KONČAR – Electrical Industry Inc.

ANNUAL REPORT
31 DECEMBER 2021

KONČAR
Inspired by challenge

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Management Report and Corporate Governance Statement

2021

Introduction

KONČAR – Electrical Industry Inc. is the parent company of KONČAR Group. As the parent company, the Company prepares consolidated reports, which are presented separately.

This 2021 Management Report on the State of the Company is a report of the Company as a separate entity. The Company manages its wholly-owned subsidiaries and associated companies.

The companies within the Group are legally autonomous companies and the Parent Company oversees, strategically directs and supports them through the Supervisory Boards and General Assemblies of companies, all in accordance with the Companies Act, the Articles of Association of KONČAR – Electrical Industry Inc. and the Articles of Association and Articles of Incorporation of the member companies. The Parent Company also manages the part of the assets that are not invested in companies but are directly and indirectly in the function of financial support for the marketing, products and equipment of subsidiaries as a credit-guarantee potential.

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

- Fees for using the company name, trademark and service mark
- Part of the cost of organized joint appearance at fairs
- Part of the cost of branch offices abroad
- Part of the cost of joint marketing activities
- Seminars for managers, quality and environmental systems.

Summary of key financial indicators

HRK 000	2020	2021	Δ	Index 2021./2020.
Total operating income	**113,883**	**141,268**	**27,385**	**124.0**
Sales revenues	111,661	129,911	18,250	116.3
Dividend received	60,729	75,435	14,706	124.2
Income from contracts with customers	50,932	54,476	3,544	107.0
Other income	2,222	11,357	9,135	511.1
Operating expenses	**111,213**	**104,599**	**-6,614**	**94.1**
EBIT	2,670	36,669	33,999	
EBIT margin	2.4%	28.2%		
Finance income - net	4,670	587	-4,083	
Profit for the year	7,340	37,256	29,916	507.6
EBITDA	**12,395**	**45,058**	**32,663**	**363.5**
EBITDA margin	11.1%	34.7%		+236 bps
Normalized EBITDA[1]	46,394	62,611	16,217	135.0
EBITDA margin normalized[1]	41.5%	48.2%		+67 bps
Market capitalization	**1,477,361**	**2,290,904**		**155.1**

EBITDA[1] - normalised EBITDA, impact of one-off items excluded. One-off items represent the value adjustments of investments in subsidiaries and the value adjustment of tangible and intangible assets (+), income from the sale of assets and profit/loss from the reversal of provisions (+, -)

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 drafted by the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA). The Code is available on the websites of the Zagreb Stock Exchange (www.zse.hr) and HANFA (www.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 (www.koncar.hr), the websites of the Zagreb Stock Exchange (www.zse.hr) and HANFA (www.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 own 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 Declaration on Corporate Governance, and are described below. All of the documents are available on KONČAR website (www.koncar.hr).

The Company complies with the recommendations of the Code, with the exception of the provisions whose 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 relating to gender representation and equality are implemented directly. At the moment, 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 account 60 percent of the total number of employees.
- The Appointments Committee performs all the tasks referred to in Article 15 of the Code, except for oversight the Management Board in the appointment process for the members of the Management Boards in Group companies, which falls under the competence of the Supervisory Boards of Group companies.
- 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 meeting next time it proposes the re-election of an existing Supervisory Board member.
- The majority of the members of the Audit Committee are not independent (Article 27 of the Code). All the Audit Committee members are also Supervisory Board members, therefore the Audit Committee is exempt from the requirement of independence, as stipulated by Article 65, paragraph 7 of the Audit Act.
- Members of the other committees are also not independent, but they are members of the Supervisory Board.

- Remuneration Committee performs all the tasks specified in Article 50 of the Code, but decisions on the remuneration to be received by members of the Management Board in subsidiaries fall under the competence of their Supervisory Boards.
- The Company did not establish effective formal mechanisms to enable minority shareholders to raise questions directly with the presidents of the Supervisory and Management Boards (Article 76 of the Code). The Company established mechanisms to enable minority shareholders to raise questions via e-mail available for investors (ir@koncar.hr), in addition to raising any questions directly to the Supervisory and Management Board members at the General Assembly meeting.
- The Company does not use the means of modern communication technology for participation in the General Assembly meetings (Article 79 of the Code), because in practice, the current manner of exercising votes has been shown to be the optimal solution, mostly due to many shareholders with a small number of shares.
- Answers to the questions asked at the General Assembly meeting were not made freely available by the Company on its website (Article 82 of the Code). There were no questions asked by the shareholders attending the General Assembly meeting held in 2021. Had there been any, such questions and the answers to them would have been included in the Minutes of the General Assembly meeting publicly available in 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 are familiar with anti-corruption policies and procedures and observe the principles of the Code of Ethics in their business 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 activities in 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 (www.koncar.hr).

The General Assembly is competent for the election and granting of discharge to Supervisory Board members, decides on the use of profit, grants discharges to Management and Supervisory Board members, appoints auditors and decides on amendments to the Articles of Association, increasing and reducing of share capital and other matters falling under its competence by law.

In 2021, one session of the General Assembly was held. At the session held on 1 June 2021, 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 2020, a resolution on the appointment of auditors for 2021 and approved the Report on the Remuneration for the Members of the Management Board and the Supervisory Board for 2020. All decisions adopted at General Assembly sessions have been published in accordance with legal regulations and are available on the websites of the Company (www.koncar.hr), Zagreb Stock Exchange and HANFA, together with the results of the voting.

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 employees in accordance with the Labour Act and three members are appointed, in accordance with the Companies Act (Article 256), by the shareholder Kapitalni fond d.d. as long as it holds Company shares representing 25% plus one share in the Company's share capital. In the event of 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 monitoring business management, representing the Company in dealings with the Management Board and adopting decisions 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 it comes to 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 appointed 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 Decision 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 in 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 2021:

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 Podborkić	Member
Mario Radaković	Member
Zvonimir Savić	Member
Danko Škare	Member

In 2021, the Supervisory Board held fourteen meetings. The quorum at the meetings of the Supervisory Board requires five Supervisory Board members. The Supervisory Board adjusted its functioning to the circumstances caused by the COVID-19 virus and recommendations given by the Civil Protection Directorate, holding most of its meetings via teleconference or videoconference. All the members participated in decision-making at all the meetings, casting 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 prescribed time limits. The annual reports were unanimously adopted, and the quarterly and semi-annual reports were noted by the Supervisory Board. 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 affiliates.

The Supervisory Board evaluated the profile and competencies of individual Supervisory Board members and members of its committees. The evaluation 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. Evaluation 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%. When making proposals for appointment to the Supervisory Board of the Company, in addition to, primarily, the necessary expertise of the candidates, the Supervisory Board also considers the aspect of diversity.

Report on the supervision conducted in 2021, prepared for voting at the General Assembly meeting, contains the following:
- Manner and the extent to which the Supervisory Board oversaw the management of the Company in 2021
- Results of review of annual financial statements prepared as at 31 December 2021,
- Auditor's reports
- Results of review of the Management Board's report on the Company's performance in 2021
- Results of the review of the report on relations with the parent company and its subsidiaries and affiliates

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 control systems in the Company. The Committee ensures the integrity of financial information, specifically the validity and consistency of accounting methods used in the Company and KONČAR Group, including the criteria for consolidated financial reporting of Group companies. Moreover, the Committee is tasked with monitoring the internal control 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 2021, the Audit Committee held five sessions. All the members of the Audit Committee participated in decision-making at all the sessions. At the sessions, 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 2021, supervision of the statutory audit and consolidated and unconsolidated annual financial statements for 2021, making recommendations for the adoption of those reports, and appointing auditors for 2021. 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 as regards 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. In 2021, the Committee held three sessions and they were attended by all the Committee members. In 2021, the Committee discussed KONČAR Group 2020+ Integral Strategy and presented it to the Supervisory Board to be adopted.

Appointments Committee is a working body of the Supervisory Board formed for the purpose of preparing decisions to be made by the Supervisory Board. The Appointments Committee is competent for holding discussions and submitting proposals to the Supervisory Board regarding decisions on the appointment and election of 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 2021, the Committee held no sessions as it was not necessary.

Remuneration Committee outlines the content of Management Board member contracts and determines the structure of their remuneration. The Committee is also in charge of drawing up the Remuneration Policy for Members of the Management and

Supervisory Boards. The Chairman of the Committee is Branko Lampl, and Maja Martinović and Ruža Podborkić are its members. All members of the Committee are also members of the Supervisory Board. In 2021, the Committee held one session, which was attended by all the Committee members.

Management Board

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

The Company's Management Board is the governing body solely responsible for overall business operations. It is appointed and recalled by the Supervisory Board. The scope of work of the members of the Company's Management Board is determined by: business areas, 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 evaluates the performance of the Company's Management Board and the Management Boards of Group companies based on business performance indicators and the maintaining and building of a positive reputation of the Company. Through their membership in the Supervisory Boards and Assemblies and based on other rules adopted, Management Board members coordinate, direct, supervise and monitor performance in KONČAR Group companies. Members of the Management Board of KONČAR – Electrical Industry do not receive remuneration for their work in the Supervisory Boards of dependent companies.

