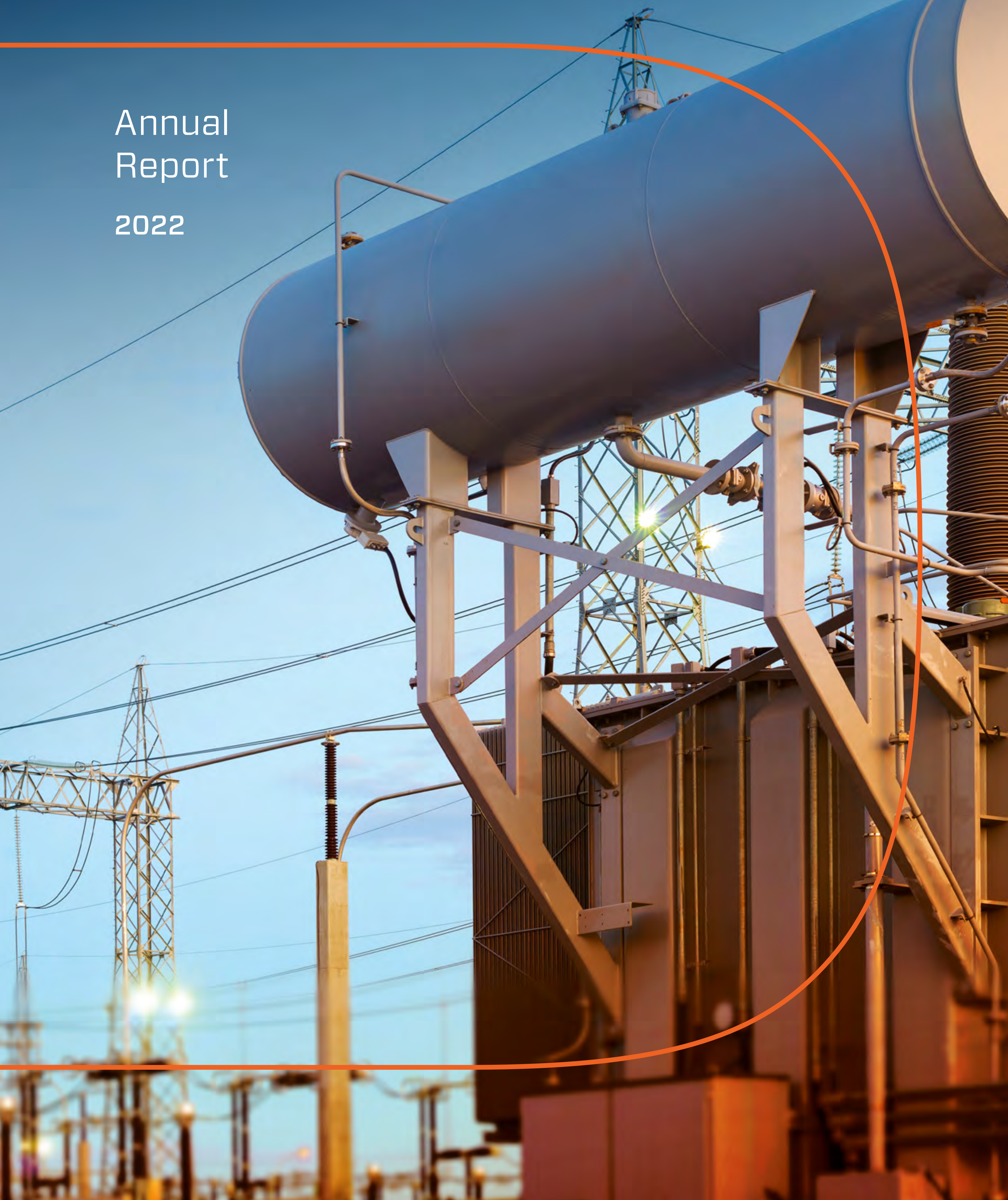
KONČAR
D&ST

Inspired by challenge

Annual Report

2022



Annual Report

2022

Končar – Distribution and Special Transformers Inc.

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MANAGEMENT REPORT

2022 – A year of significant growth in demand for transformers, with continued overall business growth

1. Introductory Word by the Management Board

The highly complex and dynamic market trends continued through 2022. With the already present circumstances concerning the global COVID-19 pandemic, further instability was caused by supply chain disturbances, continued rising prices of the main raw and other materials, the war in Ukraine and its impacts on the European and global markets. Sanctions imposed on Russia and the sudden and significant spike in energy prices (natural gas, oil, electricity) and the effects of inflation left their mark on the business year. Despite this, in 2022 the Company continued its series of successful business years.

The total sale of goods and services in 2022 amounted to HRK 1,821 million (up from HRK 1,377 million in 2021), which is a 32% increase at the annual level. Exports accounted for 89% of sales at HRK 1,626 million (compared to HRK 1,197 million in 2021), up 36% from the year before.

Profit before tax in 2022 was HRK 179.6 million (net HRK 168.0 million), which was 65% higher than the profit before tax in 2021 at HRK 108.7 million (net HRK 88.4 million).

The significant increase in demand for transformers is a consequence of green transition and a greater focus on sustainability, our strong market position on demanding foreign markets, and recognising sales opportunities, resulting in a record number of contracts. At the end of 2022, total contract value was HRK 2,068 million, which is up 58% over the year before at HRK 1,307 million.

During 2022, we invested a total of HRK 55.6 million (as opposed to HRK 19.3 million in 2021). The majority share of investments (HRK 37.6 million) was for the purchase of the second half of the production hall and cutting centre. Through the investment project "Sustainable SETup for the development of socially and environmentally responsible production" (Sustainable SETup), this space will be primarily used to normalise the existing level of production and to increase warehouse space, enabling an optimisation of business processes and ensuring more appropriate flow of materials, raw materials, equipment and finished products. The remaining part of the investment was used for the procurement of new production, testing and IT equipment, and to improve working conditions. During 2022, we also completed the installation of a 1.1 MW photovoltaic plant on the rooftops of our production halls. This solar plant will cover about 35% of our electricity needs.

During 2022, the Company secured additional resources to provide active support to the company PET, Poland, to further improve overall operations.

During 2022, the number of employees was increased by 66 to a total of 744. The engineering departments, support services, and production all received new workers. A number of organisational changes was made to more effectively manage the Company's growth and the growth in production volume.

In its operations, the Company operates in compliance with the internationally recognised standards and requirements of corporate social responsibility. Quality management systems according to ISO 9001:2015, environmental management according to ISO 14001:2015, and occupational health and safety management according to ISO 45001:2019 were successfully maintained and verified, as part of the process of constant improvements.

In 2022, ordinary and preferred shares of Končar D&ST were listed and traded on the Regular Market of the Zagreb Stock Exchange. At the start of the year, the price of ordinary shares of Končar D&ST was HRK 2,260, rising to HRK 2,440 at the end of the year, marking an increase of 8%.

Given the above, we can consider the total business results of Končar D&ST in 2022 to be successful, and the Company is stronger and well prepared for future business challenges. The alignment of interests of all stakeholders – owners, management, employees, customers, suppliers and banks, and our mutual trust, have been of the utmost importance in achieved these good business results. The Končar D&ST Management Board expresses its gratitude for this support and confidence, and we are pleased to present this Report on the State of the Company for 2022.

For the Končar D&ST Inc. Management Board

Vanja Burul

Board President

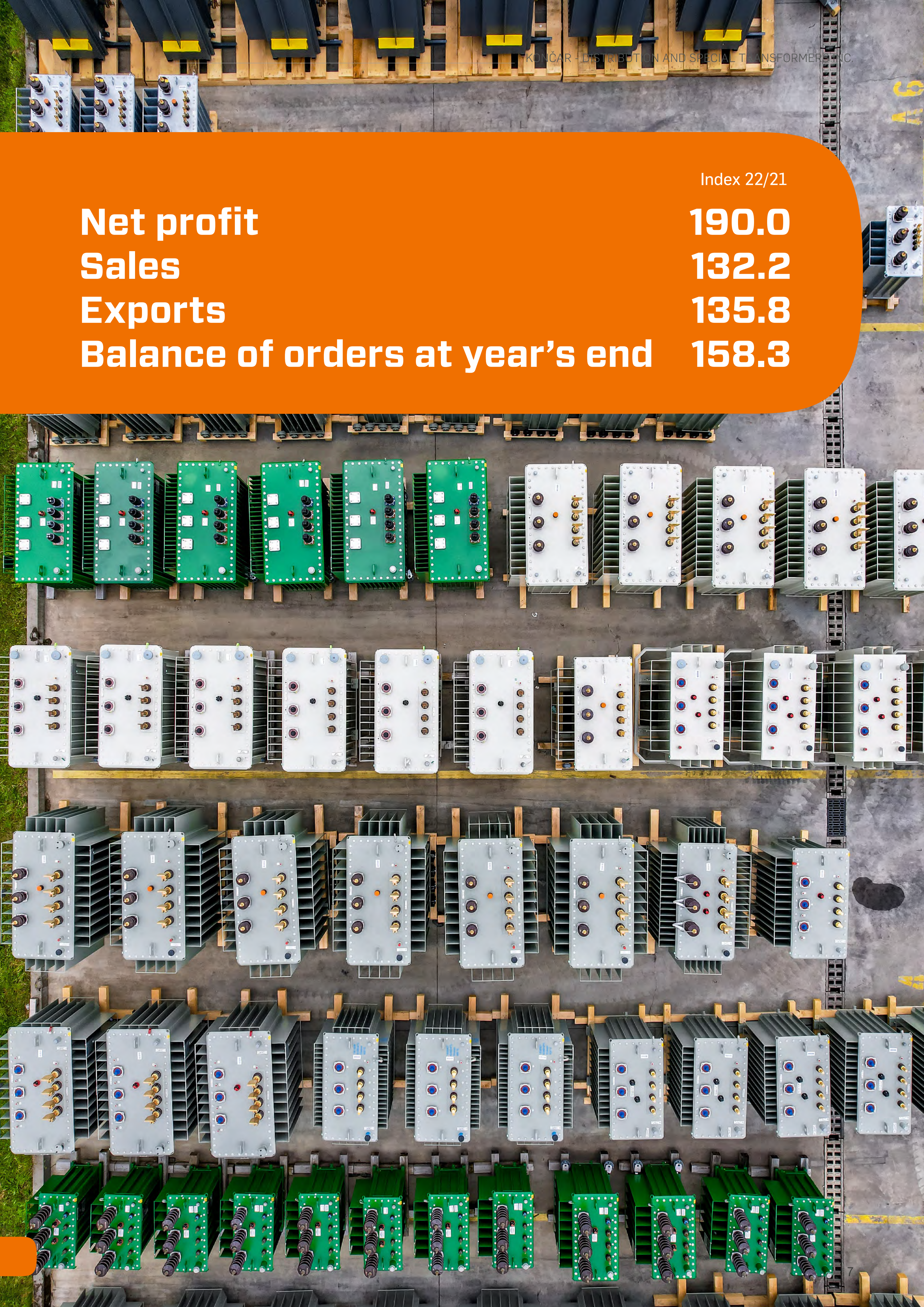
2. Major 2022 Figures Compared to 2021, 2020 and 2019

