to take effect on 01 July 2021 and will bring an additional level of uncertainty in terms of customer behaviour and demand for transformers.

Supply of transformers by other producers - competition pressure - is another significant risk factor for Končar D&ST operations. Behaviour of the existing competitors and entries of new competitors in the Končar D&ST target markets create a very strong competition pressure on the majority of target markets. The entire transformer industry has been through major changes in the recent years, with a number of restructurings, de-mergers and/or selling of power transformer businesses by large corporations, winding-ups or bankruptcies of plants, opening of new plants, take-overs and mergers (consolidations) and such trends will continue.

Procurement market risks were also expressed in 2020, and such trends will continue in 2021 as well. 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, sometimes with enormous growth or drop in a relatively short time period. Risks related to availability of appropriate quantities, and with raw materials and supplies transport costs and options are also additionally expressed in the conditions of the COVID-19 pandemic.

Considering the available options, the Company protects itself from the risk of sudden changes in prices of strategic raw materials in several ways. As for copper, being a raw material listed on commodity exchange markets (London Metal Exchange), forward contracts with the suppliers are used to agree on quantities and prices for the forward period based on the actual and forecast contracts. As for 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 and ensure the required quantities. Also, in some several-year contracts with customers, the rolling formula is sometimes agreed based on change in the price in materials. The change of material prices is included in the calculations when new tenders for the products are made.

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.

Strategic investment and acquisition risk. In 2020, the Company successfully completed and launched a strategic investment of Distribution Transformer Production Capacities Increase (DTPCI) at the Jankomir site. Also, the intensive support to development of PET Poland has continued. In 2020, Končar D&ST acquired 100% share in PET. This risk group is mitigated by appropriate analysis and evaluation of potential risks, taking of appropriate measures to mitigate the risks, and through active involvement of the Management Board and relevant key managers and employees in the process management.

Among the **financial risks,** the most expressed are currency risk, credit risk, and liquidity risk.
Currency risk is fairly expressed in the Company operations, considering a high percentage of exports and imports in its revenues 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, by internal methods for harmonisation of currency inflow and outflow, as well as by harmonization of monetary item balances in foreign currencies in its balance sheet.

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.
The Company protects itself from credit risk with collaterals (L/C, guarantees, debentures, 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.

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 has contracts with commercial banks about credit facilities which make possible to surmount its current need for liquid funds promptly and under well-known conditions. Also, receivables with relatively long maturity terms are most frequently collected by sale to financial institutions (factoring, forfaiting).

Management and personnel risk. Usual fluctuations and changes of management, leading experts and employees do not have major effect on corporate operations while sudden or major fluctuations of such personnel could affect the corporate performance. The Company actively manages these risks.

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

12. Investments and Technology Modernisation

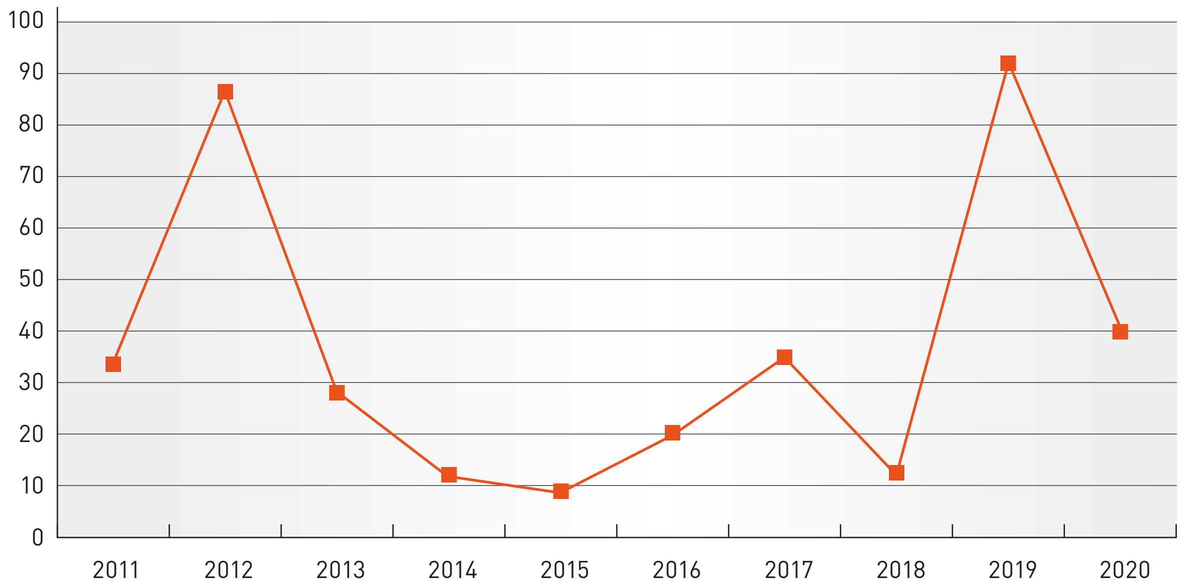
In 2020, the activities were completed on the strategic project of Distribution Transformer Production Capacity Increase (DTPCI). All the planned production equipment was installed and the new production flows established. Jointly with the Cutting Centre, established last year, an integral production unit was created, which increased the technological and production capacities of the Company. Production equipment in the assembly halls was modernized and the major units are the new LFH (low frequency heating) plant for transformer drying and the new testing laboratory.

The Company makes continuous and targeted investments in the improvement and modernisation of processes that need to be raised to a higher technology level.

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

Total 2020 investments were HRK 39.7 million.

INVESTMENTS (HRK million)



13. Technical Development and Product Innovation

Technical development is seen by Končar D&ST as a key requirement for success in the context of positive response to future technical and technological changes and growing market challenges. Technical development consists of a multidisciplinary expert team. Product Development and Production Development Departments have more than 20 highly educated professionals in the field of electrical engineering, mechanical engineering, and software development. Two among them have doctoral diploma and several of our young professionals attend specialist and doctoral study programmes at the Zagreb University faculties.

Considering the upcoming Commission Regulation (EU) no. 548/2014 - Tier 2, laying down a significant reduction of losses in the field of distribution transformers, the emphasis was on the evaluation and technological adoption of new improved transformer sheets. Further, criteria of short circuit sizing for distribution transformers were improved and design software upgraded and improved, particularly in the range of special distribution transformers.

In the production of distribution transformers, the LFH (low frequency heating) plant for transformer drying was launched, as well as the new testing laboratory, new foil winding facility, and various special equipment and logistic accessories.

In the field of medium power transformers, in cooperation with the Rijeka Faculty of Engineering, Zagreb Faculty of Mechanical Engineering and Naval Architecture, and the Electrical Engineering Institute, comprehensive research was conducted with the aim to reduce the transformer noise level. Jointly with the Electrical Engineering Institute, data for sizing of the internal winding insulation were improved.

As for development of the medium power transformer production, a device for radial - axial winding pressure was installed, increasing the throughput and efficiency of the winding facility.

The cooperation with a number of institutes and faculties has also continued (Končar Institute for Electrical Engineering, Zagreb Faculty of Electrical Engineering and Computing, Zagreb Faculty of Mechanical Engineering and Naval Architecture, Rijeka Faculty of Engineering). Experts from the Technical Development and other departments actively participated in the SO2 study committee for transformers (CIGRE) and in the technical committees HZN/TO E14 Power Transformers and HZN/TO E10 Fluids for Use in Electrical Engineering. Due to the pandemic caused by SARS-Cov-2, symposiums, seminars, and fairs were mostly postponed or took place in a changed format (online).

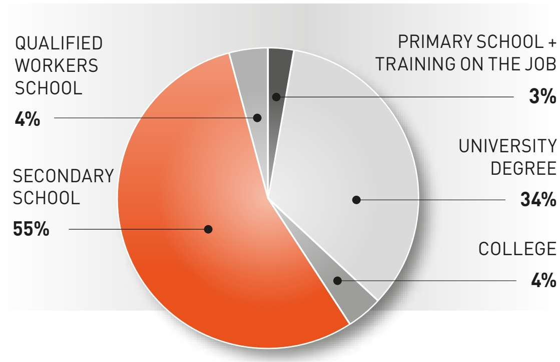
14. Human Resources

At the beginning of 2020, there were 623 employees in Končar-D&ST. By the end of the year, 44 new employees were hired and 16 left. The year ended with 651 employees. The age structure of the employees varies. The youngest person recruited in 2020 was 20, and the oldest 50. The average age of the Končar D&ST employees is 39.

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

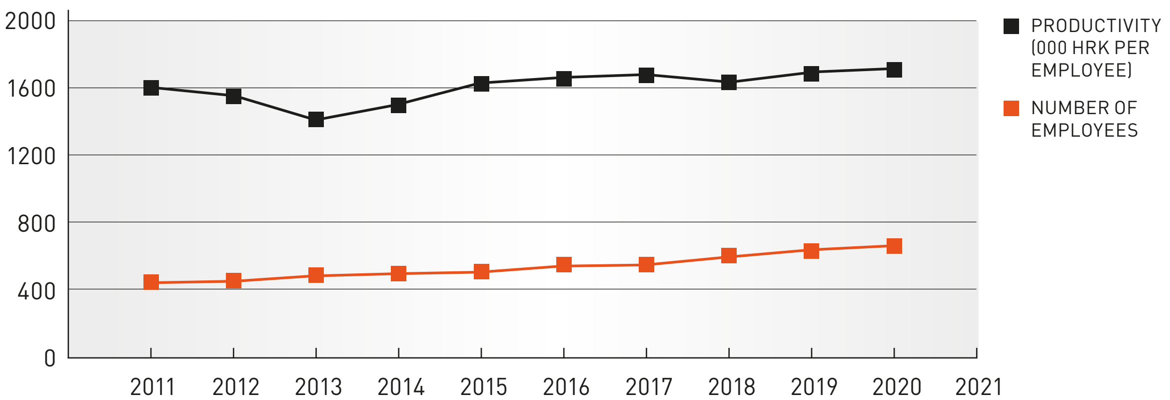
EMPLOYEE QUALIFICATION STRUCTURES AT THE YEAR'S END

	Years of education	2020	2019
University degree	16 or more	225	219
College and Bachelor's degree	14 - 15	24	23
Secondary school	12	360	335
Qualified workers	11 - 13	23	25
Primary school + training on the job	8	19	21
Total		**651**	**623**



Productivity measured by sales per employee in 2020 was HRK 1.7 million, which was by 1.4% higher than in the preceding year.

NUMBER OF EMPLOYEES AND PRODUCTIVITY TRENDS



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

Končar D&ST audits during 2020 by Bureau Veritas continued in six-month cycles for the three certified management systems (ISO 9001:2015, ISO 14001:2015, ISO 45001:2018).

