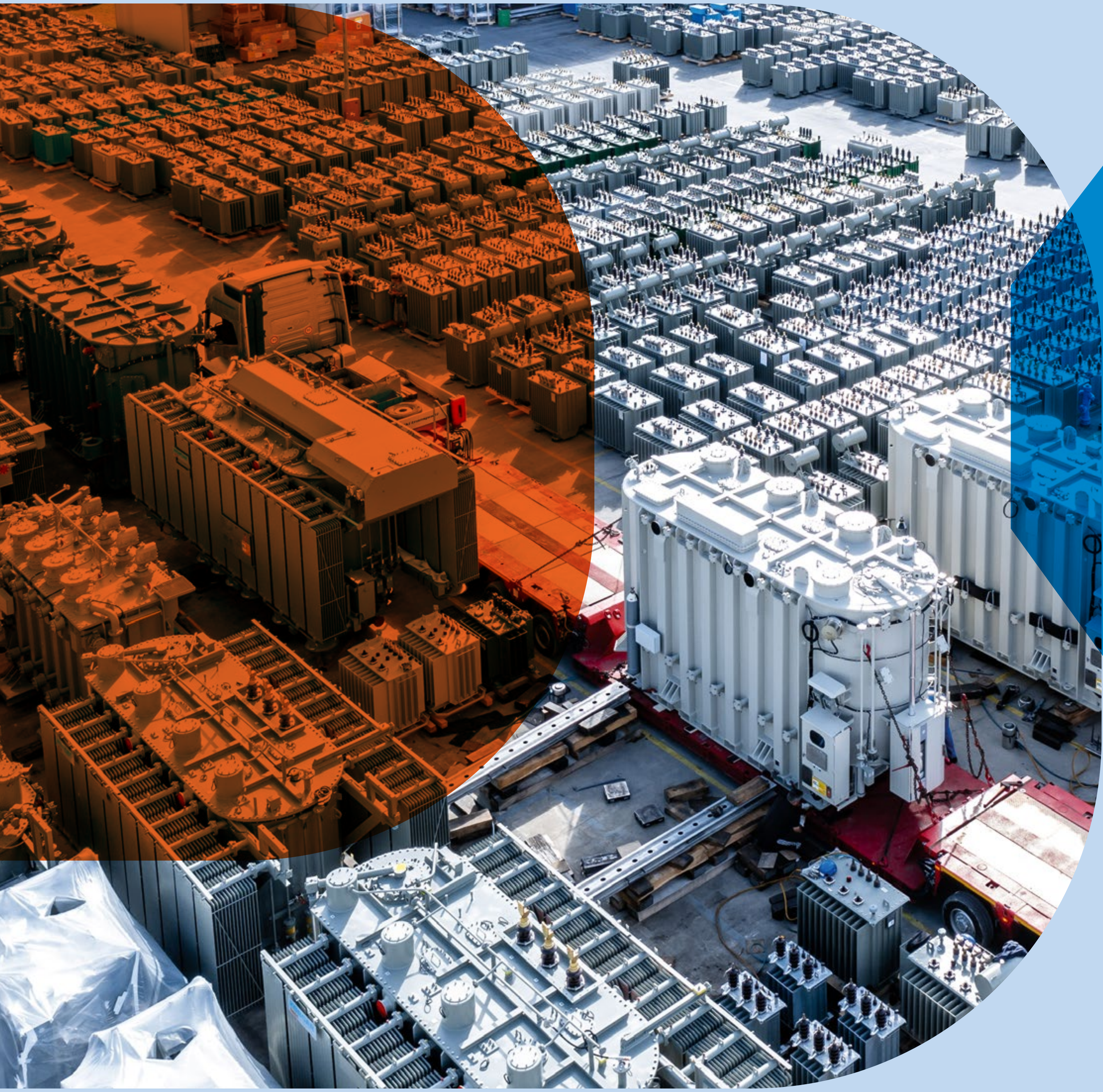
KONČAR D&ST

Inspired by challenge

ANNUAL REPORT 2023



ANNUAL REPORT
2023

Contents

Končar - Distribution & Special Transformers Inc.

2023 - A year of overcoming challenges

1 Management Report

1. Introductory Word by the Management Board

Additional business growth achieved despite the complex global circumstances

At the very start of this business year, the Republic of Croatia replaced the Croatian Kuna with the Euro, becoming a member of the Eurozone and entering into the Schengen Area. This step greatly facilitated and accelerated business processes, while also reducing business risks.

However, the consequences left by the global COVID-19 pandemic, supply chain disturbances, increased prices of the main raw materials, components and energy, and inflationary pressures marked 2023. The war in Ukraine and its impacts on the European and global economies, with new conflicts breaking out in the Middle East, have only led to further uncertainty. Despite the complex global environment, the Company achieved further growth in 2023, again significantly surpassing its set business plans.

Total sale of goods and services in 2023 was EUR 323.1 million (up from EUR 241.7 million in 2022), which is an increase of 34% at the annual level. Exports were at EUR 291.8 million (up from EUR 215.8 million in 2022) accounted for 90% of sales, and marked a 35% increase over the year before. Profit before tax in 2023 was EUR 61.7 million (net profit of EUR 50.7 million), which was increased 2.6-fold over the pre-tax profit in 2022 (EUR 23.8 million, net profit EUR 22.3 million).

Intensive investments in decarbonisation projects, renewable energy (wind and solar), and electrical mobility, particularly in European Union Member States, generated strong demand for transformers. Increased demand, a strong market position, excellent reputation of Končar D&ST on demanding foreign markets, and the identification of sales opportunities resulted in record contracting. At the end of 2023, total contract value was EUR 585.4 million, up 116% over the end of 2022 when it was EUR 271.6 million.

During 2023, a total of EUR 7.27 million was invested (EUR 7.38 million in 2022). Part of these funds went to preparation of the project documentation and advance payment of machinery and equipment as part of the investment project "Sustainable SETup for the development of socially and environmentally responsible production" (Sustainable SETup). This project is primarily based on standardising the existing production level and increasing warehouse capacities, enabling an optimisation of business processes and ensuring more appropriate flow of components, raw materials, equipment, and finished products. The main activities in this project are expected during 2024 and 2025. Part of the investments made in 2023 also include acquisition of the majority share in the company Ferokotao Ltd. Again this year, the Company secured additional resources to provide active support to the company PET, Poland, which resulted in further progress of overall operations.

At the end of 2022, Končar-D&ST employed 744 people. During 2023, 47 new employees joined the Company, 25 left, and the year ended with a total of 766 employees. This resulted in a strengthening of the engineering departments, support services and production. Organisational changes were made to ensure more effective management of Company growth and increases in production volume.

In its operations, the Company operates in compliance with the internationally recognised standards and requirements of corporate social responsibility. The Company operates in line with a certified and integrated quality management system according to ISO 9001:2015, environmental management according to ISO 14001:2015, and occupational health and safety management according to ISO 45001:2019.

In 2023, ordinary and preferred shares of Končar D&ST were listed and traded on the Regular Market of the Zagreb Stock Exchange. At the beginning of the year, the price of ordinary shares of Končar D&ST was EUR 324, rising to EUR 850 at the end of the year, marking an increase of 162%.

Given the above, we can consider the total business results of Končar D&ST in 2023 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 it is with great pleasure that we present this Report on the State of the Company for 2023.

For the Končar D&ST Inc. Management Board
Vanja Burul
Board President

2. Major Figures for 2023 Compared to 2022, 2021 and 2020

EUR ('000)

Performance indicators	2023	2022	2021	2020	Δ	Index 23/22
Operating revenues	**324,583**	**242,475**	**187,536**	**147,225**	**82,108**	**133.9**
Sales revenues - totals	323,118	241,668	182,769	144,769	81,450	133.7
Sales revenues - exports	291,784	215,817	158,878	123,952	75,967	135.2
Operating expenses	**263,103**	**219,948**	**171,014**	**136,950**	**43,155**	**119.6**
Operating profit	61,480	22,527	16,522	10,275	38,953	272.9
Operating margin	19.0%	9.3%	9.0%	7.1%		+970 bps
Pre-tax profit	61,674	23,841	14,433	9,999	37,833	258.7
% Pre-tax profit	19.1%	9.9%	7.9%	6.9%		+920 bps
After tax profit	50,713	22,296	11,738	12,223	28,417	227.5
% After tax profit	15,7%	9,2%	6,4%	8,4%		+650 bps
Amortisation and Depreciation	3,894	3,821	3,686	3,467	73	101.9
EBITDA	**65,374**	**26,348**	**20,208**	**13,742**	**39,026**	**248.1**
EBITDA margin	20.2%	10.9%	11.1%	9.5%		+930 bps
EBITDA normalised*	72,874	25,276	19,981	13,748	47,598	288.3
EBITDA margin normalised*	22.6%	10.5%	10.9%	9.5%		+1.210 bps
Contracts	**629,663**	**338,495**	**243,712**	**163,881**	**291,168**	**186.0**
Backlog on 31 Dec	585,409	271,621	173,403	112,649	313,788	215.5
Book to bill ratio	1,95	1,40	1,33	1,13		
Annual sales per employee	429	332	276	227	97	129.2
Dividends per share (EUR)	*	13,74	9,18	6,82		
Investments	7,270	7,381	2,555	5,265	-111	98.5
No. of employees (average)	754	727	663	639	27	103.7
No. of employees (on 31 Dec)	766	744	678	651	22	103.0

*EBITDA normalised: EBITDA reduced by other business revenues and increased by the impairment , provisions, and other business expenses

Conversion rate: 1EUR = 7.53450 HRK
* Amount of dividends will be known after the Company General Assembly is held

	Index 23/22
net profit	227.5
sales	133.7
exports	135.2
backlog at year's end	215.5

3. Organisational Chart

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
  - Warehouses
- PRODUCTION
  - Insulation I
  - Insulation II
  - 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
- STRATEGIC PURCHASING
- OPERATIONAL PURCHASING

PRODUCT & BUSINESS DEVELOPMENT
dir. Dominik Trstoglavec

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

- MANAGEMENT SYSTEM DEVELOPMENT
  - ISO 9001, ISO 14001, ISO 45001
  - Safety at work
- INCOMING INSPECTION
- IT DEPARTMENT
- BUSINESS IT
- MARKETING

4. General Position of the Company

Exceptionally strong business results in 2023 and in the preceding years have strengthened the Company's financial position, creating sufficient stability and a strong foundation for further business growth.

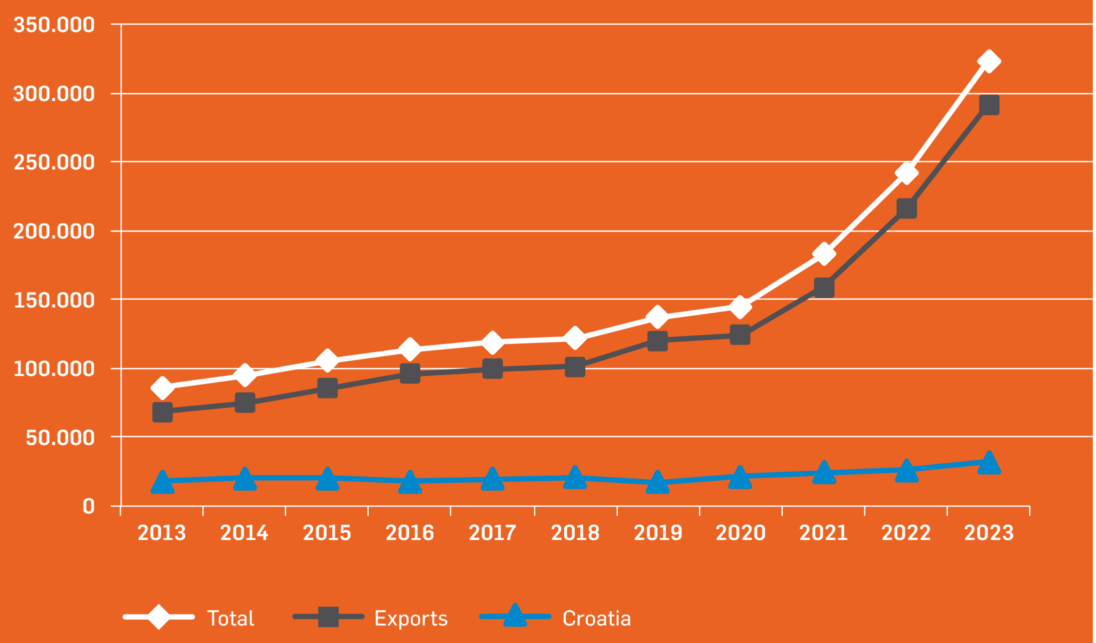
As a result of ongoing organisational adjustments to new external and internal conditions, both in terms of its line of distribution transformers and its line of medium power transformers, the Company has improved its competitive edge on the market in these challenging times.

