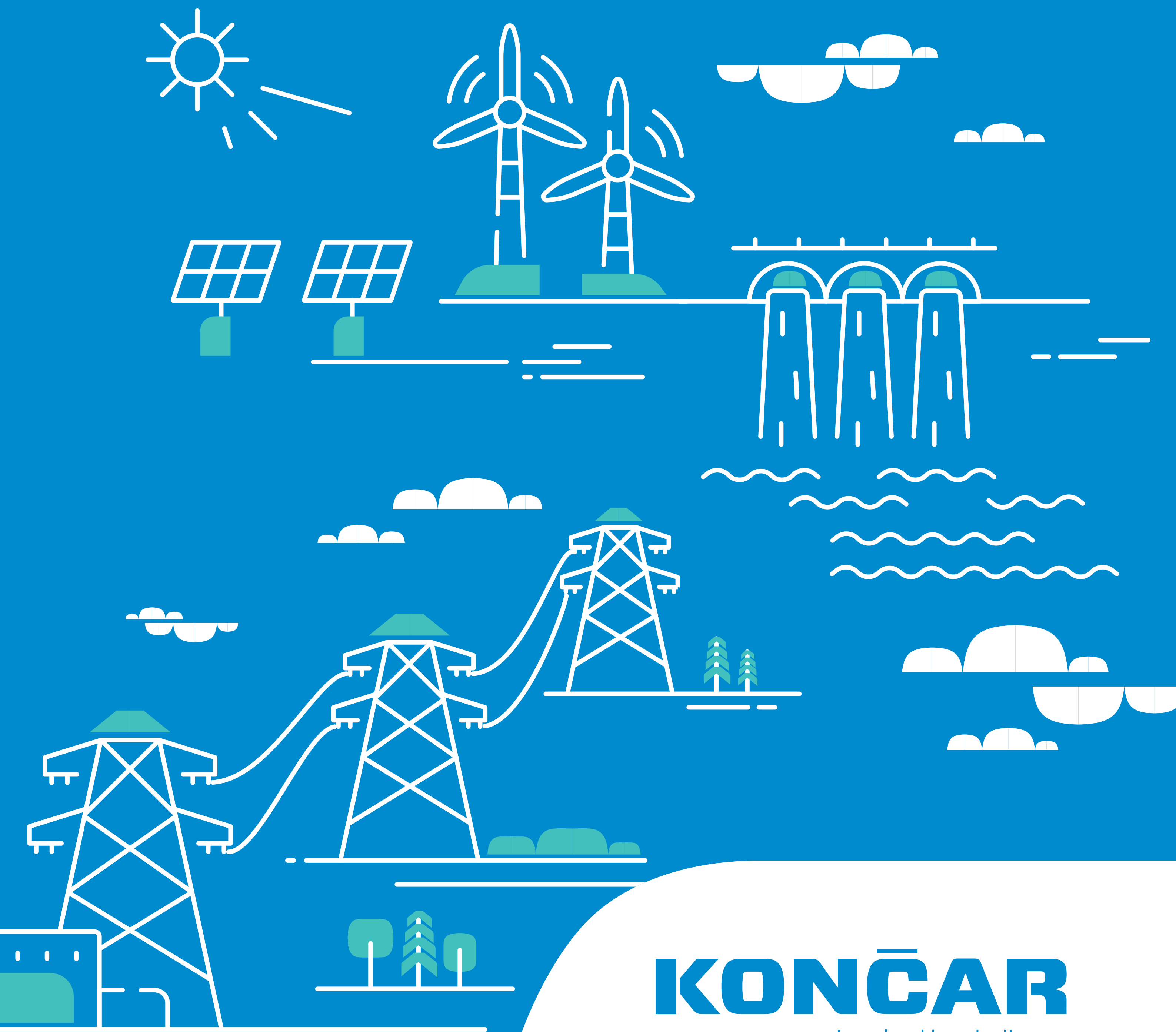
KONČAR Group

CONSOLIDATED ANNUAL REPORT
31 DECEMBER 2023



KONČAR
Inspired by challenge

Contents

KONČAR Group

Consolidated Management Report and Corporate Governance Statement

Key performance indicators

Export	Sales income
+35%	+27%
Order intake	**Order intake in export**
+54%	+81%
Book-to-bill ratio	**Backlog**
1.5	+41%

Compared to 2022
Backlog as at 31 December 2022

Key performance indicators - normalized

EBITDA	EBITDA margin
+77.2%	+3.4 p.p.
EBIT	**EBIT margin**
+102%	+3.7 p.p.
Net profit	**Net margin**
+102.5%	+3.6 p.p.

Compared to 2022

KONČAR: An Overview of Excellence and Innovation

For over a century of excellence, KONČAR has been at the forefront of delivering high-technology products to markets worldwide, showcasing its dynamism, innovative spirit, and competitive edge. Presently, KONČAR is acclaimed as a regional leader in both the energy sector and the manufacturing of rail vehicles.

KONČAR's operational scope spans delivering solutions, products, and services in power generation, power transmission and distribution, rail solutions and infrastructure, and extending to digital solutions and platforms. KONČAR's portfolio encompasses a comprehensive range of advanced technological solutions, covering everything from the initial development, design, and construction phases to the modernization and upgrading of existing infrastructure. This includes manufacturing, state-of-the-art digital control and supervision, maintenance, consulting services, on-site support, and dedicated customer care.

In addition to the Parent Company, the Group includes 12 subsidiaries operating in the core business segments and 3 subsidiaries performing special activities, specifically product research and development, infrastructure services and investments, including Dalekovod Group members. The Group has one associate company in Croatia.

With a workforce exceeding 5200 employees, of which 40% are highly qualified, KONČAR's success is driven by its people - a diverse team ranging from scientists and engineers to technologists and production workers, all contributing to the Group's thriving business.

Statement by Gordan Kolak, President of the Management Board

For KONČAR Group, 2023 was a year of remarkable achievements. Revenue, profit, and profit margin reached all-time highs, while order intake exceeded EUR 1.3 billion in value. The transformational initiatives and efforts undertaken over the past four years, prioritizing responsiveness to market trends and demands, have paved the way for these outstanding outcomes. The green transition in Europe has been gaining full momentum in recent years, a trend we timely recognized and fully leveraged. Swift adjustments in development, manufacturing, and business operations to align with the new electric power era have led to an unprecedented level of order intake.

Key performance indicators have seen growth across all business areas, with the power transmission and distribution segment demonstrating remarkable performance. The sustained high demand for transformers, a key component of KONČAR's product portfolio, has yielded excellent results and reinforced KONČAR's status as a regional leader in the development and production of high-tech solutions essential for advancing the green energy transition throughout the European Union.

Significant advancements have also been achieved in other business areas. In the domain of renewable energy, over the preceding three years, we have finalized agreements for the construction of six solar power plants for a number of partners, with the flagship project being the largest within HEP's portfolio. Our efforts towards green mobility in Europe have been marked by securing contracts to produce 30 new low-floor trams. These are intended for the only two cities in Croatia that operate tramway lines - 20 trams for Zagreb's public transport system and 10 for Osijek. These projects, won in international tenders, hold significant value and serve as a substantial incentive for the entire domestic industry. Alongside our established electric trains, we are actively working on the development and assembly production of both battery-operated and hybrid trains. The digital solutions segment leverages four decades of experience in designing automation solutions for monitoring and managing energy facilities and systems. New milestone was achieved in this segment when the renowned certification company TÜV NORD Adriatic awarded us a certificate of compliance with the latest international standards for cybersecurity in critical infrastructure management systems.

Amidst the positive trends brought by the green transition, the year 2023 was also marked by events that inevitably had an impact on our operations. The global economy has encountered significant geopolitical tensions. The continuing conflict in Ukraine, coupled with the emergence of new disputes in the Middle East and the risk of expansion beyond Gaza and Israel, has further destabilized energy markets. While the pace of inflation slowed in the final quarter of 2023, the economy remains under considerable pressure from rising operating expenses. In these challenging business conditions, KONČAR Group delivered outstanding business results, exceeding the ambitious targets set at the beginning of the year. From the total order intake of EUR 1.31 billion, a significant 76.6% pertains to export activities. The trust and reliability that we have been building up over decades have ensured a substantial influx of new orders, in particular from the advanced markets of Germany, Sweden, Austria, Norway and the Netherlands. There was also growth in order intake in other markets, with particular mention of the United States, where new contracts amounted to EUR 30.9 million. Backlog amounts to EUR 1.42 billion, with emphasis on the fact that the backlog for 2025 and subsequent years is steadily growing, with EUR 465.2 million in secured order intake.

Excellent order intake, expanding backlog and growing income have generated outstanding financial results. Consolidated income generated from the sales of products and services amounts to EUR 894.1 million, representing a year-on-year increase of EUR 190.2 million or 27%. Export constitutes a significant portion, accounting for over 65% of total sales revenue. Year-over-year, income from the sale of goods and services in foreign markets expanded across all markets, with significant revenue growth achieved in the EU market, where export rose by EUR 105.6 million. Export to the European Union countries reaches EUR 418.8 million or 72% of the total export.

Our exceptional sales results drive further profitability expansion. Reported net profit totals EUR 70.9 million, which is 44.3% up on year-on-year, despite the fact that last year's results were impacted by significant one-off items. Normalized net profit amounts to EUR 86.8 million, marking a twofold year-on-year increase. Normalized EBITDA amounts to EUR 107.3 million, marking a year-on-year increase of EUR 46.8 million or 77.2%. Normalized EBITDA margin stands at 12%, compared to 8.6% in the same period last year.

We embark on the new year compelled with optimism and with expectations of good performance. Our goals remain the same - growing the income side and expanding exports income growth, mainly from exports, further investments in equipment and new product development, investment in human resources, lifelong learning and professional development as the imperative for the realisation of strategic goals. Commitment to our customers, pursuit of excellence, fostering innovation, and preserving natural resources remain fundamental to our operations. Our reputation is built upon our dedication to our employees and the community, as well as our efforts to promote a thriving economy and a sustainable society.

mr.sc. Gordan Kolak, M. Sc. Eng.
President of the Management Board

Contents

KONČAR in 2023: Key business milestones

Throughout 2023, the KONČAR Group consistently delivered outstanding business achievements.

The transformational initiatives and efforts undertaken over the past four years, prioritizing responsiveness to market trends and demands, have paved the way for these outstanding outcomes. Alongside financial prosperity, the Group excelled in securing new contracts and efficiently executing numerous projects, marking another year of substantial progress.

New business


New low-floor tram for Zagreb

- ZET Zagreb Electric Tramway and KONČAR - Electric Vehicles signed a contract for the delivery of 20 new low-floor trams.
- In a move to modernize Osijek's tram fleet, KONČAR – Electric Vehicles and Gradski prijevoz putnika Osijek agreed on a deal for new low-floor trams, starting with the delivery of 10 units. The deployment of these trams awaits the completion of Osijek's tram infrastructure modernization, a project involving KONČAR – Engineering.
- Highlighting its market competitiveness, KONČAR – Distribution and Special Transformers secured multiple tenders, surpassing leading European manufacturers of energy transformers, in securing projects for the E.ON Group's branches in Germany and Sweden.
- KONČAR – Engineering embarked on its first project in Tanzania with a contract to overhaul the 220 kV switchyard at the Kidatu Hydro Power Plant, marking a significant entry into the Tanzanian transmission and distribution market.
- KONČAR - Engineering contracted projects with Svenska Kraftnät, the Swedish transmission system operator. The projects are contracted on a turnkey basis and include complex upgrades of the 220 kV Linnvasselv transformer station, as well as the reconstruction of primary equipment, including monitoring and control systems, at seven 220 kV transformer stations near Stockholm.
- A new contract with Joh. Achelis & Sohne GmbH (Bremen, Germany) engages KONČAR – Engineering in the partial rehabilitation of the Ruzizi 2 Hydro Power Plant in Congo.
- The collaboration between KONČAR – Engineering and HEP – Production on the Dugopolje solar power plant design and construction promises a significant boost in renewable energy, with an installed capacity of 13.54 MW and an expected annual output of 17.2 million kWh, powering approximately 6,000 households.
- Essential to the Bosnian and Herzegovinian and regional power systems, KONČAR – Engineering undertakes the reconstruction of TS 400/x kV Mostar 4 and RP 220 kV Mostar 3, affirming its strategic role in enhancing regional energy infrastructure.
- At the international tender organised by the Electricity Transmission System Operator of North Macedonia, KONČAR - Switchgear was selected to deliver 120 units of next-generation high-voltage 123 kV disconnectors, which will be installed in the substations of Skopje 1, Skopje 3, Štip, and Bitola 1.
- KONČAR – Digital HŽ Infrastructure signed an agreement for new IT system for the organization and regulation of railway traffic and access to railway infrastructure.
- KONČAR – Generators and Motors entered into a contract with Verbund, Austria's leading electricity company, for the comprehensive revitalization of two hydropower plants located on the German-Austrian border. Within the scope of the Egglfing - Obernberg project, KONČAR - Generators and Motors will manufacture a total of six completely new generators, while within the scope of the Braunau - Simbach project it will revitalize four generators and manufacture new stators and rotor poles.
- KONČAR – Digital was selected by the County of Karlovac to provide maintenance services for the remote metering and monitoring system. This task is part of the international project STREAM, which represents the strategic development of flood defense systems. As part of the project, KONČAR – Digital is delivering a flood defense monitoring system based on KONČAR's digital platform MARS.
- KONČAR - Generators and Motors contracted two new projects for key customers in the Swedish market. With the company Fortum Sverige, the project includes the revitalization of both generators with an increase in power to 7.8 MVA at the Hermansboda hydropower plant. The second agreement, with the company Sydkraft Hydropower AB (Uniper), comprises the revitalization of Generator 2 at Gulsele hydropower plant (HPP), with rated power of 29.4 MVA.
- KONČAR - Instrument Transformers has secured two new long-term contracts with the Czech national transmission system operator, ČEPS, for the supply of 174 high-voltage transformers rated at 245 and 420 kV.


HPP Egglfing-Obernberg, Germany/Austria

Significant delivered and realised agreements


Medium power transformer, 100 MVA

- KONČAR - Distribution and Special Transformers manufactured two medium power transformers with 100 MVA rated power, for the Cerca-Paul da Ota Solar Power Plant in Portugal, as part of their collaboration with a Spanish partner on renewable energy projects across Europe.
- KONČAR – Engineering finalized the reconstruction of the 110 kV setup within the 110/20 kV Rakitje substation. The reconstruction of this vital transformer station, integral to the transmission grid around Zagreb, was necessitated by its obsolete equipment, which had been in service for over six decades.
- The new Dam Monitoring and Dispatch Centre was commissioned for the Albanian power utility, representing KONČAR – Engineering's inaugural venture into establishing such facilities beyond Croatian borders.
- The revitalization of the Momina Klisura hydropower plant in Bulgaria was successfully completed. This effort is part of a broader project to revitalize three power stations, a venture KONČAR undertook in consortium with ČKD Blansko and RUDIS Trbovlje.
- KONČAR – Engineering completed the revitalization of the Vacha-1 hydropower plant in Bulgaria for the Bulgarian power utility.
- KONČAR - Engineering completed activities in El Salvador as part of the El Chaparral hydro power plant construction project. This hydropower plant comprises two generating units, each with 36 MVA rated power, and one auxiliary unit rated at 1.5 MVA. Additionally, two switchyard sections of another hydropower plant were supplied and commissioned, connecting the El Chaparral power plant to a 115 kV transmission line.
- KONČAR - Motors and Electrical Systems delivered the largest centrifugal fan of the VARSK 1250ZM with a high-efficiency electric motor IE3 type H7AZ 200L-4 to ABS Sisak.
- At the Borgforsen hydropower plant in Sweden, KONČAR Generators and Motors completed the project for the revitalization and power increase of the second generator for the Swedish company Sydkraft Hydropower AB (Uniper).
- For the new waste-to-energy facility up to 60 MW in Berkshire, UK, KONČAR - Distribution and Special Transformers delivered a medium voltage 70 MVA, 33/15 kV power transformer. The transformer is filled with Midel 7131 ester - an eco-friendly insulating liquid.
- KONČAR – Metal Structures delivered two projects to a transformer tank customer, the Dutch Royal SMIT Transformers. The projects involve large-mass and large-dimension components involving almost 1200 shipping segments, which require exceptionally complex trial assembly.
- The solar power plant with a capacity of 10.3 MW, constructed by KONČAR - Engineering for INA, has commenced its trial operation in Virje. The power plant utilized cutting-edge technological solutions, incorporating KONČAR's PROZA NET platform, which serves as the central component of the plant's digitalization efforts. Additionally, KONČAR completed the construction of the Sisak power plant for the same client.
- KONČAR – Steel Structures delivered a transformer tank to the end user, French utility EDF via its Dutch customer, Royal SMIT Transformers. Special certified materials were utilized in the manufacturing and strict inspections were conducted according to the Inspection and Test Plan.
- At KONČAR - Electrical Engineering Institute, the Laboratory centre carried out thermal stability testing of an 800 kV oil-SF6 transformer conductor for a long-standing customer from Sweden. This represents a significant advancement in high-voltage testing and serves as a valuable reference, further enhancing the global recognition of the Institute.
- A new regional passenger train, manufactured by KONČAR - Electric Vehicles (KEV) as part of the Croatian Railways Passenger Transport (HŽPP) fleet renewal project featuring new electric motor trains, has commenced regular service to Sisak. This marks the debut of the first regional train out of ten under the purchase contract for 21 electric motor trains, of which KEV has already supplied all 11 designated for urban and suburban traffic.
- Dalekovod has successfully completed the 400 kV Barsebäck-Sege project near Malmö in Sweden, which involved works on a 28-kilometer-long transmission line. During the 52-day outage, carried out in two stages, a total of 78 existing towers were removed, new foundations were built, towers were assembled and erected, and electrical installation works were completed. All old components were carefully removed, and the terrain was restored to its original condition with a special emphasis on environmental protection and the preservation of flora and fauna.
- KONČAR - Digital, in collaboration with the Faculty of Electrical Engineering and Computing at the University of Zagreb, successfully completed a significant IRI project focused on developing a Platform for intelligent and energy-efficient management of industrial IoT devices.


Barsebäck-Sege transmission line, Sweden

Sustainable business

- The Group has continuously reported on CSR activities since 2006 in the annual Corporate Social Responsibility Report. In all business operations, KONČAR is committed to UN Global Compact principles and integrates eight Sustainable Development Goals (SDG 4, 5, 7, 8, 9, 11, 12 and 13) and reports on them in line with GRI.
- KONČAR Group companies use ZelEn product i.e., energy produced solely from renewable sources, offered by HEP - Opskrba. Rational energy consumption, application of environmentally friendly technologies and materials suitable for recycling, use of energy generated exclusively from renewable sources, as well as promotion of environmental awareness among employees and suppliers are encouraged through the Environmental Policy. The Group has also implemented Sustainability Policy and HSEQ Policy.
- Ongoing innovation serves to create and add value to the customers and to unlock better performing solutions and low-carbon products.
- To enhance quality and productivity, KONČAR - Motors and Electrical Systems completed an investment in a new semi-automated paint shop, with the aim of improving quality and productivity, meeting the increasingly rigorous customer requirements in terms of corrosion protection, aesthetics and special RAL colours. The investment will also strengthen compliance with all international guidelines and environmental standards.
- KONČAR - Distribution and Special Transformers commissioned its own integrated photovoltaic power plant with a connected capacity of 1.1 MW. The plant is expected to generate 1,456.16 MWh annually, meeting up to 35% of electricity demand. As a result, it will contribute to reducing CO_2 emissions by about 35%, equivalent to approximately 480,532.80 kg of CO_2 per year.
- KONČAR - Generators and Motors, as well as KONČAR - Motors and Electric Systems, commissioned their photovoltaic power plants. Plans are underway for additional photovoltaic projects across six other KONČAR entities.

Additional Milestones and Acknowledgements

- KONČAR marked its 102nd anniversary by inaugurating a new laboratory for large electrical machines and drives (LAVESP), which operates within the KONČAR Laboratory Center – Institute for Electrical Engineering.
- The Republic of Croatia awarded KONČAR a Charter in recognition of its contributions to the country's development and prestige.
- KONČAR – Institute of Electrical Engineering was awarded with the Croatian Sustainability Index (HRIO) in the category of medium-sized companies for the best integration of sustainability principles and socially responsible practices.
- As a co-organizer of the CIGRE Study Committee on Transformers and Reactors and the 6th International Colloquium on Transformer Research and Asset Management (ICTRAM), KONČAR welcomed over 330 experts from 31 countries. Out of 104 submissions, 26 papers from KONČAR contributors were accepted and showcased, underlining KONČAR's readiness to meet upcoming challenges and changes with its innovation and expertise.
- At the conference Corporate Governance and Sustainable Business - the Roadmap to Climate Transition organized by HANFA, KONČAR was awarded for the Best Compliance with the Corporate Governance Code in 2022, in the category of companies listed in the Official Market of the Zagreb Stock Exchange.

Appointment of the Management Board

At the Supervisory Board meeting held on December 6, 2023, a resolution was adopted regarding the appointment of the Management Board that will lead the company during the four-year term effective from 21 January 2024. Gordan Kolak was appointed President of the Management Board. Incumbent Members of the Management Board Miki Huljić and Josip Lasić were re-appointed to a new term. Joining the Management Board are Petar Bobek, formerly serving on the Management Board of KONČAR – Distribution and Special Transformers, the most successful company in KONČAR Group, and Ivan Paić, who held the position of Vice President for Project Sales at Schneider Electric, overseeing sales activities worldwide.

„At the proposal of the Members of the Supervisory Board representing the majority Shareholders, we unanimously appointed the Management Board that will lead KONČAR for a four-year term effective from 21 January 2024. We expect the incoming Management Board to deliver further growth across all business segments and continue the investment cycle that will enhance the technological standards of manufacturing facilities, essential for sustainability in the global market", said Joško Miliša, Chairperson of the Supervisory Board.

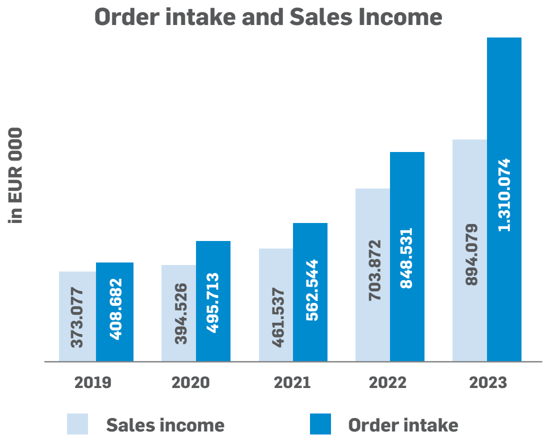
The incumbent Management Board, led by Gordan Kolak, has initiated a series of activities and changes over the past four years which doubled the revenue, led to a tenfold increase in profit, and resulted in new order intake exceeding EUR 1 billion in 2023. Good business results have reflected on the share price, which has more than doubled. The Supervisory Board thanked the outgoing Members of Management Board Ivan Bahun, Josip Ljulj and Božidar Poldrugač on their contribution to the successful performance and outstanding results achieved by the Company.

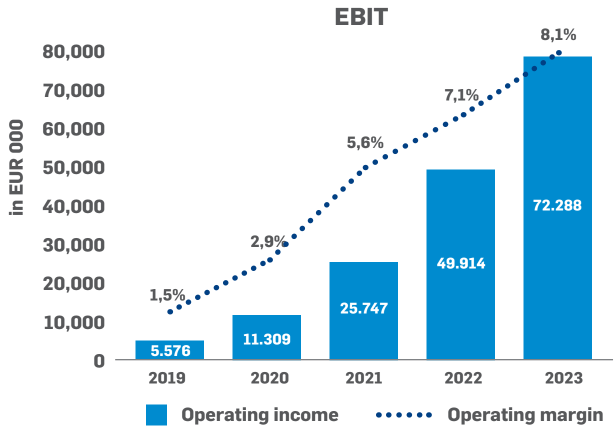
"I expect the new Management Board to carry on the tradition of success, focusing our efforts on delivering continued growth and development of KONČAR Group. I am confident that the upcoming period, marked by intensification of the green transition across the European Union and the broader European region, represents a historic opportunity for KONČAR. This is also an opportunity for Croatia to make an economic breakthrough which, in the times ahead, will significantly shape our national image and position within the European economic landscape", said Gordan Kolak, President of the Management Board.

Key performance indicators highlighting KONČAR Group operations in 2023

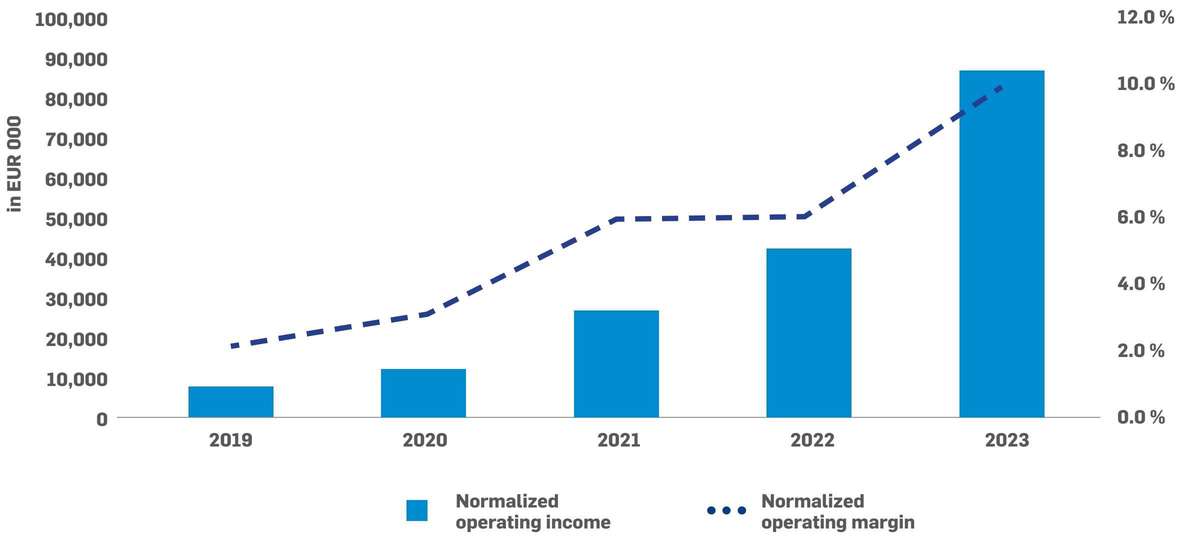
	KONČAR GROUP						
	2019	2020	2021	2022	2023	2023/2022	CAGR
in 000 eur	1	2	3	4	5	6	2023/2019
Operating income	**381,842**	**401,655**	**471,731**	**725,260**	**908,029**	**25.2%**	**24.2%**
Sales income - total	373,077	394,526	461,537	703,872	894,079	27.0%	**24.4%**
Sales income - export	219,055	245,483	273,772	430,543	579,149	34.5%	**27.5%**
Operating expenses	**376,266**	**390,346**	**445,984**	**675,346**	**835,741**	**23.8%**	**22.1%**
EBIT	5,576	11,309	25,747	49,914	72,288	44.8%	**89.8%**
Operating margin	1.5%	2.9%	5.6%	7.1%	8.1%		
Net profit	6,908	16,932	28,056	49,128	70,902	44.3%	**79.0%**
Net margin	1.9%	4.3%	6.1%	7.0%	7.9%		
Normalized net profit	9,676	18,004	30,122	42,853	86,782	102.5%	**73.1%**
Net margin normalized	2.6%	4.6%	6.5%	6.1%	9.7%		
Depreciation and amortization	12,142	12,947	12,912	16,906	19,136	13.2%	**12.0%**
EBITDA	**17,718**	**24,255**	**38,659**	**66,820**	**91,424**	**36.8%**	**50.7%**
EBITDA margin	4.7%	6.1%	8.4%	9.5%	10.2%		
EBITDA normalized[1]	20,486	25,327	40,724	60,545	107,304	77.2%	**51.3%**
EBITDA normalized margin[1]	5.5%	6.4%	8.8%	8.6%	12.0%		
Order intake	**408,682**	**495,713**	**562,544**	**848,531**	**1,310,074**	**54.4%**	**33.8%**
Backlog[2]	**462,566**	**563,752**	**661,901**	**1,006,543**	**1,422,538**	**41.3%**	**32.4%**
Book-to-bill ratio	1.10	1.26	1.22	1.21	1.47		

EBITDA normalized[1]: EBITDA less the asset sale income, loss compensation income, one-off effects of bargain purchase and increased by value adjustment of non-current and current assets and net effect of provisions.
Backlog[2]: as at 31 December

