Tradition. Knowledge. Responsibility.

Annual Report

2021

KONČAR D&ST

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

Annual Report

2021

Končar Distribution and Special Transformers, Inc.

Končar D&ST, Zagreb, Croatia

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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

In addition to the difficulties provoked 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 1,377 million (in 2020, HRK 1,091 million), an annual increase of 26%. Exports in the amount of HRK 1,197 million (in 2020, HRK 938 million) accounted for 87% of sales, up 28% compared to the previous year.

Profit before tax in 2021 in the amount of HRK 108.7 million (net HRK 88.4 million) increased by 44% compared to profit before tax in 2020 of HRK 75.3 million (net profit HRK 92.1 million).

Total contract value at the end of 2021 was HRK 1,307 million, which is an increase of 54% compared to the end of 2020 (HRK 849 million).

A total of HRK 19.3 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 39.7 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 secured additional resources to support the company PET, Poland, in order to make it fit for market business conditions as soon as possible.

In 2021, the number of employees increased by 27 to a total of 678. 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 Končar D&ST and the rise in its production volume.

Končar D&ST operates in compliance with internationally recognised standards and requirements for corporate socially responsibility. Quality management systems under ISO 9001:2015, environmental management under ISO 14001:2015, and occupational health and safety under ISO 45001:2018 were successfully maintained and certified within the ongoing improvements process.

In 2021, ordinary and preferred shares of Končar D&ST were listed and traded on the Regular Market of the Zagreb Stock Exchange. At the end of 2020, the price of ordinary shares of Končar D&ST was HRK 1,380, rising to HRK 2,260 at the end of 2021, an increase of 64%.

In view of the COVID-19 pandemic and the demanding conditions on the transformer market, the overall business results of Končar D&ST 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 Company for 2021.

For Končar D&ST d.d. Management Board

Vanja Burul
Board President

2. Major 2021 Figures Compared to 2020, 2019 and 2018

	INDEX 2021/2020
Net profit*	96.0
Sales	126.2
Exports	127.6
Balance of orders at the year's end	153.9

	2021	2020	2019	2018	2021	2020	21/20
	HRK ('000)				EUR ('000)		index
Sales							
Croatia	180,446	153,149	128,210	154,879	23,982	20,330	117.8
Exports	1,196,631	937,612	902,665	763,105	159,038	124,466	127.6
Total*	1,377,077	1,090,761	1,030,875	917,984	183,020	144,796	126.2
State of orders at year's end							
Croatia	73,435	23,604	32,279	23,720	9,760	3,133	311.1
Exports	1,233,068	825,146	658,464	582,428	163,880	109,536	149.4
Total	1,306,503	848,750	690,743	606,148	173,640	112,669	153.9
Annual sales per employee	2,077	1,707	1,684	1,622	276	227	121.7
Investments	19,253	39,671	92,142	11,767	2,559	5,266	48.5
EBITDA	137,220	103,545	87,305	73,824	18,237	13,745	132.5
Net profit*	88,437	92,091	59,695	49,182	11,754	12,225	96.0
Dividend HRK/share							
Ordinary	**	51.40	37.66	32.54			
Preferred	**	51.40	37.66	32.54			
Net profit/sales in %	6.4%	8.4%	5.8%	5.4			
Net profit per total equity	23.0%	27.3%	19.4%	17.9%			
Total equity and reserves on 31 Dec.	521,679	459,520	386,682	323,930	69,333	61,000	113.5
No. of employees							
Average	663	639	612	566			103.8
On 31 Dec.	678	651	623	586			104.1

Note: Average exchange rate

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

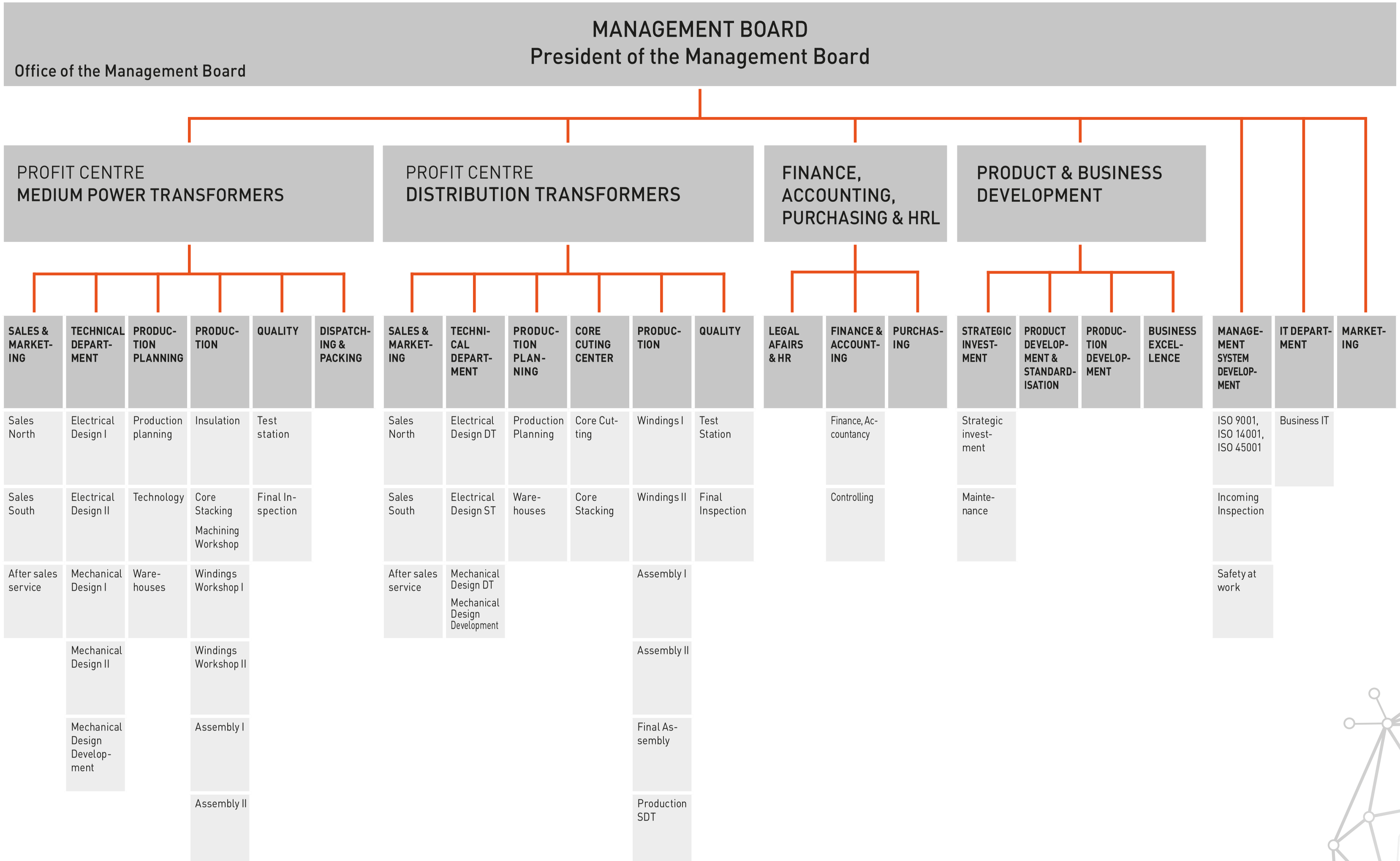
* Net profit in 2021 includes one-time cancellation of reservations (HRK 6.8 million) and the effect of revocation of deferred tax asset or tax liability (HRK 15.2 million).
Net profit in 2020 includes one-time cancellation of reservations (HRK 17 million) and recognition of deferred tax income (HRK 18.5 million).
** Dividend amount will be known after the ordinary General Assembly.

3. Organisation Scheme Končar D&ST Inc. in 2021

Auditors
KPMG Croatia d.o.o. za reviziju

Supervisory Board

Gordan Kolak, President
Ivan Bahun, Member
Josip Ljulj, Member
Miki Huljić, Member
Ana Marija Markoč, Member



4. General Position of the Company

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

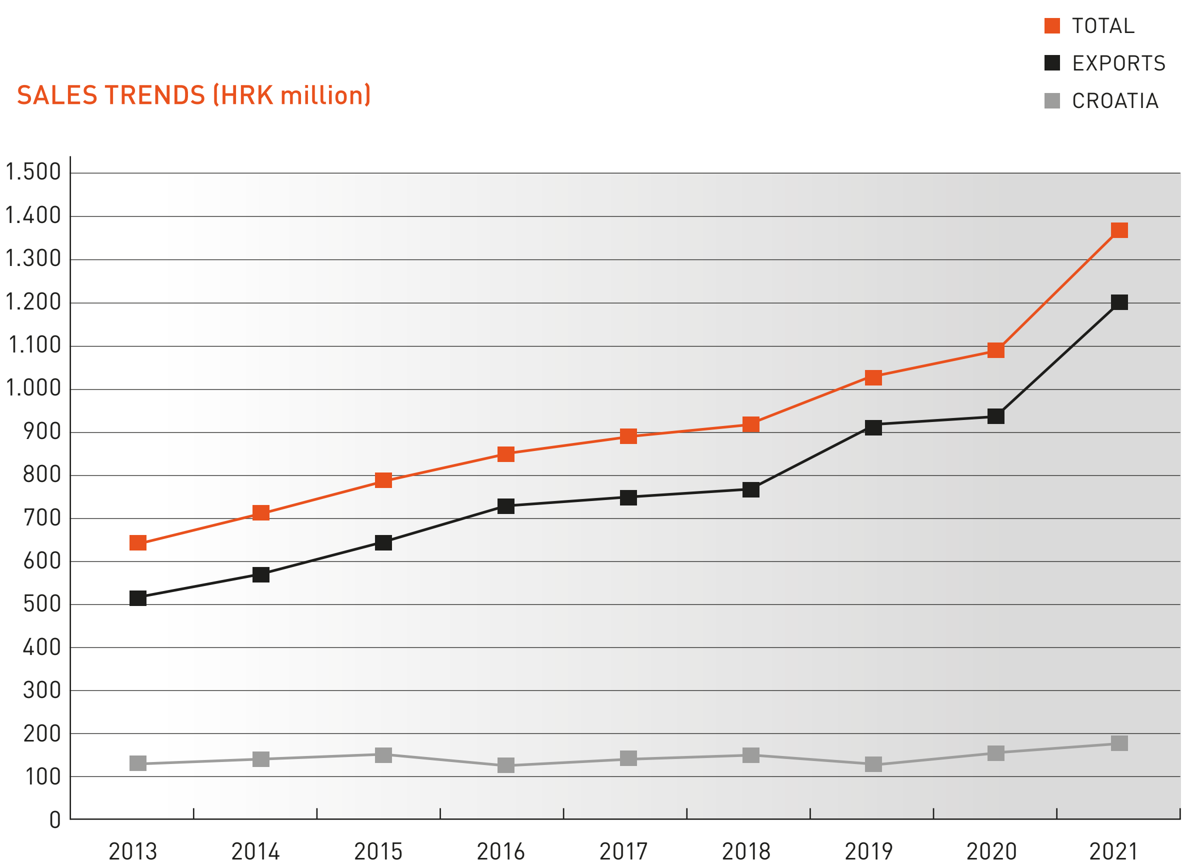
As a result of ongoing organisational adjustments to new external and internal conditions, both in terms of its line of distribution transformers and its line of medium power transformers, Končar D&ST has improved its competitive edge on the market in these challenging times.

