Tradition. Knowledge. Responsibility.

Consolidated Annual Report Končar D&ST Group

2021

KONČAR D&ST

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

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2021

Končar D&ST Group

Končar D&ST, Zagreb, Croatia

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MANAGEMENT BOARD REPORT ON THE KONČAR D&ST GROUP POSITION IN 2021

Visovac Island, Krka National Park, Croatia

1. Introductory Word by the Management Board

2021 — A YEAR OF SIGNIFICANT BUSINESS GROWTH, MARKED BY SUPPLY CHAIN DISORDERS AND A SUBSTANTIAL RISE IN THE COST OF RAW AND OTHER MATERIALS

The Končar D&ST Group is comprised of the companies **Končar - Distribution and Special Transformers Inc. (Končar D&ST Inc.)**, Josipa Mokrovića 8, Zagreb, Croatia, and **Power Engineering Transformatory Sp. z o.o. (PET)**, Gdynska 83, Czerwonak, Poznan, Poland.

In addition to the difficulties caused by the ongoing global COVID-19 pandemic in 2021, the year was also marked by additional supply chain disorders and a sudden and substantial increase in the cost of main raw and other materials at the beginning of the year, limited capacities of certain suppliers, and strained logistics. Despite this, Končar D&ST continued its trend of successful business years.

Total sales of goods and services in 2021 amounted to HRK 1,424 million (in 2020, HRK 1,165 million), an annual increase of 22%. Exports in the amount of HRK 1,244 million (in 2020, HRK1,011 million) accounted for 87% of sales, up 23% compared to the previous year.

Profit before tax in 2021 in the amount of HRK 119.6 million (net HRK 99.3 million), an increase of 40% compared to profit before tax in 2020 of HRK 85.3 million (net profit HRK 102.1 million).

A total of HRK 20.8 million was invested in 2021 for investment activities, mostly for the procurement of new production, testing, and computer equipment and the improvement of working conditions (as opposed to investments of HRK 43 million in 2020).

A strategic investment project to increase production capacities for distribution transformers was completed at the end of 2020. The project confirmed our vision and the anticipated market demand so that already in mid-2021 the utilisation rate of the newly constructed capacity reached its nominal maximum, which also coincided with the entry into force of Commission Regulation (EU) No 548/2014 (Tier 2) of 1 July 2021, requiring the delivery of transformers with reduced losses.

In 2021, Končar D&ST Inc. secured additional resources to support the company PET, Poland, in order to make it fit for market business conditions as soon as possible.

On 31 December 2021, the Končar D&ST Group employed a total of 750 people, with 678 employed at the location in Zagreb and 72 in PET Poland.

Engineering departments, auxiliary services, and the number of workers in production were strengthened in equal measure. Several organisational changes were effectuated to ensure more efficient management in line with the growth of the Group and the rise in its production volume.

In its operations, the Group operates in compliance with internationally recognised standards and requirements of corporate social responsibility.

In view of the COVID-19 pandemic and the demanding conditions on the transformer market, the overall business results of the Končar D&ST Group in 2021 can be considered remarkably successful, and the company is well-equipped for future business challenges. Alignment between the interests of shareholders, employees, business partners, and banks and their mutual trust were very important for the actualisation of good business results. The Management Board of Končar D&ST would like to extend its gratitude for the support and trust it has received and is pleased to present this Report on the State of the Group for 2021.

For Končar D&ST Inc. Management Board,

Vanja Burul
Board President

2. Major 2021 Figures of Končar D&ST Group Compared to 2020, 2019 and 2018

	2021	2020	2019	2018	2021	2020	21/20
	HRK ('000)				EUR ('000)		index
Sales							
Croatia	180,446	153,149	128,210	154,879	23,924	20,330	117.8
Exports	1,243,905	1,011,453	941,051	786,703	165,261	134,268	122.9
Total	1,424,351	1,164,602	1,069,261	941,582	189,185	154,598	122.2
EBITDA	149,646	116,785	80,737	67,337	19,889	15,503	128.1
Net profit*	99,342	102,052	57,998	48,623	13,203	13,402	97.3
Number of employees							
31 Dec	750	718	683	644			104.5

Note: Average exchange rate

2018. 1EUR = 7,4141 HRK
2019. 1EUR = 7,4136 HRK
2020. 1EUR = 7,5331 HRK
2021. 1EUR = 7,5242 HRK

* Net profit in 2021 includes one-time cancellation of reservations (HRK 6.8 million) and the effect of revocation of deferred tax asset or tax liability (HRK 15.2 million).
Net profit in 2020 includes one-time cancellation of reservations (HRK 17 million) and recognition of deferred tax income (HRK 18.5 million).

3. General Position of the Group

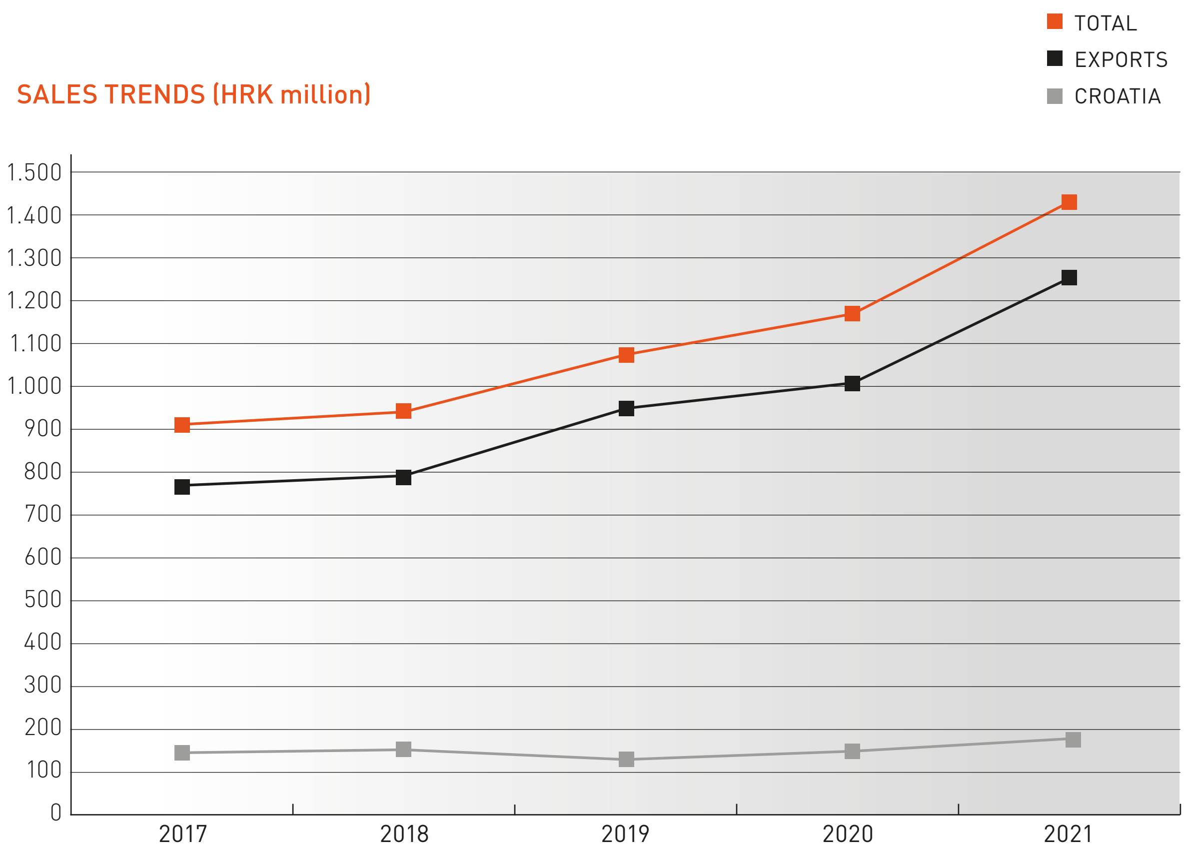
Good business results in 2021 and in the years preceding 2021 acted as an additional financial boost to the Group, ensuring appropriate financial stability and a strong foundation for further business development.

As a result of ongoing organisational adjustments to new external and internal conditions, both in terms of its line of distribution transformers and its line of medium power transformers, the Group has improved its competitive edge on the market in these challenging times.

By identifying sales and development activities as its priorities, employment and systematised training of young experts, employee motivation, investments in IT, product development and production modernisation, the Group is ready for the requirements of complex market conditions that can also be expected in the future.

By following the guidelines and requirements for a sustainable and circular economy, the Group will continue to actively contribute to and participate in the energy transition and decarbonisation processes, as well as in the digitalisation of internal processes and its own business operations.

SALES TRENDS (HRK million)



4. Group Organisation and Management in 2021

Until 31 March 2021, the company Končar D&ST, Inc. was managed by the Management Board consisting of the following members:

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

Following the retirement of Mr. Ivan Klapan, as of 1 April 2021, the company Končar D&ST Inc. was managed by the Management Board consisting of the following members:

Vanja Burul	Board President
Petar Bobek	Board Member, MPT Profit Centre Director
Martina Mikulić	Board Member, DT Profit Centre Director
Dominik Trstoglavec	Board Member, Technical and Business Development Director
Petar Vlaić	Board Member, Finance and Procurement Director

During 2021, the members of the Supervisory Board of the company Končar D&ST Inc. were:

Gordan Kolak	President
Ivan Bahun	Member
Josip Ljulj	Member
Miki Huljić	Member
Ana Marija Markoč	Member - employee representative

The management of the company PET Sp. z o.o. was managed by the Management Board consisting of:

Ivor Grubišić	Board President
Maciej Malolepszy	Member
Boleszlaw Brodka	Member

The Supervisory Board of the company PET Sp. z o.o. was consisting of:

Ivan Klapan	President (until 21 July 2021)
Vanja Burul	Member (until 21 July 2021), President (after 21 July 2021)
Petar Vlaić	Member
Mate Biloš	Member (after 21July.2021)

In 2021, the Končar D&ST Group performed its activities at two locations: in the Republic of Croatia at the location Josipa Mokrovića 8, 10090 Zagreb, and in Poland at the location Czerwonak, Gdinjska 83.

A branch office was operational in Casablanca, Morocco, called Koncar D&ST Succursale Maroc, which was responsible for monitoring the activities of transport and assembly of medium power transformers. Considering that operations in Morocco are soon to be concluded, it was decided the branch office would be closed. The procedure for its closure has been initialised and is soon to be completed.

5. Implementation of the Corporate Governance Code

The parent company of the Group is traded on the Zagreb Stock Exchange and implements the Corporate Governance Code in accordance with the rules of the Zagreb Stock Exchange.

Končar D&ST Inc. implements most of the provisions of the Corporate Governance Code drafted by the Zagreb Stock Exchange and HANFA, and published on the website of the Zagreb Stock Exchange (www.zse.hr). The only exceptions are certain provisions that Končar D&ST holds do not have to be implemented in the prescribed form, in particular:

- the Supervisory Board and the Review Committee consist primarily of members who are not independent, which is considered to be appropriate in this situation where Končar D&ST exists within the Končar Group.

The company holds that the fact it does not implement some of the provisions of the Code does not undermine the high level of transparency of company operations and that this will not substantially influence either current or potential investors in making investment decisions.

The compliance questionnaire includes precise answers to any questions as to which provisions of the Code Končar D&ST implements and which it does not, and this is publicly available on the official website of the Zagreb Stock Exchange (www.zse.hr) and the company website (www.koncar-dst.hr).

As part of its organisational model, which serves as the basis for its operation and all business processes, Končar D&ST Inc. has developed internal control systems at all important levels. The systems also enable objective and correct presentation of financial and business reports.