	2022 HRK ('000)	2021 HRK ('000)	2020 HRK ('000)	2019 HRK ('000)	2022 EUR ('000)	2021 EUR ('000)	22/21 Index
Sales							
Croatia	194,776	180,009	153,149	128,210	25,861	23,924	108.2
Exports	1,626,068	1,197,068	937,612	902,665	215,899	159,096	135.8
Total	**1,820,844**	**1,377,077**	**1,090,761**	**1,030,875**	**241,761**	**183,020**	**132.2**
State of orders at year's end							
Croatia	84,499	73,435	23,604	32,279	11,219	9,760	115.1
Exports	1,983,515	1,233,068	825,146	658,464	263,359	163,880	160.9
Total	**2,068,014**	**1,306,503**	**848,750**	**690,743**	**274,578**	**173,640**	**158.3**
Annual sales per employee	**2,505**	**2,077**	**1,707**	**1,684**	**333**	**276**	**120.6**
Investments	**55,615**	**19,253**	**39,671**	**92,142**	**7,384**	**2,559**	**288.9**
EBITDA	**198,526**	**137,220**	**103,545**	**87,305**	**26,359**	**18,237**	**144.7**
Net profit	**167,991**	**88,437**	**92,091**	**59,695**	**22,305**	**11,754**	**190.0**
Dividends HRK/share							
Ordinary	*	**69.20**	**51.40**	**37.66**			
Preferred	*	**69.20**	**51.40**	**37.66**			
Net profit/ sales in %	**9.2%**	**6.4%**	**8.4%**	**5.8%**			
Net profit per total equity	**38.4%**	**23.0%**	**27.3%**	**19.4%**			
Total equity and reserves on 31 Dec	**654,293**	**521,679**	**459,520**	**386,682**	**86,873**	**69,333**	**125.4**
Number of employees							
Average	**727**	**663**	**639**	**612**			**109.7**
On 31 Dec	**744**	**678**	**651**	**623**			**109.7**

Note:
Average exchange rate: 2019 1 EUR = 7.4136 kn; 2020 1 EUR = 7.5331 kn; 2021 1 EUR = 7.5242 kn; 2022 1 EUR = 7.5316 kn

* Dividend amount will be known after the regular General Assembly is held.

	Index 22/21
Net profit	**190.0**
Sales	**132.2**
Exports	**135.8**
Balance of orders at year's end	**158.3**



3. Organisation Scheme in 2022

GENERAL ASEMBLY

SUPERVISORY BOARD

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

MANAGEMENT BOARD

President of the Management Board

Office of the Management Board

Profit centre MEDIUM POWER TRANSFORMERS

dir. Petar Bobek

Business Secretary

- SALES & MARKETING
  - Sales I
  - Sales II
  - After sales service
- TECHNICAL DEPARTMENT
  - Electrical Design I
  - Electrical Design II
  - Mechanical Design I
  - Mechanical Design II
  - Mechanical Design Development
- PRODUCTION PLANNING
  - Production planning
  - Technology
  - Warehouses
- PRODUCTION
  - Insulation
  - Core stacking
  - Machining workshop
  - Winding workshop I
  - Winding workshop II
  - Asembly I A
  - Asembly I B
  - Asembly II A
  - Asembly II B
- QUALITY
  - Test station
  - Final Inspection
- DISPATCHING &PACKING
  - Packing

Profit centre DISTRIBUTION TRANSFORMERS

dir. Martina Mikulić

Business Secretary

- SALES & MARKETING
  - Sales North
  - Sales South
  - After sales service
- TECHNICAL DEPARTMENT
  - Electrical Design DT
  - Electrical Design ST
  - Mechanical Design DT
  - Mechanical Design Development
- PRODUCTION PLANNING
  - Production Planning
  - Warehouses
- CORE CUTTING CENTER
  - Core cutting
  - Core production I
  - Core production II
- PRODUCTION
  - Windings I
  - Windings II
  - Assembly I
  - Assembly II
  - Final Assembly
  - Production SDT
- QUALITY
  - Test Station
  - Final Inspection

Auditors
KPMG Croatia d.o.o.

FINANCE, ACCOUNTING, PURCHASING & HRL
dir. Petar Vlaić

- LEGAL AFAIRS & HRL
- FINANCE & ACCOUNTING
  - Finance Accounting
  - Controlling
- PURCHASING
  - Operational procurement

PRODUCT & BUSINESS DEVELOPMENT
dir. Dominik Trstoglavec

- STRATEGIC INVESTMENT
  - Strategic investment
  - Maintenance
- PRODUCT DEVELOPMENT & STANDARDISA-TION
- PRODUCTION DEVELOPMENT
- BUSINESS EXCELLENCE

- MANAGE-MENT SYSTEM DEVELOP-MENT
  - ISO 9001, ISO 14001, ISO 45001
  - Safety at work
- INCOMING INSPECTION
- IT DEPART-MENT
- BUS INES S APPLICA-TIONS
- MARKETING

4. General Position of the Company

Good business results in 2022 and in the years preceding gave an additional financial boost to the Company, ensuring appropriate financial stability and a strong foundation for further business development.

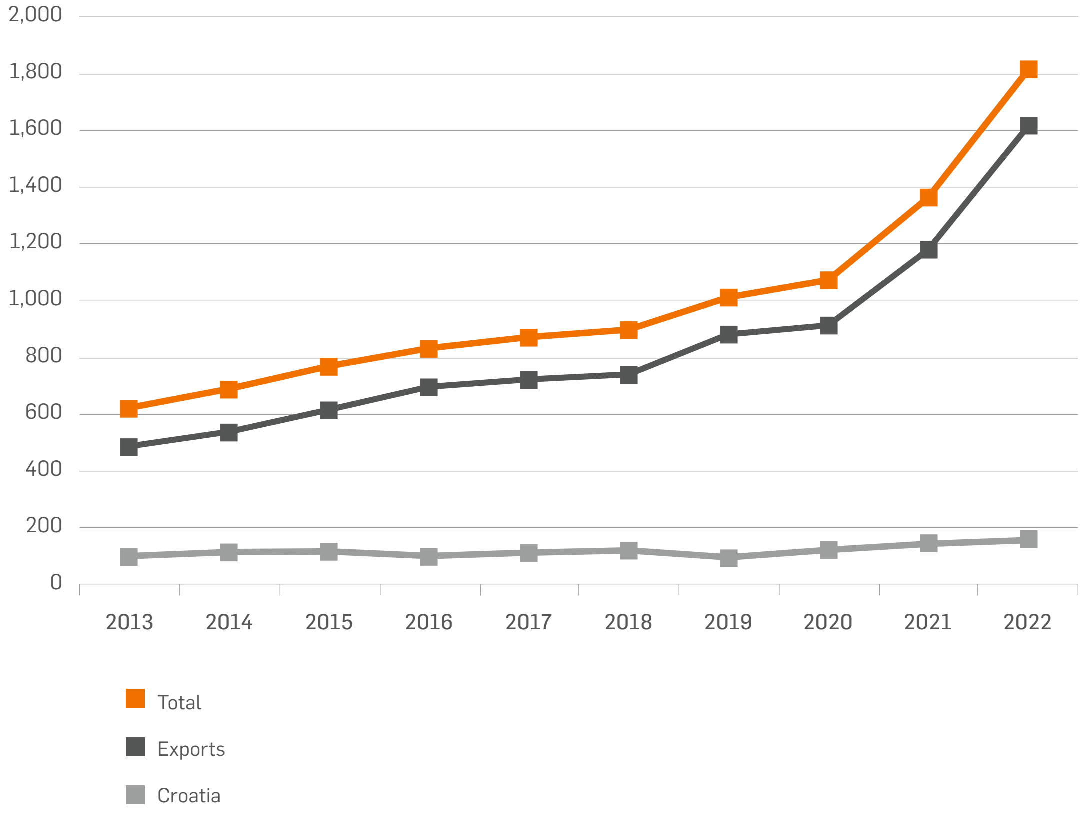
As a result of ongoing organisational adjustments to new external and internal conditions, both in terms of its line of distribution transformers and its line of medium power transformers, the Company has improved its competitive edge on the market in these challenging times.

By identifying sales and development activities as its priorities, along with employment and systematised training of young experts, employee motivation, investments in IT, product development and production modernisation, the Company is prepared to meet the demands of the complex market conditions that can also be expected in the future.

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

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. Company Organisation and Management in 2022

During 2022, Končar D&ST was managed by the Management Board in the following composition:

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, Procurement and HR Director*

Business processes in 2022 were organised through profit centres entitled Distribution Transformers (DT PC) and Medium Power Transformers (MPT PC), 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 2022, Končar D&ST performed its activities at a single location in the Republic of Croatia: Josipa Mokrovića 8, 10090 Zagreb.

The company PET Sp. z o.o. (100% owned by Koncar D&ST) operates at the location: Czerwonak, Gdinjska 83, Poland.

6. Subsidiary - PET Poland

The company Power Engineering Transformatory Sp. z o.o. Czerwonak (PET) in Poland is under 100% ownership of the company Končar D&ST Inc.

The company 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, though prominent steps are being taken on foreign markets. The general conjuncture on the transformer market has enabled a stabilisation of its operations, and with the sales and technical support from Zagreb, the company achieved the long awaited positive result in 2022. The positive result should enable further stabilisation and strengthening of operations, further investments in buildings and equipment, and better financial conditions for employees.

On 31 December 2022, PET had 71 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, the Company has developed internal control systems at all important levels. These 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 2022 and 2021. Shareholders can vote electronically with attendance at the Shareholders' Assembly. Preferred shares do not carry the right to vote.

In 2022, 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 Board President.

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 the Company. The Management Board informed the Supervisory Board about the results.

SUPERVISORY BOARD

The Company Supervisory Board consists of 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 2022, 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 2022, the Supervisory Board held 42 sessions, four regular, 34 in correspondence and 4 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 in 2022. 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 the Company.

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 the Company. In 2022, 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 - chairperson, Gordan Kolak - member, and Ivan Bahun - member. In 2022, the Review Committee held a session on 1 April 2022, attended by all its members.

RECEIPTS COMMITTEE

Members of the Receipts Committee are: Josip Ljulj - chairperson, Božidar Poldrugač - member and Josip Lasić - member.

In 2022, the Receipts Committee held a session on 12 April 2022, attended by all its members. The Receipts Committee adopted the new remuneration policy for Management Board members.

APPOINTMENTS COMMITTEE

Members of the Appointments Committee are: Gordan Kolak - chairperson, Ivan Bahun - member and Božidar Poldrugač - member. In 2022, the Appointments Committee held no sessions.

8. Market Position and Sales by Country and Group of Products

The stabilisation of operations at the end of 2021 after a year of turbulence caused by the COVID-19 virus was very short-lived. Already in the second half of February 2022, the Russian aggression against the Ukraine caused gradual disturbances in all business segments, starting with logistics challenges followed by a dramatic spike in the price of materials and raw materials, which resulted in inflation that was unprecedented for many years before this. Such an altered situation indicated the inadequacy of the tender and contracted models, particularly in the commercial sense. Accordingly, it was necessary to renegotiated the contract models with customers to track the prices of materials and raw materials and inflation.