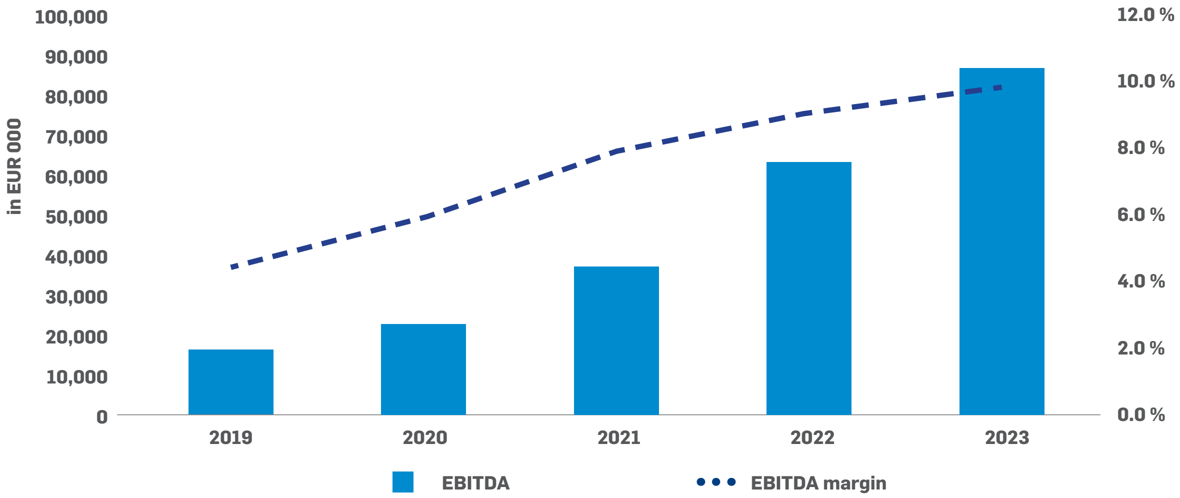




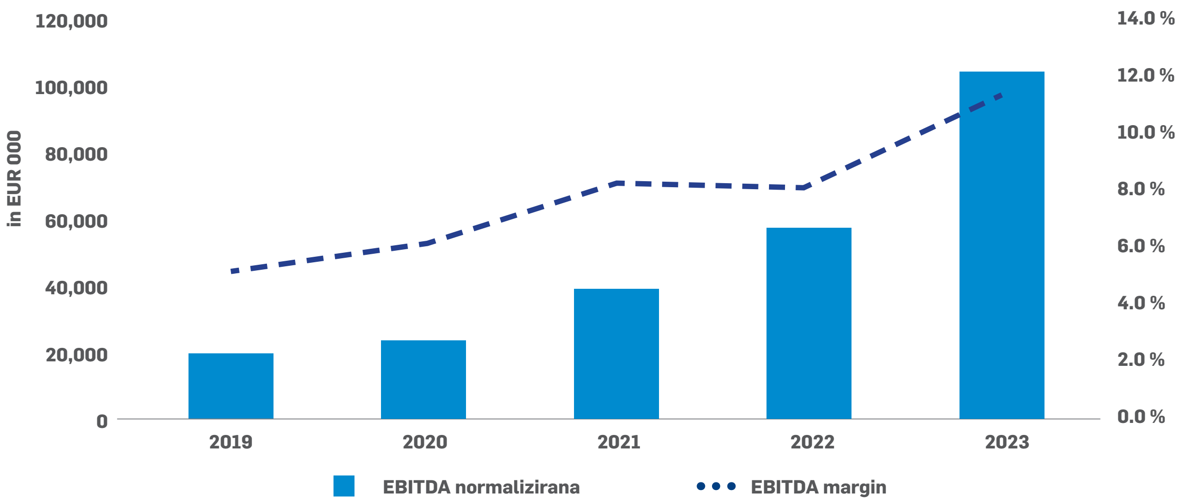
EBIT normalized



EBITDA



EBITDA normalized



Group performance

Operating income

In 2023 KONČAR realised total operating income in the amount of EUR 908 million, which represents an increase of EUR 182,8 million or 25.2% year-on-year. With reference to operating income:

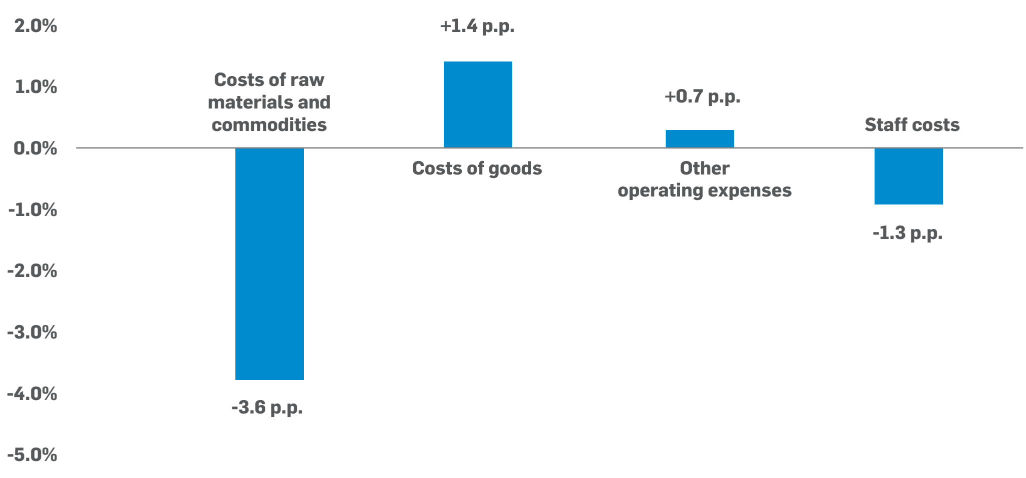
- Consolidated income generated from the sales of products and services amounts to EUR 894.1 million, representing a year-on-year increase of EUR 190.2 million or 27%.
- Other operating income amounts to EUR 13.2 million, representing a year-on-year decline of EUR 3.8 million. Throughout 2022, in other operating income item, the most significant amount pertains to a one-off item related to the sale of assets not in the function of core business, loss compensation income, other provisions and considerable badwill (negative goodwill). In 2023, the most significant part of other income was generated from the profits realized from the sale of non-operating assets, loss compensation income, and badwill from acquisitions. Additional income sources included adjustments to inventory valuations, material sales, lease income, inventory surpluses, and related revenues.
- Financial income amounts to EUR 3.3 million, representing a year-on-year increase of EUR 1.2 million.

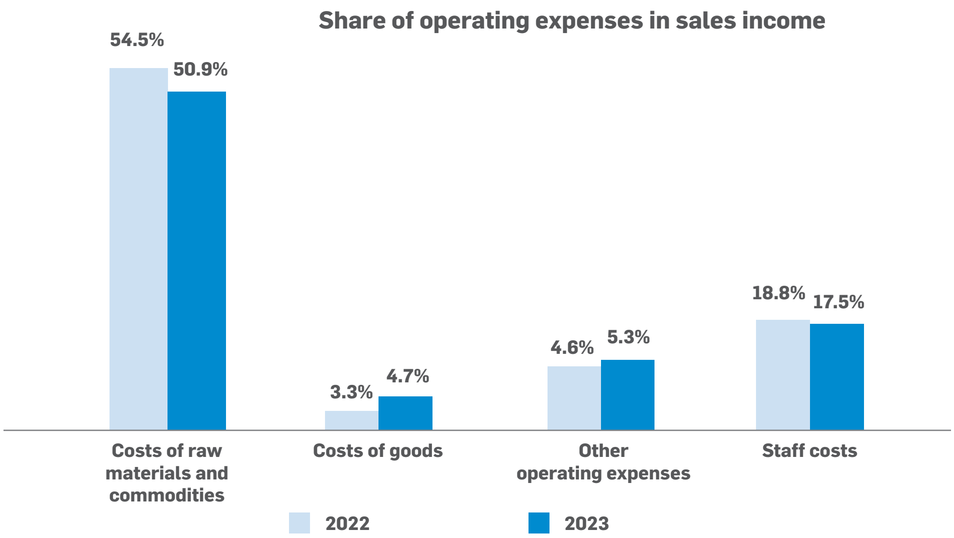
Operating expenses

Operating expenses amounted to EUR 835.7 million, reflecting a 23.8% year-on-year increase. With reference to operating expenses:

- Material costs (cost of raw materials and commodities, costs of goods sold and other external costs) amount to EUR 621.3 million, marking a year-on-year increase of EUR 122.2 million (24.8%). The share of material costs in sales income, adjusted for inventory value changes, amounts to 67.4%, representing a decrease of 2.1 percentage points compared to the previous year. There is a noticeable downward trend observed in raw material and material prices compared to 2022. Raw materials and commodities account for 50.9% of the sales revenue, down by 3.6 percentage points on the comparable period previous year. Costs of goods sold rose to 4.7% from 3.3% in 2022.
- Staff costs amount to EUR 161.9 million, representing a year-on-year expansion of EUR 27.2 million or 20.2%. The share of staff costs in sales revenue amounts to 17.5%, down by 1.2 percentage points compared to the performance in 2022. With respect to the period Jan-Dec 2022, other operating expenses increased by EUR 17.5 million and amount to EUR 50.6 million. Other operating expenses pertain to daily subsistence allowance for missions, booking effect, intellectual services, insurance premiums, banking services, representation, non-production services and other.

Cost trends





Share in profit of associates

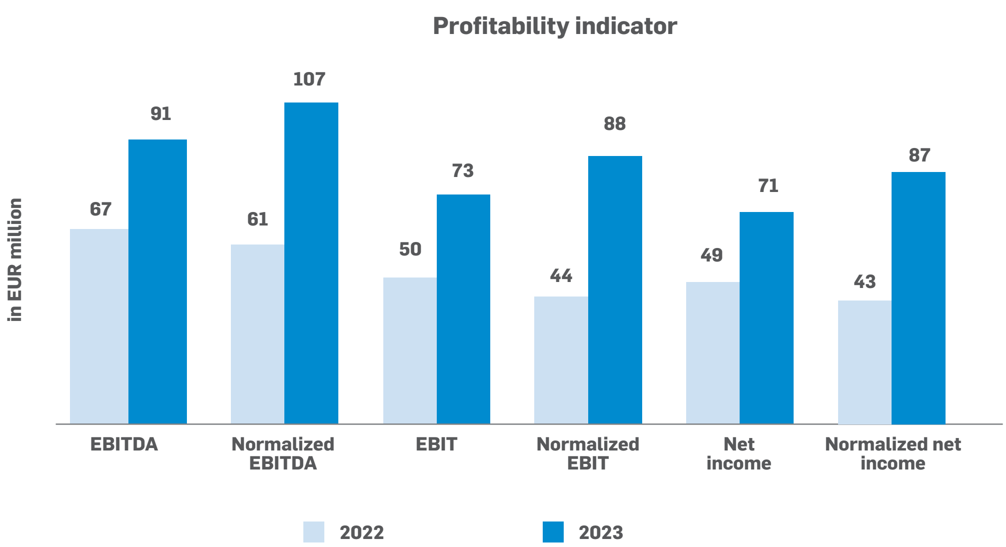
The associate company realized EUR 20.9 million in profits, marking a significant improvement compared to the 2022 performance, which amounted to EUR 2.3 million. Using the equity method, the total share of profit/loss from associate companies and joint ventures amounts to EUR 13.3 million representing a year-on-year increase of EUR 10 million.

Operating profit, EBITDA, Net profit

Our exceptional sales results drive further profitability expansion.

- Operating profit (EBIT) for the reporting period stands at EUR 72.3 million, which represents a 44.8% increase year-on-year. Operating margin is higher by 1p.p. and amounts to 8.1%.
- Reported net profit totals EUR 70.9 million, which is 44.3% up on year-on-year, despite the fact that last year's results were impacted by significant one-off items. Normalized net profit amounts to EUR 86,8 million, marking a twofold year-on-year increase.
- EBITDA amounts to EUR 91.4 million, representing an expansion of EUR 24.6 million compared to 2022. EBITDA margin is 10.2% (in 2022 it stood at 9.5%). Normalized EBITDA amounts to EUR 107.3 million, reflecting a year-on-year increase of EUR 46.8 million or 77.2%. Normalized EBITDA margin is 12.0% (it amounted to 8.6% in 2022).

Normalized indicators are calculated by deducting the net effect of provisions, asset sale income, loss compensation income, income from transactions related to acquisitions of companies and increased by impairment of non-current and current assets.



Assets and liabilities

As of 31 December 2023, the total asset value of the Group amounted to EUR 1,019.4 million, an increase of EUR 217.9 million or 27.2% compared to the position as at 31 December 2022. The total equity and reserves for the period amount to EUR 531.0 million, which represents an increase of EUR 70.5 million as at 2022 year-end, and is the result of the realized net profit for the reporting period and the distribution of profits for 2022 pursuant to the Resolution of the General Assembly.

As of 31 December 2023, the total current and non-current liabilities owed to banks and other financial institutions amounted to EUR 88,7 million, marking an increase of EUR 2.3 million compared to the balance as at 31 December 2022. The credit portfolio primarily consists of long-term loans at fixed interest rates, effectively reducing the risk associated with fluctuating interest rates. Furthermore, most of the Group's cash inflows, as well as the entire credit portfolio, are denominated in euros, substantially minimizing the exposure to currency risk. As of 31 December 2023, the Group's cash balance stood at EUR 153.8 million, representing an increase of EUR 96.6 million or 168.6% compared to the position as at 31 December 2022.

Net debt

Net debt-to-EBITDA ratio measures the net debt level in relation to the results KONČAR Group realized and this indicator reflects the Group's ability to service its financial liabilities.

in EUR 000	31/12/2022	31/12/2023	Δ
Non-current liabilities for loans	46	46	0
Non-current liabilities to banks and other financial institutions	25,608	35,206	9,598
Non-current liabilities for future lease payments	625	688	63
TOTAL Non-current liabilities	**26,279**	**35,940**	**9,661**
Current liabilities for loans		10	10
Liabilities to banks and other financial institutions	58,168	51,257	-6,911
Interest payable	667	1,210	543
Current liabilities for future lease payments	328	336	8
TOTAL Current liabilities	**59,163**	**52,813**	**-6,350**
TOTAL DEBT	**85,442**	**88,753**	**3,311**
Cash	57,263	153,823	96,560
Current financial assets	2,983	536	-2,447
NET DEBT	**25,196**	**-65,606**	**-90,802**
Net debt / EBITDA normalized	**0.4**	**neg**	

Current ratio

Current ratio indicates that the Group liquidity ratio is sound and that the Group is able to service its current liabilities from its current assets.

in EUR 000	31/12/2022	31/12/2023	Δ
Current assets	538,857	706,014	167,157
Current liabilities	285,263	413,781	128,518
Current ratio	**1.9**	**1.7**	

Working capital

- Working capital is down by EUR 59.8 million or 23.9% as at fiscal year-end, driven by strong expansion of operating cash flow
- Inventory increased by 16.4%, which is driven by surging order intake and liabilities towards customers. The inventory of raw materials and supplies decreased, while the amount of finished goods and work-in-progress inventories increased
- Trade receivables grew by EUR 37.3 million
- Contractual obligations, deferred income, and other liabilities increased by EUR 114,8 million. There was a significant increase in advances received from customers (up by EUR 85.6 million compared to the position as at 31 December 2022)

in EUR 000	31/12/2022	31/12/2023	Δ
Inventories	189,457	220,534	31,077
Trade receivables	240,461	277,773	37,312
Other receivables	46,628	53,302	6,674
Assets	**476,546**	**551,609**	**75,063**
Trade accounts payable	118,394	138,438	20,044
Contractual obligations, deferred income, other liabilities	107,708	222,484	114,776
Liabilities	**226,102**	**360,922**	**134,820**
Working capital	**250,444**	**190,687**	**-59,757**

Cash flow

Cash balance at the close of 2023 showed a significant uplift, rising by EUR 96.6 million year-on-year.

This was underpinned by robust growth in operating cash flow, with an increase in cash receipts from operating activities amounting to EUR 336.6 million compared to the previous year's end.

in EUR 000

Cash flow from operating activities	2022	2023	Δ
Cash receipts from operating activities	662,809	999,365	336,556
Other cash payments from operating activities	-697,613	-844,447	-146,834
Net cash flow from operating activities	**-34,804**	**154,918**	**189,722**
Net cash flow from investment activities	28,379	-17,714	-46,093
Net cash flow from financing activities	7,436	-40,644	-48,080
Cash and cash equivalents at beginning of the reporting	56,252	57,263	1,011
Cash and cash equivalents at end of the reporting	**57,263**	**153,823**	**96,560**

Investment cycle

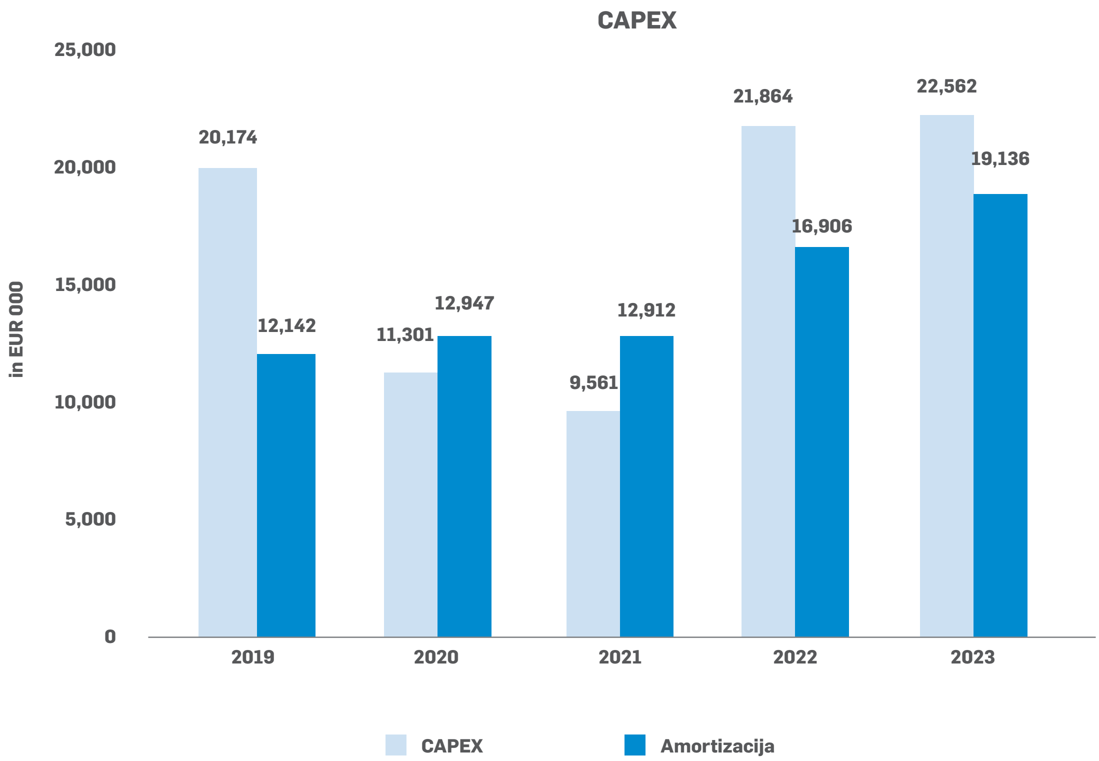
Throughout 2023, the ongoing investment cycle was mainly directed towards enhancing production capabilities and advancing digital transformation efforts. Capital expenditures (CAPEX) on tangible and intangible assets reached EUR 22.6 million.

Energy transition and green CAPEX have led to investments aimed at improving energy efficiency and working conditions, notably through investments in photovoltaic power plants and the use of renewable energy sources. Alongside an integrated photovoltaic plant installed at the manufacturing facilities in Jankomir – Zagreb, two more factories were equipped with photovoltaic power plants in 2023. These investments will further drive KONČAR's energy independence, and result in significant financial savings in overhead costs, while reducing CO_2 emissions. Projects aimed at reducing carbon footprint position KONČAR among manufacturing companies that apply the principles of the circular economy in their operations.

Over the past five years, KONČAR has committed a total of EUR 85.5 million to various investment initiatives, encompassing:
- Investments in product innovation, technological advancements, and enhancing production capacities to meet sales objectives.
- A considerable share of this investment pertain to acquiring new machinery and equipment, boosting energy efficiency, and procuring tools for the newly established laboratory in the Laboratory Center.
- Upgrades to the manufacturing and storage capacities of KONČAR – Distribution and Special Transformers, KONČAR – Electric Vehicles, and KONČAR – Instrument Transformers.
- Activities on the construction of the Laboratory (LAVESP) at KONČAR - Electrical Engineering Institute
- Significant investments in manufacturing equipment for KONČAR – Generators and Motors and KONČAR – Metal Structures.
- Development of components and systems for battery-operated and hybrid trains.
- Investments in photovoltaic power plants across multiple factories, leading to significant financial savings in overhead costs.

Investment in research and development is recognized as long-term investment with the aim of creating sustainable and profitable business and building up new competencies, which will contribute to the stability and further growth of KONČAR Group.

The investment cycle amounting more than EUR 63 million will continue throughout 2024.



Market position

Consolidated income generated from the sales of products and services amounts to EUR 894.1 million, representing a year-on-year increase of EUR 190.2 million or 27%.

Revenue generated in the domestic market amounts to EUR 314.9 million, which is EUR 41.6 million or 15.2% upturn on 2022. The share of sales revenue realized in the domestic market continues to shrink and accounts for 35% in the reporting period.

In the structure of revenue generated from sales in the domestic market, revenue from the sale of goods and services to HEP Group companies amounts to EUR 110.5 million (12.3% of total revenue from the sale of goods and services). Year-over-year, revenue generated from the sale of goods and services to HEP increased by EUR 3.9 million.

Revenue from the sale of goods and services to HŽ Passenger Transport, HŽ Infrastructure and Rolling Stock Technical Services amounts to EUR 69.7 million (7.7% of the total sales revenue). Sales realization remains roughly on the same level year-on-year.

Revenue generated from the sale of goods and services in foreign markets outperforms 2022 realization. Exports amount to EUR 579.1 million, which is EUR 148.6 million or 34.5% surge year-on-year.

In the total revenue from sales of products and services, the share of exports increased by 3.6 percentage points year-on-year, reaching 65% in 2023.

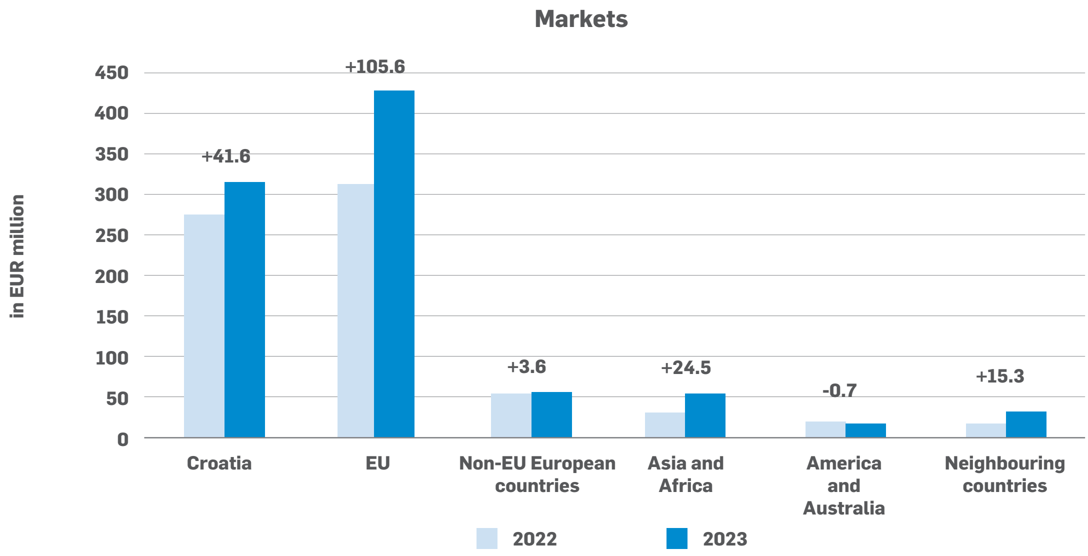
By country, export volume delivered to the German market continues to rise sharply, reaching EUR 109.2 million, or 18.6% of the total export. Goods and services exported to Sweden amount to EUR 86.9 million (14.8% of the total export), followed by Austria with EUR 35.8 million (6.1% of the total export).

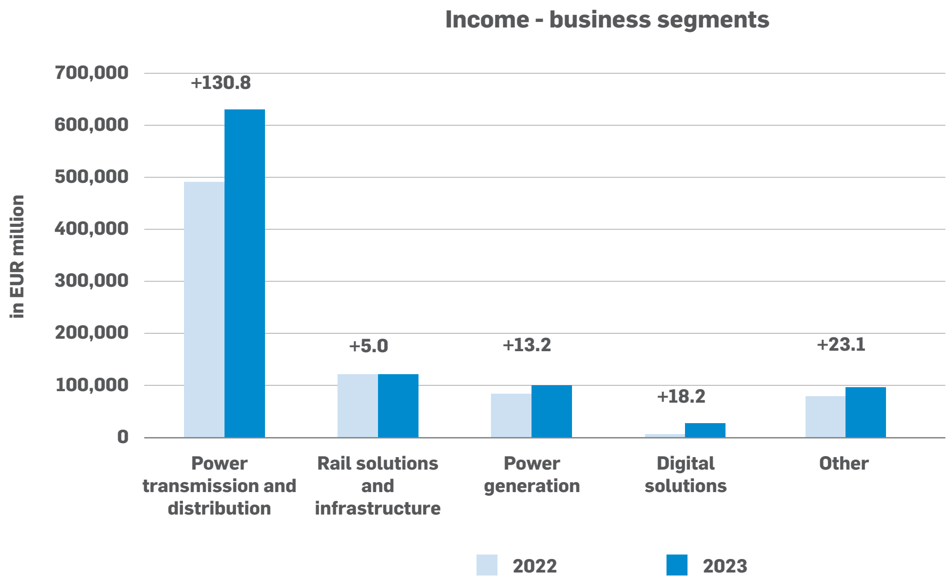
Year-over-year, goods and service export revenue expanded across all markets. The most significant growth in exports was realised in the EU market with an expansion of EUR 105.6 million. Export to the European Union countries reaches EUR 418.8 million or 72.3% of the total export.

In 2023, the segment of electricity transmission and distribution witnessed the most substantial increase in sales revenue. Influenced by the green transition and a surge in electricity demand, the global transformer market saw significant growth. This was further bolstered by the increased adoption of renewable energy sources and a heightened demand for energy-efficient, high-quality equipment for power transmission. Swift adaptation to market trends, extensive experience, and a well-established global reputation enabled companies, especially KONČAR – Distribution and Special Transformers, to achieve remarkable results in 2023. Sales revenue in the transmission and distribution segment rose by EUR 130.8 million year-over-year.

Revenue growth was also recorded across other business segments. Power generation segment saw an increase of EUR 13.2 million, digital solutions grew by EUR 18.2 million, and the rail vehicles and infrastructure segment by EUR 5.0 million.

In 2023 order intake in foreign markets continued to expand significantly, which created conditions for further export growth in the upcoming period.





Order intake and backlog

In Q4 2023, the trend of excellent new order intake persisted, with new contracts totalling EUR 269 million. New order intake amounted to EUR 1,310.1 million in 2023.

Year-over-year, order intake surged by EUR 461.5 million (comparable period in 2022: EUR 848.5 million).
Book-to-bill ratio for the period Jan - Dec 2023 is 1.5.

A considerable improvement in order intake continues to be recorded in the companies operating in the power transmission and distribution segment, with KONČAR - Distribution and Special Transformers and KONČAR - Instrument Transformers outperforming on their plans. In most other companies, there was a significant rise in new order intake, with Dalekovod, KONČAR – Electric Vehicles, KONČAR – Steel Structures, KONČAR - Digital, and KONČAR – Switchgear showcasing particularly robust performance.

The order intake for export markets in 2023 exceeds EUR 1 billion (EUR 1,004.0 million), comprising 76.7% of the total order intake.

On the domestic market, the order intake amounted to EUR 306.0 million, the most meaningful volume in the amount of EUR 113.5 million pertains to the agreements with HEP Group. HEP accounts for 8.6% of the total new order intake.

More prominent new orders in the domestic market include the Procurement Agreement with Gradski prijevoz putnika Osijek, for new low-floor trams for the purpose of modernization of the tram fleet in Osijek. The Agreement will see the delivery of 10 new low-floor trams within the project The application of green technologies in railway passenger transport included in the 2021 - 2026 National Recovery and Resilience Plan (NRRP), with the completion and delivery deadline of 24 months from the agreement signing.

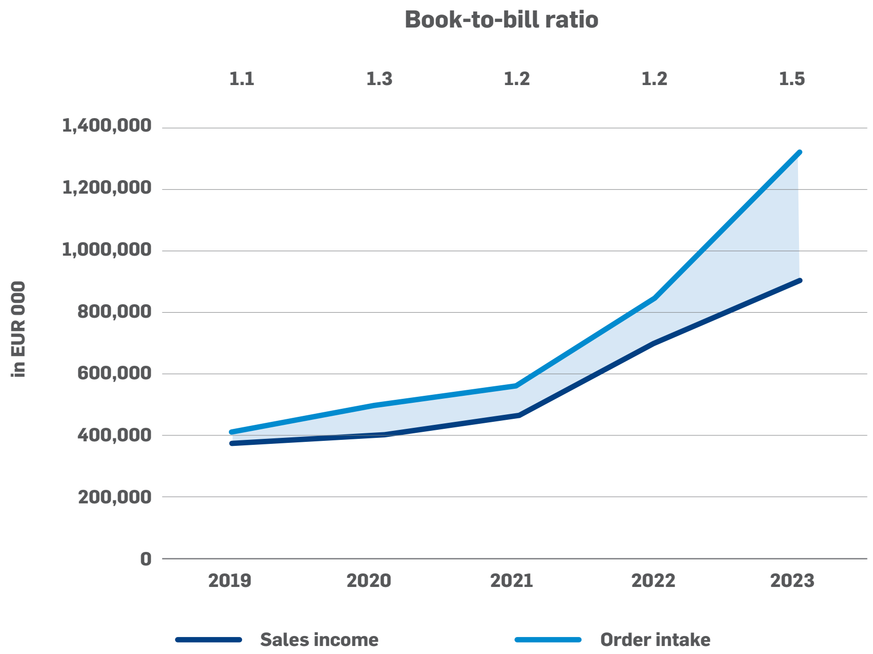
From the order intake on the domestic market in 2023, it is noteworthy to mention the order for tram delivery to ZET, Dalekovod's contract with HOPS. Furthermore, HŽ Infrastructure and KONČAR – Digital signed an agreement for new IT system for the organization and regulation of railway traffic and access to railway infrastructure.