Data on significant shareholders are available at all times on the official website of the Central Depository and Clearing Company (www.skdd.hr) and are also published in the auditor's report as on 31 December 2021 and 31 December 2020. Shareholders can vote by electronic means with attendance at the Shareholders' Assembly. Preferred shares do not carry the right to vote.

6. Market Position and Sales by Countries and Group of Products

Operations in early 2021 seemed stable for the medium power transformer programme, with a solid contract rate for the year ahead. In terms of the distribution transformer programme, the year began quite uncertainly, as customers on our main markets, EU markets, moved to distribution transformers with reduced losses mid-year in accordance with Commission Regulation (EU) No 548/2014 (Tier 2). In the volatile atmosphere caused by the COVID-19 pandemic and all measures in effect, the beginning of the business year was a challenging one. In the second quarter, a sudden spike in transformer demand coincided with a rise in the prices of raw materials and supply chain disorders, which resulted in aggravated business conditions. The focus of our activity was to ensure timely deliveries, but also to maintain good business results and profitability during a period when the company was affected by rising prices of raw materials and other costs.

The result of such turbulent global events and the fast adaptation of the company to fluctuating market conditions, long-standing activity on a large number of markets, and a good portfolio of loyal and potential customers, resulted in exceptional business results at the end of the year.

In 2021, the sale of goods and services recorded 22% growth in comparison to 2020, to HRK 1,424 million.

Changes by group of products in 2021 in comparison to 2020 were:

- distribution transformers: 40% growth
- medium power transformers: 14% growth
- dry and special transformers: 62% growth
- other goods and services: 23% growth.

Sales by main markets were as follows:

Croatia: In 2021, deliveries were valued at HRK 180 million, or 18% growth compared to 2020 (HRK 153 million).

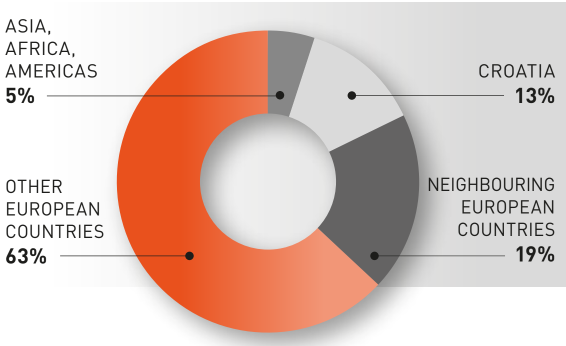
European countries near Croatia: BiH, Slovenia, North Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania, Albania — In 2021, deliveries were valued at HRK 262 million, a 3% drop compared to 2020 (HRK 271 million).

Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta, The Netherlands, Belgium, Greece — In 2021, deliveries were valued at HRK 905 million, which is a 42% rise compared to 2020 (HRK 639 million).

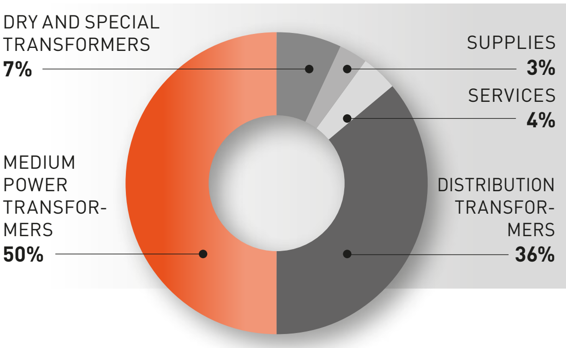
Other countries in Asia, Africa, and the Americas: In 2021, deliveries were valued at HRK 77 million, an 18% drop compared to 2020 (HRK 94 million).

In 2021, total contract value was HRK 1,947 million, which was 50% more than in 2020.
The state of contracted transactions at the end of the year was valued at HRK 1,394 million, up 57% over the end of 2020.

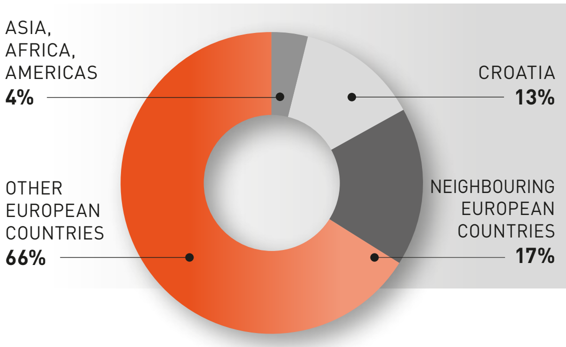
SALE STRUCTURE PER MARKET IN 2021



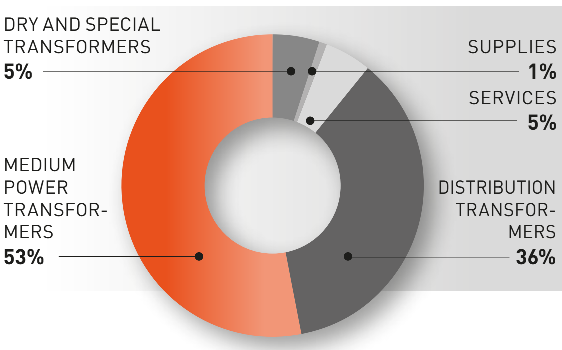
SALE STRUCTURE BY PRODUCT TYPE IN 2021



NEW CONTRACTS PER MARKET IN 2021



STRUCTURE OF NEW CONTRACTS BY PRODUCT TYPE IN 2021



7. Financial Position (Balance Sheet)

On 31 December 2021, assets of the Končar D&ST Group totalled HRK 1,021 million, up 12% over the year before. Based on its liquidity, long-term assets account for 26% and short-term assets for 74%.

The most significant long-term asset category is Tangible assets, which at HRK 237 million accounts for 23% of total assets. Deferred tax (HRK 4.9 million) accounts for approximately the same value, a decrease of HRK 15.2 million compared to the year before (HRK 20.1 million). This reduction is the result of using tax benefits received under the Act on Incentives for Investments for a completed investment project.

The inventory of raw and other materials, work-in-process, and finished products were the most significant part of short-term assets on 31 December 2021, amounting to HRK 419 million, or 41% of the balance sheet value. In comparison to the year before, this was up by HRK 79 million or 23%. The rise in inventory is attributable in part to the growth of overall company operations and in part is associated with external factors. The growth in inventory was affected by global supply chain problems that marked the whole of 2021 and a significant rise in prices of almost all raw materials. Despite the significant rise in inventory when comparing the standing on the balance sheet date in 2021 and in 2020, the inventory turnover coefficient in sales revenue remained at nearly the same level, and the number of days inventory is held was calculated at 108 days in 2021.

Accounts receivable were the second short-term asset item in terms of value; on the last day of the business year they amounted to HRK 177.6 million, or 17% of assets. Collection days as measured by the accounts receivable turnover coefficient on the date of the balance sheet were somewhat better than the year before and amounted to 46 days. Accounts receivable collection during the reference period proceeded smoothly; the creditworthiness of customers was analysed and security instruments applied to all projects assessed to have an unacceptable risk.

The most liquid asset item, i.e., money in bank accounts, on the balance sheet date was HRK 125 million, or 12% of assets. In terms of liability maturity, long-term sources accounted for 67% and short-term sources for 33%.

Capital and reserves totalled HRK 545 million, or 53% of total liabilities. In comparison to the standing at the end of the previous period, these were higher by HRK 73.5 million or 16%. This is the result of partially retained profit generated in the previous year. Long-term provisions amounted to HRK 92.8 million, down by HRK 5.7 million or 5.8%. The result of the trend of long-term provisions is based on two factors, namely the reduction of provisions in the warranty period by HRK 16.1 million, a reduction of reservations for long-term employee salaries by HRK 0.3 million, and an increase in provisions under contracts where, according to IAS 37, the unavoidable costs of fulfilling contractual obligations under such contracts exceed any expected economic benefits. Reservations under such contracts amounted to HRK 10.7 million and were the result of a sudden and substantial rise in prices of incoming raw materials due to global market imbalances that have had a negative impact on a smaller portion of contracts concluded earlier, when there was no possibility to mitigate such impacts.

On an individual basis, the most significant short-term liability item, Accounts payable and other liabilities, was HRK 178 million, which accounts for 17% of the total sources of funds. Liabilities for income received in advance amount to HRK 112 million (11% of liabilities); they are a source of funds for financing.

The Končar D&ST Group fulfilled all its short-term and long-term liabilities towards all its partners in a timely manner.

8. Operating Results (Income Statement)

The achieved business results of the Group 2021 show significant growth, which is evident from both achieved monetary and natural indicators.

Sales revenues in 2021 totalled HRK 1,424 million. Compared to 2020, when sales revenues amounted to HRK 1,165, this marks an increase of HRK 260 million or 22%.

The majority of that growth was generated through deliveries outside the Republic of Croatia worth HRK 1,244 million, accounting for 87% of sales revenues. Compared to last year, when it was HRK 1,012 million, exports increased by 23% and represent the main driver of development for the Group. Goods and services were sold on the markets of over 45 countries worldwide, with the German and Swedish markets prevailing, together accounting for about one-third of all sales revenues. In Croatia, sales generated totalled HRK 180 million, accounting for 13% of total sales revenues.

Both main segments of business — medium power transformers and distribution transformers —recorded double-digit growth rates based also on natural indicators (delivery in tons and kVA). Sales revenues of medium power transformers were HRK 731 million and revenues from distribution transformers were HRK 596 million.

On the expenditure side, the most significant expenses were material costs including raw materials and materials, energy sources, transport, and other operational costs, as well as other material costs immediately associated with production. These costs, adjusted for changes in inventory value, have approximately the same share in sales revenues as the previous year.

Staffing costs amount to HRK 173 million, an increase by HRK 12.7 million or 7.9% compared to the previous year. The ratio of staffing costs in sales revenues in 2021 was 12.1%, compared to 13.8% the year before.

Based on the indicators outlined below, this significant growth in revenues was accompanied by a rise in profitability. The EBITDA for 2021 was HRK 149.6 million, or 10.5% of total revenues. The EBITDA for 2021 was 28% higher than in 2020.

Profit before tax for 2021 was HRK 119.7 million, accounting for 8.4% of total revenues. This share was higher than in the previous year (7.3%). Profit after tax for 2021 was HRK 99.3 million, down 2.7% or HRK 2.7 million compared to 2020. This decrease in profit after tax in 2021 was the result of negative impacts of the recognition of deferred tax in the amount of HRK 15.2 million compared to 2020, when this effect was positive because of the recognition of deferred tax in the amount of HRK 18.5 million.

9. Main Operating Risks for the Group

In 2021, the Končar D&ST Group revised its Rulebook Ordinance on Risk Management and its Risk Management Policy, which are in compliance with standard ISO 31000:2018 (Risk Management — Guidelines) and with the ERM (Enterprise Risk Management) principles. In accordance with this policy, risk management in the Group is:

- integrated in all business processes and decision-making processes in the Group. It is structured and comprehensive, taking into consideration both the external and internal context in which the company operates, and is based on the best information available;
- inclusive, and it encompasses a wide circle of persons starting with the Management Board and the Supervisory Board, sector and field directors, managers and heads of departments and workshops, and finally all employees and external stakeholders;
- dynamic because new risks may appear, change, or disappear in line with changes to the internal or external context;
- based on continued improvements to management that is founded on learning and acquisition of new experiences.

In full acknowledgement of the business strategy and business goals, the Group determines that there is a moderate (average) propensity to take risks. The lowest propensity for risk-taking is in the field of goals related to safety and compliance, including employee health and safety. A slightly greater propensity to take risks is in the field of strategic and operative goals. This means that reducing risk arising from our systems, equipment, products, and work settings to reasonably feasible levels and compliance with our legal obligations will have priority over other business goals.