Parallelly, considering the goal of European countries to meet green transition targets and achieve energy independence as soon as possible, the demand for transformers increased significantly. This high demand further drove up the price of equipment, materials and raw materials needed for operations in the transformer industry, resulting in a lengthening of delivery periods for transformers. In this sense, it proved exceptionally important to develop strong partnerships with strategic buyers throughout Europe, as the main factors in these processes.

The Company invested extraordinary efforts throughout the year on virtually all markets, with a fair business and partnership approach towards buyers, and reliability and quality of supply to strengthen its market position. This resulted in exceptional business results in 2022.

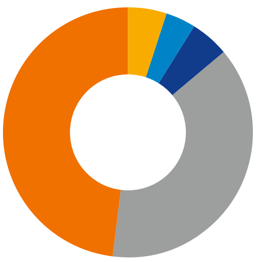
In 2022, sales recorded growth of 32% over 2021, and totalled HRK 1,821 million (EUR 242 million).

Changes by product groups in 2022 in comparison to 2021 were:

Distribution transformers: **36% growth**
Medium power transformers: **27% growth**
Dry and special transformers: **15% decline**
Other goods and services: **74% growth**

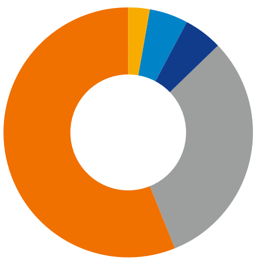
Sales structure by product type in 2022

Medium power transformers	48%
Distribution transformers	38%
Services	5%
Dry and special transformers	4%
Supplies	5%



Structure of new contracts by product type in 2022

Medium power transformers	56%
Distribution transformers	31%
Services	5%
Dry and special transformers	5%
Supplies	3%



Sales by main markets was as follows:

Croatia: In 2022, deliveries were valued at HRK 195 million (EUR 26 million), or **8% growth** compared to 2021 (HRK 180 million, EUR 24 million).

Neighbouring European countries: BiH, Slovenia, North Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Serbia, Romania - In 2022, deliveries were valued at HRK 319 million (EUR 42 million), or **22% growth** compared to 2021 (HRK 262 million, EUR 35 million).

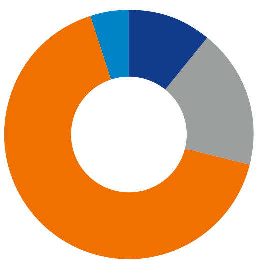
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta, The Netherlands, Belgium, Greece - In 2022, deliveries were valued at HRK 1,205 million (EUR 157 million), which is a **40% rise** compared to 2021 (HRK 859 million, EUR 114 million).

Asia, Africa, and the Americas: In 2022, deliveries were valued at HRK 102 million (EUR 14 million), which is **31% growth** compared to 2021 (HRK 77 million, EUR 10 million).

In 2022, total contract value was HRK 2,545 million (EUR 338 million), which is 39% more than in 2021.
The state of transactions contracted at the end of the year was worth HRK 2,068 million, up 58% over the end of 2021.

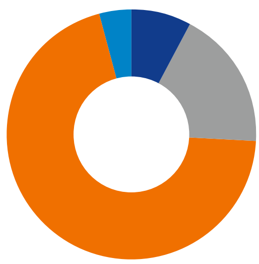
Sales structure by market in 2022

Other European countries	66%
Neighbouring European countries	18%
Croatia	11%
Asia, Africa, and the Americas	5%



New contracts by market in 2022

Other European countries	70%
Neighbouring European countries	18%
Croatia	8%
Asia, Africa, and the Americas	4%



On 31 December 2022, assets of Končar D&ST were HRK 1,368 million, which was HRK 394 million or 42% higher than the year before. Long-term assets account for 20% while short-term assets account for 80% of the total Company assets.

9. Financial Position (Balance Sheet)

On 31 December 2022, assets of Končar D&ST were HRK 1,368 million, which was HRK 394 million or 42% higher than the year before. Long-term assets account for 20% while short-term assets account for 80% of the total Company assets.

The dominant item in the non-current assets is Tangible assets, accounting for 91% of this class of assets. The long-term assets were increased by HRK 38 million or 16% over one year before, and totalled HRK 272 million. This increase in value is the consequence of the purchase of the second half of the commercial building that forms a functional whole with the previously purchased part of that structure. The purchased half-building has an area of approx.. 4700 m2 and will be turned into additional production, warehouse and administrative space. This is part of the new investment cycle in the period 2022 to 2024 as part of the project "Sustainable SET-up".

On 31 December 2022, non-current assets amounted to HRK 1,096 million, up HRK 356 million (or 48%) from one year earlier. Within this class, the greatest growth was seen in inventory, up 66% to HRK 705 million, followed by accounts receivable at HRK 321 million (up 73%), while cash and cash equivalent was down by 51% in relation to one year earlier at HRK 61 million.

This growth in assets and changes to its structure where the less liquid assets (primarily inventory and current receivables, and then property and equipment) grew significantly, while money in accounts declined, giving rise to the need for additional liquidity.

Funds to finance these additional needs were primarily obtained from lines of credit the Company has in commercial banks, and from loans from the parent company Končar - Electroindustry.

On 31 December 2022, total liabilities towards current borrowings totalled HRK 120.4 million (EUR 16 million), while there were no current borrowings in the previous year.

Current liabilities towards suppliers also had a positive influence on liquidity, and on 31 December 2022 totalled HRK 182 million, which was 53% higher than the total at the end of 2021 when they amounted to HRK 119 million.

Advances from customers continue to be a significant source of Company financing, and on the final day of the period totalled HRK 200 million, which is a 15% share in the total sources of financing.

All current sources of funding amounted to HRK 608 million, and on 31 December 2022 accounted for 44% of equity and liabilities. In relation to the previous year, this was nearly twice as high, i.e., by HRK 285 million or 88%.

The described trends of assets and liabilities led to a worsening of general liquidity ratios. On 31 December 2022, the current ratio was 1.80 (as opposed to 2.29 at the end of the previous year), and quick ratio by 0.64 (as opposed to 0.98 one year earlier).

The business reasons behind this erosion of liquidity can be found in the general business environment affecting the year. The instability spilling over from 2021 was only further aggravated by the war in Ukraine and high inflationary pressures.

Unlike the current liabilities, non-current liabilities were reduced from HRK 129 million on 31 December 2021 to HRK 106 million on 31 December 2022, which is a share of 8% of the total equity and liabilities.

Own sources of funding, i.e., capital with reserves and retained profits, totalled HRK 654 million on 31 December 2022, accounting for 48% of liabilities. This was HRK 133 million (25%) higher than one year earlier, which is a consequence of retaining a part of the net profits from 2021 in the amount of HRK 53 million, and the remainder pertains to an increase in net profit in the reference period in comparison with the year before.

With a 12% share of interest-bearing debt in the total source of financing, it can be concluded that the Company has low indebtedness and is financially stable (financial stability indicator of 2.8).

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

The 2022 business year was marked by a significant increase in revenues. Sales revenues were HRK 1,821 million, with an increase of HRK 444 million or 32% in relation to 2021 when they were HRK 1,377 million.

Sales achieved in exports totalled HRK 1,626 million, and accounted for 89% of all sales revenue. Exports grew by HRK 429 million or 36% in comparison to 2021, and represent the main driver of growth of Company operations.

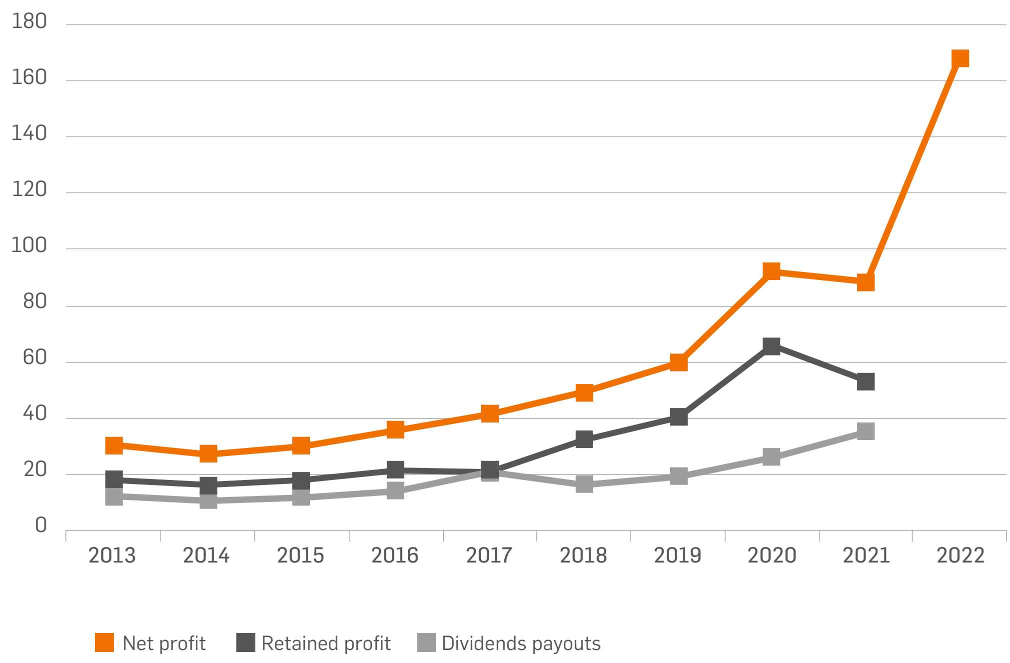
The high rate of inflation that began during 2021 continued into 2022. Inflationary trends significantly affected a spike in input costs. During the year, major efforts were invested to successfully transfer the inflationary pressures on the value of open contracts and in the conclusion of new contracts. The growth in sales revenues is largely a consequence of those activities.

During the year, the price of strategic materials increased sharply (electromagnetic transformer steel sheets, copper, aluminium, transformer oil, cold rolled steel), and for all other materials used in production.

In addition to rising prices of strategic materials that account for a significant share of product cost, nearly all other costs also rose, and in terms of their importance, it is necessary to highly the costs of transport and logistics, costs of energy (especially natural gas), costs of auxiliary materials and services in production, maintenance, compensation to the parent company for the use of the name and trademark, etc.

Personnel costs rose by 16%, which is the result of salary increases and an increase in the number of employees. At the end of 2021 there were 678 employees, and at the end of 2022 there were 66 more (10%), for a total of 744. One-off items pertaining to reservations in the warrantee period and reservations for an onerous contracts also had an effect on the result. The net effect of change on the line items of these reservations was had in their cancellation in the amount of HRK 17 million, which was recorded as a reduction of costs.

Net profit and profit allocation (HRK mil.)



The result of financial operations was a profit of HRK 10 million, which stems from the unrealised profits concerning the evaluation of forward currency exchange contracts concluded with the commercial banks for the purpose of protection from currency exchange risks.

The profit before taxation of the Company for 2022 was HRK 179.6 million, accounting for 9.9% of sales revenues. The same indicator was 7.9% one year earlier.

