tradition.
knowledge.
responsibility.

KONČAR

Business Report 2018

Contents

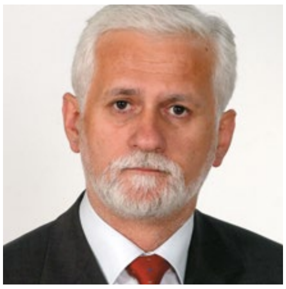
Acronyms

Used in the text

Group	KONČAR - Electrical Industry Inc., subsidiaries and affiliated companies
KONČAR Inc.	KONČAR - Electrical Industry Inc.
Parent Company	KONČAR - Electrical Industry Inc.
HŽ	Croatian Railways
S/S	Transformer Substation
HPP	Hydro Power Plant
PBZ	Privredna banka Zagreb
RBA	Raiffeisen Bank Austria
CERP	Restructuring and Sale Center
HRK	Croatian Kuna
HPB	Hrvatska poštanska banka
ZSE	Zagreb Stock Exchange

KONČAR Group

Foreword by the Chairman of the Management Board



Despite an exceedingly challenging year, KONČAR Group companies have generated total revenue of HRK 2.956 million. Net profit stands at HRK 128.7 million, which is a 19 percent increase year-on-year. The Group has had HRK 3.026 million in new contracts, which is 18 percent increase in comparison with 2017. All key indicators point to a continued stability in the Group's operations.

Product and service sales revenue amounts to HRK 2.703 million, which is 4.3 percent decrease year-on-year. This decline in revenue has been caused primarily by stop-work orders for HPP Vranduk (Bosnia and Herzegovina), delays in contract performance for HPP Khoda Afarin (Iran), and status developments of several projects such as HPP Chapparal in El Salvador and Kenya contracts (HPP Kamburu and HPP Masinga). In 2018, the Group has generated HRK 1.484 million in revenue from product and service sales internationally, which is a direct result of appropriate activities and expansion in new foreign markets. Exports account for 55 percent of the total revenue.

The Group has a stable balance sheet. The balance of total consolidated and source funds on 31 December 2018 were HRK 3.727 million. In the structure of sources of funds, subscribed capital, reserves, retained earnings, current year profits and non-controlling (minority) interest amounted to HRK 2.537 million, which was HRK 53 million more than on 31 December 2017 and accounted for 67 percent of total sources.

Good business results have been recorded as a direct result of the Group's proprietary R&D projects in products and production, a permanent determinant of KONČAR which will continue in the ensuing period through innovation and development, leading to new product development and expanding business activities, particularly in international markets. Digital transformation of products and business processes and transition of production according to Industry 4.0 principles have been highlighted.

Collaboration with science institutions on several joint projects has continued.

The Group has systematically encouraged and supported a value system diffusing a culture of work, creation and excellence among each member. For KONČAR, social responsibility is a part of daily work processes in all business segments and, as such relies on human resources to maintain and foster the Group's development. It is seen as a platform for long-term competitiveness, which requires a modern approach to the role of a business in the society and shouldering responsibility that must be proportional to the power wielded by that business. KONČAR manufactures equipment which is installed in the environment and is used for municipal and regional transportation. Therefore, responsibility for products, their safety and quality represents an important element of our business operations. Compliance with the highest global standards is proven by means of certificates and is reflected in satisfaction of our customers and end users. A number of our companies have set up management systems according to international requirements of ISO 9001 for quality management, ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety management, and ISO 27001 for information security management.

A substantial number of signed contracts at the end of Y2018 along with additional efforts invested in exploring new markets represent a realistic ground for KONČAR Group companies to meet the outlined business plans in Y2019 and to continue the positive business trend.

Chairman of the Management Board
Darinko Bago

The Report by the Supervisory Board to the General Assembly of KONČAR - Electrical Industry Inc.

Throughout Y2018 the Supervisory Board of KONČAR - Electrical Industry Inc. had carried out activities as per relevant laws and Company's Articles of Association.

In the period from 1 January to 31 December 2018 the Supervisory Board members were:
Chairman of the Supervisory Board Petar Vlaić
Deputy Chairman of the Supervisory Board Josip Lasić
Members of the Supervisory Board: Vicko Ferić, Nikola Anić, Jasminka Belačić, Branko Lampl, Joško Miliša, Vladimir Plečko

In Y2018 the Supervisory Board held ten sessions and discussed a variety of operation-related matters.

Supervisory Board sessions are attended by the members of the Management Board of KONČAR - Electrical Industry Inc., who within their competences report on specific matters and provide the Board with any additionally requested clarifications, so as to allow the Board to thoroughly discuss all agenda items, form opinions and reach necessary decisions.

The Management Board has submitted regular reports to the Supervisory Board pertaining to all significant business activities, operations, income and expenses and overall state of the Company. The Management Board had submitted regular quarterly, semi-annual and annual business reports to the Supervisory Board which were adopted without remarks.

In that regard, the Supervisory Board has deemed the cooperation with the Management Board successful.

Two Committees have operated within the Supervisory Board, in order to support the work of the Board: the Audit Committee and the Strategic Development Committee.

The Audit Committee consists of 4 members appointed form the members of the Supervisory Board. The Committee is presided by Vicko Ferić, with Josip Lasić, Nikola Anić and Jasminka Belačić as members.

The Audit Committee has held three sessions. The Committee had held discussions and reached decisions in line with their competences and responsibilities, as defined by the Audit Act.

The Strategic Development Committee consists of 4 members appointed from the members of the Supervisory Board. The Committee is presided by Joško Miliša, with Petar Vlaić, Branko Lampl and Vladimir Plečko as members.

The Strategic Development Committee has held two sessions. The Committee has held discussions in line with the Strategic Committee Regulations.

At a session held on 27 July 2018 the Board had issued a resolution establishing the Appointments and Remuneration Committee, consisting of Nikola Anić, Vicko Ferić and Vladimir Plečko. Branko Lampl was appointed to the Committee following a subsequent resolution, while the Chairman of the Supervisory Board shall participate in the Committee when deemed necessary The constitutive session of the Committee was held held on 24 September 2018, electing Vladimir Plečko the president of the Committee.

At a session held on 22 October 2018 the Supervisory Board had accepted the resolution of the Management Board of KONČAR - Electrical Industry on establishing the Internal Audit Department and adopted the Internal Audit Charter proposal and Internal Audit Organisation Chart proposal.

In line with its obligations, the Supervisory Board had conducted supervision and reviewed the Company's accounts and documentation and subsequently concluded that KONČAR - Electrical Industry Inc. had operated pursuant to legislation, the Articles of Association and resolutions of the General Assembly.

The Supervisory Board had revised the Y2018 Financial Statements and Independent Auditor's Report by certified auditors Pricewaterhouse Coopers Ltd., Zagreb, Heinzelova 70

Upon reviewing KONČAR - Electrical Industry Inc. financial statements for Y2018 and KONČAR Group consolidated financial statements for Y2018, which had been submitted by the Management Board, the Supervisory Board has established that the annual financial statements and KONČAR Group consolidated annual financial statements for Y2018 had been prepared in line with the Company's accounts and are an accurate reflection of the the Company's assets and state of affairs. The Supervisory Board has, pursuant to Article 300 of the Company Act approved the Statements.

The Supervisory Board has approved the annual statement of financial position of KONČAR - Electrical Industry Inc. and the dependent companies for Y2018.

The Supervisory Board has received KONČAR - Electrical Industry Inc. Management Board proposal on the distribution of the profit realised in Y2018. The Board has established that net profit of KONČAR - Electrical Industry Inc. amounts to HRK 75,503,105.02. The amount of HRK 3,775,155.25 shall be allocated to legal reserves (5 percent), with HRK 33,369,079.7 allocated to other reserves.

The Supervisory Board has proposed the General Assembly of KONČAR - Electrical Industry Inc. to pay out the shareholder's dividend of HRK 15.00 per share from the remaining HRK 38,358,870.00 profit earned in Y2018.

The Supervisory Board has consented to the proposal of the Management Board on the distribution of profit and proposes the General Assembly the adoption thereof.

The Supervisory Board submits this report to the General Assembly of KONČAR - Electrical Industry Inc. and proposes adopting the Management Board proposal on the distribution of the profit realised in Y2018.

Zagreb, 18 April 2019
Chairman of Supervisory Board
Petar Vlaić

1. Performance Indicators

FOR THE PERIOD 2015 - 2018

in HRK 000

	2015.	2016.	2017.	2018.	Index 4/3
	1	2	3	4	5
Total revenue	3,296,461	3,111,844	3,094,082	2,955,838	96
Sales revenue					
Croatia	1,742,432	1,445,514	1,256,987	1,218,960	97
Export	1,306,642	1,407,629	1,566,460	1,483,973	95
Total	3,049,074	2,853,143	2,823,447	2,702,933	96
Contracted works					
Croatia	1,413,281	1,203,281	1,212,442	1,198,228	99
Export	1,548,371	1,482,324	1,347,204	1,827,510	136
Total	2,961,652	2,685,605	2,559,646	3,025,738	118
Contracted works status at year end					
Croatia	2,050,514	1,665,712	1,621,128	1,639,100	101
Export	1,579,655	1,626,330	1,407,073	1,732,652	123
Total	3,630,169	3,292,042	3,028,201	3,371,752	111
No.of employees 31 Dec	**3,666**	**3,643**	**3,639**	**3,508**	**96**
Sales per employee	**831.7**	**783.2**	**775.9**	**770.5**	**99**
Profit of the Group	151,321	173,788	108,104	128,708	119
Minority stake	23,669	30,505	24,478	25,871	106
Profit attributable to parent shareholders	**127,652**	**143,283**	**83,626**	**102,837**	**123**
Non-current assets	1,503,356	1,498,916	1,436,402	1,493,180	104
Current assets	2,146,682	2,300,355	2,272,630	2,233,995	98
Total assets	3,650,038	3,799,271	3,709,032	3,727,175	100
Subscribed capital	1,208,895	1,208,895	1,208,895	1,208,895	100
Reserves, retained profit, current year profit	884,186	998,645	1,045,621	1,098,373	105
Total capital	**2,093,081**	**2,207,540**	**2,254,516**	**2,307,268**	**102**
Minority stake	228,414	240,785	230,385	230,214	100
Long-term provisions	259,351	234,352	220,046	206,152	94
Long-term liabilities	143,126	122,457	128,800	97,168	75
Short-term liabilities	926,066	994,137	875,285	886,373	101
Total capital and liabilities	3,650,038	3,799,271	3,709,032	3,727,175	100
EBIT	**181,833**	**205,453**	**131,441**	**148,305**	**113**
EBITDA	**271,351**	**298,305**	**225,214**	**239,145**	**106**
EBITDA margin	8.2%	9.6%	7.3%	8.1%	111
Parent RoC	6.5%	7.1%	4.4%	5.1%	17
Return on sales	5.0%	6.1%	3.8%	4.8%	124
Earning per share (in HRK)	49.74	55.83	32.59	40.13	123

2. Organization and Management

KONČAR Group operates in the following business areas:

Energy and transportation

- design and construction of electricity generation, transmission and distribution facilities and equipment, electric locomotives, electric trains, tramcars, and electric equipment for stable electric traction vehicles.

Industry

- electric motor drives, low voltage electrical equipment.

Trade

- household electrical appliances, off-the shelf products and low voltage electrical switchgear.

Special activities

- Special activities: research and development, infrastructure services.

KONČAR Group consists of KONČAR - Electrical Industry Inc. as the parent company and 15 dependent companies, in which the parent company exercises predominant control (more than 50 percent of votes in the General Assembly). Some of the companies have preferred shares subscribed in addition to the common shares issued. One associated company and a newly established joint venture with Chinese partner operate within the Group. The Group indirectly owns two companies that are subject to equity method accounting.

The companies within the Group are legally autonomous entities supervised by the parent company which strategically directs and supports them through supervisory boards and general assemblies, all pursuant to the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc., and of individual subsidiary. Furthermore, the parent company manages a portion of assets which is not invested into companies but is directly and indirectly in function of the financial support of sales, products and equipment of dependent companies as credit / guarantee potential.

KONČAR Group

ENERGY AND TRANSPORT	INDUSTRY AND TRADE	DEVELOPMENT AND SERVICES	AFFILIATED COMPANY
POWER PLANT AND EL. TRACTION ENGINEERING	HOUSEHOLD APPLIANCES	ELECTRICAL ENGINEERING INSTITUTE	POWER TRANSFORMERS
GENERATORS AND MOTORS	SMALL ELECTRICAL MACHINES	INFRASTRUCTURE AND SERVICES	**JOINT VENTURE**
SWITCHGEAR	LOW VOLTAGE SWITCHGEAR AND CIRCUIT BREAKERS		KONČAR-XD HIGH VOLTAGE SWITCHGEAR
DISTRIBUTION AND SPECIAL TRANSFORMERS			
INSTRUMENT TRANSFORMERS			
ELECTRONICS AND INFORMATICS			
METAL STRUCTURES			
ELECTRIC VEHICLES			
ENG. FOR PLANT INSTALLATION & COMMISSIONING			
RENEWABLE SOURCES			

As the parent company, KONČAR - Electrical Industry Inc. invoices the dependent companies for the following services:

- fees for corporate name, brand and trademark use,
- fees for joint guarantees,
- a portion of costs incurred by joint presentation at trade fairs,
- a portion of costs for foreign branch offices,
- a portion of joint costs for marketing activities,
- intellectual services (coordination and consultancy services, management training, environment and quality assurance system)

A list of subsidiaries including the affiliated company and the joint venture along with some basic information is given below

Dependent companies	HRK subscribed capital total	HRK subscribed capital of the parent	% management of the parent 31 dec 2018	% ownership of the parent 31 dec 2018
KONČAR - Power Plant and Electric Traction Engineering Inc	50.577.000	50.577.000	100,0000	100,0000
KONČAR - Generators and Motors Inc	107,927,700	107,927,700	100.0000	100.0000
KONČAR - Switchgear Inc	105,033,000	105,033,000	100.0000	100.0000
KONČAR - Distribution and Special Transformers Inc	153,369,600	80,878,800	67.9000	52.7346
KONČAR - Instrument Transformers Inc	37,978,200	23,533,200	99.7700	61.9650
KONČAR - Electronics and Informatics Inc	47,027,280	41,845,600	88.9815	88.9815
KONČAR - Metal Structures Inc	77,600,400	77,600,400	100.0000	100.0000
KONČAR - Electric Vehicles Inc	47,026,800	35,288,700	75.0396	75.0396
KONČAR - Renewable Sources Ltd	104,640,400	104,640,400	100.0000	100.0000
Direct ownership	93,537,000	93,537,000	89.3634	89.3634
Indirect ownership	11,133,400	11,133,400	10.6366	10.6366
KONČAR - Engineering Co. for Plant Installation and Commissioning Inc	11,827,500	5,288,100	79.0500	44.7102
KONČAR - Small Electrical Machines Inc	41,641,800	41,641,800	100.0000	100.0000
KONČAR - Household Appliances Inc	17,834,100	17,834,100	100.0000	100.0000
KONČAR - Low Voltage Switches and Circuit Breakers Ltd	60,499,300	60,499,300	100.0000	100.0000
KONČAR - Electrical Engineering Institute Inc	40,763,520	40,763,520	100.0000	100.0000
KONČAR - Infrastructure and Services Ltd	49,891,600	49,891,600	100.0000	100.0000
Affiliated companies and joint ventures				
KONČAR - Power Transformers Ltd	72,764,000	35,654,400	49.0005	49.00005
KONČAR-XD - High Voltage Switchgear	75,000,000	37,500,400	50.0000	50.00000

Management Board

The Chairman of the Board and Members of the Management Boards are appointed and recalled by the Supervisory Board. Pursuant to the Companies Act and the Articles of Association, the Management Board is personally responsible for business operations and in doing so, they are obliged and authorised to take any actions and make decisions deemed necessary for successful management. Supervisory Board consent is required when making certain decisions as defined by the Articles of Association and Supervisory Board Regulations.

Members of the Management Board of KONČAR - Electrical Industry Inc. are as follows:

Darinko Bago	Chairman of the Management Board
Miki Huljić	Member of the Management Board in charge of finance
Marina Kralj Miliša	Member of the Management Board in charge of HR, legal and general affairs
Davor Mladina	Member of the Management Board in charge of electricity transmission and distribution, industry and trade
Miroslav Poljak	Member of the Management Board in charge of electricity generation, corporate development and ICT
Ivan Tomšić	Deputy Member of the Management Board in charge of complex export project coordination and digital transformation

Note:

The annual General Assembly was held on 15 January 2019, where the majority of shareholders voted to adopt the amendments to Article 44(3) of the Articles of Association of KONČAR - Electrical Industry Inc., which stipulates that Members of the Management Boards are appointed for a 5-year term.

On 18 January 2019, the Supervisory Board decided on the following appointments for a 1 year-term: Mr Darinko Bago as Chairman of the Management Board for a 1-year term, Mr Gordan Kolak as Deputy Chairman and Member of the Management Board, Ms Marina Kralj Miliša, Mr Miki Huljić, and Mr Miroslav Poljak as Members of the Management Board, and Mr Ivan Tomšić as Deputy Member of the Management Board.

Supervisory Board

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry Inc., the General Assembly appoints and recalls the Supervisory Board. The Supervisory Board is responsible for appointing and recalling members of the Management Board and supervises the Company's operations. Major transactions and business decisions (the amount of which is defined by the Supervisory Board Regulations) require the Supervisory Board's consent.

The General Assembly held on 12 July 2016 adopted a decision on the appointment of the Members of the Supervisory Board.

The members of the Supervisory Board are as follows:

Petar Vlaić	Chairman of the Supervisory Board
Josip Lasić	Deputy Chairman of the Supervisory Board
Nikola Anić	Member
Jasminka Belačić	Member
Vicko Ferić	Member
Branko Lampl	Member
Joško Miliša	Member
Vladimir Plečko	Member

The members of the Supervisory Board were appointed for a period of four years as of 12 July 2016.
Members of the Supervisory Board accepted the proposal for appointing Petar Vlaić as the Chairman, and Josip Lasić as the Deputy Chairman of the Supervisory Board.

The Audit Committee

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board has established the Audit Committee. In accordance with the provisions laid down in the Audit Act and the Corporate Governance Code, the Audit Committee monitors financial reporting procedures and efficiency of control systems, supervises audits of annual statements, monitors auditors' independence, makes recommendations to the Supervisory Board and proposes an audit company to the to the General Assembly.

The Audit Committee consists of the following four members:

Vicko Ferić	Chairman
Nikola Anić	Member
Jasminka Belačić	Member
Josip Lasić	Member

The Strategic Development Committee

At a session held on 28 September 2012, the Supervisory Board established the Strategic Development Committee. The Strategic Development Committee is assigned tasks by the Supervisory Board on topics and activities falling under the remit of the Supervisory Board with specific emphasis on long-term viability, risk assessment, Group's strategic priorities, restructuring needs and development of strategic human resources within the Group.

The Strategic Development Committee consists of the following 4 members:

Joško Miliša	Chairman
Branko Lampl	Member
Vladimir Plečko	Member
Petar Vlaić	Member

Appointments and Rewards Committee

On 27 July 2018, the Supervisory Board issued a resolution establishing Appointments and Rewards Committee, consisting of:

Vladimir Plečko	Chairman of the Appointments and Rewards Committee
Nikola Anić	Member
Vicko Ferić	Member
Branko Lampl	Member

3. Application of Corporate Governance Principles

The Management and Supervisory Boards of KONČAR - Electrical Industry Inc. have adopted principles of corporate governance based on the positive regulations of the Republic of Croatia and international standards at their sessions held on 7 April 2008 and 17 April 2008, respectively. The principles are publicly available on the Company website (www.koncar.hr) and the official website of the Zagreb Stock Exchange (www.zse.hr).

The corporate governance principles are defined and refer to:

- prudent management,
- definition of corporate governance procedures based on the adopted recognized international standards, and
- supervision of business operations, all for the purpose of establishing high corporate governance standards and transparency of operations as the groundwork for the protection of shareholders, investors and other stakeholders, employee well-being, sustainable development and environmental protection.

A formal questionnaire outlining which provisions of the Zagreb Stock Exchange Code and HANFA are implemented by the Group is available on the official website of the Zagreb Stock Exchange (www.zse.hr) and on the Company website (www.koncar.hr). The Company applies the majority of the provisions of the Corporate Governance Code with the exception of certain provisions that the Company considers should not be applied in the prescribed form, in particular:

- remuneration of Group Members of the Management Boards/Directors has been set forth by the Resolution of the Management Board of KONČAR - Electrical Industry Inc. It is based on clearly defined business-related criteria including achieved performance, plan realization, consolidated plan realization, EBITDA, signed contracts.
- remuneration of the Management Board of KONČAR - Electrical Industry Inc. has been laid out in the Contract on the Rights and Obligations between the Chairman, the Members and the Chairman of the Supervisory Board. The remuneration is considered more appropriate and aligned with the position of the Company and its results. Information on the overall compensation and premiums of the Members of the Management Boards and directors is disclosed in annual reports.
- Internal Audit Committee (department) has not been set up. KONČAR - Electrical Industry Inc., as the parent of the Group of associated members that are autonomous in conducting legal transactions, has successfully established, maintained and developed a Business Information System that facilitates coordinated operational and strategic planning for both the members and the parent of the Group. It controls plan implementation, deviations in their delivery, identification and analysis of possible deviations, enables resource efficiency analysis, cost control, risk assessment and risk mitigation measures, prepares consolidated financial statements and financial reports for the business community (ZSE, banks, Tax Administration and Financial Statements Registry).

  For a number of years, all KONČAR companies' financial statements have been audited by independent auditing companies, which have further contributed to the maintenance and development of a reliable and transparent business system. Most companies have adopted the ISO 9001 international standard which has described each process according to relevant procedures and documents, and subject to regular audits by authorized certification companies. All business activities and processes are documented and controllable.

  Management Boards of each of the Group's members are responsible for management and financial reporting. KONČAR - Electrical Industry Inc., as the parent company, manages the Group's business policy, decides on long-term development goals and strategies, adopts business and development plans, coordinates and supervises operations of the subsidiaries through Supervisory Boards, in compliance with statutory regulations, the Articles of Association, Management Board's decisions and the Corporate Governance Code.

  Internal business controls have thus far been organized and implemented periodically and in line with Supervisory Board decisions.

  KONČAR - Electrical Industry Inc., as a parent of the Group has no significant legal transactions with third parties (except in credit-guarantee operations). All material decisions are made by the Management Board. Prior to the execution of decisions, Members of the Management Board in charge of the areas liquidate the accounts. All process controls are carried out in line with specified procedures. We believe that documentation, control and business transparency are ensured by consistent implementation of and compliance with established procedures.

Appointments and Rewards Committee was established in 2018. Furthermore, in October 2018, the Management Board issued a resolution on the establishment of the Internal Audit Department. The Supervisory Board, prompted by the Management Board, adopted the Internal Audit Charter proposal and Internal Audit Organisation Chart proposal. The Department is due to start operating in Q1 2019.

The Company believes that opting out of certain provisions of the Code does not undermine a high level of transparency of the Company's business operations and will not have a significant adverse effect on the current and potential investment decisions. A 64-question questionnaire outlining precise application of the provisions of the Code is publicly available on the official web sites of the Zagreb Stock Exchange (www.zse.hr) and the Company's web site (www.koncar.hr).

The Company had developed an internal controls system across all significant levels within the organizational model which provides a framework for all business operations and processes. These systems facilitate, among others, fair and true disclosure of financial and business reports.

Data on significant shareholders are available daily on the official web site of the Central depository and clearing company Inc. (www.skdd.hr). As of 31 December 2018, and 2017, the data is also disclosed in the Financial Statements with an Independent Auditor's Report. Electronic voting is available to shareholders in attendance at the General Assembly.

4. Market Position

The Group's production programme is focused on the core business activity of electric power and transportation. Production capacities have been continuously upgraded through investments into modern production technologies. Custom made products designed to meet customers' particular demands represent the Group's strategic capability.

In the period January - December 2018, Group companies have signed new contracts worth HRK 3.026 million which is a 466 million increase, year-on-year.

Out of the total amount contracted in Y2018, 40 percent (HRK 1.198 million) are domestic market contracts, whereas 60 percent (HRK 1.828 million) are export contracts.

HEP Group has accounted for the major portion of the domestic market contracts, in the amount of HRK 410 million or 34 percent of all domestically contracted works.

In international markets, in the period between January and December 2018, the majority of contracts (14 percent) has been signed in the German market amounting to HRK 254 million (delivery of distribution and special transformers and metal structures accounts for the major part of contracts). There have been HRK 189 million worth of contracts signed in Sweden, HRK 128 million in Bulgaria, and HRK 115 million in Guinea.

Consolidated revenue from products and services sales has amounted to HRK 2.703 million, a decrease of 4.3 percent compared to 2017. Revenue from the sales of products and services, accounting for 55 percent of total revenue, has amounted to HRK 1.484 million. The revenue from sales on domestic market, compared to 2017, has decreased by 3 percent and amounted to HRK 1.219 million.

In the structure of product and service sales revenue in domestic market, revenue from sales of products and services to HEP Group companies (HEP - Generation, HEP - Distribution System Operator, HEP Transmission System Operator) has amounted to HRK 416 million (34 percent of total revenue from the sale of products and services on domestic market). Year-on-year, the sales of products and services to HEP have been down by 15.5 percent (HRK 76 million).

One of the key customers in Croatia has been the Croatian Railways (comprising Passenger Transport, Infrastructure, Cargo, and Rolling Stock Technical Services), which brought in HRK 96 million worth of business. The Croatian Railways accounts for 8 percent of the total revenue generated in the home market.

HRK 1.484 million was generated from the sales of products and services in international markets, specifically the EU market (65 percent), European countries/non-EU members (9 percent), neighbouring/regional countries (7 percent), Asia (7 percent), America and Australia (5 percent), and Africa (5 percent).

There has been a significant year-on-year increase in the products and services revenue generated in the following markets: Norway (31.4 million increase), Sweden (26.7 million increase), UAE (25.6 million increase) and the Czech Republic (19.4 million increase).

In Y2018, a range of facilities was completed and contracted in Croatia and internationally.

Major completed facilities, products and newly contracted jobs are as follows:

Significant completed facilities

- KONČAR - Power Plant and Electric Traction Engineering has commissioned a Reserve Dispatch Centre (RDC) for the Albanian Transmission System Operator (OST). RDC's two main functionalities are automatic production regulation and KONČAR's SCADA system ProzaNET that monitors and controls OST's 23 substations.

- As part of the 110 kV power line in the southern Albania, two new substations have been commissioned - S/S 110/35/20 kV Orikum and S/S 110/35/20 kV Himare, where KONČAR's products make up 90 percent of the primary equipment.

- Completed transmission substation S/S 110/35/10 kV Žepče in Bosnia and Herzegovina.

- Completed reconstruction of HPP Plave 1 in Slovenia. KONČAR has supplied two synchronous generators of 11 MVA each, with respective excitation and generator monitoring systems.

- As part of the revitalisation and power increase at the HPP Moforsen in Sweden, KONČAR - Generators and Engines have supplied a generator of 64 MVA, where a 18 kV coil has been installed for the first time, as a unique design solution.

- The first phase of the revitalisation Gojak and Ozalj hydropower plants has been completed. KONČAR - Distribution and Special Transformers has manufactured two transformers with the highest rated power to date of 122 MVA, and voltage of 161/15 kV, supplied to the Republic of Benin in West Africa.

Significant contracted projects

- Three projects have been contracted with the Macedonian Electricity Transmission System Operator (MEPSO): revitalisation of the substation S/S 400 kV Skopje 4, supply and installation of a protective relay system on high-voltage switchyards at Tikveš, Vrutok, Špilje, and Globočica hydropower plants, and rehabilitation of the S/S 110 kV Prilep 1 substation.

- Consortium comprising KONČAR - Power Plant and Electric Traction Engineering (KET), Czech ČKD Blansko Holding and Slovenian Rudis has signed an agreement on the revitalisation of three hydropower plants with the Bulgarian Natsionalna Elektricheska Kompania NEK EAD. The project led by KET includes revitalisation of Belmeken, Sestrimo, and Momina kluisura hydropower plants, whose capacity is 1200 MW in total. KET will supply and replace the systems for excitation, control, turbine control, and supervise erection and commissioning in all three power plants, which have a total of nine generating sets.

- KONČAR - Electric Vehicles has signed contracts for manufacturing and supply of six low-floor trams for the City of Liepāje in the Republic of Latvia. The customer is Liepājas Tramvajs company that will use EU funds and its own capital to finance the project. KONČAR was selected following negotiations stage in the public procurement procedure including a public tender for the supply of 100 percent low-floor electric trams for the track gauge of 1000 mm. The contract was signed in November 2018, and relates to the supply of six trams, with the option of another eight from the same source of funding. The first tram will be delivered within 24 months, and the rest within 36 months of the signing of the contract.

- KONČAR - Electric Vehicles has signed an annex to the Procurement Contract with Croatian Railways company Passenger Transport, for procurement of four diesel-electric multiple under the 2014 contract. The trains will be manufactured on a single platform for train series 6112 and 7023, and the delivery of the first of the four trains is expected in 14-months' time.

- As part of Croatian Railways Infrastructure's project for modernization and electrification of the railway line section Zaprešić - Zabok, a contract has been signed for the supply of equipment and works necessary for the construction of electric power, traffic control, signalling and security and telecommunications infrastructure subsystems. The contract includes 15 level crossings that will be secured using KONČAR's modern KLC3 road and railway line level crossing safety device.
- KONČAR - Power Plant and Electric Traction Engineering has signed a contract for the supply of equipment, erection, and commissioning of Županja and Virovitica power plants (wood biomass cogeneration plants).
- KONČAR - Power Plant and Electric Traction Engineering has signed a contract for the construction of substations as part of Dubrovnik Airport Infrastructure and Superstructure Construction Project. The project is co-funded by the European Union, more specifically the European Regional Development Fund.
- A contract has been signed with an Iranian company Farab Co. for supply of two vertical generators and auxiliary systems required in Khoda Afarin hydro powerplant.
- KONČAR - Distribution and Special Transformers, has signed a two-year framework agreement for the supply of distribution transformers with Netze BW, a member of the German Energie Baden-Württemberg AG (EnBW) group. The contract includes supply of approximately 420 distribution transformers with rated power from 160 to 1600 kVA and is the first D&ST's contract with EnBW for distribution transformers supply.
- A contract has been signed for a rehabilitation project at Chutes and Baneah hydropower plants in Guinea.

5. Business Results and Financial Position (Balance Sheet)

KONČAR Group companies have recorded HRK 2.873.4 million in revenue and HRK 2.772 million in operating expenses for the period January - December 2018. Operating profit stands at HRK 101.4 million. Balance of financial income is negative and amounts to 5.5 million. Share in profit from investments calculated using equity method (associates) amounts to 46.3 million. Profit before tax was is HRK 142.2 million, whereas income tax is HRK 13.5 million. Profit for the reporting period stands at HRK 128.7 million, which is a 19 percent increase compared with Y2017.

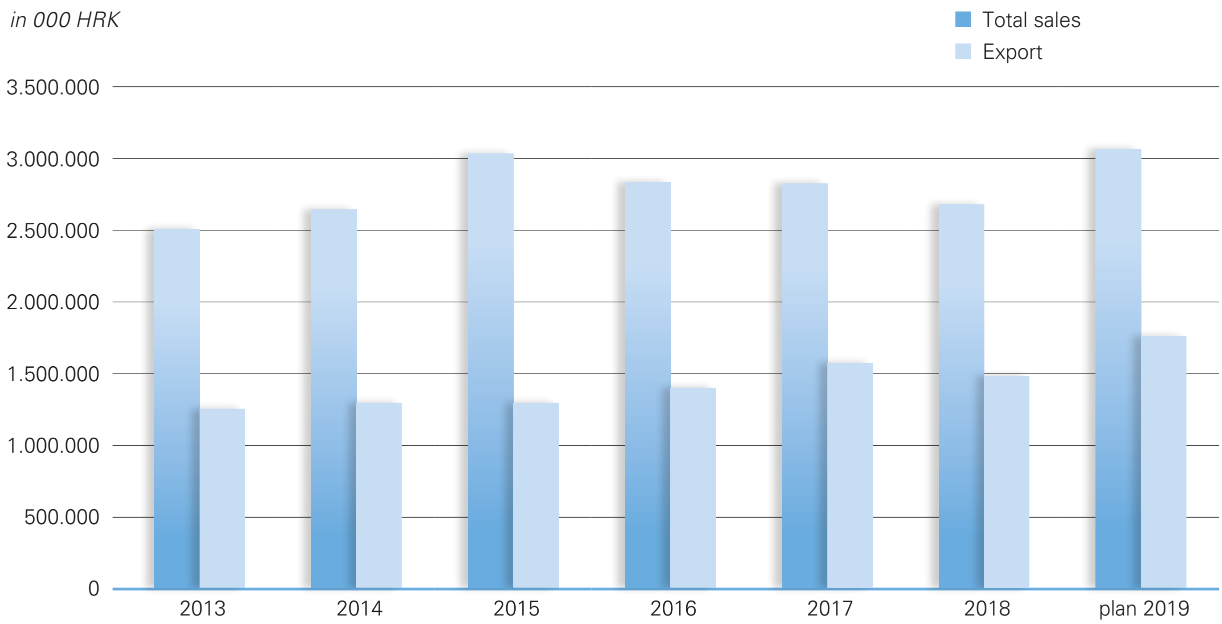
15 out of 16 KONČAR Group companies have recorded positive business results. One company has reported a loss of HRK 1.5 million in total, which was fully attributable to the shareholders of the parent company.

The balance of total consolidated assets and sources of funds as of 31 December 2018 was HRK 3.727.2 million, an increase of HRK 18.1 million compared to 31 December 2017.

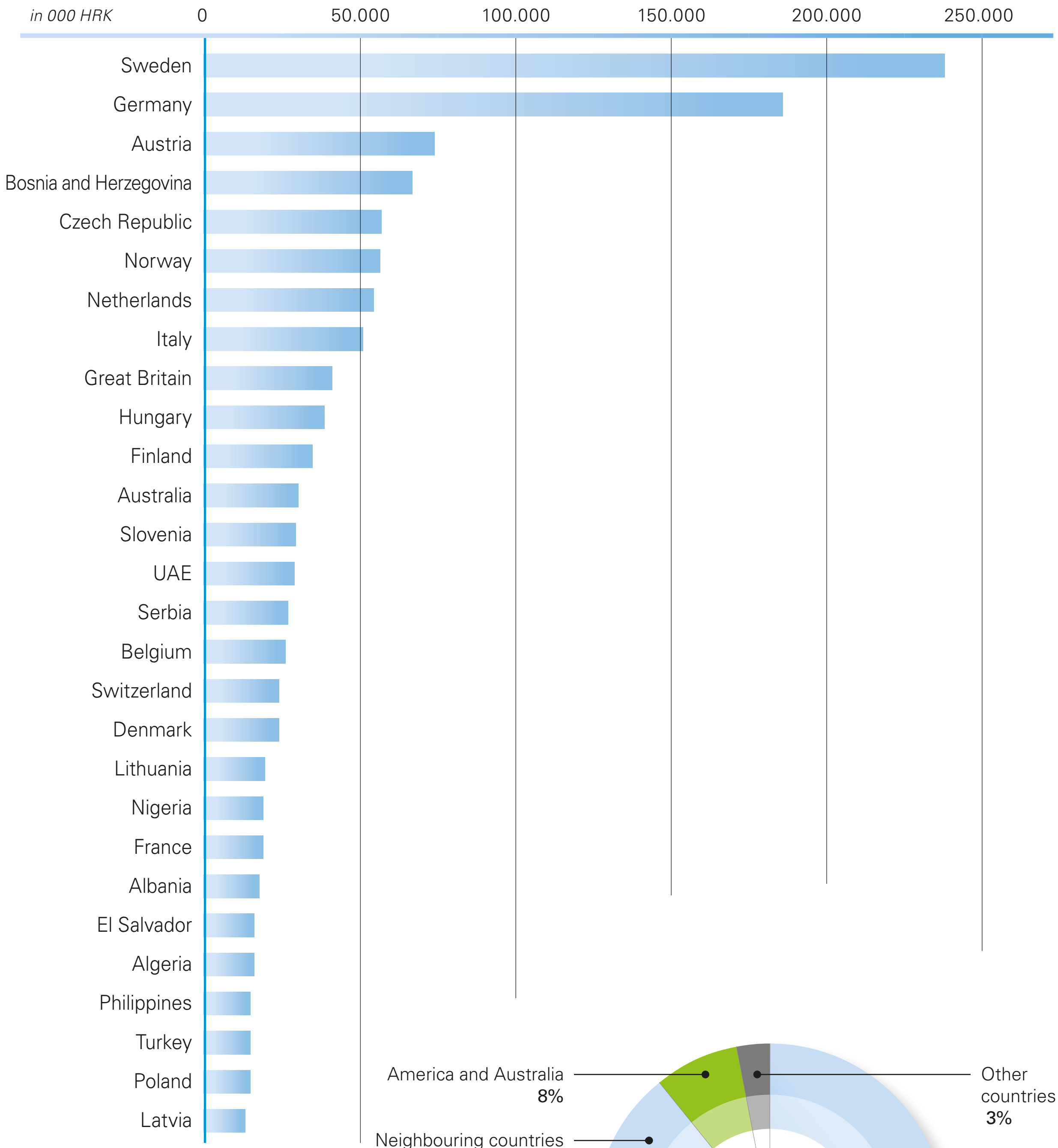
In the structure of sources of funds, subscribed capital, reserves, retained earnings, current year profit and non-controlling (minority) interest have amounted to HRK 2.537.5 million, which was HRK 52.6 million more than on 31 December 2017 and accounted for 68 percent of total sources. Long-term provisions have amounted to HRK 206.1 million accounting for 5.5 percent of the total sources. Long-term and short-term liabilities have amounted to HRK 983.5 million, which represents HRK 20.5 million decrease compared the end of Y2017, accounting for 26.3 percent of the total sources. In short-term liabilities, trade liabilities have amounted to HRK 413.3 million accounting for 11 percent of total sources. Total amount of loans (both long-term and short-term) have account for 4.7 percent of all sources of funding and stand at HRK 174.8 million, which is HRK 9.9 million less than the amount reported on 31/12/2017.