The Supervisory Board assessed that in 2021, 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 affiliates. The Management Board regularly submits legally prescribed reports to the Supervisory Board, and in between its meetings, the Management Board duly informs the Supervisory Board of any important events relating to the Company's operations.

The Management Board evaluates its own effectiveness, which constitutes an integral part of annual performance management process and evaluation 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.

In accordance with the Articles of Association, the Management Board may consist of three to seven members. At the moment, the Management Board has 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 area 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 areas of other Management Board members, a Management Board member must present such matters to the Management Board, to be decided on by the Management Board as a whole.

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 2021:

Gordan Kolak	President of the Management Board in charge of the energy segment (electricity generation, transmission and distribution)
Ivan Bahun	Deputy President of the Management Board in charge of the rail solutions 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 the area of economics and finance
Božidar Poldrugač	Member of the Management Board in charge of digital solutions, ICT and urban infrastructure

In 2021, the Company's Management Board held 48 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 the second year of the mandate, in addition to the planned regular activities, the Management Board defined and referred to the Supervisory Board a proposal of KONČAR Group 2020+ Integral Strategy and carried out the merger of two Group members that had operated in related segments (KONČAR – Power Plant and Electric Traction Engineering and KONČAR – Engineering for plant installation and commissioning). In the 2021 spin-off, the digital segment was separated from KONČAR – Power Plant and Electric Traction Engineering and a new company KONČAR – Digital was established. Development and application of digital technologies, primarily in the electric power industry, is of strategic interest for KONČAR. In line with the adopted Strategy and the new operational model of the Group, the Management Board of the Company carried out activities related to the change of the legal form of Group members, whereby some of the companies were transformed from joint stock companies into limited liability companies. The change allows more efficient and streamlined corporate governance process, i.e., provides preconditions for the efficient establishment and implementation of the Group's new operational model. In 2021, in agreement with the Chinese partner, liquidation of the joint venture KONČAR–XD was carried out.

The Company's Management Board has 6 members (optimal number). 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's Internal Audit Department performs the independent audit and control function. It informs the managers about performed audits through comprehensive reports (providing findings and recommendations for improvements). The Internal Audit Charter was adopted in October 2018. It 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 control 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 Internal Audit Department informs the Management Board, the Audit Committee and the Supervisory Board about its work and the audit plan. Its findings and recommendations help the management with the improvement of processes, preventative elimination of potential risks and the reduction of risks to acceptable levels.

In 2021, 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 presents in more detail all the findings and recommendations for all the performed audits with time limits 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 organisation. So as to remain competitive, professional development of employees and effective management of human resources are one of the key priorities. By regulating employment relations and internal organization, the Company and KONČAR Group companies adhere to relevant regulations, collective and individual contracts 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 Code of Conduct. The employees are regularly updated on relevant provisions and rules relating to their rights and obligations. In addition, the Company strives to eliminate and prevent any irregularities.

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

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

Human resources management implies the performing of research and analysis of employee motivation factors. For this reason, the Company conducts individual interviews with employees and performs satisfaction surveys, which give the best possible perspective on the perceptions, needs and preferences of each individual employee and indicate areas where there is room for improvement. Based on the findings of such analyses, action plans are designed with the aim of creating a stimulating work atmosphere that contributes to employee welfare.

As at 31 December 2021, the Company had 53 employees (3 employees more compared to 50 employees as at 31 December 2020). Employee structure was as follows:

	31 December 2021	31 December 2020
PhD	1	1
Master of Science degree	4	4
University specialist	2	3
Master's degree	9	4
Specialist graduate professional degree	5	5
University degree	23	24
Bachelor's degree	6	6
Secondary school qualification	3	3
	53	**50**

Business results

In 2021, KONČAR – Electrical Industry Inc. generated HRK 141.3 million in operating income, which was 24% more than in the same period in the previous year. Total operating income of HRK 141.3 million comprised sales income of HRK 129.9 million and other operating income of HRK 11.3 million.

Sales income pertained to income from dividends in the amount of HRK 75.4 million and income from contracts with customers in the amount of HRK 54.5 million. Income from dividends from Group companies amounted to HRK 41.2 million, whereas income from dividends of associated companies amounted to HRK 34.2 million. Income from contracts with customers pertained to income from the fee payable for using the company name, trademark and service marks in the amount of HRK 26.0 million, income from real estate management in the amount of HRK 23.9 million and income from other fees in the amount of HRK 4.5 million. Other operating income in the amount of HRK 11.4 million mostly pertained to profits realized through sale of land and buildings.

Total operating expenses in 2021 amounted to HRK 104.6 million, and these were HRK 6.6 million lower than in 2020. Operating expenses comprised the following:
- Costs of materials and services in the amount of HRK 22.6 million
- Staff costs in the amount of HRK 27.2 million
- Depreciation in the amount of HRK 8.4 million
- Value adjustment costs in the amount of HRK 28.1 million, mostly pertaining to value impairment of the share in the company KONČAR – Renewable Sources Ltd, and to value adjustment of property and receivables.
- Other costs amounted to HRK 18.4 million, and they pertained to intellectual services, board members' remuneration, entertainment costs, sponsorships and donations, daily allowances and business trip costs, fees under piece-work arrangements, insurance premiums and other similar costs.

The positive difference between operating income and operating expenses in the amount of HRK 36.7 million and the positive difference between financial income and expenses in the amount of HRK 81 thousand resulted in profit for 2021 in the amount of HRK 36.7 million, which represents a HRK 29.9 million increase compared to the same period in the previous year. According to the 2021 tax return, the Company is under no obligation to pay the 2022 income tax advance.

Financial position

The value of total assets of KONČAR – Electrical Industry Inc. as at 31 December 2021 amounted to HRK 1,694.7 million. Compared to 31 December 2020, that is a HRK 5.0 million increase.

Total non-current assets amounted to HRK 1,379 million, which was HRK 4.6 million (or 0.3%) more than as at 31 December 2020. The most significant portion of non-current assets (97.7%) relates to property, investments in subsidiaries and associated companies and granted loans. During 2021, a capital injection in cash was made in the company KONČAR – Renewable Sources Ltd. and shares of KONČAR – Engineering for Plant Installation & Commissioning Inc. and of KONČAR – Electronics and Informatics Inc. were purchased. In addition, based on impairment tests, the Company conducted value adjustment of the share in KONČAR – Renewable Sources Ltd. The Company carried out capital reduction in the subsidiary KONČAR – Switchgear Inc., and the joint venture KONČAR–XD Ltd. was dissolved and wound up by virtue of a decision of the founders, without undergoing liquidation procedure.

Total current assets have increased by HRK 0.4 million compared to the balance as at 31 December 2020, as a result of the following major changes:

- Reduction in cash on hand and in bank by HRK 242.1 million, mostly due to larger investments,
- Increase of HRK 44 million due to reclassification of non-current assets held for sale
- HRK 99.5 million increase in receivables caused by increased receivables from associated companies in the amount of HRK 64.1 million, increased other receivables in the amount of HRK 35.3 million.
- increase of HRK 99.1 million in financial assets through term deposits and factoring.

Total capital and reserves as at 31 December 2021 amounted to HRK 1,668.8 million, which is a HRK 22 million increase compared to the balance as at 31 December 2020.

Provisions for years-of-service rewards and retirement benefits amounted to HRK 9.2 million, which was HRK 63 thousand less than as at 31 December 2020, due to calculated severance pay liabilities.

Current trade payables and other liabilities decreased by HRK 16.9 million compared to the balance as at 31 December 2020, mostly pertaining to decreased liabilities payable to the suppliers in the amount of HRK 20 million. There was an increase of HRK 1.5 million in tax-related liabilities and of HRK 1.2 million in other payments to employees.

Off-balance sheet records as at 31 December 2021 include collaterals issued (including corporate guarantees to third parties) at the request of the Group's subsidiaries to financial institutions and suppliers in the amount of HRK 931,875 thousand (31 December 2020: HRK 738,830 thousand), while subsidiaries issued collateral to the Company from the aforementioned transactions in the amount of HRK 880,778 thousand (31 December 2020: HRK 691,794 thousand).

Operational risks

KONČAR – Electrical Industry Inc., as the parent Company in the Group, does not engage in significant legal transactions with third parties (except when it comes to credit and payment security instrument granting) and consequently it is less exposed to financial and market-related risks. Pursuant to the Corporate Governance Code, which was created jointly by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange and entered into effect on 1 January 2020, the Management Board of KONČAR – Electrical Industry Inc. and its Supervisory Board adopted in 2020 the Risk Management Policy. In order to ensure effective risk management, all companies 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 companies regularly monitor and manage the balance sheet, liquidity and capital adequacy, determine the measures to prevent or eliminate the causes of illiquidity, take the necessary measures to ensure that the companies have sufficient long-term sources of financing in view of the scope and type of business activity, and regularly monitor whether capital adequacy has been realized.