In line with the new Extra Corporate Tax, the Company is subject to the Act and pursuant to its provisions, was required to pay the amount of HRK 21.1 million. Together with the regular profit tax paid, in the amount of HRK 27.5 million, the total tax obligation was HRK 48.6 million, or effectively 27% of the total profits.

Since the Company received tax subsidies for the investment entitled "Sustainable SETup for the development of socially and environmentally responsible manufacturing" in the amount of HRK 41.2 million, the majority of the received subsidy, in the amount of HRK 36.4 million (75% of the calculated tax obligation) will be used to reduce the payment of tax obligations for 2022. After this, the recorded profit tax is HRK 11.6 million.

Net profits in 2022 totalled HRK 168 million, which is HRK 80 million or 90% higher than the year before.

Trading of Končar D&ST stocks on the Zagreb Exchange in 2022 was marked by both rising prices and trading volumes. At the end of 2021, the price of the KODT-R-A was HRK 2,260, rising by 8% to the end of 2022 to HRK 2,440. At the end of 2021, the price of KODT-P-A was HRK 2,140, rising by 13% to the end of 2022 to HRK 2,420.

Based on the price of ordinary shares, the P/E ratio on the final day of 2022 was 7.4.

During 2022, total trading with both shares of Končar D&ST (KODT-R-A and KODT-P-A) was valued at HRK 36.8 million as opposed to HRK 13.4 million in the previous year, which is a growth in volume of 175%.

In view of the rising price of KODT shares, the market capitalisation also increased. On 31 December 2022 it was HRK 1,245 million, up 9% over the same day one year earlier when it was HRK 1,141 million. In 2022, the Company did not acquire its own shares.

11. Main Operating Risks

In 2022, the Company revised its Rulebook Ordinance on Risk Management and its Risk Management Policy, which are in compliance with standard ISO 31000:2018 (Risk Management — Guidelines) and with the ERM (Enterprise Risk Management) principles. In accordance with this policy, risk management in the Company 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 reasonable and feasible levels and compliance with our legal obligations will have priority over other business goals.

The Risk Catalogue, revised in late 2022, 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, and this trend continued through most of 2022.

The 2022 business year was marked by the start of the Russian aggression against the Ukraine, with numerous consequences for the European and global economies. The war led to shortages and price spikes of energy prices, particularly natural gas, as well as electricity and other energy sources, with high uncertainty as to the further development of the situation on the market. The Company responded adequately to these risks, mitigated them with the available measures and actions, and the 2022 business year ended without significant negative impacts on Company operating results.

DEMAND for transformers on target markets is one of the main risk factors for the operation of Končar D&ST. The business year 2022 was characterised by an increased demand for transformers for a number of reasons, of which the most significant were investments into renewable energy sources and electro-mobility in the EU, the forecasts of further growth of prices of energy, raw and other materials, and uncertainty in view of supply chain disturbances.

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 (particularly from Turkey, but other countries also) 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 2022. The main challenges involved shortages and the rising prices of energy due to the war in the Ukraine. 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. In view of the options available, the Company protects itself against the risks of sudden changes to the prices of strategic raw materials in several ways. The most important manner in the past two years has been the introduction of sliding formulas for materials in sales contracts with customers. In the case of copper, the risk mitigation policy for contracts in which there is not a sliding formula 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. Changing prices for materials are included in calculations when drafting new product offers.

TECHNOLOGICAL AND DEVELOPMENTAL RISKS. The Company 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 2022, work intensified on the strategic investment project "Sustainable SETup for the development of environmentally and socially responsible production", and intensive support continued for the 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 Company operations in view of the high percentage of exports and import in revenues and in view of the fact that certain monetary asset and liability items are denominated in foreign currencies. The Company protects itself from foreign exchange risk through 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 arises as 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. The Company protects itself from credit risks through 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 arises 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 for 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

During 2022, the Company invested a total of HRK 55.6 million (up from HRK 19.3 million in 2021). The majority share of these funds (HRK 37.6 million) was invested in the purchase of the second half of the production hall with cutting centre. The purchased half of the hall, having an area of 4700 m2, will be set up as additional warehouse, production and administrative space, as part of the investment project "Sustainable SETup for the development of socially and environmentally responsible production" (Sustainable SETup). The Sustainable SETup project is implemented in the period from 2022 – 2024, and the aim is to normalise the existing level of project by increasing warehouse, production and administrative space, so as to achieve better flow of materials and finished projects and more efficient organisation of production processes.

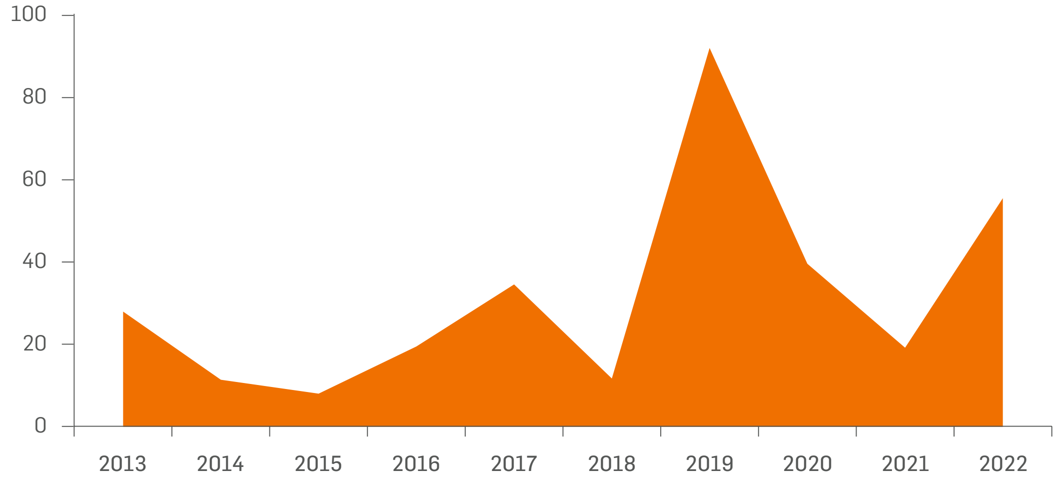
A significant investment in 2022 was the installation and commissioning of the photovoltaic plant at the end of 2022. The plant has an installation strength of 1.1 MW and is fully operational, and it is expected that it will generate one-third of the Company's annual electricity demand.

In 2022, various types of special production machinery were modernised and procured.

A new machine for lateral cutting of transformer sheet was contracted for the distribution transformer product line, and its delivery is expected at the start of the Q3 2023. The installation and commissioning of this new machine will enable more stable production of distribution transformer cores, and will improve the working conditions in the Cutting centre.

Parallel with investments into production equipment, investments were made to upgrade IT equipment and to modernise computer equipment, thereby increasing the efficacy of administering the business processes and ensuring better support to the technical offices. Employee training was also implemented to raise awareness about cybernetic safety, which will contribute to raising the overall information security of the Company.

Investments (HRK mil.)



13. Technical Development and Product Innovation

The technical development departments (Product Development and Production Development) employ 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.

The most important development steps taken in 2022 involve the development of solutions and creation of a prototype of a transformer with improved, directed cooling, and significant progress in the area of transients, i.e., resizing insulation with regard to the peak charge load. Further, research is ongoing to seek out new solutions for noise reduction, research on biodegradable insulation fluids, and development of a programme for the design of special distribution transformers. Improvements are also being made to the existing programme for transformer design, and investments made into additional commercial programmes for the calculation of mechanical and thermal variables in transformers.

Experts in technical development and from other departments took active part in expert symposia on transformers (CIGRE Paris – large electrical energy systems, ISMA/ISAC Leuven – noise and vibration), 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.

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).

14. Human Resources

At the beginning of 2022, Končar D&ST had 678 employees. By the end of the year, 88 new employees were recruited, while 22 left the Company, so that at year-end the Company had 744 employees. The age structure of employees is diverse. The youngest employee in 2022 was 18 years old and the eldest 54. The average age of employees in Končar D&ST is 38 years of age.

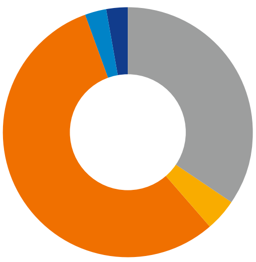
Končar D&ST systematically plans and continuously implements employee training, professional development and education, with the aim of enabling employees to acquire expert knowledge, technical knowledge, foreign language knowledge, IT knowledge, managerial skills, development of personal competencies, and knowledge in the field of occupational health and safety, environmental protection, and quality systems. The Company encourages and financially supports enrolment in graduate, postgraduate and doctoral studies, active and passive participation and seminars in Croatia and abroad, attending foreign language and computer skills courses, participation in workshops for leadership skills and manager development programmes, participation in workshops for soft skills and personal development, education for auditors in quality management systems, and other training programmes.

Productivity measured as sales per employee in 2022 was HRK 2.5 million (EUR 332 million), which is an increase of 19% in comparison with the previous year.

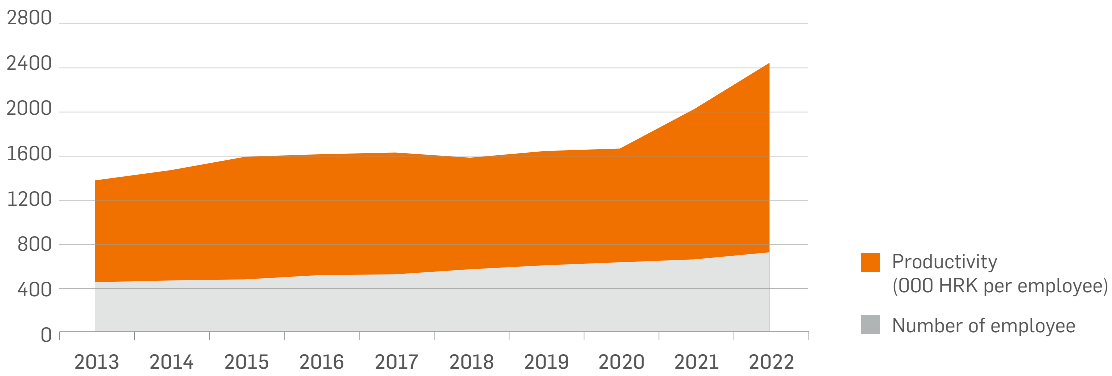
Structure of employee education levels at year-end:

	2022	2021
1. University degree (16+ years of education)	**249**	**234**
2. College and bachelor's degree (14–15 years of education)	**36**	**29**
3. Secondary school (12 years of education)	**415**	**378**
4. Vocational school (11–13 years of education)	**29**	**19**
5. Trained workers with primary school (8 years of education)	**15**	**18**
Total	**744**	**678**

Secondary school	56%
College and bachelor's degree	5%
University degree	33%
Trained workers with primary school	2%
Vocational school	4%



Number of employees and productivity trends



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

In May 2022, the quality management system based on the standard ISO 9001:2015 was recertified, with an extension of certificate validity for the next three-year period. At the same time as the recertification audit, supervisory audits were conducted of the remaining two management systems (environment management ISO 14001:2015 and OH&S ISO 45001:2018).