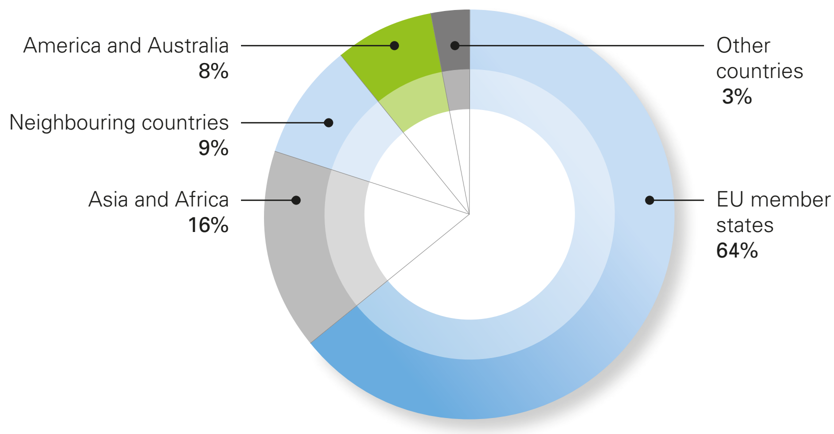
Long-term sources of funds (capital, long-term provisions and long-term liabilities) were higher by HRK 778.1 million than non-current assets and average inventory balance which indicates a sound funding maturity structure. In relation to short-term liabilities, current assets are 2.5 times higher, which indicates sound liquidity of the system. The structure of consolidated balance sheet reflects the balance of sources of funds, investments and overall financial soundness of the Group.

Total Sales and Export Revenue in 2018



Export by Countries and Regions in 2018





Operating Performance from January-December 2018 by KONČAR Group companies

in HRK	No. of employed 31 Dec 2018.	TOTAL REVENUE Plan 2018	TOTAL REVENUE Achieved Jan-Dec 2017	TOTAL REVENUE Achieved Jan-Dec 2018	Index 4/2	Index 4/3	TOTAL EXPENSES Plan 2018	TOTAL EXPENSES Achieved Jan-Dec 2017	TOTAL EXPENSES Achieved Jan-Dec 2018	Index 9/7	Index 9/8
	1	2	3	4	5	6	7	8	9	10	11
Power Plant and Electric Traction Engineering	253	619,802,135	572,271,081	524,057,494	84.6	91.6	608,802,135	563,474,209	517,787,900	85.1	91.9
Generators and Motors	452	333,308,638	290,349,306	213,671,392	64.1	73.6	311,597,678	276,133,802	207,616,232	66.6	75.2
Switchgear and Apparatus	183	174,261,000	155,214,165	134,311,638	77.1	86.5	160,668,000	154,541,157	130,514,028	81.2	84.5
Distribution and Special Transformers	586	885,585,499	930,770,759	955,423,298	107.9	102.6	848,406,897	884,836,225	905,300,968	106.7	102.3
Instrument Transformers	258	187,711,617	181,221,501	182,559,142	97.3	100.7	177,272,057	174,132,239	177,549,663	100.2	102.0
Electronics and Informatics	250	162,131,817	158,845,803	150,954,136	93.1	95.0	158,502,000	156,787,773	147,722,179	93.2	94.2
Metal Structures	365	217,421,000	219,170,735	214,413,633	98.6	97.8	211,071,000	218,656,263	213,456,637	101.1	97.6
Electric Vehicles	250	214,194,171	155,523,937	170,591,683	79.6	109.7	192,999,892	137,595,324	141,211,214	73.2	102.6
Renewable Sources	4	25,018,000	24,076,374	25,005,425	99.9	103.9	21,818,137	64,578,260	24,421,057	111.9	37.8
Engineering Co. for Power Plant Installation and Commissioning	125	111,208,572	126,963,659	102,667,802	92.3	80.9	107,452,872	122,733,291	99,091,913	92.2	80.7
Small Electrical Machines	192	103,226,000	97,502,184	96,525,707	93.5	99.0	92,690,000	86,928,979	86,182,371	93.0	99.1
Household Appliances	63	174,535,050	182,908,095	186,893,175	107.1	102.2	172,082,000	177,389,547	182,802,391	106.2	103.1
Low Voltage Switches and Circuit Breakers	160	52,793,000	49,144,685	45,266,350	85.7	92.1	52,753,000	51,097,051	46,737,702	88.6	91.5
Electrical Engineering Institute	171	98,329,000	84,904,780	88,302,102	89.8	104.0	90,641,000	77,460,090	80,505,064	88.8	103.9
Infrastructure and Services	145	57,519,837	61,392,473	62,007,928	107.8	101.0	52,804,665	55,407,215	58,054,967	109.9	104.8
Total Dependent Companies	3,457	3,417,045,336	3,290,259,537	3,152,650,905	92.3	95.8	3,259,561,333	3,201,751,425	3,018,954,286	92.6	94.3
KONČAR Inc.	51	173,416,730	184,850,712	174,203,728	100.5	94.2	83,001,680	115,776,268	98,700,623	118.9	85.3
Total Parent and Dependent Companies	3,508	3,590,462,066	3,475,110,249	3,326,854,633	92.7	95.7	3,342,563,013	3,317,527,693	3,117,654,909	93.3	94.0

Power Transformers	515	962,433,000	1,161,497,325	801,648,151	**83.3**	**69.0**	822,661,655	974,702,630	671,712,632	**81.7**	**68.9**
Elkakon d.o.o. (DIST 50% equity share)											
TBEA (Instr. Transformers 27% equity share											
Total Affiliated Companies											

PROFIT / LOSS BEFORE TAXES	CORPORATI-ON TAX	PROFIT / LOSS AFTER TAXES			Index 16/14	Index 16/15	SUSCRIBED CAPITAL TOTAL	SUSCRIBED CAPITAL PARENT	% OWNERSHIP BY PARENT 31 DEC 2018	SHARE OF PROFIT / LOSS ATTRIBUTABLE TO EQUITY OWNERS
		Plan 2018	Achieved Jan-Dec 2017	Achieved Jan-Dec 2018						
12	13	14	15	16	17	18	19	20	21	22
6,269,594	1,556,338	8,480,000	7,163,618	4,713,256	55.6	65.8	50,577,000	50,577,000	100.0000	4,713,256
6,055,160	86,887	17,802,987	10,529,869	5,968,273	33.5	56.7	107,927,700	107,927,700	100.0000	5,968,273
3,797,610		11,146,000	10,675,100	3,797,610	34.1	35.6	105,033,000	105,033,000	100.0000	3,797,610
50,122,330	1,499,222	30,518,600	44,383,956	48,623,108	159.3	109.6	153,369,600	80,878,800	52.7346	25,641,187
5,009,479	274,326	9,500,000	6,002,232	4,735,153	49.8	78.9	37,978,200	23,533,200	61.9650	2,934,139
3,231,957	452,720	3,029,817	2,058,030	2,779,237	91.7	135.0	47,027,280	41,842,180	88.9743	2,472,806
956,996		6,032,500	514,472	956,996	15.9	186.0	77,600,400	77,600,400	100.0000	956,996
29,380,469	4,667,910	17,273,337	14,989,515	24,712,559	143.1	164.9	47,026,800	35,288,700	75.0396	18,544,194
584,368		3,199,853	-40,501,886	584,368	18.3	-1.4	104,670,400	104,670,400	100.0000	584,368
3,575,889	872,958	3,030,000	3,155,437	2,702,931	89.2	85.7	11,827,500	5,288,100	44.7102	1,208,486
10,343,336	2,185,708	8,480,000	8,597,575	8,157,628	96.2	94.9	41,641,800	41,641,800	100.0000	8,157,628
4,090,784		2,453,050	5,518,548	4,090,784	166.8	74.1	17,834,100	17,834,100	100.0000	4,090,784
-1,471,352		40,000	-1,952,366	-1,471,352	-3.678.4	75.4	60,499,300	60,499,300	100.0000	-1,471,352
7,797,038	1,193,223	6,300,000	6,125,423	6,603,815	104.8	107.8	40,763,520	40,763,520	100.0000	6,603,815
3,952,961	707,988	3,743,847	4,894,618	3,244,973	86.7	66.3	49,891,600	49,891,600	100.0000	3,244,973
133,696,619	**13,497,280**	**131,029,991**	**82,154,141**	**120,199,339**	**91.7**	**146.3**	**953,668,200**	**843,269,800**		**87,447,162**
75,503,105		90,415,050	69,074,443	75,503,105	83.5	109.3	1,208,895,930		100.00	75,503,105
209,199,724	**13,497,280**	**221,445,041**	**151,228,584**	**195,702,444**	**88.4**	**129.4**	**2,162,564,130**	**843,269,800**		**162,950,267**
Decreased by a portion of income earned by dependent companies and the parent from internal relations										-66,994,417
								Profit of the Group 2018		**128,708,027**
129,935,519	26,931,374	114,612,503	148,925,928	103,004,145	**89.9**	**69.2**	72,764,000	35,654,400	49.00000	50,472,031
							3,092,000	799,466	25.85559	593,218
							40,869,289	4,803,199	11.75250	-4,738,563
										46,326,686

6. Restructuring

The Management Board of KONČAR - Electrical Industry Inc., with consent of the Supervisory Board has been continuously carrying out operational restructuring in order to retain the Group's market position, profitability and enhance further development.

In Y2017, the Board launched a series of activities with the purpose of merging three medium-voltage and high-voltage companies. In early 2018, KONČAR - Switchgear Inc. and KONČAR - High Voltage Switchgear Inc. were merged with KONČAR - Medium Voltage Apparatus Inc., which was financially the strongest. As of 1 January 2018, the three merged companies have been operating under the name KONČAR - Switchgear Inc. The merger has realised synergies in coordinated market performance, more efficient product development and operational cost reduction.

In Y2018, the Board has initiated restructuring of two further companies (KONČAR - Household Appliances Ltd. and KONČAR - Low Voltage Switches and Circuit Breakers Ltd.) which had not operated in the Group's core area of business. Therefore, shares in the company KONČAR - Low Voltage Switches and Circuit Breakers Ltd. were offered for sale in May 2018. One company has expressed interest, with negotiations expected to continue. With reference to KONČAR - Household Appliances Ltd., following a valuation of an independent appraiser, the management and the employees have issued a letter of intent to buy out 100 percent share in the company. The preparations are underway for the management and employee buyout (MEBO). MEBO has been conducted in line with resolutions issued at the General Assembly of KONČAR - Electrical Industry Inc., which inform the ESOP implementation.

7. Risk Exposure

KONČAR Group is exposed to various market and financial operating conditions. The business environment risk is affected by political, economic and social conditions existing in the operating markets. The Group monitors all the risks and takes measures to mitigate their potential impact on the financial stability.

All Group companies regularly monitor and manage their balance sheets, liquidity and capital adequacies, set measures focused on illiquidity cause, prevention or elimination, take measures focused on companies' sufficient long-term sources of funding in view of scope and type of their business activity, and regularly monitor capital adequacy level.

At Group level, long-term sources of funding (capital, long-term provisions and long-term liabilities) exceed non-current assets and average inventory balance, which indicates a sound funding maturity structure. In relation to short-term liabilities, current assets are 2.5 times higher, which indicates sound liquidity of the system. The structure of consolidated balance sheet indicates financial soundness of the Group. The companies within the Group manage risks that might affect the Group's operations by monitoring business processes and internal reports on the risks to identify and analyse the exposure by degree and magnitude of risks.

- **Market risk**

  Market risk emerge as a result of potential losses stemming from less-than-favourable economic conditions and decline in market demand.
  The Group companies operate domestically and internationally. The Group's core activity is energy and transportation-related equipment and products. The production programme heavily depends on such investments. Due to the impacts of global recession and geopolitical insecurity, some markets favour awarding contracts to domestic enterprises. In addition to volatile prices of the key raw materials in 2018, there has also been a strong competitive pressure on the price of equipment and profit margins.
  Competitiveness of our products and services is also impacted by the changes of operating conditions for both the Group and our customers.
  Management Boards of individual companies price their products autonomously.

- **Risk in the procurement market**
  Prices of major raw materials and commodities (copper, sheet metal, steel ...) have been subject to unpredictable changes in recent years (vast growth or decline over a short period of time).
  Within the transformer program, the Group companies have been protected from the risk of sudden price changes of strategic raw materials in several ways. In the case of copper, given that it is a London Metal Exchange listed raw material, forward contracts are used to negotiate with copper suppliers on the quantities and prices for future periods according to stock and estimates of signed contracts. In case of steel, transformer sheet and some of the most crucial supply parts, risk is mitigated by employing semi-annual or annual contracts with suppliers. Certain long-term customer contracts employ a sliding formula based on material price changes.

- **Technological and development risks**
  The Group companies have continuously invested significant assets in key technologies and strategically important segments of production to mitigate risks of falling behind the competition in technology and development. In the forthcoming period, the Group companies are planning to invest significant resources in new product development and upgrade of existing product portfolio.

- **HR risks**
  Usual turnover and changes in the HR structure have not significantly affected the Group's operations. Sudden or bigger turnover of employees with specialist knowledge (e.g. EU labour markets deregulating for workers from Croatia) might affect business operations. Continuous investments in training and financial incentives offered to key company employees tend to hedge against HR risks.

• **Capital management risk**
The Group has managed the capital to ensure operating as a going concern while maximising shareholder returns through optimisation of debt-to-equity ratio. The Group manages capital and makes appropriate adjustments in line with changes of economic conditions on the market and risk characteristics of its assets. The Group can decide if retained earnings should be distributed to shareholders, if equity needs increasing or decreasing, if assets should be sold in order to decrease liabilities and similar.

• **Currency risk**
The official currency of the Group is Croatian Kuna. However, some transactions executed in foreign currency are converted to Croatian Kuna, by applying exchange rate in effect at balance sheet date. Resulting exchange rate gains and losses are being credited or debited against profit and loss account. The companies hedge against F/X risk by continuously planning and monitoring their cash flow, contracting sales and procurement in the same currency where possible, adjusting inflow and outflow dynamics, as well as term F/X purchases in accordance with cash inflows and outflows plan. Companies with a higher share of exports in the total revenue employ financial derivatives to hedge against financial risk exposure.

• **Interest rate risk**
The Group's companies are most exposed to interest rate risk on loans contracted at floating interest rates, while a materially insignificant part of assets is exposed to interest rate risk. Individual companies within the Group have contracted hedge exposure to interest rate risk in contractual relations with foreign currency payments.

• **Credit risk**
Credit risk is risk of a counter party defaulting on contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing exclusively with creditworthy counterparties thus mitigating risks of financial loss form defaults. The Group uses data and opinions gathered from rating agencies, the Chamber of Commerce and other publicly available financial information on companies' financial status and uses its own data base to rate its major customers. The Group's risk exposure and the credit ratings of its counterparties are continuously being monitored. As a principle, contracts are entered into only with creditworthy counterparties when appropriate payment insurance instruments are obtained. (L/C, guarantee, etc.)
Exposure to credit risk is affected mainly by individual characteristics of each customer. The Group has established impairment loss allowance as an estimation of incurred losses in respect of expected losses from receivables and investments.

• **Liquidity risk**
Liquidity risk reflects the Group's inability to meet financial obligations as they mature. Risk management is a responsibility of the Management Boards of the Group's companies. The Group has managed this risk by continuously monitoring estimated cash flow, comparing and adjusting it to the actual revenue and expenses. Overall, there has been no significant exposure of the Group to liquidity risk.

8. Shares

The shares of KONČAR - Electrical Industry Inc. are quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under their KOEI-R-A ticker. In keeping with the positive regulations, the Company ensures regular access to information on operations and activities and information on any facts and circumstances that may influence the share price (price sensitive information).

The Company's share capital is HRK 1.208.895.930.00 and consists of 2.572.119 ordinary shares with a nominal value of HRK 470.00.

The Company applies the same conditions to all shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. The voting rights encompass all shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession. In Y2018, following the decisions of the General Assembly based on the results achieved in Y2017, shareholders were paid out a dividend in the amount of 35.9 million HRK, which is 14.00 HRK per share.

In Y2018, the price trajectory of KONČAR - Electrical Industry Inc. shares has followed the overall market trend. In 2018, the share price of KONČAR - Electrical Industry Inc. in the regulated capital markets peaked at 725.00 HRK on 2 July and 2 December, whereas the lowest share price was recorded at 535.00 HRK on 28 December. As of 31 December 2018, the average price of shares at the Zagreb Stock Exchange stood at 536.75 HRK.

The total sharing revenue amounted to 38.5 million HRK, which is 30 million less compared with Y2017.

The total volume of shares traded amounted to 58.953 shares (33.6 percent less than in 2017).

Market capitalization is HRK 1.372.6 million, which is HRK 462.1 million decrease year-on-year.

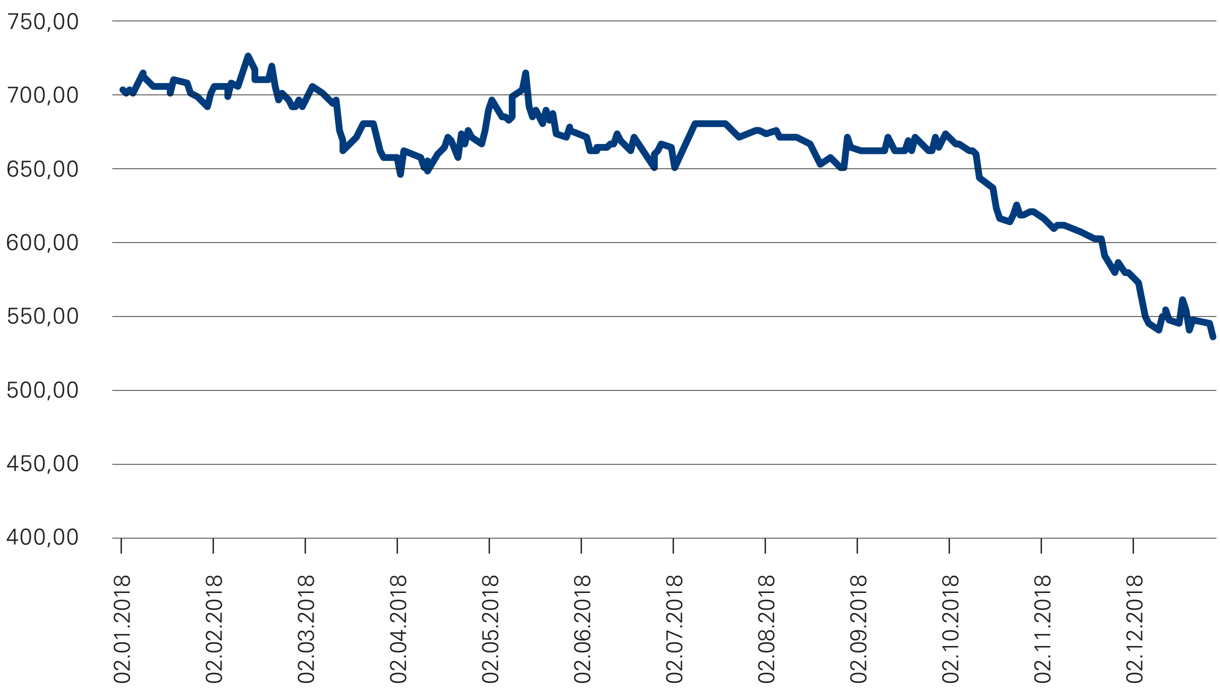
KONČAR - Electrical Industry Inc. had entered into a specialist services agreement with InterCapital Securities Inc. in October 2015 under which InterCapital Securities Inc. took over the obligation to perform specialist services for the shares of KONČAR - Electrical Industry Inc., labels: KOEI-R-A, ISIN: HRKOEIRA0009, included in the Official Market of the Zagreb Stock Exchange Inc. The specialist trade services include a simultaneous display of purchase orders and orders for sale of the company shares in line with the Rules of the Zagreb Stock Exchange. The contract is renewed annually.

In the 2018 buyback, the Company has acquired 9.000 their own shares (KOEI-R-A), which constitute 0.35 percent of total share capital. The shares were bought on the regulated market of the Zagreb Stock Exchange at a price ranging from 650.00 to 662.30 per share. As of 31 December 2018, the Company owned 14.861 shares, accounting for 0.578 percent of the equity.

The ownership structure

	31 December 2018		31 December 2017	
Shareholder	No. of shares	Ownership stake %	No. of shares	Ownership stake %
HPB d.d. / Kapitalni fond d.d.	724,515	28.17	724,515	28.17
ADDIKO BANK d.d. / PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
OTP Banka d.d. / AZ OMF	377,429	14.67	377,429	14.67
OTP Banka d.d. / Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
Restructuring and Sale Center / Republic of Croatia	81,610	3.17	83,610	3.25
Floričić Kristijan	50,714	1.97	50,714	1.97
Addiko Bank d.d. / RBA OMF	47,636	1.85	47,636	1.85
Zagrebačka banka d.d. / AZ Profit Voluntary Pension Fund	32,803	1.28	32,803	1.28
PBZ d.d. / collective client custodian account	23,114	0.90	24,251	0.94
Zec Branislav	22,843	0.89	22,843	0.89
Other shareholders	416,427	16.19	422,290	16.42
KONČAR d.d. / treasury stock	14,861	0.58	5,861	0.23
Total	**2,572,119**	**100**	**2,572,119**	**100.00**

Share Price Trend KOEI-R-A in HRK in 2018



9. Product and Production Development

KONČAR Group bases its development strategy on the priority task of manufacturing the most complex products for end customers in the core business area, electric power engineering and transportation. In this regard delivery of complex facilities and "turn-key" plants are highlighted.

The Management Board of KONČAR - Electrical Industry Inc. manages development in line with the adopted concept of the Strategic Development Areas in KONČAR Group. All adopted decisions are in accordance with long-term development goals of the Group, new product development needs, development of techniques, technologies and available resources. Based on these commitments, a number of projects and programmes have been nominated as projects of special importance to the Group, aiming at increasing synergy effects. The most important among them are:

Metal processing centre
Based on the results of a feasibility study, it was decided to reorganize KONČAR - Metal Structures and establish it as the Metal Processing Centre (MPC) at Group level. The establishment of the centre is expected to increase productivity and thus reduce costs in this area of activity.

KONČAR-XD joint venture
On 5 December 2018, KONČAR - Electrical Industries Inc. and China XD Group from China, set up a joint venture company KONČAR-XD High Voltage Switchgear Ltd. for production of high-voltage SF_6 gas-insulated systems (GIS), with nominal voltage ranging from 170 kV to 420 kV. Each partner holds a 50 percent share in this new company.

Competence centre for advanced electrical equipment
Competence centre for advanced electrical equipment has been designed as a project that brings together two groups of key activities: infrastructural R&D and innovation activities that include construction and equipping of a new laboratory for large electrical machines and facilities, and improvement of the existing laboratory infrastructure at KONČAR - Electrical Engineering Institute Inc. The project co-financing had been planned through the European Regional Development Fund (as part of the Ministry of Economy, Entrepreneurship and Crafts Call for applications to support development of centres of competence) which has failed to receive financial support for formal reasons, and the project is currently under revision.

Digital transformation program
Three key elements have been defined within the programme scope: product digitalization, manufacturing processes digitalization, and digitalization of business operations. This primarily relates to improvements of these elements by using modern technologies. The main objectives of the programmes include optimization of processes to increase efficiency and reduce costs, using modern technologies for development of products and services, meeting customer needs, increasing data availability, reliability, protection and acquisition of competencies and knowledge that will enable continuous digital transformation of the Group.

The most significant individual development projects in the preceding period include:

PROZA NET system for monitoring and facility management in the field of electric energy, oil and gas industry, industrial production, transportation, and water management has continuously been upgraded due to advances in technology. The system has been certified by the TÜV NORD certification company, in accordance with international industry standards IEC 62443-2-4. KONČAR's platform for digitalization of automated power generation systems, PROZA NET, has become the first system in the world to be certified for cyber security of critical infrastructures.

Advanced metering infrastructure (AMI) along with a new generation of software for remote readings and control of energy sources are a new generation of proprietary software for remote reading and control of energy sources, adapted for upgrading on 4G/5G communication platforms and Internet of Things (IoT).

Voltage transformers are single-phase high-power units designed to direct transformation of power from high to low voltage in order to ensure extra power supply to substations or direct power supply to remote consumers, usually for the purpose of providing electricity to rural areas. Development of the second generation of these transformers was completed last year, with a focus on reduction of transmission losses by 20 to 50 percent.

Railway road crossing KLC3, a safety device for level crossings with the highest security level (SIL 4). This technical solution allows advanced diagnostics of device operations and integration with different elements which further allows various possible applications and guaranteed safety.

Series of synchronous reluctance motors that have 20 percent lower total losses in relation to the asynchronous motors of the same size (IFIA Medal for the best innovation of the International Federation of Inventors' Associations and the Gold Medal at the ARCA International Innovation Exhibition).

Visualization system for critical safety applications SafeHMI (Safe Human Machine Interface) for use in railway infrastructure, road and air transport, electrHMIic power industry, and process industry.

Visualization system for rail vehicle drivers KonHMI (KONČAR Human Machine Interface) which independently designs all presentations by means of a graphic editor and defines functionality and connectivity with other components of the vehicle.

10. Employees

Achieving business goals and maintaining competitiveness of KONČAR depends on experience, knowledge, and innovate thinking of all employees who are the Group's most important resource. Successful human resources management ensures recruitment, development, training and compensation of employees who achieve the set goals and create added value to KONČAR.

KONČAR closed Y2018 with 3508 employees. Out of the total number of employees, 1397 were university graduates, 68 percent of whom graduated in technical sciences (46 percent electrical engineers and 22 percent mechanical engineers), 16 percent in economics and 16 percent in other fields.

KONČAR has had 35 employees with PhDs, 47 with master's degrees, 30 university specialists and 107 specialist graduates in 2018.

The average age of KONČAR' s employees in Y2018 was 43. The age of 41 percent of the newly employed was between 24 and 30.

Young, highly educated employees with degrees in electrical engineering, mechanical engineering and IT dominated in staffing. Outflow rates in 2018 have been most pronounced in machinist and welder jobs. Although there have been difficulties in recruitment and retention of quality employees in the labour market in Croatia KONČAR has succeeded in recruiting and retaining sufficient numbers of highly qualified and experienced workers.

Lifelong learning represents a guarantee of business success, permanent investment into knowledge of employees has been one of KONČAR's priorities.

KONČAR pays special attention to management selection and to timely recognition of talent by investing into development and creating space for further advancement through training programmes at KONČAR Academy, which has been continuously operating for the last 8 years.

In 2018, all necessary activities were carried out in order to, by means of psychological assessment, select participants of the 5th and 6th professional training cycles at KONČAR Academy from a pool of candidates proposed by Management Boards of KONČAR Group companies. The training cycles are set to start in January and March 2019, respectively.

The analysis has indicated that more than 50 percent of employees who had graduated from KONČAR Academy, or had completed a training cycle, were promoted.

In 2018 successful cooperation continued with a number of science and educational institutions, facilitating identification, definition and implementation of a number of projects in which the parties participate as equal partners by bringing their own expertise and encouraging collaboration between science/education base and business sectors.

To encourage further development of the existing and new training programmes tailored to the needs of the labour market, KONČAR and the University of Mostar have entered into a cooperation agreement in 2018, allowing the Group's employees holding PhD degrees to contribute to teaching courses at the University and transfer their knowledge and experience. Strengthening cooperation between the academic community and industry contributes to the development of the society.

The Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) of 28 May 2018 is applied directly in all EU member states. Compliance activities with GDPR requirements and GDPR implementation across KONČAR have been launched.

No case of racial, ethnic, gender, religious, political, national or social discrimination has been recorded during the reporting period. Under the provisions of the Collective Agreement, the Employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non-sexual harassment by the Employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

All KONČAR employees are entitled to freedom of association and collective bargaining.

11. Quality, Environment, Security of People and Information

KONČAR's business policy includes exceeding customer satisfaction through delivery of high quality and reliable products, environmental protection, occupational health and safety of employees and information security. These policies have been implemented across the Group by the application and certification of management systems as per requirements of international ISO 9001 standard for Quality Management, ISO 14001 for Environmental Management, OHSAS 18001 for Occupational Health and Safety Management, ISO/IEC 27001 for Information Security Management, and ISO 50001 for Energy Management.

ISO 9001 Quality Management System has been certified in 13 Group companies. The core purpose of the system has to do with the management of key processes that affect the quality of products or services aimed at reaching customer satisfaction. ISO 9001 Certificate, issued by authorised independent certification institutions, provides customers with a degree of assurance concerning the capacity of an organisation to meet their demands. Buyers have been increasingly auditing their counterparts (i.e. carrying out on-site verification of the quality of management system operation in order to make sure of the Company's capacity to deliver on their requirements and expectations), especially during prequalification process when contracting certain products.

ISO 14001 Quality Management System has been certified in 15 companies. By applying this system, companies have continuously monitored and analysed various aspects of the environment while performing their business activities, carrying out their processes, looking into environmental impact of products and services they deliver, and take adequate measures to mitigate any adverse effects. ISO 14001 Certificate is issued by authorised independent certification institutions, assuring all stakeholders, ranging from central governments to local communities, of the company's responsible behaviour towards the environment.

OHSAS 18001 Occupational Health and Safety Management System has been certified in 9 Companies. By applying this system, companies have been continuously monitoring and analysing workplace hazards and have carried out measure for prevention and mitigation of accidents which might lead to the loss of health, life and material goods. OHSAS 18001 certificate issued by authorized independent certification institutions provides assurance to all stakeholders of the company's conduct of legal and other measures aimed at the provision of safe working environment and work-related injury protection.

ISO/IEC 27001 Information Security Management System has been certified in 4 companies. By applying this system, companies have achieved information system, property, and business information protection. ISO 27001 Certificate issued by certified independent certification institutes proves that information security management system provides data protection under the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces fraud risk, loss of information or unauthorized disclosure of information, improves organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

ISO 50001 Energy Management System has been certified in 2 companies. By applying this system, companies have achieved ongoing improvement of energy management, better resource and infrastructure utilization, and lower energy consumption i.e. lower costs while limiting and controlling environmental impacts.

These principles are based on the positive regulations of the Republic of Croatia and adopted international standards. KONČAR accepts and applies international and local principles, charters and standards which contribute to a better quality of products, work processes and production as well as to preservation and improvement of the environment and social surroundings.

KONČAR's business policy is based on

- customer, supplier and stakeholder satisfaction,
- environmental, health and safety protection,
- continuous improvement in products and processes; and
- employee participation and motivation.

Environmental issues

A systematic approach has generated policy and objectives of quality management, environmental protection, occupational health and safety, acknowledged by certificates obtained from accredited autonomous bodies. A number of other standards and norms has been applied to individual products as per requirements specified by customers and users.

The equipment and products manufactured by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility - primarily operational safety and reliability (not to generate additional problems in electricity supply) and protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trams and trains manufactured by KONČAR along with a major environmental component. As KONČAR Group bears immense responsibility for products it offers on the market, it has been managing the entire production chain by supervising the quality of individual production processes.

KONČAR Group companies cooperate only with those suppliers whose materials and components do not bear harm to humans and the environment and can be recycled after the end of their life cycle or disposed of without jeopardizing people or the environment. The selection of a supplier of respective materials and services is subject to meeting defined quality levels, lead times, credit term requirements taking into account occupational health and safety and environmental protection. Suppliers are required to submit evidence (certificates) of meeting all requirements.

Companies have created database of the existing and potential suppliers. Apart from general information (name, address, phone, e-mail, contact person), the database also contains other information which may affect supplier selection such as credentials, complaint information, system quality data, occupational health and safety and environmental protection data.

The issue of the environment is of utmost importance as the major part of the equipment is installed directly in the environment (substations, hydropower plants, other power facilities or traction vehicles). KONČAR has defined an Environmental Management Policy, which is available on www.koncar.hr and which has been communicated to all employees.

Equipment and products supplied by KONČAR meet the highest security standards with minimum environmental impact evident in zero complaints or incidents in this area.

Investors that decide on construction of facilities supplied by KONČAR must adhere to environmental regulations and standards. Aware of the environmental risk, KONČAR has implemented precautionary principles. This is especially important as equipment, products and facilities are often delivered to areas of high biodiversity (rivers, lakes, rural areas). There have been no incidents of the loss of biodiversity due to our products thus far.

KONČAR Group	ISO 9001	ISO 14001	OHSAS 18001	ISO/IEC 27001	ISO 50001
KONČAR - Power Plant and Electric Traction Engineering					
KONČAR - Power Transformers					
KONČAR - Engineering Co. for Plant Installation and Commissioning					
KONČAR - Electronics and Informatics					
KONČAR - Instrument Transformers					
KONČAR - Metal Structures					
KONČAR - Distribution and Special Transformers					
KONČAR - Electrical Engineering Institute					
KONČAR - Switchgear					
KONČAR - Electric Vehicles					
KONČAR - Generators and Motors					
KONČAR - Small Electrical Machines					
KONČAR - Low Voltage Switches and Circuit Breakers					
KONČAR - Infrastructure and Services					
KONČAR - Household Appliances					
KONČAR - Renewable Sources					
KONČAR - Inc. (parent company)					

12. Corporate Social Responsibility

Relying on comprehensive operation principles, KONČAR has assumed full responsibility for activities within the Group and in proactive cooperation with all stakeholders. More information is provided in the Corporate Social Responsibility Report, which is published on the website www.koncar.hr and is made available to all interested stakeholders. The report is prepared in accordance with the UN Global Compact principles and the Global Reporting Initiative guidelines. KONČAR has thus become a part of a small group of Croatian companies that publish such reports.

User safety and keeping the environmental impact to a minimum are priorities of our production facilities, office premises and locations which are selected for our equipment and products. The process starts with quality control of raw materials, components, production processes and technologies and it includes strict exit controls and testing of finished products and plants.

Apart from the work process that encompasses new product development, design, production and delivery, KONČAR has sought to reduce adverse environmental impacts through a host of other activities. Volunteering for Earth Day has already become a tradition; on this occasion, the surrounding exterior is cleaned up and cultivated under the "Let's improve the environment" motto. Volunteers also take part in volunteering activities in the local community. In Y2018, they have worked with others to clean up and repair the patio of the library in Voltino, turning a once neglected space into a place equipped for various activities that the library organizes for its members, particularly children.

KONČAR is aware that success can only come from motivated and educated employees. Therefore, it has been conducting a series of activities in order to improve business operations and working conditions. Continuous training and education of employees, health protection and organized recreational activities remain highly important. One of the most popular activities is the traditional KONČAR Football Tournament. The 17th Football Tournament was held in 2018, with the participation of more than 300 sports fans in 23 teams from 13 KONČAR Group companies. Hiking, skiing excursions, marathons and amateur sports competitions deserve to be mentioned.

"KONČAR's Pensioners' Club" has organized cultural, health-promoting, humanitarian, and other activities; while the "Veterans' Club" had gathered participants of the Homeland War.

Sponsorships of various academic and extracurricular activities for children, social and charity support, as a part of the cooperation with wider social community, have successfully continued in 2018. Sponsorships and donations have been made in support of diverse projects, organizations and activities of humanitarian, sport, cultural and educational character. Among numerous requests, priority has been given to youth-related activities, their better and more comprehensive education, achievements in culture, organization and participation in various competitions, encouragement of pupils' and students' excellence, sports and recreation. Traditional prizes have been awarded to students attending the Zagreb University of Applied Sciences, the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, the Faculty of Electrical Engineering and Computing Zagreb, the Faculty of Chemical Engineering and Technology Zagreb. A special award is given at the Faculty of Electrical Engineering and Computing to the best doctoral dissertation for scientific achievements with industry applications.

Once a year, to mark KONČAR's anniversary, a donation is made to one of the selected projects, and in Y2018 the funds were assigned to Matica Hrvatska (Matrix Croatica), to endorse and assist their project of publishing a seven-volume edition of "History of the Croats". The project is based on modern cognitive, conceptual, and methodological achievements of Croatian historiography and it is at the same level with similar historiography projects of other European nations.

A part of our continuous support is endorsing the work of amateur sports clubs and talented athletes in table tennis, archery, handball, canoe, skiing, basketball, sailing, hockey, football, judo, ice skating, taekwondo and chess. The support provided to several clubs and competitions for people with disabilities must be highlighted. KONČAR' Chess Club, one of the oldest in Croatia, regularly participates in competitions in various categories and organizes a free chess school for the employees' children who then go on to play chess and compete in their categories.

13. Anti-corruption and Anti-bribery Policy

Members of Management Boards, employees and business partners have been informed of anti-corruption policies and procedures and have adhered to the principles of the Code of Ethics in the course of their business operations and daily activities. KONČAR enjoys international reputation of a loyal and fair business partner. No cases of corruption have been recorded at Group level.

KONČAR - Electrical Industry Inc. has not made any financial or in-kind contribution to any political goals, directly or indirectly, to the state or a user. KONČAR promotes and executes fair and transparent competition principles across its businesses in dealing with all entities at all locations. No anti-competitive, antitrust or monopoly-related practices have been recorded in the Group.

14. Business Plan for Y2019

The Y2019 Business Plan was adopted by the Supervisory Board at a meeting held on 20 December 2018.

