# KONČAR – Electrical Industry Inc. for manufacturing and services

ANNUAL REPORT
31 DECEMBER 2023


KONČAR
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# Content

# KONČAR – Electrical Industry Inc. for manufacturing and services

## Management Report and Corporate Governance Statement

# Introduction

The Parent Company of the Group is KONČAR – Electrical Industry Inc. for manufacturing and services. As the Parent Company, it draws up consolidated reports, which are presented separately.

This Statement for the period January - December 2023 is a report of the Company as a separate entity. The subsidiaries within the Group are legally autonomous companies that the Parent Company oversees, strategically directs and supports through the supervisory boards and general assemblies of the respective companies, all in compliance with the Companies Act, the Articles of Association of KONČAR – Electrical Industry Inc., and the Articles of Association and Memoranda of Incorporation of the member companies. The Parent Company administers assets not allocated to subsidiaries but employed both directly and indirectly to bolster the marketing, products, and equipment of associate companies by offering credit-guarantee support.

As the Parent Company of the Group, KONČAR – Electrical Industry Inc. for manufacturing and services invoices the following services to its subsidiaries:

- Brand usage fee (fee for the usage of company name, trademark and service mark)
- Part of the cost of organized joint exhibitions at fairs,
- Part of the cost of foreign branch offices,
- Part of the cost of joint marketing activities,
- Management seminars, employee training etc.

| In 000 eur | 2022 | 2023 | Δ | Index 2023/2022 |
|---|---|---|---|---|
| **Total operating income** | **33,225** | **30,666** | **(2,559)** | **92.3** |
| Sales income | 23,622 | 27,458 | 3,836 | 116.2 |
| Income from dividends | 12,992 | 16,702 | 3,710 | 128.6 |
| Income from contracts with customers | 10,630 | 10,756 | 126 | 101.2 |
| Other income | 9,603 | 3,208 | (6,395) | |
| **Operating expenses** | **18,948** | **18,289** | **(659)** | **96.5** |
| EBIT | 14,277 | 12,377 | (1,900) | 86.7 |
| Net profit | 15,002 | 13,707 | (1,295) | 91.4 |
| Net profit normalized | 12,512 | 15,085 | 2,573 | 120.6 |
| **EBITDA** | **15,399** | **13,495** | **(1,904)** | **87.6** |
| EBITDA normalized | 12,909 | 14,873 | 1,964 | 115.2 |

*Normalized data[1]: less the net effect of provisions, asset sale income, loss compensation income and other operating income.*

# Business results

For the period January - December 2023, KONČAR – Electrical Industry Inc. for manufacturing and services generated EUR 30.7 million in operating income, which is a 7.7% decline year-on-year. Normalized data, excluding one-off items, increased by 16.2% year-over-year.

In the comparable period in 2022, a significant share of the operating income was realized from a one-off other income transaction amounting to EUR 9.6 million generated from the sale of facilities not in the function of the core business, income from damage compensations, and incomes not related to the regular operations.

Revenue generated from sales of goods and services amounts to EUR 10.8 million, which is a year-on-year increase of EUR 126 thousand. Dividend received from Group subsidiaries amounts to EUR 16.7 million (in 2022 it amounted to EUR 13 million). Finance income amounting to EUR 1.6 million was realized.

Finance income mostly comprises interest earned on loans extended to subsidiaries, as well as interest on deposits.

Operating expenses amount to EUR 18.3 million, which represents EUR 0.7 million decline year-on-year.

Operating expenses comprise the following:
- Material costs amounting to EUR 3.6 million, of which EUR 3.4 million pertains to other external costs and EUR 0.2 million pertains to costs of commodities and raw materials. Other external costs predominantly pertain to services related to the operation and real estate management, utility and water supply fees, cleaning services, maintenance services and other services.
- Staff costs amount to EUR 4.9 million, which is a 29.1% increase year-on-year. The average number of employees in the reporting period was 71 employees, while in the corresponding period in 2022 it stood at 59 employees.
- Depreciation and amortization amount to EUR 1.1 million, approximately the same level as in 2022.
- Other costs amount to EUR 4.3 million and are 9.4% higher year-on-year. Other costs pertain to employee compensation fees, intellectual services, insurance premiums, fees for service contracts and training costs.

# Statement of financial position

The value of total assets of KONČAR – Electrical Industry Inc. for manufacturing and services as at 31 December 2023 amounts to EUR 253.9 million, which represents a growth of EUR 17.1 million, or 7.2% compared to the balance as at 31 December 2022.

Total non-current assets amount to EUR 193.8 million, which is EUR 12.5 million (or 6.9%) above the position as at 31 December 2022. As a result of depreciation and amortization calculation, the non-current intangible assets item remains on the same level as at 31 December 2022, while the tangible assets item increased by EUR 3.7 million compared to the position as at 31 December 2022. Most of the increase is attributed to investments in real estate and assets earmarked for strategic projects.

Non-current financial assets increased by EUR 6.6 million compared to the balance as at 31 December 2022, primarily due to the increase in equity stakes in subsidiaries through capital injections and share repurchases. Loans given in the amount of EUR 20.6 million pertain to loans granted to a subsidiary.

Non-current receivables amount to EUR 1.3 million, a decline of EUR 0.3 million compared to 31 December 2022, and they pertain to receivables from a subsidiary sell-off.

Total current assets stand at EUR 60.1 million, which represents a EUR 4.6 million rise compared to the position as at 31 December 2022.

Compared to the position as at 31 December 2022, significant changes occurred in the following items:
- Total current receivables increased by EUR 2.9 million, which mostly pertains to an increase in dividend receivables amounting to EUR 2.9 million from the associate company as at 31 December 2022.
- Other receivables as of 31 December 2022, are up by EUR 1.1 million, which is attributed to the transfer of the current maturity of instalment payments for shares of a sold-off company.
- As a result of the repayment of loans given to associate companies, current financial assets decreased by EUR 22.3 million compared to the balance as at 31 December 2022.
- As of December 31, 2023, the balance of cash and cash equivalents stands at EUR 38.3 million, representing an increase of EUR 24.9 million since the beginning of the year.
- The increase is partially attributed to a rise in cash flow from investing activities, totalling EUR 28 million, an increase in cash flow from operating activities by EUR 1.9 million, and a reduction in cash flow from financing activities by EUR 5.1 million.
- Prepaid expenses for upcoming periods total EUR 1.1 million, representing an increase of EUR 872 thousand compared to the balance as at 31 December 2022. These expenses are related to ongoing investments in strategic projects scheduled for re-invoicing to subsidiary companies in the forthcoming period and include anticipated revenues from associated companies for the use of the company name.

Total capital and reserves as at 31 December 2023 amount to EUR 240.8 million, which is a EUR 8.7 million rise compared to the balance as at 31 December 2022. The rise is the result of the realized profit in the amount of EUR 13.7 million and distribution of profits for 2022 pursuant to the Resolution of the General Assembly.

As at the Statement of Financial Position date, provisions for pensions and jubilee awards total EUR 1.4 million, an increase of EUR 215 thousand compared to the balance as at 31 December 2022.

Current liabilities amount to EUR 11.6 million, which is an increase of EUR 8.2 million compared to the balance as at 31 December 2022. The increase can largely be attributed to significant commitments to strategic IT projects across the Group at the year's end, as well as to liabilities arising from investment expenditures.

As at 31 December 2023, off-balance sheet items include mostly security instruments (including corporate guarantees to third parties) issued at the request of the Group subsidiaries for the requirements of financial institutions and suppliers in the amount of EUR 151 million (31 December 2022: EUR 126.8 million).

# Corporate governance

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 the best 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 has undertaken to act in compliance with the principles of responsibility, truthfulness, efficiency, transparency, quality, good faith and observance of fair business practices towards business partners, 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 description of the main elements of 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 the documents are available on KONČAR's website (www.koncar.hr).

The Company complies with the recommendations of the Code, except for the provisions where application is not practical or not provided for in the applicable legal framework at a given time. 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 reelecting 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 first General Assembly session, where the agenda will include the election of members of the Supervisory board, in the case that any of the candidates held the position in the previous mandate.
- 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 KONČAR Supervisory Board's Rules of Procedure specify that these materials be distributed no later than 5 days prior to the session.
- The Company has failed to 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.

# Corporate governance (continued)

- The Company's statute and/or internal acts allow shareholders opportunity to vote electronically without restrictions (Article 79 of the Code). Attendance of shareholders or deputy at the assembly is mandatory.
- 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 area. No anti-competitive, antitrust or monopoly practices were recorded in KONČAR Group.

**Corporate governance organization**

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

# Corporate governance (continued)

(Article 256), by the shareholder Kapitalni fond d.d. 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 d.d., 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. Direct management of the Company is not performed by the Supervisory Board. Rather, the Supervisory Board directs the Management Board when adopting strategic decisions and setting a governance framework. The Supervisory Board has also been granted additional authorisations by virtue of the Company's Articles of Association, stipulating that particular types of tasks can be performed only with the previous consent of the Supervisory Board.

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 d.d., from among their own ranks. Supervisory Board Members are appointed for a four-year term and may be reappointed. Members appointed by Kapitalni fond d.d. may be appointed for two consecutive terms at most.

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. 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.

# Corporate governance (continued)

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, specifically the validity and consistency of accounting methods used at the Company and KONČAR Group, including the criteria for consolidated financial reporting of Group subsidiaries. Moreover, the Committee is tasked with monitoring the internal controls and risk management system with the aim of allowing the Company to identify, publicly disclose and appropriately manage the major risks to which it is exposed.