Conformity certification cycles for all three certified management systems (ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018) are conducted twice a year by the international certification company Bureau Veritas. The six-month cycle of audits, both external and internal audits, remains as a good practice of ongoing supervision and continuous improvements to the management systems.

Internal audits are conducted by in-house employees who are regularly trained in the field through internal and external education. At the end of 2022, there were 24 internal auditors, and plans are in place in 2023 to train additional employees as internal auditors.

In other areas pertaining to management systems, training is regularly conducted. Through the Joint training programme of the Končar Group, during 2022, employees were trained as internal auditors for quality and occupational health and safety, for measuring customer satisfaction, for FMEA methodology, for introduction to the cybernetic security management system (standard IEC 62443-2-1:2010), and for risk management.

In 2022, the Carbon Footprint of Products (CFP) project was actively continued. At the start of the year, the first CFP project was completed for a medium 80 MVA medium power transformer. In the middle of the year, a new CFP project was started for two medium power transformers (each 40 MVA) as part of the contractual obligations of a Spanish customer, and parallel with the drafting of the Environmental Product Declaration (EPD). For distributor transformers, two CFP projects have been completed for an ENEL customer, and two EPD documents completed for a 400 kVA and published on the EPD environment portal in Italy.

16. Corporate Sustainable 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 environmental protection, business ethics, employee rights, and the protection of health and safety.

In 2022, Končar D&ST issued its second Report on Corporate Social Responsibility and Sustainability in accordance with the GRI Reporting Guidelines, within which it conducted a detailed analysis of its products and general business activities in light of the economic activities defined under the legal framework “Regulation on EU Taxonomy”.

Končar D&ST 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 the Company. For that purpose, in 2022, the Company implemented several projects to calculate the carbon footprint of its products. Also, at the end of 2022, it successfully installed and commissioned the 1.1 MW photovoltaic power plant.

The special values by which Končar D&ST is guided in its work are:

Quality,
Minimising its environmental impact,
Occupational safety,
Honesty and accountability for upholding its commitments,
Compliance with laws, standards, and best practices in operations,
Creating above-average business results,
Care for its employees and continued investments in their professional development,
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.

As an example of our ongoing green initiatives, we would like to single out our second annual cleaning effort in green areas in the eastern part of Zagreb in co-operation with the volunteer association Čisteći medvjedići ("Cleaning Teddy Bears").

In 2022, 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 have continued our 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, such as soup kitchens, sports clubs, seniors' associations, veterans' associations and student 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 oil transformers up to 8 MVA and 36 kV, special transformers, and medium power transformers up to 160 MVA and 170 kV.

In the period from 2022 to 2024, the investment project "Sustainable SETup for the development of socially and environmentally responsible production" ("Sustainable SETup") is implemented at the existing location in Jankomir. This project is aimed primarily at normalising the existing level of production and increasing warehouse space, so as to enable optimisation of several business processes and a more adequate flow of materials, raw 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:

Even after the end of the 2022 business year, and to the drafting of this report, the COVID-19 pandemic has still not been formally ended, and there is a probability that in the case of unfavourable trends, this could have negative implications on future operations. Further, negative implications are possible due to the continuation and/or escalation of the war in the Ukraine, and due to supply chain disturbances, the high cost of energy, and the shortage of certain key materials on global markets. Other than the above, there were no other unusual or important business events that would significantly alter the overall operations and state of the Company as outlined in this report.

II

DECISIONS PROVIDED BY LAW

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

Pursuant to Articles 220 and 300d of the Croatian Act on Companies and Article 22 of the Articles of Association of KONČAR D&ST Inc., at the Supervisory Board meeting held on 04 April 2023, the Supervisory Board and the Management Board of the Company have adopted the following

DECISION

ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2022

The Supervisory Board and the Management Board of Končar-D&ST Inc. have jointly adopted the Annual Financial Statements for 2022.

Explanation

The Management Board of the Company has submitted to the Supervisory Board for approval the Annual Financial Statements for 2022.
The Supervisory Board has given approval to the Annual Financial Statements for 2022, whereby the Supervisory Board and the Management Board have jointly adopted the Annual Financial Statements for 2022 as follows:

	000 HRK
Total income	1.838.423
Total expenses	1.658.790
Profit before taxation	179.633
Corporate income tax	11.642
Profit after taxation	167.991
Total assets	1.367.783

Gordan Kolak
President of the Supervisory Board

Vanja Burul
President of the Management Board

Zagreb, 04 April 2023

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 04 April 2023, Supervisory Board and Management Board adopted the following

DECISION

ON ALLOCATION OF PROFITS FOR 2022

1. Profits after taxation (net profits) for 2022 amount to HRK 167,990,805.76
2. The Management Board and the Supervisory Board have allocated a sum of HRK 16,799,080.58 into Statutory reserves.
3. The Management Board and the Supervisory Board have proposed to General Assembly to make a decision on allocation a sum of HRK 98,279,213.18 into Retained earnings.
4. The Management Board and the Supervisory Board have proposed to General Assembly to make a decision on payment of dividends on ordinary shares and preferred shares at a sum of HRK 103.50 (€ 13.74) per share, which totals HRK 52,912,512.00 (€ 7,024,327.68) 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) 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, 04 April 2023

III
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS WITH NOTES

Končar - Distribution and Special Transformers Inc.

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 19 April 2023 for submission to the Supervisory Board.

Vanja Burul, Management Board President

Petar Vlaić, Member

Petar Bobek, Member

Martina Mikulić, Member

Dominik Trstoglavec, Member

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 2022, 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 2022 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.

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 2022 amounts to HRK 1,820,844 thousand (2021.: HRK 1,377,077 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>
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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. *(continued)*

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Warranty provisions

Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2022 amounted to HRK 81,349 thousand (31 December 2021.: HRK 94,698 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.

Key audit matter	How we addressed the matter

The Company's customer arrangements include product warranties given to customers granted for a period ranging from 3 to 5 years from the delivery of transformers.
 	
The product warranties primarily cover expected costs to repair or replace components with defects or functional and/or serial errors as well as financial losses suffered by the Company's customers in connection with unplanned suspension of operations.
 	
As stated in note 3b), the Company estimates general provisions for product warranties by reference to: historical costs related to product warranties; industry statistics of transformer failure incidence levels; and market experience from other transformer manufacturers.
 	
In addition, where applicable, specific risks attributable to individual customer contracts and related products (as explained in note 3b)) are taken into account when assessing the need for additional specific warranty provisions for such individual cases.
 	
The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.
	Our procedures performed in this area included:
	
	• Testing the 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.

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.

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.

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 24 May 2022 to audit the separate financial statements of Končar – Distribution and Special Transformers Inc. for the year ended 31 December 2022. Our total uninterrupted period of engagement is three years, covering the periods ending 31 December 2022, 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 4 April 2023;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

KPMG

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 a conclusion on compliance of the separate financial statements of the Company as at and for the year ended 31 December 2022, as included in the attached electronic file "549300DOZHZICNEMG593-2022-12-31-hr.zip", 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 conclusion, based on evidence obtained, as to whether the separate financial statements 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.

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

Report on Compliance with the ESEF Regulation (continued)

Work performed

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. Reasonable assurance is a high degree of assurance. However, it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with the RTS on ESEF.

In respect of the subject matter, we have performed the following procedures:

- 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 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 conclusion.

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the separate financial statements of the Company as at and for the year ended 31 December 2022 presented in ESEF format and contained in the aforementioned attached electronic file, have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Our conclusion does not represent an opinion on the true and fair view of the financial statements as this is included in our Report on the Audit of the Financial Statements.

KPMG Croatia d.o.o. za reviziju **19 April 2023**
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

Statement of Comprehensive Income

for the year ended 31 December 2022

	Note	2022 HRK'000	2021 HRK'000
Revenue	4	1,820,844	1,377,077
Other operating income	5	6,078	2,751
Operating income		**1,826,922**	**1,379,828**
Change in inventories of work in progress and finished goods		75,129	37,369
Materials, consumables, goods and services used	6	(1,462,465)	(1,062,614)
Personnel costs	7	(195,673)	(169,190)
Depreciation and amortisation		(28,789)	(27,771)
Other operating expenses	8	(32,072)	(25,808)
Impairment	9	(13,315)	(22,366)
Operating expenses		**(1,657,185)**	**(1,270,380)**
Operating profit		**169,737**	**109,448**
Financial income	10	11,501	880
Financial expenses	10	(1,605)	(1,584)
Net financial result		**9,896**	**(704)**
Profit before tax		**179,633**	**108,744**
Corporate income tax	11	(11,642)	(20,307)
PROFIT FOR THE YEAR		**167,991**	**88,437**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**167,991**	**88,437**
Earnings per share (basic and diluted) in HRK	12	**328,60**	**172,99**

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

Statement of Financial Position

for the year ended 31 December 2022

	Note	2022 HRK'000	2021 HRK'000
ASSETS			
Non-current assets			
Intangible assets	13	3,097	2,343
Property, plant and equipment	14	247,254	217,166
Right-of-use assets	15	2,107	1,077
Investment property	16	2,640	2,815
Investments in subsidiary	17	3,766	-
Investments in associates	18	1,732	1,732
Financial assets at FVOCI	19	2,804	2,804
Financial assets at FVTPL	28	2,886	543
Deferred tax assets		5,414	4,908
		271,700	**233,388**
Current assets			
Inventories	20	704,590	423,057
Trade and other receivables	21	321,443	185,947
Loans receivable	23	2,609	6,321
Financial assets at FVTPL	28	6,397	-
Cash and cash equivalents	24	61,044	124,678
		1,096,083	**740,003**
TOTAL ASSETS		**1,367,783**	**973,391**
EQUITY AND LIABILITIES			
Share capital	25	153,370	153,370
Legal reserves		7,669	7,669
Statutory reserves		230,825	177,765
Other reserves		45,983	45,983
Retained earnings		216,447	136,892
- from which profit for the year		167,991	88,437
EQUITY AND RESERVES		**654,294**	**521,679**
Borrowings	27	41,002	47,715
Provisions for warranty repairs	26	60,652	75,980
Provisions for employee benefits	26	4,154	5,340
Non-current liabilities		**105,808**	**129,035**
Borrowings	27	128,594	7,873
Financial liabilities at FVTPL	28	-	2,054
Income tax liability		7,710	2,415
Trade and other payables	29	244,156	168,693
Contract liabilities	22	199,524	112,199
Provisions for warranty repairs	26	20,697	18,718
Provisions for onerous contracts	26	7,000	10,725
Current liabilities		**607,681**	**322,677**
Total liabilities		**713,489**	**451,712**
TOTAL EQUITY AND LIABILITIES		**1,367,783**	**973,391**

