KONČAR Group

CONSOLIDATED ANNUAL REPORT
31 DECEMBER 2022

This PDF document is not the official format for publishing the consolidated annual report

KONČAR
Inspired by challenge

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KONČAR Group

Consolidated management report and Corporate governance statement

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Key indicators

Export +57.3%	**Sales income** +52.5%
Backlog +46.9%	**EBITDA** +72.8%
Book-to-bill ratio 1.2	**Net profit** +75.1%

Compared to 2021
Backlog compared to 31 December 2021

Key indicators (normalized)

EBITDA +48.7%	**EBITDA margin** -0.2 p.p.
EBIT +84.3%	**EBIT margin** +1.1 p.p.
Net profit +42.3%	**Net margin** -0.4 p.p.

Normalized EBITDA is EBITDA less the asset sale income, loss compensation income,income from state-issued subsidies and one-off effects of bargain purchase and increased by value adjustment of non-current and current assets and net effect of provisions.

Total – 47,3 mln HRK

Compared to 2021
Backlog compared to 31 December 2021

Statement by Gordan Kolak, president of the Management Board

KONČAR Group started 2022 with ambitious targets which were exceeded across nearly all segments, through the contribution and efforts of the employees.

The 2020+ Integral Strategy set the goal of HRK 4 billion Group sales income by 2024, excluding acquisitions. That goal was reached in 2022 with HRK 4.4 billion of realised sales income (EUR 591.1 million) The integration of Dalekovod resulted in sales income upturn in the amount of HRK 5.3 billion (EUR 703.9 million).

Our business environment

In a year marked by many global challenges, a considerable growth of income was matched with rising volumes and expanding share of income generated in foreign markets, increased profit, order intake reaching HRK 6.4 billion (EUR 848.5 million), and record backlog of HRK 7.3 billion (EUR 972.2 million) at year-end. We have leveraged growth opportunities stemming from rising demand for power engineering products and equipment, primarily transformers, which has driven significant growth across all markets. With the global economy that has been increasingly pivoting towards sustainability, a trend that will accelerate, KONČAR has recognized the green transition as an opportunity for further growth and development of new technologies that will drive our operations forward. We push ahead with development of green products, with a focus on green eco-transformers, hybrid and battery trains, trams with advanced battery autonomy, railway battery chargers for hybrid and battery-powered trains, resonant power converters for renewable energy application, new digital and protective relays and alarm regulators, digital platforms and applications for energy, mobility and urban infrastructure. Such developments are aligned with the global green energy and mobility transition.

The war in Ukraine has been impacting overall business conditions since the outbreak in Q1 2022. The prices of commodities, raw materials and energy which had not yet returned to their pre-pandemic levels, have been soaring in the aftermath of the Russian aggression against Ukraine and subsequent sanctions. In such an uncertain and volatile environment, KONČAR Group management was agile to respond and organize efficient and better operations that can absorb unprecedented external shocks. In spite of all measures, earlier profitability levels have become unattainable, and profitability has gone down by 0.4 percentage points year-over-year (normalized net margin).

Excellent financial results and further growth in order intake

Good order intake at the start of 2022 resulted in a double-digit rise across all performance indicators.

EBITDA amounts to HRK 503.5 million (EUR 66.8 million), representing an increase of HRK 212.2 million year-on-year. Compared to 2019, this represents a four-fold upturn in EBITDA. The 2022 EBITDA margin stands at 9.5% and is 1.1 percentage points above the 2021 margin.

Consolidated income generated from the sales of products and services amounts to HRK 5,303.3 million (EUR 703.9 million), representing a year-on-year increase of HRK 1,825.8 million or 52.5%. Sales of products and services in foreign markets generated HRK 3,243.9 million (EUR 430.5 million). Exports account for 61% of the total sales revenue.

Dalekovod accounts for HRK 861.7 million or 16.2% of the total sales income.

In 2022 several significant agreements with Group-wide effects were concluded. An agreement worth EUR 65 million was signed with Iraq's Ministry of Electricity for the revitalization of Haditha hydropower plant. The project not only includes modernization of the largest hydropower turnkey facility constructed by KONČAR in its 100 years of excellence, but it also represents a return of the Group to the Iraqi market. In cooperation with Male hidre d.o.o., the Group contracted the construction of Otočac SHPP. At Otočac SHPP KONČAR will install its first advanced smart submersible machines for low-head hydro power plants which enable greater use of hydro power with minimum environmental impact. The machines were fully developed and manufactured by KONČAR within a EU-funded R&D project At the end of 2022, KONČAR signed the Agreement of Sale and Purchase with HŽ - Passenger Transport Ltd. for a prototype battery electric motor unit and battery multiple unit, and six energy storage devices that will be installed along the railway network in the Republic of Croatia, worth HRK 129 million (EUR 17.2 million). The Agreement was signed as part of the project *The application of green technologies in railway passenger transport* included in the 2021 - 2026 National Recovery and Resilience Plan. The agreement propels KONČAR to turn eco challenges into opportunities to advance mobility technologies and to continue developing products and solutions that reduce adverse climate impacts and champions one of the primary EU goals - transition to a green and sustainable transport.

Acquisitions and partnerships
In addition to operational tasks and realisation of financial goals, sustained efforts were focused on partnerships and acquisitions that enable the expansion of manufacturing capacities and build up competences in areas where the Group development is limited by time and operational resources.

Financial restructuring at Dalekovod was completed and all conditions for the supervision and integration of the members of Dalekovod Group into KONČAR's operations were met. By integrating Dalekovod into the operations of KONČAR Group, primarily into the segment of reconstruction and modernization of the power transmission and distribution grid, the portfolio of services and comprehensive solutions will be expanded, and the share of export income will increase, adding greater value.

At the end of 2022, the Share Purchase Agreement on the purchase of 75 percent of equity share in limited liability companies Kodeks sistemske integracije and Exa Globe was signed. The acquisition is aligned with the strategic orientation of KONČAR Group on accelerated development of operations based on development and integration of digital technologies, and as such it will strengthen our competencies and expand our portfolio of products and services for efficient and profitable management of advanced networks, water supply and sewage, smart cities, data centres and e-mobility. Two further acquisitions were also completed. The first is the takeover of 100% equity share in KONČAR - Electrical Equipment Ltd. Split whose core business includes sales, development, design, manufacture, assembly, testing, commissioning and servicing of electrical appliances and equipment for low and medium voltage electrical distribution, industrial and shipbuilding industries, including engineering and construction investment projects in the domestic and foreign markets. The second acquisition completed at the end of December is the takeover of 100% equity share in the limited liability company Telenerg - Inženjering d.o.o., specialized in power engineering for electrical utilities and industry. The completed acquisitions will further reinforce KONČAR's position in both the domestic and foreign markets.

The execution of the acquisition agreements had created the prerequisites for the completion of the transaction. Transfer of title was carried out at the beginning of 2023 with registration with the Court Register, meeting the conditions for the integration of the acquired companies into the operations of KONČAR Group.

Investment cycle
Undeterred by soaring cost pressures, the investment cycle continued in 2022, directed at investments in the modernization of production capacities and further digital transformation.

Energy transition and green CAPEX result in investments in improved energy efficiency and working conditions, primarily investments in photovoltaic power plants and the consumption of renewable energy sources. An integrated photovoltaic power plant installed at the rooftop of the manufacturing facilities Jankomir in Zagreb was commissioned at the end of the year. The construction of two photovoltaic power plants is underway, and they are expected to be completed and connected to the power grid in the first half of 2023. These investments will further drive KONČAR's energy independence, and result in significant financial savings in overhead costs, while reducing CO_2 emissions. Projects aimed at reducing KONČAR's carbon footprint allow us to join the company of manufacturers applying the principle of circular economy in their operations.

Investment in research and development is recognized as long-term investment with the aim of creating sustainable and profitable business and building up new competencies, which will contribute to the stability and further growth of KONČAR Group. The most significant planned projects include continued development of eco-friendly products in power engineering, the development of equipment and components for battery and hybrid trains, and projects in the field of digital technologies.

The 2023 investment cycle amounting more than EUR 60 million will continue throughout 2023.

Human resources
Human resources are the backbone of a company's success, including KONČAR. Each of our successes is made possible by people, scientists, engineers, technologists, production workers, and all employees that build up successful operations with their contributions. By recognizing and encouraging talents, investing in training and development, we are enhancing a team of experts to best respond to the needs and demands of customers and the challenges of the modern market.

The excellent results achieved are the result of the efforts of all our employees. At the end of another successful year, I thank them for their commitment and expertise which have created a foundation that enables us to deliver excellent results. I would also like to thank our Shareholders for the trust they have placed in us, as well as to our suppliers, business partners, and customers. Our efforts would not have yielded such results had it not been for their loyalty and support.

mr.sc. Gordan Kolak, dipl.ing.
President of the Management Board

Summary of key performance indicators

KEY PERFORMANCE INDICATORS

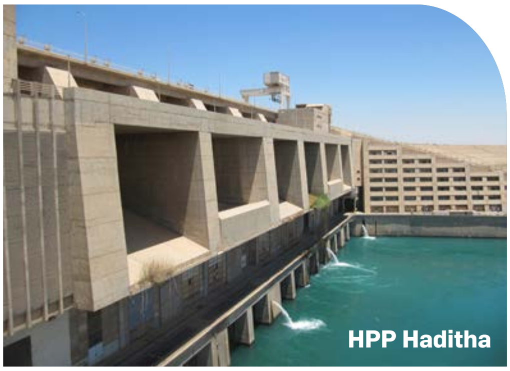
	KONČAR				Index	Dalekovod	
	2019	2020	2021	2022	2022/ 2021	April - December 2022	CAGR
in HRK 000	1	2	3	4	5	6	2022/ 2019
Poslovni prihodi	**2,876,986**	**3,026,268**	**3,554,258**	**5,464,470**	**153,7**	**869,355**	**23.8**
Sales income - total	2,810,951	2,972,558	3,477,453	5,303,326	152,5	861,703	**23.6**
Sales income - export	1,650,471	1,849,589	2,062,733	3,243,924	157,3	600,052	**25.3**
Operating expenses	**2,834,974**	**2,941,063**	**3,360,266**	**5,088,393**	**151,4**	**827,143**	**21.5**
Operating profit	42,012	85,205	193,992	376,077	193,9	42,212	**107.6**
Operating margin	1.5%	2.9%	5.6%	7.1%		4.9%	
Net profit	52,052	127,576	211,391	370,155	175,1	31,524	**92.3**
Net margin	1.9%	4.3%	6.1%	7.0%		3.7%	
Normalized net profit	72,907	135,654	226,951	322,873	142,3	32,803	**64.2**
Normalized net profit margin	2.6%	4.6%	6.5%	6.1%		3.8%	
Depreciation and amortization	91,487	97,546	97,285	127,381	130,9	22,451	**11.7**
EBITDA	**133,499**	**182,751**	**291,277**	**503,458**	**172,8**	**64,663**	**55.7**
EBITDA margin	4.7%	6.1%	8.4%	9.5%		7.5%	
Normalized EBITDA[1]	154,354	190,829	306,837	456,176	148,7	65,942	**43.5**
Normalized EBITDA margin[1]	5.5%	6.4%	8.8%	8.6%		7.7%	
Order intake	**3,079,211**	**3,734,951**	**4,238,487**	**6,395,022**	**150,9**	**1,321,979**	**27.6**
Backlog [2]	**3,485,203**	**4,247,593**	**4,987,091**	**7,325,331**	**146,9**	**1,722,367**	**28.1**
Book-to-bill ratio	1.10	1.26	1.22	1.21		1.53	

Normalized EBITDA[1]: Normalized EBITDA is EBITDA less the asset sale income, loss compensation income, income from state-issued subsidies and one-off effects of transactions related to Dalekovod and increased by value adjustment of non-current and current assets and net effect of provisions.

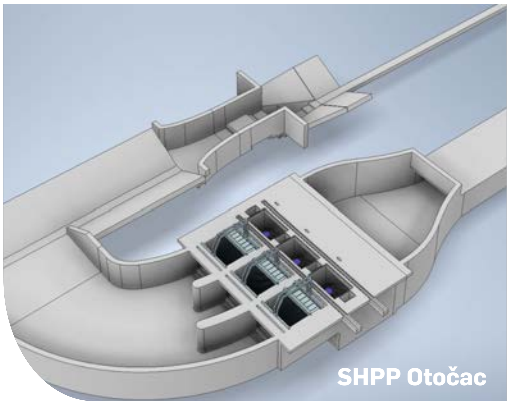
KONČAR in 2022 - Major completed projects and new contracts

New business

Some of the new agreements concluded in 2022 are significant in terms of volume, customer-specific requirements, participation of Group subsidiaries or material importance:


HPP Haditha

- In June, an agreement was signed with Iraq's Ministry of Electricity for the revitalization of Haditha hydropower plant. Haditha is the largest hydro power facility in terms of installed power (6x128 MVA), and it was constructed by KONČAR 35 years ago. The consortium agreement with the Iraqi company includes the partial revitalization of the HPP. KONČAR - Engineering will spearhead this project and other subsidiaries within KONČAR Group will also be involved in the project: Generators and Motors, Electronic and Informatics, Metal Structures, Instrument Transformers, Switchgear and Power Transformers.
- VEPAR projectwas contracted with Hrvatske vode (Croatian water management company), to significantly improve flood risk management in Croatia. KONČAR - Digital will spearhead the upgrades of the hydrological monitoring system and the implementation of the control and management system at control, regulation and protective water structures and hydrological stations. The project includes the development of a control and management system, as well as equipment and works across a total of 655 sites. KONČAR MARS software, which will be used for control and management of pumping stations across Croatia, will be central to the project.
- Three new agreements were signed with the Hungarian transmission system operator MAVIR for the delivery of more than 1,300 measuring transformers with voltage levels up to 420 kV.


SHPP Otočac

- In cooperation with Male hidre d.o.o. the Group contracted the construction of Otočac SHPP. The plant is designed with 1.5 MW connection power and will comprise three independent 500 kW power generation units. At Otočac SHPP KONČAR will install its first advanced *smart* submersible machines for low-head hydro power plants which enable greater use of hydro power with minimum environmental impact. The machines were fully developed and manufactured by KONČAR within an EU-funded R&D project.
- KONČAR Group and the Greek Public Power Corporation (PPC) signed an agreement for phase one of Messochora hydropower plant revitalization in Greece. Several members of KONČAR Group, led by KONČAR - Engineering, will take part in the project. Phase one of the plant revitalization will include testing and analysis of all plant equipment, along with the preparatory activities for the commissioning of the plant. Although not as materially significant, the project opens up the possibility for a comeback to the Greek market.
- At the end of 2022, KONČAR signed the Agreement of Sale and Purchase with HŽ - Passenger Transport Ltd. for a prototype battery electric motor unit and battery multiple unit, and six energy storage devices that will be installed along the railway network in the Republic of Croatia. The Agreement was signed as part of the project *The application of green technologies in railway passenger transport included in the 2021 - 2026 National Recovery and Resilience Plan*. The application of green technologies in railway passenger transport improves energy efficiency levels of the transport system and contributes to the reduction of noise and greenhouse gas emissions.

Significant delivered and realised agreements

- The realization of the 110 kV submarine cables project replacement commenced at the start of the year. The project kicked off with the laying of the first submarine cables at Postira (Brač) – Dugi Rat section, in the length of 7,300 metres and at Krk - mainland section, in the length of 4,180 metres. This is the first stage of the strategic investment project of the Croatian Transmission System Operator for the period until 2024.
- The agreement for the stator winding and generator cooling system replacement at Cirata hydropower plant in Indonesia was successfully completed.
- An 80 MVA transformer was delivered to a new customer in Spain, the first with a *Products Carbon Footprint* (CFP) certificate for medium power transformers according to ISO 14067:2018 standard.


Submarine cables replacement project

- An agreement was concluded with the Japanese customer Hitachi for the delivery of 66 cooling systems (LCS) to be used for train propulsion converters as part of the East Midlands Railway project, in the United Kingdom.
- In collaboration with GE Grid branch in Mönchengladbach the company was awarded the delivery of six new offshore transformer boilers which will be installed at substations in the Atlantic Ocean. Harsh exploitation conditions which the substations are exposed to necessitated careful preparation and application of corrosion protection. These projects will be used for the generation and transmission of electricity from renewable sources.
- A generator located on the Austrian-German border was cold commissioned. The special feature of the project is that the new stator and rotor are installed and assembled on-site, due to their dimensions and technical requirements. Although the customer is an Austrian power company, the project implemented at this cross-border power plant is officially registered in Germany.
- The last of the contracted fourteen low-floor trams for public transport in the city of Liepāja, Latvia was successfully delivered. The vehicles were co-funded by the EU as part of the *Comprehensive Reconstruction of Tram Route and Adjacent Territory* programme.
- Three out of the 21 electric multiple units contracted within the *HŽPT Renewal of the Rolling Stock* project, funded 85% from the *Operational Programme Competitiveness and Cohesion 2014 – 2020* were delivered.


Generator for HPP Ering-Frauenstein


Tram for Latvia

Portfolio consolidation and acquisitions continue

- At the beginning of its mandate, the Management Board of KONČAR - Electrical Industry Inc. initiated the development of KONČAR Group 2020+ Integral Strategy and established the strategic priorities for the upcoming period. Simultaneously with the development of the Strategy, restructuring activities were rolled out to merge subsidiaries that had operated in related segments, to set up a new subsidiary KONČAR - Digital, and to transform joint-stock companies fully owned by the Parent Company into limited liability companies. Once completed, these initiatives boosted KONČAR Group's efficiency and profitability. While some products were withdrawn and divested, the digital solutions and platforms segment, rail solutions and renewable energy source have been bolstered.
- Further organizational developments - the digital segment of KONČAR - INEM (development and sales of software solutions) was spun off into a new subsidiary KONČAR - Digital.
- Financial restructuring at Dalekovod was completed and all conditions for the supervision and integration of the members of Dalekovod Group into KONČAR's operations were met. Control over Dalekovod was acquired as of 1 April 2022. By integrating Dalekovod into the operations of KONČAR Group, primarily into the segment of reconstruction and modernization of the power transmission and distribution grid, the portfolio of services and comprehensive solutions will be expanded, and the share of export income will increase, adding greater value.
- At the end of 2022, the Share Purchase Agreement on the purchase of 75 percent of equity share in limited liability companies Kodeks sistemske integracije and Exa Globe was signed. The acquisition is aligned with the strategic orientation of KONČAR Group on accelerated development of operations based on development and integration of digital technologies, and as such it will strengthen our competencies and expand our portfolio of products and services for efficient and profitable management of advanced networks, water supply and sewage, smart cities, data centres and e-mobility.
- At the end of December 100% equity share in KONČAR - Electrical Equipment Ltd. Split was acquired. The company's core business includes sales, development, design, manufacture, assembly, testing, commissioning and servicing of electrical appliances and equipment for low and medium voltage electrical distribution, industrial and shipbuilding industries, including engineering and construction investment projects in the domestic and foreign markets.
- Takeover agreement for the acquisition 100% equity share in the limited liability company Telenerg - Inženjering d.o.o. was concluded in December. The target company is specialized in power engineering for electrical utilities and industry.
- By signing the aforementioned contracts, all requirements for the conclusion of the transaction have been met, and with the registration in the Court Register at the beginning of 2023 the conditions have been met for the inclusion of the aforementioned companies in the operations of the KONČAR Group.
- The completed acquisitions will further reinforce KONČAR's position in both the domestic and foreign markets.

Origin and history

KONČAR began its history back in 1921 from a workshop in Trešnjevka, Zagreb and today it is known as the regional leader in power engineering and rail solutions. KONČAR's growth is based on technology, knowledge and clear goals, and has greatly driven the development and the future of the Croatian electric power industry. Many generations of KONČAR workers poured their work and enthusiasm into creating the company's reputation, initiated numerous new ideas and drove the Croatian economy forward.

With exports that began back in 1952, throughout its rich history KONČAR has delivered equipment and products to all continents across the world, which is an indicator of competitiveness and the high level of quality and reliability.

KONČAR Group corporate profile

KONČAR's operations are divided into four business segments which are based on the complementarity of the business and product range, market segmentation and customer categorization. The main business segments are power generation, power transmission and distribution, rail solutions and infrastructure, and digital solutions and platforms.

Today, KONČAR Group generates over 5.3 billion in total income, 61 percent in international markets and employs 4,826 people.

MISSION, VISION AND CORE VALUES

OUR MISSION

Inspired by challenge, we develop modern solutions for the electrical industry; we contribute to local manufacturing and energy sustainability of the society.

OUR VISION

An innovative partner for advanced solutions on the path of green energy transition and mobility.

OUR CORE VALUES

- **Market orientation**
- **Agility**
- **Collaboration**
- **Innovation**
- **People development**

Corporate governance

Application of corporate governance principles

As the shares of KONČAR – Electrical Industry Inc. are listed on the regulated market of Zagreb Stock Exchange, KONČAR – Electrical Industry Inc. applies the Corporate Governance Code of the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA). The Code is available on the websites of the Zagreb Stock Exchange (zse.hr) and HANFA (hanfa.hr).

