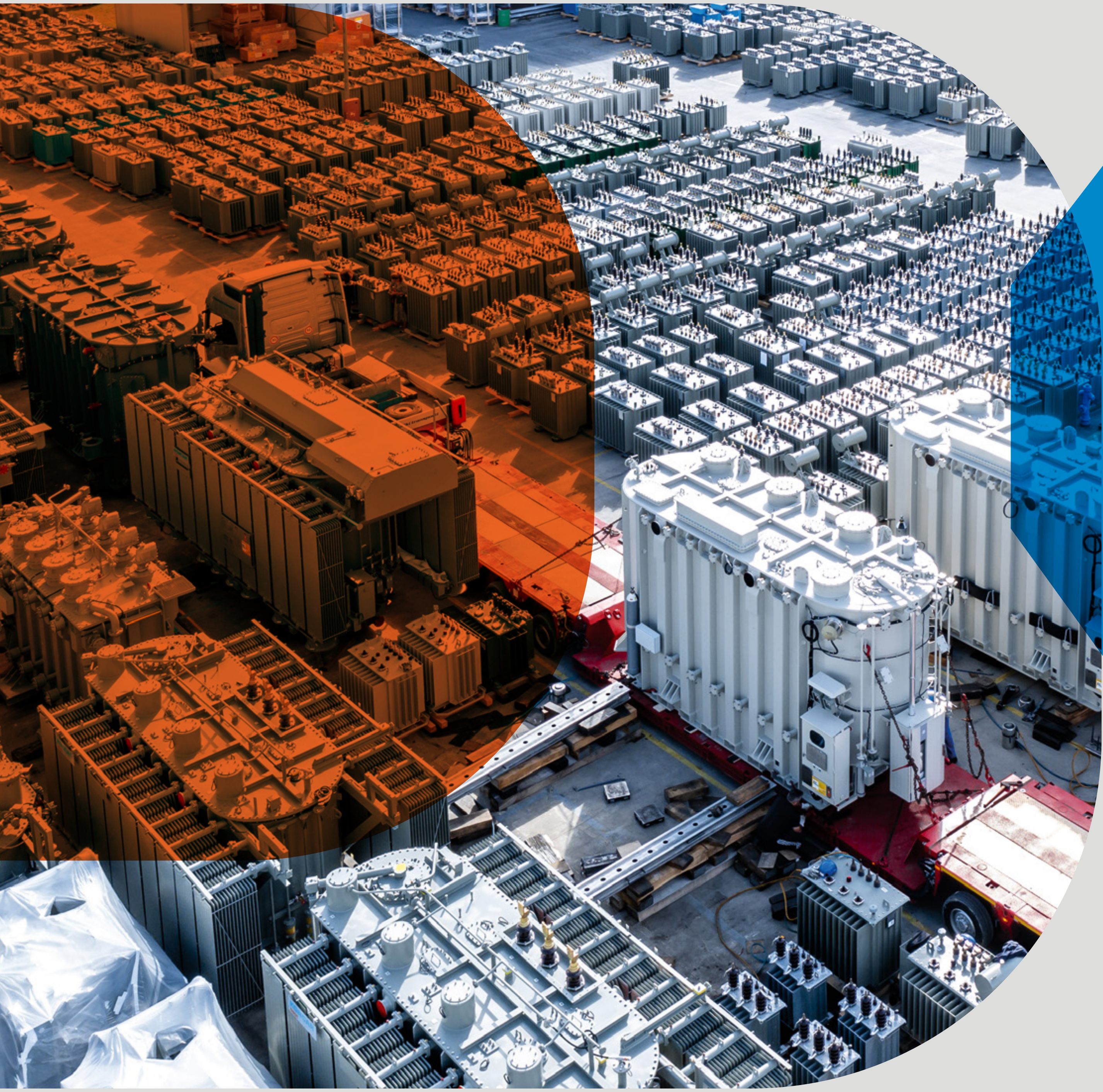
KONČAR D&ST

Inspired by challenge

CONSOLIDATED ANNUAL REPORT 2023



CONSOLIDATED ANNUAL REPORT
2023

Contents

Končar - Distribution and Special Transformers Group

2023 - A year of overcoming challenges

1 Management Report

1. Introductory Word by the Management Board

Extra business growth achieved despite complicated global circumstances

The Končar D&ST Group on 31 December 2023 is comprised of **Končar D&ST Inc.**, Josipa Mokrovića 8, Zagreb, Croatia, **Power Engineering Transformatory Ltd. (PET)**, Gdynska 83, Czerwonak, Poznan, Poland and **Ferokotao Ltd.**, Kolodvorska ulica 78/a, Donji Kraljevec, Croatia.

At the very beginning of the year, the Republic of Croatia changed its national currency from kuna to euro, becoming a member of the Eurozone while also entering the Schengen area. This step has significantly accelerated and made some business processes easier, while also reducing business risks.

However, the consequences of the global COVID-19 pandemic, supply chain disruptions, rising raw material, material and energy prices and inflation had generally impacted the business year of 2023. The war in Ukraine and its impact on European and global economy, in addition with the latest conflicts in the Middle East have caused even further uncertainty.

Despite the complex global environment, the Group has achieved an additional step forward in 2023 and again significantly surpassed the set business plans. The total sale of goods and services in 2023 amounted to EUR 342 million (up from EUR 254.1 million in 2022), which is a 35% increase at the annual level. Exports accounted for 90% of sales at EUR 310.7 million (compared to EUR 228.2 million in 2022), up 36% from the year before. Profit before tax in 2023 was EUR 65.2 million (net EUR 54.0 million), which was 2.6 times greater than the profit before tax in 2022 at EUR 24.7 million (net EUR 23.1 million).

Intensive investments in decarbonization projects, renewable energy sources (such as wind and solar) and electric mobility, especially in the European Union countries, have generated high demand for transformers. Increased demand, good market position and establishment of the Končar D&St Group in demanding foreign markets and recognition of sales opportunities resulted in a record number of contracts. The state of total contracted deals at the end of 2023 amounted to EUR 623 million, which is an increase of 116% from 2022, when it amounted EUR 288 million. During 2023, a total of EUR 8.4 million (as opposed to EUR 7.6 million in 2022) was invested.

One part of the aforementioned funds refers to the preparation of project documentation and paid advances for machines and equipment as part of the "Sustainable SETup" investment project. Through the investment project "Sustainable SETup for the development of socially and environmentally responsible production" (Sustainable SETup), this space will be primarily used to normalise the existing level of production and to increase warehouse space, enabling an optimisation of business processes and ensuring more appropriate flow of materials, raw materials, equipment and finished products. The main activities of the mentioned project are expected during 2024 and 2025. The stated amount of investments in 2023 includes the acquisition of a majority stake in Ferokotao Ltd.

In PET, Poland, in 2023 investments aimed at improving working conditions, increasing production efficiency, product quality and energy efficiency of buildings were realized. The project of expansion and renovation of the new main warehouse was partially realized.

In 2023, Končar D&ST Inc. secured additional resources to provide active support to the company PET, Poland, to further improve overall operations. On 31 December 2023, the number of employees in the Končar D&ST Group was 1,142, with 766 at Končar D&ST Ltd., 88 at PET Poland and 288 in Ferokotao Ltd.

The engineering departments, support services, and production all received new workers. A number of organisational changes was made to more effectively manage the Group's growth and the growth in production volume.

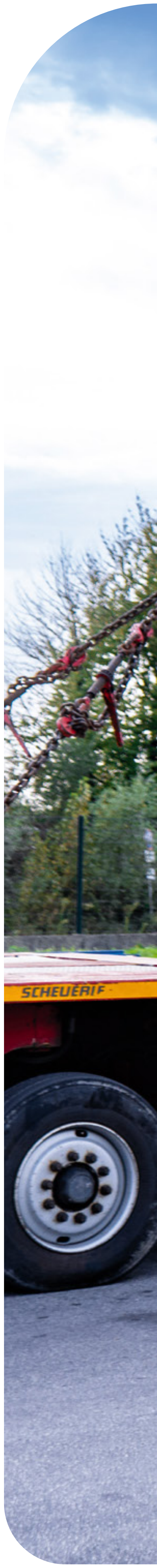
In its operations, the Group operates in compliance with the internationally recognised standards and requirements of corporate social responsibility.

Given the above, we can consider the total business results of the Končar D&ST Group 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 achieving these good business results. The Končar D&ST Management Board expresses its gratitude for this support and confidence, and we are pleased to present this Report on the Position of the Group 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