Consolidated products and services sales revenue has been planned in the amount of HRK 3.088.2 million, which is 9 percent more compared to the Y2018 result. Domestic revenue in the amount of HRK 1.311.2 million has been forecast, 5.1 percent increase compared to Y2018. Exports have been planned in the amount of HRK 1.777 million, 20 percent increase compared to the previous year. The planned exports share of the total sales revenue is set at 58 percent.

Consolidated pre-tax profit of the Group is set at HRK 143.2 million, corporate income tax at HRK 21.8 million, after-tax profit at HRK 121.4 million, minority interest at HRK 27.6 million, and equity share of the parent company at HRK 93.8 million.

New contracts in the amount of HRK 3.539.6 million have been planned for Y2019, which would result in planned contracts worth HRK 3.813.5 million at year end.

15. Future Development Strategy

KONČAR Group continues to base its development strategy on the priority task of producing the most complex products for end customers in the core business areas, electric power engineering and transportation. This category includes complex products such as high voltage substations, hydropower plants, wind farms, photovoltaic power stations (solar parks), trams, electric and diesel-electric trains and alike.

The upcoming period is particularly focused on presence in export markets with an emphasis on export activities aimed at decreasing dependence on the domestic economic market. Export orientation is recognized as a guarantee of the Group's long-term viability, profitable and liquid operations.

The foundation of the Strategy includes the following assumptions and business objectives:

- **Sustainable development** - stronger participation of digital transformation in new product and service development in core business (energy and transportation)
- **Production** - highly complex products with high added value, based on Industry 4.0 principles
- **Product development** - proprietary development in cooperation with science institutions and partners
- **Digital transformation** - digitalization of products, manufacturing processes, and business operations.
- **Export**- increasing export/domestic market ratio (up to 60% - export)
- **HR policy** - scholarships, specialist training, scientific education, HR development
- **Synergy** - encouraging and optimizing Group's joint business processes
- **Social responsibility** - stronger participation across the Group
- **Investments** - expanding production capacity of strategic products, optimization of existing resources

Closing remarks:

Important events that have occurred between the reporting date and the date of the sign off of the financial statements and are required to be disclosed include the following:

- *Based on the decision of the General Assembly of KONČAR - Electrical Industry Inc., the Supervisory Board, at a session on 18 January 2019, approved the Programme of continuous ownership restructuring of KONČAR - Household Appliances Inc. through a M&E buyout model proposed by the Management Board of KONČAR - Electrical Industry Inc. This proposal has offered all shares of KONČAR - Household Appliances Inc. up for sale, i.e. 60 percent of the shares are offered for sale to all employees of the Group and 40 percent of the shares are offered to the management of the Company. The share price has been set at 434.00 HRK, based on the valuation of an independent appraiser.*
- *At a session held on 19/03/2019, the Supervisory Board of KONČAR - Electrical Industrys Inc. approved the restructuring concept KONČAR - Low Voltage Switches and Circuit Breakers Ltd. in such a way as to set up an SPV (Special Purpose Vehicle) company and sell it immediately thereafter to Lovato Electric SPA from Bergamo.*

Apart from the events described above, there have been no other events which might have significantly impacted Y2018 financial reports of both KONČAR - Electrical Industry Inc. and of the Group, the publication of which would consequently be required

On behalf of the Board, signed by:

Darinko Bago, Chairman of the Management Board

Gordan Kolak, Deputy Chairman and Member of the Management Board

Miki Huljić, Member of the Management Board

Marina Kralj Miliša, Member of the Management Board

Miroslav Poljak, Member of the Management Board

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10 April 2019
KONČAR - Electrical Industry Inc., Zagreb
Fallerovo šetalište 22, 10 000 Zagreb

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tradition.
knowledge.
responsibility.

KONČAR

Financial Statements 2018

with Independent Auditor´s Report

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KONČAR Electrical Industries Inc.

BUSINESS REPORT

KONČAR Electrical Industry Group

Independent Auditor’s Report

CONSOLIDATED ANNUAL REPORT

31 December 2018

Responsibility for the consolidated Annual Report

Responsibility for the consolidated Annual Report

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union which give a true and fair view of the consolidated financial position and consolidated financial performance of the company Končar – Electrical Industry d.d. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group 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 consolidated financial statements.

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

- appropriate accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the financial statements are prepared on the going concern basis unless this assumption is inappropriate.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and results of the Group and must also ensure that the financial statements comply with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare a consolidated Annual Report comprising the consolidated financial statements, the consolidated Management Report and the Corporate Governance Statement. The consolidated Management Report was prepared in line with the requirements of Article 21 and 24 of the Accounting Act, and the Corporate Governance Statement in line with the requirements of Article 22 of the Accounting Act.

The consolidated Annual Report was authorised for issue by the Management Board on 10 April 2019.

Signed on behalf of the Management Board:

Darinko Bago,
President of the Management Board

Gordan Kolak,
Deputy President and Member of the Management Board

Miki Huljić,
Member of the Management Board

Marina Kralj Miliša,
Member of the Management Board

Miroslav Poljak,
Member of the Management Board

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Independent Auditor's Report

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Independent auditor's report to the Shareholders of Končar – Electrical Industry Inc.

Report on the audit of the consolidated financial statements

Our opinion

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

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

What we have audited

The consolidated financial statements of the Group which comprise:

- The consolidated statement of comprehensive income for the year ended 31 December 2018;
- The consolidated statement of financial position as at 31 December 2018;
- The consolidated statement of cash flows for the year then ended;
- The consolidated statement of changes in equity for the year then ended; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

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

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

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Our audit approach

Overview

- Overall materiality for the financial statements of the Group as a whole: HRK 27 million, which represents 1% of total revenues.

- Our audit scope addressed 99% of the Group's revenues and 92% of the Group's absolute value of underlying profit before tax.

- Revenue recognition and application of IFRS 15
- Warranty provisions

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

Materiality

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

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

Overall materiality for the financial statements as a whole	HRK 27 million
How we determined it	1% of revenues
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because it is the benchmark which best reflects the Group's performance in the period under review, where significant variations in the realised results were identified. We chose 1%, which is within the range of commonly acceptable quantitative materiality thresholds in this sector.

Independent Auditor's Report

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition and application of IFRS 15 *See Note 2.27 B) to the consolidated financial statements under heading "Revenue recognition" (accounting policies), Note 2.26 (Critical accounting estimates) and Notes 3 and 28 for further information. Revenue recognised in the consolidated statement of comprehensive income amounted to HRK 2,702,933 thousand.* As part of its usual business activities, the Group enters into contracts on significant commercial and technically complex projects, which represents a significant portion of the business (in addition to the regular deliveries of energy equipment such as transformers, generators and similar products, the Group also enters into contracts on complex energy projects). The application of the new revenue recognition standard "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15) has had a significant impact since 2018 going forward. In line with the transitional provisions, the Group used the expedient to recognise the cumulative effect of transition at the initial application of the standard directly in equity (within retained earnings) as at 1 January 2018. As a result, the initial recognition of contract assets and contract liabilities resulted in a decrease in retained earnings within equity in the net amount of HRK 1,703 thousand as at 1 January 2018, as detailed in Note 2.27 B). Given the complexity of the application of the new standard, revenue recognition and presentation of the impact of IFRS 15 application were of particular importance for our audit.	Considering that management estimates and assumptions lead to an increased risk of misstatement, as part of our audit we have estimated the Group's revenue recognition processes and controls. Our audit approach included a test of controls and detailed audit procedures, including the following: • Obtaining an understanding of the process of sales and revenue recognition in accordance with IFRS 15 and the moment when control is transferred to a customer and whether performance obligations are satisfied over time or at a point in time • Reviewing a sample of contracts, order forms, invoices, delivery notes and other relevant documentation relating to the fair presentation of revenue in accordance with IFRS 15 • Identifying the selected method for measuring performance obligations and testing the selected sample of contracts, including a review of approved estimates of total contract costs, summaries of actually incurred costs, sample invoices and time sheets, analytics etc. We have satisfied ourselves as to the adequacy of the existing systems, processes and controls and we have not identified any significant irregularities. Our audit approach included, inter alia, the following: We have obtained a detailed overview of the calculation of the cumulative effect of applying the new standard as at 1 January 2018 and verified its completeness and compliance with appropriate documentation in order to confirm the appropriateness of revenue recognition in the relevant period. We have analysed samples of contracts with customers for all established performance obligations and compared the Group's revenue recognition policy with the IFRS 15 criteria, taking into account the Group's operations. We have estimated the accuracy and completeness of the presentation and disclosure of revenue and the effects of first-time adoption of IFRS 15 in the consolidated financial statements of the Group. Based on the evidence obtained, we have established that the processes established by management are sufficiently documented and substantiated to ensure that the impact of the initial application of IFRS 15 is properly recognised and disclosed and that revenues in 2018 are reported in accordance with IFRS 15 requirements.

Key audit matter	How our audit addressed the Key audit matter
Warranty provisions *See Note 2.22 to the consolidated financial statements under heading "Provisions" (accounting policies), Note 2.26 (Critical accounting estimates) and Notes 11, 33 and 41* Provisions for the costs of eliminating deficiencies within warranty periods relate to the estimated costs of possible repairs (corrections or replacement of defective products) of the Group's products and work performed under various contracted projects. The Group provides warranties on its products for a period from 2 to 10 years in accordance with signed contracts. As at 31 December 2018, the Group recognised warranty provisions in the total amount of HRK 243,865 thousand. Movements in provisions in the current period are presented in Notes 33 and 41. Provisions include general and specific provisions as detailed in Note 33. We have focused on this area as management has made provisions requiring significant judgments and estimates in respect of the amount of current and potential future customer complaints for losses or damage incurred within the warranty period.	We have reviewed the calculation for the most significant provisions in detail and requested the appropriate documentation and management analyses as a basis for the selected provision amounts. We have verified the mathematical accuracy of the calculation and adjusted the amounts used in the calculations with the Group's supporting documentation records. We discussed with management and reviewed a sample of the most significant sales contracts and compared the contractual terms regarding warranty periods and other warranty terms and conditions with the assumptions used in the calculation of provisions. We have not identified any significant deviations. We have also reviewed the sensitivity analyses relating to the changes in the percentage used for general provisions and compared them to the disclosures in the consolidated financial statements and we have not identified any irregularities. Based on the evidence obtained, taking into account the inherent uncertainty regarding such provisions, we have identified that the level of warranty provisions as at 31 December 2018 is consistent with previous periods and with the information currently available to the Group.

How we tailored our Group audit scope

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

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

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

Our opinion on the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

Independent Auditor's Report

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated 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 independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

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

Report on other legal and regulatory requirements

Appointment

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

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
10 April 2019

This version of our report is a translation of 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 our report takes precedence over this translation.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		HRK	*HRK*
Revenue	3	2,702,933,182	2,823,446,297
Other operating income	4	170,474,507	139,867,508
OPERATING INCOME		**2,873,407,689**	**2,963,313,805**
Increase/(decrease) in inventories of work in progress and finished goods		30,607,644	(14,112,766)
Cost of materials and energy	5	(1,345,672,690)	(1,359,741,442)
Cost of merchandise sold		(193,950,758)	(191,080,503)
Cost of services	6	(393,602,384)	(407,869,996)
Staff costs	7	(551,692,987)	(554,786,411)
Depreciation and amortisation	8	(90,839,796)	(93,773,042)
Other costs	9	(138,269,976)	(138,792,954)
Impairment losses on financial assets		(584,317)	(1,318,329)
Impairment losses on non-financial assets	10	(18,076,739)	(51,945,487)
Provisions	11	(60,882,352)	(87,854,892)
Other operating expenses		(9,030,179)	(14,570,826)
OPERATING EXPENSES		**(2,771,994,534)**	**(2,915,846,648)**
Operating profit		**101,413,155**	**47,467,157**
Gain on bargain purchase	44	**-**	**8,903,103**
Finance income	12	36,102,854	48,586,180
Finance costs	13	(41,637,388)	(52,673,859)
Net finance (costs)/income		**(5,534,534)**	**(4,087,679)**
Share in profit of investments accounted for using the equity method	14	**46,326,686**	**72,177,395**
Profit before tax		**142,205,307**	**124,459,976**
Income tax	15	(13,497,280)	(16,356,064)
PROFIT FOR THE PERIOD		**128,708,027**	**108,103,912**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Fair value (losses)/gains on available-for-sale financial assets		-	(1,700,423)
Exchange differences on translation of foreign operations		(668,540)	245,487
COMPREHENSIVE INCOME FOR THE YEAR		**128,039,487**	**106,648,976**
Profit for the period attributable to:			
Owners of the Company		102,837,087	83,625,614
Non-controlling interest		25,870,940	24,478,298
Comprehensive income for the period attributable to:			
Owners of the Company		102,484,566	82,054,636
Non-controlling interest		25,554,921	24,594,340
Earnings per share			
Basic and diluted earnings per share in HRK	16	40.13	32.59

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

	Note	31 December 2018	31 December 2017
		HRK	*HRK*
ASSETS			
Goodwill	17	7,342,331	7,342,331
Intangible assets	18	37,870,261	41,293,645
Property, plant and equipment	19	993,688,775	963,627,954
Investment property	20	138,934,263	137,773,135
Investments accounted for using the equity method	21	284,386,989	262,516,776
Financial assets	22	16,077,832	12,708,648
Receivables	23	14,648,913	10,874,967
Deferred tax assets		231,150	264,224
Non-current assets		**1,493,180,514**	**1,436,401,680**
Inventories	24	559,519,525	461,997,111
Receivables from related parties	25	77,733,844	33,338,230
Trade receivables	26	774,068,740	752,083,374
Receivables from construction contracts	27	-	125,772,074
Contract assets	28	59,621,218	-
Prepaid corporate income tax		14,462,211	9,484,291
Other receivables	29	54,464,735	88,315,061
Financial assets	30	70,178,154	273,100,411
Cash and cash equivalents	31	616,628,577	520,696,817
Prepaid expenses and accrued income		7,317,726	7,842,804
Current assets		**2,233,994,730**	**2,272,630,173**
TOTAL ASSETS		**3,727,175,244**	**3,709,031,853**

	Note	31 December 2018	31 December 2017
EQUITY AND LIABILITIES			
Share capital		1,208,895,930	1,208,895,930
Capital reserves		719,579	719,579
Other reserves		682,691,233	623,292,539
Retained earnings		312,124,544	337,981,548
Profit for the year		102,837,087	83,625,614
Attributable to owners of the Company		*2,307,268,373*	*2,254,515,210*
Non-controlling interests		230,213,919	230,384,895
EQUITY	32	**2,537,482,292**	**2,484,900,105**
Warranty provisions		153,720,462	163,630,766
Other provisions		52,431,695	56,415,697
Provisions	33	**206,152,157**	**220,046,463**
Borrowings	34	89,037,057	120,798,248
Other non-current liabilities	35	8,131,049	8,001,769
Non-current liabilities		**97,168,106**	**128,800,017**
Liabilities to related parties	36	13,039,342	16,100,685
Borrowings	37	85,843,390	63,928,234
Trade payables	38	413,302,173	364,550,205
Liabilities from construction contracts		-	19,087,549
Contract liabilities	28	181,025,585	-
Liabilities for advances received	39	6,394,205	177,190,153
Other liabilities	40	82,477,309	99,442,046
Current provisions	41	97,340,040	112,761,907
Deferred income and accrued expenses		6,950,645	22,224,489
Current liabilities		**886,372,689**	**875,285,268**
Total liabilities		**1,189,692,952**	**1,224,131,748**
TOTAL EQUITY AND LIABILITIES		**3,727,175,244**	**3,709,031,853**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		HRK	*HRK*
Cash flows from operating activities			
Proceeds from trade receivables		2,815,935,304	2,629,633,582
Proceeds from insurance reimbursements		32,966,359	6,305,832
Proceeds from tax returns		121,097,324	133,156,630
Payments to trade payables		(1,983,220,560)	(1,953,626,275)
Payments for employees		(620,907,609)	(616,123,293)
Cash payments to insurance companies		(9,653,116)	(8,542,956)
Taxes paid		(117,072,340)	(89,016,203)
Other cash payments		(123,493,393)	(90,854,189)
Cash from operations		**115,651,969**	**10,933,128**
Interest paid		(5,581,558)	(6,773,432)
Income tax paid		(18,515,924)	(30,480,072)
Net cash flows from operating activities		**91,554,487**	**(26,320,376)**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		5,749,469	4,957,181
Proceeds from sale of equity and debt instruments		8,219	2,627,731
Interest received		4,757,076	1,909,934
Dividends received	14	1,493,306	140,505,709
Proceeds from repayment of term deposits and other investing activities	30	302,636,936	452,992,960
Purchase of non-current tangible and intangible assets		(101,213,413)	(76,560,512)
Purchase of own financial instruments	2.28, 21	(37,094,110)	-
Cash used for term deposits and other investing activities	30	(104,851,490)	(348,665,043)
Net cash flows from investing activities		**71,485,993**	**177,767,960**
Cash flows from financing activities			
Proceeds from borrowings	34, 37	35,921,169	29,891,527
Repayments of borrowings	34, 37	(44,221,532)	(31,332,454)
Dividends paid	32	(51,074,775)	(47,172,127)
Purchase of treasury shares	32	(5,948,574)	-
Transactions with non-controlling interest		-	(22,896,999)
Other cash from financing activities		(1,785,008)	(711,335)
Net cash flow used in financing activities		**(67,108,720)**	**(72,221,388)**
Net increase in cash flows		**95,931,760**	**79,226,196**
Cash and cash equivalents at beginning of the period		520,696,817	441,470,621
Cash and cash equivalents at end of year	31	**616,628,577**	**520,696,817**

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Non-controlling interest	Total
(in HRK)									
At 1 January 2017	**1,208,895,930**	**719,579**	**558,913,526**	**4,143,784**	**(4,143,784)**	**295,728,107**	**143,282,971**	**240,785,531**	**2,448,325,644**
Profit for the year	-	-	-	-	-	-	83,625,614	24,478,298	**108,103,912**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	129,445	-	-	-	-	116,042	**245,487**
Reclassification to profit or loss	-	-	(1,700,423)	-	-	-	-	-	**(1,700,423)**
Total comprehensive income	-	-	*(1,570,978)*	-	-	-	*83,625,614*	*24,594,340*	***106,648,976***
Transactions with owners:									
Allocation of result for 2016	-	-	65,949,991	-	-	77,332,980	(143,282,971)	-	**-**
Dividend paid	-	-	-	-	-	(30,795,096)	-	(16,285,862)	**(47,080,958)**
Transactions with non-controlling interest	-	-	-	-	-	(4,294,283)	-	(18,693,362)	**(22,987,645)**
Other movements	-	-	-	-	-	9,840	-	(15,752)	**(5,912)**
	-	-	*65,949,991*	-	-	*42,253,441*	*(143,282,971)*	*(34,994,976)*	*(70,074,515)*
At 31 December 2017	**1,208,895,930**	**719,579**	**623,292,539**	**4,143,784**	**(4,143,784)**	**337,981,548**	**83,625,614**	**230,384,895**	**2,484,900,105**
Effects of the application of new standards	-	-	-	-	-	(8,085,727)	-	(861,332)	**(8,947,059)**
At 1 January 2018	**1,208,895,930**	**719,579**	**623,292,539**	**4,143,784**	**(4,143,784)**	**329,895,821**	**83,625,614**	**229,523,563**	**2,475,953,046**
Profit for the year	-	-	-	-	-	-	102,837,087	25,870,940	**128,708,027**
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	(352,521)	-	-	-	-	(316,019)	**(668,540)**
Total comprehensive income	-	-	*(352,521)*	-	-	-	*102,837,087*	*25,554,921*	***128,039,487***
Transactions with owners:									
Allocation of result for 2017	-	-	59,684,902	6,000,000	-	17,940,712	(83,625,614)	-	**-**
Purchase of treasury shares		-	-	-	(5,948,575)	-	-	-	**(5,948,575)**
Dividend paid	-	-	-	-	-	(36,929,036)	-	(15,139,773)	**(52,068,809)**
Transactions with non-controlling interest	-	-	-	-	-	1,204,442	-	(10,501,794)	**(9,297,352)**
Other movements	-	-	66,313	(51,425)	-	12,605	-	777,002	**804,495**
	-	-	*59,751,215*	*5,948,575*	*(5,948,575)*	*(17,771,277)*	*(83,625,614)*	*(24,864,565)*	*(66,510,241)*
At 31 December 2018	**1,208,895,930**	**719,579**	**682,691,233**	**10,092,359**	**(10,092,359)**	**312,124,544**	**102,837,087**	**230,213,919**	**2,537,482,292**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information on the Group

1.1. Activities

The principal activities of the KONČAR - Electrical industry Group, Zagreb (hereinafter: "the Group") include the production of electrical machinery and appliances, production of transportation vehicles, machinery and metalworking.

The Group's principal activities are divided into four main areas:

I. Energetics and transportation: design and construction of plants and equipment for the production, transfer and distribution of electrical energy, electric locomotives, electromotive trains, trams and electrical equipment for stable electric traction plants;
II. Industry: electromotive drivers, low-voltage electrical equipment;
III. Trade: electrical household appliances, serial products and electrical low voltage switchgears;
IV. Special activities: research and development of products and infrastructural services.

The Group comprises 13 subsidiaries involved in core business activities and 2 subsidiaries with special activities, research and development of products and infrastructural services.

The Group has two associates and two joint ventures, in China and Croatia.

The Group's Parent company is KONČAR - Electrical Industry Inc., Zagreb, Fallerovo šetalište 22 (hereinafter: the "Company"). The Company is a holding company of all companies in its ownership.

As at 31 December 2018, the Group had 3,508 employees, while as at 31 December 2017 the Group had 3,639 employees.

Members of the Supervisory Board:

Petar Vlaić	President of the Supervisory Board
Josip Lasić	Deputy President of the Supervisory Board
Vicko Ferić	Member of the Supervisory Board
Jasminka Belačić	Member of the Supervisory Board
Vladimir Plečko	Member of the Supervisory Board
Branko Lampl	Member of the Supervisory Board
Joško Miliša	Member of the Supervisory Board
Nikola Anić	Member of the Supervisory Board

Members of the Management Board:

Darinko Bago	President of the Management Board
Gordan Kolak	Deputy President and Member of the Management Board as of 20 January 2019
Miki Huljić	Member, in charge of finance
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Davor Mladina	Member, in charge of industry and trade activities until 20 January 2019
Miroslav Poljak	Member, in charge of corporate development and ICT
Ivan Tomšić	Deputy member, in charge of coordination of the export of complex projects and digital transformation

Compensations to members of the Management Board and Supervisory Board are presented in Notes 7 and 9 to the financial statements.

In 2018, the auditors of the Company's and its related companies' financial statements have provided services of HRK 2,275 thousand. In 2018, services mainly relate to costs of the audit and review of financial statements, as well as the audit of financial statements prepared for regulatory purposes. Other permitted non-audit services provided by the auditor of the financial statements include the service of IFRS 15 implementation, holding accounting seminars, accounting services for foreign branches and training services in the total amount of HRK 1,096 thousand.

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

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2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the applicable laws in the Republic of Croatia and with the International Financial Reporting Standards adopted in the European Union (EU).

The Group's consolidated financial statements have been prepared under the basic principle of accrual accounting, whereby the transaction effects are recognised when incurred and recorded in the financial statements for the period to which they relate, as well as under the going concern assumption.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 2.26.

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group. As at 31 December 2018, the exchange rate for USD 1 and EUR 1 was HRK 7.42 and HRK 6.47 (31 December 2017: HRK 7.51 and HRK 6.27).

New and amended standards adopted and effective

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

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

The Company has applied IFRS 15 and IFRS 9 for the first time commencing 1 January 2018. The nature and effects of changes resulting from the adoption of new standards are detailed in item 2.27.

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

Standards, interpretations and amendments issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. None of these is expected to have a significant effect on the Group's financial statements, except for the following standards:

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

- IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
- Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard will affect primarily the accounting for the Group's operating leases. During 2018, the Group has made a preliminary assessment and calculation of effects of applying IFRS 16 as of 1 January 2019 for operating lease contracts and the application of new rules would result in the disclosure of right-of-use assets in the amount of HRK 3 - 4 million and lease liabilities in the amount of HRK 3 - 4 million.

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

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

In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.
- While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.
- The Management Board anticipates that the adoption of the improvements will not have a material impact on the financial statements of the Group and plans to adopt the amendments on their effective date.

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

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

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128 Investments in Associates and Joint Ventures.

The Management Board anticipates that the adoption of the improvements will not have a material impact on the financial statements of the Group and plans to adopt the amendments on their effective date.

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

- IFRS 3 Business Combinations - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 Joint Arrangements - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

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- IAS 12 Income Taxes - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 Borrowing Costs - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The Group plans to adopt these amendments on their effective date.

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an investor and its associate or joint venture - In December the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

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

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. However, any gain or loss (as a result of a sale or non-operational asset) is recognised only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively. The Management Board anticipates that the adoption of the amendments will not have a material effect on the Group's consolidated financial statements and plans to adopt the amendments as of their effective date and after being adopted by the European Union.

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

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Amendments to IAS 1 and IAS 8: Definition of materiality - issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to the Conceptual Framework for Financial Reporting - issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020.

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance **-** in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

2.2 Basis for consolidation

The consolidated financial statements of the Group include the financial statements of the Parent company and the financial statements of the companies controlled by the Parent company (subsidiaries). The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions among the Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests in subsidiaries without change of control

The Group applies a policy of treating transactions with non-controlling interests that do not result in loss of control as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from minority shareholders, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries/loss of control over subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

2.3 Investments in associates and joint ventures

Associates

Associated companies are companies in which the Group has between 20% and 50% of voting power and in which the Group has significant influence, but not control. In the consolidated financial statements investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Dividends received or receivable from associates are deducted from the carrying value of the investment.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Dividends received or receivable from joint ventures are deducted from the carrying value of the investment.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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2.4 Business combinations

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal.

Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.5 Finance income and costs

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

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in Notes 12 and 13 in gross amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

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

2.6 Leases

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

Assets held under finance leases are initially recognised as assets or liabilities in the lessee's balance sheet at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss.

Operating lease payments are recognised in profit or loss as an expense on a straight-line basis over the lease term.

2.7 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time for its intended use or sale, is added to the cost of that asset until the asset is substantially ready for its intended use or sale.

Other borrowing costs are charged to the income statement in the period in which they are incurred.

2.8 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.

On consolidation, assets and liabilities of the Group's foreign operations are translated into the Group's presentation currency at the exchange rates ruling at the reporting date. Revenues and expenses are translated at the foreign exchange rates ruling at the dates of the transactions and the exchange differences are recognized in other comprehensive income. All foreign exchange gains and losses are recognised in the period when the transaction occurred.

2.9 Income tax

The parent company as well as domestic Group companies account for their tax liabilities in accordance with Croatian law. Income tax for the year comprises current and deferred tax.

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

Deferred taxes arise from temporary differences between the amounts of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. A deferred tax asset for the carry-forward of unused tax losses and unused tax credits 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 in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.10 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares. Diluted earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares and potential shares arising from realised options.

2.11 Related party transactions

The Group, as well as the Parent company, does not disclose within related-party transactions the relations with other state-owned companies, pursuant to the exemption related to state-owned companies as stated in IAS 24.

2.12 Segment information

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

In identifying operating segments, Management mostly considers the sale of goods and provision of services within a certain economic area. Each of these operating segments are separately managed since they are determined on the basis of specific market needs.

Policies of valuation/measurement used by the Group for segment reporting are the same as those used during the preparation of the financial statements.

Furthermore, assets which cannot be directly attributable to certain business segments remain unallocated.

There were no changes in the valuation methods used when determining the profit/loss of an operating segment compared to previous periods.

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

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

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

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

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

The amortisation and depreciation of assets commence when the assets are ready for use, i.e. when the assets are at the required location and the conditions necessary for use have been met. The amortisation and depreciation of assets ceases when the assets are fully expensed or classified as held for sale.

Amortisation and depreciation are charged so as to write off the cost of each asset, other than land, advances and non-current intangible and tangible assets under construction, over their estimated useful lives, using the straight line method, as follows:

	Amortisation and depreciation rates (from - to %)
Development expenditure	20%
Concessions, patents, licences, software etc.	20%-25%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	2.9% - 25%
Tools and equipment, transport vehicles	3.4% - 25%
Other tangible assets	20%

Impairment of property, plant and equipment

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

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

When determining impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are changed.

The recoverable amount is determined as the higher of an asset's fair value less costs of disposal and value in use.

If the amount of tangible assets exceeds its recoverable amount, the difference is charged to the operating result (impairment loss).

At each reporting date the Company reviews if there are indicators that the previously recognised impairment loss should be reversed or decreased.

2.14 Investment property

Investment property (land, buildings) owned by the Group are held for the purpose of earning rentals or as a potential for issuing guarantees or solidarity guarantees for subsidiaries, and also for the future capital appreciations for the purpose of future sale. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets. Investment property is initially measured at cost less accumulated depreciation. The Group reviews at least annually the residual value and useful life of the property. The residual value is an estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Since the Group has estimated that the residual value of the property exceeds its carrying value, depreciation is not charged until the residual value is reduced to the amount below the carrying value.

2.15 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale when its carrying value will be recovered principally through a sale transaction rather than through continuing use.

This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition. Assets which are once classified as held for sale are no longer depreciated.

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

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

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

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

2.17 Receivables

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

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

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

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

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

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

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2.18 Cash and cash equivalents

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

2.19 Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less, or in the regular operating cycle of the business if longer. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In future periods, borrowings are 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.

2.21 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognised as deferred income in the balance sheet and released in the income statement on a systematic and appropriate basis in accordance with the useful life of that asset. Government grants are recognised as income over the periods necessary to match them with the costs (for which they are intended to compensate), on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

2.22 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is likely that the settlement of the obligation will require an outflow of economic benefits and when it is certain that the amount of the obligation can be measured reliably. Provisions are reviewed at each balance sheet date and adjusted to reflect the best current estimate.

Provisions are determined for costs of repairs within warranty periods, legal claims, restructuring costs, termination benefits and awards to employees for long-term employment and retirement.

Provisions for warranties are recognised at the moment when the underlying products are sold/projects are completed. Provisions are made based on estimates and experiences from other manufacturers of energy equipment within the Group's environment and the best estimate of possible solutions against their probabilities.

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

2.23 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

The Group has post-employment benefits to be paid to the employees at the end of their employment in the Group (either upon retirement, termination or voluntary departure). The Group recognises a liability for these long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(iii) Short-term employee benefits - bonuses

A liability for employee benefits is recognised in provisions based on the Group's formal plan and when past practice has created a valid expectation by the Management Board/key employees that the bonus will be paid and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are expected to be settled within 12 months of the balance sheet date and are recognised at the amounts expected to be paid when they are settled.

(iv) Share-based payments

The Parent company operates an equity-settled, share-based compensation plans. The total amount recognised as expense and the relevant increase in share capital are measured by reference to the fair value of the provided equity instruments. The fair value of these equity instruments is measured at the grant date. At each balance sheet date, management revises its estimates of the number of options that are expected to vest.

2.24 Contingent assets and liabilities

Contingent liabilities are not recognised in the Group's consolidated financial statements, but only disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the Group's consolidated financial statements, except in case where the realisation of income is certain and the assets in question are not contingent assets and their recognition is appropriate.

2.25 Events after the balance sheet date (subsequent events)

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

2.26 Critical accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the 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 Končar Group recognises revenue both over time and at a point in time. The method of measuring progress highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments. The Končar Group has determined the input method as the best method for measuring progress in providing services because there is a direct link between Group effort (total project costs incurred) and the transfer of services to the customer. If revenue is recognised over time, this is done by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations.

The Group also recognises revenue at a point in time for the delivery of goods by recognising revenue when the customer obtains control of a particular item, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unsatisfied obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

b) Extended warranties

The Group provides warranties for its products/projects performed for a period of 2 - 8 years. Management of the subsidiary estimates the provision for costs of repair and correction of defects within warranty periods based on past experience. The subsidiaries analysed contracts in which a guarantee was issued beyond the above stated period and found that there were no significant non-standard guarantees and accordingly did not defer a portion of the transaction price over a time period other than the standard guarantee.

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c) Significant financing component

In certain contracts, the Group contracted the sale of equipment whose production may last longer than one year after the signing of the contract. Depending on the type of product, the production period may last from 1 to 4 years. Accordingly, the period between payment by the customer and the transfer of the promised goods or services to the customer may be longer than one year. The amount received in advance for such contracts is considered a discounted transaction price.

At the Group level, a significant financing component is considered amount exceeding 3% - 5% of the contract price, depending on the type of contract as well as the effective interest rate on the market. The Group companies do not adjust the promised consideration in accordance with the effects of a significant financing component if, when concluding the contract, the company expects that the period between the transfer of the promised goods or services to the customer and the date when the customer pays for the goods or services will last one year or less.

d) Impairment of inventories

Group companies perform an impairment of inventories of raw materials and supplies, work in progress, finished goods and trade goods whose carrying amount exceeds their market, i.e. realisable value, based on the direct review of inventories and management's estimation of obsolete inventories, technologically inadequate and non-functional inventories or inventories which can no longer be used in production or realised on the market.

e) Warranty provisions

The Group provides warranties for its products/projects performed for a period of 2 - 10 years. Management estimates the provision for costs within warranty periods based on past experience. Factors that could impact the estimated claim information include the success of the Group companies' quality initiatives, as well as spare parts and labour costs. If the required level of provisions made had increased by 1% in relation to performed deliverables/active contracts under warranty, provisions would have increased by HRK 33.6 million (2017: HRK 35.4 million).

f) Recoverability of non-financial assets

At the end of each reporting period, the Group assesses whether there are any indications that the value of non-financial assets should be impaired and estimates the recoverable amount of non-financial assets.

The impairment is based on many factors such as change in expected industry growth, increase in capital expense, changes in market conditions, changes in future funding possibilities, technological obsolescence, termination of provision of services or sale of goods, exchange costs, amounts paid in comparable transactions and other changes in circumstances that indicate the existence of impairment.

The calculation of fair value less costs to sell is based on the data available from related arm's length transactions for similar assets or observable market prices less any additional costs of asset disposal. The calculation of value in use is based on the discounted cash model, which is derived from the medium-term financial plan, and after that planning period they are extrapolated by using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflow and the rate used to extrapolate the data.

g) Impairment of trade receivables

When calculating and recognising expected credit losses on trade receivables, an assessment is made in order to select the methodology, model and inputs. The detailed methodology for calculating expected credit losses is disclosed in Note 42.

The Group uses historical observations (over a minimum period of 3 years) on days past due that are adjusted for estimated future expectations relating to the collection of receivables.

2.27 Adoption of new accounting policies

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

A) Financial assets and liabilities

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

Classification and measurement of financial assets

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

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

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

Business models for managing financial assets include:

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

Derecognition of financial assets

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

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and financial liability for the proceeds received.

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

- Stage 1 - when determining the impairment of financial assets, a 12-month expected credit loss model is applied. This model applies if there is no significant increase in credit risk.
- Stage 2 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk.
- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

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

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

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

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contract liabilities

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

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

Financial liabilities, classification and measurement

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

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

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

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

Derecognition of financial liabilities

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

Effects

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

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

Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The nature of reconciliation is explained below:

a) Classification and measurement

	Total according to IAS 39	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Classification under IAS 39				
Loans and receivables				
Non-current receivables	10,875	10,875	-	-
Non-current financial assets	7,567	7,567	-	-
Trade receivables, receivables from related parties and other receivables	929,944	929,944	-	-
Current financial assets	272,217	272,217	-	-
Cash and cash equivalents	520,697	520,697	-	-
Available-for-sale assets				
Non-current financial assets	3,528	-	-	3,258
Assets at fair value through P&L				
Non-current financial assets	1,323	-	1,323	-
Current financial assets	883	-	883	-
	1,747,034	**1,741,300**	**2,206**	**3,258**

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

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

b) Impairment

The Group recognised additional impairment losses on assets at amortised cost and debt instruments at fair value through other comprehensive income of HRK 7,245 thousand, resulting in a decrease in retained earnings of HRK 7,245 thousand. The impairment has not changed the value of the debt instruments recognised in the balance sheet since they are still measured at fair value. Expected credit losses for cash and cash equivalents are immaterial.

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	Impairment under IAS 39 31 December 2017	Remeasurement	Expected credit loss under IFRS 9 1 January 2018
	HRK'000	*HRK'000*	*HRK'000*
Non-current receivables	(428)	(759)	(1,187)
Trade receivables, receivables from related parties and other receivables	(139,332)	(6,348)	(145,680)
Current financial assets	-	(138)	(138)
	(139,760)	**(7,245)**	**(147,005)**

B) Revenue recognition

The Končar Group recognises revenue based on:

- design and construction of plant and equipment for generation, transmission and distribution of electricity
- design and construction of rail vehicles, rail vehicles equipment and related services
- sale of electrical motor drives, low voltage electrical equipment;
- sale of electrical household appliances, serial products and low voltage electrical appliances

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

Revenue from construction contracts: Income is recognised over time by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations. The stage-of-completion method highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments.

Changes in these estimates can result in an increase or decrease in revenue. In addition, the Group estimates whether an individual contract will be extended or terminated, and also assesses the most probable scenario, taking into account all relevant facts and circumstances related to the contract. The estimate is made on an individual contract basis. The expected loss on a contract is recognised as an expense immediately.

Sales of services: Revenue is recognised over time on a straight-line basis or as services are rendered, 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 when control of the good has transferred, being when the goods are delivered to the customer. Invoices are issued at that time and are usually paid within the deadlines defined by contractual provisions. Revenue from licenses providing the right to access the intellectual property, payment terms are 60 days as of the invoice date, in line with the contractual provisions.

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

Income from dividends, i.e. shares in profit: Income from dividends, i.e. shares in profit of subsidiaries and associates, is recognised when the right to receive payment is established, within finance income and costs, Note 12 and Note 13.