In addition to the audits by the certified company, the same dynamics applied to the internal audits of the three management systems, which ensures continuous supervision, improvement and advancement of the systems.

In May 2020, within the scope of a recertification audit of the OHS management system, transition took place from OHSAS 18001:2007 to ISO 45001:2018. Parallel with that, a recertification audit of the environment management system according to ISO 14001:2015 took place, when most documents of the environment management system were integrated with the OHS management system documents.

Also, during the two recertification audits and the transition, a supervision audit of the quality management system according to ISO 9001:2015 was also conducted.

Končar D&ST continuously supervises and manages the processes that affect the environment and actively manages the recognized aspects of the environment by their evaluation (risk assessment) aiming to timely and efficiently prevent any environment pollution. The environment protection is contributed to by rational use of natural resources, selection of ecologically acceptable raw materials, and promotion of recycling.

Under a contract for an Italian customer for a part of the production range of distribution transformers, a Carbon Footprint of Products (CFP) study was successfully drawn up and verified (according to ISO 14067:2018 guidelines) and total 448 trees were planted during 2020.

Aiming to contribute to environmentally friendly production of electricity and having adequate production hall roofs in Zagreb, activities were commenced in IV/2020 quarter for the construction of own 1.1 MW solar power plant. The project application was submitted to the invitation announced by the Environmental Protection and Energy Efficiency Fund late in the year, under the name "Increase in Energy Efficiency and Use of Renewable Energy Sources in Production Industries" aimed to subsidize the renewable energy source projects.

16. Corporate Social Responsibility

Corporate social responsibility of Končar D&ST is based on a set of measures and policies and the Code of Business Conduct, aimed to effectuate the mission and vision of Končar D&ST with the respect for and implementation of the declared values. Within its sphere of influence, Končar D&ST supports and implements the obligations and measures laid out in the applicable laws and internationally recognized standards in the fields of business ethics, employees' rights, occupational health and safety, and environment protection.

The specific values Končar D&ST is committed to in its operations include:
- quality
- minimization of environmental impact
- occupational health and safety
- honesty and responsibility for undertaken obligations
- compliance with the laws, standards, and best business practices
- reaching above-average performance
- care for employees and permanent investment in their professional development
- respect for differences among employees through openness, trust, and inclusion in teamwork
- good business relations with customers and suppliers.

Končar D&ST continuously undertakes incentives aimed to implement positive changes and invests in the development, professional training of its employees, minimizing of environmental impacts, and care for the community. Končar D&ST conducts numerous activities showing its commitment to corporate social responsibility and is actively involved in the local community.

An example of corporate social responsibility is an afforestation campaign of the Medvednica mountain in which Končar D&ST employees participated in 2020 and for which Končar D&ST procured the required seedlings.

By donations in 2020 for the fight against the COVID 19 pandemic and for victims of the Zagreb earthquake, Končar D&ST made efforts to express its corporate social responsibility towards the local community.

In its operations and daily activities, Končar D&ST and its employees respect the Code of Business Conduct principles and practice zero tolerance to corruption and other prohibited business practices. The Board members, employees, and partners are all informed about the policy of zero tolerance to corruption and respect that principle in their operations and activities.

17. Future Development Strategy

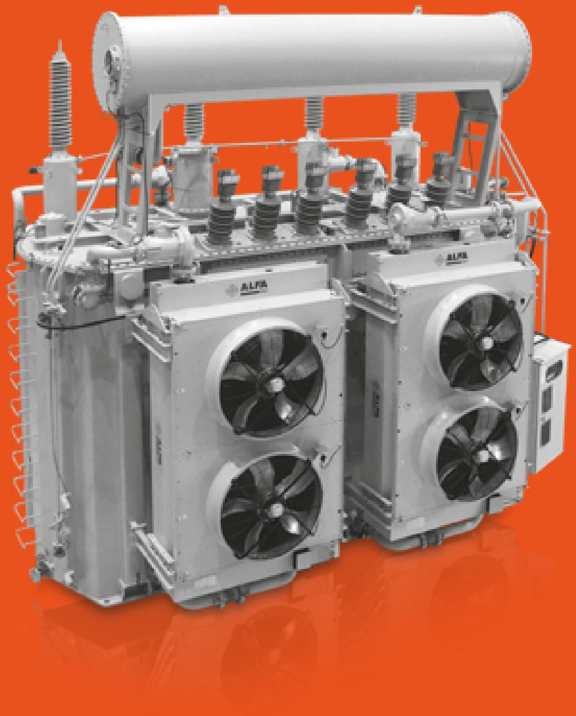
The core business activities of Končar D&ST will continue to be development, sales and production of distribution oil transformers up to 8 MVA and 36 kV, special transformers, and medium power transformers up to 160 MVA and 170 kV.

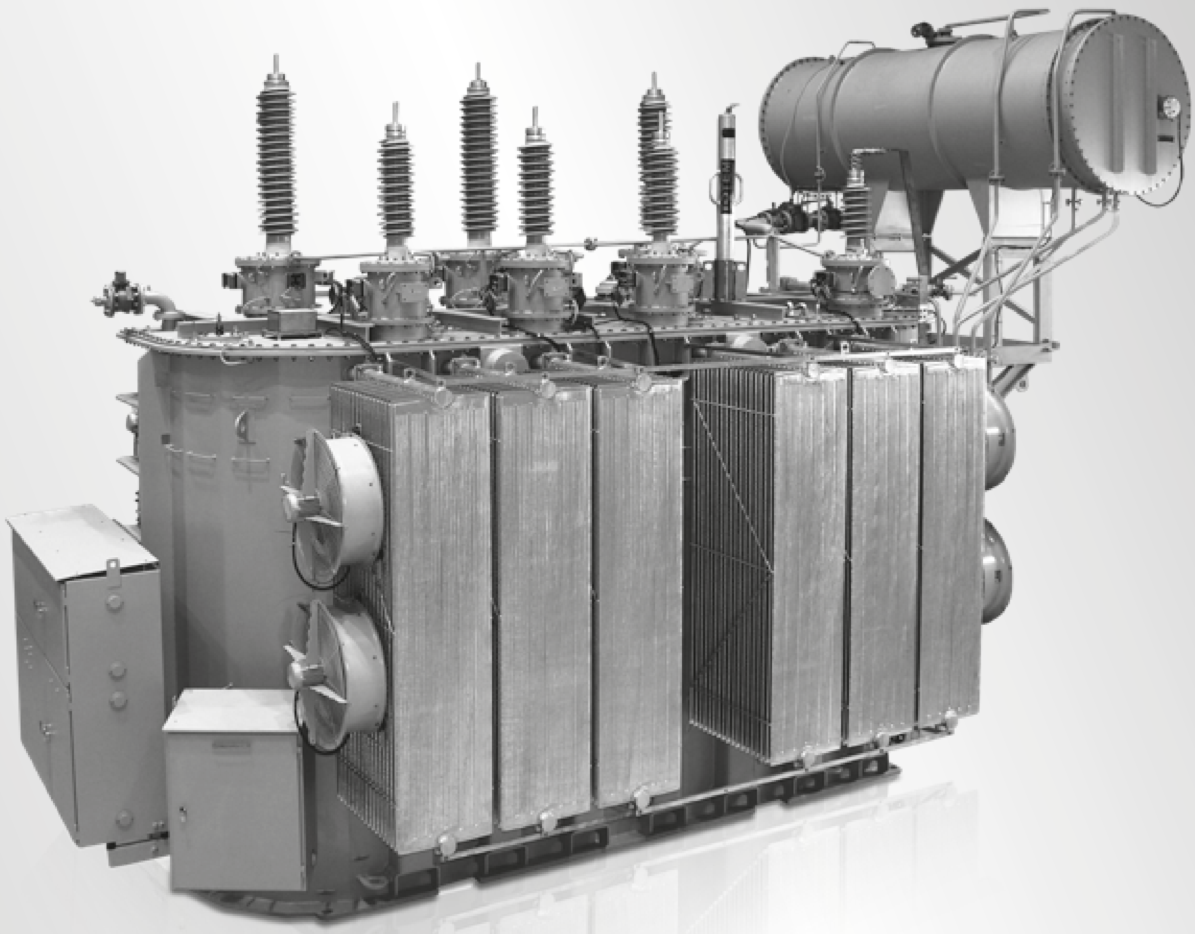
Končar D&ST will continue to secure its high position among the leading European manufacturers of distribution, special and medium power transformers through the recognition and best fulfilment of needs of its target customers, commitment to quality and sustainable development, technical and organisational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

Final remark: In the period from the end of 2020 until the preparation of this report, the COVID-19 pandemic is still not under control and there is a possibility that in case of adverse trends it could have adverse implications on future operations. Except for that, there have been no other unusual or significant events that could significantly change the view of the operations and position of the Company as presented in this report.

II.

DECISIONS
PROVIDED
BY LAW





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

Pursuant to Articles 220 and 300d of the Croatian Act on Companies and Article 22 of the Articles of Association of KONČAR D&ST Inc., at the Supervisory Board meeting held on 29 March 2021, the Supervisory Board and the Management Board of the Company have adopted the following

DECISION

ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2020

The Supervisory Board and the Management Board of Končar-D&ST Inc. have jointly adopted the Annual Financial Statements for 2020.

Explanation

The Management Board of the Company has submitted to the Supervisory Board for approval the Annual Financial Statements for 2020.
The Supervisory Board has given approval to the Annual Financial Statements for 2020, whereby the Supervisory Board and the Management Board have jointly adopted the Annual Financial Statements for 2020 as follows:

	HRK '000
Total inocome	1,093,782
Total expenses	1,018,442
Profit before taxation	75,340
Corporate income tax	-16,751
Profit after taxation	92,091
Total assets/liabilities	887,687

Gordan Kolak
President of the Supervisory Board

Ivan Klapan
President of the Management Board

Zagreb, 29 March 2021

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 29 March 2021, Supervisory Board and Management Board adopted the following

DECISION

ON ALLOCATION OF PROFITS FOR 2020

1. Profits after taxation (net profits) for 2020 amount to HRK 92,090,589.62
2. The Management Board and the Supervisory Board have allocated a sum of HRK 47,249,806.82 into Statutory reserves.
3. The Management Board and the Supervisory Board have proposed to General Assembly to make a decision on allocation a sum of HRK 18,563,458.00 into Retained earnings.
4. The Management Board and the 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 51.40 per share, which totals HRK 26,277,324.80 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.