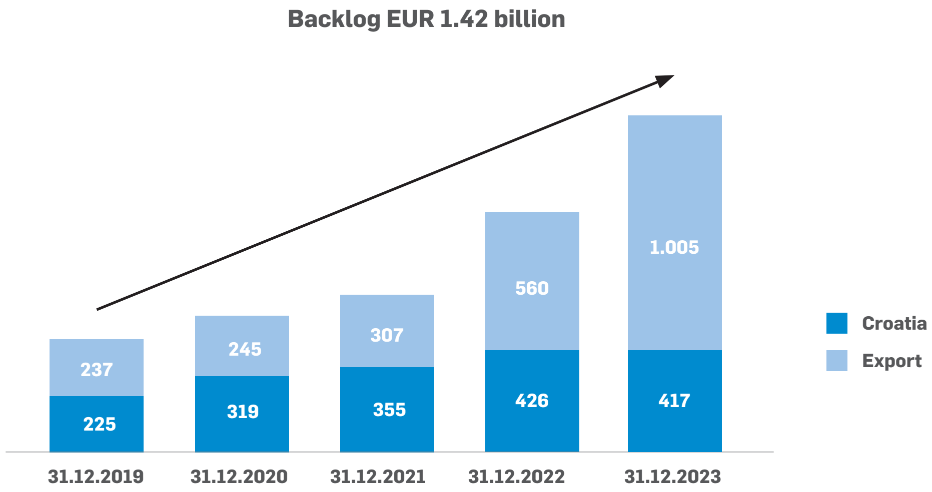
Of the total order intake in foreign markets, the majority pertains to the European Union countries, amounting to EUR 765.5 million, which is EUR 380.2 million upturn on the comparable period in 2022. The EU market accounts for 76.2% of the total order intake. Year-over-year, order intake expanded across all other markets, most notably in the American and Australian markets, where EUR 44.4 million was contracted (EUR 21.0 million rise on 2022). The most meaningful advancement was achieved in the USA, with EUR 30.9 million in new order intake.

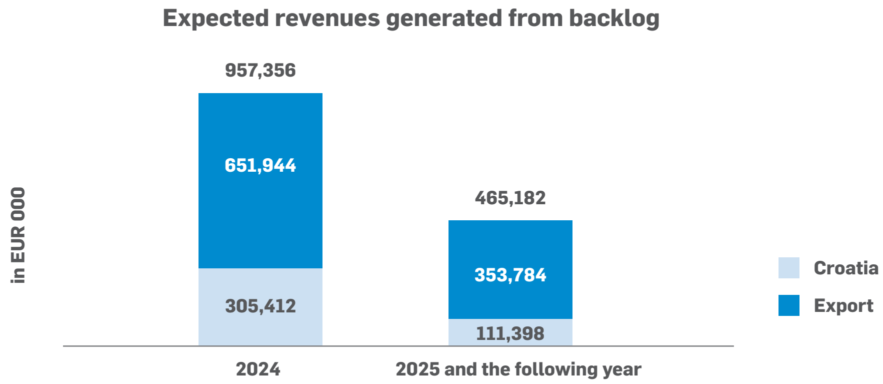
Broken down by countries, the most significant order intake volume pertains to the German market, in the amount of EUR 235.5 million. Book-to-bill ratio in the German market is significantly high and stands at 2.2. Another market in terms of order volume is Sweden, with EUR 158.2 million in order intake, followed by the Austrian market with EUR 77.9 million and the Netherlands with EUR 40.4 million.

The status of order intake, backlog, as at 2023 year end amounts to EUR 1,422.5 million, representing a 41.3% increase compared to the value at year start. Backlog at the end of the year is up by EUR 416 million year-on-year (EUR 1,006.5 million as at 31 December 2022).

In the balance of open liabilities, orders for realization in 2024 amount to EUR 950.4 million, representing 100% realization of the sales income plan.




Backlog EUR 1.42 billion
237
225
245
319
307
355
560
426
1.005
417
31.12.2019
31.12.2020
31.12.2021
31.12.2022
31.12.2023
Croatia
Export


Expected revenues generated from backlog
in EUR 000
957,356
651,944
305,412
465,182
353,784
111,398
2024
2025 and the following year
Croatia
Export

Risks

KONČAR Group acknowledges the significance and necessity of consistently strengthening its integrated system for managing business risks - Enterprise Risk Management (ERM). This system identifies the risks the Group is exposed to and oversees the aggregate of these risks. Integrating risk management into the Group's Governance System serves to improve corporate governance, thereby fulfilling the goals and meeting the expectations of stakeholders.

The guidelines for risk management, including the Risk Management Regulation and the Risk Management Policy, adhere to the ISO 31000:2018 standard (Risk Management - Guidelines) and ERM principles. These guidelines are periodically updated to consider the business impact of each identified risk. Pursuant to the policy, Group risk management is:

- integrated into all Group business and decision-making processes It is structured and comprehensive, taking into account the external and the internal Group context, and is based on best available information
- inclusive, and encompasses a wide range of people, from the Management Board and the Supervisory Board, down to division and department directors, heads of units and shop floor, across all employees and external stakeholders
- dynamic, as new risks may emerge, change or disappear, reflecting the external and the internal context
- based on continuous improvements in management, learning and experience acquisition.

With respect to the business strategy and corporate goals, the Group has determined a moderate (average) risk appetite.

The lowest risk appetite pertains to the areas of safety and compliance, including occupational health and safety at work. A slightly higher risk appetite pertains to strategic and operational goals, meaning that mitigating the risks arising from our systems, equipment, products, and work environment to reasonably achievable levels and compliance with our legal obligations takes priority over other business goals.

Following the established risk management methodology, the Risk Catalogue is regularly updated. It includes identified, analysed, and evaluated key strategic, operational, and financial risks, along with specified measures for risk mitigation and the designation of individuals responsible for managing these risks (risk owners). The risks were identified across all Group organizational units.

In order to ensure effective risk management, all members of KONČAR Group operate in accordance with the following principles:

- Risk management is an integral part of the governance process.
- Risk management is an integral part of the decision-making process in the organisation.
- Risk management pertains to all activities that involve any uncertainty.
- Risk management is structured and timely.
- The risk management system is based on precise available information and data.
- Risk management is situation-specific.
- Risk management takes into account human and cultural factors.
- Risk management is transparent and inclusive.
- Risk management is dynamic and sensitive to change.
- Risk management supports measures and procedures conducted with the aim of improvement and development.

All Group subsidiaries regularly monitor and manage their balance sheets, liquidity and capital adequacy, set measures focused on illiquidity cause, prevention or elimination, take measures focusing on subsidiaries' sufficient long-term sources of funding in view of the scope and type of their business activity, and regularly monitor capital adequacy level.

At Group level, long-term sources of funding (capital, long-term provisions and long-term liabilities) exceed non-current assets and average inventory balance, which indicates a sound funding maturity structure. The structure of the consolidated balance sheet indicates overall financial soundness of the Group.

The subsidiaries within the Group manage risks that might affect the Group's operations by monitoring business processes and internal reports on the risks to identify and analyse the exposure by degree and magnitude of risks.

Market risk

Market risk emerges as a result of potential losses stemming from less-than-favourable economic conditions and decline in market demand.

KONČAR Group operates domestically and internationally. The Group's core activity is energy and mobility-related equipment and products. The scope of production heavily depends on investments in those areas. Periods of straightforward contracting of new business correlate with periods of increased demand. Conversely, contracting new business is more challenging in periods of general recession and economic downturn, often coupled with a decline in profit margin.

Due to the impacts of crisis and geopolitical instability in certain parts of the world, there is risk that some markets might become limited or even completely closed, and as a result there is a growing tendency to award contracts to domestic enterprises.

In addition to volatile prices of key raw materials in 2023 in the power engineering equipment market, there has also been a strong competitive pressure on the price of equipment and profit margins. Competitiveness of our products and services is also impacted by changes of operating conditions for both the Group and our customers.

The 2023 business year was marked by growing demand for transformers, driven by investments in renewable energy sources and e-mobility across the EU, forecasts of further rise in the prices of energy, commodities and raw materials, and uncertainties caused by disruptions in supply chains.

Management Boards of individual subsidiaries price their products autonomously.

Risk in the procurement market

Risks in the procurement market were noticeable in 2023.

The primary challenges stemmed from disruptions in supply chains, leading to extended lead times for the procurement of specific components.

Prices of main commodities and raw materials necessary for the manufacturing processes (copper, aluminium, sheet metal, transformer oil, insulation, steel) have been increasingly volatile, recording rapid and significant peaks and troughs over the year. The Group has leveraged available options to hedge against the risk of sudden price shocks of strategic raw materials. The most significant measure deployed over the last two years has been the introduction of sliding price formula for materials in purchase and sale agreements. In case of copper, given that it is listed on the London Metal Exchange, risk is mitigated by using forward contracts to negotiate with copper suppliers on the quantities and prices for future periods according to stock and estimates of signed contracts. In case of transformer sheet metal and some of the most crucial supply parts, risk is mitigated by employing semi-annual agreements with suppliers, seeking to ensure necessary quantities. Changes in the prices of materials are taken into account when preparing new offers.

Technological and development risks

Group subsidiaries have continuously invested significant assets in key technologies and strategically important segments of production to mitigate risks of falling behind the competition in technology and development. In the upcoming period, KONČAR Group subsidiaries are planning to invest significant resources in new product development and upgrade of the existing product portfolio.

Human resources risks

Usual fluctuations and changes in the workforce composition have a minimal impact on the Group's business operations. However, sudden or substantial turnover of employees with specialized expertise might affect business operations. Continuous investments in training and financial incentives offered to key company employees tend to hedge against HR risks.

Capital management risk

KONČAR Group manages capital to ensure operating as a going concern while maximising shareholder return through optimisation of debt-to-equity ratio. The Group manages capital and makes appropriate adjustments in line with changes of economic conditions on the market and risk characteristics of its assets.

Foreign exchange risk

Foreign exchange risk was more pronounced in the Group's operations until the introduction of the euro at the beginning of 2023, given the large percentage of exports and imports in revenues, and considering that part of the monetary items in assets and liabilities was denominated in foreign currencies.

The Group hedges against F/X risk by implementing forward agreements with banks and by internally leveraging inflow and outflow dynamics, as well as adjusting the balance of items expressed in foreign currency.

Interest rate risk

KONČAR Group subsidiaries are exposed to interest rate risk because a portion of the loans is subject to floating (variable) interest rates while the majority of assets are non-interest-bearing.

Throughout 2023, the trend of rising interest rates on borrowing continued.

Ensuring fixed interest rate allows the subsidiaries to mitigate interest rate risk. The Group has a low level of indebtedness and in not significantly exposed to interest rate risk. The estimated effect of the reasonably possible change in variable interest rates on the result before tax is not material.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the other party. The Group has adopted a policy of conducting business mainly with creditworthy organizations, thereby reducing the possibility of incurring financial losses due to default. The Group uses data and opinions collected from specialized credit rating companies or the Chamber of Commerce, as well as publicly released information on the financial position of customers and its own database to rank key customers. The Group's risk exposure and changes in credit ratings of its partners are continuously monitored. In principle, transactions are contracted with creditworthy partners and appropriate payment security instruments (L/C, guarantees, etc.) are obtained.

Exposure to credit risk is affected mainly by individual characteristics of each customer. The Group performs impairments of trade receivables as an estimation of expected losses from receivables and investments.

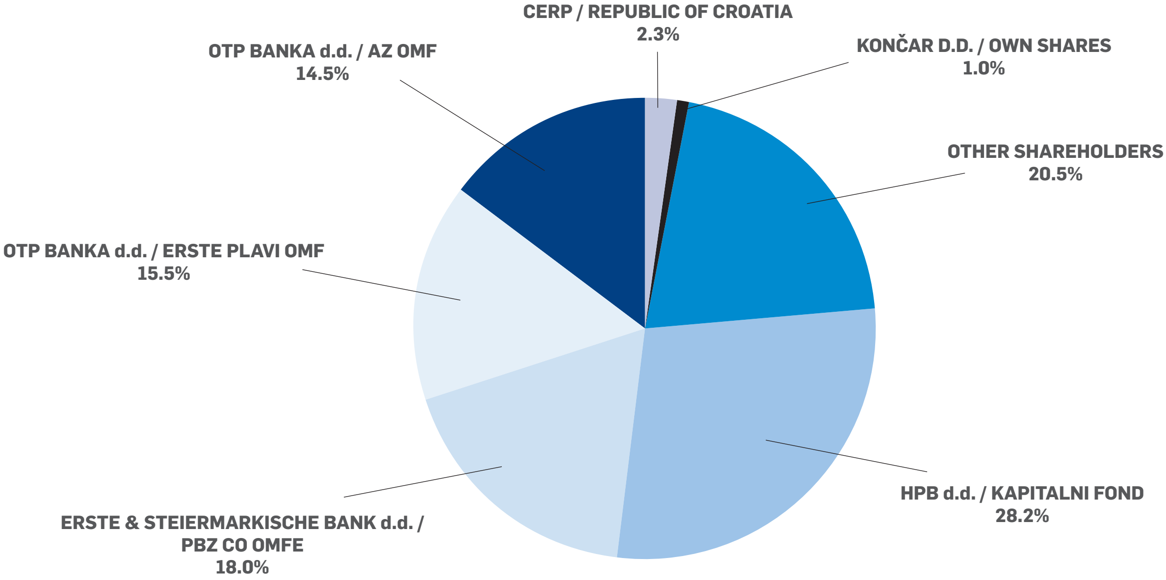
Liquidity risk

Liquidity risk reflects the Group's inability to meet financial obligations as they mature. Liquidity risk management is the responsibility of the Management Boards of Group subsidiaries. The Group manages this risk by continuously monitoring estimated cash flow, comparing and adjusting it to the actual revenue and expenses. Overall, there has been no significant exposure of the Group to liquidity risk..

Capital market

Ownership structure

The shares of KONČAR – Electrical Industry Inc. are listed on the Official Market of the Zagreb Stock Exchange. Shares are identified by the symbol KOEI-R-A, ISIN: HRKOEIRA0009. KONČAR's ownership structure is stable, with the most significant share held by Kapitalni fond and voluntary pension funds.



In accordance with applicable regulations, the Company ensures regular access to information on its operations and activities, and information on any facts and circumstances that may influence the share price (price sensitive information).

KONČAR's share price surged and peaked at EUR 200.00 per share in September 2023. Over the course of the year, the share price fluctuated from EUR 115.00 per share, reaching EUR 187.00 at the end of the reporting period.

As of December 31, 2023, the market capitalization stood at EUR 476.1 million, representing a year-over-year growth of EUR 183.9 million or 62.9%.

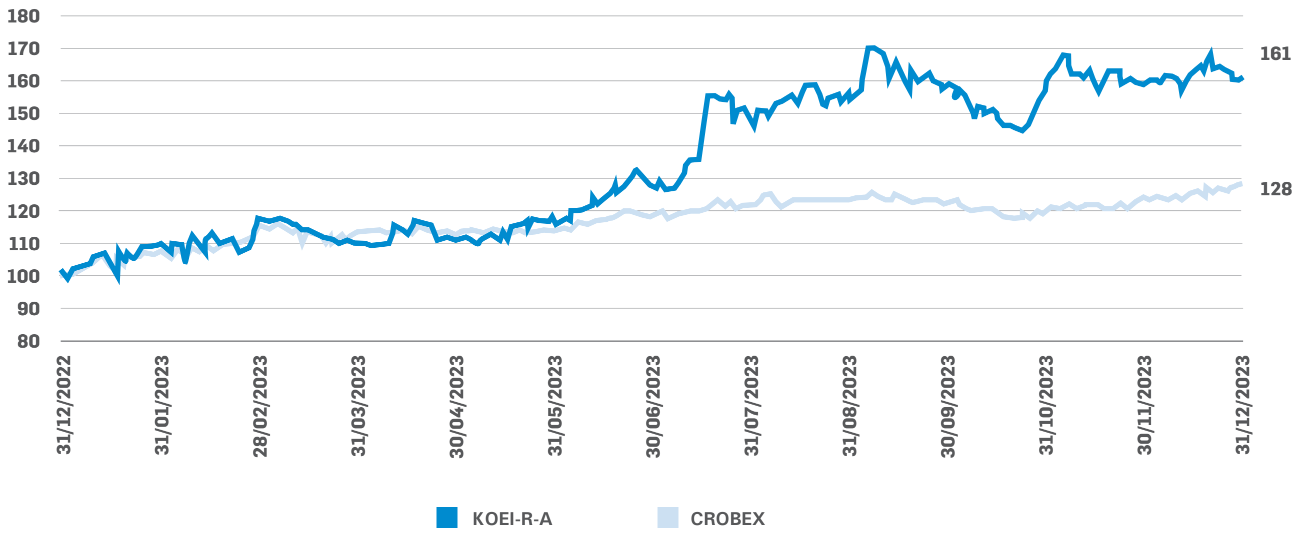
Earnings per share for the parent company in 2023 amount to EUR 18.19, representing a gain of 30% compared to earnings per share realized in 2022.

The General Assembly of KONČAR - Electrical Industry Inc. for manufacturing and services was held on 13 June 2023. The General Assembly adopted a Resolution on the Distribution of Dividend to the Shareholders in the amount of EUR 2.0 per share. The Resolution on the Distribution of Dividend was passed unanimously.

Pursuant to the provisions of the Act on the Introduction of Euro as the Official Currency in the Republic of Croatia, and following the registration with the Court Register at the Commercial Court in Zagreb, on 4 October 2023, the Central Clearing and Depository Company issued a notification that the share capital of the Company has been reduced from EUR 160,448,062.91 by EUR 976,684.91 and now amounts to EUR 159,471,378.00, by way of reducing the individual nominal amount of ordinary shares identified by the identification code KOEI-R-A by EUR 0.38 from EUR 62.38 to EUR 62.00.

Upon the completion of the reduction, the share capital of the Company registered with the CCDC database amounts to EUR 159,471,378.00 divided into 2,572,119 ordinary shares identified by the identification code KOEI-R-A each with the nominal value of EUR 62.00.

Trajectory of KOEI's share price index and CROBEX's value throughout 2023



Investor relations

In 2023 KONČAR - Electrical Industry held regular webcast conferences following each release of business results. In addition to regular conferences, the Group participated in various domestic and international investment conferences and held numerous meetings with domestic and foreign investors.

Consistent engagement with financial analysts and investors has enhanced the comprehension of the Group's activities, elevated transparency standards, and bolstered the appeal of KONČAR's shares.

All presentations delivered to analysts and investors are available on the company's official website https://www.koncar.hr/en/presentations.

ESG

Recognizing its pivotal role in technological innovation and as Croatia's leading net exporter aiding the global and local electric power sector's decarbonization, KONČAR Group has consistently championed economic growth and social prosperity. The Group is committed to creating greener products within the sectors of electrical energy, as well as in the development of battery and hybrid locomotive components and digital solutions, emphasizing its dedication to environmental responsibility and sustainable practices.

In August 2023, the Group began developing its first-ever sustainability strategy, with the goal of fully integrating sustainability principles into its core business operations. This strategic approach is designed to enhance the management of evolving market expectations, regulatory requirements, and community engagement.

Concurrently, specific sustainability strategies were formulated for two of the Group's entities listed on the Zagreb Stock Exchange: KONČAR – Distribution and Special Transformers Inc. and Dalekovod Inc. teams were assembled to guide the strategy development process through every stage, encompassing the assessment of the current scenario within the Group and its Companies, trend analysis, competition review, materiality assessment, goal setting and planning for the initial implementation year, recommendations for future enhancements in each priority area, and evaluating the strategy's alignment with the Sustainable Development Goals.

The strategic objectives were outlined to the Management in December 2023, leading to the formal adoption of the strategy in March 2024.

KONČAR systematically reports on its activities relating to corporate social responsibility to all its stakeholders, and detailed information can be found in the Corporate Social Responsibility Report (CSR Report), which has been published for fifteen years and is available on the website https://www.koncar.hr/en/sustainability-reports. The report was prepared in accordance with the GRI Standards of the Global Reporting Initiative and the UN Global Compact Principles. Successful implementation of those world-renowned reporting frameworks is proven by the fact that KONČAR's CSR Report was also published on their websites. Following the global trends in corporate social responsibility, the CSR Report also looks at the UN Sustainable Development Goals of the 2030 Agenda and highlights the goals carefully integrated by KONČAR into its business activities.

Note:
The report on corporate sustainability and social responsibility will be available within the set legal deadlines.
The obligation of the Company to report on factors in line with the EU Delegated Act supplementing Article 11 Paragraph 3 (EU Taxonomy Regulation) EU Taxonomy Regulation) shall constitute an integral part of the Report.

Quality, environment, safety of people and information security (E)

An integral part of KONČAR's business policy is meeting customer satisfaction by delivering quality and reliable products, protecting the environment, protecting the health and safety of employees in the workplace, as well as information security. These policies are implemented in the Group subsidiaries by applying and certifying management systems according to the requirements of international standards ISO 9001 for quality management, ISO 14001 for environmental management, OHSAS 18001/ISO45001 for occupational health and safety management, ISO/IEC 27001 for information security management and ISO/IEC 50001 for energy management.

ISO 9001 Quality Management System has been certified in twelve Group subsidiaries. The core purpose of the system is related to the management of all processes in the Company aimed at ensuring the quality of products or services and achieving customer satisfaction. ISO 9001 Certificate, issued by authorised independent certification institutions, provides customers with a degree of assurance concerning the capacity of an organisation to meet their demands. Nevertheless, customers have been increasingly engaging in direct audits of their partners (by carrying out on-site verification of the quality of management system operations in order to ensure the company's capacity to deliver on their requirements and expectations), especially during pre-qualification process when contracting certain products.

ISO 14001 Environmental Management System has been certified in fourteen Group subsidiaries. By applying this system, KONČAR Group subsidiaries continuously monitor and analyse various aspects of the environment while performing their business activities and carrying out their processes, by looking into environmental impact of products and services they deliver, and taking adequate measures to mitigate any adverse effects. ISO 14001 Certificate, issued by authorised independent certification institutions, assures all stakeholders, ranging from central governments to local communities, of the Company's responsible behaviour towards the environment. KONČAR has defined an Environmental Management Policy, which is available on www.koncar.hr and which has been communicated to all employees.

At the beginning of 2020, the Group company whose operations are related to infrastructure activities (KONČAR - Infrastructure and Services) introduced the EMAS system and was entered in the national EMAS register. EMAS is a voluntary environmental management system developed by the European Commission for organizations to assess, report and improve their environmental performance. Before the EMAS system, ISO 14001 Environmental Management System and ISO 50001 Energy Management System had been introduced. KONČAR - Infrastructure and Services was the first domestically-owned company in Croatia to be entered into the national EMAS register.

All the adopted principles are based on the regulations of the Republic of Croatia and the adopted international standards. KONČAR embraces and implements both international and local principles, charters, and standards that enhance the quality of its products, work processes, and manufacturing, while also contributing to the preservation and enhancement of the natural and social environment.

OHSAS 18001/ISO 45001 Occupational Health and Safety Management System has been certified in nine Group subsidiaries. By applying this system, Group subsidiaries continuously monitor and analyse workplace hazards and carry out measures for the prevention and mitigation of accidents which might lead to impaired health or death of an employee or to property loss. OHSAS 18001/ ISO45001 certificate issued by authorized independent certification institutions provides assurance to all stakeholders of the company's implementation of legal and other measures aimed at ensuring a safe working environment and protecting employees from work-related injuries.

ISO/IEC 27001 Information Security Management System has been certified in three Group subsidiaries. By applying this system, Group subsidiaries have achieved information system, property and business information protection. ISO/IEC 27001 Certificate issued by certified independent certification institutes proves that information security management system provides data protection under the principles of secrecy, integrity and controlled availability, enables information security implementation and reduces fraud risk, loss of information or unauthorized disclosure of information, improves the organization's credibility and opens up business opportunities for cooperation with customers aware of security needs.

ISO/IEC 50001 Energy Management System has been certified in two Group subsidiaries. By applying this system, KONČAR Group subsidiaries achieve ongoing improvement of energy management, better resource and infrastructure utilization, and lower energy consumption i.e., lower costs, while at the same time limiting and controlling environmental impacts.

Energy efficiency is one of the most cost-effective ways of improving security of power supply and reducing the emission of greenhouse gases and other pollutants. To assess efficiency, energy audits were conducted on facilities used for non-manufacturing activities by KONČAR Group subsidiaries, evaluating their current energy consumption and performance. Each facility was categorized into an energy efficiency class, with measures for energy efficiency improvement subsequently implemented.

In addition to energy audits of facilities, energy audits of large enterprises were also carried out in order to determine and improve energy efficiency (analysis of technical and energy performance of facilities, analysis of all technical and process systems, i.e., of all manufacturing, transformation and distribution systems and consumption of energy sources). KONČAR Group subsidiaries which were classified as large enterprises under the criteria set out in legal regulations have opted to avail themselves of the option to introduce and certify ISO 50001 Energy Management System instead of the statutory obligation to conduct energy audits. All KONČAR Group subsidiaries, irrespective of their size, are encouraged to introduce this system.

Customers and suppliers (G)

A number of other standards have also been applied to individual products as per requirements specified by customers and users. Equipment and products manufactured by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility - primarily operational safety and reliability (so as not to generate additional problems in electricity supply) and protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trains and trams manufactured by KONČAR, along with a major environmental component.

KONČAR Group bears a significant responsibility for the products it introduces to the market, thus aiming to oversee the entire production chain by monitoring the quality of each company within the Group's manufacturing processes. The KONČAR Group Companies make a concerted effort to select, whenever feasible, suppliers whose materials and components are not harmful to humans or the environment. Ideally, these materials and components should be capable of being recycled after the product's life cycle or safely disposed of. Selection of a supplier of individual materials and services is subject to meeting defined quality levels, lead times and credit terms, taking into consideration occupational health and safety and environmental protection. Suppliers are required to provide evidence (certificates) of compliance. KONČAR Group subsidiaries keep a database of the existing and potential suppliers. In addition to basic information on suppliers (name, address, phone number, e-mail, contact person), the database contains other data that might be relevant for the selection of suppliers, such as suppliers' references, information about complaints, information about the quality system, occupational health and safety and environmental protection.

The Group requires that key suppliers commit to, adopt, and enact ESG standards, adhere to all relevant environmental, health, and safety laws, and advocate for the development, production, transport, utilization, and disposal of products in a manner that is both safe and eco-friendly. In the social domain, these suppliers are expected to uphold internationally acknowledged human rights, which cover fair wages and regulated working hours, and to strictly avoid forced labour and child labour.

Furthermore, investors that decide to construct facilities using equipment supplied by KONČAR are required to comply with environmental protection regulation and standards. Aware of the environmental risk, KONČAR implements the Precautionary Principle. This is particularly important as our products and facilities (substations, hydropower plants, other power facilities or rail vehicles) are often delivered to areas of high biodiversity (rivers, lakes and rural areas). KONČAR's products and equipment meet the highest safety standards and have a minimal environmental impact, as evidenced by no recorded cases of complaints or incidents to date.

These management systems and compliance with the necessary standards enable the Company to perform its operations and to achieve the main priorities of the Company:
- profit generation
- development and growth of the Company and Group subsidiaries
- ensuring high quality of life and work environment

KONČAR Group subsidiaries use ZelEn product i.e., energy produced solely from renewable sources, offered by HEP - Opskrba. The majority of electricity consumed in the course of operations is generated from renewable sources.

Employees (S)

A key element of the Company's strategy is to build a knowledge-driven organisation. So as to remain competitive, professional development of employees and effective management of human resources are key organizational priorities. By regulating employment relations and internal organization, the Company and KONČAR Group subsidiaries adhere to relevant regulations, collective and individual agreements and safeguard human and civil rights, dignity and reputation of every employee.

While carrying out its business operations, the Company applies and complies with provisions of the Constitution, laws and other regulations, bylaws, the Company's internal acts and the Code of Conduct. The employees are regularly updated on relevant provisions and rules pertaining to their rights and obligations. In addition, the Company strives to eliminate and prevent any irregularities.

The Company promotes equality of all employees, regardless of their gender, age, nationality, ethnic background, race, religion, language, social and economic status, sexual orientation and affiliation to political and other organisations.

No case of racial, ethnic, gender, religious, political, national or social discrimination was recorded during the reporting period. Under the provisions of the Collective Agreement, the Employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non-sexual harassment by the Employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

Achieving KONČAR's business goals and maintaining competitiveness is based on the experience, knowledge and innovation of the employees. Successful human resource management ensures the acquisition, development, retention and rewarding of employees who achieve the set goals and add value to KONČAR.

Employee satisfaction and good working conditions are the key factors of productivity and employee engagement. Human resources management implies efforts to carry out research and analysis of factors contributing to employee motivators. For this reason, the Company conducts individual interviews with employees and carries out employees satisfaction surveys, which provide the best possible perspective on the perceptions, needs and preferences of each individual employee and indicate points for further improvement. Based on the findings of such analyses, action plans are drawn up with the aim of creating a stimulating work atmosphere that contributes to employee wellbeing.

The newly-adopted Group Integral Strategy outlines human resource management as one of the core strategic objectives, including transformation of the workforce through retention of young talents, talent management, development and upskilling through lifelong learning and expansive recruitment of engineers.

Labour relations (S)

All KONČAR Group employees are entitled to equal benefits proportionally to their length of service, irrespective of contract type, race, gender and age. The Collective Agreement stipulates that all Group subsidiaries shall make payments for loyalty/service awards, 3 annual bonuses, a gift for children under the age of 15, various forms of allowances defined by the Collective Agreement, additional allowances for family needs, work-related injury insurance policy and the like.

Employees are also entitled to reimbursement for travel/commute costs and to non-taxable severance pay prior to retirement.

To unlock the potential of all employees, KONČAR subsidiaries have been systematically offering education and professional training through various methods. These include support for participation in the formal education system and specialized on-the-job training. Areas of focus include foreign language courses, presentation and communication skills, computer literacy, and other knowledge areas crucial for enhancing performance and professionalism.

At KONČAR, new employees are onboarded in the induction programme, Seminar for trainees and new employees. The participants of the seminar learn about the organization, the full product range, references, marketing activities and promotion, social responsibility and other activities at KONČAR, gain knowledge about the strength and the importance of synergy of the Group subsidiaries and labour relations.

Gender equality (S)

At KONČAR, a core principle of business ethics is the commitment to equality, the respect for human rights, and the dignity of all individuals. Adhering to principles of professionalism, expertise, and impartiality, our job application process is free from gender bias, ensuring that both women and men are equally employed based on their qualifications and are provided equal opportunities for development and advancement.