When a party to a contract with a customer satisfies its performance 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 Group's performance and the customer's payment. Contract assets and liabilities are classified as current since they arise within the normal operating cycle.

Contract assets and liabilities

A contract liability is recognised when the customer has paid a consideration and the Company has not fulfilled its contractual obligation by transferring goods or services. If the Company has transferred goods or services to the customer before the consideration is paid by the customer and the right to the consideration is only subject to the passage of time before the payment of the consideration is due, a trade receivable is recognised. Contract assets are recognised if the right to consideration is subject to a condition (for example, performance of some other obligation).

The Končar Group has adopted this standard partially retrospectively with the effective date as of 1 January 2018, by retaining the amounts relating to the previous periods and presenting them in accordance with the previous standards, showing the cumulative effect of applying IFRS 15 as an adjustment of the opening equity balance with the date of the first application of the standard. In accordance with this method, the Group has selected to apply the standard to all contracts that were not completed as at the date of first application.

	Note	IAS 11 and IAS 18 as at 31 December 2017	Reclassification	Offsetting	Remeasurement	IFRS 15 as at 1 January 2018
		HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Capitalised costs to obtain a contract	a)	-	-	-	2,805	2,805
Inventories	b), d)	461,997	-	-	21,158	483,155
Receivables for uninvoiced services	c)	125,772	(46,949)	(66,002)	(12,821)	-
Contract assets	c), d)	-	48,926	(5,411)	15,859	59,374
Prepaid expenses and accrued income	c)	7,843	(1,977)	-	-	5,866
Total assets		**595,612**	**-**	**(71,413)**	**27,001**	**551,200**
Contract liability - agent commissions	a)	-	-	-	3,685	3,685
Contract liability - advances received	c)	-	104,574	(5,411)	-	99,163
Contract liability from contracts with customers	b), d)	-	29,376	-	25,019	54,395
Liabilities for construction contracts	c)	19,088	(19,088)	-	-	-
Deferred income and accrued expenses	c)	22,224	(10,288)	-	-	11,936
Advances received	c)	177,190	(104,574)	(66,002)	-	6,614
Total liabilities		**218,502**	**-**	**(71,413)**	**28,704**	**175,793**
Total effect on equity						
Retained earnings	a), b), d)	**337,982**	**-**	**-**	**(1,703)**	**336,279**

The nature of reconciliations as at 1 January 2018 and the reasons for significant changes in the statement of financial position as at 31 December 2018 and in the statement of comprehensive income for the year ended 31 December 2018 are presented as follows:

a) Costs of obtaining a contract

For a certain number of contracts, the Končar Group bears the costs of obtaining a contract with customers, which it would not bear had there been no contract acquisition. In accordance with the above, following the IFRS 15 adoption, the Group recognised contract assets in the amount of HRK 2,805 thousand, contract liability in the amount of HRK 3,685 thousand and decreased the retained earnings by HRK 880 thousand.

b) Inventories

When applying the 5-step model set out in IFRS 15, the Group has determined that a certain number of contracts do not meet the criteria for recognition of revenue over time, that is, under the said contracts the revenue is recognised at a point in time. Consequently, for the said contracts that were recognised based on the stage of completion in the previous period, the Group increased the inventories by HRK 23,779 thousand, increased the contract liability by HRK 21,415 thousand and increased the retained earnings by HRK 2,356 thousand.

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c) Reclassification and offsetting

In accordance with the provisions of IAS 11, the Group recognised assets under construction contracts in the amount of HRK 125,772 thousand and in accordance with the provisions of IFRS 15 the Group reclassified the stated amount as contract assets in the amount of HRK 46,949 thousand. In addition, the Group also recognised liabilities arising from construction contracts in the amount of HRK 19,088 thousand and reclassified these liabilities as contract liabilities in the same amount.

The Group also recognised deferred expenses for construction contracts in the amount of HRK 1,977 thousand and reclassified these expenses as contract assets in the same amount.

The Group also recognised deferred income on construction contracts in the amount of HRK 10,288 thousand, and reclassified this income as contract liabilities in the same amount.

The Group also recognised liabilities for advances received in the amount of 177,190 of which HRK 104,574 thousand relates to contracts with customers reclassified as contract liabilities.

Receivables arising from construction contracts and liabilities for advances are offset (netted off) on an individual contract basis so as to recognise the contract assets and contract liabilities on a net basis as at 1 January. The total offset amount was HRK 71,413 thousand.

d) Revenue recognised over time

After applying the 5-step model, the Group determined that there were certain contracts that meet the terms of recognition over time and consequently increased the contract assets in the amount of HRK 3,325 thousand, decreased inventories by HRK 2,621 thousand, increased contract liabilities by HRK 3,604 thousand and decreased retained earnings in the amount of HRK 2,900 thousand.

In accordance with the provisions of IAS 11, the Group recognised assets under construction contracts by the stage of completion in the amount of HRK 12,821 thousand, while in accordance with the provisions of IFRS 15, revenues met the criteria to be classified at a point in time where contract assets were recognised in the amount of HRK 12,534 thousand and the net difference arising from the time of recognition was recognised as a decrease in retained earnings of HRK 287 thousand.

e) Long-term advances from customers

The Group sells plant and equipment for generation, transmission and distribution of electricity as well as rail vehicles, whose design and construction takes more than a year after the signing the contract. Prior to the adoption of IFRS 15, the Group recognised these advances as liabilities for advances received in the statement of financial position, with no interest expense accrued. In accordance with IFRS 15, the Group has concluded that there is no significant financing component for these contracts in which the customer decided to pay a portion of the transaction price when the contract was signed. The amount received for such contracts is considered a discounted transaction price that takes into account a significant financing component. It has been defined at the Group level that an amount exceeding 3% - 5% of the contract price is considered a significant financing component, depending on the contract type.

	IFRS 9 and IFRS 15 31 December 2018	IAS 11, IAS 18, IAS 39 31 December 2018	Difference
		HRK	*HRK*
ASSETS			
Goodwill	7,342,331	7,342,331	-
Intangible assets	37,870,261	37,870,261	-
Property, plant and equipment	993,688,775	993,688,775	-
Investment property	138,934,263	138,934,263	-
Investments accounted for using the equity method	284,386,989	284,386,989	-
Financial assets	16,077,832	16,084,508	(6,676)
Receivables	14,648,913	14,897,453	(248,540)
Deferred tax assets	231,150	231,150	-
Non-current assets	**1,493,180,514**	**1,493,435,730**	**(255,216)**
Inventories	559,519,525	538,112,645	21,406,880
Receivables from related parties	77,733,844	77,733,844	-
Trade receivables	774,068,740	778,974,533	(4,905,793)
Receivables from construction contracts	-	33,652,083	(33,652,083)
Contract assets	59,621,218	-	59,621,218
Prepaid corporate income tax	14,462,211	15,383,041	(920,830)
Other receivables	54,464,735	54,464,735	-
Financial assets	70,178,154	70,267,794	(89,640)
Cash and cash equivalents	616,628,577	616,628,577	-
Prepaid expenses and accrued income	7,317,726	9,558,978	(2,241,252)
Current assets	**2,233,994,730**	**2,194,776,230**	**39,218,500**
TOTAL ASSETS	**3,727,175,244**	**3,688,211,960**	**38,963,284**
EQUITY AND LIABILITIES			
Share capital	1,208,895,930	1,208,895,930	-
Capital reserves	719,579	719,579	-
Other reserves	682,691,233	682,691,233	-
Retained earnings	312,124,544	320,210,271	(8,085,727)
Profit for the year	102,837,087	103,820,450	(983,363)
Attributable to Company owners	*2,307,268,373*	*2,316,337,463*	(9,069,090)
Non-controlling interest	230,213,919	229,995,391	218,528
TOTAL EQUITY	**2,537,482,292**	**2,546,332,854**	**(8,850,562)**
Warranty provisions	153,720,462	153,720,462	-
Other provisions	52,431,695	52,431,695	-
Provisions	**206,152,157**	**206,152,157**	**-**
Deferred tax liability			-
Borrowings	89,037,057	89,037,057	-
Other non-current liabilities	8,131,049	8,131,049	-
Non-current liabilities	**97,168,106**	**97,168,106**	**-**
Liabilities to related parties	13,039,342	13,039,342	-
Borrowings	85,843,390	85,843,390	-
Trade payables	413,302,173	413,302,173	-
Liabilities from construction contracts	-	7,138,530	(7,138,530)
Contract liabilities	181,025,585	-	181,025,585
Advances received	6,394,205	128,881,211	(122,487,006)
Other liabilities	82,477,309	82,477,309	-
Current provisions	97,340,040	97,340,040	-
Accrued expenses and deferred income	6,950,645	10,536,848	(3,586,203)
Current liabilities	**886,372,689**	**838,558,843**	**47,813,846**
Total liabilities	**1,189,692,952**	**1,141,879,106**	**47,813,846**
TOTAL EQUITY AND LIABILITIES	**3,727,175,244**	**3,688,211,960**	**38,963,284**

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	IFRS 9 and IFRS 15 2018	IAS 11, IAS 18, IAS 39 2018	Difference
	HRK	*HRK*	*HRK*
Revenue	2,702,933,182	2,691,587,185	11,345,997
Other operating income	170,474,507	170,474,507	-
OPERATING INCOME	**2,873,407,689**	**2,862,061,692**	**11,345,997**
Increase/(decrease) in inventories of work in progress and finished goods	30,607,644	42,892,160	(12,284,516)
Cost of materials and energy	(1,345,672,690)	(1,345,672,690)	-
Cost of goods sold	(193,950,758)	(193,950,758)	-
Services costs	(393,602,384)	(393,602,384)	-
Staff costs	(551,692,987)	(551,692,987)	-
Depreciation and amortisation	(90,839,796)	(90,839,796)	-
Other costs	(138,269,976)	(138,269,976)	-
Impairment losses on financial assets	(584,317)	(2,503,864)	1,919,547
Impairment losses on non-financial assets	(18,076,739)	(18,076,739)	-
Provisions	(60,882,352)	(60,882,352)	-
Other operating expenses	(9,030,179)	(9,030,179)	-
OPERATING EXPENSES	**(2,771,994,534)**	**(2,761,629,565)**	**(10,364,969)**
Operating profit	**101,413,155**	**100,432,127**	**981,028**
Finance income	36,102,854	36,102,854	-
Finance costs	(41,637,388)	(41,637,388)	-
Net finance (costs)/income	**(5,534,534)**	**(5,534,534)**	**-**
Share in profit of investments accounted for using the equity method	**46,326,686**	**46,326,686**	**-**
Profit before tax	**142,205,307**	**141,224,279**	**981,028**
Income tax	(13,497,280)	(12,612,749)	(884,531)
PROFIT FOR THE YEAR	**128,708,027**	**128,611,530**	**96,497**
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
FX differences from translating foreign operations	(668,540)	(668,540)	-
COMPREHENSIVE INCOME FOR THE YEAR	**128,039,487**	**127,942,990**	**96,497**
Profit for the period attributable to:			
Owners of the Company	102,837,087	103,820,450	(983,363)
Non-controlling interest	25,870,940	24,791,080	1,079,860
Total comprehensive income or loss for the year attributable			
Owners of the Company	102,484,566	103,467,929	(983,363)
Non-controlling interest	25,554,921	24,475,061	1,079,860
Earnings per share			
Basic and diluted earnings per share in HRK	40.13	40.51	(0.38)

2.28 Subsidiaries:

	31 December 2018		31 December 2017	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Consolidated subsidiaries registered in Croatia:				
Končar - Household Appliances Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Small Electrical Machines Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical Engineering Institute Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Brakers Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Generators and Motors Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Steel Structures Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Switchgear Inc. (previously: Končar - Medium Voltage Apparatus Inc., Zagreb)	100.00	100.00	100.00	100.00
Končar - Renewable Energy Sources Ltd., Zagreb	89.39	89.39	85.27	85.27
Direct ownership	*89.39*	*89.39*	*85.27*	*85.27*
Indirect ownership	*10.64*	*10.64*	*14.73*	*14.73*
Končar - Electric Vehicles Inc., Zagreb	75.04	75.04	75.04	75.04
Končar - Electronics and Informatics Inc., Zagreb	88.98	88.98	75.03	75.03
Končar - Instrument Transformers Inc., Zagreb	61.97	99.77	61.97	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	52.73	67.9	52.73	67.90
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05
Consolidated subsidiaries not registered in Croatia:				
Power Engineering Transformatory Sp. z o.o. (PET), Poznan, Poland Indirect ownership**	74.00	74.00	74.00	74.00
Non-consolidated subsidiaries*:				
Konell Ltd., Sofia, Bulgaria	85.00	85.00	85.00	85.00
Končar - Inženjering Inc., Zagreb	100.00	100.00	100.00	100.00
Sunčana elektrana Vis d.o.o., Zagreb	100.00	100.00	-	-
Wind Farm Rust Ltd., Zagreb	100.00	100.00	-	-

* companies in indirect ownership by the Company. These companies are not consolidated since they are insignificant at the Group level.

**In 2017, the subsidiary Končar - Distribution and Special Transformers Inc. acquired a 74% share in the company Power Engineering Transformatory Sp. z.o.o., but the 100% share was accounted for (Note 44).

In 2018, the subsidiary Končar - Renewable Energy Sources Ltd. established two companies, Sunčana elektrana Vis d.o.o. and Wind Farm Rust Ltd., each with a cash contribution of HRK 20,000.

Pursuant to the Merger Agreement dated 29 September 2017, approved by the Decision of the company's General Assembly dated 20 December 2017, and by the Decision of the Commercial Court dated 29 December 2017, Končar - Switchgears Inc. and Končar - Electrical High Voltage Switchgears Inc. merged with all their assets, rights and obligations with the company Končar - Switchgear Inc. (previously: Končar - Medium Voltage Apparatus Inc.).

The following are the companies in which the Parent company has a significant non-controlling interest:
- Končar - Distribution and Special Transformers Inc., Zagreb (KONČAR D&ST Inc.)
- Končar - Instrument Transformers Inc., Zagreb (KONČAR MT Inc.) and
- Končar - Engineering Co. for Plant Installation and Commissioning Inc., Zagreb (KONČAR MI Inc.)

These three companies represent 86.43% of the total amount of the Group's non-controlling interest at the balance sheet date.

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Summary of the stated companies with significant non-controlling interests are presented below:

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR MI Inc.	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Statement of comprehensive income						
Income	931,162	906,640	182,559	181,221	102,668	126,963
Expenses	(880,481)	(863,582)	(177,550)	(174,132)	(99,092)	(122,733)
Profit before tax	50,681	43,058	5,009	7,089	3,576	4,230
Income tax	(1,499)	(1,551)	(274)	(1,087)	(873)	(1,075)
Profit after tax	**49,182**	**41,507**	**4,735**	**6,002**	**2,703**	**3,155**
Statement of financial position						
Non-current assets	165,929	173,525	58,243	58,180	109,776	10,400
Current assets	555,375	472,941	139,440	135,942	115,149	40,607
Total assets	**721,304**	**646,466**	**197,683**	**194,122**	**224,925**	**51,007**
Total liabilities	**397,374**	**345,833**	**98,615**	**95,963**	**126,092**	**18,504**
Cash flow						
Cash flow from operating activities	26,685	79,957	8,769	1,735	(1,615)	7,473
Cash flow from investing activities	(11,894)	(32,875)	(3,621)	(4,779)	(376)	(1,607)
Cash flow from financing activities	(30,704)	(683)	(3,952)	(5,499)	(2,672)	(1,714)
Net increase/(decrease) in cash	**(15,913)**	**46,399**	**1,196**	**(8,543)**	**(4,663)**	**4,152**
Cash at beginning of period	117,850	71,451	1,665	10,209	9,287	5,135
Cash at end of period	**101,937**	**117,850**	**2,861**	**1,666**	**4,624**	**9,287**

	31 December 2018	31 December 2017
	Ownership share (in %)	Ownership share (in %)
Associates accounted for by using the equity method:		
KONČAR - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon d.o.o.., Zagreb*	50.00	50.00
Joint ventures accounted for using the equity method:		
KONČAR - XD High Voltage Switchgear Ltd.	50.00	-
TBEA KONČAR Instrument Transformers Ltd., China *	27.00	27.00

** company in indirect ownership by the Company*

Details of investments accounted for using the equity method are presented in Note 21.

On 5 December 2018, the company KONČAR - XD High Voltage Switchgears Ltd. was incorporated with a contribution in cash, in line with its Articles of Association.

3. Revenue

Analysis of revenue by category in accordance with the new revenue recognition guidelines as of 1 January 2018:

	2018
	HRK
Type of goods or services	
Sale of goods and services relating to energy and transport	2,306,363,432
Sale of small electrical machines	90,884,688
Sale of electrical household appliances and low voltage electrical appliances	224,139,724
Other	81,545,338
Total revenue from contracts with customers	**2,702,933,182**
Related parties	102,758,713
Unrelated parties	2,600,174,469
Total revenue from contracts with customers	**2,702,933,182**
Timing of revenue recognition	
At a point in time	2,012,840,718
Over time	690,092,464
Total revenue from contracts with customers	**2,702,933,182**

Analysis of revenue by geographic areas is given in Note 43.

Analysis of revenue by category according to the application of revenue recognition guidelines applicable until 1 January 2018:

	2017
	HRK
Domestic sales	1,138,069,153
Foreign sales	1,566,459,574
Sales to associates	118,917,570
	2,823,446,297

Segment information is presented in Note 43.

4. Other operating income

Other operating income in the amount of HRK 170,474,507 (2017: HRK 139,867,508) mainly relates to income from the release of provisions, income from insurance claims, income from the sale of materials, income from collected receivables previously written off and other income.

5. Cost of materials and energy

	2018	2017
	HRK	*HRK*
Cost of raw materials and supplies	1,288,521,566	1,300,662,484
Energy cost	42,299,541	43,479,233
Cost of small inventories and spare parts	14,851,583	15,599,725
	1,345,672,690	**1,359,741,442**

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6. Cost of services

	2018	2017
	HRK	*HRK*
External product design and selling services	146,864,173	175,769,275
Maintenance services (servicing)	36,512,653	35,109,734
Telephone, post and transport	32,584,754	31,258,879
Freight forwarding	26,473,373	31,617,402
Intellectual and similar services	24,699,251	25,148,567
Entertainment	14,495,020	15,154,688
Agency commission costs	17,605,930	13,198,532
Utility services	9,437,532	9,796,934
Research and development costs	5,088,665	6,538,779
Rent	6,723,341	6,163,817
Costs of advertising and fairs	7,172,939	7,521,903
Professional training costs	5,240,177	6,099,153
Environmental protection	9,983,363	8,445,528
Costs of claims	2,117,264	1,732,334
Outsourcing of employees	1,079,938	1,902,430
Other external costs	47,524,011	32,412,041
	393,602,384	**407,869,996**

7. Staff costs

	2018	2017
	HRK	*HRK*
Net salaries and wages	322,883,938	322,883,978
Taxes and contributions from salaries	149,823,797	152,458,695
Contributions on salaries	78,985,252	79,443,738
	551,692,987	**554,786,411**

Net salaries in the amount of HRK 322,883,938 (2017: HRK 322,883,978) include compensations to the Management Board of the Company and other related companies in the amount of HRK 17,481,041 (2017: HRK 21,387,465) and accrued bonuses for the Management Board in the amount of 7,301,685 (2017: HRK 7,016,004), and are an integral part of staff costs.

In 2018, pension fund contributions amounted to HRK 102,472,294 (2017: HRK 103,296,597).

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business travel expenses) in the amount of HRK 83,928 thousand (2017: HRK 76,226 thousand) are presented in Note 9.

8. Depreciation and amortisation

	2018	2017
	HRK	*HRK*
Depreciation (Note 19)	81,838,211	83,491,049
Amortisation (Note 18)	8,831,364	10,272,190
Depreciation of investment property (Note 20)	170,221	9,803
	90,839,796	**93,773,042**

9. Other costs

	2018	2017
	HRK	*HRK*
Daily allowances for business trips and travel expenses	43,274,299	43,487,750
Reimbursements of costs to employees, gifts and support	40,644,283	32,738,196
Bank charges and payment transactions	13,437,291	14,641,486
Insurance premiums	16,287,172	16,616,992
Compensations to members of the Supervisory Board (gross)	6,342,024	6,361,883
Compensations for temporary service contracts and authors' fees	4,348,622	3,475,572
Taxes irrespective of result and fees	2,583,023	2,922,219
Contributions, membership fees and similar charges	3,792,656	2,664,575
Sponsorships and donations	1,879,024	2,203,777
Voluntary pension fund premiums	1,918,313	1,991,210
Other costs	3,763,269	11,689,294
	138,269,976	**138,792,954**

10. Impairment losses

	2018	2017
Impairment losses on non-current assets:		
Impairment losses on property, plant and equipment (Note 19)	40,000	37,058,764
Impairment losses on intangible assets (Note 18)	8,093,306	623,878
Goodwill impairment losses	-	638,115
	8,133,306	**38,320,757**
Impairment losses on investment property	-	500,000
Impairment losses on current assets:		
Impairment of inventories	**9,943,433**	**13,124,730**
	18,076,739	**51,945,487**

11. Provisions

	2018	2017
	HRK	*HRK*
Provisions for costs within warranty period (Note 33 and 41)	48,605,244	58,439,701
Provisions for termination benefits and jubilee awards (Note 33 and 41)	10,311,940	24,388,885
Provisions for legal claims	550,000	2,183,963
Other non-current and current provisions	1,415,168	2,842,343
	60,882,352	**87,854,892**

The movement in non-current provisions is presented in Note 33. Provisions for costs within warranty period include non-current provisions amounting to HRK 26,657 thousand (2017: HRK 36,602 thousand), and current provisions amounting to HRK 21,949 thousand (2017: HRK 21,838 thousand).

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12. Finance income

	2018	2017
	HRK	*HRK*
Interest, foreign exchange gains, dividends and similar income from transactions with unrelated parties		
Interest income	4,666,007	3,273,654
Foreign exchange gains	29,527,637	39,760,822
Income from dividends and shares in profit	1,353,305	2,054,089
Other finance income	372,034	2,738,402
	35,918,983	*47,826,967*
Unrealised gains (income)	*183,871*	*759,213*
	36,102,854	**48,586,180**

13. Finance costs

	2018	2017
	HRK	*HRK*
Interest, foreign exchange losses, dividends and similar income from transactions with unrelated parties		
Interest expense	6,100,094	6,980,606
Foreign exchange losses	34,819,122	45,590,781
Other finance costs	718,172	72,215
	41,637,388	*52,643,602*
Unrealised losses		
Impairment losses on non-current financial assets	-	30,257
	-	*30,257*
	41,637,388	**52,673,859**

14. Share in profit of associate/joint ventures

The share in profit of associates/joint ventures in the amount of HRK 46,326,686 (2017: HRK 72,177,395) relates to the share in profit of the company KONČAR - Power Transformers Ltd. in which the Group owns a 49% share in the amount of HRK 50,472,031 (2017: HRK 72,973,704), to the share in profit of the company Elkakon d.o.o. in which the Group indirectly owns a 50% share in the amount of HRK 593,218 (2017: HRK 305,052) and to the share in the loss of a joint venture - the company Tbea KONČAR - Instrument Transformers Ltd., China in the amount of HRK 4,738,563 (2017: HRK 1,101,361).

The above mentioned companies realised a total net profit/(loss) in 2018 as follows:

- KONČAR - Power Transformers Ltd.: profit of HRK 103,004,145 (2017: HRK 148,925,927).
- Elkakon Ltd.: profit of HRK 1,186,435 (2017: HRK 610,104).
- Tbea KONČAR Instrument Transformers Ltd.: loss of HRK 17,550,235 (2017: loss of HRK 4,079,116).

The total dividend paid in 2018 amounts to HRK 1,493,306, while in 2017 the total cash inflow from dividends amounted to HRK 140,505,709.

15. Income tax expense

The income tax calculation for the year ended 31 December was as follows:

	2018	2017
	HRK	*HRK*
Consolidated profit before tax	142,205,307	124,459,976
Tax at applicable tax rate of 18%	**25,596,955**	**22,402,796**
Tax effect:		
Consolidation adjustments	12,503,279	5,402,590
Non-deductible expenses	13,046,278	23,856,225
Income not subject to tax	(26,799,801)	(29,832,211)
Utilisation of previously unrecognised tax losses	(3,844,352)	-
Tax losses for which no deferred tax asset is recognised	1,974,538	6,107,148
Income tax in foreign subsidiaries	86,887	732,392
Income tax paid abroad	-	(656,049)
Investment incentives	(9,064,349)	(11,392,603)
Deferred tax asset recognised on temporary differences	(2,155)	(264,224)
Income tax	**13,497,280**	**16,356,064**

The Group can carry forward tax losses for companies which incurred losses in 2018 and are not subject to taxation and for subsidiaries that realised a profit in 2018 but are not subject to taxation due to tax losses carried forward from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income within the following 5-year period. As at 31 December 2018, unrecognised deferred tax assets on tax losses carried forward amount to HRK 17,765 thousand (31 December 2017: HRK 32,072 thousand).

Gross tax losses expire as follows:

	31 December 2018	31 December 2017
	HRK	*HRK*
Within 1 year	19,675,535	56,758,698
Within 2 years	9,819,772	16,584,586
Within 3 years	30,376,181	27,423,604
Within 4 years	26,546,714	29,394,751
Within 5 years	12,278,812	48,014,308
	98,697,014	**178,175,947**

No deferred tax assets have been recognised in the financial statements in respect of the tax losses carried forward due to the uncertainty of their future use. In accordance with local regulations, the Tax Administration may at any time inspect the individual Group companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

16. Earnings per share

Basic and diluted earnings per share

	31 December 2018	31 December 2017
	HRK	*HRK*
Net profit attributable to owners of the parent	102,837,087	83,625,614
Weighted average number of shares (net of treasury shares)	2,562,643	2,566,258
Earnings per share	**40.13**	**32.59**

Diluted earnings per share for 2018 and 2017 are the same as basic since the Group had no convertible instruments or options during both periods.

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17. Goodwill

Goodwill amounting to HRK 7,342,331 (2017: HRK 7,342,331) relates to goodwill recognised in the course of gaining control over the companies KONČAR - Instrument Transformers Inc., KONČAR - Distribution and Special Transformers Inc. and KONČAR - Engineering Co. for Plant Installation & Commissioning Inc.

The movement in goodwill during the year was as follows:

	HRK
At 1 January 2017	**7,980,446**
Decrease	(638,115)
As at 31 December 2017	**7,342,331**
Decrease	-
At 31 December 2018	**7,342,331**

Based on the performed goodwill impairment test, the Company's Management estimates that there is no need to impair goodwill at the reporting date since all three companies are profitable and realised income as planned (key indicators for the stated three companies are presented in Note 2.28).

18. Intangible assets

	Development expenditure	Concessions, patents, licences, software etc.	Other	Assets under construction	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*
Cost	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**
At 1 January 2017	**106,760,989**	**31,966,945**	**1,618,396**	**4,006,864**	**144,353,194**
Transfer from assets under construction	253,358	701,720	-	(955,078)	**-**
Additions	1,597,033	681,478	13,780	4,657,272	6,949,563
Disposals	-	(509,732)	-	(182,251)	(691,983)
At 31 December 2017	**108,611,380**	**32,840,411**	**1,632,176**	**7,526,807**	**150,610,774**
Transfer from assets under construction	405,014	2,342,589	-	(2,747,603)	-
Additions	2,800,799	2,051,474	-	8,656,380	13,508,653
Disposals	-	-	(5,860)	(7,367)	(13,227)
At 31 December 2018	**111,817,193**	**37,234,474**	**1,626,316**	**13,428,217**	**164,106,200**
Accumulated amortisation					
At 1 January 2017	**74,746,907**	**24,300,036**	**1,277,008**	**-**	**100,323,951**
Amortisation for the year	7,713,465	2,415,700	143,025	-	10,272,190
Disposals	-	(1,902,890)	-	-	(1,902,890)
Impairment	-	-	-	623,878	623,878
At 31 December 2017	**82,460,372**	**24,812,846**	**1,420,033**	**623,878**	**109,317,129**
Amortisation for the year	5,819,886	2,918,091	93,387	-	8,831,364
Disposals	-	-	(5,860)	-	(5,860)
Impairment	8,093,306	-	-	-	8,093,306
At 31 December 2018	**96,373,564**	**27,730,937**	**1,507,560**	**623,878**	**126,235,939**
Net book amount					
31 December 2017	26,151,008	8,027,565	212,143	6,902,929	41,293,645
31 December 2018	**15,443,629**	**9,503,537**	**118,756**	**12,804,339**	**37,870,261**

The cost of fully amortised intangible assets still in use as at 31 December 2018 amounts to HRK 84,494 thousand (2017: HRK 89,568 thousand).

19. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction	Advances	Total
Cost	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
At 1 January 2017	**148,137,183**	**921,739,969**	**999,779,302**	**310,979,197**	**2,620,090**	**19,105,695**	**5,286,185**	**2,407,647,621**
Additions	-	2,149,480	2,499,795	429,876	447,982	70,235,061	23,599,730	99,361,924
Transfer from assets under construction	118,560	6,902,159	33,589,091	19,075,063	-	(59,684,873)	-	-
Acquisition of subsidiary	2,105,083	15,745,105	3,552,215	702,863	-	1,439,801	-	23,545,067
Transfer to investment property	-	-	-	-	-	(2,188,059)	-	(2,188,059)
Disposals	(114,943)	(867,535)	(16,599,922)	(19,011,100)	-	(155,919)	(19,353,986)	(56,103,405)
At 31 December 2017	**150,245,883**	**945,669,178**	**1,022,820,481**	**312,175,899**	**3,068,072**	**28,751,706**	**9,531,929**	**2,472,263,148**
Additions	3,558,399	47,794	1,569,871	2,716,616	476,589	108,941,795	21,503,265	138,814,329
Transfer from assets under construction	2,298,825	36,662,455	31,161,170	13,438,828	-	(83,561,278)	-	-
Transfer to investment property	-	-	-	-	-	(1,726,113)	-	(1,726,113)
Disposals	(3,699,482)	(37,690,290)	(8,707,144)	(7,415,718)	(488)	(65,765)	-	(57,578,887)
At 31 December 2018	**152,403,625**	**944,689,137**	**1,046,844,378**	**320,915,625**	**3,544,173**	**52,340,345**	**31,035,194**	**2,551,772,477**
Accumulated depreciation								
At 1 January 2017	**-**	**577,745,351**	**593,774,869**	**244,662,453**	**2,031,693**	**3,380,255**	**-**	**1,421,594,621**
Depreciation for the year		22,056,602	42,505,208	18,924,376	4,863	-	-	83,491,049
Impairment	-	-	37,058,764	-	-	-	-	37,058,764
Acquisition of subsidiary	-	(399,823)	-	-	-	-	-	(399,823)
Disposals or write-off		(455,951)	(15,195,767)	(17,457,699)	-	-	-	(33,109,417)
At 31 December 2017	**-**	**598,946,179**	**658,143,074**	**246,129,130**	**2,036,556**	**3,380,255**	**-**	**1,508,635,194**
Depreciation for the year	-	22,008,038	40,926,546	18,899,983	3,644	-	-	81,838,211
Impairment	-	-	-	-	-	40,000	-	40,000
Disposals or write-off		(18,704,719)	(7,411,749)	(6,312,747)	(488)	-	-	(32,429,703)
At 31 December 2017	**-**	**602,249,498**	**691,657,871**	**258,716,366**	**2,039,712**	**3,420,255**	**-**	**1,558,083,702**
Net book amount								
31 December 2017	**150,245,883**	**346,722,999**	**364,677,407**	**66,046,769**	**1,031,516**	**25,371,451**	**9,531,929**	**963,627,954**
1 December 2018	**152,403,625**	**342,439,639**	**355,186,507**	**62,199,259**	**1,504,461**	**48,920,090**	**31,035,194**	**993,688,775**

The Group's properties and movables have been mortgaged and pledged in the amount of HRK 379,755 thousand (2017: HRK 226,359 thousand) as collaterals for long-term (Note 34) and short-term borrowings (Note 37).

As at 31 December 2018, the Group's property with a present value of HRK 23 million (2017: HRK 18 million) was mortgaged as a collateral.

The cost of the Group's fully depreciated property, plant and equipment still in use as at 31 December 2018 amounts to HRK 587,345 thousand (2017: HRK 648,840 thousand).

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20. Investment property

Investment property relates to investment for capital appreciation intended for future sale. The residual value of these investments estimated by independent valuators exceeds their carrying value, and accordingly, depreciation is not charged to these investments. Movements in investment property in 2018 and 2017 are presented below:

	Land	Buildings	Total
	HRK	*HRK*	*HRK*
Cost			
At 1 January 2017	**56,084,595**	**195,575,757**	**251,660,352**
Transfer from property, plant and equipment	-	2,188,059	2,188,059
Transfer from assets held for sale	-	4,000,000	4,000,000
Disposals	(10,537,466)	(20,516,157)	(31,053,623)
At 31 December 2017	**45,547,129**	**181,247,659**	**226,794,788**
Transfer from property, plant and equipment	404,016	1,322,097	1,726,113
Disposals	(394,764)		(394,764)
At 31 December 2018	**45,556,381**	**182,569,756**	**228,126,137**
Accumulated depreciation			
At 1 January 2017	**-**	**88,511,850**	**88,511,850**
Impairment	**-**	500,000	500,000
Depreciation for the year	-	9,803	9,803
At 31 December 2017	-	**89,021,653**	**89,021,653**
Depreciation for the year	**-**	170,221	170,221
At 31 December 2018	-	**89,191,874**	**89,191,874**
Net book amount			
31 December 2017	**45,547,129**	**92,226,006**	**137,773,135**
31 December 2018	**45,556,381**	**93,377,882**	**138,934,263**

The fair value of investment property at the balance sheet date amounting to HRK 220 million relates to fair value level 3 since the input variables are not based on observable market data.

21. Investments accounted for using the equity method

	31 December 2018	31 December 2017
	HRK	*HRK*
Associates:		
Končar - Power Transformers Ltd., Zagreb (49%)	233,844,545	244,722,545
Other associates (indirect subsidiaries):		
Elkakon d.o.o., Zagreb (50% - indirect)	4,821,846	4,389,180
Joint ventures		
Tbea Končar Instrument Transformers, China (27%)	8,666,488	13,405,051
KONČAR - XD High Voltage Switchgear Ltd. (50%)	37,054,110	-
	284,386,989	**262,516,776**

The company Končar-Power Transformers Ltd. is primarily engaged in the production of all types of high efficiency power transformers intended for the production, transmission and distribution of electricity. This company is in majority ownership of Siemens and represents a strategic partnership for the Group.

The company Elkakon d.o.o. produces industrial conductors and is primarily a strategic partner to the subsidiary Končar D&ST d.d.

The company Tbea Končar Instrument Transformers, China produces electric transformers, power transformers, combined instrument transformers and their components and represents strategic partnership for the Group that enables access to new customers and eastern markets.

KONČAR - XD High Voltage Switchgear Ltd. will produce and provide installation, testing, repair and maintenance services for electrical machinery and appliances as well as electricity distribution and control equipment. The company was incorporated with a contribution in cash of HRK 37,054,110 at the date the contribution was paid.

Summary information for associates are shown in the following table:

	Končar - Power Transformers Ltd.		**Elkakon d.o.o.**	
	2018	2017	2018	2017
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Revenues	890,672	1,161,497	76,854	67,173
Expenses	(760,737)	(974,702)	(75,407)	(66,429)
Profit before tax	129,935	186,795	1,447	744
Income tax	(26,931)	(37,869)	(261)	(134)
Profit after tax	**103,004**	**148,926**	**1,186**	**610**
Non-current assets	155,553	182,310	9,245	5,691
Current assets	715,234	841,152	19,390	16,035
Total assets	**870,787**	**1,023,462**	**28,635**	**21,726**
Total liabilities	**268,350**	**375,103**	**18,992**	**12,970**

For the associate Končar - Power Transformers Ltd. the financial year begins as at 1 October and ends as at 30 September.

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Summary information for joint ventures is shown in the following table:

	Tbea KONČAR Instrument tranformers Ltd.		KONČAR - XD High Voltage Switchgears Ltd.
	2018	2017	2018
	HRK'000	*HRK'000*	*HRK'000*
Income	75,003	97,306	-
Expenses	(92,693)	(100,535)	-
Loss before tax	(17,690)	(3,229)	-
Income tax	140	(850)	-
Loss after tax	**(17,550)**	**(4,079)**	**-**
Non-current assets	3,800	4,014	-
Current assets	105,835	120,703	74,108
Total assets	**109,635**	**124,717**	**74,108**
Total liabilities	**72,537**	**68,311**	**-**

Movements in investments in associates during the year were as follows:

	Power Transformers Ltd.	Elkakon d.o.o.
	HRK	*HRK*
1 January 2017	**244,722,545**	**4,284,128**
Profit of associate (Note 14)	72,973,704	305,052
Dividend payment by associate	(72,973,704)	(200,000)
31 December 2017	**244,722,545**	**4,389,180**
Profit of associate (Note 14)	50,472,031	593,218
Dividend payment by associate	(61,350,031)	(140,000)
Other	-	(20,552)
31 December 2018	**233,844,545**	**4,841,846**

Movements in investments in joint ventures are as follows:

	Tbea KONČAR Instrument tranformers Ltd.
	HRK
1 January 2017	**14,506,412**
Loss of joint venture (Note 14)	(1,101,361)
31 December 2017	**13,405,051**
Loss of joint venture (Note 14)	(4,738,563)
31 December 2018	**8,666,488**

Changes in investment in joint venture KONČAR - XD High Voltage Switchgear Ltd. have not been presented since the company was founded on 5 December 2018.