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 company 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 company 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.

Our investment in the company Power Engineering Transformatory Sp. z o.o. (PET), Poland, has created yet another opportunity for accessing new markets.

SALES TRENDS (HRK million)



5. Corporate Organisation and Management in 2021

Until 31 March 2021, Končar D&ST 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, Končar D&ST 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

Business processes in 2021 were organised through profit centres entitled Distribution Transformers (DT) Profit Centre and Medium Power Transformers (MPT) Profit Centre, with shared services for the entire company. The profit centres were managed by boards of directors, each consisting of the PC director and directors of sales, technology, and production.

In 2021, Končar D&ST performed its activities at a single location in the Republic of Croatia: Josipa Mokrovića 8, 10090 Zagreb.

On 8 May 2017, Končar D&ST, Inc. acquired a majority share of the company PET Sp. z o.o. in Poland, and raised this share to 100% in May 2020. This company operates at the location: Czerwonak, Gdinjska 83, Poland.

Končar D&ST had a branch office 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.

6. Affiliated Company PET Poland

The company Power Engineering Transformatory Sp. z o.o. Czerwonak (PET) in Poland performs the activities of sale, development, production, and servicing of medium power transformers from 5 to 63 MVA and 145 kV.

The company mostly operates on the Polish market. After completion of the first investment phase to modernise production and testing equipment, further efforts are ongoing to adopt advanced technologies and business organisation. The company has retained its sales volumes and share on the Polish market of medium power transformers, though the sudden rise in the prices of raw and other materials has had a negative impact on its business results.

On 31 December 2021, PET had 72 employees.

7. Implementation of the Corporate Governance Code

Končar D&ST 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.

Končar D&ST 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 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.

In 2021, the Management Board conducted a self-evaluation of its performance and of the profile and competences of individual members of the Management Board. The evaluation was conducted by the President of the Management Board.

The Management Board found that its work is efficient, its composition balanced, and that its members have the knowledge, abilities, experience, and expertise required to run the affairs of Končar D&ST. The Management Board informed the Supervisory Board about the results.

Supervisory Board

Končar D&ST has a supervisory board with five members. Four are elected by shareholders at the Shareholders' Assembly and one is the employee representative in the Supervisory Board. The company secretary is Ms. Dalija Bat.

In 2021, members of the Supervisory Board were:

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

In 2021, the Supervisory Board held 27 sessions, three regular and 24 telephone conferences. All members of the Supervisory Board participated.

The Supervisory Board conducted a self-evaluation of its performance and of the profile and competences of individual members of the Supervisory Board. The evaluation was conducted by the President of the Supervisory Board. External assessors did not participate in the evaluation.

The Supervisory Board found that its work is efficient, its composition balanced, and that its members have the knowledge, abilities, experience, and the expertise required to supervise the affairs of Končar D&ST.

The Supervisory Board set a goal of at least 20% female members of the Supervisory Board and of the Management Board, which can be considered adequate representation as this corresponds to the share of women in the total number of employees in Končar D&ST. In 2021, the percentage of female members of the Management Board and of the Supervisory Board was 20%.

The Supervisory Board appraised the efficiency of co-operation arrangements between the Supervisory Board and the Management Board and the adequacy of support and information received from the Management Board.

The Supervisory Board found that this co-operation was successful and that the Management Board delivered timely and full information and provided adequate support to the work of the Supervisory Board.

Supervisory Board Committees

There are three committees operating within the Supervisory Board: Review Committee, Receipts Committee, and Appointments Committee. Each committee has three members.

Review Committee

Members of the Review Committee are:

Miki Huljić - President
Gordan Kolak - Member
Ivan Bahun - Member

In 2021, the Review Committee held a session on 26 March 2021, attended by all its members.

Receipts Committee

Members of the Receipts Committee are:

Josip Ljulj - President
Božidar Poldrugač - Member
Josip Lasić - Member

In 2021, the Receipts Committee held a session on 26 March 2021, attended by all its members.

Appointments Committee

Members of the Appointments Committee are:

Gordan Kolak - President
Ivan Bahun - Member
Božidar Poldrugač - Member

In 2021, the Appointments Committee held no sessions.

8. 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 since mid-year, customers on our main markets, EU markets, moved to distribution transformers with reduced losses 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 Končar D&ST 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 26% growth in comparison to 2020, to HRK 1,377 million.

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

- distribution transformers: 40% growth
- medium power transformers: 15% growth
- dry and special transformers: 62% growth
- other goods and services: 23% growth.

In relation to the previous year, 27% more transformers were delivered expressed in MVA and 21% more expressed in total weight.

Sales by main markets was as follows:

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

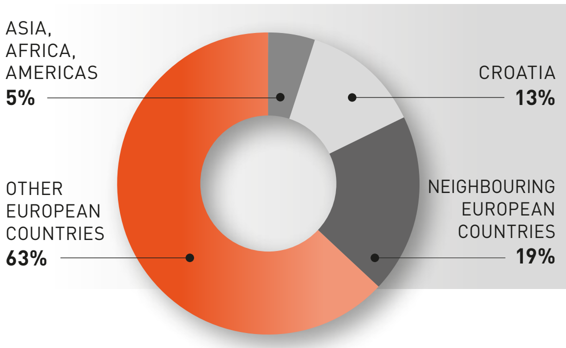
European countries near Croatia: BiH, Slovenia, North Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Kosovo, Serbia, Bulgaria, Romania, Albania — In 2021, deliveries were valued at HRK 262 million, a 3% drop compared to 2020 (HRK 271 million).

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 858 million, which is a 50% rise compared to 2020 (HRK 572 million).

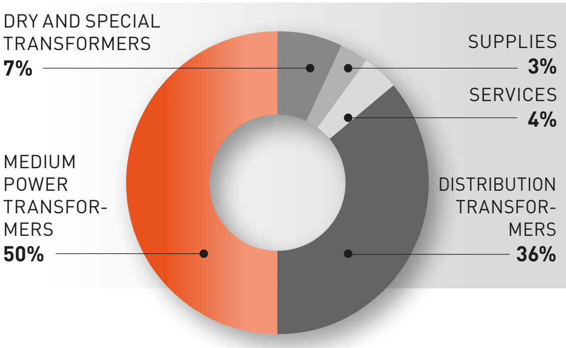
Other countries in Asia, Africa, and the Americas: In 2021, deliveries were valued at HRK 77 million, an 18% drop compared to 2020 (HRK 94 million).

In 2021, total contract value was HRK 1,836 million, which is 49% more than in 2020.
The state of transactions contracted at the end of the year was worth HRK 1,307 million, up 54% over the end of 2020.

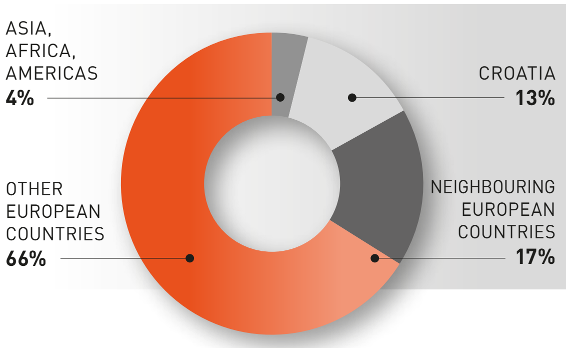
SALE STRUCTURE PER MARKET IN 2021



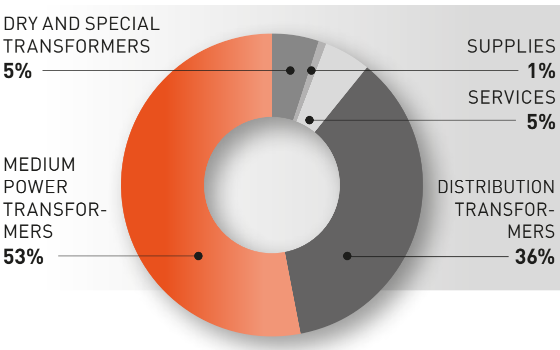
SALE STRUCTURE BY PRODUCT TYPE IN 2021



NEW CONTRACTS PER MARKET IN 2021



STRUCTURE OF NEW CONTRACTS BY PRODUCT TYPE IN 2021



9. Financial Position (Balance Sheet)

On 31 December 2021, company assets were HRK 973 million, up 10% over the year before. Based on its liquidity, long-term assets account for 24% and short-term assets 76%.

The most significant long-term asset category is Tangible assets, which at HRK 217 million accounts for 22% of total assets. Long-term financial assets dropped by half in comparison to the year before because of an investment value adjustment in the affiliated company in Poland by HRK 6.2 million, to HRK 5.1 million. Deferred tax (HRK 4.9 million) accounts for approximately the same value, a decrease of HRK 15.2 million compared to the year before, mostly as a 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 407 million, or 42% of the balance sheet value. In comparison to the year before, this was up by HRK 73 million or 22%. 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 income from sales was higher, i.e., the number of days inventory is held was lower (108 days) in comparison to 2020 (112 days).

