KONČAR GROUP

CONSOLIDATED ANNUAL REPORT
31 DECEMBER 2021

KONČAR
Inspired by challenge

Table of contents

Key performance indicators

Double-digit growth rates

Net profit	+66%	Compared to 2020
Backlog	+18%	Compared to 31 December 2020
Sales revenue	+17.0%	Compared to 2020
EBITDA	+59.8%	Compared to 2020
EBITDA margin	+223 bps	Compared to 2020
Export sales	+11.5%	Compared to 2020

Comment by Gordan Kolak, President of the Management Board

The year in which we celebrated our century of excellence ended with a double-digit growth in all key performance indicators. Record-breaking revenue growth, combined with a significantly greater profit compared to 2020, not only met, but also exceeded our planned targets. KONČAR Group 2020+ Integral Strategy has set a clear direction for the Company's future business performance.

In 2021 KONČAR Group's operations showed a great resilience and stability, achieving the best results in the history of the Company. During 2021, the macroeconomic environment was still under the great impact of the COVID-19 pandemic, which was reflected primarily in the supply chains disruptions and in soaring prices of key raw materials and commodities. Nevertheless, KONČAR Group's timely measures and activities have mitigated the negative effects on the performance. Strong financial position, great order intake, adaptability to customers and suppliers, enabled us to meet our deadlines and regularly fulfil payment obligations, contributing to growth in the number of new orders and allowing us to continue with the positive performance trend in 2022.

Excellent results and great order intake are the basis for continued growth

Total revenue generated in 2021 amounted to HRK 3,602 million, representing an increase of HRK 536.9 million (17.5%) compared to 2020. Revenue generated from sales of products and services in international markets amounted to HRK 2,062.7 million, representing an increase of 11.5% year-on-year. The share of exports in revenues from sales of products and services amounted to 60%, two thirds of which pertained to EU countries. This is a good indicator of the fact that KONČAR Group's products and solutions are certainly competitive in the area of electrical power and rail solutions. The Company generated operating profit (EBIT) in the amount of HRK 194 million, which was double than the 2020 EBIT. EBITDA amounted to HRK 291.3 million, representing an increase of HRK 108.5 million year-on-year. EBITDA margin is 8.4% New order intake amounted to HRK 4,238.5 million. Book-to-bill ratio, order intake in comparison to orders realised in 2021, stands at 1.22. Backlog at the end of 2021 amounted to HRK 5,008.1 million, which represents an HRK 760.5 million (17.9%) increase compared to the value at the start of the year.

Numerous contracts were performed and concluded in 2021, both in the domestic and international markets. A contract valued HRK 330 million was signed with Hrvatska elektroprivreda for the replacement of primary equipment at Senj Hydro Power Plant. KONČAR's trams were commissioned in the city of Liepāja, commencing the performance of a contract for the delivery of a total of 14 trams for this Latvian city - 10 of which were delivered by end of 2021. A contract for delivery of three generators for two small hydro power plants in Japan marked the Company's further step forward in the Asian market. A project worth HRK 57.2 million was contracted for the future production and R&D facilities of Rimac Automobili. The contract includes the construction of a substation, relocation of the existing overhead power line Rakitje - Tumbri 3 and the construction of a new overhead connection line. Works also commenced in North Macedonia on the construction of a 400/110 kV substation in Ohrid. The substation will enable international connection with neighbouring Albania, which will further strengthen the region's power system. An HRK 63 million contract was signed with Vattenfall Eldistribution, the Swedish distribution system operator. The contract includes a very complex reconstruction of a facility at the Finnslätten substation in Västerås. Long-standing cooperation with ZET (Zagreb Electric Tram) continued with the signing of a two-year framework agreement for the maintenance of low-floor trams. The signed framework agreement is in line with KONČAR's business strategy to build long-term relationships with its customers, important to ensure the best performance of KONČAR products during their life cycle.

KONČAR Group Integral Strategy

Following the pandemic breakout, which almost brought the entire world to a halt at one point, the economy has been recovering and life is slowly beginning to return to normal, which has resulted in a great increase in demand for and consumption of electricity. Recognising these trends in the area that is closely connected with the Group's core business activities, identifying the Group's strengths and weaknesses, and having a clear vision of future development and objectives are processes that require continuous adaptation of business models. KONČAR Group 2020+ Integral Strategy sets the development direction and the strategic objectives which contribute to KONČAR Group utilising all its potentials and defining its strategic priorities for the upcoming period. The strategy lays down the main objectives defined as the new dimension of development. The

Strategy includes a compelling new four-year development and investment cycle, improvement of employee qualification and competencies structure through recruitment of a significant number of new engineers over the next four years, and a further increase in exports through winning new key markets. By 2024, through expanding the portfolio of services and offering integrated solutions that have greater added value, the Group plans to generate consolidated revenue in the amount of HRK 4 billion, in terms of organic growth.