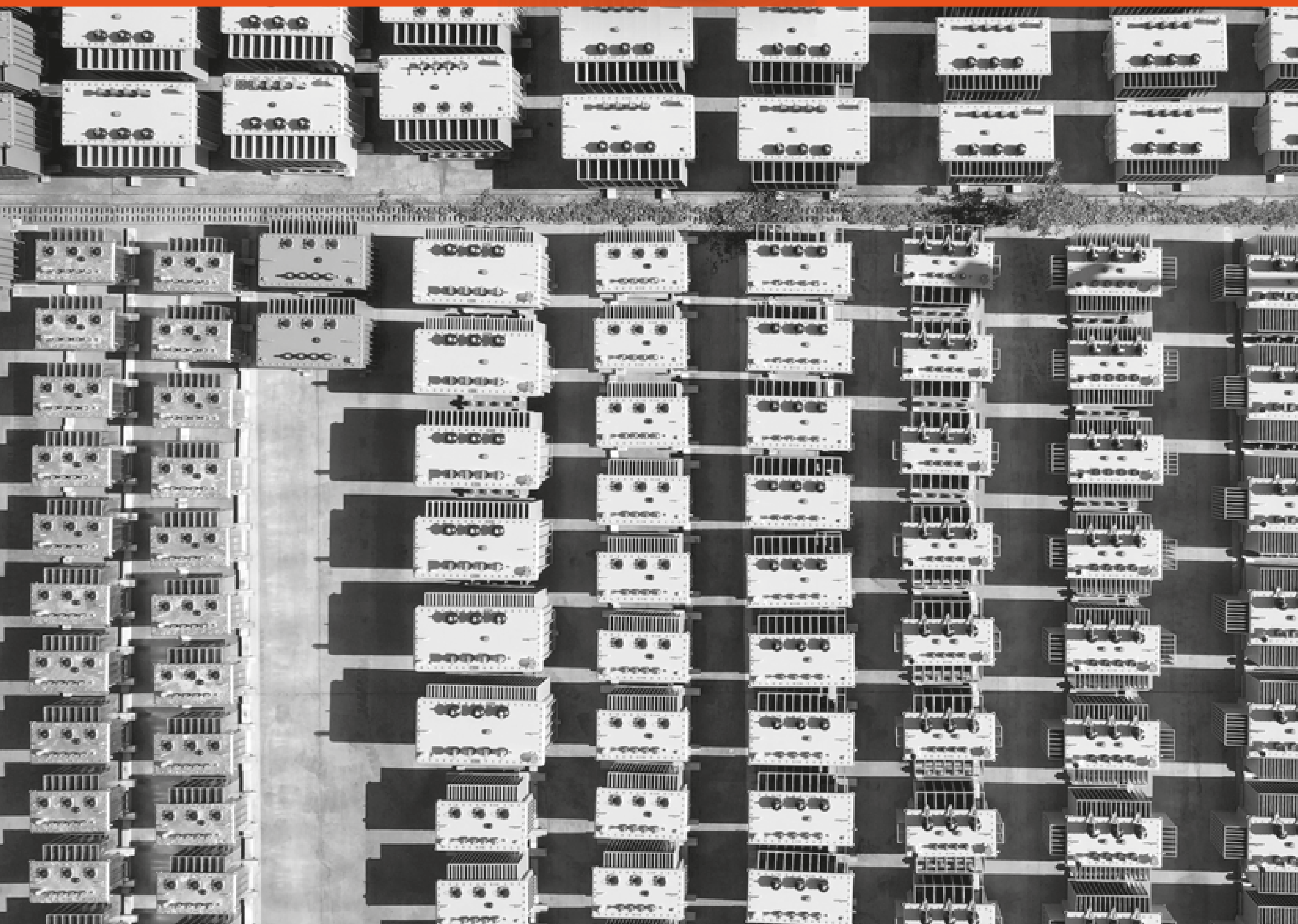
Gordan Kolak
President of the Supervisory Board

Ivan Klapan
President of the Management Board

Zagreb, 29 March 2021

III.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES



Statement of Management's responsibilities

Pursuant to the Croatian Accounting Act, the Management Board of Končar - Distribution and Special Transformers Inc. (hereinafter: the Company) is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and its cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for:

- selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the separate financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

The Management is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report and the Statement of implementation of the corporate governance code, as well as the accompanying financial statements comprise the Annual Report of the Company and were authorised and signed by the Management Board on 26 March 2021 for issue to the Supervisory Board.

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

Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Končar – Distribution and Special Transformers Inc. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2020, and its separate statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2020, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - comparative information

We draw attention to Appendix 1 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2019 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The financial statements of the Company as at and for the year ended 31 December 2019 and 31 December 2018 from which the statement of financial position as at 1 January 2019 has been derived, excluding the adjustments described in Appendix 1 to the financial statements, were audited by another auditor who's reports, dated 19 March 2020 and 21 March 2019, respectively included an unqualified audit opinion on those financial statements.

As part of our audit of the financial statements as at and for the year ended 31 December 2020, we audited the adjustments described in Appendix 1 that were applied to restate the comparative information presented as at and for the year ended 31 December 2019 and the statement of financial position as at 1 January 2019. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended 31 December 2019 or 31 December 2018 (not presented herein) or to the statement of financial position as at 1 January 2019, other than with respect to the adjustments described in Appendix 1 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Appendix 1 are appropriate and have been properly applied.

This version of the auditor's report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters

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

Revenue recognition	
Revenue from customer contracts for the sale of transformers recognized in profit or loss in 2020 amounts to HRK 1,012,855 thousand (2019.: HRK 1,008,662 thousand). Please refer to the notes 2a), 3a) and note 4 in the financial statements.	
Key audit matter	**How we addressed the matter**
The Company's core activities include manufacturing and sales of distribution and special transformers. The applicable financial reporting standard governing the accounting for revenues, IFRS 15 *Revenue from Contracts with Customers*, requires management to exercise judgement identifying all goods or services provided to customers and determine whether to account for each such good or service as a separate performance obligation. Given the nature of contracts with customers, this also entails consideration of whether there is a significant financing component or a separate performance obligation such as an extended warranty included in the contract. As discussed in note 2a), revenue is recognised at a point in time when the performance obligation relevant to the contract is executed and when control over the products and transfers to the customer which is typically upon delivery to the customer. In addition, in relation to its contracts with customers, the Company typically receives advance payments which it accounts for as contract liabilities. Due to the above factors, accounting for revenues requires management to exercise significant judgment and making complex estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.	Our procedures performed in this area included: • Testing of the design, implementation of controls over the revenue cycle and evaluating the controls within the information technology (IT) systems that support the recording of revenue; • Assessing the Company's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the revenue standard; • For a sample of contracts or contract equivalents with key customers in force during the reporting period: - challenging the Company's identification of performance obligations included therein; - critically assessing the Company's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations; - based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents with particular attention paid to cut-off procedures over amounts recognised at or around the reporting date; • For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Company's accounting records, and inspecting the underlying documentation; • Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items. • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for customer contracts.

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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Warranty provisions	
Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2020 amounted to HRK 112,730 thousand (31 December 2019.: HRK 129,719 thousand). Please refer to the notes 2p), 3b) and note 25 in the financial statements.	
Key audit matter	How we addressed the matter
The Company's customer arrangements include product warranties given to customers granted for a period ranging from 3 to 5 years from the delivery of transformers. The product warranties primarily cover expected costs to repair or replace components with defects or functional and/or serial errors as well as financial losses suffered by the Company's customers in connection with unplanned suspension of operations. As stated in note 3b), the Company estimates general provisions for product warranties by reference to: historical costs related to product warranties; industry statistics of transformer failure incidence levels; and market experience from other transformer manufacturers. In addition, where applicable, specific risks attributable to individual customer contracts and related products (as explained in note 3b)) are taken into account when assessing the need for additional specific warranty provisions for such individual cases. The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.	Our procedures performed in this area included: • Testing the relevant controls regarding completeness of warranty provisions and how Management assesses valuation of provisions. • Challenging the assumptions underlying the valuation of provisions by reference to relevant information from customer contracts (such as warranty duration and expiry), available industry information and historical information on costs related to product warranties. • Where specific warranty provisions were recognised in relation to individual customer contracts and related products, assessing the reasonableness of warranty provisions at year-end by: - obtaining an understanding of the nature of the specific provision through interviews with management and project managers; - inspecting relevant customer contracts and warranty terms as well as source documentation such as relevant warranty claims; - inspecting correspondence with customers, where applicable; • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for warranty provisions related to customer contracts.

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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing 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 financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.
- 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 controls.
- 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

This version of the auditor's report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

KPMG

Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 controls 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 29 June 2020 to audit the separate financial statements of Končar – Distribution and Special Transformers Inc. for the year ended 31 December 2020. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 26 March 2021;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditor's report is Igor Gošek.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

26 March 2021

This version of the auditor's report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

Statement of Comprehensive Income

for the Year Ended 31 December 2020

	Note	2020	Restated* 2019
		HRK'000	*HRK'000*
Revenue	4	1,090,761	1,030,875
Other operating income	5	1,544	2,248
Operating income		**1,092,305**	**1,033,123**
Change in inventories of work in progress and finished goods		65,724	(8,305)
Materials, consumables, goods and services used	6	(868,482)	(769,842)
Personnel costs	7	(151,637)	(140,100)
Depreciation and amortisation		(26,125)	(19,903)
Other operating expenses	8	(23,587)	(27,571)
Operating expenses		**(1,004,107)**	**(965,721)**
Operating profit		**88,198**	**67,402**
Financial income	9	1,477	2,165
Financial expenses	9	(14,335)	(8,275)
Net financial result		**(12,858)**	**(6,110)**
Profit before tax		**75,340**	**61,292**
Corporate income tax	10	16,751	(1,597)
PROFIT FOR THE YEAR		**92,091**	**59,695**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**92,091**	**59,695**
Earnings per share (basic and diluted) in HRK	11	**180.14**	**116.77**