22. Non-current financial assets

	31 December 2018	31 December 2017
	HRK	*HRK*
Other subsidiaries (indirect subsidiaries):		
KONČAR - Inženjering Inc., Zagreb	227,787	227,787
Konell Ltd., Bulgaria	62,280	62,280
Sunčana elektrana Vis d.o.o.	20,000	-
Wind Farm Rust Ltd.	20,000	-
	330,067	**290,067**
Financial assets at fair value through other comprehensive income		
Dalekovod d.d. Zagreb	271,990	271,990
Novi Fermot d.o.o., Donji Kraljevec	1,717,200	1,717,200
Ferokotao d.o.o., Donji Kraljevec	1,048,128	1,048,128
Centar proizvodnog strojarstva i analitičarstva d.o.o.	30,000	30,000
IGH d.d.	327,085	460,465
	3,394,403	**3,527,783**
Financial assets at fair value through profit or loss		
Derivative financial assets	57,444	57,782
Investments in shares (ZABA, PBZ, Tesla)	4,870,330	4,785,603
Impairment of shares	(3,500,010)	(3,520,010)
	1,427,764	**1,323,375**
Financial assets at amortised costs		
Loans, deposits and similar assets	9,618,519	7,567,423
Impairment	(6,676)	-
Loans granted to employees	1,626,331	-
Current portion of loans granted to employees	(312,576)	-
	10,925,598	**7,567,423**
	16,077,832	**12,708,648**

23. Non-current receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Receivables from credit sales		
Receivables for flats sold /i/	5,274,037	7,234,403
Impairment of receivables for flats sold	(677,322)	(428,782)
Current portion - flats sold (Note 29)	(786,900)	(856,796)
Other receivables	-	625,000
	3,809,815	**6,573,825**
Other receivables		
Receivables on the basis of foreign sales /ii/	2,656,724	3,371,833
Current portion of foreign sales (Note 26)	(770,971)	(680,699)
Receivables for recognised claims /iii/	8,292,699	-
Loans granted to employees	-	1,922,789
Current portion of loans granted to employees (Note 29)	-	(415,197)
Other non-current receivables	660,646	102,416
	10,839,098	**4,301,142**
	14,648,913	**10,874,967**

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/i/ In accordance with the Law on the Sale of Flats with Tenancy Rights, the flats owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables increase/decrease if the EUR exchange rate of EUR changes more than 5.1% compared to the rate that existed at the signing date of the Sale agreements. The amounts of unpaid annuities in DEM have been converted into EUR at a fixed rate of EUR 1 = DEM 1.95583. A mortgage has been registered over the sold apartments as a collateral.

/ii/ Receivables on the basis of foreign sales relates to receivables for sales in Bosnia and Herzegovina through the company TAKRAF from Germany, acquired by KfW Bank, Berlin.

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

24. Inventories

	31 December 2018	31 December 2017
	HRK	*HRK*
Raw materials and supplies	315,278,609	283,136,790
Work in progress	157,964,309	124,274,604
Unfinished and semi-finished goods	42,365,269	32,061,404
Finished goods	78,100,430	67,241,715
Trade goods	31,971,049	25,317,665
Goods in transit	13,974	9,283
Spare parts	211,698	148,788
Small inventory and packaging	3,963,002	3,795,686
Less: Impairment of raw materials and supplies, spare parts, and small inventory and packaging	(65,717,999)	(63,776,841)
Impairment of work in progress, finished goods and trade goods	(18,344,509)	(18,669,914)
	545,805,832	**453,539,180**
Advance payments for inventories		
Domestic advances	7,913,951	6,322,735
Advances given - foreign	5,799,742	2,162,680
Impairment of advances given	-	(27,484)
Total advances	**13,713,693**	**8,457,931**
	559,519,525	**461,997,111**

In 2018, the cost of goods sold recognised in the income statement amounted to HRK 1,541,426 thousand (2017: HRK 1,979,353 thousand).

25. Receivables from related parties

	31 December 2018	31 December 2017
	HRK	*HRK*
Associates and joint ventures:		
KONČAR - Power Transformers Ltd., Zagreb	69,836,834	25,732,918
TBEA China	464,712	813,325
Elkakon d.o.o. Zagreb	7,432,298	6,791,987
	77,733,844	**33,338,230**

The analysis performed has shown that the effect of applying the simplified model in accordance with IFRS 9 on trade receivables is immaterial for the financial statements as at 1 January 2018 and 31 December 2018 and as such was not recognised.

26. Trade receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Trade receivables - domestic	419,123,261	372,616,168
Trade receivables - foreign	453,673,817	518,118,258
Current portion of foreign sales (Note 23)	770,971	680,699
Impairment	(99,499,309)	(139,331,751)
	774,068,740	**752,083,374**

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

	Total	Not past due	Past due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**774,068,740**	643,369,146	80,193,981	19,099,116	19,645,137	9,231,460	2,529,900
2017	**752,083,374**	636,986,098	71,189,493	6,752,778	19,900,206	9,293,793	7,961,006

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

	2018
	HRK
Opening balance	**139,331,751**
Effects of IFRS 9 adoption	6,347,930
At 1 January 2018	145,679,681
Decrease in expected credit loss	(1,442,137)
Collected during the year	(43,835,793)
Impaired in the current year	2,503,864
Total changes in expected credit loss through profit or loss	*(42,774,066)*
Written off during the year	(2,147,284)
Foreign exchange differences	(1,259,022)
At 31 December	**99,499,309**

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The movement in the bad debt provision in 2017 was as follows:

	2017
	HRK
At 1 January	**142,375,293**
Impaired during the year	2,108,826
Collected during the year	(4,236,953)
Written off during the year	(228,218)
Foreign exchange differences	(687,197)
At 31 December	**139,331,751**

27. Receivables from construction contracts

	31 December 2017
	HRK
Costs incurred plus recognised gains, less recognised losses	347,038,147
Less: invoiced revenues	(221,266,073)
	125,772,074

The revenue from construction contracts, which was recognised as revenue in 2017, amounted to HRK 351,959 thousand. The total amount of advances received for contracts which have not been completed as at 31 December 2017 was HRK 116,262 thousand, and the total amount of retentions under construction contracts was HRK 92,897 thousand.

28. Contract assets and liabilities

The Group recognised the following assets and liabilities from contracts with customers:

	31 December 2018	1 January 2018
	HRK	*HRK*
Contract assets from contracts with customers	49,869,656	59,373,553
Assets recognised on the basis of costs to obtain a contract	9,790,425	2,805,642
Expected credit loss	(38,863)	-
Total current assets from contracts with customers	**59,621,218**	**62,179,195**
Contract liability from contracts with customers	44,403,088	54,394,836
Contract liability - advances received from customers	122,487,006	99,163,341
Contract liability - sales commission	14,135,491	3,685,248
Total contract liability	**181,025,585**	**157,243,425**

Recognised revenue relating to contract liability

Revenue recognised in the reporting period, which was included in the balance sheet of contract liabilities at the beginning of the period, relating to the design and construction services of the plant and equipment for generation, transmission and distribution of electricity amounted to HRK 53,883 thousand.

The total amount of transaction price allocated to the performance obligations not satisfied (or partially satisfied) at the end of the reporting period amount to HRK 768,065 thousand.

The company's management expects that 55% of the transaction price allocated to the unsatisfied performance obligations as at 31 December 2018 will be recognised as revenue during the next reporting period (HRK 420,673 thousand). The remaining 45% will be recognised in 2020.

All other contracts in which the company is entitled to a consideration from the customer in an amount that directly corresponds with the value obtained by the customer from the company's performance with an initial expected duration of one year or less is recognised by the company in the amount it is entitled to invoice. In accordance with IFRS 15, the transaction price allocated to the contracts that were not completed is not disclosed.

29. Other receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Receivables from state and other institutions		
Receivables for value added tax	22,249,466	40,791,597
Receivables from the Croatian Health Insurance Fund	818,922	948,819
Other	1,820,807	3,662,646
	24,889,195	**45,403,062**
Other current receivables		
Receivables for shares and stakes sold /i/	-	9,185,814
Receivables for advances given for services	17,699,730	20,216,644
Receivables for recognised claims	8,044,841	8,292,699
Receivables for flats sold (current portion) (Note 23)	786,900	856,796
Current portion of loans granted to employees (Note 23)	-	415,197
Other receivables	2,054,839	2,628,971
	28,586,310	**41,596,121**
Receivables from employees		
Receivables from employees	989,230	1,643,349
Impairment of receivables from employees	-	(327,471)
	989,230	**1,315,878**
	54,464,735	**88,315,061**

/i/ On 30 June 2018, considering that the 10-year repayment period has expired, the remaining shares within the employee share ownership program of KONČAR - Electronics and Informatics Inc. were returned, thus increasing the Company's share in this subsidiary. The above transaction was a non-cash transaction and, accordingly, was not included in the statement of cash flows.

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

30. Current financial assets

	31 December 2018	31 December 2017
	HRK	*HRK*
Deposits over 3 months	69,192,322	271,587,039
Derivative financial instruments - forward contracts	293,340	882,706
Loans granted (5%)	468,962	625,281
Current portion of loans given	312,576	-
Impairment of loans	(89,640)	-
Other financial assets	594	5,385
	70,178,154	**273,100,411**

In 2018, the Group realised proceeds from deposits in the amount of HRK 302,636,936 (2017: HRK 453,992,960), while it placed HRK 104,851,490 of deposits during the year (2017: HRK 348,665,043).

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31. Cash and cash equivalents

	31 December 2018	31 December 2017
	HRK	*HRK*
Deposits up to 3 months	-	2,254,094
Giro account balance	161,123,543	186,464,413
Foreign currency account balance	454,845,029	328,593,266
Cash on hand	219,452	245,116
Investments in cash funds	434,429	3,133,804
Short-term securities	191,116	191,116
Less: Impairment	(184,992)	(184,992)
	616,628,577	**520,696,817**

32. Equity

Share capital is determined in the nominal amount of HRK 1,208,895,930 (31 December 2017: HRK 1,208,895,930) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The ownership structure of the Parent company is as follows:

	31 December 2018		31 December 2017	
Shareholder	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
ADDIKO BANK d.d. / PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
SOCIETE GENERALE / AZ OMF	377,429	14.67	377,429	14.67
SOCIETE GENERALE - Splitska banka d.d. / Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
RESTRUCTURING AND SALE CENTER (CERP) / Croatia	81,610	3.17	83,610	3.25
FLORIČIĆ KRISTIJAN	50,714	1.97	50,714	1.97
ADDIKO BANK / RBA OMF	47,636	1.85	47,636	1.85
ZAGREBAČKA BANKA D.D. / AZ PROFIT DOBROVOLJNI MIROVINSKI FOND	32,803	1.28	32,803	1.28
PBZ d.d. / custodian joint client account	23,114	0.90	24,251	0.94
ZEC BRANISLAV	22,843	0.89	22,843	0.89
Other shareholders	416,427	16.19	422,290	16.41
KONČAR Inc. (treasury shares)	14,861	0.58	5,861	0.23
	2,572,119	**100.00**	**2,572,119**	**100.00**

In 2018, the Parent company's General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 35,927,612 which is HRK 14 per share (2017: HRK 30,795,096 which is HRK 12,00 per share).

During 2018, the total paid dividend of the KONČAR Group amounted to HRK 51,074,775 (2017: HRK 47,172,127).

During 2018, the Company started purchasing its treasury shares and in 2018 purchased shares worth HRK 5,948,574 and as at 31 December 2018 the Group owns 14,861 treasury shares (31 December 2017: 5,861 shares).

The Group has formed legal, statutory and other reserves in line with the Companies Act that are defined on the basis of profit distribution in accordance with the General Assembly's decision. Statutory and other reserves are distributable.

33. Provisions

	Warranty provisions	Provisions for legal disputes	Jubilee awards and termination benefits	Other	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*
1 January 2017	**156,672,700**	**36,812,730**	**37,502,225**	**3,364,480**	**234,352,135**
Additional provisions	36,601,673	2,183,963	24,388,885	165,077	63,339,598
Release of provisions	(10,122,305)	(1,071,104)	(12,065,332)	(1,901,423)	(25,160,164)
Used provisions	-	(31,800,000)	-	-	(31,800,000)
Foreign exchange differences and similar	585,526	-	20,620	-	606,146
Transfer to current provisions	(20,106,828)	-	(1,184,424)	-	(21,291,252)
31 December 2017	**163,630,766**	**6,125,589**	**48,661,974**	**1,628,134**	**220,046,463**
Additional provisions	26,656,725	550,000	10,311,940	62,082	37,580,747
Release of provisions	(15,426,921)	(4,720,189)	(9,693,439)	(501,994)	(30,342,543)
Foreign exchange differences and similar	(532,526)	-	76,098	-	(456,428)
Transfer to current provisions	(20,607,582)	-	(68,500)	-	(20,676,082)
31 December 2018	**153,720,462**	**1,955,400**	**49,288,073**	**1,188,222**	**206,152,157**

Provisions mature as follows:

	31 December 2018	31 December 2017
	HRK	*HRK*
Within 1 year	97,340,040	112,761,907
More than 1 year	206,152,157	220,046,463
	303,492,197	**332,808,370**

Warranty provisions

Warranty provisions relate to estimated costs of possible repairs in warranty periods for companies within the Group. Provisions for warranty costs are determined on the basis of Management's best estimate and includes general and specific provisions. General provisions are based on estimates and experience of other similar producers of energy equipment within this type of industry. The Group regularly issues warranties for a minimum of 2 years for sold equipment/performed energy projects. Management assesses and recognises a provision representing 2% - 8% of the sales value of sold products/projects completed under warranty obligation. Individual/specific provisions refer to potential quality problems with regard to sold energy equipment/projects executed to individual customers. The non-current portion of provision for costs within warranty periods amounts to HRK 153,720,462 (31 December 2017: HRK 163,630,766), while current provisions amount to HRK 90,144,183 (31 December 2017: HRK 104,443,211).

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of HRK 1,955,400 (2017: HRK 6,125,589) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes.

Provisions for jubilee awards and termination benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 49,288,073 (2017: HRK 48,661,974) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 1.7% (2017: 2%).

Other non-current provisions in the amount of HRK 1,188,222 (31 December 2017: HRK 1,628,134) relate to decommissioning provisions upon completion of the wind farm project.

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34. Long-term borrowings

	31 December 2018	31 December 2017
	HRK	*HRK*
Liabilities to banks	119,941,057	149,791,145
Less: Current portion (Note 37)	(30,904,000)	(28,992,897)
	89,037,057	**120,798,248**

Changes in bank borrowings were as follows:

	HRK
1 January 2017	**122,031,946**
New borrowings	26,606,983
Acquisition of subsidiary	1,677,234
Repayment of borrowings	(191,000)
Foreign exchange differences	(334,018)
Less: current portion	(28,992,897)
31 December 2017	**120,798,248**
New borrowings	371,987
Repayment of borrowings	(98,310)
Foreign exchange differences	(1,130,868)
Less: current portion	(30,904,000)
31 December 2018	**89,037,057**

Long-term bank borrowings mature as follows:

	31 December 2018	31 December 2017
	HRK	*HRK*
Within one year	30,904,000	28,992,897
From 1 to 2 years	13,764,509	31,350,411
Between 2 and 5 years	60,408,837	69,717,779
More than 5 years	14,863,711	19,730,058
Less: current portion	(30,904,000)	(28,992,897)
	89,037,057	**120,798,248**

Bank borrowings are secured by mortgages over the Group's immovable property and pledges over its movable property.

Lease liability are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

In accordance with the contractual terms, the Group has met the required covenants for the reporting period.

The carrying amount of the immovable property mortgaged and movable property pledged as collateral is presented in Note 19.

The fixed interest rate on the Group's borrowings ranges from 1.85% to 4.2% and the variable interest rate from 3% to 4%.

35. Other non-current liabilities

Non-current liabilities in the amount of HRK 8,131,049 relate to liabilities arising from the put/call option agreed upon acquisition (Note 44), whereby the Group has the option of acquiring shares in the subsidiary PET currently held by the seller.

36. Liabilities to related parties (associates and joint ventures)

	31 December 2018	31 December 2017
	HRK	*HRK*
KONČAR - Power Transformers Ltd., Zagreb	4,587,647	12,472,837
Elkakon d.o.o.	8,451,695	3,582,823
TBEA China	-	45,025
	13,039,342	**16,100,685**

37. Current liabilities to banks (borrowings) and other loans

	31 December 2018	31 December 2017
	HRK	*HRK*
Liabilities to banks and other financial institutions	54,939,390	34,935,337
Plus: Current portion (Note 34)	30,904,000	28,992,897
	85,843,390	**63,928,234**

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

	HRK
1 January 2017	**61,888,252**
New borrowings	4,265,180
Repayment of borrowings	(31,141,454)
Foreign exchange differences	(76,641)
Plus: current portion of long-term borrowings	28,992,897
31 December 2017	**63,928,234**
New borrowings	35,549,182
Repayment of borrowings	(44,123,222)
Foreign exchange differences	(414,804)
Plus: current portion of long-term borrowings	30,904,000
31 December 2018	**85,843,390**

Bank borrowings are secured by mortgages over the Group's immovable property and pledges over its movable property.

Finance lease liabilities are secured by the right to return the leased assets recognised in the financial statements to the lessor in the event the obligation is not satisfied.

The carrying amount of the immovable property mortgaged and movable property pledged as collateral is presented in Note 19.

The fixed interest rate on the Group's short-term borrowings ranges from 1.85% to 3.7 % and the variable interest rate on short-term borrowings ranges from 2.2% to 3.3%.

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38. Trade payables

	31 December 2018	31 December 2017
	HRK	*HRK*
Domestic trade payables	247,276,521	217,147,913
Foreign trade payables	165,685,440	147,400,260
Goods received not invoiced	340,212	2,032
	413,302,173	**364,550,205**

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

	Total	Not past due	Past due				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**413,302,173**	358,548,205	49,219,649	1,905,493	2,050,361	563,283	1,015,182
2017	**364,550,205**	321,635,472	37,660,717	1,926,392	1,894,567	665,048	768,009

39. Advances received

	31 December 2018	31 December 2017
	HRK	*HRK*
From domestic customers	3,688,914	21,277,300
From foreign customers	2,705,291	155,912,853
	6,394,205	**177,190,153**

40. Other liabilities

	31 December 2018	31 December 2017
	HRK	*HRK*
Liabilities to the state and other institutions		
VAT payable	13,064,247	23,108,910
Liabilities for contributions on and from salaries and taxes and surtaxes	30,496,942	32,761,274
Other liabilities	39,794	406,575
	43,600,983	**56,276,759**
Other current liabilities		
Interest payable	1,083,495	1,151,051
Liabilities from share in result	691,040	676,131
Other liabilities	2,812,717	3,828,696
	4,587,252	**5,655,878**
Current liabilities to employees		
Liabilities for net salaries	28,892,901	30,888,912
Termination benefits payable	132,000	1,066,526
Liabilities toward Management Boards of companies for bonuses	5,049,671	5,289,522
Other liabilities	214,502	264,449
	34,289,074	**37,509,409**
	82,477,309	**99,442,046**

41. Current provisions

	Warranty provisions	Provisions for unused vacation days	Other current provisions	Total
	HRK	*HRK*	*HRK*	*HRK*
1 January 2017	**113,932,996**	**2,075,661**	**4,583,990**	**120,592,647**
Release of provisions	(48,864,842)	(1,173,574)	(915,375)	(50,953,791)
Calculated during the year	21,838,028	1,076,624	1,600,642	24,515,294
Transfer from non-current liabilities	17,537,029	-	1,070,728	18,607,757
31 December 2017	**104,443,211**	**1,978,711**	**6,339,985**	**112,761,907**
Release of provisions	(56,855,130)	(1,194,834)	(1,349,590)	(59,399,554)
Calculated during the year	21,948,519	1,104,276	248,810	23,301,605
Transfer from non-current liabilities	20,607,582	-	68,500	20,676,082
31 December 2018	**90,144,182**	**1,888,153**	**5,307,705**	**97,340,040**

42. Financial risk management and financial instruments

The Group is exposed in its business to market (interest and foreign currency risk), credit risk and liquidity risk.

Certain companies within the Group use derivative financial instruments to hedge against these risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the adverse effects on the Group's financial statements. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summarised as follows:

a) Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Group manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Group may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2018 and 31 December 2017. The Group monitors capital on the basis of the gearing ratio, which is calculated as follows.

	31 December 2018	31 December 2017
	HRK'000	*HRK'000*
Financial liabilities	183,012	192,728
Less: cash and cash equivalents (deposits)	(616,629)	(520,697)
Net debt	**-**	**-**

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity are disclosed in Note 2 to these financial statements.

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The accounting policies for financial instruments have been applied to the following balance sheet items:

	Assets at amortised cost	Assets at fair value through P&L	Assets at fair value through OCI	Total assets classified under IFRS 9
31 December 2018				
Non-current financial assets	11,279	1,637	3,161	**16,077**
Non-current receivables	14,649	-	-	**14,649**
Current financial assets	69,885	293	-	**70,178**
Trade receivables, receivables from related parties and other receivables	852,589	-	-	**852,589**
Contract assets	59,621	-	-	**59,621**
Cash and cash equivalents	616,629	-	-	**616,629**
	1,624,652	**1,930**	**3,161**	**1,629,743**

	Loans and receivables	Assets at fair value through P&L	Available-for-sale assets	Total assets classified under IAS 39
31 December 2017				
Non-current financial assets	8,621	1,284	2,804	**12,709**
Non-current receivables	10,875	-	-	**10,875**
Current financial assets	272,217	883	-	**273,100**
Trade receivables, receivables from related parties and other receivables	929,944	-	-	**929,944**
Cash and cash equivalents	520,697	-	-	**520,697**
	1,742,354	**2,167**	**2,804**	**1,747,325**

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

Fair value of financial assets and liabilities

The Company presents the fair value hierarchy consisting of three levels of inputs included in the valuation techniques as follows:

1. Level 1 - Definition of inputs: Quoted (unadjusted) prices for identical assets or liabilities in active markets that are available at the measurement date.
2. Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
3. Level 3 - Unobservable inputs for the asset or liability, i.e. that are derived from market data.

The level within which a financial asset/liability is classified is based on the lowest level of a significant input variable used in the fair value measurement. Financial assets and liabilities measured at fair value in the statement of financial position are grouped within the fair value hierarchy as follows:

31 December 2018	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed shares	1,968	-	-	1,968
Fair value of derivative financial instruments	-	351	-	351
Financial assets at fair value through OCI	-	-	2,795	2,795
Units in cash funds	434	-	-	434
	2,402	**351**	**2,795**	**5,548**

31 December 2017	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed shares	1,998	-	-	1,998
Fair value of derivative financial instruments	-	940	-	940
Available-for-sale financial assets	-	-	2,795	2,795
Units in cash funds	3,134	-	-	3,134
	5,132	**940**	**2,795**	**8,867**

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets traded according to the standard terms and conditions of the market is determined to reflect the market price;
- The fair value of other financial assets and financial liabilities (including derivatives) is determined in accordance with generally accepted pricing models based on the discounted cash flow analysis using prices used for market transactions and quoted prices for similar instruments;
- The fair value of derivative instruments is determined according to quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group used the following methods and assumptions during its financial asset fair value estimation:

- Receivables and deposits with banks - for assets due within three months and cash funds, the carrying amount approximates their fair value due to the short maturity of these instruments. For non-current assets, the contracted interest rates do not significantly deviate from the current market rates and, accordingly, their fair value approximates their carrying amount.
- Borrowings - the fair value of current liabilities approximates their carrying value due to the short-term maturities of these instruments. The Management Board believes that their fair value is not materially different from their carrying value.
- Other financial instruments - financial instruments that are not valued at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

c) Financial risk

The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign exchange risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, such as the change in foreign currencies and interest rates, would influence the Group's result or the value of its financial instruments. The objective of market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

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The Group's activities expose it primarily to the market risks of changes in foreign currency exchange rates and interest rates. There were no significant changes to the Group's exposure to market risk or the manner in which it manages and measures the risk.

a) Foreign exchange risk

The Group is exposed to this risk through sales, purchase and loans stated in foreign currency which is not the Group's functional currency. Foreign currencies to which the Company is mostly exposed are EUR and USD.

Group companies are exposed to foreign currency risk through sales, purchase and short-term deposits denominated in foreign currencies. Certain companies within the Group make agreements for the purpose of hedging this risk.

31 December 2018	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non-current receivables	1,886	-	-	1,886	12,763	14,649
Non-current financial assets	7,931	129	-	8,060	8,017	16,077
Trade receivables, receivables from related parties and contract assets	363,138	4,142	69,984	437,264	474,945	912,209
Derivative instruments	328	-	-	328	23	351
Deposits over 3 months	32,022	1,617	-	33,639	35,553	69,192
Cash and cash equivalents	454,431	7,325	10,465	472,221	144,408	616,629
	859,736	**13,213**	**80,449**	**953,398**	**675,709**	**1,629,107**
Trade payables and liabilities to related parties	(188,531)	(1,617)	(343)	(190,491)	(235,851)	(426,342)
Borrowings	(116,099)	-	-	(116,099)	(66,912)	(183,011)
	(304,630)	**(1,617)**	**(343)**	**(306,590)**	**(302,763)**	**(609,353)**

31 December 2017	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non-current receivables	5,871	125		5,996	4,879	10,875
Non-current financial assets	2,145	-	-	2,145	10,564	12,709
Trade receivables and receivables from related parties	457,316	1,107	26,345	484,768	426,426	911,194
Derivative instruments	940	-	-	940	-	940
Deposits over 3 months	207,242	2,006	7,128	216,376	55,211	271,587
Cash and cash equivalents	314,013	1,798	12,346	328,157	192,540	520,697
	987,527	**5,036**	**45,819**	**1,038,382**	**689,620**	**1,728,002**
Trade payables and liabilities to related parties	(218,002)	(920)	(6,337)	(225,259)	(155,392)	(380,651)
Borrowings	(145,920)	-	-	(145,920)	(46,808)	(192,728)
	(363,922)	**(920)**	**(6,337)**	**(371,179)**	**(202,200)**	**(573,379)**

In the above tables, receivables for flats sold are not included in the amounts in EUR because of a contractual clause on the increase/decrease in receivables if the change in EUR currency rate is more than 5.1% compared to the currency rate that existed at the time of concluding the contracts.

Sensitivity analysis

A change in the HRK exchange rate against the EUR by -1% (2017: -1%), and a change against the USD by 3 % (2017: -13 %) and changes in other currencies at the reporting date would have (decreased)/increased profit before tax as follows:

	2018 Effect on profit before tax	2017 Effect on profit before tax
	HRK'000	*HRK'000*
EUR -1% (2017: -1%)	(4,830)	(6,326)
USD 3 % (2017: - 13%)	(65)	(570)
Other currencies	(1,742)	(1,809)

This analysis assumes that all other variables, interest rates especially, remain unchanged.

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

b) Interest rate risk

The Group's companies are mainly exposed to interest risk arising from borrowings agreed at variable interest rates while an immaterial portion of the assets is exposed to interest rate risk. Certain Group companies contract a hedge against interest rate risk stated in foreign currencies.

The following table shows the sensitivity of changes in interest rates relating to the Group's borrowings as at 31 December, provided that all other variables are held constant, on profit before tax.

2018	Increase/decrease in percentage	Effect on profit before tax *HRK'000*
HRK	+1%	(538)
HRK	-1%	538

2017	Increase/decrease in percentage	Effect on profit before tax *HRK'000*
HRK	+1%	(388)
HRK	-1%	388

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the other party. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Group uses data and opinions of specialised rating companies, the Chamber of Economy and other publicly available financial information on the financial positions of companies as well as its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and measured and the aggregate value of contracts concluded is spread amongst creditworthy counterparties.

A significant part of credit risk arises from the Company's operating activities (primarily trade receivables) and from the Company's financial activities, including deposits with banks and financial institutions.

Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables arising from the sale of goods and services
- Contract assets
- Debt instruments at amortised costs
- Debt instruments at fair value through other comprehensive income

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

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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

	Total	Not past due	Past due				
			1-60 days	61-90 days	91-180 days	181-365 days	over 365 days
31 December 2018	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Trade receivables	856,708	722,050	81,084	19,247	20,491	10,199	3,637
Contract assets	59,660	59,660					
Default rate %	0.01 - 100	0.01 - 2	0.01 - 3.44	0.01 - 23.21	0.13 - 42.41	0.54 - 100	8.97 - 100
Expected credit loss	**4,906**	**921**	**890**	**174**	**846**	**968**	**1,107**
Individual provision	94,594						

	Total	Not past due	Past due				
			1-60 days	61-90 days	91-180 days	181-365 days	over 365 days
1 January 2018	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Trade receivables	791,770	671,191	72,093	7,073	20,571	10,167	10,675
Contract assets	62,179	62,179					
Default rate %	0.03 - 61.58	0.01 - 0.99	0.02 - 11.21	0.12 - 33.67	0.16 - 100	0.16 - 100	0.66 - 100
Expected credit loss	**6,348**	**866**	**904**	**320**	**671**	**873**	**2,714**
Individual provision	139,332						

Trade receivables and contract assets are impaired directly if there are no reasonable expectations that they will be recovered. Indicators that there is no reasonable expectation that trade receivables and contract assets will be recovered include, inter alia, a failure to make contractual payments for a period of greater than one year past due.

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Boards of the Group companies, while the Company's Management Board has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements. The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities.

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

	Carrying amount	Contractua cash flows	0 - 3 months	3 - 12 months	2 - 5 years	More than 5 years
31 December 2018	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Current trade payables and liabilities to related parties	426,342	426,342	397,601	28,263	478	-
Interest-bearing liabilities	183,011	185,691	22,232	68,246	80,369	14,844
	609,353	**612,033**	**419,833**	**96,509**	**80,847**	**14,844**

	Carrying amount	Contractua cash flows	0 - 3 months	3 - 12 months	2 - 5 years	More than 5 years
31 December 2017	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Current trade payables and liabilities to related parties	380,651	380,651	362,596	14,935	3,120	-
Other current liabilities	1,001	1,001	810	191	-	-
Interest-bearing liabilities	192,728	206,630	22,693	46,294	116,007	21,636
	574,380	**588,282**	**386,099**	**61,420**	**119,127**	**21,636**

43. Segment reporting

2018	Industry	Energy and transport	Trade	Special activities	Končar- Electrical Industry Inc.	Eliminations and reclassifi-cations	Group
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Revenue	86,770,838	2,237,706,748	224,139,723	51,376,252	180,908	-	2,600,174,469
Income from related parties	7,387,131	240,545,925	3,004,405	88,686,554	47,591,852	(284,457,154)	102,758,713
Other operating income	1,762,631	164,253,646	4,128,878	9,008,936	20,277,004	(28,956,588)	170,474,507
Total operating income	*95,920,600*	*2,642,506,319*	*231,273,006*	*149,071,742*	*68,049,764*	*(313,413,742)*	*2,873,407,689*
Total operating expenses	(84,828,877)	(2,531,020,094)	(228,362,026)	(136,528,183)	(79,885,572)	288,630,218	(2,771,994,534)
Operating profit/loss	*11,091,723*	*111,486,225*	*2,910,980*	*12,543,559*	*(11,835,808)*	*(24,783,524)*	*101,413,155*
Financial result	(748,387)	(2,502,372)	(291,548)	(793,560)	87,338,914	(42,210,895)	40,792,152
Profit/(loss) before tax	**10,343,336**	**108,983,853**	**2,619,432**	**11,749,999**	**75,503,106**	**(66,994,419)**	**142,205,307**
Income tax	(2,185,708)	(9,410,361)	-	(1,901,211)	-	-	(13,497,280)
Net profit/(loss) for the year	**8,157,628**	**99,573,492**	**2,619,432**	**9,848,788**	**75,503,106**	**(66,994,419)**	**128,708,027**
Non-controlling interest							25,870,940
Profit of the Parent company owner							**102,837,087**
Non-current assets	25,930,881	752,702,363	36,790,196	72,764,456	1,360,685,151	(755,692,533)	1,493,180,514
Current assets	82,796,262	1,785,457,748	99,283,536	170,630,855	364,481,069	(268,654,740)	2,233,994,730
Total assets	**108,727,143**	**2,556,009,371**	**136,073,732**	**243,395,311**	**1,725,166,220**	**(1,042,196,533)**	**3,727,175,244**
Total liabilities	**12,937,136**	**1,344,251,270**	**57,644,729**	**33,683,165**	**48,351,055**	**(307,174,403)**	**1,189,692,952**

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2017	Industry	Energy and transport	Trade	Special activities	Končar- Electrical Industry Inc.	Eliminations	Group
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Revenue	84,520,118	2,367,306,253	219,322,107	33,153,782	226,465	-	2,704,528,725
Income from related companies	9,814,573	296,953,516	3,893,983	87,241,302	49,986,865	(328,972,667)	118,917,572
Other operating income	1,948,,562	108,226,829	5,187,822	24,070,574	3,207,848	(2,774,127)	139,867,508
Total operating income	96,283,253	2,772,486,598	228,403,912	144,465,658	53,421,178	(331,746,794)	2,963,313,805
Total operating expenses	(85,323,078)	(2,712,914,583)	(226,941,403)	(130,354,125)	(79,255,595)	(318,942,136)	(2,915,846,648)
Operating profit/loss	*10,960,175*	*59,572,015*	*1,462,509*	*14,111,533*	*(25,834,417)*	*(12,804,658)*	*47,467,157*
Financial result	(386,969)	1,366,762	2,103,673	(681,585)	94,908,861	(20,317,924)	76,992,818
Profit/(loss) before tax	**10,573,206**	**60,938,777**	**3,566,182**	**13,429,948**	**69,074,444**	**(33,122,582)**	**124,459,975**
Income tax	(1,975,631)	(11,970,526)	-	(2,409,907)	-	-	(16,356,064)
Net profit/(loss) for the year	**8,597,574**	**48,968,251**	**3,566,182**	**11,020,041**	**69,074,445**	**(33,122,582)**	**108,103,912**
Non-controlling interest							24,478,298
Profit of the Parent company owner							**83,625,614**
Non-current assets	28,342,328	720,997,307	39,827,471	72,305,649	1,205,872,643	(630,943,717)	1,436,401,681
Current assets	83,805,335	1,744,758,914	85,311,664	168,098,413	459,903,887	(269,248,041)	2,272,630,172
Total assets	**112,147,663**	**2,465,756,221**	**125,139,135**	**240,404,062**	**1,665,776,530**	**(900,191,758)**	**3,709,031,853**
Total liabilities	**15,917,709**	**1,378,432,738**	**49,329,561**	**38,215,761**	**21,119,444**	**(278,883,465)**	**1,224,131,748**

Sales by regions:

	2018		2017	
	HRK'000	%	*HRK'000*	%
Croatia	**1,218,960**	**45.10%**	**1,256,987**	**44.52%**
Countries in the European Union	967,931	35.81%	997,578	35.33%
	2,186,891	**80.91%**	**2,254,565**	**79.85%**
Bosnia and Herzegovina, Macedonia, Serbia and Montenegro	105,319	3.90%	122,844	4.35%
Other European countries	133,470	4.94%	76,086	2.70%
Asia	101,666	3.76%	120,320	4.26%
America and Australia	77,440	2.87%	119,240	4.22%
Other countries	98,147	3.63%	130,291	4.62%
	516,042	**19.09%**	**568,781**	**20.15%**
	2,702,933	**100.00%**	**2,823,346**	**100.00%**

44. Business combinations

In May 2017, the subsidiary KONČAR Distribution and Special Transformers Inc. acquired a 74% share in the company Power Engineering Transformatory Sp. z.o.o. (PET) from Czerwonak, Poznan, Poland. Since for the remaining 26% share there is a symmetric call and put option in effect in the period from 8 May 2020 until 31 December 2037, which can be used at the prices defined in the contract, this acquisition by the Group was accounted for as if it had immediately acquired the 100% share, and it recognised the amount payable as per the put/call option as deferred and paid at the purchase price.

The fair value of identifiable assets and liabilities of the subsidiary Power Engineering Transformatory Sp. z.o.o. (PET) as at 8 May 2017 was as follows:

	8 May 2017
	HRK
Non-current intangible assets	8,581
Non-current tangible assets	22,070,850
Non-current receivables	62,645
Inventories	2,793,477
Current receivables	378,109
Cash	646,822
Prepaid expenses	74,648
Provisions	(677,972)
Non-current liabilities	(2,199,350)
Current liabilities	(4,999,888)
Accrued expenses and deferred income	(1,253,050)
Total identifiable assets	**16,904,872**
Non-current liabilities related to share purchase	(8,001,769)
Gain on bargain purchase	**8,903,103**

45. Contingent liabilities and off-balance sheet items

The Group's off-balance sheet items in amount of HRK 1,840 million (2017: HRK 1,900 million) mainly relate to the issued collaterals (guarantees, bills of exchange, promissory notes), solidary/subsidiary guarantees, liabilities to the state for flats sold (65%), etc.

Several legal disputes have been initiated against the subsidiaries and the Parent company which are currently in process.

Except for the legal disputes for which the Group recognised provisions (Note 33), the Group companies' Management Boards estimate that other legal disputes will not bear any costs which could have a significant effect on the Group's financial statements and, accordingly, has not recognised provisions at the balance sheet date.

46. Order book

The Group's balance for the consolidated negotiated deals (order book) based on active projects as at 31 December 2018 amounts to HRK 3,372 million (31 December 2017: HRK 3,028 million).