The 2020+ Integral Strategy is based on six levers of transformation that are intended to transform KONČAR into an even more modern and agile company that has the ability to adapt to market trends at any given moment, primarily in electrical power solutions, rail solutions and related infrastructure. The plan to turn this vision into reality is based on the identified opportunities that will contribute to the growth of the overall performance and creation of new value, not only for KONČAR and its stakeholders, but for the society as a whole.

Recapitalisation of Dalekovod

In 2021, KONČAR expressed interest and became involved in the process of financial restructuring of Dalekovod through a potential capital injection, specifically by investing in the company's share capital, together with Construction Line. By participating in the process of financial restructuring of Dalekovod, KONČAR has recognized an opportunity for future growth and development which is related to reconstruction and modernization of the power grid for transmission and distribution. The complementarity of the product ranges of KONČAR and Dalekovod will enable the expansion of the portfolio of services and comprehensive solutions and increase the share of revenues from exported services and solutions, with greater added value.

Appreciation for all the employees and shareholders

The excellent results achieved are the result of the efforts of all employees across all our facilities. Their commitment and exceptional dedication, teamwork, competencies, and wide expertise have created a foundation that enable us to deliver excellent results. I would also like to thank our shareholders for the trust they have placed in us, as well as to our suppliers, business partners, and customers. Our efforts would not have yielded such results had it not been for their loyalty and support. Investment in new technologies, new manufacturing processes and in employees is the path that we continue to take in our business operation, to the satisfaction of all our stakeholders..

mr.sc. Gordan Kolak
President of the Management Board

Key performance indicators

in HRK 000	2019	2020	2021	Δ	2021/2020	CAGR 2021/2019
Operating income	**2,876,986**	**3,026,268**	**3,554,258**	**527,990**	**117,4**	**11.1**
Sales revenue - total	2,810,951	2,972,558	3,477,453	504,895	117,0	11.2
Sales revenue - export	1,650,471	1,849,589	2,062,733	213,144	111,5	11.8
Operating expenses	**2,834,974**	**2,941,063**	**3,360,266**	**419,203**	**114,3**	**8.9**
Operating profit	42,012	85,205	193,992	108,787	227,7	114.9
Operating margin	1.5%	2.9%	5.6%		+bps 271	93.2
Net profit	52,052	127,576	211,391	83,815	165,7	101.5
Amortization	91,487	97,546	97,285	-261	99,7	3.1
EBITDA	**133,499**	**182,751**	**291,277**	**108,526**	**159,4**	**47.7**
EBITDA margin	4.7%	6.15%	8.38%		+bps 223	32.8
Normalised EBITDA[1]	154,354	190,829	306,837	116,008	160,8	41.0
Normalised EBITDA margin[1]	5.5%	6.4%	8.8%		+bps 240	
Cash balance (deposits + cash)[2]	662,635	820,008	725,516	-94,492	88,5	
Loans (long-term + short-term)[2]	327,893	230,087	305,214	75,127	132,7	
Order intake	**3,079,211**	**3,734,951**	**4,238,487**	**503,536**	**113,5**	**17.3**
Backlog [2]	3,485,203	4,247,593	5,008,076	760,483	117,9	19.9
Book-to-bill ratio	1.10	1.26	1.22			

Normalised EBITDA[1]: EBITDA decreased by the net effect of provisions, assets sale profits, loos compensation revenue, and increased by value adjusment of non-current and current assets.
Cash balance, loans and backlog [2]: balance as at 31 December 2021

KONČAR in 2021 - major completed projects and new contracts

2021 was a volatile year in which KONČAR achieved record results. On the one hand, investments in the electric power sector have increased, which is an opportunity for KONČAR, while on the other hand, supply chain disruptions, soaring prices of raw materials and energy have made business more challenging. As a result of good cooperation with our suppliers, we were able to meet delivery terms and grow our order intake.

Below you will find a short overview of major completed projects and new contracts for the upcoming period.