In line with statutory regulations in force, KONČAR – Electrical Industry Inc. prepared the 2021 Corporate Governance Statement, confirming that its operations and development adhere to corporate governance best practices in all business segments. The Corporate Governance Statement is available on the Company website (koncar.hr), the websites of the Zagreb Stock Exchange (zse.hr) and HANFA (hanfa.hr). However, some corporate governance elements differ in definition from the Corporate Governance Code of the Zagreb Stock Exchange and HANFA. Exceptions and deviations from the Code are presented hereinafter.

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 responsibility system.

The Management and Supervisory Boards adopted the Code of Conduct - the key document used to adopt and promote fundamental corporate values of both the Company and the Group as a whole, as well as to promote corporate social responsibility. 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.

By adopting and accepting the Code of Conduct, the Company has undertaken to promote equality of all employees, regardless of their gender, age, nationality, ethnic origin, race, religion, language, social or economic status, sexual orientation, affiliation to political or other organizations, as regards employment and work environment, including the requirements and selection criteria for recruitment, promotion and professional training.

Description of key elements of internal controls and risk management is an important part of business operations, and those elements are indicated below. The composition and work of the Management Board, Supervisory Board and General Assembly and information about the Company's Shareholders are an integral part of the Corporate Governance Statement, and are described below. All of the documents are available on KONČAR's website (koncar.hr).

The Company complies with the recommendations of the Code, with the exception of 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 did not formally set a target for the percentage of women members on the Supervisory and Management Boards (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.
- The Remuneration Committee performs all the tasks defined in Article 15 of the Code, with the exception of the supervision of the Management Board in the appointment process for the members of management boards of subsidiaries, which falls under the competence of the supervisory boards of Group members.
- 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 General Assembly session on the subsequent proposal of the re-election of an existing Supervisory Board Member.
- Remuneration Committee performs all the tasks specified in Article 50 of the Code, however decisions on the remuneration to be received by the members of the management boards in subsidiaries fall under the competence of their respective supervisory boards.
- 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.
- The Company does not use the means of modern communication technology for participation in the General Assembly meetings

(Article 79 of the Code), as in practice, the current manner of exercising votes has been shown to be the optimal solution.
- Answers to the questions asked at the General Assembly session were not made freely available by the Company on its website (Article 82 of the Code). The Minutes of the General Assembly held in 2022 have been made publicly available at the court register.
- 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 governing bodies, employees and business partners have been informed of anti-corruption policies and procedures and observe the principles of the Code of Ethics in their operations and day-to-day activities. KONČAR enjoys the reputation of a loyal and fair business partner in the international market, and no cases of corruption have been reported at the Group level.

KONČAR - Electrical Industry Inc. has not made any direct or indirect financial or non-monetary contribution for political objectives to any state or beneficiary. KONČAR promotes and executes fair and transparent competition principles across its businesses in dealing with all entities at all sites. No anti-competitive, antitrust or monopoly practices were recorded in KONČAR Group.

Corporate governance organization
In line with the best practices, KONČAR has set out to achieve high corporate governance standards and transparency of operations as the only proper course of action, which is the basis for all business operations 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 is a body that allows Shareholders to exercise their rights in Company matters. 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 (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 2022, one meeting of the General Assembly was held. At the meeting held on 10 June 2022, 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 2021, a resolution on the appointment of auditors for 2022 and approved the Report on the Remuneration for the Members of the Management Board and the Supervisory Board for 2021. All resolutions adopted at General Assembly meetings have been published in accordance with legal regulations and are available on the websites of the Company (koncar.hr), Zagreb Stock Exchange and HANFA.

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

The Supervisory Board has nine members. Five members are appointed and recalled by the General Assembly, one member is appointed by the employees as per the Labour Act and three members are appointed, in accordance with the Companies Act (Article 256), by the shareholder Kapitalni fond 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 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 2022:

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 2022, the Supervisory Board held eight meetings. The quorum at the meetings of the Supervisory Board requires five Supervisory Board Members.

In 2022, all the Members participated in decision-making at all the meetings. In the event when the Members were prevented from attending the meetings physically, they casted their votes by videoconferencing or in writing as provided for in the Rules of Procedure of Supervisory Board.

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

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

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

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

Administrative support in preparing Supervisory Board meetings is provided by the Company Secretary, in an efficient and timely manner. Out of nine members of the Supervisory Board, women make up 22.2% (2 women). When making proposals for appointment to the Supervisory Board of the Company, in addition to, primarily, necessary expertise of the candidates, the Supervisory Board also considers the aspect of diversity.

Report on the supervision conducted in 2022, 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 2022.
- Results of review of Annual Financial Statements prepared as at 31 December 2022,
- Auditor's reports,
- Results of review of the Management Board's report on the Company's performance in 2022,
- 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
Audit Committee analyses financial statements in detail, supports the Company's accounting department and sets up appropriate and efficient internal controls system at 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 2022, the Audit Committee held five 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 2022, supervision of the statutory audit and consolidated and unconsolidated annual financial statements for 2022, making recommendations for the adoption of those reports, and appointing auditors for 2022. 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, specifically: monitoring and assessing development and changes in the environment, evaluating the Group's short-term and long-term objectives, assisting with strategic decisions pertaining to acquisitions, joint investments, restructuring and 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.

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 2022, the Committee held no meetings as it was not deemed necessary.

Remuneration Committee outlines the content of the Management Board Member contracts and determines the structure of their remuneration. The Committee is also in charge of drawing up the Remuneration Policy for the members of the Management and Supervisory Boards. 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 2022, the Committee held 2 meetings and they were 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 responsible for proper business risk management. At its regular meetings, it reviews the Company's economic, environmental and social impact.

At its regular meetings, the Supervisory Board assesses the performance of the Company's Management Board and the management boards of Group subsidiaries based on business performance indicators and the maintaining and building of a positive reputation of the Company. Through their membership in the supervisory boards, assemblies and based on other rules adopted, Management Board members coordinate, direct, supervise and monitor performance in KONČAR Group subsidiaries. Members of the Management Board of KONČAR – Electrical Industry do not receive remuneration for their work in the supervisory boards of subsidiaries.

The Supervisory Board assessed that in 2022, 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 its 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. Currently, the Management Board operates with six members. Management Board Members are appointed for a five-year term and may be reappointed without any limitations with regard to the number of terms. Every Management Board Member manages the operations in their respective business segment individually, at their own responsibility, with due care and diligence of a prudent businessman, and makes all their decisions only in the best interest of the Company. When deciding on key business policy matters or matters relating to business segments of other Management Board Members, a Management Board Member presents such matters to the Management Board, to be decided on by the Management Board collectively.

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 2022:
- 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 2022, the Company's Management Board held 44 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.
In addition to operational tasks and realisation of financial goals, sustained efforts were focused on partnerships and acquisitions that enable the expansion of manufacturing capacities and build up competences in areas where the Group development is limited by time and operational resources.

Financial restructuring at Dalekovod was completed and all conditions for the supervision and integration of the members of Dalekovod Group into KONČAR's operations were met. By integrating Dalekovod into the operations of KONČAR Group, primarily into the segment of reconstruction and modernization of the power transmission and distribution grid, the portfolio of services and comprehensive solutions will be expanded and the share of export income will increase, adding greater value.

At the end of 2022, the Share Purchase Agreement on the purchase of 75 percent of equity share in limited liability companies Kodeks sistemske integracije and Exa Globe was signed. The acquisition is aligned with the strategic orientation of KONČAR Group on accelerated development of operations based on development and integration of digital technologies, and as such it will strengthen our competencies and expand our portfolio of products and services for efficient and profitable management of advanced networks, water supply and sewage, smart cities, data centres and e-mobility. Two further acquisitions were also completed. The first is the takeover of 100% equity share in KONČAR - Electrical Equipment Ltd. Split whose core business includes sales, development, design, manufacture, assembly, testing, commissioning and servicing of electrical appliances and equipment for low and medium voltage electrical distribution, industrial and shipbuilding industries, including engineering and construction investment projects in the domestic and foreign markets. The second acquisition completed at the end of December is the takeover of 100% equity share in the limited liability company Telenerg - Inženjering d.o.o., specialized in power engineering for electrical utilities and industry. The completed acquisitions will further reinforce KONČAR's position in both the domestic and foreign markets.

The Company's Management Board operates with the optimal number of six members. All Management Board Members possess the knowledge, skills, as well as professional experience required for the performance of their duties. Every Member makes an effective contribution, demonstrating commitment to their role and dedicating sufficient time to their duties.

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 is responsible for assessing the levels of risk management in business processes, auditing the effectiveness of the internal controls system with the aim of improving risk management and compliance with procedures, examining and analysing the compliance of existing business systems with adopted policies, plans, procedures, laws and rules that may have a significant impact on business reports.

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 Department reports to the Management Board, Audit Committee and the Supervisory Board. The findings and recommendations allow the Management Board to improve the processes, pre-emptively eliminate potential risks or mitigate them to acceptable levels.

In 2022, several audits were carried out in the areas of sales processes, procurement, inventory management, due diligence processes in companies that were merged.

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

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.

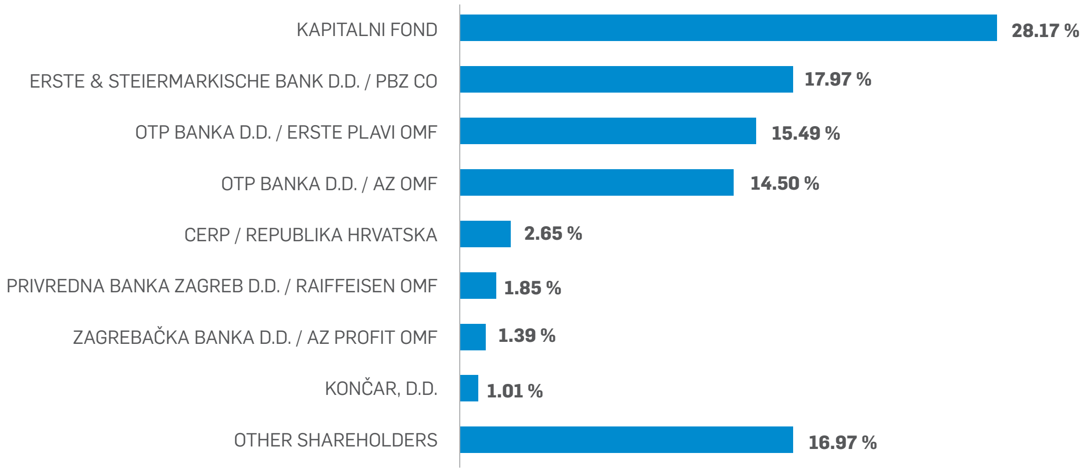
The Company promotes equality of all employees, regardless of their gender, age, nationality, ethnic background, race, religion, language, social and economic status, sexual orientation and affiliation to political and other organisations.

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.

Capital market

Ownership Structure

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



Shares

Shares of KONČAR – Electrical Industry Inc. 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).

The Company's share capital amounts to HRK 1,208,895,930.00 and consists of 2,572,119 ordinary shares with a nominal value of HRK 470.00.

The war in Ukraine and the aftermath of the war have presented strong headwinds for the global economy and the capital market. The trajectories of global indices and their downturns have reflected on the Croatian capital market as well. Crobex closed the year with a 4.8% dive. The value of the KONČAR share recorded a slightly smaller drop of 3.9%.

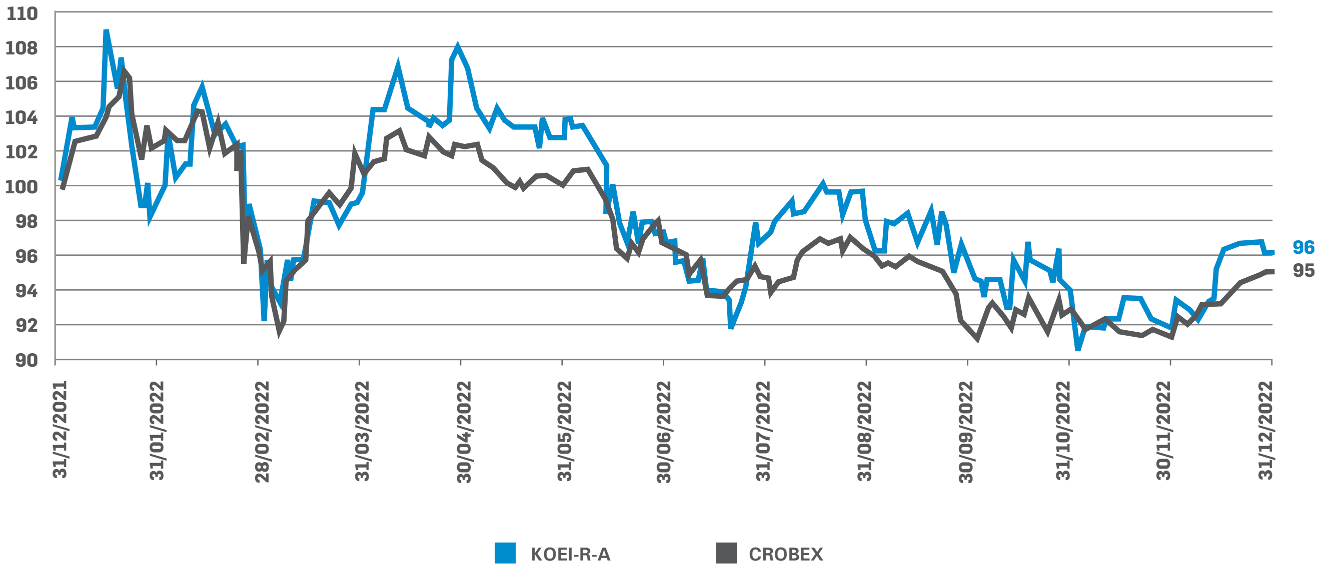
Earnings per share amount to HRK 86.91, representing a gain of HRK 22.83 (35.6%) compared to earnings per share realized in 2021.

Market capitalisation amounts to HRK 2,201.8 million, representing a decline of HRK 89.1 million year-on-year.

The General Assembly of KONČAR - Electrical Industry Inc. was held in early June. The Assembly approved the proposal on the dividend distribution to the Company's Shareholders in the amount of HRK 13.0 per share. The dividend was distributed on 10 July 2022 to all Shareholders registered in the Issuer's Register (Book of Shares) as at 25 June 2022.

KOEI-R-A	31/12/2021	31/12/2022	Index
Final price (HRK)	900,00	865,00	96.1
Highest price (HRK)	900,00	980,00	108.9
Lowest price (HRK)	580,00	810,00	139.7
Volume	91,767	56,466	61.5
Turnover (HRK)	65,270,145,00	50,091,015,00	76.7
Market capitalisation (HRK)	2,290,904,100	2,201,813,385	96.1
EPS (HRK) (profit of the parent company owner/weighted average number of shares)	64.41	102.27	158.8

KOEI share price movement index and CROBEX value



Investor relations

In 2022, KONČAR - Electrical Industry held regular webcast conferences following each release of business results. In addition to regular conferences, the Group participated in various domestic and international investment conferences and held numerous meetings with domestic and foreign investors.

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

Corporate social responsibility

KONČAR fosters a comprehensive approach to corporate social responsibility, which includes care for employees, care for the environment and all the segments related to protection and conservation of natural resources, and cooperation with the community.

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

Note:
Corporate Sustainability and Social Responsibility Report shall be available in May 2023. The obligation of the Company to report on factors in line with the EU Delegated Act supplementing Article 11 Paragraph 3 (EU Taxonomy Regulation) shall constitute an integral part of the Report.

Quality, environment, safety of people and information security

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

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

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

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

All the adopted principles are based on the regulations of the Republic of Croatia and the adopted international standards. KONČAR accepts and applies international and local principles, charters and standards which contribute to a better quality of products, work processes and manufacturing, as well as to the preservation and improvement of the natural and social environment.

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

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

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

Energy efficiency is one of the most cost-effective ways of improving security of power supply and reducing the emission of greenhouse gases and other pollutants. In order to determine the level of efficiency, energy audits were carried out (to determine current energy consumption and energy performance) of facilities used for non-manufacturing activities of KONČAR Group subsidiaries. All facilities were assigned an appropriate energy efficiency class and energy efficiency improvement measures were put in place.

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

Customers and suppliers

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

As KONČAR Group bears immense responsibility for the products it offers to the market, it has been managing the entire manufacturing chain by supervising the quality of individual manufacturing processes. KONČAR Group subsidiaries try to choose whenever is possible suppliers whose materials and components do not cause harm to humans and the environment and can be recycled after the end of their life cycle or disposed of without endangering people or the environment. Selection of a supplier of individual materials and services is subject to meeting defined quality levels, lead times and credit terms, taking into consideration occupational health and safety and environmental protection. Suppliers are required to provide evidence (certificates) of compliance. KONČAR Group subsidiaries keep a database of the existing and potential suppliers. In addition to basic information on suppliers (name, address, phone number, e-mail, contact person), the database contains other data that might be relevant for the selection of suppliers, such as suppliers' references, information about complaints, information about the quality system, occupational health and safety and environmental protection.

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

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

KONČAR Group subsidiaries use ZelEn product i.e., energy produced solely from renewable sources, offered by HEP - Opskrba.

Employee relations

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

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

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

Labour relations

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

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

In order to develop the potential of all employees, KONČAR subsidiaries have systematically been conducting education and professional training in various ways: encouraging participation in formal education system, specialized on-the-job trainings such as foreign language courses, with a great focus on presentation and communication skills, computer skills as well as developing and upgrading other knowledge relevant for performance and professionalism.

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

Gender equality

One of the core principles of business ethics at KONČAR is the principle of equality, respect for human rights and the dignity of all people. Guided by the principles of professionalism, expertise and impartiality, job applications are not gender-biased and women and men are employed equally, based on their qualifications, and are afforded equal opportunities for development and advancement.
All women employees are entitled to maternity and parental leave and all men employees are entitled to parental leave. All women employees have resumed work upon completing their maternity leaves, while men employees have resumed work following their parental leaves.

Employee protection

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

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

There have been no whistleblowing reports in 2022.

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

Cooperation with the community

KONČAR has continuously engaged in cooperation with the scientific and professional community by identifying, defining and implementing projects, on the basis of equal partnership, and has encouraged cooperation between the science, education and business. We are particularly committed to encouraging educational excellence of young people, and we thus traditionally award prizes for the best students of various universities and colleges, as well as awards for the best doctoral dissertations with industrial application.

Sponsorships and donations

As a socially responsible company, over the years KONČAR has endorsed and supported projects in science, sports, culture and the arts, education of children and youth, environmental protection and humanitarian projects through donations and sponsorships. Sponsorship and donation activities that contribute to the development of society as a whole are an integral part of our business strategy When selecting projects to be donated or sponsored by KONČAR, the fundamental criteria are quality and originality, the benefits for the local or wider community, alignment with the marketing strategy and a positive contribution to KONČAR's identity and image.

Beneficiaries of donations and sponsorships can be natural persons and educational, cultural, sports institutions and clubs, associations and organizations that have a regulated legal status.

KONČAR does not donate or sponsor:
- Political parties and citizens' associations that are organized with the aim of promoting political objectives,
- State bodies and institutions,
- Organizations and individuals in projects whose activities or implementation thereof promote racial, religious or any other form of discrimination,
- Organizations and individuals in projects whose funding would lead to conflict of interest,
- Organizations and individuals who have harmed the work and reputation of the Company.

In 2022, KONČAR allocated HRK 2.5 million towards donations and sponsorships. Donations were primarily chandelled towards humanitarian and social causes, while sponsorships were primarily channelled towards professional conferences and media promotion.

2022 KONČAR Group key performance indicators

Following the session of the General Assembly of Dalekovod d.d. and the election of the members of the Supervisory Board on 31 March 2022, the conditions for acquiring control over Dalekovod Group subsidiaries and integration into KONČAR 's operations and consolidated financial statements were met. The Consolidated Financial Statements of KONČAR include the consolidated results of Dalekovod Group for the period April - September 2022.

Income Statement

In 2022 KONČAR realised total operating income in the amount of HRK 5,464.5 million, which represents an increase of HRK 1,910.2 million or 53.7% year-on-year.

Income realised from sales of product and service accounts for 97.1% of the total operating income, while other income amounts to HRK 161.1 million and accounts for 2.9%. Among other income, the most significant amount pertains to sale of assets not in the function of core business, income from subsidies received, accounts receivable collection write-offs and non-current inventories, income from prior years, lease income, badwill (negative goodwill) and factoring income.

Operating expenses amount to HRK 5,088.4 million, representing a year-on-year increase of 51.4 percent. With reference to operating expenses, material costs (cost of raw materials and commodities, costs of goods sold and other external costs) amount to HRK 3,760.4 million and are HRK 1,381.0 million (58%) higher year-over-year. The share of material costs in sales income, adjusted for inventory value changes, amounts to 69.5%, representing an increase of 1.9 percentage points compared to the previous year. In some of the manufacturing subsidiaries, particularly those with longer lead times, prices of commodities and raw material account for an even greater share of the sales income, up to 11 percentage points year-on-year.

Staff costs amount to HRK 1.015.0 million, representing a year-on-year increase of HRK 285,4 million or 39.1%. The share of staff costs in sales income amounts to 18.7%, representing a year-on-year decrease of 2.1 percentage points.