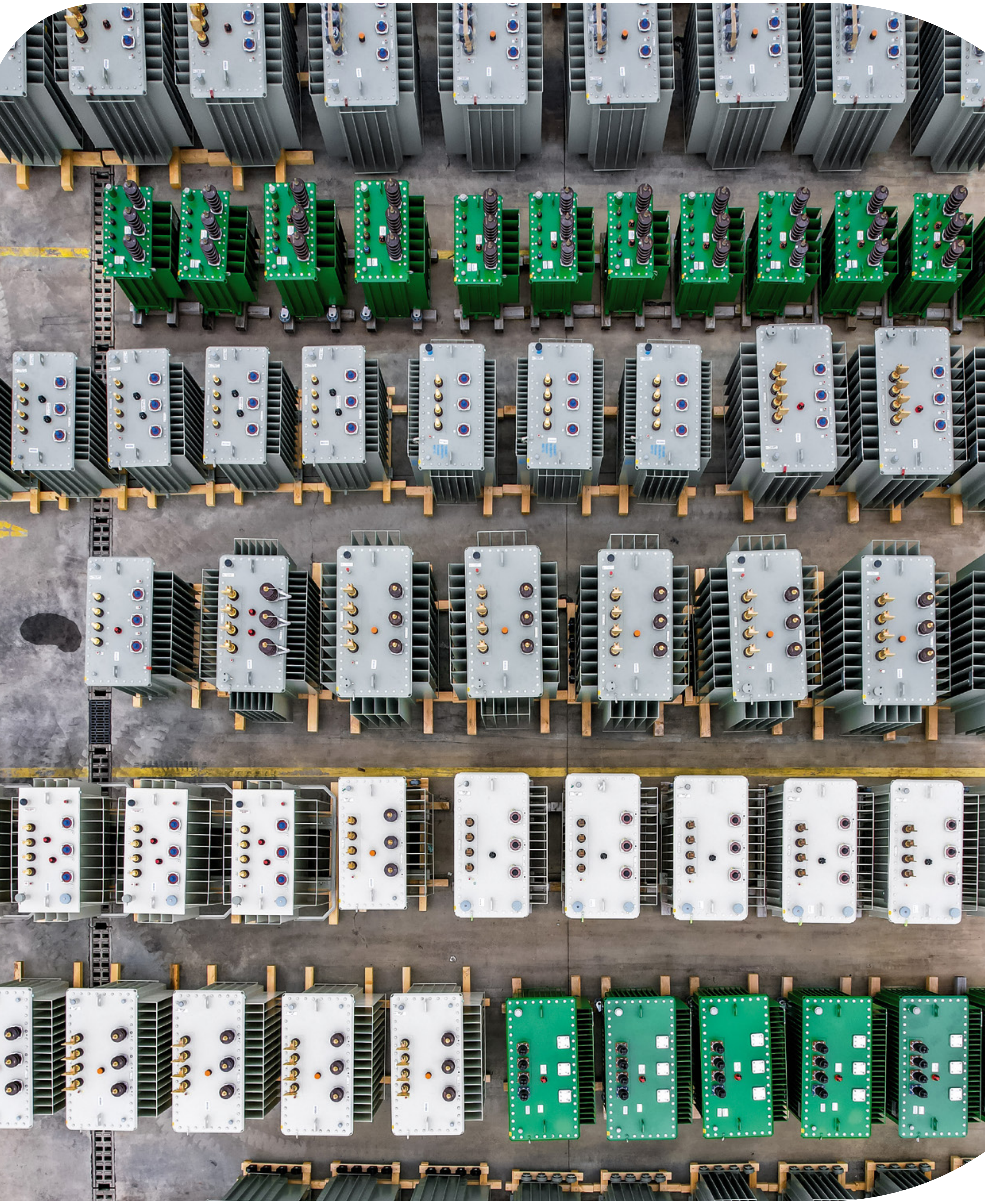


EUR ('000)						Index
Business indicators	**2023**	**2022**	**2021**	**2020**	**Δ**	**23/22**
Revenues	**343,399**	**260,000**	**193,826**	**157,083**	**83,399**	**132.1**
Revenues - total	342,033	254,050	189,044	154,569	87,983	134.6
Revenues - exports	310,698	228,199	165,153	133,752	82,499	136.2
Expenses	**278,708**	**236,665**	**177,913**	**145,316**	**42,043**	**117.8**
Operating income	64,691	23,335	15,913	11,767	41,356	277.2
Operating margin	18.9%	9.2%	8.4%	7.6%		+970 bps
Profit before tax	65,239	24,667	15,880	11,321	40,572	264.5
% profit before tax	19.1%	9.7%	8.4%	7.3%		+940 bps
Net profit (after tax)	**54,007**	**23,147**	**13,185**	**13,545**	**30,860**	**233.3**
% net profit	15.8%	9.1%	7.0%	8.8%		+670 bps
Amortization	4,178	4,068	3,948	3,733	110	102.7
EBITDA	**68,869**	**27,403**	**19,861**	**15,500**	**41,466**	**251.3**
EBITDA margin	20.1%	10.8%	10.5%	10.0%		+930 bps
EBITDA normalized*	77,985	26,367	18,859	14,076	51,618	295.8
EBITDA margin normalized*	22.8%	10.4%	10.0%	9.1%		+1.240 bps
Contractual jobs	**677,568**	**353,441**	**258,411**	**172,274**	**324,127**	**191.7**
"Backlog" 31 December	622,998	288,008	185,016	117,858	334,990	216.3
Book to bill ratio	1,98	1,39	1,37	1,11		
Annual sales per employee	454	349	285	242	105	130.1
Investments	8,437	7,645	2,761	5,707	792	110.4
Number of employees (31 December)	1,142	815	750	718	327	140.1

*EBITDA normalized: EBITDA reduced by other operating income and increased by value adjustments, provisions and other business expenses

Conversion rate: 1EUR = 7.53450 HRK

	Index 23/22
net profit	233.3
sales	134.6
exports	136.2
number of orders at the year's end	216.3



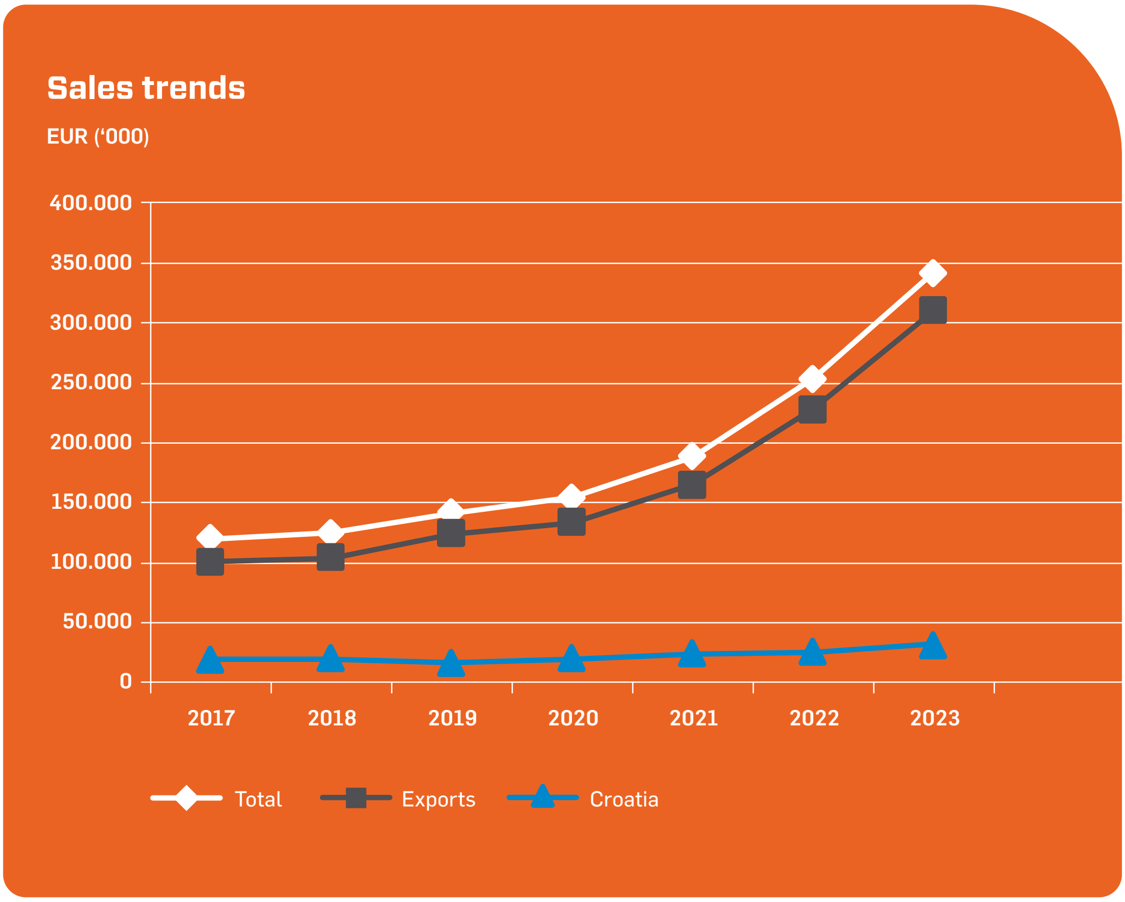
3. General Position of the Group

Good business results in 2023 and in the years preceding gave an additional financial boost to the Group, ensuring appropriate financial stability and a strong foundation for further business development.

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

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

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



4. Group Organisation and Management In 2023

The company Končar D&ST was managed by the Management Board in the following composition:

- Vanja Burul, Board President
- Petar Bobek, Board Member, SET 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

During 2023, the members of the company Končar D&ST Supervisory Board were:

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

The company PET Ltd. was managed by the Management Board in the following composition:

- Ivor Grubišić, Board President
- Maciej Malolepszy, Board Member
- Boleszlaw Brodka, Board Member

The Supervisory Board of the company PET Ltd.:

- Vanja Burul, President
- Petar Vlaić, Member
- Mate Biloš, Member

The company Ferokotao Ltd. was managed by the Management Board in the following composition:

- Branimir Šopar, Board President
- Nenad Lesjak, Board Member

The Supervisory Board of the company Ferokotao Ltd.:

- Vanja Burul, President
- Petar Vlaić, Member
- Dominik Trstoglavec, Member
- Josip Vugrinec, Member
- Branko Jumić, Member (until 20 December 2023)
- Željko Horvat, Member (since 20 December 2023)

In 2023, the Končar D&ST Inc. performed its activities at the location Josipa Mokrovića 8, 10090 Zagreb, Republic of Croatia.

PET Ltd., (100% owned by Končar D&ST Inc.) performs its business activities in Poland at the location Czerwonak, Gdynska 83.

Ferokotao Ltd. (51% owned by Končar D&ST Inc.) performs its business activities in Gornji Kraljevac, Kolodvorska 78/a, Republic of Croatia.

On December 20, 2023, Končar D&ST acquired an additional 35% ownership stake in the company Ferokotao Ltd. Until the aforementioned acquisition of Končar D&ST Inc. had a 16% ownership share in Ferokotao Ltd., and with this acquisition, Končar D&ST became the owner of a 51% share in the company's share capital.

Ferokotao Ltd. is one of the largest producers of boilers for distribution, energy and special transformers in the region, with headquarters in Donji Kraljevac, and a long-term important supplier of Končar D&ST. By acquiring a majority share in the company Ferokotao Ltd. a reliable supply of transformer boilers was ensured, which further strengthened the competitive advantage of Končar D&ST Inc. on the market.

5. Implementation of the Corporate Governance Code

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

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

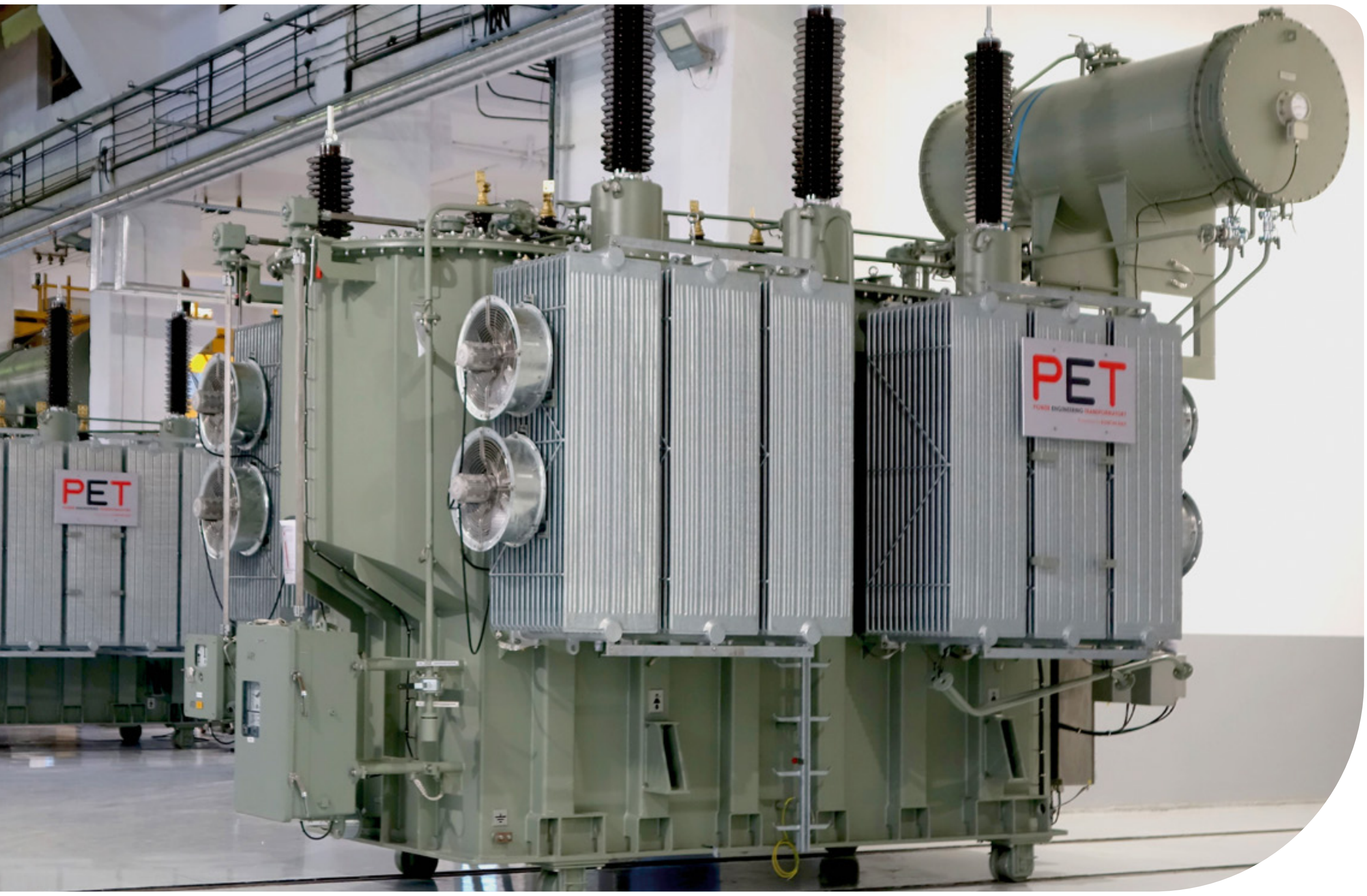
– the Supervisory Board and the Audit Committee consist primarily of members who are not independent, which is considered to be appropriate in this situation of the Company within the Končar Group.

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

The compliance questionnaire includes precise answers to any questions as to which provisions of the Code 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, Končar D&ST Inc. 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 20230 and 2022. Shareholders can vote electronically with attendance at the Shareholders' Assembly. Preferred shares of Končar D&ST Inc. do not carry the right to vote.