The Risk Catalogue, revised in late 2021, was drawn up in the parent company in line with the defined risk management methodology. It identifies, analyses, and evaluates the main strategic, operative, and financial risks and specific risk reduction measures, as well as the persons responsible for risk management (risk owners). Risks have been identified in all organisational units of the Group.

The prices of main raw materials and other materials (copper, aluminium, transformer sheet, transformer oil, steel) began to rise substantially in the first quarter of 2021.

The business year 2021 was marked by the ongoing COVID-19 pandemic, which has generated many risks, the most pronounced of which are risks associated with employee health, work organisation, production, and business processes, logistics risks in the procurement of raw materials and materials and the delivery of finished products, risks connected with changes in customer behaviour in the process of ordering products, and similar risks. The Group offered a sound response to these risks, mitigating them by any and all measures and actions available so that the business year 2021 ended without any major negative impacts on the business results of the Group.

The demand for transformers on Group target markets is one of the main risk factors for the operation of the Group. The business year 2021 was characterised by an increased demand for transformers for a number of reasons, of which the most significant were the entry into force of Commission Regulation (EU) No 548/2014 (Tier 2) of 1 July 2021, the expected further growth of prices for raw and other materials, and uncertainty in view of supply chain disturbances and increased investments in renewable energy sources.

The supply of transformers by other manufacturers — competitive pressure — is another very important risk factor for Group operations. The behavioural patterns of existing competitors and entry of new ones onto the Group target markets create a very strong competitive pressure on most target markets. The entire transformer industry has experienced considerable changes in recent years, with numerous restructurings, spin-offs and/or sales of the energy business segment in large corporations, closures or bankruptcies of existing factories, opening of new ones, takeovers and mergers (consolidation), and these trends will continue.

Risks on the procurement market were also pronounced in the business year 2021. The prices of main raw and other materials used in transformer manufacture (copper, aluminium transformer sheet, transformer oil, insulation, steel, etc.) were volatile, with significant growth in relatively short periods. Risks connected with the availability of adequate quantities and with the costs and opportunities for the transport of raw and other materials were also highly pronounced during the COVID-19 pandemic. In view of the options available, the Group is protected again the risks of sudden changes to the prices of strategic raw materials in several ways. In the case of copper, the risk mitigation policy is such that, since it is a raw material listed on commodity exchanges (London Metal Exchange), quantities and prices are negotiated with copper suppliers by forward contracts for future periods according to contract status and estimates. In terms of transformer sheet and other important procurement parts, semi-annual contracts with suppliers attempt to mitigate this risk and secure the required quantities. Further, in some multiannual contracts with customers, a sliding formula based on changes in material prices is occasionally applied. Changing prices for materials are included in calculations when drafting new product offers.

Technological and developmental risks. The Group is currently applying modern technologies in the manufacture of transformers and offers appropriate technical solutions for most products in its programme, and therefore is able to keep up with technical and technological development at an enviable level. In the future, it is not expected that the company will lag behind its main competitors in terms of technical and technological development.

Strategic investment and acquisition risks. In 2021, the strategic investment PKPDT (increasing production capacities for distribution transformers) at the Jankomir location became fully functional, while intensive support continued for development of the company PET, Poland. This group of risks is mitigated through appropriate analyses and evaluation of potential risks, taking adequate measures to mitigate risks, and active involvement of the management board and key managers and employees in the process.

In terms of **financial risks**, the most pronounced are the foreign exchange risk, credit risk, and liquidity risk.

Foreign exchange risk is quite pronounced in the operation of the Group in view of the high percentage of exports and import in revenues and in view of the fact that certain monetary asset and liability items are denominated in foreign currencies. The Group is protected against foreign exchange risk by forward contracts with banks and internal incoming and outgoing currency adjustment techniques, as well as the alignment of the state of monetary items in foreign currencies in the balance sheet.

Credit risk manifests itself in the danger that a particular debtor of the Group (e.g., customer to whom delivery is made without sufficient payment security) will not be able or willing to make payments to the company in accordance with the contract and that the Group will therefore have losses in write-off or diminished accounts receivable. The Group is protected against credit risks by payment security instruments (letters of credit, guarantees, promissory notes, etc.) and an assessment of customer solvency in co-operation with external agencies that assess solvency and creditworthiness. Further, it also seeks security for accounts receivable from certain customers to be issued by specialised institutions.

Liquidity risk manifests itself as the danger that the Group will not be able to perform its obligations towards creditors within the agreed terms. The Group has a contractual relationship with commercial banks on framework loans, which enables it to quickly overcome the current need for liquid funds, subject to known terms. Further, it collects claims with relatively long maturity periods by selling them to financial institutions (factoring, forfeiting).

Management and personnel risks. The usual fluctuations and changes in management, leading experts, and employees do not affect significantly the operation of the Group, while sudden and more extensive fluctuations in the management, key and other employees might affect the Group's business results. The Group manages these risks actively.

In addition to the foregoing, there are also IT risks, design-construction risks, production risks, political risks, and other risk groups.

10. Investments and Technology Modernisation

The Group uses modern technology, but also invests in ongoing improvements and modernisation of existing processes in order to ensure continued growth to higher levels. In 2021, a 1.1 MW photovoltaic plant investment was contracted and launched. Its completion and the start of operation are expected in the second quarter of 2022. Reconstruction of the dispatch workshop was also carried out in the field of infrastructural upgrades, thus improving technological options in the dispatch of transformers.

In 2021, various types of special production machinery were procured and modernised in conformity with the annual plan. As an upgrade of the range of medium power transformers, a hydraulic device for stacking cores was put into operation, which expanded the technological options in the field of offering, designing and manufacturing larger transformers. The autonomous mobile device for transformer oil processing, which enables the preparation of transformers during commissioning in field conditions, was also fully equipped.

In terms of the process of transformer sheet metal processing, operating system upgrades, extensive annual overhauls, and the installation of acoustic noise protection were implemented, to better working conditions.

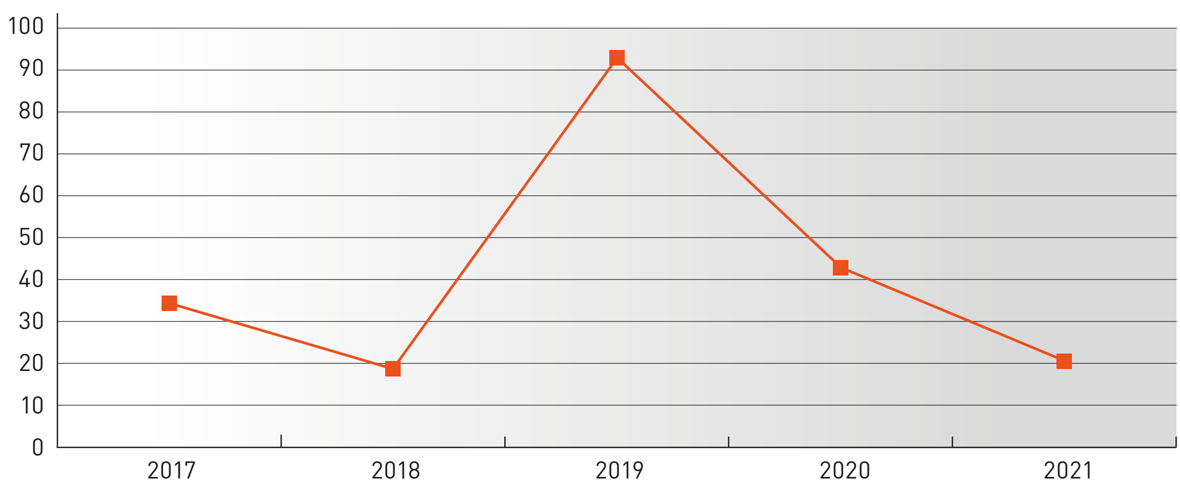
In the company PET in Poland, a crane with load capacity of 8 tonnes was installed in the wrapping facility, and the heating system was refurbished, to switch to the ecologically more favourable energy source natural gas instead of coal.

In order for the Group to keep up with increased market demand and maintain high quality of energy transformer production, in late 2021, Končar D&ST Inc. started negotiations and launched a project concerning the acquisition and commissioning of just over 4000 m2 of new space to be used for optimising current production and ensuring work quality and safety. In 2022, further development of this project is planned and initial activities in this regard will be launched.

In parallel with investments in production equipment, investments were also made in upgrading IT equipment, thus improving availability for virtual servers.

Total investments in 2021 amounted to HRK 20.8 million, as opposed to HRK 43 million in 2020.

INVESTMENTS (HRK million)



11. Technical Development and Product Innovation

At a time when the Group is facing increasingly complex market challenges and demands, technical development is one of the key preconditions for success in the context of positive responses to such demands. The technical development departments (Product Development and Production Development) recruited more than 20 highly-educated experts having multidisciplinary profiles (electrical engineering, civil engineering, computer science), of whom two hold a doctoral degree and several experts are enrolled in specialist and doctoral studies at different faculties of the University of Zagreb and the University of Poznan.

In PET, Poland, the process of transferring know-how continued, with its implementation into business processes.

One of the most significant changes in 2021 was the implementation of the Commission Regulation (EU) No 548/2014 (Tier 2), which served to significantly lower losses in transformers and which meant the evaluation and use of materials with the lowest possible losses and noise. Ongoing advancements in methods to ensure noise reduction continued as well, construction solutions for medium power transformers with guided cooling were developed further, while the measuring system and the heating budget were improved; in the area of insulation, the surge immunity and insulation distances budgets were improved. The distribution transformer and medium power transformer assembly production process has been improved.

Experts in technical development and from other departments took active part in expert symposia on transformers (HO CIRED in Šibenik, HRO CIGRE in Šibenik), in the work of the study committee SO A2 for transformers, and in the work of the technical committees HZN/TO E15 Rigid electrical and technical insulating materials, HZN/TO E36 Insulators, HZN/TO E55 Winding wires, HZN/TO E112 Assessment and characteristics of insulating materials and systems, and HZN/TO E10 Fluids for use in electrical engineering. In view of the COVID-19 pandemic, most other expert symposia, seminars, and fairs were postponed or were held in a different format (online).

Co-operation with institutes and faculties continues (Končar — Electrical Engineering Institute Ltd.; Faculty of Electrical Engineering and Computing, University of Zagreb; Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb; Faculty of Engineering, University of Rijeka; Faculty of Technical Science, Poznan University of Technology, Poland).

12. Končar D&ST Group Human Resources

On 31 December 2021, the Group had 750 employees (as opposed to 718 employees on the same date in 2020). Of the total number of employees 678 are employed at Končar D&ST and 72 at PET, Poland.

In the field of employee training, continuous professional development is available to employees, including university studies and applied sciences studies. The Group supports attendance of postgraduate and graduate studies. The result is a growing number of employees enrolled in various study programmes. Access to rewards and the promotion of professional and scientific development greatly contribute to the know-how of the Group and its contacts with relevant university institutions.

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

The Končar D&ST Group cares about quality, environmental protection and occupational safety, and these aspects are important factors in operation that support the achievement of the set goals.

In the company Končar D&ST Inc. in Zagreb, compliance assessment cycles are conducted twice a year for all three certified management systems (ISO 9001:2015, ISO 14001:2015 i ISO 45001:2018) by the international certification company Bureau Veritas. During 2021, supervisory audits were successfully performed on all three systems.

In the company PET, Poland, audits were performed on the quality management system ISO 9001:2015 and the environmental protection management system ISO 14001:2015.