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 in both machinery and technology, the Company is prepared to meet the demands of the complex market conditions that can also be expected in the future.

In accordance with the guidelines for a sustainable and circular economy, digitalisation of internal processes and operations, the Company will continue to actively contribute to and participate in the energy transition and decarbonisation processes.

Sales trends

EUR ('000)



5. Company Organisation and Management In 2023

During 2023, 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 2023 were organised through profit centers 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 2023, Končar D&ST performed its activities at a single location in the Republic of Croatia: Josipa Mokrovića 8, 10090 Zagreb.

The company PET Ltd. (100% owned by Končar D&ST Inc.) operates at the location: Czerwonak, Gdinjska 83, Poland.

The company Ferokotao Ltd (51% owned by Končar D&ST Inc.) operates in Gornji Kraljevec, Kolodvorska 78/a, Croatia.

6. Subsidiaries PET (Poland) i FEROKOTAO (Croatia)

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.

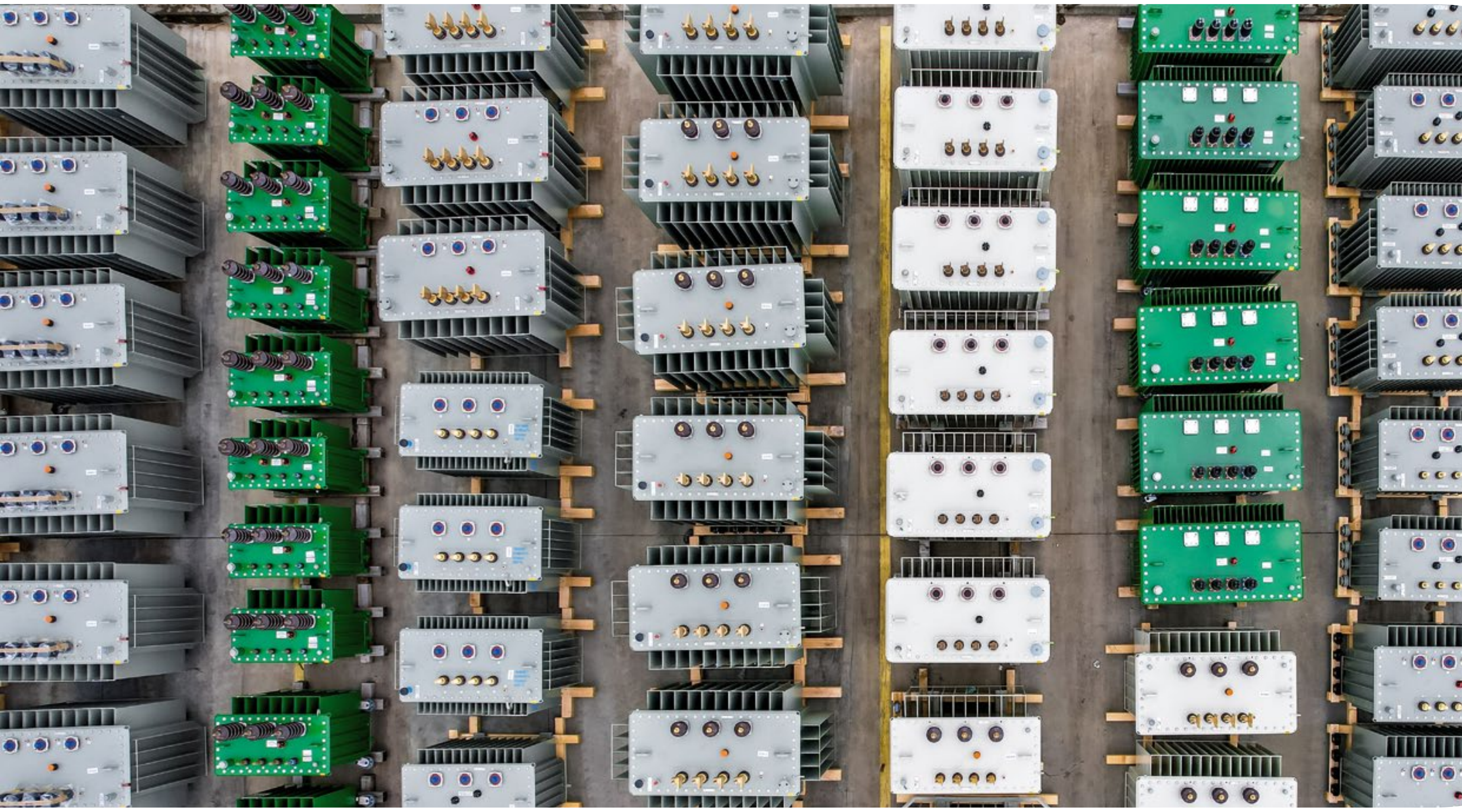
The company mostly operates on the Polish market, though prominent steps are being taken on foreign markets. The general conjuncture on the transformer market has enabled a stabilisation of its operations, and with the sales and technical support from Zagreb, the company achieved the long-awaited positive result in 2023. 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 2023, PET had 88 employees.

On 20 December 2023, Končar D&ST acquired an additional 35% ownership share in the company Ferokotao Ltd. Until this newest acquisition, Končar D&ST held a 16% ownership share in Ferokotao Ltd, and now Končar D&ST has become a majority owner with 51% ownership of company equity.

Ferokotao Ltd. is one of the largest tank producers for distribution, energy and special transformers in the region. It is seated at Donji Kraljevec and is an important and long-term supplier for Končar D&ST.

With the acquisition of a majority share in Ferokotao Ltd., the reliable supply of transformer tanks has been secured, further strengthening the competitive edge of Končar D&ST on the market.



7. Application of the Corporate Governance Code

The Company applies 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 the Company deems 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 the Company exists within the Končar Group.

The Company holds that the fact it does not apply 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 questions as to which provisions of the Code the Company 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 2023 and 2022. Shareholders can vote electronically with attendance at the Shareholders' Assembly. Preferred shares do not carry the right to vote.

In 2023, 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 of 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 Mr. Ervin Filipčić.

In 2023, 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 2023, the Supervisory Board held 39 sessions, of which four were regular sessions and 35 in correspondence. 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 2023. 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 2023, 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: Audit Committee, Remuneration Committee, and Appointments Committee. Each committee has three members.

Audit Committee

Members of the Audit Committee are: Miki Huljić - chairperson, Gordan Kolak - member, and Ivan Bahun - member. In 2023, the Audit Committee held a session on 4 April 2023, attended by all its members.

Remuneration Committee

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

In 2023, the Remuneration Committee held sessions on 3 April 2023 and 14 April 2023, attended by all its members.

Appointment Committee

Members of the Appointment Committee are: Gordan Kolak - chairperson, Ivan Bahun - member and Božidar Poldrugač - member.

In 2023, the Appointment Committee held no sessions.

8. Market Position and Sales By Country and Product Groups

The strong demand for transformers that marked 2022 continued with even greater intensity in 2023. European Union Member States, the largest market for Končar D&ST, focused numerous projects towards increasing their independence from natural gas and their dedication to green transition, which drove increased demand for all components in the energy sector, including transformers.

The significant increase in prices of raw materials and production costs, alongside high demand, resulted in an increase in the price of transformers and lengthening of delivery periods. In early 2023, bookings began for 2024 in the distribution programme, while in the medium power programme, bookings were for two or more years in advance. High market activity spurred manufacturers from non-European countries to take a more aggressive stance and take a part of the European market with lower prices and shorter delivery periods.

Meanwhile, many European producers increased their production capacities, acquiring smaller producers, and taking a more aggressive approach on the market. Maintaining the previously acquired market position has become a priority, as this high market conjuncture will have a limited duration.

The Company invested extraordinary efforts throughout the year on virtually all markets, with a fair business and partnership approach towards buyers, offering high quality products with better properties and reduced carbon footprint certificates, with reliability and quality of supply to strengthen its market position. This resulted in exceptional business results in 2023.

In 2023, sales recorded growth of 33.7% over 2022, and totalled EUR 323.1 million.

33.7%

Changes by product groups in 2023 in comparison to 2022:

--- **DISTRIBUTION TRANSFORMERS: 46% GROWTH.**
--- **MEDIUM POWER TRANSFORMERS: 23% GROWTH.**
--- **DRY AND SPECIAL TRANSFORMERS: 58% GROWTH.**
--- **OTHER GOODS AND SERVICES: 43% GROWTH.**

Sales by main markets:

--- **CROATIA - in 2023, deliveries were valued at EUR 31.3 million, or 20% growth compared to 2022 (EUR 26 million).**

--- **NEIGHBOURING EUROPEAN COUNTRIES – in 2023, deliveries were valued at EUR 73.3 million, or 75% growth in comparison with 2022 (EUR 42 million).**

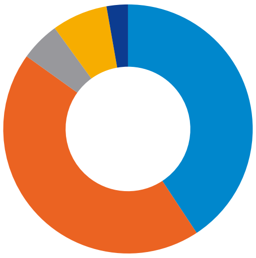
--- **OTHER EUROPEAN COUNTRIES – in 2023, deliveries were valued at EUR 210.8 million, or 32% growth compared to 2022 (EUR 160 million).**

--- **ASIA, AFRICA AND THE AMERICAS - in 2023, deliveries were valued at EUR 7.7 million, which marks a 45% decline over 2022 (EUR 14 million).**

Neighbouring European countries: BiH, Slovenia, North Macedonia, Montenegro, Austria, Italy, Czech Republic, Slovakia, Hungary, Serbia, Romania

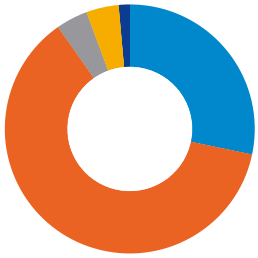
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta, The Netherlands, Belgium, Greece

Sales structure by product line in 2023



Medium power transformers	44%
Distribution transformers	41%
Services	7%
Dry and special transformers	5%
Supplies	3%

Structure of new contracts by product line in 2023



Medium power transformers	62%
Distribution transformers	28%
Services	4%
Dry and special transformers	4%
Supplies	2%

Sales activities in 2023 resulted in a total contract value of EUR 629.7 million, which is 86% more than in 2022.

86%

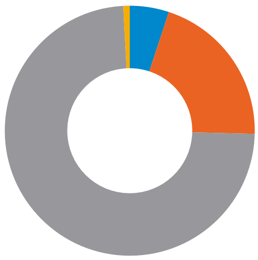
Total contract value at the end of the year was EUR 585.4 million, which is 116% more than at the end of 2022.

116%

Sales structure by markets in 2023

Neighbouring European countries	23%
Other European countries	65%
Asia, Africa, and the Americas	2%
Croatia	10%

New contracts by markets in 2023



Neighbouring European countries	20%
Other European countries	74%
Asia, Africa, and the Americas	1%
Croatia	5%

9. Financial Position (Balance Sheet)

On 31 December, the assets of Končar D&ST were 50.8% higher than one year earlier. This represents a growth of EUR 92.2 million, and the accounting value of total assets on the final day of 2023 totaled EUR 273.8 million.

In the structure of total assets, the main contributor of this growth was in current assets, which increased by EUR 86.3 million to EUR 231.8 million, accounting for 85%.

For current assets, the highest absolute increase was seen in the most liquid asset – cash. This accounted for nearly 20% of all assets and totaled EUR 53.1 million. The relatively high ratio of money in assets is the result of a turnabout in the trend from 2022, when receipts from operating activities lagged behind the analogous payables due to circumstances caused by the war in Ukraine, disturbances in the supply chain, and ballooning inflation. In 2023, a positive cash balance was achieved from business activities, primarily as a result of increased activities in contracting and sales, and the effective management of working capital, particularly inventory. These trends enabled the return of all short-term borrowings and loans from the previous period, and unhindered unfolding of investments.

Inventory also increased by EUR 25 million, and on 31 December 2023 totaled EUR 118.4 million. Despite this growth, its ratio in total assets declined to 43% at the end of 2023 (as opposed to 52% on the last day of 2022).

Receivables from customers is the second largest group of assets by growth. This growth totaled EUR 16.6 million, and with a total value of EUR 56.8 million accounted for 21% of all assets.

Non-current assets with a value of EUR 42.0 million accounted for 15% of total assets as on 31 December 2023.

The most significant change within non-current assets pertains to financial assets. On 20 December 2023, Končar D&ST acquired a controlling share over the company Ferokotao d.o.o. with the purchase of a 35% ownership share, thereby increasing its ownership share in the company Ferokotao to 51%.

As on 31 December 2023, in all sources of funding, the value of equity and liabilities totaled EUR 132.1 million. With this, the ratio of Company resources in total sources of funding was 48%, about the same level as one year earlier. This absolute increase in equity is largely the result of an increase in net profits in 2023 by EUR 28.4 million, and retained part of net profits from 2022 in the amount of EUR 15.2 million.