6. Market Position and Sales By Country and Product Groups

The high demand for transformers, which marked the end of 2022, continued on an even stronger scale in 2023. The countries of the European Union, the largest markets of the Končar D&ST group, numerous projects aimed at strengthening independence from gas, and dedication to the green transition are drivers of high demand for all energy components, including transformers.

A significant increase in the prices of raw materials and production costs, along with high demand, results in an increase in the prices of transformers, as well as an extension of delivery times. At the beginning of 2023, deliveries for 2024 were contracted on the distribution program, and on the medium energy program, contracts were contracted two or more years in advance. High market activity encouraged producers from non-European countries to act more aggressively and take a part of the European market with lower prices and shorter delivery times.

At the same time, numerous European producers are increasing their production capacities, taking over smaller producers, and acting more aggressively on the market. Retention of the previously acquired market share becomes a priority because the high market conjuncture will not last indefinitely.

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

In 2023, sales of goods and services recorded growth of 34.6% over 2022, and totalled EUR 342 million.

34.6%

Changes by product groups in 2023 in comparison to 2022 were:

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

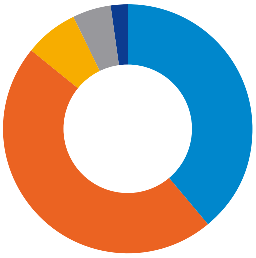
Sales by main markets was as follows:

- **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 229.7 million, or 34% growth compared to 2022 (EUR 172 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

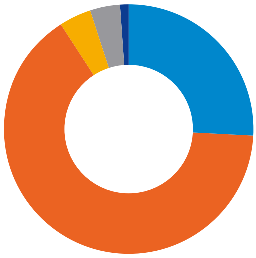
Other European countries: Sweden, Switzerland, Germany, Finland, Iceland, France, Great Britain, Ireland, Poland, Estonia, Latvia, Lithuania, Cyprus, Spain, Denmark, Norway, Malta, The Netherlands, Belgium, Greece

Sales structure by product line in 2023



Distribution transformers	39%
Medium power transformers	47%
Services	7%
Dry and special transformers	5%
Supplies	2%

Structure of new contracts by product line in 2023



Distribution transformers	26%
Medium power transformers	65%
Services	4%
Dry and special transformers	4%
Supplies	1%

In 2023, total contract value was EUR 677.6 million, which is 92% more than in 2022.

92%

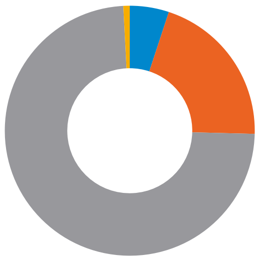
The state of transactions contracted at the end of the year was worth EUR 623 million, which is 116% higher than at the end of 2022.

116%

Sales structure by markets in 2023

Neighbouring European countries	22%
Other European countries	67%
Asia, Africa, and the Americas	2%
Croatia	9%

New contracts by markets in 2023



Neighbouring European countries	19%
Other European countries	75%
Asia, Africa, and the Americas	1%
Croatia	5%

7. Financial Position (Balance Sheet)

On 20 December 2023, Končar D&ST acquired control over Ferokotao Ltd.

On that occasion, they acquired an additional 35% ownership stake, in addition to the previously acquired 16%, making Končar D&ST the majority owner of Ferokotao with a 51% stake. As a result, the balance sheet as of 31 December 2023, reflects the assets and sources of assets of the Končar D&ST Group, which, along with the parent company, includes PET, Poland, and Ferokotao, Croatia.

The Group's assets as of 31 December 2023, amount to EUR 312.1 million, which is EUR 120.3 million higher than the previous year, an increase of 62.7%.

Long-term assets, valued at EUR 53.5 million, represent 17% of the Group's total assets.

Short-term assets amount to EUR 258.6 million, accounting for 83% of the total assets. Inventories represent the most significant class of assets, totalling EUR 130.6 million or 41.9% of the assets. Accounts receivable as of 31 December 2023, amount to EUR 63.7 million, representing 20.4% of the assets, while the cash balance is slightly lower at EUR 60.4 million, accounting for 19.4% of the total assets.

On the liability side of the Group, Equity and reserves as of the end of 2023 amount to EUR 145.1 million, representing 46.5% of the total sources of funds. Own sources of funds have increased compared to the previous year, partly due to retaining a portion of the parent company's profits but mainly as a result of the growth in net profit of Končar D&ST and also PET, Poland.

Among the long-term sources of funds are provisions amounting to EUR 14.3 million, the most significant of which are provisions for warranty costs and also provisions for pensions and severance pay. Remaining long-term liabilities amount to EUR 8.4 million, of which EUR 7.9 million (2.5% of liabilities) pertains to interest-bearing long-term liabilities.

Short-term liabilities amount to EUR 144.4 million, accounting for 46.3% of the total liabilities.

Liabilities for received advances are individually the most significant item among short-term liabilities and as of 31 December 2023, amount to EUR 76.6 million, which is 24.5% of the total liabilities. Compared to the end of the previous fiscal year, these liabilities, as a form of financing for the Group, have increased by EUR 50.1 million or 189.3%. This is mainly due to a significant increase in contracted projects as well as an extension of the contracting horizon, which has had a positive impact on overall liquidity.

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

The consolidated income statement includes the results of the parent company Končar D&ST and its subsidiary PET, Poland. The results of Ferokotao for 2023 are not consolidated because the acquisition date (20 December 2023) occurred at the end of the fiscal year.

Total Group revenues in 2023 amounted to EUR 344.2 million, representing an increase of EUR 87.9 million or 34.3% compared to the previous year.

Sales revenues amount to EUR 342.0 million, constituting the majority of 99.4% of total revenues. Out of this amount, EUR 31.3 million or 9.2% was realized in Croatia, while EUR 310.7 million or 90.8% relates to exports.

Končar D&ST contributed EUR 323.0 million to the total sales, accounting for 94%, while PET, Poland contributed EUR 19.0 million or 6%.

Other operating revenues amount to EUR 1.4 million, and financial revenues amount to EUR 0.8 million, totalling a share of 0.6% of total revenues.

Regarding operating expenses, the most significant item is raw materials and materials costs, amounting to EUR 212.5 million, representing 76.2% of operating expenses.

They are followed by personnel costs of EUR 37.1 million, accounting for 13.3% of operating expenses. At the end of 2023, the number of employees in the Končar D&ST Group was 854, with 766 employees in Končar D&ST and 88 employees in PET. Personnel costs increased by EUR 9.8 million or 35.7%, mainly due to an increase in the number of employees (815 employees in the Group as of 31 December 2022) and real wage growth in response to market labour inflationary pressures.

Other expense categories also increased in 2023, but due to their relative significance or the intensity of growth, they did not affect the reduction of operating results.
The Group's profit before tax for 2023 amounted to EUR 65.2 million, representing 19.0% of total revenues. Profit before tax is higher than that achieved in 2022 by EUR 40.6 million or 164.5%.
Consolidated income tax amounts to EUR 11.2 million, which is 7.4 times higher than the previous year. The reason for this disproportionate increase is that in 2022, most of the incentives received by Končar D&ST for investments made under the Investment Incentives Act were utilized, both for regular corporate income tax and for extraordinary additional corporate income tax.

The Group's net profit for 2023 amounted to EUR 54.0 million, representing 15.7% of total revenues. The Group's net profit is higher than the previous year by EUR 30.9 million or 133.3%.
The operations of both members, Končar D&ST and PET, Poland, contributed proportionally to the Group's profit considering their respective revenues.

9. Main Operating Risks

In 2023, the parent company of the Group, Končar D&ST revised its Rulebook Ordinance on Risk Management and its Risk Management Policy, which are in compliance with standard ISO 31000:2018 (Risk Management - Guidelines) and with the ERM (Enterprise Risk Management) principles. In accordance with this policy, risk management in the Group is:

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

In full acknowledgement of the business strategy and business goals, the Group determines that there is a moderate (average) propensity to take risks.

The lowest propensity for risk-taking is in the field of goals related to safety and compliance, including employee health and safety. A slightly greater propensity to take risks is in the field of strategic and operative goals. This means that reducing risk arising from our systems, equipment, products, and work settings to reasonable and feasible levels and compliance with our legal obligations will have priority over other business goals.

The Risk Catalogue, revised in late 2023, was drawn up in line with the defined risk management methodology. It identifies, analyses, and evaluates the main strategic, operative, and financial risks and specific risk reduction measures, as well as the persons responsible for risk management (risk owners). Risks have been identified in all organisational units of the Group.

The business year of 2023 was marked by rising interest rates, high inflation, the continuation of Russian aggression against Ukraine, and the beginning of the Israel/Palestine conflict, along with unrest in the Middle East, all with significant consequences for the European and global economy.

The Group responded appropriately to these risks, mitigating them with available measures and actions, and the business year of 2023 ended without a negative impact on the Group's business results.

Demand for transformers in the Group's target markets is one of the main risk factors for the Group's business. The business year of 2023 was characterized by increased demand for transformers for several reasons, the most significant of which are investments in renewable energy sources and electromobility in the EU, expectations of further increases in energy, raw material, and material prices, and uncertainties due to disruptions in supply chains. Additionally, in 2023, there were indications of the beginning of a recession in Germany and the EU, which, if this trend continues, could have a long-term negative impact on the demand for transformers.

Supply of transformers by other manufacturers – competitive pressure – is another very important risk factor for the Group's business. The behaviour of existing competitors and the entry of new competitors (primarily from Turkey, but also from other countries) into the Group's targeted markets create strong competitive pressure in most target markets of Končar D&ST Group. The entire transformer industry has undergone significant changes in recent years, with numerous restructurings, spin-offs, and/or sales of the energy business segment by large corporations, acquisitions, and mergers (consolidation), and such trends continue.

Market procurement risks were also present in the business year of 2023, during which there was a stabilization of prices for major raw materials and materials (copper, aluminium, transformer steel, transformer oil, steel) at a high level, along with further price increases for raw material processing. Increased demand led to extended delivery times, and transportation costs also increased. By the end of 2023, a crisis escalated in maritime transport through the Red Sea and Suez, significantly prolonging the sailing time of ships around Africa to European ports (by approximately 4-6 weeks), further increasing transportation and insurance costs. This once again highlighted logistical issues in sourcing raw materials from Asia.

Considering the available options, the Group protects itself from the risk of sudden changes in prices of strategic raw materials in several ways. The most important method in the last three years has been the introduction of sliding-scale formulas for materials in sales contracts with customers. For copper, the risk mitigation policy involves forward contracts for quantities and prices, as it is a commodity traded on commodity exchanges (London Metal Exchange), based on conditions and estimates of commitments. For transformer steel and some other major procurement parts, semi-annual contracts with suppliers are used to mitigate this risk and ensure necessary quantities. Changes in material prices are factored into calculations when preparing new product offers.

Technological and development risks. The Group currently possesses modern transformer manufacturing technology and appropriate technical solutions for most products in its range, allowing it to maintain a high level of technological development. There is no expectation of technological lagging behind major competitors in the future.

Strategic investment and acquisition risks. In 2023, Končar D&ST intensified work on the strategic investment project "Sustainable SETup for environmentally and socially sustainable production development," and continued strong support for the development of PET, Poland. Also, by the end of 2023, Končar D&ST acquired a majority stake (51%) in Ferokotao Ltd., Donji Kraljevec, a company engaged in the production of transformer boilers. This group of risks is mitigated through appropriate analysis and evaluation of potential risks, implementation of measures to mitigate risks, and active involvement of management and key employees in the process.

Financial risks are mainly currency risk, credit risk, and liquidity risk.

Currency (exchange rate) risk je izražen u poslovanju Grupe s obzirom na veliki postotak izvoza i uvoza u prihodima. te s obzirom da je dio monetarnih stavki aktive i pasive izražen u stranim valutama. Od valutnog rizika društvo se štiti forward ugovorima s bankama kao i internim tehnikama usklađivanjem valutnih priljeva i odljeva. kao i usklađivanjem stanja monetarnih stavki u stranim valutama u bilanci.