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 172 million, or 18% 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 13% of assets. Total liquidity was good throughout the year and Končar D&ST did not have any need for short-term loans.

In terms of liability maturity, long-term sources accounted for 68% and short-term sources for 32%.

Capital and reserves totalled HRK 522 million, or 54% of total liabilities. In comparison to the standing at the end of the previous period, these are higher by HRK 62.2 million or 13.5%. This is the result of partially retained profit generated in the previous year. Long-term provisions amounted to HRK 92.1 million, down by HRK 5.5 million or 5.6%. 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 to HRK 76 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.

Long-term liabilities relate to one loan obtained to fund a previous investment cycle. The amount remaining to be repaid is EUR 7.3 million (accounting for 5.6% in liabilities), where EUR 1 million was re-classified as a short-term liability because it matures within one year's time.

On an individual basis, the most significant short-term liability item, Accounts payable and other liabilities, is HRK 171 million, which accounts for 17% of the total sources of funds. Liabilities for income received in advance amount to HRK 112 million (11.5% of liabilities); they are a source of funds for financing.

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

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

The results of company activities in 2021 show significant growth, which is evident from both achieved monetary and natural indicators.

Sales revenues in 2021 totalled HRK 1,377 million. Compared to 2020, when sales revenues amounted to HRK 1,091, this marks an increase of HRK 286 million or 26%.

The majority of that growth was generated through deliveries outside the Republic of Croatia worth HRK 1,197 million, accounting for 87% of sales revenues. Compared to last year, when it was HRK 938 million, exports increased by 28%. Goods and services were sold on the markets of over 45 countries worldwide. The German and Swedish markets prevail, with a joint share of 34.5% of the total 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 685 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 connected 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 164.1 million, an increase by HRK 12.5 million or 8.2% compared to the previous year. The number of employees measured by work hours in 2021 was 680, which is a 3.6% increase compared to the same indicator last year, when there were 656 employees. The ratio of staffing costs in sales revenues in 2021 was 11.9%, compared to 13.9% 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 137.2 million, or 9.9% of total revenues. The EBITDA for 2021 was 33% higher than in 2020.

Profit before tax for 2021 was HRK 108.7 million, accounting for 7.9% of total revenues. This share was higher than in the previous year (6.9%). Profit after tax for 2021 was HRK 88.4 million, down 4% or HRK 3.7 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.

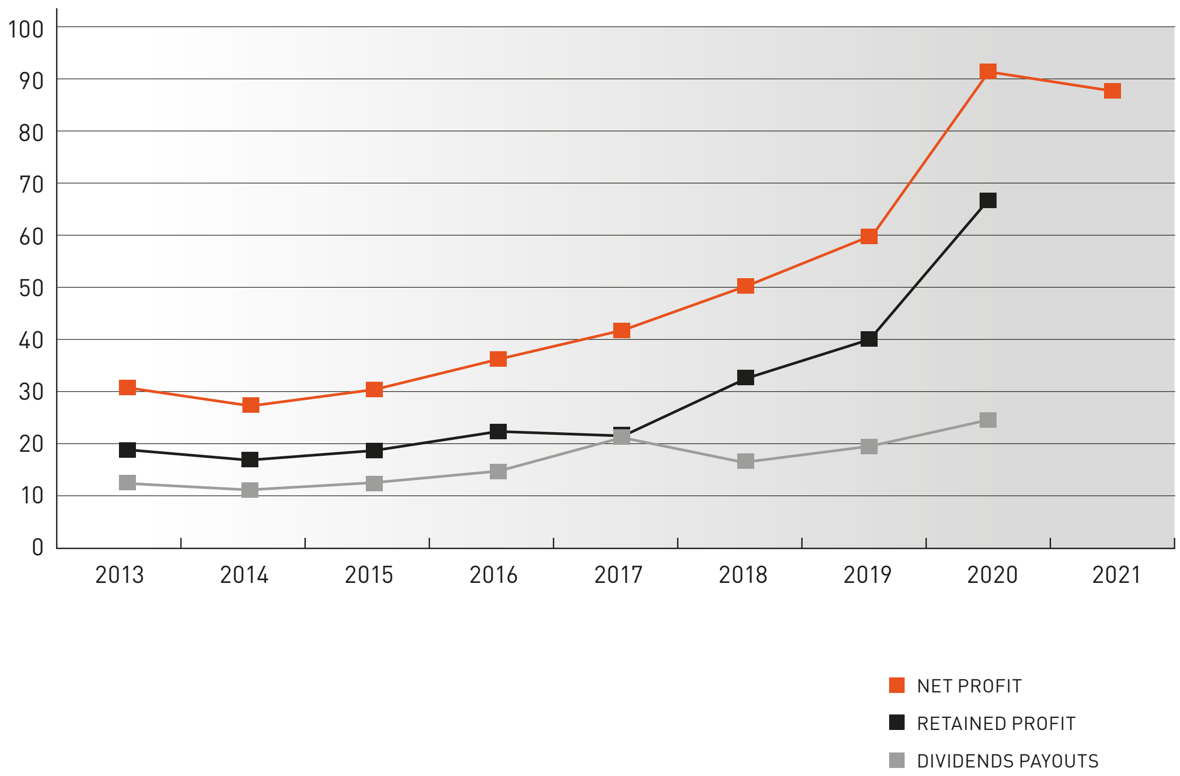
Trading of Končar D&ST stock on the Zagreb Stock Exchange in 2021 was marked by rising prices and falling trading volume. At the end of 2020, the price of ordinary shares (KODT-R-A) was HRK 1,380, but grew 64% in at the end of 2021 when the stock price was HRK 2,260. At the end of 2020, the price of preferred shares (KODT-P-A) was HRK 1,330, and grew 61% at the end of 2021 when it was HRK 2,140. Based on the price of an ordinary share on the last day of 2021, the P/E ratio was 13.1.

In 2021, total trading with both shares of Končar D&ST (KODT-R-A and KODT-P-A) was valued at HRK 13.4 million, down 14% from the year before when it was HRK 15.6 million.

In view of the rising price of KODT shares, market capitalisation also increased. On 31 December 2021, it was HRK 1,141 million, up 63% compared to the same date one year earlier, when it was HRK 699 million.

In 2021, Končar D&ST did not acquire its own shares.

NET PROFIT AND PROFIT ALLOCATION (HRK mil.)



11. Main Operating Risks

In 2021, Končar D&ST 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 Končar D&ST is:

- integrated in all business processes and decision-making processes in the company. 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 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 company.

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. Končar D&ST 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 company.

The demand for transformers on target markets is one of the main risk factors for the operation of Končar D&ST. The business year 2021 was characterised by an increased demand for transformers for a number of reasons, of which the most significant was 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 company operations. The behavioural patterns of existing competitors and entry of new ones onto target markets of Končar D&ST 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 consolidations, 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.) are 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 to the company, Končar D&ST protects itself against 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, Končar D&ST sometimes uses a sliding formula based on changes in material prices. Changing prices for materials are included in calculations when drafting new product offers.

Technological and developmental risks. Končar D&ST currently uses 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 Končar D&ST 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. Končar D&ST protects itself from 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 company (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 company will therefore have losses in write-off or diminished accounts receivable. Končar D&ST protects itself from 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 company will not be able to perform its obligations towards creditors within the agreed terms. The company 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 company, while sudden and more extensive fluctuations in the management, key and other employees might affect the company's business results. The company 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.

12. Investments and Technology Modernisation

The company uses modern technology, but it 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.

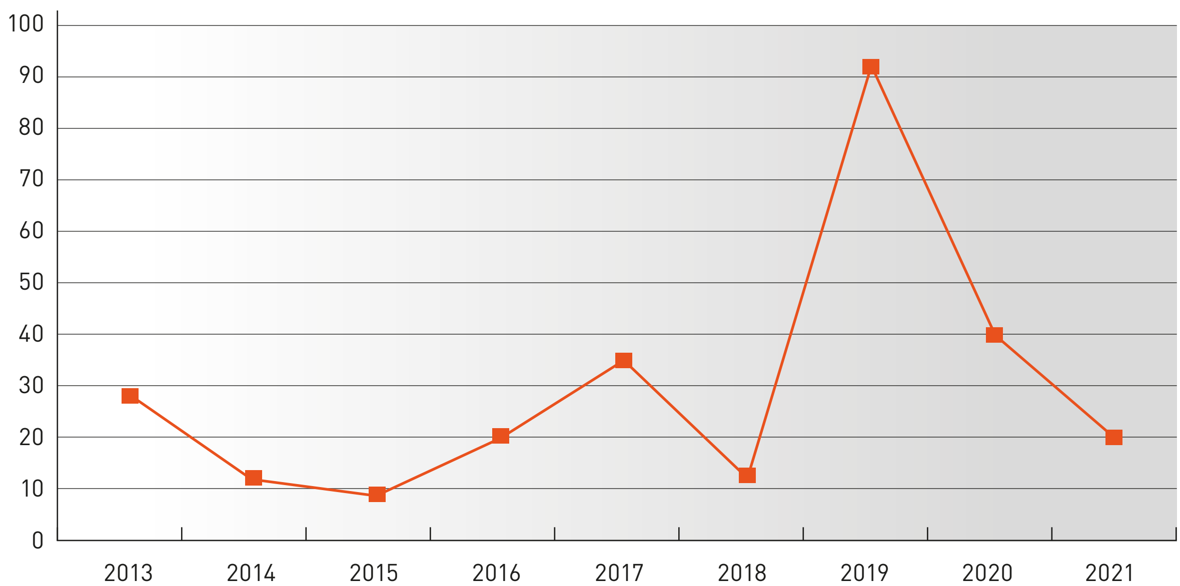
In terms of the process of transformer sheet metal processing, operating system upgrades, extensive annual overhauls, and the installation of acoustic noise protection were implemented, to better working conditions.

In order for the company to be able to keep up with increased market demand and maintain its high quality energy transformer production, in late 2021, Končar D&ST 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, Končar D&ST also invested in IT equipment upgrading, thus improving availability for virtual servers.

Total investments in 2021 amounted to HRK 19.3 million.