January

- We marked the centenary of business operations with a donation of HRK 100,000 to Topusko High School in the earthquake-affected area. During the jubilee year, together with donations, many press releases, interviews, events and more, a documentary film was prepared conceived as a short overview of KONČAR's rich history and a monograph *100 years of KONČAR - People and Work* was published.
- KONČAR - Distribution and Special Transformers was the first in the world to produce and test a transformer filled with the new biodegradable and sustainable insulating liquid Nytro BIO 300X, which boasts better cooling characteristics. Aware of the importance of a sustainable and clean environment in manufacturing, more and more environmentally friendly raw materials are selected, products are ecologically designed while clean, safer and healthier processes are being introduced into manufacturing.

February
- Rehabilitation of 110/35 kV Prilep 1 in North Macedonia was completed.
- KONČAR - Motors and Electrical Systems delivered the first fans to the Chinese customer Siemens Energy Transformer Jinan.
- KONČAR - Steel Structures commenced the delivery of the components of complex Phase shifter units for a long-term Dutch customer. These include two interconnected transformer tanks, each of which has standard and test equipment. Each unit weighs almost 60 tons.
- KONČAR - Generators and Motors delivered two vertical synchronous generators with the nominal power of 5.3 MVA to a Malaysian customer.

March
- Trams manufactured by KONČAR - Electric Vehicles were commissioned in Liepāja.
- Reconstruction works of the USZMR system, PROCIS and the lubrication system of unit C at HPP Kraljevac were completed.
- Overhaul of unit 2 at HPP Rama in BiH was contracted.

April
- An agreement on SCADA / EMS system upgrades was signed with the Albanian transmission system operator.

May
- Contract for the replacement of primary equipment at HPP Senj worth HRK 330 million was signed.
- Design, manufacturing and supervision during the installation of three generators for two different small hydro power plants in Japan was contracted.

June
- Almost 400 distribution transformers of 630 and 1000 kVA for the electricity distribution network operator HEDNO were delivered, which marks the return of KONČAR - Distribution and Special transformers to the Greek market.
- An agreement worth HRK 57.2 million was signed for the construction of a 110/20 kV substation for the energy supply of Rimac Campus, the future centre for R&D, battery and hyper-car manufacturing. The scope of the turn-key project also includes relocation of the existing 110 kV power line Rakitje – Tumbri 3 and the construction of a new 110 kV cable connection line.

July
- New low-floor electric train (EMV) was commissioned on the route Rijeka - Permani - Rijeka. The train was delivered to HŽPP by KONČAR - Electric Vehicles pursuant to the April 2020 contract for the manufacturing of 12 EMVs for urban-suburban and regional mobility.
- The consortium consisting of KONČAR - Power Plant and Electric Traction Engineering (KET) and Colas Rail was awarded the project of modernization of the tram infrastructure in the city of Osijek. The value of works in this part of the project amounts to HRK 57.9 million.
- KONČAR - Generators and Motors contracted new projects with Sydkraft Hydropower for the rehabilitation of generators at HPP Forsse in Sweden and with Électricité de France for the rehabilitation of HPP Saint Tulle II generator in France.

August
- As part of a Laboratory Centre at KONČAR - Electrical Engineering Institute, the construction of a multi-purpose laboratory for large electrical machines and plants was launched. In addition to high-voltage, other electrical, mechanical and environmental tests will be conducted in the new laboratory.
- In North Macedonia, the works on the construction of the new 400/110 kV Ohrid substation, which was contracted by KONČAR - Power Plant and Electric Traction Engineering in 2020, were officially opened. The substation will enable an international connection with neighbouring Albania at a 400 kV voltage level, which will further strengthen the region's energy system.
- KONČAR - Electrical Engineering Institute successfully completed the project *Safe human-robot interaction in logistic applications for highly flexible warehouses (SafeLog)* within the Horizon 2020 programme. The aim of the project was to enable safe interaction between humans and robots in flexible logistics centres.

September
- KONČAR – Power Plant and Electric Traction Engineering signed the inaugural contract for the Swedish distribution system operator Vattenfall Eldistribution AB worth HRK 63 million. This significant contract in the field of transmission and distribution was won against strong competition from renowned local companies.
- Liepāja tramvajs partnered up with KONČAR - Electric Vehicles once again placing an order for two more low-floor trams. KONČAR – Electric Vehicles will deliver a total of 14 low - floor trams to Liepājas tramvajs.

October

- One of major steps forward of KONČAR Group is the establishment of KONČAR - Digital. Development and application of digital technologies, primarily in the power industry, is of strategic interest for KONČAR. The new company will be based on the knowledge and competencies that have been created over the last few years and will be the cornerstone of further development of digital technologies and solutions.
- KONČAR - Infrastructure and Services was awarded Green Prix - the national award for environmental protection for 2021.
- Contract was signed for the design, manufacturing, factory testing and transport of three generators with associated excitation and monitoring systems, tools and devices along with spare parts and supervision of the installation and commissioning for the HPP Nam Nam 3 project in Laos.