Credit risk manifests as the risk that individual debtors of the Group (e.g., customers to whom delivery is made without sufficient payment security) will not be able or willing to pay according to what is agreed, resulting in losses from write-offs or reductions in receivables. The Group mitigates credit risk with payment security instruments (L/C, guarantees, promissory notes, etc.) and creditworthiness assessment of customers in collaboration with external credit rating agencies. Additionally, specific customer receivables are insured with specialized institutions.

Liquidity risk manifests as the risk that the Group will not be able to meet its obligations to creditors within agreed terms. The Group has contractual arrangements with banks for revolving credit facilities, allowing it to quickly overcome short-term liquidity needs under known conditions. In 2023, financing with customer advances significantly increased, positively impacting the Group's liquidity position. Additionally, receivables with relatively long maturity periods are sometimes collected by selling them to financial institutions (factoring, forfaiting).

Managerial and personnel risks. Normal fluctuations and changes in management, key experts, and employees do not significantly affect the Group's operations, while sudden and major fluctuations in management, key personnel, and other employees could impact the Group's business results. The company actively manages these risks.

In addition to the above, there are also to a certain extent IT risks, design-construction risks, production risks, political risks, and other risk categories.

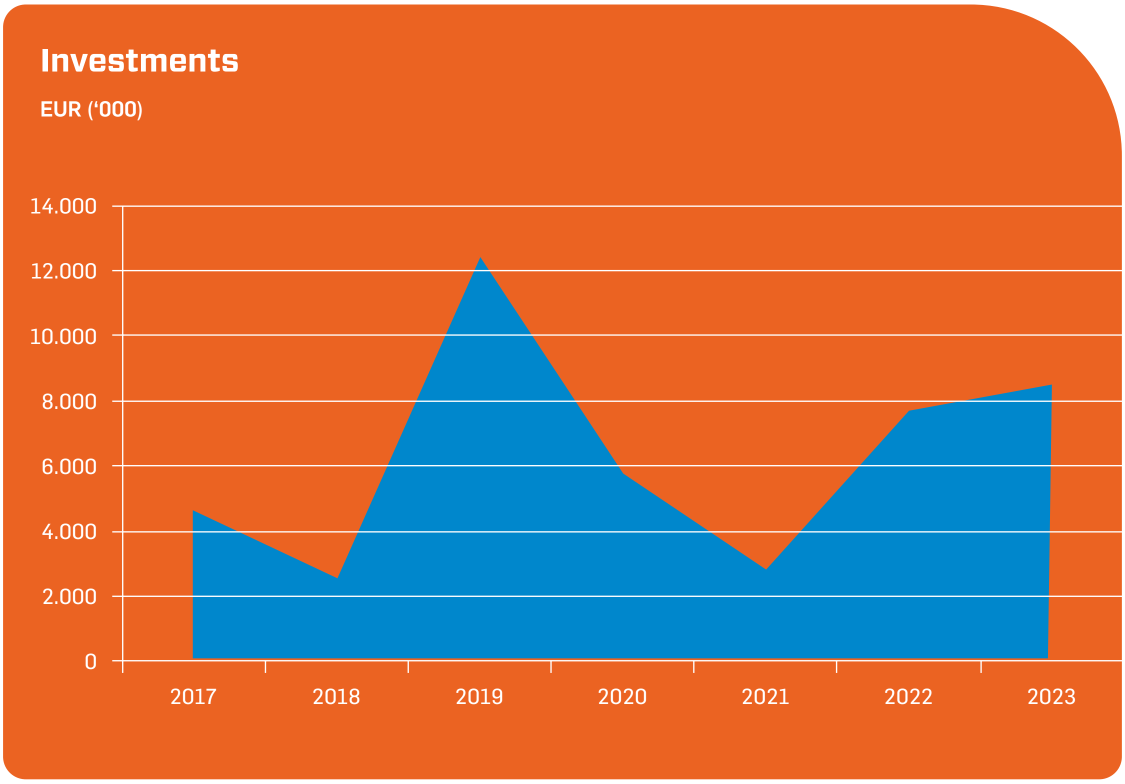
10. Investments and Technology Modernisation

During 2023, a total of EUR 8.44 million was invested (EUR 7.65 million was invested in 2022). This amount includes the acquisition of a majority stake in Ferokotao Ltd.

In Končar D&ST, in addition to the usual investments in the modernization of machinery and equipment, activities were initiated on the investment project "Sustainable SETup for the development of socially and environmentally responsible production" (short name: "Sustainable SETup"). The aim of the Sustainable SETup project, which is implemented over a four-year period from 2022 to 2025, is to normalize the existing production level by increasing storage, production, and administrative spaces, thereby enabling better material and finished product flow and more efficient organization of production processes. During 2023, investment and technological elaborates were developed, which served as the basis for designing planned reconstructions of existing and construction of new production and office spaces. Based on the delivered documentation, the process of obtaining necessary permits for the subject buildings has commenced. Additionally, the process of contracting key production equipment with longer delivery times has started and will be continued and intensified through 2024. In the first half of 2024, contracting of construction works is planned to commence, followed by their commencement.

In Končar D&ST, a 1.1 MW photovoltaic power plant produced 1,420 MWh of electrical energy during 2023, which means that approximately 35% of the total electricity consumption of the company was obtained from its own sources. In accordance with the adopted annual plan for 2023, various special machines and devices were modernized and procured in production. For the range of distribution transformers, a new "High-speed" line for cutting transformer steel has been contracted, enabling compliance with EU regulations and trends. At the end of the year, a drying plant for active parts was ordered to improve the production process of medium power transformers. Information technology equipment has been modernized with an emphasis on increased mobility, and extensive education and advancement in the area of security awareness have been conducted.

In PET, Poland, investments aimed at improving working conditions, increasing production efficiency, product quality, and energy efficiency of buildings were realized in 2023. The expansion and renovation project of the new main warehouse has been partially completed.



11. Technical Development and Product Innovation

In the departments of technical development (Product Development and Production Development), there are 22 highly educated experts of multidisciplinary profiles (electrical engineering, mechanical engineering, and computer science), including three employees with completed postgraduate doctoral studies, and several experts are attending specialist and doctoral studies at faculties of universities in Zagreb and Poznań.

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

As transformer customers are setting increasingly lower allowable noise levels, factors influencing noise and methods for reducing noise were investigated in 2023. This required a paradigm shift, transitioning from a quasi-statistical approach to physical models and mastering the field of vibroacoustic. Furthermore, a methodology for stress calculation for Tier 2 distribution transformers was developed by combining magnetic calculation with finite element method and nonlinear stress calculation. A new program for calculating special transformers with a focus on grounding transformers was developed, and a database for connecting existing design programs with a commercial finite element-based magnetic calculation program was created. Additionally, a multifaceted model that simulates hot-spot temperature in the clamping system of transformers was developed and successfully verified. As part of the development of 220 kV transformers, a new program for calculating transient voltages was validated, and a new module for calculating transferred voltages was created.

Experts from technical development and other departments actively participated in professional symposiums 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 the technical committees HZN/TO E15 Solid Electrical Insulation Materials, HZN/TO E36 Insulators, HZN/TO E55 Wires for Windings, HZN/TO E112 Evaluation and Characteristics of Electrical Insulation Materials and Systems, and HZN/TO E10 Fluids for Use in Electrical Engineering.

Collaboration with institutes and faculties (Končar Institute of Electrical Engineering, Faculty of Electrical Engineering and Computing in Zagreb, Faculty of Mechanical Engineering and Naval Architecture in Zagreb, Faculty of Mechanical Engineering at Poznań University of Technology in Poznań, Poland) continued.

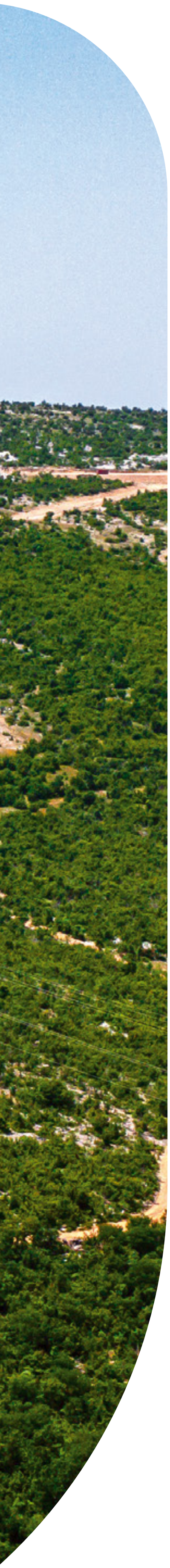
12. Human Resources in the Končar D&St Group

The number of employees in the Group on 31 December 2023 was 1,142. Among the total employees, 766 are employed at Končar D&ST, 88 at PET, Poland and 288 in Ferakotao Ltd.

The Group systematically plans and continuously implements employee training and professional development, including university and college studies. The Group supports enrolment in graduate, postgraduate and doctoral studies, and the result is a growing number of employees studying in different faculty programmes. The approach to rewarding and promoting professional and scientific development significantly enrich Group knowledge, and strengthen ties with relevant university institutions.

In March 2023, KONČAR - D&ST was awarded the MAMFORCE standard certificate.

1,142
employees



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

For the purpose of maintaining its strong market position and successfully meeting its business targets, the Končar D&ST Group remains dedicated to quality, environmental protection, and the protection of occupational health and safety.

During 2023, Končar D&ST successfully underwent recertification of its environmental management system according to ISO 14001:2015 and occupational health and safety management system according to ISO 45001:2018 by the certification body Bureau Veritas. The certificates have been extended for the next 3 years. At the same time, a surveillance audit of the quality management system according to ISO 9001:2015 was conducted.

In PET, Poland, audits of the quality management system according to ISO 9001:2015 and the environmental management system according to ISO 14001:2015 were also carried out.

14. Corporate Sustainable Responsibility

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

Within the sphere of its influence, the Group supports and implements the obligations and measures prescribed by the laws and internationally recognised standards in effect in the fields of environmental protection, business ethics, employee rights, and the protection of health and safety.

Končar D&ST continued its practice of reporting on sustainability and socially responsible business topics in 2023, issuing its third Sustainability Report in accordance with GRI reporting guidelines, continuing the trend of improvement in monitoring and reporting activities. Within the Report, a thorough analysis of its products and overall business activities was conducted in relation to economic activities defined by the legal framework of the “EU Taxonomy Regulation”.

Given that reducing carbon footprint, mitigating the impact of climate change, and transitioning to a circular economy are goals and strategies the Group has committed to, Končar D&ST began developing an ESG Strategy and calculating the organization’s carbon footprint at the end of 2023, which will provide a better understanding of business operations and guide and define future sustainability-related activities.

Throughout 2023, the Končar D&ST group supported a range of socially responsible initiatives and projects.

Continuous investment is made in the development and professional training of employees, as well as in community care. Numerous activities demonstrating a commitment to socially responsible business are carried out, actively engaging in the life of the local community. Recognizing the sensitivity to the needs of children, in 2023, support was provided through donations to a larger number of associations and organizations assisting children with special needs and developmental difficulties.

Additionally, in 2023, Končar-D&ST Inc. was awarded the MAMFORCE certificate and the Equal pay certificate, confirming our dedication to creating a supportive, inclusive, and adaptable work environment. We believe that such projects benefit our employees, especially mothers and fathers, as well as the entire community, by promoting equality, improving the balance between private and professional life, and enhancing employee well-being.

In its business operations and daily activities, the Končar D&ST group and its employees adhere to the principles of the Code of Business Conduct and the Corporate Culture and Communication Handbook, practicing zero tolerance towards corruption and other unacceptable business practices. Members of the management, employees, and business partners are familiar with and adhere to the principle of zero tolerance towards corruption in their business operations and activities.

15. Further Development Strategy

The Group's main business activities will continue to be the 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.

At Končar D&ST, an investment project titled "Sustainable SETup for the Development of Socially and Environmentally Responsible Production" (abbreviated as "Sustainable SETup") is underway. This project primarily aims to normalize the existing production volume and expand storage capacities, enabling the optimization of business processes and better management of material, raw material, equipment, and finished product flows.