Female employees are entitled to maternity and parental leave, whereas male employees are entitled to parental leave, ensuring equitable support for all in their parenting roles. After completing their maternity leave, all female employees have rejoined the workforce, similarly, male employees have returned to work after their parental leave periods.

Employee protection (S)

Pursuant to the Whistleblower Act, the Management Board of KONČAR - Electrical Industry Inc., at the proposal of employees, has adopted a decision to appoint a confidential person to whom irregularities are reported.

The confidential person monitors the implementation of the act governing the protection of whistleblowers and promotes compliance with legal provisions and protection of whistleblowers, receives reports of irregularities, conducts internal reporting of irregularities, protects the identity and data received from whistleblowers, provides whistleblowers with general information on their rights and procedures, provides insight into the case file and keeps records of received reports.

There were no whistleblowing reports in 2023.

No case of racial, ethnic, gender, religious, political, national or social discrimination was recorded during the reporting period. Under the provisions of the Collective Agreement, the Employer has undertaken to protect employee dignity in the course of their work, and to ensure working conditions in which employees will not be exposed to sexual and non-sexual harassment by the Employer, managers, colleagues, or other persons with whom employees come into regular contact in the course of their work.

Cooperation with the community (S)

KONČAR has consistently fostered collaboration with the scientific and professional community by identifying, defining, and executing projects as an equal partner, promoting synergy between science, education, and industry. We are particularly committed to encouraging educational excellence of young people, and we thus traditionally award prizes for the best students of various universities and colleges, as well as awards for the best doctoral dissertations with industrial application.

Sponsorships and donations (S)

As a socially responsible company, over the years KONČAR has endorsed and supported projects in science, sports, culture and the arts, education of children and youth, environmental protection and humanitarian projects through donations and sponsorships. Sponsorship and donation activities that contribute to the development of society as a whole are an integral part of our business strategy when selecting projects for donations or sponsorships, KONČAR prioritizes quality and originality, community benefit, alignment with our marketing strategy, and the potential for a positive impact on KONČAR's identity and image.

Beneficiaries of donations and sponsorships include individuals, as well as educational, cultural, and sports institutions, clubs, associations, and organizations with recognized legal status.

KONČAR refrains from making donations or sponsorships to:
- Political parties and citizens' associations that are organized with the aim of promoting political objectives,
- State bodies and institutions,
- Organizations and individuals involved in projects that promote racial, religious, or any other form of discrimination in their activities or implementation,
- Organizations and individuals engaged in projects where funding could result in a conflict of interest,
- Organizations and individuals who have harmed the work and reputation of the Company.

In 2023, KONČAR allocated EUR 369 thousand towards donations and sponsorships. Donations predominantly supported humanitarian and social initiatives, whereas sponsorships were mainly allocated to professional conferences and media promotional activities.

Corporate governance (G)

The Corporate Governance Code of KONČAR Group is anchored in the legal standards of the Republic of Croatia and internationally recognized standards, seamlessly woven into its operational practices. As a regional leader in its industry and a key employer in Croatia, KONČAR is devoted to constantly refining and evolving its governance models to align with the highest global benchmarks and methodologies. Furthermore, with KONČAR Inc.'s shares traded on the Zagreb Stock Exchange's Official Market, the company rigorously follows the Corporate Governance Code established by the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA).

KONČAR Inc., together with the Group, is persistently progressing and aligning its operations with superior corporate governance standards. Its business strategy, policies, foundational documents, and practices all contribute to setting a high bar for corporate governance, aiming to ensure transparency and operational efficiency while maintaining strong ties with the community it supports. The management rigorously adheres to all established corporate governance regulations.

At the conference „Corporate Governance and Sustainable Business - the Roadmap to Climate Transition" organized by HANFA, KONČAR was awarded for the Best Compliance with the Corporate Governance Code, in the category of companies listed in the Official Market of the Zagreb Stock Exchange.

In addition to the applicable Corporate Governance Code of the Zagreb Stock Exchange and HANFA, KONČAR Group also applies its own Corporate Governance Code, furthering the business transparency standards that comply with EU Directives. Corporate Governance Code defines the procedures for the activities of the Supervisory Board, Management Board and other decision-making bodies, ensuring avoidance of the conflict of interest, efficient internal supervision and efficient accountability system.

The Management and the Supervisory Board have adopted a Code of Conduct, which serves as the foundational document for embracing and promoting the organizational values of the Company and the Group as a whole, and advocating for socially responsible business practices. The Company is a signatory of the Code of Business Ethics of the Croatian Chamber of Economy. By adopting the Code of Business Ethics, the Company commits to acting in accordance with principles of responsibility, truthfulness, efficiency, transparency, quality, and good faith, while upholding fair business practices towards partners, the broader business and social environment, and its employees.

Through the adoption and endorsement of these guidelines, the Company commits to fostering an environment of equality for every employee, transcending distinctions of gender, age, nationality, ethnicity, race, religion, language, social and economic standing, sexual orientation, or political and other organizational affiliations, especially within the realms of employment, workplace conditions, selection criteria, career progression, and professional growth.

The internal control and risk management system is an important part of business operations, and its components are outlined below. The composition and functioning of the Management and Supervisory Boards, the operation of the General Assembly, and information about the Company's shareholders are part of the Corporate Governance Statement and are detailed below. All of the documents are available on KONČAR's website (www.koncar.hr).

The Company complies with the recommendations of the Code, except where applying certain provisions is impractical or not envisaged by the prevailing legal framework. Such exceptions are as follows:

- The Supervisory Board has not formally established a target percentage for female members on the Supervisory Board and the Management Board (Article 14 of the Code). However, all the international and national standards pertaining to gender representation and equality are implemented directly. Presently, 22.2 percent of the Supervisory Board members are women. At Group level, women account for 21.5 percent of the total number of employees, while at KONČAR - Electrical Industry Inc. women comprise 74 percent of the total number of employees.
- When re-electing the Supervisory Board Members whose term of office ended in 2020, the materials for the General Assembly meeting did not include details of their attendance at the meetings of the Supervisory Board and its committees during their previous term of office, or the conclusions of the most recent evaluation of their performance (Article 17 of the Code). The Company will include this information in the materials for the General Assembly session on the subsequent proposal of the re-election of an existing Supervisory Board Member.
- The company's internal regulations mandate the provision of all required materials for a Supervisory Board meeting to its members at least one week in advance, as per Article 34 of the Code. However, the Supervisory Board's Rules of Procedure specify that these materials be distributed no later than 5 days prior to the session.
- The Company did not establish effective formal mechanisms to enable minority Shareholders to raise questions directly with the Presidents of the Supervisory and Management Boards (Article 76 of the Code). The Company has established mechanisms to enable minority Shareholders to raise questions via e-mail address available to investors (ir@koncar.hr), in addition to raising any questions directly with the Supervisory and Management Board Members at the General Assembly session.
- Communication between the chairpersons and members of the committees and the Company's stakeholders (suppliers, customers, etc.) is not provided for by the Rules of Procedure, and the purpose of the committees is to give recommendations and proposals to the Supervisory Board. The Audit Committee is the exception to that rule and it communicates directly with external and internal auditors (Article 87 of the Code).

Combating corruption and bribery

Members of the managing bodies, employees and business partners are well-versed in the anti-corruption policies and adhere to the Code of Ethics in their professional and daily activities. KONČAR has established itself as a trustworthy and ethical business partner on the international stage, with no incidents of corruption reported across the Group.

KONČAR - Electrical Industries Inc. has abstained from providing any financial or non-financial support for political purposes, whether directly or indirectly, to any government or entity. KONČAR is committed to fostering and maintaining honest and transparent relationships in market competition across all operations, with every participant, and in every arena. No anti-competitive, antitrust or monopoly practices were recorded in KONČAR Group.

Corporate governance organizationa

In line with the best practices, KONČAR strives for high standards of corporate governance and transparency of operations as the cornerstone of all business activities within the Group. Corporate governance structure is a two - tier board structure, composed of the Supervisory Board and the Management Board. Together with the General Assembly, and pursuant to the Articles of Associations and the Companies Act, they constitute the three governance bodies of the Company.

General Assembly

The General Assembly acts as the conduit for shareholders to assert their rights in matters of the company, voicing the collective ambitions of the shareholders which align with the company's objectives. It is composed of all shareholders of the company. The work of the General Assembly, its authority and competence, Shareholders' rights and the manner in which they are exercised are set out in the Company's Articles of Association, publicly available on the Company website (www.koncar.hr).

The General Assembly is competent for the election and revocation of the Supervisory Board Members, decides on the distribution of profit, grants discharges to Management and Supervisory Board Members, appoints auditors and decides on amendments to the Articles of Association, increase and reduction of share capital and other matters falling under its competence by law.

In 2023, one meeting of the General Assembly was held. At the meeting held on 13 June 2023, all items on the agenda were adopted. The General Assembly passed a resolution on the discharge of the Management Board and the Supervisory Board, a resolution on the distribution of the Company profit realised in 2022, a resolution on the appointment of auditors for 2023 and approved the Report on the Remuneration for the Members of the Management Board and the Supervisory Board for 2022. Furthermore, a resolution was adopted granting the Company's Management Board the authority to purchase the treasury shares. This encompasses a resolution on changing the company's name, a resolution on converting the share capital from the Croatian kuna to the euro, and a resolution to amend the Articles of Association.

All resolutions adopted at General Assembly meetings have been published in accordance with legal regulations and are available on the websites of the Company (www.koncar.hr), Zagreb Stock Exchange and HANFA.

Supervisory Board

In accordance with the Corporate Governance Code adopted by the Zagreb Stock Exchange and HANFA, applicable as of 1 January 2020, the Supervisory Board consists mostly of independent members who have no business, family or other relations to the Company, a majority Shareholder or a group of majority Shareholders, or a Member of the Management or Supervisory Board or a majority Shareholder.

The Supervisory Board has nine members. Five members are appointed and recalled by the General Assembly, one member is appointed by the employees as per the Labour Act and three members are appointed, in accordance with the Companies Act (Article 256), by the shareholder Kapitalni fond Inc. for as long as it holds Company shares representing 25% plus one share in the Company's share capital. In the event of a decrease of the number of shares held by Kapitalni fond Inc., the number of Supervisory Board Members it appoints shall be reduced accordingly.

The Supervisory Board is responsible for supervising the management of operations, represents the Company in dealings with the Management Board and adopts resolutions on matters not falling under the General Assembly's competence. The Supervisory Board does not directly manage the Company; instead, it guides the Management Board in making strategic decisions and establishing the governance framework. Under the Company's Articles of Association, the Supervisory Board is endowed with additional powers, requiring certain tasks to be undertaken only with its prior approval.

The President of the Supervisory Board is elected by the Members, who are elected by the General Assembly. Deputy President is elected by the appointed members of Kapitalni fond Inc., from among their own ranks. Supervisory Board Members are appointed for a four-year term and may be reappointed. Members appointed by Kapitalni fond Inc. are eligible for appointment for a maximum of two consecutive terms.

Pursuant to the Resolution of the General Assembly of KONČAR – Electrical Industry Inc. of 12 July 2016, monthly remuneration for Supervisory Board Members was determined in the gross amount of 1.5 average (gross) salary paid at KONČAR Group in the month preceding the month of remuneration calculation. Each and every Member of the Supervisory Board is entitled to a fixed monthly remuneration paid starting from the date of appointment to that duty until the date of expiry thereof. In order to maintain their independence and objectivity, remuneration of Supervisory Board Members does not depend on the Company's performance and does not include variable remuneration.

Remuneration report for the Members of the Management and Supervisory Boards includes information on the remuneration amount, it is drawn up pursuant to Article 272 of the Companies Act and the Company's Remuneration Policy, and it will be presented to the General Assembly for adoption.

Supervisory Board Members in 2023:

Joško Miliša	President of the Supervisory Board
Darko Horvatin	Deputy President of the Supervisory Board
Branko Lampl	Member
Ivan Milčić	Member
Maja Martinović	Member
Ruža Siluković	Member
Mario Radaković	Member
Zvonimir Savić	Member
Danko Škare	Member

In 2023, the Supervisory Board held thirteen meetings. The quorum at the meetings of the Supervisory Board requires five Supervisory Board Members.

In 2023, all the Members participated in decision-making at all the meetings. In the event when the Members were prevented from attending the meetings physically, they casted their votes by videoconferencing or in writing as provided for in the Rules of Procedure of Supervisory Board.

The Management and Supervisory Board closely cooperate in the best interests of the Company and the Group, through joint meetings and other communication channels as necessary. The Supervisory Board was duly and regularly informed by the Management Board on any business events of greater importance, the course of business operations, income and expenditure and the general status of the Company and the Group.

The Management Board submitted to the Supervisory Board quarterly, semi-annual and annual business reports, within legally defined deadlines. The Supervisory Board adopted them unanimously and without objections. In addition, the Supervisory Board was informed by the Management Board on corporate strategy, planning, business events, risk management, compliance, any deviations of business events from the original plans and estimates, as well as significant business transactions involving the Company and its subsidiaries and associate companies.

The Supervisory Board carried out self-assessment of the profile and competencies of individual Supervisory Board Members and Members of its committees. The assessment was carried out by the President of the Supervisory Board with the assistance of appropriate committees, without engaging an external auditor.

The Supervisory Board consists of nine members (optimal number) who all possess the knowledge, skills, as well as professional experience required for the performance of their duties. Diversity aspect is taken into consideration by ensuring the appropriate number of women members. Assessment of the Members of the Supervisory Board and its committees confirmed that every Member makes an effective contribution, demonstrating commitment to their role and dedicating sufficient time to their duties.

Administrative support in preparing Supervisory Board meetings is provided by the Company Secretary, in an efficient and timely manner. Out of nine members of the Supervisory Board, women make up 22.2% (2 women). In its nominations for the Supervisory Board, the Supervisory Board prioritizes the essential qualifications of the candidates while also valuing diversity.

Report on the supervision conducted in 2023, prepared to be approved by voting at the General Assembly meeting, contains the following:
- Manner and the extent to which the Supervisory Board supervised the management of the Company in 2023,
- Results of review of Annual Financial Statements prepared as at 31 December 2023,
- Auditor's reports,
- Results of review of the Management Board's report on the Company's performance in 2023,
- Results of the review of the report on relations with the Parent company and its associate companies.

Supervisory Board committees

Four committees operate within the Supervisory Board, assisting the Supervisory Board in the performance of its duties: Audit Committee, Strategic and Business Development Committee, Appointments Committee and Remuneration Committee. Members of all the committees are appointed from the ranks of the Supervisory Board.

Audit Committee

The Audit Committee conducts detailed analyses of financial statements, assists the Company's accounting department, and establishes suitable and effective internal control systems within the Company. The Committee ensures the integrity of financial information, focusing on the accuracy and uniformity of accounting methods employed by the Company and within the KONČAR Group, including the standards for the consolidated financial reporting of its subsidiaries. Moreover, the Committee is tasked with overseeing the internal controls and risk management system. This is aimed at enabling the Company to identify, publicly disclose, and effectively manage its major exposure risks.

Darko Horvatin is the Chairman of the Audit Committee, and Mario Radaković and Joško Miliša are its Members. In 2023, the Audit Committee held four meetings. All the Members of the Audit Committee participated in decision-making at all the meetings. At the meetings, the Committee Members discussed, made decisions and gave recommendations to the Supervisory Board on the following matters: reports on the implementation of the annual internal audit plan, implementation of the policy on the provision of non-audit services for 2023, supervision of the statutory audit and consolidated and unconsolidated annual financial statements for 2023, making recommendations for the adoption of those reports, and appointing auditors for 2023. The Audit Committee is independent in its work and most of its Members possess the appropriate expertise in the field of accounting and audit.

Strategic and Business Development Committee

The Committee is tasked with providing support to the Supervisory Board in strategic planning by: tracking and evaluating shifts in the business landscape, assessing the Group's objectives for both the short and long term, aiding in strategic decisions related to acquisitions, joint ventures, restructuring, and the development of strategic human resources. It consists of five members. Ivan Milčić is the Chairman of the Strategic and Business Development Committee and its Members are: Branko Lampl, Zvonimir Savić, Joško Miliša and Maja Martinović. All members of the Committee are also Members of the Supervisory Board. In 2023, the Committee held no meetings.

Appointments Committee

Appointments Committee is a working body of the Supervisory Board formed for the purpose of preparing resolutions to be made by the Supervisory Board. The Appointments Committee is competent for holding discussions and submitting proposals to the Supervisory Board with respect to resolutions on the appointment and election of the Management Board Members. The Chairman of the Committee is Danko Škare, and Darko Horvatin and Ivan Milčić are its Members. All members of the Committee are also Members of the Supervisory Board. In 2023, the Committee held 1 session, which was attended by all the Committee members.

Remuneration Committee

Outlines the content of the Management Board Member contracts and determines the structure of their remuneration. The Committee is in charge of drawing up the Remuneration Policy for the Members of the Management Board and the Supervisory Board. The Chairman of the Committee is Branko Lampl, and Maja Martinović and Ruža Siluković are its Members. All members of the Committee are also Members of the Supervisory Board. In 2023, the Committee held 1 session, which was attended by all the Committee members.

Management Board

The role of the Management Board in managing the Company's operations is regulated by the Companies Act, the Articles of Association and the internal regulations of KONČAR - Electrical Industry Inc. The Management Board carries out the duties with due care and diligence of a prudent businessman taking into account the best interest of the Company and the Shareholders.

The Company's Management Board is the governing body solely responsible for overall business operations. It is appointed and recalled by the Supervisory Board. The scope of work of the Members of the Company's Management Board is determined by: business segments, activities and processes and markets. The Management Board is tasked with the proper management of business risks, routinely reviewing the Company's economic, environmental, and social impacts during its meetings.

Similarly, the Supervisory Board evaluates the performance of both the Company's Management Board and the management boards of its subsidiaries at its regular gatherings. These assessments are based on key business performance metrics and efforts to sustain and enhance the Company's reputation.

Through participation in supervisory boards, assemblies, and adherence to other established guidelines, Management Board members of KONČAR ensure coordination, direction, supervision, and performance monitoring within Group subsidiaries. It is noted that KONČAR – Electrical Industry's Management Board members do not receive remuneration for their roles on the supervisory boards of these subsidiaries.

The Supervisory Board assessed that in 2023, the Management and Supervisory Board cooperated effectively in the best interests of the Company, through regular contact. The Supervisory Board was duly and regularly informed by the Management Board on any business events of importance, the course of business operations, income and expenditure and the general status of the Company. The Management Board regularly submitted to the Supervisory Board quarterly, semi-annual and annual business reports, which were adopted by the Supervisory Board unanimously and without objections. The Management Board regularly updates the Supervisory Board on various aspects including corporate strategy, planning, business developments, risk management, and compliance. It also reports on any deviations from the planned business events and estimates, alongside significant business transactions involving the Company, its subsidiaries, and associate companies. The Management Board regularly submits statutory reports to the Supervisory Board, and in between its meetings, the Management Board duly informs the Supervisory Board of any important events pertaining to the Company's operations.

The Management Board conducts a self-assessment of its effectiveness, integral to the annual performance management process and the evaluation of each Management Board Member's performance. Moreover, pursuant to the Companies Act, the General Assembly approves the manner in which the Management Board carried out the Company's operations, by issuing a discharge for the previous business year.

Pursuant to the Articles of Association, the Management Board consists of three to seven members. On the end of 2023 the Management Board operates with six members. Management Board Members are appointed for a five-year term and may be reappointed without any limitations with regard to the number of terms. Each member of the Management Board independently oversees the activities within their designated business segment, acting responsibly and with the care and diligence expected of a prudent business person. All their decisions are made solely with the Company's best interests in mind. For decisions on crucial business policies or issues pertaining to the business segments of other Management Board Members, the matter is brought before the entire Management Board for a collective decision.

The rights and obligations of Management Board Members are defined by virtue of a Management Board Member Contract. Remuneration report for the Members of the Management and Supervisory Boards includes information on the remuneration amount, it is drawn up pursuant to Article 272 of the Companies Act and the Company's Remuneration Policy, and it will be presented to the General Assembly for adoption.

Members of the Management Board in 2023 were as follows:
- Gordan Kolak President, of the Management Board in charge of the energy segment and sustainable development
- Ivan Bahun, Deputy President of the Management Board in charge of the mobility segment
- Josip Ljulj, Member of the Management Board in charge of the industry segment
- Miki Huljić, Member of the Management Board in charge of real estate management
- Josip Lasić, Member of the Management Board in charge of finance
- Božidar Poldrugač, Member of the Management Board in charge of digital solutions, ICT and urban infrastructure

In 2023, the Company's Management Board held 43 meetings. All the meetings were attended by all the Members of the Management Board. When prevented from attending in person, Members of the Management Board attended the meetings through video conference calls and actively participated in the work and decisions of the Management Board.

Throughout 2023, the Company's Management Board operated with a total of six members. Each Management Board Member is equipped with the necessary knowledge, skills, and professional experience essential for fulfilling their duties. They each provide valuable contributions, evidencing their commitment to their roles and allocating ample time to their responsibilities.

At the Supervisory Board meeting held on December 6, 2023, a resolution was adopted regarding the appointment of the Management Board that will lead the company during the four-year term effective from 6 January 2024. Gordan Kolak was appointed President of the Management Board. Incumbent Members of the Management Board Miki Huljić and Josip Lasić were re-appointed to a new term. Joining the Management Board are Petar Bobek, formerly serving on the Management Board of KONČAR – Distribution and Special Transformers, the most successful company in KONČAR Group, and Ivan Paić, who held the position of Vice President for Project Sales at Schneider Electric, overseeing sales activities worldwide.

Internal audit

KONČAR Group Internal Audit Department operates as an independent audit and controls system. It informs the Management Board through comprehensive reports on performed audits (providing findings and recommendations for improvements). The Internal Audit Charter defines the scope of activities and main principles applied in the work of KONČAR Group's Internal Audit Department.

The Internal Audit Department assesses risk management levels in business processes and audits the effectiveness of internal controls to enhance risk management and ensure procedural compliance. It also examines the alignment of current business systems with established policies, plans, procedures, laws, and regulations that significantly impact business reporting.

It is tasked with recommending preventive measures in the areas of financial reporting, compliance, operations and control with the aim of eliminating risks and potential deficiencies that could lead to process inefficiencies or fraudulent practices. The Internal Audit Department reports to the Management Board, Audit Committee and the Supervisory Board. The findings and recommendations allow the Management Board to improve the processes, pre-emptively eliminate potential risks or mitigate them to acceptable levels.

In 2023, several audits were carried out in the areas of sales processes, procurement, inventory management, due diligence processes in companies that were merged.

The Overview of Findings and Recommendations outlines detailed findings and recommendations for all the performed audits with deadlines and status reports. The report on the conducted audits was submitted and adopted by the Audit Committee.

Customers and suppliers (G)

A number of other standards have also been applied to individual products as per requirements specified by customers and users. Equipment and products manufactured by KONČAR Group for electricity generation, transmission and distribution require a high degree of two-fold responsibility - primarily operational safety and reliability (so as not to generate additional problems in electricity supply) and protection of the environment in which such equipment is installed. Apart from the above, passenger transport must also contain a safety feature as a key characteristic of trains and trams manufactured by KONČAR, along with a major environmental component.

KONČAR Group bears a significant responsibility for the products it introduces to the market, thus aiming to oversee the entire production chain by monitoring the quality of each company within the Group's manufacturing processes. The Group makes a concerted effort to select, whenever feasible, suppliers whose materials and components are not harmful to humans or the environment. Ideally, these materials and components should be capable of being recycled after the product's life cycle or safely disposed of. Selection of a supplier of individual materials and services is subject to meeting defined quality levels, lead times and credit terms, taking into consideration occupational health and safety and environmental protection. Suppliers are required to provide evidence (certificates) of compliance. KONČAR Group subsidiaries keep a database of the existing and potential suppliers. In addition to basic information on suppliers (name, address, phone number, e-mail, contact person), the database contains other data that might be relevant for the selection of suppliers, such as suppliers' references, information about complaints, information about the quality system, occupational health and safety and environmental protection.

The Group requires that key suppliers commit to, adopt, and enact ESG standards, adhere to all relevant environmental, health, and safety laws, and advocate for the development, production, transport, utilization, and disposal of products in a manner that is both safe and eco-friendly. In the social domain, these suppliers are expected to uphold internationally acknowledged human rights, which cover fair wages and regulated working hours, and to strictly avoid forced labour and child labour.

Furthermore, investors that decide to construct facilities using equipment supplied by KONČAR are required to comply with environmental protection regulation and standards. Aware of the environmental risk, KONČAR implements the Precautionary Principle. This is particularly important as our products and facilities (substations, hydropower plants, other power facilities or rail vehicles) are often delivered to areas of high biodiversity (rivers, lakes and rural areas). KONČAR's products and equipment meet the highest safety standards and have a minimal environmental impact, as evidenced by no recorded cases of complaints or incidents to date.

These management systems and compliance with the necessary standards enable the Company to perform its operations and to achieve the main priorities of the Company:
- profit generation
- development and growth of the Company and Group subsidiaries
- ensuring high quality of life and work environment

KONČAR Group subsidiaries use ZelEn product i.e., energy produced solely from renewable sources, offered by HEP - Opskrba. The majority of electricity consumed in the course of operations is generated from renewable sources.

2024 business plan

At the meeting held on 14 December 2023, the Supervisory Board of KONČAR - Electrical Industry Inc. adopted the Consolidated Business Plan of KONČAR Group for 2024, at the proposal of the Company's Management Board.

The plan for the next year is based on expanding backlog, which is expected to reach EUR 1.4 billion by the end of the year.

KONČAR Group plans to generate total income exceeding EUR 960 million. Exports continue to represent the majority of the revenue from the sale of goods and services, accounting for 67%. The European Union remains the most significant market, with anticipated growth across all other markets. Broken down by country, the most significant export volume is planned in Germany, Sweden, and Austria.

Intensive investments in decarbonization projects, renewable energy sources, and e-mobility, particularly across the EU member states, have been driving up the demand for power equipment. The rail solutions and infrastructure segment also records greater demand for products and solutions that reduce adverse environmental impact. KONČAR's established position of a reliable partner across all the expanding segments, has enabled the Company to develop an ambitious plan for new order intake in 2024. New order intake is planned in the total amount of EUR 1.2 billion, with backlog at the end of the planning period up by EUR 202 million, totalling EUR 1.6 billion at 2024 year-end.

In addition to growing the income side, enhancing the share of export in total income and further strengthening of profitability, one of the priorities in the upcoming year is the continuation of investment in the development of products, technologies and production capacities as a driver for the realization of sales plans.

The investment plan for 2023 was not fully executed due to the slowdown in certain projects, with their completion extended into 2024. For the next year, the planned CAPEX is set at EUR 62.9 million. The investment focus is on buildings, new equipment and machinery.

KONČAR embarks on the new business year compelled with optimism and with expectations of good performance. Our goals remain the same - growing the income side and expanding exports, further investments in equipment and new product development, and crucially - investment in human resources, lifelong learning and professional development as the imperative for the realisation of strategic goals.

Events after the reporting date

- *Change of the Management Board*
  As of January 21, 2024, the members of the Management Board are Gordan Kolak, Josip Lasić, Miki Huljić, Ivan Paić, and Petar Bobek.

- *Acquisition of control*
  On 15 March 2024, KONČAR – Digital Ltd. signed a contract on the sale of a majority ownership stake in the company ADNET Ltd. The contract stipulates that the transaction will be carried out by taking ownership shares directly in the company ADNET Ltd. and by taking over ownership shares in the legal entity that owns the company ADNET Ltd., the company KREANCA SUSTAVI Ltd.

  On March 19, 2024, the conditions for the conclusion of the transaction and the takeover of ownership shares by KONČAR – Digital Ltd. in the companies ADNET Ltd. and KREANCA SUSTAVI Ltd were fulfilled.

  Company KONČAR – Digital Ltd. indirectly acquired 52 percent of the voting rights in ADNET Ltd. With the aforementioned acquisition KONČAR – Digital Ltd. expands its portfolio of products, services and "SLA" (Service Level Agreement) contracts in the areas of equipment delivery, design, implementation and engineering of network and computer equipment and associated application solutions for project needs management and supervision of critical and urban infrastructure.

- *Dalekovod - events after the balance sheet date*
  Follow-up to the first-instance judgment in favour of the Ministry of Finance/Republic of Croatia in the court case in which the Company as plaintiff before the Commercial Court in Zagreb for the payment of the claim in the amount of EUR 6,636,140.42 and the submission legal remedy against the aforementioned judgment, on March 25, 2024. the Company received the decision of the High Commercial Court of the Republic of Croatia that court annulled the first-instance verdict. However, the case was sent back to the Commercial Court in Zagreb for reconsideration and therefore The Company and the Group, due to the development of events during the year regarding the aforementioned dispute and legal uncertainties, hold the aforementioned claim in completely reduced.

- *Offer for the purchase of a minority share in the company Napredna energetska rješenja Inc. and indirectly to Dalekovod Inc.*
  During October 2023, the Group received an offer from the company Construction Line Limited (CL) for the purchase of a business share that corresponds to 49% of the share capital of the mentioned company in the company Napredna energetska rješenja Inc. (NER), which is the owner of 75.16% shares of the company Dalekovod Inc. The group gave a preliminary positive opinion on the mentioned offer, noting that it can only be implemented after fulfilment of the obligations stipulated by the relevant legislation, which includes obtaining approval for the implementation of the transaction from the competent authorities competition authorities in all jurisdictions where approval is required.

  The Group has been working intensively since receiving the offer on receipt of all relevant approvals, but only on April 12, 2024, the approval of the Market Protection Agency was received competition of the Republic of Croatia related to the confirmation of the permissibility of the concentration of entrepreneurs while the process of receiving approval from of the competent authorities for the protection of market competition in BiH and North Macedonia is still ongoing.

  Accordingly, the successful implementation of this potential transaction depends on external factors beyond the Group's control, but in any case the amount the potential purchase price does not represent a significant share of the Group's total assets as of the reporting date.