INVESTMENTS (HRK mil.)



13. Technical Development and Product Innovation

At a time when Končar D&ST 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) have 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.

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).

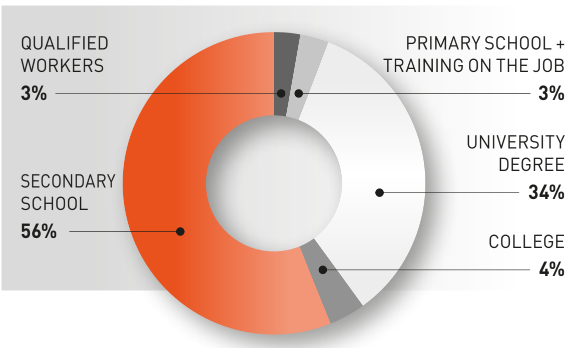
14. Human Resources

At the beginning of 2021, Končar D&ST had 645 employees. By the end of the year, 46 new employees were recruited, while 13 left the company, so that at year-end the company had 678 employees. The age structure of employees is diverse. The youngest employee in 2021 was 20 years old and the eldest 45. The average age of employees in Končar D&ST is 39 years of age.

In the field of employee training, continuous professional development is available to employees, including university studies and applied sciences studies. The company 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 company and its contacts with relevant university institutions.

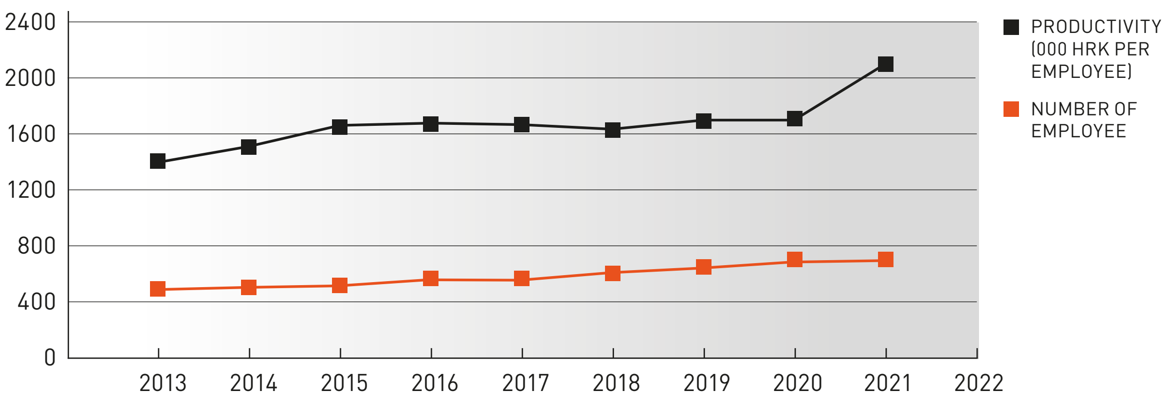
STRUCTURE OF EMPLOYEE EDUCATION LEVELS AT YEAR-END

	Years of Educatiom	2021	2020
University degree	16 and more	234	225
College and bachelor's degree	14 to 15	29	24
Secondary school	12	378	360
Qualified workers	11 to 13	19	23
Primary school + training on the job	8	18	19
Total		**678**	**651**



Productivity measured by sales per employee in 2021 was HRK 2.1 million, a 22% rise in comparison to the previous year.

NUMBER OF EMPLOYEES AND PRODUCTIVITY TRENDS



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

Conformity certification cycles for all three certified management systems (ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018) are conducted by the international certification company Bureau Veritas. In 2021, all three systems were subject to successful supervisory audits save for several minor observations regarding occupational health and safety.

Internal audits are still conducted in six-month cycles to ensure continued supervision aimed at improvements and advancements in the established management systems. In 2021, two new internal auditors were trained (one for quality and the other for all three systems). Further, in 2021, all internal auditors (24 in total) completed a 3-day course in Advanced Reporting — Practical Implementation of the QMS Audit organised by Bureau Veritas.

In addition to the said audits organised by Bureau Veritas, an ACHILLES audit is held every year to fulfil the requirements of the UVDB verification protocol and the accompanying social audit elements, such as the operation continuity plan, human rights, competences, working hours, implementation of occupational safety, carbon footprint, use of working equipment and machinery.

Končar D&ST continuously supervises and manages processes that affect the environment and engages in active management of recognised environmental aspects through their valuation (risk assessment) in order to ensure timely and effective prevention of any potential environmental pollution. Contributions to environmental protection take the form of rational use of natural resources, selection of ecologically acceptable raw materials, and promotion of recycling.

In 2021, the study entitled Carbon Footprint of Products (CFP) for a new distribution transformer delivery to an Italian customer continued, while the drafting of a CFP study for a medium power transformer for a Spanish customer according to the guidelines of the ISO 14067:2018 was launched.

In terms of energy efficiency improvements, activities to install a 1.1 MVA solar energy power plant on the building continued. In 2021, Končar D&ST signed a contract with a contractor and the works commenced.

In addition, three employees were trained in the energy management system under the ISO 50001 standard. In line with the information and knowledge received, it was proposed that in the period ahead this training should also be organised for employees in the field of production maintenance and development.

16. Corporate Social Responsibility

Corporate social responsibility of Končar D&ST is based on a set of measures and policies and the Code of Business Conduct, aimed at achieving the mission and vision of Končar D&ST, while respecting and implementing our proclaimed values.

Within the sphere of its influence, Končar D&ST 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 issued the 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 company plans to proceed with its reporting practice concerning sustainability and socially responsible business since decarbonisation, mitigating the consequences of climate change, and transition to a circular economy feature as the goals and strategy embraced by Končar D&ST.

We would like to single out the following as special values by which Končar D&ST is guided in its work:
- quality,
- minimising its environmental impact,
- occupational safety,
- honesty and accountability for upholding its commitment,
- 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,
- respect of diversity amongst employees through openness, trust and involvement in teamwork, and
- good business relations with customers and suppliers.

Končar D&ST continuously engages in initiatives to create positive changes and invests in development, professional training, minimisation of environmental impact, and community care. Končar D&ST 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 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 open in the second quarter 2022. As an example of our green initiatives, we would like to single out our cleaning 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, Končar D&ST 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.

Končar D&ST also made donations to support a substantial number of various associations and organisations (sports clubs, associations of retired persons, veterans' associations, students' associations).

In its operation and everyday activities, Končar D&ST 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.

17. Further Development Strategy

The principal business activities of Končar D&ST 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, Končar D&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.

Končar D&ST will secure a high place 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. Impact of the Russia-Ukraine crisis on the operation of Končar D&ST, Inc. is currently insignificant. Končar D&ST does not generate income in the territories of either Ukraine or Russia. 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 ANNUAL FINANCIAL STATEMENTS FOR 2021

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

Explanation

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

	HRK '000
Total income	1,380,708
Total expenses	1,271,964
Profit before taxation	108,744
Corporate income tax	20,307
Profit after taxation	88,437
Total assets	973,391

Gordan Kolak
President of the Supervisory Board

Vanja Burul
President of the Management Board

Zagreb, 01 April 2022

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

Pursuant to Article 220 of the Croatian Act on Companies and Articles 22, 23, 24 and 25 of Articles of Association of KONČAR D&ST Inc., at the Supervisory Board meeting held on 01 April 2022, Supervisory Board and Management Board adopted the following

DECISION

ON ALLOCATION OF PROFITS FOR 2021

1. Profits after taxation (net profits) for 2021 amount to HRK 88,437,141.10
2. The Management Board and the Supervisory Board have allocated a sum of HRK 53,059,886.70 into Statutory reserves.
3. The Management Board and the Supervisory Board have proposed to General Assembly to make a decision on payment of dividends on ordinary shares and preferred shares at a sum of HRK 69.20 per share, which totals HRK 35,377,254.40 in respect of 511,232 shares.

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

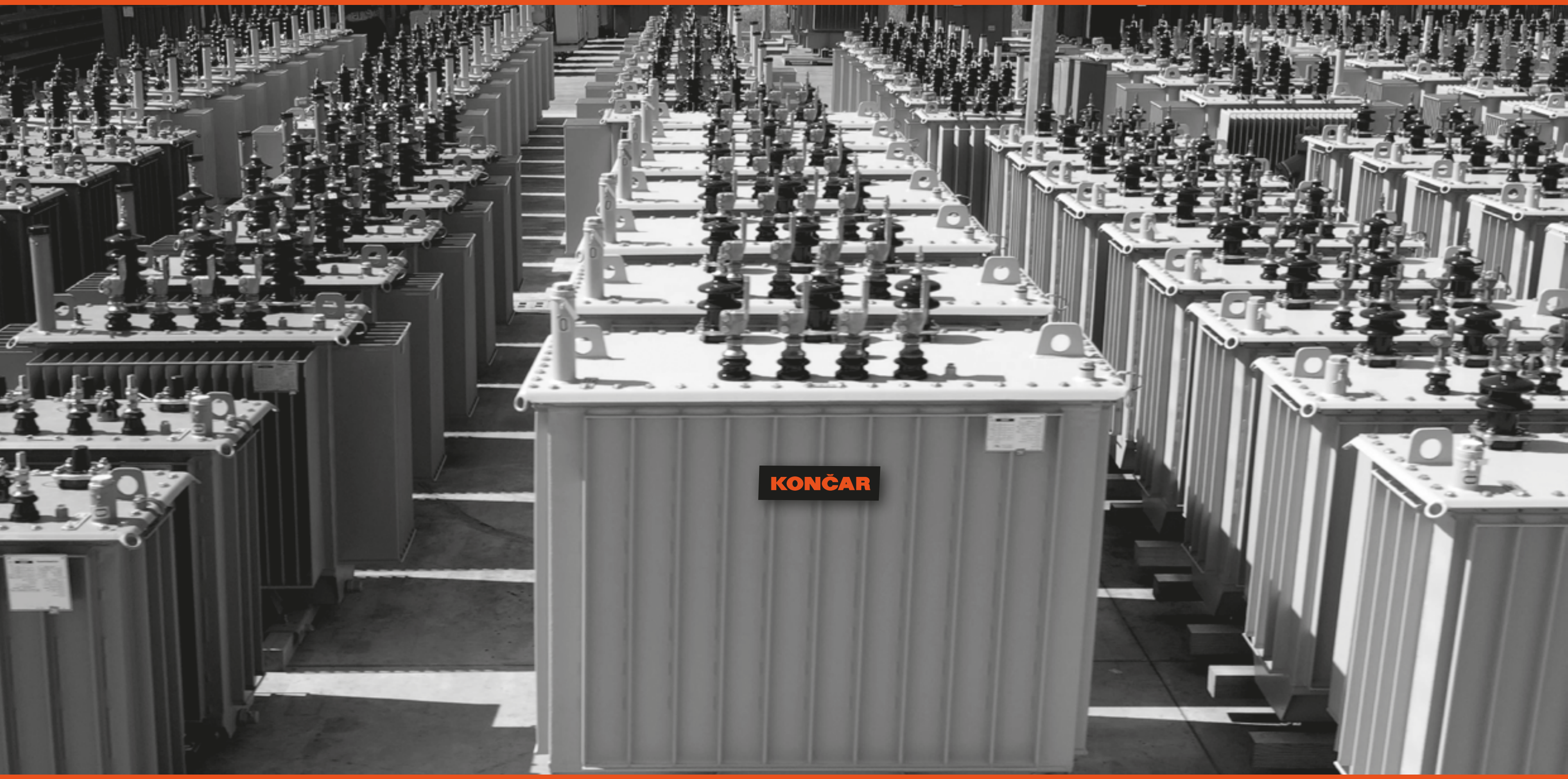
   Dividends shall be paid at latest within 15 (fifteen) days from the Record date.