47. Events after the reporting date

After the reporting date, and by the date of approval of the financial statements, the significant events that should be disclosed include the following:

- Based on the decision of the General Assembly of KONČAR - Electrical industry Inc., at its session of 18 January 2019, the Supervisory Board adopted the Program of Continuing Ownership Restructuring of KONČAR - Household Appliances Inc. through the M&E buyout model, proposed by the Management Board of KONČAR - Electrical Industry Inc. All the shares of KONČAR - Household Appliances Inc. were offered for sale in the tender, of which 60% of the shares are offered for sale to all Group employees and 40% of the shares are offered to the management of the Company. The share price is HRK 434.00 and is based on an independent valuer's estimate.
- The Supervisory Board of KONČAR - Electrical Industry Inc., at its session dated 19 March 2019, approved the restructuring concept for KONČAR - Low Voltage Switches and Circuit Breakers Ltd. which includes the establishment of a Special Purpose Vehicle (SPV) which will be sold to Lovato Electric S.P.A. from Bergamo, immediately after it has been established.

Other than the above stated events, after the reporting date and until the approval date of these financial statements, there were no events that could significantly affect the annual financial statements of the Group for 2018, and that should, consequently, be disclosed.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

48. Accounting policies applicable prior to 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

A) Financial assets and financial liabilities

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

Financial assets are classified into the following categories:

- At fair value through profit or loss (FVTPL) - Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.
- Held to maturity - financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.
- Available for sale (AFS) - non-derivative financial assets which are designated as such or they cannot be included in any of the above mentioned categories. AFS is stated at fair value. Changes in fair value are recognised in other comprehensive income, in the investment's revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income in revaluation reserves from investments, is included in profit or loss for the period.
- Loans and receivables - this category comprises trade receivables, loans, and other receivables with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

For unlisted shares classified as AFS a significant or prolonged decline in the fair value of the shares below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and finance lease receivables, objective evidence of impairment could include:

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

Derecognition of financial assets

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

When the Group derecognises (writes off) all financial assets, the difference between the carrying value and the sum of considerations received and receivable and cumulative profit (loss), recognised within other comprehensive income, transfers from equity to profit or loss.

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 Group's assets after deducting all of its liabilities Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest income).

Financial liabilities at fair value through profit or loss - financial liabilities either held for trading or are classified as such at initial recognition. They are measured at their fair value, while the gains/losses relating to them are recognised in the income statement. The net gain or loss recognised in the income statement includes any interest paid on the financial liability.

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

B) Revenue recognition

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

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

- the Group has transferred to the customer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transactions will flow to the Group; and
- the costs incurred or to be incurred on those transactions can be measured reliably.

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

C) Construction contracts

When the outcome of a construction contract can be estimated reliably, revenues and expenses are recognised according to the stage of completion of contracted work at the balance sheet date, based on the share of contract costs incurred for work performed up to that date in relation to the total estimated contract costs. Variations in contract work, claims and incentive payments are included in contract revenue to the extent agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected losses are recognised as an expense immediately.

KONČAR Electrical Industry Inc.

Independent Auditor's Report

ANNUAL REPORT
31 DECEMBER 2018

Responsibility for the Annual Report

Končar – Electrical Industry Inc.

Responsibility for the Annual Report

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union, which give a true and fair view of the financial position and results of Končar – Electrical Industry, Inc., Zagreb (hereinafter: the Company) for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on a going concern basis unless this assumption is inappropriate.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and their compliance with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Annual Report was authorised for issue by the Management Board on 10 April 2019.

Signed on behalf of the Management Board:

Darinko Bago, President of the Management Board	Gordan Kolak, Deputy President and Member of the Management Board
Miki Huljić, Member of the Management Board	Marina Kralj Miliša, Member of the Management Board
Miroslav Poljak, Member of the Management Board	

Končar-Electrical Industry Inc, Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

»KONČAR« d.d. ZAGREB
FALLEROVO ŠETALIŠTE 22
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Independent Auditor's Report

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Independent auditor's report
to the Shareholders of Končar – Electrical Industry Inc.
Report on the audit of the separate financial statements

Our opinion

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

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

What we have audited

The separate financial statements of the Company which comprise:

- The statement of comprehensive income for the year ended 31 December 2018;
- The statement of financial position as at 31 December 2018;
- The statement of cash flows for the year then ended;
- The statement of changes in equity for the year then ended; and
- The notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

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

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Our audit approach

Overview

Materiality	• Overall materiality for the separate financial statements as a whole: HRK 3,700 thousand, which represents 5% of profit before tax from continued operations
Key audit matters	• Impairment of investments in subsidiaries

How we tailored our audit scope

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

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

Materiality

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

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

Overall materiality for the financial statements as a whole	HRK 3,700 thousand
How we determined it	5% of profit before tax from continued operations
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because it is the benchmark which best reflects the Company's performance in the period under review. We chose 5%, which is within the range of commonly acceptable quantitative materiality thresholds in this sector.

Key audit matters

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

Independent Auditor's Report

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Key audit matter	How our audit addressed the Key audit matter
Valuation and impairment of investments in subsidiaries *See Note 2 to the financial statements under heading "Investments in subsidiaries" (Summary of significant accounting policies), Note 3 (Critical accounting estimates) and Notes 11 and 17.* Investments in subsidiaries are reviewed annually for impairment. The procedure for reviewing and calculating the impairment of investments in subsidiaries is described in Notes 3, 11 and 17 to the financial statements. Based on an analysis performed, indicators of possible impairment have been identified in one subsidiary with a net carrying amount of HRK 21,547 thousand as at 31 December 2018 (after impairment). An impairment loss on investments in the amount of HRK 13,266 thousand was recognised in the current year based on the estimated fair value of this investment arising from a binding offer. We have focused on this area due to significant judgments and estimates used by management when determining the required impairment loss for investments. We have specifically focused on management judgments and assumptions used in the process of identifying impairment indicators and in the discounted cash flow model.	We have reviewed all investments in subsidiaries and made an analysis by comparing the amount of investment and the relevant share in net assets of companies and key indicators (EBIT, EBITDA) in order to assess the adequacy of the management's conclusions on the existence of any impairment indicators for the investments and we have not identified any inconsistencies. For such investment in a subsidiary where an impairment indicator was identified, in assessing the management's assumptions set out in Note 3 as well as used methodologies (discounted cash flows model), we used the assistance of internal valuation experts to assess used methodologies and the underlying assumptions: • We have compared the subsidiary's actual current-year and prior-year results with the forecasts as an indication of the quality of the budgeting process. We found the forecasts for the current and the previous year were somewhat above the actual results, but noted that management made appropriate adjustments to the forecasts used in the impairment test. • We have compared the growth rate applied with historical results and identified that it does not exceed the estimates for that industry. • We have assessed and examined the discount rate used, comparing it to the rates used by comparable organisations and market data. • We have verified and confirmed the mathematical accuracy of the discounted cash flow model and we have analysed the sensitivity of the estimated investment value. • We have compared the impairment loss amount determined in accordance with the above calculation to the amount recognised in the financial statements of the Company. Based on the procedures performed, we have not identified any significant exceptions.

Reporting on other information including Management Report and Corporate Governance Statement

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

Our opinion on the separate financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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Report on other legal and regulatory requirements

Appointment

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

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
10 April 2019

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		HRK	*HRK*
Revenue	4	47,727,687	50,172,100
Other operating income	5	20,322,076	3,249,078
Operating income		**68,049,763**	**53,421,178**
Cost of materials and energy	6	(5,725,565)	(5,455,684)
Cost of services	7	(33,163,402)	(34,141,032)
Staff costs	8	(23,223,513)	(21,435,411)
Depreciation and amortisation	15	(8,091,285)	(7,817,056)
Other expenses	9	(8,720,347)	(9,382,577)
Gains on impairment of financial assets		703,919	-
Provisions	10	(961,460)	(1,023,836)
Operating expenses		**(79,181,653)**	**(79,255,596)**
Operating loss		**(11,131,890)**	**(25,834,418)**
Dividend income from associates		61,350,031	72,973,704
Finance income		44,030,861	58,455,830
Finance costs		(18,745,897)	(36,520,673)
Finance income - net	11	**86,634,995**	**94,908,861**
Profit before tax		**75,503,105**	**69,074,443**
Income tax	12	-	-
PROFIT FOR THE YEAR		**75,503,105**	**69,074,443**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**75,503,105**	**69,074,443**
Earnings per share			
Basic and diluted earnings per share in HRK	13	29.46	26.92

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

Statement of Financial Position

AS AT 31 DECEMBER 2018

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Intangible assets	14	1,441,796	1,441,796
Property, plant and equipment	15	239,591,678	206,679,890
Investment property	16	152,625,470	151,294,123
Investments in subsidiaries	17	846,929,805	768,867,586
Investments in associates	18	67,722,257	67,722,257
Investments in joint ventures	19	37,054,110	-
Financial assets	20	1,331,330	1,226,593
Receivables	21	13,988,706	8,640,398
		1,360,685,152	**1,205,872,643**
Current assets			
Financial assets	26	466,462	148,302,705
Receivables from related parties	22	68,254,332	11,155,876
Trade receivables	23	1,015,951	1,052,899
Prepaid corporate income tax		25,715	234,894
Other receivables	24	2,924,299	20,053,446
Loans granted to subsidiaries	25	28,937,025	59,075,456
Cash and cash equivalents	27	261,470,980	219,604,159
Prepaid expenses		1,386,306	424,452
		364,481,070	**459,903,887**
TOTAL ASSETS		**1,725,166,222**	**1,665,776,530**
EQUITY AND LIABILITIES			
Capital and reserves			
Share (registered) capital		1,208,895,930	1,208,895,930
Capital reserves		719,579	719,579
Reserves from profit		386,931,800	359,719,093
Retained earnings		4,764,752	6,248,041
Profit for the year		75,503,105	69,074,443
	28	**1,676,815,166**	**1,644,657,086**
Non-current provisions	29	**3,715,146**	**3,312,434**
Current liabilities			
Liabilities to related parties	30	35,961,383	9,665,210
Trade payables	31	2,487,462	2,425,780
Other current liabilities	32	5,628,317	5,159,784
Current provisions	29	558,748	556,236
		44,635,910	**17,807,010**
Total liabilities		**48,351,056**	**21,119,444**
TOTAL EQUITY AND LIABILITIES		**1,725,166,222**	**1,665,776,530**

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

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		HRK	*HRK*
Cash flows from operating activities			
Proceeds from trade receivables		25,215,598	25,030,185
Payments to trade payables		(22,533,800)	(19,379,736)
Payments to employees		(22,534,848)	(23,359,143)
Taxes paid		(3,193,339)	(3,210,494)
Other proceeds and payments		(3,311,681)	(2,512,213)
Cash from operations		**(26,358,070)**	**(23,431,401)**
Interest paid		(685)	(503,406)
Net cash flows from operating activities		**(26,358,755)**	**(23,934,807)**
Cash flows from investing activities			
Proceeds from sale of non-current intangible and tangible assets		35,021,895	2,468,391
Proceeds from sale of equity and debt instruments		8,219	2,627,731
Dividends received	11	39,594,248	185,800,952
Interest received		3,138,812	2,680,335
Cash proceeds from term deposits	26	146,578,534	212,980,705
Purchase of non-current intangible and tangible assets		(24,975,238)	(11,192,982)
Payments for acquisition of equity and debt financial instruments	17, 19	(119,083,910)	(22,896,999)
Placement of deposits		-	(166,819,359)
Loans granted	25	(29,250,000)	(35,000,000)
Cash proceeds from repayment of loans granted	25	59,075,456	14,904,879
Net cash flows from investing activities		**110,108,016**	**185,553,653**
Cash flows from financing activities			
Purchase of treasury shares	28	(5,948,574)	-
Dividends paid	28	(35,933,866)	(30,804,427)
Net cash used in financing activities		**(41,882,440)**	**(30,804,427)**
Net increase in cash and cash equivalents		**41,866,821**	**130,814,419**
Cash and cash equivalents at beginning of year		219,604,159	88,789,740
Cash and cash equivalents at end of year	27	**261,470,980**	**219,604,159**

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

Statement of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Total capital and reserves
							HRK	*HRK*
At 1 January 2017	**1,208,895,930**	**719,579**	**325,746,118**	**4,143,785**	**(4,143,785)**	**6,248,041**	**64,768,071**	**1,606,377,739**
Profit for the year	-	-	-	-	-	-	69,074,443	69,074,443
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	***69,074,443***	***69,074,443***
Transactions with owners:								
Transfer to reserves as per annual schedule (Note 28)	-	-	33,972,975	-	-	-	(33,972,975)	-
Dividends paid (Note 28)	-	-	-	-	-	-	(30,795,096)	(30,795,096)
At 31 December 2017	**1,208,895,930**	**719,579**	**359,719,093**	**4,143,785**	**(4,143,785)**	**6,248,041**	**69,074,443**	**1,644,657,086**
Effects of the application of new standards	-	-	-	-	-	(1,483,289)	-	(1,483,289)
At 1 January 2018	**1,208,895,930**	**719,579**	**359,719,093**	**4,143,785**	**(4,143,785)**	**4,764,752**	**69,074,443**	**1,643,173,797**
Profit for the year	-	-	-	-	-	-	75,503,105	75,503,105
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	***75,503,105***	***75,503,105***
Transactions with owners:								
Transfer to reserves as per annual schedule (Note 28)	-	-	27,146,831	6,000,000	-	-	(33,146,831)	-
Dividends paid (Note 28)	-	-	-	-	-	-	(35,927,612)	(35,927,612)
Purchase of treasury shares	-	-	-	-	(5,948,574)	-	-	(5,948,574)
Other	-	-	65,876	(51,426)	-	-	-	14,450
	-	-	27,212,707	5,948,574	(5,948,574)	-	(69,074,443)	(41,861,736)
At 31 December 2018	**1,208,895,930**	**719,579**	**386,931,800**	**10,092,359**	**(10,092,359)**	**4,764,752**	**70,503,105**	**1,676,815,166**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information on the Company

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

As at 31 December 2018 the Company had 51 employees, while on as at 31 December 2017 the Company had 48 employees.

The employee structure is as follows:

	31 December 2018	31 December 2017
PhD	1	1
Master's degree	6	5
University degree	32	30
Two-year degree	8	8
Secondary school qualifications	3	3
Primary school + training on the job	1	1
	51	48

Members of the Supervisory Board:

Petar Vlaić	President of the Supervisory Board
Josip Lasić	Deputy President of the Supervisory Board
Vicko Ferić	Member of the Supervisory Board
Jasminka Belačić	Member of the Supervisory Board
Vladimir Plečko	Member of the Supervisory Board
Branko Lampl	Member of the Supervisory Board
Joško Miliša	Member of the Supervisory Board
Nikola Anić	Member of the Supervisory Board

Members of the Management Board:

Darinko Bago	President of the Management Board
Gordan Kolak	Deputy President and Member of the Management Board as of 20 January 2019
Miki Huljić	Member, in charge of finance
Marina Kralj Miliša	Member, in charge of legal, general and human resource activities
Davor Mladina	Member, in charge of industry and trade activities until 20 January 2019
Miroslav Poljak	Member, in charge of corporate development and ICT
Ivan Tomšić	Deputy member, in charge of coordination of the export of complex projects and digital transformation

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

In 2018, the auditors of the Company's financial statements have provided services of HRK 672 thousand (2017: HRK 327 thousand). In 2018 and 2017, services mainly relate to costs of the audit and review of financial statements, as well as the audit of financial statements prepared for regulatory purposes. Other permitted non-audit services provided by the auditor of the financial statements include the service of IFRS 15 implementation, provisions of accounting seminars and training services in the total amount of HRK 550 thousand.

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

The Company's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Company. As at 31 December 2018, the exchange rate for EUR 1 and USD 1 was HRK 7.42 and HRK 6.47 (31 December 2017: HRK 7.51 and HRK 6.27).

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

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

Users of these separate financial statements should read them with the Group's consolidated financial statements as at and for the year ended 31 December 2018 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The Group's consolidated financial statements have been published on the official web-site of the Zagreb Stock Exchange.

New and amended standards adopted and effective

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

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

The Company has applied IFRS 15 and IFRS 9 for the first time commencing 1 January 2018. The nature and effects of changes resulting from the adoption of new standards are detailed in item 2a.

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

Standards, interpretations and amendments issued but not yet effective

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

The standard will affect primarily the accounting for the Company's operating leases. During 2018, the Company has made a preliminary assessment and calculation of effects of applying IFRS 16 as of 1 January 2019 for operating lease contracts and the application of new rules would result in the disclosure of right-of-use assets in the amount of HRK 1,500 - 2,000 thousand and lease liabilities in the amount of HRK 1.500 - 2,000 thousand.

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

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

In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.
- While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.
- The Management Board anticipates that the adoption of the improvements will not have a material impact on the financial statements of the Company and plans to adopt the amendments on their effective date.

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

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

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128 Investments in Associates and Joint Ventures.

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

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

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

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

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an investor and its associate or joint venture - In December the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

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

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. However, any gain or loss (as a result of a sale or non-operational asset) is recognised only to the extent of the other investor’s investors in the associate or joint venture. The amendments apply prospectively. The Management Board anticipates that the adoption of the amendments will not have a material effect on the Company’s financial statements and plans to adopt the standard on its effective date and after being adopted by the European Union.

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

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Amendments to IAS 1 and IAS 8: Definition of materiality - issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to the Conceptual Framework for Financial Reporting - issued on 29 March 2018 and effective for anual periods beginning on or after 1 January 2020.

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

a) Adoption of new accounting policies

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

A) Financial assets and liabilities

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

Classification and measurement of financial assets

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

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

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

Business models for managing financial assets include:

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

- Stage 1 - when determining the impairment of financial assets, a 12-month expected credit loss model is applied. This model applies if there is no significant increase in credit risk.
- Stage 2 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk.
- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

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

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

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

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contract liabilities

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial liabilities, classification and measurement

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

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

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

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

Derecognition of financial liabilities

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

Effects

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

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

Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The nature of reconciliation is explained below:

a) Classification

		Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Classification under IAS 39				
Loans and receivables				
Non-current receivables	8,640	8,640	-	-
Current financial assets	207,378	207,378	-	-
Trade receivables, receivables from related parties and other receivables	31,658	31,658	-	-
Cash and cash equivalents	219,604	219,604	-	-
Assets at fair value through P&L				
Non-current financial assets	1,227	-	1,227	-
	468,507	**467,280**	**1,227**	**-**

Below is an overview of changes in the classification of the Company's financial assets:

- Non-current receivables, current financial assets, trade receivables, other receivables, cash and cash equivalents classified as loans and receivables at 31 December 2017 meet the criteria under which contractual cash flows on debt instruments represent solely payment of principal and interest and are classified accordingly as assets at amortised cost as at 1 January 2018.
- The Company continued to measure all financial assets at fair value previously classified at fair value in accordance with IAS 39.

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

b) Impairment

Following the adoption of IFRS 9, the Company recognised additional impairment losses on assets at amortised cost of HRK 1,484 thousand, resulting in a decrease in retained earnings of HRK 1,484 thousand. The impairment has not changed the value of the debt instruments recognised in the balance sheet since they are still measured at fair value.

Expected credit losses for cash and cash equivalents are immaterial.

	Impairment under IAS 39 31 December 2017	Remeasurement	Expected credit loss under IFRS 9 1 January 2018
	HRK'000	*HRK'000*	*HRK'000*
Non-current receivables	(428)	(759)	(1,187)
Current financial assets	-	(576)	(576)
Trade receivables, receivables from related parties and other receivables	-	(149)	(149)
	(428)	**(1,484)**	**(1,912)**

B) Revenue recognition

The Company recognises revenue based on:

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

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

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

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

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

Income from dividends, i.e. shares in profit: Income from dividends, i.e. shares in profit of subsidiaries and associates, is recognised when the right to receive payment is established, within finance income and costs, Note 11.

Following the adoption of IFRS 15 as at 1 January 2018 there were no effects for the Company, and therefore, a note on the effect of the adoption as at 1 January 2018 was not presented.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of comprehensive income for the period ended 31 December 2018

	IFRS 9, IFRS 15 2018	IAS 39, IAS 18 2018	Difference 2018
	HRK	*HRK*	*HRK*
Revenue	47,727,687	47,727,687	-
Other operating income	20,322,076	20,322,076	-
Operating income	**68,049,763**	**68,049,763**	**-**
Cost of materials and energy	(5,725,565)	(5,725,565)	-
Cost of services	(33,163,402)	(33,163,402)	-
Staff costs	(23,223,513)	(23,223,513)	-
Depreciation and amortisation	(8,091,285)	(8,091,285)	-
Other operating expenses	(8,720,347)	(8,720,347)	-
Gains on impairment of financial assets	703,919	-	703,919
Provisions	(961,460)	(961,460)	-
Operating expenses	**(79,181,653)**	**(79,885,572)**	**703,919**
Operating loss	**(11,131,890)**	**(11,835,809)**	**703,919**
Dividend income from associates	61,350,031	61,350,031	-
Finance income	44,030,861	44,390,753	(359,892)
Finance costs	(18,745,897)	(18,745,897)	-
Net finance result	**86,634,995**	**86,994,887**	**(359,892)**
Profit before tax	**75,503,105**	**75,159,078**	**344,027**
Income tax	-	-	-
Net profit for the year	**75,503,105**	**75,159,078**	**344,027**
Other comprehensive income	-	-	-
COMPREHENSIVE INCOME FOR THE YEAR	**75,503,105**	**75,159,078**	**344,027**

Statement of financial position as at 31 December 2018

	IFRS 9, IFRS 15 31 Dec. 2018	IAS 39, IAS 18 31 Dec. 2018	Difference 31 Dec. 2018
	HRK	*HRK*	*HRK*
ASSETS			
Intangible assets	1,441,796	1,441,796	-
Property, plant and equipment	239,591,678	239,591,678	-
Investment property	152,625,470	152,625,470	-
Investments in subsidiaries	846,929,805	846,929,805	-
Investments in associates accounted for using the equity method	67,722,257	67,722,257	-
Investments in joint ventures	37,054,110	37,054,110	-
Financial assets	1,331,330	1,331,330	-
Non-current receivables	13,988,706	14,597,139	(608,433)
Non-current assets	**1,360,685,152**	**1,361,293,585**	**(608,433)**
Current financial assets	466,462	466,462	-
Receivables from related parties	68,254,332	68,472,187	(217,855)
Trade receivables	1,015,951	1,015,951	-
Prepaid corporate income tax	25,715	25,715	-
Other receivables	2,924,299	2,924,299	-
Loans granted to related companies	28,937,025	29,250,000	(312,975)
Cash and cash equivalents	261,470,980	261,470,980	-
Prepaid costs and accrued income	1,386,306	1,386,306	-
Current assets	**364,481,070**	**365,011,900**	**(530,830)**
TOTAL ASSETS	**1,725,166,222**	**1,726,305,485**	**(1,139,263)**
EQUITY AND LIABILITIES			
Subscribed share capital	1,208,895,930	1,208,895,930	-
Share premium	719,579	719,579	-
Reserves from profit	386,931,800	386,931,800	-
Retained earnings	4,764,752	6,248,042	(1,483,290)
Profit for the year	75,503,105	75,159,078	344,027
Equity	**1,676,815,166**	**1,677,954,429**	**(1,139,263)**
Provisions	**3,715,146**	**3,715,146**	**-**
Liabilities to related parties	35,961,383	35,961,383	-
Trade payables	2,487,462	2,487,462	-
Other liabilities	5,628,317	5,628,317	-
Current provisions	558,748	558,748	-
Current liabilities	**44,635,910**	**44,635,910**	**-**
TOTAL EQUITY AND LIABILITIES	**1,725,166,222**	**1,726,305,485**	**(1,139,263)**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

b) Finance income and costs

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

Foreign exchange gains/losses are recognised in Note 11 in gross amounts (the stated amounts include foreign exchange differences arising from principal activities as well foreign exchange differences arising from financing activities).

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

c) Income tax

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

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

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

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

d) Earnings per share

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

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

e) Dividend distribution

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

f) Foreign currency transactions

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

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

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

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

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

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

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

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

Impairment of property, plant and equipment

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

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

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

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

h) Investment property

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

i) Leases

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

Assets held under finance leases are initially recognised as assets in the lessee's balance sheet at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss.

Operating lease payments are recognised in profit or loss as an expense on a straight-line basis over the lease term.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

j) Investments in subsidiaries and associates

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

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

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

k) Investments in joint venture

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

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

l) Merger

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

m) Receivables

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

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

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

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

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

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

n) Cash and cash equivalents

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

o) Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less, or in the regular operating cycle of the business if longer. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

p) Borrowings

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

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

q) Provisions, contingent liabilities and assets

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

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

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

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

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

Contingent assets are not recognised in the financial statements, except in the case where the realisation of income is certain and the assets in question are not contingent assets and their recognition is appropriate.

r) Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

The Company has post-employment benefits to be paid to the employees at the end of their employment with the Company (either upon retirement, termination or voluntary departure). The Company recognises a liability for these long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, the estimated benefit cost and the discount rate.

(iii) Short-term employee benefits - bonuses

A liability for employee benefits is recognised in provisions based on the Company's formal plan and when past practice has created a valid expectation by the Management Board/key employees that the bonus will be paid and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are expected to be settled within 12 months of the balance sheet date and are recognised at the amounts expected to be paid when they are settled.

(iv) Share-based payments

The Company has a plan for share-based payments to the members of the Management Board which are settled with equity instruments of the Company. The total amount recognised as expense and the relevant increase in share capital are measured by reference to the fair value of the provided equity instruments. The fair value of these equity instruments is measured at the grant date. At each reporting date, the Company reviews its estimated options number which complies with conditions for the acquisition of rights and makes necessary adjustments.

s) Events after the balance sheet date

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Critical accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Impairment of investments in subsidiaries

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

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

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

In 2018 and in 2017, the Company performed impairment tests on investments in its subsidiaries. Based on the investor's binding offer and independent assessment of Končar - Low Voltage Switches and Circuit Breakers Inc. the investment in this company was impaired. The main assumptions that may have a significant impact on the determined recoverable amount used in the estimate are a discount rate of 10.3%, and the growth rate defined in the medium-term plans, which is set at 2-3%.

If the amount of the binding offer had increased by 5%, this would have an impact on the recoverable amount determined in the amount of HRK 1,075 thousand. Also, if the amount of the binding offer had decreased by 5%, this would have an impact on the recoverable amount of the investment determined in the amount of HRK 1,075 thousand.

a) Residual value of investment property

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

During 2017 and 2018, for properties whose present carrying value accounts for 76% of the total value, the Company engaged an independent valuator to determine their fair value, and the determined values exceeded the value of the properties recognised in the Company's books at the balance sheet date.

c) Impairment of trade receivables

When calculating and recognising expected credit losses of trade receivables, the methodology, model and inputs result from an estimate. The detailed methodology for calculating expected credit losses is disclosed in Note 35. The Company uses historical observations (over a minimum period of 3 years) arising from system reports from companies' systems on days past due adjusted for estimated future expectations relating to the collection of receivables.

4. Revenue

Analysis of revenue by category in accordance with the new revenue recognition guidelines as of 1 January 2018:

	2018
	HRK
Type of service	
Brand usage fee (fee for the usage of company name, trademark and service mark)	21,209,676
Income from property management	24,000,000
Income from other fees	2,518,011
Total revenue from contracts with customers	**47,727,687**
Related parties (Note 34)	47,567,277
Unrelated parties	160,410
Total revenue from contracts with customers	**47,727,687**
Timing of revenue recognition	
At a point in time	26,518,011
Over time	21,209,676
Total revenue from contracts with customers	**47,727,687**

Analysis of revenue by category in accordance with the revenue recognition guidelines applicable until 1 January 2018:

	2017
	HRK
Fees charged to related parties (Note 34)	25,986,623
Rental - related parties (Note 34)	24,000,000
Fees charged to unrelated parties	185,477
	50,172,100

5. Other operating income

	2018	2017
	HRK	*HRK*
Gain on sale of assets /i/	19,103,418	407,781
Release of provisions (Note 29)	556,236	2,105,114
Rental income	20,497	41,231
Rental income - related parties (Note 34)	24,575	-
Other income	617,350	694,952
	20,322,076	**3,249,078**

/i/ Gain from the sale of property mainly relates to the sale of land and buildings to the related company KONČAR - Steel Structures Inc. based on an independent appraisal.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

6. Cost of materials and energy

	2018	2017
	HRK	*HRK*
Energy costs	5,286,696	4,963,433
Cost of raw materials and supplies	333,338	348,553
Cost of small inventory	105,531	143,698
	5,725,565	**5,455,684**

7. Cost of services

	2018	2017
	HRK	*HRK*
Intellectual services	6,812,090	7,007,950
Security services	4,908,986	3,949,368
Utility and water protection fee	4,052,024	3,927,755
Supervisory services and property management services at Sesvetski Kraljevec, Samobor, Jankomir, Zlatar	3,230,000	2,880,000
Maintenance services (servicing)	2,795,828	4,794,472
Cleaning services	2,528,595	2,358,664
Entertainment	1,920,643	1,883,000
Costs of advertising and fairs	1,202,489	1,162,252
Graphic design services	968,000	813,639
Rent	806,798	810,900
Professional training	752,250	808,167
Telephone, post and transport	739,417	702,185
Work environment testing services	440,000	330,000
Audit and advisory services	377,364	380,317
Lawyer services	51,228	37,581
Hazardous waste disposal services	-	615,655
Other services	1,577,690	1,679,127
	33,163,402	**34,141,032**

8. Staff costs

	2018	2017
	HRK	*HRK*
Net salaries and wages	11,183,270	11,153,376
Taxes and contributions	8,636,516	7,117,249
Contributions on salaries	3,403,727	3,164,786
	23,223,513	**21,435,411**

Net salaries in the amount of **HRK 11,183,270** (2017: **HRK 11,153,376**) include compensations to members of the Company's Management Board in the amount of HRK 3,290,230 (2017: HRK 3,834,067) and the accrued bonuses to the Management Board in the amount of HRK 1,371,300 (2017: HRK 1,447,600), which are an integral part of staff costs.

In 2018, pension fund contributions amounted to HRK 3,463,538 (2017: HRK 2,664,694).

Employee benefits (such as transportation to and from work, termination benefits and jubilee awards, business travel expenses) in the amount of HRK 2,173 thousand (2017: HRK 1,077 thousand) are presented in Note 9.

9. Other expenses

	2018	2017
	HRK	*HRK*
Compensations to members of the Supervisory Board	2,554,037	2,389,659
Sponsorships and donations	1,358,517	1,667,173
Daily allowances for business trips and travel expenses	1,408,806	803,739
Piece work agreements, royalties	943,010	942,899
Reimbursements of costs to employees, gifts and support	751,361	257,541
Insurance premiums	702,148	837,026
Taxes and contributions non-dependable on the results and similar costs	437,666	452,093
Membership fees, contributions and similar expenses	176,072	105,970
Administrative expenses	82,171	784,993
Bank charges	80,177	111,375
Other	226,382	1,030,109
	8,720,347	**9,382,577**

10. Provisions

	2018	2017
	HRK	*HRK*
Provisions for termination benefits and jubilee awards (Note 29)	402,712	467,600
Provisions for unused vacation days (Note 29)	558,748	556,236
	961,460	**1,023,836**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

11. Finance income and costs

	2018	2017
	HRK	*HRK*
Finance income		
From transaction with associates		
Income from dividends and shares in profit	*61,350,031*	*72,973,704*
From transactions with subsidiaries		
Income from dividends and shares in profit	39,524,345	47,418,562
Interest income from loans granted	1,634,291	1,847,308
	41,158,636	*49,265,870*
From transactions with unrelated parties		
Interest income on deposits	168,309	1,594,849
Interest income from sale of shares to employees	-	257,363
Interest income - other	201,717	243,078
Foreign exchange gains on foreign currency deposits	1,690,933	5,673,254
Foreign exchange gains - other	557,493	531,433
Income from dividends and shares in profit	69,902	130,770
	2,688,354	*8,430,747*
Other unrealised gains	*183,871*	*759,213*
	183,871	*759,213*
	105,380,892	**131,429,534**
Finance costs		
From transactions with unrelated parties		
Foreign exchange losses on foreign currency deposits in foreign currency	(1,098,890)	(4,901,596)
Foreign exchange losses on loans granted for the sale of flats	(551,008)	(560,912)
Foreign exchange losses - other	(3,750,341)	(2,322,347)
	(5,400,239)	*(7,784,855)*
Unrealised losses		
Losses on impairment of shares in subsidiaries (Note 17)	(13,265,563)	(28,202,000)
Losses on impairment of shares - other	(79,135)	(30,257)
	(13,344,698)	*(28,232,257)*
Other finance costs	*(960)*	*(503,561)*
	(18,745,897)	**(36,520,673)**
Finance income - net	**86,634,995**	**94,908,861**

In 2018, based on a customer's binding offer and the independent valuator's assessment, an impairment loss was recognised on the investment in KONČAR - Low Voltage Switches and Circuit Breakers Ltd. in the amount of HRK 13,265,563 (2017: on the basis of investment estimate and the investment study, an impairment loss was recognised on the investment in KONČAR - Renewable Energy Sources Ltd. in the amount of HRK 26,701,000 and on the investments in KONČAR - Low Voltage Switches and Circuit Breakers Ltd. in the amount of HRK 1,501,000).

12. Income tax

	2018	2017
	HRK	*HRK*
Profit before tax	75,503,105	69,074,443
Tax at applicable tax rate of 18%	**13,590,559**	**12,433,400**
Tax effects of:		
Non-deductible expenses	2,771,197	5,423,451
Non-taxable income	(18,234,995)	(21,830,806)
Tax benefits (state aid for education and training)	(101,299)	(93,153)
Tax losses for which no deferred tax asset was recognised	1,974,538	4,067,108
Income tax	**-**	**-**

The Company did not recognise deferred tax assets in the total amount of HRK 13,739,319 (2017: HRK 18,062,808) due to the uncertainty of its usage within the period of five years (the Company as a holding mainly realises non-taxable revenue (dividends and shares in profits). The income tax rate for the application of the deferred tax calculation is 18% in accordance with the changes in the tax regulations in force.

Total tax losses expire as follows:

	2018	2017
	HRK	*HRK*
Within 5 years	10,969,653	22,595,043
Within 4 years	22,595,043	22,071,839
Within 3 years	22,071,839	5,437,862
Within 2 years	5,437,862	15,255,154
In the next year	15,255,154	34,989,035
	76,329,551	**100,348,933**

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

13. Earnings per share

Basic and diluted earnings per share	2018	2017
	HRK	*HRK*
Profit for the year	75,503,105	69,074,443
Weighted average number of shares (net of treasury shares)	2,562,643	2,566,258
Earnings per share in HRK	**29.46**	**26.92**

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

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14. Non-current intangible assets

	Concessions, patents, licences, software and other rights	Other	Intangible assets under construction	Total
	HRK	*HRK*		*HRK*
Cost				
At 1 January 2017	**468,629**	**653,207**	**1,292,436**	**2,414,272**
Additions	-	-	149,360	149,360
At 31 December 2017	**468,629**	**653,207**	**1,441,796**	**2,563,632**
Additions	-	-	-	-
At 31 December 2018	**468,629**	**653,207**	**1,441,796**	**2,563,632**
Accumulated amortisation				
At 1 January 2017	**468,629**	**653,207**	**-**	**1,121,836**
Amortisation for the year	-	-	-	-
At 31 December 2017	**468,629**	**653,207**	**-**	**1,121,836**
Amortisation for the year	-	-	-	-
At 31 December 2018	**468,629**	**653,207**	**-**	**1,121,836**
Net book amount				
31 December 2017	**-**	**-**	**1,441,796**	**1,441,796**
At 31 December 2018	**-**	**-**	**1,441,796**	**1,441,796**

The cost of fully amortised intangible assets still in use as at 31 December 2018 amounts to HRK 1,122 thousand (2017: HRK 1,122 thousand).

15. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction	Advances	Total
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Cost								
At 1 January 2017	**74,194,519**	**286,600,042**	**53,504,921**	**4,940,420**	**69,446**	**19,889,354**	**133,965**	**439,332,667**
Additions	-	-	-	-	-	12,969,804	5,805,325	18,775,129
Transfer from assets under construction	118,560	1,811,386	1,794,294	2,813,964	-	(6,538,204)	-	-
Transfer to investment property	-	-	-	-	-	(19,904,268)	-	(19,904,268)
Disposals	(114,000)	(178,388)	(271,283)	(2,095,923)	-	-	(3,346,991)	(6,006,585)
At 31 December 2017	**74,199,079**	**288,233,040**	**55,027,932**	**5,658,461**	**69,446**	**6,416,686**	**2,592,299**	**432,196,943**
Additions	-	-	-	-	-	57,493,190	(1,101,728)	56,391,462
Transfer from assets under con-struction	2,298,825	8,360,019	3,395,045	1,206,053	-	(15,259,942)	-	-
Transfer to investment property	-	-	-	-	-	(1,726,113)	-	(1,726,113)
Disposals	(3,562,749)	(27,179,482)	(379,322)	(869,315)	-	-	-	(31,990,868)
At 31 December 2018	**72,935,155**	**269,413,577**	**58,043,655**	**5,995,199**	**69,446**	**46,923,821**	**1,490,571**	**454,871,424**
Accumulated depreciation								
At 1 January 2017	**-**	**173,411,712**	**42,616,111**	**4,200,294**	**-**	**-**	**-**	**220,228,117**
Depreciation for the year	-	5,467,449	1,613,143	736,464	-	-	-	7,817,056
Disposals	-	(178,388)	(269,188)	(2,080,544)	-	-	-	(2,528,120)
At 31 December 2017	**-**	**178,700,773**	**43,960,066**	**2,856,214**	**-**	**-**	**-**	**225,517,053**
Depreciation for the year	-	5,220,286	1,746,585	1,124,414	-	-	-	8,091,285
Decrease	-	(17,138,438)	(364,400)	(825,754)	-	-	-	(18,328,592)
At 31 December 2018	-	**166,782,621**	**45,342,251**	**3,154,874**	**-**	**-**	**-**	**215,279,746**
Net book amount								
31 December 2017	**74,199,079**	**109,532,267**	**11,067,866**	**2,802,247**	**69,446**	**6,416,686**	**2,592,299**	**206,679,890**
31 December 2018	**72,935,155**	**102,630,956**	**12,701,404**	**2,840,325**	**69,446**	**46,923,821**	**1,490,571**	**239,591,678**

The cost of fully depreciated tangible assets still in use as at 31 December 2018 amounts to HRK 55,656 thousand (2017: HRK 52,066 thousand).