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

Statement of Cash Flows

for the year ended 31 December 2022

	Note	2022 HRK'000	2021 HRK'000
Cash flows from operating activities			
Cash proceeds from trade receivables		1,729,694	1,346,809
Cash proceeds from insurance reimbursements		104	164
Cash proceeds from tax returns		66,933	37,883
Cash paid to suppliers		(1,672,526)	(1,133,683)
Cash paid to employees		(186,042)	(163,246)
Taxes paid		(6,889)	(7,355)
Cash paid for insurance related to reimbursements		(1,729)	(1,761)
Other cash proceeds and payments		(13,796)	(11,067)
Cash from operations		**(84,251)**	**67,744**
Interest paid		(1,489)	(1,121)
Net cash flows from operating activities		**(85,740)**	**66,623**
Cash flows from investment activities			
Cash proceeds from sale of non-current tangible and intangible assets		612	153
Cash proceeds from dividend		2,186	573
Cash proceeds from interest		53	216
Cash proceeds from loans and borrowings		-	3,761
Cash expenses for purchase of non-current tangible and intangible assets		(56,678)	(14,598)
Cash outflows for purchase of financial instruments		-	-
Loans given		-	(6,365)
Net cash used in investing activities		**(53,827)**	**(16,260)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	27	165,386	-
Repayment of principal portion of loans and borrowings	27	(52,718)	(5,626)
Principal portion of lease payments	27	(685)	(349)
Dividends paid		(35,383)	(26,274)
Other cash proceeds and payments		(667)	(1,401)
Net cash used in financing activities		**75,933**	**(33,650)**
Net increase/(decrease) in cash and cash equivalents		**(63,634)**	**16,713**
Cash and cash equivalents at the beginning of the period		124,678	107,965
Cash and cash equivalents at the end of the period	**24**	**61,044**	**124,678**

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

Statement of Changes in Equity

for the year ended 31 December 2022

	Share capital HRK'000	Legal reserves HRK'000	Statutory reserves HRK'000	Other reserves HRK'000	Retained earnings HRK'000	Total HRK'000
As at 1 January 2021	**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**
Profit for the year	-	-	-	-	167,991	167,991
Total comprehensive income	**-**	**-**	**-**	**-**	**167,991**	**167,991**
Transfers	-	-	53,060	-	(53,060)	-
Dividends	-	-	-	-	(35,376)	(35,376)
Total transactions with owners	**-**	**-**	**53,060**	**-**	**(88,436)**	**(35,376)**
As at 31 December 2022	**153,370**	**7,669**	**230,825**	**45,983**	**216,447**	**654,294**

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

Notes to the Financial Statements

for the year ended 31 December 2022

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 2022, the Company had 744 employees, while as at 31 December 2021, there had been 678 employees in the Company.

Members of the Supervisory Board

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

Members of the Management Board

- Vanja Burul, President
- Petar Vlaić, Member
- Martina Mikulić, Member
- Petar Bobek, Member
- Dominik Trstoglavec, Member

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

Financial statements are stated in HRK '000. The stated amounts are rounded to the nearest thousand HRK.

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 2022 in order to obtain complete information about the financial position, results of operations and changes in the financial position of the Group as a whole.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods ending 31 December 2022 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.

Notes to the Financial Statements

for the year ended 31 December 2022

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.

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.

Notes to the Financial Statements

for the year ended 31 December 2022

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.

Tax benefit for investments

Tax benefits for investments are considered to be benefits derived from state incentive measures that enable the Company to reduce the tax liability of income tax or other specified taxes in future periods, and are related to the construction or acquisition of certain assets and/or the implementation of certain activities and/or the satisfaction of certain specific conditions prescribed by the relevant regulation for investment incentives by competent authorities. Tax benefits for investments are initially recognized as deferred tax assets and tax income/benefit in the amount lower than the maximum allowed amount of the benefit and the amount of benefit that the Company is estimated to be able to achieve during the period of the related incentive measure. Deferred tax assets recognized as a result of the tax credit for investments are cancelled during the period of the incentive measure, that is, until the end of the credit (if specified) in accordance with the availability of tax liabilities in the following years that can be reduced as a result of using the benefit.

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.

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).

Notes to the Financial Statements

for the year ended 31 December 2022

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%

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.

Notes to the Financial Statements

for the year ended 31 December 2022

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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for the year ended 31 December 2022

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

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

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

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

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

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial liabilities, classification and measurement

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2022

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.

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.

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for the year ended 31 December 2022

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.

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 buildings and 2.5% for vehicles.

Notes to the Financial Statements

for the year ended 31 December 2022

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 land is leased for a fixed period of 3 years with an option to renew the contract. The lease payments are fixed
- 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.

P) PROVISIONS

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

Q) EMPLOYEE BENEFITS

i. Pension obligations and post-employment benefits

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

ii. Termination benefits

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

iii. Regular retirement benefits

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

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

Notes to the Financial Statements

for the year ended 31 December 2022

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) GOVERNMENT GRANTS

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

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

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

T) 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:

i. 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.

Notes to the Financial Statements

for the year ended 31 December 2022

- *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. 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.

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 2022. 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. High inflation continued through 2022, and was further boosted by Russia's aggression against Ukraine. In order to amortize the negative consequences of these inflationary trends, the Company 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 2022, the subsidiary company Power Engineering Transformatory (PET) was recapitalized in the amount of HRK 3.77 million. Since in 2021 the total value of this investment was impaired, i.e. reduced to zero, the total value of the investment in the subsidiary was increased to HRK 3.77 million by recapitalization in 2022.

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

for the year ended 31 December 2022

4. Revenue

	2022 HRK'000	2021 HRK'000
Type of goods or services		
Sales of distribution transformers	784,227	595,604
Sales of medium power transformers	870,765	684,849
Sales of material and services	165,852	96,624
Total revenue from contracts with customers	**1,820,844**	**1,377,077**
Geographic areas		
Croatia	194,776	180,009
EU member states	1,364,046	1,031,957
Bosnia & Herzegovina, Macedonia, Serbia, Montenegro	14,310	15,480
Other European countries	145,937	82,301
Africa	14,726	18,442
Asia	84,054	43,557
Other countries worldwide	2,995	5,331
Total revenue from contracts with customers	**1,820,844**	**1,377,077**
Revenue recognition time:		
At a point in time	1,820,844	1,377,077
Over time	-	-
Total revenue from contracts with customers	**1,820,844**	**1,377,077**

5. Other operating income

	2022 HRK'000	2021 HRK'000
Rental income	2,086	208
Net profit from the sale of fixed assets	575	122
Discounts, rebates and similar	373	689
Inventory surplus	136	231
Insurance recoveries	104	164
Other income	2,804	1,337
	6,078	**2,751**

Notes to the Financial Statements

for the year ended 31 December 2022

6. Materials, consumables, goods and services used

	2022 HRK'000	2021 HRK'000
Raw materials and consumables	1,249,574	900,869
Cost of goods sold	68,313	46,275
Transport services	50,620	38,814
External production related services	18,576	20,224
Maintenance and servicing	11,876	9,874
Other costs	63,506	46,558
	1,462,465	**1,062,614**

7. Personnel costs

	2022 HRK'000	2021 HRK'000
Net salaries and wages	115,192	99,921
Taxes and contributions from salaries	48,631	41,623
Contributions on salaries	25,243	22,578
Reimbursement of employee expenses, gifts and grants	6,607	5,068
	195,673	**169,190**

In 2022, pension fund contributions amounted to HRK 33,197 thousand (2021: HRK 26,262 thousand).
Personnel costs include HRK 734 thousand of retirement and termination benefits (2021: HRK 851 thousand).
The average number of employees during 2022 was 727 employees (2021: 663 employees)

Notes to the Financial Statements

for the year ended 31 December 2022

8. Other costs

	2022 HRK'000	2021 HRK'000
Staff transportation costs	5,351	4,878
Bank charges and commissions	3,657	3,532
Entertainment	3,489	2,390
Insurance	2,787	2,557
Daily allowances and business trip related costs	2,725	1,541
Premiums and benefits for voluntary pension pillar	2,094	1,958
Professional training costs	1,982	1,050
Intellectual services	1,218	1,205
Accrued expenses	712	198
Fees payable to Supervisory Board members	102	85
Increase/(decrease) in provisions for warranty repairs	(851)	(19,001)
Donations, gifts and reimbursements to employees	(1,186)	-
Provisions for onerous contracts	(3,725)	10,725
Other non-production related costs	7,608	8,882
Other operating costs	6,109	5,808
	32,072	**25,808**

For details on provisions for onerous contracts please see Note 3c) and Note 26 within these financial statements.

9. Impairment

	2022 HRK'000	2021 HRK'000
Net value adjustment in inventory	13,314	1,138
Expected credit loss of receivables and loans (ECL)	1	13
Impairment cost of loans given	-	15,034
Value adjustment of investments in a subsidiary	-	6,181
	13,315	**22,366**

Notes to the Financial Statements

for the year ended 31 December 2022

10. Net financial result

	2022 HRK'000	2021 HRK'000
Exchange rate differences	9,109	-
Dividends and share in profits	2,186	573
Interest and similar income	164	172
Other financial income	42	135
Total financial income	**11,501**	**880**

	2022 HRK'000	2021 HRK'000
Interest and similar expenses	1,605	1,109
Foreign exchange losses	-	475
Total financial expenses	1,605	1,584
Net financial result	**9,896**	**(704)**

11. Corporate income tax

	2022 HRK'000	2021 HRK'000
Current tax	6,885	5,064
Additional tax	5,262	-
Deferred tax	(505)	15,243
Income tax expense	**11,642**	**20,307**

Notes to the Financial Statements

for the year ended 31 December 2022

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:

	2022 HRK'000	2021 HRK'000
Accounting profit (before tax)	179,633	108,744
Tax at 18%	32,334	19,574
Adjustments for:		
Non-taxable income	405	407
Non-deductible expenses	(641)	(217)
Temporary differences for which no deferred tax assets were recognised	(6,090)	338
Change in recognised deferred taxes	5,757	205
Investment tax credit utilisation	(20,656)	-
Recognition of deferred tax asset on investment tax credit	(4,729)	-
Additional tax	5,262	-
Income tax expense	**11,642**	**20,307**
Effective tax rate	6.48%	18.67%

Investment incentives

On December 23, 2021, an application was submitted to obtain the status of an incentive holder for a new project under the abbreviated name "Sustainable SETup" and on March 2, 2023, the Ministry of Economy and Sustainable Development (MINGO) issued a decision by which the Company became the holder of incentives for this project in the amount of HRK 41,171 thousand, for which the company has the possibility of reducing future income tax liabilities for the years ending December 24, 2031. Based on the assessment of the utilization of tax relief by the Management Board, the financial statements for 2022 recognized the entire approved amount of tax relief as deferred tax assets and tax income, of which HRK 36,442 thousand has already been utilised to reduce the tax liability for the current year.

The Company has not recognized deferred tax assets in the amount of approximately HRK 8.4 million (31 December 2021: HRK 8.4 million) for part of the temporary differences, as it does not expect to realize them in the foreseeable future.