Among borrowings, there was a turnaround in the structure of short-term liabilities. The increase in the order books was accompanied by an increase in liabilities for advances from customers, valued at EUR 69.6 million and accounting for 26% of sources of financing (as opposed to 15% one year earlier). An increase in advance payments by EUR 43.4 million or 164% significantly affected the balance of cash and cash equivalents mentioned earlier.

On the other hand, all liabilities for current loans transferred into 2023, totalling EUR 16.0 million, were paid off during the year.

Within the current liabilities, there was an increase in the income tax liability, which on 31 December 2023 totaled EUR 10.6 million, as a result of the significant increase in gross profits for the business year, and the fact that tax incentives received as part of investment projects are nearing the end of their usage.

These trends within the balance sheet are characterized by a significant growth of short-term assets, particularly the most liquid assets – cash in accounts, and in the sources of funding, the strengthening of equity with closure of short-term debts with interest, led to an improvement of all indicators of liquidity, indebtedness, and financial stability of Končar D&ST.

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

In 2023, the trend of significant growth in revenues continued in relation to the previous business year.

While the revenue growth rate from sales increased by 32% in 2022 compared to 2021, this was further accelerated in 2023 with an increase in sales revenues of 33.7% compared to 2022.

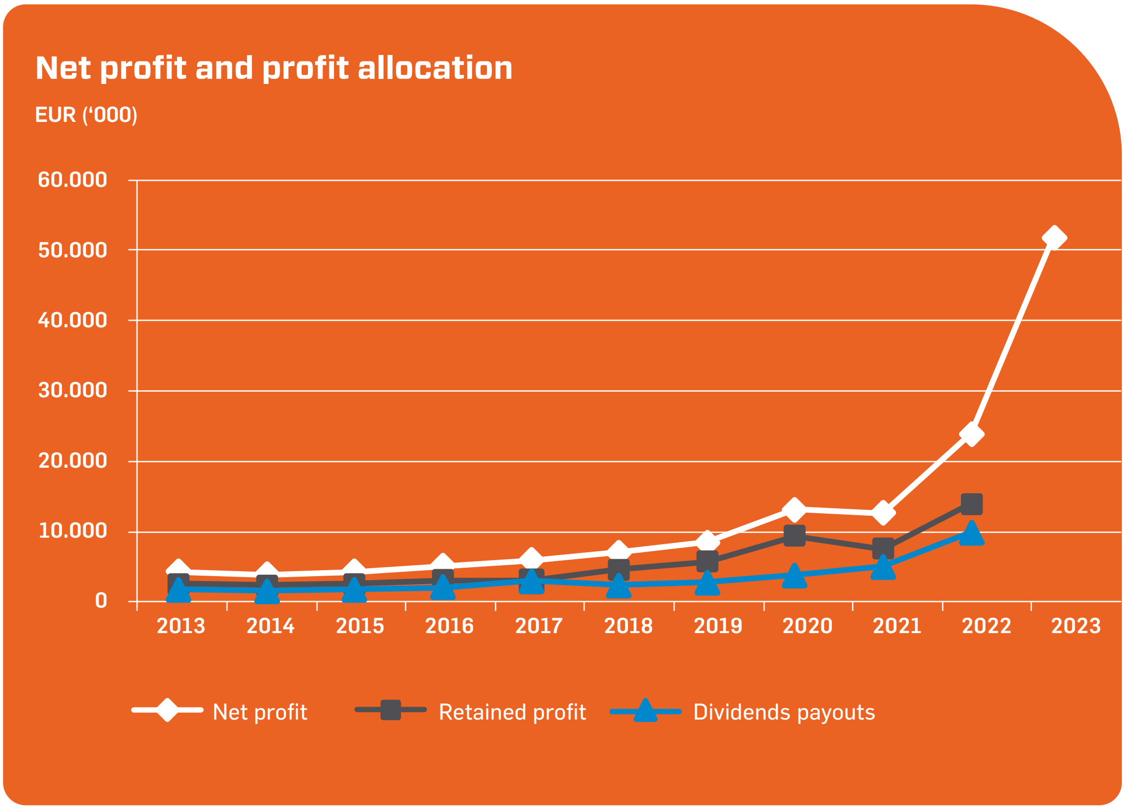
Sales revenues, accounting for 99.4% of total revenues, totaled EUR 323.1 million, which is EUR 81.4 million higher than one year earlier (EUR 241.7 million in 2022).

Exports achieved EUR 291.8 million, and accounted for 90.3% of all sales revenues. The Company orientation towards foreign markets (annual deliveries to some 40 countries) is the main driver of Company growth.

The ratio of profit centers in sales revenues is fairly balanced. The Distribution Transformer profit centre achieved 47% of revenues, while the Medium Power Transformers profit centre achieved 44% of sales revenues.

Other business revenues totaled EUR 1.5 million (0.5% of total revenues), and financial revenues totaled EUR 0.5 million. For operating expenses, the cost of materials, energy, and other costs associated with executing contractual obligations, corrected for the changes in inventories, were individually the most significant cost, accounting for 78.9%. Their growth is of a slightly slower dynamic than Company revenues, which positively reflected on operating profitability indicators.

The second most significant expense was personnel costs, which increased by 34.8% to EUR 35.0 million. The rise in this cost is the consequence of a higher number of employees (766 at the end of 2023 as compared to 744 at the end of 2022), and a real growth in employee salaries in response to inflationary pressures and tight labour market. Other cost categories also increased in 2023, but due to their relative significance or intensity of growth, they did not cause a reduction in operating results.



Pre-tax profit in 2023 was EUR 61.7 million, which represents 19.1% of total revenues. This was a significant 158.7% increase over one year before.

Corporate income tax amounted to EUR 11.0 million, which was 7-fold higher than one year earlier. The reason for this unproportional increase is that in 2022, the majority of tax incentives allocated to the Company for investments implemented pursuant to the Investment Support Act were used up, partly on regular profit tax and partly on the new extra profit tax in 2022.

In 2023, the net profits of Končar D&ST totaled EUR 50.7 million (15.7% of total revenues).

Other profitability indicators were also better than one year earlier. The EBITDA was EUR 65.4 million, or 20.2% of sales, which is an increase of 148% over one year earlier for that indicator. Trading of Končar D&ST stock on the Zagreb Stock Exchange was marked by increase in price and trade volume in 2023. At the end of 2022, the price of the KODT-R-A was EUR 324, while at the end of 2023, the share price was 850 EUR, marking an increase of 162%. At the end of 2022, the price of the KODT-P-A was EUR 321, rising to EUR 860 or up by 168% by the end of 2023. Based on the price of ordinary shares, the P/E ratio was 8.6 on the final day of 2023.

During 2023, total trading of both Company shares (KODT-R-A and KODT-P-A) was valued at EUR 9.7 million, as opposed to EUR 4.9 million one year earlier, which is a growth in volume of 98%. In view of rising prices of KODT shares, market capitalisation was also increased to EUR 435.8 million on 31 December 2023, up 164% over the same date one year earlier, when it was EUR 165.2 million. Since 6 September 2023, the stock KODT-P-A has been listed in the CROBEX index on the Zagreb Stock Exchange.

During 2023, the Company did not acquire any of its own shares.

11. Main Operating Risks

In 2023, the Company revised its Rulebook on Risk Management and 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 ope rates, and is based on the best information available;
- inclusive and 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 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 operating 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.

In line with the defined risk management methodology, the Risk Catalogue was revised in late 2023. 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 2023 business year was marked by growing interest rates, high inflation, the continued Russian aggression against the Ukraine, and the start of war in Israel/Palestine and further unrest in the Middle East, with numerous consequences on the European and global economies.

The Company responded adequately to these risks, mitigating them with the available measures and actions, and the 2023 business year ended without significant impacts on Company operating results.

Demand for transformers on target markets of Končar D&ST is one of the main risk factors for Company operation. The business year 2023 was characterized by an increased demand for transformers for a numerous 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. Also, initial signs of recession appeared in Germany and the EU in 2023, and if this trend continues, it could have a long-term negative impact on demand for transformers.

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 present in the 2023 business year, with a stabilisation of prices of the main raw and other materials (copper, aluminium, transformer sheet metal, transformer oil, steel) at a high level, with a further rise in prices of raw material processing. Increased demand led to a lengthening of delivery periods, while transport costs increased. At the end of 2023, a transport crisis appeared in shipping through the Red Sea and Suez Canal, which significantly extended ship sailing times around Africa towards European ports

(by some 4 – 6 weeks), further increasing transport and insurance costs. With this, logistic issues in procuring raw materials from Asia were again prominent.

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 are concluded with suppliers to mitigate this risk and secure the required quantities. Changing prices for materials are included in calculations when drafting new product offers.

Technological and development 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 2023, 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. Also, at the end of 2023, Končar D&ST acquired a majority stake (51%) in the company Ferokotao Ltd., Donji Kraljevec that produces transformer tanks. This group of risks is mitigated through appropriate analyses and evaluation of potential risks, taking adequate measures to mitigate risks, and active involvement

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 Company operations in view of the high percentage of exports and import in revenues and in view of the fact that certain monetary assets and sources of financing 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. In 2023, financial advances from customers increased significantly, which favourably affected the state of Company liquidity. 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 actively manages these risks.

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

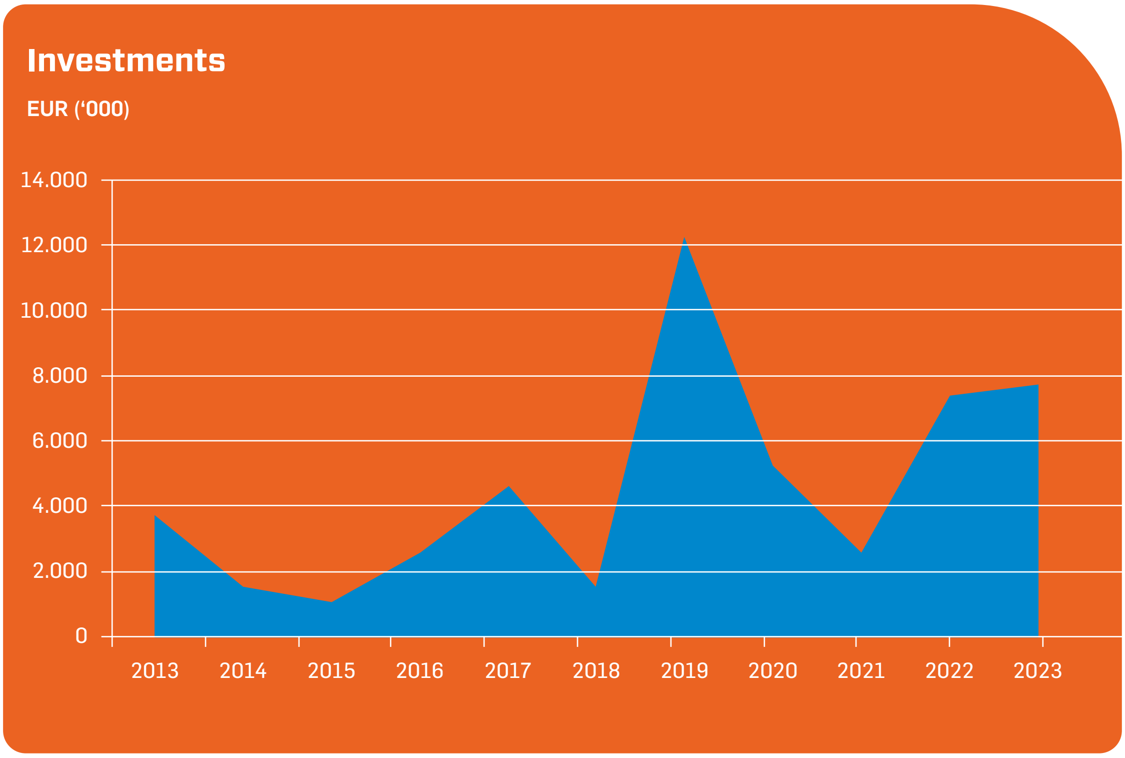
12. Investments and Technology Modernisation

During 2023, the Company invested a total of EUR 7.27 million (in 2022 EUR 7.38 million was invested). These investments in 2023 included acquisition of a majority stake in Ferokotao Ltd. In addition to the usual investments in modernising machinery and equipment, activities also began in the investment project "Sustainable SETup for the development of socially and

environmentally responsible production" (Sustainable SETup). The aim of the Sustainable SETup project, implemented in the four-year period 2022 – 2025, is to standardise the existing level of production by increasing warehouse, production and administrative space, so as to achieve better flow of materials and finished products and more efficient organisation of production processes. During 2023, investment and technological projects were drawn up as the foundation for planning the reconstruction of existing and building new production and office facilities. Based on the delivered documentation, the process started to obtain the necessary permits for this construction. Further, the process to contract key production equipment with longer delivery periods also began, and will be continued and intensified through 2024. In the first half of 2024, the construction works will be contracted and should begin. In 2023, the 1.1 MW photovoltaic power plant generated 1,420 MWh of electrical energy, resulting in the in-house generation of 35% of the Company's energy needs. In line with the adopted annual plan for 2023, specialised machinery and production equipment were modernised and procured.