A mortgage is registered over land with a carrying value of HRK 41,715 thousand (2017: HRK 44,917 thousand) and business facilities with a carrying value of HRK 60,551 thousand (2017: HRK 69,648 thousand) as collateral for the subsidiaries' obligations in the amount of HRK 90,186 thousand (2017: HRK 90,186 thousand).

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16. Investment property

Investment property (located in Osijek, Sesvetski Kraljevec, Samobor, Požega-Zvečevo, Zagreb and Zlatar) in the amount of HRK 152,625,470 (2017: HRK 151,294,123) relates to investment property for capital appreciation intended for future sale. The residual value of these investments estimated by independent valuers exceeds their carrying value, and accordingly, depreciation is not charged to these investments.

The following table presents movements in investment property in 2018 and 2017 (at the transfer to investment property, the Company uses the gross presentation principle, i.e. increases the cost and the accumulated depreciation for these assets):

	Land	Buildings	Total
	HRK	*HRK*	*HRK*
Cost			
At 1 January 2017	**54,184,368**	**196,665,928**	**250,850,296**
Transfer from assets under construction	10,024,027	9,880,241	19,904,268
Disposals	(10,537,466)	(20,516,158)	(31,053,624)
At 31 December 2017	**53,670,929**	**186,030,011**	**239,700,940**
Transfer from assets under construction	404,016	1,322,097	1,726,113
Disposals	(394,766)	-	(394,766)
At 31 December 2018	**53,680,179**	**187,352,108**	**241,032,287**
Accumulated depreciation			
At 1 January 2017	**-**	**88,406,817**	**88,406,817**
Additions/(disposals)	-	-	-
At 31 December 2017	**-**	**88,406,817**	**88,406,817**
Additions/(disposals)	-	-	-
At 31 December 2018	**-**	**88,406,817**	**88,406,817**
Net book amount			
31 December 2017	**53,670,929**	**97,623,194**	**151,294,123**
At 31 December 2018	**53,680,179**	**98,945,291**	**152,625,470**

The fair value of investment property at the balance sheet date relates to fair value level 3 since the input variables are not based on observable market data. At the balance sheet date, the fair value of investment property amounted to HRK 216 million.

17. Investments in subsidiaries

	31 December 2018	31 December 2017
	HRK	*HRK*
Investments in domestic subsidiaries		
Končar - Switchgear Inc.	198,720,684	198,720,684
Končar - Household Appliances, Inc., Zagreb	147,966,970	147,966,970
Končar - Renewable Energy Sources Ltd., Zagreb	140,195,000	111,120,000
Končar - Generators and Motors Inc., Zagreb	116,347,127	116,347,127
Končar - Steel Structures Inc., Zagreb	84,439,523	31,484,723
Končar - Low Voltage Switches and Circuit Breakers, Inc., Zagreb	81,432,641	81,432,641
Končar - Distribution and Special Transformers, Inc., Zagreb	62,118,369	62,118,369
Končar - Electrical Engineering Institute Inc., Zagreb	60,936,110	60,936,110
Končar - Infrastructure and Services Ltd., Zagreb	56,691,318	56,691,318
Končar - Electronics and Informatics, Inc., Zagreb	55,435,705	46,138,413
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	51,773,266	51,773,266
Končar - Small Electrical Machines Inc, Zagreb	48,600,512	48,600,512
Končar - Electrical Vehicles Inc., Zagreb	36,409,158	36,409,158
Končar - Instrument Transformers, Inc., Zagreb	30,445,749	30,445,749
Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	6,908,942	6,908,942
Impairment of share	*(331,491,269)*	*(318,226,396)*
	846,929,805	**768,867,586**

In 2018, the Company made a share capital contribution in cash in the following companies:

- KONČAR - Steel Structures Inc. in the amount of HRK 52,954,800
- KONČAR - Renewable Energy Sources Ltd. in the amount of HRK 29,075,000

In 2018, based on a customer's binding offer and the independent valuer's estimate, an impairment loss was recognised on the investment in KONČAR - Low Voltage Switches and Circuit Breakers Ltd. in the amount of HRK 13,265,563 (2017: on the basis of the investment estimate and investment study, an impairment loss was recognised on the investment in KONČAR - Renewable Energy Sources Ltd. in the amount of HRK 26,701,000 and on the investment in KONČAR - Low Voltage Switches and Circuit Breakers Ltd. in the amount of HRK 1,501,000).

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

	31 December 2018		31 December 2017	
	Ownership share (%)	Voting rights share (%)	Ownership share (%)	Voting rights share (%)
Domestic subsidiaries				
Končar - Household Appliances, Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Small Electrical Machines Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Power Plant and Electric Traction Engineering Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00	100.00	100.00
Končar - Electrical Engineering Institute Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Low Voltage Switches and Circuit Breakers, Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Generators and Motors Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Steel Structures Inc., Zagreb	100.00	100.00	100.00	100.00
Končar - Switchgear Inc.	100.00	100.00	100.00	100.00
Končar - Renewable Energy Sources Ltd., Zagreb	89.36	89.36	85.27	85.27
Končar - Electrical Vehicles Inc., Zagreb	75.04	75.04	75.04	75.04
Končar - Electronics and Informatics, Inc., Zagreb	88.98	88.98	75.03	75.03
Končar - Instrument Transformers, Inc., Zagreb	61.97	99.77	61.97	99.77
Končar - Distribution and Special Transformers, Inc., Zagreb	52.73	67.90	52.73	67.90
Končar - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	44.71	79.05	44.71	79.05

At the balance sheet date, the Company recognised an impairment loss on its share in the subsidiary Končar - Low Voltage Switches and Circuit Breakers Inc. on the basis of a performed impairment test in the amount of HRK 13,266 thousand (Note 3a and Note 11).

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

18. Investments in associates

Investments in associates in the amount of HRK 67,722,257 thousand (2017: HRK 67,722,257) relate to the investment in the company KONČAR - Power Transformers Ltd., Zagreb (Company holds a 49% share in the share capital of this company).

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

19. Investments in joint ventures

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

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

20. Non-current financial assets

	31 December 2018	31 December 2017
	HRK	*HRK*
Financial assets at fair value through other comprehensive income		
Shares in Tesla Savings Bank	3,500,010	3,500,010
Impairment of shares in Tesla Savings Bank	(3,500,010)	(3,500,010)
Financial assets at fair value through profit or loss		
Shares in Zagrebačka banka d.d., Zagreb	1,331,330	1,226,593
	1,331,330	**1,226,593**

21. Non-current receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Receivables for flats sold /i/	5,274,037	7,234,403
Impairment of receivables for flats sold	(677,322)	(428,782)
Current portion (Note 24)	(786,900)	(856,796)
	3,809,815	*5,948,825*
Receivables for recognised claims /ii/	8,292,699	-
Receivable on the basis of foreign sales /iii/	2,656,724	3,371,833
Current portion (Note 23) /iii/	(770,971)	(680,699)
	1,885,753	*2,291,134*
Other financial assets	439	439
	13,988,706	**8,640,398**

/i/ In accordance with the Law on the Sale of Flats with Tenancy Rights, the flats owned by the Company were sold at an interest rate of 1% per annum with the average maturity of 28 years and indexed. According to this index, receivables increase/decrease if the EUR exchange rate of EUR changes more than 5.1% compared to the rate that existed at the signing date of the Sale agreements. The amounts of unpaid annuities in DEM have been converted into EUR at a fixed rate of EUR 1 = DEM 1.95583. As a collateral the mortgage has been registered over the sold apartments.

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

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

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22. Receivables from related companies

	31 December 2018	31 December 2017
Trade receivables	*HRK*	*HRK*
Domestic subsidiaries		
KONČAR - Instrument Transformers, Inc., Zagreb	1,633,849	960,095
KONČAR - Distribution and Special Transformers Inc., Zagreb	1,394,356	1,277,422
KONČAR - Steel Structures Inc., Zagreb	711,905	808,958
KONČAR - Generators and Motors Inc., Zagreb	472,664	1,205,179
KONČAR - Household Appliances Inc., Zagreb	415,202	305,200
KONČAR - Electrical Vehicles Inc., Zagreb	384,409	432,860
KONČAR - Power Plant and Electric Traction Engineering Inc., Zagreb	362,953	1,089,218
KONČAR - Small Electrical Machines Inc., Zagreb	342,655	332,759
KONČAR - Electronics and Informatics, Inc., Zagreb	242,207	8,125
KONČAR - Switchgear Inc.	238,160	276,051
KONČAR - Engineering Co. for Plant Installation & Commissioning Inc., Zagreb	206,873	177,114
KONČAR - Electrical Engineering Institute Inc., Zagreb	203,601	269,915
KONČAR - Low Voltage Switches and Circuit Breakers Ltd., Zagreb	182,451	179,415
KONČAR - Renewable Energy Sources Ltd., Zagreb	101,182	120,255
KONČAR - Infrastructure and Services Ltd., Zagreb	-	2,847,115
Associates		
KONČAR - Power Transformers, Ltd., Zagreb	61,454,620	571,334
Interest receivable	125,100	294,861
Impairment of receivables from related parties	(217,855)	-
	68,254,332	**11,155,876**

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

	Total	Not past due	Past due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**68,254,332**	66,230,539	1,040,024	152,197	566,571	265,001	-
2017	**11,155,876**	9,308,741	1,416,890	296,085	134,160	-	-

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

	2018
	HRK
At 31 December 2017	-
Effects of IFRS 9 adoption	148,701
At 1 January 2018	148,701
Impaired during the year	69,154
Total changes in expected credit loss through profit or loss	*69,154*
At 31 December	**217,855**

23. Trade receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Domestic trade receivables	244,980	372,200
Foreign trade receivables (current portion, Note 21)	770,971	680,699
	1,015,951	**1,052,899**

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

	Total	Not past due	Past due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**244,980**	120,793	15,749	3,125	17,030	79,283	9,000
2017	**372,200**	136,883	4,659	55	55	9,000	221,548

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

The analysis performed has shown that the effect of applying the simplified model in accordance with IFRS 9 on trade receivables is immaterial for the financial statements as at 1 January 2018 and 31 December 2018 and as such was not recognised.

24. Other receivables

	31 December 2018	31 December 2017
	HRK	*HRK*
Receivables for prepaid value added tax	1,916,643	458,963
Receivables for sold flats	819,448	950,746
Interest receivable on bank deposits	19,734	1,019,624
Receivables for shares sold (due) /i/	-	9,185,814
Receivables for recognised claims	-	8,292,699
Other receivables	168,474	145,600
	2,924,299	**20,053,446**

/i/ On 30 June 2018, considering that the 10-year repayment period has expired, the remaining shares within the employee share ownership program of KONČAR - Electronics and Informatics Inc. were repaid, thus increasing the Company's share in the said subsidiary.

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

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25. Loans granted to subsidiaries

	31 December 2018	31 December 2017
	HRK	HRK
KONČAR - Steel Structures Inc.	29,250,000	22,000,000
KONČAR - Renewable Energy Sources Ltd., Zagreb	-	29,075,456
KONČAR - Switchgear Inc.	-	8,000,000
Impairment of loans	(312,975)	-
	28,937,025	**59,075,456**

Loans granted to subsidiaries are repayable within one year at an annual interest rate of 5% and are secured by own blank accepted bills of exchange and debentures.

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

	HRK
At 31 December 2017	-
Effects of IFRS 9 adoption	575,583
At 1 January 2018	575,583
Reversal of previously recognised impairment	(262,608)
Total changes in expected credit loss through profit or loss	(262,608)
At 31 December	**312,975**

Movements in loans granted to related parties were as follows:

	HRK
1 January 2017	38,775,456
Loans granted	35,000,000
Loans repaid	(14,700,000)
31 December 2017	**59,075,456**
Loans granted	29,250,000
Loan repaid	(59,075,456)
31 December 2018	**29,250,000**

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

26. Deposits and loans granted

	31 December 2018	31 December 2017
	HRK	HRK
Loans granted	466,462	625,281
Deposits over 3 months	-	147,677,424
	466,462	**148,302,705**

In 2018, the Company received proceeds from deposits that matured on 31 December 2017 in the amount of HRK 146,578,534.

27. Cash and cash equivalents

	31 December 2018	31 December 2017
	HRK	HRK
Foreign currency account balance	231,251,600	138,778,584
Giro account balance	30,200,138	80,804,208
Cash on hand - HRK	2,783	4,701
Cash on hand - foreign currencies	16,459	16,666
	261,470,980	**219,604,159**

28. Capital and reserves

Share (registered) capital is determined in the nominal amount of HRK 1,208,895,930 (31 December 2017: HRK 1,208,895,930) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The Company's ownership structure was as follows:

	31 December 2018		31 December 2017	
Dioničar	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
ADDIKO BANK d.d./PBZ Croatia Osiguranje OMF	420,928	16.37	420,928	16.37
OTP Banka d.d. / AZ OMF	377,429	14.67	377,429	14.67
OTP Banka d.d. / Erste Plavi mandatory pension fund	359,239	13.97	359,239	13.97
RESTRUCTURING AND SALE CENTER (CERP)/Croatia	81,610	3.17	83,610	3.25
FLORIČIĆ KRISTIJAN	50,714	1.97	50,714	1.97
ADDIKO BANK/RBA OMF	47,636	1.85	47,636	1.85
ZAGREBAČKA BANKA D.D. /AZ PROFIT DOBROVOLJNI MIROVINSKI FOND	32,803	1.28	32,803	1.28
PBZ d.d. /custodian joint client account	23,114	0.90	24,251	0.94
ZEC BRANISLAV	22,843	0.89	22,843	0.89
Other shareholders	416,427	16.19	422,290	16.41
KONČAR Inc. (treasury shares)	14,861	0.58	5,861	0.23
	2,572,119	**100.00**	**2,572,119**	**100.00**

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

During 2018, the Company started purchasing its treasury shares and in 2018 purchased shares worth HRK 5,948,574 and as at 31 December 2018 owns 14,861 treasury shares (31 December 2017: 5,861 shares).

In 2018, the Company's General Assembly reached a decision on the payment of dividends to shareholders in the amount of HRK 35,927,612 which is HRK 14,00 per share (2017: HRK 30,795,096 thousand which is HRK 12 per share). During 2018, the total dividend paid was HRK 35,933,866 (2017: HRK 30,804,427).

The Company has established legal, statutory and other reserves in accordance with the Company's Act that are formed on the basis of profit distribution according to the General Assembly's decisions. Statutory and other reserves are distributable. The movement in these reserves in 2018 and 2017 was as follows:

	Legal reserves	*Statutory reserves*	*Other reserves*	*Total*
	HRK	*HRK*	*HRK*	*HRK*
1 January 2017	**38,147,674**	**217,684,029**	**69,914,416**	**325,746,119**
Allocation of profit as per annual calculation	3,238,403	-	30,734,571	33,972,974
31 December 2017	**41,386,077**	**217,684,029**	**100,648,987**	**359,719,093**
Allocation of profit as per annual calculation	3,453,722	-	23,693,109	27,146,831
Other	-	-	65,876	65,876
31 December 2018	**44,839,799**	**217,684,029**	**124,407,972**	**386,931,800**

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29. Provisions

	Provisions for legal disputes	Jubilee awards and termination benefits	Unused vacation	Total
	HRK	*HRK*	*HRK*	*HRK*
1 January 2017	**31,800,000**	**3,624,953**	**578,620**	**36,003,573**
Additional provisions	-	467,600	556,236	1,023,836
Amounts used	(31,800,000)	-	-	(31,800,000)
Release of provisions	-	(780,119)	(578,620)	(1,358,739)
31 December 2017	**-**	**3,312,434**	**556,236**	**3,868,670**
Additional provisions	-	402,712	558,748	961,460
Release of provisions	-	-	(556,236)	(556,236)
31 December 2018	**-**	**3,715,146**	**558,748**	**4,273,894**
Provisions mature as follows:				
Within 1 year	-	-	558,748	**558,748**
More than 1 year	-	3,715,146	-	**3,715,146**

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

The non-current portion of termination benefits in the amount of HRK 3,715 thousand (2017: HRK 3,312 thousand) relates to the estimated amount of termination benefits in line with the Collective Agreement, to which the employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure). The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 1.7% (2017: 2%).

Current provisions

Provisions for jubilee awards and termination benefits in the amount of HRK 559 (2017: HRK 556 thousand) relate to the employee benefit for unused vacation days at the balance sheet date.

30. Current liabilities toward related parties

	31 December 2018	31 December 2017
	HRK	*HRK*
Subsidiaries:		
KONČAR - Switchgear Inc.	18,193,750	-
KONČAR - Infrastructure and Services Ltd.	16,919,930	8,240,096
KONČAR - Power Plant and Electric Traction Engineering Inc.	694,238	815,925
KONČAR - Electronics and Informatics, Inc.	110,125	576,189
KONČAR - Electric Vehicles Inc.	25,000	25,000
KONČAR - Low Voltage Switches and Circuit Breakers Ltd.	15,155	-
KONČAR - Household Appliances Inc.	3,185	-
KONČAR - Electrical Engineering Institute Inc.	-	8,000
	35,961,383	**9,665,210**

31. Current trade payables

	31 December 2018	31 December 2017
	HRK	*HRK*
Domestic trade payables	2,127,101	2,388,001
Foreign trade payables	360,361	37,779
	2,487,462	**2,425,780**

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

	Total	Not past due	Past due but collectible				
			< 60 days	60-90 days	90-180 days	180-365 days	> 365 days
	HRK	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
2018	**2,487,462**	1,804,377	683,085	-	-	-	-
2017	**2,425,780**	2,260,996	164,784	-	-	-	-

32. Other current liabilities

	31 December 2018	31 December 2017
	HRK	*HRK*
Liabilities to employees		
Liabilities for net salaries	766,105	611,042
Bonus accruals	1,371,300	1,447,600
	2,137,405	***2,058,642***
Taxes, contributions and similar charges		
Personal income tax and surtaxes payable	1,263,087	1,278,949
Contributions payable	1,501,146	910,618
	2,764,233	***2,189,567***
Other liabilities		
Dividend payable	540,603	479,583
Liabilities toward state for apartments sold	13,998	256,460
Other liabilities	172,078	175,532
	726,679	***911,575***
	5,628,317	**5,159,784**

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33. Contingent liabilities and off-balance sheet items

	31 December 2018	31 December 2017
	HRK	*HRK*
Subsidiarity guarantee (Zagrebačka banka d.d.)	290,909,271	412,927,403
Bills of exchange related to loans	29,250,000	59,075,456
Corporate guarantees / KONČAR Inc.	24,237,073	25,491,103
Apartments sold (65%)	17,865,831	19,911,547
Debentures	3,254,640	3,204,640
Corporate guarantees / other banks	-	1,127,047
	365,516,815	**521,737,196**

Total guarantees issued by the Company as disclosed in the above table include performance guarantees amounting to HRK 204,172 thousand (2017: HRK 301,527 thousand).

34. Related party transactions

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

2018	Operating activities				Financing activities	
	Receivables	Liabilities	Income	Expenses	Receivables	Income
Company	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Končar - Infrastructure and Services Ltd.	-	16,920	24,504	19,111	-	-
Končar - Household Appliances Inc.	415	3	1,314	44	-	-
Končar - Electric Vehicles Inc.	384	25	1,606	240	-	-
Končar - Generators and Motors Inc.	473	-	2,057	-	-	-
Končar - Power Plant and Electric Traction Engineering Inc.	363	694	2,640	2,555	-	-
Končar - Steel Structures Inc.	712	-	1,639	9	29,375	723
Končar - Instrument Transformers Inc.	1,634	-	1,483	16	-	-
Končar - Low Voltage Switches and Circuit Breakers Ltd.	182	15	592	120	-	-
Končar - Distribution and Special Transformers Inc.	1,394	-	5,590	-	-	-
Končar - Electrical Engineering Institute Inc.	204	-	922	46	-	-
Končar - Small Electrical Machines Inc.	343	-	839	-	-	-
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	207	-	644	-	-	-
Končar - Electronics and Informatics, Inc.	242	110	909	1,244	-	-
Končar - Switchgear Inc.	238	18,194	774	779	-	86
Končar - Power Transformers Ltd.	105	-	1,712	-	-	
Končar - Renewable Energy Sources Ltd.	101	-	367	-	-	825
Impairment (expected credit losses)	(218)	-	-	-	(313)	-
	6,779	**35,961**	**47,592**	**24,164**	**29,062**	**1,634**

The transactions presented in the table do not include receivables and dividend income i.e. shares in profit. Dividend income from the associate KONČAR - Power Transformers Ltd. amounts to HRK 61,350 thousand (2017: HRK 72,974 thousand), while the dividend income or shares in profit from subsidiaries amounts to HRK 39,524 thousand (2017: HRK 47,419 thousand).

Total dividend income, i.e. Income from shares in profit (subsidiaries and associates) is recognised in the amount of HRK 100,874 thousand (2017: HRK 120,392 thousand).

2017	Operating activities				Financing activities	
	Receivables	Liabilities	Income	Expenses	Receivables	Income
Company	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Končar - Infrastructure and Services Ltd.	2,847	8,240	24,504	13,057	-	-
Končar - Household Appliances Ltd.	305	-	1,276	16	-	42
Končar - Electric Vehicles Inc.	433	25	1,550	240	-	-
Končar - High Voltage Switchgears, Inc	-	-	429	-	8,033	176
Končar - Generators and Motors Inc.	1,205	-	2,323	120	-	-
Končar - Power Plant and Electric Traction Engineering Inc.	1,089	816	3,189	3,015	-	-
Končar - Steel Structures Inc.	809	-	1,499	-	22,141	388
Končar - Switchgears Inc.	-	-	484	666	-	-
Končar - Instrument Transformers Inc.	960	-	1,471	-	-	-
Končar - Low Voltage Switches and Circuit Breakers Ltd.	179	-	627	115	-	-
Končar - Distribution and Special Transformers Inc.	1,277	-	5,663	-	-	-
Končar - Electrical Engineering Institute Inc.	270	8	888	91	-	-
Končar - Small Electrical Machines Inc.	333	-	879	-	-	-
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	177	-	817	-	-	-
Končar - Electronics and Informatics, Inc.	8	576	915	1,937	-	-
Končar - Switchgear Inc. (previously: Končar -Medium Voltage Apparatus Inc., Zagreb)	276	-	449	-	-	-
Končar - Power Transformers Ltd.	571	-	2,593	-	-	-
Končar - Renewable Energy Sources Ltd.	120	-	431	-	29,196	1,241
	10,859	**9,665**	**49,987**	**19,257**	**59,370**	**1,847**

35. Financial risk management and financial instruments

The Company is exposed in its business to market (foreign exchange) and credit risk. The Company does not use derivative financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the adverse effects on the Company's financial statements. The risk management policies relating to current and non-current financial assets, current and non-current receivables, cash management as well as debts and liabilities can be summarised as follows:

a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity balance.

The Company manages its capital and makes the necessary adjustments in accordance with the economic conditions in the market and risk features of its assets. In order to adjust or maintain the capital structure, the Company may decide to pay dividends to owners, increase/decrease the share capital, sell assets to reduce liabilities, etc. The objectives, policies and processes have not been changed during the periods ending 31 December 2018 and 31 December 2017. The Company monitors capital on the basis of the gearing ratio, which is calculated as follows:

	31 December 2018	31 December 2017
	HRK'000	*HRK'000*
Financial liabilities	-	-
Less cash and cash equivalents (deposits)	(261,471)	(219,604)
Net debt	-	-
Capital	1,676,815	1,644,657
Gearing ratio	-	-

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b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity are disclosed in Note 2 to these financial statements.

The accounting policies for financial instruments are applied on the following balance sheet items:

	Assets at amortised cost HRK'000	Assets at fair value through P&L HRK'000	Assets at fair value through OCI HRK'000	Total assets classified under IFRS 9 HRK'000
31 December 2018				
Non-current financial assets and receivables	13,989	1,331	-	**15,320**
Current financial assets	29,403	-	-	**29,403**
Trade and other receivables	70,109	-	-	**70,109**
Cash and cash equivalents	261,471	-	-	**261,471**
	374,972	**1,331**	**-**	**376,303**

	Loans and receivables HRK'000	Assets at fair value through P&L HRK'000	Available-for-sale assets HRK'000	Held-to-maturity investments HRK'000	Assets classified under IAS 39 HRK'000
31 December 2017					
Non-current financial assets and receivables	8,640	1,227	-	-	**9,867**
Current financial assets	207,378	-	-	-	**207,378**
Trade and other receivables	31,658	-	-	-	**31,658**
Cash and cash equivalents	219,604	-	-	-	**219,604**
	467,280	**1,227**	**-**	**-**	**468,507**

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

Fair value of financial assets and liabilities

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

o Level 1: quoted market prices for identical assets or liabilities traded on active markets

o Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

o Level 3: inputs for assets or liabilities that are not based on observable market data.

The level within which financial assets/liabilities are stated are classified based on the lowest level of significant inputs used in measuring fair value. Financial assets and liabilities measured at fair value in the statement of financial position are grouped within the fair value hierarchy as follows:

31 December 2018	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed shares	1,331	-	-	1,331
	1,331	**-**	**-**	**1,331**

31 December 2017	Level 1	Level 2	Level 3	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Assets				
Listed shares	1,227	-	-	1,227
	1,227	**-**	**-**	**1,227**

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

Receivables and bank deposits

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

Borrowings

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

Other financial instruments

The Company's financial instruments not carried at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms, approximate their fair values.

c) Financial risk

The Company's Management Board monitors and manages the financial risks relating to the operations of the Company through internal risk reports, which analyse exposures by the degree and magnitude of risks. These risks include market risk (including foreign exchange risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that the change in market prices, such as the change in foreign currencies and interest rates, would influence the Company's result or the value of its financial instruments. The objective of market risk management is managing and controlling the exposure to this risk within acceptable parameters, thus, optimizing returns.

The Company activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

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

a) Foreign exchange risk

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

The Company exposes itself to foreign currency risk through sales, purchasing and depositing of funds denominated in foreign currencies.

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

31 December 2018	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-current receivables	1,886	-	-	1,886	12,103	13,989
Trade receivables	771	-	-	771	245	1,016
Cash and cash equivalents	230,928	303	37	231,268	30,203	261,471
Trade payables	(360)	-	-	(360)	(2,127)	(2,487)
	233,225	**303**	**37**	**233,565**	**40,424**	**273,989**

31 December 2017	EUR	CHF	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-current receivables	2,691	-	-	2,691	5,949	8,640
Trade receivables	681	-	-	681	372	1,053
Current financial assets	98,289	-	-	98,289	50,013	148,302
Cash and cash equivalents	138,468	296	22	138,786	80,818	219,604
Trade payables	(38)	-	-	(38)	(2,388)	(2,426)
	240,091	**296**	**22**	**240,409**	**134,764**	**375,173**

In the above tables, receivables for apartments sold are not included in the amounts in EUR because of a contractual clause on the increase/decrease in receivables if the change in EUR currency rate is more than 5.1% compared to the currency rate that existed at the time of concluding the contracts.

Sensitivity analysis

A change in the HRK exchange rate against the EUR by -1% (2017: -1%), and a change against the CHF by 2% (2017: -9%) at the reporting date would have decreased profit before tax as follows:

	2018 Effect on profit before tax	2017 Effect on profit before tax
	HRK'000	HRK'000
EUR	(2,332)	(2,401)
CHF	7	(25)

This analysis assumes that all other variables, interest rates especially, remain unchanged.

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

b) Interest rate risk

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

Credit risk

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

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

A significant portion of credit risk arises from the Company's operating activities (primarily trade receivables) and from the Company's financial activities, including deposits with banks and financial institutions.

Impairment of financial assets

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

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

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

Trade receivables

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Company has identified the GDP and the unemployment rate of the countries in which it operates to be the most relevant factors, and accordingly adjusted the historical loss rates based on expected changes in these factors.

The impairment of trade receivables as at 31 December 2018 and 1 January 2018 is as follows:

	Total	Not past due	Past due				
			1-60 days	61-90 days	91-180 days	181-365 days	over 365 days
31 December 2018	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Non-current receivables	13,988,706	13,988,706	-	-	-	-	-
Current receivables	69,556,349	67,190,514	1,273,628	155,322	583,601	353,284	-
Default rate %	-	0.43 - 1.79	1.24	7.97	12.35	37.60	100.00
Expected credit loss	**826,289**	**629,034**	**15,541**	**12,125**	**69,944**	**99,645**	**-**

	Total	Not past due	Past due				
			1-60 days	61-90 days	91-180 days	181-365 days	over 365 days
1 January 2018	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*	*HRK*
Non-current receivables	8,640,398	8,640,398	-	-	-	-	-
Current receivables	13,498,446	11,415,994	1,421,549	296,140	364,763	-	-
Default rate %	-	0.66 - 2.01	1.87	11.48	17.66	44.24	100.00
Expected credit loss	**907,706**	**816,286**	**33,749**	**33,977**	**23,694**	**-**	**-**

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

Liquidity risk

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

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

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

	Carrying amount	Contractual cash flows	0 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
31 December 2017						
Trade payables, liabilities to related parties and other liabilities	12,827	12,827	12,827	-	-	-
	12,827	**12,827**	**12,827**	**-**	**-**	**-**

36. Events after the reporting date

After the reporting date, and by the date of approval of the financial statements, the significant events that should be disclosed include the following:

- Based on the decision of the General Assembly of KONČAR - Electrical industry Inc., at its session of 18 January 2019, the Supervisory Board adopted the Program of Continuing Ownership Restructuring of KONČAR - Household Appliances Inc. through the M&E buyout model, proposed by the Management Board of KONČAR - Electrical Industry Inc. All the shares of KONČAR - Household Appliances Inc. were offered for sale in the tender, of which 60% of the shares are offered for sale to all Group employees and 40% of the shares are offered to the management of the Company. The share price is HRK 434.00 and is based on an independent valuer's estimate.
- The Supervisory Board of KONČAR - Electrical Industry Inc., at its session of 19 March 2019, approved the restructuring concept for KONČAR - Low Voltage Switches and Circuit Breakers Ltd. which includes the establishment of a Special Purpose Vehicle (SPV) which will be sold to Lovato Electric S.P.A. from Bergamo, immediately after it has been established.

After the reporting date and until the approval date of these financial statements, other than the events stated above, there were no events that would significantly influence the financial statements of the Company for 2018, and that should, consequently, be disclosed.

37. Accounting policies applicable prior to 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows:

A. Revenue recognition

For the periods ended before 1 January 2018

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

Revenue from services is recognised in the accounting period in which the services are rendered, using the percentage of completion method. Revenues from fees and rent charged to related companies are recognised in the period when rendered, on the basis of terms agreed with related companies.

Dividend income from subsidiaries and associates is recognised when the right to receive payment is established, within the Finance income and costs, Note 11.

B. Financial assets and financial liabilities

Financial assets

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

Financial assets are classified into the following categories:

- At fair value through profit or loss" (FVTPL) - financial assets either held for trading or designated as at FVTPL at initial recognition. Financial assets at FVTPL are stated at fair value, with any gain or loss arising recognized in profit or loss.

- Held to maturity - financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

- Available for sale (AFS) - non-derivative financial assets which are designated as such or they cannot be included in any of the above mentioned categories. AFS is stated at fair value. Changes in fair value are recognised in other comprehensive income, in the investment's revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the other comprehensive income in revaluation reserves from investments, is included in profit or loss for the period.

- Loans and receivables - this category comprises trade receivables, loans, and other receivables with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

For unlisted shares classified as AFS a significant or prolonged decline in their fair value below their cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classifies as available for sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or debtor; or

- breach of contract such as default or delinquency in interest or principal payments; or

- probability that the borrower will initiate insolvency proceedings or enter bankruptcy.

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Derecognition of financial assets

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

When the Company derecognises (writes off) all financial assets, the difference between the carrying value and the sum of considerations received and receivable and cumulative profit (loss), recognised within other comprehensive income, transfers from equity to profit or loss.

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies (dividend and interest revenue).

Financial liabilities at fair value through profit or loss - financial liabilities either held for trading or are classified as such at initial recognition. They are measured at their fair value, while the gains/losses relating to them are recognised in the income statement. The net gain or loss recognised in the income statement includes any interest paid on the financial liability.

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

KONČAR Electrical Industry Inc.

Management Report

Introduction

KONČAR - Electrical Industry, a joint-stock company, is the parent of KONČAR - Electrical Industry Group. As such, the Company also generates consolidated reports, presented and revised separately. This Y2018 Corporate Governance Report is the report of KONČAR - Electrical Industry Inc. as a separate entity. The Company manages dependent companies and affiliated companies in its ownership.

The companies within the Group are legally autonomous entities supervised by the parent company which strategically directs and supports them through supervisory boards and general assemblies, all pursuant to the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc., and of individual subsidiary. Furthermore, the parent company manages a portion of assets which is not invested into companies but is directly and indirectly in function of the financial support of sales, products and equipment of dependent companies as credit/guarantee potential.

As the parent company, KONČAR - Electrical Industry Inc. invoices the dependent companies for the following services:
- fees for corporate name, brand and trademark use,
- fees for joint guarantees,
- a portion of costs incurred by joint presentation at trade fairs,
- a portion of costs for foreign representative offices
- a portion of joint costs for marketing activities,
- intellectual services (coordination and consultancy services, management training, environment and quality assurance system)

1. Performance Indicators

FOR Y2015-Y2018

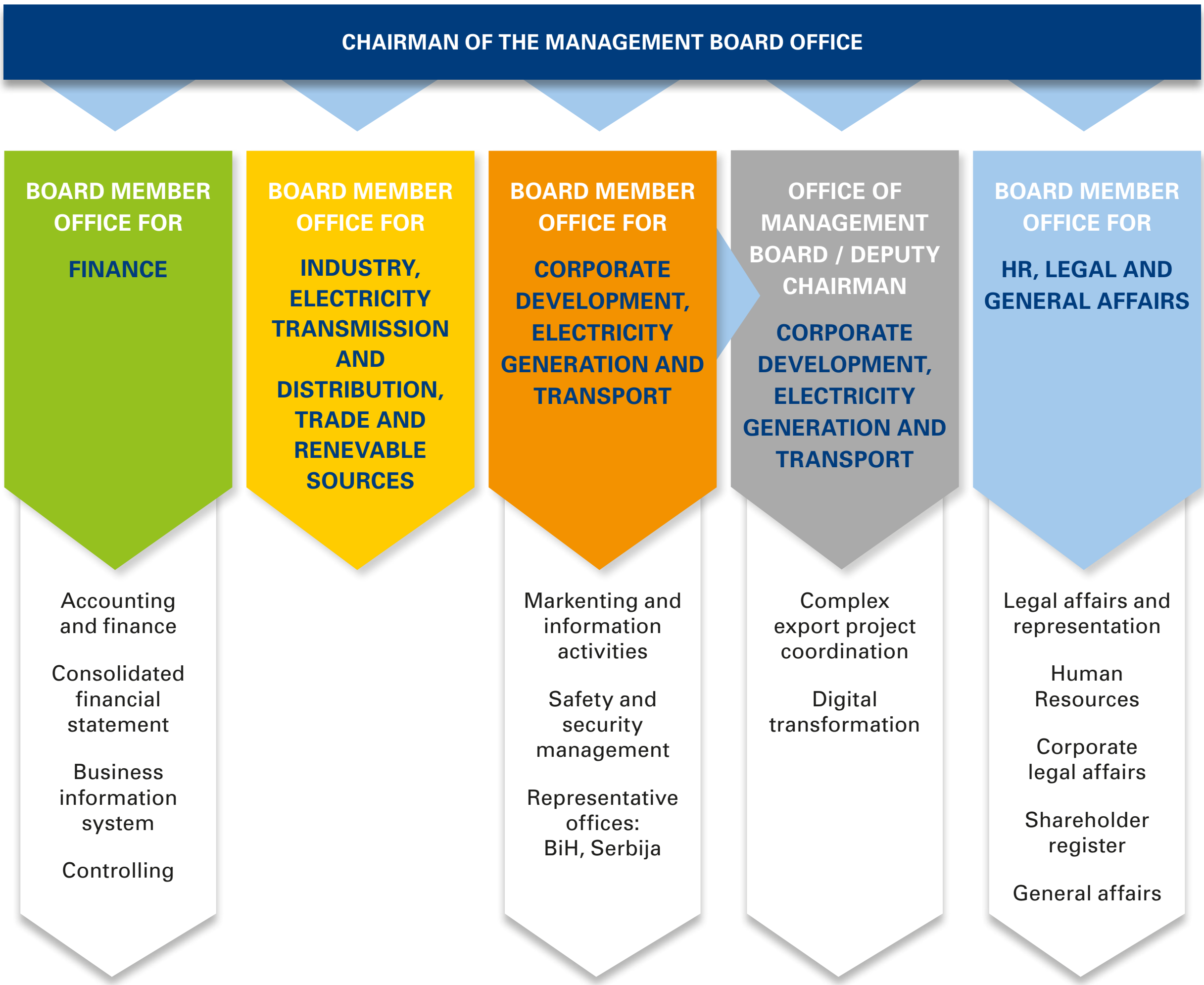
u 000 HRK

	2015	2016	2017	2018	Index 4/3
	1	2	3	4	5
Operating revenue	62.235	54.108	53.421	68.050	127
Operating expenses	78.533	82.075	79.255	79.182	100
Profit/loss from operations	-16.298	-27.967	-25.834	-11.132	43
Financial revenue	82.578	79.229	58.456	44.031	75
Dividend revenue from affiliated company	48.458	65.277	72.974	61.350	84
Financial expenses	52.304	51.771	36.521	18.745	51
Net financial revenue	78.732	92.735	94.908	86.635	92
Pre-tax profit	62.434	64.768	69.074	75.503	109
Tax	0	0	0	0	
Profit for the period	62.434	64.768	69.074	75.503	109
No. of employees 31 Dec	50	48	48	51	106
Non-current assets	1.233.450	1.236.839	1.205.873	1.360.685	113
Current assets	392.917	420.765	459.904	364.481	79
Total assets	1.626.367	1.657.604	1.665.777	1.725.166	104
Subscribed capital	1.208.896	1.208.896	1.208.896	1.208.896	100
Reserves, retained earnings, current year's profit	363.509	397.482	435.761	467.919	107
Total capital	1.572.405	1.606.378	1.644.657	1.676.815	102
Long-term provisions	34.444	35.425	3.312	3.715	112
Short-term liabilities	19.518	15.801	17.808	44.636	251
Total liabilities	1.626.367	1.657.604	1.665.777	1.725.166	104
EBIT	**62.893**	**64.929**	**69.578**	**71.770**	**103**
EBITDA	**71.874**	**72.908**	**77.395**	**79.861**	**103**
Return on equity	**4.0%**	**4.0%**	**4.2%**	**4.5%**	**107**
Basic and diluted profit per share (in HRK)	**24.33**	**25.23**	**26.92**	**29.46**	**109**

2. Organization and Management

KONČAR - Electrical Industry Inc. (the Group parent) manages dependent companies and affiliated companies.