Other operating expenses amounting to HRK 249.2 million pertain mostly to staff costs and other employees' rights, as well as to non-production services, other provisions, intellectual services, insurance premiums and other.

Operating profit (EBIT) amounts to HRK 376.1 million, representing an increase of HRK 2021 million compared to 2021. Operating margin stands at 7.1%. Normalized operating profit amounts to HRK 328.8 million, while normalized EBIT margin stands at 6.2% (in 2021 it stood at 6.0%).

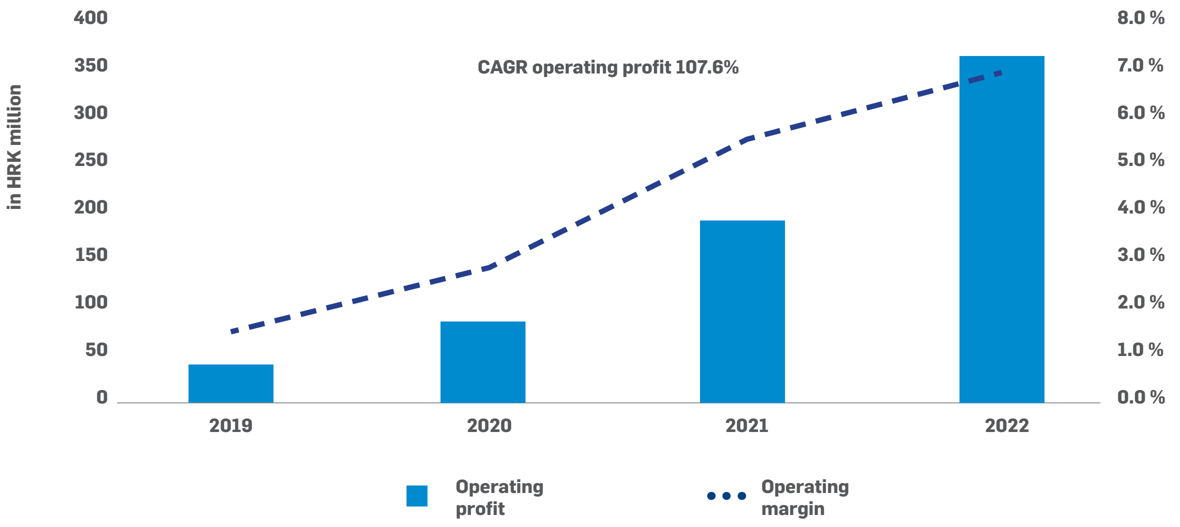
The difference between finance income and expenses is positive, amounting to HRK 2.2 million.

Operating profit of HRK 376.1 million, share in the profit of associated parties and joint ventures in the amount of HRK 25.2 million and a positive difference between finance income and expenses in the amount of HRK 2.2 million, resulted in consolidated profit before tax amounting to HRK 403.5 million. Income tax amounts to HRK 33.4 million. The realized net profit for the reporting period stands at HRK 370.1 million.

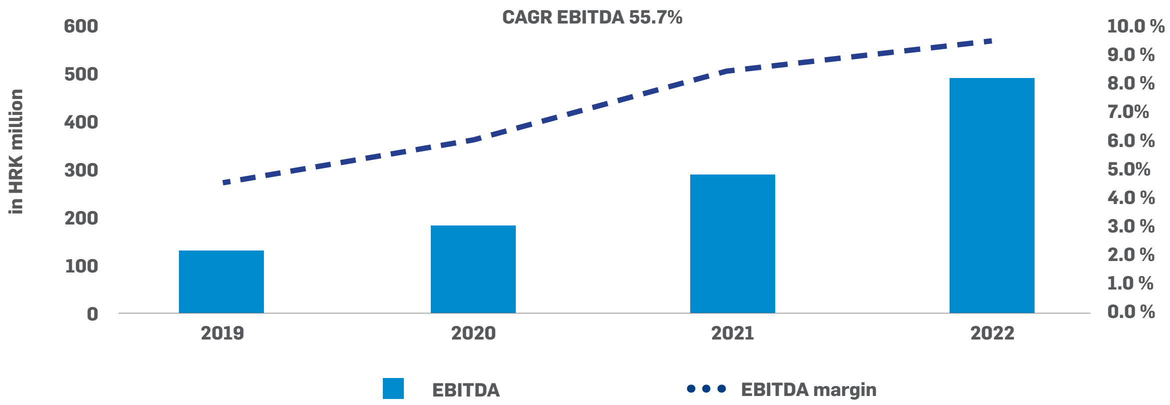
Reported EBITDA amounts to HRK 503.5 million, representing a year-on-year increase of HRK 212.8 million. EBITDA margin is 9.5% (in 2021 it stood at 8.4%).

Normalized EBITDA amounts to HRK 456.2 million and is HRK 149.3 million higher year-on-year. Normalized EBITDA is EBITDA less the net asset sale income, loss compensation income, income from state-issued subsidies and one-off effects of transactions related to Dalekovod and increased by value adjustment of non-current and current assets and effect of provisions. Normalized EBITDA margin is 8.6 percent (it amounted to 8.8% in 2021).

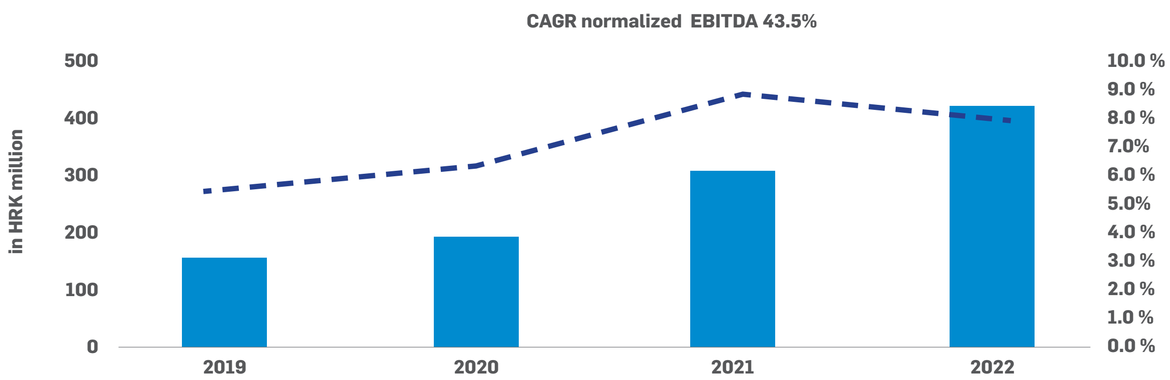
Operating profit



EBITDA



Normalized EBITDA



Statement of Financial Position

Key indicators of the Statement of Financial Position as at 31 December 2022

The most notable changes to the Consolidated Statement of Financial Position of KONČAR Group at the end of 2022 compared to the position at 2021 year-end are the result of the integration of Dalekovod Group into the operations of KONČAR Group, significant increase in manufacturing volumes which necessitated investment in working capital, decline in deposits for the purpose of acquisition of a subsidiary and the planned continuation of the investment cycle with a focus on new equipment and machinery, financed partly from own funds and partly from long-term loans from banks.

- Inventories are HRK 493.3 million higher. Increase in inventories in all Group subsidiaries is attributed to significant backlog and upcoming increased deliveries.
- Loans and receivables are up by HRK 638.1 million, and the most considerable share pertains to growing trade receivables in the amount of HRK 497.4 million. Impact of expanding deliveries and Dalekovod merger.
- Non-current assets held for sale amount to HRK 15.6 million, a reduction of HRK 37.4 million. The decrease resulted from sales of facilities that are not in the function of the core business at several locations.
- Investment in new machinery and equipment resulted in a HRK 264.2 million increase in liabilities to banks and other financial institutions.
- Trade accounts payable are HRK 460.5 million higher.
- Total current assets and prepaid expenses exceed 1.9 times total current liabilities, accrued expenses and deferred income. The structure of the consolidated statement of financial position indicates a balance between funding sources and investments and an overall financial stability of KONČAR Group.

in HRK 000
Summarised Statement of Financial Position

	31/12/2022	31/12/2021	Δ
Non-current assets	1,978,114	1,502,885	475,229
Current assets	4,060,021	2,944,419	1,115,602
Assets	**6,038,135**	**4,447,304**	**1,590,831**
Capital and reserves	3,469,400	2,843,642	625,758
Non-current liabilities	419,411	283,575	135,836
Current liabilities	2,149,324	1,320,087	829,237
Total equity and liabilities	**6,038,135**	**4,447,304**	**1,590,831**

Net debt

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

in HRK 000	31/12/2022	31/12/2021	Δ
Liabilities to banks and other financial institutions	564,091	299,926	264,165
Lease liabilities	39,425	4,938	34,487
Liabilities for loans to associated undertakings (non-current)	357	350	7
Financial assets	21,973	301,685	-279,712
Cash and cash equivalents	431,446	423,831	7,615
Net debt	**150,454**	**-420,302**	**570,756**
Normalized EBITDA	456,176	306,837	149,339
Net debt / normalized EBITDA	**0.3**	**neg**	

Debt indicator

in HRK 000	31/12/2022	31/12/2021	Δ
Net debt	150,454	n/a	
Equity	3,469,400	2,843,642	625,758
Debt indicator	**4.3%**	**n/a**	

Current ratio

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

in HRK 000	31/12/2022	31/12/2021	Δ
Current assets	4.060.021	2.944.419	1.115.602
Current liabilities	2.149.324	1.320.097	829.227
Current ratio	**1,9**	**2,2**	

Market position

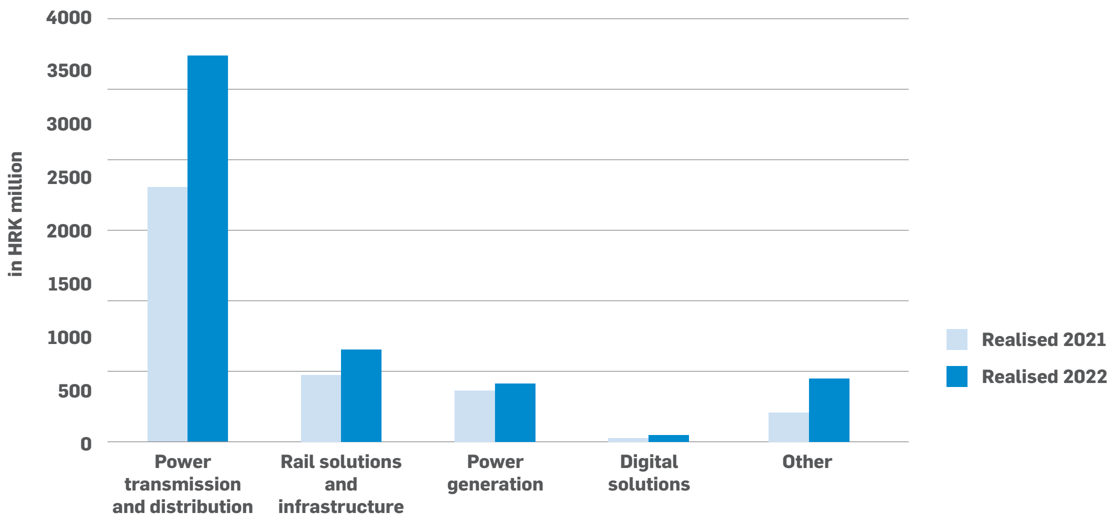
Despite all the challenges that were present in business during 2022, the KONČAR Group successfully maintained its business activities at a high level. All business segments recorded an increase in revenue compared to the year 2021.

A strong investment cycle in the construction of infrastructure for distributed electricity production, especially wind farms and photovoltaic plants, was recognized and the business area of distribution and transmission of electricity recorded a record growth of 54% compared to 2021. They generated income in the amount of more than HRK 1.2 billion. By delivering trains for HŽ Passenger Transport, delivering the last tram for a customer in Latvia and participating in the renovation and construction of railway infrastructure, the area related to that part of the production program recorded a growth of 42% compared to 2021. All other business areas also recorded an increase in income.

in HRK 000

Segment	Realised 2022	Share in total	Realised 2021	Share in total
Power generation	**506,834**	**9,6**	**433,014**	**12.5**
Power transmission and distribution	**3,543,128**	**66,8**	**2,302,273**	**66.2**
Transmission	1,403,272	26,5	732,460	21.1
Distribution	2,139,856	40,3	1,569,813	45.1
Rail solutions and infrastructure	**746,014**	**14,1**	**526,114**	**15.1**
Railway vehicles	627,950	11,8	476,584	13.7
Construction and modernization of railway structure	118,064	2,2	49,530	1.4
Digital solutions	**38,759**	**0,7**	**26,985**	**0.8**
Other	**468,592**	**8,8**	**189,067**	**5.4**
Total sales	**5,303,327**	**100**	**3,477,453**	**100.0**

Income by segments



Consolidated income generated from the sales of products and services amounts to HRK 5,303.3 million, representing a year-on-year increase of HRK 1,825.9 million or 52.5%.

Dalekovod accounts for 16.2% of sales income, amounting to HRK 861.7 million.

Income generated in the domestic market amounts to HRK 2,059.4 million, representing a year-on-year growth of HRK 644.7 million (45.6%). Sales in the domestic market account for 38% of the total sales income.

In the structure of income from sales in the domestic market, income from sales of products and services to HEP Group Companies (HEP Generation, HEP Distribution System Operator, and Croatian Transmission System Operator) amounted to HRK 876.9 million (16.6% of total income from the sales of products and services).

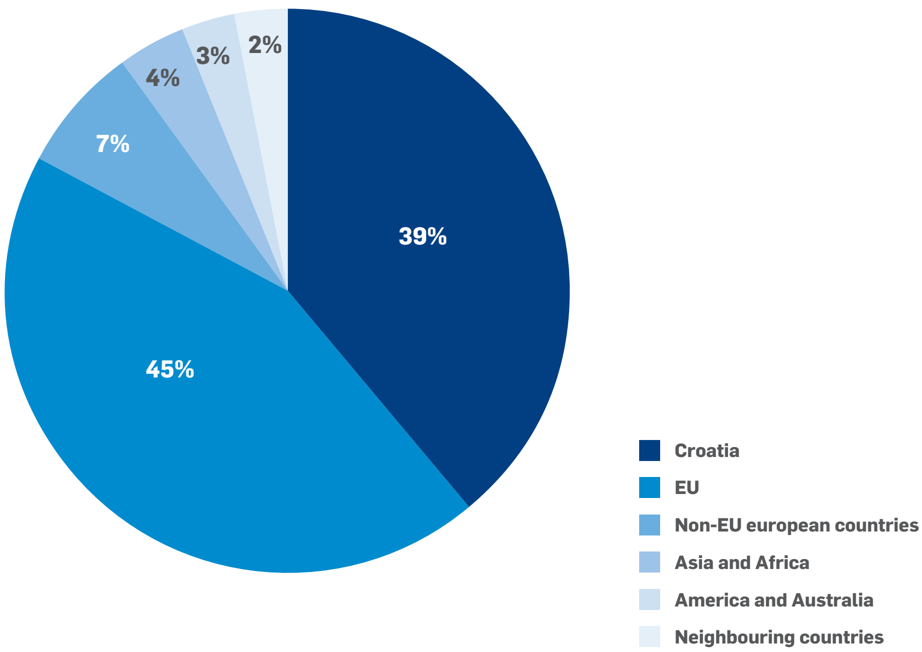
Income from sales to HŽ Passenger Transport, HŽ Infrastructure and Rolling Stock Technical Services amounted to HRK 527.9 million (10.0% of total income from sales in the domestic market). The most significant amount pertains to the realization of the agreement for the delivery of trains to HŽ Passenger Transport (a total of 10 electric motor units delivered).

Income from sales in foreign markets amount to HRK 3,243.9 million, representing a year-on-year increase by HRK 1,181.2 million (57.3%). Exports account for 61 percent of the total product and service sales income. Dalekovod's share in total exports amounts to HRK 600.1 million, which represents 18.4%.

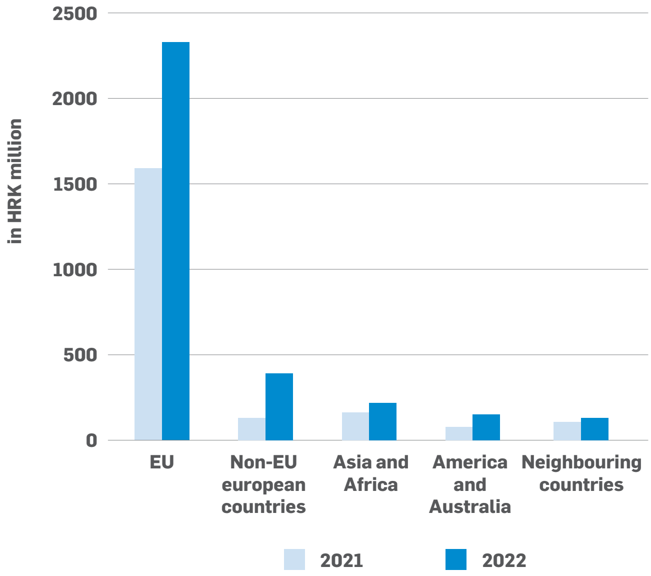
By country, the most significant export volume pertains to the Swedish market, in the amount of HRK 538.3 million, accounting for 16.8 percent of the total exports (an increase of HRK 264.8 million year-on-year). Products and services exported to Germany amount to HRK 478.0 million (14.9% of the total exports) and to Norway they amount to HRK 215.6 million (6.7% of the total exports). Year-over-year, product and service export income increased across all markets. The most significant growth in exports was realised in the EU market with an expansion of HRK 766.3 million. Exports to the European Union countries amount to HRK 2,359.7 million or 72.7% of the total exports. Year-on-year, exports to European countries outside the EU grew by HRK 261.1, to Americas and Australia by HRK 62.3 million, to Asian and African countries by HRK 62.1 million, while exports to neighbouring countries increased by HRK 29.3 million.

In 2022, order intake in foreign markets grew significantly, which created conditions for further export growth in the upcoming period.

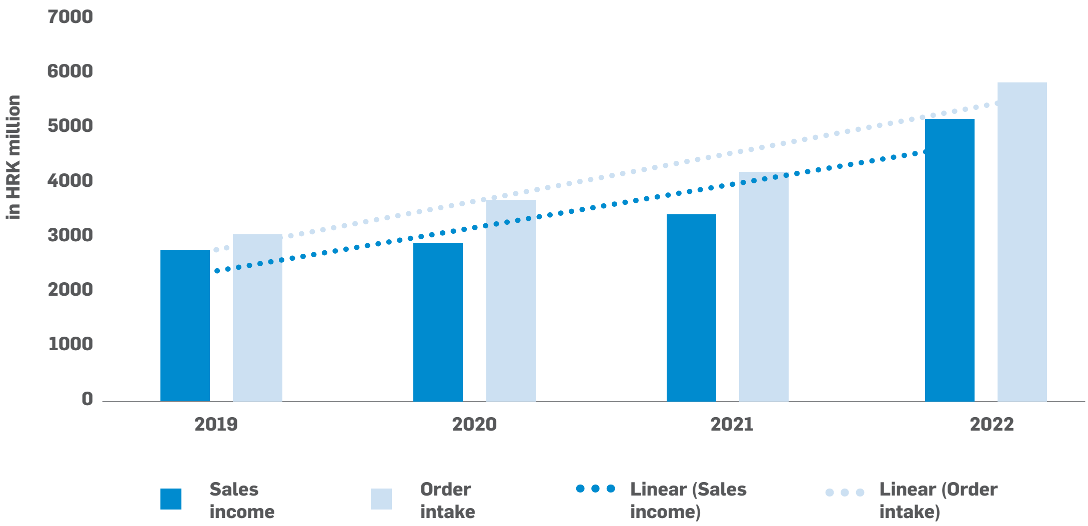
Markets in 2022



Export



Sales income/Order intake



Order intake and backlog

In 2022, KONČAR Group companies contracted new projects worth HRK 6,395.0 million. Compared to the previous year, the value of order intake rose by HRK 2,156.5 million, which is a 50.9% rise. Dalekovod accounts for HRK 1,321.9 million, that is, 21% of total order intake.

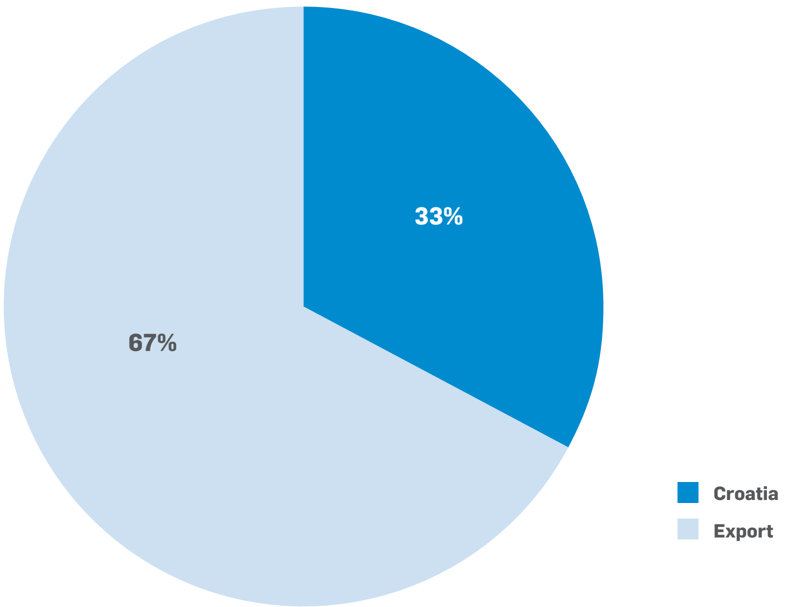
Out of the total amount of order intake, HRK 4,189.1 million (65.5% of the total order intake) pertains to export agreements, whereas HRK 2,205.9 million (35.5% of the total order intake) pertains to the Croatian market.