14. Corporate Social Responsibility

Corporate social responsibility of the Group is based on a set of measures and policies and the Code of Business Conduct, aimed at achieving the mission and vision of Končar D&ST, while respecting and implementing our proclaimed values. Within the sphere of its influence, the Group supports and implements the obligations and measures prescribed by the laws and internationally recognised standards in effect in the fields of business ethics, employee rights, protection of health and safety, and environmental protection.
In 2021, Končar D&ST Inc. issued its first Report on Corporate Social Responsibility and Sustainability in accordance with the GRI Reporting Guidelines, and identified six sustainable development goals in the period leading up to 2030, closely connected with the company's business activities.
The Group plans to proceed with its reporting practice concerning sustainability and corporate social responsibility since decarbonisation, mitigating the consequences of climate change, and transition to a circular economy are featured as the goals and strategy embraced by the Group.

We would like to single out the special values by which the Končar D&ST Group is guided in its work:
- quality,
- minimising its environmental impact,
- occupational safety,
- honesty and accountability for its commitments,
- compliance with laws, standards, and best practices in operations,
- creating above-average business results,
- care for its employees and continued investments in their professional development,
- respecting diversity amongst employees through openness, trust and involvement in teamwork, and
- good business relations with customers and suppliers.

The Group continuously engages in initiatives to create positive changes and invests in development, professional training, minimisation of environmental impact, and community care. The Group conducts numerous activities that illustrate its dedication to corporate social responsibility and takes an active part in the life of the community in which it operates.

Having embraced its transition to a circular economy as the fundamental determinant of its operation, Končar D&ST Inc. proceeded with the construction of a photovoltaic plant with the aim of mitigating negative environmental impact but also a long-term decrease in utility costs. The construction of the PV plant began in December 2021; it is expected to become operational in the second quarter 2022.

As an example of our green initiatives, we would like to single out our clean-up effort in a forest near the Jankomir embankment that included volunteers from Končar D&ST in co-operation with the volunteer association Čisteći medvjedići ("Cleaning Teddy Bears").

In 2021, the Group supported a number of corporate social responsibility initiatives and projects. Many are just an extension of our long-standing practices, such as donations to the SOS Children's Village Croatia and Caritas, numerous rehabilitation associations and organisations for assistance and support to children with special needs and children with disabilities. In view of our sensitivity to children's needs, we would like to single out our first cooperation with the MALI ZMAJ ("Little Dragon") Society for improving the quality of life of poor children and children without adequate parental care, which is active throughout Croatia.

Additionally, donations were made to support a substantial number of various associations and organisations such as sports clubs, associations of retired persons, veterans' associations, and students' associations.

In its operation and everyday activities, the Group and its employees respect the principles of the Code of Business Conduct and the manual Corporate Culture and Communication, and practice zero tolerance towards corruption and other impermissible business practices. Members of the Management Board, employees, and business partners are aware of our zero tolerance towards corruption and they respect the said principle in their operation and activities.

15. Further Development Strategy

The principal business activities of the Group will continue to be development, sales, and production of distribution of oil transformers up to 8 MVA and 36 kV, special transformers, and medium power transformers up to 160 MVA and 170 kV.

At its existing location in Jankomir, the Group ST plans to make investments aimed at normalising the existing production levels and increasing its warehouse capacity, thus enabling the optimisation of certain business processes and more appropriate flows in raw and other materials, equipment, and finished products.

The Group will secure a strong position amongst the top-ranking European producers of distribution, special, and medium power transformers by recognising and fulfilling the needs of its target buyers, partner relations with its suppliers, commitment to quality and sustainable development, technical and organisational development, and training and motivating its employees to achieve business excellence through teamwork.

Final remark: In the period from the end of the business year 2021 to the drafting of this report, the COVID-19 pandemic has still not subdued completely and it is likely that, in the event of unfavourable developments, this could have negative implications on future business. Further, negative implications are possible as the result of supply chain disorders and high prices as well as the fact that certain key materials are not available on the global market. February 2022 saw the beginning of the war in Ukraine. The impact of the Russia-Ukraine crisis on the operation of the Group is currently insignificant. Development of the situation concerning the Russia-Ukraine crisis is being closely monitored.

2.

DECISIONS PROVIDED BY LAW

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

Pursuant to Articles 220 and 300d of the Croatian Act on Companies and Article 22 of the Articles of Association of KONČAR D&ST Inc., at the Supervisory Board meeting held on 01 April 2022, the Supervisory Board and the Management Board of the Company have adopted the following

**DECISION
ON APPROVAL OF THE CONSOLIDATED
ANNUAL FINANCIAL STATEMENTS FOR 2021**

The Supervisory Board and the Management Board of Končar-D&ST Inc. have jointly adopted the Consolidated Annual Financial Statements for 2021.

Explanation

The Management Board of the Company has submitted to the Supervisory Board for approval the Consolidated Financial Statements for 2021.
The Supervisory Board has given approval to the Consolidated Financial Statements for 2021, whereby the Supervisory Board and the Management Board have jointly adopted the Consolidated Annual Financial Statements for 2021 as follows:

	HRK '000
Total income	1,428,705
Total expenses	1,309,056
Profit before taxation	119,649
Corporate income tax	20,307
Profit after taxation	99,342
Total assets	1.021,160

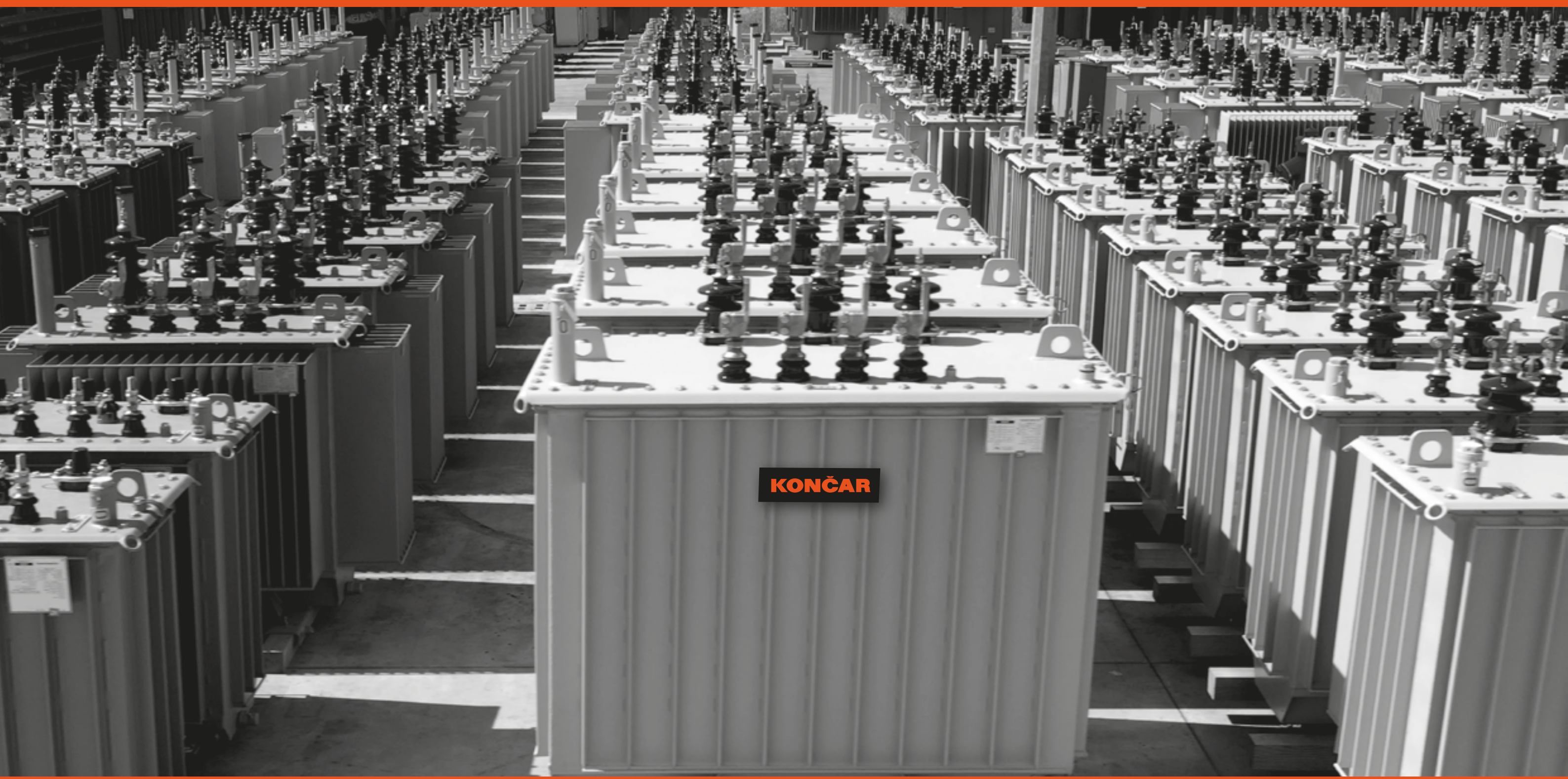
Gordan Kolak
President of the Supervisory Board

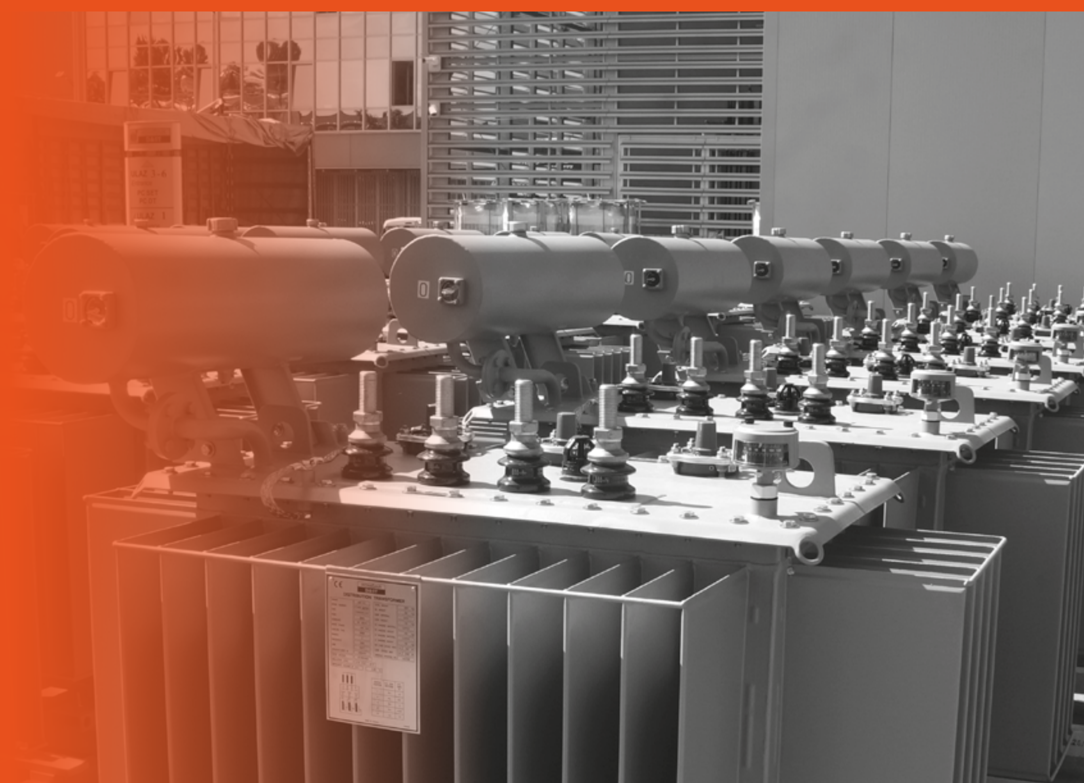
Vanja Burul
President of the Management Board

Zagreb, 01 April 2022

3.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES





Statement of Management's Responsibilities

The Management Board of the company Končar — Distribution and Special Transformers, Inc. (Company) is responsible for preparing financial statements for each business year with a true and accurate presentation of the financial standing of the Company and its affiliates (together, the Group), their business results, and cash flows, in conformity with the accounting standards in effect and, at all times, it must also duly maintain accounting records required for drawing up financial statements. The Management Board holds the general responsibility for taking any and all available measures to preserve assets of the Group and to prevent and identify fraud and other irregularities.