The companies within the Group are legally autonomous entities supervised by the parent company which strategically directs and supports them through supervisory boards and general assemblies, all pursuant to the Companies Act, the Articles of Association of KONČAR - Electrical Industry Inc., and of individual subsidiary. Furthermore, the parent company manages a portion of assets which is not invested into companies but is directly and indirectly in function of the financial support of sales, products and equipment of dependent companies as credit/guarantee potential.



Shares of the parent company in the ownership and voting rights in the subsidiary companies as at 31 December were as follows:

Dependent companies	HRK subscribed capital total	HRK subscribed capital of the parent	% management of the parent 31 Dec 2018	% ownership of the parent 31 Dec 2018
KONČAR - Power Plant and Electric Traction Engineering Inc	50.577.000	50.577.000	100.0000	100.0000
KONČAR - Generators and Motors Inc	107.927.700	107.927.700	100.0000	100.0000
KONČAR - Switchgear Inc	105.033.000	105.033.000	100.0000	100.0000
KONČAR - Distribution and Special Transformers Inc	153.369.600	80.878.800	67.9000	52.7346
KONČAR - Instrument Transformers Inc	37.978.200	23.533.200	99.7700	61.9650
KONČAR - Electronics and Informatics Inc	47.027.280	41.845.600	88.9815	88.9815
KONČAR - Metal Structures Inc	77.600.400	77.600.400	100.0000	100.0000
KONČAR - Electric Vehicles Inc	47.026.800	35.288.700	75.0396	75.0396
KONČAR - Renewable Sources Ltd	104.670.400	104.670.400	100.0000	100.0000
Direct ownership	93.537.00	93.537.00	83.3634	10.6366
Indirect ownership	11.133.400	11.133.400	10.6366	14.7300
KONČAR - Engineering Co. for Plant Installation and Commissioning Inc	11.827.500	5.288.100	79.0500	44.7102
KONČAR - Small Electrical Machines Inc	41.641.800	41.641.800	100.0000	100.0000
KONČAR - Household Appliances Inc	17.834.100	17.834.100	100.0000	100.0000
KONČAR - Low Voltage Switches and Circuit Breakers Ltd	60.499.300	60.499.300	100.0000	100.0000
KONČAR - Electrical Engineering Institute Inc	40.763.520	40.763.520	100.0000	100.0000
KONČAR - Infrastructure and Services Ltd	49.891.600	49.891.600	100.0000	100.0000
Affiliated companies and joint ventures				
KONČAR - Power Transformers Ltd	72.764.000	35.654.400	49.0005	49.00005
KONČAR - XD High Voltage Switchgear	75.000.000	37.500.000	50.0000	50.0000

Management Board

The Chairman of the Management Board and Members of the Management Boards are appointed and recalled by the Supervisory Board. Pursuant to the Companies Act and the Articles of Association, the Management Board is personally responsible for business operations and in doing so, they are obliged and authorised to take any actions and make decisions deemed necessary for successful management. Supervisory Board consent is required when making certain decisions as defined by the Articles of Association and Supervisory Board Regulations.

Members of the Management Board of KONČAR - Electrical Industry Inc. are as follows:

Darinko Bago	Chairman of the Management Board
Miki Huljić	Member of the Management Board in charge of finance
Marina Kralj Miliša	Member of the Management Board in charge of HR, legal and general affairs
Davor Mladina	Member of the Management Board in charge of electricity transmission and distribution, industry and trade
Miroslav Poljak	Member of the Management Board in charge of electricity generation, corporate development and ICT
Ivan Tomšić	Deputy Member of the Management Board in charge of complex export project coordination and digital transformation

Note:
The annual General Assembly was held on 15 January 2019, where the majority of shareholders voted to adopt the amendments to Article 44(3) of the Articles of Association of KONČAR - Electrical Industry Inc., which stipulates that the Member of the Management Boards are appointed for a 5-year term. On 18 January 2019, the Supervisory Board decided on the following appointments for a 1 year-term: Mr Darinko Bago as Chairman of the Management Board for a 1-year term, Mr Gordan Kolak as Deputy Chairman and Member of the Management Board, Ms Marina Kralj Miliša, Mr Miki Huljić, and Mr Miroslav Poljak as Members of the Management Board, and Mr Ivan Tomšić as Deputy Member of the Management Board.

Supervisory Board

Pursuant to the provisions of the Companies Act and the Articles of Association of KONČAR - Electrical Industry Inc., the General Assembly reaches decisions on the appointment and recall of the Supervisory Board. The Supervisory Board is responsible for appointing and recalling members of the Management Board and for supervising the Company's operations. Major transactions and business decisions (the amount of such transactions is defined by the Rules of Procedure of the Supervisory Board) require the Supervisory Board's consent.

The General Assembly held on 12 July 2016 adopted a decision on the election of Supervisory Board members. Supervisory Board members are as follows:

Petar Vlaić	Chairman
Josip Lasić	Deputy Chairman of the Supervisory Board
Nikola Anić	Member
Jasminka Belačić	Member
Vicko Ferić	Member
Branko Lampl	Member
Joško Miliša	Member
Vladimir Plečko	Member

Members of the Supervisory Board were elected for a period of four years as of 12 July 2016.
Members of the Supervisory Board accepted the proposal for appointing Petar Vlaić as the Chairman, and Josip Lasić as the Deputy Chairman of the Supervisory Board.

The Audit Committee

Pursuant to the Audit Act (Article 28) and the Corporate Governance Code, the Supervisory Board has established the Audit Committee. In accordance with the provisions laid down in the Audit Act and the Corporate Governance Code, the Audit Committee is in charge of monitoring the financial reporting procedure, the efficiency of the system of control, supervises the conduct of annual financial statements audits, monitors auditors' independence, makes recommendations to the Supervisory Board and proposes to the General Assembly the election of the audit company for reviewing annual financial statements.

The Audit Committee consists of the following four members:

Vicko Ferić	Chairman
Nikola Anić	Member
Jasminka Belačić	Member
Josip Lasić	Member

The Strategic Development Committee

At its session held on 28 September 2012, the Supervisory Board established the Strategic Development Committee. The Strategic Development Committee is assigned tasks by the Supervisory Board regarding the topics and the activities falling under the remit of the Supervisory Board with a specific emphasis on the long-term viability, risk assessment, Group's strategic priorities, restructuring need and the development of strategic human resources within KONČAR Group.

The Strategic Development Committee consists of the following 4 members:

Joško Miliša	Chairman
Branko Lampl	Member
Vladimir Plečko	Member
Petar Vlaić	Member

The Appointments and Remuneration Commission

At the session of the Supervisory Board held on 27 July 2018, a decision was made on the establishment of the Appointments and Remuneration Commission, composed of:

Vladimir Plečko	Chairman of the Appointments and Remuneration Commission
Nikola Anić	Member
Vicko Ferić	Member
Branko Lampl	Member

3. Application of Corporate Governance Principles

The Management and Supervisory Boards of KONČAR - Electrical Industry Inc. have adopted principles of corporate governance based on the positive regulations of the Republic of Croatia and international standards at their sessions held on 7 April 2008 and 17 April 2008, respectively. The principles are publicly available on the Company website (www.koncar.com) and the official website of the Zagreb Stock Exchange (www.zse.hr).

The corporate governance principles are defined and refer to:

- prudent management,
- definition of corporate governance procedures based on the adopted recognized international standards, and
- supervision of business operations, all for the purpose of establishing high corporate governance standards and transparency of operations as the groundwork for the protection of shareholders, investors and other stakeholders, employee well-being, sustainable development and environmental protection.

A formal questionnaire outlining which provisions of the Zagreb Stock Exchange Code and HANFA are implemented by the Group is available on the official website of the Zagreb Stock Exchange (www.zse.hr) and on the Company website (www.koncar.com). The Company applies the majority of the provisions of the Corporate Governance Code with the exception of certain provisions that the Company considers should not be applied in the prescribed form, in particular:

- remuneration of Group Members of the Management Boards/Directors has been set forth by the Resolution of the Management Board of KONČAR - Electrical Industry Inc. It is based on clearly defined business-related criteria including achieved performance, plan realization, consolidated plan realization, EBITDA, signed contracts.
- remuneration of the Management Board of KONČAR - Electrical Industry Inc. has been laid out in the Contract on the Rights and Obligations between the Chairman, the Members and the Chairman of the Supervisory Board. The remuneration is considered more appropriate and aligned with the position of the Company and its results. Information on the overall compensation and premiums of the Members of the Management Boards and directors is disclosed in annual reports.
- Internal Audit Committee (department) has not been set up.

  KONČAR - Electrical Industry Inc., as the parent of the Group of associated members that are autonomous in conducting legal transactions, has successfully established, maintained and developed a Business Information System that facilitates coordinated operational and strategic planning for both the members and the parent of the Group. It controls plan implementation, deviations in their delivery, identification and analysis of possible deviations, enables resource efficiency analysis, cost control, risk assessment and risk mitigation measures, prepares consolidated financial statements and financial reports for the business community (ZSE, banks, Tax Administration and Financial Statements Registry).

  For a number of years, all KONČAR companies' financial statements have been audited by independent auditing companies, which have further contributed to the maintenance and development of a reliable and transparent business system. Most companies have adopted ISO 9001 international standard which has described each process according to relevant procedures and documents, and subject to regular audits by authorized certification companies. All business activities and processes are documented and controllable.

  Management Boards of each of the Group's members are responsible for management and financial reporting. KONČAR - Electrical Industry Inc., as the parent company, manages the Group's business policy, decides on long-term development goals and strategies, adopts business and development plans, coordinates and supervises operations of the subsidiaries through Supervisory Boards, in compliance with statutory regulations, the Articles of Association, Management Board's decisions and the Corporate Governance Code.

  Internal business controls have thus far been organized and implemented periodically and in line with Supervisory Board decisions.

  KONČAR - Electrical Industry Inc., as a parent of the Group has no significant legal transactions with third parties (except in credit-guarantee operations). All material decisions are made by the Management Board. Prior to the execution of decisions, Members of the Management Board in charge of the areas liquidate the accounts. All process controls are carried out in line with specified procedures. We believe that documentation, control and business transparency are ensured by consistent implementation of and compliance with established procedures.

Appointments and Rewards Committee was established in 2018. Furthermore, in October 2018, the Management Board issued a resolution on the establishment of the Internal Audit Department. The Supervisory Board, prompted by the Management Board, adopted the Internal Audit Charter proposal and Internal Audit Organisation Chart proposal. The Department is due to start operating in Q1 2019.

The Company believes that opting out of certain provisions of the Code does not undermine a high level of transparency of the Company's business operations and will not have a significant adverse effect on the current and potential investment decisions. A 64-question questionnaire outlining precise application of the provisions of the Code is publicly available on the official web sites of the Zagreb Stock Exchange (www.zse.hr) and the Company's web site (www.koncar.com).

The Company had developed an internal controls system across all significant levels within the organizational model which provides a framework for all business operations and processes. These systems facilitate, among others, fair and true disclosure of financial and business reports.

Data on significant shareholders are available daily on the official web site of the Central depository and clearing company Inc. (www.skdd.hr). As of 31 December 2018, and 2017, the data is also disclosed in the Financial Statements with an Independent Auditor's Report. Electronic voting is available to shareholders in attendance at the General Assembly.

The adopted Corporate Governance Principles are based on prudent management, they define corporate governance procedures based on recognised international standards and operational supervision, all for the purpose of establishing high corporate governance standards and transparency of operations as the groundwork for the protection of shareholders, investors and other stakeholders, employee well-being, sustainable development and environmental protection.

4. Business Results

KONČAR - Electrical Industry Inc. has generated total revenues of HRK 174.2 million and incurred total expenses of HRK 98.7 million in Y2018.

The profit earned in Y2018 amounted to HRK 75.5 million, which was an increase by 9.3 percent compared to Y2017. The Company was exempt from paying corporate income tax in Y2018 due to deductible items of dividend income from related companies and the affiliate (where tax had already been paid by the subsidiaries).

Total operating revenue for the period January-December 2018 of HRK 68 million included fees for corporate name, brand and trademark use, income from lease, income from sales of assets and fees for costs incurred by joint marketing activities.

Total operating expenses amounted to HRK 79.9 million. They included overhead costs for materials, energy and services in the total amount of HRK 38.9 million, labour costs of HRK 23.2 million, depreciation of HRK 8.1 million, other operating costs of HRK 8.7 million in total, and provisions of HRK1 million.

Other operating costs in the amount of HRK 8.7 million in total are mainly for fees paid to Supervisory Board, Audit Committee and Strategic Development Committee members, royalties and temporary service contracts, sponsorships and donations, insurance premiums, daily allowances and travel expenses, administrative expenses, taxes unrelated to performance, banking services and membership fees.

Financial revenues amounted to HRK 44 million. These included dividend revenue from the allocation of profit generated by related companies of HRK 39.6 million, income from interests in time deposits, domestic loans, positive financial income from foreign exchange gains and long-term receivables of HRK 4.5 million.

Financial revenues from the affiliated company's dividend amounted to HRK 61.4 million.

The major part of financial expenses of HRK 18.8 million was allocated to the value adjustment of shares in the affiliated company in the amount of HRK 13.2 million and foreign exchange losses from unrelated companies of HRK 5.4 million.

5. Financial Position (Balance Sheet)

The overall asset value of KONČAR - Electrical Industry Inc. as at 31 December 2018, amounted to HRK 1.725.2 million, 3.6 percent increase (HRK 59.4 million) compared to 31 December 2017.

Non-current asset amounted to HRK 1.360.7 million, representing a 12.8 percent increase (HRK 154.8 million), compared to 31 December 2017. Current asset and pre - paid costs in the amount of HRK 364.5 million showed 20.7 percent decrease (HRK 95.4 million) compared to the balance at the end Y2017.

As of 31 December 2018, total equity with reserves amounted to HRK 1.676.8 million, which was 2 percent increase (HRK 32.2 million) compared to 31 December 2017.

HRK 3.7 million in long-term provisions represents an increase of HRK 0.4 million compared to 31 December 2017. The full amount of long-term provisions refers to provisions for severance payments and jubilee awards for workers.

Short-term liabilities as at 31 December 2018 amounted to HRK 44.6 million and were HRK 26.9 million higher compared to the balance at the end of the previous year. The increase in short-term liabilities mainly relates to liabilities to affiliated companies for the liability to KONČAR - Switchgear Inc. in real estate purchase in Borongaj.

Potential liabilities of KONČAR - Electrical Industry Inc. for total guarantees issued as of 31 December 2018 amounted to HRK 315.1 million, a decrease of HRK 124.4 million compared to 31 December 2017.

Performance guarantees accounted for HRK 204.2 million of total and joint guarantees.

6. Restructuring

The Management Board of KONČAR - Electrical Industry Inc., with consent of the Supervisory Board has been continuously carrying out operational restructuring in order to retain the Group's market position, profitability and enhance further development.

In Y2017, the Board launched a series of activities with the purpose of merging three medium-voltage and high-voltage companies. In early 2018, KONČAR - Switchgear Inc. and KONČAR - High Voltage Switchgear Inc. were merged with KONČAR - Medium Voltage Apparatus Inc., which was financially the strongest. As of 1 January 2018, the three merged companies have been operating under the name KONČAR - Switchgear Inc. The merger has realised synergies in coordinated market performance, more efficient product development and operational cost reduction.

In Y2018, the Board has initiated restructuring of two further companies (KONČAR - Household Appliances Ltd. and KONČAR - Low Voltage Switches and Circuit Breakers Ltd.) which had not operated in the Group's core area of business. Therefore, shares in the company KONČAR - Low Voltage Switches and Circuit Breakers Ltd. were offered for sale in May 2018. One company has expressed interest, with negotiations expected to continue. With reference to KONČAR - Household Appliances Ltd., following a valuation of an independent appraiser, the management and the employees have issued a letter of intent to buy out 100 percent share in the company. The preparations are underway for the management and employee buyout (MEBO). MEBO has been conducted in line with resolutions issued at the General Assembly of KONČAR - Electrical Industry Inc, which inform the ESOP implementation.

As per previously defined Gantt chart, activities connected with investment in the Metal processing centre have continued throughout Y2018 in KONČAR - Metal Structures Inc.

Based on the results of a feasibility study, it was decided to reorganize KONČAR - Metal Structures and establish it as the Metal Processing Centre (MPC) at Group level. The establishment of the centre is expected to increase productivity and thus reduce costs in this area of activity.

Digital transformation programme has continued. Key identified activates include tracking existing portfolio sales, defining new digital solutions, selecting technology platforms, developing digital strategy and implementation plans, establishing coordinated processes and procedures.

In the Group, digital transformation can be defined as a programme consisting of several components:

– modernization and improvement of internal IT infrastructure

– computerization and optimization of business processes

– innovation and advancement of the classic product range of the Group using sensors and digital technology

– development and improvement of existing digital products and services

– organization of individual production segments according to Industry 4.0. principle.

On 5 December 2018, KONČAR - Electrical Industries Inc. and China XD Group from China, set up a joint venture company KONČAR-XD High Voltage Switchgear Ltd. for production of high-voltage SF6 gas-insulated systems (GIS), with nominal voltage ranging from 170 kV to 420 kV in Zagreb. Research of a part of the European market for GIS has been carried out, a feasibility study; a Technology Transfer Agreement and an Enterprise Agreement have been drafted. Total investment of €10.0 million in equal shares was made to fund the establishment of the company, development, testing and certification facilities for 420 and 245 kV, purchase of production equipment, training of key personnel and other preparations for market launch. Production has been organized in a plant in Sesvetski Kraljevac. The completion of the first part of the project, or the start of production and sale of plant, have been planned to take place mid-2021.

7. Risk Exposure

KONČAR - Electrical Industry Inc. as the parent of the Group has had no significant legal transactions with third entities (apart from credit-guarantee operations) and has been exposed to financial and market risks to a lesser extent.
KONČAR - Electrical Industry Inc. has managed Company risks, issues policies, coordinates and directs risk management in subsidies. Management boards of each dependent entity control risks of individual members in KONČAR Group. Operational, development, market and financial risks are systematically considered when developing, adopting and controlling implementation of business and development of mid- term, annual and operational plans.

Currency risk
The Group has been exposed to currency risk through sales, purchase and loans stated in foreign currency which is not the Group's official currency. The group is mostly exposed to Euro. Given that the exchange rate of HRK is to some extent related to the Euro exchange rate, the Company has been limited to currency risk of deposits in Euros.

Liquidity risk
Liquidity risk reflects the Company's inability to meet financial obligations as they mature. Risk management is a responsibility of the Management Boards which has built a stable framework for short, medium- and long-term financing and liquidity related risks. The Company has managed this risk by continuously monitoring estimated cash flow, comparing and adjusting it to the actual revenue and expenses. Overall, there has been no significant exposure of the Company to liquidity risk as it is able to rapidly cash out funds which might be significantly higher than potential liabilities.

Capital management risk
The Company has managed the capital to ensure operating as a going concern. The Company has managed capital and made appropriate adjustments in line with changes of economic conditions on the market and risk characteristics of its assets. The Company can decide if retained earnings should be distributed to shareholders, if equity needs increasing or decreasing, if assets should be sold in order to decrease liabilities and similar.

Credit risk
Apart from deposits in commercial banks and in-house claims, the Company has had no significant third-party claims. Therefore, no credit risk has existed.

Interest rate risk
The Company has not been exposed to interest rate risk as it has not been exposed to debts. The company has not been exposed to interest rate risk as it has had sound financial asset structure and no interest-bearing liabilities in relation to third parties.

8. Shares

The shares of KONČAR - Electrical Industry Inc. are quoted in the Official Market of the Zagreb Stock-Exchange. The shares are recognisable under their KOEI-R-A ticker. In keeping with the positive regulations, the Company ensures regular access to information on operations and activities and information on any facts and circumstances that may influence the share price (price sensitive information).

The Company share capital is HRK 1.208.895.930.00 and consists of 2.572.119 ordinary shares with a nominal value of HRK 470.00.

The Company applies the same conditions to all shareholders and treats them equally regardless of the number of shares in their possession, their country of origin and other properties. The voting rights encompass all shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession. In Y2018, following the decisions of the General Assembly based on the results achieved in Y2017, shareholders were paid out a dividend in the amount of HRK 35.9 million, which was 14.00 HRK per share.

In Y2018, the price trajectory of KONČAR - Electrical Industry Inc. shares has followed the overall market trend. In 2018, the share price of KONČAR - Electrical Industry Inc. in the regulated capital markets peaked at HRK 725.00 on 2 July and 2 December, whereas the lowest share price was recorded at HRK 535.00 on 28 December. As of 31 December 2018, the average price of shares at the Zagreb Stock Exchange stood at HRK 536.75.

Total sharing revenue amounted to HRK 38.5 million, which is 30 million less compared with Y2017.

The total volume of shares traded amounted to 58.953 shares (33.6 percent less than in 2017).

Market capitalization is HRK 1.372.6 million, which is HRK 462.1 million decrease year-on-year.

KONČAR - Electrical Industry Inc. had entered into a specialist services agreement with InterCapital Securities Inc. in October 2015 under which InterCapital Securities Inc. took over the obligation to perform specialist services for the shares of KONČAR - Electrical Industry Inc, labels: KOEI-R-A, ISIN: HRKOEIRA0009, included in the Official Market of the Zagreb Stock Exchange Inc. The specialist trade services include a simultaneous display of purchase orders and orders for sale of the company shares in line with the Rules of the Zagreb Stock Exchange. The contract is renewed annually.

As of 31 December 2018, the Company owned 14.861 shares, accounting for 0.578 percent of equity.

The ownership structure of the Company is as follows:

	31 Dec 2018		31 Dec 2017	
Shareholder	No. of shares	Ownership stake %	No. of shares	Ownership stake %
HPB d.d. / Kapitalni fond d.d	724.515	28.17	724.515	28.17
Addiko BANK d.d. / PBZ Croatia Osiguranje OMF	420.928	16.37	420.928	16.37
OTP Bank d.d. / AZ OMF	377.429	14.67	377.429	14.67
OTP Bank d.d / Erste Plavi mandatory pension fund	359.239	13.97	359.239	13.97
Restructuring and Sale Center / Republic of Croatia	81.610	3.17	83.610	3.25
Floričić Kristijan	50.714	1.97	50.714	1.97
Addiko Bank / RBA OMF	47.636	1.85	47.636	1.85
Zagrebačka banka d.d. / AZ Profit Voluntary Pension Fund	32.803	1.28	32.803	1.28
PBZ d.d. / collective client custodian account	23.114	0.90	24.251	0.94
Zec Branislav	22.843	0.89	22.843	0.89
Other shareholders	416.427	16.19	422.290	16.42
KONČAR d.d. / treasury stock /	5.861	0.23	5.861	0.23
TOTAL	**2.572.119**	**100.00**	**2.572.119**	**100.00**

9. Product Development

KONČAR Group bases its development strategy on the priority task of manufacturing the most complex products for end customers in the core business area, electric power engineering and transportation. Complex products such as high voltage transformer stations, hydroelectric power plants, wind power plants, photovoltaic power plants, trams, electromotor and diesel-electric trains and the like are included in this category.

The upcoming period is particularly focused on presence in export markets with an emphasis on export activities aimed at decreasing dependence on the domestic economic market. Export orientation is recognized as a guarantee of the Group's long-term viability, profitable and liquid operations.

The Management Board of KONČAR - Electrical Industry Inc. manages development in line with the adopted concept of the Strategic Development Areas in KONČAR Group. All adopted decisions are in accordance with long-term development goals of the Group, new product development needs, development of techniques, technologies and available resources. Based

The following strategic development areas have been defined:

- Power generation
- Substations and electricity transmission
- Rolling stock
- Renewables
- Advanced networks and computer communications
- Information technologies
- Digital transformation

Pursuant to the Agreement on Managing Development in Strategic Areas in KONČAR Group, KONČAR - Electrical Industry Inc. is included in development projects as an active participant in the process.

10. Employees

The starting point of KONČAR's strategy is that human resources constitute the company's core asset, and that all operations depend on the full participation of employees. These values inform KONČAR's decision to base our competitiveness on experience, know-how and innovativeness of employees.

As of 31 December 2018, the Company has employed 51 employees (3 more compared to 31 December 2017.)

KONČAR adheres to the principle of equal pay for work of equal value. There have, therefore, been no recorded cases of gender pay gap, position, bonus, promotion opportunities or any other work-related status gap.

KONČAR attaches great importance to respecting human rights when conducting its operations, thus no issues were recorded in this area. As a socially responsible company which respects human rights, KONČAR does not tolerate child labour, nor does it implement mandatory or forced labour in any of its business activities or forms.

No case of racial, ethnic, gender, religious, political, national or social discrimination has been recorded during the reporting period. Under the provisions of the Collective Agreement, the Employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non-sexual harassment by the Employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

All KONČAR employees are entitled to freedom of association and collective bargaining. KONČAR employees may choose to join either the Union of Metalworkers of Croatia or the Union of Electrical Industry Workers of Croatia.

KONČAR has set up in-house mechanisms for providing advice on ethical and legal behaviour and issues related to the organisational integrity. General responsibility has been assigned to the Member of the Management Board in charge of legal, general and HR affairs and (depending on the size of respective KONČAR Group company) to works councils, trade union commissioners and/or persons responsible for HR.

Mechanisms have been put in place for making requests not related to the organization including regional trade union commissioners, State Inspectorate Office and labour inspectorate.

Employee structure is as follows:

	31 December 2018	31 December 2017
PhD	1	1
Master of Science	6	5
University degree	32	30
Polytechnic degree	8	8
High school degree	3	3
Primary education	1	1
Total	**51**	**48**

11. Quality, Environment, Security of People and Information

KONČAR's business policy includes exceeding customer satisfaction through delivery of high quality and reliable products, environmental protection, occupational health and safety of employees and information security. These policies have been implemented across the Group by the application and certification of management systems as per requirements of international ISO 9001 standard for Quality Management, ISO 14001 for Environmental Management, OHSAS 18001 for Occupational Health and Safety Management, ISO/IEC 27001 for Information Security Management, and ISO 50001 for Energy Management.

ISO 9001 Quality Management System has been certified in 13 Group companies. The core purpose of the system has to do with the management of key processes that affect the quality of products or services aimed at reaching customer satisfaction. ISO 9001 Certificate, issued by authorised independent certification institutions, provides customers with a degree of assurance concerning the capacity of an organisation to meet their demands. Buyers have been increasingly auditing their counterparts (i.e. carrying out on-site verification of the quality of management system operation in order to make sure of the Company's capacity to deliver on their requirements and expectations), especially during prequalification process when contracting certain products.

ISO 14001 Quality Management System has been certified in 15 companies. By applying this system, companies have continuously monitored and analysed various aspects of the environment while performing their business activities, carrying out their processes, looking into environmental impact of products and services they deliver, and take adequate measures to mitigate any adverse effects. ISO 14001 Certificate is issued by authorised independent certification institutions, assuring all stakeholders, ranging from central governments to local communities, of the company's responsible behaviour towards the environment.

OHSAS 18001 Occupational Health and Safety Management System has been certified in 9 Companies. By applying this system, companies have been continuously monitoring and analysing workplace hazards and have carried out measure for prevention and mitigation of accidents which might lead to the loss of health, life and material goods. OHSAS 18001 certificate issued by authorized independent certification institutions provides assurance to all stakeholders of the company's conduct of legal and other measures aimed at the provision of safe working environment and work-related injury protection

ISO/IEC 27001 Information Security Management System has been certified in 4 companies. By applying this system, companies have achieved information system, property, and business information protection. ISO 27001 Certificate issued by certified independent certification institutes proves that information security management system provides data protection under the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces fraud risk, loss of information or unauthorized disclosure of information, improves organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

ISO 50001 Energy Management System has been certified in 2 companies. By applying this system, companies have achieved ongoing improvement of energy management, better resource and infrastructure utilization, and lower energy consumption i.e. lower costs while limiting and controlling environmental impacts.

These principles are based on the positive regulations of the Republic of Croatia and adopted international standards. KONČAR accepts and applies international and local principles, charters and standards which contribute to a better quality of products, work processes and production as well as to preservation and improvement of the environment and social surroundings.

KONČAR's business policy is based on:

- customer, supplier and stakeholder satisfaction,
- environmental, health and safety protection,
- continuous improvement in products and processes; and
- employee participation and motivation.

Environmental issues

A systematic approach has generated policy and objectives of quality management, environmental protection, occupational health and safety, acknowledged by certificates obtained from accredited autonomous bodies. A number of other standards and norms has been applied to individual products as per requirements specified by customers and users.

The equipment and products manufactured by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility - primarily operational safety and reliability (not to generate additional problems in electricity supply) and protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trams and trains manufactured by KONČAR along with a major environmental component. As KONČAR Group bears immense responsibility for products it offers on the market, it has been managing the entire production chain by supervising the quality of individual production processes.

KONČAR Group companies cooperate only with those suppliers whose materials and components do not bear harm to humans and the environment and can be recycled after the end of their life cycle or disposed of without jeopardizing people or the environment. The selection of a supplier of respective materials and services is subject to meeting defined quality levels, lead times, credit term requirements considering occupational health and safety and environmental protection. Suppliers are required to submit evidence (certificates) of meeting all requirements.

Companies have created database of the existing and potential suppliers. Apart from general information (name, address, phone, e-mail, contact person), the database also contains other information which may affect supplier selection such as credentials, complaint information, system quality data, occupational health and safety and environmental protection data.

The issue of the environment is of utmost importance as the major part of the equipment is installed directly in the environment (substations, hydropower plants, other power facilities or traction vehicles). KONČAR has defined an Environmental Management Policy, which is available on www.koncar.com and which has been communicated to all employees.

Equipment and products supplied by KONČAR meet the highest security standards with minimum environmental impact evident in zero complaints or incidents in this area.

Investors that decide on construction of facilities supplied by KONČAR must adhere to environmental regulations and standards. Aware of the environmental risk, KONČAR has implemented precautionary principles. This is especially important as equipment, products and facilities are often delivered to areas of high biodiversity (rivers, lakes, rural areas). There have been no incidents of the loss of biodiversity due to our products thus far.

12. Corporate Social Responsibility

Relying on comprehensive operation principles, KONČAR has assumed full responsibility for activities within the Group and in proactive cooperation with all stakeholders. More information is provided in the Corporate Social Responsibility Report, which is published on the website www.koncar.hr and is made available to all interested stakeholders. The report is prepared in accordance with the UN Global Compact principles and the Global Reporting Initiative guidelines. KONČAR has thus become a part of a small group of Croatian companies that publish such reports.

User safety and keeping the environmental impact to a minimum are priorities of our production facilities, office premises and locations which are selected for our equipment and products. The process starts with quality control of raw materials, components, production processes and technologies and it includes strict exit controls and testing of finished products and plants.

Apart from the work process that encompasses new product development, design, production and delivery, KONČAR has sought to reduce adverse environmental impacts through a host of other activities. Volunteering for Earth Day has already become a tradition; on this occasion, the surrounding exterior is cleaned up and cultivated under the "Let's improve the environment" motto. Volunteers also take part in volunteering activities in the local community. In Y2018, they have worked with others to clean up and repair the patio of the library in Voltino, turning a once neglected space into a place equipped for various activities that the library organizes for its members, particularly children.

KONČAR is aware that success can only come from motivated and educated employees. Therefore, it has been conducting a series of activities in order to improve business operations and working conditions. Continuous training and education of employees, health protection and organized recreational activities remain highly important. One of the most popular activities is the traditional KONČAR Football Tournament. The 17th Football Tournament was held in 2018, with the participation of more than 300 sports fans in 23 teams from 13 KONČAR Group companies. Hiking, skiing excursions, marathons and amateur sports competitions deserve to be mentioned.

"KONČAR's Pensioners' Club" has organized cultural, health-promoting, humanitarian, and other activities; while the "Veterans' Club" had gathered participants of the Homeland War.

Sponsorships of various academic and extracurricular activities for children, social and charity support, as a part of the cooperation with wider social community, have successfully continued in 2018. Sponsorships and donations have been made in support of diverse projects, organizations and activities of humanitarian, sport, cultural and educational character. Among numerous requests, priority has been given to youth-related activities, their better and more comprehensive education, achievements in culture, organization and participation in various competitions, encouragement of pupils' and students' excellence, sports and recreation. Traditional prizes have been awarded to students attending the Zagreb University of Applied Sciences, the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, the Faculty of Electrical Engineering and Computing Zagreb, the Faculty of Chemical Engineering and Technology Zagreb. A special award is given at the Faculty of Electrical Engineering and Computing to the best doctoral dissertation for scientific achievements with industry applications.

Once a year, to mark KONČAR's anniversary, a donation is made to one of the selected projects, and in Y2018 the funds were assigned to Matica Hrvatska (Matrix Croatica), to endorse and assist their project of publishing a seven-volume edition of "History of the Croats". The project is based on modern cognitive, conceptual, and methodological achievements of Croatian historiography and it is at the same level with similar historiography projects of other European nations.

A part of our continuous support is endorsing the work of amateur sports clubs and talented athletes in table tennis, archery, handball, canoe, skiing, basketball, sailing, hockey, football, judo, ice skating, taekwondo and chess. The support provided to several clubs and competitions for people with disabilities must be highlighted. KONČAR' Chess Club, one of the oldest in Croatia, regularly participates in competitions in various categories and organizes a free chess school for the employees' children who then go on to play chess and compete in their categories.

13. Anti-corruption and Anti-bribery Policy

Members of Management Boards, employees and business partners have been informed of anti-corruption policies and procedures and have adhered to the principles of the Code of Ethics in the course of their business operations and daily activities. KONČAR enjoys international reputation of a loyal and fair business partner. No cases of corruption have been recorded at Group level.

KONČAR - Electrical Industry Inc. has not made any financial or in-kind contribution to any political goals, directly or indirectly, to the state or a user. KONČAR promotes and executes fair and transparent competition principles across its businesses in dealing with all entities at all locations. No anti-competitive, antitrust or monopoly-related practices have been recorded in the Group.

14. Business Plan for Y2019

The Y2019 Business Plan was adopted by the Supervisory Board at a meeting held on 20 December 2018.

In Y2019, KONČAR - Electrical Industry Inc. has set out to achieve a positive financial result of HRK 71.7 million. Total revenues and expenses are forecast in the amount of HRK 156.8 million and HRK 85.1 million, respectively.

Total operating revenues are planned in the amount of HRK 65 million. Total operating expenses are planned in the amount of HRK 85.1 million.

Financial revenues amounting to HRK 91.8 million are planned including dividend claims based on the Y2018 business results of the Group in the amount of HRK 40.5 million, income from share profit of affiliated KONČAR - Power Transformers Ltd. for the period from October 2018 to September 2019 in the amount of HRK 49.8 million, time deposit interests, internal loans and other placements in the amount of HRK 1.5 million.

Closing remarks:

Important events that have occurred between the reporting date and the date of the sign off of the financial statements and are required to be disclosed include the following:

- *Based on the decision of the General Assembly of KONČAR - Electrical Industry Inc., the Supervisory Board, at a session on 18 January 2019, approved the Programme of continuous ownership restructuring of KONČAR - Household Appliances Inc. through M&E buyout model proposed by the Management Board of KONČAR - Electrical Industry Inc. This proposal has offered all shares of KONČAR - Household Appliances Inc. up for sale, i.e. 60 percent of the shares are offered for sale to all employees of the Group and 40 percent of the shares are offered to the management of the Company. The share price has been set at HRK 434.00 based on the valuation of an independent appraiser.*
- *At a session held on 19/03/2019, the Supervisory Board of KONČAR - Electrical Industry Inc. approved the restructuring concept KONČAR - Low Voltage Switches and Circuit Breakers Ltd. in such a way as to set up an SPV (Special Purpose Vehicle) company and sell it immediately thereafter to Lovato Electric SPA from Bergamo.*

Apart from the events described above, there have been no other events which might have significantly impacted Y2018 financial reports of both KONČAR - Electrical Industry Inc., the publication of which would consequently be required.

Darinko Bago, Chairman of the Management Board

Gordan Kolak, Deputy Chairman and Member of the Management Board

Miki Huljić, Member of the Management Board

Marina Kralj Miliša, Member of the Management Board

Miroslav Poljak, Member of the Management Board

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