In terms of delivery dynamics, HRK 1,842.8 million was contracted to be realised in 2022, which accounts for 28.8% of the order intake, and HRK 4,552.2 million (71.2 %) was contracted for realization in the upcoming years.

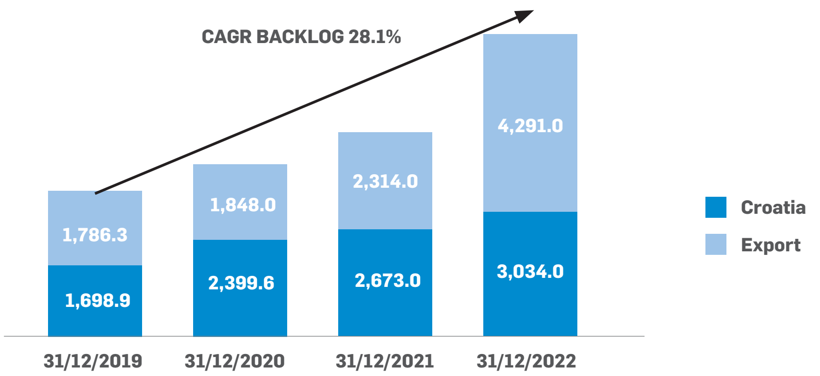
The status of order intake (backlog) as at 2022 year end amounts to HRK 7,325.3 million, representing a 46.9% increase compared to the value at year start. Backlog at the end of 2022 is higher by HRK 2,338.2 million year-on-year (HRK 4,987.1 million as at 31 December 2021). Dalekovod's backlog amounts to HRK 1.7 billion.

In the balance of open liabilities, orders for realization in 2023 amount to HRK 4,839.8 million, which represents 86% realization of the 2023 sales income plan.

Order intake in 2022



Backlog



Operational risks

In 2022, at KONČAR Group level, the Risk Management Regulations and the Risk Management Policy were revised and updated in accordance with ISO 31000:2018 (Risk management - Guidelines), and in line with ERM principles. Pursuant to the policy, Group risk management is:

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

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

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

In line with the defined risk management methodology, the Risk Catalogue was revised at the end of 2022. The main operational, and financial risks were identified, analysed, and evaluated, and measures for risk mitigation were established, as well as the responsible persons for risk management (risk owners). The risks were identified across all Group organizational units.

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

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

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

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

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

The impact of Russian aggression on Ukraine

KONČAR Group operations with entities in Russia, Belarus and Ukraine pertained to the execution and completion of contractual obligations from 2021, with the majority realized in Q1 2022.

The impact and the risks of the agreements are not considerable due to the fact that KONČAR Group's operations with entities in Russia, Belarus and Ukraine are of low material significance. The share of income generated from exports to Russia, Belarus and Ukraine in 2022 stands at 0.3%.

The share is insignificant with respect to total income and has no impact on the realized EBITDA and EBITDA margin.

Energy costs increased by 27% in 2022 year-over-year. The share of energy costs in total material costs remains at approximately the same level.

Overall, the Russian attack on Ukraine caused a surge in energy prices, accelerating inflation and soaring prices of commodities and raw materials. The share of costs of raw materials and commodities in sales income increased by 5 percentage points on average, at Group level, reaching up to 11 percentage points in subsidiaries with long lead times. Surging commodity prices have reflected on profit margins. Cost savings, improvements in productivity and stable headcount were leveraged to boost the income by 27% year-on-year.

We continuously monitor new developments, assess potential indirect risks and explore risk mitigation options.

Market risk

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

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

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

In addition to volatile prices of key raw materials in 2022 in the power engineering equipment market, there has also been a strong competitive pressure on the price of equipment and profit margins. Competitiveness of our products and services is also impacted by changes of operating conditions for both the Group and our customers.

The 2022 business year was marked by growing demand for transformers, driven by investments in renewable energy sources and e-mobility across the EU, forecasts of further rise in the prices of energy, commodities and raw materials, and uncertainties caused by disruptions in supply chains.

Management Boards of individual subsidiaries price their products autonomously.

Risk in the procurement market

Risks in the procurement market were noticeable in 2022. The major challenges arose from shortages and surging energy prices prompted by the war in Ukraine. Prices of main commodities and raw materials necessary for the manufacturing processes (copper, aluminium, sheet metal, transformer oil, insulation, steel) have been increasingly volatile, recording rapid and significant peaks and troughs over the year. The Group has leveraged available options to hedge against the risk of sudden price shocks of strategic raw materials. The most significant measure deployed over the last two years has been the introduction of sliding price formula for materials in purchase and sale agreements. In case of copper, given that it is listed on the London Metal Exchange, risk is mitigated by using forward contracts to negotiate with copper suppliers on the quantities and prices for future periods according to stock and estimates of signed contracts. In case of transformer sheet metal and some of the most crucial supply parts, risk is mitigated by employing semi-annual agreements with suppliers, seeking to ensure necessary quantities. Changes in the prices of materials are taken into account when preparing new offers.

Technological and development risks

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

Human resources risks

Usual turnover and changes in the HR structure have not significantly affected the Group's operations. Sudden or bigger turnover of employees with specialist knowledge (e.g., EU labour markets opening to workers from Croatia) might affect business operations. Continuous investments in training and financial incentives offered to key company employees tend to hedge against HR risks.

Capital management risk

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

Foreign exchange risk

Foreign exchange risk was significant for the Group's operations until the beginning of 2023, given that the Group generates a considerable share of income from export and import operations, and taking into account that a part of monetary items of assets and liabilities are expressed in foreign currencies.

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

Interest rate risk

KONČAR Group subsidiaries are exposed to interest rate risk because a portion of the loans is subject to floating (variable) interest rates while the majority of assets are non-interest-bearing. Ensuring fixed interest rate allows the subsidiaries to mitigate interest rate risk. The Group has a low level of indebtedness and in not significantly exposed to interest rate risk. The estimated effect of the reasonably possible change in variable interest rates on the result before tax is not material.

Credit risk

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

The Group performs impairments of trade receivables as an estimation of expected losses from receivables and investments.

Liquidity risk

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

2023 business plan

At the session held on 15 December 2022, the Supervisory Board of KONČAR - Electrical Industry Inc. adopted the consolidated business plan of KONČAR Group for 2023, at the proposal of the Company's Management Board.

The plan for the next year was made in uncertain and complex global circumstances marked by the pace of the industrial post-Covid recovery, the duration of the Russian aggression against Ukraine and consequent energy crisis and inflation trends. Despite these circumstances, further growth and development of KONČAR Group is forecast in the upcoming year.

On the basis of good order intake at the end of 2022, KONČAR Group plans to realise over EUR 760 million in income in 2023. The value of backlog at the end of 2022 is expected to reach EUR 1 billion. Order intake for 2023 is predicted in the amount above EUR 610 million, indicating that order intake exceeds 80% of the planned income from the sales of products and services. Exports, primarily to European Union countries, continue to dominate in the total income. The majority of the planned EUR 434 million of income realised in the foreign markets is planned from Sweden, Germany, Spain and Austria. Compared to previous years, the export plan to Norway has significantly expanded, primarily as a result of the integration of Dalekovod into KONČAR Group.

In addition to growing the income side, one of the four strategic goals set out in the KONČAR Group 2020+ Strategy is investment in the development of products, technologies and production capacities as driver for the realisation of sales plans.

Developments after the reporting date

- The Government of the Republic of Croatia has adopted the Decision to Announce the Introduction of the Euro as the Official Currency in the Republic of Croatia (Official Gazette 85/22). The Decision regulates the introduction of the euro as the official currency in the Republic of Croatia as of 1 January 2023. The fixed conversion rate was established of HRK 7.53450 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an event after the reporting date that requires adjustment.

After the reporting date, and until the date of approval of the consolidated financial statements, there were no events that would significantly affect the Company's annual financial statements for 2022, which should, consequently, be adjusted and/or disclosed.

Difference between the GFI pod form and presented consolidated financial statements

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

STATEMENT OF FINANCIAL POSITION (in HRK 000)	**GFI POD**	**IFRS**	**Difference**	**Explanation**
Intangible assets (AOP 003)	88,868	80,309	8,559	Goodwill is disclosed in the IFRS statement as a separate category, while in the GFI POD form it is included in intangible assets.
Goodwill	-	8,559	(8,559)	
Total	**88,868**	**88,868**	**-**	
Advance payments for purchase of intangible assets (AOP 007)	-	-	-	Advance payments and intangible assets in preparation are disclosed in the IFRS statement as a single category, while in the GFI POD form they are disclosed as separate categories.
Intangible assets in preparation (AOP 008)	32,156	-	32,156	
Other intangible assets (AOP 009)	20	-	20	
Assets in preparation and advance payments	-	32,176	(32,176)	
Total	**32,176**	**32,176**	**-**	
Tangible assets (AOP 010)	1,527,592	1,395,949	131,643	Investment properties and right-of-use assets are disclosed in the IFRS statement as separate items in accordance with the requirements of IAS 40 and IFRS 16.
Investment properties	-	122,330	(122,330)	
Right-of-use assets	-	9,313	(9,313)	
Total	**1,527,592**	**1,527,592**	**-**	
Advance payments for purchase of tangible assets (AOP 116)	49,643	-	49,643	Advance payments and tangible assets in preparation are disclosed in the IFRS statement as a single category, while in the GFI POD form they are disclosed as separate categories.
Tangible assets in preparation (AOP 017)	84,129	-	84,129	
Assets in preparation and advance payments	-	133,772	(133,772)	
Total	**133,772**	**133,772**	**-**	
Non-current financial assets (AOP 020)	267,123	-	267,123	Non-current financial assets are disclosed in the IFRS statement under investments in associates accounted for using the equity method and other investments, while the difference in the amount of HRK 2,498 thousand pertaining to loans granted, deposits and alike is disclosed as non-current financial assets in the GFI forms and under loans and receivables in the IFRS statement. Receivables disclosed in the GFI form are included under loans and receivables in the IFRS statement.
Receivables (AOP 031)	47,617	-	47,617	
Investments in associates accounted for using the equity method	-	242,032	(242,032)	
Loans and receivables	-	64,513	(64,513)	
Other investments	-	8,195	(8,195)	
Total	**314,740**	**314,740**	**-**	
Non-current assets held for sale (AOP 044)	15,565	-	15,565	Under IFRS 5, non-current tangible assets are recognised in the statement of financial position as a separate, stand-alone item, whereas in the GFI POD form they are recognised under inventories.
Non-current assets held for sale (Note 23)	-	15,565	(15,565)	
Total	**15,565**	**15,565**	**-**	
Receivables (AOP 046)	2,116,478	-	2,116,478	Receivables recognised by the measure of progress in accordance with IFRS 15 are recognised as contract assets, while the same item is recognised as trade receivables in the GFI POD form. Amounts included under receivables and prepaid expenses and accrued income in the GFI form are recognised in the IFRS statement under loans and receivables, receivables for prepaid income tax and contract assets. Loans given in the amount of HRK 498 thousand are included in the GFI form under current financial assets, while in the IFRS statement they are recognised under loans and receivables.
Prepaid expenses and accrued income (AOP 064)	46,595	-	46,595	
Loans and receivables	-	1,652,325	(1,652,325)	
Contract assets	-	505,186	(505,186)	
Prepaid income tax	-	6,060	(6,060)	
Total	**2,163,073**	**2,163,571**	**(498)**	

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

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

STATEMENT OF FINANCIAL POSITION (in HRK 000)	GFI POD	IFRS	Difference	Explanation
Current financial assets (AOP 053)	22,471	-	22,471	Loans given in the amount of HRK 498 thousand are included in the GFI form under current financial assets, while in the IFRS statement they are recognised under loans and receivables.
Current financial assets	-	21,973	(21,973)	
Total	**22,471**	**21,973**	**498**	
Retained earnings or accumulated loss (AOP 083)	443,125	-	443,125	Retained earnings and profit for the year are recognised in the GFI form separately, while in the IFRS statement they are recognised under retained earnings.
Profit or loss for the year (AOP 086)	260,356	-	260,356	
Retained earnings	-	703,481	(703,481)	
Total	**703,481**	**703,481**	**-**	
Provisions (AOP 090)	191,105	-	191,105	Provisions and non-current liabilities are recognised in the GFI form as separate categories, while in the IFRS statement they are recognised under non-current liabilities.
Non-current liabilities (AOP 097)	228,306	-	-	
Non-current liabilities	-	419,411	(419,411)	
Total	**419,411**	**419,411**	**-**	
Liabilities for loans, deposits etc,	350	-	350	The Group recognised long-term loan liabilities and liabilities towards banks under borrowings, while in the GFI POD form, they are recognised under liabilities toward banks and other financial institutions and other non-current liabilities. Long-term loan liabilities are recognised in the GFI form under other financial liabilities.
Liabilities toward banks and other financial institutions (AOP 103)	169,777	-	169,777	
Liabilities for securities	11,606	-	11,606	
Other non-current liabilities (AOP 107)	28,295	-	28,295	
Borrowings	-	197,998	(197,998)	
Other financial liabilities	-	12,030	(12,030)	
Total	**210,028**	**210,028**	**-**	
Current liabilities (AOP 109)	1,958,825	-	1,958,825	GFI form includes a separate category for accrued expenses and deferred income, while in the IFRS statement they are recognised under current provisions, depending on the category for which they meet the recognition criteria. In accordance with IFRS 15, contract liability from contracts with customers and contract liability – advances received from customers are recognised under contract liabilities, while in the GFI POD form they are recognised under advances received/ accrued expenses and deferred income. In addition, current provisions are recognised as a separate item in the IFRS statement, while in the GFI POD form they are recognised under accrued expenses and deferred income. Items under trade payables and other liabilities classified in the GFI form in accordance with corresponding categories are recognised in aggregate in the IFRS statement.
Deferred income and accrued expenses	190,499	-	190,499	
Current liabilities	-	2,149,324	(2,149,324)	
Total	**2,149,324**	**2,149,324**	**-**	

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

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

INCOME STATEMENT (in HRK 000)	GFI POD	IFRS	Difference	Explanation
Staff costs (AOP 013)	918,012	-	918,012	In the IFRS statement, staff costs also include employee benefits recognised in the GFI form under other costs.
Staff costs	-	1,014,964	(1,014,964)	
	918,012	**1,014,964**	**(96,952)**	
Other costs (AOP 018)	319,309	-	319,309	In the IFRS statement, staff costs also include employee benefits recognised in the GFI form under other costs.
Other operating expenses (AOP 029)	16,147	-	16,147	Other operating expenses recognised in the GFI form as a separate category are recognised under other operating costs in the IFRS statement.
Provisions (AOP 022)	10,656	-	10,656	
Other operating expenses	-	249,160	(249,160)	
	346,112	**249,160**	**96,952**	
Share in profit from investments in associates accounted for using the equity method	-	25,245	(25,245)	Shares in profit/loss from associates and share in profit/loss of joint ventures are recognised in the GFI form under separate categories, while in the IFRS statement they are recognised under a single category.
Share in profit of associates (AOP 049)	20,284	-	20,284	
Share in profit of joint ventures (AOP 050)	5,055	-	5,055	
Share in loss of joint ventures (AOP 052)	(94)	-	(94)	
	25,245	**25,245**	**0**	

Statement of Management's responsibilities

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

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

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

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

Management report, Corporate Governance Statement, consolidated financial statement in electronic form in accordance with the ESEF Regulation as well as the attached consolidated financial statements together constitute the Group's Annual Report and were approved and signed by the Management Board on 20 April 2023 for submission to the Supervisory Board and signed below by:

Signed on behalf of Management Board:

Gordan Kolak, President of the Management Board	Ivan Bahun, Deputy President and Member 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	Božidar Poldrugač, Member of the Management Board

Končar d.d. Zagreb
Fallerovo šetalište 22
1

Končar - Electrical Industry Inc., Zagreb
Fallerovo šetalište 22,
10000 Zagreb

KONČAR Group

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of KONČAR - ELECTRICAL INDUSTRY Inc ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2022, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

This version of 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.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td colspan="2">Revenue from customer contracts recognized in profit or loss in 2022 amounts to HRK 5,303,326 thousand (2021: HRK 3,477,453 thousand). Please refer to the significant accounting policies 2.5 Revenue recognition, key accounting estimate 2.27 a) Revenue recognition and note 3 Revenue in the financial statements.</td></tr>
<tr><td>Key audit matter</td><td>How we addressed the matter</td></tr>
<tr><td>The Group's core activities include manufacturing, construction and sales of plant and equipment in the energy and transportation sector as well as related services such as design, engineering and maintenance.

The applicable financial reporting standard governing the accounting for revenues, IFRS 15 Revenue from Contracts with Customers, requires management to exercise judgement in determining an appropriate revenue recognition pattern (point-in-time vs over time) as well as identifying all goods or services provided to customers and if to account for each such good or service as a separate performance obligation.

Where requirements for recognition of revenue over time are met, the Group recognises revenue by reference to the 'progress to complete satisfaction' of the performance obligation which is typically calculated using the 'cost-to-cost' input method measuring the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation. This requires management to make reliable estimates with respect to future costs to completion of a contract and fulfilment of contractual obligations and directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract.</td><td>Our procedures performed in this area included:
• Evaluating the design, implementation of controls over the revenue cycle and evaluating the controls within the information technology (IT) systems that support the recording of revenue;
• Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the revenue standard;
• Assessing the accuracy of contract budgets by analysing historical accuracy of prior year budgets for completed contracts and contracts with significant change in the stage of completion in the current year;
• For a sample of contracts or contract equivalents with key customers in force during the reporting period:
  - challenging the Group's identification of performance obligations included therein;
  - critically assessing the Group's determination of revenue recognition pattern (point-in-time vs over time) for identified performance obligations by reference to the provisions of the contracts and our understanding of the resulting pattern of satisfying related performance obligations;
• based on the results of the above procedures, critically evaluating the revenue amounts recognized by, among other things, inspecting contracts and supporting documents with particular attention paid to amounts recognised at or around the reporting date;</td></tr>
</table>

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Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue recognition (continued)	
Key audit matter	**How we addressed the matter**
As further discussed in note 2.5, revenue is also recognised at a point in time when the performance obligation relevant to the contract is executed and when control over the products and transfers to the customer which is typically upon delivery to the customer. In addition to the above, in relation to its contracts with customers, the Group typically receives advance payments which it accounts for as contract liabilities while goods or services transferred to the customer are recognised as either trade receivables or contract assets depending on whether the Group's right to receive consideration for such goods or services is subject to conditions other than the passage of time. Due to the above factors, accounting for revenues requires management to exercise significant judgment and making complex estimates. The area required our increased attention in the audit and was considered by us to be a key audit matter.	• For a sample of contracts where revenue is recognised over time, evaluating the appropriateness of the estimated 'progress to complete satisfaction' as at year-end by reference to the provisions of the contract and other supporting documents (such as budgets, progress reports and/or surveys of the progress reports); • For a sample of customers, obtaining external confirmations of amounts due as at the reporting date, and inquiring as to the reasons for any significant differences between the amounts confirmed and the Group's accounting records, and inspecting the underlying documentation; • Inspecting journal entries posted to revenue accounts focusing on unusual and irregular items; • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for customer contracts.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Warranty provisions

Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2022 amounted to HRK 167,097 thousand (31 December 2021.: HRK 162,464 thousand). Please refer to the significant accounting policies *2.23 Provisions,* key accounting estimate *2.27 b) Warranty provisions* and note *27 Provisions* in the financial statements.

Key audit matter	How we addressed the matter
The Group's customer arrangements include product warranties given to customers granted for a period ranging from 3 to 5 years from the delivery of products. The product warranties primarily cover expected costs to repair or replace components with defects or functional and/or serial errors as well as financial losses suffered by the Group's customers in connection with unplanned suspension of operations. As stated in note 2.27b), the Group estimates general provisions for product warranties by reference to: historical costs related to product warranties; industry statistics of products failure incidence levels; and market experience from other manufacturers. In addition, where applicable, specific risks attributable to individual customer contracts and related products (as explained in note 2.27b)) are taken into account when assessing the need for additional specific warranty provisions for such individual cases. The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.	Our procedures performed in this area included: • Testing the relevant controls regarding completeness of warranty provisions and how the Group assesses valuation of provisions. • Challenging the assumptions underlying the valuation of provisions by reference to relevant information from customer contracts (such as warranty duration and expiry), available industry information and historical information on costs related to product warranties. • Where specific warranty provisions were recognised in relation to individual customer contracts and related products, assessing the reasonableness of warranty provisions at year-end by: - obtaining an understanding of the nature of the specific provision through interviews with management and project managers; - inspecting relevant customer contracts and warranty terms as well as source documentation such as relevant warranty claims; - inspecting correspondence with customers, where applicable; • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for warranty provisions related to customer contracts.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Business combinations

As at 31 December 2022 the fair value of net assets acquired in business combinations during the year amounted to HRK 499,267 thousand, and the gain on a bargain purchase recognised in profit or loss for the year then ended amounted to HRK 33,277 thousand. Please refer to the significant accounting policies *2.4 Business Combinations* and note *34 Business Combinations* in the financial statements.