Impact of COVID-19 pandemic

KONČAR Group's operations in 2021 showed great resilience and stability, achieving the best results in the history of the Company. Complex macroeconomic environment is still under the profound impact of the COVID-19 pandemic, which has reflected primarily in the supply chains disruptions and in soaring prices of key raw materials and commodities. Nevertheless, timely measures and activities have mitigated the negative effects on performance.

All Group companies adhered to epidemiologic measures and guidelines provided by the Civil Protection Headquarters. Employees interested in getting all three doses of COVID-19 vaccine were able to do so at all sites.

In the last quarter of 2021 when the number of new cases increased, the Group imposed new measures, introducing shift work in some companies and allowing work from home for office workers. Business meetings and contact with customers took place via digital platforms, whenever necessary. In such extraordinary circumstances, special attention was paid to keeping on board specific know-how and key staff, which resulted in the fact that the number of employees has not dropped, nor have their earnings. Active financial control, cost monitoring, maintaining of liquidity and debt management made it possible for the Group to maintain financial stability and for the defined operating plans to be realised.

Foreign Exchange Risk

The official currency of the Company is Croatian Kuna. However, certain foreign currency transactions are translated into the Croatian Kuna using the exchange rates in effect on the date of the balance sheet. Foreign exchange differences that arise are credited or charged to the profit and loss statement. The Company's currency risks are hedged by continuous planning and monitoring of inflows and outflows. The Company is exposed to this risk through sales, purchase of foreign currency and loans denominated in a foreign currency which is not the Company's functional currency. Foreign currency primarily exposed to such risks is EUR.

Considering that HRK exchange rate is linked to EUR to some extent, the Company is exposed to currency risks through its deposits in EUR.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet their financial obligations as they fall due. Liquidity risk management is the responsibility of the Management Board which has created a high-quality framework for monitoring short-term, mid-term and long-term financing and all liquidity risk requirements. The Company manages liquidity risk by continuously monitoring the projected and actual cash flow, by comparing it to the maturity of financial assets and liabilities. The Company is not exposed to any significant liquidity risk because of the assets which can easily be converted into cash and which exceed any potential liabilities.

Capital management risk

Capital management is carried out by the Company in such a way as to ensure further development and operations with efficient asset management.

The Company manages capital and makes the necessary adjustments to it in accordance with changes in economic conditions in the market and risk characteristics of its assets. In order to adjust or maintain its capital structure, the Company may decide, with the consent of competent bodies, to pay dividends to owners, increase/decrease share capital, sell assets to reduce its liabilities, and similar.

Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss for the other party. The Company has adopted a policy of conducting business mainly with creditworthy companies, thereby reducing the possibility of incurring financial losses due to default.

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 impact of credit risk on the Company as well as changes in the credit ranking of partners are constantly monitored. In principle, transactions are contracted with creditworthy partners and appropriate payment security instruments (L/C, guarantees, etc.) are obtained. Apart from deposits with commercial banks and receivables from associated companies, the Company has no significant receivables from third parties and consequently there is no significant credit risk present.

Interest rate risk

The Company is not exposed to interest risk because it is not exposed to debt. Owing to a sound structure of the Company's sources of funding, and lack of any interest-related liabilities toward third parties, the Company is not exposed to interest risk.

Business plan

Following the adoption of KONČAR Group 2020+ Integral Strategy in 2021, the 2022 business plan for KONČAR – Electrical Industry Inc. as well as business plans for subsidiaries were aligned with key objectives specified in the Strategy.

KONČAR – Electrical Industry Inc. is expected to achieve positive business result and to increase profitability. Total operating income is projected to reach the amount of HRK 201.1 million. Sales revenue accounts for HRK 61.1 million of operating income.

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Difference between the GFI pod form and the presented financial statements

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

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Tangible assets (AOP 010)	347,721	27,985	319,736	Investment property is presented separately in IFRS financial statements as required by IAS 40.
Investment property (Note 15)	-	319,736	(319,736)	
Total	**347,721**	**347,721**	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Trade receivables (AOP 034)	14,720	-	14,720	Non-current receivables are grouped in the IFRS statements under "Loans and receivables", whereas in the GFI POD form they are separated by relevant items.
Loans, deposits and similar assets (AOP 028)	155,350	-	155,350	
Loans and receivables (Note 19)	-	170,070	(170,070)	
Total	**170,070**	**170,070**	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Non-current assets held for sale (AOP 044)	52,936	-	52,936	Under IFRS 5, non-current assets held for sale are recognised in the balance sheet as a separate, standalone item, whereas in the GFI-POD form they are recognised under inventories.
Non-current assets held for sale (Note 23)	-	52,936	(52,936)	
Total	**52,936**	**52,936**	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Receivables (AOP 046)	140,607	-	140,607	In the IFRS statements, the note pertaining to total loans granted includes prepaid expenses, which are intended to be presented as a standalone item in the GFI POD form (AOP 064), but were included in other receivables according to the note. In the IFRS note, there is a subdivision into trade receivables, which include GFI POD items AOP 047, AOP 048 and AOP 049.
Trade and other receivables (Note 20)	-	141,418	(141,418)	
Prepaid expenses (AOP 064)	811	-	811	
Total	**141,418**	**141,418**	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Retained earnings or accumulated loss (AOP 083)	198	-	198	In the IFRS report, the profit for the current period and retained earnings are presented together in the balance sheet.
Profit or loss for the year (AOP 086)	36,750	-	36,750	
Retained earnings	-	36,948	(36,948)	
Total	**36,948**	**36,948**	-	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Current liabilities (AOP 109)	15,429	-	15,429	Total current liabilities are classified in the IFRS statements as trade payables and other liabilities. As shown in the note, trade payables include AOP 110 and AOP 117, employee-related liabilities AOP 119, tax and contribution-related liabilities AOP 120, whereas other liabilities are equal to the sum of items AOP 121 and AOP 123.
Accrued expenses (AOP 124)	1,164	-	1,164	
Trade and other payables (Note 26)	-	16,593	(16,593)	
Total	**16,593**	**16,593**	-	

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

The difference between the profit and loss statement items presented in the GFI POD form and the audited financial statements is presented below:

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Cost of raw materials and supplies (AOP 136)	1,602	-	1,602	In the profit and loss statement compiled in accordance with the IFRS, items AOP 136 and AOP 138 are grouped under the "cost of material and services" item.
Other external costs (AOP 138)	20,971	-	20,971	
Raw materials, products, consumables and services used (Note 6)	-	22,573	(22,573)	
Total	**22,573**	**22,573**	**-**	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Other costs (AOP 144)	17,856	-	17,856	In the IFRS statements, items AOP 144 and AOP 155 are grouped as "other costs".
Other operating expenses (AOP 155)	1,578	-	1,578	
Other operating expenses (Note 9)	-	18,411	(18,411)	
Total	**19,434**	**18,411**	**1,023**	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Staff costs (AOP 139)	26,032	-	26,032	In the IFRS report, provisions for termination benefits (AOP 148) are shown in the note "staff costs", together with the costs of other remuneration payable to employees in the amount of HRK 1,023 thousand, which are presented in the GFI POD form under the "other costs" item (AOP 144).
Provisions (AOP 148)	110	-	110	
Staff costs (Note 7)	-	27,165	(27,165)	
Total	**26,142**	**27,165**	**(1,023)**	

(HRK 000)	GFI POD	MSFI	Difference	Explanation
Financial income (AOP 156)	1,208	-	1,208	In the IFRS report, income from fair value adjustment of shares and income from reversal of expected credit loss, in line with IFRS 9, are presented under "other income", whereas they are presented under "financial income" item in the GFI POD from.
Other operating income (outside of the Group) (AOP 132)	44	-	44	
Other operating income (intra-Group transactions) (AOP 131)	10,808	-	10,807	
Other operating income (Note 5)	-	11,357	(11,357)	
Financial income (Note 10)	-	703	(703)	
Total	**12,060**	**12,060**	**-**	

KONČAR– ELECTRICAL INDUSTRY Inc.

Statement of Management's responsibilities

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 of the results of their operations and their cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for:

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

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

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

Management report, Corporate Governance Statement, consolidated financial statement in electronic form in accordance with the ESEF Regulation as well as the attached consolidated financial statements together constitute the Group's Annual Report and were approved and signed by the Management Board on 28 April 2022 for submission to the Supervisory Board and signed below 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

Končar-Electrical Industry Inc., Zagreb

Fallerovo šetalište 22,

10 000 Zagreb

Končar d.d. Zagreb
Fallerovo šetalište 22
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Independent Auditors' Report to the shareholders of KONČAR – ELECTRICAL INDUSTRY Inc

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of KONČAR - ELECTRICAL INDUSTRY Inc ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2021, and the separate statements of comprehensive income, cash flows and changes in equity of the Company 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 unconsolidated financial position of the Company as at 31 December 2021 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

Key Audit Matters

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

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES

As at 31 December 2021, investments in subsidiaries in the separate financial statements amounted to HRK 789,759 thousand. During the year the Company recognized an impairment loss with respect to investments in subsidiaries in the amount of HRK 20,011 thousand.