Notes to the Financial Statements

for the year ended 31 December 2022

12. Earnings per share

Basic and diluted earnings per share:

	2022 HRK'000	2021 HRK'000
Net result in HRK thousands	167,991	88,437
Total and weighted average number of shares	511,232	511,232
Earnings per share in HRK	**328.60**	**172.99**

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 2022 and 2021 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 HRK'000	Assets under construction HRK'000	Total HRK'000
Cost			
At 1 January 2021	**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**
Additions	-	1,762	1,762
Transfer	1,139	(1,139)	0
Disposals	(393)	-	(393)
As at 31 December 2022	**16,341**	**623**	**16,964**
Accumulated amortisation			
At 1 January 2021	**12,469**	**-**	**12,469**
Charge for the year	783	-	783
Disposal	-	-	-
As at 31 December 2021	**13,252**	**-**	**13,252**
Charge for the year	1,008	-	1,008
Disposals	(393)	-	(393)
As at 31 December 2022	**13,867**	**-**	**13,867**
Carrying amount			
As at 31 December 2021	**2,343**	-	**2,343**
As at 31 December 2022	**2,474**	**623**	**3,097**

The cost of intangible assets fully amortised and still in use as at 31 December 2022 amounts to HRK 10,415 thousand (31 December 2021: HRK 8,175 thousand).

Notes to the Financial Statements

for the year ended 31 December 2022

14. Property, plant and equipment

	Land HRK'000	Buildings HRK'000	Plant and equipment HRK'000	Tools and furniture HRK'000	Assets under construction and advances HRK'000	Total HRK'000
Cost						
At 1 January 2021	**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**
Additions	-	-	-	-	57,221	57,221
Transfers	9,777	30,055	14,200	577	(54,609)	-
Disposals	-	-	(3,074)	(1,249)	-	(4,323)
As at 31 December 2022	**26,697**	**232,632**	**275,208**	**33,513**	**4,117**	**572,167**
Accumulated depreciation						
At 1 January 2021	**-**	**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**
Charge for the year	-	9,458	15,416	2,174	-	27,048
Disposals	-	-	(2,989)	(1,249)	-	(4,238)
As at 31 December 2022	**-**	**110,599**	**187,806**	**26,508**	**-**	**324,913**
Carrying amount						
As at 31 December 2021	**16,920**	**101,436**	**88,703**	8,602	1,505	217,166
As at 31 December 2022	**26,697**	**122,033**	**87,402**	**7,005**	**4,117**	**247,254**

As at 31 December 2022, the net book amount of mortgaged properties amounts to HRK 112,145 thousand (31 December 2021: HRK 118,356 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 14.8 million (note 27).

The cost of fully depreciated tangible assets still in use as at 31 December 2022 amounts to HRK 128,713 thousand (31 December 2021: HRK 143,027 thousand). As at 31 December 2022 total advances for property, plant and equipment amounted to HRK 3,646 thousand (31 December 2021: HRK 1 thousand).

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15. Right-of-use assets

Right-of-use assets relate to the following:

	31.12.2022 HRK'000	31.12.2021 HRK'000
Land	448	-
Buildings	76	134
Transport vehicles	1,583	943
	2,107	**1,077**

The movement during the year is shown below:

	31.12.2022 HRK'000	31.12.2021 HRK'000
As at 1 January	**1,077**	**821**
Increase - new leases	1,588	708
Decrease – termination of leases	-	(119)
Depreciation	(558)	(333)
As at 31 December	**2,107**	**1,077**

16. Investment property

	Total HRK'000
Cost	
At 1 January 2021	**3,500**
Additions	-
As at 31 December 2021	**3,500**
Additions	-
As at 31 December 2022	**3,500**
Accumulated depreciation	
At 1 January 2021	**510**
Charge for the year	175
As at 31 December 2021	**685**
Charge for the year	175
As at 31 December 2022	**860**
Carrying amount	
As at 31 December 2021	**2,815**
As at 31 December 2022	**2,640**

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 2022

17. Investments in subsidiary

	31.12.2022 HRK'000	31.12.2021 HRK'000
Power Engineering Transformatory (PET)	35,607	31,841
Impairment	(31,841)	(31,841)
Total	**3,766**	**-**

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 2022, the subsidiary company Power Engineering Transformatory (PET) was recapitalized in the amount of HRK 3.77 million. As of December 31, 2022, net book value of the investment in subsidiary equals the amount of recapitalization.

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

	31.12.2022 HRK'000	31.12.2021 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.

20. Inventories

	31.12.2022 HRK'000	31.12.2021 HRK'000
Raw materials and consumables	339,534	149,978
Production work-in-progress	171,913	189,975
Finished products	160,156	67,026
Advances given	32,987	16,078
	704,590	**423,057**

Notes to the Financial Statements

for the year ended 31 December 2022

21. Trade and other receivables

	31.12.2022 HRK'000	31.12.2021 HRK'000
Receivables from foreign customers	263,772	153,779
Receivables from domestic customers	39,323	18,501
VAT receivable	16,898	12,618
Prepayments	1,197	575
Other receivables	253	474
	321,443	**185,947**

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

	31.12.2022 HRK'000	31.12.2021 HRK'000
Undue	278,400	149,953
< 60 days	24,280	21,845
60-90 days	45	0
90-180 days	370	478
180-365 days	-	4
> 365 days	-	-
	303,095	**172,280**

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

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

	2022 HRK'000	2021 HRK'000
As at 1 January	**140**	**330**
Net change in ECLs	(2)	11
Written-off	-	(200)
Effect of change in foreign exchange rate	-	(1)
As at 31 December	**138**	**140**

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22. Contract liabilities

	31.12.2022 HRK'000	31.12.2021 HRK'000
Contract liabilities – advances received from customers	199,524	112,199
Total contract liabilities	**199,524**	**112,199**

Recognised revenue related to contract liability

The recognized income in the reporting period, which was included in the balance of contractual obligations at the beginning of the period, amounts to HRK 529,957 thousand (2021: HRK 316,776 thousand).

Contractual obligations on the reporting date refer to contracts with customers with a total value of HRK 808,153 thousand (December 31, 2021: HRK 548,371 thousand), and regarding which performance obligations should be fulfilled in the next reporting period.

At the end of the reporting period, unsatisfied performance obligations arising from advances received from customers amounted to HRK 1,003,273 thousand (31 December 2021: HRK 569,022 thousand).

23. Loans receivable

	31.12.2022 HRK'000	31.12.2021 HRK'000
Loans receivable from the subsidiary	17,706	21,424
Impairment of loans	(15,069)	(15,034)
Expected credit loss	(28)	(69)
	2,609	**6,321**

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 2022, 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 0.9% p.a. (2021: 0,85% p.a.). By the decision of the Management Board in 2021, loan value ajdustment was made in the amount of EUR 2,000,000. By agreement between the Company and the subsidiary PET a short-term loan in the amount of EUR 500,000 was signed on February 22, 2022 and subsequently converted into the share capital of PET.

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for the year ended 31 December 2022

Changes in loans granted during the year were as follows:

	Loans granted HRK'000
1 January 2021	**18,641**
Cash outflow	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**
Converting debt into equity	(3,766)
Net change in ECL	40
Exchange differences	-
Imparment of loans granted	14
31 December 2022	**2,609**

24. Cash and cash equivalents

	31.12.2022 HRK'000	31.12.2021 HRK'000
Cash in bank	61,044	124,678
	61,044	**124,678**

Interest rate on the Company's cash in bank and deposits up to 3 months is from 0% - 0.001% (2021.:0% - 0.001%) .

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

Notes to the Financial Statements

for the year ended 31 December 2022

25. Equity and reserves

Share capital is determined in the nominal amount of HRK 153,370 thousand (31 December 2021: HRK 153,370 thousand). The ownership structure of the Company was as follows:

	31 December 2022		31 December 2021	
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	28,249	5.53	27,100	5.30
Floričić Kristijan	19,832	3.88	19,832	3.88
Knežević Nikola	16,004	3.13	16,004	3.13
Berkopić Dražen	12,000	2.35	10,263	1.83
Levačić Juraj	8,255	1.61	8,255	1.61
Radić Antun	7,886	1.54	7,886	1.54
ADRIATIC OSIGURANJE Inc.	5,270	1.03	5,270	1.03
Other	144,140	28.2	147,026	28.95
	511,232	**100**	**511,232**	**100**

As at 31 December 2022 and 2021, 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 2022 amounted to HRK 69.20 per share (2021: HRK 51.40 per share) and totalled HRK 35,377 thousand (2021: HRK 26,277 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 2022

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 2021	**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**
Increase	28,068	-	4,657	32,725
Release	(28,920)	(1,186)	(8,382)	(38,488)
Used during the year	(12,497)	-	-	(12,497)
As at 31 December 2022	**81,349**	**4,154**	**7,000**	**92,503**
of which:				
- non-current	60,652	4,154	-	64,806
- current	20,697	-	7,000	27,697

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 81.35 million (2021: HRK 65.8 million) and they increased as a result of increase in revenues and in the number of transformers delivered to customers during 2022.

In previous periods, the Company created individual reservations related to specific contracts with customers and the products. The provisions were 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 two contracts where individual reservations were created, and which were active on December 31, 2021, the warranty periods expired during 2022, and they did not result in significant expenses for repairs. Consequently, the Company released all individual provisions in the total amount of HRK 28.9 million.

Provisions for onerous contracts

Significant inflationary trends that started in 2021 resulted in provisions for onerous contracts on 31 December 2021 in the amount of HRK 10.7 million. High inflation rates continued through 2022. Part of the contracts that were identified and recognized as onerous in 2021 were realized during 2022 and provisions were released for these contracts. For the rest of the contract, the delivery of which was transferred to 2023, a reassessment of profitability was made, which resulted in the amount of HRK 7 million of unavoidable costs above the expected economic benefits.

Provisions for long-term employee benefits

The long-term portion of the provisions for termination benefits and jubilee awards in the amount of HRK 4,154 thousand (2021: HRK 5,340 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 3.2% (2021: 0.6%).

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27. Borrowings

	31.12.2022 HRK'000	31.12.2021 HRK'000
Non-current borrowings		
Leases	1,446	733
Bank loans	39,556	46,982
	41,002	**47,715**
Current borrowings		
Leases	680	356
Bank loans	67,638	7,517
Loans	60,276	-
	128,594	7,873
Total borrowings	**169,596**	**55,588**

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.

Short-term liabilities to banks and financial institutions refer to one loan received from Raiffeisenbank Austria Inc. in the amount of 3,000,000 euros with an interest rate of 1M euribor + 1.1% which was approved in March 2022 and one loan from Zagrebačka banka Inc. in the amount of HRK 37,500,000 with an interest rate of 1.95% per year, approved in November 2022.

Short-term liabilities for received loans refer to 2 loans from Končar – Electrical Industry Inc. The first loan in the amount of EUR 3 million was approved on July 19, 2022 with a fixed interest rate of 0.75% p.a. On October 6, 2022, a second loan in the amount of EUR 5 million was approved, also with a fixed interest rate of 0.75% p.a.