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.

# Corporate governance (continued)

**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 informs the Supervisory 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 Management Board regularly submits statutory reports to the Supervisory Board, and in between Supervisory board meetings, the Management Board duly informs the Supervisory Board of any important events pertaining to the Company's operations.

The Management Board assesses its own effectiveness, which constitutes an integral part of annual performance management process and assessment of the effectiveness of the Members of the Management Board. 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. At the end of year 2023, the Management Board had 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

# Corporate governance (continued)

the activities within their designated business segment, acting responsibly and with the care and diligence expected of a prudent businessperson. 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 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.

**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, preemptively eliminate potential risks or mitigate them to acceptable levels.

In 2023, several audits were conducted in the areas of sales processes, procurement, inventory management, and due diligence processes within the companies.

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.

# Employees

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.

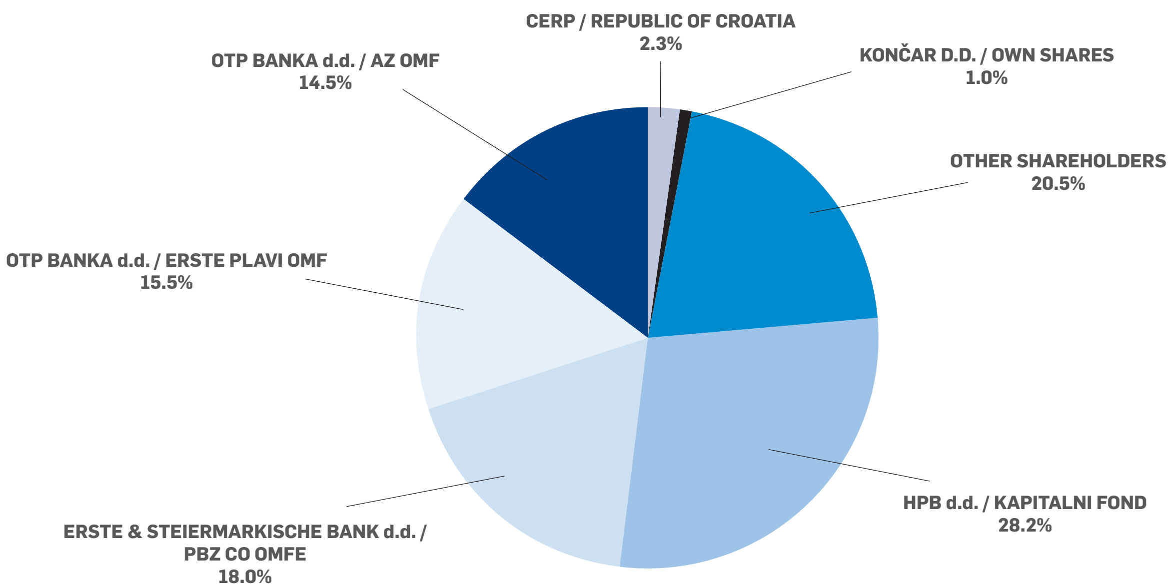
Human resources management implies efforts to carry out research and analysis of factors contributing to employee motivators. For this reason, the Company conducts individual interviews with employees and performs satisfaction surveys, which give the best possible perspective on the perceptions, needs and preferences of each individual employee and indicate areas where there is room for 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.

As at 31 December 2023, the Company had 78 employees (61 employees as at 31 December 2022).

# 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 and diversified, with the most significant share held by Kapitalni fond and voluntary pension funds.



# Capital market (continued)

Shares of KONČAR – Electrical Industry Inc. for manufacturing and services are listed in the Official Market of the Zagreb Stock Exchange. The shares are identified by the identification code KOEI-R-A. 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.

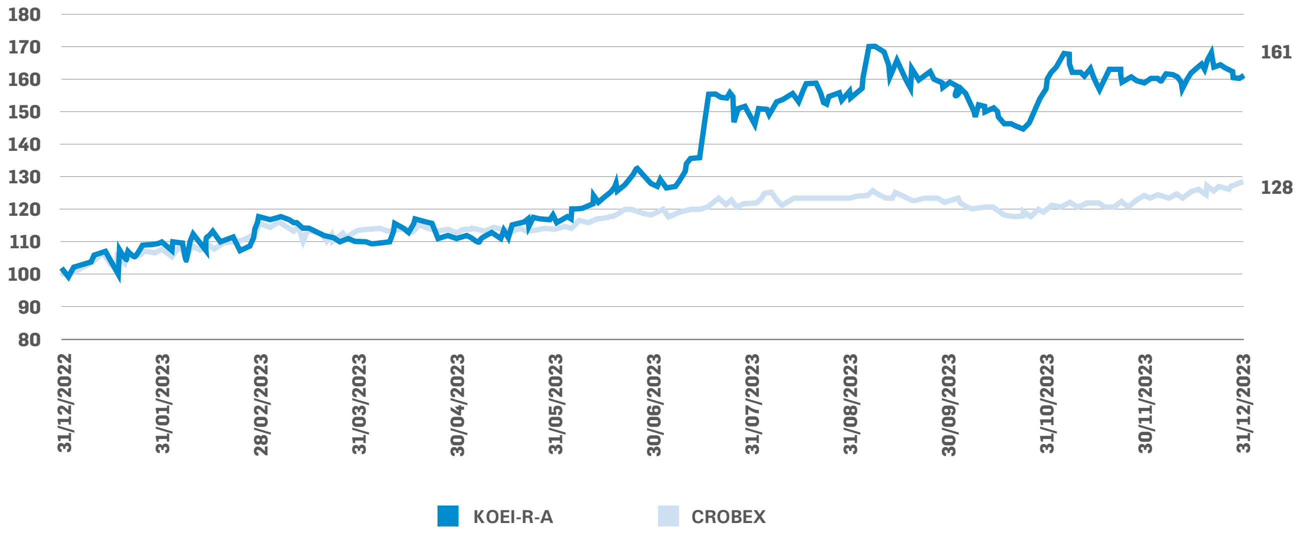
As of December 31, 2023, the market capitalization stood at EUR 476.1 million, representing a year-over-year growth of EUR 183.9 million or 62.9%.

Earnings per share for the parent company in 2023 amount to EUR 18.29, representing a gain of 58.6% 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**



# Capital market (continued)

**Investor relations**

In 2023, KONČAR - Electrical Industry Inc. for manufacturing and services 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- Electrical Industry Inc. for manufacturing and services shares.

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

# Difference between the GFI pod form and presented financial statements

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

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Tangible assets (AOP 010) | 52,829 | 7,133 | 45,696 | Investment property is presented separately in IFRS financial statements as required by IAS 40. |
| Investment property (Note 15) | - | 45,696 | (45,696) | |
| ***Total*** | **52,829** | **52,829** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Shares/stakes in associated undertakings (AOP 024) | 8,988 | - | 8,988 | Under IFRS 11, in IFRS financial statements investments in associates and investments in joint ventures are presented separately. |
| Investments in associates | - | 8,988 | (8,988) | |
| ***Total*** | **8,988** | **8,988** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Trade receivables (AOP 034) | 1,287 | - | 1,287 | Non-current receivables are grouped in the IFRS statements under "Loans and receivables", whereas in the GFI POD form they are separated by relevant items. |
| Loans, deposits and similar assets (AOP 028) | 20,618 | - | 20,618 | |
| Loans and receivables (Note 18) | - | 21,905 | (21,905) | |
| ***Total*** | **21,905** | **21,905** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Non-current assets held for sale (AOP 044) | 757 | - | 757 | Under IFRS 5, non-current assets held for sale are recognised in the balance sheet as a separate, standalone item, whereas in the GFI-POD form they are recognised under inventories. |
| Non-current assets held for sale (Note 22) | - | 757 | (757) | |
| ***Total*** | **757** | **757** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Receivables (AOP 046) | 14,803 | - | 14,803 | In the IFRS statements, the note Trade and other receivables includes prepaid expenses, which are intended to be presented as a standalone item in the GFI POD form (AOP 064). In the IFRS note, there is a subdivision into trade receivables, which include GFI POD items AOP 047, AOP 048 and AOP 049. |
| Prepaid expenses (AOP 064) | 1,169 | - | 1,169 | |
| Trade and other receivables (Note 19) | - | 14,992 | (14,992) | |
| ***Total*** | **15,972** | **14,992** | **980** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Loans, deposits, etc. to undertakings within the group (AOP 056) | 5,027 | - | 5,027 | In the IFRS statements, the note Loans given includes loans given and interest receivable for loans given. GFI POD form note includes loans given (AOP 056) while interest receivable is part of note Receivables from undertakings within the group (AOP 47). |
| Loans given (Note 20) | - | 6,007 | (6,007) | |
| ***Total*** | **5,027** | **6,007** | **(980)** | |

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

U nastavku dajemo pregled razlika stavki računa dobiti i gubitka u GFI POD obrascu i revidiranim financijskim izvještajima:

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Retained earnings or accumulated loss (AOP 083) | 9,311 | - | 9,311 | In the IFRS report, the profit for the current period and retained earnings are presented together in the balance sheet. |
| Profit or loss for the year (AOP 086) | 13,707 | - | 13,707 | |
| Retained earnings | - | 23,018 | (23,018) | |
| ***Tatal*** | **23,018** | **23,018** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Current liabilities (AOP 109) | 9,842 | - | 9,842 | Total current liabilities are classified in the IFRS statements as trade payables and other liabilities. As shown in the note, trade payables include AOP 110 and AOP 117, employee-related liabilities AOP 119, tax and contribution-related liabilities AOP 120, whereas other liabilities are equal to the sum of items AOP 121 and AOP 123. |
| Accrued expenses (AOP 124) | 1,775 | - | 1,775 | |
| Trade and other payables (Note 25) | - | 11,617 | (11,617) | |
| ***Tatal*** | **11,617** | **11,617** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Cost of raw materials and supplies (AOP 136) | 206 | - | 206 | In the profit and loss statement compiled in accordance with the IFRS, items AOP 136 and AOP 138 are grouped under the "cost of material and services" item. |
| Other external costs (AOP 138) | 3,411 | - | 3,411 | |
| Raw materials, products, consumables, and services used (Note 6) | - | 3,617 | (3,617) | |
| ***Tatal*** | **3,617** | **3,617** | **-** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Other costs (AOP 144) | 4,490 | - | 4,490 | In the IFRS statements, items AOP 144 and AOP 155 are grouped as "other costs". |
| Other operating expenses (AOP 155) | 46 | - | 46 | |
| Other operating expenses (Note 9) | - | 4,337 | (4,337) | |
| ***Tatal*** | **4,536** | **4,337** | **199** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Staff costs (AOP 139) | 4,277 | - | 4,277 | In the IFRS report, provisions for termination benefits (AOP 148) are shown in the note ''staff costs'', together with the costs of other remuneration payable to employees in the amount of HRK 1,533 thousand, which are presented in the GFI POD form under the ''other costs'' item (AOP 144). |
| Provisions (AOP 148) | 384 | - | 384 | |
| Staff costs (Note 7) | - | 4,860 | (4,860) | |
| ***Tatal*** | **4,661** | **4,860** | **(199)** | |

| (EUR 000) | GFI POD | MSFI | Difference | Explanation |
|---|---|---|---|---|
| Financial income (AOP 156) | 1,732 | - | 1,732 | In the IFRS report, income/(cost) from fair value adjustment of shares and income from reversal of expected credit loss, in line with IFRS 9, are presented under ''other income'', whereas they are presented under ''financial expenses'' or "financial costs" item in the GFI POD form. |
| Other operating income (outside of the Group) (AOP 132) | 294 | - | 294 | |
| Other operating income (intra-Group transactions) (AOP 131) | 2,746 | - | 2,746 | |
| Financial expense (AOP 167) | (4) | - | (4) | |
| Other operating income (Note 5) | - | 3,208 | (3,208) | |
| Financial cost (Note 10) | - | - | - | |
| Financial income (Note 10) | - | 1,560 | (1,560) | |
| ***Tatal*** | **4,768** | **4,768** | **-** | |

# Statement of Management's responsibilities

The Management Board of KONČAR – 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 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 Company 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 Company will continue in business.

The Management Board has a reasonable expectation that the Company 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 financial statements in electronic form in accordance with the ESEF Regulation ("ESEF financial statements").

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:

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,
10 000 Zagreb

# KONČAR – Electrical Industry Inc. for manufacturing and services

## Independent Auditor’s Report

# 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 separate financial statements of KONCAR - Electrical Industry Inc. for manufacturing and services ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2023, and the separate statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising material accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2023 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

### *Basis for Opinion*

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

### *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.

**RECOVERABILITY OF INVESTMENTS IN SUBSIDIARIES**

As at 31 December 2023, investments in subsidiaries in the separate financial statements amounted to EUR 109,561 thousand (2022: EUR 103,072 thousand). During the year the Company recognized an impairment loss with respect to investments in subsidiaries in the amount of EUR 4,357 thousand (2022: EUR 7,004 thousand).

Please refer to accounting policy *2. l) Investment in subsidiaries,* key accounting estimate and judgment *3. a) Recoverability of investments in subsidiaries* and notes *8 Impairment* and *16 Investment in subsidiaries* to the financial statements.

| **Key audit matter** | **How our audit addressed the matter** |
|---|---|
| In accordance with the relevant financial reporting standards, the Company is required to perform an impairment test for assets for which impairment indicators were identified.<br><br>Due to the magnitude of investments in subsidiaries (as well as total exposure toward these entities, calculated as the sum of the carrying amounts of the investments and related loans and receivables, net of related liabilities), identification of impairment indicators for any such subsidiaries at the reporting date and testing for potential impairment requires significant management judgement. | Our audit procedures in this area included, among others:<br><br>• evaluating, against the relevant requirements of the financial reporting standards, the process of management's identification of impairment indicators, considering factors such as unfavourable developments in the industry, negative or insufficient net assets, changing laws and regulations, declining financial performance, existence of any overdue loans and receivables and/or rolling of existing facilities, and changing business models; |

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

***Key Audit Matters (continued)***

| **RECOVERABILITY OF INVESTMENTS IN SUBSIDIARIES (CONTINUED)** | |
|---|---|
| **Key audit matter** | **How our audit addressed the matter** |
| Where impairment indicators are identified for a certain exposure, the Company tests the impairment by determining the recoverable amount of the assets and comparing it with their carrying values.<br><br>The recoverable amounts are determined, with the assistance from external and internal appraisers, as fair values of the underlying subsidiaries, measured using appropriate valuation techniques, e.g. discounted cash flow models of the underlying entity, supplemented, where available, by comparable valuation multiples or prices achieved in actual market transactions for comparable entities.<br><br>The determination of the recoverable amount requires making a number of assumptions and judgements, in particular those relating to the selection and application of valuation models, future cash flow projections and the appropriateness of used valuation multiples, and comparable transactions. Future cash flow projections are subject to significant variability due to changing market conditions and environment. Key assumptions relate to discount rate used and cash flows growth rate in the residual period. A minor change in these assumptions may have a significant impact on the recoverable amount.<br><br>As a result, this area required our significant judgment and increased attention in the course of our audit and consequently we considered it to be a key audit matter. | • assessing the appropriateness of valuation methodology applied for impairment testing against the relevant requirements of financial reporting standards. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements;<br><br>• assessing competence, capabilities and objectivity of internal and external appraisers engaged by the Company;<br><br>• assisted by our own valuation specialists, challenging the key assumptions used by management in its impairment testing, which specifically involved:<br>o evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes;<br>o challenging the key macroeconomic assumptions applied (such as discount rates and growth rates in the residual period) by reference to publicly available external sources and data on historical financial performance;<br>o analysing sensitivity of the impairment test results to changes in key assumptions and considering whether the level of key assumptions indicates management bias;<br><br>• evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing against the relevant requirements of the financial reporting standards. |

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

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

### *Other Information*

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

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

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

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

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

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

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

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

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

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

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

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

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# Independent Auditors’ Report to the shareholders of KONCAR - Electrical Industry Inc. for manufacturing and services

## 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 scepticism throughout the audit. We also:

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

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

### 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 audit the separate 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;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs) to the Company, hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

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

### Report on Compliance with the ESEF Regulation

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

***Responsibilities of Management and Those Charged with Governance***

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

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

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

***Auditors' Responsibilities***

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

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

## Report on Compliance with the ESEF Regulation (continued)

### *Auditors' Responsibilities (continued)*

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Reasonable assurance is a high degree of assurance. However, it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with the RTS on ESEF.

Our procedures included, among other things:

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

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

### *Opinion*

In our opinion, based on the procedures performed and evidence obtained, the separate financial statements of the Company as at and for the year ended 31 December 2023, presented in ESEF format and contained in the aforementioned attached electronic file, have been prepared, in all material respects, in accordance with the requirements of the RTS on 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

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

# UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

| | Note | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|---|
| Revenue | 4 | 27,458 | 23,622 |
| Other operating income | 5 | 3,208 | 9,603 |
| | | **30,666** | **33,225** |
| Cost of materials and services | 6 | (3,617) | (2,981) |
| Staff costs | 7 | (4,860) | (3,766) |
| Depreciation and amortisation | | (1,118) | (1,122) |
| Impairment losses | 8 | (4,357) | (7,114) |
| Other operating expenses | 9 | (4,337) | (3,965) |
| | | **(18,289)** | **(18,948)** |
| **Operating profit** | | **12,377** | **14,277** |
| Finance income | | 1,560 | 725 |
| Finance costs | | - | - |
| **Net finance income** | 10 | **1,560** | **725** |
| **Profit before tax** | | **13,937** | **15,002** |
| Income tax | 11 | (230) | - |
| **PROFIT FOR THE YEAR** | | **13,707** | **15,002** |
| Other comprehensive income | | - | - |
| **COMPREHENSIVE INCOME FOR THE YEAR** | | **13,707** | **15,002** |
| Basic and diluted earnings per share in EUR | 12 | 5.47 | 5.89 |