**for restatements see Appendix 1*

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

Statement of Financial Position

as at 31 December 2020

	Note	31.12.2020.	Restated* 31.12.2019.	Restated* 1.1.2019.
ASSETS		*HRK'000*	*HRK'000*	*HRK'000*
Non-current assets				
Intangible assets	12	1,647	3,190	2,614
Property, plant and equipment	13	232,441	218,235	140,261
Right-of-use assets	14	821	956	-
Investment property	15	2,990	3,165	3,340
Investments in subsidiary	16	6,181	7,472	14,914
Investments in associates	17	1,732	1,732	1,732
Financial assets at FVOCI	18	2,804	2,804	2,839
Deferred tax assets	10	20,151	216	231
		268,767	**237,770**	**165,931**
Current assets				
Inventories	19	344,817	260,625	267,475
Trade and other receivables	20	147,497	184,479	185,668
Financial assets at FVTPL	27	-	57	293
Loans receivable	22	18,641	16,567	-
Cash and cash equivalents	23	107,965	96,236	101,937
		618,920	**557,964**	**555,373**
TOTAL ASSETS		**887,687**	**795,734**	**721,304**
EQUITY AND LIABILITIES				
Share capital	24	153,370	153,370	153,370
Legal reserves		7,669	6,299	3,840
Statutory reserves		130,515	101,643	76,685
Other reserves		45,983	45,983	45,983
Retained earnings		121,982	79,387	63,744
- from which profit for the year		92,091	59,695	49,182
EQUITY AND RESERVES		**459,519**	**386,682**	**343,622**
Borrowings	26	55,205	48,631	25,034
Financial liabilities at FVTPL	27	741	67	-
Provisions for warranty repairs	25	92,096	94,827	96,150
Other provisions	25	5,413	5,413	5,329
Non-current liabilities		**153,455**	**148,938**	**126,513**
Borrowings	26	5,926	7,220	9,735
Financial liabilities at FVTPL	27	3,420	-	-
Trade and other payables	28	142,480	137,386	128,393
Contract liabilities	21	102,753	81,141	73,196
Provisions for warranty repairs	25	20,134	34,367	39,845
Current liabilities		**274,713**	**260,114**	**251,169**
Total liabilities		**428,168**	**409,052**	**377,682**
TOTAL EQUITY AND LIABILITIES		**887,687**	**795,734**	**721,304**

**for restatements see Appendix 1*

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

Statement of Cash Flows

for the Year Ended 31 December 2020

	Note	2020	2019
		HRK'000	*HRK'000*
Cash flows from operating activities			
Cash proceeds from trade receivables		1,127,944	1,053,610
Cash proceeds from insurance reimbursements		488	583
Cash proceeds from tax returns		55,111	53,376
Cash paid to suppliers		(932,142)	(832,904)
Cash paid to employees		(148,474)	(135,945)
Taxes paid		(10,019)	(31,037)
Cash paid for insurance related to reimbursements		(1,850)	(1,823)
Other cash proceeds and payments		(11,130)	(15,519)
Cash from operations		**79,928**	**90,341**
Interest paid		(1,391)	(732)
Net cash flows from operating activities		**78,537**	**89,609**
Cash flows from investment activities			
Cash proceeds from sale of non-current tangible and intangible assets		12	99
Cash proceeds from dividend		795	1,060
Cash proceeds from interest		593	50
Cash expenses for purchase of non-current tangible and intangible assets		(41,739)	(82,781)
Cash outflows for purchase of financial instruments		(9,509)	-
Loans given		(1,860)	(16,698)
Net cash used in investing activities		**(51,708)**	**(98,270)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	26	30,268	29,579
Repayment of principal portion of loans and borrowings	26	(25,561)	(9,730)
Principal portion of lease payments	26	(252)	(225)
Dividends paid	24	(19,263)	(16,664)
Other cash proceeds and payments		(292)	-
Net cash used in financing activities		**(15,100)**	**2,960**
Net increase/(decrease) in cash and cash equivalents		**11,729**	**(5,701)**
Cash and cash equivalents at the beginning of the period		96,236	101,937
Cash and cash equivalents at the end of the period	23	**107,965**	**96,236**

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

Statement of Changes in Equity

for the Year Ended 31 December 2020

	Share capital	Legal reserves	Statutory reserves	Other reserves	Retained earnings	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
As at 1 January 2019 (reported)	**153,370**	**3,840**	**76,685**	**45,983**	**44,052**	**323,930**
Restatements *					19,692	**19,692**
As at 1 January 2019 (restated)	**153,370**	**3,840**	**76,685**	**45,983**	**63,744**	**343,622**
Profit for the year (restated)	-	-	-	-	59,695	**59,695**
Total comprehensive income	-	-	-	-	**59,695**	**59,695**
Transfers	-	2,459	24,958	-	(27,417)	-
Dividend	-	-	-	-	**(16,635)**	**(16,635)**
Total transactions with owners	-	**2,459**	**24,958**	-	**(44,052)**	**(16,635)**
As at 31 December 2019 (restated)	**153,370**	**6,299**	**101,643**	**45,983**	**79,387**	**386,682**
Profit for the year	-	-	-	-	92,091	**92,091**
Total comprehensive income	-	-	-	-	**92,091**	**92,091**
Transfers	-	1,370	28,872	-	(30,242)	-
Dividend	-	-	-	-	**(19,254)**	**(19,254)**
Total transactions with owners	-	**1,370**	**28,872**	-	**(49,496)**	**(19,254)**
As at 31 December 2020	**153,370**	**7,669**	**130,515**	**45,983**	**121,982**	**459,519**

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

Notes to the Financial Statements

for the Year Ended 31 December 2020

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 160 MVA power rating and up to 170 kV voltage.

As at 31 December 2020, the Company had 651 employees, while as at 31 December 2019, there had been 623 employees in the Company.

Members of the Supervisory Board

- Gordan Kolak, President since 1 July 2020, vice president until 30 June 2020
- Ivan Bahun, Member since 1 July 2020
- Miki Huljić, Member since 1 July 2020
- Josip Ljulj, Member since 1 July 2020
- Darinko Bago, President until 20 January 2020
- Miroslav Poljak, Member until 30 June 2020, vice president since 21 May 2019
- Davor Mladina, Member until 30 June 2020
- Ana Marija Markoč, Member - employees' representative

Members of the Management Board

- Ivan Klapan, President
- Petar Vlaić, Member
- Martina Mikulić, Member
- Vanja Burul, Member
- Petar Bobek, Member

Remunerations payable to members of the Management Board and Supervisory Board are presented in Notes 8 and 30 to the financial statements.

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 (EU IFRS).

The financial statements have been prepared using the historical cost convention, except where otherwise stated. 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.

The Company has prepared these separate 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 simultaneously with these separate financial statements.

Notes to the Financial Statements

for the Year Ended 31 December 2020

In the consolidated financial statements, the subsidiary (Note 16) 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 2020 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.

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 2020 and that have not been early adopted by the Company in the preparation of these financial statements. Management does not expect any of these standards to have a significant impact on the financial statements of the Company.

a) 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.

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).

Notes to the Financial Statements

for the Year Ended 31 December 2020

b) 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.

c) Taxes

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

Current tax is the expected tax payable on the taxable income 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.

d) Segment information

Segment represents a separable part of the Company either as a part engaged in providing products or services (business segment) or as a part engaged in providing products or services within a particular economic environment (geographical segment) that is subject to risk and benefits that differ from those of other segments. The Company does not report segment information in terms of the requirement of IFRS 8 Operating segments as internal reporting is not based on segmental information other than revenues per type product and geography as disclosed within note 4 to the financial statements.

e) Earnings per share

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

Notes to the Financial Statements

for the Year Ended 31 December 2020

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.

f) Dividend distribution

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

g) Foreign currency transactions

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in the income statement for the current year. Foreign exchange losses and gains arising on translation are included in profit or loss for the current year and are presented in Note 9 in net amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences on borrowings).

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

Non-current intangible and tangible assets are initially carried at cost, which includes the purchase price, including import duties and non-refundable tax after deducting trade discounts and rebates, as well as all other costs directly attributable to bringing the assets to their 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.

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%

Notes to the Financial Statements

for the Year Ended 31 December 2020

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.

i) Financial assets and liabilities

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

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.

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

- 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.

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 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.

j) Investments in subsidiaries and associates

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

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

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

k) Inventories

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

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.

l) 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.

m) Cash and cash equivalents

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

n) Borrowings

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

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

o) Leases

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

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

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.

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

q) Employee benefits

i. Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to privately operated mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits with respect to these pension schemes.

ii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits as expenses when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

iii. Regular retirement benefits

Retirement benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

iv. Long-term employee benefits

The Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

v. Short-term employee benefits

The Company recognises a liability for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Financial Statements

for the Year Ended 31 December 2020

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 Company's 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. 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.

- Extended warranties

As part of its customer arrangements, the Company typically provides warranties for its products/projects performed for a period of 3 - 5 years. However, certain customer arrangements may include warranty periods which exceed those typically granted by the Company which is primarily related to contracts with customers in geographies where longer warranty periods are standard market practice. The Company nevertheless analyses contracts in which a warranty period significantly exceeds the typical warranty duration and assesses whether such warranties represent a separate performance obligation. As a result of its assessment, the Company did not identify significant contracts with extended warranties.

- Significant financing component

In certain contracts, the Company may agree to sell the equipment whose production may last longer than one year after the signing of the contract. Given the fact that the Company typically receives advances from customers, the period between payment by the customer and the transfer of the products to the customer may be longer than one year. In such cases, which are considered outliers, the amount received as an advance is considered a discounted transaction price. The Company analysed its contracts with customers and noted that the performance obligation in a majority of the Company's customer contracts is satisfied within one year. As a result, the Company did not identify contracts with a significant financing component.

Notes to the Financial Statements

for the Year Ended 31 December 2020

b) Warranty provisions

The Company provides warranties for its products for an average period of 3 - 5 years. In certain cases where warranties extend past this range, the Company analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a general provision for warranty repairs based on historical information and industry statistics of transformer failures, specifically incidence of major transformer failure. Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances. Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of transformers as a result of technical analyses and correspondence with customers. Factors which affect these individual provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs. The Company has identified several contracts where defects have been identified which carry specific significant risks (exposure to extreme climate conditions, non-standard technical complexities) of substantial costs of rectification and/or replacement up to the expiry of these product warranties. Further details are disclosed in note 25 to the financial statements.

c) 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 2021 to 2025 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 10.16% per annum, the average growth rate of operating income was 3.7%, and the residual value was calculated at a residual growth rate of 2.5%. In 2020, using the DCF method, an impairment loss was recognised for the Power Engineering Transformatory (PET) subsidiary in the amount of HRK 10.8 million (Note 16), (2019: HRK 7.443 thousand).

d) Critical judgments in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not 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 2020

4. Revenue

	2020	2019
	HRK'000	*HRK'000*
Type of goods or services		
Sales of distribution transformers	417,016	483,603
Sales of medium power transformers	595,839	525,059
Sales of services	77,906	22,213
Total revenue from contracts with customers	**1,090,761**	**1,030,875**
Geographic areas		
Croatia	153,149	128,210
EU member states	770,832	695,765
Bosnia & Herzegovina, Macedonia, Serbia, Montenegro	29,091	15,939
Other European countries	43,471	50,071
Africa	25,087	54,525
Asia	63,472	80,479
Other countries worldwide	5,659	5,886
Total revenue from contracts with customers	**1,090,761**	**1,030,875**
Revenue recognition time:		
At a point in time	1,012,855	1,008,662
Over time	77,906	22,213
Total revenue from contracts with customers	**1,090,761**	**1,030,875**

5. Other operating income

	2020	2019
	HRK'000	*HRK'000*
Rental income	194	200
Inventory surplus	117	139
Insurance recoveries	488	510
Other income	745	1.399
	1,544	**2,248**

Notes to the Financial Statements

for the Year Ended 31 December 2020

6. Cost of materials and energy

	2020	2019
	HRK'000	*HRK'000*
Raw materials and consumables	730,071	641,482
Transport services	31,504	27,076
External production related services	14,944	14,445
Maintenance and servicing	11,818	11,038
Cost of goods sold	43,426	38,092
Other costs	36,719	37,709
	868,482	**769,842**

7. Personnel costs

	2020	2019
	HRK'000	*HRK'000*
Net salaries and wages	89,293	81,892
Taxes and contributions from salaries	41,522	38,878
Contributions on salaries	20,822	19,330
	151,637	**140,100**

In 2020, pension fund contributions amounted to HRK 24,122 thousand (2019: HRK 22,315 thousand).