For the distribution transformer product line, a new high-speed cutting line for transformer sheet was contracted, which will enable the Company to be aligned with the EU regulations and trends. At the end of the year, a new drying plant was ordered for drying active parts, which will standardise the existing production level and improve the production process for medium power transformers.

Information equipment was modernised, with an emphasis on increased mobility, and extensive training provided, with particular progress achieved in the area of Security awareness.



13. Technical Development and Product Innovation

The technical development departments (Product Development and Production Development) employ 22 highly-educated experts having multidisciplinary profiles (electrical engineering, mechanical engineering, computer science), of whom three have completed doctoral studies, and several experts are enrolled in specialist and doctoral studies at different faculties of the University of Zagreb.

Since transformer customers are demanding lower noise levels, in 2023 we researched the factors that impact noise and methods to reduce noise, which required a change in paradigm – a shift from a quasi-static approach to physical models and overcoming vibroacoustics. Further, for Tier 2 distribution transformers, a new methodology was developed for stress calculations using a combination of magnetic calculation using finite elements and nonlinear numerical stress calculations. A new program was developed for calculations for special transformers, with emphasis on grounding transformers, and a database was created for linking existing design programs with commercial magnetic calculation programs based on the finite element method. A multi-physical model to simulate hot-spot temperatures in clamping systems of transformers was developed and successfully verified. As part of the development of 220 kV transformers, a new program was validated for the calculation of peak charges, and a new model created for the calculation of transferred charges.

Experts in technical development and other departments actively participated in expert symposia on transformers (HO CIRED in Seget Donji, international CIRED in Rome, HRO CIGRE in Šibenik and Transformers Colloquium in Split), in the work of the study committee SO A2 for transformers, and in the work of 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 end of 2022, Končar D&ST had 744 employees. During 2023, 47 new employees were recruited, and 25 left the Company, so at year-end the Company had 766 employees. The age structure of new recruits is diverse, ranging from the youngest recruit in 2023 of 18 years old, and the oldest 46. The average age of employees in Končar D&ST was 39 years of age.

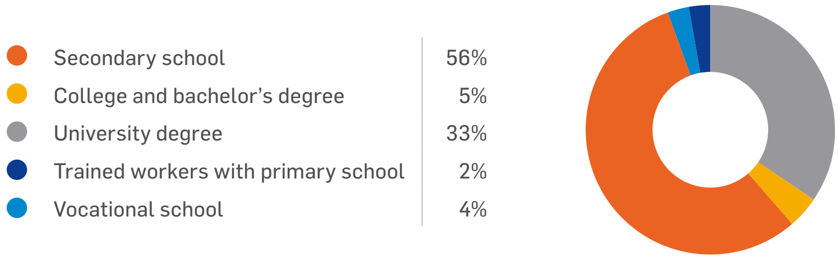
Končar D&ST systematically plans and continuously implements employee training, professional development and education, with the aim of enabling employees to acquire expert knowledge, technical knowledge, foreign language knowledge, IT knowledge, managerial skills, development of personal competencies, 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.

In March 2023, KONČAR - D&ST was awarded the MAMFORCE standard certificate. We hope that this will benefit our employees and business productivity and, in the long terms, will change society for the better.

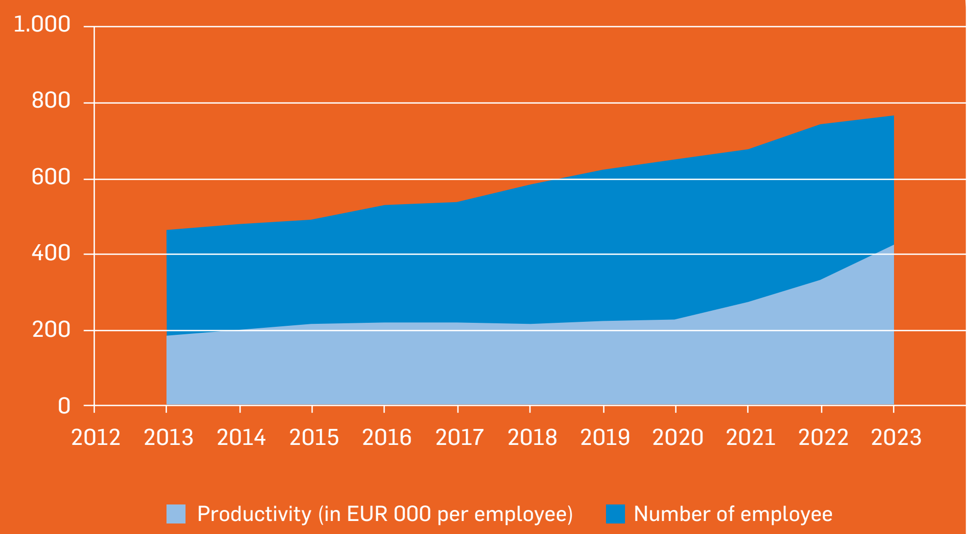
Structure of employee education levels at year-end:

	2022.	2023.
1. University degree (16+ years of education) a)	**249**	**253**
2. College and bachelor's degree (14–15 years of education)	**36**	**39**
3. Secondary school (12 years of education)	**415**	**427**
4. Vocational school (11–13 years of education)	**29**	**33**
5. Trained workers with primary school (8 years of education)	**15**	**14**
Total	**744**	**766**

766
employees

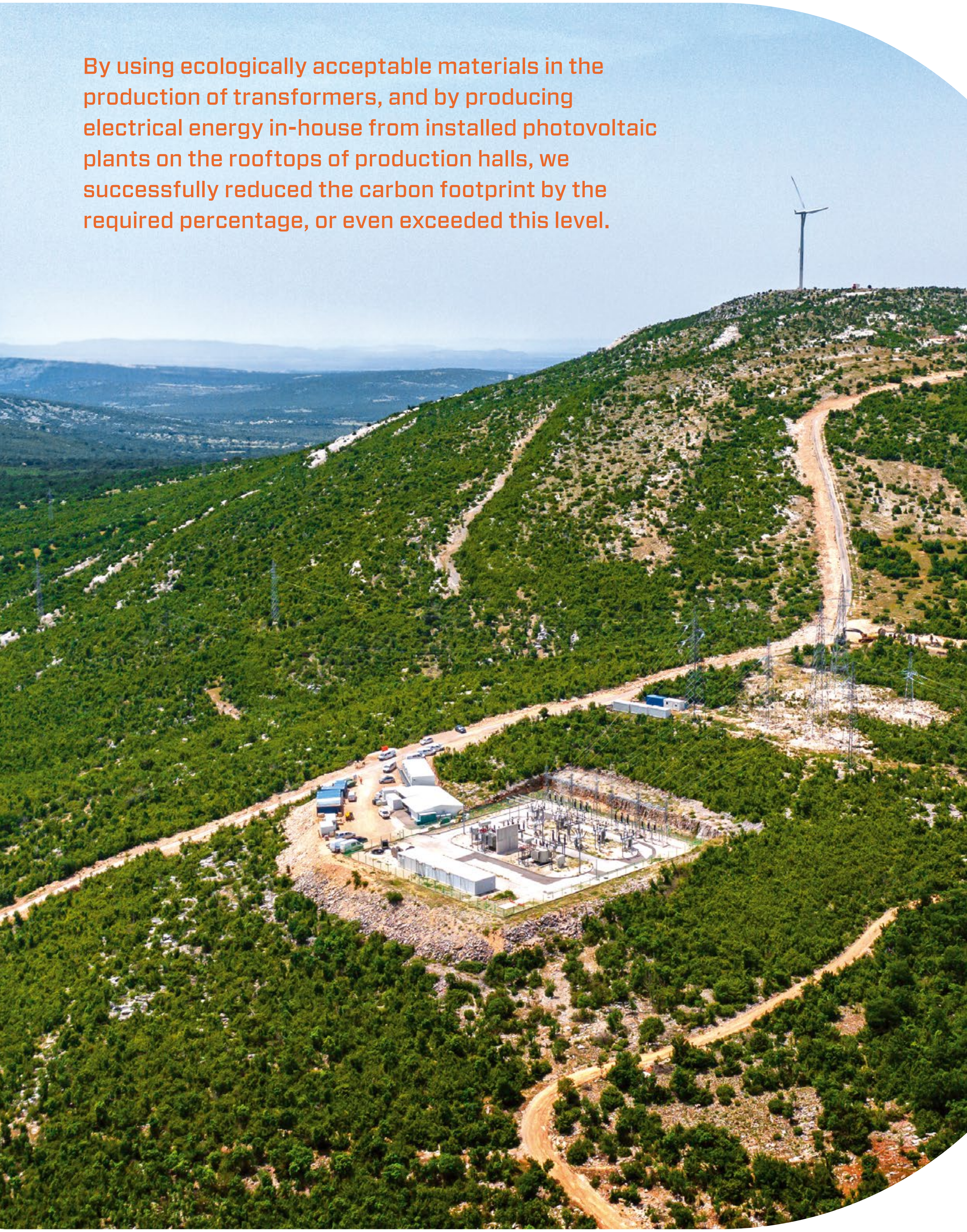


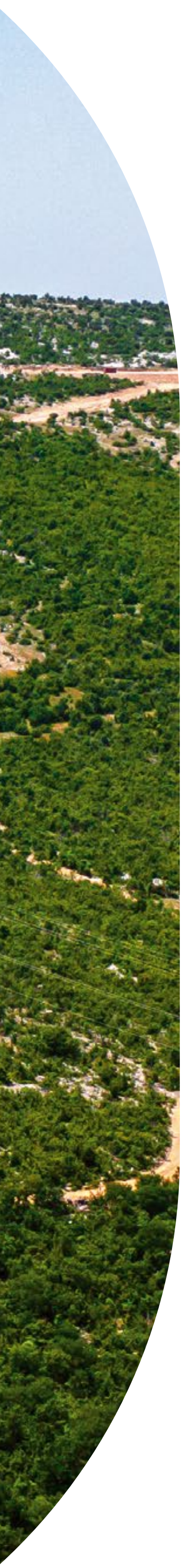
Number of employees and productivity trends



Productivity measured as sales per employee in 2023 was EUR 428,000, which is an increase of 29% in comparison with the previous year.

By using ecologically acceptable materials in the production of transformers, and by producing electrical energy in-house from installed photovoltaic plants on the rooftops of production halls, we successfully reduced the carbon footprint by the required percentage, or even exceeded this level.





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

During 2023, the certification of management systems included successful recertification by the certification company Bureau Veritas for the environment management system according to ISO 14001:2015 and the OH&S management system according to ISO 45001:2018. These certificates were extended for the next three-year period. A supervisory audit of the quality management system according to ISO 9001:2015 was also performed.

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 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. During 2023, a total of 28 internal auditors were trained.

As part of a three-year contract for a client from Italy, the carbon footprint was calculated for 11 types of distribution transformers. In 2023, it was necessary to prepare a study for the proposed 5% reduction of the carbon footprint for nine types of transformers in relation to the previously calculated values. By using ecologically acceptable materials in the production of transformers, and by producing electrical energy in-house from installed photovoltaic plants on the rooftops of production halls, we successfully reduced the carbon footprint by the required percentage, or even exceeded this level. In December 2023, the validation audit of the proposed reduction of the carbon footprint was successfully completed. For a Spanish client, the project “Carbon Footprint of Products” was successfully carried out in early 2023 for two 40 MVA medium power transformers. Following this, the Environmental Product Declaration (EPD) was prepared and officially published on the EPD Italy web portal, where it is publicly available to all interested parties. In the last quarter of 2023, the number of requests increased for development of a Raw Materials Passport (RMP) project for several clients. A part of these projects was successfully completed by the end of the year, while the completion of the remaining projects is expected in the first quarter of 2024. These requests for environmental topics are growing substantially, particularly those relating to the CFP and RMP projects.

16. Corporate Sustainable Responsibility

Končar D&ST plans to continue its practice of reporting on sustainability topics and corporate social responsibility, and in 2023 issued the third Sustainability Report in line with the GRI Reporting Guidelines, thereby continuing the trend of improving monitoring and reporting activities. The Report includes a comprehensive analysis of products and business activities overall in light of the economic activities defined under the legal framework of the Regulation on EU Taxonomy.

Given that decarbonisation, mitigating the impacts of climate change, and transition towards a circular economy are goals and strategies that the Company is committed to, at the end of 2023, Končar D&ST began drafting its ESG Strategy and calculation of the organisation’s carbon footprint, which will give a better overview of operations and help to direct and define future activities relating to sustainability.

During 2023, Končar D&ST supported a wide range of social responsibility initiatives and projects.