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

# UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

| | Note | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 13 | 61 | 44 |
| Property, plant and equipment | 14 | 7,133 | 3,394 |
| Investment property | 15 | 45,696 | 43,343 |
| Investments in subsidiaries | 16 | 109,561 | 103,072 |
| Investments in associates | 17 | 8,988 | 8,988 |
| Financial assets at FVTPL | | 457 | 289 |
| Loans and receivables | 18 | 21,905 | 22,190 |
| **Non-current assets** | | **193,801** | **181,320** |
| Trade and other receivables | 19 | 14,992 | 11,709 |
| Loans given | 20 | 6,007 | 28,297 |
| Cash and cash equivalents | 21 | 38,343 | 13,473 |
| Assets held for sale | 22 | 757 | 2,050 |
| **Current assets** | | **60,099** | **55,529** |
| **TOTAL ASSETS** | | **253,900** | **236,849** |
| **EQUITY AND LIABILITIES** | | | |
| Share (registered) capital | | 159,471 | 160,448 |
| Capital reserves | | 1,072 | 95 |
| Reserves from profit | | 57,272 | 56,523 |
| Retained earnings | | 23,018 | 15,116 |
| **Capital and reserves** | 23 | **240,833** | **232,182** |
| Non-current provisions | 24 | 1,449 | 1,234 |
| **Non-current liabilities** | | **1,449** | **1,234** |
| Trade and other payables | 25 | 11,388 | 3,433 |
| Income tax liability | | 230 | - |
| **Current liabilities** | | **11,618** | **3,433** |
| **Total liabilities** | | **13,067** | **4,667** |
| **TOTAL EQUITY AND LIABILITIES** | | **253,900** | **236,849** |

*The accompanying notes form an integral part of these financial statement*

# UNCONSOLIDATED 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 | | 12,196 | 6,591 |
| Payments to trade payables | | (5,237) | (4,627) |
| Payments to employees | | (4,239) | (3,481) |
| Taxes paid | | (1,776) | (1,109) |
| Other proceeds and payments | | 944 | (208) |
| **Cash from operations** | | **1,888** | **(2,834)** |
| Interest paid | | - | - |
| **Net cash flows from operating activities** | | **1,888** | **(2,834)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of non-current intangible and tangible assets | | 3,415 | 138 |
| Proceeds from sale assets held for sale | 22 | 391 | 7,454 |
| Proceeds from sale of equity and debt instruments | | - | 380 |
| Cash receipts from return on investment | | - | 6,636 |
| Dividends received | 4, 19 | 13,793 | 12,491 |
| Interests received | | 1,001 | 114 |
| Cash proceeds from term deposits | | - | 9,954 |
| Cash receipts from loans | 20 | 43,276 | 9,315 |
| Purchase of non-current intangible and tangible assets | | (2,665) | (1,466) |
| Payments for acquisition of equity and debt financial instruments | 16 | (10,620) | (5,257) |
| Cash proceeds from repayment of loans granted | 18, 20 | (20,515) | (37,080) |
| Proceeds from other financial placements | 5,18,19 | - | 15,063 |
| **Net cash flows (used in) / from investing activities** | | **28,076** | **17,742** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | 23 | (5,092) | (4,382) |
| **Net cash used in financing activities** | | **(5,092)** | **(4,382)** |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **24,872** | **10,526** |
| | | | |
| Cash and cash equivalents at beginning of year | 21 | 13,473 | 2,949 |
| Effect of change in foreign exchange differences | | (2) | (2) |
| **Cash and cash equivalents at end of year** | **21** | **38,343** | **13,473** |

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

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

| | Share capital EUR'000 | Share premium EUR'000 | Reserves from profit EUR'000 | Reserves for treasury shares EUR'000 | Treasury shares EUR'000 | Retained earnings EUR'000 | Total capital and reserves EUR'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | **160,448** | **95** | **53,572** | **4,581** | **(2,106)** | **4,904** | **221,494** |
| Profit for the year | - | - | - | - | - | 15,002 | 15,002 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **15,002** | **15,002** |
| Transfer | - | - | 476 | - | - | (476) | - |
| Other changes in equity | - | - | - | (55) | 55 | 78 | 78 |
| Dividend payments | - | - | - | - | - | (4,392) | (4,392) |
| **Total transactions with the owners** | **-** | **-** | **476** | **(55)** | **55** | **(4,790)** | **(4,314)** |
| **At 31 December 2022** | **160,448** | **95** | **54,048** | **4,526** | **(2,051)** | **15,116** | **232,182** |
| Profit for the year | - | - | - | - | - | 13,707 | 13,707 |
| Transfer | (977) | 977 | - | - | - | - | - |
| **Total comprehensive income** | **(977)** | **977** | **-** | **-** | **-** | **13,707** | **13,707** |
| Transfer | - | - | 749 | - | - | (749) | - |
| Other changes in equity | - | - | - | (16) | 16 | 36 | 36 |
| Dividend payments | - | - | - | - | - | (5,092) | (5,092) |
| **Total transactions with the owners** | **-** | **-** | **749** | **(16)** | **16** | **(5,805)** | **(5,056)** |
| **At 31 December 2023** | **159,471** | **1,072** | **54,797** | **4,510** | **(2,035)** | **23,018** | **240,833** |

*The accompanying notes form an integral part of these financial statement*

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

## 1 General information on the Company

KONČAR - Electrical Industry Inc., Hrvatska, Zagreb, Fallerovo šetalište 22, (the “Company”) is the parent company of the KONČAR Group. The Company is incorporated in Croatia, while the central offices are located in Fallerovo šetalište 22, 10 000 Zagreb, As the parent company, it prepares consolidated financial statements which are presented and audited separately. These separate financial statements represent the Company as a separate entity. The principal activities of the Company are managing owned subsidiaries and associates.

As at 31 December 2023 the Company had 78 employees, while as at 31 December 2022 the Company had 61 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 |
| Ivan Bahun | Deputy President of the Management Board |
| Miki Huljić | Member of the Management Board |
| Josip Lasić | Member of the Management Board |
| Josip Ljulj | Member of the Management Board until 20 January 2024 |
| Božidar Poldrugač | Member of the Management Board until 20 January 2024 |
| Ivan Paić | Member of the Management Board from 21 January 2024 |
| Petar Bobek | Member of the Management Board from 21 January 2024 |

Financial reporting auditors provided services amounting to EUR 48 thousand in 2023 (2022: EUR 21 thousand). Services in 2023 are to the audit of statutory financial statements and other assurance services related to reports prepared for regulatory purposes. During 2023, the auditors did not provide any non-audit services to the Company (2022: -). Non-audit services provided by the auditors to the Company subsidiaries equity accounted investees are disclosed in the consolidated financial statements of the Group.

Management and Supervisory Board remuneration is disclosed in note 27 to the financial statements.

The financial statements are presented in euros, which represents the functional currency of the Company. Financial statements are presented in thousand EUR (‘000 EUR). Amounts are rounded to the nearest thousand EUR.

## 2 Material accounting policy information

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

### Basis of preparation

The Company's 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.

The Company has prepared these separate financial statements in accordance with the Croatian legal regulations. At the date of approval of these separate financial statements, the Company has prepared and approved the related consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiaries (Note 16) have been fully consolidated. Users of these separate financial statements should read them with the Group's consolidated financial statements as at and for the year ended 31 December 2023 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

The preparation of financial statements in conformity with 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 Company'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 disclosed in Note 3.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments that are carried at fair value.

The financial statements have been prepared under the accrual principle on a going concern basis.

### Changes in functional and presentational currency

Items included in the financial statements of the Company are expressed in the currency of the primary economic environment in which the Company operates (functional currency).

Given that the Republic of Croatia has introduced the euro as its official currency from January 1, 2023, in accordance with the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia, the Company has changed its presentation currency from the Croatian kuna to euros for the purpose of preparing the financial statements for the year ended December 31, 2023. Therefore, the financial statements for the year ended December 31, 2023, were prepared in euros for the first time, rounded to the nearest thousand (where applicable). From January 1, 2023, the euro also became the functional currency of the Company (until January 1, 2023, it was the kuna). In this regard, an exchange rate of 7.53450 kuna for one euro was used for the conversion of comparative data.

Although the change in presentation currency in the financial statements represents a change in accounting policy requiring retrospective application, the Company did not publish a third balance sheet in the financial statements for the year ended December 31, 2023, in accordance with International Accounting Standard 8 (IAS 8) Accounting Policies, Changes in Accounting Estimates and Errors, since it determined that the change in presentation currency does not have a significant impact on the financial statements of the Company, due to the stable HRK/EUR exchange rate over the last few years.

**2 Material accounting policy information (continued)**

**Adoption of new and amended International Financial Reporting Standards**

*Current standards, amendments to existing standards, and implementations – adopted during 2023*

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

- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates,*
- Amendments to IAS 1 *Presentation of Financial Statements and Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies,*
- Amendments to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction,*
- Amendments to IAS 12 *Income Taxes: International Tax Reform – Pillar Two Model Rules*

The adoption of these standards has not resulted in significant effects on the amounts recognized in the balance sheet or the income statement, or on the disclosed accounting policies.

Standards, amendments to existing standards, and interpretations that have been issued but are not yet effective.

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

**a) Revenue recognition**

The Company recognises revenue based on:

- brand usage fee (fee for the usage of company name, trademark and service mark)
- property management fee
- other fees (solidary guarantees, representative offices)

The Company recognises revenue when the control over particular goods or services is transferred to a customer or when the customer acquires the right to manage the transferred goods or services provided that there is an agreement resulting in enforceable rights and obligations and, among other things, a consideration is likely to be charged taking into account the creditworthiness of the Company's customers. Revenue is recognised in the amount of the transaction price to which the Company expects to be entitled in exchange for transferring the promised service to customers.

The promised consideration may include fixed amounts, variable amounts, or both.

**Sales of services:** Revenue is recognised over time on a straight-line basis or as services are rendered. Revenue from property management charged to a related party is recognised in the period when the services were rendered and are determined on the basis of parameters agreed with the related party.