Difference between the GFI pod form and presented consolidated financial statements

The difference between the balance sheet items presented in the GFI POD form and the audited consolidated financial statements is presented below:

STATEMENT OF FINANCIAL POSITION (in EUR 000)	GFI POD	MSFI	Difference	Explanation
Intangible assets (AOP 003)	25,742	17,389	8,353	Goodwill is disclosed in the IFRS statement as a separate category, while in the GFI POD form it is included in intangible assets.
Goodwill	-	8,353	(8,353)	
Total	**25,742**	**25,742**	**-**	
Predujmovi za nabavu nematerijalne imovine (AOP 007)	-	-	-	Advance payments and intangible assets in preparation are disclosed in the IFRS statement as a single category, while in the GFI POD form they are disclosed as separate categories.
Nematerijalna imovina u pripremi (AOP 008)	3,248	-	3,248	
Imovina u pripremi i predujmovi	-	3,248	(3,248)	
Ukupno	**3,248**	**3,248**	**-**	
Tangible assets (AOP 010)	232,819	213,338	19,481	Investment properties and right-of-use assets are disclosed in the IFRS statement as separate items in accordance with the requirements of IAS 40 and IFRS 16.
Investment properties	-	18,003	(18,003)	
Right-of-use assets	-	1,478	(1,478)	
Total	**232,819**	**232,819**	**-**	
Advance payments for purchase of tangible assets (AOP 116)	8,213	-	8,213	Advance payments and tangible assets in preparation are disclosed in the IFRS statement as a single category, while in the GFI POD form they are disclosed as separate categories.
Tangible assets in preparation (AOP 017)	4,009	-	4,009	
Assets in preparation and advance payments	-	12,222	(12,222)	
Total	**12,222**	**12,222**	**-**	
Non-current financial assets (AOP 020)	39,185	-	39,185	Non-current financial assets are disclosed in the IFRS statement under investments in associates accounted for using the equity method and other investments, while the difference pertaining to loans granted, deposits and alike is disclosed as non-current financial assets in the GFI forms and under loans and receivables in the IFRS statement. Receivables disclosed in the GFI form are included under loans and receivables in the IFRS statement.
Receivables (AOP 031)	6,690	-	6,690	
Investments in associates accounted for using the equity method	-	37,182	(37,182)	
Loans and receivables	-	7,965	(7,965)	
Other investments	-	728	(728)	
Total	**45,875**	**45,875**	**-**	
Non-current assets held for sale (AOP 044)	763	-	763	Under IFRS 5, non-current tangible assets are recognised in the statement of financial position as a separate, stand-alone item, whereas in the GFI POD form they are recognised under inventories.
Non-current assets held for sale (Note 23)	-	763	(763)	
Total	**763**	**763**	**-**	
Receivables (AOP 046)	321,920	-	321,920	Receivables recognised by the measure of progress in accordance with IFRS 15 are recognised as contract assets, while the same item is recognised as trade receivables in the GFI POD form. Amounts included under receivables and prepaid expenses and accrued income in the GFI form are recognised in the IFRS statement under loans and receivables, receivables for prepaid income tax and contract assets. Loans given in the amount of HRK 498 thousand are included in the GFI form under current financial assets, while in the IFRS statement they are recognised under loans and receivables.
Prepaid expenses and accrued income (AOP 064)	9,202	-	9,202	
Loans and receivables	-	251,644	(251,644)	
Contract assets	-	77,966	(77,966)	
Prepaid income tax		1,611	(1,611)	
Total	**331,122**	**331,221**	**(99)**	

Difference between the GFI pod form and presented consolidated financial statements (continued)

The difference between the balance sheet items presented in the GFI POD form and the audited consolidated financial statements is presented below (continued):

STATEMENT OF FINANCIAL POSITION (in EUR 000)	**GFI POD**	**MSFI**	**Difference**	**Explanation**
Current financial assets (AOP 053)	536	-	536	Loans given in the amount of HRK 498 thousand are included in the GFI form under current financial assets, while in the IFRS statement they are recognised under loans and receivables.
Current financial assets	-	438	(438)	
Total	**536**	**438**	**98**	
Retained earnings or accumulated loss (AOP 083)	91,548	-	91,548	Retained earnings and profit for the year are recognised in the GFI form separately, while in the IFRS statement they are recognised under retained earnings.
Profit or loss for the year (AOP 086)	42,933	-	42,933	
Retained earnings	-	138,413	(138,413)	
Total	**134,481**	**138,413**	**(3,932)**	
Provisions (AOP 090)	31,414	-	31,414	Provisions and non-current liabilities are recognised in the GFI form as separate categories, while in the IFRS statement they are recognised under non-current liabilities.
Non-current liabilities (AOP 097)	43,200	-		
Non-current liabilities	-	74,614	(74,614)	
Total	**74,614**	**74,614**	**-**	
Liabilities for loans, deposits etc,	47	-	47	The Group recognised long-term loan liabilities and liabilities towards banks under borrowings, while in the GFI POD form, they are recognised under liabilities toward banks and other financial institutions and other non-current liabilities. Long-term loan liabilities are recognised in the GFI form under other financial liabilities.
Liabilities toward banks and other financial institutions (AOP 103)	31,774	-	31,774	
Liabilities for securities	1,345		1,345	
Other non-current liabilities (AOP 107)	6,247	-	6,247	
Borrowings	-	35,940	(35,940)	
Other financial liabilities	-	3,473	(3,473)	
Total	**39,413**	**39,413**	**-**	
Current liabilities (AOP 109)	377,487	-	377,487	GFI form includes a separate category for accrued expenses and deferred income, while in the IFRS statement they are recognised under current provisions, depending on the category for which they meet the recognition criteria. In accordance with IFRS 15, contract liability from contracts with customers and contract liability – advances received from customers are recognised under contract liabilities, while in the GFI POD form they are recognised under advances received/ accrued expenses and deferred income. In addition, current provisions are recognised as a separate item in the IFRS statement, while in the GFI POD form they are recognised under accrued expenses and deferred income. Items under trade payables and other liabilities classified in the GFI form in accordance with corresponding categories are recognised in aggregate in the IFRS statement.
Deferred income and accrued expenses	36,294	-	36,294	
Current liabilities	-	413,781	(413,781)	
Total	**413,781**	**413,781**	**-**	

Difference between the GFI pod form and presented consolidated financial statements (continued)

The difference between the income statement presented in the GFI POD form and the audited consolidated financial statements is presented below:

INCOME STATEMENT (in EUR 000)	GFI POD	MSFI	Difference	Explanation
Staff costs (AOP 013)	148,774	-	148,774	In the IFRS statement, staff costs also include employee benefits recognised in the GFI form under other costs.
Staff costs	-	161,867	(161,867)	
	148,774	**161,867**	**(13,093)**	
Other costs (AOP 018)	48,819	-	48,819	In the IFRS statement, staff costs also include employee benefits recognised in the GFI form under other costs. Other operating expenses recognised in the GFI form as a separate category are recognised under other operating costs in the IFRS statement.
Other operating expenses (AOP 029)	3,626	-	3,626	
Provisions (AOP 022)	13,178	-	13,178	
Other operating expenses	-	52,531	(52,531)	
	65,623	**52,531**	**13,092**	
Share in profit from investments in associates accounted for using the equity method	-	13,312	(13,312)	Shares in profit/loss from associates and share in profit/loss of joint ventures are recognised in the GFI form under separate categories, while in the IFRS statement they are recognised under a single category.
Share in profit of associates (AOP 049)	12,428	-	12,428	
Share in profit of joint ventures (AOP 050)	896	-	896	
Share in loss of joint ventures (AOP 052)	(12)	-	-12	
	13,312	**13,312**	**-**	

Statement of Management's responsibilities

Pursuant to the Croatian Accounting Act, the Management Board of KONCAR - Electrical Industry Inc. for manufacturing and services (hereinafter: the Company) is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and its subsidiaries (together referred to as "the Group") and of the results of their operations and their cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for:
- selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the separate financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Management Board continues to adopt the going concern basis in preparing the financial statements.

The Management Board is also responsible for the preparation and content of the Management Report and the Corporate Governance Statement, in accordance with the Croatian Accounting Act, and for preparing and publishing consolidated financial statements in electronic form in accordance with the ESEF Regulation.

Management report, Corporate Governance Statement, consolidated financial statement in electronic form in accordance with the ESEF Regulation as well as the attached consolidated financial statements together constitute the Group's Annual Report and were approved and signed by the Management Board on 18 April 2024 for submission to the Supervisory Board and signed below by:

Signed on behalf of Management Board:

Gordan Kolak,
President of the Management Board

Josip Lasić,
Member of the Management Board

Miki Huljić,
Member of the Management Board

Petar Bobek,
Member of the Management Board

Ivan Paić,
Member of the Management Board

KONČAR d.d. Zagreb
Fallerovo šetalište 22
2

KONČAR - Electrical Industry Inc. for manufacturing and services, Zagreb
Fallerovo šetalište 22,
10000 Zagreb

KONČAR Group

Independent Auditor’s Report to the Shareholders of KONČAR Inc.

Independent Auditors' Report to the Shareholders of KONCAR - Electrical Industry Inc. for manufacturing and services

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of KONCAR - Electrical Industry Inc. for manufacturing and services ("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.

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

Independent Auditors' Report to the Shareholders of KONCAR - Electrical Industry Inc. for manufacturing and services (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 recognized in profit or loss in 2023 amounts to EUR 894,079 thousand (2022: EUR 703,872 thousand). Please refer to the accounting policy *2.5 Revenue recognition,* key accounting estimate *2.28 a) Revenue recognition* and note *3 Revenue* in the financial statements.

Key audit matter	How we addressed the matter
The Group's core activities include manufacturing, construction and sales of plant and equipment in the energy and transportation sector as well as related services such as design, engineering and maintenance. The applicable financial reporting standard governing the accounting for revenues, IFRS 15 *Revenue from Contracts with Customers*, requires management to exercise judgement in determining an appropriate revenue recognition pattern (point-in-time vs over time) as well as identifying all goods or services provided to customers and if to account for each such good or service as a separate performance obligation. Where requirements for recognition of revenue over time are met, the Group recognises revenue by reference to the 'progress to complete satisfaction' of the performance obligation which is typically calculated using the 'cost-to-cost' input method measuring the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation. This requires management to make reliable estimates with respect to future costs to completion of a contract and fulfilment of contractual obligations and directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract.	Our procedures performed in this area included: • Evaluating the design, 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; • Assessing the accuracy of contract budgets by analysing historical accuracy of prior year budgets for selected completed and open contracts; • For a sample of contracts or contract equivalents with key customers: - 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 amounts recognised at or around the reporting date;

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue recognition (continued)	
Key audit matter	**How we addressed the matter**
As also discussed in note 2.5, revenue is recognised at a point in time when the performance obligation relevant to the contract is executed and when control over the products and transfers to the customer which is typically upon delivery to the customer. In addition to the above, in relation to its contracts with customers, the Group typically receives advance payments which it accounts for as contract liabilities while goods or services transferred to the customer are recognised as either trade receivables or contract assets depending on whether the Group's right to receive consideration for such goods or services is subject to conditions other than the passage of time. 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.	• For a sample of contracts where revenue is recognised over time, evaluating the appropriateness of the estimated 'progress to complete satisfaction' as at year-end by reference to the provisions of the contract and other supporting documents (such as budgets, progress reports and/or surveys of the progress reports); • 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.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Warranty provisions</td></tr>
<tr><td colspan="2">Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2023 amounted to EUR 29,010 thousand (31 December 2022.: EUR 22,177 thousand). Please refer to the accounting policy 2.23 Provisions, key accounting estimate 2.28 b) Warranty provisions and note 27 Provisions in the financial statements.</td></tr>
<tr><td>Key audit matter</td><td>How we addressed the matter</td></tr>
<tr><td>The Group's customer arrangements include long term product warranties given to customers.

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

As stated in note 2.28b), 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 (where applicable).

The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.</td><td>Our procedures performed in this area included:
Evaluating the design and implementation of selected controls and inputs used in managements' assessment of valuation of provisions.
Challenging the assumptions underlying the valuation of provisions by reference to:
relevant information from customer contracts (such as warranty duration and expiry);
historical levels of product warranty repairs (i.e utilisations of provisions);
available industry information on statistical products failure incidence levels, where applicable; and
market experience from other manufacturers of similar products (where applicable/available).
For utilisations of provisions, on a sample basis:
obtaining an understanding of the nature of actual product warranty repairs incurred during the year, through interviews with management and other relevant personnel;
inspecting relevant customer contracts and warranty terms as well as source documentation such as correspondence with customers with respect to warranty claims, where applicable;
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.</td></tr>
</table>

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.

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.

Independent Auditors' Report to the Shareholders of KONCAR - Electrical Industry Inc. for manufacturing and services (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.

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Audit Act, applicable in Croatia.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 13 June 2023 to jointly audit the consolidated financial statements of KONCAR - Electrical Industry Inc. for manufacturing and services for the year ended 31 December 2023. The total uninterrupted period of engagement as auditors for KPMG Croatia d.o.o. is four years, covering the periods ending 31 December 2020 to 31 December 2023 while the total uninterrupted period of engagement as auditors for TPA Audit d.o.o. is one year relating to the year ended 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;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partners on the joint audit resulting in this independent auditors' report are Igor Gošek and Igor Arbutina.

Independent Auditors' Report to the Shareholders of KONCAR - Electrical Industry Inc. for manufacturing and services (continued)

Report on Other Legal and Regulatory Requirements (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 "KDD-2023-12-31-eng-Consolidated", 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.

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.

Report on Other Legal and Regulatory Requirements (continued)

Report on Compliance with the ESEF Regulation (continued)

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.
Croatian Certified Auditors
Ivana Lučića 2a
10000 Zagreb
Croatia

TPA Audit d.o.o.
Croatian Certified Auditors
Kneza Branimira 28
40323 Prelog
Croatia

18 April 2024

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

KONČAR Group

Consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 EUR'000	2022 EUR'000
Sales revenue	3	894,079	703,872
Bargain purchase gain	34	777	4,417
Other operating income	4	13,173	16,971
		908,029	**725,260**
Change in inventory of work in progress and finished goods		29,605	14,570
Raw materials, products, consumables and services used	5	(619,347)	(499,093)
Staff costs	6	(161,867)	(134,709)
Depreciation and amortisation	13,14,15	(19,136)	(16,906)
Impairment losses	7	(12,465)	(6,138)
Other operating expenses	8	(52,531)	(33,069)
		(835,741)	**(675,345)**
Operating profit		**72,288**	**49,915**
Finance income		3,298	2,076
Finance expenses		(3,545)	(1,784)
Net finance income	9	**(247)**	**292**
Share in profit of equity accounted investees	16	**13,314**	**3,350**
Profit before tax		**85,355**	**53,557**
Income tax	10	(14,453)	(4,429)
Net profit for the period		**70,902**	**49,128**
Profit is attributable to			
Owners of the Company		46,328	34,555
Non-controlling interests		24,574	14,573
Earnings per share			
Basic and diluted earnings per share	11	18.19	14.00

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 EUR'000	2022 EUR'000
PROFIT FOR THE PERIOD		**70,902**	**49,128**
Other comprehensive income:			
Items that may not be reclassified to profit or loss:			
Gain or loss from revaluation of financial assets available for sale		**1,574**	**-**
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(442)	(7)
COMPREHENSIVE INCOME FOR THE YEAR		**72,034**	**49,121**
Comprehensive income for the period attributable to:			
Owners of the Company		46,969	34,554
Non-controlling interest		25,065	14,567

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note	31 Dec 2023 EUR'000	31 Dec 2022 EUR'000
ASSETS			
Goodwill	12	8,353	1,136
Intangible assets	13	17,389	10,659
Property, plant and equipment	14	213,339	185,274
Right of use assets		1,478	1,236
Investment property	15	18,003	16,236
Investments in equity accounted investees	16	37,182	32,123
Other investments	17	728	1,088
Loans and receivables	18	7,965	8,562
Deferred tax assets	10	8,917	6,227
Non-current assets		**313,354**	**262,541**
Inventories	19	219,769	189,457
Loans and receivables	20	251,644	219,301
Contract assets	21	77,966	67,050
Prepaid income tax		1,611	804
Financial assets	22	438	2,916
Cash and cash equivalents	23	153,823	57,263
Assets held for sale	24	763	2,066
Current assets		**706,014**	**538,857**
TOTAL ASSETS		**1,019,368**	**801,398**
EQUITY AND LIABILITIES			
Share capital		159,471	160,448
Capital reserves		1,073	96
Other reserves		107,261	111,855
Retained earnings		138,413	93,368
Attributable to owners of the Company	25	406,218	365,767
Non-controlling interests	26	124,755	94,702
EQUITY AND RESERVES		**530,973**	**460,469**
Borrowings	28	35,940	26,279
Warranty provisions	27	21,631	16,302
Other provisions	27	9,783	9,062
Other financial liabilities		3,473	1,597
Deferred tax liabilities	10	3,787	2,426
Non-current liabilities		**74,614**	**55,666**
Borrowings	28	29,793	53,869
Other financial liabilities	29	21,810	4,628
Trade and other payables	30	191,861	156,641
Contract liabilities	21	144,377	56,797
Warranty provisions	27	7,380	5,875
Income tax liabilities		15,307	5,814
Other provisions	27	3,253	1,639
Current liabilities		**413,781**	**285,263**
Total liabilities		**488,395**	**340,929**
TOTAL EQUITY AND LIABILITIES		**1,019,368**	**801,398**

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			
Proceeds from trade receivables		968,437	634,081
Proceeds from insurance reimbursements		1,417	468
Proceeds from tax returns		29,511	28,260
Payments to suppliers		(623,931)	(535,512)
Payments for employees		(154,729)	(125,891)
Cash payments to insurance companies		(3,445)	(2,940)
Taxes paid		(41,051)	(18,625)
Other cash payments		(11,202)	(9,525)
Cash from operations		**165,007**	**(29,684)**
Interest paid		(1,581)	(852)
Income tax paid		(8,508)	(4,268)
Net cash flows from operating activities		**154,918**	**(34,804)**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		4,594	2,811
Proceeds from collection of receivables		391	380
Interest received		1,448	1,694
Dividends received		5,438	5,199
Proceeds from repayment of term deposits and other investing activities		5,184	15,998
Proceeds from other investing activities		7	15,133
Net proceeds from the acquisition of subsidiary		-	11,858
Purchase of non-current tangible and intangible assets	13, 14	(22,562)	(21,864)
Acquisition of additional interest in subsidiaries		(9,267)	(216)
Cash used for term deposits and other investing activities		(2,947)	(2,614)
Net cash flows from investing activities		**(17,714)**	**28,379**
Cash flows from financing activities			
Proceeds from borrowings	28	26,423	56,544
Proceeds from increase in share capital		-	62
Other cash inflow from financing activities		2,013	825
Repayments of borrowings	28	(49,007)	(22,970)
Dividends paid		(9,154)	(7,176)
Other outflow cash from financing activities		(10,919)	(19,849)
Net cash flow from financing activities		**(40,644)**	**7,436**
Net increase in cash flows		**96,560**	**1,011**
Cash and cash equivalents at beginning of the period		57,263	56,252
Cash and cash equivalents at end of year	23	**153,823**	**57,263**

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

(in EUR thousand)	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Non-controlling interest	Total
As at 1 January 2022	**160,448**	**96**	**104,431**	**4,581**	**(2,106)**	**68,104**	**41,862**	**377,416**
Profit for the year	-	-	-	-	-	34,555	14,573	**49,128**
Other comprehensive income								
Translation reserves	-	-	(1)	-	-	-	(6)	**(7)**
Total comprehensive income	*-*	*-*	*(1)*	*-*	*-*	*34,555*	*14,567*	***49,121***
Transactions with owners								
Transfers	-	-	4,987	(55)	55	(4,987)	-	**-**
Dividends paid	-	-	-	-	-	(4,392)	(2,793)	**(7,185)**
Effect of sales / acquisitions of subsidiaries	-	-	(37)	-	-	88	41,066	**41,117**
	-	-	4,950	(55)	55	(9,291)	38,273	**33,932**
As at 31 December 2022	**160,448**	**96**	**109,380**	**4,526**	**(2,051)**	**93,368**	**94,702**	**460,469**
Profit for the year	-	-	-	-	-	46,328	24,574	**70,902**
Transfer on conversion to EUR	(977)	977	-	-	-	-	-	**-**
Other comprehensive income								
Translation reserves	-	-	(191)	-	-	2	(253)	**(442)**
Remeasurement to fair value upon acquisition (note 34)	-	-	830	-	-	-	744	**1,574**
Total comprehensive income	*(977)*	*977*	*639*	*-*	*-*	*46,330*	*25,065*	***72,034***
Transactions with owners								
Transfers	-	-	(1,319)	(19)	19	-	2,266	**947**
Dividends paid	-	-	-	-	-	(5,093)	(3,812)	**(8,905)**
Effect of sales / acquisitions of subsidiaries	-	-	(3,914)	-	-	3,808	6,534	**6,428**
	-	-	*(5,233)*	*(19)*	*19*	*(1,285)*	*4,988*	***(1,530)***
As at 31 December 2023	**159,471**	**1,073**	**104,786**	**4,507**	**(2,032)**	**138,413**	**124,755**	**530,973**

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 on the Group

Activities

The principal activities of the KONČAR Group, Zagreb (hereinafter: "the Group") are divided into four main areas:

I. Generation of electrical energy;
II. Transmission and distribution of electrical energy;
III. Rail vehicles and infrastructural services;
IV. Digital solutions and platforms.

Group structure

The Group comprises 12 subsidiaries involved in core business activities and 3 subsidiaries with special activities, specifically research and development of products and infrastructural services and investments and companies controlled by subsidiaries including companies of the Dalekovod Group. Associates and joint ventures are shown in note 16.

The Group's Parent company is KONČAR - Electrical Industry Inc., (OIB: 45050126417), Zagreb, Fallerovo šetalište 22 (hereinafter: the "Company"). The Company is a holding company of all companies in its ownership.

Number of employees

As at 31 December 2023, the Group had 5,271 employees, while as at 31 December 2022 the Group had 4,826 employees.

Members of the Supervisory Board:

Joško Miliša	President of the Supervisory Board
Darko Horvatin	Deputy President of the Supervisory Board
Branko Lampl	Member of the Supervisory Board
Ivan Milčić	Member of the Supervisory Board
Danko Škare	Member of the Supervisory Board
Mario Radaković	Member of the Supervisory Board
Ruža Siluković	Member of the Supervisory Board
Zvonimir Savić	Member of the Supervisory Board
Maja Martinović	Member of the Supervisory Board

Members of the Management Board:

Gordan Kolak	President of the Management Board
Miki Huljić	Member of the Management Board
Josip Lasić	Member of the Management Board
Petar Bobek	Member of the Management Board (since 21 January 2024)
Ivan Paić	Member of the Management Board (since 21 January 2024)

Fees payable to the statutory auditors of the Group for the year ended 31 December 2023 amounted to EUR 628 thousand (2022: EUR 473 thousand) of which EUR 449 thousand (2022: EUR 373 thousand) relates to the audit of statutory financial statements and assurance services related to other reports prepared for regulatory purposes. The remaining amounts relate to permissible non-audit services with respect to financial advisory provided by the auditor KPMG Croatia d.o.o.

Management Board and Supervisory Board remuneration is presented in note 33 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2 Material accounting policy information

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

2.1 Basis of preparation

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

The Group's consolidated financial statements have been prepared under the accrual basis of accounting, whereby the transaction effects are recognised when incurred and recorded in the financial statements for the period to which they relate, as well as under the going concern assumption.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are stated at fair value.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 2.27.

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);

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.

2 Material accounting policy information (continued)

2.1 Basis of preparation (continued)

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.

2.2 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.

2.3 Investments in associates and joint ventures

Associates

Associated 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.

2 Material accounting policy information (continued)

2.3 Investments in associates and joint ventures (continued)

Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Dividends received or receivable from joint ventures are deducted from the carrying value of the investment.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Business combinations

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or 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.

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 the 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 CGUs, or groups of CGUs, that is 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 CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.

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

2 Material accounting policy information (continued)

2.5 Revenue recognition

KONČAR Group recognises revenue from:
- manufacturing and sales of products, equipment and machines (e.g. transformers, rotary machines and other equipment and machinery) in the energy sector
- design and construction of rail vehicles and related equipment
- projects for construction of plant and equipment for generation, transmission and distribution of electricity as well as related design and engineering services

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer. The transfer of control of a good or service may take place continuously (revenue recognition on a progress towards completion basis) or at a point in time (recognition on completion). Before revenue is recognised, the Group identifies both the contract and the various performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activities. Most of the Group's contracts involve only one performance obligation. Revenue recognition policies under IFRS 15 applicable to revenue streams are as follows:

- Revenue from sale of products, equipment and machinery

Revenue from the manufacturing and sale of products, equipment and machinery is recognized by the Group in part over time as the performance obligation is performed, and in part upon completion, upon fulfilment of the performance obligation, depending on the specifics of a relevant contract.

With respect to the manufacturing and sale of products such as transformers, small motors and small generators, revenue is generally recognized at a point in 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 one of the parties to the contract with the customer fulfils its obligation, the contracts with the customers are presented in the statement of financial position as a contractual obligation, contractual assets or as a receivable, depending on the relationship between the Group's performance and the customer's payment. Contractual assets and liabilities are stated as current, as they arose within the normal operating period.

Revenue from the manufacturing and sale of large generators (rotary machines) is recognised over time similar to the recognition policy for sale of rail vehicles.

- Revenue from the sale of rail vehicles and related services

Part of the Group's operations includes the manufacture and sale of rail vehicles and related maintenance services. Revenues from sale of rail vehicles are recognized over time in accordance with the fulfilment of the performance obligation by measuring the costs incurred up to a certain date in relation to the total expected costs required to perform the obligations under the contract. Typically, customer arrangements for sale of rail vehicles will either include maintenance services as a component of the main customer contract or such services would be contracted for separately. In either case, maintenance services are treated by the Group as a separate performance obligation and recognised over time as they are rendered.

2 Material accounting policy information (continued)

2.5 Revenue recognition (continued)

- Revenue from construction projects

Revenue from project to construct plant and equipment in the energy sector is generally recognise over time as the performance obligation is satisfied.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the duration of the contract. Contract costs are recognized as incurred.

The Group estimates the 'progress to satisfaction' of the performance obligation to determine the appropriate amount of revenue and costs to recognize in a given period. The 'progress to satisfaction' is calculated using the 'cost-to-cost' input method which measures the proportion of contracts costs incurred up to the reporting date compared to total estimated contract costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the 'progress to satisfaction' and are presented as inventories, prepayments or other assets, depending on their nature. The Group present as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within 'trade and other receivables'. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

When contractual terms of a customer arrangement do not give the Group an enforceable right to payment for performance completed to date, revenue from such project is recognised on completion and full satisfaction of the performance obligation until which time costs related to such projects are recognised within inventory.

- Sales of services

The Group generates revenue from services such as engineering, design and maintenance which may be contracted for separately or within a wider customer arrangement. When such services are included as a component of a customer contract (in case of contracts for construction of plants or complex products), they are typically treated as a separate performance obligation. Revenue from these services is generally recognised over time on a straight-line basis or as services are rendered, 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.

2.6 Finance income and costs

Finance income and costs 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.

Foreign exchange gains and losses are included in the Statement of comprehensive income and are presented in notes in net amounts (the stated amounts include foreign exchange differences from principal activities as well as foreign exchange differences from financing activities).

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

2 Material accounting policy information (continued)

2.7 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time for its intended use or sale, is added to the cost of that asset until the asset is substantially ready for its intended use or sale.

Other borrowing costs are charged to the income statement in the period in which they are incurred.

2.8 Foreign currency transactions

Foreign currency transactions are initially converted into euros 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.

On consolidation, assets and liabilities of the Group's foreign operations are translated into the Group's presentation currency at the exchange rates prevailing at the reporting date. Income and expenses are translated at the foreign exchange rates ruling at the dates of the transactions and the exchange differences are recognized in other comprehensive income. All foreign exchange gains and losses are recognised in the period in which the transaction occurred.

2.9 Income tax

The parent company as well as domestic Group companies account for their tax liabilities in accordance with Croatian law. Income tax for the year comprises current and deferred tax.

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

Deferred taxes arise from temporary differences between the amounts of assets and liabilities in the financial statements and the values presented for the purposes of determining the income tax base. A deferred tax asset for the carry-forward of unused tax losses and unused tax credits 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 in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

2 Material accounting policy information (continued)

2.11 Segment information

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The Management/Supervisory Board that makes strategic decisions has been identified as the chief operating decision maker, responsible for allocating resources and assessing performance of the operating segments..

In identifying operating segments, Management mostly considers the sale of goods and provision of services within a certain economic area. Each of these operating segments are separately managed since they are determined on the basis of specific market needs. During the year the Group re-presented segment under a new structure to enhance transparency.

Policies of valuation/measurement used by the Group for segment reporting are the same as those used during the preparation of the financial statements.

Furthermore, assets which cannot be directly attributable to certain business segments remain unallocated.
There were no changes in the valuation methods used when determining the profit/loss of an operating segment compared to previous periods.

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

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

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

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred. Gains or losses on the retirement or disposal of assets are included in the income statement in the period when incurred.

Brand acquired in the business combination is recognized at fair value on the date of acquisition. It has an unlimited lifespan because analyses performed by all relevant factors on the reporting date show that there is no predictable limit for the period during which it is expected to generate net cash inflows. Intangible assets with an unlimited lifetime are checked annually for impairment.