Personnel costs include HRK 829 thousand of retirement and termination benefits (2019. HRK 467 thousand).

Notes to the Financial Statements

for the Year Ended 31 December 2020

8. Other costs

Restated*

	2020	2019
	HRK'000	*HRK'000*
Accrued expenses	5,379	525
Daily allowances and business trip related costs	1,996	3,760
Staff transportation costs	4,640	4,448
Intellectual services	1,181	1,351
Entertainment	1,990	3,341
Insurance	2,800	2,364
Bank charges and comissions	3,455	3,815
Premiums and benefits for volontary pension pillar	1,974	1,841
Donations, gifts and reimbursements to personell	4,946	2,540
Professional training costs	1,001	1,207
Other non-production related costs	4,986	3,867
Increase/(decrease) in provisions for warranty repairs	(16,964)	(6,801)
Impairment of loans and receivables	24	202
Fees payable to Supervisory board members	92	471
Other operating costs	6,087	4,640
	23,587	**27,571**

9. Net financial result

	2020	2019
	HRK'000	*HRK'000*
Dividends and share in profits	795	1,060
Interest and similar income	651	156
Other financial income	31	-
Foreign exchange gains	-	949
Total financial income	**1,477**	**2,165**
Interest and similar expenses	1,394	832
Other financial expenses	10,800	7,443
Foreign exchange losses	2,141	-
Total financial expenses	**14,335**	**8,275**
Net financial result	**(12,858)**	**(6,110)**

Other financial expense relate to the impairment of investment in the subsidiary.

Notes to the Financial Statements

for the Year Ended 31 December 2020

10. Corporate income tax

	2020	2019
	HRK'000	*HRK'000*
Current tax	3,184	1,581
Deferred tax	(19,935)	16
Income tax expense	**(16,751)**	**1,597**

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:

	2020	2019
	HRK'000	*HRK'000*
Accounting result (before tax)	75,340	61,292
Tax at 18%	13,561	11,033
Adjustments for:		
Non-taxable income	252	1,808
Non-deductible expenses	(242)	(468)
Temporary differences for which no deferred tax assets were recognises	(963)	(1,836)
Change in recognised deferred taxes	127	-
Investment tax credit utilisation	(9,551)	(8,956)
Recognition of deferred tax asset on investment tax credit	(19,935)	16
Income tax expense	**(16,751)**	**1,597**
Effective tax rate	-22.23%	2.61%

Investment tax credit

During previous periods, pursuant to the Investment Promotion and Development of Investment Climate Act, the Company became eligible to receive incentive measures related to its investment project "High-Voltage Laboratory". The Company was granted with tax incentives based on qualifying costs of new employment linked to the investment project and qualifying capital expenditure related to the investment project, in the form of an investment tax credit in the total approved amount of HRK 64,577 thousand. This amount is available to the Company for reduction of its future income tax liabilities up to a maximum reduction of the corporate income tax rate by 85% ending by 31 December 2019. The incentive expired in the previous year and the unutilised amount of the incentive was HRK 14,734 thousand.

Furthermore, during October 2020, the Company became eligible to receive incentive measures related to its investment project "Expansion of Production Capacity for Transformers" in the amount of HRK 28,114 thousand which is available to the Company for reduction of its future income tax liabilities up to a maximum reduction of the corporate income tax rate by 75% ending by 31 December 2028. Based on the assessment of the recoverability of the tax incentive made by the management, the Company recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit out of which HRK 9,551 thousand was utilised already in 2020.

The Company has not recognized deferred tax assets in the amount of approximately HRK 3.8 million (31 December 2019: HRK 4 million) for part of the temporary differences, as it does not expect to realize them in the foreseeable future.

Notes to the Financial Statements

for the Year Ended 31 December 2020

11. Earnings per share

Basic and diluted earnings per share:

	2020	2019
Net result in HRK thousands	92,091	59,695
Total and weighted average number of shares	511,232	511,232
Earnings per share	**180.14**	**116.77**

In previous years, declared dividends for ordinary and preference shares were the same. The Company does not hold any treasury shares. Diluted earnings per share for 2020 and 2019 are equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either period.

12. Non-current intangible assets

	Licences, software and other rights	Assets under construction	Total
	HRK'000	*HRK'000*	*HRK'000*
Cost			
At 1 January 2019	**12,093**	-	**12,093**
Additions	-	1,877	**1,877**
Transfer	1,877	(1,877)	-
As at 31 December 2019	**13,970**	-	**13,970**
Additions	-	368	**368**
Transfer	338	(338)	-
Disposals	(222)	-	**(222)**
As at 31 December 2020	**14,086**	**30**	**14,116**
Accumulated amortisation			
At 1 January 2019	**9,479**	-	**9,479**
Charge for the year	1,301	-	**1,301**
As at 31 December 2019	**10,780**	-	**10,780**
Charge for the year	1,911	-	**1,911**
Disposals	(222)	-	**(222)**
As at 31 December 2020	**12,469**	-	**12,469**
Carrying amount			
As at 31 December 2019	3,190	-	**3,190**
As at 31 December 2020	**1,617**	**30**	**1,647**

The cost of intangible assets fully amortised and still in use as at 31 December 2020 amounts to HRK 5,325 thousand (31 December 2019: HRK 5,589 thousand).

Notes to the Financial Statements

for the Year Ended 31 December 2020

13. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and furtniture	Assets under construction and advances	Total
Cost	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
At 1 January 2019	**9,013**	**130,025**	**201,905**	**28,014**	**10,887**	**379,844**
Additions	-	-	-	-	96,269	**96,269**
Transfers	7,907	58,978	28,099	4,675	(99,659)	-
Disposals	-	-	(2,360)	(745)	-	**(3,105)**
As at 31 December 2019	**16,920**	**189,003**	**227,644**	**31,944**	**7,497**	**473,008**
Additions	-	-	-	-	38,003	**38,003**
Transfers	-	10,396	23,172	2,495	(36,063)	**-**
Disposals	-	-	(668)	(374)	-	**(1,042)**
As at 31 December 2020	**16,920**	**199,399**	**250,148**	**34,065**	**9,437**	**509,969**
Accumulated depreciation						
At 1 January 2019	-	**79,411**	**140,442**	**19,730**	-	**239,583**
Charge for the year	-	5,464	10,384	2,350	-	**18,198**
Disposals	-	-	(2,264)	(744)	-	**(3,008)**
As at 31 December 2019	-	**84,875**	**148,562**	**21,336**	-	**254,773**
Charge for the year	-	7,873	13,181	2,722	-	**23,776**
Disposals	-	-	(649)	(372)	-	**(1,021)**
As at 31 December 2020	-	**92,748**	**161,094**	**23,686**	-	**277,528**
Carrying amount						
As at 31 December 2019	16,920	104,128	79,082	10,608	7,497	218,235
As at 31 December 2020	**16,920**	**106,651**	**89,054**	**10,379**	**9,437**	**232,441**

As at 31 December 2020, the net book amount of mortgaged properties amounts to HRK 122,139 thousand (31 December 2019: HRK 119,607 thousand). Mortgages have been registered over these properties in the total amount of EUR 45 million, and there is a pledge of EUR 8 million on movable assets with a net carrying amount of HRK 30 million (note 26).

The cost of fully depreciated tangible assets still in use as at 31 December 2020 amounts to HRK 89,290 thousand (31 December 2019: HRK 108,687 thousand). As at 31 December 2020 total advances for property, plant and equipment amounted to HRK 6,857 thousand (31 December 2019: HRK 8,577 thousand).

Notes to the Financial Statements

for the Year Ended 31 December 2020

14. Right-of-use assets

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Buildings	191	249
Transport vehicles	630	707
	821	**956**

	2020	2019
	HRK'000	*HRK'000*
As at 1 January	956	847
Increase - new leases	128	338
Depreciation	(263)	(229)
As at 31 December	**821**	**956**

15. Investment property

	Total
	HRK'000
Cost	
At 1 January 2019	**3,500**
Additions	-
As at 31 December 2019	**3,500**
Additions	
As at 31 December 2020	**3,500**
Accumulated depreciation	
At 1 January 2019	**160**
Charge for the year	175
As at 31 December 2019	**335**
Charge for the year	175
As at 31 December 2020	**510**
Carrying amount	
As at 31 December 2019	3,165
As at 31 December 2020	**2,990**

The Company owns certain business premises for which the market value is estimated at around HRK 4 - 4,5 million.

Notes to the Financial Statements

for the Year Ended 31 December 2020

16. Investments in subsidiary

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Power Engineering Transformatory (PET)	31,841	22,332
Accumulated impairment	(25,660)	(14,860)
Total	**6,181**	**7,472**

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. In May 2020, the Company acquired the remaining 26% of the subsidiary by excersizing a call option on the purchase of these shares.

In 2020, using the DCF method, an impairment allowance was made for the Power Engineering Transformatory (PET) subsidiary in the amount of HRK 10.8 million.

17. Investments in equity accounted investee

Investments in associates in the amount of HRK 1,732 thousand relates to investments in the company Elkakon Ltd., Zagreb where the Company holds a share of 50% ownership share. Summary data for that company are disclosed in the consolidated financial statements of the Company.