We continuously invest in development, professional training, and caring for our community. We also carry out numerous activities that illustrate our dedication to corporate social responsibility and taking an active part in the community. In view of our sensitivity to children's needs, in 2023 we supported and donated to numerous societies and organisations that help and support children with special needs and developmental disabilities.

Further in 2023, Končar-D&ST was awarded the MAMFORCE certificate and Equal pay certificate, which confirm our dedication to creating a stimulating, inclusive and adaptive work environment. We believe that project such as these benefit our employees, especially mothers and fathers, and the whole community, by promoting equality, improving the work-life balance, and employee well-being.

In its operation and daily 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.

The investment project entitled "Sustainable SETup for the development of socially and environmentally responsible production" ("Sustainable SETup") is currently being implemented at the existing location in Jankomir. This project is aimed primarily at standardising the existing level of production and increasing warehouse space,to enable optimisation of several business processes and a more adequate flow of materials, raw materials, equipment and finished products.

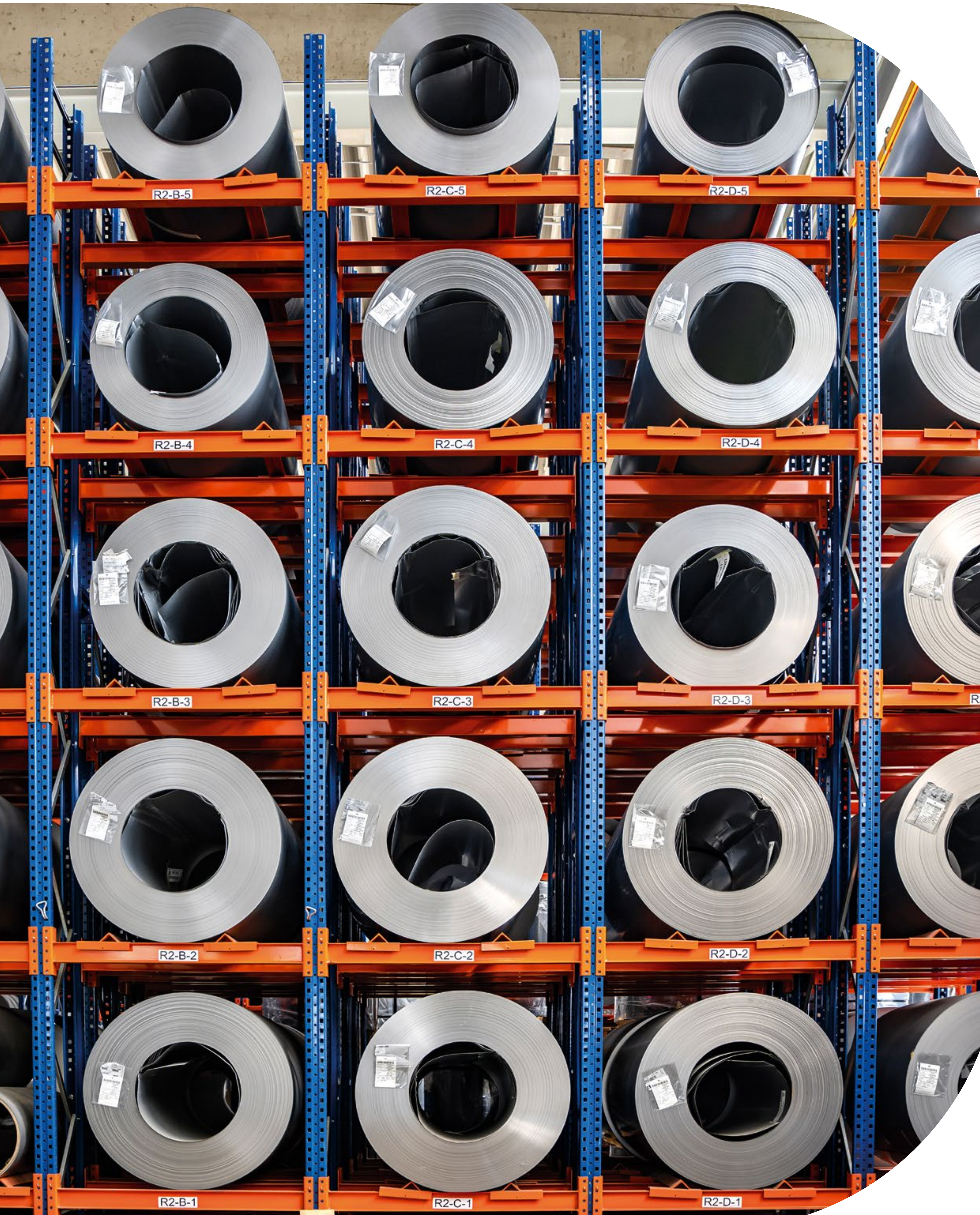
In the forthcoming period, the market standing of the competition and suppliers will be carefully monitored and analysed, and potential opportunities to expand operations will be considered.

Končar D&ST is strongly positioned among the leading European producers of distribution, special and medium power transformers. The Company achieves business excellence by recognising and fulfilling customer needs, building partnership relations with suppliers, its commitment to quality and sustainable development, and through further technical and organisational development, in combination with ongoing employee training and motivation, and a strong recognition of the values of togetherness and teamwork.

Final remark:

After the end of the 2023 business year, and up to the drafting of this report, negative implications are possible due to the instability of the supply chain, which is reflected in lengthened delivery periods for procurement of certain components. Other than this, there were no other unusual or significant business events that would significantly alter the overall operations and state of the Company as outlined in this report.

Since the Republic of Croatia introduced the euro as the official currency as of 1 January 2023, pursuant to the Act on introduction of the euro as the official currency of the Republic of Croatia, for the purpose of preparation of the financial reports for the year ending 31 December 2023, the Company changed the presentation values from kuna to euro, and all financial reports for the year ending 31 December 2023 were prepared for the first time in euro, rounded to the nearest thousand (where applicable). As of 1 January 2023, the euro is also the functional currency of the Company (until 1 January 2023 this was the kuna). Accordingly, the currency exchange rate of 7.53450 kuna to 1 euro was used in converting comparable data.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2 Independent Auditor's Report

KONČAR
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Končar – Distribution and Special Transformers Inc.

Statement of Management Responsibilities

The Management Board of the company Končar — Distribution and Special Transformers Inc. for manufacturing (hereinafter: Company) 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 separate financial statements based on the going concern principle, unless the assumption that the Company 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 accept 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, separate ESEF Financial Statements, and the attached separate financial statements comprise the Annual Report of the Company; they were approved and signed by the Management Board on 15 April 2024 for submission to the Supervisory Board.

Vanja Burul, Management Board President

Martina Mikulić, Member

Dominik Trstoglavec, Member

Mario Ljubić, Member

Končar – Distribution & Special Transformers, Inc. for manufacturing
Josipa Mokrovića 8
10 090 Zagreb
Croatia

Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of KONČAR - Distribution And Special Transformers Inc. for manufacturing ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2023, and the separate statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising material 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 2023 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.

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Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing *(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.

Revenue recognition

Revenue from customer contracts for the sale of transformers recognized in profit or loss in 2023 amounts to EUR 323,118 thousand (2022: EUR 241,668 thousand). Please refer to the notes: Material accounting policy information *2a) Revenue recognition*, Key accounting estimates *3a) Revenue recognition* and note *4 Revenue* in the financial statements.

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

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Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing *(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 2023 amounted to EUR 14,305 thousand (31 December 2022: EUR 10,797 thousand). Please refer to notes: Material accounting policy information *2p) Provisions*, Key accounting estimate *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 long term product warranties given to customers.
 	
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 customers in connection with unplanned suspension of operations.
 	
As stated in note 3b), the Company estimates provisions for product warranties primarily by reference to historical costs related to product warranties and also takes into account available industry data on statistical product failure incidence levels.
 	
The completeness and valuation of the expected outcome of warranty provisions requires a significant 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:
	
	• Evaluating the design and implementation of selected relevant controls as well as inputs used in managements' assessment of valuation of provisions,
	
	• Challenging the assumptions underlying the valuation of provisions by reference to:
	  o relevant information from customer contracts (such as warranty duration and expiry);
	  o historical levels of product warranty repairs (i.e utilisations of provisions);
	  o available industry information on statistical products failure incidence levels, where applicable; and
	  o market experience from other manufacturers of similar products.
	
	• For utilisations of provisions, on a sample basis:
	  o obtaining an understanding of the nature of actual product warranty repairs incurred during the year, through interviews with management and other relevant personnel;
	  o inspecting relevant customer contracts and warranty terms as well as source documentation such as correspondence with customers with respect to warranty claims, where applicable;
	  o Evaluating a sample of actual product warranty repairs in terms of nature, timing and amount by reference to relevant supporting documentation.
	
	• Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for warranty provisions related to customer contracts.

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Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing *(continued)*

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

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

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

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

- the information given in the Management Report and 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.

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Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing *(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.

KPMG

Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing *(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 16 May 2023 to audit the separate financial statements of KONČAR - Distribution And Special Transformers Inc. for manufacturing for the year ended 31 December 2023. Our total uninterrupted period of engagement is four years, covering the periods ending 31 December 2020 to 31 December 2023.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 15 April 2024;
- 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. for manufacturing *(continued)*

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of the Capital Market Act, we are required to express an opinion on compliance of the separate financial statements of the Company as at and for the year ended 31 December 2023, as included in the attached electronic file "549300DOZHZICNEMG593-2023-12-31-hr-Nekonsolidirano", with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

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

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

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

Auditors' Responsibilities

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

KPMG

Independent Auditor's Report to the Shareholders of KONČAR - Distribution And Special Transformers Inc. for manufacturing *(continued)*

Report on Compliance with the ESEF Regulation (continued)

Auditors' Responsibilities (continued)

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

Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the separate financial statements of the Company presented in human-readable format;
- evaluating the completeness of the Company's tagging of the separate financial statements;
- evaluating the appropriateness of the use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the separate financial statements.

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

Opinion

In our opinion, based on the procedures performed and evidence obtained, the separate financial statements of the Company as at and for the year ended 31 December 2023, 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 ESEFs.

Our opinion 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. Furthermore, we do not express any assurance with respect to other information included in documents in the ESEF format.

15 April 2024

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

THIS AUDIT REPORT IS ELECTRONICALLY SIGNED BY THE AUDITORS AS AT THE ABOVE DATE

Statement of Comprehensive Income

for the year ended 31 December 2023

	Note	2023 EUR'000	2022 EUR'000
Revenue	4	323,118	241,668
Other operating income	5	1,465	807
Operating income		**324,583**	**242,475**
Change in inventories of work in progress and finished goods		23,782	9,971
Materials, consumables, goods and services used	6	(230,797)	(194,102)
Personnel costs	7	(35,003)	(25,970)
Depreciation and amortisation		(3,894)	(3,821)
Other operating expenses	8	(14,621)	(4,259)
Impairment	9	(2,570)	(1,767)
Operating expenses		**(263,103)**	**(219,948)**
Operating profit		**61,480**	**22,527**
Financial income	10	545	1,527
Financial expenses	10	(351)	(213)
Net financial result		**194**	**1,314**
Profit before tax		**61,674**	**23,841**
Corporate income tax	11	(10,961)	(1,545)
PROFIT FOR THE YEAR		**50,713**	**22,296**
Change in fair value of the financial assets	17	1,574	-
Other comprehensive income		**1,574**	**--**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**52,287**	**22,296**
Earnings per share (basic and diluted) in EUR	12	**99,20**	**43,61**

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

Statement of Financial Position

as at 31 December 2023

	Note	31.12.2023 EUR'000	31.12.2022 EUR'000
ASSETS			
Non-current assets			
Intangible assets	13	468	411
Property, plant and equipment	14	32,654	32,816
Right-of-use assets	15	292	280
Investment property	16	327	350
Investments in subsidiary	17	6,624	500
Investments in associates	18	230	230
Financial assets at FVOCI	19	233	372
Financial assets at FVTPL	28	-	383
Deferred tax assets		1,174	719
		42,002	**36,061**
Current assets			
Inventories	20	118,380	93,515
Trade and other receivables	21	60,315	42,663
Loans receivable	23	-	346
Financial assets at FVTPL	28	-	849
Cash and cash equivalents	24	53,056	8,102
		231,751	**145,475**
TOTAL ASSETS		**273,753**	**181,536**
EQUITY AND LIABILITIES			
Share capital	25	20,449	20,356
Legal reserves		1,018	1,018
Statutory reserves		32,865	30,635
Other reserves		6,103	6,103
Fair value reserve		1,574	-
Retained earnings		70,093	28,727
- from which profit for the year		*50,713*	*22,296*
EQUITY AND RESERVES		**132,102**	**86,839**
Borrowings	27	4,411	5,442
Financial liabilities at FVTPL	28	89	-
Provisions for warranties	26	10,806	8,050
Provisions for employee benefits	26	1,807	552
Non-current liabilities		**17,113**	**14,044**
Borrowings	27	1,134	17,067
Financial liabilities at FVTPL	28	386	-
Income tax liability		10,584	1,023
Trade and other payables	29	38,889	32,406
Contract liabilities	22	69,861	26,481
Provisions for warranties	26	3,499	2,747
Provisions for onerous contracts	26	185	929
Current liabilities		**124,538**	**80,653**
Total liabilities		**141,651**	**94,697**
TOTAL EQUITY AND LIABILITIES		**273,753**	**181,536**