Please refer to *significant accounting policies 2.2 j) Investment in subsidiaries and associates, key accounting estimates and judgments 3. a) Impairment of investments in subsidiaries* and notes *8 Impairment and 16 Investment in subsidiaries* to the financial statements.

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

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Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

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

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Independent Auditors' Report to the shareholders of 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 Company, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

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Independent Auditors' Report to the shareholders of 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' Report to the shareholders of KONČAR – ELECTRICAL INDUSTRY Inc *(continued)*

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 1 June 2021 to audit the separate financial statements of KONČAR – ELECTRICAL INDUSTRY Inc for the year ended 31 December 2021. Our total uninterrupted period of engagement is two years, covering the periods ending 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 26 April 2022;
- 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.

Independent Auditors' Report to the shareholders of KONČAR – ELECTRICAL INDUSTRY Inc *(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 separate financial statements, as included in the separate annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

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

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

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

Auditors' Responsibilities

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

Independent Auditors' Report to the shareholders of KONČAR – ELECTRICAL INDUSTRY Inc *(continued)*

Report on Compliance with the ESEF Regulation (continued)

Auditors' Responsibilities (continued)

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

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

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

Opinion

In our opinion, the separate financial statements of the Company as at and for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

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

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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28 April 2022

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KONČAR– ELECTRICAL INDUSTRY Inc.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 HRK'000	2020 HRK'000
Revenue	4	129,911	111,661
Other operating income	5	11,357	2,222
		141,268	**113,883**
Cost of materials and services	6	(22,573)	(26,461)
Staff costs	7	(27,165)	(34,469)
Depreciation and amortisation		(8,389)	(9,725)
Impairment losses	8	(28,061)	(26,469)
Other operating expenses	9	(18,411)	(14,089)
		(104,599)	**(111,213)**
Operating profit		**36,669**	**2,670**
Finance income		703	4,150
Finance costs		(622)	(8)
Finance income - net	10	**81**	**4,142**
Profit before tax		**36,750**	**6,812**
Income tax	11	-	-
PROFIT FOR THE YEAR		**36,750**	**6,812**
Other comprehensive income		-	-
COMPREHENSIVE INCOME FOR THE YEAR		**36,750**	**6,812**
Basic and diluted earnings per share in HRK	12	14.44	2.67

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

KONČAR – ELECTRICAL INDUSTRY Inc.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	31 December 2021 HRK'000	31 December 2020 HRK'000
ASSETS			
Intangible assets	13	1,516	1,787
Property, plant and equipment	14	27,985	236,325
Investment property	15	319,736	163,160
Investments in subsidiaries	16	789,759	845,127
Investments in associates	17	67,722	67,722
Investments in joint ventures	18	-	33,950
Financial assets at FVTPL		2,182	1,677
Loans and receivables	19	170,070	24,610
Non-current assets		**1,378,970**	**1,374,358**
Trade and other receivables	20	141,418	41,951
Current financial assets	21	99,142	-
Cash and cash equivalents	22	22,217	264,354
Assets held for sale	23	52,936	8,985
Current assets		**315,713**	**315,290**
TOTAL ASSETS		**1,694,683**	**1,689,648**
EQUITY AND LIABILITIES			
Share (registered) capital		1,208,896	1,208,896
Capital reserves		720	720
Reserves from profit		422,284	421,602
Retained earnings		36,948	15,642
Capital and reserves	24	**1,668,848**	**1,646,860**
Non-current provisions	25	9,242	9,305
Non-current liabilities		**9,242**	**9,305**
Trade and other payables	26	16,593	33,483
Current liabilities		**16,593**	**33,483**
Total liabilities		**25,835**	**42,788**
TOTAL EQUITY AND LIABILITIES		**1,694,683**	**1,689,648**

The accompanying notes form an integral part of these financial statement

	Note	2021 HRK'000	2020 HRK'000
Cash flows from operating activities			
Proceeds from trade receivables		28,639	26,631
Payments to trade payables		(32,437)	(18,525)
Payments to employees		(24,556)	(25,652)
Taxes paid		(6,034)	(1,143)
Other proceeds and payments		(1,605)	(107)
Cash from operations		**(36,003)**	**(18,796)**
Interest paid		-	-
Net cash flows from operating activities		**(36,003)**	**(18,796)**
Cash flows from investing activities			
Proceeds from sale of non-current intangible and tangible assets		13,712	2,122
Proceeds from sale of equity and debt instruments		3,043	2,916
Cash receipts from return on investment	18	33,625	-
Dividends received		66,867	51,187
Interests received		80	1,390
Cash proceeds from term deposits		-	204,744
Cash receipts from loans	20	1,000	35,400
Purchase of non-current intangible and tangible assets		(2,885)	(991)
Payments for acquisition of equity and debt financial instruments	16	(14,643)	(18,454)
Placement of deposits	21	(75,000)	-
Loans granted	19, 20	(156,350)	(32,000)
Cash proceeds from repayment of loans granted		(60,253)	-
Net cash flows (used in) / from investing activities		**(190,804)**	**245,414**
Cash flows from financing activities			
Purchase of treasury shares	24	-	(4,951)
Dividends paid	24	(14,718)	(11)
Net cash used in financing activities		**(14,718)**	**(4,962)**
Net (decrease)/increase in cash and cash equivalents		**(241,525)**	**221,656**
Cash and cash equivalents at beginning of year	22	264,354	43,379
Effect of change in foreign exchange differences		(612)	(681)
Cash and cash equivalents at end of year	22	**22,217**	**264,354**

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

KONČAR – ELECTRICAL INDUSTRY Inc.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Share premium	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Total capital and reserves
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January 2020	**1,208,896**	**720**	**399,096**	**35,092**	**(10,092)**	**12,115**	**1,644,999**
Profit for the year	-	-	-	-	-	6,812	6,812
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**6,812**	**6,812**
Transfer	-	-	3,859	(574)	-	(3,285)	-
Purchase of treasury shares	-	-	-	-	(4,951)	-	(4,951)
Total transactions with the owners	**-**	**-**	**3,859**	**(574)**	**(4,951)**	**(3,285)**	**(4,951)**
At 31 December 2020	**1,208,896**	**720**	**402,955**	**34,518**	**(15,871)**	**15,642**	**1,646,860**
Profit for the year	-	-	-	-	-	36,750	36,750
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**36,750**	**36,750**
Transfer to reserve per annual schedule	-	-	682	-	-	(682)	-
Dividend payments	-	-	-	-	-	(14,762)	(14,762)
Total transactions with the owners	**-**	**-**	**-**	**-**	**-**	**(15,444)**	**(14,762)**
At 31 December 2021	**1,208,896**	**720**	**403,637**	**34,518**	**(15,871)**	**36,948**	**1,668,848**

The accompanying notes form an integral part of these financial statement

1 General information on the Company

Končar-Electrical Industry Inc., Hrvatska, Zagreb, Fallerovo šetalište 22, (the "Company") is the parent company of the Končar-Electrical Industry Group. As the parent company, it prepares consolidated financial statements which are presented and audited separately. These separate financial statements represent the Company as a separate entity. The principal activities of the Company are managing owned subsidiaries and associates.

As at 31 December 2021 the Company had 53 employees, while as at 31 December 2020 the Company had 50 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 Podborkić	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

Financial reporting auditors provided services amounting to HRK 205 thousand in 2021 (2020: HRK 410 thousand). Services in 2021 are mainly related to the cost of audits and audits of financial reports and audits of financial reports prepared for regulatory purposes.

Compensations paid to members of the Management Board and Supervisory Board are disclosed in note 28 to the financial statements.

The financial statements are presented in thousands of Croatian kuna ('000 HRK).

2 Significant accounting policies

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

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments that are carried at fair value. The financial statements have been prepared under the accrual principle on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

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

The Company has prepared these separate financial statements in accordance with the Croatian legal regulations. At the date of approval of these separate financial statements, the Company has prepared and approved the related consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiaries (note 16) have been fully consolidated. Users of these separate financial statements should read them with the Group's consolidated financial statements as at and for the year ended 31 December 2021 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

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 2021 and that have not been early adopted by the Company 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 Company.

2.2 Summary of significant accounting policies

a) Revenue recognition

The Company recognises revenue based on:

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

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

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

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

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

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

b) Finance income and costs

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

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

c) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, adjusted for amounts which are not included in the tax base or tax deductible expenses. Income tax is calculated by using tax rates in effect at the balance sheet date.

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

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

d) Earnings per share

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

Diluted earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, less potential shares which arise from options.

e) Dividend distribution

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

f) 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. Negative and positive exchange differences arising on translation are included in the income statement for the current year and are presented in Note 9 in net amounts (these amounts include exchange differences from operating activities).