Key audit matter	How we addressed the matter

As discussed in the Note 34 *Business combinations*, during 2022, the Group concluded a share purchase agreement for acquisition of controlling stake in one entity. The total purchase price amounted to HRK 155,000 thousand.
 	
With respect to business acquisitions, IFRS 3 *Business combinations* imposes a number of requirements, including those relevant to assessment of control over the acquired entity, determination of the acquisition consideration, identification of assets and liabilities acquired, and measurement and recognition of identifiable assets and liabilities at their acquisition-date fair values.
 	
Complying with the above requirements in the context of the acquisitions required significant judgement and complex assumptions, in particular as regards the following:
- Identification of all of the assets acquired, with main focus on intangible assets (primarily brands), and
- Measurement of brands acquired with respect to which the Group applied the relief from royalty method to determine fair value, with key assumptions such as discount rate, royalty rate, growth rate and terminal growth rate.
 	
As a result, the Group recognized a gain on a bargain purchase of HRK 33,277 thousand mainly as a result of recognition of fair values of tangible assets in the amount of HRK 18,984 thousand and intangible assets with indefinite lives (brands) in the amount of HRK 14,018 thousand.
 	
Due to the above factors, the business combination and valuation of brand, was associated with an increased risk of material misstatement and required our increased attention in the course of the audit, and was considered by us to be a key audit matter.
	Our audit procedures in this area, performed, where relevant, with the assistance from our own valuation specialists, included:
	• evaluating, based on analysis of the purchase agreements as well as the criteria defined in IFRS 10 *Consolidated Financial Statements*, the assessment made by management with regard to the control over entity acquired;
	• assessing the completeness of the assets acquired and liabilities assumed as a result of the acquisitions, based on inspection of the share purchase agreement, our understanding of the acquirees' operations and inspection of the acquirees' accounting records;
	• challenging the recognized acquisition-date fair values of significant assets acquired and liabilities assumed in the acquisition, which included:
	  ○ assessment of the methods and models applied to fair valuations of specific assets and liabilities, by reference to the relevant requirements of the financial reporting standards and market practice;
	  ○ testing the integrity of the model for fair value measurement of brands, including mathematical accuracy, and evaluating the key assumptions applied (such as discount rates, growth rates and royalty rates) for reasonableness compared to both externally derived data and historical financial performance;
	• assessing the accuracy and completeness of the disclosures on the acquisitions made in the notes in the consolidated financial statements against the relevant requirements of the financial reporting standards.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

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

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

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

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

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued9

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 10 June 2022 to audit the consolidated financial statements of KONČAR - ELECTRICAL INDUSTRY Inc for the year ended 31 December 2022. Our total uninterrupted period of engagement is three years, covering the years ending 31 December 2022, 31 December 2021 and 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 19 April 2023;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

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.

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on Other Legal and Regulatory Requirements (continued)

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the consolidated financial statements of the Group as at and for the year ended 31 December 2022, as included in the attached electronic file "74780000H0SHMRAW0I15-2022-12-31-en.zip", with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

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

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

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

Auditors' Responsibilities

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

Independent Auditor's Report to the Shareholders of KONČAR – ELECTRICAL INDUSTRY Inc (continued)

Report on Other Legal and Regulatory Requirements (continued)

Report on Compliance with the ESEF Regulation (continued)

Work performed

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

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

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

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

Conclusion

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

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

KPMG

KPMG Croatia d.o.o. za reviziju **20 April 2023**
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

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.

KONČAR Group

Consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 HRK'000	2021 HRK'000
Sales revenue	3	5,303,326	3,477,453
Bargain purchase	34	33,277	-
Other operating income	4	127,867	76,805
		5,464,470	**3,554,258**
Change in inventory of work in progress and finished goods		109,776	32,604
Raw materials, products, consumables and services used	5	(3,760,414)	(2,379,382)
Staff costs	6	(1,014,964)	(729,606)
Depreciation and amortisation	13,14,15	(127,381)	(97,285)
Impairment losses	7	(46,250)	(44,862)
Other operating expenses	8	(249,160)	(141,735)
		(5,088,393)	**(3,360,266)**
Operating profit		**376,077**	**193,992**
Finance income		15,640	9,196
Finance expenses		(13,438)	(4,134)
Net finance income	9	**2,202**	**5,062**
Share in profit of equity accounted investees	16	**25,245**	**38,856**
Profit before tax		**403,524**	**237,910**
Income tax	10	(33,369)	(26,519)
Net profit for the period		**370,155**	**211,391**
Profit is attributable to			
Owners of the Company		260,356	163,945
Non-controlling interests		109,799	47,446
Earnings per share			
Basic and diluted earnings per share	11	102,27	64,41

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 HRK'000	2021 HRK'000
PROFIT FOR THE PERIOD		**370,155**	**211,391**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(49)	65
COMPREHENSIVE INCOME FOR THE YEAR		**370,106**	**211,456**
Comprehensive income for the period attributable to:			
Owners of the Company		260,349	163,979
Non-controlling interest		109,757	47,477

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	31 Dec 2022 HRK'000	31 Dec 2021 HRK'000
ASSETS			
Goodwill	12	8,559	7,342
Intangible assets	13	80,309	42,939
Property, plant and equipment	14	1,395,949	1,005,669
Right of use assets		9,313	7,162
Investment property	15	122,330	115,293
Investments in equity accounted investees	16	242,032	257,299
Other investments	17	8,195	15,716
Loans and receivables	18	64,513	17,242
Deferred tax assets		46,914	34,223
Non-current assets		**1,978,114**	**1,502,885**
Inventories	19	1,427,466	934,149
Loans and receivables	20	1,652,325	1,014,248
Contract assets	21	505,186	212,209
Prepaid income tax		6,060	5,361
Financial assets	22	21,973	301,685
Cash and cash equivalents	23	431,446	423,831
Assets held for sale	24	15,565	52,936
Current assets		**4,060,021**	**2,944,419**
TOTAL ASSETS		**6,038,135**	**4,447,304**
EQUITY AND LIABILITIES			
Share capital		1,208,896	1,208,896
Capital reserves		720	720
Other reserves		842,771	805,485
Retained earnings		703,481	513,130
Attributable to owners of the Company	25	2,755,868	2,528,231
Non-controlling interests	26	713,532	315,411
EQUITY AND RESERVES		**3,469,400**	**2,843,642**
Borrowings	28	197,998	104,490
Warranty provisions	27	122,830	119,187
Other provisions	27	68,275	59,474
Other financial liabilities		12,030	424
Deferred tax liabilities		18,278	-
Non-current liabilities		**419,411**	**283,575**
Borrowings	28	405,876	200,724
Other financial liabilities	29	34,867	-
Trade and other payables	30	1,180,213	719,671
Contract liabilities	21	427,935	346,871
Warranty provisions	27	44,266	43,277
Income tax liabilities		43,820	7,878
Other provisions	27	12,347	1,666
Current liabilities		**2,149,324**	**1,320,087**
Total liabilities		**2,568,735**	**1,603,662**
TOTAL EQUITY AND LIABILITIES		**6,038,135**	**4,447,304**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 HRK'000	2021 HRK'000
Cash flows from operating activities			
Proceeds from trade receivables		4,777,481	3,395,452
Proceeds from insurance reimbursements		3,527	5,758
Proceeds from tax returns		212,926	110,750
Payments to suppliers		(4,034,816)	(2,726,907)
Payments for employees		(948,525)	(670,968)
Cash payments to insurance companies		(22,155)	(16,431)
Taxes paid		(140,333)	(114,046)
Other cash payments		(71,765)	(60,654)
Cash from operations		**(223,660)**	**(77,046)**
Interest paid		(6,416)	(3,780)
Income tax paid		(32,156)	(19,967)
Net cash flows from operating activities		**(262,232)**	**(100,793)**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		21,183	14,660
Proceeds from collection of receivables		2,865	3,047
Proceeds from return on investments		-	33,621
Interest received		12,763	6,502
Dividends received		39,169	26,217
Proceeds from repayment of term deposits and other investing activities		120,534	63,679
Proceeds from other investing activities		114,023	-
Net proceeds from the acquisition of subsidiary		89,344	-
Purchase of non-current tangible and intangible assets	13, 14	(164,733)	(72,041)
Acquisition of additional interest in subsidiaries		(1,628)	(12,923)
Cash used for term deposits and other investing activities		(19,692)	(108,602)
Expenses for buying-in receivables		-	(60,253)
Expenses for recapitalisation of Dalekovod		-	(155,000)
Net cash flows from investing activities		**213,828**	**(261,093)**
Cash flows from financing activities			
Proceeds from borrowings	28	426,034	158,984
Proceeds from increase in share capital		470	-
Other cash inflow from financing activities		6,214	1,505
Repayments of borrowings	28	(173,064)	(82,456)
Dividends paid		(54,067)	(31,691)
Other outflow cash from financing activities		(149,568)	(4,372)
Net cash flow from financing activities		**56,019**	**41,970**
Net increase in cash flows		**7,615**	**(319,916)**
Cash and cash equivalents at beginning of the period		423,831	743,747
Cash and cash equivalents at end of year	23	**431,446**	**423,831**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

(in HRK thousand)	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Non-controlling interest	Total
As at 1 January 2021	**1,208,896**	**720**	**758,990**	**34,518**	**(15,871)**	**393,286**	**289,981**	**2,670,520**
Profit for the year	-	-	-	-	-	163,945	47,446	**211,391**
Other comprehensive income								
Translation reserves	-	-	34	-	-	-	31	**65**
Total comprehensive income	-	-	*34*	-	-	*163,945*	*47,477*	***211,456***
Transactions with owners								
Transfers	-	-	27,814	-	-	(27,814)	-	**-**
Dividends paid	-	-	-	-	-	(14,764)	(16,978)	**(31,742)**
Effect of sales / acquisitions of subsidiaries	-	-	-	-	-	(1,523)	(5,069)	**(6,592)**
	-	-	27,814	-	-	(44,101)	(22,047)	**(38,334)**
As at 31 December 2021	**1,208,896**	**720**	**786,838**	**34,518**	**(15,871)**	**513,130**	**315,411**	**2,843,642**
Profit for the year	-	-	-	-	-	260,356	109,799	**370,155**
Other comprehensive income								
Translation reserves	-	-	(7)	-	-	-	(42)	**(49)**
Total comprehensive income	-	-	*(7)*	-	-	*260,356*	*109,757*	***370,106***
Transactions with owners								
Transfers	-	-	37,574	(411)	411	(37,574)	-	**-**
Dividends paid	-	-	-	-	-	(33,091)	(21,045)	**(54,136)**
Effect of sales / acquisitions of subsidiaries	-	-	(281)	-	-	660	309,409	**309,788**
	-	-	*37,293*	*(411)*	*411*	*(70,005)*	*288,364*	***255,652***
As at 31 December 2022	**1,208,896**	**720**	**824,124**	**34,107**	**(15,460)**	**703,481**	**713,532**	**3,469,400**

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

1 General information on the Group

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

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

Group structure

The Group comprises 11 subsidiaries involved in core business activities and 3 subsidiaries with special activities, specifically research and development of products and infrastructural services and investments and companies controlled by subsidiaries including companies of the Dalekovod Group. Associates and joint ventures are shown in note 16.

The Group's Parent company is Končar - Electrical Industry Inc., (OIB: 45050126417), Zagreb, Fallerovo šetalište 22 (hereinafter: the "Company"). The company was founded in Zagreb, Croatia.

The Company is a holding company of all companies in its ownership.

Number of employees

As at 31 December 2022, the Group had 4,826 employees, while as at 31 December 2021 the Group had 3,640 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
Božidar Poldrugač	Member of the Management Board

The auditors of financial report of the Company and related companies provided services amounting to HRK 2,009 thousand in 2022. Services in 2022 mainly relate to audit and review costs of financial reports and audits of financial reports prepared for regulatory purposes as well as permissible non-audit services related to financial advisory.

Compensations to members of the Management Board and Supervisory Board are presented in note 33 to the financial statements.

The financial statements are presented in HRK thousands (HRK '000). The stated amounts are rounded to the nearest HRK thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

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

The Group's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Group.

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods ending 31 December 2022 and that have not been early adopted by the Group in the preparation of these financial statements.

Management does not expect any of these standards to have a significant impact on the financial statements of the Group.

2.2 Basis for consolidation

The consolidated financial statements of the Group include the financial statements of the Parent company and the financial statements of the companies controlled by the Parent company (subsidiaries). The Group controls an entity when the group 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.

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

All intra--group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Significant accounting policies (continued)

2.2 Basis for consolidation (continued)

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries/loss of control over subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

2.3 Investments in associates and joint ventures

Associates

Associated companies are companies in which the Group has between 20% and 50% of voting power and in which the Group has significant influence, but not control. In the consolidated financial statements investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Dividends received or receivable from associates are deducted from the carrying value of the investment.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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

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

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

2 Significant accounting policies (continued)

2.3 Investments in associates and joint ventures (continued)

Joint arrangements

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

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

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

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

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

2.4 Business combinations

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

Goodwill

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

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

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

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

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

2 Significant accounting policies (continued)

2.5 Revenue recognition

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

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

- Revenue from sale of products, equipment and machinery

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

With respect to the manufacturing and sale of products such as transformers, small motors and small generators, revenue is generally recognized at a point in time when control of goods passes to the buyer, usually after the delivery of the goods. Invoices are issued at that time and are usually paid within the deadlines defined by the contractual provisions. When one of the parties to the contract with the customer fulfils its obligation, the contracts with the customers are presented in the statement of financial position as a contractual obligation, contractual assets or as a receivable, depending on the relationship between the Group's performance and the customer's payment. Contractual assets and liabilities are stated as current, as they arose within the normal operating period.

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

- Revenue from the sale of rail vehicles and related services

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

2 Significant accounting policies (continued)

2.5 Revenue recognition (continued)

- Revenue from construction projects

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

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

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

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

- Sales of services

The Group generates revenue from services such as engineering, design and maintenance which may be contracted for separately or within a wider customer arrangement. When such services are included as a component of a customer contract (in case of contracts for construction of plants or complex products), they are typically treated as a separate performance obligation. Revenue from these services is generally recognised over time on a straight-line basis or as services are rendered, i.e. according to the measurement of expenses incurred up to a certain date in relation to the total expected costs required for the performance of the contract obligations as described in the previous section.

Contract assets and liabilities

A contract liability is recognised when the customer has paid a consideration and the Company has not fulfilled its contractual obligation by transferring goods or services. If the Company has transferred goods or services to the customer before the consideration is paid by the customer and the right to the consideration is only subject to the passage of time before the payment of the consideration is due, a trade receivable is recognised. Contract assets are recognised if the right to consideration is subject to a condition (for example, performance of another obligation).

2.6 Finance income and costs

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

2 Significant accounting policies (continued)

2.6 Finance income and costs (continued)

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

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

2.7 Borrowing costs

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

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

2.8 Foreign currency transactions

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

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

2.9 Income tax

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

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

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

Current and deferred tax are recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.10 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares. Diluted earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares and potential shares arising from realised options.

2 Significant accounting policies (continued)

2.11 Segment information

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

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

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

There were no changes in the valuation methods used when determining the profit/loss of an operating segment compared to previous periods.

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

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

Non-current intangible and tangible assets are recognised if it is probable that future economic benefits associated with the item will flow to the Group, if the cost of the asset can be reliably measured, and when the cost is higher than HRK 3,500.

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

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

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

The amortisation and depreciation of assets commence when the assets are ready for use, i.e. when the assets are at the required location and the conditions necessary for use have been met. The amortisation and depreciation of assets ceases when the assets are fully expensed or classified as held for sale.

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

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

2 Significant accounting policies (continued)

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

Impairment of property, plant and equipment

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

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

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

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

2.13 Investment property

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

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

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

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

2 Significant accounting policies (continued)

2.14 Financial assets and liabilities

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial asset or equity instrument of another entity.

Classification and measurement of financial assets
Financial assets are classified into three categories, depending on the selected business model for managing financial assets and the cash flow characteristics of the asset as follows:
- financial assets carried at amortised cost,
- financial assets at fair value through other comprehensive income and
- financial assets at fair value through profit or loss.

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

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, when it has transferred the financial asset and substantially all the risks and rewards of ownership of this asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and financial liability for the proceeds received.

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

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

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

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

At each reporting date, the Group recognises impairment allowances for financial assets (except at fair value through profit or loss) using the expected credit loss model.
Expected credit losses are estimated on an individual or a portfolio basis in a way that reflects:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money and
- reasonable and supportable information that is available (without undue cost and effort) about past events, current conditions and forecasts of future conditions and circumstances.

2 Significant accounting policies (continued)

2.14 Financial assets and liabilities (continued)

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

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

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when assessing credit loss, a general impairment approach is applied consisting of three stages: Stage 1, Stage 2 and Stage 3.
- Stage 1 - when determining the impairment of financial assets, a 12-month expected credit loss model is applied. This model applies if there is no significant increase in credit risk.
- Stage 2 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk.
- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

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

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

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

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.

2 Significant accounting policies (continued)

2.14 Financial assets and liabilities (continued)

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

The amount paid for the repurchase of the share capital, including direct costs related to the repurchase, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. The purchase of treasury shares is recorded at cost, and the sale of treasury shares at the negotiated prices. The gain or loss from the sale of treasury shares is recognised directly in equity.

Financial guarantee contracts
A financial guarantee contract is a financial liability measured initially at fair value and subsequently measured at the higher of:
- the amount determined under the expected credit loss model in accordance with IFRS 9 and
- the amount initially recognised less, where appropriate, the cumulative effect recognised in accordance with the revenue recognition policies.

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

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

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

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

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

2 Significant accounting policies (continued)

2.15 Non-current assets held for sale

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

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

2.16 Inventories

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

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

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

Slow-moving and obsolete inventories are written off to its net realisable value by using value adjustment for these inventories. Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

2.17 Receivables

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

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

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

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

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

2 Significant accounting policies (continued)

2.18 Cash and cash equivalents

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

2.19 Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade 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.

2.20 Borrowings

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

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

2.21 Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognized as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

The right-of-use assets are presented separately in the statement of financial position.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

Each lease payment is allocated between the liability and the finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

2 Significant accounting policies (continued)

2.21 Leases (continued)

Right-of-use assets are measured initially at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortization periods for the right-of-use assets are as follows:

- right of use for the vehicles	2 - 5 years
- right of use commercial buildings	5 years
- right of use for land	3 years

For a contract that contains a lease component and one or more additional lease or non-lease components, the consideration in the contract is allocated to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. Non-lease components are accounted for applying other applicable accounting policies.

Payments associated with all short-term leases and certain leases of all low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognized with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognized as an expense on a straight-line basis over the lease term.

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

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

The weighted average marginal lending rate used to measure lease liabilities is 1.4% to 5.2%.

Lease activities

The Group leases various properties cars, other small equipment (e.g. printers). Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights). The main lease features are summarized below:
- Cars are leased for a fixed period of 4 – 5 years
- A building facility is rented for a specified period of 5 years with the possibility of renewing the contract. The lease payments are fixed
- The land is rented for a certain period of 3 years with the possibility of renewing the contract. The lease payments are fixed.

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

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

The Group does not provide any residual value guarantees.

2 Significant accounting policies (continued)

2.22 Government grants

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

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

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

2.23 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

2.24 Employee benefits

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

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

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

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

2 Significant accounting policies (continued)

2.24 Employee benefits (continued)

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

2.25 Contingent assets and liabilities

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

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

2.26 Events after the balance sheet date (subsequent events)

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

2.27 Key accounting estimates and judgments

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

a) Revenue recognition

The Group recognises revenue both over time and at a point in time, depending on the specifics of a customer arrangement as described in accounting policy 2.5. When recognising revenue over time, the method of measuring progress highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments. The Group has determined the input method as the best method for measuring progress in providing services because there is a direct link between Group effort (total project costs incurred) and the transfer of services to the customer. If revenue is recognised over time, this is done by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations.

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

2 Significant accounting policies (continued)

2.27 Key accounting estimates and judgments (continued)

- Extended warranties

As part of its customer arrangements, the Group typically provides warranties for its products/projects performed for a period of 2 – 5 years. However, certain customer arrangements may include warranty periods which exceed those typically granted by the Group which is primarily related to contracts with customers in geographies where longer warranty periods are standard market practice. The Group nevertheless analyses contracts in which a warranty period significantly exceeds the typical warranty duration and assesses whether such warranties represent a separate performance obligation. As a result of its assessment, the Group did not identify significant contracts with extended warranties.