The Management Board is responsible for:
- selecting appropriate accounting policies in accordance with the accounting standards in effect and for their consistent application,
- adopting reasonable and prudent decisions and assessments, and
- drawing up unconsolidated financial statements based on the going concern principle, unless the assumption that the Group will continue in business is inappropriate.

Having conducted research activities, the Management Board reasonably expects the Group to be in possession of adequate means to continue in business in the foreseeable future. Therefore, the Management Board continues to accepts the going concern principle in drawing up its financial statements.

The Management Board is also responsible for the preparation and content of the Report of the Management Board and the Corporate Governance Code Statement, in accordance with the Croatian Accountancy Act, and for the preparation and publication of financial statements in electronic form, drawn up in accordance with the ESEF Regulation (ESEF Financial Statements).

The Report of the Management Board, Corporate Governance Code Statement, unconsolidated ESEF Financial Statements, and the attached unconsolidated financial statements comprise the Annual Report of the Group; they were approved and signed by the Management Board on 28 April 2022 for submission to the Supervisory Board.

Vanja Burul, Management Board President

Petar Vlaić, Member

Petar Bobek, Member

Martina Mikulić, Member

Dominik Trstoglavec, Member

KONČAR Distributivni i specijalni transformatori d.d. Zagreb

Končar - Distributivni i specijalni transformatori d.d.
Josipa Mokrovića 8
10 090 Zagreb

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Končar – Distribution and Special Transformers Inc. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2021, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

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

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

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Revenue recognition</th></tr>
<tr><td colspan="2">Revenue from customer contracts for the sale of transformers recognized in profit or loss in 2021 amounts to HRK 1,424,351 thousand (2020.: HRK 1,082,359 thousand). Please refer to the notes: Significant accounting policies 2e) Revenue recognition, Key accounting estimates 3a) Revenue recognition and note 4 Revenue in the financial statements.</td></tr>
<tr><th>Key audit matter</th><th>How we addressed the matter</th></tr>
<tr><td>The Group's core activities include manufacturing and sales of distribution and special transformers.

The applicable financial reporting standard governing the accounting for revenues, IFRS 15 Revenue from Contracts with Customers, requires management to exercise judgement identifying all goods or services provided to customers and determine whether to account for each such good or service as a separate performance obligation. Given the nature of contracts with customers, this also entails consideration of whether there is a significant financing component or a separate performance obligation such as an extended warranty included in the contract.

As discussed in note 2 e), revenue is recognised at a point in time when the performance obligation relevant to the contract is executed and when control over the products and transfers to the customer which is typically upon delivery to the customer. In addition, in relation to its contracts with customers, the Group typically receives advance payments which it accounts for as contract liabilities.

Due to the above factors, accounting for revenues requires management to exercise significant judgment and making complex estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.</td><td>Our procedures performed in this area included:

• Evaluating the design and implementation of selected controls over the revenue cycle and evaluating the controls within the information technology (IT) systems that support the recording of revenue;
• Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the revenue standard;
• For a sample of contracts or contract equivalents with key customers in force during the reporting period:
- challenging the Group's identification of performance obligations included therein;
- critically assessing the Group's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations;
- based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents with particular attention paid to cut-off procedures over amounts recognised at or around the reporting date;
• For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Group's accounting records, and inspecting the underlying documentation;
• Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items.
• Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for customer contracts.</td></tr>
</table>

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

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

Key Audit Matters (continued)

Warranty provisions

Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2021 amounted to HRK 95,189 thousand (31 December 2020.: HRK 112,730 thousand). Please refer to the notes: Significant accounting policies 2s) Provisions, Key accounting estimates 3b) Warranty provisions and note 23 Provisions in the financial statements.

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

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

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22of the Accounting Act.

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the 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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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 20 May 2021 to audit the consolidated financial statements of Končar – Distribution and Special Transformers Inc. for the year ended 31 December 2021. Our total uninterrupted period of engagement is two years, covering the years ending 31 December 2021 and 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 1 April 2022;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

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

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the consolidated financial statements, as included in the consolidated annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation of the consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the consolidated financial statements in the applicable xHTML format and their publication;
- the selection and application of appropriate iXBRL tags, using judgment where necessary;
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Group's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the consolidated financial statements included in the consolidated annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error.

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

Report on Compliance with the ESEF Regulation (continued)

Auditors' Responsibilities (continued)

Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process when the assessment of the risks of material misstatement includes an expectation that such internal controls are operating effectively or procedures other than testing controls cannot alone provide sufficient appropriate evidence;
- tracing the tagged data to the consolidated financial statements of the Group presented in human-readable format;
- evaluating the completeness of the Group's tagging of the consolidated financial statements;
- evaluating the appropriateness of the consolidated use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group as at and for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

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

28 April 2022

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

Consolidated Statement Of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		HRK'000	*HRK'000*
Revenue	4	1,424,351	1,164,602
Other operating invome	5	2,867	1,973
Operating income		**1,427,218**	**1,166,575**
Change in inventories of work in progress and finished goods		36.629	59,902
Materials, consumables, goods and services used	6	(1,107,446)	(923,800)
Personnel costs	7	(172,971)	(160,250)
Depreciation and amortisation		(29,749)	(28,125)
Other operating expenses	8	(33,784)	(25,642)
Operating expenses		**(1,307,321)**	**(1,077,915)**
Operating profit		**119,897**	**88,660**
Financial income	9	309	628
Financial expenses	9	(1,735)	(4,935)
Net financial result		**(1,426)**	**(4,307)**
Share of profit from equity accounted investee		1,178	948
Profit before tax		**119,649**	**85,301**
Corporate income tax	10	(20,307)	16,751
PROFIT FOR THE YEAR		**99,342**	**102,052**
Foreign operations - foreign currency differences		245	(2,585)
Other comprehensive income		**245**	**(2,585)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**99,587**	**99,467**
Earnings per share (basic and diluted) in HRK	11	**194.32**	**199.62**

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2021

	Note	31.12.2021	31.12.2020
ASSETS		*HRK'000*	*HRK'000*
Non-current assets			
Intangible assets	12	2,344	1,657
Property, plant and equipment	13	237,095	253,445
Right-of-use assets	14	5,876	5,898
Investment property	15	2,815	2,990
Investments in subsidiary	16	6,730	5,956
Receivables		24	25
Financial assets at FVOCI	17	2,804	2,804
Financial assets at FVTPL	25	543	-
Deferred tax assets		4,908	20,151
		263,139	**292,926**
Current assets			
Inventories	18	435,460	351,216
Trade and other receivables	19	197,372	155,240
Cash and cash equivalents	21	125,189	111,584
		758,021	**618,040**
TOTAL ASSETS		**1,021,160**	**910,966**
EQUITY AND LIABILITIES			
Share capital	22	153,370	153,370
Legal reserves		7,668	7,668
Statutory reserves		177,765	130,515
Other reserves		45,983	45,983
Reserves from exchange rate recalculation		(217)	(462)
Retained earnings		160,278	134,282
- from which profit for the year		99,342	102,052
EQUITY AND RESERVES		**544,847**	**471,356**
Borrowings	24	49,232	55,205
Financial liabilities at FVTPL	25	-	741
Provisions for warranty repairs	23	76,470	92,596
Other reservations	23	16,361	5,901
Dugoročne obveze		**142,063**	**154,443**
Borrrowings	24	13,643	9,603
Financial liabilities at FVTPL	25	2,054	3,420
Trade and other payables	26	187,662	149,257
Contract liabilities	20	112,172	102,753
Provisions for warranty repairs	23	18,719	20,134
Current liabilities		**334,250**	**285,167**
Total liabilities		**476,313**	**439,610**
TOTAL EQUITY AND LIABILITIES		**1,021,160**	**910,966**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		HRK'000	*HRK'000*
Cash flows from operating activities			
Cash proceeds from trade receivables		1,413,107	1,220,991
Cash proceeds from insurance reimbursements		164	564
Cash proceeds from tax returns		37,883	55,111
Cash paid to suppliers		(1,191,634)	(998,413)
Cash paid to employees		(167,932)	(153,561)
Taxes paid		(17,930)	(24,862)
Cash paid for insurance related to reimbursements		(1,850)	(1,941)
Other cash proceeds and payments		(13,849)	(12,344)
Cash from operations		**57,959**	**85,545**
Interest paid		(1,121)	(1,391)
Net cash flows from operating activities		**56,838**	**84,154**
Cash flows from investment activities			
Cash proceeds from sale of non-current tangible and intangible assets		153	12
Cash proceeds from dividend		573	795
Cash proceeds from interest		-	1
Cash expenses for purchase of non-current tangible and intangible assets		(14,751)	(42,424)
Cash outflows for purchase of financial instruments		-	(9,509)
Net cash used in investing activities		**(14,025)**	**(51,125)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	24	5,078	30,268
Repayment of principal portion of loans and borrowings	24	(5,626)	(27,472)
Principal portion of lease payments	24	(843)	(1,401)
Dividends paid		(26,274)	(19,263)
Other cash proceeds and payments		(1,543)	(454)
Net cash used in financing activities		**(29,208)**	**(18,322)**
Net increase/(decrease) in cash and cash equivalents		**13,605**	**14,707**
Cash and cash equivalents at the beginning of the period		111,584	96,877
Cash and cash equivalents at the end of the period	21	**125,189**	**111,584**

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Legal reserves	Statutory reserves	Other reserves	Reserves from exchange rate recalculation	Retained earnings	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
As at 1 January 2020	**153,370**	**6,299**	**101,643**	**45,983**	**2,123**	**81,725**	**391,143**
Profit for the year	-	-	-	-		102,052	**102,052**
Other comprehensive income							
Reserves from exchange rate recalculation	-	-	-	-	(2,585)	-	**(2,585)**
Total comprehensive income	-	-	-	-	(2,585)	**102,052**	**99,467**
Transfers	-	1,369	28,872	-	-	(30,241)	-
Dividend	-	-	-	-	-	**(19,254)**	**(19,254)**
Total transactions with owners	-	**1,369**	**28,872**	-	-	**(49,495)**	**(19,254)**
As at 31. December 2020.	**153,370**	**7,668**	**130,515**	**45,983**	**(462)**	**134,282**	**471,356**
Profit for the year						99,342	**99,342**
Other comprehensive income							
Reserves from exchange rate recalculation	-	-	-	-	245	-	**245**
Total comprehensive income	-	-	-	-	245	**99,342**	**99,587**
Transfers	-	-	47,250	-	-	(47,069)	180
Dividend	-	-	-	-	-	**(26,277)**	**(26,096)**
Total transactions with owners	-	**-**	**47,250**	-	-	**(73,346)**	**(26,096)**
As at 31. December 2021.	**153,370**	**7,668**	**177,765**	**45,983**	**(217)**	**160,278**	**544,847**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

1. General Information about the Company

Končar - Distribution and Special Transformers, Inc., Zagreb, Josipa Mokrovića 8, ("the Company") is a subsidiary of the Končar - Electrical Industry Group („the Group") where the ultimate parent company and the ultimate owner is Končar - Electrical Industry Inc., Zagreb, Fallerovo šetalište 22, and is engaged in design, production, sale and servicing of distribution, special and medium power transformers up to 160 MVA power rating and up to 170 kV voltage.

The Group consists of the Company and its wholly owned subsidiary Power Engineering Transformatory Sp. z.o.o. The principal activity of the subsidiary is the design, production, placement and servicing of medium power transformers up to 63 MVA and voltage up to 145 kV.

The Company also has a 50% interest in Elkakon d.o.o., its equity accounted investee.