18. Financial assets at FVOCI

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Unqouted equity instruments	2,765	2,765
Other financial assets at FVOCI	39	39
	2,804	**2,804**

Fair value measurement

The fair value of investments in shares of unquoted equity instruments are measured at cost because they do not have an active market price and the fair value cannot be reliably measures. However, the Company compares the cost of these investments with a high-level valuation model based on comparable multiples to assess whether indication exist that the fair value could materially differ from cost. At the reporting date, there were no such indications.

Notes to the Financial Statements

for the Year Ended 31 December 2020

19. Inventories

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Raw materials and consumables	114,182	96,440
Production work-in-progress	140,519	84,649
Finished products	79,283	70,371
Advances for inventory	10,833	9,165
	344,817	**260,625**

20. Trade and other receivables

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Receivables from foreign customers	94,142	143,092
Receivables from domestic customers	47,206	27,912
Other receivables	441	863
VAT receivable	4,498	12,430
Prepayments	1,210	182
	147,497	**184,479**

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

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Not yet due	128,459	158,911
< 60 days	12,363	11,366
60-90 days	230	141
90-180 days	1	116
180-365 days	288	53
> 365 days	7	417
	141,348	**171,004**

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

Notes to the Financial Statements

for the Year Ended 31 December 2020

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

	2020	2019
	HRK'000	*HRK'000*
As at 1 January	645	4,484
Net change in ECLs	(29)	23
Recovered bad debts	(5)	(7)
Written-off	(282)	(3,860)
Effect of change in foreign exchange rate	1	5
As at 31 December	**330**	**645**

21. Contract liabilities

Restated*

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Contract liabilities - advances received from customers	102,753	81,141
Total contract liabilities	**102,753**	**81,141**

Recognised revenue related to contract liability

At the end of the reporting period, unsatisfied performance obligations arising from advances received from customers amounted to HRK 413,870 thousand (31 December 2019: HRK 378,929 thousand).

22. Loans receivable

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Loans receivable from the subsidiary	18,641	16,567
	18,641	**16,567**

During 2019 and 2020, 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. The loans were granted at the fixed interest rate of 3.50% p.a. with maturity dates during 2021.

Notes to the Financial Statements

for the Year Ended 31 December 2020

23. Cash and cash equivalents

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Cash in bank	107,965	96,225
Cash at hand	-	11
	107,965	**96,236**

Disclosures related to credit risk are presented in Note 31 - Risk management.

24. Equity and reserves

Share capital is determined in the nominal amount of HRK 153,370 thousand (31 December 2019: HRK 153,370 thousand). The ownership structure of the Company was as follows:

	31 December 2020		31 December 2019	
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)	19,832	3.88	19,832	3.88
Floričić Kristijan	16,004	3.13	21,304	4.17
Radić Antun (1/1)	9,337	1.83	7,801	1.53
Berkopić Dražen (1/1)	8,255	1.61	7,555	1.48
Levačić Juraj (1/1)	7,886	1.54	7,886	1.54
AZ Mandatory Pension Fund A class	6,704	1.31	6,704	1.31
Other	146,518	28.66	143,454	28.06
	511,232	**100.00**	**511,232**	**100.00**

As at 31 December 2020 and 2019, the Company's share capital consists of 388,376 ordinary shares and 122,856 preference shares comprising a total of 511,232 shares with the nominal value of HRK 300 per share. Dividend per share paid to the Company's shareholders in 2020 amounted to HRK 37.66 (2019: HRK 32.54 per share) and totalled HRK 19,253 thousand (2019: HRK 16,664 thousand).

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 2020

25. Provisions

	Warranty repairs	Jubilee awards and retirement benefits	Total
	HRK'000	*HRK'000*	*HRK'000*
As at 1 January 2019 (reported)	145,774	15,242	161,016
Restatement *	(9,779)	(9,913)	(19,692)
As at 1 January 2019 (restated)	**135,995**	**5,329**	**141,324**
Increase	8,986	84	9,070
Release (restated)	(15,787)	-	(15,787)
As at 31 December 2019 (restated)	**129,194**	**5,413**	**134,607**
Increase	6,653	-	6,653
Release (restated)	(23,617)	-	(23,617)
As at 31 December 2020	**112,230**	**5,413**	**117,643**
of which:			
- non-current	92,096	5,413	97,509
- current	20,134	-	20,134

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 the Company and other transformer producers. The Company generally issues warranties for a period of 3 to 5 years for each transformer sold. Based on historical data regarding expenses for warranty repairs and industry statistics on transformer failure incidence rates, Management assesses and recognises a general provision for warranty repairs.

In addition, Management recognised individual provisions related to specific customer contracts and related products where it has identified specific quality issues with regard to transformers sold which amount to HRK 58,9 million (2019: HRK 75,9 million). The provisions are related to several contracts for sales of products in geographies where the Company identified specific risks arising from atypical defects related to extreme climate exposures and technical complexities which are considered non-standard. The Company has formed this provision based on the expected cost of rectification of these defects and/or replacement of transformers.

During the year, the Company released a total of HRK 26.3 million (2019: HRK 15.8 million) of provisions out of which HRK 17 million (2019: HRK 10.2 million) related to specific provisions provided for in previous years due to the fact that the Company managed to successfully rectify product defects and avoid product replacement costs prior to warranty expiry as initially assessed. During the year there were no significant costs of warranty repairs as a result of travel and transport restrictions imposed by the pandemic for both the Company and the customers. The Company continuously communicates with customers and co-operates in rectifying any defects noted in order to minimize risks related to warranty costs.

Furthermore, the Company restated the amounts of provisions to correct and error in calculation whereby provisions in previous periods included those where warranty periods have expired (see Appendix 1 (ii)).

Provisions for long-term employee benefits

The long-term portion of the provisions for termination benefits and jubilee awards in the amount of HRK 5,413 thousand (2019: HRK 5,413 thousand) 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, 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 0.7% (2019: 1%).

The Company also restated its provisions for long-term employee benefits as those provisions in prior years included amounts related to termination benefits which did not satisfy the relevant recognition criteria (see appendix 1 (iii)).

26. Borrowings

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Non-current borrowings		
Leases	562	719
Bank loans	54,643	47,912
	55,205	**48,631**
Current borrowings		
Leases	273	243
Bank loans	5,653	6,977
	5,926	**7,220**
Total borrowings	**61,131**	**55,851**

Long term bank borrowings relate to a loan granted in April 2019 in the amount of EUR 8,000,000 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. Security instruments are 2 blank bills of exchange with related B/E statement, 1 ordinary debenture of EUR 8,000,000, pledge over Company property and movables based on the Security Agreement amounting to EUR 30,000,000.

Notes to the Financial Statements

for the Year Ended 31 December 2020

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

	Loans	Leases	Total
	HRK'000	*HRK'000*	*HRK'000*
As at 1 January 2019	**34,769**	**790**	**35,559**
Cash receipts (borrowed)	29,579	-	**29,579**
Cash outflows (repaid)	(9,730)	(225)	**(9,955)**
Foreign exchange rate changes	271	397	**668**
As at 31 December 2019	**54,889**	**962**	**55,851**
Cash receipts (borrowed)	30,268	-	**30,268**
Cash outflows (repaid)	(25,561)	(252)	**(25,813)**
Foreign exchange rate changes	700	125	**825**
As at 31 December 2020	**60,296**	**835**	**61,131**

Non-current liabilities to banks mature as follows:

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
up to 1 year	5,653	6,977
1 - 2 years	7,537	5,582
2 - 3 years	7,537	6,512
3 - 4 years	7,537	6,512
4 - 5 years	7,537	6,512
preko 5 years	24,495	22,794
	60,296	**54,889**

27. Financial instruments at FVTPL

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Derivative instruments - currency forwards	-	57
Financial assets at FVTPL	**-**	**57**
Derivative instruments - currency forwards	4,161	67
- interest rate swap	-	-
Financial liabilities at FVTPL	**4,161**	**67**
of which:		
- non-current	741	67
- current	3,420	-

Notes to the Financial Statements

for the Year Ended 31 December 2020

During the year, the Company used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies (SEK primarily). The nominal value of currency forwards as at the reporting date amounted to HRK 120,418 thousand, with the contracts maturing in the period from 2021 to 2022. Gains and losses recognized as changes in the market value of the currency forward contracts are recorded in the statement of comprehensive income within 'Net financial result'.

28. Trade payables

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Payables to domestic suppliers	30,040	32,064
Payables to foreign suppliers	67,354	67,085
Payables to employees	6,162	7,980
Deferred income	314	2,435
Liabilities for share in profits	137	132
Interest payable	353	279
Other taxes, contributions and fees payable	5,643	7,642
Unused holiday	4,581	4,958
Other accured costs	21,262	14,610
Other liabilities	6,634	201
	142,480	**137,386**

29. Off-balance-sheet items

Off-balance sheet items as at 31 December 2020 include the following: joint guarantees issued on behalf of the PET subsidiary to banks and customers in the amount of HRK 20,346 thousand and guarantees issued on behalf of related parties in the amount of HRK 18,335 thousand.

Balance of the Company's transactions concluded (order book) based on active projects as of 31 December 2020 amounts to HRK 848,8 million (31 December 2019: HRK 690.7 million).

Notes to the Financial Statements

for the Year Ended 31 December 2020

30. 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 2020, 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.

2020	Operating activities				
Company	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Subsidiary	182	-	-	1,045	596
Končar Group companies:	9,494	1,193	81	34,100	22,305
Končar - Electrical Industry, Inc.	-	1,650	-	-	7,238
Associates	1,563	-	-	44,116	56,044
	11,239	**2,843**	**81**	**79,261**	**86,183**

During 2019, 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:

2019	Operating activities				
Company	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Subsidiary	399	-	-	1,432	-
Končar Group companies:	1,342	3,877	1,280	14,611	16,802
Končar - Electrical Industry, Inc.	-	1,417	-	-	7,213
Associates	4,293	4,323	-	36,993	47,375
	6,034	**9,617**	**1,280**	**53,036**	**71,390**

Končar - Electrical Industry, Inc. is the ultimate parent and controlling entity of the Company.

Key management renumerations

During 2020 total remuneration (fixed and variable) paid to Management Board of the Company amounted to HRK 5,879 thousand (31 December 2019: HRK 5,704 thousand) which include HRK 2,968 thousand of variable remuneration for 2019 (in 2019 a total of HRK 2,978 thousand of variable consideration was paid relating to 2018). Accrued variable Management remuneration as at the reporting date amounts to 3,090 thousand (31 December 2019: HRK 3,176 thousand). Management Board has five members (2019.: 5 members).