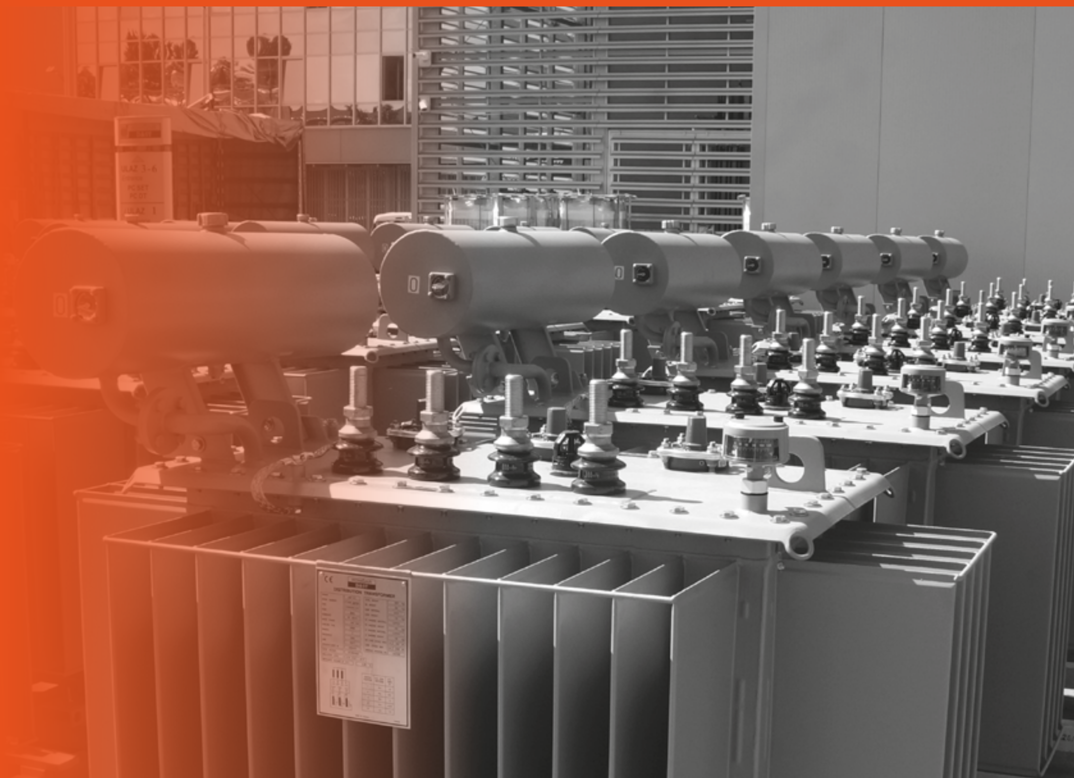
Gordan Kolak
President of the Supervisory Board

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. (Končar D&ST) is responsible for preparing financial statements for each business year with a true and accurate presentation of the financial standing of the Company, its 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 company assets 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 Končar D&ST will continue in business is inappropriate.

Having conducted research activities, the Management Board reasonably expects the Company 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 Končar D&ST; 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 - Distribution and Special Transformers, Inc.
Josipa Mokrovića 8
10 090 Zagreb

KPMG

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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 that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our audit report takes precedence over this translation.

KPMG

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

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

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 1,377,077 thousand (2020.: HRK 1,012,855 thousand). Please refer to the notes: Significant accounting policies 2a) 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 Company's core activities include manufacturing and sales of distribution and special transformers.

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

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

Due to the above factors, accounting for revenues requires management to exercise significant judgment and making complex estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.</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 Company's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the revenue standard;
• For a sample of contracts or contract equivalents with key customers in force during the reporting period:
  - challenging the Company's identification of performance obligations included therein;
  - critically assessing the Company's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations;
  - based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents with particular attention paid to cut-off procedures over amounts recognised at or around the reporting date;
• For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Company's accounting records, and inspecting the underlying documentation;
• Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items.
• Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for customer contracts.</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)

<table>
<tr><td colspan="2">Warranty provisions</td></tr>
<tr><td colspan="2">Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2021 amounted to HRK 94,698 thousand (31 December 2020.: HRK 112,230 thousand). Please refer to the notes: Significant accounting policies 2p) Provisions, Key accounting estimates 3b) Warranty provisions and note 26 Provisions in the financial statements.</td></tr>
<tr><td>Key audit matter</td><td>How we addressed the matter</td></tr>
<tr><td>The Company's customer arrangements include product warranties given to customers granted for a period ranging from 3 to 5 years from the delivery of transformers.

The product warranties primarily cover expected costs to repair or replace components with defects or functional and/or serial errors as well as financial losses suffered by the Company's customers in connection with unplanned suspension of operations.

As stated in note 3b), the Company estimates general provisions for product warranties by reference to: historical costs related to product warranties; industry statistics of transformer failure incidence levels; and market experience from other transformer manufacturers.

In addition, where applicable, specific risks attributable to individual customer contracts and related products (as explained in note 3b)) are taken into account when assessing the need for additional specific warranty provisions for such individual cases.

The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.</td><td>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.</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)

Other Information

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

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

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

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

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

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

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

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

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

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

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 that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our audit report takes precedence over this translation.

KPMG

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

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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KPMG

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 20 May 2021 to audit the separate 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 periods 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 separate financial statements, as included in the separate 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 separate financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the separate 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 separate 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 Company's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the separate financial statements included in the separate 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.

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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)

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. 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;
- tracing the tagged data to the separate financial statements of the Company presented in human-readable format;
- evaluating the completeness of the Company's tagging of the separate 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 separate 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 separate financial statements of the Company 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 that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our audit report takes precedence over this translation.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		HRK'000	*HRK'000*
Revenue	4	1,377,077	1,090,761
Other operating income	5	2,751	1,544
Operating income		**1,379,828**	**1,092,305**
Change in inventories of work in progress and finished goods		37,369	65,724
Materials, consumables, goods and services used	6	(1,062,614)	(868,482)
Personnel costs	7	(164,122)	(151,637)
Depreciation and amortisation		(27,771)	(26,125)
Other operating expenses	8	(30,876)	(23,563)
Impairment	9	(22,366)	(10,824)
Operating expenses		**(1,270,380)**	**(1,014,907)**
Operating profit		**109,448**	**77,398**
Financial income	10	880	1,477
Financial expenses	10	(1,584)	(3,535)
Net financial result		**(704)**	**(2,058)**
Profit before tax		**108,744**	**75,340**
Corporate income tax	11	(20,307)	16,751
PROFIT FOR THE YEAR		**88,437**	**92,091**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**88,437**	**92,091**
Earnings per share (basic and diluted) in HRK	12	**172.99**	**180.14**

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

Statement of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	31.12.2021.	31.12.2020.
ASSETS		*HRK'000*	*HRK'000*
Non-current assets			
Intangible assets	13	2,343	1,647
Property, plant and equipment	14	217,166	232,441
Right-of-use assets	15	1,077	821
Investment property	16	2,815	2,990
Investments in subsidiary	17	-	6,181
Investments in associates	18	1,732	1,732
Financial assets at FVOCI	19	2,804	2,804
Financial assets at FVTPL	28	543	-
Deferred tax assets		4,908	20,151
		233,388	**268,767**
Current assets			
Inventories	20	423,057	344,817
Trade and other receivables	21	185,947	147,497
Loans receivable	23	6,321	18,641
Cash and cash equivalents	24	124,678	107,965
		740,003	**618,920**
TOTAL ASSETS		**973,391**	**887,687**
EQUITY AND LIABILITIES			
Share capital	25	153,370	153,370
Legal reserves		7,669	7,669
Statutory reserves		177,765	130,515
Other reserves		45,983	45,983
Retained earnings		136,892	121,982
EQUITY AND RESERVES		**521,679**	**459,519**
Borrrowings	27	47,715	55,205
Financial liabilities at FVTPL	28	-	741
Provisions for warranty repairs	26	75,980	92,096
Provisions for onerous contracts	26	10,725	-
Provisions for employee benefits	26	5,340	5,413
Non-current liabilities		**139,760**	**153,455**
Borrrowings	27	7,873	5,926
Financial liabilities at FVTPL	28	2,054	3,420
Trade and other payables	29	171,108	142,480
Contract liabilities	22	112,199	102,753
Provisions for warranty repairs	26	18,718	20,134
Current liabilities		**311,952**	**274,712**
Total liabilities		**451,712**	**428,168**
TOTAL EQUITY AND LIABILITIES		**973,391**	**887,687**