- Significant financing component

In certain contracts, the Group may agree to sell the equipment whose production may last longer than one year after the signing of the contract. Given the fact that the Group typically receives advances from customers, the period between payment by the customer and the transfer of the products to the customer may be longer than one year. In such cases, which are considered outliers, the amount received as an advance is considered a discounted transaction price. The Group analysed its contracts with customers and noted that the performance obligation in a majority of the Group's customer contracts is satisfied within one year. As a result, the Group did not identify contracts with a significant financing component.

b) Warranty provisions

The Group provides warranties for its products and completed projects for an average period of 2 - 5 years. In certain cases where warranties extend past this range, the Group analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a general provision for warranty repairs based on historical information and industry statistics (such as those related to incidence of major failure of certain equipment, primarily transformers and generators). Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances. Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of products as a result of technical analyses and correspondence with customers. Factors which affect these individual provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs.

c) Provisions for onerous contracts

During the first quarter of 2021, an accelerated rise in prices is recorded in the world market for all strategic materials used in the production of transformers. This growth continued throughout 2022. The causes of the growth are imbalances created as a result of the opening of the world economy after the contraction caused by the COVID-19 pandemic, the green transition policy (especially in the EU) that further stimulates demand, and the increase in demand in China. Additional complications were triggered by disruptions in supply chains, which hampered the procurement of inputs in production, which further affected the rise in prices of incoming raw materials. High inflation continued through 2022 and was further fuelled by Russia's aggression against Ukraine. In order to amortize the negative consequences of these inflationary trends, the Group initiated appropriate activities towards customers. However, a number of contracts with customers signed in earlier periods remained, which did not have a built-in mechanisms for anticipating significant fluctuations in the prices of strategic raw materials through the, so-called, sliding formulas. In some of these contracts, the consent to participate in covering the cost of material growth by the customer was either not obtained or the adjustment achieved was insufficient to make the contracted revenue higher than the projected cost of fulfilling the contract. Recognition of the adverse effects of these contracts as required by IAS 37 is presented in Note 8.

2 Significant accounting policies (continued)

2.27 Key accounting estimates and judgments (continued)

d) Recoverability of non-financial assets

At the end of each reporting period, the Group assesses whether there are any indications that the value of non-financial assets should be impaired and estimates the recoverable amount of non-financial assets.

The impairment is based on many factors such as change in expected industry growth, increase in capital expense, changes in market conditions, changes in future funding possibilities, technological obsolescence, termination of provision of services or sale of goods, exchange costs, amounts paid in comparable transactions and other changes in circumstances that indicate the existence of impairment.

The calculation of fair value less selling costs is based on the data available from related arm's length transactions for similar assets or observable market prices less any additional costs of asset disposal. The calculation of value in use is based on the discounted cash model, which is derived from the medium-term financial plan, and after that planning period they are extrapolated by using appropriate growth rates. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflow and the rate used to extrapolate the data.

2 Significant accounting policies (continued)
2.28 Subsidiaries:

	31 December 2022	31 December 2021
	Voting rights (%)	Voting rights (%)
Consolidated subsidiaries registered in Croatia:		
Končar - Motors and Electrical Systems Ltd, Zagreb	100.00	100.00
Končar - Engineering Co. Ltd for production and services, Zagreb	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	100.00	100.00
Končar - Electrical Engineering Institute Ltd, Zagreb	100.00	100.00
Končar - Generators and Motors Ltd, Zagreb	100.00	100.00
Končar - Steel Structures Ltd, Zagreb	100.00	100.00
Končar - Switchgear Ltd	100.00	100.00
Končar - Renewable Energy Sources Ltd., Zagreb	100.00	100.00
Direct ownership	*91.25*	*91.25*
Indirect ownership	*8.75*	*8.75*
Končar - Electric Vehicles Inc., Zagreb	75.04	75.04
Končar - Electronics and Informatics Inc., Zagreb	100.00	97.64
Končar - Instrument Transformers Inc., Zagreb	99.77	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	67.90	67.90
Končar – Investments Ltd, Zagreb	100.00	100.00
Končar – Digital Ltd, Zagreb	100.00	100.00
Indirectly owned companies in Croatia that consolidate:		
Advanced Energy Solutions Ltd., Zagreb *(Indirect ownership through Končar – Investments Ltd)*	51.00	51.00
Dalekovod Inc, Zagreb *(Indirect ownership through Advanced Energy Solutions Ltd)*	38.33	-
Production MK Ltd., Velika Gorica *(Indirect ownership through Dalekovod Inc)*	38.33	-
Production OSO Ltd., Velika Gorica *(Indirect ownership through Dalekovod Inc)*	38.33	-
Dalekovod Project Ltd., Zagreb *(Indirect ownership through Dalekovod Inc)*	38.33	-
Dalekovod EMU Ltd., Vela Luka *(Indirect ownership through Dalekovod Inc)*	38.33	-
EL-RA Ltd., Vela Luka *(Indirect ownership through Dalekovod Inc)*	38.33	-
Dalekovod Adria Ltd., Zagreb (Indirect ownership through Dalekovod Inc)	38.33	-
Zinc plating service Ltd in liquidation, Velika Gorica *(Indirect ownership through Dalekovod Inc)*	38.33	-
Windfirm Rust Ltd., *(Indirect ownership through Končar - Renewable Energy Sources Ltd)*	100.00	100.00
Solar power plant Landfill phosphogipsa Ltd., Zagreb *(Indirect ownership through Končar - Renewable Energy Sources Ltd)*	51.00	-
Indirectly owned companies registered outside Croatia that consolidate:		
Power Engineering Transformatory Sp. z o.o. (PET), Poznan, Poland	67.90	67.90
(Indirect ownership through subsidiary Končar - Distribution and Special Transformers Inc.)	38.33	-
Dalekovod Mostar Ltd., Mostar, BIH *(Indirect ownership through Dalekovod Inc)*	38.33	-
Dalekovod Ljubljana Ltd., Ljubljana, Slovenija (Indirect ownership through Dalekovod Inc)	38.33	-
Dalekovod Norge AS, Oslo, Norveška *(Indirect ownership through Dalekovod Inc)*	38.33	-
Dalekovod Ukrajina Ltd., Kijev, Ukrajina *(Indirect ownership through Dalekovod Inc)*		
Non-consolidated subsidiaries due to immateriality		
Konell Ltd., Sofia, Bulgaria *(Indirect ownership through Končar – Electric Vehicles Inc)*	85.00	85.00

2 Significant accounting policies (continued)

2.28 Subsidiaries (continued)

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

	31 December 2022	**31 December 2021**
	Ownership share (%)	Ownership share (%)
Končar - Instrument Transformers Inc., Zagreb	61.97	61.97
Končar - Distribution and Special Transformers Inc., Zagreb	52.73	52.73

On April 1, 2022, the Group acquired control over Dalekovod group. Details are shown in note 32.

During 2022, by the decision of the Assembly of Končar - Electronics and Informatics Inc., the company was transformed from Inc. into a limited liability company.

On 31 May 2022, a part of Končar - Electronics and Informatics Inc.'s business was transferred and merged to Končar – Digital Ltd.

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

3 Sales revenue

	2022 HRK'000	2021 HRK'000
Major products/service lines		
Production of electricity	**506,834**	**433,014**
Transmission and distribution of electricity	**3,543,128**	**2,302,273**
- transmission	1,403,272	732,460
- distribution	2,139,856	1,569,813
Rail vehicles and railway infrastructure	**746,014**	**526,114**
- Rail vehicles	627,950	476,584
- construction and modernization of railway infrastructure	118,064	49,530
Digital solutions	**38,759**	**26,985**
Total reportable segments	**4,834,735**	**3,288,387**
Other	468,591	189,066
Revenue from contract with customers	**5,303,326**	**3,477,453**
Related parties	123,804	96,792
Unrelated parties	5,179,522	3,380,661
Revenue from contract with customers	**5,303,326**	**3,477,453**
Timing of revenue recognition		
Point in time	3,791,210	2,348,658
Over time recognition	1,512,116	1,128,795
Revenue from contract with customers	**5,303,326**	**3,477,453**

Revenue by regions:

	2022		2021	
	HRK'000	%	HRK'000	%
Croatia	**2,059,402**	**38.80%**	**1,414,720**	**40.70%**
Other countries in the European Union	2,359,650	44.50%	1,593,342	45.80%
	4,419,052	**83.30%**	**3,008,062**	**86.50%**
Asia and Africa	221,993	4.20%	159,877	4.60%
Neighboring countries	129,768	2.40%	100,502	2.90%
America and Australia	142,545	2.70%	80,236	2.30%
Europe countries not part of European Union	389,968	7.40%	128,776	3.70%
	884,274	**16.70%**	**469,391**	**13.50%**
	5,303,326	**100.00%**	**3,477,453**	**100.00%**

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

4 Other operating income

	2022 HRK'000	2021 HRK'000
Revenues from project co-financing	13,193	17,114
Profit from the sale of property	11,971	10,801
Proceeds from litigation outcomes	-	8,877
Compensation for damages	5,744	7,020
Revenue from subsequent use of inventories	5,091	5,306
Collected written-off receivables	2,104	4,338
Sales of materials	6,776	2,857
Government grants	3,880	2,854
Rental income	4,393	2,293
Subsequent discounts, rebates	1,534	1,560
Inventory surplus	1,559	1,248
Unrealized gains	-	1,170
Other /i/	71,622	11,367
	127,867	**76,805**

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

5 Raw materials, products, consumables and services used

	2022 HRK'000	2021 HRK'000
Cost of raw materials and supplies	2,948,333	1,970,304
External product design and selling services	297,903	129,286
Cost of goods sold	180,894	58,984
Energy cost	67,129	37,719
Maintenance services (servicing)	44,982	37,222
Freight forwarding	106,009	81,194
Agent commission costs	23,323	21,432
Other external costs	91,841	43,241
	3,760,414	**2,379,382**

6 Staff costs

	2022 HRK'000	2021 HRK'000
Net salaries and wages	583,236	410,299
Taxes and contributions from salaries	223,286	173,006
Contributions on salaries	111,490	90,101
Reimbursements of costs to employees, gifts and support	91,147	51,296
Compensations to members of the Supervisory Board (gross)	3,580	2,946
Voluntary pension funds	2,225	1,958
	1,014,964	**729,606**

In 2022, pension fund contributions amounted to HRK 164,792 thousand (2021: HRK 108,042 thousand).

During 2022 termination benefits and severances amounted to HRK 2,580 thousand (2021: HRK 4,075 thousand).

Average number of employees during 2022 was 4,820 (2021: 3,586 employees).

During the year, the Group capitalized salaries in the total amount of HRK 10,809 thousand (2021: HRK 7,171 thousand) (net salaries and wages in the amount of HRK 6,334 thousand (2021: HRK 4,300 thousand), taxes, surcharges and contributions from salaries in the amount of HRK 3,099 thousand (2021: HRK 1,900 thousand) and salary contributions in the amount of HRK 1,376 thousand (2021: HRK 971 thousand)).

7 Impairment losses

	2022 HRK'000	2021 HRK'000
Impairment losses on non-financial assets:		
Impairment losses on non-current assets:		
Impairment losses on property, plant and equipment	4,961	21,528
Impairment losses on intangible assets	-	988
Impairment losses on other investments	-	34
Impairment losses on current assets:		
Impairment of inventories	25,408	14,200
	30,369	**36,750**
Impairment losses on financial assets	**15,881**	**8,112**
Total impairment losses	**46,250**	**44,862**

Impairment losses on property, plant and equipment in 2021 relate to impairment loss for the assets that constitute the wind farm owned by the subsidiary Končar – Renewable Energy Sources Ltd.

8 Other operating expenses

	2022 HRK'000	2021 HRK'000
Daily allowances for business trips and travel expenses	54,027	40,237
Net release of provisions (note 27)	10,656	(11,481)
Intellectual and similar services	30,593	20,209
Insurance premiums	24,108	16,438
Bank charges and payment transactions	18,388	11,746
Entertainment	17,099	9,969
Professional training costs	7,414	3,758
Compensations for temporary service contracts and fees	6,576	3,755
Contributions, membership fees and similar charges	5,841	3,581
Non-production related services	24,305	14,007
Sponsorships and donations	2,531	1,952
Taxes irrespective of result and fees	4,104	2,798
Accrued expenses	3,297	6,123
Other costs	40,221	18,643
	249,160	**141,735**

9 Net financial result

	2022 HRK'000	2021 HRK'000
Finance income		
Interest income	5,340	6,603
Net foreign exchange gains	6,258	1,006
Income from dividends and shares in profit	2,113	203
Other finance income	1,755	1,248
Unrealised gains (income)	174	136
	15,640	**9,196**
Finance cost		
Interest expense	13,022	3,999
Other finance costs	297	122
Impairment losses on non-current financial assets	119	13
	13,438	**4,134**
Net financial result	**2,202**	**5,062**

10 Income tax

	2022 HRK'000	2021 HRK'000
Current tax	39,162	23,232
Deferred tax	(5,794)	3,287
Income tax expense	**33,368**	**26,519**

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

	2022 HRK'000	2021 HRK'000
Consolidated profit before tax	403,523	237,910
Tax at applicable tax rate of 18%	**71,213**	**42,824**
Additional tax	**7,895**	**-**
Tax effect:		
Non-deductible expenses	20,744	13,457
Income not subject to tax	(24,041)	(19,361)
Utilisation of previously unrecognised tax losses	(4,286)	(2,029)
Tax losses for which no deferred tax asset is recognised	697	6,280
Change in recognised temporary differences	(6,615)	(11,752)
Recognition of deferred tax asset on investment tax credit	(5,918)	-
Income tax paid abroad	239	223
Investment tax credit utilisation	(26,560)	(3,123)
Income tax	**33,368**	**26,519**

Investment incentives

Investment incentives relate mainly to an investment tax credit obtained by Končar - Distribution and Special Transformers Inc. and the investment tax credit obtained by the company Končar - Electrical Engineering Institute Ltd.

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

10 Income tax (continued)

Investment incentives (continued)

Pursuant to the Investment Promotion Act, the company Končar – Electrical Engineering Institute received the status of beneficiary of investment support related to the "LAVESP" project. The Company was thus granted the use of incentive measures as support for eligible costs of job creation related to the investment project and tax benefits for capital costs of the investment project in the allowed amount of tax relief for investments of HRK 13,025 thousand. For this amount, the company has the option of reducing future income tax liabilities on the basis of income tax for the years ended 31 December 2030 to a maximum amount of reduction of the tax rate of 100% per annum. The Company recognized the entire amount of the approved relief as deferred tax assets and tax income, of which HRK 2,183 thousand has already been used to reduce the tax liability for the current year.

Končar – Metal Construction Ltd. has the status of beneficiary of the grant under the Investment Promotion Act, according to which it has the right to reduce the corporate income tax rate by 100% from the statutory income tax rate in the period up to 2025. The remaining amount of the unused relief as at 31 December 2022 is HRK 3,231 thousand.

Tax losses carried forward

The Group can carry forward tax losses for companies which incurred losses in 2022 and are not subject to taxation and for subsidiaries that realised a profit in 2022 but are not subject to taxation due to tax losses carried forward from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income within the following 5-year period. As at 31 December 2022, unrecognised deferred tax assets on tax losses carried forward amount to HRK 59,202 thousand (31 December 2021: HRK 24,225 thousand). Tax losses relate to Group entities for which it was assessed that there will not be sufficient future taxable profits to utilise these losses.

Gross tax losses expire as follows:

	31 December 2022 HRK'000	**31 December 2021 HRK'000**
Within 1 year	100,168	22,595
Within 2 years	44,692	11,887
Within 3 years	88,823	26,902
Within 4 years	53,651	49,165
Within 5 years	57,585	25,060
	344,919	**135,609**

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

10 Income tax (continued)

Parts and movements of deferred tax assets and liabilities are as follows:

Deferred tax asset:	31 December 2022 HRK'000	Recognized in PnL HRK'000	Recognized through OCI HRK'000	Acquired through business combinations HRK'000	31 December 2021 HRK'000	Recognized in PnL HRK'000	31 December 2020 HRK'000
Impairment of receivables	582	113	-	-	469	469	-
Impairment of fixed assets	443	-	-	-	443	-	443
Impairment of inventory	6,348	4,336	-	-	2,012	-	2,012
Tax losses carried forward	3,888	(172)	-	-	4,060	438	3,622
Non-deductible provisions	1,439	1,439	-	-	-	-	-
Unused amount of relief under the Investment Promotion Act	19,565	5,406	-	-	14,159	(4,404)	18,563
Unrealised profits	13,504	1,779	-	-	11,724	180	11,544
Other	1,145	(211)	-	-	1,356	187	1,169
Deferred tax asset	**46,914**	**12,690**	**-**	**-**	**34,223**	**(3,130)**	**37,353**

Deferred tax liability:	31 December 2022 HRK'000	Recognized in PnL HRK'000	Recognized through OCI HRK'000	Acquired through business combinations HRK'000	31 December 2021 HRK'000	Recognized in PnL HRK'000	31 December 2020 HRK'000
Business combinations	10,593	-	-	10,593	-	-	-
Other	1,108	-	1,108	-	-	-	-
Deferred tax liability	**11,701**	**-**	**1,108**	**10,593**	**-**	**-**	**-**

11 Earnings per share

	2022	2021
Profit for the year attributable to the owners (HRK'000)	260,356	163,954
Weighted average number of shares	2,545,739	2,545,449
Basic and diluted earnings per share (HRK)	**102.27**	**64.41**

Diluted earnings per share for 2022 and 2021 are the same as basic since the Group had no convertible instruments or options outstanding during either period.

Weighted average number of shares is as follows:

	2022	2021
Issued ordinary shares at 1 January	2,572,119	2,572,119
Effect of treasury shares held	(26,380)	(26,670)
Average number of shares	**2,545,739**	**2,545,449**

12 Goodwill

Goodwill was recognised in the course of gaining control over the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc. and Končar - Instrument Transformers Inc. and Solar power plant Landfill Phosphogips Ltd.

Goodwill recognized per each company amounts to:

	HRK'000
Končar - Instrument Transformers Inc.	1,184
Končar - Distribution and Special Transformers Inc	6,090
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	68
Dalekovod Group	1,213
Solar power plant Landfill Phosphogips Ltd	4
At 31 December 2022	**8,559**

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

13 Intangible assets

Cost	Development expenditure HRK'000	Concessions, patents, licences, software etc. HRK'000	Brand HRK'000	Other HRK'000	Assets under construction and advances HRK'000	Total HRK'000
At 1 January 2021	127,479	51,885	-	1,507	7,782	188,653
Transfer from property, plant and equipment	-	749	-	-	-	749
Additions	-	660	-	-	15,636	16,296
Transfer from assets under construction	8,897	5,015	-	1	(13,913)	-
Write-off	-	-	-	-	(1,319)	(1,319)
Disposals	-	(214)	-	-	(145)	(359)
At 31 December 2021	**136,376**	**58,095**	**-**	**1,508**	**8,041**	**204,020**
Transfer from property, plant and equipment	-	-	-	-	-	-
The effect of acquisition of subsidiaries	-	1,931	14,018	-	-	15,949
Additions	409	336	-	-	35,321	36,066
Transfer from assets under construction	6,472	2,873	-	-	(9,346)	(1)
Disposals	-	(1,409)	-	-	344	(1,065)
At 31 December 2022	**143,257**	**61,826**	**14,018**	**1,508**	**34,360**	**254,969**
Accumulated amortisation						
At 1 January 2021	**106,924**	**39,479**	**-**	**1,507**	**2,184**	**150,094**
Amortisation for the year	6,010	4,670	-	-	-	10,680
Impairment	-	512	-	-	-	512
Disposals	-	(205)	-	-	-	(205)
At 31 December 2021	**112,934**	**44,456**	**-**	**1,507**	**2,184**	**161,081**
Amortisation for the year	8,238	5,662	-	-	-	13,900
Impairment	-	787	-	-	-	787
Disposals	-	(1,108)	-	-	-	(1,108)
At 31 December 2022	**121,172**	**49,797**	**-**	**1,507**	**2,184**	**174,660**
Net book amount						
31 December 2021	23,442	13,639	-	1	5,857	42,939
31 December 2022	**22,085**	**12,029**	**14,018**	**1**	**32,176**	**80,309**

14 Property, plant and equipment

(in HRK thousand)	Land	Buildings	Plant and equipment	Tools and office inventory	Other	Assets under construction and advances	Total
Cost							
As at 1 January 2021	**163,998**	**1,054,010**	**1,084,833**	**289,412**	**2,057**	**75,116**	**2,669,426**
Reclassifications	-	433	(587)	145	9	-	**-**
Additions	26	277	4,801	394	13	106,947	**112,458**
Transfer from assets under construction	-	24,492	32,635	14,740	263	(72,130)	-
Transfer to Intangibles	-	-	-	-	-	(749)	**(749)**
Transfer to/from investment property	(554)	43,978	(16,984)	-	-	(2,259)	**24,181**
Transfer to assets held for sale	(9,345)	(40,121)	(965)	-	-	-	**(50,431)**
Disposals	(1,047)	(13,532)	(13,458)	(13,590)	(22)	(17,280)	**(58,929)**
As at 31 December 2021	**153,078**	**1,069,537**	**1,090,275**	**291,101**	**2,320**	**89,645**	**2,695,956**
Reclassifications	(4,607)	(12,833)	(1,341)	-	-	(1,974)	**(20,755)**
The effect of acquisition of subsidiaries	137,164	24,996	94,939	32,425	-	5,617	**295,141**
Additions	9,457	342	13,733	1,033	262	234,260	**259,087**
Transfer from assets under construction	10,606	62,836	74,400	17,925	-	(165,767)	**-**
Transfer to Intangibles	-	-	-	-	-	(63)	**(63)**
Disposals	(8,387)	(554)	(25,870)	(13,624)	-	(23,774)	**(72,209)**
As at 31 December 2022	**297,311**	**1,144,324**	**1,246,136**	**328,860**	**2,582**	**137,944**	**3,157,157**
Accumulated depreciation							
As at 1 January 2021	**-**	**634,798**	**768,587**	**229,818**	**162**	**-**	**1,633,365**
Reclassifications	-	86	7	(93)	-	-	-
Depreciation for the year		25,675	43,197	16,084	37	-	84,993
Impairment	-	-	21,528	-	-	-	21,528
Transfer to/from investment property	-	11,004	(11,682)	-	-	-	(678)
Transfer to assets held for sale	-	(12,893)	(308)	-	-	-	(13,201)
Disposals and write offs	-	(10,311)	(11,655)	(13,754)	-	-	(35,720)
As at 31 December 2021	**-**	**648,359**	**809,674**	**232,055**	**-**	**-**	**1,690,287**
Reclassifications	-	(4,924)	287	(1,183)	-	-	(5,820)
Acquisition of the company / inclusion of the company	-	-	-	-	-	-	-
Depreciation for the year	-	27,711	56,114	20,880	2	-	104,707
Impairment	17	-	-	-	-	4,174	4,191
Disposals and write offs	-	60	(23,691)	(8,523)	(3)	-	(32,157)
As at 31 December 2022	**17**	**671,206**	**842,384**	**243,229**	**198**	**4,174**	**1,761,208**
Net book amount							
31 December 2021	153,078	421,178	280,601	59,046	2,121	89,645	1,005,669
31 December 2022	**297,294**	**473,118**	**403,752**	**85,631**	**2,384**	**133,770**	**1,395,949**

14 Property, plant and equipment (continued)

The Group's property and plant in the carrying amount of HRK 176,530 thousand (2021: HRK 273,925 thousand) and equipment and movables in the amount of HRK 14,800 thousand (2021: HRK 30,000 thousand) has been pledged as collateral for long-term and short-term borrowings (note 28).