November

- KONČAR - Engineering successfully completed contractual obligations as part of the construction of the SVC plant at 400/220/110/10 kV substation Konjsko. The construction of the SVC plant at Konjsko substation marked the completion of the third and final part of Croatia's commitments in the European project of advanced networks Sincro.Grid. In addition to KONČAR - Engineering, several Group companies participated in the implementation of this project including KONČAR - Power Transformers, a joint venture between Siemens Energy and KONČAR, KONČAR - Instrument Transformers, KONČAR - Switchgear and KONČAR - Electronics and Informatics.

December

- General overhaul of the motor-generator number 1 at SA SP HPP Čapljina was completed. PS HPP Čapljina is specific for its 636-meter-long tunnel leading through the mountain massif which allows access to the underground engine room and it boasts a 280-tonne motor generator.
- In mid - December KONČAR - Electric Vehicles delivered the tenth of fourteen contracted low-floor electric trams for public transport in Liepāja, Latvia.

Awards and acknowledgements

- On the occasion of the centenary of business operations, the President of the Republic of Croatia Zoran Milanović, awarded KONČAR - Electrical Industry with the Charter of the Republic of Croatia for exceptional and longstanding contribution to Croatian economy and its promotion domestically and internationally.
- KONČAR was awarded the Charter of the Croatian Chamber of Commerce on the occasion of 100th anniversary of business operations, as one of the leading Croatian exporters, which has established itself as a regional electrical power industry leader. Four members of KONČAR Group have been awarded the Croatian Chamber of Commerce Zlatna kuna Award 13 times, and the Croatian Sustainability Index Award seven times.
- KONČAR - Distribution and Special Transformers was awarded the Zlatna kuna plaque by the Croatian Chamber of Commerce in the category of large companies for achieved business results and demonstrated financial, technological and innovative excellence.
- At the 16th Convention of Croatian Exporters, two Golden Keys were awarded to Končar's companies. KONČAR - Distribution and Special Transformers was named the best major exporter in 2020, and the Golden Key in the category of the best exporter to Qatar went to KONČAR - Energy Transformers (KPT), a joint venture of Siemens Energy and KONČAR.
- As part of the 13th Conference on Sustainable Development KONČAR – Electrical Engineering Institute was awarded the Croatian Sustainability Index Award (HRIO) in the Human Rights category.
- In December 2021, KONČAR was also awarded Partnership for Sustainability Award by the UN Global Compact Network . The Award aims to give a boost to businesses, employees, top management, and various levels of government for implementation of sustainable strategies in operational standards.

Origin and history

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

With exports that began back in 1952, throughout its rich history KONČAR has delivered equipment and products to all continents across the world, which is an indicator of competitiveness and the high level of quality and reliability. The USD 6.7 billion exports realized during the century of excellence speak of the quality, reliability and constant technological progress.

1921	1921	1946	1991	2021
ELEKTRA Inc.	Siemens Inc.	RADE KONČAR	KONČAR - Electrical Industry Inc.	KONČAR 100

KONČAR Group corporate profile

KONČAR's operations are divided into four business segments which are based on the complementarity of the business and product range, market segmentation and customer categorization. The main business segments are power generation, power transmission and distribution, rail solutions and infrastructure, and digital solutions and platforms. The Group consists of the parent company Končar - Electrical Industry Inc. and seventeen group members, predominantly manufacturing companies, two affiliated companies and two joint ventures.

Today, KONČAR generates almost HRK 3.6 billion in total revenues, 60 percent in international markets and employs 3,640 people.

Mission, vision, core values

OUR MISSION

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

OUR VISION

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

OUR CORE VALUES

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

Corporate governance

Application of corporate governance principles

The shares of KONČAR - Electrical Industry Inc. are listed on the Official Market of the Zagreb Stock Exchange. The Company applies the Corporate Governance Code of the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA). The Code is available on the websites of the Zagreb Stock Exchange (www.zse.hr) and HANFA (www.hanfa.hr).
In line with statutory regulations in force, KONČAR – Electrical Industry Inc. prepared a 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.končar.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. The 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 controls and efficient accountability system.

The Management and Supervisory Boards adopted the Code of Conduct - the key document used to adopt and promote the core 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, pertaining to employment and work environment, including the requirements and selection criteria for recruitment, promotion and professional development.