In the upcoming period, the market conditions regarding competitors and suppliers will be monitored and analysed, and potential opportunities for expanding operations will be considered.

Positioned highly among the leading European manufacturers of distribution, special, and medium power transformers, the Končar D&ST Group will ensure its excellence by recognizing and fulfilling customer needs, building partnerships with suppliers, dedicating itself to quality and sustainable development, and furthering technical and organizational development. All of this, along with continuous training and motivation of employees, recognizing the value of unity and teamwork.

Final Note:

After the conclusion of the business year 2023, and up to the preparation of this report, negative implications may arise due to supply chain instability, reflected in longer procurement times for certain components. Additionally, there were no other unusual or significant business events that would significantly alter the business outlook and the state of the company as presented in this report.

Considering that as of 1 January 2023, the Republic of Croatia, in accordance with the Law on the Introduction of the Euro as the Official Currency in the Republic of Croatia, has introduced the euro as the official currency, the Company changed the presentation currency from Croatian kuna to euro 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 euro, rounded to the nearest thousand (if applicable). From 1 January 2023, the euro is also the functional currency of the Company (previously, it was the Croatian kuna). In this regard, a conversion rate of 7.53450 Croatian kuna per euro was used for converting comparative data..


R2-B-5
R2-C-5
R2-D-5
R2-B-4
R2-C-4
R2-D-4
R2-B-3
R2-C-3
R2-D-3
R2-B-2
R2-C-2
R2-D-2
R2-B-1
R2-C-1
R2-D-1

Končar – Distribution and
Special Transformers Inc.

Statement of Management’s Responsibilities

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

The Management Board is responsible for:

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

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

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

The Report of the Management Board, Corporate Governance Code Statement, unconsolidated ESEF Financial Statements, and the attached unconsolidated financial statements comprise the Annual Report of the Group; they were approved and signed by the Management Board on 15 April 2023 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

2 Independent Auditor's Report

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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 consolidated financial statements of KONČAR - Distribution And Special Transformers Inc. for manufacturing ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2023, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group 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 consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

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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 342,033 thousand (2022: EUR 254,050 thousand). Please refer to notes: Material accounting policy information *2e) 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 Group's core activities include manufacturing and sales of distribution and special transformers. The applicable financial reporting standard governing the accounting for revenues, IFRS 15 *Revenue from Contracts with Customers*, requires management to exercise judgement identifying all goods or services provided to customers and determine whether to account for each such good or service as a separate performance obligation. Given the nature of contracts with customers, this also entails consideration of whether there is a significant financing component or a separate performance obligation such as an extended warranty included in the contract. As discussed in note 2e), 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 Group typically receives advance payments which it accounts for as contract liabilities. Due to the above factors, accounting for revenues requires management to exercise significant judgment and making complex estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.	Our procedures performed in this area included: • Evaluating the design and implementation of selected controls over the revenue cycle; • Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the revenue standard; • For a sample of contracts or contract equivalents with key customers in force during the reporting period: - challenging the Group's identification of performance obligations included therein; - critically assessing the Group's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations; - based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents with particular attention paid to cut-off procedures over amounts recognised at or around the reporting date; • For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Group's accounting records, and inspecting the underlying documentation; • Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items. • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for customer contracts.

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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 15,872 thousand (31 December 2022: EUR 10,861 thousand). Please refer to notes: Material accounting policy information *2s) Provisions*, Key accounting estimates *3b) Warranty provisions* and note *23 Provisions* in the financial statements.

Key audit matter	How we addressed the matter
The Group's customer arrangements include 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 Group 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 Group, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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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 consolidated financial statements of the Group as at and for the year ended 31 December 2023, as included in the attached electronic file "549300DOZHZICNEMG593-2023-12-31-hr-Konsolidirano", with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

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

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

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

Auditors' Responsibilities

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

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Independent Auditor's Report to the Shareholders of KONČAR – DISTRIBUTION AND SPECIAL TRANSFORMERS Inc. 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 consolidated financial statements of the Group presented in human-readable format;
- evaluating the completeness of the Group's tagging of the consolidated financial statements;
- evaluating the appropriateness of the use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the consolidated financial statements.

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

Opinion

In our opinion, based on the procedures performed and evidence obtained, the consolidated financial statements of the Group 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 ESEF.

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.

KPMG Croatia d.o.o. za reviziju **15 April 2024**
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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2023

	Note	2023 EUR'000	2022 EUR'000
Revenue	4	342,033	254,050
Other operating income	5	1,366	842
Operating income		**343,399**	**254,892**
Change in inventories of work in progress and finished goods		26,394	9,556
Materials, consumables, goods and services used	6	(244,776)	(203,359)
Personnel costs	7	(37,142)	(27,378)
Depreciation and amortisation		(4,178)	(4,068)
Other operating expenses	8	(19,006)	(6,308)
Operating expenses		**(278,708)**	**(231,557)**
Operating profit		**64,691**	**23,335**
Financial income	9	821	1,461
Financial expenses	9	(412)	(349)
Net financial result		**409**	**1,112**
Share of profit from equity accounted investee	**16**	**139**	**220**
Profit before tax		**65,239**	**24,667**
Corporate income tax	10	(11,232)	(1,520)
PROFIT FOR THE YEAR		**54,007**	**23,147**
Foreign operations – foreign currency differences		(138)	11
Revaluation of financial assets		1,574	-
Other comprehensive income		**1,436**	**11**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**55,443**	**23,158**
Earnings per share (basic and diluted) in EUR	11	**105.64**	**45.30**

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

Consolidated 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	12	518	414
Property, plant and equipment	13	47,530	35,499
Right-of-use assets	14	911	834
Investment property	15	327	350
Investments in subsidiary	16	1,119	1,080
Receivables		-	14
Financial assets at FVOCI	17	233	372
Financial assets at FVTPL	25	-	383
Deferred tax assets		2,894	785
		53,532	**39,731**
Current assets			
Inventories	18	130,643	95,935
Trade and other receivables	19	67,539	46,729
Financial assets at FVTPL	25	-	849
Cash and cash equivalents	21	60,418	8,584
		258,600	**152,097**
TOTAL ASSETS		**312,132**	**191,828**
EQUITY AND LIABILITIES			
Share capital	22	20,449	20,356
Legal reserves		1,018	1,018
Statutory reserves		32,865	30,636
Other reserves		6,103	6,103
Reserves from exchange rate recalculation		1,418	(18)
Retained earnings		77,342	32,682
- from which profit for the year		54,007	23,147
Non-controlling interest	30	5,876	-
EQUITY AND RESERVES		**145,071**	**90,777**
Borrowings	24	7,895	5,540
Financial liabilities at FVTPL	25	89	-
Provisions for warranty repairs	23	12,162	8,093
Other provisions	23	2,119	676
Deferred tax liability		394	-
Non-current liabilities		**22,659**	**14,309**
Borrowings	24	2,235	18,556
Financial liabilities at FVTPL	25	386	-
Income tax liability		10,584	1,023
Trade and other payables	26	50,554	36,985
Contract liabilities	20	76,619	26,481
Provisions for warranty repairs	23	3,710	2,768
Other provisions	23	314	929
Current liabilities		**144,402**	**86,742**
Total liabilities		**167,061**	**101,051**
TOTAL EQUITY AND LIABILITIES		**312,132**	**191,828**

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

Consolidated 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		373,355	244,277
Cash proceeds from insurance reimbursements		613	14
Cash proceeds from tax returns		9,813	8,884
Cash paid to suppliers		(257,035)	(233,185)
Cash paid to employees		(35,343)	(25,450)
Taxes paid		(6,562)	(3,344)
Cash paid for insurance related to reimbursements		(399)	(229)
Other cash proceeds and payments		(1,317)	(2,110)
Cash from operations		**83,125**	**(11,143)**
Interest paid		(233)	(198)
Net cash flows from operating activities		**82,892**	**(11,341)**
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 interests		267	-
Cash expenses for purchase of non-current tangible and intangible assets		(5,339)	(7,677)
Acquisition of a subsidiary		(1,995)	-
Cash expenses for loans granted		(100)	-
Net cash used in investing activities		**(6,957)**	**(7,306)**
Cash flows from financing activities			
Cash proceeds from principal portion of loans and borrowings	24	1,604	22,685
Repayment of principal portion of loans and borrowings	24	(19,913)	(6,997)
Principal portion of lease payments	24	(164)	(181)
Dividends paid		(7,025)	(4,695)
Other cash proceeds and payments		1,397	(195)
Net cash used in financing activities		**(24,101)**	**10,616**
Net increase/(decrease) in cash and cash equivalents		**51,834**	**(8,031)**
Cash and cash equivalents at the beginning of the period		8,584	16,615
Cash and cash equivalents at the end of the period	**21**	**60,418**	**8,584**

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

Consolidated 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	Non-con-trolling interest EUR'000	Total EUR'000
As at 1 January 2022.	**20,356**	**1,018**	**23,594**	**6,103**	**(29)**	**21,272**	**-**	**72,314**
Profit for the year	-	-	-	-	-	23,147	-	**23,147**
Other comprehensive income								
Reserves from exchange rate recalculation	-	-	-	-	11	-	-	**11**
Total comprehensive income	**-**	**-**	**-**	**-**	**11**	**23,147**	**-**	**23,158**
Transfers	-	-	7,042	-	-	(7,042)	-	**-**
Dividend	-	-	-	-	-	(4,695)	-	**(4,695)**
Total transactions with owners	**-**	**-**	**7,042**	**-**	**-**	**(11,737)**	**-**	**(4,695)**
As at 31 December 2022	**20,356**	**1,018**	**30,636**	**6,103**	**(18)**	**32,682**	**-**	**90,777**
Profit for the year	-	-	-	-	-	54,007	-	**54,007**
Other comprehensive income								
Reserves from exchange rate recalculation	-	-	-	-	(138)	-	-	**(138)**
Revaluation of financial assets	-	-	-	-	1,574	-	-	**1,574**
Total comprehensive income	**-**	**-**	**-**	**-**	**1,436**	**54,007**	**-**	**55,443**
Transfers	93	-	2,229	-	-	(2,322)	-	**-**
Dividend	-	-	-	-	-	(7,025)	-	**(7,025)**
Total transactions with owners	**93**	**-**	**2,229**	**-**	**-**	**(9,347)**	**-**	**(7,025)**
The impact of acquiring subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**5,876**	**5,876**
As at 31 December 2023	**20,449**	**1,018**	**32,865**	**6,103**	**1,418**	**77,342**	**5,876**	**145,071**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

1. General Information about the Company

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

Based on Article 11 of the Companies Act and the provisions 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 Assembly of the Company held on May 16, 2023, a decision on changing the company name of the Company was adopted. The previous company name of the Company was KONČAR - DISTRIBUTION AND SPECIAL TRANSFORMERS Inc., and it has been changed to KONČAR - Distribution and Special Transformers Inc. for production.

The group consists of the Company and two subsidiaries, Power Engineering Transformatory Sp. z.o.o, fully owned, and Ferokotao Ltd., owned 51%. The primary activity of Power Engineering Transformatory Sp. z.o.o is the design, production, marketing, and servicing of medium power transformers up to 63 MVA and voltage up to 145 kV. The primary activity of Ferokotao Ltd. is the production of metal products, machinery manufacturing, and supplying metal parts for the transformer industry.

The group also has an associated company, Elkakon Ltd., in which it holds a 50% stake. As of 31 December 2023, the Group had 1,138 employees, while as of 31 December 2022, it had 815 employees.

Members of the Supervisory Board

- **Gordan Kolak**, President
- **Ivan Bahun**, Member
- **Miki Huljić**, Member
- **Josip Ljulj**, 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 28 to the financial statements.

The fees paid to auditors for the audit of both non-consolidated and consolidated financial statements for the year 2023 amounted to EUR 52.5 thousand (2022: EUR 41.5 thousand). 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. During 2023, non-audit services were not provided by the auditors (2022: -).

The consolidated financial statements are expressed in thousands of Euro (EUR '000). The stated amounts are rounded to the nearest thousand EUR.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2. Material accounting policy information

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

BASIS OF PREPARATION

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

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

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

The financial statements are denominated in Euro (EUR) as the Group's functional and reporting currency.