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

Statement of Cash Flows

for the year ended 31 December 2023

	Note	2023 EUR'000	2022 EUR'000
Cash flows from operating activities			
Cash proceeds from trade receivables		345,952	229,570
Cash proceeds from insurance reimbursements		613	14
Cash proceeds from tax returns		9,813	8,884
Cash paid to suppliers		(243,074)	(221,982)
Cash paid to employees		(34,307)	(24,692)
Taxes paid		(1,860)	(914)
Cash paid for insurance related to reimbursements		(399)	(229)
Other cash proceeds and payments		(1,095)	(1,833)
Cash from operations		**75,643**	**(11,182)**
Interest paid		(233)	(198)
Net cash flows from operating activities		**75,410**	**(11,380)**
Cash flows from investment activities			
Cash proceeds from sale of non-current tangible and intangible assets		17	81
Cash proceeds from dividend		193	290
Cash proceeds from interest		311	7
Cash proceeds from loans and borrowings		2,900	-
Cash expenses for purchase of non-current tangible and intangible assets		(4,418)	(7,522)
Cash outflows for purchase of financial instruments		(4,410)	-
Loans given		(2,450)	-
Net cash used in investing activities		**(7,857)**	**(7,144)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	27	-	21,950
Repayment of principal portion of loans and borrowings	27	(16,977)	(6,997)
Principal portion of lease payments	27	(110)	(91)
Dividends paid		(7,024)	(4,696)
Other cash proceeds and payments		1,512	(88)
Net cash used in financing activities		**(22,599)**	**10,078**
Net increase/(decrease) in cash and cash equivalents		**44,954**	**(8,446)**
Cash and cash equivalents at the beginning of the period		8,102	16,548
Cash and cash equivalents at the end of the period	**24**	**53,056**	**8,102**

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

Statement of Changes In Equity

For the year ended 31 December 2023

	Share capital EUR'000	Legal reserves EUR'000	Statutory reserves EUR'000	Other reserves EUR'000	Fair value reserve EUR'000	Retained earnings EUR'000	Total EUR'000
As at 1 January 2022	**20,356**	**1,018**	**23,593**	**6,103**	**-**	**18,168**	**69,238**
Profit for the year	-	-	-	-	-	22,296	22,296
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**22,296**	**22,296**
Transfers	-	-	7,042	-	-	(7,042)	-
Dividends	-	-	-	-	-	(4,695)	(4,695)
Total transactions with owners	**-**	**-**	**7,042**	**-**	**-**	**(11,737)**	**(4,695)**
As at 31 December 2022	**20,356**	**1,018**	**30,635**	**6,103**	**-**	**28,727**	**86,839**
Profit for the year	-	-	-	-	-	50,713	50,713
Other comprehensive income							
Change in fair value of financial assets	-	-	-	-	1,574	-	1,574
Total comprehensive income	**-**	**-**	**-**	**-**	**1,574**	**50,713**	**52,287**
Share capital adjustment	93	-	-	-	-	(93)	-
Transfers	-	-	2,230	-	-	(2,230)	-
Dividends	-	-	-	-	-	(7,024)	(7,024)
Total transactions with owners	**93**	**-**	**2,230**	**-**	**-**	**(9,347)**	**(7,024)**
As at 31 December 2023	**20,449**	**1,018**	**32,865**	**6,103**	**1,574**	**70,093**	**132,102**

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

Notes to the Financial Statements

for the year ended 31 December 2023

1. General Information about the Company

Končar – Distribution and special transformers, Inc. for manufacturing, 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.

Based on Article 11 of the Companies Act and the provision of Article 36, paragraph 1, subparagraph 1 of the Statute of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. and in accordance with the decision of the Management Board of Končar – Electrical Industry Inc. and the approval of the Supervisory Board of Končar – Electrical Industry Inc., at the General Meeting of the Company held on May 16, 2023, a Decision on the change of the Company's name was adopted. The former name of the Company was KONČAR – DISTRIBUTION AND SPECIAL TRANSFROMERS Inc., and it has been changed to KONČAR – Distribution and special transformers Inc. for manufacturing.

As at 31 December 2023, the Company had 766 employees, while as at 31 December 2022, there had been 744 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.

The fees paid to auditors for auditing the non-consolidated and consolidated financial statements of the Company for the year 2023 amounted to EUR 52.5 thousand (2022: 41.5 thousand euros). The audit services provided in 2023 mainly relate to the costs of auditing and reviewing financial statements, as well as auditing financial statements prepared for regulatory purposes. No non-audit services were provided by auditors during 2023 (2022: -).

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

2. Material accounting policy information

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 euro as the Company's functional and reporting currency.

Notes to the Financial Statements

for the year ended 31 December 2023

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 Power Engineering Transformatory Sp. z o.o. (PET) (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 2023 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. In 2023, the Company became the majority owner of Ferokotao Llc., located in Donji Kraljevec, Croatia. However, since the date of acquisition of control was December 20, 2023, only balance sheet items will be consolidated.

CHANGE OF FUNCTIONAL AND REPORTING CURRENCY

The financial statements are denominated in euro as the Company's functional and reporting currency.

Due to the Republic of Croatia's adoption of the euro as its official currency from 1 January 2023, in accordance with the Law on the Introduction of the Euro as the Official Currency in the Republic of Croatia, the Company changed its presentation currency from Croatian kuna to euros for the preparation of financial statements for the year ended 31 December 2023. Therefore, the financial statements for the year ended 31 December 2023, were prepared for the first time in euros, rounded to the nearest thousand. From 1 January 2023, the euro also became the functional currency of the Company (previously it was the Croatian kuna). Consequently, the exchange rate of 7.53450 kunas per euro was used for converting comparative data.

Although the change in presentation currency in the financial statements constitutes a change in accounting policy requiring retrospective application, the Company did not publish a third balance sheet in the financial statements for the year ended 31 December 2023, in accordance with International Accounting Standard 8 (IAS 8) Accounting Policies, Changes in Accounting Estimates and Errors. This decision was made because the Company determined that the change in presentation currency does not have a significant impact on the Company's financial statements, given the stable HRK/EUR exchange rate over the past few years.

APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Current Standards, Amendments to Existing Standards, and Implementations - Adopted During 2023

In 2023, the following standards, amendments to existing standards, and interpretations came into effect:

- Amendments to IFRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*,
- Amendments to IFRS 1 *Presentation of Financial Statements and Practice Statement 2: Disclosure of Accounting Policies,*
- Amendments to IFRS 12 *Income Taxes: Deferred Tax for Asset and Liability Transactions,*
- Amendments and Supplements to IFRS 12 *Income Taxes: International Tax Reform - Second Tier Rule Model.*

The adoption of these standards did not cause significant effects on the amounts recognized in the balance sheet or the statement of profit and loss or on the disclosed accounting policies.

Standards, Amendments to Existing Standards, and Interpretations Issued but Not Yet Effective

Several new amendments and supplements to existing standards and interpretations have been issued but are not yet effective as of the date of the financial statements. If applicable, the Company intends to adopt these standards when they become effective.

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

Notes to the Financial Statements

for the year ended 31 December 2023

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.

B) FINANCIAL INCOME AND EXPENSES

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

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

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

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

C) TAXES

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2023

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

H) NON-CURRENT INTANGIBLE AND TANGIBLE ASSETS (PROPERTY, PLANT AND EQUIPMENT)

Property, plant and equipment represent assets intended for use in the production of goods or the delivery of services or for administrative purposes, expected to be utilized for longer than one accounting period and intended for continuous use in the business activities. It includes the following types of assets: land, buildings, plant and equipment, tools, operating inventory, furniture, and transportation assets, advances, and other non-current tangible assets.

Notes to the Financial Statements

for the year ended 31 December 2023

Non-current intangible assets are non-monetary assets without physical characteristics that can be identified, including the following types of assets: licenses, software, advances for intangible assets, and other intangible assets.

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.

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.

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.

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.

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

Classification and measurement of financial assets

Financial assets are classified and measured on the way presented in Note 32 – Risk Management.

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

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

Notes to the Financial Statements

for the year ended 31 December 2023

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.

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.

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.

Notes to the Financial Statements

for the year ended 31 December 2023

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.

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.

Notes to the Financial Statements

for the year ended 31 December 2023

M) CASH AND CASH EQUIVALENTS

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

N) BORROWINGS

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

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

O) LEASES

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.

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.

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 land — 1 - 3 years
- right of use for commercial buildings — 5 years
- right of use for vehicles — 5 years

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 3% for vehicles.

Notes to the Financial Statements

for the year ended 31 December 2023

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 2 - 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.

Notes to the Financial Statements

for the year ended 31 December 2023

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

R) CONTINGENT ASSETS AND LIABILITIES

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

S) 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.

Notes to the Financial Statements

for the year ended 31 December 2023

3. Key accounting estimates

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

a) Revenue recognition

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

b) Warranty provisions

As part of its customer arrangements, the Company typically provides warranties for its products/projects performed for a period of 5 years. In certain cases where warranties exceed this range, the Company has analyzed and concluded that such contracts do not involve significant non-routine warranties that could be considered a separate performance obligation. Management assesses provisions for warranty repairs based on historical data on the utilization of provisions and repair costs within the warranty period, industry statistics on transformer failures, and the frequency of significant transformer failures. Additionally, if circumstances are identified that pose an increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on these specific circumstances. The provisions are then based on current and future estimated costs of rectifying defects and/or replacing transformers as a result of technical analyses and communication with customers. Factors influencing these individual provisions include information on the past success of product quality initiatives and corrections, the likelihood of product replacements, as well as spare parts and labour costs.

Notes to the Financial Statements

for the year ended 31 December 2023

4. Revenue

	2023 EUR'000	2022 EUR'000
Type of goods or services		
Sales of distribution transformers	151,783	104,085
Sales of medium power transformers	142,124	115,570
Sales of material and services	29,211	22,013
Total revenue from contracts with customers	**323,118**	**241,668**
Geographic areas		
Croatia	31,334	25,851
EU member states	255,610	181,040
Bosnia & Herzegovina, Macedonia, Serbia, Montenegro	7,034	1,899
Other European countries	21,507	19,369
Africa	923	1,954
Asia	6,048	11,156
Other countries worldwide	662	399
Total revenue from contracts with customers	**323,118**	**241,668**
Revenue recognition time:		
At a point in time	323,118	241,668
Over time	-	-
Total revenue from contracts with customers	**323,118**	**241,668**

5. Other operating income

	2023 EUR'000	2022 EUR'000
Insurance recoveries	663	14
Rental income	248	277
Discounts, rebates and similar	101	50
Inventory surplus	35	18
Net profit from the sale of fixed assets	14	76
Other income	404	372
	1,465	**807**

Notes to the Financial Statements

for the year ended 31 December 2023

6. Materials, consumables, goods and services used

	2023 EUR'000	2022 EUR'000
Raw materials and consumables	198,937	165,847
Cost of goods sold	8,116	9,067
Transport services	6,776	6,718
External production related services	3,050	2,465
Maintenance and servicing	1,961	1,576
Other costs	11,957	8,429
	230,797	**194,102**

7. Personnel costs

	2023 EUR'000	2022 EUR'000
Net salaries and wages	20,129	15,289
Taxes and contributions from salaries	9,246	6,454
Contributions on salaries	4,493	3,350
Reimbursement of employee expenses, gifts and grants	1,135	877
	35,003	**25,970**

In 2023, pension fund contributions amounted to EUR 5,922 thousand (2022: EUR 4,406 thousand).

Personnel costs include EUR 149 thousand of retirement and termination benefits (2022: EUR 97 thousand).

The average number of employees during 2023 was 754 employees (2022: 727 employees).