Amortisation and depreciation are charged so as to write off the cost of each asset, other than land, advances and non-current intangible and tangible assets under construction, over their estimated useful lives, using the straight-line method, as follows:

	Amortisation and depreciation rates (from – to %)
Development expenditure	20%
Concessions, patents, licences, software etc.	20%-25%
Other intangible assets	20%
Buildings	1.2% - 7.7%
Plant and equipment	2.9% - 25%
Tools and equipment, transport vehicles	3.4% - 25%
Other tangible assets	20%

2 Material accounting policy information (continued)

2.12 Non-current intangible and tangible assets (property, plant and equipment) – (continued)

Impairment of property, plant and equipment

The Company reviews the carrying amount of its property, plant and equipment to determine whether there is any indication of impairment of such assets. If any such indication exists, based on internal and external sources of information, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit (plant or line to which the asset belongs), and then the loss is allocated to individual assets within the unit.

When determining impairment losses or reversal of impairment loss for an item of property, plant and equipment the depreciation rate is not changed, but the impairment and useful life of the item are changed.

The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If the amount of tangible assets exceeds its recoverable amount, the difference is charged to the operating result (impairment loss). At each reporting date the Group reviews if there are indicators that the previously recognised impairment loss should be reversed or decreased.

2.13 Investment property

Investment property is property (land, buildings or a part of a building, or both) held to earn rentals or for capital appreciation (or both). Investment property is treated as long-term investments. Investment property is carried at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Land is not depreciated. Depreciation of other investment property (buildings) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date and when necessary. The estimated useful life of the majority of investment properties, as assessed by management, is 5 years.

Subsequent expenditure is capitalised when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred. If the Group starts using the investment property, it is reclassified to property, plant and equipment. The Group discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers. Based on these estimates, the Group has estimated that the residual value of these properties is higher than its carrying amount and, accordingly, depreciation is not calculated until this residual value is reduced to a value lower than its carrying amount.

2 Material accounting policy information (continued)

2.14 Financial assets and liabilities

Classification and measurement of financial assets
Assets are classified and measured as shown in Note 31.

The business model for managing financial assets depends on how the Group manages the financial assets for the purpose of generating cash flows. A reclassification of debt instruments is required if the business model changes. Business models for managing financial assets include:
- amortised cost model - business model whose objective is to hold financial assets in order to collect contractual cash flows (principal and interest),
- fair value through other comprehensive income - business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- fair value through profit or loss - business model whose objective is to hold the 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 profit or loss) using the expected credit loss model.

Provisions for impairment of receivables on customers and contract assets are measured in the amount equal to expected credit losses over the lifetime, i.e. using a simplified approach to expected credit losses.

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

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when assessing credit loss, a general impairment approach is applied consisting of three stages.

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

Objective evidence of impairment of financial assets for expected credit losses includes:
- significant financial difficulty of the issuer or debtor and/or
- breach of a contract, such as a default or delinquency in interest or principal payments; and/or
- probability that the borrower will enter bankruptcy or financial restructuring

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

2 Material accounting policy information (continued)

2.14 Financial assets and liabilities (continued)

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 assets of a company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs..

Financial guarantee contracts

A financial guarantee contract is a financial liability measured initially at fair value and subsequently measured at the higher of:

- the amount determined under the expected credit loss model in accordance with IFRS 9 and
- the amount initially recognised less, where appropriate, the cumulative effect recognised in accordance with the revenue recognition policies.

Financial liabilities, classification and measurement

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

Derecognition of financial liabilities

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

2 Material accounting policy information (continued)

2.15 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale when their carrying value will be recovered principally through a sale transaction rather than through continuing use.

This condition is satisfied only if the sale is highly probable and the asset is ready for sale in its current condition. Assets which are once classified as held for sale are no longer depreciated.

2.16 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 units of production such as direct labour and similar. They also comprise a systematic allocation of fixed and variable production overheads incurred in converting raw materials into finished goods. Fixed production overheads are indirect costs of production that remain relatively constant regardless of the level of production, such as depreciation, maintenance of factory buildings, 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 in normal circumstances, taking into account a production loss due to planned maintenance. Unallocated overheads are expensed in the period in which they are incurred.

Slow-moving and obsolete inventories are written off to its net realisable value by using value adjustment for these inventories. 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.

2 Material accounting policy information (continued)

2.17 Receivables

Receivables are initially measured at fair value. At each balance sheet date, receivables, whose collection is expected within a period of more than 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 allowance for the estimated uncollectible amounts and impairment losses.

The credit loss allowance for trade receivables and contract assets is measured at an amount equal to lifetime expected credit losses, i.e. by using the simplified approach to ECL measurement.

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

The value of receivables is impaired and impairment losses for individual customers are incurred only if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of an asset when such event affects estimated future cash flows from receivables which can be reliably estimated.

Objective evidence of impairment of financial assets for expected credit losses includes:
- significant financial difficulty of the issuer or debtor and/or
- breach of contract, such as a default or delinquency in interest or principal payments; and/or
- probability that the borrower will enter bankruptcy or financial restructuring

2.18 Cash and cash equivalents

Cash consists of bank demand deposits, cash on hand and deposits and securities payable on demand or collectible within three months.

2.19 Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less, or in the regular operating cycle of the business if longer. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

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

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

2 Material accounting policy information (continued)

2.21 Leases

Leases are recognized as right-of-use assets and corresponding liabilities at the date at 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.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or 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 the vehicles	2 - 5 years
- right of use commercial buildings	5 years
- right of use for land	1 - 3 years

Payments associated with all short-term leases and certain leases of all 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 corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognized as an expense on a straight-line basis over the lease term.

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

Low-value assets comprise printers, small items of office furniture, business premises, tents and gas bottles.

The weighted average marginal lending rate used to measure lease liabilities is 2% to 5.2%.

Lease activities

The Group leases various properties cars, 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:

- Cars are leased for a fixed period of 4 – 5 years
- A building facility is rented for a specified period of 5 years with the possibility of renewing the contract. The lease payments are fixed.
- The land is rented for a certain period of 3 years with the possibility of renewing the contract. The lease payments are fixed.

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

The future cash outflows to which the Group as a lessee is potentially exposed that are not reflected in the measurement of the lease liability are not significant.

The Group does not provide any residual value guarantees.

2 Material accounting policy information (continued)

2.22 Government grants

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

Government grants whose primary condition is that the Group 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 Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

2.23 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.

2.24 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.

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.

2 Material accounting policy information (continued)

2.24 Employee benefits (continued)

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.

2.25 Contingent assets and liabilities

Contingent liabilities are not recognised in the Group's consolidated financial statements, but only disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the Group's consolidated financial statements, except in case where the realisation of income is certain and the assets in question are not contingent assets and their recognition is appropriate.

2.26 Events after the balance sheet date (subsequent events)

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

2.27 Key accounting estimates and judgments

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the 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 both over time and at a point in time, depending on the specifics of a customer arrangement as described in accounting policy 2.5. When recognising revenue over time, the method of measuring progress highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments. The Group has determined the input method as the best method for measuring progress in providing services because there is a direct link between Group effort (total project costs incurred) and the transfer of services to the customer. If revenue is recognised over time, this is done by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations.

The Group also recognises revenue at a point in time for the delivery of goods by recognising revenue when the customer obtains control of a particular item, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unsatisfied obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2 Material accounting policy information (continued)

2.27 Key accounting estimates and judgments (continued)

b) Warranty provisions

The Group provides long term warranties for its products and completed projects for an average period of years. In certain cases where warranties extend past this range, the Group analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a provision for warranty repairs based on historical information on warranty utilisation costs of warranty repairs as well as industry statistics (such as those related to incidence of major failure of certain equipment, primarily transformers and generators). Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances. Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of products as a result of technical analyses and correspondence with customers. Factors which affect the amount of such provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs.

c) Recoverability of non-financial assets

At the end of each reporting period, the Group assesses whether there are any indications that the value of non-financial assets should be impaired and estimates the recoverable amount of non-financial assets. The impairment is based on many factors such as change in expected industry growth, increase in capital expense, changes in market conditions, changes in future funding possibilities, technological obsolescence, termination of provision of services or sale of goods, exchange costs, amounts paid in comparable transactions and other changes in circumstances that indicate the existence of impairment. The calculation of fair value less costs to sell is based on the data available from related arm's length transactions for similar assets or observable market prices less any additional costs of asset disposal. The calculation of value in use is based on the discounted cash model, which is derived from the medium-term financial plan, and after that planning period they are extrapolated by using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflow and the rate used to extrapolate the data.

d) Recoverability of goodwill and intangible assets with indefinite useful life

The Group conducts annual impairment testing of intangible assets with indefinite useful life, in accordance with the policy stated in note 2.12 and note 2.4 regarding goodwill impairment testing. Intangible assets with indefinite useful lives and goodwill are tested for impairment on an individual basis.

Goodwill

The Group allocates goodwill to business segments in accordance with the allocation of relevant cash-generating units (to which goodwill is allocated to) into segments reported by the Group. The allocation of goodwill to segments is shown in note 12.

The calculation of the recoverable amount of goodwill is carried out using the discounted cash flow method (DCF method), during which the Group calculates the present value of the future cash flows of the cash-generating units to which the goodwill in question is allocated to. The DCF method also implies a terminal growth rate of cash flows after a five-year period of 2 %. Cash flows created from such business plans are discounted using a discount rate that reflects the risk of the asset in question, which is approximated by the weighted average cost of capital for the relevant market and industry and ranged from 10.3% to 12%. As a result of the conducted impairment tests, the Group had no goodwill impairment charges during 2023 and 2022. The sensitivity analysis of the key assumptions in the impairment test (discount rate and terminal growth rate) to reasonable changes (defined as 50 basis points) does not indicate any material changes in the outcome of the impairment tests.

2 Material accounting policy information (continued)

2.27 Key accounting estimates and judgments (continued)

d) Recoverability of goodwill and intangible assets with indefinite useful life (continued)

Brand

Brand refers to the acquired rights to use trademarks, trademarks and brand names that the Group allocates to business segments in accordance with the allocation of products/services to which a specific brand refers. The brand is entirely allocated to the electricity transmission and distribution segment.

The Group annually conducts a brand impairment test to assess whether its recoverable amount indicates a potential impairment. The calculation of the recoverable amount is based on five-year sales plans of the products/services that make up the brand, which the Group developed taking into account the corporate sales and marketing strategy, trends in the markets where relevant revenues are generated etc.

Cash flows generated from such plans are discounted using a discount rate that reflects the risk of the subject asset and which, for purposes of calculating the impairment test, is approximated by the weighted average cost of capital (WACC) related to the brand's primary sales market and industry.

To calculate the recoverable value of the brand, the group applies the income approach - the method of non-payment of royalties.

The basis of the non-payment of royalties method states that the value of an intangible asset is equal to the amount that the owner would pay for a license over that asset if he did not own it, that is, the value is equal to the discounted after-tax savings in a situation of non-payment of royalties, i.e. fees for the use of trademarks.

When calculating the recoverable value of the brand, discount rate approximating the weighted average cost of capital after tax (WACC) for the particular market and industry to which the brand relates to was used and amounted to 12.3% (2022: 12.25%) while the applied terminal growth rate for brand is 2% (2% in 2022).

As a result of the brand impairment test, the Group had no brand impairment costs during 2023.

The sensitivity analysis of the key assumptions in the impairment test (discount rate and terminal growth rate) to reasonable changes (defined as 50 basis points) does not indicate any material changes in the outcome of the impairment tests.

2 Material accounting policy information (continued)
2.28 Subsidiaries

		31 Dec 2023		31 Dec 2022	
	Country	Ownership share (%)	Effective % of group	Ownership share (%)	Effective % of group
Subsidiaries registered in Croatia consolidated:					
KONČAR - Motors and electrical systems Ltd, Zagreb	Croatia	100.00	100.00	100.00	100.00
KONČAR – Engineering Co. Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
Telenerg – Engineering Co Ltd, Zagreb	Croatia	100.00	100.00	-	-
INK PROJECT Ltd. For construction and services	Croatia	100.00	100.00	-	-
KONČAR – Infrastructure and Services Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
KONČAR – Electrical Engineering Institute Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
KONČAR – Generators and Motors Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
KONČAR – Steel Structures Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
KONČAR – Switchgear Ltd., Zagreb	*Croatia*	*100.00*	*100.00*	*100.00*	*100.00*
KONČAR – Renewable Energy Sources Ltd., Zagreb	*Croatia*	*100.00*	*100.00*	*100.00*	*100.00*
Wind farm Rust Ltd.	Croatia	100.00	100.00	100.00	100.00
Solar power plant Deponija fosfogipsa Ltd., Zagreb	Croatia	51.00	51.00	51.00	51.00
KONČAR – Electric Vehicles Inc., Zagreb	Croatia	77.74	77.74	75.04	75.04
Konell Ltd., Sofia, Bulgaria *	Bulgaria	85.00	85.00	85.00	85.00
KONČAR – Electronics and Informatics Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
KONČAR – Instrument Transformers, Inc., Zagreb	Croatia	99.77	99.77	99.77	99.77
KONČAR – Distribution and Special Transformers, Inc., Zagreb	Croatia	67.90	67.90	67.90	67.90
FEROKOTAO Ltd.	Croatia	51.80	35.17	16.00	16.00
Power Engineering Transformatory Sp. z o.o. (PET), Poznan, Poland	Poland	100.00	67.90	100.00	67.90
KONČAR – Digital Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
Kodeks sistemske integracije Ltd, Zagreb	Croatia	75.00	75.00	-	-
KONČAR – Transformers boilers Ltd for production, Sesvete (Zagreb)	Croatia	100.00	100.00	-	-
KONČAR – Investments Ltd., Zagreb	Croatia	100.00	100.00	100.00	100.00
Advanced energy solutions Ltd., Zagreb	Croatia	51.00	51.00	51.00	51.00
Dalekovod Inc., Zagreb	Croatia	75.16	38.33	75.16	38.33
DALEKOVOD MK Ltd., Velika Gorica	Croatia	100.00	38.33	100.00	38.33
DALEKOVOD OSO Ltd,., Velika Gorica	Croatia	100.00	38.33	100.00	38.33
Dalekovod Project Ltd., Zagreb	Croatia	100.00	38.33	100.00	38.33
Dalekovod EMU Ltd., Vela Luka	Croatia	100.00	38.33	100.00	38.33
EL-RA Ltd,., Vela Luka	Croatia	100.00	38.33	100.00	38.33
Dalekovod Adria Ltd,., Zagreb	Croatia	-	-	100.00	38.33
Cinčaonica usluge Ltd.,.in liquidation, Velika Gorica	Croatia	100.00	38.33	100.00	38.33
Dalekovod Mostar Ltd.., Mostar, BIH	BiH	100.00	38.33	100.00	38.33
Dalekovod Ljubljana Ltd., Ljubljana, Slovenia	Slovenia	100.00	38.33	100.00	38.33
Dalekovod Norge AS, Oslo, Norway	Norway	100.00	38.33	100.00	38.33
Dalekovod Ukrajina Ltd., Kijev, Ukraince	Ukraine	100.00	38.33	100.00	38.33

** The entity is not consolidated due to immateriality.*

22 Material accounting policy information (continued)

2.28 Subsidiaries (continued)

In several subsidiaries, the Group has control through the majority of voting rights. However, the ownership share in these companies does not correspond to the share in voting rights since these companies also have preference shares that have all the rights as the ordinary shares have, except for voting rights. The share in the ownership of these companies is as follows:

	31 December 2023	**31 December 2022**
	Ownership share (%)	Ownership share (%)
KONČAR - Instrument Transformers Inc., Zagreb	61.97	61.97
KONČAR - Distribution and Special Transformers Inc., Zagreb	52.73	52.73

During 2023, the Group acquired control in the following companies:
- KONČAR – Electrical appliances Ltd., Dicmo (indirect ownership through the subsidiary company KONČAR - Switchgear Ltd.),
- Telenerg – Engineering Ltd., Zagreb (indirect ownership through the subsidiary company KONČAR - Engineering Co. Ltd.)
- INK PROJECT Ltd., for construction and services (indirect ownership through the subsidiary company KONČAR - Engineering Co. Ltd)
- Kodeks sistemske integracije Ltd., Zagreb (indirect ownership through subsidiary company KONČAR – Digital Ltd.)
- EXA Globe Ltd. (indirect ownership through the subsidiary company KONČAR – Digital Ltd.),
- FEROKOTAO Ltd. for the production of transformer boilers and other metal constructions (indirectly owned through the subsidiary company KONČAR - Distribution and Special Transformers Inc.).

In 2023, the parent company founded KONČAR – Transformer Tanks Ltd. for production.

On April 1, 2022, the Group acquired control over Dalekovod group. Details are shown in note 34.

On 31 May 2022, a part of KONČAR - Electronics and Informatics Inc.'s was merged into KONČAR – Digital Ltd.

During 2022, the Group acquired control over the company Solar power plant Landfill Phosphogips Ltd. This acquisition has no material impact on the Group's consolidated financial statements.

3 Sales revenue

	2023 EUR'000	2022 EUR'000
Major products/service lines		
Production of electricity	**80,430**	**67,268**
Transmission and distribution of electricity	**601,025**	**470,254**
- transmission	221,027	186,246
- distribution	379,998	284,008
Rail vehicles and railway infrastructure	**104,051**	**99,013**
- Rail vehicles	77,567	83,343
- construction and modernization of railway infrastructure	26,484	15,670
Digital solutions	**23,328**	**5,144**
Total reportable segments	**808,834**	**641,679**
Other	85,245	62,193
Revenue from contract with customers	**894,079**	**703,872**
Related parties	20,639	16,432
Unrelated parties	873,440	687,440
Revenue from contract with customers	**894,079**	**703,872**
Timing of revenue recognition		
Point in time	679,046	503,180
Over time recognition	215,033	200,692
Revenue from contract with customers	**894,079**	**703,872**

Revenue by regions:

	2023		2022	
	EUR'000	**%**	**EUR'000**	**%**
Croatia	**314,930**	**35,22%**	**273,330**	**38.83%**
Other countries in the European Union	418,759	46,84%	313,178	44.49%
	733,689	**82,06%**	**586,508**	**83.33%**
Asia and Africa	54,309	6,07%	29,464	4.19%
Neighboring countries*	32,562	3,64%	17,223	2.45%
America and Australia	18,173	2,03%	18,919	2.69%
Europe countries not part of European Union	55,346	6,19%	51,758	7.35%
	160,390	**17,94%**	**117,364**	**16.70%**
	894,079	**100,00%**	**703,872**	**100.00%**

**Neighbouring countries refer to Serbia, Montenegro, Albania, Bosnia and Herzegovina and Macedonia*

4 Other operating income

	2023 EUR'000	2022 EUR'000
Revenues from project co-financing	663	1,751
Profit from the sale of property	3,732	1,589
Compensation for damages	1,895	762
Revenue from subsequent use of inventories	1,140	676
Collected written-off receivables	286	279
Sales of materials	705	899
Government grants	454	515
Rental income	553	583
Subsequent discounts, rebates	243	204
Inventory surplus	968	207
Other /i/	2,534	9,506
	13,173	**16,971**

/i/ Other revenues in 2022 refer to realized profits from the purchase of receivables on loans, collection of corrected receivables, income of past periods and the like.

5 Raw materials, products, consumables and services used

	2023 EUR'000	2022 EUR'000
Cost of raw materials and supplies	466,646	391,311
External product design and selling services	53,594	39,539
Cost of goods sold	43,395	24,009
Energy cost	10,915	8,910
Maintenance services (servicing)	8,282	5,970
Freight forwarding	15,409	14,070
Agent commission costs	4,151	3,095
Other external costs	16,955	12,189
	619,347	**499,093**

6 Staff costs

	2023 EUR'000	2022 EUR'000
Net salaries and wages	93,058	77,409
Taxes and contributions from salaries	37,590	29,635
Contributions on salaries	18,125	14,797
Reimbursements of costs to employees, gifts and support	12,605	12,097
Compensations to members of the Supervisory Board (gross)	453	475
Voluntary pension funds	36	296
	161,867	**134,709**

In 2023, pension fund contributions amounted to EUR 26,878 thousand (2022: EUR 21,872 thousand).

During 2023 termination benefits and severances amounted to EUR 844 thousand (2022: EUR 342 thousand).

Average number of employees during 2023 was 4,888 (2022: 4,820 employees).

During the year, the Group capitalized salaries in the total amount of EUR 3,487 thousand (2022: EUR 1,435 thousand) (net salaries and wages in the amount of EUR 1,803 thousand (2022: EUR 841 thousand), taxes, surcharges and contributions from salaries in the amount of EUR 755 thousand (2022: EUR 411 thousand) and salary contributions in the amount of EUR 584 thousand (2022: EUR 183 thousand)).

7 Impairment losses

	2023 EUR'000	2022 EUR'000
Impairment losses on non-financial assets::		
Impairment losses on non-current assets:		
Impairment losses on property, plant and equipment	1,217	658
Impairment losses on current assets:		
Impairment of inventories	3,722	3,372
	4,939	**4,030**
Impairment losses on financial assets	7,526	2,108
Total impairment losses	**12,465**	**6,138**

Impairment of financial assets relates mostly to the impairment allowance for receivables from the Ministry of Finance where the Company initiated the collection of the receivable in accordance with contractual terms. However, in November 2023 the Company received a first instance ruling from the Commercial Court in Zagreb which rejected the Company's request for collection and payment of the receivable. The Company appealed this ruling and on 25 March 2024 received a decision of the High Commercial Court of the Republic of Croatia which annulled the first-instance ruling. However, this has not resulted in the collection of the receivable as the court instead returned the case to the Commercial Court in Zagreb for a new ruling. Management assessed, after consultation with legal counsel, that the circumstances following the initial ruling against the Company indicate that uncertainties with respect to the collection of the receivable have significantly increased and has therefore recognised an impairment in full amount.

8 Other operating expenses

	2023 EUR'000	2022 EUR'000
Daily allowances for business trips and travel expenses	12,552	7,171
Net release of provisions (note 27)	13,179	1,414
Intellectual and similar services	4,021	4,060
Insurance premiums	3,898	3,200
Bank charges and payment transactions	2,705	2,441
Entertainment	2,976	2,269
Professional training costs	1,212	984
Compensations for temporary service contracts and fees	1,059	873
Contributions, membership fees and similar charges	807	775
Non-production related services	2,894	3,226
Sponsorships and donations	369	336
Taxes irrespective of result and fees	469	545
Accrued expenses	560	438
Other costs	5,830	5,337
	52,531	**33,069**

9 Net financial result

	2023 EUR'000	2022 EUR'000
Finance income		
Interest income	2,062	709
Net foreign exchange gains	727	831
Income from dividends and shares in profit	136	280
Other finance income	178	233
Unrealised gains (income)	195	23
	3,298	**2,076**
Finance cost		
Interest expense	3,293	1,729
Other finance costs	252	39
Impairment losses on non-current financial assets	-	16
	3,545	**1,784**
Net financial result	**(247)**	**292**

10 Income tax

	2023 EUR'000	2022 EUR'000
Current tax	15,664	5,198
Deferred tax	(1,211)	(769)
Income tax expense	**14,453**	**4,429**

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
Consolidated profit before tax	81,958	53,557
Tax at applicable tax rate of 18%	**14,752**	**9,451**
Additional tax	**-**	**1,048**
Tax effect:		
Non-deductible expenses	2,835	2,753
Income not subject to tax	(3,195)	(3,191)
Utilisation of previously unrecognised tax losses	(1,008)	(569)
Tax losses for which no deferred tax asset is recognised	2,431	93
Change in recognised temporary differences	(1,135)	(878)
Recognition of deferred tax asset on investment tax credit	(10)	(785)
Income tax paid abroad	(11)	32
Investment tax credit utilisation	(206)	(3,525)
Income tax	**14,453**	**4,429**

Investment incentives

Investment incentives relate mainly to an investment tax credit obtained by KONČAR – Distribution and Special Transformers Inc., KONČAR – Electrical Engineering Institute Ltd., KONČAR – Metal Structures Ltd. and KONČAR – Instrument Transformers Inc.

On December 23, 2021, an application was submitted to obtain the status of an incentive holder for a new project under the abbreviated name "Sustainable SETup" and on March 2, 2023, the Ministry of Economy and Sustainable Development (MINGO) issued a decision by which KONČAR – Distribution and Special Transformers Inc. became the holder of incentives for this project in the amount of EUR 5,464 thousand, for which the company has the possibility of reducing future income tax liabilities for the years ending December 24, 2031. Based on the assessment of the utilization of tax relief by the Management Board, the financial statements for 2022 recognized the entire approved amount of tax relief as deferred tax asset and tax income. In the financial statements for 2023 EUR 200 thousand has already been utilised to reduce the tax liability for the current year (2022: EUR 4,837 thousand).

In addition, through business combinations during the year, the Group acquired the right to use additional tax credits related to investment incentives by reducing the tax liability in full related to the company Ferokotao Ltd. and according to this incentive, a total credit of 1.3 million euros is available for utilization. The Group has recognized a deferred tax asset for this amount, given that it is expected to fully utilize this tax credit.

10 Income tax (continued)

Investment incentives (continued)

Pursuant to the Investment Promotion Act, the company KONČAR – Electrical Engineering Institute Ltd. received the status of beneficiary of investment support related to the "LAVESP" project. The Company was thus granted the use of incentive measures as support for eligible costs of job creation related to the investment project and tax benefits for capital costs of the investment project in the allowed amount of tax relief for investments of EUR 1,729 thousand. For this amount, the company has the option of reducing future income tax liabilities on the basis of income tax for the years ended 31 December 2030 to a maximum amount of reduction of the tax rate of 100% per annum. In 2022. the Company recognized the entire amount of the approved relief as deferred tax asset and tax income. In 2023, EUR 399 thousand has been used to reduce the tax liability for the current year (2022: EUR 290 thousand).

KONČAR – Metal Structures Ltd. has the status of beneficiary of the grant under the Investment Promotion Act, according to which it has the right to reduce the corporate income tax rate by 100% from the statutory income tax rate in the period up to 2025. The remaining amount of the unused relief as at 31 December 2023 is EUR 100 thousand (31 December 2022: EUR 429 thousand).

In February 2020, KONČAR – Instrument Transformers Inc. was granted a tax incentive, based on which the company applied a reduced corporate tax rate of 50% in 2023 and 2022, in accordance with the provisions of the Investment Promotion Act, based on a certificate from the Ministry of Economy. The remaining amount of the unused incentive as of December 31, 2023, is EUR 121 thousand.

Tax losses carried forward

The Group can carry forward tax losses for companies which incurred losses in 2023 and are not subject to taxation and for subsidiaries that realised a profit in 2023 but are not subject to taxation due to tax losses carried forward from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income within the following 5-year period. As at 31 December 2023, unrecognised deferred tax assets on tax losses carried forward amount to EUR 8,877 thousand (31 December 2022: EUR 7,857 thousand). Tax losses relate to Group entities for which it was assessed that there will not be sufficient future taxable profits to utilise these losses.

Gross tax losses expire as follows:

	31 December 2023 EUR'000	**31 December 2022 EUR'000**
Within 1 year	5,852	13,295
Within 2 years	12,619	5,932
Within 3 years	7,321	11,789
Within 4 years	8,902	7,121
Within 5 years	14,622	7,643
	49,317	**45,780**

In accordance with the regulations of the Republic of Croatia, the Tax Administration may at any time inspect the individual Group companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

10 Income tax (continued)

Movement in deferred tax assets and liabilities:

Deferred tax asset:	31 December 2023 EUR'000	Recognized in PnL EUR'000	Recognized through OCI EUR'000	Acquired through business combinations EUR'000	31 December 2022 EUR'000	Recognized in PnL EUR'000	Recognized through OCI EUR'000	Acquired through business combinations EUR'000	31 December 2021 EUR'000
Impairment of receivables	121	44	-	-	77	15	-	-	62
Impairment of fixed assets	59	-	-	-	59	-	-	-	59
Impairment of inventory	1,773	931	-	-	842	575	-	-	267
Tax losses carried forward	1,450	934	-	-	516	(23)	-	-	539
Non-deductible provisions	463	272	-	-	191	191	-	-	-
Unused amount of relief under the Investment Promotion Act	1,220	(1,376)	-	-	2,596	717	-	-	1,879
Leases	402	402	-	-	-	-	-	-	-
Unrealised profits	1,792	-	-	-	1,792	236	-	-	1,556
Other	1,637	4	-	1,479	154	(26)	-	-	180
Deferred tax asset	**8,917**	**1,211**	**-**	**1,479**	**6,227**	**1,685**	**-**	**-**	**4,542**

Deferred tax liability:	31 December 2023 EUR'000	Recognized in PnL EUR'000	Recognized through OCI EUR'000	Acquired through business combinations EUR'000	31 December 2022 EUR'000	Recognized in PnL EUR'000	Recognized through OCI EUR'000	Acquired through business combinations EUR'000	31 December 2021 EUR'000
Acquisition of subsidiaries	2,737	-	-	1,331	1,406	-	-	1,406	-
Leases	(59)	(59)	-	-	-	-	-	-	-
Other	1,109	89	-	-	1,020	-	1,020	-	-
Deferred tax liability	3,787	31	-	1,331	2,426	-	1,020	1,406	-

11 Earnings per share

	2023	2022
Net profit attributed to the owners	46,328	34,555
Weighted average number of shares	2,546,256	2,545,739
Basic and diluted earnings per share	**18,19**	**14,00**

Diluted earnings per share for 2023 and 2022 are the same as basic since the Group had no convertible instruments or options outstanding during either period.

Weighted average number of shares is as follows:

	2023	2022
Issued ordinary shares at 1 January	2,572,119	2,572,119
Effect of treasury shares held	(25,863)	(26,380)
Average number of shares	**2,546,256**	**2,545,739**

12 Goodwill

Goodwill was recognised in the course of gaining control over the companies as shown below.

Goodwill recognized per each company amounts to:

	Allocated to segment:	31 Dec 2023	31 Dec 2022
		EUR'000	EUR'000
KONČAR - Instrument Transformers Inc.	Production, Transmission and distribution od electricity, Rail vehicles and infrastructure	157	157
KONČAR - Distribution and Special Transformers Inc	Transmission and distribution od energy, Rail vehicles and infrastructure	808	808
KONČAR - Engineering Co. for Plant Installation & Commissioning Inc.	Other	9	9
Dalekovod Group	Production, Transmission and distribution od electricity, Rail vehicles and infrastructure	161	161
Kodeks sistemske integracije Ltd.	Digital solutions	5,347	-
EXA Globe Ltd.	Digital solutions	1,350	-
Telenerg – Engineering Ltd.	Production, Transmission and distribution od energy, Other	421	-
INK Project Ltd.	Other	99	-
Solar power plant Landfill Phosphogips Ltd	Production of electricity	1	1
		8,353	**1,136**

The Group tests goodwill for impairment on an annual basis. No impairment losses were recognised in this respect as the amount is assessed as recoverable as discussed in note 2.27.