15 Investment property

Movements in investment property in 2022 and 2021 are presented below:

	Land HRK'000	Buildings HRK'000	Assets under construction HRK'000	Total HRK'000
Cost				
At 1 January 2021	**58,941**	**175,730**	**-**	**234,671**
Reclassification	3,300	8,384		11,684
Additions	-	-	4	4
Transfer from assets under construction	-	764	(764)	-
Transfer to/from non-current tangible assets	554	(26,994)	2,259	(24,181)
Transfer to assets held for sale	(635)	(8,730)	-	(9,365)
Disposals		(1,317)	-	(1,317)
At 31 December 2021	**62,160**	**147,837**	**1,499**	**211,496**
Reclassification	4,607	12,833	-	17,440
Additions	-	-	14,868	14,868
Transfer from assets under construction	-	5,595	(5,595)	-
Transfer to/from non-current tangible assets	(6,508)	899	(6,395)	(12,004)
Disposals	-	(5,302)	(198)	(5,500)
At 31 December 2022	**60,259**	**161,862**	**4,179**	**226,300**
Accumulated depreciation				
At 1 January 2021	**10,951**	**74,621**	**-**	**85,572**
Reclassification	3,300	8,384	-	11,684
Depreciation for the year	-	182	-	182
Transfer to/from non-current tangible assets	-	678	-	678
Transfer to assets held for sale	(81)	(2,563)	-	(2,644)
Impairment	81	907	-	988
Disposals	-	(257)	-	(257)
At 31 December 2021	**14,251**	**81,952**	**-**	**96,203**
Reclassification	-	4,924	-	4,924
Depreciation for the year	-	6,921	-	6,921
Disposals	-	(4,078)	-	(4,078)
At 31 December 2022	**14,251**	**89,719**	**-**	**103,970**
Net book amount				
31 December 2021	47,909	65,885	1,499	115,293
31 December 2022	**46,008**	**72,143**	**4,179**	**122,330**

The fair value of land amounting to HRK 72.8 million and fair value of investments in buildings amounting to HRK 73.4 million relates to fair value level 3 since the input variables are not based on observable market data.

16 Investments accounted for using the equity method

	31 December 2022 Ownership share (in %)	31 December 2021 Ownership share (in %)
Associates accounted for by using the equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon Ltd., Zagreb*	50.00	50.00
Joint ventures accounted for using the equity method:		
Members of TLM Group*	22.00 - 25.00	-
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00
Male hidre d.o.o.*	51.00	51.00

* company in indirect ownership by the Company

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

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

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

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

16 Investments accounted for using the equity method (continued)

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

Associates accounted for using the equity method

	Power Trans-formers Ltd. HRK'000	Elkakon Ltd. HRK'000	Total HRK'000
1 January 2021	**230,067**	**5,957**	**236,024**
Profit/(Loss)	34,213	1,178	35,391
Dividend payment	(34,213)	(400)	(34,613)
Other	-	(5)	(5)
31 December 2021	230,067	6,730	236,797
Profit/(Loss)	18,629	1,655	20,284
Dividend payment	(38,163)	(250)	(38,413)
31 December 2022	**210,533**	**8,135**	**218,668**

Dividends declared by the associate reduce the equity accounted investment and are presented as dividends receivable within note 20 "Loans and receivables". The total dividend paid in 2022 amounts to HRK 37,056 thousand while in 2021 the total cash inflow from dividends amounted to HRK 26,014 thousand.

Joint ventures accounted for using the equity method

	Tbea Končar Instrument transformers Ltd HRK'000	Members of TLM Group* HRK'000	KONČAR - XD Visokonaponska sklopna postrojenja Ltd. HRK'000	Male hidre Ltd. HRK'000	Total HRK'000
1 January 2021	14,093	-	33,950	3,157	51,200
Profit/(Loss)	3,834	-	(292)	(78)	3,464
Dividend payment	(503)	-	-	-	(503)
Liquidation	-	-	(33,658)	-	(33,658)
31 December 2021	**17,424**	**-**	**-**	**3,079**	**20,503**
New investment	-	4	-	-	4
Profit/(Loss)	5,055	-	-	(95)	4,960
Dividend payment	(2,102)	-	-	-	(2,102)
31 December 2022	**20,377**	**4**	**-**	**2,984**	**23,365**

16 Investments accounted for using the equity method (continued)

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

Associates accounted for using the equity method

	Power Trans-formers Ltd. 2022* HRK'000	Elkakon Ltd. 2022 HRK'000	Total 2022 HRK'000
Non-current assets	156,749	10,573	167,322
Current assets	813,441	19,776	833,217
Total assets	**970,190**	**30,349**	**1,000,539**
Total liabilities	**487,759**	**14,079**	**501,838**
Revenues	1,139,115	115,633	1,254,748
Expenses	(1,096,990)	(111,571)	(1,208,561)
Profit/(loss) before tax	42,125	4,062	46,187
Income tax	(4,106)	(752)	(4,858)
Profit/(loss) after tax	**38,019**	**3,310**	**41,329**
Ownership share (in %)	49%	50%	
Share in profit/(loss) for equity accounted investments	**18,629**	**1,655**	**20,284**

*based on the financial year of the associate

Joint ventures accounted for using the equity method

	Tbea Končar Instrument transformers Ltd. 2022 HRK'000	Male hidre Ltd. 2022 HRK'000	Total 2022 HRK'000
Non-current assets	21,194	6,271	27,465
Current assets	193,206	23,238	216,444
Total assets	**214,400**	**29,509**	**243,909**
Total liabilities	**128,219**		**128,219**
Revenues	163,444	-	163,444
Expenses	(143,380)	(186)	(143,566)
Profit/(loss) before tax	20,064	(186)	19,878
Income tax	(1,341)	-	(1,341)
Profit/(loss) after tax	**18,723**	**(186)**	**18,537**
Ownership share (in %)	27%	51%	
Share in profit/(loss) for equity accounted investments	**5,055**	**(95)**	**4,960**

16 Investments accounted for using the equity method (continued)

Summary information on the financial position of associates and joint ventures as at 31 December 2021 is shown in the following table:

Associates accounted for using the equity method

	Power Transformers Ltd. 2021* HRK'000	Elkakon Ltd. 2021 HRK'000	Total 2021 HRK'000
Non-current assets	138,242	8,265	146,507
Current assets	754,888	16,304	771,192
Total assets	**893,130**	**24,569**	**378,354**
Total liabilities	**539,346**	**11,120**	**550,466**
Revenues	930,823	104,899	1,035,722
Expenses	(845,569)	(102,004)	(947,573)
Profit/(loss) before tax	85,254	2,895	88,149
Income tax	(15,431)	(537)	(15,968)
Profit/(loss) after tax	**69,823**	**2,358**	**72,181**
Ownership share (in %)	49%	50%	
Share in profit/(loss) for equity accounted investments	**34,213**	**1,179**	**35,392**

**based on the financial year of the associate*

Joint ventures accounted for using the equity method

	Tbea Končar Instrument transformers Ltd. 2021 HRK'000	KONČAR - XD Visokonaponska sklopna postrojenja Ltd. 2021 HRK'000	Male hidre Ltd. 2021 HRK'000	Total 2021 HRK'000
Non-current assets	2,667	-	5,400	8,067
Current assets	180,659	-	2,825	183,484
Total assets	**183,326**	**-**	**8,225**	**191,551**
Total liabilities	**105,408**	**-**	**2,188**	**107,596**
Revenues	130,804	435	-	131,239
Expenses	(115,339)	(1,019)	(153)	(116,511)
Profit/(loss) before tax	15,465	(584)	(153)	14,728
Income tax	(1,265)	-	-	(1,265)
Profit/(loss) after tax	**14,200**	**(584)**	**(153)**	**13,463**
Ownership share (in %)	27%	50%	51%	
Share in profit/(loss) for equity accounted investments	**3,834**	**(292)**	**(78)**	**3,464**

17 Other investments

	31 December 2022 HRK'000	31 December 2021 HRK'000
Financial assets at FVOCI	2,877	12,678
Financial assets at FVTPL		
Debentures	20	20
Investments in shares	2,413	2,476
Derivative instruments - forward currency contract	2,885	542
Financial assets at FVOCI	5,318	3,038
	8,195	**15,716**

18 Loans and receivables

	31 December 2022 HRK'000	31 December 2021 HRK'000
Receivables for shares sold /i/	11,428	13,796
Loans, deposits and similar assets	16,896	2,498
Long-term guarantee deposits - retentions	32,304	-
Receivables for flats sold	498	924
Other	3,387	24
	64,513	**17,242**

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

19 Inventories

	31 December 2022 HRK'000	31 December 2021 HRK'000
Raw materials and supplies	847,230	492,167
Work in progress	311,590	286,012
Finished goods	182,790	79,654
Trade goods and goods in transit	6,074	991
Small inventory and packaging	11,774	4,909
Advances for inventory	68,008	70,416
	1,427,466	**934,149**

20 Loans and receivables

	31 December 2022 HRK'000	31 December 2021 HRK'000
Trade receivables	1,280,999	783,584
Receivables from related parties /i/	63,730	55,571
Short-term guarantee deposits - retentions	34,578	-
VAT receivables	54,396	27,229
Receivables from recognized claims	3,525	37,961
Receivables for advances given for services	67,574	28,344
Prepaid expenses and accrued income	46,595	17,837
Assets recognized on the basis of costs related to the acquisition of the contract	30,059	16,275
Other /ii/	70,869	47,447
	1,652,325	**1,014,248**

/i/ Receivables from affiliated companies include dividend receivables declared by the associate in the total amount of HRK 38,164 thousand (31 December 2021: HRK 34,213 thousand).

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

Trade receivables are as follows:

	31 December 2022 HRK'000	31 December 2021 HRK'000
Trade receivables – domestic, gross	617,752	351,306
Trade receivables – foreign, gross	692,461	454,764
Impairment	(29,214)	(22,486)
	1,280,999	**783,584**

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

	31 December 2022 HRK'000	31 December 2021 HRK'000
Not yet due	992,207	642,910
< 60 days	75,600	91,905
60-90 days	134,499	11,873
90-180 days	37,263	13,180
180-365 days	39,544	21,809
> 365 days	1,886	1,907
	1,280,999	**783,584**

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

20 Loans and receivables (continued)

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

	HRK'000
At 1 January 2021	**32,151**
Increase in expected credit loss	(656)
Collected during the year	(3,535)
Impaired during the year	1,179
Total changes in expected credit loss through profit or loss	*(3,012)*
Written off during the year	(6,651)
Foreign exchange differences	(2)
At 31 December 2021	**22,486**
The effect of acquisition of subsidiaries	5,983
Increase in expected credit loss	2,760
Collected during the year	(2,309)
Impaired during the year	3,891
Total changes in expected credit loss through profit or loss	*4,342*
Written off during the year	(3,172)
Foreign exchange differences	(425)
At 31 December 2022	**29,214**

21 Contract assets and contract liabilities

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

	31 December 2022 HRK'000	**31 December 2021 HRK'000**
Contract assets from contract with customers	505,223	212,273
Expected credit loss	(37)	(64)
Total current assets from contract with customers	**505,186**	**212,209**
Contractual obligation from contracts with customers	83,777	52,492
Contractual obligation - advances received from the customers	344,158	294,379
Total contract liabilities	**427,935**	**346,871**

Revenue recognized in the reporting period that was a part of the contract liabilities at the beginning of the period amounted to HRK 107,416 thousand (2021: HRK 58,210 thousand).

Contractual obligations at the reporting date relate to contracts with customers with a total value of HRK 2,430,347 thousand (31 December 2021: HRK 2,048,711 thousand), and for which performance obligations are to be met in the next reporting period.

22 Current financial assets

	31 December 2022 HRK'000	31 December 2021 HRK'000
Deposits over 3 months	15,165	121,097
Other financial assets	6,808	180,588
	21,973	**301,685**

The contractual interest rate on the Group's deposits of over 3 months held at commercial banks ranges from 0.0001% to 0.07% (2021.:0.01%-0.35%).

Other current financial assets in 2021 mainly relate to funds paid for recapitalization and redemption of receivables related to loans and borrowings, to the ultimate debtor not considered a related party at the balance sheet date.

23 Cash and cash equivalents

	31 December 2022 HRK'000	31 December 2021 HRK'000
Cash in bank, domestic and foreign currency	423,545	396,616
Cash on hand	80	153
Deposits up to 3 months	7,821	27,062
	431,446	**423,831**

Interest rate on the Group's cash in bank and deposits up to 3 months is 0.001% - 3.2% (2021.:0.001% - 0.01%).

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

24 Non-current assets held for sale

The Management Board and the Supervisory Board adopted a new business strategy in October 2021, which defines the sale of non-operating assets of the Group. Accordingly, the Management Board started the process of selling several locations owned by the Group, and these locations were presented as assets held for sale. Actions regarding the sale of the property have been started by the Management, and the sale is expected by the end of 2023.

	31 December 2022 HRK'000	31 December 2021 HRK'000
Land	4,696	12,484
Buildings	10,747	40,452
Other	122	-
	15,565	**52,936**

The fair value of non-current assets held for sale at the balance sheet date refers to level 3 of fair value as the input variables for its determination are not based on observable market data. The fair value of non-current assets held for sale at the balance sheet date is HRK 34.6 million, of which:
• the amount of HRK 4.3 million relates to land,
• and the amount of HRK 30.2 million relates to buildings.

25 Capital and reserves

Share capital is determined in the nominal amount of HRK 1,208,896 thousand (31 December 2021: HRK 1,208,896 thousand) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The ownership structure of the Parent company is as follows:

		31 December 2022		31 December 2021	
	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	462,118	17.97	440,121	17.11
3	OTP Banka d.d. / AZ OMF	373,065	14.50	370,178	14.39
4	OTP Banka d.d. / Erste Plavi mandatory pension fund	398,402	15.49	398,402	15.49
5	Restructuring and Sale Center (CERP)/Croatia	68,234	2.65	68,584	2.67
6	Floričić Kristijan	25,000	0.97	25,000	0.97
7	Privredna banka Zagreb d.d./ Raiffeisen Omf Kategorije B	47,636	1.85	47,636	1.85
8	Zagrebačka banka d.d. /AZ Profit DMF	35,870	1.39	35,870	1.39
9	OTP banka d.d. / OTP Indeksni fond - OIF s javnom ponudom	20,056	0.78	22,308	0.87
10	Privredna banka Zagreb d.d., custodiary account	22,897	0.89	24,431	0.95
11	Zec Branislav	22,222	0.86	22,222	0.86
12	Other shareholders	346,125	13.47	366,182	14.24
13	KONČAR d.d. (treasury shares)	25,979	1.01	26,670	1.04
		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 HRK 25 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 2022 and 2021, there was no redemption of shares, and at 31 December 2022 the Company owns 25,979 of its own shares (31 December 2021: 26,670 shares).

In 2022, the General Assembly adopted a decision to pay dividends to shareholders of HRK 33,091 thousand (in 2021: HRK 14,764 thousand).

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

26 Non-controlling interests

Non-controlling interest refers to as follows:

	31 December 2022 HRK'000	31 December 2021 HRK'000
Končar - Distribution and special transformers Inc.	309,254	246,574
Končar - Instrument transformers Inc.	46,750	43,804
Končar - Electric vehicles Inc.	34,222	31,097
Advanced Energy Solutions Ltd	(3,666)	(250)
Power Engineering Transformatory Sp. z o.o.	(10,846)	(13,537)
Elkakon Ltd.	3,027	2,362
TBEA	4,327	3,203
Dalekovod Group	329,984	-
Solar power plant Landfill phosphogips Ltd.	480	-
Končar - Electronics and Informatics Inc	-	2,158
	713,532	**315,411**

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

These four compaines represent 98.9% of the total amount of the Group's positive non-controlling interest at the balance sheet date.

26 Non-controlling interests (continued)

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

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR KEV Inc.		DALEKOVOD Inc.
	2022 HRK'000	2021 HRK'000	2022 HRK'000	2021 HRK'000	2022 HRK'000	2021 HRK'000	2022 HRK'000
Statement of comprehensive income							
Income	1,838,423	1,380,708	242,865	193,265	613,837	462,265	667,419
Expenses	(1,658,790)	(1,271,964)	(233,610)	(184,306)	(589,608)	(434,818)	(632,650)
Profit before tax	179,633	108,744	9,255	8,959	24,229	27,447	34,769
Income tax	(11,642)	(20,307)	2,633	(673)	(700)	(5,426)	(5,171)
Profit after tax	**167,991**	**88,437**	**11,888**	**8,286**	**23,529**	**22,021**	**29,598**
Statement of financial position							
Non-current assets	271,700	233,388	86,319	66,857	87,045	65,825	315,502
Current assets	1,096,083	740,003	214,259	154,508	544,998	386,639	591,998
Total assets	**1,367,783**	**973,391**	**300,578**	**221,365**	**632,043**	**452,464**	**907,500**
Total liabilities	**713,489**	**451,712**	**177,667**	**106,198**	**494,939**	**327,877**	**455,139**
Cash flow							
Cash flow from operating activities	(85,740)	66,622	3,899	4,343	(238,999)	(172,333)	(43,425)
Cash flow from investing activities	(53,827)	(16,260)	(13,633)	(5,099)	(18,974)	(11,685)	(4,054)
Cash flow from financing activities	75,933	(33,649)	15,795	432	249,275	43,074	(9,228)
Net increase/(decrease) in cash	**(63,634)**	**16,713**	**6,061**	**(324)**	**(8,698)**	**(140,944)**	**(56,707)**
Cash at beginning of period	124,678	107,965	4,308	4,632	31,208	172,152	78,085
Cash at end of period	**61,044**	**124,678**	**10,369**	**4,308**	**22,510**	**31,208**	**21,378**

27 Provisions

	Warranty provisions HRK'000	Provisions for legal disputes HRK'000	Jubilee awards and retirement benefits HRK'000	Other provisions HRK'000	Total HRK'000
1 January 2021	**182,307**	**1,140**	**41,322**	**3,502**	**228,271**
Additional provisions	46,219	3,596	6,632	13,244	69,691
Usage of provisions	(5,551)	(65)	(547)	-	(6,163)
Release of provision	(60,512)	(100)	(7,507)	(81)	(68,200)
Foreign exchange differences and similar	1	-	4	-	5
31 December 2021	**162,464**	**4,571**	**39,904**	**16,665**	**223,604**
Current provision	*43,277*	*119*	*1,547*	-	*44,943*
Non-current provision	*119,187*	*4,452*	*38,357*	*16,665*	*178,661*
	162,464	**4,571**	**39,904**	**16,665**	**223,604**
Effect of business combinations	-	21,618	6,591	489	28,698
Additional provisions	77,572	1,761	5,346	9,006	93,685
Usage of provisions	(18,404)	-	(2,423)	(87)	(20,914)
Release of provision	(54,527)	(2,192)	(11,749)	(8,871)	(77,339)
Foreign exchange differences and similar	(8)	-	(4)	(4)	(16)
31 December 2022	**167,097**	**25,758**	**37,665**	**17,198**	**247,718**
Current provision	*44,266*	*119*	*1,640*	*10,588*	*56,613*
Non-current provision	*122,831*	*25,639*	*36,025*	*6,610*	*191,105*
	167,097	**25,758**	**37,665**	**17,199**	**247,718**

Warranty provisions

Warranty provisions are determined on the basis of Management's best estimate and include general and specific provisions. General provisions are based on estimates and experience of the Group and other manufacturers of power equipment. The Group generally issues warranties for a period of 2 to 5 years for each product sold or project completed. Based on historical data regarding expenses for warranty repairs and industry statistics (such as those related to failure incidence rates for transformers and generators), Management assesses and recognises a general provision for warranty repairs.