As at 31 December 2021, the Group had 750 employees, while as at 31 December 2020, there had been 719 employees in the Group.

Members of the Supervisory Board

- Gordan Kolak, President since 1 July 2020, vice president until 30 June 2020
- Ivan Bahun, Member since 1 July 2020
- Miki Huljić, Member since 1 July 2020
- Josip Ljulj, Member since 1 July 2020
- Ana-Marija Markoč, član - Employee representative

Members of the Management Board

- Vanja Burul, President since 1 April 2021, Member until 31 March 2021
- Ivan Klapan, President until 31 March 2021
- Petar Vlaić, Member
- Martina Mikulić, Member
- Petar Bobek, Member
- Dominik Trstoglavec, Member from 1 April 2021

Remunerations payable to members of the Management Board and Supervisory Board are presented in Notes 8 and 28 to the financial statements.

2. Significant accounting policies

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

Basis of preparation

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

The financial statements have been prepared using the historical cost convention, except where otherwise stated. The financial statements have been prepared under the accrual principle on a going concern basis.

The preparation of financial statements in conformity with the International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgment in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements are denominated in Croatian Kuna (HRK) as the Group's functional and reporting currency.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The Group has prepared these consolidated financial statements in accordance with the Croatian laws. The Company has also prepared separate financial statements in accordance with IFRS, which were approved by the Management Board simultaneously with these consolidated financial statements.

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods ending 31 December 2021 and that have not been early adopted by the Group in the preparation of these financial statements. Management does not expect any of these standards to have a significant impact on the financial statements of the Group.

a) Basis for consolidation

The consolidated financial statements of the Group include the financial statements of the Company and the financial statements of the companies controlled by the 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.

All intra-group transactions, balances and unrealised gains on transactions 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.

b) Investments in associates

Associate 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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 in 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 associate. 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.

c) 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 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.

d) 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 previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

If the total of 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 Group's CGUs, or groups of CGUs, that are 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 goodwill is compared to the recoverable amount, which is the higher of the value in use d the fair value less costs to sell.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

e) Revenue recognition

The Group recognises revenue from:
- Sales of distribution transformers
- Sales of medium power transformers
- Sales of services

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

The promised consideration includes fixed amounts.

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

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

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

Contract assets and liabilities

A contract liability is presented when a customer has paid the consideration and the Group has not transferred goods or services to the customer.

If the Group has transferred goods or services to a customer before the customer pays consideration and the Group's right to consideration is only subject to the passage of time before payment of the consideration is due, the trade receivable is recognised.

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

f) Financial income and expenses

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

g) Taxes

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

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

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

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

h) Segment information

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

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

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

j) 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 Group's shareholders.

k) Foreign currency transactions

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

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

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

The amortisation and depreciation of assets commence when the assets are ready for use, i.e. when the assets are at the required location and in the conditions necessary for use have been met. The amortisation and depreciation of assets cease when the assets are fully amortised or depreciated or classified as held for sale. Amortisation and depreciation are charged so as to write off the cost of each asset, other than land and non-current intangible and tangible assets in preparation, over their estimated useful lives, using the straight-line method.

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

Impairment of property, plant and equipment

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

m) Financial assets and liabilities

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

Classification and measurement of financial assets

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

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

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

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

The expected credit losses are estimated on an individual or a portfolio level in a way that reflects:

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

The consideration paid for the repurchase of the Group's equity share capital, including any directly attributable costs, is deducted from equity and reserves. Repurchased shares are classified as treasury shares and presented as a deduction from total equity and reserves. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury shares is recognised directly in equity and reserves.

Financial liabilities, classification and measurement

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

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

Financial liabilities are classified as financial liabilities at fair value through profit or loss where the financial liability is either held for trading or designated by the Group 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 Group's own credit risk which are recognised in other comprehensive income. The net gain or loss recognised in the income statement includes any interest paid on the financial liability.

Derecognition of financial liabilities

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

n) Inventories

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

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

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

Slow moving and obsolete inventories are written off to their net realisable value by using value adjustment for these inventories due to their aging. Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale. Small inventories, packaging and car tyres are fully (100%) written off when put into use.

o) Receivables

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

p) Cash and cash equivalents

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

q) 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

r) Leases

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

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

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

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

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

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

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

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

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

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Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise printers.

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

Lease activities

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

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

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

There are no future cash outflows which the Group is potentially exposed to that are not reflected in the measurement of the lease liability. The Group does not provide any residual value guarantees.

s) Provisions

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

t) Employee benefits

i. Pension obligations and post-employment benefits

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

ii. Termination benefits

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

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iii. Regular retirement benefits

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

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

u) Contingent assets and liabilities

Contingent liabilities are not recognised in the financial statements. They are only disclosed in the notes to the financial statements, unless the probability of an outflow is insignificant. Contingent assets are not recognised in the Group's financial statements, unless the realisation of income is certain and these assets are not contingent assets and can be recognised.

v) Events after the balance sheet date

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 financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements, if material.

3. Key accounting estimates and judgments

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, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Revenue recognition

The Group recognises revenue at a point in time for delivery of goods since the asset created has an alternative use because it can be sold in the area of the same or similar energy network. Revenue is recognised when a customer obtains control of specific goods, usually when the goods are delivered, when the buyer has full discretionary powers over the goods and when there are no unsatisfied performance obligations that might affect the buyer's acceptance of the goods. Delivery usually occurs when the goods are delivered to the agreed location and the risk of loss is transferred to the buyer and the buyer accepted the goods in accordance with the contractual provisions, or the terms of acceptance of the goods expired or if the Group has objective evidence that all acceptance criteria have been met.

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- Extended warranties

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

- Significant financing component

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

b) Warranty provisions

The Group provides warranties for its products for an average period of 3 - 5 years. In certain cases where warranties extend past this range, the Group analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a general provision for warranty repairs based on historical information and industry statistics of transformer failures, specifically incidence of major transformer failure. Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances. Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of transformers as a result of technical analyses and correspondence with customers. Factors which affect these individual provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs. The Group has identified several contracts where defects have been identified which carry specific significant risks (exposure to extreme climate conditions, non-standard technical complexities) of substantial costs of rectification and/or replacement up to the expiry of these product warranties. Further details are disclosed in note 23 to the financial statements.

c) Provisions for onerous contracts

During the first quarter of 2021, an accelerated rise in prices is recorded in the world market for all strategic materials used in the production of transformers. This growth continued throughout entire 2021. The growth is caused by the imbalances in the world economy after the Covid-19 pandemic, the green transition policy, especially in the EU, which further stimulates demand, and the increase in demand in China. Additional complications were triggered by disorder in supply chains, which hampered the supply of inputs in production and further affected the growth of raw material prices. In order to amortize the negative consequences of these inflationary trends, the Group initiated appropriate activities towards customers. However, a number of contracts with customers signed in earlier periods remained, which did not have a built-in mechanisms for anticipating significant fluctuations in the prices of strategic raw materials through the, so-called, sliding formulas. In some of these contracts, the consent to participate in covering the cost of material growth by the customer was either not obtained or the adjustment achieved was insufficient to make the contracted revenue higher than the projected cost of fulfilling the contract. Recognition of the adverse effects of these contracts as required by IAS 37 is presented in Note 8.

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d) Critical judgments in determining the lease term

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

The management has applied the following judgments:

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

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

4. Revenue

	2021	2020
	HRK'000	*HRK'000*
Type of goods or services		
Sales of distribution transformers	595,604	417,016
Sales of medium power transformers	731,095	665,343
Sales of services	97,652	82,243
Total revenue from contracts with customers	**1,424,351**	**1,164,602**
Geographic areas		
Croatia	180,009	153,149
EU member states	1,077,915	844,673
Bosnia & Herzegovina, Macedonia, Serbia, Montenegro	15,480	29,091
Other European countries	83,617	43,471
Africa	18,442	25,087
Asia	43,557	63,472
Other countries worldwide	5,331	5,659
Total revenue from contracts with customers	**1,424,351**	**1,164,602**
Revenue recognition time:		
At a point in time	1,424,351	1,082,359
Over time	-	82,243
Total revenue from contracts with customers	**1,424,351**	**1,164,602**

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5. Other operating income

	2021	2020
	HRK'000	*HRK'000*
Rental income	208	208
Inventory surplus	231	117
Insurance recoveries	164	488
Discounts and rebates income	689	123
Other income	1,575	1,037
	2,867	**1,973**

6. Materials, consumables, goods and services used

	2021	2020
	HRK'000	*HRK'000*
Raw materials and consumables	945,724	780,971
Transport services	42,781	32,683
External production related services	19,939	16,509
Maintenance and servicing	9,874	12,524
Cost of goods sold	42,570	43,462
Other costs	46,558	37,651
	1,107,446	**923,800**

7. Personnel costs

	2021	2020
	HRK'000	*HRK'000*
Net salaries and wages	105,126	94,550
Taxes and contributions from salaries	43,677	43,489
Contributions on salaries	24,168	22,211
	172,971	**160,250**

In 2021, pension fund contributions amounted to HRK 26,262 thousand (2020: HRK 24,799 thousand).

Personnel costs include HRK 851 thousand of retirement and termination benefits (2020. HRK 829 thousand).

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8. Other costs

	2021	2020
	HRK'000	*HRK'000*
Provisions from onerous contracts	10,725	-
Accrued expenses	199	5,379
Daily allowances and business trip related costs	1,541	1,996
Staff transportation costs	4,878	4,640
Donations, gifts and reimbursements to personnel	5,298	5,306
Intellectual services	1,205	1,181
Entertainment	2,391	1,990
Insurance	2,557	2,800
Bank charges and commissions	3,531	3,455
Premiums and benefits for voluntary pension pillar	1,957	1,974
Professional training costs	1,050	1,001
Other non-production related costs	9,412	5,618
Effects of provisions for risks	(19,001)	(16,964)
Fees payable to Supervisory board members	85	92
Impairment costs of receivables and loans	12	24
Other operating costs	7,944	7,150
	33,784	**25,642**

For details in regards with provisions for harmful contracts, please see Notes 3c) and 23 within these financial statements.

9. Net financial result

	2021	2020
	HRK'000	*HRK'000*
Dividends and share in profits	173	595
Interest and similar income	1	2
Other financial income	135	31
Total financial income	**309**	**628**
Interest and similar expenses	1,312	1,697
Other financial expenses	-	499
Negative exchange rate differences	423	2,739
Total financial expenses	**1,735**	**4,935**
Net financial result	**(1,426)**	**(4,307)**

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10. Corporate income tax

	2021	2020
	HRK'000	*HRK'000*
Current tax	5,064	3,184
Deferred tax	15,243	(19,935)
Income tax expense	**20,307**	**(16,751)**

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

	2021	2020
	HRK'000	*HRK'000*
Accounting profit (before tax)	119,650	85,301
Tax at 18%	21,537	15,354
Adjustments for:		
Non-taxable income	407	272
Non-deductible expenses	(217)	(242)
Temporary differences for which no deferred tax assets were recognizes	338	(2,731)
Change in recognized deferred taxes	205	127
Investment tax credit utilization	-	(9,551)
Effect of tax rates in foreign jurisdictions	(1,751)	126
Share of profit of equity accounted investee	(212)	(171)
Recognition of deferred tax asset on investment tax credit	-	(19,935)
Income tax expense	**20,307**	**(16,751)**
Effective tax rate	16.97%	-19.64%

Investment tax credit

During October 2020, the Group became eligible to receive incentive measures related to its investment project "Expansion of Production Capacity for Transformers" in the amount of HRK 28,114 thousand which is available to the Group for reduction of its future income tax liabilities up to a maximum reduction of the corporate income tax rate by 75% ending by 31 December 2028. Based on the assessment of the recoverability of the tax incentive made by the management, in 2020 the Group recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit. In 2021, HRK 15,192 thousand was utilised for reduction of income tax liability for the current year (31 December 2020: HRK 9,551 thousand).