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

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		1,346,809	1,127,944
Cash proceeds from insurance reimbursements		164	488
Cash proceeds from tax returns		37,883	55,111
Cash paid to suppliers		(1,133,683)	(932,142)
Cash paid to employees		(163,246)	(148,474)
Taxes paid		(7,355)	(10,019)
Cash paid for insurance related to reimbursements		(1,761)	(1,850)
Other cash proceeds and payments		(11,067)	(11,130)
Cash from operations		**67,744**	**79,928**
Interest paid		(1,121)	(1,391)
Net cash flows from operating activities		**66,623**	**78,537**
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		216	593
Cash proceeds from loans and borrowings		3,761	-
Cash expenses for purchase of non-current tangible and intangible assets		(14,598)	(41,739)
Cash outflows for purchase of financial instruments		-	(9,509)
Loans given		(6,365)	(1,860)
Net cash used in investing activities		**(16,260)**	**(51,708)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	27	-	30,268
Repayment of principal portion of loans and borrowings	27	(5,626)	(25,561)
Principal portion of lease payments	27	(349)	(252)
Dividends paid		(26,274)	(19,263)
Other cash proceeds and payments		(1,401)	(292)
Net cash used in financing activities		**(33,650)**	**(15,100)**
Net increase/(decrease) in cash and cash equivalents		**16,713**	**11,729**
Cash and cash equivalents at the beginning of the period		107,965	96,236
Cash and cash equivalents at the end of the period	24	**124,678**	**107,965**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Legal reserves	Statutory reserves	Other reserves	Retained earnings	Total
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
As at 1 January 2020	**153,370**	**6,299**	**101,643**	**45,983**	**79,387**	**386,682**
Profit for the year (restated)	-	-	-	-	92,091	**92,091**
Total comprehensive income	-	-	-	-	**92,091**	**92,091**
Transfers	-	1,370	28,872	-	(30,242)	-
Dividends	-	-	-	-	**(19,254)**	**(19,254)**
Total transactions with owners	-	**1,370**	**28,872**	-	**(49,496)**	**(19,254)**
As at 31 December 2020	**153,370**	**7,669**	**130,515**	**45,983**	**121,982**	**459,519**
Profit for the year	-	-	-	-	88,437	**88,437**
Total comprehensive income	-	-	-	-	**88,437**	**88,437**
Transfers	-	-	47,250	-	(47,250)	-
Dividends	-	-	-	-	**(26,277)**	**(26,277)**
Total transactions with owners	-	**-**	**47,250**	-	**(73,527)**	**(26,277)**
As at 31 December 2021	**153,370**	**7,669**	**177,765**	**45,983**	**136,892**	**521,679**

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

Notes to the 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 is Končar - Electrical Industry Inc., Zagreb, Fallerovo šetalište 22, and is engaged in design, production, sale and servicing of distribution, special and medium power transformers up to 160 MVA power rating and up to 170 kV voltage.

As at 31 December 2021, the Company had 678 employees, while as at 31 December 2020, there had been 651 employees in the Company.

Members of the Supervisory Board

- Gordan Kolak, President since 1 July 2020, vice president until 30 June 2020
- Ivan Bahun, Member since 1 July 2020
- Miki Huljić, Member since 1 July 2020
- Josip Ljulj, Member since 1 July 2020
- Ana-Marija Markoč, Member - 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 since 1 April 2021

Remunerations payable to members of the Management Board and Supervisory Board are presented in Notes 8 and 31 to the financial statements.

2. Significant accounting policies

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

Basis of preparation

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

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

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

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

The Company has prepared these separate financial statements in accordance with the Croatian laws. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board simultaneously with these separate financial statements. In the consolidated financial statements, the subsidiary (Note 17) is fully consolidated. Users of these separate financial statements should read them together with the consolidated financial statements of the Group for the year ended 31 December 2021 in order to obtain complete information about the financial position, results of operations and changes in the financial position of the Group as a whole.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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 Company in the preparation of these financial statements. Management does not expect any of these standards to have a significant impact on the financial statements of the Company.

a) Revenue recognition

The Company recognises revenue from:

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

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

The promised consideration includes fixed amounts.

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

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

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

Contract assets and liabilities

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

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

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

b) Financial income and expenses

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

c) Taxes

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

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

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

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

d) Segment information

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

e) Earnings per share

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

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

f) Dividend distribution

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

g) Foreign currency transactions

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in the income statement for the current year. Foreign exchange losses and gains arising on translation are included in profit or loss for the current year and are presented in Note 10 in net amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences on borrowings).

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

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

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

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Impairment of property, plant and equipment

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

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

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

i) Financial assets and liabilities

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

Classification and measurement of financial assets

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

- Stage 1 - when determining the impairment of financial assets, a 12-month expected credit loss model is applied. This model applies if there is no significant increase in credit risk.

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- Stage 2 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk.
- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

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

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

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

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

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Financial liabilities, classification and measurement

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

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

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

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

Derecognition of financial liabilities

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

j) Investments in subsidiaries and associates

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

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

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

k) Inventories

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

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

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

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

Small inventories, packaging and car tyres are fully (100%) written off when put into use.

l) Receivables

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

m) Cash and cash equivalents

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

n) Borrowings

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

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

o) Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Low-value assets comprise printers.

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

Lease activities

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

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

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

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

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p) Provisions

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

q) Employee benefits

i. Pension obligations and post-employment benefits

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

ii. Termination benefits

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

iii. Regular retirement benefits

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

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

r) Contingent assets and liabilities

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

s) Events after the balance sheet date

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

3. Key accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Revenue recognition

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

- Extended warranties

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

- Significant financing component

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

b) Warranty provisions

The Company provides warranties for its products for an average period of 3 - 5 years. In certain cases where warranties extend past this range, the Company analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a general provision for warranty repairs based on historical information and industry statistics of transformer failures, specifically incidence of major transformer failure. Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances.

Notes to the Financial Statements

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Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of transformers as a result of technical analyses and correspondence with customers. Factors which affect these individual provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs. The Company has identified several contracts where defects have been identified which carry specific significant risks (exposure to extreme climate conditions, non-standard technical complexities) of substantial costs of rectification and/or replacement up to the expiry of these product warranties. Further details are disclosed in note 26 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.

d) Impairment of investments in subsidiaries

At each reporting date the Company estimates whether impairment indicators exist, which indicate that the investments in subsidiaries could be impaired and estimates the recoverable amount of those investments.

In 2021, an impairment loss was recognised for the investment in the Power Engineering Transformatory (PET) subsidiary in the amount of HRK 6.18 million, as shown in Note 9 (in 2020 in the amount of HRK 10.8 million). Thus, the total value of this investment was impaired, i.e. reduced to zero. This was a result of negative operations of this subsidiary during several previous periods, which led to significant accumulated loss from operations exceeding the equity value.

e) Critical judgments in determining the lease term

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

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

Notes to the Financial Statements

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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	684,849	595,839
Sales of material and services	96,624	77,906
Total revenue from contracts with customers	**1,377,077**	**1,090,761**

Geographic areas		
Croatia	180,009	153,149
EU member states	1,031,957	770,832
Bosnia & Herzegovina, Macedonia, Serbia, Montenegro	15,480	29,091
Other European countries	82,301	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	**1,377,077**	**1,090,761**

Revenue recognition time:		
At a point in time	1,377,077	1,012,855
Over time	-	77,906
Total revenue from contracts with customers	**1,377,077**	**1,090,761**

5. Other operating income

	2021	2020
	HRK'000	*HRK'000*
Rental income	208	208
Inventory surplus	231	117
Insurance recoveries	164	488
Discounts, rebates and similar	689	123
Other income	1,459	608
	2,751	**1,544**

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6. Cost of materials and energy

	2021	2020
	HRK'000	*HRK'000*
Raw materials and consumables	900,869	730,071
Transport services	38,814	31,504
External production related services	20,224	14,944
Maintenance and servicing	9,874	11,818
Cost of goods sold	46,275	43,426
Other costs	46,558	36,719
	1,062,614	**868,482**

7. Personnel costs

	2021	2020
	HRK'000	*HRK'000*
Net salaries and wages	99,921	89,293
Taxes and contributions from salaries	41,623	41,522
Contributions on salaries	22,578	20,822
	164,122	**151,637**

In 2021, pension fund contributions amounted to HRK 26,262 thousand (2020: HRK 24,122 thousand).
Personnel costs include HRK 851 thousand of retirement and termination benefits (2020. HRK 829 thousand).

8. Other costs

	2021	2020
	HRK'000	*HRK'000*
Provisions for onerous contracts	10,725	-
Accrued expenses	198	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 employees	5,068	4,946
Intellectual services	1,205	1,181
Entertainment	2,390	1,990
Insurance	2,557	2,800
Bank charges and commissions	3,532	3,455
Premiums and benefits for voluntary pension pillar	1,958	1,974
Professional training costs	1,050	1,001
Other non-production related costs	8,882	4,986
Increase/(decrease) in provisions for warranty repairs	(19,001)	(16,964)
Fees payable to Supervisory board members	85	92
Other operating costs	5,808	6,087
	30,876	**23,563**

For details on provisions from onerous contracts please see Note 3c) and Note 26.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

9. Impairment

	2021	2020
	HRK'000	*HRK'000*
Value adjustment of investments in a subsidiary	6,181	10,800
Value adjustment of gven loans	15,034	-
Net value adjustment in inventory	1,138	-
Inpairment cost of receivables and loans (ECL)	13	24
	22,366	**10,824**

10. Net financial result

	2021	2020
	HRK'000	*HRK'000*
Dividends and share in profits	573	795
Interest and similar income	172	651
Other financial income	135	31
Total financial income	**880**	**1,477**
Interest and similar expenses	1,109	1,394
Foreign exchange losses	475	2,141
Total financial expenses	**1,584**	**3,535**
Net financial result	**(704)**	**(2,058)**

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

	2021	2020
	HRK'000	*HRK'000*
Accounting profit (before tax)	108,744	75,340
Tax at 18%	19,574	13,561
Adjustments for:		
Non-taxable income	407	252
Non-deductible expenses	(217)	(242)
Temporary differences for which no deferred tax assets were recognises	338	(963)
Change in recognised deferred taxes	205	127
Investment tax credit utilisation	-	(9,551)
Recognition of deferred tax asset on investment tax credit	-	(19,935)
Income tax expense	**20,307**	**(16,751)**
Effective tax rate	18.67%	(22.23%)