**Revenue from the brand** that provides the right to access the Company's intellectual property is recognised over time. The fee is charged and paid on a monthly basis, and is defined based on the results realised by the subsidiary.

**b) Income from dividends**

Income from dividends, i.e. shares in profit of subsidiaries and associates, is recognised when the right to receive payment is established.

**c) Finance income and costs**

Finance income and costs comprise interest income on loans and borrowings using the effective interest method, interest income on funds invested, dividend income, foreign currency losses and gains.

Interest income is recognised in the income statement on an accrual basis using the effective interest rate method.

**2 Material accounting policy information (continued)**

**d) Income tax**

The Company accounts for 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, adjusted for amounts which are not included in the tax base or tax deductible expenses. Income tax is calculated by using tax rates in effect at the balance sheet date.

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

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

**e) Earnings per share**

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

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, less potential shares which arise from options.

**f) Dividend distribution**

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

**g) Foreign currency transactions**

Foreign currency transactions are initially converted into 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 according to the Croatian National Bank. Gains and losses arising on translation are included in the income statement for the current year. Negative and positive exchange differences arising on translation are included in the income statement for the current year and are presented in Note 10 in net amounts (these amounts include exchange differences from operating activities).

**2 Material accounting policy information (continued)**

**h) Non-current intangible assets**

Non-current intangible assets are initially carried at cost.

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

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

| | Amortisation and depreciation rates (from – to %) |
|---|---|
| Intangible assets | 20 |

**i) Property, plant and equipment**

Property, plant and equipment are initially carried at cost.

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the item will flow to the Company and if the cost of the asset can be reliably measured and if the cost of the asset is higher than EUR 465.

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

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

Depreciation is charged so as to write off the cost of each asset, other than land and tangible assets under construction and advances, over their estimated useful lives, using the straight line method, as follows:

| | Amortisation and depreciation rates (from – to %) |
|---|---|
| Buildings | 1.2 – 7.7 |
| Equipment | 7.5 – 50 |
| Tools, plant inventory and vehicles | 5.6 - 25 |
| Other tangible assets | 20 |

***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.

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 modified.

**2 Material accounting policy information (continued)**

**j) 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.

| | Amortisation and depreciation rates (from – to %) |
|---|---|
| Buildings | 1.2 – 7.7 |

The residual value of an asset is the estimated amount that the Company 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 Company 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 Company starts using the investment property, it is reclassified to property, plant and equipment. The Company discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers.

Based on these estimates, the Company 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.

**k) Financial assets and liabilities**

**Classification and measurement of financial assets**

Financial assets are classified and measured as presented in Note 28.

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

Business models for managing financial assets include:
- amortised cost model - business model 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.

**2 Material accounting policy information (continued)**

**k) Financial assets and liabilities (continued)**

**Impairment of financial assets**

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

Credit loss allowance for trade receivables 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.

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when estimating 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 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 assumption 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.

**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 contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are 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.

**2 Material accounting policy information (continued)**

**k) Financial assets and liabilities (continued)**

**Financial liabilities, classification and measurement**

Financial liabilities, including borrowings, 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 effective yield basis.

**Derecognition of financial liabilities**

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

**l) Investments in subsidiaries**

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

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

**m) Investments in associates**

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

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

**n) Investments in joint venture**

The Company has assessed the nature of its joint arrangement in accordance with IFRS 11 and determined it to be a joint venture. In the Company's separate financial statements, investments in the joint venture are measured at cost less impairment losses, i.e. at the realisable value of the investment.

Joint control is the agreed distribution of control over an arrangement which exists only when the decision-making on relevant arrangements requires the unanimous consent of the parties sharing such control.

**o) Merger – common control transactions**

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.

The predecessor method of accounting is used to account for the merger of entities or businesses under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity and they are included in the financial statements of the merged entity prospectively, from the date of the merger.

**2 Material accounting policy information (continued)**

**p) 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 initially recognised at their nominal value less corresponding allowances for estimated uncollectible amounts and impairment losses.

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 are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of an asset when this 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

**q) Cash and cash equivalents**

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

**r) 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.

**s) 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 payables 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 Material accounting policy information (continued)**

**t) Provisions**

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

**u) Employee benefits**

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

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

*iii. Regular retirement benefits*
Retirement benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

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

*v. Short-term employee benefits*
The Company recognises a liability for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

**v) Contingent assets and liabilities**

Contingent liabilities are not recognised in the Company's 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 Company's 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 Material accounting policy information (continued)**

**w) Events after the balance sheet date**

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

**3 Key accounting estimates 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*a) Recoverability of investments in subsidiaries*

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

For the purpose of impairment tests, the DCF method is used which is based on the assumptions that the entity's value represents the present value of its future cash flows. When using the DCF method, the objectivity of calculations mostly depends on the reality of medium-term business plans and the discounted rate used in discounting future cash flows as well as the calculation of the residual value of entities. Determining the discount rate depends on the interest rate for risk-free placements (government bonds) and the rate which reflects the risk premium depending on the entity's specifics, market position and technical capabilities.

In 2023 and in 2022, the Company performed impairment tests on investments in its subsidiaries where indicators of impairment were identified.

During 2023, in determining the possibility of return of investment and loans in the company KONČAR - Renewable Energy Sources Ltd., the used expected rate of return on invested capital was 10.07%, terminal value was EUR 1.1 million, which did not result in impairment loss. Regarding the sensitivity of impairment tests to changes in key variables, the sensitivity analysis indicates that a reasonably expected change in one of the key variables (terminal growth rate and weighted average cost of capital), with the other variable remaining unchanged, does not result in impairment of investments in subsidiary KONČAR - Renewable Energy Sources Ltd. A reasonably expected change in key variables by management is considered to be a change of 50 basis points.

During 2023 the Company conducted an impairment test of its investment in the company KONČAR – Generators and Motors Ltd. The calculation of recoverable amount is based on five-year business plans the subsidiaries, which are based on their order books, taking into account planned capital investments and applying a rate of return on capital of 11.30%. Impairment tests assume a terminal growth rate of 2% respectively.

For investment in KONČAR – Generators and Motors Ltd., considering the currently ongoing restructuring process taking place in this subsidiary, as well as high indebtedness as at 31 December 2023, impairment analysis resulted in recognition of impairment loss of EUR 4,357 thousand.

In the case of the increase of the average weighted capital cost by 50 basis points (with an unchanged terminal growth rate), there would be an indication of impairment of EUR 5,357 thousand. On the other hand, in the event of a reduction in terminal rate of growth (with the unchanged weighted average cost of capital) for 50 basis points there would be an indication of impairment of EUR 3,157 thousand.

**3 Key accounting estimates and judgments (continued)**

*b) Estimated residual value of investment property*

The Company regularly reviews the residual value and useful life of the property. The Company has estimated that the residual value of the property exceeds its accounting value, and therefore the depreciation is not charged until the residual value is reduced to the amount below the accounting value.

During 2023 and 2022, the Company engaged an independent valuator to determine fair value of the investment property. During 2022, an impairment loss of EUR 0.1 million was recognised based on the values determined by the independent valuator. During 2023 there were no impairment losses identified in relation to investment property.

**4 Revenue**

| | 2023<br>EUR'000 | 2022<br>EUR'000 |
|---|---|---|
| Dividend income /i/ | 16,702 | 12,992 |
| Revenue from contracts with customers /ii/ | 10,756 | 10,630 |
| | **27,458** | **23,622** |

*/i/ Dividend income*

| | 2023<br>EUR'000 | 2022<br>EUR'000 |
|---|---|---|
| Dividends from subsidiaries | 8,685 | 7,926 |
| Dividends from associates | 8,017 | 5,066 |
| | **16,702** | **12,992** |

*/ii/ Revenue from contracts with customers*

| | 2023<br>EUR'000 | 2022<br>EUR'000 |
|---|---|---|
| *Type of service* | | |
| Brand usage fee (fee for the usage of company name, trademark and service mark) | 6,840 | 6,818 |
| Income from property management | 3,230 | 3,209 |
| Income from other fees | 686 | 603 |
| **Total revenue from contracts with customers** | **10,756** | **10,630** |
| | | |
| Related parties (Note 27) | 10,627 | 10,525 |
| Unrelated parties | 129 | 105 |
| **Total revenue from contracts with customers** | **10,756** | **10,630** |
| | | |
| *Timing of revenue recognition* | | |
| At a point in time | 3,916 | 3,812 |
| Over time | 6,840 | 6,818 |
| **Total revenue from contracts with customers** | **10,756** | **10,630** |

### 5 Other operating income

| | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|
| Gain on sale of assets /i/ | 2,914 | 2,456 |
| Unrealised gains from financial assets | 168 | - |
| Other income /ii/ | 126 | 7,147 |
| | **3,208** | **9,603** |

/i/ Gain on the sale of property in 2023 mainly relates to the sale of land at the Jankomir location and the remaining part of the Labin location, while gain realised in 2022 relates to the sold land and buildings at the Jankomir, Osijek, Ivanec and Središće locations.

/ii/ Other income in 2022 mostly relates to realised gain from sale of loan receivables, income from collection of previously written off receivables and income from release of provisions.