The description of key elements of internal controls and risk management is an important part of business operations, and those elements are further outlines 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 pertaining 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 percent of the total number of employees.
- The Remuneration Committee performs all the tasks defined in Article 15 of the Code, with the exception of the oversight of the Management board in the appointment process for the members of management boards of subsidiaries, which falls under the competence of the supervisory boards of Group members.
- In the re-election process for the Supervisory Board members whose term of office ended in 2020, the materials for the General Assembly session did not include details of their attendance at the meetings of the Supervisory Board and its committees during their previous term of office, or the conclusions of the most recent evaluation of their performance (Article 17 of the Code). The Company will include this information in the materials for the General Assembly session 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 in Article 65, paragraph 7 of the Audit Act.
- Members of other committees are also not independent, and they are also members of the Supervisory Board.
- Remuneration Committee performs all the tasks defined in Article 50 of the Code, however decisions on the remuneration of the members of the management boards in subsidiaries fall under the competence of their supervisory boards.

- The Company has failed to establish effective formal mechanisms to enable minority shareholders to raise questions directly with the presidents of the Supervisory and Management Boards (Article 76 of the Code). The Company has established mechanisms to enable minority shareholders to raise questions via e-mail address available to investors (ir@koncar.hr), in addition to raising any questions directly with the Supervisory and Management Board Members at the General Assembly session.
- The Company does not use the means of modern communication technology for participation and voting in the General Assembly session (Article 79 of the Code), as in practice, the current manner of exercising votes has been shown to be the optimal solution, mostly due to the existence of many shareholders with a small number of shares.
- Answers to the questions asked at the General Assembly session were not made freely available by the Company on its website (Article 82 of the Code). There were no questions asked by the shareholders attending the two General Assembly sessions 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 session publicly available in the court register.
- Communication between the chairpersons and members of the committees and the Company's stakeholders (suppliers, buyers, 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 towards political objectives to any state or beneficiary. KONČAR promotes and executes fair and transparent competition principles across its businesses in dealing with all entities across all locations. Anti-competitive, antitrust or monopoly practices have not been 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 responsible for the election and discharge of the Supervisory Board members, decides on the use of profit, grants discharges to the Management and Supervisory Board Members, appoints auditors and decides on amendments to the Articles of Association, increases and reductions of share capital and other matters as stipulated by the relevant acts.

In 2021, one session of the General Assembly was held. At the session held on1 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 the General Assembly sessions have been published in accordance with legal regulations and are available on the Company websites (www.koncar.hr) Zagreb Stock Exchange and HANFA websites.

Supervisory Board

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

Company, a majority shareholder or a group of majority shareholders, or a member of the Management or Supervisory Board or a majority shareholder.

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

The Supervisory Board is responsible for the supervision of the management, represents the Company in dealings with the Management Board and adopts decisions on matters not falling under the General Assembly's competence. The Supervisory Board does not engage in direct management of the Company. Rather, the Supervisory Board directs the Management Board in matters pertaining to the adoption of 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 prior consent of the Supervisory Board.

The President of the Supervisory Board is elected by the members of the Board, 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. The 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 of 12 July 2016, monthly remuneration for the 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.

The Remuneration report for the Members of the Management and Supervisory Boards includes information on the remuneration amount, and 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 the Supervisory Board.

The Management and the 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. The annual reports were unanimously adopted, and the quarterly and semi-annual reports were noted by the Supervisory Board. The Supervisory Board adopted them unanimously and without objections. In addition, the Supervisory Board was informed by the Management Board on corporate strategy, planning, business events, risk management, compliance, any deviations of business events from the original plans and estimates, as well as significant business transactions involving the Company and its subsidiaries and 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 operates with the optimal number of nine members 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 efficient 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, two are woman, which makes 22 percent of the total number of members. When making appointments, in addition to the necessary expertise of the candidates, the Supervisory Board also takes diversity into account.

The Report on the Supervision conducted in 2021, prepared for voting at the General Assembly session, contains the following:
- The manner and the extent to which the Supervisory Board oversaw the management of the Company in 2021,
- Results of the review of annual financial statements prepared as at 31 December 2021,
- Auditor's reports,
- Results of the 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, providing support services to the work of the Board: 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 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 the 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 also serve as members of the Supervisory Board. In 2021, the Committee held 2 sessions and they were attended by all the Committee members. In 2021, the Strategic Board discussed the KONČAR Group 2020+ Integral Strategy and referred it to the Supervisory Board for adoption.