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

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

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

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. Depreciation and amortisation cease when the asset is fully depreciated or amortised or when the asset is classified as held for sale. Depreciation and amortisation are charged so as to write off the cost of each asset, other than land and non-current intangible and tangible assets under construction and advances, over their estimated useful lives, using the straight line method, as follows:

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

Impairment of property, plant and equipment

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

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 modified. The recoverable amount is determined as the higher of an asset's fair value less costs of disposal and value in use.

If the amount of an property, plant and equipment exceeds its recoverable value, the difference is charged to profit or loss (impairment loss is recognised). At each reporting date, the Company makes assessment whether the previously recognised impairment loss should be reversed or decreased.

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

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

i) 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 company manages the financial assets for the purpose of generating cash flows. A reclassification of debt instruments is only possible if the business model changes.

Business models for managing financial assets include:

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

Derecognition of financial assets

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

i) Financial assets and liabilities (continued)

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

Impairment of financial assets

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

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.

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

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

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

i) Financial assets and liabilities (continued)

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

Objective evidence of impairment of financial assets for expected credit losses includes:

- significant financial difficulty of the issuer or debtor and/or
- breach of contract, such as a default or delinquency in interest or principal payments; and/or
- probability that the borrower will enter bankruptcy or financial restructuring

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

Financial liabilities and equity instruments

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

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

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, especially legal reserves, statutory reserves and other reserves.

Share capital repurchase

The amount paid for the repurchase of the share capital, including direct costs related to the repurchase, is recognised as a decrease within 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.

i) Financial assets and liabilities (continued)

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

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

Financial liabilities, classification and measurement

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

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.

j) Investments in subsidiaries and associates

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

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

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

k) Investments in joint venture

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

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

l) Merger

The predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated, recognising the present value of net assets merged within equity.

m) Receivables

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

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

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

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

Objective evidence of impairment of financial assets for expected credit losses includes:

- significant financial difficulty of the issuer or debtor and/or
- breach of contract, such as a default or delinquency in interest or principal payments and/or
- probability that the borrower will enter bankruptcy or financial restructuring

n) Cash and cash equivalents

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

o) 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.

p) 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 Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company'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.

p) 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 of hardware and software 5 years
- right of use for the vehicles 5 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 Company applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognized with 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.

q) 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.

r) Borrowings

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

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

s) Provisions

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

t) Employee benefits

i. Pension obligations and post-employment benefits

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

ii. Termination benefits

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

iii. Regular retirement benefits

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

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

t) Employee benefits (continued)

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

u) Contingent assets and liabilities

Contingent liabilities are not recognised in the Company's financial statements, but only disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the Company's financial statements, except in case where the realisation of income is certain and the assets in question are not contingent assets and their recognition is appropriate.

v) Events after the balance sheet date

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

3 Key accounting estimates and judgments

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

a) Impairment of investments in subsidiaries

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

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

In 2021 and in 2020, the Company performed impairment tests on investments in its subsidiaries.

During 2021, in determining the possibility of return of investment and loans in the company Končar - Renewable Energy Sources Ltd., the used expected rate of return on invested capital was 6.2%, terminal value was HRK 8.5 million, which resulted in impairment of HRK 20.01 million.

If the discount rate increased by 1%, this would have an impact on the recoverable amount determined in the amount of HRK 2.5 million. If the residual value reduced by 20% were applied, this would decrease the recoverable amount of the investment by HRK 0.6 million. If the electricity prices were reduced by 1%, this would reduce the recoverable amount of the investment by HRK 0.8 million.

During 2021 the Company also made an estimate of the recoverable amount of the investment in the company Končar - Steel Structures Inc. and Končar – Generators and Motors Inc. The calculation of recoverable amount is based on five-year business plans of these subsidiaries, which are based on their order books, taking into account planned capital investments and applying a rate of return on capital in the range of 7% - 7.1%. Impairment tests assume a terminal growth rate of 1.5% respectively.

3 Key accounting estimates and judgments (continued)

Regarding the sensitivity of impairment tests to changes in key variables, the sensitivity analysis indicates that a reasonably expected change in one of the key variables (terminal growth rate and weighted average cost of capital), with the other variable remaining unchanged, does not result in impairment of investments in subsidiaries and Končar – Generators and Motors Inc. A reasonably expected change in key variables by management is considered to be a change of 50 basis points.

For investment in the company Končar - Steel Structures Inc in the case of the increase of the average weighted capital cost by 50 basis points (with an unchanged terminal growth rate), there would be an indication of a value of 5,029 thousand HRK. On the other hand, in the event of a reduction in terminal rate of growth (with the unchanged weighted average cost of capital) for 50 basis points there would be an indication of a reduction of 1,405 thousand HRK.

b) Estimated residual value of investment property

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

During 2021 and 2020, the Company engaged an independent valuator to determine fair value of the investment property. During 2021, an impairment loss of HRK 1 million was recognised based on the values determined by the independent valuator. During 2020 there were no impairment losses regarding investment property.

4 Revenue

	2021 HRK'000	2020 HRK'000
Dividend income /i/	75,435	60,729
Revenue from contracts with customers /ii/	54,476	50,932
	129,911	**111,661**

/i/ Dividend income

	2021 HRK'000	2020 HRK'000
Dividends from subsidiaries	41,222	35,115
Dividends from associates	34,213	25,614
	75,435	**60,729**

/ii/ Revenue from contracts with customers

	2021 HRK'000	2020 HRK'000
Type of service		
Brand usage fee (fee for the usage of company name, trademark and service mark)	25,994	24,315
Income from property management	23,970	24,000
Income from other fees	4,512	2,617
Total revenue from contracts with customers	**54,476**	**50,932**
Related parties (Note 27)	53,695	50,239
Unrelated parties	781	693
Total revenue from contracts with customers	**54,476**	**50,932**
Timing of revenue recognition		
At a point in time	28,482	26,617
Over time	25,994	24,315
Total revenue from contracts with customers	**54,476**	**50,932**

5 Other operating income

	2021 HRK'000	2020 HRK'000
Gain on sale of assets /i/	10,445	823
Unrealised gains from financial assets	505	528
Write off of liabilities	-	341
Other income	407	530
	11,357	**2,222**

/i/ Gain on the sale of property mainly relates to the sale of land and buildings from Labin location based on an independent appraisal in the amount of HRK 9.2 million.

6 Cost of materials and services

	2021 HRK'000	2020 HRK'000
Supervisory services and property management services	6,432	7,819
Energy costs	1,444	4,653
Utility and water protection fee	3,921	3,282
Maintenance services (servicing)	2,227	2,979
Cleaning services	2,572	2,647
Administrative expenses	476	1,415
Costs of advertising and fairs	1,118	466
Energy distribution costs	1,621	1,148
Telephone, post and transport	521	569
Other services	2,241	1,483
	22,573	**26,461**

7 Staff costs

	2021 HRK'000	2020 HRK'000
Net salaries and wages	14,124	13,574
Taxes and contributions	8,093	8,947
Contributions on salaries	3,816	4,149
Reimbursements of costs to employees	1,132	7,799
	27,165	**27,165**

In 2021, pension fund contributions amounted to HRK 3,463 thousand (2020: HRK 3,413 thousand).

The Company had average of 50 employees (2020: average of 52 employees).

8 Impairment losses

	2021 HRK'000	2020 HRK'000
Impairment losses on investment in subsidiaries (note 16)	20,011	20,146
Impairment losses on investment in joint ventures (note 18)	325	3,104
Impairment losses on receivables	6,737	1,659
Impairment losses on intangible assets (note 13)	-	1,560
Impairment losses on investment property (note 15)	988	-
	28,061	**26,469**

9 Other operating expenses

	2021 HRK'000	2020 HRK'000
Intellectual services	9,436	6,576
Piece work agreements	2,965	2,547
Sponsorships and donations	1,581	1,737
Representation services	734	637
Daily allowances for business trips and travel expenses	349	324
Cost of insurance	903	911
Write – off and disposal of assets	1,551	517
Other costs	892	840
	18,411	**14,089**

10 Finance income and costs

	2021 HRK'000	2020 HRK'000
Finance income		
Interest income	673	1,100
Net foreign exchange gains	-	3,021
Income from dividends and shares in profit	30	29
	703	**4,150**
Finance cost		
Net foreign exchange losses	(619)	-
Interest expenses	(3)	(8)
	(622)	**(8)**
Net finance income	**81**	**2.665**

11 Income tax

	2021 HRK'000	2020 HRK'000
Profit before tax	36,750	6,812
Tax at applicable tax rate of 18%	**6,615**	**1,226**
Tax effects of:		
Non-deductible expenses	5,153	6,253
Non-taxable income	(13,613)	(10,952)
Tax benefits (state aid for education and training)	(25)	(22)
Tax losses for which no deferred tax asset was recognised	1,870	3,495
Income tax	**-**	**-**

The Company did not recognise deferred tax assets in the total amount of HRK 13,156 thousand (2020: HRK 15,258 thousand) due to the uncertainty of its usage within the period of five years (the Company as a holding mainly realises non-taxable revenue (dividends and shares in profits)). The income tax rate for the application of the deferred tax calculation is 18% in accordance with the changes in the tax regulations in force. Total tax losses expire as follows:

	2021 HRK'000	2020 HRK'000
Within 5 years	10,393	19,418
Within 4 years	19,418	9,397
Within 3 years	9,397	11,286
Within 2 years	11,286	22,595
In the next year	22,595	22,072
	73,089	**84,768**

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

12 Earnings per share

Basic and diluted earnings per share	2021 HRK	2020 HRK
Profit for the year	36,750,493	6,812,307
Weighted average number of shares (net of treasury shares)	2,545,449	2,547,936
Earnings per share in HRK	**14,44**	**2,67**

Diluted earnings per share for 2021 and 2020 is equal to basic earnings per share, since the Company did not have any convertible instruments or share options outstanding during either period.