### 6 Cost of materials and services

| | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|
| Supervisory services and property management services | 576 | 657 |
| Utility and water protection fee | 478 | 489 |
| Cleaning services | 316 | 331 |
| Costs of advertising and fairs | 337 | 324 |
| Maintenance services (servicing) | 1,033 | 263 |
| Energy distribution costs | 207 | 216 |
| Energy costs | 170 | 207 |
| Administrative expenses | 59 | 99 |
| Telephone, post and transport | 75 | 80 |
| Strategy services | 121 | 59 |
| Other services | 245 | 256 |
| | **3,617** | **2,981** |

### 7 Staff costs

| | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|
| Net salaries and wages | 2,343 | 1,912 |
| Taxes and contributions | 1,356 | 1,127 |
| Contributions on salaries | 577 | 506 |
| Reimbursements of costs to employees | 584 | 221 |
| | **4,860** | **3,766** |

In 2023, pension fund contributions amounted to EUR 519 thousand (2022: EUR 515 thousand). During 2023, the Company had average of 71 employees (2022: 56 employees).

**8 Impairment losses**

| | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|
| Impairment losses on investment in subsidiaries (note 16) | 4,357 | 7,004 |
| Impairment losses on intangible assets (note 13) | - | 105 |
| Impairment losses on receivables | - | 5 |
| | **4,357** | **7,114** |

**9 Other operating expenses**

| | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|
| Intellectual services | 2,757 | 2,455 |
| Service agreements | 469 | 435 |
| Sponsorships and donations | 301 | 225 |
| Representation services | 235 | 207 |
| Write – off and disposal of assets | 32 | 162 |
| Cost of insurance | 118 | 128 |
| Daily allowances for business trips and travel expenses | 97 | 99 |
| Other costs | 328 | 254 |
| | **4,337** | **3,965** |

**10 Finance income and costs**

| | 2023 EUR'000 | 2022 EUR'000 |
|---|---|---|
| **Finance income** | | |
| Interest income | 1,517 | 681 |
| Net foreign exchange gains | - | 20 |
| Income from dividends and shares in profit | 43 | 24 |
| | **1,560** | **725** |
| **Finance cost** | | |
| Net foreign exchange losses | - | - |
| Interest expenses | - | - |
| | **-** | **-** |
| **Net finance income** | **1,560** | **725** |

### 11 Income tax

| | 2023<br>EUR'000 | 2022<br>EUR'000 |
|---|---|---|
| Profit before tax | 13,937 | 15,002 |
| **Tax at applicable tax rate of 18%** | **2,509** | **2,700** |
| *Tax effects of:* | | |
| Non-deductible expenses | 884 | 1,309 |
| Non-taxable income | (3,073) | (2,343) |
| Tax benefits (state aid for education and training) | (7) | (3) |
| Utilised tax loss carried forward for which no deferred tax asset was recognised | (83) | - |
| Tax losses for which no deferred tax asset was recognised | - | (1,663) |
| **Income tax** | **230** | **-** |

The income tax rate for the application of the deferred tax calculation is 18% in accordance with the changes in the tax regulations in force.

Total tax losses (gross) expire as follows:

| | 2023<br>EUR'000 | 2022<br>EUR'000 |
|---|---|---|
| Within 4 years | - | 460 |
| | **-** | **460** |

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

### 12 Earnings per share

| Basic and diluted earnings per share | 2023<br>EUR | 2022<br>EUR |
|---|---|---|
| Profit for the year | 13,936,779 | 15,002,409 |
| Weighted average number of shares | 2,546,256 | 2,545,739 |
| **Earnings per share in EUR** | **5.47** | **5.89** |

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

### 12 Earnings per share (continued)

Weighted average number of shares is as follows:

| | | |
|---|---|---|
| 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** |

### 13 Non-current intangible assets

| | Concessions, patents, licences, software and other rights EUR'000 | Intangible assets under construction EUR'000 | Total EUR'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2022** | **263** | **222** | **485** |
| Additions | - | - | - |
| Transfer to investment property | 15 | (15) | - |
| **At 31 December 2022** | **278** | **207** | **485** |
| Additions | - | 32 | 32 |
| Transfer | 32 | (32) | - |
| **At 31 December 2023** | **310** | **207** | **517** |
| | | | |
| **Accumulated amortisation** | | | |
| **At 1 January 2022** | **77** | **207** | **284** |
| Amortisation for the year | 53 | - | 53 |
| Transfer to investment property | 104 | - | 104 |
| **At 31 December 2022** | **234** | **207** | **441** |
| Amortisation for the year | 15 | - | 15 |
| Impairment | - | - | - |
| **At 31 December 2023** | **249** | **207** | **456** |
| | | | |
| **Net book amount** | | | |
| 31 December 2022 | 44 | - | 44 |
| **At 31 December 2023** | **61** | **-** | **61** |

The cost of fully amortised intangible assets still in use as at 31 December 2023 amounts to EUR 209 thousand (2022: EUR 209 thousand).

**14 Property, plant and equipment**

| | Land EUR'000 | Buildings EUR'000 | Plant and equipment EUR'000 | Tools and office supplies EUR'000 | Other EUR'000 | Assets under construction EUR'000 | Advances EUR'000 | Total EUR'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **At 1 January 2022** | **442** | **5,380** | **3,309** | **583** | **7** | **263** | **-** | **9,984** |
| Additions | - | - | - | - | - | 136 | - | 136 |
| Reclassification | - | - | - | - | - | (266) | - | (266) |
| Transfer from assets under construction | - | - | 128 | - | - | (128) | - | - |
| Transfer from small inventory | - | - | 10 | - | - | - | - | 10 |
| Disposals | - | - | (100) | - | - | - | - | (100) |
| **At 31 December 2022** | **442** | **5,380** | **3,347** | **583** | **7** | **5** | **-** | **9,764** |
| Additions | - | - | 83 | - | - | 3,897 | 184 | 4,164 |
| Transfer from assets under con-struction | - | - | 303 | - | - | (303) | - | - |
| Disposals | - | (69) | (50) | (86) | - | - | (184) | (389) |
| **At 31 December 2023** | **442** | **5,311** | **3,683** | **497** | **7** | **3,599** | **-** | **13,539** |

**14 Property, plant and equipment (continued)**

| Accumulated depreciation | Land EUR'000 | Buildings EUR'000 | Plant and equipment EUR'000 | Tools and office supplies EUR'000 | Other EUR'000 | Assets under construction EUR'000 | Advances EUR'000 | Total EUR'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | **-** | **2,772** | **2,971** | **527** | **-** | **-** | **-** | **6,270** |
| Depreciation for the year | - | 70 | 94 | 27 | - | - | - | 191 |
| Disposals | - | - | (99) | - | - | - | - | (99) |
| Transfer from small inventory | - | - | 9 | - | - | - | - | 9 |
| **At 31 December 2022** | **-** | **2,842** | **2,975** | **554** | **-** | **-** | **-** | **6,371** |
| Depreciation for the year | - | 70 | 115 | 23 | - | - | - | 208 |
| Disposals | - | (37) | (50) | (86) | - | - | - | (173) |
| **At 31 December 2023** | **-** | **2,875** | **3,040** | **491** | **-** | **-** | **-** | **6,406** |
| | | | | | | | | |
| **Net book amount** | | | | | | | | |
| 31 December 2022 | **442** | **2,538** | **372** | **30** | **7** | **5** | **-** | **3,394** |
| **31 December 2023** | **442** | **2,436** | **643** | **7** | **7** | **3,599** | **-** | **7,133** |

The cost of fully depreciated property, plant and equipment still in use as at 31 December 2023 amounts to EUR 3,066 thousand (2022: HRK 3,066 thousand). During 2023 and 2022 the Company did not have mortgages on its property. During 2021, as a result of analysis and segmentation of the real estate portfolio, of the Company, management undertook several restructuring steps in relation to "non-core" properties that are currently not operational, with the final aim of reducing costs and relieving the staff in charge of real estate management. Accordingly on December 31, 2021, the reclassification of real estate was carried out. The real estate portfolio management strategy may change in the future, resulting in changes to the current reclassifications.

### 15 Investment property

Movements in investment property in 2023 and 2022 are presented below:

| | Land EUR'000 | Buildings EUR'000 | Assets under construction and advances EUR'000 | Total EUR'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2021** | **20,170** | **53,582** | **200** | **73,951** |
| Additions | - | - | 1,973 | 1,973 |
| Transfer from assets under construction | - | 743 | (743) | - |
| Disposals | - | (704) | (26) | (730) |
| **At 31 December 2022** | **20,170** | **53,621** | **1,404** | **75,194** |
| Additions | - | - | 2,529 | 2,529 |
| Reclassification from assets held for sale | 343 | 2,580 | - | 2,923 |
| Transfer from assets under construction | - | 1,857 | (1,857) | - |
| Disposals | (338) | (82) | (53) | (473) |
| **At 31 December 2023** | **20,175** | **57,976** | **2,023** | **80,173** |
| | | | | |
| **Accumulated depreciation** | | | | |
| **At 31 December 2021** | **1,891** | **29,624** | **-** | **31,514** |
| Depreciation | - | 878 | - | 878 |
| Disposals | - | (541) | - | (541) |
| **At 31 December 2022** | **1,891** | **29,961** | **-** | **31,851** |
| Depreciation | - | 895 | - | 895 |
| Reclassification from assets held for sale | - | 1,731 | - | 1,731 |
| Disposals | - | - | - | - |
| **At 31 December 2023** | **1,891** | **32,587** | **-** | **34,477** |
| | | | | |
| **Net book amount** | | | | |
| 31 December 2022 | 18,279 | 23,660 | 1,404 | 43,343 |
| **31 December 2023** | **18,284** | **25,389** | **2,023** | **45,696** |

**15 Investment property (continued)**

The fair value of investment property at the balance sheet date relates to fair value level 3 since the input variables are not based on observable market data. Fair value of investment property at the balance sheet date amounts to EUR 88.4 million (31 December 2022: EUR 85.6 million), from which:

- EUR 49.6 million relates to land (31 December 2022: EUR 49.9 million);
- EUR 38.8 million relates to buildings (31 December 2022: EUR 35.7 million).