Notes to the Financial Statements

for the Year Ended 31 December 2020

31. Risk management

Capital risk management

Financial leverage ratio

The finance function of the Company reviews the capital structure on an annual basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. One of the ratios monitored is the financial leverage ratio which was as follows at the reporting date:

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Debt (current and non-current) = D	(61,131)	(55,851)
Short term bank deposits	-	-
Cash and cash equivalents	107,965	96,236
Net cash / (debt)	46,834	40,385
Equity = E	(459,519)	(386,682)
Financial leverage ratio = D/(D+E)	11.74%	12.62%

Financial risk management

The Company operates with international customers and finances its operations to an extent using foreign currency denominated borrowings. The Company's operations are therefore exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. Categories of financial instruments and method for measuring fair values are as follows:

	FV hierarchy	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*	*HRK'000*
Equity instruments at FVOSD	Level 3	2,765	**2,765**
Other financial assets at FVOSD	Level 3	39	**39**
Total financial assets at FVOSD		**2,804**	**2,804**
Derivative instruments	Level 2	-	**57**
Total financial assets at FVTPL		-	**57**
Trade receivables	n/a	141,348	**171,004**
Loans receivable	n/a	18,641	**16,567**
Cash and cash equivalents	n/a	107,965	**96,236**
Total financial assets at amortised cost		**267,954**	**283,807**
Total financial assets		**270,758**	**286,668**
Leases payable	n/a	835	**962**
Loans payable	n/a	60,296	**54,889**
Trade payables	n/a	97,394	**99,149**
Total financial liabilities at amortised cost		**158,525**	**155,000**
Derivative instruments	Level 2	4,161	**67**
Total financial liabilities at FVTPL		**4,161**	**67**
Total financial liabilities		**162,686**	**155,067**

Notes to the Financial Statements

for the Year Ended 31 December 2020

A) 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.

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

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 and SEK. 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 hedges against currency risk through forward contracts with commercial banks with respect to all foreign currencies apart from EUR which is not considered a currency of significant risk due to the domestic monetary policy of pegging the HRK exchange rate to the EUR.

	Spot exchange rate		Average exchange rate	
	31.12.2020.	31.12.2019.	2020.	2019.
	HRK	*HRK*	*HRK*	*HRK*
EUR	7.53690	7.44258	7.53308	7.41361
SEK	0.75068	0.71169	0.71852	0.70067

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Denominated in EUR		Denominated in SEK	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Trade receivables	73,499	124,264	19,063	9,294
Loans receivable	18,641	16,567	-	-
Cash and cash equivalents	73,288	75,207	5,939	7,822
Leases payable	(199)	(253)	-	-
Loans payable	(60,296)	(54,889)	-	-
Trade payables	(64,607)	(64,516)	(2,647)	(2,101)
Derivatives	(4,161)	10	-	-
	36,165	**96,390**	**22,355**	**15,015**
Effect of 1% change in exchange rates on profit	**362**	**964**	**224**	**150**

The sensitivity analysis includes outstanding balances of monetary assets and liabilities in foreign currencies recalculated at the reporting date by applying a percentage change in foreign exchange rates. A negative number indicates a decrease in profit where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact.

Notes to the Financial Statements

for the Year Ended 31 December 2020

b) Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The variable interest rates currently applicable on the carrying values of floating rate debt as at the reporting dates are based on the following:

	31.12.2020.	31.12.2019.
	HRK'000	*HRK'000*
Bank loans based on fixed interest rates	60,296	54,889
Leases based on fixed interest rates	835	962
	61,131	**55,851**

The Company analyses the exposure to interest rates at the reporting date by taking into account the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is deemed a reasonably possible change in interest rates. The estimated effect of the reasonably possible change in variable interest rates on the result before tax is not material. The Company does not hedge against interest rate risk.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered.

Credit risk for the Company arises primarily from trade receivables as well as other receivables and investments.

Total exposure to credit risk at the reporting date is as follows is set out in note 26 to the financial statements. The Company does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at the reporting dates.

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.

Notes to the Financial Statements

for the Year Ended 31 December 2020

The following table presents the maturity of financial liabilities of the Company as at 31 December 2020 in accordance with contracted undiscounted payments:

as at 31 December 2020	Net book value	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non interest bearing liabilities:						
Trade payables	**97,394**	**97,394**	97,394	-	-	-
	97,394	**97,394**	**97,394**	-	-	-
Interest bearing liabilities:						
Leases payable	**835**	**867**	287	287	293	-
Loans payable	**60,296**	**61,410**	5,758	7,676	23,028	24,948
	61,131	**62,277**	**6,045**	**7,963**	**23,321**	**24,948**
	158,525	**159,671**	**103,439**	**7,963**	**23,321**	**24,948**

The following table presents the maturity of financial liabilities of the Company as at 31 December 2019 in accordance with contracted undiscounted payments:

as at 31 December 2019	Net book value	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non interest bearing liabilities:						
Trade payables	**99,149**	**99,149**	99,149	-	-	-
	99,149	**99,149**	**99,149**	-	-	-
Interest bearing liabilities:						
Leases payable	**962**	**1,003**	305	305	393	-
Loans payable	**54,889**	**55,959**	7,113	5,691	19,917	23,238
	55,851	**56,962**	**7,418**	**5,996**	**20,310**	**23,238**
	155,000	**156,111**	**106,567**	**5,996**	**20,310**	**23,238**

Notes to the Financial Statements

for the Year Ended 31 December 2020

APPENDIX 1

RESTATEMENT OF COMPARATIVES

In these consolidated financial statements, the Company made a number of restatements of comparative information previously reported which result from the following:

- Reclassification adjustments - reclassifications of financial statement captions in the statement of comprehensive income and statement of financial position made in order to achieve better consistency and comparability of financial information;
- Corrections - restatements due to correction of accounting errors stemming from prior periods;

Each type of restatement is explained in more detail below.

(i) Reclassifications adjustments

In 2020, the Company changed the classifications of certain categories in its financial statements in order to achieve a simpler and more transparent presentation of the its operations. These reclassifications have no effect on the net result of the comparative period.

Statement of comprehensive income

Part of the reclassifications relates to a change in the presentation of the statement of comprehensive income where certain cost classes are merged into one class to simplify presentation:

- Classes "Other costs", "Provisions", "Impairment" and "Impairment of financial assets" are merged into the class "Other operating expenses".
- Classes "Cost of materials and energy", "Cost of goods sold" and "Cost of services" are merged into the class "Materials, consumables, goods and services used"

The Company also netted of foreign exchange gains and losses within net financial result.

Statement of financial position

Part of the reclassifications relates to a change in the presentation of the statement of financial position in which certain classes were merged into one class to simplify presentation:

- Classes "Receivables from related parties", "Trade receivables" and "Other receivables " are merged into the class "Trade and other receivables".
- Classes "Liabilities to banks (borrowings)" and "Lease liabilities" are merged into the class "Borrowings".
- Classes "Liabilities to related parties", "Trade payables", "Accrued expenses and deferred income" and "Other liabilities" are merged into the class "Trade and other payables".

Furthermore, financial assets within non-current assets have been renamed to "Financial assets at FVOCI" in accordance with their classification.

In addition, the Company corrected classification errors whereby part of the liabilities which was misclassified into contract liabilities have been re-classified into "Trade and other payables" while part of assets which was misclassified into contract assets have been re-classified into "Inventory".

Notes to the Financial Statements

for the Year Ended 31 December 2020

(i) Corrections - provisions for warranty repairs

— In previous periods, provisions for warranty repairs erroneously included provisions for contracts with respect to which warranties have expired and for which consequently provision should have been derecognised in accordance with IAS 37. During 2020, the Company corrected this error by recognizing a decrease in provisions of HRK 9,779 thousand as at 1 January 2019 and HRK 19,979 thousand as at 31 December 2019 with corresponding effects recognised in profit or loss and retained earnings. Furthermore, the Company also corrected the error in classification whereby provisions which were presented as a mezzanine category in previous periods were re-classified to current and non-current liabilities according to their maturity and renamed according to their nature.

(ii) Corrections - provisions for termination benefits

— In previous periods prior to 1 January 2019, the Company's provisions included amounts provided for termination benefits to employees which do not satisfy the criteria for recognition as per IAS 19. During 2020, the Company corrected this error by recognizing a decrease in provisions of HRK 9,913 thousand as at 1 January 2019 and 31 December 2019 with corresponding effects recognised in retained earnings.

Notes to the Financial Statements

for the Year Ended 31 December 2020

Restatement of the statement of financial position as at 1 January 2019

	Reported 1 Jan 2019	Restatements (i)	Restatements (ii)	Restatements (iii)	Restated 1 Jan 2019
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
ASSETS					
Non-current assets					
Intangible assets	2,614	-	-	-	2,614
Property, plant and equipment	140,261	-	-	-	140,261
Right-of-use assets	-	-	-	-	-
Investment property	3,340	-	-	-	3,340
Investments in subsidiary	14,914	-	-	-	14,914
Investments in associates	1,732	-	-	-	1,732
Financial assets at FVOCI		-	-	-	-
Financial assets	2,839	-	-	-	2,839
Deferred tax assets	231	-	-	-	231
	165,931	-	-		**165,931**
Current assets					
Inventories	259,315	8,160	-	-	267,475
Receivables from related parties	18,070	(18,070)	-	-	-
Trade receivables	163,146	(163,146)	-	-	-
Trade and other receivables	-	185,668	-	-	185,668
Contract assets	8,160	(8,160)	-	-	-
Other receivables	4,252	(4,252)	-	-	-
Loans given	-	-	-	-	-
Financial assets at FVTPL	-	293	-	-	293
Financial assets	293	(293)	-	-	-
Cash and cash equivalents	101,937	-	-	-	101,937
Prepaid expenses	200	(200)	-	-	-
	555,373	-	-	-	**555,373**
TOTAL ASSETS	**721,304**	-	-	-	**721,304**