12 Earnings per share (continued)

Weighted average number of shares is as follows:

	2020	2019
	HRK	HRK
Issued ordinary shares at 1 January	2,572,119	2,572,119
Effect of treasury shares held	(26,670)	(24,183)
Average number of shares	2,545,449	**2,547,936**

13 Non-current intangible assets

	Concessions, patents, licences, software and other rights	Other	Intangible assets under construction	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Cost				
At 1 January 2020	**469**	**653**	**3,162**	**4,284**
Transfer	1,602	-	(1,602)	-
Additions	314	-	-	314
Disposals	(404)	-	-	(404)
At 31 December 2020	**1,981**	**653**	**1,560**	**4,194**
Additions	-	-	112	112
Transfer to investment property	-	(653)	-	(653)
At 31 December 2021	**1,981**	**-**	**1,672**	**3,653**
Accumulated amortisation				
At 1 January 2020	**469**	**653**	**-**	**1,122**
Amortisation for the year	129	-	-	129
Impairment	-	-	1,560	1,560
Disposals	(404)	-	-	(404)
At 31 December 2020	**194**	**653**	**1,560**	**2,407**
Amortisation for the year	383	-	-	383
Transfer to investment property	-	(653)	-	(653)
At 31 December 2021	**577**	**-**	**1,560**	**2,137**
Net book amount				
31 December 2020	1,787	-	-	1,787
At 31 December 2021	**1,404**	**-**	**112**	**1,516**

The cost of fully amortised intangible assets still in use as at 31 December 2021 amounts to HRK 64 thousand (2020: HRK 653 thousand).

14 Property, plant and equipment

	Land	Buildings	Plant and equipment	Tools and office supplies	Other	Assets under construction	Advances	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost								
At 1 January 2020	**98,596**	**305,292**	**51,738**	**5,840**	**69**	**3,715**	**-**	**465,250**
Additions	-	-	-	-	-	7,089	516	7,614
Transfer from assets under construction	-	3,700	765	687	-	(5,152)	-	-
Transfer to investment property	(2,586)	(19,441)	-	-	-	-	-	(22,027)
Disposals	(85)	(202)	(215)	(1,409)	-	(438)	(516)	(2,865)
At 31 December 2020	**95,925**	**289,349**	**52,288**	**5,118**	**69**	**5,223**		**447,972**
Additions	-	-	-	-	-	4,855	-	4,855
Transfer from assets under construction	-	5,520	314	-	-	(5,816)	-	-
Transfer to investment property	(82,240)	(203,204)	(19,492)	-	-	(2,259)	-	(307,195)
Transfer to assets held for sale	(9,345)	(40,121)	(965)	-	-	-	-	(50,431)
Other reclassifications	-	433	(442)	-	9	-	-	-
Disposals	(1,006)	(202)	(6,768)	(725)	(22)	(30)	-	(19,975)
At 31 December 2021	**3,334**	**40,535**	**24,935**	**4,393**	**56**	**1,973**	**-**	**75,226**

14 Property, plant and equipment (continued)

Accumulated depreciation	**Land**	**Buildings**	**Plant and equipment**	**Tools and office supplies**	**Other**	**Assets under construction**	**Advances**	**Total**
	HRK’000	**HRK’000**	**HRK’000**	**HRK’000**	**HRK’000**	**HRK’000**	**HRK’000**	**HRK’000**
At 1 January 2020	-	**172,449**	**40,177**	**4,203**	-	-		**216,829**
Depreciation for the year	-	6,568	1,909	1,119	-	-	-	**9,596**
Transfer to assets held for sale	-	(13,042)	-	-	-	-	-	**(13,042)**
Disposals	-	(181)	(213)	(1,321)	-	-	-	**(1,736)**
At 31 December 2020		**165,773**	**41,873**	**4,001**	**-**	**-**	**-**	**211,647**
Depreciation for the year	-	5,724	1,717	565	-	-	-	**8,006**
Transfer to investment property	-	(128,331)	(14,183)	-	-	-	-	**(142,514)**
Transfer to assets held for sale	-	(12,893)	(308)	-	-	-	-	**(13,201)**
Other reclassifications	-	86	(86)	-	-	-	-	-
Disposals	-	(9,471)	(6,626)	(600)	-	-	-	**(16,697)**
At 31 December 2021		**20,888**	**22,387**	**3,996**	-	-		**47,241**
Net book amount								
31 December 2020	**95,925**	**123,576**	**10,415**	**1,117**	**69**	**5,223**	**-**	**236,325**
31 December 2021	**3,334**	**19,647**	**2,548**	**427**	**56**	**1,973**	**-**	**27,985**

The cost of fully depreciated property, plant and equipment still in use as at 31 December 2021 amounts to HRK 22,893 thousand (2020: HRK 44,464 thousand). During 2021 and 2020 the Company did not have mortgages on its property. During 2021, as a result of analysis and segmentation of the real estate portfolio, of the Company, management undertook several restructuring steps in relation to "non-core" properties that are currently not operational, with the final aim of reducing costs and relieving the staff in charge of real estate management. Accordingly on December 31, 2021, the reclassification of real estate was carried out. The real estate portfolio management strategy may change in the future, resulting in changes to the current classifications.

15 Investment property

Movements in investment property in 2021 and 2020 are presented below:

	Land	Buildings	Assets under construction	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Cost				
At 1 January 2020	**52,865**	**194,713**	**-**	**247,578**
Reclassification	14,200	(14,200)	-	-
At 31 December 2020	**52,865**	**194,713**		**247,578**
Additions	-	-	4	4
Transfer from assets under construction	-	764	(764)	-
Reclassification from tangible assets	82,240	222,696	2,259	307,195
Reclassification on assets held for sale	(635)	(8,730)	-	(9,365)
Reclassification from intangible assets	-	653	-	653
Other reclassification	3,300	8,384	-	11,684
Disposals	-	(563)	-	(563)
At 31 December 2020	**151,970**	**403,717**	**1,499**	**557,186**
Accumulated depreciation				
At 1 January 2020	**555**	**83,863**	**-**	**84,418**
Reclassification	10,396	(10,396)	-	-
At 31 December 2020	**10,951**	**73,467**	**-**	**84,418**
Impairment	81	907	-	988
Reclassification from tangible assets	-	142,514	-	142,514
Reclassification on assets held for sale	(81)	(2,563)	-	(2,644)
Reclassification from intangible assets	-	653	-	653
Other reclassification	3,300	8,384	-	11,684
Disposals	-	(163)	-	(163)
At 31 December 2021	**14,251**	**223,199**	**-**	**237,450**
Net book amount				
31 December 2020	56,114	107,046	-	163,160
31 December 2021	**137,719**	**180,518**	**1,499**	**319,736**

The fair value of investment property at the balance sheet date relates to fair value level 3 since the input variables are not based on observable market data. Fair value of investment property at the balance sheet date amounts to HRK 642.4 million, from which:

- HRK 373.9 million relates to land;
- HRK 268.5 million relates to buildings.

The purchase value of fully depreciated real estate investments that are still in use at 31 December 2021 is HRK 23,402 thousand (31 December 2020: HRK 5,366 thousand).

16 Investment in subsidiaries

	Country	31 December 2021 HRK'000	31 December 2020 HRK'000	31 December 2021 % ownership share	31 December 2020 % ownership share
Domestic subsidiaries					
Končar – Switchgear Ltd., Zagreb	Croatia	84,364	134,364	100.00	100.00
Končar – Steel Structures Ltd., Zagreb	Croatia	126,419	126,419	100.00	100.00
Končar – Generators and Motors Ltd., Zagreb	Croatia	107,928	107,928	100.00	100.00
Končar – Distribution and Special Transformers, Inc., Zagreb	Croatia	62,118	62,118	52.73	52.73
Končar – Electrical Engineering Institute Ltd., Zagreb	Croatia	60,936	60,936	100.00	100.00
Končar – Infrastructure and Services Ltd., Zagreb	Croatia	56,691	56,691	100.00	100.00
Končar – Electronics and Informatics Inc., Zagreb	Croatia	61,328	55,436	97.64	88.98
Končar – Renewable Energy Sources Ltd., Zagreb	Croatia	43,196	55,207	91.25	90.30
Končar – Engineering Co. Ltd., Zagreb (before: Končar - Engineering Co. for Plant Installation & Commissioning Inc)	Croatia	70,103	51,773	100.00	100.00
KONČAR - Motors and electrical systems, Zagreb (before: Končar - Small Electrical Machines Inc.)	Croatia	48,601	48,601	100.00	100.00
Končar – Electric Vehicles Inc., Zagreb	Croatia	36,409	36,409	75.04	75.04
Končar – Instrument Transformers, Inc., Zagreb	Croatia	30,446	30,446	61.97	61.97
Končar – Engineering Co. for Plant Installation Inc., Zagreb	Croatia	-	18,799	-	96.79
Končar – Digital Ltd., Zagreb	Croatia	1,200	-	100.00	-
Končar – Investments Ltd., Zagreb	Croatia	20	-	100.00	-
		789,759	**845,127**		

In 2021, with the decisions of the Assembly of Companies Končar - Generators and Motors Ltd., Končar - Switchgear Ltd., Končar - Steel Structures Ltd., Končar - Electrical Engineering Institute Ltd. Končar - Engineering Ltd. and Končar - Motors and electrical systems., companies were transformed from joint stock companies into limited liability companies.