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

	Bank loans HRK'000	Leases HRK'000	Loans HRK'000	Total HRK'000
As at 1 January 2021	**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**
Cash receipts (borrowed)	60,104	-	105,282	165,386
Cash outflows (repaid)	(7,542)	(685)	(45,176)	(53,403)
Net contracts changes	-	1,721	-	1,721
Foreign exchange rate changes	133	1	170	304
As at 31 December 2022	**107,194**	**2,126**	**60,276**	**169,596**

Non-current liabilities to banks mature as follows:

	31.12.2022 HRK'000	31.12.2021 HRK'000
up to 1 year	67,638	7,517
1 - 2 years	7,535	7,517
2 - 3 years	7,535	7,517
3 - 4 years	7,535	7,517
4 - 5 years	7,535	7,517
over 5 years	9,416	16,914
	107,194	**54,499**

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28. Financial instruments at FVTPL

	31.12.2022 HRK'000	31.12.2021 HRK'000
Derivative instruments - currency forwards	9,283	543
Financial assets at FVTPL	**9,283**	**543**
of which:		
- non-current	2,886	543
- current	6,397	-
Derivative instruments - currency forwards	-	2,054
- interest rate swap		
Financial liabilities at FVTPL	**-**	**2,054**
of which:		
- non-current	-	-
- current	-	2,054

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 300,890 thousand, with the contracts maturing in the period from 2023 to 2025. 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

	31.12.2022 HRK'000	31.12.2021 HRK'000
Domestic trade payables	42,548	29,676
Foreign trade payables	139,145	89,489
Payables to employees	7,461	6,421
Deferred income	-	245
Liabilities for share in profits	163	140
Interest payable	372	263
Other taxes, contributions and fees payable	4,908	4,227
Unused holiday	5,341	4,629
Other accrued costs	36,806	26,772
Other liabilities	7,412	6,831
	244,156	**168,693**

30. Off-balance-sheet items

Off-balance sheet items as at 31 December 2022 include the following: joint guarantees issued on behalf of the PET subsidiary to banks and customers in the amount of HRK 56,127 thousand and guarantees issued on behalf of related parties

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in the amount of HRK 125,502 thousand. In total, the Company issued insurance instruments to related companies and third parties in the amount of HRK 1,228,178 thousand, while related companies and third parties issued insurance instruments to the Company in the amount of HRK 129,380 thousand.

Balance of the Company's transactions concluded (order book) based on active projects as of 31 December 2022 amounts to HRK 2,068 million (31 December 2021: HRK 1,307 million).

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 2022, 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.

2022				Operating activities	
Company	Receivables HRK'000	Liabilities HRK'000	Advances received HRK'000	Revenue HRK'000	Expenses HRK'000
Subsidiary	127	-	-	11,610	19,189
Končar Group companies:	24,286	2,928	6,243	66,436	27,842
Končar – Electrical Industry, Inc.	-	8,111	-	13	59,378
Associates	3,559	752	-	64,028	73,295
	27,972	**11,791**	**6,243**	**142,087**	**179,704**

During 2021, 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:

2021				Operating activities	
Company	Receivables HRK'000	Liabilities HRK'000	Advances received HRK'000	Revenue HRK'000	Expenses HRK'000
Subsidiaries	-	-	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**

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

Key management renumerations

During 2022 total remuneration (fixed and variable) paid to Management Board of the Company amounted to HRK 6,268 thousand (31 December 2021: HRK 6,839 thousand) which include HRK 3,175 thousand of variable remuneration for 2021 (in 2021 a total of HRK 2,951 thousand of variable consideration was paid relating to 2020). Accrued variable Management remuneration as at the reporting date amounts to 3,100 thousand (31 December 2021: HRK 3,500 thousand). Management Board has five members (2021.: 5 members).

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32. Risk management

Capital risk management

Financial leverage ratio

	31.12.2022 HRK'000	31.12.2021 HRK'000
Debt (current and non-current) = D	(169,596)	(55,588)
Short term bank deposits	-	-
Cash and cash equivalents	61,044	124,678
Net cash / (debt)	(108,552)	69,090
Equity = E	(654,294)	(521,679)
Financial leverage ratio = D/(D+E)	**20.58%**	**9.63%**

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	31.12.2022 HRK'000	31.12.2021 HRK'000
Equity instruments at FVOCI	Level 3	2,765	2,765
Other financial assets at FVOCI	Level 3	39	39
Total financial assets at FVOCI		**2,804**	**2,804**
Derivative instruments	Level 2	9,283	543
Total financial assets at FVTPL		**9,283**	**543**
Trade receivables	n/a	303,095	172,280
Loans receivable	n/a	2,609	6,321
Cash and cash equivalents	n/a	61,044	124,678
Total financial assets at amortised cost		**366,748**	**303,279**
Total financial assets		**378,835**	**306,626**
Leases payable	n/a	2,126	1,089
Loans payable	n/a	107,194	54,499
Loans	n/a	60,276	-
Trade payables	n/a	181,693	119,165
Total financial liabilities at amortised cost	n/a	**351,289**	**174,753**
Derivative instruments	Level 2	-	2,054
Total financial liabilities at FVTPL		-	**2,054**
Total financial liabilities		**351,289**	**176,807**

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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.

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 po-

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sition, 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.

The relevant exchange rate for EUR and SEK were as follows:

	Spot exchange rate		Average exchange rate	
	31.12.2022 HRK'000	31.12.2021 HRK'000	2022 HRK'000	2021. HRK'000
EUR	7.53450	7.51717	7.53159	7.52418
SEK	0.67745	0.73219	0.70924	0.7416

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	
	31.12.2022 HRK'000	31.12.2021 HRK'000	2022 HRK'000	2021 HRK'000
Trade receivables	230,653	126,272	1,496	14,579
Loans receivable	2,609	6,390	-	-
Cash and cash equivalents	34,469	93,090	14,093	1,571
Leases payable	(51)	(184)	-	-
Loans payable	(69,694)	(54,499)	-	-
Loans	(60,276)	-	-	-
Trade payables	(163,617)	(86,373)	-	(2,468)
Derivatives	5,494	(2,273)	-	-
	(20,413)	**82,423**	**15,589**	**13,682**
Effect of 1% change in exchange rates on profit	**-**	**-**	**156**	**137**

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

Notes to the Financial Statements

for the year ended 31 December 2022

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:

	31.12.2022 HRK'000	31.12.2021 HRK'000
Bank loans based on fixed interest rates	84,591	54,499
Bank loans based on variable interest rates	22,603	-
Leases based on fixed interest rates	2,126	1,089
Loans based on fixed interest rates	60,276	-
	169,596	**55,588**

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

for the year ended 31 December 2022

The following table presents the maturity of financial liabilities of the Company as at 31 December 2022 in accordance with contracted undiscounted payments:

as at 31 December 2022	Net book value HRK'000	Contractual cash flows HRK'000	up to 1 year HRK'000	1 - 2 years HRK'000	2 - 5 years HRK'000	over 5 years HRK'000
Non interest bearing liabilities:						
Trade payables	**181,693**	**181,693**	181,693	-	-	-
	181,693	**181,693**	**181,693**	**-**	**-**	**-**
Interest bearing liabilities:						
Leases payable	**2,126**	**2,231**	724	601	906	-
Bank loans	**107,194**	**111,255**	69,664	8,223	23,818	9,550
Loans	**60,276**	**60,383**	60,383	-	-	-
	169,596	**173,869**	**130,771**	**8,824**	**24,724**	**9,550**

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 HRK'000	Contractual cash flows HRK'000	up to 1 year HRK'000	1 - 2 years HRK'000	2 - 5 years HRK'000	over 5 years 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	-
Bank loans	**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**

33. Subsequent events

The Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in "Official Gazette" No. 85/22). With the aforementioned decision, the euro becomes the official monetary unit and legal currency in the Republic of Croatia on 1 January 2023. The fixed conversion rate is set at HRK 7.53450 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an adjusting subsequent event.

After the reporting date, until the date of approval of these financial statements, and with the exception of the above, there were no other events that would have a significant impact on the Company annual accounts for 2022, which should therefore be disclosed.

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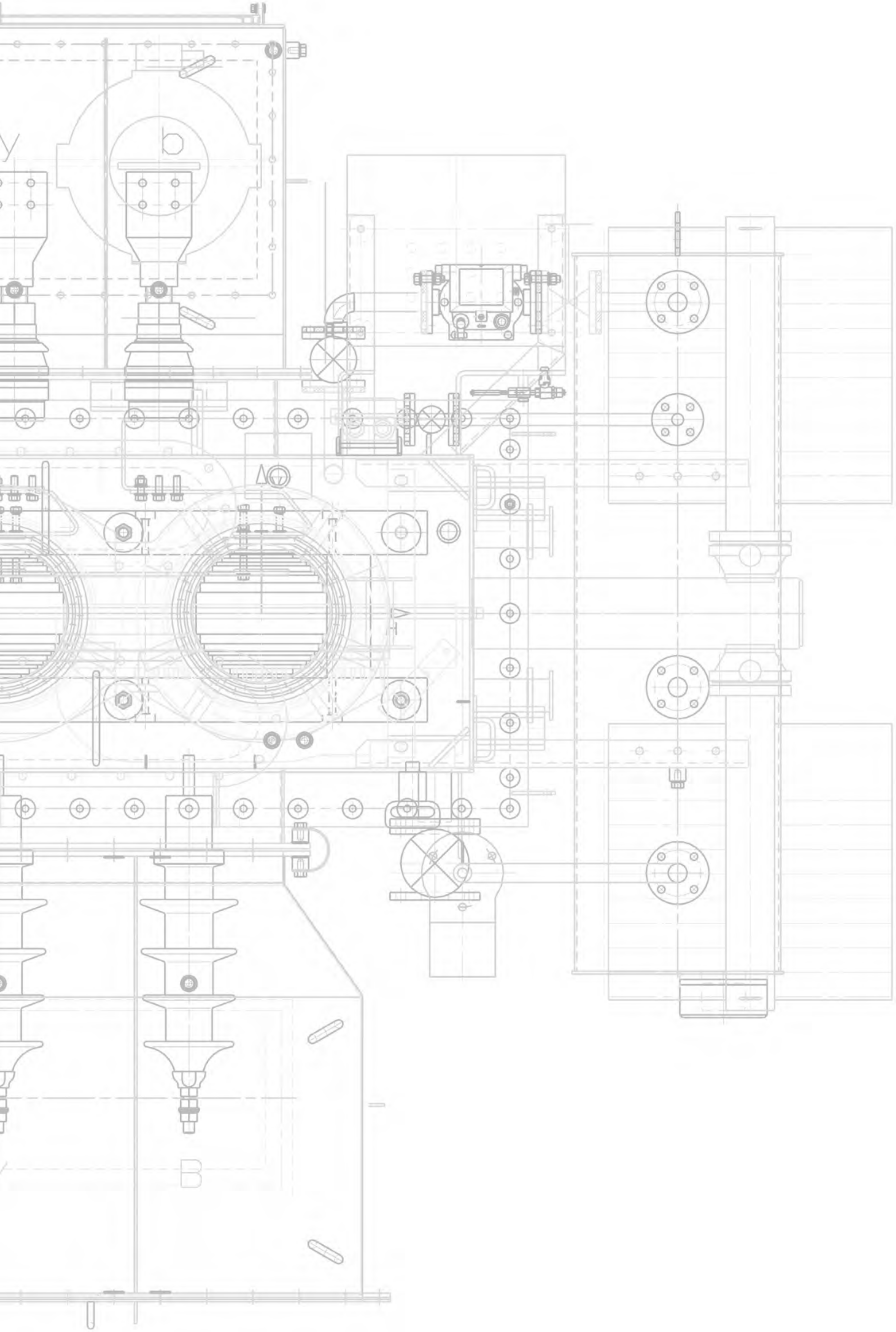

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