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 Committee is chaired by Danko Škare, and Darko Horvatin and Ivan Milčić are members. All members of the Committee also serve as 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 the members of the Management and Supervisory Boards. The Chairman of the Committee is Branko Lampl, and Maja Martinović and Ruža Podborkić are members. All members of the Committee also serve as members of the Supervisory Board. In 2021, the Committee held 1 session, which was attended by all the Committee members.

Management Board

The role of the Management Board in managing the Company's operations is regulated by the Companies Act, the Articles of Association and the internal regulations of Končar - Electrical Industry Inc. The Management Board carries out the duties with due care and diligence of a prudent businessman taking into account the best interest of the Company and the shareholders.
The Company's Management Board is the governing body solely responsible for overall business operations. It is appointed and recalled by the Supervisory Board. The scope of work of the members of the Company's Management Board is determined by: business 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 key performance indicators and the maintaining and building of a positive reputation of the Company. Through their membership in the Supervisory Boards and General 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 Boards cooperated effectively in the best interests of the Company, maintaining 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.

Self-assessment of the individual performance a member of the Management Board is an integral part of the annual process of performance management and performance assessment of the members of the Management Board. Moreover, pursuant to Companies Act, the General Assembly approves the manner in which the Management Board carried out the Company's operations, by issuing a discharge for the previous business year.

Pursuant to the Articles of Association, the Management Board consists of three to seven members. Currently, the Management Board operates with six members. Management Board members are appointed for an up to five-year term and may be reappointed without any limitations regarding 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. The Remuneration Report for the Members of the Management and Supervisory Boards with the information on the remuneration amount, 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 economics and finance
Božidar Poldrugač	Member of the Management Board in charge of digital solutions, ICT and urban infrastructure

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

Internal audit

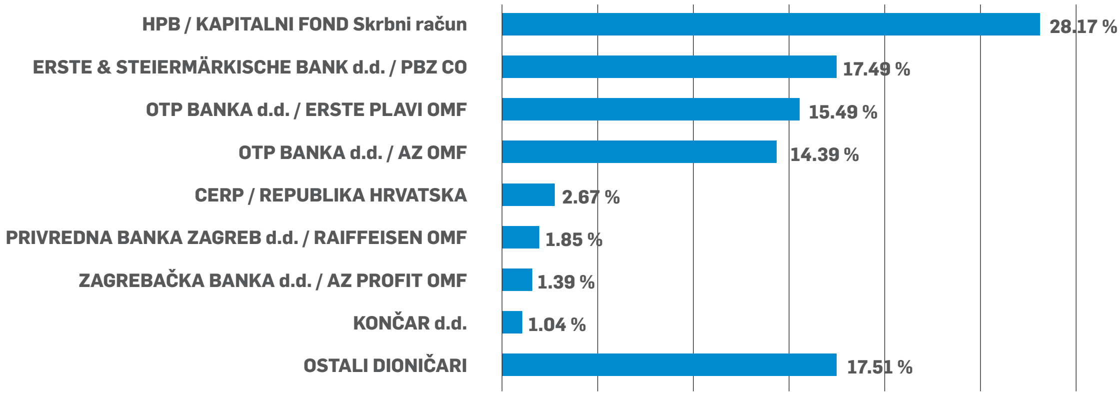
KONČAR Group Internal Audit Department operates as an independent audit and controls system. It informs the Management through comprehensive reports on performed audits (providing findings and recommendations for improvements). The Internal Audit Charter was adopted in October 2018. It defines the scope of activities and main principles applied in the work of KONČAR Group's Internal Audit Department.

The Department is responsible for assessing risk management levels in business processes and audits the efficiency of the controls system with the aim of improving risk management and procedural compliance. It is in charge of scrutiny and analysis of compliance of the existing business systems with adopted policies, plans, procedures, legislation and regulations which might have a significant impact on business reports. Internal Audit recommends preventive measures in the area of financial reporting, compliance, operations and controls system in order to eliminate risks and possible failures which might 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. The findings and recommendations allow the Management to improve the processes, pre-emptively eliminate potential risks or reduce them 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 outlines detailed findings and recommendations for all the performed audits with deadlines and status reports. The report on the conducted audits was submitted and adopted by the Audit Committee.

Capital market

Ownership Structure

The shares of KONČAR – Electrical Industry Inc. are listed on the Official Market of the Zagreb Stock Exchange. The shares are identified by the symbol "KOEI-R-A", ISIN: HRKOEIRA0009. KONČAR's ownership structure is stable and diversified, with the most significant share of 75.5 percent held by Kapitalni fond and voluntary pension funds.



Shares

In keeping with the Companies Act and Rules of Zagreb Stock Exchange, the Company ensures regular access to information on operations and activities and information on any facts and circumstances that may affect the share price (price sensitive information).