16 Investment in subsidiaries (continued)

	31 December 2021	31 December 2020
	HRK' 000	HRK'000
As at 1 January	845,127	846,819
Increase /i/	14,643	18,454
Decrease /ii/	(50,000)	-
Impairment /iii/	(20,011)	(20,146)
As at 31 December	**789,759**	**845,127**

/i/ The increases relate to the recapitalization of Končar - Renewable Energy Sources Ltd., Zagreb, and to the purchase of shares in Končar - Engineering Co. for Plant Inc., Zagreb and Končar - Electronics and Informatics Inc., Zagreb (in 2020, the Company made a share capital contribution in cash in the Končar - Renewable Energy Sources Ltd. and bought shares in Končar - Engineering Co. for Plant Installation Inc., Zagreb).

/ii/ Decrease in 2021 relates to the process of decrease in share capital in the company Končar - Switchgear Ltd., Zagreb.

/iii/ Impairment in 2021 relates to subsidiary Končar - Renewable Energy Sources Ltd.

/iv/ As at 1 July 2021, Končar - Engineering Co. for Plant Installation Inc., Zagreb was merged to Končar – Engineering Ltd., Zagreb. As at 24 May 2021 company Končar – Investments Ltd., Zagreb was incorporated.

As at 1 October 2021 company Končar – Digital Ltd. was incorporated, through de-merger process.

17 Investments in associates

Investments in associates in the amount of HRK 67,722 thousand (31 December 2020: HRK 67,722 thousand) relate to the investment in the company Končar - Power Transformers Ltd., Zagreb (the Company holds a 49% share in the share capital of this company).

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

18 Investments in joint ventures

	31 December 2021 HRK' 000	31 December 2020 HRK'000
As at 1 January	33,950	37,054
Impairment	(325)	(3,104)
Disposal	(33,625)	-
As at 31 December	**-**	**33,950**

Investments in joint ventures relate to the investment in Končar - XD High Voltage Switchgear Ltd., Zagreb (the Company holds a 50% share in the share capital of this company until 13 August 2021 when this company, by decision of the founders, ceased to exist by a limited procedure without liquidation).

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

19 Non-current loans and receivables

	31 December 2021 HRK' 000	31 December 2020 HRK'000
Loan granted /iii/	*155,350*	-
Receivables for shares sold /i/	13,796	18,243
Receivables for recognised claims /ii/	-	6,634
Receivables for sold flats	924	1,733
Total receivables	***14,720***	***24,610***
	170,070	**24,610**

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

/ii/ Receivables for recognised claims relate to receivables for a court deposit.

/iii/ Loan granted are loans for subsidiary for period of 3 years at an interest rate of 2.35%.

Changed in loans granted to subsidiaries:

	HRK’000
1 January 2021	**-**
Loans granted	155,350
Loans repaid	-
31 December 2021	**155,350**

20 Trade and other receivables

	31 December 2021 HRK' 000	31 December 2020 HRK'000
Related party receivable	100,379	36,243
Receivables for shares sold	2,523	2,600
Third party receivables	671	1,296
Receivables for sold flats	728	929
Loans given and interest	20	13
Other receivables /i/	37,097	870
	141,418	**41,951**

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

	31 December 2021 HRK' 000	31 December 2020 HRK'000
Undue	94,977	35,677
< 60 days	3,036	1,384
60-90 days	269	222
90-180 days	957	243
180-365 days	1,749	13
More then 365 days	62	-
	101,050	**37,539**

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

/i/ Other receivables in the largest amount relate to the redemption of claims with the end debtor, which is not considered as a related company at the balance sheet date, as explained in note 30.

/ii/ The loans to subsidiaries were granted for a period of return up to one year with an annual interest of 0.75% (2020 3.42%), and secured by its own blank endorsed promissory notes and promissory notes.

Movements in loans granted to related parties were as follows:

	HRK'000
1 January 2020	**2,500**
Loans granted	32,900
Loans repaid	(35,400)
31 December 2020	**-**
Loans granted	1,000
Loan repaid	(1,000)
31 December 2021	**-**

21 Current financial assets

	31 December 2021 HRK' 000	31 December 2020 HRK'000
Deposits over 3 months /i/	75,003	-
Other current financial assets /ii/	24,139	-
	99,142	**-**

/i/ In 2020, the Company placed a deposit for a 100 days period at the interest rate of 0.001%.Deposit was placed in HRK.

/ii/ Other current financial assets relate to the redemption of claims on loans, with the end debtor not considered to be a related company at the balance sheet date as explained in note 30.

22 Cash and cash equivalents

	31 December 2021 HRK' 000	31 December 2020 HRK'000
Cash in bank	22,213	264,348
Cash on hand	4	6
	22,217	**264,354**

23 Non-current assets held for sale

The Management Board and the Supervisory Board adopted a new business strategy in October 2021, which defines the divestment of the Company's non - operational assets. Accordingly, the Management Board started the process of selling several locations owned by the Company, and these sites were presented as assets intended for sale. Actions on the sale of assets were initiated by the Board, and the sale is expected by the end of 2022.

	31 December 2021 HRK' 000	31 December 2020 HRK'000
Land	12,485	2,586
Buildings	40,451	6,399
	52,936	**8,985**

The fair value of non – current assets intended for sale at the balance sheet date relates to a level of 3 fair value since the entry variables of its designation are not based on observable market data. The fair value of fixed assets intended for sale at the balance sheet date is 89.4 million HRK, of which:

- amount of HRK 18.1 million refers to the land,
- and amount of HRK 71.3 million se refers to the buildings

24 Capital and reserves

Share (registered) capital is determined in the nominal amount of HRK 1,208,895,930 (31 December 2020: HRK 1,208,895,930) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The Company's ownership structure was as follows:

		31 December 2021		31 December 2020	
	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	Addiko Bank d.d./PBZ Croatia Osiguranje OMF	-	-	426,907	16.60
3	Erste & Steiermarkische bank D.D./ PBZ CO OMF - Kategorija B	440,121	17.11	-	-
4	OTP Banka d.d. / AZ OMF	370,178	14.39	371,162	14.43
5	OTP Banka d.d. / Erste Plavi mandatory pension fund	398,402	15.49	393,972	15.32
6	Restructuring and Sale Center (CERP)/Croatia	68,584	2.67	60,000	2.33
7	Floričić Kristijan	25,000	0,97	40,714	1.58
8	Addiko Bank/RBA OMF	-	-	47,636	1.85
9	Privredna banka Zagreb d.d./ Raiffeisen Omf Kategorije B	47,636	1.85	-	-
10	Zagrebačka banka d.d. /AZ Profit DMF	35,870	1.39	35,870	1.39
11	OTP banka d.d. / OTP Indeksni find - OIF s javnom ponudom	22,308	0.80	21,345	0.83
12	Other shareholders	412,835	16.05	423,328	16.46
13	KONČAR d.d. (trezorske dionice)	26,670	1.04	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 in accordance with the resolution of the Zagreb Stock Exchange Management from 20 December 2010.

During 2018, the Company started purchasing its treasury shares. Based on a decision of the General Assembly in 2019, the Management Board is authorized to acquire treasury shares for a period of 5 years.. 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. In 2020, the company bought shares worth HRK 4,951 thousand. During the year 2021, there was no redemption of shares, and at 31 December 2021 the Company owns 26,670 of its own shares (31 December 2020: 26,670 shares).

In 2021, the Society's Assembly adopted a decision to pay dividends to shareholders of HRK 14,764 thousand (in 2020 there was no dividend payout).

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.

25 Provisions

	Jubilee awards and termination benefits HRK'000
1 January 2020	**4,775**
Additional provisions	6,746
Used provisions	(2,196)
Release of provisions	(20)
31 December 2020	**9,305**
From which current	**-**
Additional provisions	100
Release of provisions	(163)
31 December 2021	**9,242**
Out of which current	**-**

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

Provisions for termination benefits in the amount of HRK 9,242 thousand (2020: HRK 9,305 thousand) relate to termination benefits for members of the Management Board.