Investment tax credit

During October 2020, the Company became eligible to receive incentive measures related to its investment project "Expansion of Production Capacity for Transformers" in the amount of HRK 28,114 thousand which is available to the Company for reduction of its future income tax liabilities up to a maximum reduction of the corporate income tax rate by 75% ending by 31 December 2028. Based on the assessment of the recoverability of the tax incentive made by the management, in 2020 the Company 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 Company has not recognized deferred tax assets in the amount of approximately HRK 8.4 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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12. Earnings per share

Basic and diluted earnings per share:

	2021	2020
Net result in HRK thousands	88,437	92,091
Total and weighted average number of shares	511,232	511,232
Earnings per share in HRK	**172.99**	**180.14**

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

13. Non-current intangible assets

	Licences, software and other rights	Assets under construction	Total
	HRK'000	*HRK'000*	*HRK'000*
Cost			
At 1 January 2020	**13,970**	-	**13,970**
Additions	-	368	**368**
Transfer	338	(338)	-
Disposals	(222)	-	(222)
As at 31 December 2020	**14,086**	30	**14,116**
Additions	-	1,479	**1,479**
Transfer	1,509	(1,509)	-
Disposals	-	-	**-**
As at 31 December 2021	**15,595**	**-**	**15,595**
Accumulated amortisation			
At 1 January 2020	**10,780**	-	**10,780**
Charge for the year	1,911	-	**1,911**
Disposal	(222)	-	**(222)**
As at 31 December 2020	**12,469**	-	**12,469**
Charge for the year	783	-	**783**
Disposals	-	-	**-**
As at 31 December 2021	**13,252**	-	**13,252**
Carrying amount			
As at 31 December 2020	1,617	30	**1,647**
As at 31 December 2021	**2,343**	**-**	**2,343**

The cost of intangible assets fully amortised and still in use as at 31 December 2021 amounts to HRK 8,175 thousand (31 December 2020: HRK 5,325 thousand).

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14. 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	**16,920**	**189,003**	**227,644**	**31,944**	**7,497**	**473,008**
Additions	-	-	-	-	38,003	**38,003**
Transfers	-	10,396	23,172	2,495	(36,063)	-
Disposals	-	-	(668)	(374)	-	**(1,042)**
As at 31 December 2020	**16,920**	**199,399**	**250,148**	**34,065**	**9,437**	**509,969**
Additions	-	-	-	-	11,374	**11,374**
Transfers	-	3,178	15,370	758	(19,306)	**-**
Disposals	-	-	(1,436)	(638)	-	**(2,074)**
As at 31 December 2021	**16,920**	**202,577**	**264,082**	**34,185**	**1,505**	**519,269**
Accumulated depreciation						
At 1 January 2020	-	**84,875**	**148,562**	**21,336**	-	**254,773**
Charge for the year	-	7,873	13,181	2,722	-	**23,776**
Disposals	-	-	(649)	(372)	-	**(1,021)**
As at 31 December 2020	-	**92,748**	**161,094**	**23,686**	-	**277,528**
Charge for the year	-	8,393	15,554	2,533	-	**26,480**
Disposals	-	-	(1,269)	(636)	-	**(1,905)**
As at 31 December 2021	-	**101,141**	**175,379**	**25,583**	-	**302,103**
Carrying amount						
As at 31 December 2020	16,920	106,651	89,054	10,379	9,437	232,441
As at 31 December 2021	**16,920**	**101,436**	**88,703**	**8,602**	**1,505**	**217,166**

As at 31 December 2021, the net book amount of mortgaged properties amounts to HRK 118,356 thousand (31 December 2020: HRK 122,139 thousand). Mortgages have been registered over these properties in the total amount of EUR 42 million, and there is a pledge of EUR 8 million on movable assets with a net carrying amount of HRK 17 million (note 27).

The cost of fully depreciated tangible assets still in use as at 31 December 2021 amounts to HRK 143,027 thousand (31 December 2020: HRK 89,290 thousand). As at 31 December 2021 total advances for property, plant and equipment amounted to HRK 1 thousand (31 December 2020: HRK 6,857 thousand).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

15. Right-of-use assets

Right-of-use assets relate to the following:

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Buildings	134	191
Transport vehicles	943	630
	1,077	**821**

The movement during the year is shown below:

	2021	2020
	HRK'000	*HRK'000*
As at 1 January	821	956
Increase - new leases	708	128
Decrease - termination of leases	(119)	-
Depreciation	(333)	(263)
As at 31 December	**1,077**	**821**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

17. Investments in subsidiary

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Power Engineering Transformatory (PET)	31,841	31,841
Impairment	(31,841)	(25,660)
Total	**-**	**6,181**

On 8 May 2017, a contract was signed on the acquisition of the majority ownership share (74% share) in Power Engineering Transformatory Sp. z o.o. (PET) from Czerwonak, Poznan, Poland. The principal activity of the company is the design, production, placement and servicing of medium power transformers up to 63 MVA power and up to 145 kV voltage. The consideration paid for the acquisition of the 74% share was contributed to the capital of the acquired company. In May 2020, the Company acquired the remaining 26% of the subsidiary by excersizing a call option on the purchase of these shares.

In 2021, an impairment allowance was made for the Power Engineering Transformatory (PET) subsidiary in the amount of HRK 6.18 million. The subsidiary has no value in the Company's accounting records at 31 December 2021.

18. Investments in associates

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

19. 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 Company compares the cost of these investments with a high-level valuation model based on comparable multiples to assess whether indication exist that the fair value could materially differ from cost. At the reporting date, there were no such indications.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

20. Inventories

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Raw materials and consumables	149,978	114,182
Production work-in-progress	189,975	140,519
Finished products	67,026	79,283
Advances given	16,078	10,833
	423,057	**344,817**

21. Trade and other receivables

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Receivables from foreign customers	153,779	94,142
Receivables from domestic customers	18,501	47,206
Other receivables	474	441
VAT receivable	12,618	4,498
Prepayments	575	1,210
	185,947	**147,497**

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

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Undue	149,953	128,459
< 60 days	21,845	12,363
60-90 days	0	230
90-180 days	478	1
180-365 days	4	288
> 365 days	-	7
	172,280	**141,348**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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	330	645
Net change in ECLs	11	(29)
Recovered bad debts	0	(5)
Written-off	(200)	(282)
Effect of change in foreign exchange rate	(1)	1
As at 31 December	**140**	**330**

22. Contract liabilities

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Contract liabilities - advances received from customers	112,199	102,753
Total contract liabilities	**112,199**	**102,753**

Recognised revenue related to contract liability

At the end of the reporting period, unsatisfied performance obligations arising from advances received from customers amounted to HRK 569,022 thousand (31 December 2020: HRK 413,870 thousand).

23. Loans receivable

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Loans receivable from the subsidiary	21,424	18,842
Impairment of loans	(15,034)	-
Expected credit loss	(69)	(201)
	6,321	**18,641**

During 2019 and 2020, the Company granted short-term working capital loans to its subsidiary Power Engineering Transformatory Sp, z o.o. Poland in the total amount of EUR 2,250,000. The loans were granted at the fixed interest rate of 3.50% p.a.

In 2021, at the Končar Group level, an analysis of the marketability of interest rates was made on the basis of which interest rates were calculated in the amount of 0.85% p.a. By the decision of the Management Bord in 2021, loan value adjustmentn was made in the amount of EUR 2,000,000.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Changes in loans granted during the year were as follows:

	Loans granted
	HRK'000
1 January 2020	16,567
Cash outflow	1,860
Cash receipts	-
Net change in ECL	(23)
Exchange differences	237
31 December 2020	**18,641**
Cash outflows	6,365
Cash receipts	(3,761)
Net change in ECL	132
Exchange differences	(22)
Imparment of loans granted	(15,034)
31 December 2021	**6,321**

24. Cash and cash equivalents

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Cash in bank	124,678	107,965
	124,678	**107,965**

Disclosures related to credit risk are presented in Note 32 - Risk management.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

25. 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	*Number of shares*	*Ownership share %*	*Number of shares*	*Ownership share %*
Končar - Electrical Industry Inc.	269,596	52.73	269,596	52.73
AZ Mandatory Pension Fund B class	27,100	5.3	27,100	5.3
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**	**511,232**	**100**

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 per share (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 Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

26. 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	**129,194**	**5,413**	**-**	**134,607**
Increase	6,653	-	-	6,653
Release	(23,617)	-	-	(23,617)
As at 31 December 2020	**112,230**	**5,413**	**-**	**117,643**
Increase	12,418	150	10,725	23,293
Release	(29,950)	(223)	-	(30,173)
As at 31 December 2021	**94,698**	**5,340**	**10,725**	**110,763**
of which:				
- non-current	75,980	5,340	10,725	92,045
- current	18,718	-	-	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 Company and other transformer producers. The Company generally issues warranties for a period of 3 to 5 years for each transformer sold. Based on historical data regarding expenses for warranty repairs and industry statistics on transformer failure incidence rates, Management assesses and recognises a general provision for warranty repairs. 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, for which an individual provision was posted, the warranty periods expired during 2021 and the did not result in significant repair costs. Consequently, the Company released 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.

During the year there were no significant costs of warranty repairs as a result of travel and transport restrictions imposed by the pandemic for both the Company and the customers. The Company continuously communicates with customers and co-operates in rectifying any defects noted in order to minimize risks related to warranty costs.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Provisions for onerous contracts

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 (disclosed within Other provisions) was recognised in accordance with IAS 37, amounting to HRK 10,725 thousand (for further information refer to note 2,28 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 5,340 thousand (2020: HRK 5,413 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which Company employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure, meeting the conditions for obtaining jubilee awards). The present value of these provisions is calculated based on the number of employees, number of years of service at the Company and the statistics of paid termination benefits in the 4 years preceding the balance sheet date and the discount rate of 0.6% (2020: 0.7%).