The share capital of the Company amounts to HRK 1,208,895,930.00 divided into 2,572,119 ordinary shares with a nominal value of HRK 470.00. The Company owns 26,670 treasury shares, which is 1.04 percent of the share capital of the Company. The Company applies the same conditions to all shareholders and treats them equally irrespective of the number of shares in their possession, their country of origin and other properties. Voting rights encompass all shareholders in that the number of votes they are entitled to at the General Assembly equals the number of shares they have in their possession (one-share-one-vote rule).

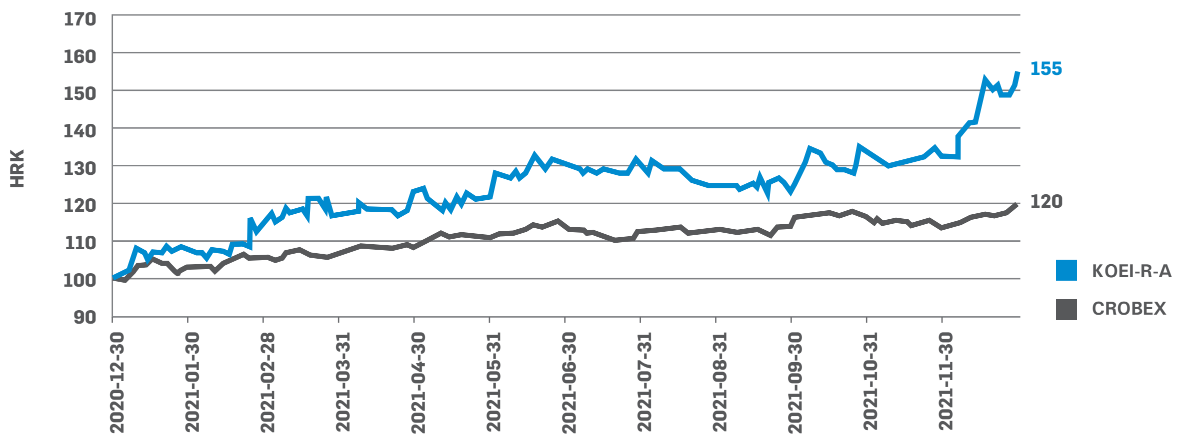
In 2021, in line with the resolution of the General Assembly, net profit in the amount of HRK 681,230.68 was allocated to legal and other reserves. The remainder of the profit in the amount of HRK 6,131,076.02 and retained earnings from previous years in the amount of HRK 8,632,528.18 were paid to shareholders through dividends. The dividend stood at HRK 5.80 per share.

In the first half of 2021, the capital market recorded strong growth, which slowed down in the second half of the year. CROBEX10 achieved a growth of 16.0% and CROBEX grew by 19.6%. At the same time, Končar - Electrical Industry Inc. share recorded a significant uplift of 55.2% (closing price).

On 10 December 2021, KONČAR – Electrical Industry Inc. and Interkapital vrijednosni papiri d.o.o. signed an Annex to the Market Making Contract. Interkapital vrijednosni papiri d.o.o. will continue to engage in market making for the ordinary shares of KONČAR – Electrical Industry Inc., KOEI-R-A, ISIN: HRKOEIRA0009, listed on the Official Market of Zagreb Stock Exchange. Market maker's services include issuing simultaneous buy and sell orders regarding company shares, in accordance with the Rules of the Zagreb Stock Exchange. The market maker will continue to perform the tasks under the signed Annex until 31 December 2022.

KOEI-R-A	31 December 2020	31 December 2021	Index
Final price (HRK)	580.00	900.00	155.2
Highest price (HRK)	670.00	900.00	134.3
Lowest price (HRK)	430.00	580.00	134.9
Volume	95,131	91,767	96.5
Turnover (HRK)	51,579,683	65,270,145,00	126.5
Market capitalization (HRK)	1,476,360,420	2,290,904,100	155.2
EPS (HRK)	29.00	64.41	221.1
(profit of the parent company owner/weighted average number of shares			

Share price indexes and offical ZSE Index Crobex



Investor relations

In 2021, KONČAR - Electrical Industry held regular webcast conferences following each release of business results. In addition to regular conferences, the Group participated in various domestic and international investment conferences and held numerous meetings with domestic and foreign investors.

Social responsibility

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

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

Note:
Corporate Sustainability and Social Responsibility Report shall be available in May 2022. The obligation of the Company to report on factors in line with the EU Delegated Act supplementing Article 11 Paragraph 3 (EU Taxonomy Regulation) shall constitute an integral part of the Report.