13 Intangible assets

(in EUR thousand)	Development expenditure	Concessions, patents, licences, software etc.	Brand	Other	Assets under construction and advances	Total
Cost						
At 1 January 2022	**18,100**	**7,711**	**-**	**200**	**1,067**	**27,078**
The effect of acquisition of subsidiaries	-	256	1,861	-	-	2,117
Additions	54	44	-	-	4,687	4,785
Transfer from assets under construction	859	381	-	-	(1,240)	-
Disposals	-	(187)	-	-	46	(141)
At 31 December 2022	**19,013**	**8,205**	**1,861**	**200**	**4,560**	**33,839**
The effect of acquisition of subsidiaries	-	4,408	-	-		4,408
Additions	45	570	-	-	4,279	4,894
Transfer from assets under construction	3,988	1,271	-	15	(5,274)	-
Disposals	(28)	(245)	-	-	(27)	(300)
At 31 December 2023	**23,018**	**14,290**	**1,861**	**215**	**3,538**	**42,841**
Accumulated amortisation						
At 1 January 2022	**14,989**	**5,900**	**-**	**200**	**290**	**21,379**
Amortisation for the year	1,093	751	-	-	-	1,844
Impairment	-	104	-	-	-	104
Disposals	-	(147)	-	-	-	(147)
At 31 December 2022	**16,082**	**6,608**	**-**	**200**	**290**	**23,180**
Amortisation for the year	1,469	803	-	-	-	2,272
At 31 December 2023	**17,551**	**7,741**	**-**	**200**	**290**	**25,452**
Net book amount						
31 December 2022	2,931	1,597	1,861	-	4,270	10,659
31 December 2023	**5,467**	**6,798**	**1,861**	**15**	**3,248**	**17,389**

14 Property, plant and equipment

(in EUR thousand)	Land	Buildings	Plant and equipment	Tools and office inventory	Other	Assets under construction and advances	Total
Cost							
As at 1 January 2022	**20,317**	**141,952**	**144,704**	**38,636**	**308**	**11,898**	**357,815**
Reclassifications	(611)	(1,703)	(178)	-	-	(262)	**(2,754)**
The effect of acquisition of subsidiaries	18,205	3,318	12,601	4,304	-	746	**39,174**
Additions	1,254	45	1,823	136	34	31,091	34,383
Transfer from assets under construction	1,408	8,340	9,875	2,379	-	(22,002)	**-**
Transfer to Intangibles	-	-	-	-	-	(8)	**(8)**
Disposals	(1,113)	(74)	(3,434)	(1,808)	-	(3,155)	**(9,584)**
As at 31 December 2022	**39,460**	**151,878**	**165,391**	**43,647**	**342**	**18,308**	**419,026**
Reclassifications	-	33	(33)	222	(222)	-	**-**
The effect of acquisition of subsidiaries	1,959	7,748	4,927	415	1	386	**15,393**
Additions	-	929	1,293	3,499	4	32,831	**38,599**
Transfer from assets under construction	10	9,591	16,400	3,539	-	(29,540)	**-**
Transfer to Intangibles	-	-	-	-	-	(20)	**(20)**
Transfer to/from investment property	-	(453)	(249)	-	-	-	**(702)**
Disposals	(14)	(390)	(2,156)	(1,788)	-	(8,315)	**(12,663)**
As at 31 December 2023	**41,415**	**169,336**	**185,573**	**49,534**	**125**	**13,650**	**459,633**
Accumulated depreciation							
As at 1 January 2022	**-**	**86,052**	**107,462**	**30,799**	**26**	**-**	**224,339**
Reclassifications	-	(654)	38	(157)	-	-	(773)
Depreciation for the year	-	3,678	7,448	2,771	-	-	13,897
Impairment	2	-	-	-	-	554	556
Disposals and write offs	-	8	(3,144)	(1,131)	-	-	(4,267)
As at 31 December 2022	**2**	**89,084**	**111,804**	**32,282**	**26**	**554**	**233,752**
Depreciation for the year	-	4,127	6,681	3,546	1	-	14,355
Impairment	-	-	234		-	874	1,108
Disposals and write offs	16	(40)	(1,556)	(1,341)	-		(2,921)
As at 31 December 2023	**18**	**93,171**	**117,163**	**34,487**	**27**	**1,428**	**246,294**
Net book amount							
31 December 2022	39,458	62,794	53,587	11,365	316	17,754	185,274
31 December 2023	**41,397**	**76,165**	**68,410**	**15,047**	**98**	**12,222**	**213,339**

15 Investment property

	Land EUR'000	Buildings EUR'000	Assets under construction EUR'000	Total EUR'000
Cost				
At 1 January 2022	**8,250**	**19,621**	**199**	**28,070**
Reclassification	611	1,705	-	2,316
Additions	-	-	1,973	1,973
Transfer from assets under construction	-	743	(743)	-
Transfer to/from non-current tangible assets	(864)	119	(849)	(1,594)
Disposals	-	(704)	(26)	(730)
At 31 December 2022	**7,997**	**21,484**	**554**	**30,035**
Reclassification	-	-	-	-
Additions	-	-	2,656	2,656
Transfer from assets under construction	-	1,857	(1,857)	-
Transfer to/from non-current tangible assets	-	453	249	702
Transfer to assets held for sale	343	2,580	-	2,923
Disposals	(504)	(606)	(53)	(1,163)
At 31 December 2023	**7,836**	**25,768**	**1,549**	**35,153**
Accumulated depreciation				
At 1 January 2022	**1,891**	**10,877**	**-**	**12,768**
Reclassification	-	653	-	653
Depreciation for the year	-	919	-	919
Disposals	-	(541)	-	(541)
At 31 December 2022	**1,891**	**11,908**	**-**	**13,799**
Reclassification	-	-	-	-
Depreciation for the year	-	1,371	249	1,620
Transfer to assets held for sale	-	1,731	-	1,731
At 31 December 2023	**1,891**	**15,010**	**249**	**17,150**
Net book amount				
31 December 2022	6,106	9,576	554	16,236
31 December 2023	**5,945**	**10,758**	**1,300**	**18,003**

The fair value of investment property relating to land amounting to EUR 8.2 million (2022: EUR 9.6 million) and buildings amounting to EUR 11.5 million (2022: EUR 9.7 million) relates to fair value level 3 since the input variables are not based on observable market data.

16 Investments accounted for using the equity method

	31 December 2023 Ownership share (in %)	31 December 2022 Ownership share (in %)
Associates accounted for by using the equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon Ltd., Zagreb*	50.00	50.00
Joint ventures accounted for using the equity method:		
Members of TLM Group*	22.00-25.00	22.00-25.00
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00
Male hidre d.o.o.*	51.00	51.00

* company in indirect ownership by the Company

The company Končar - Power Transformers Ltd. is primarily engaged in the production of all types of high efficiency power transformers intended for the production, transmission and distribution of electricity. This company is in majority ownership of Siemens and represents a strategic partnership for the Group. Associate Končar - Power Transformers Ltd., Zagreb has a financial year end as at 30 September. The Group presented the financial position of the associate as at 31 December while the share in profit is recognised based on the financial performance of the associate for period 1.1.2023 – 31.12.2023, as presented further.

The company Elkakon d.o.o. produces industrial conductors and is primarily a strategic partner to the subsidiary KONČAR - Distribution and Special Transformers Ltd.

The company TBEA Končar Instrument Transformers, China produces electric transformers, power transformers, combined instrument transformers and their components and represents strategic partnership for the Group that enables access to new customers and eastern markets.

The company Male hidre d.o.o. is primarily engaged in electricity generation from hydro potentials.

16 Investments accounted for using the equity method (continued)

Movements in investments in associates and joint ventures are as follows:

Associates accounted for using the equity method

	Končar - Power Transformers Ltd. EUR'000	Elkakon Ltd. EUR'000	Total EUR'000
1 January 2022	**30,535**	**893**	**31,428**
Profit/(Loss)	2,472	220	2,692
Dividend payment	(5,065)	(33)	(5,098)
31 December 2022	27,942	1,080	29,022
Profit/(Loss)	12,290	138	12,428
Dividend payment	(8,017)	(100)	(8,117)
31 December 2023	**32,215**	**1,118**	**33,333**

Dividends declared by the associate reduce the equity accounted investment and are presented as dividends receivable within note 20 "Loans and receivables". The total dividend paid in 2023 amounts to EUR 5,302 thousand while in 2022 the total cash inflow from dividends amounted to EUR 4,918 thousand.

Joint ventures accounted for using the equity method

	TBEA Končar Instrument transformers Ltd EUR'000	Members of TLM EUR'000	Male hidre Ltd. EUR'000	Total EUR'000
1 January 2022	2,313	-	409	2,722
New investment	-	1	-	1
Profit/(Loss)	670	-	(13)	657
Dividend payment	(279)	-	-	(279)
1 January 2022	**2,704**	**1**	**396**	**3,101**
New investment	-	-	-	-
Profit/(Loss)	895	-	(12)	883
Dividend payment	(135)	-	-	(135)
31 December 2023	**3,464**	**1**	**384**	**3,849**

16 Investments accounted for using the equity method (continued)

Summary information on the financial position of associates and joint ventures as at 31 December 2023 is shown in the following table:

Associates accounted for using the equity method

	Končar - Power Transformers Ltd. 2023 EUR'000	Elkakon Ltd. 2023 EUR'000	Total 2023 EUR'000
Non-current assets	26,080	1,340	27,420
Current assets	168,710	3,550	172,260
Total assets	**194,790**	**4,890**	**199,680**
Total liabilities	**128,791**	**2,653**	**131,444**
Revenues	198,229	17,628	260,806
Expenses	(169,400)	(17,287)	(225,721)
Profit/(loss) before tax	28,829	341	35,085
Income tax	(8,107)	(63)	(9,722)
Profit/(loss) after tax	**20,722**	**278**	**25,363**
Ownership share (in %)	49%	50%	
Share in profit/(loss) for equity accounted investments	**10,154***	**139**	**12,431**

**the calculated profit share differs from the recognised amount because the Group recognised a previously unrecognized profit share that arose as a result of a different financial year of this associate (EUR 2,236 thousand) in profit or loss for 2023. As of 31 December 2023, the Group harmonized the recognition of the share in the profit of this associate in accordance with its (calendar) financial year.*

Joint ventures accounted for using the equity method

	TBEA Končar Instrument transformers Ltd. 2023 EUR'000	Male hidre Ltd. 2023 EUR'000	Total 2023 EUR'000
Non-current assets	2,205	6,066	8,271
Current assets	25,810	2,060	27,870
Total assets	**28,015**	**8,126**	**36,141**
Total liabilities	**14,928**	**7,374**	**22,302**
Revenues	26,708	-	26,708
Expenses	(23,262)	(24)	(23,286)
Profit/(loss) before tax	3,446	(24)	3,422
Income tax	(130)	-	(130)
Profit/(loss) after tax	**3,316**	**(24)**	**3,292**
Ownership share (in %)	27%	51%	
Share in profit/(loss) for equity accounted investments	**895**	**(12)**	**883**

16 Investments accounted for using the equity method (continued)

Summary information on the financial position of associates and joint ventures as at 31 December 2022 is shown in the following table:

Associates accounted for using the equity method

	Končar - Power Transformers Ltd. 2022* EUR'000	Elkakon Ltd. 2022 EUR'000	Total 2022 EUR'000
Non-current assets	20,804	1,403	22,207
Current assets	107,962	2,625	110,587
Total assets	**128,766**	**4,028**	**132,794**
Total liabilities	**64,737**	**1,869**	**66,606**
Revenues	151,187	15,347	166,534
Expenses	(145,596)	(14,808)	(160,404)
Profit/(loss) before tax	5,591	539	6,130
Income tax	(545)	(100)	(645)
Profit/(loss) after tax	**5,046**	**439**	**5,485**
Ownership share (in %)	49%	50%	
Share in profit/(loss) for equity accounted investments	**2,473**	**220**	**2,693**

*based on the financial year of the associate

Joint ventures accounted for using the equity method

	TBEA Končar Instrument transformers Ltd. 2022 EUR'000	Male hidre Ltd. 2022 EUR'000	Total 2022 EUR'000
Non-current assets	2,813	832	3,645
Current assets	25,643	3,084	28,727
Total assets	**28,456**	**3,916**	**32,372**
Total liabilities	**17,018**	**-**	**17,018**
Revenues	21,693	-	21,693
Expenses	(19,030)	(25)	(19,055)
Profit/(loss) before tax	2,663	(25)	2,638
Income tax	(178)	-	(178)
Profit/(loss) after tax	**2,485**	**(25)**	**2,460**
Ownership share (in %)	27%	51%	
Share in profit/(loss) for equity accounted investments	**671**	**(13)**	**658**

17 Other investments

	31 December 2023 EUR'000	31 December 2022 EUR'000
Financial assets at FVOCI	240	382
Financial assets at FVTPL		
Debentures	131	3
Investments in shares	357	320
Derivative instruments - forward currency contract	-	383
Financial assets at FVTPL	488	706
	728	**1,088**

18 Loans and receivables

	31 December 2023 EUR'000	31 December 2022 EUR'000
Receivables for shares sold /i/	1,269	1,517
Loans, deposits and similar assets	1,275	2,242
Long-term guarantee deposits - retentions	5,124	4,287
Receivables for flats sold	26	66
Other	271	450
	7,965	**8,562**

/i/ Receivables for shares sold relate to non-current receivables from sales of shares of related company KONČAR – Household Appliances in instalments over the period of 10 years.

19 Inventories

	31 December 2023 EUR'000	31 December 2022 EUR'000
Raw materials and supplies	107,996	112,447
Work in progress	62,825	41,355
Finished goods	36,842	24,260
Trade goods and goods in transit	3,815	806
Small inventory and packaging	1,036	1,563
Advances for inventory	7,254	9,026
	219,768	**189,457**

20 Loans and receivables

	31 December 2023 EUR'000	31 December 2022 EUR'000
Trade receivables	195,395	170,018
Receivables from related parties /i/	12,507	8,458
Short-term guarantee deposits - retentions	1,855	4,589
VAT receivables	11,139	7,220
Receivables from recognized claims	760	468
Receivables for advances given for services	8,787	8,969
Prepaid expenses and accrued income	9,203	6,184
Assets recognized on the basis of costs related to the acquisition of the contract	8,994	3,990
Other /ii/	3,004	9,405
	251,644	**219,301**

/i/ Receivables from affiliated companies include dividend receivables declared by the associate in the total amount of EUR 8,017 thousand (31 December 2022: EUR 5,065 thousand).

/ii/ Other receivables mostly relate to receivables from the state and receivables from employees.

Trade receivables are as follows:

	31 December 2023 EUR'000	31 December 2022 EUR'000
Trade receivables – domestic, gross	76,596	81,990
Trade receivables – foreign, gross	122,798	91,905
Impairment	(3,999)	(3,877)
	195,395	**170,018**

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

	31 December 2023 EUR'000	31 December 2022 EUR'000
Not yet due	147,800	131,688
< 60 days	33,463	10,034
60-90 days	4,162	17,851
90-180 days	2,650	4,946
180-365 days	5,741	5,248
> 365 days	1,579	251
	195,395	**170,018**

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

20 Loans and receivables (continued)

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

	EUR'000
At 1 January 2022	**2,984**
The effect of acquisition of subsidiaries	794
Increase in expected credit loss	366
Collected during the year	(306)
Impaired during the year	516
Total changes in expected credit loss through profit or loss	*576*
Written off during the year	(421)
Foreign exchange differences	(56)
At 31 December 2022	**3,877**
The effect of acquisition of subsidiaries	975
Increase in expected credit loss	73
Collected during the year	(383)
Impaired during the year	(406)
Total changes in expected credit loss through profit or loss	*(716)*
Written off during the year	(67)
Foreign exchange differences	5
At 31 December 2023	**3,999**

21 Contract assets and contract liabilities

The Group has recognized the following assets and liabilities from contracts with customers:

	31 December 2023 EUR'000	31 December 2022 EUR'000
Contract assets from contract with customers	77,966	67,055
Expected credit loss	-	(5)
Total current assets from contract with customers	**77,966**	**67,050**
Contractual obligation from contracts with customers	13,146	11,119
Contractual obligation - advances received from the customers	131,231	45,678
Total contract liabilities	**144,377**	**56,797**

Revenue recognized in the reporting period that was a part of the contract liabilities at the beginning of the period amounted to EUR 11,119 thousand (2022: EUR 14,257 thousand).

Contractual obligations at the reporting date relate to contracts with customers with a total value of EUR 431,716 thousand (31 December 2022: EUR 322,562 thousand), and for which performance obligations are to be met in the next reporting period.

22 Current financial assets

	31 December 2023 EUR'000	31 December 2022 EUR'000
Deposits over 3 months	378	2,013
Other financial assets	60	903
	438	**2,916**

The contractual interest rate on the Group's deposits of over 3 months held at commercial banks ranges from 0.001% to 4.5% (2022.:0.0001%-0.07%).

23 Cash and cash equivalents

	31 December 2023 EUR'000	31 December 2022 EUR'000
Cash in bank, domestic and foreign currency	113,583	56,214
Cash on hand	10	11
Deposits up to 3 months	40,230	1,038
	153,823	**57,263**

Interest rate on the Group's cash in bank and deposits up to 3 months is 0.001% - 3.7% (2022.:0.001% - 3.2%).

Disclosures related to credit risk are presented in note 31 Financial risk management and financial instruments.

24 Non-current assets held for sale

The Management Board and the Supervisory Board adopted a new business strategy in October 2021, which defines the sale of non-operating assets of the Group. Accordingly, the Management Board started the process of selling several locations owned by the Group, and these locations were presented as assets held for sale. Actions regarding the sale of the property have been started by the Management, and the sale is expected by the end of 2024.

	31 December 2023 EUR'000	31 December 2022 EUR'000
Land	180	623
Buildings	577	1,426
Other	6	17
	763	**2.066**

The fair value of non-current assets held for sale at the balance sheet date refers to level 3 of fair value as the input variables for its determination are not based on observable market data. The fair value of non-current assets held for sale at the balance sheet date is EUR 1 million (31 December 2022: EUR 4.6 million), of which:
• the amount of EUR 220 thousand relates to land (31 December 2022.: EUR 0.6 million),
• and the amount of EUR 870 thousand relates to buildings. (31 December 2022.: EUR 4 million)

25 Capital and reserves

Share capital is determined in the nominal amount of EUR 159,471 thousand (31 December 2022: EUR 160,448 thousand) and comprises 2,572,119 shares with a nominal value of EUR 62 per share. By the decision of the Company's Assembly on June 13, 2023, the company's share capital was aligned with euros, and this was published in the Commercial Register on September 28, 2023.

The ownership structure of the Parent company is as follows:

		31 December 2023		31 December 2022	
	Shareholder	**Number of shares**	**Ownership share %**	**Number of shares**	**Ownership share %**
1	HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
2	Erste & Steiermarkische bank D.D./ PBZ CO OMF - Kategorija B	463,067	18.00	462,118	17.97
3	OTP Banka d.d. / Erste Plavi mandatory pension fund	398,402	15.49	398,402	15.49
4	OTP Banka d.d. / AZ OMF	373,065	14.50	373,065	14.50
5	Restructuring and Sale Center (CERP)/Croatia	60,000	2.33	68,234	2.65
6	Privredna banka Zagreb d.d./ Raiffeisen OMF Kategorije B	47,636	1.85	47,636	1.85
7	Zagrebačka banka d.d. /AZ Profit DMF	35,869	1.39	35,870	1.39
8	Privredna banka Zagreb d.d., custodiary account	22,658	0.88	22,897	0.89
9	AGRAM BROKERI D.D./Zec Branislav	22,222	0.86	22,222	0.86
10	Other shareholders	398,953	15.51	391,181	15.22
11	KONČAR d.d. (treasury shares)	25,732	1.00	25,979	1.01
		2,572,119	**100**	**2,572,119**	**100**

Ordinary shares of the Company are listed on the Official market at the Zagreb Stock Exchange under the name KOEI-R-A from 21 December 2010, in accordance with the resolution of the Zagreb Stock Exchange Management from 20 December 2010.

During 2018, the Company started purchasing its treasury shares. In 2019, the Management Board is authorized to acquire treasury shares for a period of 5 years, based on a decision of the General Assembly. Part of other reserves in the amount of EUR 3,32 million, in accordance with the decision of the General Assembly, will be used for the purpose of acquiring treasury shares, thus forming reserves for the purchase of treasury shares. During 2023 and 2022, there was no redemption of shares, and at 31 December 2023 the Company owns 25,732 of its own shares (31 December 2022: 25,979 shares).

In 2023, the General Assembly adopted a decision to pay dividends to shareholders of EUR 14,252 thousand (in 2022: EUR 4,392 thousand).

The Company has established legal, statutory and other reserves in accordance with the Companies Act that are formed on the basis of profit distribution according to the General Assembly's decisions.

26 Non-controlling interests

Non-controlling interest refers to as follows:

	31 December 2023 EUR'000	31 December 2022 EUR'000
KONČAR - Distribution and special transformers Inc.	62,439	41,045
KONČAR - Instrument transformers Inc.	6,650	6,205
KONČAR - Electric vehicles Inc.	4,327	4,542
Advanced Energy Solutions Ltd	(977)	(487)
Power Engineering Transformatory Sp. z o.o.	(552)	(1,440)
Elkakon Ltd.	420	403
TBEA Končar Instrument transformers Ltd.	863	574
Dalekovod Group	44,232	43,796
Solar power plant Landfill phosphogips Ltd.	63	64
Kodeks sistemske integracije Ltd.	1,414	-
Ferokotao Ltd.	5,876	-
	124,755	**94,702**

The following are the companies in which the Parent company has a significant non-controlling interest:
• KONČAR – Distribution and Special Transformers Inc, Zagreb (KONČAR D&ST Inc.)
• KONČAR – Instrument Transformers Inc., Zagreb (KONČAR MT Inc.)
• KONČAR – Electric Vehicles Inc., Zagreb (KONČAR EV Inc.)
• Dalekovod Inc., Zagreb
• Ferokotao Ltd.

These five compaines represent 99% of the total amount of the Group's positive non-controlling interest at the balance sheet date.

26 Non-controlling interests (continued)

The following are summary financial information of the companies with a significant non-controlling interest:

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR KEV Inc.		DALEKOVOD Inc.		Feroko-tao Ltd.
	2023 EUR'000	2022 EUR'000	2023 EUR'000	2022 EUR'000	2023 EUR'000	2022 EUR'000	2023 EUR'000	2022 EUR'000	2023 EUR'000
Statement of comprehensive income									
Income	325,128	244,001	40,171	32,234	78,892	81,470	124,654	88,582	-
Expenses	(263,454)	(220,160)	(38,123)	(31,005)	(75,721)	(78,254)	(128,636)	(83,968)	-
Profit before tax	61,674	23,841	2,048	1,229	3,171	3,216	(3,982)	4,614	-
Income tax	(10,961)	(1,545)	(404)	349	(679)	(93)	(684)	(686)	-
Profit after tax	**50,713**	**22,296**	**1,644**	**1,578**	**2,492**	**3,123**	**(4,666)**	**3,928**	**-**
Statement of financial position									
Non-current assets	40,427	36,061	11,787	11,457	12,506	11,553	47,027	41,874	9,112
Current assets	231,752	145,475	32,745	28,437	55,434	72,334	73,295	78,572	10,685
Total assets	**272,179**	**181,536**	**44,532**	**39,894**	**67,940**	**83,887**	**120,322**	**120,446**	**19,797**
Total liabilities	**141,651**	**94,696**	**27,048**	**23,580**	**48,501**	**65,690**	**65,029**	**60,407**	**10,852**
Cash flow									
Cash flow from operating activities	75,410	(11,380)	694	517	45,972	(31,721)	8,508	(5,763)	-
Cash flow from investing activities	(7,857)	(7,144)	(1,166)	(1,809)	(1,919)	(2,518)	(1,263)	(538)	-
Cash flow from financing activities	(22,599)	10,078	1,016	2,096	(38,757)	33,084	180	(1,225)	-
Net increase/ (decrease) in cash	**44,954**	**(8,446)**	**544**	**804**	**5,296**	**(1,155)**	**7,425**	**(7,526)**	**-**
Cash at beginning of period	8,102	16,548	1,376	572	2,988	4,142	2,837	10,364	-
Cash at end of period	**53,056**	**8,102**	**1,920**	**1,376**	**8,284**	**2,987**	**10,262**	**2,838**	**-**

27 Provisions

	Warranty provisions EUR'000	Provisions for legal disputes EUR'000	Jubilee awards and retirement benefits EUR'000	Other provisions EUR'000	Total EUR'000
1 January 2022	**21,563**	**607**	**5,296**	**2,212**	**29,678**
Effect of business combinations	-	2,869	875	65	3,809
Additional provisions	10,296	234	710	1,195	12,435
Usage of provisions	(2,443)	-	(322)	(12)	(2,777)
Release of provision	(7,237)	(291)	(1,559)	(1,177)	(10,264)
Foreign exchange differences and similar	(2)	-	(1)	-	(3)
31 December 2022	**22,177**	**3,419**	**4,999**	**2,283**	**32,878**
Current provisions	*5,875*	*16*	*218*	*1,405*	*7,514*
Non-current provisions	*16,302*	*3,403*	*4,781*	*878*	*25,364*
	22,177	**3,419**	**4,999**	**2,283**	**32,878**
Effect of business combinations	509	-	-	186	695
Additional provisions	13,213	2,248	2,683	1,709	19,853
Usage of provisions	(4,572)	(23)	(69)	(57)	(4,721)
Release of provision	(2,322)	(577)	(721)	(3,054)	(6,674)
Foreign exchange differences and similar	6	-	4	6	16
31 December 2023	**29,011**	**5,067**	**6,896**	**1,073**	**42,047**
Current provisions	*7,380*	*2,001*	*829*	*423*	*10,633*
Non-current provisions	*21,631*	*3,066*	*6,067*	*650*	*31,414*
	29,011	**5,067**	**6,896**	**1,073**	**42,047**

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate. Provisions are based on estimates and experience of the Group and other manufacturers of power equipment. The Group generally issues long term warranties for products sold or projects completed which exceed 3 years and, in some instances, can be up to 10 years. Based on historical data regarding expenses for warranty repairs, quantities of products sold, industry statistics (such as those related to failure incidence rates for products such as transformers and generators) and the prevailing duration of the warranty period, Management assesses and recognises the provision for warranty repairs. The provisions amounted to EUR 29 million (2022: EUR 22 million), and have increased as a result of increase in income and quantities of transformers/generators/other energy equipment delivered to customers during 2023, as well as the increased utilization of previously provided for amounts.

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of EUR 5,067 thousand (2022: EUR 3,419 thousand) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes.

27 Provisions (continued)

Provisions for jubilee awards and retirement benefits

Provisions for jubilee awards and termination benefits in the amount of EUR 6,896 thousand (2022: EUR 4,999 thousand) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 3.67% (2022: 3.2%).

Other provisions – 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 throughout 2022. Some contracts identified and recognized as onerous in 2022 were realized during 2022 and 2023 and the respective provisions were released. For the remaining contract where the delivery was transferred to 2024, a reassessment of contract profitability was made, which resulted in the amount of EUR 1 million of unavoidable costs above the economic benefits being recognised in onerous contract provisions.

28 Borrowings

	31 December 2023 EUR'000	31 December 2022 EUR'000
Liabilities to banks and other financial institutions /i/	59,856	74,868
Lease liabilities /ii/	5,821	5,234
Liabilities for loans to affiliated companies	56	46
	65,733	**80,148**

	31 December 2023 EUR'000	31 December 2022 EUR'000
/i/ Liabilities to banks and other financial institutions		
Liabilities to banks	38,938	25,383
Less: Current portion	(7,173)	(2,849)
Long term liabilities to banks	**31,765**	**22,534**
Liabilities to banks and other financial institutions	20,918	49,537
Plus: Current portion	7,173	2,797
Short term liabilities to banks and other financial institutions	**28,091**	**52,334**
	59,856	**74,868**

	31 December 2023 EUR'000	31 December 2022 EUR'000
/ii/ Lease liabilities		
Long term	4,119	3,699
Short term	1,702	1,535
	5,821	**5,234**

28 Borrowings (continued)

	EUR'000
1 January 2022	**39,807**
Group acquisition	1,564
New borrowings	56,544
Foreign exchange differences	39
Repayment of borrowings	(22,970)
Non-cash transactions	(116)
31 December 2022	**74,868**
Effect of business combinations	5,323
New borrowings	26,423
Foreign exchange differences	(59)
Repayment of borrowings	(49,007)
Non-cash repayment of borrowings	2,308
31 December 2023	**59,856**

Long-term bank borrowings mature as follows:

	31 December 2023 EUR'000	31 December 2022 EUR'000
Within one year	28,082	52,282
From 1 to 2 years	10,919	4,552
Between 2 and 5 years	15,923	14,368
More than 5 years	4,932	3,666
	59,856	**74,868**

The Group's property and plant in the carrying amount of EUR 29,937 thousand (2022: EUR 23,430 thousand) and equipment and movables in the amount of EUR 4,682 thousand (2022: EUR 1,964 thousand) has been pledged as collateral for long-term and short-term bank borrowings. Lease liability are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The fixed interest rate on the Group's long-term loans ranges from 1.1% - 4.15% p.a., while the fixed interest rate on the Group's short-term loans is from 1.5% - 5.0% p.a. The Group estimated that the fair value of loans with fixed interest rates does not deviate significantly from its book value, since the weighted average rate on borrowings of the Group with a variable rate is 4.9% and is within the range of the stated fixed rates on loans.