Notes to the Financial Statements

for the Year Ended 31 December 2020

	Reported 1 Jan 2019	Restatements (i)	(ii)	(iii)	Restated 1 Jan 2019
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
EQUITY AND LIABILITIES					
Share capital	153,370	-	-	-	153,370
Legal reserves	3,840	-	-	-	3,840
Statutory reserves	76,685	-	-	-	76,685
Other reserves	45,983	-	-	-	45,983
Retained earnings	(5,130)	49,182	9,779	9,913	63,744
Profit for the year	49,182	(49,182)			-
EQUITY AND RESERVES	**323,930**	-	**9,779**	**9,913**	**343,622**
Warranty provisions	96,150	(96,150)			-
Provisions for pensions, termination benefits and similar liabilities	15,242	(15,242)			-
Provisions	**111,392**	**(111,392)**	-	-	-
Liabilities to banks (borrowings)	25,034	(25,034)	-	-	-
Borrowings	-	25,034	-	-	25,034
Warranty provisions	-	96,150	-	-	96,150
Provisions for employee benefits	-	15,242	-	(9,913)	5,329
Lease liabilities	-	-	-	-	-
Financial liabilities at FVTPL	-	-	-	-	-
Non-current liabilities	**25,034**	**111,392**	-	**(9,913)**	**126,513**
Liabilities to related parties	8,234	(8,234)	-	-	-
Liabilities to banks (borrowings)	9,735	(9,735)	-	-	-
Lease liabilities	-	-	-	-	-
Posudbe	-	9,735	-	-	9,735
Trade payables	87,616	(87,616)	-	-	-
Trade and other payables	-	128,393	-	-	128,393
Contract liabilities	84,970	(11,774)	-	-	73,196
Other liabilities	15,346	(15,346)	-	-	-
Accrued expenses and deferred income	906	(906)	-	-	-
Warranty provisions	-	49,624	(9,779)	-	39,845
Current provisions	54,141	(54,141)	-	-	-
Current liabilities	**260,948**	-	**(9,779)**	-	**251,169**
Total liabilities	**397,374**	-	**(9,779)**	**(9,913)**	**377,682**
TOTAL EQUITY AND LIABILITIES	**721,304**	-	-	-	**721,304**

Notes to the Financial Statements

for the Year Ended 31 December 2020

Restatement of the statement of financial position as at 31 December 2019

	Reported 31 Dec 2019	Restatements (i)	(ii)	(iii)	Restated 31 Dec 2019
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
ASSETS					
Non-current assets					
Intangible assets	3,190	-	-	-	3,190
Property, plant and equipment	218,235	-	-	-	218,235
Right-of-use assets	956	-	-	-	956
Investment property	3,165	-	-	-	3,165
Investments in subsidiary	7,472	-	-	-	7,472
Investments in associates	1,732	-	-	-	1,732
Financial assets at FVOCI	-	2,804	-	-	2,804
Financial assets	2,804	(2,804)	-	-	-
Deferred tax assets	216	-	-	-	216
	237,770	**-**	**-**		**237,770**
Current assets					
Inventories	251,654	8,971	-	-	260,625
Receivables from related parties	6,034	(6,034)	-	-	-
Trade receivables	164,969	(164,969)	-	-	-
Trade and other receivables	-	184,479	-	-	184,479
Contract assets	8,971	(8,971)	-	-	-
Other receivables	13,294	(13,294)	-	-	-
Loans given	-	16,567	-	-	16,567
Financial assets at FVTPL	-	57	-	-	57
Financial assets	16,624	(16,624)	-	-	-
Cash and cash equivalents	96,236	-	-	-	96,236
Prepaid expenses	182	(182)	-	-	-
	557,964	**-**	**-**		**557,964**
TOTAL ASSETS	**795,734**	**-**	**-**		**795,734**

Notes to the Financial Statements

for the Year Ended 31 December 2020

	Reported 31 Dec 2019	Restatements (i)	(ii)	(iii)	Restated 31 Dec 2019
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
EQUITY AND LIABILITIES					
Share capital	153,370	-	-	-	153,370
Legal reserves	6,299	-	-	-	6,299
Statutory reserves	101,643	-	-	-	101,643
Other reserves	45,983	-	-	-	45,983
Retained earnings	-	49,495	19,979	9,913	79,387
Profit for the year	49,495	(49,495)	-	-	-
EQUITY AND RESERVES	**356,790**	**-**	**19,979**	**9,913**	**386,682**
Warranty provisions	94,827	(94,827)	-	-	-
Provisions for pensions, termination benefits and similar liabilities	15,326	(15,326)	-	-	-
Provisions	**110,153**	**(110,153)**	**-**	**-**	**-**
Liabilities to banks (borrowings)	47,912	(47,912)	-	-	-
Borrowings	-	48,631	-	-	48,631
Warranty provisions	-	94,827	-	-	94,827
Provisions for employee benefits	-	15,326	-	(9,913)	5,413
Lease liabilities	719	(719)	-	-	-
Financial liabilities at FVTPL	67		-	-	67
Non-current liabilities	**48,698**	**110,153**	**-**	**(9,913)**	**148,938**
Liabilities to related parties	9,618	(9,618)	-	-	-
Liabilities to banks (borrowings)	6,977	(6,977)	-	-	-
Lease liabilities	243	(243)	-	-	-
Posudbe	-	7,220	-	-	7,220
Trade payables	89,532	(89,532)	-	-	-
Trade and other payables	-	137,386	-	-	137,386
Contract liabilities	95,467	(14,326)	-	-	81,141
Other liabilities	16,234	(16,234)	-	-	-
Accrued expenses and deferred income	2,718	(2,718)	-	-	-
Warranty provisions	-	54,346	(19,979)		34,367
Current provisions	59,304	(59,304)	-	-	-
Current liabilities	**280,093**	**-**	**(19,979)**	**-**	**260,114**
Total liabilities	**438,944**	**-**	**(19,979)**	**(9,913)**	**409,052**
TOTAL EQUITY AND LIABILITIES	**795,734**	**-**	**-**	**-**	**795,734**

Notes to the Financial Statements

for the Year Ended 31 December 2020

Restatement of the statement of comprehensive income for 2019

	Reported 2019	Restatements (i)	Restatements (ii)	Restated 2019
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Revenue	1,030,875	-	-	1,030,875
Other operating income	2,248	-	-	2,248
Operating income	**1,033,123**	**-**	**-**	**1,033,123**
Change in inventories of work in progress and finished goods	(8,305)	-	-	(8,305)
Cost of materials and energy	(648,927)	648,927	-	-
Cost of goods sold	(38,092)	38,092	-	-
Cost of services	(82,823)	82,823	-	-
Materials, consumables, goods and services used	-	(769,842)	-	(769,842)
Personnel costs	(140,100)	-	-	(140,100)
Depreciation and amortisation	(19,903)	-	-	(19,903)
Other costs	(32,601)	32,601	-	-
Impairment	-	-	-	-
Impairment of financial assets	(202)	202	-	-
Provisions	(3,924)	3,924	-	-
Other operating expenses	(1,044)	(36,727)	10,200	(27,571)
Operating expenses	**(975,921)**	**-**	**10,200**	**(965,721)**
Operating profit	**57,202**	**-**	**10,200**	**67,402**
Financial income	8,623	(6,458)	-	2,165
Financial expenses	(14,733)	6,458	-	(8,275)
Net financial result	**(6,110)**	**-**	**-**	**(6,110)**
Total income	**1,041,746**	**(1,041,746)**	**-**	**-**
Total expenses	**(990,654)**	**990,654**	**-**	**-**
Profit before tax	**51,092**	**-**	**10,200**	**61,292**
Corporate income tax	(1,597)	-	-	(1,597)
PROFIT FOR THE YEAR	**49,495**	-	**10,200**	**59,695**
Other comprehensive income	-	-	-	-
COMPREHENSIVE INCOME FOR THE YEAR	**49,495**	**-**	**10,200**	**59,695**
Earnings per share (basic and diluted) in HRK	**96.82**		**19.95**	**116.77**

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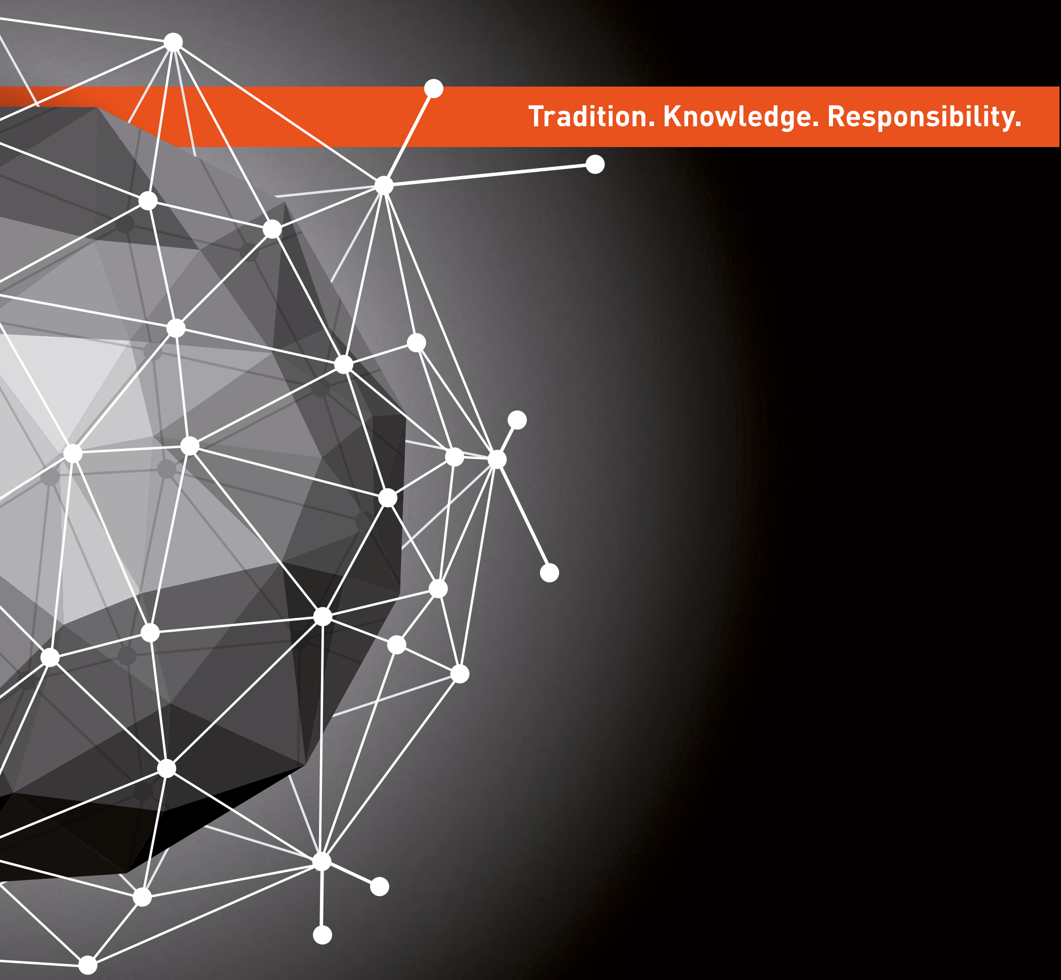

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KONČAR
Distribution and Special Transformers, Inc.
Mokrovićeva 8
P.O.Box 100
10090 Zagreb, Croatia
Phone: + 385 1 378 3713
Fax: + 385 1 379 4051
E-mail: info@koncar-dst.hr

www.koncar-dst.hr