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

CHANGE IN FUNCTIONAL AND PRESENTATIONAL CURRENCY

The Group's financial statements are presented in euros (EUR) as the functional and presentation currency of the Group.

Since the Republic of Croatia introduced the euro as the official currency on January 1, 2023, in accordance with the Law on the introduction of the euro as the official currency in the Republic of Croatia, the Group changed the presentation currency for the purposes of preparing financial statements for the year ended 31 December 2023 from kuna to euro, and 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 is also the functional currency of the Group (until 1 January 2023, it was HRK). In this regard, the exchange rate of HRK 7.53450 for the euro was used for the conversion of comparative information.

Although the change in the presentation currency in the financial statements represents a change in accounting policy that requires retroactive application, the Group did not present the third statement of financial position in the financial statements for the year ended 31 December 2023 in accordance with International Accounting Standard 8 (IAS) Accounting Policies, Changes in Accounting Estimates and Errors, given that it has determined that the change in the presentation currency has no significant impact on the Group's financial statements, due to the stable HRK/EUR exchange rate over the past few years.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective standards, amendments to standards and implementations – adopted in 2023

In 2023 the following standards, amendments or interpretations came into force:

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021);
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021);
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021);
- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued on 23 May 2023);

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

Adoption of these standards and amendments has not determined substantial effects on the amounts recognized in balance sheet or income statement or impact on disclosure of accounting policies.

Standards, amendments to standards and interpretations issued but not yet effective

The standards, amendments to standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

A) BASIS FOR CONSOLIDATION

The consolidated financial statements of the Group include the financial statements of the Parent company and the financial statements of the companies controlled by the Parent company (subsidiaries).

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

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests in subsidiaries without change of control

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

B) INVESTMENTS IN ASSOCIATES

Associate companies are companies in which the Group has between 20% and 50% of voting power and in which the Group has significant influence, but not control. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting.

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

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

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

C) BUSINESS COMBINATIONS (MERGERS)

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

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

D) GOODWILL

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

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

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

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

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

E) REVENUE RECOGNITION

The Group recognises revenue from:

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

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

The promised consideration includes fixed amounts.

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

F) FINANCIAL INCOME AND EXPENSES

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

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

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

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

G) TAXES

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

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

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

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

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 Group 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.

H) SEGMENT INFORMATION

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

I) EARNINGS PER SHARE

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

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

J) DIVIDEND DISTRIBUTION

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

K) FOREIGN CURRENCY TRANSACTIONS A

Foreign currency transactions are initially converted into Croatian kuna by applying the exchange rates prevailing on the transaction date. Cash, receivables and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on translation are included in the income statement for the current year.

Foreign exchange losses and gains arising on translation are included in profit or loss for the current year and are presented in Note 9 in net amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences on borrowings).

L) NON-CURRENT INTANGIBLE AND PROPERTY, PLANT AND EQUIPMENT

Real estate, plants and equipment represent assets intended for use in the production of goods or delivery of goods or services, or for administrative purposes, which are expected to be used for more than one period and are intended for continuous use for the entrepreneur's activities. It includes the following types of assets: land, buildings, facilities and equipment, tools, operating inventory, furniture and transportation vehicles, advances, and other long-term tangible assets.

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

Long-term intangible assets and real estate, facilities, and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Company and if the cost of acquiring the assets can be reliably measured.

Long-term intangible assets and real estate, facilities, and equipment are initially recognized at cost, which includes the purchase price, including import duties and non-refundable taxes after deducting trade discounts and rebates, as well as all costs directly attributable to bringing the assets to the location and operational condition for intended use.

After initial recognition, the assets are recognized at their cost less accumulated depreciation and accumulated impairment losses.

Costs of current maintenance and repairs, replacements, and minor-scale investment maintenance are recognized as expenses in the period in which they are incurred. In situations where it is clear that the costs have resulted in an increase in the future expected economic benefits to be derived from the use of the asset above its originally assessed capabilities, they are capitalized, i.e., included in the carrying amount of that asset. Gains and losses arising from the disposal or sale of assets are recognized in the income statement in the period in which they occur.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

Depreciation is calculated by allocating the acquisition cost of each individual asset, except for land and long-term intangible and tangible assets under construction, over the estimated useful life of the asset using the straight-line method.

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

Impairment of property, plant and equipment

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

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.

M) FINANCIAL ASSETS AND LIABILITIES

Classification and measurement of financial assets

The items of assets are classified and measured as disclosed in Note 29.

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.

Impairment of financial assets

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

Provisions for impairment of receivables from customers and contractual assets are measured at an amount equal to the expected credit losses over their lifetime, or by applying the simplified approach to expected credit losses.

In measuring expected credit losses, the Group utilizes historical observations (over a minimum of 3 years) of payment delay days adjusted for estimated future expectations in debt collection. Customer receivables are divided into portfolios based on the country rating of the customer's domicile and according to the age structure.

Besides the aforementioned assets subject to the simplified approach, when subsequent measuring financial assets in assessing credit loss, a general impairment approach consisting of three stages is applied. The value of financial assets is reduced for expected credit losses, and the impairment loss or gain is recognized in the profit or loss account, except for debt instruments where credit losses are recognized in the profit and loss account

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

without reducing the carrying amount but rather recognizing revaluation reserves. Objective evidence of financial asset impairment for expected credit losses includes:

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, e.g., payment delays or non-payment of interest or principal and/or
- Likely initiation of bankruptcy or financial restructuring proceedings by the debtor.

Mere exceeding the maturity date alone are not an absolute indicator of increased credit risk after initial recognition. The assumption of significant increase in credit risk after initial recognition due to exceeding the maturity date can be rebutted by the Group if it has reasonable and supportable information demonstrating that there has not been a significant increase in credit risk, although it may be an indicator of increased credit risk if no other available information exists.

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial liabilities, classification and measurement

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

Derecognition of financial liabilities

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

N) INVENTORIES

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

Costs of conversion comprise costs that are specifically attributable to products such as direct labour and similar.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

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

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

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

O) RECEIVABLES

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

P) CASH AND CASH EQUIVALENTS

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

Q) BORROWINGS

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

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

R) LEASES

Leases are recognized as right-of-use assets and corresponding liabilities as from the date from which the leased assets are available for use by the Group. The right-of-use assets are presented separately in the statement of financial position.

Lease payments are discounted using the interest rate implicit in the lease if that rate is readily determinable, or by applying the Group'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 Group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognized with the corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognized on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

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.

Lease activities

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

- The land is leased for a fixed period of 2 to 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 Group is potentially exposed to that are not reflected in the measurement of the lease liability. The Group does not provide any residual value guarantees.

S) PROVISIONS

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

T) EMPLOYEE BENEFITS

i. Pension obligations and post-employment benefits

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

ii. Termination benefits

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

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 Consolidated Financial Statements

for the year ended 31 December 2023

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

U) 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.

V) EVENTS AFTER THE BALANCE SHEET DATE

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

3. Key accounting estimates

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

a) Revenue recognition

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

b) Warranty provisions

As part of its customer arrangements, the Group typically provides warranties for its products/projects performed for a period of 5 years. In certain cases where warranties exceed this range, the Group 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.

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	161,039	129,427
Sales of services	29,211	20,538
Total revenue from contracts with customers	**342,033**	**254,050**
Geographic areas		
Croatia	31,334	25,851
EU member states	274,525	193,423
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	398
Total revenue from contracts with customers	**342,033**	**254,050**
Revenue recognition time:		
At a point in time	342,033	254,050
Over time	-	
Total revenue from contracts with customers	**342,033**	**254,050**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

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	67	18
Net profit from the sale of fixed assets	14	76
Other income	273	407
	1,366	**842**

6. Materials, consumables, goods and services used

	2023 EUR'000	2022 EUR'000
Raw materials and consumables	211,827	174,916
Cost of goods sold	8,152	8,494
Transport services	7,263	7,076
External production related services	3,050	2,673
Maintenance and servicing	1,961	1,604
Other external costs	12,523	8,596
	244,776	**203,359**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

7. Personnel costs

	2023 EUR'000	2022 EUR'000
Net salaries and wages	21,624	16,121
Taxes and contributions from salaries	9,472	6,756
Contributions on salaries	4,826	3,568
Reimbursement of employee expenses, gifts and grants	1,220	933
	37,142	**27,378**

In 2023, pension fund contributions amounted to EUR 6,083 thousand (2022: EUR 4,406 thousand).

In 2023, personnel costs include EUR 149 thousand of retirement and termination benefits (2022: EUR 97 thousand).

The average number of employees during 2023 was 835 employees (2022: 799 employees).

8. Other costs

	2023 EUR'000	2022 EUR'000
Increase/(decrease) in provisions for warranty repairs	7,285	(113)
Impairment costs	2,697	1,767
Accrued expenses	1,504	94
Increase/(decrease) in provisions for jubilee awards and severance payments	1,300	(157)
Entertainment	857	463
Transportation costs for employees	736	710
Bank charges and commissions	653	485
Insurance	538	370
Daily allowances and business trip related costs	507	362
Premiums and benefits for voluntary pension pillar	295	278
Professional training costs	271	263
Intellectual services	214	162
Fees payable to Supervisory board members	14	14
Provisions for onerous contracts	(744)	(495)
Other non-production related costs	852	1,087
Other operating costs	2,027	1,018
	19,006	**6,308**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

9. Net financial result

	2023 EUR'000	2022 EUR'000
Positive exchange rate differences	422	1,204
Interest and similar income	303	-
Dividends and share in profits	93	257
Other financial income	3	-
Total financial income	**821**	**1,461**

	2023 EUR'000	2022 EUR'000
Interest and similar expenses	379	349
Other finance costs	33	-
Total financial expenses	**412**	**349**
Net financial result	**409**	**1,112**

10. Corporate income tax

	2023 EUR'000	2022 EUR'000
Current tax	12,088	914
Additional tax	-	699
Deferred tax	(856)	(93)
Income tax expense	**11,232**	**1,520**

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

	2023 EUR'000	2022 EUR'000
Accounting profit (before tax)	65,239	24,667
Tax at 18%	11,743	4,440
Adjustments for:		
Non-taxable income	95	54
Non-deductible expenses	(72)	(85)
Temporary differences for which no deferred tax assets were recognizes	92	(808)
Change in recognized deferred taxes	(55)	764
Investment tax credit utilization	(200)	(2,741)
Effect of tax rates in foreign jurisdictions	(353)	(135)
Share of profit of equity accounted investee	(18)	(39)
Recognition of deferred tax asset on investment tax credit	-	(628)
Additional tax	-	698
Income tax expense	**11,232**	**1,520**
Effective tax rate	17,22%	6,16%

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

Investment incentives

The request for obtaining the incentive holder status for the new project was submitted on 23 December 2021, under the abbreviated name “Sustainable SETup”. On 2 March 2023, MINGO issued a resolution granting the Group the incentive holder status for this project in the amount of 5,464 thousand euros, for which the Group has the ability to reduce future tax liabilities related to corporate income tax for years up to 24 December 2031.

In the financial statements for the year 2023, the Group utilized a total of 200 thousand euros of approved tax incentives for this project, while in the previous period, it utilized 4,837 thousand euros for the same purpose (part of which was used to reduce current corporate income tax, while the remainder was used to reduce additional corporate income tax).

Additionally, through business combinations during the year, the Group acquired the right to utilize additional tax relief for investment promotion by reducing tax liabilities by 100%, with a potential utilization framework of 1.3 million euros. The Group recognized deferred tax assets on this amount, considering the full utilization of this framework is expected.

As of 31 December 2023, the Group did not have any unused carried forward tax losses for which deferred tax assets were not recognized.