Remaining portion of HRK 186 thousand (2020: HRK 310 thousand) relates to the estimated amount of termination benefits and jubilee awards in line with the Collective Agreement, to which the employees are entitled at the end of their employment (either upon retirement, termination or voluntary departure, eligibility for jubilee awards). The present value of the provision is calculated on the basis of the number of employees, average gross salary, years of service at the balance sheet date, statutory non - taxable value of severance pay and the discount rate of 0.6% (2020: 0.7%).

26 Trade and other payables

	31 December 2021 000' HRK	31 December 2020 000' HRK
Related party payables	3,324	23,414
Trade payables	2,347	2,377
Liabilities for contributions on and from salaries and taxes and surtaxes	4,963	3,430
Bonus accruals	3,335	2,120
Liabilities for net salaries	892	912
Other employees related liabilities	725	717
Other liabilities	1,007	513
	16,593	**33,483**

27 Contingent liabilities and off - balance sheet items

Off - balance sheet records as at 31 December 2021 include collaterals issued (including corporate guarantees to third parties) at the request of the Group's subsidiaries to financial institutions and suppliers in the amount of HRK 931,875 thousand (31 December 2020: HRK 738,830 thousand) , while subsidiaries issued collateral to the Company from the aforementioned transactions in the amount of HRK 880,778 thousand (31 December 2020: HRK 691,794 thousand).

28 Related party transactions

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

2021	**Receivables HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expenses HRK'000**
Operating activities				
Subsidiaries	65,417	3,324	51,248	16,918
Associates	34,962	-	2,481	-
Total operating activities	***100,379***	***3,324***	***53,729***	***16,918***
Financing activities				
Subsidiaries	155,370	-	20	-
Associates	-	-	-	-
Total financing activities	***155,370***	***-***	***20***	***-***

28 Related party transactions (continued)

2020	Receivables HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Operating activities				
Subsidiaries	10,289	23,414	47,843	19,140
Associates	25,954	-	2,426	-
Total operating activities	***36,243***	***23,414***	***50,269***	***19,140***
Financing activities				
Subsidiaries	13	-	144	-
Associates	-	-	-	-
Total financing activities	***13***	***-***	***144***	***-***

Revenue from the sale of assets to subsidiaries in 2021 amounts to HRK 18 thousand, and in 2020 to HRK 126 thousand.

Dividend receivables from associates as at 31 December 2021 of HRK 34,213 thousand (31 December 2020: HRK 25,614 thousand). Dividend income, Income from shares in profit (subsidiaries and associates) is presented in detail in note 4.

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

Regular remuneration of key management personnel in 2021 amounts to HRK 8,872 thousand (2020: HRK 8,823 thousand), and relates to 6 members of the Management Board (2020: 6 members of the Management Board).

Remuneration to key personnel in 2021 also includes a variable part of the salary in the amount of HRK 7,106 thousand (2020: HRK 5,595 thousand), and the accruals for termination benefits in the amount of HRK 51 thousand (2020: HRK 6,809 thousand).

Total remuneration to the members of the Supervisory Board in 2021 amounted to HRK 2,488 thousand (2020: HRK 2,164 thousand) for 6 members of the Supervisory Board.

29 Financial risk management and financial instruments

Capital risk management

Financial leverage ratio

	31 December 2021 HRK'000	31 December 2020 HRK'000
Debt (current and non-current) = D	-	-
Bank deposits (current)	75,003	-
Cash and cash equivalents	22,217	264,354
Net cash/(debt)	97,220	264,354
Equity = E	(1,668,848)	(1,646,860)
Financial leverage ratio = D/(D+E)	**0,00%**	**0,00%**

Financial risk management

The Company's operations are exposed to the following financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. Categories of financial instruments and method for measuring fair values are as follows:

	FV hierarchy	31 December 2021 HRK'000	31 December 2020 HRK'000
Equity instruments at FVTPL	Level 1	2,182	1,677
Total financial assets at FVTPL		**2,182**	**1,677**
Trade receivables	n/a	101,050	37,539
Receivables for sold shares	n/a	16,319	18,843
Receivables for claims recognised	n/a	-	6,634
Receivables for flats sold	n/a	1,652	2,662
Loans granted and interest	n/a	155,370	13
Deposits	n/a	75,003	-
Receivables on loan – back basis	n/a	24,139	-
Other receivables	n/a	36,181	-
Cash and cash equivalents	n/a	22,217	264,354
Total financial assets at amortised cost		**431,931**	**330,045**
Total financial assets		**434,113**	**331,772**
Leases payable	n/a	-	-
Trade payables	n/a	5,671	25,791
Total financial liabilities at amortised cost		**5,671**	**25,791**
Total financial liabilities		**5,671**	**25,791**

A) Fair value of financial assets and liabilities

Fair value of a financial instrument is the amount at which it could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. This hierarchy groups financial assets and liabilities into 3 levels depending on the significance of the input variables used in measuring the fair value of financial assets and liabilities. The Company uses the following hierarchy for determining the fair value of financial instruments:

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

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

Receivables and bank deposits

For assets that mature within 3 months and money market funds, 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 length of maturity of those instruments. The Management Board believes that their fair value is not materially different from their carrying value.

Other financial instruments

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

B) Financial instrument risks

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

1 Market risk

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

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

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

a) Foreign currency risk

The Company is exposed to this risk through sales, purchase and loans stated in a foreign currency which is not the Company's functional currency. Foreign currency primarily exposed to such risks is EUR. The Company is therefore exposed to currency risk when selling, purchasing and placing short-term time deposits denominated in foreign currency.

The relevant exchange rate for EUR were as follows:

	Spot exchange rate		Average exchange rate	
	31 Dec 2021	31 Dec 2020	2021	2020
	HRK	HRK	HRK	HRK
EUR	7,51717	7,5369	7,52418	7,53308

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

	Denominated in EUR	
	31 December 2021	**31 December 2020**
	HRK'000	**HRK'000**
Trade receivables	-	1,020
Deposits	-	-
Cash and cash equivalents	1,905	248,403
Trade payables	(5)	(21)
	1,900	**249,402**
Effect of the change in exchange rates by 1% on profit	**19**	**2,494**

The above table under the amounts in euros does not include receivables for sold flats due to the agreed clause on increase / decrease of receivables in relation to the euro exchange rate when the exchange rate changes by more than 5.1% compared to the exchange rate existing at the time of the contract.

B) Financial instrument risks (continued)

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

b) Interest rate risk

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

2 Credit risk

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

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

The analysis carried out showed that the effect of IFRS 9 on receivables is irrelevant for the financial statements at 31 December 2021 and is not recorded as such.

3 Liquidity risk

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

The following table presents the maturity of financial liabilities of the Company as at 31 December 2021 in accordance with contracted undiscounted payments:

	Net book value	Contractual cash flows	up to 1 year	1 – 2 years	2 – 5 years	over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2021						
Trade payables	5,671	5,671	5,671	-	-	-
	5,671	**5,671**	**5,671**	**-**	**-**	**-**

B) Financial instrument risks (continued)

The following table presents the maturity of financial liabilities of the Group as at 31 December 2020 in accordance with contracted undiscounted payments:

	Net book value	Contractual cash flows	up to 1 year	1 – 2 years	2 – 5 years	over 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
31 December 2020						
Trade payables	26,128	26,128	25,791	-	337	-
	26,128	**26,128**	**25,791**	**-**	**337**	**-**

30 Events after the reporting date

As at 19 January 2022, Advanced Energy Solutions Ltd. made a cash payment of HRK 310 million for the purpose of recapitalisation of Dalekovod Inc. from Zagreb. Founders of Advanced Energy Solutions Ltd. from Zagreb are Končar - Investments Ltd. and Construction Line Limited. Končar - Investments Ltd. is 100% owned by Končar – Electrical Industry Inc. Following the payment made and upon completion of the recapitalisation process, Advanced Energy Solutions Ltd. became the majority owner of Dalekovod Inc., with an ownership share of over 75%.

By participating in the process of financial restructuring of Dalekovod, Končar recognized the prospect of future growth and development linked to the renewal and modernisation of electricity transmission and distribution networks. Complementarity between the Končar and Dalekovod production programme will allow the extension of the service portfolio and full solutions and increase the share of export earnings, with greater added value.

At the reporting date, the conditions for control transfer over the Dalekovod Group companies were not met, and, accordingly in the consolidated financial statements for Končar for the year ended 31 December 2021, Dalekovod Group companies were treated as unrelated parties and were not included in the consolidation of the Končar Group.

The Group's Management considers that control over the Dalekovod group has been acquired with effect from 1 April 2022, following the general assembly of the Dalekovod Group after which the Supervisory Board has been nominated and control mechanisms established over the Dalekovod Group.

After the reporting date, until the date of approval of these financial statements, and with the exception of the above, there were no other events that would have a significant impact on the Company annual accounts for 2021, which should therefore be disclosed.

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