The Group has not recognized deferred tax assets in the amount of approximately HRK 11.1 million (31 December 2020: HRK 3.8 million) for part of the temporary differences, as it does not expect to realize them in the foreseeable future.

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11. Earnings per share

Basic and diluted earnings per share:

	2021	2020
Net result in HRK thousands	99,342	102,052
Total and weighted average number of shares	511,232	511,232
Earnings per share	**194.32**	**199.62**

In previous years, declared dividends for ordinary and preference shares were the same. The Group does not hold any treasury shares. Diluted earnings per share for 2021 and 2020 are equal to basic earnings per share, since the Group did not have any convertible instruments or share options outstanding during either period.

12. Non-current intangible assets

	Licenses, software and other rights	Assets under construction	Total
	HRK'000	*HRK'000*	*HRK'000*
Cost			
At 1 January 2020	**14,066**	-	**14,066**
Additions	22	368	**390**
Transfer	338	(338)	-
Disposals and write offs	(222)	-	(222)
As at 31 December 2020	**14,204**	30	**14,234**
Additions	-	1,483	**1,483**
Transfer	1,513	(1,513)	-
Disposals and write offs	-	-	**-**
As at 31 December 2021	**15,717**	**-**	**15,717**
Accumulated amortization			
At 1 January 2020	**10,843**	-	**10,843**
Charge for the year	1,956	-	**1,956**
Disposal and write offs	(222)	-	**(222)**
As at 31 December 2020	**12,577**	-	**12,577**
Charge for the year	796	-	**796**
Disposals and write offs	-	-	**-**
As at 31 December 2021	**13,373**	-	**13,373**
Carrying amount			
As at 31 December 2020	1,627	30	**1,657**
As at 31 December 2021	**2,344**	**-**	**2,344**

The cost of intangible assets fully amortised and still in use as at 31 December 2021 amounts to HRK 8,678 thousand (31 December 2020: HRK 5,813 thousand).

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13. Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and furniture	Assets under construction and advances	Total
Cost	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
At 1 January 2020	**18,947**	**203,000**	**234,838**	**33,175**	**13,341**	**503,301**
Additions	-	-	75	116	34,213	**34,404**
Transfers	-	10,396	23,172	2,495	(36,063)	-
Disposals and write offs	-	-	(668)	(374)	-	**(1,042)**
Exchange rate difference	(111)	(421)	(471)	(44)	(150)	**(1,197)**
As at 31 December 2020	**18,836**	**212,975**	**256,946**	**35,368**	**11,341**	**535,466**
Additions	0	-	30	51	12,896	**12,977**
Transfers	0	3,178	15,370	758	(19,306)	**-**
Disposals and write offs	0	-	(2,553)	(638)	(593)	**(3,784)**
Exchange rate difference	(52)	69	176	(280)	(36)	**(124)**
As at 31 December 2021	**18,784**	**216,222**	**269,968**	**35,259**	**4,303**	**544,537**
Accumulated depreciation						
At 1 January 2020	36	**85,670**	**150,004**	**21,973**	-	**257,683**
Charge for the year	-	8,360	14,083	2,916	-	**25,359**
Disposals and write offs	-	-	(649)	(372)	-	**(1,021)**
As at 31 December 2020	36	**94,030**	**163,438**	**24,517**	-	**282,021**
Charge for the year	-	8,883	16,257	2,776	-	**27,915**
Disposals and write offs	-	-	(1,859)	(636)	-	**(2,495)**
As at 31 December 2021	36	**102,913**	**177,836**	**26,657**	-	**307,442**
Carrying amount						
As at 31 December 2020	18,800	118,945	93,508	10,851	11,341	253,445
As at 31 December 2021	**18.748**	**113.309**	**92.133**	**8.602**	**4.303**	**237.095**

As at 31 December 2021, the net book amount of mortgaged properties amounts to HRK 119,416 thousand (31 December 2020: HRK 130,711 thousand). Mortgages have been registered over these properties in the total amount of EUR 45 million, and there is a pledge of EUR 8 million on movable assets with a net carrying amount of HRK 30 million (note 24).

The cost of fully depreciated tangible assets still in use as at 31 December 2021 amounts to HRK 149,593 thousand (31 December 2020: HRK 98,414 thousand). As at 31 December 2021 total advances for property, plant and equipment amounted to HRK thousand (31 December 2020: HRK 6,857 thousand).

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14. Right-of-use assets

Right-of-use assets relate to the following:

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Plant and equipment	2,323	2,522
Buildings	2,309	2,476
Transport vehicles	1,244	900
	5,876	**5,898**

The movement during the year is shown below:

	2021	2020
	HRK'000	*HRK'000*
As at 1 January	5,898	3,480
Increase - new leases	1,056	3,203
Decrease - termination of leases	(119)	-
Depreciation	(863)	(635)
Exchange rate difference	(96)	(150)
As at 31 December	**5,876**	**5,898**

15. Investment property

	Total
	HRK'000
Cost	
At 1 January 2020	**3,500**
Additions	-
As at 31 December 2020	**3,500**
Additions	-
As at 31 December 2021	**3,500**
Accumulated depreciation	
At 1 January 2020	**335**
Charge for the year	175
As at 31 December 2020	**510**
Charge for the year	175
As at 31 December 2021	**685**
Carrying amount	
As at 31 December 2020	2,990
As at 31 December 2021	**2,815**

The Group owns certain business premises for which the market value is estimated at around HRK 3.5 - 4.5 million.

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16. Investments in associates (equity-accounted investees)

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Equity accounted investment		
Elkakon d.o.o., Zagreb (50% share)	6,730	5,956
	6,730	**5,956**

The Group holds a 50% ownership share in Elkakon d.o.o., company engaged in the production of industrial conductors and a strategic and associate of the Company. The relevant financial information with respect to the equity-accounted investee is as follows:

	Elkakon d.o.o	
	2021	2020
	HRK'000	*HRK'000*
Income	104,898	95,644
Expenses	102,004	93,333
Profit before tax	2,894	2,311
Corporate income tax	(537)	(427)
Profit after tax	**2,357**	**1,884**
Non-current assets	8,265	8,587
Current assets	16,329	15,729
Total assets	**24,594**	**24,316**
Total liabilities	**11,135**	**12,414**

Changes in the investment in the equity-accounted investee during the year were as follows:

	Elkakon d.o.o
	HRK'000
1 January 2020	**5,222**
Profit of the associate (50% share)	948
Profit correction	(14)
Dividend payment by the associate	(200)
31 December 2020	**5,956**
Profit of the associate (50% share)	1,179
Profit correction	(5)
Dividend payment by the associate	(400)
31 December 2021	**6,730**

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17. Financial assets at FVOCI

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Unqouted equity instruments	2,765	2,765
Other financial assets at FVOCI	39	39
	2,804	**2,804**

Fair value measurement

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

18. Inventories

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Raw materials and consumables	159,459	117,912
Production work-in-progress	192,356	142,921
Finished products	67,191	79,373
Merchandise	386	-
Advances and similar	16,068	11,010
	435,460	**351,216**

19. Trade and other receivables

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Receivables from foreign customers	159,113	101,546
Receivables from domestic customers	18,501	47,024
Other receivables	785	963
VAT receivable	12,618	4,498
Prepayments	6,355	1,209
	197,372	**155,240**

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

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Not yet due	151,868	135,514
< 60 days	25,009	12,442
60-90 days	55	309
90-180 days	498	6
180-365 days	13	292
> 365 days	171	7
	177,614	**148,570**

Maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above. The following table explains the changes in the expected credit loss for trade receivables between the beginning and the end of the period:

	2021	2020
	HRK'000	*HRK'000*
As at 1 January	495	735
Net change in ECLs	10	52
Recovered bad debts	0	(17)
Written-off	(193)	(282)
Effect of change in foreign exchange rate	(3)	7
As at 31 December	**309**	**495**

20. Contract liabilities

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Contract liabilities - advances received from customers	112,172	102,753
Total contract liabilities	**112,172**	**102,753**

Advances received from customers relate to contracts with customers totalling HRK 569,022 thousand (31 December 2020: HRK 413,870thousand) to be fulfilled in the following reporting period.

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21. Cash and cash equivalents

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Cash in bank	125,189	111,584
	125,189	**111,584**

Disclosures related to credit risk are presented in Note 29 - Risk management.

22. Equity and reserves

Share capital is determined in the nominal amount of HRK 153,370 thousand (31 December 2020: HRK 153,370 thousand). The ownership structure of the Company was as follows:

	31 December 2021		31 December 2020	
Shareholder	*No of shares*	*Ownership share %*	*No of shares*	*Ownership share %*
Končar - Electrical Industry Inc.	269.596	52,73	269.596	52,73
AZ Mandatory Pension Fund B class	27.100	5,3	27.100	5,3
Floričić Kristijan	19.832	3,88	19.832	3,88
Knežević Nikola (1/1)	16.004	3,13	16.004	3,13
Berkopić Dražen (1/1)	10.263	2,01	9.337	1,83
Levačić Juraj (1/1)	8.255	1,61	8.255	1,61
Radić Antun (1/1)	7.886	1,54	7.886	1,54
AZ Mandatory Pension Fund A class	6.304	1,23	6.704	1,31
Other	145.992	28,56	146.518	28,66
	511.232	**100,00**	**511.232**	**100,00**

As at 31 December 2021 and 2020, the Company's share capital consists of 388,376 ordinary shares and 122,856 preference shares comprising a total of 511,232 shares with the nominal value of HRK 300 per share. Dividend per share paid to the Company's shareholders in 2021 amounted to HRK 51.40 (2020: HRK 37.66 per share) and totalled HRK 26,277 thousand (2020: HRK 19,253 thousand).

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

23. Provisions

	Warranty repairs	Jubilee awards and retirement benefits	Provisions for onerous contracts	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
As at 1 January 2020	**129,719**	**5,968**	**-**	**135,687**
Increase	9,355	200	-	9,555
Release	(26,319)	-	-	(26,319)
Exchange rate fluctuations	(3)	(115)	-	-118
Used throughout the year	(22)	(152)	-	-174
As at 31 December 2020	**112,730**	**5,901**	**-**	**118,631**
Increase	12,691	150	10,725	23,566
Release	(29,950)	(420)	-	(30,370)
Exchange rate fluctuations	1	5	-	5
Used throughout the year	(283)	0	-	(283)
As at 31 December 2021	**95,189**	**5,636**	**10,725**	**111,549**
of which:				
- non-current	76,470	5,636	10,725	92,831
- current	18,719			18,718

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate and include general and specific provisions. General provisions are based on estimates and experience of the Group and other transformer producers. The Group generally issues warranties for a period of 3 to 5 years for each transformer sold. Based on historical data regarding expenses for warranty repairs and industry statistics on transformer failure incidence rates, Management assesses and recognises a general provision for warranty repairs. The value of general provisions amounts to HRK 65.8 million (2020: HRK 53.4 million) and they increased as a result of increase in revenues and in the number of transformers delivered to customers during 2021

In addition, Management recognised individual provisions related to specific customer contracts and related products where it has identified specific quality issues with regard to transformers sold which amount to HRK 28,9 million (2020: HRK 58,9 million). The provisions are related to several contracts for sales of products in geographies where the Company identified specific risks arising from atypical defects related to extreme climate exposures and technical complexities which are considered non-standard. The Company has formed this provision based on the expected cost of rectification of these defects and/or replacement of transformers. For several contracts, recognised as individual provisions, the warranty periods expired during 2021 and the did not result in significant repair costs. Consequently, the Company cancelled a total of HRK 29.9 million of individual provisions. The remaining amount of the provision relates to contracts with two customers. For two mentioned customers the assessment of these risks has not changed and the warranty periods are still ongoing.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Provisions for onerous contracts

During the year there were no significant repair costs due to restrictions in traveling and transport affected by the COVID pandemic. In order to minimise deficiencies, the Group initiated appropriate activities towards customers through negotiations and continuing communication.