In addition, in previous periods, the Group has created individual reservations relating to specific contracts with customers and the products in question. These bookings referred to several contracts for the sale of products in geographical areas where the Group identified specific risks arising from atypical shortcomings associated with the delivery of products to areas with extreme climatic conditions and technically complex projects considered non-standard. The group created a reservation based on the expected cost of repairing and/or replacing the transformer. For two contracts where individual reservations were created, which were active on December 31, 2021, warranty periods expired in 2022 and did not result in significant expenditures for repairs. Consequently, the Group released all individual provisions in the total amount of HRK 28.9 million. On the other hand, due to the significant growth in revenues and deliveries of products to which the Group issues warranties for repairs within the warranty period, there has been an increase in general provisions required to cover the estimated cost of repairs in the future years on the basis of delivered products.

27 Provisions (continued)

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of HRK 25,759 thousand (2021: HRK 4,571 thousand) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes.

Provisions for jubilee awards and retirement benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 37,665 thousand (2021: HRK 39,904 thousand) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 3.2% (2021: 0.6%).

Other provisions – provisions for onerous contracts

Significant inflationary trends that started in 2021 resulted in bookings for harmful contracts on 31 December 2021 in the amount of HRK 10.7 million. High inflation rates continued through 2022. Part of the contracts that were identified and recognized as onerous in 2021 were realized during 2022 and provisions were released for these contracts. For the rest of the contract, the delivery of which was transferred to 2023, a reassessment of profitability was made, which resulted in the amount of HRK 14.4 million of unavoidable costs above the economic benefits.

28 Borrowings

	31 December 2022 HRK'000	31 December 2021 HRK'000
Liabilities to banks and other financial institutions /i/	564,091	299,926
Lease liabilities /ii/	39,433	4,938
Liabilities for loans to affiliated companies	350	350
	603,874	**305,214**

	31 December 2022 HRK'000	31 December 2021 HRK'000
/i/ Liabilities to banks and other financial institutions		
Liabilities to banks	191,245	145,834
Less: Current portion	(21,468)	(44,922)
Long term liabilities to banks	**169,777**	**100,912**
Liabilities to banks and other financial institutions	373,242	154,092
Plus: Current portion	21,073	44,922
Short term liabilities to banks and other financial institutions	**394,314**	**199,014**
	564,091	**299,926**

	31 December 2022 HRK'000	31 December 2021 HRK'000
/ii/ Lease liabilities		
Long term	27,871	3,228
Short term	11,562	1,710
	39,433	**4,938**

28 Borrowings (continued)

	HRK'000
1 January 2021	**224,939**
New borrowings	153,556
Foreign exchange differences	(264)
Repayment of borrowings	(82,456)
Non-cash transactions	4,151
31 December 2021	**299,926**
Effect of business combinations	11,785
New borrowings	426,034
Foreign exchange differences	293
Repayment of borrowings	(173,064)
Non-cash repayment of borrowings	(883)
31 December 2022	**564,091**

Long-term bank borrowings mature as follows:

	31 December 2022 HRK'000	31 December 2021 HRK'000
Within one year	393,919	199,014
From 1 to 2 years	34,297	7,517
Between 2 and 5 years	108,257	49,349
More than 5 years	27,618	44,046
	564,091	**299,926**

Bank borrowings are secured by mortgages over the Group's property and pledges over its movable property.

Lease liability are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

In accordance with the terms of the contract, the Group met the required covenants for the reporting period.

The fixed interest rate on the Group's long term borrowings ranges from 1.1% to 4.15% p.a., while the fixed interest rate on the Group's short-term borrowings ranges from 0.75% to 2.15% p.a.

29 Other short-term financial liabilities

Other short-term financial liabilities in the amount of HRK 34,867 thousand relate to factoring arrangements concluded by the Group company during 2022. Factoring interest rates during 2022 range from 0.35% to 0.90%.

30 Trade and other payables

	31 December 2022 HRK'000	31 December 2021 HRK'000
Domestic trade payables	418,393	266,768
Foreign trade payables	415,827	244,424
Liabilities to related parties	53,588	13,241
Liabilities towards employees	69,419	45,958
VAT payable	43,012	14,635
Liabilities for contributions on and from salaries and taxes and surtaxes	40,503	32,252
Advances received	15,839	12,447
Agency commissions	28,964	18,168
Accrued costs and deferred income	75,551	54,919
Other liabilities	19,117	16,859
	1,180,213	**719,671**

31 Financial risk management and financial instruments

Capital risk management

Financial leverage ratio

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

	31 December 2022 HRK'000	31 December 2021 HRK'000
Debt (current and non-current) = D	(603,874)	(305,214)
Bank deposits (current)	15,165	121,097
Cash and cash equivalents	431,446	423,831
Net cash / (debt)	(157,263)	239,714
Equity = E	3,469,400	2,843,642
Financial leverage ratio = D/(D+E)	**15%**	**10%**

31 Financial risk management and financial instruments (continued)

Financial risk management

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

	FV hierarchy	31 December 2022 HRK'000	31 December 2021 HRK'000
Quoted shares	Level 1	2,413	2,476
Derivative instruments	Level 2	2,885	543
Total financial assets at FVTPL		**5,298**	**3,019**
Financial assets at FVOSD	Level 3	2,898	12,678
Total financial assets at FVOSD		**2,898**	**12,678**
Non-current financial assets	n/a	16,896	2,498
Non-current receivables	n/a	47,617	14,720
Current financial assets	n/a	21,973	301,685
Trade and other receivables	n/a	1,491,711	944,195
Cash and cash equivalents	n/a	431,446	423,831
Total financial assets at amortised cost		**2,009,643**	**1,686,929**
Total financial assets		**2,017,839**	**1,702,626**
Loans payable	n/a	564,091	300,276
Leases payable	n/a	39,425	4,938
Debentures	n/a	13,019	-
Factoring	n/a	34,867	-
Trade payables	n/a	887,808	524,433
Total financial liabilities at amortised cost		**1,539,210**	**829,647**
Derivative instruments	Level 2	-	2,054
Total financial liabilities at FVTPL		**-**	**2,054**
Total financial liabilities		**1,539,210**	**831,701**

31 Financial risk management and financial instruments (continued)

A) Fair value of financial assets and liabilities

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

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

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

Derivative financial instruments

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

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

Receivables and bank deposits

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

Borrowings

Fair value of current liabilities approximates their carrying value due to the fact that the interest rates on said loans are approximated by relevant market interest rates. The Management Board believes that their fair value is not materially different from their carrying value.

Other financial instruments

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

31 Financial risk management and financial instruments (continued)

B) Financial instrument risks

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

1 Market risk

Market risk is the fluctuation risk of fair value or future cash flows of financial instruments resulting from changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risks.

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

a) Foreign currency risk and cash flow hedge accounting

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

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

The relevant exchange rate for EUR were as follows:

	Spot exchange rate		Average exchange rate	
	31 December 2022 HRK	31 December 2021 HRK	2022 HRK	2021 HRK
EUR	7.53450	7.51717	7.53159	7.52418

The carrying amounts of the Group's EUR denominated monetary assets and monetary liabilities at the reporting date are shown below. From 1 January 2023 the euro becomes the official monetary unit and legal currency in the Republic of Croatia.

	Denominated in EUR	
	31 December 2022 HRK'000	31 December 2021 HRK'000
Non-current financial assets	1,339	560
Trade receivables	447,766	370,628
Deposits (over 3 months)	13,333	53,393
Cash and cash equivalents	115,373	163,595
Trade and other payables	(376,104)	(229,335)
Borrowings	(241,395)	(184,958)
Derivative instruments	(9,283)	(2,273)
	(48,971)	**171,610**

b) Interest rate risk

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

31 Financial risk management and financial instruments (continued)

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

	31 Dec 2022 HRK'000	31 Dec 2021 HRK'000
Bank and other loans based on fixed interest rates	405,980	248,539
Bank and other loans based on variable interest rates	158,469	51,737
	564,449	**300,276**

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

Credit risk

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

Impairment of financial assets

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

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

31 Financial risk management and financial instruments (continued)

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2022 respectively and the corresponding historical credit losses experienced within this period.

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

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

Other financial assets at amortised cost

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

The analysis performed has shown that the effect of applying IFRS 9 on receivables for recognised claims, receivables for dividends and receivables from foreign sales is immaterial and as such was not recognized at 31 December 2022 and at 31 December 2021.

Liquidity risk

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

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

31 December 2022	Net book value HRK'000	Contractual cash flows HRK'000	up to 1 year HRK'000	2 – 5 years HRK'000	over 5 years HRK'000
Non-interest bearing liabilities					
Current trade and other payables	887,808	887,808	887,808	-	-
Interest bearing liabilities	805,771	815,949	521,979	186,020	107,950
	1,693,579	**1,703,757**	**1,409,787**	**186,020**	**107,950**

31 Financial risk management and financial instruments (continued)

31 December 2021	Net book value HRK'000	Contractual cash flows HRK'000	up to 1 year HRK'000	2 – 5 years HRK'000	over 5 years HRK'000
Non-interest bearing liabilities					
Current trade and other payables	524,433	524,433	524,433	-	-
Interest bearing liabilities	305,214	310,352	192,581	68,460	49,311
	829,647	**834,785**	**717,014**	**68,460**	**49,311**

32 Segment reporting

During 2022, the Group changed its internal structure in a way that led to a change in the composition of the segments the Group reports on. The Group restated the corresponding amounts and disclosures of reportable segment information for previous periods.

The following information is applicable for periods beginning in 2022 along with restated comparative information for previous period.

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

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

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

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

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

Segment revenues and results

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

32 Segment reporting (continued)

in HRK thousands	Production of electricity	Transmission and distribution of electricity		Rail vehicles and infrastructure		Digital solutions	Total re-portable segments	Other	Total
		Transmission	Distribution	Rail vehicles	Construction and moderniza-tion of railway infrastructure				
2022									
External revenue	506,299	1,380,166	2,145,491	634,912	118,649	46,461	4,831,979	508,688	5,340,666
Intersegment revenue	14,938	31,443	5,946	2,765	-	-	55,092	68,711	123,804
Revenue	**521,237**	**1,411,609**	**2,151,437**	**637,677**	**118,649**	**46,461**	**4,887,071**	**577,399**	**5,464,470**
Segment operating costs	**557,227**	**1,290,647**	**1,952,283**	**603,732**	**116,535**	**41,347**	**4,561,772**	**526,622**	**5,088,394**
Segment operating profit / (loss)	(35,990)	120,962	199,153	33,945	2,114	5,115	325,299	50,777	376,077
Net financial result	**334**	**(6,626)**	**5,387**	**2,621**	**23**	**17**	**1,757**	**445**	**2,202**
Share of result in equity accounted investee	(95)	-	25,340	-	-	-	25,245	-	25,245
Profit / (loss) before tax	**(35,750)**	**114,336**	**229,880**	**36,567**	**2,137**	**5,132**	**352,301**	**51,222**	**403,523**
Income tax	4,254	24,099	18,622	2,220	(3,968)	585	**45,812**	(12,443)	**33,369**
Profit / (loss) after tax	**(40,005)**	**90,236**	**211,259**	**34,347**	**6,105**	**4,547**	**306,489**	**63,665**	**370,155**
Non-controlling interest									109,799
Profit attributable to the owner									**260,356**
2021.									
External revenue	453,685	709,388	1,575,150	486,958	49,651	31,647	3,306,478	150,988	3,457,466
Intersegment revenue	7,498	34,517	3,319	3,068			48,401	48,390	96,792
Revenue	**461,182**	**743,905**	**1,578,469**	**490,026**	**49,651**	**31,647**	**3,354,880**	**199,378**	**3,554,257**
Segment operating costs	**463,486**	**702,950**	**1,448,726**	**456,566**	**52,136**	**34,495**	**3,158,360**	**201,906**	**3,360,266**
Segment operating profit / (loss)	(2,304)	40,954	129,743	33,459	(2,485)	(2,848)	196,519	(2,528)	193,991
Net financial result	**(347)**	**409**	**(578)**	**6,064**	**1**	**40**	**5,589**	**(527)**	**5,062**
Share of result in equity accounted investee	(78)	-	39,226	-	-	-	39,148	(292)	38,856
Profit / (loss) before tax	**(2,729)**	**41,363**	**168,391**	**39,523**	**(2,485)**	**(2,807)**	**241,256**	**(3,347)**	**237,910**
Income tax	3,075	6,511	22,632	7,420	(551)	(737)	38,350	(11,832)	26,518
Profit / (loss) after tax	**(5,805)**	**34,852**	**145,759**	**32,103**	**(1,933)**	**(2,071)**	**202,906**	**8,486**	**211,391**
Non-controlling interest									47,446
Profit attributable to the owner									**163,945**

33 Related party transactions

Parties are considered related if one party has the ability to control the other party, if it is under joint control or has a significant influence on the business of the other party. The Group is also in a significant part owned by the Republic of Croatia and other companies in control or under significant influence of the Republic of Croatia. In that respect, the Group is in a related party relationship with state institutions and other companies where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Group does not consider routine transactions (such as taxes, levies, etc.) with various local communal entities (directly or indirectly owned by the State) or with other bodies to be related party transactions. More significant transactions with state—owned companies relate to supply of electricity, gas similar utilities. During 2022 the Group has realised total of HRK 1,456 million (2022: HRK 947 million) of sale revenues with state institutions and other companies where the State is a majority owner or has a significant influence, which mostly relate to engineering services in energy sector, rail vehicles and industry equipment.

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

2022	**Receivables HRK'000**	**Liabilities HRK'000**	**Revenues HRK'000**	**Expenses HRK'000**
Related party				
Associates	61,596	53,466	120,388	91,909
Joint venture	2,134	122	3,416	303
Total business operations	***63,730***	***53,588***	***123,804***	***92,212***

2021	**Receivables HRK'000**	**Liabilities HRK'000**	**Revenues HRK'000**	**Expenses HRK'000**
Related party				
Associates	53,912	13,191	95,311	100,066
Joint venture	1,660	49	1,481	217
Total business operations	***55,572***	***13,240***	***96,792***	***100,283***

Dividend receivables from associates amounted to HRK 38,164 thousand as at 31 December 2022 (31 December 2021: HRK 34,213 thousand).

Key management remuneration

Salaries include compensations to the Management Board of the Company and other related companies in the amount of HRK 22,381 thousand (2021: HRK 19,476 thousand) and accrued bonuses for the Management Board in the amount of HRK 12,399 thousand (2021: HRK 12,934 thousand), and are an integral part of staff costs. In 2021, total number of key management personnel was 38 (2021: 34).

34 Business combinations

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

Acquisition cost

	HRK'000
Purchase price for 38.33% stake	155,000
	155,000

Fair value at acquisition date

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

	HRK'000
Assets	
Brand	14,018
Other intangible assets	4,424
Land and buildings	161,976
Plant and equipment	126,024
Non-current loans and receivables	53,698
Inventories	76,294
Trade and other receivables	418,225
Income tax receivable	2,345
Cash and cash equivalents	89,344
Assets held for sale	382
	946,730
Liabilities	
Deferred tax liability	9,212
Total liabilities	438,251
	447,463
Total identifiable net assets at fair value	**499,267**

Gain on bargain purchase

	HRK'000
Purchase price for 38.33% stake	155,000
Non-controlling interest	310,990
Total identifiable net assets at fair value	(499,267)
Gain on bargain purchase	**(33,277)**

Period from acquisition date until 31 Decemebr 2022:	
Revenues	**861,703**
Comprehensive income / (loss)	**38,241**

34 Business combinations (continued)

Methods and assumptions used in the determining net assets acquired:

Caption	Methods used
Property, plant and equipment	Fair value estimation was performed using income approach – direct capitalisation method and market approach – sales comparison method. The income approach converts anticipated future benefits in the form of rental income into present value. Comparative method for real estate and land: fair value is based on comparison with the achieved prices in the sale of similar real estate in a relatively recent period of time based on data from the appraisers, specialized press, real estate agencies, the Central Bureau of Statistics and other available sources. The book value of HRK 25,279 thousand of Dugo Selo property at the Valuation Date, was adjusted to zero (in addition, the related loan on the Dugo Selo property with the same value was adjusted to zero). The valuation of plant and equipment was performed using indirect cost approach on item-by item level. The fair value of vehicles was estimated mostly using the market approach or cost approach where application of the market approach was not feasible. When the market approach is utilised, data is collected on the prices paid for reasonably comparable assets or the offer prices for reasonably comparable assets. Adjustments are (or can be) made to the comparable assets to compensate for differences between those assets and the asset being valued. The application of the market approach results in an estimate of the price reasonably expected to be realised from the sale of the asset.
Intangible assets	Mostly relates to brands and software. Fair value of brands based on the report of an independent expert appraiser who assessed the brands using the royalty relief method. In estimating the value of brands, the appraiser applied a royalty rate of approximately 0.26% to the cash flows from the operations for a five-year period with an average terminal growth rate based on historic performance, adjusted for inflation of 2%.Some 50% of total sales are attributable to the brand. Projected after-tax cash flows were discounted using the discount rate of 12.43%. Income tax rate prevailing in Croatia of 18% was applied. The valuation of software was performed using indirect cost approach on item-by item level.
Inventory	The fair value of inventories acquired in a business combination is based on the estimated selling price in the ordinary course of business, less the estimated cost of selling the inventory. Obsolete inventories in the amount of HRK 7.5 million were impaired due to the fact that they will most likely be fully written off.
Current receivables and current payables	Current trade and other receivables and trade and other payables were recognised at nominal value reduced for impaired amount and are approx. equal to their fair values due to their short term nature.
Long – term payables	Long-term liabilities are recognized at amortized cost and are approximately equal to their fair value as they relate mainly to loans with approximately market interest rates. Decrease in long-term liabilities at acquisition relate to HRK 25,279 thousand property in Dugo Selo, as it was considered that Dalekovod did not have control over this property at the time of the acquisition (the related loan on the Dugo Selo property with the same value was also adjusted to zero). The increase in long-term acquisition liabilities is a result of the recognition of a deferred tax liability as a result of temporary time differences arising on the initial recognition of acquired net assets at fair value.

35 Events after the reporting date

Introduction of euro as a functional currency

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

Acquisition of control

Končar – Digital Ltd. acquired control over the entities KODEKS SISTEMSKE INTEGRACIJE Ltd and EXA GLOBE Ltd. during January 2023, followed by registration with the commercial court register.

During January 2023, the company Končar – Motors and Electrical Systems Ltd. acquired control over the company Končar – Electrical appliances Inc., following the Supervisory Board nominations and registration with the commercial court register.

Additionally, Končar – Engineering Co. Ltd. acquired control over the entity TELENERG-INŽENJERING LLC., followed by registration with the commercial court register.

Establishment of new subsidiaries

Dalekovod Inc. has established a new subsidiary in Slovenia during March 2023.

Force majeure

Due to the current situation in Ukraine, force majeure has been declared on both projects that we had as active during 2022. With the proclamation of force majeure, all actions on the project were suspended. Dalekovod Inc. does not expect losses on these projects due to the very structure of the Investor Agreement where risks are minimized.

Dalekovod Inc. has receivables and liabilities in significant amounts, however due to the mutual connection or interdependence of one another, we consider that it is not needed to adjust the value these claims. Payment according to crucial suppliers (subcontractors) for both projects is related to the “BACK TO BACK” conditions, ie payment only after payment. In relation to these projects, all bank guarantees have been withdrawn, which will be reissued after the continuation of the projects and the revision of the Agreement.

After the reporting date, until the date of approval of these financial statements, and with the exception of the above, there were no other events that could have a significant impact on the Group’s annual report for 2022 or should be disclosed.

36 Approval of the annual financial statements

Group's consolidated ESEF financial statements and consolidated Annual Report was approved by the Management Board on 20 April 2023 and signed below to signify this by:

Gordan Kolak, President of the Management Board	Ivan Bahun, Deputy President and Member 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	Božidar Poldrugač, Member of the Management Board

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