Additional contractual obligations (debt covenants)

Debt covenants have been agreed with certain loan providers, which the Group must adhere to. The Group has an agreement with several creditors that it must maintain the ratio of net debt/EBITDA to a certain maximum level, and the calculation is carried out at the level of the consolidated financial statements of KONČAR - Electrical Industry Inc. for each year. In case of non-compliance with contractual obligations, it is possible to declare the loan fully due by the creditor.

Regarding this financial covenant at the level of the consolidated financial statements, the Group estimated, based on the available information up to the time of signing these statements, that this condition was met.

29 Other short-term financial liabilities

In 2023, other short-term financial liabilities amounting to EUR 21,810 thousand (2022: EUR 4,628 thousand) thousand euros include factoring arrangement entered into by Group companies during 2023. The interest rates on factoring during 2023 ranged from 2.5% to 5.35% (2022: 0.35% to 0.90%).

	EUR'000
1 January 2022	-
New borrowings	21,314
Repayments	(16,686)
31 December 2022	**4,628**
New borrowings	23,413
Repayments	(6,231)
31 December 2023	**21,810**

The Group treats the factoring arrangements as a financial activity within the Statement of Cash Flows. Payments made by the bank to suppliers are treated as non-monetary transactions. During 2023, the Group used supplier factoring in the amount of 23,413 thousand euros.

All liabilities to banks for supplier factoring are due within one year.

30 Trade and other payables

	31 December 2023 EUR'000	31 December 2022 EUR'000
Domestic trade payables	71,428	55,530
Foreign trade payables	52,461	55,190
Liabilities to related parties	15,502	7,112
Liabilities towards employees	11,706	9,213
VAT payable	2,725	5,709
Liabilities for contributions on and from salaries and taxes and surtaxes	6,372	5,376
Advances received	1,523	2,102
Agency commissions	8,932	3,844
Accrued costs and deferred income	15,771	10,027
Other liabilities	5,441	2,538
	191,861	**156,641**

31 Financial risk management and financial instruments

Capital risk management

Financial leverage ratio

The finance function of the Group reviews the capital structure on an annual basis. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital. One of the ratios monitored is the financial leverage ratio which was as follows at the reporting date:

	31 December 2023 EUR'000	31 December 2022 EUR'000
Debt (current and non-current) = D	(65,733)	(80,148)
Bank deposits (current)	378	2,013
Cash and cash equivalents	153,824	57,263
Net cash / (debt)	88,469	(20,872)
Equity = E	530,973	460,469
Financial leverage ratio = D/(D+E)	**11%**	**15%**

31 Financial risk management and financial instruments (continued)

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 December 2023 EUR'000	31 December 2022 EUR'000
Quoted shares	Level 1	357	320
Debt intruments		131	-
Derivative instruments	Level 2	-	383
Total financial assets at FVTPL		**488**	**703**
Financial assets at FVOSD	Level 3	240	385
Total financial assets at FVOSD		**240**	**385**
Non-current financial assets	n/a	1,275	2,242
Non-current receivables	n/a	6,690	6,320
Current financial assets	n/a	438	2,916
Trade and other receivables	n/a	221,934	197,984
Cash and cash equivalents	n/a	153,824	57,263
Total financial assets at amortised cost		**384,161**	**266,725**
Total financial assets		**384,889**	**267,813**
Loans payable	n/a	59,856	74,868
Leases payable	n/a	5,821	5,233
Debentures	n/a	1,540	1,728
Factoring	n/a	21,810	4,628
Trade payables	n/a	139,391	117,832
Total financial liabilities at amortised cost		**228,418**	**204,289**
Derivative instruments	Level 2	475	-
Total financial liabilities at FVTPL		**475**	**-**
Total financial liabilities		**228,893**	**204,289**

31 Financial risk management and financial instruments (continued)

A) Fair value of financial assets and liabilities

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

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

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

Derivative financial instruments

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

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

Receivables and bank deposits

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

Borrowings

Fair value of current liabilities approximates their carrying value due to the fact that the interest rates on said loans are approximated by relevant market interest rates. 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.

31 Financial risk management and financial instruments (continued)

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 this risk through sales, purchase and loans stated in a foreign currency which is not the Group's functional currency. Foreign currency primarily exposed to such risks is EUR. The Group is, therefore, exposed to the risk that movements in exchange rates will affect both its net income and financial position, as expressed in EUR.

The relevant exchange rates during the period were as follows:

	Spot exchange rate		Average exchange rate	
	31 Dec 2023 EUR	31 Dec 2022 EUR	31 Dec 2023 EUR	31 Dec 2022 EUR
SEK	11.10	11.12	11.48	10.62
NOK	11.24	10.51	11.42	10.09
USD	1.10	1.07	1.08	1.05
AUD	1.63	1.57	1.63	1.51
CAD	1.46	1.44	1.46	1.37

Apart from euros, as of the reporting date, the majority of the assets and liabilities of the Group were denominated in currencies as shown below. Considering the introduction of the euro as the official currency in Croatia starting from January 1, 2023, the Group no longer faces exposure risk to the euro since it has become the new functional and presentation currency of the Group from the date of conversion to the euro.

	31 Dec 2023 SEK'000	31 Dec 2023 NOK'000	31 Dec 2023 USD'000	31 Dec 2023 AUD'000	31 Dec 2023 CAD'000
Trade receivables	10,667	4,571	5,096	2,363	31
Deposits (over 3 months)	-	-	-	-	1,532
Cash and cash equivalents	4,889	1,657	221	-	1
Trade and other payables	(3,273)	(893)	(1,647)	(28)	-
Borrowings	(1,834)	(3,689)	-	-	-
Derivative instruments	(388)	-	-	-	-
	10,061	**1,646**	**3,670**	**2,335**	**1,564**

	31 Dec 2022 SEK'000	31 Dec 2022 NOK'000	31 Dec 2022 USD'000	31 Dec 2022 AUD'000	31 Dec 2022 CAD'000
Trade receivables	199	-	6,332	1,075	184
Cash and cash equivalents	-	-	584	203	21
Trade and other payables	-	-	(2,363)	-	-
Borrowings	(1,870)	-	-	-	-
	(1,671)	**-**	**4,553**	**1,278**	**205**

31 Financial risk management and financial instruments (continued)

b) Interest rate risk

The companies of the Group are mostly exposed to interest rate risk from loans and borrowings contracted at variable interest rates, while insignificant part of assets is exposed to interest rate risk.

Overview of borrowings with fixed and variable interest rates is as follows:

	31 December 2023 EUR'000	31 December 2022 EUR'000
Bank and other loans based on fixed interest rates	37,356	53,883
Bank and other loans based on variable interest rates	22,500	21,031
	59,856	**74,914**

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.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the other party. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss form defaults. The Group uses data and opinions of specialised rating companies, the Chamber of Economy and other publicly available financial information on the financial positions of companies as well as its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and measured and the aggregate value of contracts concluded is spread amongst creditworthy counterparties.

A significant part of credit risk arises from the Group's operating activities (primarily trade receivables) and from the Company's financial activities, including deposits with banks and financial institutions.

Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model:
- Trade receivables arising from the sale of goods and services
- Contract assets
- Debt instruments at amortised costs
- Debt instruments at fair value through other comprehensive income

Although cash and cash equivalents are also subject to impairment in accordance with IFRS 9 requirements, the impairment identified is immaterial.

31 Financial risk management and financial instruments (continued)

Trade receivables and contract assets

The Group applies the simplified approach to measuring expected credit losses which uses a life time expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics – country risk of the customer and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2023 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are impaired directly if there are no reasonable expectations that they will be recovered. Indicators that there is no reasonable expectation that trade receivables and contract assets will be recovered include, inter alia, a failure to make contractual payments for a period of more than one year.

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables for flats sold, receivables for shares sold, receivables for loans given, receivables for recognised claims, receivables for dividends from associates and receivables from foreign sales.

The analysis performed has shown that the effect of applying IFRS 9 on receivables for recognised claims, receivables for dividends and receivables from foreign sales is immaterial and as such was not recognized at 31 December 2023 and at 31 December 2022.

Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Boards of the Group companies, while the Company's Management Board has built a quality frame for monitoring current, middle and long-term financing, and all liquidity risk requirements. The Group manages liquidity risk by continuously monitoring the anticipated and actual cash flow based on the maturity of financial assets and liabilities.

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

31 December 2023	Net book value EUR'000	Contractual cash flows EUR'000	up to 1 year EUR'000	2 – 5 years EUR'000	over 5 years EUR'000
Non-interest bearing liabilities					
Current trade and other payables	139,391	139,391	139,391	-	-
Interest bearing liabilities	91,016	94,644	34,855	53,268	6,521
	230,407	**234,035**	**174,246**	**53,268**	**6,521**

31 Financial risk management and financial instruments (continued)

31 December 2022	Net book value EUR'000	Contractual cash flows EUR'000	up to 1 year EUR'000	2 – 5 years EUR'000	over 5 years EUR'000
Non-interest bearing liabilities					
Current trade and other payables	117,832	117,832	117,832	-	-
Interest bearing liabilities	106,944	108,295	69,279	24,689	14,327
	224,776	**226,127**	**187,111**	**24,689**	**14,327**

32 Segment reporting

For management purposes, the Group is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Group are as follows:

- Production of electricity - production and revitalization of generators, construction and revitalization of HE, construction of solar power plants, production of converters, production and installation of wind turbines, management, maintenance and services;
- Transmission and distribution of electricity - production and sale of distribution, special, measuring and other transformers, transformer boilers, transformer stations, equipment for primary and secondary distribution of electricity, low-voltage plants, monitoring systems, diagnostic, testing and technical supervision services;
- Rail vehicles and railway infrastructure - includes construction and sale of rail vehicles such as trains and trams and related maintenance services in the transport sector;
- Digital solutions - digital solutions, digital services, digitization of products and production, business support systems, ICT infrastructure and services.

The reportable segments are an integral part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Other includes the activity of renting real estate, production and sale of switches, circuit breakers and small appliances and machines and metal processing, which do not represent a separate operating segment.

The Group does not disclose the value of total assets and total liabilities of each reporting segment, since such information is not provided to the chief operating decision maker.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 Operating segments and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. Inter-segment revenues are eliminated on consolidation.

32 Segment reporting (continued)

in EUR thousands	Production of electricity	Transmission and distribution of electricity		Rail vehicles and infrastructure		Digital solutions	Total reportable segments	Other	Total
		Transmission	Distribution	Rail vehicles	Construction and modernization of railway infrastructure				
2023									
External revenue	78,025	218,015	382,166	78,365	26,577	24,020	807,168	80,220	887,388
Intersegment revenue	5,991	4,456	752	-	-	5	11,204	9,437	20,641
Revenue	**84,016**	**222,471**	**382,918**	**78,365**	**26,577**	**24,025**	**818,372**	**89,657**	**908,029**
Segment operating costs	89,010	208,762	314,361	73,361	28,563	20,917	734,974	100,767	835,741
Segment operating profit / (loss)	**(4,994)**	**13,709**	**68,557**	**5,004**	**(1,986)**	**3,108**	**83,398**	**(11,110)**	**72,288**
Net financial result	(323)	(1,274)	282	132	1	756	(426)	179	(247)
Share of result in equity accounted investee	(12)	-	13,324	-	-	-	13,312	-	13,312
Profit / (loss) before tax	**(5,329)**	**12,435**	**82,163**	**5,136**	**(1,985)**	**3,864**	**96,284**	**(10,931)**	**85,353**
Income tax	85	1,181	10,801	1,058	(125)	573	**13,573**	878	**14,451**
Profit / (loss) after tax	**(5,414)**	**11,254**	**71,362**	**4,078**	**(1,860)**	**3,291**	**82,711**	**(11,811)**	**70,902**
Non-controlling interest	-	-	-	-	-	-	-	-	24,574
Profit attributable to the owner									**46,328**
2022									
2022	67,197	183,180	284,756	84,267	15,747	6,166	641,313	67,514	708,827
External revenue	1,983	4,173	789	367	-	-	7,312	9,121	16,433
Intersegment revenue	**69,180**	**187,353**	**285,545**	**84,634**	**15,747**	**6,166**	**648,625**	**76,635**	**725,260**
Revenue	73,957	171,298	259,112	80,129	15,467	5,488	605,451	69,894	675,345
Segment operating costs	**(4,777)**	**16,055**	**26,433**	**4,505**	**280**	**678**	**43,174**	**6,741**	**49,915**
Segment operating profit / (loss)	44	(879)	715	348	3	2	233	59	292
Net financial result	(13)	-	3,363	-	-	-	3,350	-	3,350
Share of result in equity accounted investee	**(4,746)**	**15,176**	**30,511**	**4,853**	**283**	**680**	**46,757**	**6,800**	**53,557**
Profit / (loss) before tax	565	3,198	2,472	295	(527)	78	6,081	(1,652)	4,429
Income tax	**(5,311)**	**11,978**	**28,039**	**4,558**	**810**	**602**	**40,676**	**8,452**	**49,128**
Profit / (loss) after tax	-	-	-	-	-	-	-	-	14,573
Profit attributable to the owner									**34,555**

33 Related party transactions

Parties are considered related if one party has the ability to control the other party, if it is under joint control or has a significant influence on the business of the other party. The Group is also in a significant part owned by the Republic of Croatia and other companies in control or under significant influence of the Republic of Croatia. In that respect, the Group is in a related party relationship with state institutions and other companies where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Group does not consider routine transactions (such as taxes, levies, etc.) with various local communal entities (directly or indirectly owned by the State) or with other bodies to be related party transactions. More significant transactions with state—owned companies relate to supply of electricity, gas similar utilities. During 2023 the Group has realised total of EUR 208,70 million (2022: EUR 193,24 million) of sale revenues with state institutions and other companies where the State is a majority owner or has a significant influence, which mostly relate to engineering services in energy sector, rail vehicles and industry equipment.

All related party transactions are based on arm's length conditions (purchase of goods, sale of products and provision of services).

2023	**Receivables EUR'000**	**Liabilities EUR'000**	**Revenues EUR'000**	**Expenses EUR'000**
Related party				
Associates	10,516	14,086	15,279	28,627
Joint venture	1,991	1,416	5,360	437
Total business operations	***12,507***	***15,502***	***20,639***	***29,064***

2022	**Receivables EUR'000**	**Liabilities EUR'000**	**Revenues EUR'000**	**Expenses EUR'000**
Related party				
Associates	8,175	7,096	15,979	12,198
Joint venture	283	16	453	40
Total business operations	***8,458***	***7,112***	***16,432***	***12,238***

Dividend receivables from associates amounted to EUR 8,017 thousand as at 31 December 2023 (31 December 2022: EUR 5,065 thousand).

Key management remuneration

Salaries include compensations to the Management Board of the Company and other related companies in the amount of EUR 3,716 thousand (2022: EUR 3,887 thousand) and accrued bonuses for the Management Board in the amount of EUR 2,218 thousand (2022: EUR 1,854 thousand), and are an integral part of staff costs. In 2023, total number of key management personnel was 42 (2022: 38).

34 Business combinations

During 2023, the Group acquired control over the following entities:

In EUR thousands	Ferokotao Ltd.	KONČAR – Electric. App. Ltd.	Kodeks sistems. integrac. Ltd.	EXA Globe Ltd.	Telenerg – Eng. Co Ltd.	INK Projekt Ltd.
Acquistion cost						
Consideration paid	6,426	-	5,734	1,433	1,008	105
Contingent consider-ation	-	-	2,376	604	-	-
Total consideration	**6,426**	**-**	**8,110**	**2,037**	**1,008**	**105**
Fair value recognised on acquisition						
Assets						
Intangibles	34	8	3,115	767	484	-
Property, plant and equipment	11,278	3,973	28	82	14	17
Non-current financial assets	-	12	-	-	-	-
Non-current receivables	-	8	-	-	-	-
Deferred tax assets	1,253	203	21	2	-	-
Inventory	4,524	388	131	62	-	-
Trade and other receiv-ables	3,742	273	1,869	226	1,689	23
Current financial assets	-	12	-	-	41	-
Cash and cash equiva-lents	2,415	36	32	53	45	-
	23,246	**4,913**	**5,196**	**1,192**	**2,273**	**40**
Liabilities						
Deferred tax liabilities	394	149	562	139	87	-
Total other liabilites	10,852	3,987	950	137	1,599	34
	11,246	**4,136**	**1,512**	**276**	**1,686**	**34**
Total fair value of recognised net assets	**12,000**	**777**	**3,684**	**916**	**587**	**6**
Bargain purchase gain / goodwill						
FV of acquired net assets (adjusted for premium)	6,124	-	8,110	2,037	1,008	105
Non-controlling interest	5,876	-	921	229	-	-
Total fair value of rec-ognised net assets	(12,000)	(777)	(3,684)	(916)	(587)	(6)
Goodwill	**-**	**-**	**5,347**	**1,350**	**421**	**99**
Bargain purchase gain	**-**	**(777)**	**-**	**-**	**-**	**-**

34 Business combinations (continued)

Entity	Business description	Transaction Details
Ferokotao	Ferokotao Ltd. is a supplier of metal parts for the transformer industry. The company is oriented to foreign markets and in 2023 65.1% of sales revenue was generated abroad. The main products of the company are transformer boilers and employs about 280 workers.	On 20 December 2023, the Group acquired control of Ferokotao Ltd. from Donji Kraljevec, with a share of 51%. The group previously had a 16% stake in this company at the date of acquisition. The value of the existing ownership interest was reduced to fair value, resulting in a profit of EUR 1.57 million, which was reported within the comprehensive profit in accordance with the Group's accounting policies.
KONČAR – Electrical appliances	The main activity of the company is the design, production, installation and service of electrical devices and equipment of low and medium voltage in the production facilities located in Dicmo. The number of employees prior to the merger with Končar – Switchgear Ltd. was 76.	As of 17 January 2023, KONČAR - Switchgear Ltd. acquired control of a 100% ownership stake in KONČAR - Electrical Appliances for a total purchase price of EUR 1.0. KONČAR – Switchgear Ltd. have obtained a bank guarantee of EUR 1.5 million, since the company had liquidity problems at the time of the sale. When calculating goodwill, this amount was not taken into account at the purchase price, because the earlier obligation to repay the loan remained in the company's books and Končar –Switchgear Ltd. did not use their assets to settle their debt directly. On 1.6.2023. the company merged with KONČAR - Switchgear Ltd.
Kodeks sistemske integracije i EXA Globe	Kodeks sistemske integracije Ltd. is a Croatian company that operates in the segment of information technologies. In its portfolio, the company provides ICT solutions to its clients through direct cooperation with a dozen of the world's leading technology leaders in the field of computer and telecommunications technology, such as Dell, Cisco, vmware, Microsoft, etc. EXA GLOBE Ltd. is a system integrator and supplier of end-to-end telecommunications solutions and products for public operators, service providers, telecoms, railway operators and companies looking for real-time solutions.	The companies were acquired in January 2023, when KONČAR – Digital Ltd. achieved the conditions for control over the companies. The conditional allowance is defined for an additional three instalments, each based on achieving the target of normalized EBITDA for 2023, 2024 and 2025. For example, the first instalment is defined in such a way that for each EUR 1 that generates EBITDA in 2023 lower than planned, the instalment is reduced by EUR 3.6. The next two instalments are calculated on the basis of certain % deviations of realized EBITDAe outside the range of +/-10%, according to defined criteria. On the day of the sale, the company estimated the total expected present value of the conditional allowance for all three instalments in the amount of EUR 3.1 million. Exa Globe was merged with KODEKS SISTEMSKE INTEGRACIJE d.o.o. on 31 May 2023.
Telenerg-Engineering	Telenerg – Engineering Ltd. was founded in December 2021. The company specializes in the design, monitoring, testing and commissioning of low, medium and high voltage power plants and related process control and automation.	As of 4 January 2023, KONČAR – Engineering Ltd. acquired control over a 100% ownership stake in Telenerg – Engineering Ltd. for an estimated purchase price in the amount of EUR 1 million. The fee was paid in cash.
INK Projekt	The average number of employees in 2023 was 7. The company belongs to the category of micro entrepreneurs according to the Accounting Act. The main activity for which the company is registered is engineering services.	During September 2023, KONČAR – Engineering Ltd. acquired control over a 100% ownership stake in INK Project Ltd. for an estimated purchase price in the amount of EUR 105,000. The fee was paid in cash.

34 Business combinations (continued)

If all acquisitions were carried out on January 1, 2023, the Group's total revenues would be as follows:

	2023 EUR'000
Proceeds from the sale to the date of acquisition	
Ferokotao Ltd.	20,505
INK Project Ltd.	144
Group consolidated revenue shown	908,029
Total revenue if acquired as of 1 January 2023	**928,678**
Profit until the date of acquisition	
Ferokotao Ltd.	1,675
INK Project Ltd.	(59)
Group Net Profit	70,902
Total profit if acquired as of 1 January 2023	**72,518**

The Group presented the acquisition effects on January 1, 2023 only for two newly acquired companies, since all other companies acquired during 2023 had an acquisition date from the first half of January 2023 and the effects themselves are immaterial.

Methods and assumptions of calculating the fair value of net acquired assets:

Asset/Liability Item	**Valuation technique**
Property, Plant and equipment	When estimating the value of land the valuer used a market approach, the method of comparable transactions. This method is based on the assumption that the value of an asset can be determined on the basis of an analysis of recent purchase prices achieved on the market. When estimating the value of buildings, an income approach was used, the method of capitalization of earnings. This approach is based on the assumption that the value of an asset is the present value of its future cash flows belonging to the owner of the property. When estimating the value of most of the plant and equipment, a cost approach was used, the method of depreciated replacement cost. This approach is based on the assumption that the value of the asset is equal to the cost of reproducing or replacing the asset, minus depreciation. When estimating the value of vehicles and forklifts, a market approach, a method of comparable transactions, was used. This method is based on the assumption that the value of an asset can be determined on the basis of an analysis of recent purchase prices achieved on the market.
Intangible assets	Relates mostly to software. The fair value of the intangible asset corresponds to the book value.
Inventories	The fair value of inventories acquired is estimated as follows: - Raw materials – by replacement cost on the Assessment Date; - Work in progress ("WIP") – at a selling price minus completion costs, disposal costs and a reasonable fee for completion and sale; - Finished products and goods – at a selling price minus disposal costs and reasonable profit margin
Short-term receivables/ liabilities	Trade receivables, other receivables, supplier liabilities and other liabilities are estimated at the present value of the amounts expected to be collected, which is determined at appropriate interest rates, less impairment allowances for non-collectability and collection costs, if applicable. Since these receivables and liabilities are short-term in nature, they are approximated by their fair value.
Financial liabilities	Financial liabilities are valued at the present value of the amount to be paid in the settlement of liabilities determined at the appropriate interest rate. The increase in non-current liabilities is the result of the recognition of deferred tax liability as a result of temporary time differences incurred at the initial recognition of acquired net assets at fair value.

34 Business combinations (continued)

Dalekovod Group

On April 1, 2022, the Group acquired control over the Dalekovod Group. The parent company of the acquired group, Dalekovod Inc. is a listed company with headquarters in Zagreb. Control was acquired by the subsidiary Napredna energetska rješenja Ltd. The founders of the company Napredna energetska rješenja Ltd., Zagreb are KONČAR - Investments Ltd. and Construction Line Ltd. Company KONČAR - Investments Ltd. is wholly owned subsidiary of KONČAR – Electrical Industry Inc. Company Napredna energetska rješenja Ltd. became the majority owner of Dalekovod Inc. with a share of 75.16 %.

Acquisition cost

	EUR'000
Purchase price for 38.33% stake	20,572
	20,572

Fair value at acquisition date

Fair value of the identifiable assets and liabilities of Dalekovod Group at the acquisition date is as follows:

	EUR'000
Assets	
Brand	1,861
Other intangible assets	587
Land and buildings	21,498
Plant and equipment	16,726
Non-current loans and receivables	7,127
Inventories	10,126
Trade and other receivables	55,508
Income tax receivable	311
Cash and cash equivalents	11,858
Assets held for sale	51
	125,653
Liabilities	
Deferred tax liability	1,223
Total liabilities	58,166
	59,389
Total identifiable net assets at fair value	**66,264**

Gain on bargain purchase

	EUR'000
Purchase price for 38.33% stake	20,572
Non-controlling interest	41,275
Total identifiable net assets at fair value	(66,264)
Gain on bargain purchase	**(4,417)**

Period from acquisition date until 31 December 2023:	
Revenues	**114,368**
Comprehensive income / (loss)	**5,075**

34 Business combinations (continued)

Dalekovod Group (continued)

Methods and assumptions used in the determining net assets acquired:

Caption	Methods used
Property, plant and equipment	Fair value estimation was performed using income approach – direct capitalisation method and market approach – sales comparison method. The income approach converts anticipated future benefits in the form of rental income into present value. Comparative method for real estate and land: fair value is based on comparison with the achieved prices in the sale of similar real estate in a relatively recent period of time based on data from the appraisers, specialized press, real estate agencies, the Central Bureau of Statistics and other available sources. The book value of EUR 3,355 thousand of Dugo Selo property at the Valuation Date, was adjusted to zero (in addition, the related loan on the Dugo Selo property with the same value was adjusted to zero). The valuation of plant and equipment was performed using indirect cost approach on item-by item level. The fair value of vehicles was estimated mostly using the market approach or cost approach where application of the market approach was not feasible. When the market approach is utilised, data is collected on the prices paid for reasonably comparable assets or the offer prices for reasonably comparable assets. Adjustments are (or can be) made to the comparable assets to compensate for differences between those assets and the asset being valued. The application of the market approach results in an estimate of the price reasonably expected to be realised from the sale of the asset.
Intangible assets	Mostly relates to brands and software. Fair value of brands based on the report of an independent expert appraiser who assessed the brands using the royalty relief method. In estimating the value of brands, the appraiser applied a royalty rate of approximately 0.26% to the cash flows from the operations for a five-year period with an average terminal growth rate based on historic performance, adjusted for inflation of 2%.Some 50% of total sales are attributable to the brand. Projected after-tax cash flows were discounted using the discount rate of 12.43%. Income tax rate prevailing in Croatia of 18% was applied. The valuation of software was performed using indirect cost approach on item-by item level.
Inventory	The fair value of inventories acquired in a business combination is based on the estimated selling price in the ordinary course of business, less the estimated cost of selling the inventory. Obsolete inventories in the amount of EUR 1 million were impaired due to the fact that they will most likely be fully written off.
Current receivables and current payables	Current trade and other receivables and trade and other payables were recognised at nominal value reduced for impaired amount and are approx. equal to their fair values due to their short term nature.
Long–term payables	Long-term liabilities are recognized at amortized cost and are approximately equal to their fair value as they relate mainly to loans with approximately market interest rates. Decrease in long-term liabilities at acquisition relate to EUR 3,355 thousand property in Dugo Selo, as it was considered that Dalekovod did not have control over this property at the time of the acquisition (the related loan on the Dugo Selo property with the same value was also adjusted to zero). The increase in long-term acquisition liabilities is a result of the recognition of a deferred tax liability as a result of temporary time differences arising on the initial recognition of acquired net assets at fair value.

35 Events after the reporting date

Change in management

Following the expiration of the term and the appointment of the Management Board, as of January 21, 2024, the members of the Management Board are Gordan Kolak, Josip Lasić, Miki Huljić, Ivan Paić, and Petar Bobek.

Acquisition of control

On March 15, 2024, the company KONČAR – Digital Ltd. signed a sales agreement for the majority ownership stake in ADNET Ltd.. The agreement stipulated that the transaction would be carried out by acquiring ownership stakes directly in ADNET Ltd. and by acquiring ownership stakes in the legal entity that owns ADNET Ltd., KREANCA SUSTAVI Ltd.

On March 19, 2024, the conditions for concluding the transaction and the acquisition of ownership stakes by KONČAR – Digital Ltd. in ADNET Ltd. and KREANCA SUSTAVI Ltd. were met.

KONČAR – Digital Ltd. indirectly acquired 52 percent of the voting rights in ADNET Ltd. With this acquisition, KONČAR – Digital Ltd. expands its portfolio of products, services, and "SLA" (Service Level Agreement) contracts in the areas of equipment delivery, design, implementation, and engineering of network and computer equipment and associated application solutions for critical and urban infrastructure management and monitoring projects.

Dalekovod – events after the reporting date

Following the first-instance judgment in favour of the Ministry of Finance/Republic of Croatia in the litigation that the Company, as a plaintiff, is bringing before the Commercial Court in Zagreb for the payment of a claim in the amount of EUR 6,636,140.42 (see note 7 for more details) and filing a legal remedy against the aforementioned judgment, on 25 March 2024, the Company received a decision of the High Commercial Court of the Republic of Croatia by which that court quashed the first instance verdict. However, the case was remanded for re-decision to the Commercial Court in Zagreb and therefore the Company and the Group, due to developments during the year following the aforementioned dispute and legal uncertainties, keep the claim completely reduced.

Offer for purchase of non-controlling share in subsidiary Advanced energy solutions Ltd. and indirectly in Dalekovod Inc.

During October 2023, the Group received an offer from the company Construction Line Limited (CL) for the purchase of its share corresponding to 49% of the share capital in the company Advanced energy solutions Ltd. (NER), which is the owner of 75.16% of Dalekovod Inc. The Group gave a preliminary positive opinion on the above offer, noting that it can only be implemented after the fulfillment of obligations stipulated by relevant legislations, which includes obtaining approval for the execution of the transaction from competent authorities for the protection of market competition in all jurisdictions where this approval is necessary. Since receiving the offer, the Group has worked intensively on receiving all relevant approvals, but only on 12 April 2024 received the approval of the Agency for the Protection of Market Competition of the Republic of Croatia regarding the confirmation of the permissibility of market concentration of relevant entities, while the process of receiving such approval from the competent authorities for the protection of the market competition in BiH and North Macedonia are still ongoing. Accordingly, the successful implementation of this potential transaction depends on external factors beyond the Group's control, but in any case, the amount of the potential purchase price does not represent a significant share of the Group's total assets on the reporting date.

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