27. Borrowings

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Non-current borrowings		
Leases	733	562
Bank loans	46,982	54,643
	47,715	**55,205**
Current borrowings		
Leases	356	273
Bank loans	7,517	5,653
	7,873	**5,926**
Total borrowings	**55,588**	**61,131**

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 Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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

	Loans	Leases	Total
	HRK'000	*HRK'000*	*HRK'000*
As at 1 January 2020	**54,889**	**962**	**55,851**
Cash receipts (borrowed)	30,268	-	**30,268**
Cash outflows (repaid)	(25,561)	(252)	**(25,813)**
Net contracts changes	-	128	**128**
Foreign exchange rate changes	700	(3)	**697**
As at 31 December 2020	**60,296**	**835**	**61,131**
Cash receipts (borrowed)	-	-	**-**
Cash outflows (repaid)	(5,626)	(349)	**(5,975)**
Net contracts changes	-	586	**586**
Foreign exchange rate changes	(171)	17	**(154)**
As at 31 December 2021	**54,499**	**1,089**	**55,588**

Non-current liabilities to banks mature as follows:

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
up to 1 year	7,517	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
	54,499	**60,296**

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28. Financial instruments at FVTPL

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

During the year, the Company used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies (SEK primarily). The nominal value of currency forwards as at the reporting date amounted to HRK 130,554 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'.

29. Trade and other payables

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Payables to domestic suppliers	29,676	30,040
Payables to foreign suppliers	89,489	67,354
Payables to employees	6,421	6,162
Deferred income	245	314
Liabilities for share in profits	140	137
Interest payable	263	280
Other taxes, contributions and fees payable	6,642	5,643
Unused holiday	4,629	4,581
Other accrued costs	26,772	21,262
Other liabilities	6,831	6,707
	171,108	**142,480**

30. 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 29,305 thousand and guarantees issued on behalf of related parties in the amount of HRK 18,102 thousand. Balance of the Company's transactions concluded (order book) based on active projects as of 31 December 2021 amounts to HRK 1,307 million (31 December 2012: HRK 848.8 million).

Notes to the Financial Statements

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31. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party's operations. The Company's principal activity includes performing related party activities, including the purchase and sale of goods and services. The nature of services with related parties is based on arm's length conditions. In addition to sister companies within the Končar Group and the associates, the Company's related parties are the Company's Management Board and Supervisory Board.

During 2021, the Company engaged in transactions with its related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows.

2021	Operating activities				
Company	Receivables	Liabilities	Advances received	Revenue	Expenses
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Subsidiary	-	-	27	6,162	11,318
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**	**857**	**80,506**	**94,958**

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

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

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

Key management renumerations

During 2021 total remuneration (fixed and variable) paid to Management Board of the Company amounted to HRK 6,839 thousand (31 December 2020: HRK 5,879 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).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

32. Risk management

Capital risk management

Financial leverage ratio

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Debt (current and non-current) = D	(55,588)	(61,131)
Short term bank deposits	-	-
Cash and cash equivalents	124,678	107,965
Net cash / (debt)	69,090	46,834
Equity = E	(521,679)	(459,519)
Financial leverage ratio = D/(D+E)	9.63%	11.74%

Financial risk management

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

	FV hierarchy	31.12.2021.	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	172,280	**141,348**
Loans receivable	n/a	6,321	**18,641**
Cash and cash equivalents	n/a	124,678	**107,965**
Total financial assets at amortised cost		**303,279**	**267,954**
Total financial assets		**306,626**	**270,758**
Leases payable	n/a	1,089	**835**
Loans payable	n/a	54,499	**60,296**
Trade payables	n/a	119,165	**97,394**
Total financial liabilities at amortised cost		**174,753**	**158,525**
Derivative instruments	Level 2	2,054	**4,161**
Total financial liabilities at FVTPL		**2,054**	**4,161**
Total financial liabilities		**176,807**	**162,686**

Notes to the Financial Statements

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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 Company uses the following hierarchy for determining the fair value of financial instruments:

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

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

Derivative financial instruments

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

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

Receivables and bank deposits

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

Borrowings

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

Other financial instruments

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

B) Financial instrument risks

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

1. Market risk

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

a) Foreign currency risk and cash flow hedge accounting

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

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

	Spot exchange rate		Average exchange rate	
	31.12.2021.	31.12.2020.	2021	2020
	HRK	*HRK*	*HRK*	*HRK*
EUR	7.51717	7.53690	7.52418	7.53308
SEK	0.73219	0.75068	0.7416	0.71852

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

	Denominated in EUR		Denominated in SEK	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*
Trade receivables	126,272	73,499	14,579	19,063
Loans receivable	6,390	18,641	-	-
Cash and cash equivalents	93,090	73,288	1,571	5,939
Leases payable	(184)	(199)	-	-
Loans payable	(54,499)	(60,296)	-	-
Trade payables	(86,373)	(64,607)	(2,468)	(2,647)
Derivatives	(2,273)	(4,161)	-	-
	82,423	**36,165**	**13,682**	**22,355**
Effect of 1% change in exchange rates on profit	**824**	**362**	**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 Financial Statements

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b) Interest rate risk

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

	31.12.2021.	31.12.2020.
	HRK'000	*HRK'000*
Bank loans based on fixed interest rates	54,499	60,296
Leases based on fixed interest rates	1,089	835
	55,588	**61,131**

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

2) Credit risk

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

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

Total exposure to credit risk at the reporting date is as follows is set out in note 32 to the financial statements. The Company does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at the reporting dates.

3) Liquidity risk

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

Notes to the Financial Statements

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The following table presents the maturity of financial liabilities of the Company 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	**119,165**	**119,165**	119,165	-	-	-
	119,165	**119,165**	**119,165**	-	-	-
Interest bearing liabilities:						
Leases payable	**1,089**	**1,173**	375	325	473	-
Loans payable	**54,499**	**58,587**	8,749	8,343	24,187	17,308
	55,588	**59,760**	**9,124**	**8,668**	**24,660**	**17,308**
	174,753	**178,925**	**128,289**	**8,668**	**24,660**	**17,308**

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

as at 31 December 2019	Net book value	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
	HRK'000	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*	*HRK'000*
Non interest bearing liabilities:						
Trade payables	**97,394**	**97,394**	97,394	-	-	-
	97,394	**97,394**	**97,394**	-	-	-
Interest bearing liabilities:						
Leases payable	**835**	**867**	287	287	293	-
Loans payable	**60,296**	**61,410**	5,758	7,676	23,028	24,948
	61,s131	**62,277**	**6,045**	**7,963**	**23,321**	**24,948**
	158,525	**159,671**	**103,439**	**7,963**	**23,321**	**24,948**

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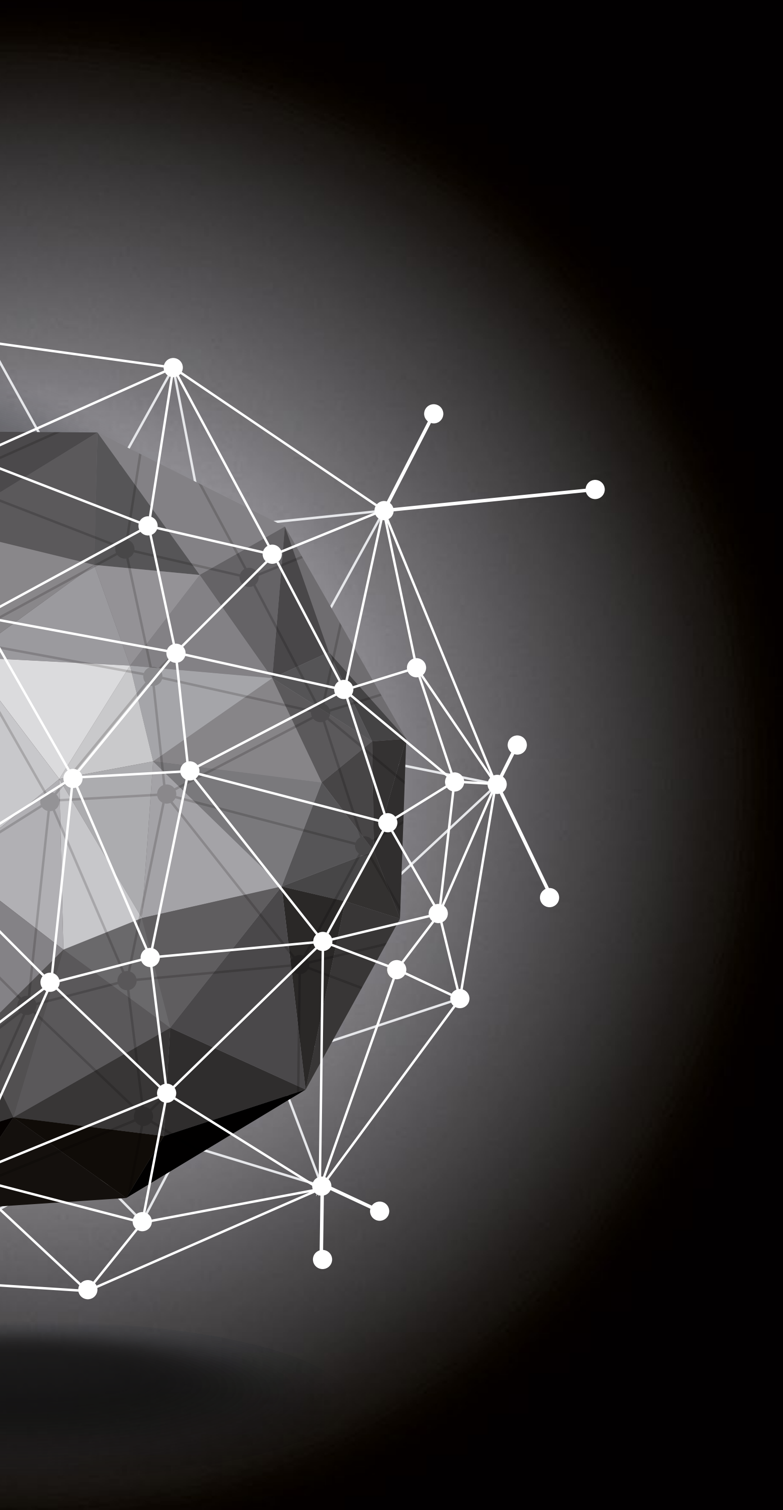

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