Deferred tax asset and relevant movement was as follows:

	31 December 2023	Recognized in profit and loss	Acquired through business combinations	31 December 2022	Recognized in profit and loss	31 December 2021
Deferred tax assets						
Impairment of long-term assets	60	1	-	59	-	59
Inventory impairment	717	685	-	32	(113)	145
Carried forward tax losses	12	12	-	-	-	-
Unrecognized provisions	275	245	-	30	27	3
Unused amount of incentives according to the Investment Promotion Act	1,680	(200)	1,253	627	180	447
Other	150	113	-	37	37	-
Deferred tax assets	**2,894**	**856**	**1,253**	**785**	**131**	**654**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

11. Earnings per share

Basic and diluted earnings per share:

	2023	2022
Net result in EUR thousands	54,007	23,147
Total and weighted average number of shares	511,232	511,232
Earnings per share	**105.64**	**45.30**

In previous years, declared dividends for ordinary and preference shares were the same. The Group does not hold any treasury shares. Diluted earnings per share for 2023 and 2022 are equal to basic earnings per share, since the Group did not have any convertible instruments or share options outstanding during either period

12. Non-current intangible assets

	Licenses, software and other rights EUR'000	**Assets under construction** EUR'000	**Total** EUR'000
Cost			
At 1 January 2022	**2,086**	**-**	**2,086**
Additions	3	234	237
Transfer	151	(151)	-
Disposals and write offs	(52)	-	(52)
As at 31 December 2022	**2,188**	**83**	**2,271**
Additions	13	234	247
Effect of acquiring a subsidiary	35	-	35
Transfer	243	(243)	-
Disposals and write offs	(4)	-	(4)
As at 31 December 2023	**2,475**	**74**	**2,549**
Accumulated amortization			
At 1 January 2022	**1,775**	**-**	**1,775**
Charge for the year	134	-	134
Disposal and write offs	(52)	-	(52)
As at 31 December 2022	**1,857**	**-**	**1,857**
Charge for the year	178	-	178
Disposals and write offs	(4)	-	(4)
As at 31 December 2023	**2,031**	**-**	**2,031**
Carrying amount			
As at 31 December 2022		**83**	**414**
As at 31 December 2023		**74**	**518**

The cost of intangible assets fully amortised and still in use as at 31 December 2023 amounts to EUR 1,927 thousand (31 December 2022: EUR 1,450 thousand).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

13. 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	**2,493**	**28,697**	**35,831**	**4,680**	**571**	**72,272**
Additions	-	-	38	-	7,812	**7,850**
Transfers	1,298	3,989	1,918	94	(7,299)	**-**
Disposals and write offs	-	-	(414)	(171)	-	**(585)**
Exchange rate difference	(4)	(27)	(5)	(1)	(6)	**(43)**
As at 31 December 2022	**3,787**	**32,659**	**37,368**	**4,602**	**1,078**	**79,494**
Additions	-	397	259	218	3,460	**4,334**
Effect of acquiring a subsidiary	1,206	5,047	4,347	290	386	**11,276**
Transfers	10	47	2,013	271	(2,341)	**-**
Disposals and write offs	14	-	(183)	(107)	-	**(276)**
Exchange rate difference	4	103	(13)	50	41	**185**
As at 31 December 2023	**5,021**	**38,253**	**43,791**	**5,324**	**2,624**	**95,013**
Accumulated depreciation						
At 1 January 2022	**5**	**13,659**	**23,603**	**3,538**	**-**	**40,805**
Charge for the year	2	1,317	2,133	313	-	**3,765**
Disposals and write offs	-	-	(403)	(172)	-	**(575)**
As at 31 December 2022	**7**	**14,976**	**25,333**	**3,679**	**-**	**43,995**
Charge for the year	2	1,307	2,118	347	-	**3,774**
Disposals and write offs	-	-	(180)	(106)	-	**(286)**
As at 31 December 2023	**9**	**16,283**	**27,271**	**3,920**	**-**	**47,483**
Carrying amount						
As at 31 December 2022	**3,780**	**17,683**	**12,035**	**923**	**1,078**	**35,499**
As at 31 December 2023	**5,012**	**21,970**	**16,520**	**1,404**	**2,624**	**47,530**

As at 31 December 2023, the net book amount of mortgaged properties amounts to EUR 17,963 thousand (31 December 2022: EUR 15,013 thousand). Mortgages have been registered over these properties in the total amount of EUR 50 million. There is a pledge of EUR 8 million on movable assets with a net carrying amount of EUR 1,682 thousand (note 24).

The cost of fully depreciated tangible assets still in use as at 31 December 2023 amounts to EUR 33,583 thousand (31 December 2022: EUR 18,006 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 Consolidated Financial Statements

for the year ended 31 December 2023

14. Right-of-use assets

Right-of-use assets relate to the following:

	31.12.2023 EUR'000	31.12.2022 EUR'000
Buildings	291	285
Plant and equipment	312	250
Transport vehicles	225	239
Land	83	60
	911	**834**

The movement during the year is shown below:

	2023 EUR'000	2022 EUR'000
As at 1 January	**834**	**780**
Increase - new leases	240	211
Decrease – termination of leases	(4)	-
Depreciation	(203)	(146)
Exchange rate difference	44	(11)
As at 31 December	**911**	**834**

15. Investment property

	Total 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**
As at 31 December 2022	**350**
As at 31 December 2023	**327**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

16. Investments in associates (equity-accounted investees)

	31.12.2023 EUR'000	31.12.2022 EUR'000
Equity accounted investment		
Elkakon Ltd., Zagreb (50% share)	1,119	1,080
	1,119	**1,080**

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

	Elkakon Ltd.	
	2023 EUR'000	**2022** EUR'000
Income	17,628	15,347
Expenses	(17,287)	(14,808)
Profit before tax	341	539
Corporate income tax	(63)	(100)
Profit after tax	**278**	**439**
Non-current assets	1,340	1,403
Current assets	3,550	2,625
Total assets	**4,890**	**4,028**
Total liabilities	**2,653**	**1,869**

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

	Elkakon Ltd. EUR'000
1 January 2022	**893**
Profit of the associate (50% share)	220
Profit correction	-
Dividend payment by the associate	(33)
31 December 2022	**1,080**
Profit of the associate (50% share)	139
Profit correction	-
Dividend payment by the associate	(100)
31 December 2023	**1,119**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

17. Financial assets at FVOCI

	31.12.2023 EUR'000	31.12.2022 EUR'000
Unquoted 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 Group compares the cost of these investments with a high-level valuation model based on comparable multiples to assess whether indication exist that the fair value could materially differ from cost. At the reporting date, there were no such indications.

18. Inventories

	31.12.2023 EUR'000	31.12.2022 EUR'000
Raw materials and consumables	46,626	48,074
Production work-in-progress	42,464	22,752
Finished products	33,074	21,256
Merchandise	-	2
Advances and similar	8,479	3,851
	130,643	**95,935**

19. Trade and other receivables

	31.12.2023 EUR'000	31.12.2022 EUR'000
Receivables from foreign customers	56,780	38,667
Receivables from domestic customers	6,897	5,219
Other receivables	280	64
VAT receivable	3,257	2,243
Prepayments	325	536
	67,539	**46,729**

Na dan 31. prosinca, starosna struktura potraživanja od kupaca Grupe bila je kako slijedi:

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

	31.12.2023 EUR'000	31.12.2022 EUR'000
Not yet due	54,928	40,615
< 60 days	8,182	3,214
60-90 days	309	6
90-180 days	215	51
180-365 days	43	-
> 365 days	-	-
	63,677	**43,886**

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	49	41
Net change in ECLs	(3)	-
Written-off	26	8
Effect of change in foreign exchange rate	3	-
As at 31 December	**75**	**49**

20. Contract liabilities

	31.12.2023 EUR'000	31.12.2022 EUR'000
Contract liabilities – advances received from customers	76,619	26,481
Total contract liabilities	**76,619**	**26,481**

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 136,404 thousand (2022: EUR 70,337 thousand).

Contractual obligations on the reporting date refer to contracts with customers with a total value of EUR 246,318 thousand (31 December 2022: EUR 107,260 thousand), and regarding which performance obligations should be fulfilled in the next reporting period.

Advances received from customers relate to contracts with customers totalling EUR 351,917 thousand (31 December 2022: EUR 133,157 thousand) to be fulfilled in the following reporting period.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

21. Cash and cash equivalents

	31.12.2023 EUR'000	31.12.2022 EUR'000
Cash in bank	30,411	8,584
Cash on hand	2	-
Deposits up to 3 months	30,005	-
	60,418	**8,584**

Interest rate on the Group'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 29 – Risk management.

22. 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	
Dioničar	No of shares	Ownership share %	No of shares	Ownership share %
Interkapital vrijednosni papiri / Končar – Elektroindustrija Inc.	269,596	52,73	269,596	52,73
OTP banka Inc. / AZ OMF kategorije B	28,249	5,53	28,249	5,53
Agram brokeri Inc. / Knežević Nikola	21,304	4,17	16,004	3,13
Floričić Kristijan	19,832	3,88	19,832	3,88
Hita-vrijednosnice Inc. / Berkopić Dražen	13,299	2,6	12,000	2,35
Zagrebačka banka Inc. / Zbirni skrbnički račun Zagrebačka banka Inc. / DF	8,255	1,61	8,255	1,61
Interkapital vrijednosni papiri / 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 (2022: EUR 9,2 per share) and totalled EUR 7,025 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 Consolidated Financial Statements

for the year ended 31 December 2023

23. Provisions

	Warranty provisions EUR'000	Jubilee awards and retirement benefits EUR'000	Provisions for onerous contracts EUR'000	Other provisions EUR'000	Total EUR'000
		736	**1,423**	**12**	**14,805**
As at 1 January 2022	3,746	18	618	84	**4,466**
Increase	(3,838)	(161)	(1,112)	-	**(5,111)**
Release	(1)	(1)	-	-	**(2)**
Exchange rate fluctuations	(1,680)	-	-	(12)	**(1,692)**
Utilised	**10,861**	**592**	**929**	**84**	**12,466**
As at 31 December 2022	417	-	-	185	**602**
Acquisition	7,376	1,474	-	666	**9,516**
Increase	-	(2)	(744)	(670)	**(1,416)**
Release	6	4	-	6	**16**
Exchange rate fluctuations	(2,788)	(44)	-	(47)	(2,879)
Utilised	**15,872**	**2,024**	**185**	**224**	**18,305**
As at 31 December 2023					
of which:	12,162	1,895	-	224	**14,281**
- non-current	3,710	129	185	-	**4,024**
- current					

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate. The provision is made based on the Group's estimates and experience, as well as that of other transformer manufacturers. The Group provides to customers long-term warranties for delivered transformers, which typically last over 3 years and can extend 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 the provision amounts to 15.9 million euros (2022: 10.8 million euros) 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 2,024 thousand (2022: EUR 592 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which Group 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 Group and the statistics of paid termination benefits and the discount rate of 3.2% (2022: 3.2%).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

24. Borrowings

	31.12.2023 EUR'000	31.12.2022 EUR'000
Non-current borrowings		
Leases	247	290
Bank loans	7,648	5,250
	7,895	**5,540**
Current borrowings		
Leases	175	188
Bank loans	2,060	10,368
Other borrowings	-	8,000
	2,235	**18,556**
Total borrowings	**10,130**	**24,096**

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

The company Ferokotao has obligations under two loan agreements with Raiffeisenbank Austria Inc. The first, amounting to 6,050,000.00 euros, approved in July 2021, with a fixed interest rate of 1.10% per annum, is used for the closure of principal and fees for the early repayment of existing loan tranches with Privredna banka Zagreb Inc. Security instruments include 2 blank promissory notes, 1 debenture in the amount of 6,050,000.00 euros, mortgage rights on real estate and movable property to be executed based on 4 promissory notes, each amounting to 2,100,000.00 euros, totalling 8,400,000.00 euros. The second loan, amounting to 1,000,000.00 euros, approved in July 2021, with a fixed interest rate of 1.10% per annum, is intended for working capital. Security instruments include 2 blank promissory notes, 1 debenture in the amount of 1,000,000.00 euros, and mortgage rights on real estate and movable property to be executed based on 4 promissory notes described in the previous loan.

Short-term liabilities to banks and financial institutions as of 31 December 2022, were fully repaid during 2023.

Short-term liabilities related to loans received as of 31 December 2022, pertaining to two loans from Končar – Elektroindustrija Inc. (8 million euros in total) carrying a fixed interest rate of 0.75% per annum, were also repaid during 2023.