During 2021 there was a sharp and significant increase in prices for almost every raw material used in transformers production. In some contracts with customers, the estimated value of contract costs exceed contractual revenues and for these contracts an onerous contract provision was recognised in accordance with IAS 37, amounting to HRK 10,725 thousand (for further information refer to note 3 c)). These inflationary trends continued in early 2022 and were additionally emphasized by the war in Ukraine. The Company initiated activities to manage these risks as efficiently as possible.

Provisions for long-term employee benefits

The long-term portion of the provisions for termination benefits and jubilee awards in the amount of HRK 5,507 thousand (2020: HRK 5,901 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which Group employees are entitled at the end of their employment (either upon retirement or meeting the conditions for obtaining jubilee awards). The present value of these provisions is calculated based on the number of employees, number of years of service at the Group and the statistics of paid termination benefits in the 4 years preceding the balance sheet date and the discount rate of 0.6% (2020: 0,7%).

24. Borrowings

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Non-current borrowings		
Leases	2,250	562
Bank loans	46,982	54,643
	49,232	**55,205**
Current borrowings		
Leases	1,087	2,962
Bank loans	12,556	5,653
Other borrowings	-	988
	13,643	**9,603**
Total borrowings	**62,875**	**64,808**

Long term bank borrowings relate to a loan granted in April 2019 in the amount of EUR 8,000,000 with a fixed interest rate of 1.85% p.a. to finance the purchase of a property in Jankomir, procurement of new equipment and reconstruction of the property within the scope of the "Distribution Transformer Production Capacity Increase" project. Security instruments are 2 blank bills of exchange with related B/E statement, 1 ordinary debenture of EUR 8,000,000, pledge over Company property and movables based on the Security Agreement amounting to EUR 30,000,000 and EUR 8,000,000 respectively.

Notes to the Consolidated Financial Statements

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

	Loans	Leases	Other borrowings	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
As at 1 January 2020	**54,889**	**1,995**	**4,342**	**61,226**
Cash receipts (borrowed)	30,268	-	-	**30,268**
Cash outflows (repaid)	(25,561)	(1,401)	(1,911)	**(28,873)**
Other non-monetary transactions	-	2,850	(1,568)	**1,282**
Foreign exchange rate changes	700	80	125	**905**
As at 31 December 2020	**60,296**	**3,524**	**988**	**64,808**
Cash receipts (borrowed)	5,078	-	-	**5,078**
Cash outflows (repaid)	(5,626)	(843)	-	**(6,469)**
Other non-monetary transactions	-	721	(988)	**(267)**
Foreign exchange rate changes	(210)	(65)		**(275)**
As at 31 December 2021	**59,538**	**3,337**	**-**	**62,875**

Non-current liabilities to banks mature as follows:

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
up to 1 year	12,556	5,653
1 - 2 years	7,517	7,537
2 - 3 years	7,517	7,537
3 - 4 years	7,517	7,537
4 - 5 years	7,517	7,537
over 5 years	16,914	24,495
	59,538	**60,296**

Notes to the Consolidated Financial Statements

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25. Financial instruments at FVTPL

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Derivative instruments - currency forwards	543	-
Financial assets at FVTPL	**543**	**-**
Derivative instruments - currency forwards	2,054	4,161
Financial liabilities at FVTPL	**2,054**	**4,161**
of which:		
- non-current	-	741
- current	2,054	3,420

During the year, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies (SEK primarily). The nominal value of currency forwards as at the reporting date amounted to HRK 130,553 thousand, with the contracts maturing in the period from 2022 to 2023. Gains and losses recognized as changes in the market value of the currency forward contracts are recorded in the statement of comprehensive income within 'Net financial result'.

26. Trade payables

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Payables to domestic suppliers	29,676	30,040
Payables to foreign suppliers	98,402	70,747
Payables to employees	6,421	6,195
Deferred income	6,677	1,411
Liabilities for share in profits	140	137
Interest payable	263	280
Other taxes, contributions and fees payable	7,404	7,680
Unused holiday	4,869	4,581
Other accrued costs	26,773	21,262
Other liabilities	7,037	6,924
	187,662	**149,257**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

27. Off-balance-sheet items

Off-balance sheet items as at 31 December 2021 include the following: joint guarantees issued on behalf of the PET subsidiary to banks and customers in the amount of HRK 31,994 thousand and guarantees issued on behalf of related parties in the amount of HRK 18,102 thousand.

Balance of the Group's transactions concluded (order book) based on active projects as of 31 December 2021 amounts to HRK 1,316 million (31 December 2020: HRK 848.8 million).

28. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party's operations. The Group's principal activity includes performing related party activities, including the purchase and sale of goods and services. The nature of services with related parties is based on arm's length conditions. In addition to sister companies within the Končar Group and the associates, the Group's related parties are the Company's Management Board and Supervisory Board. During 2021, the Group engaged in transactions with its related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows.

2021	Operating activities				
Related party:	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Končar Group companies:	10,570	2,686	830	31,856	19,855
Končar - Electrical Industry, Inc.	-	1,972	-	-	8,443
Associates	2,999	-	-	42,488	55,342
	13,569	**4,658**	**830**	**74,344**	**83,640**

During 2020, the Group engaged in transactions with related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows:

2020	Operating activities				
Related party:	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Končar Group companies:	9,494	1,193	81	34,100	22,305
Končar - Electrical Industry, Inc.	-	1,650	-	-	7,238
Associates	1,563	-	-	44,116	56,044
	11,057	**2,843**	**81**	**78,216**	**85,587**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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

Key management renumerations

During 2021 total remuneration of HRK 6,839 tousand (fixed and variable) was paid to Management Board of the Group (31 December 2020: HRK 6,465 thousand) which include HRK 2,951 thousand of variable remuneration for 2020 (in 2020 a total of HRK 2,968 thousand of variable consideration was paid relating to 2019). Accrued variable Management remuneration as at the reporting date amounts to 3,500 thousand (31 December 2020: HRK 3,090 thousand). Management Board has five members (2020.: 5 members). During 2021 Management Board of subsidiary Power Engineering Transformatory Sp. z.o.o. received total remuneration of HRK 567 thousand (2020: HRK 674 thousand). Management Board of subsidiary has three members (2020: 3 members).

29. Risk management

Capital risk management

Financial leverage ratio

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Debt (current and non-current) = D	(62,875)	(64,808)
Cash and cash equivalents	125,189	111,584
Net cash / (debt)	62,314	46,776
Equity = E	(544,847)	(471,356)
Financial leverage ratio = D/(D+E)	10.35%	12.09%

Financial risk management

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

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FOR THE YEAR ENDED 31 DECEMBER 2021

	FV hierarchy	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*	*HRK'000*
Equity instruments at FVOSD	Level 3	2,765	**2,765**
Other financial assets at FVOSD	Level 3	39	**39**
Total financial assets at FVOSD		**2,804**	**2,804**
Derivative instruments	Level 2	543	**-**
Total financial assets at FVTPL		543	**-**
Trade receivables	n/a	177,614	**148,570**
Cash and cash equivalents	n/a	125,189	**111,584**
Total financial assets at amortised cost		**302,803**	**260,154**
Total financial assets		**306,150**	**262,958**
Leases payable	n/a	3,337	**3,524**
Loans payable	n/a	59,538	**60,296**
Trade payables	n/a	128,078	**100,787**
Total financial liabilities at amortised cost		**190,953**	**164,607**
Derivative instruments	Level 2	2,054	**4,161**
Total financial liabilities at FVTPL		**2,054**	**4,161**
Total financial liabilities		**193,007**	**168,768**

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A) Fair value of financial assets and liabilities

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

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

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

Derivative financial instruments

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

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

Receivables and bank deposits

For assets that mature within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the contracted interest rates do not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Borrowings

Fair value of current liabilities approximates their carrying value due to the short maturities of these instruments. The Management Board believes that their fair value is not materially different from their carrying value.

Other financial instruments

The financial instruments not carried at fair value are trade receivables, other receivables, trade payables and other current liabilities. The historical carrying value of receivables and liabilities, including provisions that are in line with the usual terms of business is approximately equal to their fair value.

B) Financial instrument risks

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

1. Market risk

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

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

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a) Foreign currency risk and cash flow hedge accounting

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

The Group is exposed to this risk through sales, purchase and loans stated in a foreign currency which is not the Group's functional currency. Foreign currencies primarily exposed to such risks are EUR and SEK. The Group is, therefore, exposed to the risk that movements in exchange rates will affect both its net income and financial position, as expressed in HRK. The Group hedges against currency risk through forward contracts with commercial banks with respect to all foreign currencies apart from EUR which is not considered a currency of significant risk due to the domestic monetary policy of pegging the HRK exchange rate to the EUR.

	Spot exchange rate		Spot exchange rate	
	31.12.2021.	31.12.2020.	2021.	2020.
	HRK	*HRK*	*HRK*	*HRK*
EUR	7.51717	7.53690	7.52418	7.53308
SEK	0.73219	0.75068	0.74160	0.71852

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

	Denominated in EUR		Denominated in SEK	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Trade receivable	126,272	73,580	14,579	19,063
Cash and cash equivalents	93,095	73,517	1,571	5,939
Leases payable	(184)	(4,088)	-	-
Loans payable	(54,499)	(60,296)	-	-
Trade payables	(86,373)	(67,046)	(2,468)	(2,647)
Derivatives	(2,273)	(4,161)	-	-
	76,038	**11,506**	**13,682**	**22,355**
Effect of 1% change in exchange rates on profit	**760**	**115**	**137**	**224**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

b) Interest rate risk

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

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Bank loans based on fixed interest rates	59,538	61,284
Leases based on fixed interest rates	3,337	962
Leases based on variable interest rates	-	2,562
	62,875	**64,808**

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

2) Credit risk

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

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

Total exposure to credit risk at the reporting date is as follows is set out in note 24 to the financial statements. The Group does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at the reporting dates.

3) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or that it will face difficulties in meeting these obligations. Liquidity risk management is the responsibility of the Management Board, which has built a quality frame for monitoring short-, middle- and long-term financing and all liquidity risk requirements. The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow comparing it with the maturity of financial assets and liabilities.

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The following table presents the maturity of financial liabilities of the Group as at 31 December 2021 in accordance with contracted undiscounted payments:

as at 31 December 2021	Net book value	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non interest bearing liabilities:						
Trade payables	**128,079**	**128,079**	128,079	-	-	-
	128,079	**128,079**	**128,079**	-	-	-
Interest bearing liabilities:						
Leases payable	**3,337**	**3,421**	1,106	1,842	473	-
Loans payable	**59,538**	**63,626**	13,788	8,343	24,187	17,308
	62,875	**67,047**	**14,894**	**10,185**	**24,660**	**17,308**
	190,954	**195,126**	**142,973**	**10,185**	**24,660**	**17,308**

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

as at 31 December 2020	Net book value	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non interest bearing liabilities:						
Trade payables	**100,787**	**100,787**	100,787	-	-	-
	100,787	**100,787**	**100,787**	-	-	-
Interest bearing liabilities:						
Leases payable	**3,524**	**3,579**	907	1,078	1,594	-
Other payables	**988**	**1,019**	1,019	-	-	-
Loans payable:	**60,296**	**61,410**	5,758	7,676	23,028	24,948
	64,808	**66,008**	**7,684**	**8,754**	**24,622**	**24,948**
	165,595	**166,795**	**108,471**	**8,754**	**24,622**	**24,948**

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Tradition. Knowledge. Responsibility.

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