The purchase value of fully depreciated real estate investments that are still in use at 31 December 2023 is EUR 4,546 thousand (31 December 2022: EUR 4,546 thousand).

**16 Investment in subsidiaries**

| Domestic subsidiaries | Country | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 | 31 December 2023 % ownership share | 31 December 2022 % ownership share |
|---|---|---|---|---|---|
| KONČAR – Switchgear Ltd., Zagreb | Croatia | 11,197 | 11,197 | 100.00 | 100.00 |
| KONČAR – Metal Structures Ltd., Zagreb | Croatia | 16,779 | 16,779 | 100.00 | 100.00 |
| KONČAR – Generators and Motors Ltd., Zagreb | Croatia | 9,600 | 11,302 | 100.00 | 100.00 |
| KONČAR – Distribution and Special Transformers, Inc., Zagreb | Croatia | 8,245 | 8,245 | 52.73 | 52.73 |
| KONČAR – Electrical Engineering Institute Ltd., Zagreb | Croatia | 8,088 | 8,088 | 100.00 | 100.00 |
| KONČAR – Infrastructure and Services Ltd., Zagreb | Croatia | 7,524 | 7,524 | 100.00 | 100.00 |
| KONČAR – Electronics and Informatics Ltd., Zagreb | Croatia | 8,353 | 8,353 | 100.00 | 100.00 |
| KONČAR – Renewable Energy Sources Ltd., Zagreb | Croatia | 5,733 | 5,733 | 100.00 | 100.00 |
| KONČAR – Engineering Co. Ltd., Zagreb | Croatia | 9,304 | 9,304 | 100.00 | 100.00 |
| KONČAR - Motors and electrical systems, Zagreb | Croatia | 6,450 | 6,450 | 100.00 | 100.00 |
| KONČAR – Electric Vehicles Inc., Zagreb | Croatia | 5,058 | 4,832 | 77.44 | 75.04 |
| KONČAR – Instrument Transformers, Inc., Zagreb | Croatia | 4,041 | 4,041 | 61.97 | 61.97 |
| KONČAR – Digital Ltd., Zagreb | Croatia | 9,184 | 1,221 | 100.00 | 100.00 |
| KONČAR – Investments Ltd., Zagreb | Croatia | 3 | 3 | 100.00 | 100.00 |
| KONČAR – Transformer Tanks Ltd. | Croatia | 2 | - | 100.00 | - |
| | | **109,561** | **103,072** | | |

**16 Investment in subsidiaries (continued)**

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| As at 1 January | 103,072 | 104,819 |
| Increase /i/ | 10,846 | 5,257 |
| Decrease /ii/ | - | - |
| Impairment /iii/ | (4,357) | (7,004) |
| **As at 31 December** | **109,561** | **103,072** |

/i/ The increases in 2023 relate to the recapitalization of KONČAR - Generators and Motors Ltd., Zagreb and KONČAR – Digital Ltd., as well as to the purchase of shares in KONČAR – Electric Vehicles Inc., Zagreb and the incorporation of KONČAR – Transformer Tanks Ltd. (in 2022, recapitalization of KONČAR – Generators and Motors Ltd., Zagreb and KONČAR – Digital Ltd., and to the purchase of shares in KONČAR – Electronics and Informatics Ltd., Zagreb).

/ii/ There was no decrease in 2023 and 2022.

/iii/ Impairment in 2023 and 2022 relates to subsidiary KONČAR - Generators and Motors Ltd.

As at 1 June 2023, the company KONČAR – Electrical equipment Ltd. was merged to KONČAR – Switchgear Ltd.

As at 1 June 2022, the business unit of digital solutions was separated from KONČAR – Electronics and Informatics Ltd. and merged to KONČAR – Digital Ltd.

**17 Investments in associates**

Investments in associates in the amount of EUR 8,988 thousand (31 December 2022: EUR 8,988 thousand) relate to the investment in the company KONČAR - Power Transformers Ltd., Zagreb (the Company holds a 49% share in the share capital of this company).

The summary data for this company are disclosed and equity accounted in the consolidated financial statements of the Company.

**18 Non-current loans and receivables**

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| *Loan granted /iii/* | *20,618* | *20,618* |
| | | |
| Receivables for shares sold /i/ | 1,269 | 1,517 |
| Receivables for sold flats | 18 | 55 |
| *Total receivables* | ***1,287*** | ***1,572*** |
| | **21,905** | **22,190** |

/i/ Receivables for shares sold relate to long term receivable for sold shares of the company KONČAR - Household Appliances, Inc. with repayment in instalments over a 10-year period.

/ii/ Loan granted are loans given to a subsidiary, with maturity period of 3 years at an interest rate of 2.35% p.a..

Changed in loans granted to subsidiaries:

| | EUR'000 |
|---|---|
| **1 January 2022** | **20,618** |
| Loans granted | - |
| Loans repaid | - |
| **31 December 2022** | **20,618** |
| Loans granted | - |
| Loans repaid | - |
| **31 December 2023** | **20,618** |

**19 Trade and other receivables**

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Related party receivable | 13,231 | 10,975 |
| Receivables for shares sold | 239 | 332 |
| Third party receivables | 51 | 33 |
| Receivables for sold flats | 40 | 62 |
| Other receivables /i/ | 1,431 | 307 |
| | **14,992** | **11,709** |

### 19 Trade and other receivables (continued)

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

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Undue | 4,050 | 9,219 |
| < 60 days | 8,411 | 397 |
| 60-90 days | 47 | 276 |
| 90-180 days | 315 | 328 |
| 180-365 days | 453 | 154 |
| More than 365 days | 6 | 634 |
| | **13,282** | **11,008** |

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

/i/ Other receivables in 2023 mainly relate to prepayments.

### 20 Loans given

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Loans given | 5,027 | 27,788 |
| Interest receivable | 980 | 509 |
| | **6,007** | **28,297** |

The loans to subsidiaries were granted for a period of return up to one year with an annual interest of 1.5% - 2% (2022: 0.75%-1%), and secured by its own blank endorsed promissory notes and promissory notes. Maturity of these loans is between 3 – 12 months.

Movements in loans granted to related parties were as follows:

| | EUR'000 |
|---|---|
| **1 January 2022** | **-** |
| Loans granted | 37,080 |
| Loans repaid | (9,315) |
| Foreign exchange differences | 23 |
| **31 December 2022** | **27,788** |
| Loans granted | 20,515 |
| Loan repaid | (43,276) |
| **31 December 2023** | **5,027** |

**21 Cash and cash equivalents**

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Deposit | 38,166 | - |
| Cash in bank | 175 | 13,472 |
| Cash on hand | 2 | 1 |
| | **38,343** | **13,473** |

**22 Non-current assets held for sale**

The Management Board and the Supervisory Board adopted a new business strategy in October 2021, which defines the divestment of the Company's non - operational assets. Accordingly, the Management Board started the process of selling several locations owned by the Company, and these sites were presented as assets intended for sale. Actions on the sale of assets were initiated by the Board, and the sale is expected by the end of 2024. During 2023 the location in Belgrade was reclassified as an investment property..

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Land | 180 | 623 |
| Buildings | 577 | 1,427 |
| | **757** | **2,050** |

The fair value of non – current  assets intended for sale at the balance sheet date relates to a level of 3 fair value since the entry variables of its designation are not based on observable market data. The fair value of fixed assets intended for sale at the balance sheet date is 1 million EUR (31.12.2022: EUR 4.6 million), of which:

- amount of EUR 220 thousand refers to the land (31.12.2022: EUR 0.6 million),
- and amount of EUR 870 thousand refers to the buildings (31.12.2022: EUR 4 million).

### 23 Capital and reserves

Share (registered) capital is determined in the nominal amount of EUR 159,471,378 (31 December 2022: EUR 160,448,063) 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 Company's ownership structure was 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 Bank d.d. / AZ OMF | 373,065 | 14.50 | 373,065 | 14.50 |
| 5 | Restructuring and Sale Center / 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../custody 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 3.3 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 5,092 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.

### 24 Provisions

| | EUR'000 |
|---|---|
| **1 January 2022** | **1,227** |
| Additional provisions | 18 |
| Release of provisions | (11) |
| **31 December 2022** | **1,234** |
| ***From which current*** | **-** |
| Additional provisions | *215* |
| Release of provisions | - |
| **31 December 2023** | **1,449** |
| ***Out of which current*** | **-** |

*Provisions for long-term employee benefits (termination benefits and jubilee awards)*

From total provisions for termination benefits in the amount of EUR 1,449 thousand (2022: EUR 1,234 thousand) termination benefits for members of the Management Board amount to EUR 1,395 thousand (2022 1,198 EUR thousand).

Remaining portion of EUR 54 thousand (2022: EUR 36 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which the employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure, eligibility for jubilee awards). The 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, statutory non - taxable value of severance pay and the discount rate of 3.67% (2022: 3.2%).