In 2023, short-term liabilities to banks and financial institutions as well as loans received were repaid.

Notes to the Consolidated 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	Other borrowing EUR'000	Total EUR'000
As at 1 January 2022	**7,902**	**443**	**-**	**8,345**
Cash receipts	8,712	-	13,973	22,685
Cash outflows (repaid)	(1,001)	(181)	(5,996)	(7,178)
Other non-monetary transactions	-	211	-	211
Foreign exchange rate changes	5	5	23	33
As at 31 December 2022	**15,618**	**478**	**8,000**	**24,096**
Acquisition	4,458	-	-	4,458
Cash receipts	1,604	-	-	1,604
Cash outflows (repaid)	(11,913)	(221)	(8,000)	(20,134)
Other non-monetary transactions	-	198	-	198
Foreign exchange rate changes	(59)	(33)	-	(92)
As at 31 December 2023	**9,708**	**422**	**-**	**10,130**

Non-current liabilities to banks mature as follows:

	31.12.2023 EUR'000	31.12.2022 EUR'000
up to 1 year	2,060	10,368
1 - 2 years	2,060	1,000
2 - 3 years	1,977	1,000
3 - 4 years	1,860	1,000
4 - 5 years	1,501	1,000
over 5 years	250	1,250
	9,708	**15,618**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

25. 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	475	-
Financial liabilities at FVTPL	**475**	**-**
of which:		
- non-current	89	-
- current	386	-

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

26. Trade payables

	31.12.2023 EUR'000	31.12.2022 EUR'000
Payables to domestic suppliers	8,810	5,647
Payables to foreign suppliers	21,263	21,107
Payables to employees	1,680	1,078
Other taxes, contributions and fees payable	1,805	1,264
Deferred income	145	1,166
Unused holiday	869	731
Interest payable	30	49
Liabilities for share in profits	21	22
Other accrued costs	14,766	4,885
Other liabilities	1,165	1,036
	50,554	**36,985**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

27. Off-balance-sheet items

Off-balance sheet items as of 31 December 2023 include the following: joint guarantees issued on behalf of the PET subsidiary to banks and clients 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 238,134 thousand, while related companies and third parties issued insurance instruments to the Company in the amount of EUR 14,101 thousand.

Balance of the Group's concluded contracts (order book) based on active projects as of 31 December 2023 amounts to EUR 623 million (31 December 2022: EUR 288 million).

28. Related party transactions

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

During 2023, the Group engaged in transactions with its related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows.

2023					Operating activities	
Related party:	**Receivables** EUR'000	**Liabilities** EUR'000	**Advances given** EUR'000	**Advances received** EUR'000	**Revenue** EUR'000	**Expenses** EUR'000
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
	2,797	**2,632**	**245**	**1,560**	**18,433**	**20,783**

During 2022, the Group engaged in transactions with related parties and realised revenues and expenses based on the trade of products and services, which can be analysed as follows:

2022				Operating activities	
Related party:	**Receivables** EUR'000	**Liabilities** EUR'000	**Advances received** EUR'000	**Revenue** EUR'000	**Expenses** EUR'000
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
	3,696	**1,565**	**829**	**17,317**	**21,304**

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

Key management renumerations

During 2023 total remuneration of EUR 779 thousand (fixed and variable) was paid to Management Board of the Group (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 2020). Accrued variable Management remuneration as at the reporting date amounts to 480 thousand (31 December 2022: EUR 411 thousand). Management Board has 5 members (2022.: five members). During 2023 Management Board of subsidiary Power Engineering Transformatory Sp. z.o.o. received total remuneration of EUR 111 thousand (2022: EUR 72 thousand). Management Board of subsidiary has 3 members (2022: 3 members).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

29. Risk management

Capital risk management

Financial leverage ratio

	31.12.2023 EUR'000	31.12.2022 EUR'000
Debt (current and non-current) = D	(10,130)	(24,096)
Short-term deposits in banks	30,005	-
Cash and cash equivalents	30,413	8,584
Net cash / (debt)	50,288	(15,512)
Equity = E	(145,071)	(90,777)
Financial leverage ratio = D/(D+E)	**6.53%**	**20.98%**

Financial risk management

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

	FV hierarchy	31.12.2023 EUR'000	31.12.2022 EUR'000
Equity instruments at FVOSD		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	63,677	43,886
Cash and cash equivalents	n/a	60,418	8,584
Total financial assets at amortised cost		**124,095**	**52,470**
Total financial assets		**124,328**	**54,074**
Leases payable	n/a	422	478
Bank loans payable	n/a	9,708	15,618
Other borrowings	n/a	-	8,000
Trade payables	n/a	30,073	26,754
Total financial liabilities at amortised cost		**40,203**	**50,850**
Derivative instruments	Level 2	475	-
Total financial liabilities at FVTPL		**475**	**-**
Total financial liabilities		**40,678**	**50,850**

Notes to the Consolidated 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 Group uses the following hierarchy for determining the fair value of financial instruments:

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

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

Derivative financial instruments

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

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

Receivables and bank deposits

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

Borrowings

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

Other financial instruments

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

B) FINANCIAL INSTRUMENT RISKS

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

1. MARKET RISK

Market risk is the fluctuation risk of fair value or future cash flows of financial instruments resulting from changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risks. There were no significant changes to the Group's exposure to market risk or the manner in which it measures and manages the risk.

a) Foreign currency risk and cash flow hedge accounting

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

The Group is exposed to currency risk through sales, purchases, and loans denominated in a currency other than the Group's functional currency. The currency primarily subject to risks is SEK. The Group mitigates its exchange rate risk by entering into forward currency contracts with commercial banks for all currencies based on materiality criteria.

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

	Spot exchange rate		Spot exchange rate	
	31.12.2023 EUR'000	31.12.2022 EUR'000	2023 EUR'000	2022 EUR'000
SEK	11.0960	11.1218	11.4788	10.61928

The Group's exposure to the currency risk of the specified currencies as of the reporting date is shown below. Also, an analysis of the effect of changes in relevant exchange rates on the net result was presented, except for the euro currency, considering the introduction of the euro as a functional currency on 1 January 2023.

	Denominated in SEK	
	31.12.2023 EUR'000	31.12.2022 EUR'000
Trade receivable	1,823	199
Loans payable	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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

b) Interest rate risk

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

	31.12.2023 EUR'000	31.12.2022 EUR'000
Bank and other loans based on fixed interest rates	9,708	12,618
Bank and other loans based on variable interest rates	-	3,000
Other borrowings based on fixed interest rates	-	8,000
Leases based on fixed interest rates	422	478
	10,130	**24,096**

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

2) CREDIT RISK

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

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

Total exposure to credit risk at the reporting date is as follows is set out in note 29 to the financial statements. The Group does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at the reporting dates.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3) LIQUIDITY RISK

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

The following table presents the maturity of financial liabilities of the Group 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	**30,073**	**30,073**	30,073	-	-	-
	30,073	**30,073**	**30,073**	**-**	**-**	**-**
Interest bearing liabilities:						
Leases payable	**422**	**466**	187	118	147	14
Bank loans	**9,708**	**10,106**	2,205	2,165	5,483	253
Other borrowings	**-**	**-**	-	-	-	-
	10,130	**10,572**	**2,392**	**2,283**	**5,630**	**267**
	40,203	**40,645**	**32,465**	**2,283**	**5,630**	**267**

The following table presents the maturity of financial liabilities of the Group 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	**26,754**	**26,754**	26,754	-	-	-
	26,754	**26,754**	**26,754**	**-**	**-**	**-**
Interest bearing liabilities:						
Leases payable	**478**	**492**	194	151	147	-
Bank loans	**15,618**	**16,157**	10,637	1,091	3,161	1,268
Other borrowings	**8,000**	**8,014**	8,014	-	-	-
	24,096	**24,663**	**18,845**	**1,242**	**3,308**	**1,268**
	50,850	**51,417**	**45,599**	**1,242**	**3,308**	**1,268**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

30. Business combinations

On December 20, 2023, the Company acquired control over Ferokotao Ltd. from Donji Kraljevac, with a 51% stake. Prior to the acquisition date, the Group held a 16% interest in this company. The value of the existing ownership stake was adjusted to fair value, resulting in a profit of 1.57 million euros, which was recognized within comprehensive income in accordance with the Company's accounting policies.

Cost of acquisition

	EUR'000
Purchase price for 51% ownership stake	6,426

Fair value recognized during acquisition

Fair value of identifiable assets and liabilities of Ferokotao on the acquisition date is:

	EUR'000
Assets	
Intangible assets	34
Land and buildings	6,254
Property and equipment	5,024
Deferred tax assets	1,253
Inventories	4,524
Trade and other receivables	3,742
Cash and cash equivalents	2,415
	23,246
Liabilities	
Deferred tax	394
Total liabilities	10,852
	11,246
Total recognized net assets at fair value	**12,000**

Profit from bargain purchase / goodwill

	EUR'000
Acquisition cost adjusted for premium	6,124
Non-controlling interest	5,876
Total recognized net assets at fair value	(12,000)
Profit from bargain purchase / goodwill	**-**

From the acquisition date (20 December 2023) until the end of the year, that is, 31 December 2023, there were no significant transactions, and the Group used financial information as at 31 December 2023 for calculating the effects of acquiring a controlling interest in Ferokotao Ltd. Therefore, the business effects of this company from the acquisition date until the end of the year are not reflected in the comprehensive income and cash flows of the Group.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

If all acquisitions were carried out on 1 January 2023, the total revenue and profit of the Group would be as follows:

	31.12.2023 EUR'000
Sales revenue until the acquisition date	
Ferokotao Ltd.	20,505
Consolidated revenues of the Group	342,033
Total revenues if the acquisition was conducted at 1.1.2023	**362,538**
Profit until the acquisition date	
Ferokotao Ltd.	1,675
Net profit of the Group	54,007
Total net profit if the acquisition was conducted at 1.1.2023	**55,682**

Methods and assumptions for calculating the fair value of net identifiable assets

Asset/liability item	Valuation technique
Property, plant and equipment	When assessing the value of land, the market approach was used, specifically the method of comparable transactions. This method relies on the assumption that the value of the asset can be determined based on the analysis of recent market purchase prices. For assessing the value of buildings, the income approach was utilized, employing the method of earnings capitalization. This approach is based on the assumption that the value of the asset is the present value of its future cash flows belonging to the owner of the asset. In evaluating the value of a significant portion of plant and equipment, the cost approach was used, applying the method of depreciated replacement cost. This approach assumes that the value of the asset is equal to the costs of reproduction or replacement of the asset, adjusted for depreciation. For assessing the value of vehicles and forklifts, the market approach was used, specifically the method of comparable transactions. This method is based on the assumption that the value of the asset can be determined based on the analysis of recent market purchase prices.
Intangible assets	It mainly consists of software. The fair value of intangible assets corresponds to its book value.
Inventories	The fair value of inventory acquired in a business combination is estimated as follows: • Raw materials – at replacement cost as of the Valuation Date. • Work in progress (WIP) – at the selling price reduced by completion costs, disposal costs, and a reasonable profit margin for completion and sale. • Finished goods and merchandise – at the selling price reduced by disposal costs and a reasonable profit margin
Current receivables and current liabilities	Accounts receivable, other receivables, accounts payable, and other liabilities are estimated at their present value of the amounts expected to be collected, which is determined based on appropriate interest rates, adjusted for impairment allowances and collection costs if necessary. Since these receivables and liabilities are short-term in nature, their fair value is approximately equal to their carrying value.
Financial liabilities	Financial liabilities are valued at their present value of the amounts that will be paid in settlement of obligations determined by the appropriate interest rate. The increase in long-term liabilities upon acquisition results from recognizing deferred tax liabilities as a result of temporary timing differences arising from the initial recognition of acquired net assets at fair value.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

31. Events after the reporting period

Changes in the Company's Management

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

On 31 March 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 a meeting held on 4 March 2024, appointed a new Management Board composed of:

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

Apart from the above, there were no other events after the reporting period and until the approval date of the financial statements that would significantly affect the Company's annual financial statements for the year 2023, which should therefore be published.

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