Notes to the Financial Statements

for the year ended 31 December 2023

8. Other costs

	2023 EUR'000	2022 EUR'000
Entertainment	831	463
Staff transportation costs	736	710
Bank charges and commissions	638	485
Insurance	518	370
Daily allowances and business trip related costs	464	362
Premiums and benefits for voluntary pension pillar	294	278
Professional training costs	271	263
Intellectual services	195	162
Accrued expenses	1,453	94
Fees payable to Supervisory board members	14	14
Increase/(decrease) in provisions for warranty repairs	6,240	(113)
Donations, gifts and reimbursements to employees	1,255	(157)
Provisions for onerous contracts	(744)	(494)
Other non-production related costs	852	1,010
Other operating costs	1,604	812
	14,621	**4,259**

9. Impairment

	2023 EUR'000	2022 EUR'000
Impairment of inventory	2,570	1,767
	2,570	**1,767**

Notes to the Financial Statements

for the year ended 31 December 2023

10. Net financial result

	2023 EUR'000	2022 EUR'000
Exchange rate differences	-	1,209
Dividends and share in profits	193	290
Interest and similar income	345	22
Other financial income	7	6
Total financial income	**545**	**1,527**

	2023 EUR'000	2022 EUR'000
Interest and similar expenses	301	213
Foreign exchange losses	50	-
Total financial expenses	**351**	**213**

Net financial result	**194**	**1,314**

11. Corporate income tax

	2023 EUR'000	2022 EUR'000
Current tax	11,417	914
Additional tax	-	698
Deferred tax	(456)	(67)
Income tax expense	**10,961**	**1,545**

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:

	2023 EUR'000	2022 EUR'000
Accounting profit (before tax)	61,674	23,841
Tax at 18%	11,101	4,291
Adjustments for:		
Non-taxable income	95	54
Non-deductible expenses	(71)	(85)
Temporary differences for which no deferred tax assets were recognised	92	(808)
Change in recognised deferred taxes	(56)	764
Investment tax credit utilisation	(200)	(2,741)
Recognition of deferred tax asset on investment tax credit	-	(628)
Additional tax	-	698
Income tax expense	**10,961**	**1,545**
Effective tax rate	17.77%	6.48%

Notes to the Financial Statements

for the year ended 31 December 2023

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 EUR 5,464 thousand, for which the company has the possibility of reducing future income tax liabilities for the years ending December 24, 2031. In the financial statements for the year 2023, the Company utilized EUR 200 thousand of approved tax incentives for this project, whereas in the previous period, it utilized EUR 2,741 thousands for the same purpose.

The Company has not recognized deferred tax assets in the amount of approximately EUR 1.1 million (31 December 2022: EUR 1.1 million) for part of the temporary differences, as it does not expect to realize them in the foreseeable future.

12. Earnings per share

Basic and diluted earnings per share:

	2023	2022
Net result in EUR thousands	50,713	22,296
Total and weighted average number of shares	511,232	511,232
Earnings per share in EUR	**99,20**	**43,61**

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 2023 and 2022 are equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either period.

Notes to the Financial Statements

for the year ended 31 December 2023

13. Non-current intangible assets

	Licences, software and other rights EUR'000	Assets under construction EUR'000	Total EUR'000
Cost			
At 1 January 2022	**2,070**	**-**	**2,070**
Additions	-	234	234
Transfer	151	(151)	-
Disposals	(52)	-	(52)
As at 31 December 2022	**2,169**	**83**	**2,252**
Additions	-	234	234
Transfer	243	(243)	-
Disposals	(4)	-	(4)
As at 31 December 2023	**2,408**	**74**	**2,482**
Accumulated amortisation			
At 1 January 2022	**1,759**	**-**	**1,759**
Charge for the year	134	-	134
Disposal	(52)	-	(52)
As at 31 December 2022	**1,841**	**-**	**1,841**
Charge for the year	177	-	177
Disposals	(4)	-	(4)
As at 31 December 2023	**2,014**	**-**	**2,014**
Carrying amount			
As at 31 December 2022	328	83	411
As at 31 December 2023	**394**	**74**	**468**

The cost of intangible assets fully amortised and still in use as at 31 December 2023 amounts to EUR 1,643 thousand (31 December 2022: EUR 1,382 thousand).

Notes to the Financial Statements

for the year ended 31 December 2023

14. Property, plant and equipment

	Land EUR'000	Buildings EUR'000	Plant and equipment EUR'000	Tools and furniture EUR'000	Assets under construction and advances EUR'000	Total EUR'000
Cost						
At 1 January 2022	**2,245**	**26,887**	**35,049**	**4,537**	**200**	**68,918**
Additions	-	-	-	-	7,595	7,595
Transfers	1,298	3,989	1,885	77	(7,249)	-
Disposals	-	-	(408)	(166)	-	(574)
As at 31 December 2022	**3,543**	**30,876**	**36,526**	**4,448**	**546**	**75,939**
Additions	-	-	-	-	3,424	3,424
Transfers	10	47	2,013	271	(2,341)	-
Disposals	-	-	(184)	(107)	-	(291)
As at 31 December 2023	**3,553**	**30,923**	**38,355**	**4,612**	**1,629**	**79,072**
Accumulated depreciation						
At 1 January 2022	-	**13,424**	**23,277**	**3,395**	-	**40,096**
Charge for the year	-	1,255	2,046	289	-	3,590
Disposals	-	-	(397)	(166)	-	(563)
As at 31 December 2022	-	**14,679**	**24,926**	**3,518**	-	**43,123**
Charge for the year	-	1,268	2,064	249	-	3,581
Disposals	-	-	(180)	(106)	-	(286)
As at 31 December 2023	-	**15,947**	**26,810**	**3,661**	-	**46,418**
Carrying amount						
As at 31 December 2022	**3,543**	**16,197**	**11,600**	930	546	32,816
As at 31 December 2023	**3,553**	**14,976**	**11,545**	**951**	**1,629**	**32,654**

As at 31 December 2023, the net book amount of mortgaged properties amounts to EUR 15,101 thousand (31 December 2022: EUR 14,884 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 EUR 1,682 thousand (note 27).

The cost of fully depreciated tangible assets still in use as at 31 December 2023 amounts to EUR 25,649 thousand (31 December 2022: EUR 17,083 thousand). As at 31 December 2023 total advances for property, plant and equipment amounted to EUR 1,272 thousand (31 December 2022: EUR 484 thousand).

Notes to the Financial Statements

for the year ended 31 December 2023

15. Right-of-use assets

Right-of-use assets relate to the following:

	31.12.2023 EUR'000	31.12.2022 EUR'000
Land	83	60
Buildings	3	10
Transport vehicles	206	210
	292	**280**

The movement during the year is shown below:

	31.12.2023 EUR'000	31.12.2022 EUR'000
As at 1 January	**280**	**143**
Increase - new leases	128	211
Decrease – termination of leases	(3)	-
Depreciation	(113)	(74)
As at 31 December	**292**	**280**

16. Investment property

	Toral EUR'000
Cost	
At 1 January 2022	**465**
Additions	-
As at 31 December 2022	**465**
Additions	-
As at 31 December 2023	**465**
Accumulated depreciation	
At 1 January 2022	**92**
Charge for the year	23
As at 31 December 2022	**115**
Charge for the year	23
As at 31 December 2023	**138**
Carrying amount	
As at 31 December 2022	350
As at 31 December 2023	**327**

The Company owns certain business premises for which the market value is estimated at around EUR 0.5 – 0.6 million.

Notes to the Financial Statements

for the year ended 31 December 2023

17. Investments in subsidiary

	% ownership	31.12.2023 EUR'000	31.12.2022 EUR'000
Power Engineering Transformatory (PET) (i)	100%	4,726	4,726
Ferokotao Ltd (ii)	51%	6,124	-
Impairment		(4,226)	(4,226)
Total		**6,624**	**500**

(i) The total net investment in the subsidiary Power Engineering Transformatory (PET) as of 31 December 2023, amounts to EUR 0.5 million (including value adjustments of EUR 4.2 million made in previous years). The recognized investment amount pertains to the recapitalization of PET conducted by the Company during 2022. The business results of the subsidiary PET only turned positive in 2023 after several years of operating at a loss. For this reason, the Management has assessed that there is significant uncertainty regarding the achievement of business plans of the subsidiary that would ensure recoverability of the investments above the currently recognized amounts.

(ii) On 15 November 2023, the Company signed purchase agreements to acquire a 35% ownership stake in the company Ferokotao Ltd, located in Donji Kraljevec, Croatia. The core activities of the mentioned company include manufacturing metal products, machinery, and supplying metal parts for the transformer industry. Prior to this acquisition, the Company held a 16% ownership stake in Ferokotao Ltd, and through this acquisition, it became the owner of a 51% interest in the company's share capital. The Company assumed control over this subsidiary in the latter half of December 2023, once all conditions were met, i.e., from the moment the Company had the power to govern and the right to or exposure to variable returns, as well as the ability to use its power over this subsidiary to affect its returns. The value of the existing ownership stake (16%) was adjusted to fair value, resulting in a profit of EUR 1.57 million, which is recognized within comprehensive income in accordance with the Company's accounting policies

18. Investments in associates

Investments in associates in the amount of EUR 230 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

	31.12.2023 EUR'000	31.12.2022 EUR'000
Unqouted equity instruments	228	367
Other financial assets at FVOCI	5	5
	233	**372**

Fair value measurement

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

Notes to the Financial Statements

for the year ended 31 December 2023

20. Inventories

	31.12.2023 EUR'000	31.12.2022 EUR'000
Raw materials and consumables used	39,097	45,064
Work-in-progress	34,774	22,817
Finished products	33,071	21,256
Advances given	11,438	4,378
	118,380	**93,515**

21. Trade and other receivables

	31.12.2023 EUR'000	31.12.2022 EUR'000
Receivables from foreign customers	50,041	35,009
Receivables from domestic customers	6,780	5,219
VAT receivable	3,215	2,243
Prepayments	208	159
Other receivables	71	33
	60,315	**42,663**

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

	31.12.2023 EUR'000	31.12.2022 EUR'000
Undue	48,760	36,950
< 60 days	7,926	3,223
60-90 days	8	6
90-180 days	117	49
180-365 days	10	-
> 365 days	-	-
	56,821	**40,228**

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:

	2023 EUR'000	2022 EUR'000
As at 1 January	**18**	**18**
Net change in ECLs	(3)	-
As at 31 December	**15**	**18**

Notes to the Financial Statements

for the year ended 31 December 2023

22. Contract liabilities

	31.12.2023 EUR'000	31.12.2022 EUR'000
Contract liabilities – advances received from customers	69,861	26,481
Total contract liabilities	**69,861**	**26,481**

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 EUR 110,851 thousand (2022: EUR 70,337 thousand).

Contractual obligations on the reporting date refer to contracts with customers with a total value of EUR 203,324 thousand (December 31, 2022: EUR 107,260 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 EUR 314,255 thousand (31 December 2022: EUR 133,157 thousand).

23. Loans receivable

	31.12.2023 EUR'000	31.12.2022 EUR'000
Loans receivable from the subsidiary	1,800	2,350
Impairment of loans	(1,800)	(2,000)
Expected credit loss	-	(4)
	-	**346**

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. 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.

On 31 December 2023, the loan balance was EUR 1,800 thousand. In 2023, at the Končar Group level, an analysis of the marketability of interest rates was made on the basis of which interest rates were calculated is from 1.71% - 3.42% p.a. (2022: 0.9% p.a.).

Notes to the Financial Statements

for the year ended 31 December 2023

Changes in loans granted during the year were as follows:

	Loans granted EUR'000
1 January 2022	**839**
Converting debt into equity	(500)
Net change in ECL	5
Imparment of loans granted	2
31 December 2022	**346**
Cash outflow	2.450
Cash receipts	(2.900)
Non-cash transactions (compensations)	(100)
Net change in ECL	4
Imparment of loans granted	200
31 December 2023	**-**

24. Cash and cash equivalents

	31.12.2023 EUR'000	31.12.2022 EUR'000
Cash in bank	24,894	8,102
Deposits up to 3 months	28,162	-
	53,056	**8,102**

Interest rate on the Company's cash in bank and deposits up to 3 months is from 3.55% - 3.60% (2022: 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 2023

25. Equity and reserves

Share capital is determined in the nominal amount of EUR 20,449 thousand (31 December 2022: EUR 20,356 thousand). The ownership structure of the Company was as follows:

	31 December 2023		31 December 2022	
Shareholder	**Number of shares**	**Ownership share %**	**Number of shares**	**Ownership share %**
Intercapital Securities / Končar – Electrical Industry Inc.	269,596	52.73	269,596	52.73
OTP bank d.d. / AZ Mandatory Pension Fund B class	28,249	5,53	28,249	5,53
Agram Brokers Inc. / Knežević Nikola	21,304	4,17	16,004	3,13
Floričić Kristijan	19,832	3,88	19,832	3,88
Hita Securities Inc. / Berkopić Dražen	13,299	2,6	12,000	2,35
Zagrebačka Banka d.d. / Collective Custodian Account Zagrebačka Banka d.d. / DF	8,255	1,61	8,255	1,61
Intercapital Securities / Radić Antun	7,886	1,54	7,886	1,54
Vulić Tomislav	4,800	0,94	4,800	0,94
Other	138,011	27	144,610	28,29
	511,232	**100**	**511,232**	**100**

As at 31 December 2023 and 2022, 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 EUR 40 per share. Dividend per share paid to the Company's shareholders in 2023 amounted to EUR 13.74 per share (2022: EUR 9.2 per share) and totalled EUR 7,024 thousand (2022: EUR 4,695 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 2023