### 25 Trade and other payables

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Related party payables | 2,498 | 941 |
| Trade payables | 5,471 | 454 |
| Liabilities for contributions on and from salaries and taxes and surtaxes | 644 | 1,110 |
| Deferred income | 1,566 | - |
| Bonus accruals | 512 | 394 |
| Liabilities for net salaries | 161 | 147 |
| Other employees related liabilities | 145 | 162 |
| Other liabilities | 391 | 225 |
| | **11,388** | **3,433** |

### 26 Contingent liabilities and off - balance sheet items

Off - balance sheet records as at 31 December 2023 include collaterals issued (including corporate guarantees to third parties) at the request of the Group's subsidiaries to financial institutions and suppliers in the amount of EUR 151,422 thousand (31 December 2022: EUR 126,837 thousand).

**27 Related party transactions**

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions. Related parties include companies included in the KONČAR Group. These companies are subsidiaries, associates (companies with participating interests). All related party transactions are based on arm's length conditions (purchase of goods, sale of products and provision of services).

The Company is also significantly owned by the Republic of Croatia and other companies under the control or significant influence of the Republic of Croatia. Accordingly, the Company is in a related party relationship with state institutions and other companies in majority state ownership or companies in which the state has a significant influence. For the purpose of disclosing transactions with related parties, the company does not consider routine transactions (such as the payment of taxes, fees, etc.) with local municipal companies (in direct or indirect state ownership) or with other state bodies as transactions with related parties. Significant transactions that the Company has with state-owned enterprises relate to the supply of electricity and thermal energy and similar services.

| **2023** | **Receivables EUR'000** | **Liabilities EUR'000** | **Income EUR'000** | **Expenses EUR'000** |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Subsidiaries | 5,086 | 2,498 | 18,835 | 3,562 |
| Associates | 128 | - | 8,494 | -- |
| ***Total operating activities*** | ***5,214*** | ***2,498*** | ***27,329*** | ***3,562*** |
| **Financing activities** | | | | |
| Subsidiaries | 26,625 | - | 799 | - |
| Associates | - | - | - | - |
| ***Total financing activities*** | ***26,625*** | ***-*** | ***799*** | ***-*** |

| **2022** | **Receivables EUR'000** | **Liabilities EUR'000** | **Income EUR'000** | **Expenses EUR'000** |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Subsidiaries | 5,823 | 941 | 10,657 | 3,457 |
| Associates | 87 | - | 368 | - |
| ***Total operating activities*** | ***5,910*** | ***941*** | ***11,025*** | ***3,457*** |
| **Financing activities** | | | | |
| Subsidiaries | 48,915 | - | 596 | - |
| Associates | - | - | - | - |
| ***Total financing activities*** | ***48,915*** | ***-*** | ***596*** | ***-*** |

Revenue from the sale of assets to subsidiaries in 2023 amounts to EUR 2.7 million, and in 2022 to EUR 1.4 million.

Dividend receivables from associates as at 31 December 2023 of EUR 8,017 thousand (31 December 2022: EUR 5,065 thousand). Dividend income, Income from shares in profit (subsidiaries and associates) is presented in detail in note 4.

*/i/ Transactions with key management and members of the Supervisory Board*

Regular remuneration of key management personnel in 2023 amounts to EUR 980 thousand (2022: EUR 1,141 thousand), and relates to 6 members of the Management Board (2022: 6 members of the Management Board).

Remuneration to key personnel in 2023 also includes a variable part of the salary in the amount of EUR 946 thousand (2022: EUR 836 thousand), and the accruals for termination benefits in the amount of EUR 379 thousand (2022: EUR 6.8 thousand).

Total remuneration to the members of the Supervisory Board in 2023 amounted to EUR 332 thousand (2022: EUR 329 thousand) for 9 members of the Supervisory Board.

**28 Financial risk management and financial instruments**

**Capital risk management**

*Financial leverage ratio*

| | 31 December 2023 EUR'000 | 31 December 2022 EUR'000 |
|---|---|---|
| Debt (current and non-current) = D | - | - |
| Bank deposits (current) | - | - |
| Cash and cash equivalents | 38,343 | 13,473 |
| Net cash/(debt) | 38,343 | 13,473 |
| Equity = E | (240,833) | (232,182) |
| Financial leverage ratio = D/(D+E) | **0.00%** | **0.00%** |

**Financial risk management**

The Company's operations are exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. 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 |
|---|---|---|---|
| Equity instruments at FVTPL | Level 1 | 457 | 289 |
| **Total financial assets at FVTPL** | | **457** | **289** |
| Trade receivables | n/p | 13,282 | 11,008 |
| Receivables for sold shares | n/p | 1,508 | 1,849 |
| Receivables for flats sold | n/p | 58 | 117 |
| Interest receivable | n/p | 980 | 509 |
| Loans granted and interest | n/p | 25,645 | 48,406 |
| Other receivables | n/p | 1,431 | 307 |
| Cash and cash equivalents | n/p | 38,343 | 13,473 |
| **Total financial assets at amortised cost** | | **81,247** | **75,669** |
| **Total financial assets** | | **81,704** | **75,958** |
| Leases payable | n/p | - | - |
| Trade payables | n/p | 7,969 | 1,395 |
| **Total financial liabilities at amortised cost** | | **7,969** | **1,395** |
| **Total financial liabilities** | | **7,969** | **1,395** |

**28 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. This hierarchy groups financial assets and liabilities into 3 levels depending on the significance of the input variables used in measuring the fair value of financial assets and liabilities. The Company uses the following hierarchy for determining the fair value of financial instruments:

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

The level within which a financial asset/liability is classified is based on the lowest level of the significant input variable used in measuring fair value. The Company used the following methods and assumptions in estimating the fair value of financial instruments:

***Receivables and bank deposits***

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

***Borrowings***

Fair value of current liabilities approximates their carrying value due to the 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.

**B) Financial instrument risks**

The Company manages and controls financial risk that could affect the Company's operations through internal risk reports that analyse the exposure based on the degree and significance of the risk. This risk includes market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk and interest rate 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.

The goal of market risk management is to manage and control market risk exposure within acceptable parameters, optimizing returns. The Company is primarily exposed to the financial risk of changes in foreign exchange rates.

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

**28 Financial risk management and financial instruments (continued))**

**B) Financial instrument risks (continued)**

a) Foreign currency risk

Following the change of the functional currency to the euro, the Company is not exposed to currency risk since transactions in currencies that are not the functional currency of the Company are insignificant.

During 2022, the Company was exposed to currency risk through sales, purchases, and loans that were denominated in a currency that is not the functional currency of the Company. The currency subject to risks was primarily the EUR. The Company is exposed to currency risk during sales, procurement, and short-term fixed deposits that are denominated in a foreign currency.

Exposure of the Company to foreign currency risk is as follows:

| | **Denominated in EUR 31 December 2022 EUR'000** |
|---|---|
| Trade receivables | - |
| Deposits | - |
| Cash and cash equivalents | 979 |
| Trade payables | - |
| | **979** |
| **Effect of the change in exchange rates by 1% on profit** | **10** |

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

b) Interest rate risk

The Company is not exposed to the interest rate risk, since there is no interest bearing liabilities.

**2 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 Company 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 Company 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 Company'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 Company's operating activities (primarily trade receivables) and from the Company's financial activities, including deposits with banks and financial institutions.

The analysis carried out showed that the effect of IFRS 9 on receivables is irrelevant for the financial statements at 31 December 2023 and is not recorded as such.

**28 Financial risk management and financial instruments (continued))**

**B) Financial instrument risks (continued)**

**3 Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Board of the Company which has built a quality frame for monitoring current, middle and long-term financing and all liquidity risk requirements. The Company 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 Company as at 31 December 2023 in accordance with contracted undiscounted payments:

| | Net book value EUR'000 | Contractual cash flows EUR'000 | up to 1 year EUR'000 | 1 – 2 years EUR'000 | 2 – 5 years EUR'000 | over 5 years EUR'000 |
|---|---|---|---|---|---|---|
| **31 December 2023** | | | | | | |
| Trade payables | 7,969 | 7,969 | 7,969 | - | - | - |
| | **7,969** | **7,969** | **7,969** | **-** | **-** | **-** |

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

| | Net book value EUR'000 | Contractual cash flows EUR'000 | up to 1 year EUR'000 | 1 – 2 years EUR'000 | 2 – 5 years EUR'000 | over 5 years EUR'000 |
|---|---|---|---|---|---|---|
| **31 December 2022** | | | | | | |
| Trade payables | 1,395 | 1,395 | 1,395 | - | - | - |
| | **1,395** | **1,395** | **1,395** | **-** | **-** | **-** |

**29 Events after the reporting date**

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.

At its meeting held on 4 April 2024, the Supervisory Board of KONČAR – Electrical Industry Inc. for manufacturing and services agreed with the proposal of the Management Board of the Company to implement status change in relation to subsidiaries KONČAR – Engineering Co. Ltd. for production and services and KONČAR – Infrastructure and Services Ltd. for services, in such a way that these companies are merged with KONČAR – Electrical Industry Inc. for manufacturing and services, as an acquiring company. The merged companies will continue their regular operations within KONČAR – Electrical Industry Inc. for manufacturing and services. It is expected that the new organizational and operational model will enable the strengthening of synergies within the KONČAR Group companies with the aim of more efficient delivery of complex solutions with the highest added value.

KONČAR

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