26. Provisions

	Warranty provisions EUR'000	Jubilee awards and retirement benefits EUR'000	Provisions for onerous contracts EUR'000	Total EUR'000
As at 1 January 2022	**12,569**	**709**	**1,423**	**14,701**
Increase	3,725	-	618	**4,343**
Release	(3,838)	(157)	(1,112)	**(5,107)**
Used during the year	(1,659)	-	-	**(1,659)**
As at 31 December 2022	**10,797**	**552**	**929**	**12,278**
Increase	6,240	1,255	-	**7,495**
Release	-	-	(744)	**(744)**
Used during the year	(2,732)	-	-	**(2,732)**
As at 31 December 2023	**14,305**	**1,807**	**185**	**16,297**
of which:				
- non-current	10,806	1,807	-	12,613
- current	3,499	-	185	3,684

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate. The provision is made based on the Company's estimates and experience, as well as that of other transformer manufacturers. The Company provides to customers long-term warranties for delivered transformers, typically lasting more than 3 years and exceptionally up to 10 years. Based on historical data regarding repair costs during the warranty period, the number of sold transformers, industry statistics on failure incidence, and the prevailing duration of the warranty period, the Management estimates and creates a provision for repairs during the warranty period. The value of general provisions amounts to EUR 14.3 million (2022: EUR 10.8 million) and has increased as a result of revenue growth and an increase in the number of transformers delivered to customers during 2023, as well as increased utilization of previously provided amounts

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 EUR 1.4 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 contracts, the delivery of which was transferred to 2023, a reassessment of profitability was made which resulted in the amount of EUR 0,2 million of unavoidable costs exceeding 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 EUR 1,807 thousand (2022: EUR 552 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which Company employees are entitled to at the end of their employment (either upon retirement or meeting the conditions for obtaining jubilee awards). The present value of these provisions is calculated based on the number of employees, number of years of service at the Company and the statistics of paid termination benefits and the discount rate of 3.67% (2022: 3.2%).

Notes to the Financial Statements

for the year ended 31 December 2023

27. Borrowings

	31.12.2023 EUR'000	31.12.2022 EUR'000
Non-current borrowings		
Leases	161	192
Bank loans	4,250	5,250
	4,411	**5,442**
Current borrowings		
Leases	134	90
Bank loans	1,000	8,977
Loans	-	8,000
	1,134	**17,067**
Total borrowings	**5,545**	**22,509**

Long-term liabilities to banks and financial institutions as of 31 December 2023, relate to a foreign currency loan at Raiffeisenbank Austria d.d., approved in April 2019, in the amount of EUR 8,000,000 with a fixed interest rate of 1.85% p.a., used to finance the purchase of 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 as of December 31, 2022, were fully repaid during 2023.

Short-term liabilities for received loans as of 31 December 2022 refer to 2 loans from Končar – Electrical Industry Inc (EUR 8 million), with a fixed interest rate of 0.75% p.a., were also repaid during 2023.

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Notes to the Financial Statements

for the year ended 31 December 2023

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

	Bank loans EUR'000	Leases EUR'000	Loans EUR'000	Total EUR'000
As at 1 January 2022	**7,233**	**145**	**-**	**7,378**
Cash receipts (borrowed)	7,977	-	13,973	21,950
Cash outflows (repaid)	(1,001)	(91)	(5,996)	(7,088)
Net contracts changes	-	228	-	228
Foreign exchange rate changes	18	-	23	41
As at 31 December 2022	**14,227**	**282**	**8,000**	**22,509**
Cash receipts (borrowed)	-	-	-	-
Cash outflows (repaid)	(8,977)	(110)	(8,000)	(17,087)
Net contracts changes	-	123	-	123
Foreign exchange rate changes	-	-	-	-
As at 31 December 2023	**5,250**	**295**	**-**	**5,545**

Non-current liabilities to banks mature as follows:

	31.12.2023 EUR'000	31.12.2022 EUR'000
up to 1 year	1,000	8,977
1 - 2 years	1,000	1,000
2 - 3 years	1,000	1,000
3 - 4 years	1,000	1,000
4 - 5 years	1,000	1,000
over 5 years	250	1,250
	5,250	**14,227**

28. Financial instruments at FVTPL

	31.12.2023 EUR'000	31.12.2022 EUR'000
Derivative instruments - currency forwards	-	1,232
Financial assets at FVTPL	**-**	**1,232**
of which:		
- non-current	-	383
- current	-	849
Derivative instruments - currency forwards		
- interest rate swap	475	-
Financial liabilities at FVTPL	**475**	**-**
of which:		
- non-current	89	-
- current	386	-

Notes to the Financial Statements

for the year ended 31 December 2023

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 EUR 37,255 thousand, with the contracts maturing in the period from 2024 to 2026. 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

	31.12.2023 EUR'000	31.12.2022 EUR'000
Domestic trade payables	6,065	5,647
Foreign trade payables	16,904	18,468
Payables to employees	1,284	990
Liabilities for share in profits	21	22
Interest payable	26	49
Other taxes, contributions and fees payable	852	651
Unused holiday	869	709
Other accrued costs	11,934	4,885
Other liabilities	934	985
	38,889	**32,406**

30. Off-balance-sheet items

Off-balance sheet items as at 31 December 2023 include the following: joint guarantees issued on behalf of the PET subsidiary to banks and customers in the amount of EUR 8,592 thousand and guarantees issued on behalf of related parties in the amount of EUR 2,812 thousand. In total, the Company issued insurance instruments to related companies and third parties in the amount of EUR 228,360 thousand, while related companies and third parties issued insurance instruments to the Company in the amount of EUR 14,101 thousand.

Balance of the Company's concluded contracts (order book) based on active projects as of 31 December 2023 amounts to EUR 585.4 million (31 December 2022: EUR 271.6 million).

Notes to the Financial Statements

for the year ended 31 December 2023

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 2023, 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.

2023					Operating activities	
Company	Receivables EUR'000	Liabilities EUR'000	Advances given EUR'000	Advances received EUR'000	Revenue EUR'000	Expenses EUR'000
Subsidiary	43	1,910	3,038	-	361	4,008
Končar Group companies:	1,869	276	245	1,560	10,231	4,164
Končar – Electrical Industry, Inc.	1	1,132	-	-	3	4,006
Associates	927	1,224	-	-	8,199	12,613
	2,840	**4,542**	**3,283**	**1,560**	**18,794**	**24,791**

During 2022, 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:

2022					Operating activities	
Company	Receivables EUR'000	Liabilities EUR'000	Advances given EUR'000	Advances received EUR'000	Revenue EUR'000	Expenses EUR'000
Subsidiary	17	-	528	-	1,541	2,547
Končar Group companies:	3,223	389	-	829	8,818	3,695
Končar – Electrical Industry, Inc.	-	1,076	-	-	2	7,881
Associates	473	100	-	-	8,497	9,728
	3,713	**1,565**	**528**	**829**	**18,858**	**23,851**

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

Key management renumerations

During 2023 total remuneration (fixed and variable) paid to Management Board of the Company amounted to EUR 779 thousand (31 December 2022: EUR 832 thousand) which include EUR 357 thousand of variable remuneration for 2022 (in 2022 a total of EUR 421 thousand of variable consideration was paid relating to 2021). Accrued variable Management remuneration as at the reporting date amounts to EUR 369 thousand (31 December 2022: EUR 411 thousand). Management Board has five members (2022: 5 members).

Notes to the Financial Statements

for the year ended 31 December 2023

32. Risk management

Capital risk management

Financial leverage ratio

	31.12.2023 EUR'000	31.12.2022 EUR'000
Debt (current and non-current) = D	(5,545)	(22,509)
Short term bank deposits	28,162	-
Cash and cash equivalents	24,894	8,102
Net cash / (debt)	47,511	(14,407)
Equity = E	(132,102)	(86,839)
Financial leverage ratio = D/(D+E)	**4.03%**	**20.58%**

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	31.12.2023 EUR'000	31.12.2022 EUR'000
Equity instruments at FVOSD	Level 3	228	367
Other financial assets at FVOSD	Level 3	5	5
Total financial assets at FVOSD		**233**	**372**
Derivative instruments	Level 2	-	1,232
Total financial assets at FVTPL		**-**	**1,232**
Trade receivables	n/a	56,821	40,228
Loans receivable	n/a	-	346
Cash and cash equivalents	n/a	53,056	8,102
Total financial assets at amortised cost		**109,877**	**48,676**
Total financial assets		**110,110**	**50,280**
Leases payable	n/a	295	282
Loans payable	n/a	5,250	14,227
Loans	n/a	-	8,000
Trade payables	n/a	22,969	24,115
Total financial liabilities at amortised cost		**28,514**	**46,624**
Derivative instruments	Level 2	475	-
Total financial liabilities at FVTPL		**475**	**-**
Total financial liabilities		**28,989**	**46,624**

Notes to the Financial Statements

for the year ended 31 December 2023

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 instrumentsi

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

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for the year ended 31 December 2023

the Company's functional currency. Foreign currencies primarily exposed to such risks is SEK. The Company hedges against currency risk through forward contracts with commercial banks with respect to all foreign currencies based on materiality criteria.

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

	Spot exchange rate		Average exchange rate	
	31.12.2023 EUR	31.12.2022 EUR	2023 EUR	2022 EUR
SEK	11.0960	11.1218	11.4788	10.6193

The company's exposure to currency risk in the mentioned currency as of the reporting date is presented below. Additionally, an analysis of the impact of changes in relevant exchange rates on net income is provided, excluding the euro currency, considering the introduction of the euro as the functional currency on 1 January 2023.

	Denominated in SEK	
	31.12.2023 EUR'000	31.12.2022 EUR'000
Trade receivables	1,823	199
Cash and cash equivalents	1,834	1,870
Derivatives	(388)	-
	3,269	**2,069**
Effect of 1% change in exchange rates on profit	**33**	**21**

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 Euro increases against the relevant currency for the percentage specified above. For a weakening of Euro against the relevant currency in the same percentage, there would be an equal and opposite impact.

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:

	31.12.2023 EUR'000	31.12.2022 EUR'000
Bank loans based on fixed interest rates	5,250	11,227
Bank loans based on variable interest rates	-	3,000
Leases based on fixed interest rates	295	282
Loans based on fixed interest rates	-	8,000
	5,545	**22,509**

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.

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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.

The following table presents the maturity of financial liabilities of the Company as at 31 December 2023 in accordance with contracted undiscounted payments:

as at 31 December 2023	Net book value EUR'000	Contractual cash flowsi EUR'000	up to 1 year EUR'000	1 - 2 years EUR'000	2 - 5 years EUR'000	over 5 years EUR'000
Non interest bearing liabilities:						
Trade payables	**22,969**	**22,969**	22,969	-	-	-
	22,969	**22,969**	**22,969**	**-**	**-**	**-**
Interest bearing liabilities:						
Leases payable	**295**	**324**	141	85	98	-
Bank loans	**5,250**	**5,545**	1,096	1,077	3,119	253
Borrowings	**-**	**-**	-	-	-	-
	5,545	**5,869**	**1,237**	**1,162**	**3,217**	**253**

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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 EUR'000	Contractual cash flowsi EUR'000	up to 1 year EUR'000	1 - 2 years EUR'000	2 - 5 years EUR'000	over 5 years EUR'000
Non interest bearing liabilities:						
Trade payables	**24,115**	**24,115**	24,115	-	-	-
	24,115	**24,115**	**24,115**	**-**	**-**	**-**
Interest bearing liabilities:						
Leases payable	**282**	**296**	96	80	120	-
Bank loans	**14,227**	**14,766**	9,246	1,091	3,161	1,268
Borrowings	**8,000**	**8,014**	8,014	-	-	-
	22,509	**23,076**	**17,356**	**1,171**	**3,281**	**1,268**

33. Events after the reporting period

Changes in the Company's Management

Mr. Petar Bobek has resigned from his position as a member of the Management Board, effective 20 January 2024.

On March 31, 2024, the mandate of all members of the Management Board expired: Mr. Vanja Burul (President), Mr. Petar Vlaić (Member), Ms. Martina Mikulić (Member), Mr. Dominik Trstoglavec (Member).

The Supervisory Board, at its meeting held on March 4, 2024, appointed a new Management Board composed of:

Mr. Vanja Burul, President of the Management Board (from April 1, 2024, to March 31, 2028)
Ms. Kristina Dimitrov, Member of the Management Board (from May 1, 2024, to March 31, 2028)
Mr. Mario Ljubić, Member of the Management Board (from April 1, 2024, to March 31, 2028)
Ms. Martina Mikulić, Member of the Management Board (from April 1, 2024, to March 31, 2028)
Mr. Dominik Trstoglavec, Member of the Management Board (from April 1, 2024, to March 31, 2028)

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 2023, which should therefore be disclosed.

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