Quality, environment, safety of people and information security

An integral part of KONČAR's business policy is meeting customer satisfaction by delivering quality and reliable products, protecting the environment, protecting the health and safety of employees in the workplace, as well as information security. These policies are implemented in the Group companies by applying and certifying management systems according to the requirements of international standards ISO 9001 for quality management, ISO 14001 for environmental management, OHSAS 18001/ISO 45001 for occupational health and safety management, ISO/IEC 27001 for information security management and ISO/IEC 50001 for energy management.

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

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

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

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

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

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

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

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

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

Customers and suppliers

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

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

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

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

KONČAR Group companies are users of ZelEn HEP - Opskrba products and use electricity produced exclusively from renewable sources in their operations.

Employee relations

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

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

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

Labour relations

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

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

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

At KONČAR, new employees are onboarded in the induction programme, Seminar for trainees and new employees. Since 2003, when the onboarding seminar was launched, until 2020, twenty-nine were held, for slightly under 1,000 trainees and new employees. The participants of the seminar learn about the organization, the full product range, references, marketing activities and promotion, social responsibility and other activities at KONČAR, gain knowledge about the strength and the importance of synergy of the Group companies and labour relations.

Due to the epidemiological situation and the recommendations of Croatian Institute of Public Health the seminar was not held in 2021.

Gender equality

One of the core principles of business ethics at KONČAR is the principle of equality, respect for human rights and the dignity of all people. Guided by the principles of professionalism, expertise and impartiality, job applications are not gender-biased and women and men are employed equally, based on their qualifications, and are afforded equal opportunities for development and advancement.

All women employees are entitled to maternity and parental leave and all men employees are entitled to parental leave. All women employees have resumed work upon completing their maternity leaves, while men employees have resumed work following their parental leaves.

As at 31 December 2021, KONČAR employed 3,640 people. In the structure of employees, 79 percent are men and 21 percent are women. Women make up 20 percent of 439 managers.

Employee structure

As at 31 December 2021, KONČAR employed 3,640 people. According to job type, 2,687 workers hold engineering / manufacturing jobs (78 percent) and 777 workers (22 percent) hold administrative jobs.

Of the total number of workers, 68% are employed in engineering / manufacturing jobs, and among them the leading occupations are in the field of electrical engineering (1,194 people) and mechanical engineering (1,132 people).

In 2021 KONČAR employed 41 people holding PhDs, 43 people holding master's degrees, 1296 university specialists and 107 specialist graduates. The share of employees holding higher education qualifications was 39 percent.

In 2021, the largest age cohort was 30 to 39, accounting for 30% of employees. The age group of 40 to 49 includes 25% of employees, while people aged 50 to 59 make up 17.6% of the total number of employees. The smallest age cohort (5.5%) includes employees between the ages of 19 and 24.

Employee turnover

In 2021 a total of 623 new workers were employed. A total of 519 workers left KONČAR during the reporting period, with the employee turnover rate at 14.5%. Year-on-year, in 2021, 190 more workers were employed, while 135 more workers left KONČAR Group.

Employee protection

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

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

In 2021, one irregularity was reported. After an investigation conducted by the confidential person it was concluded that it was founded, and it was established that it could be resolved with the Employer and therefore there was no need to refer the irregularity to external bodies.

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

Cooperation with the community

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

Sponsorships and donations

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

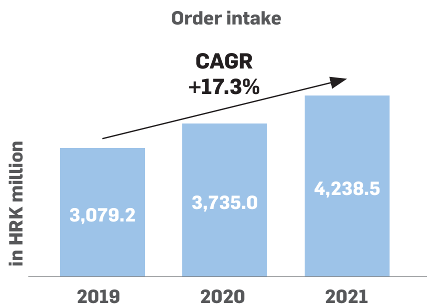
Beneficiaries of donations and sponsorships can be natural persons and educational, cultural, sports institutions and clubs, associations and organizations that have a regulated legal status.

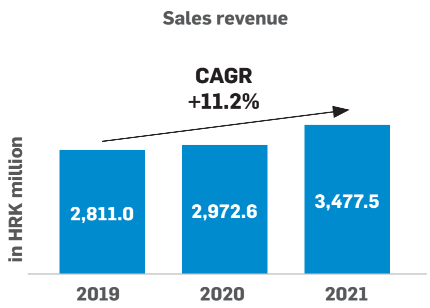
KONČAR does not donate or sponsor:
- Political parties and citizens' associations that are organized with the aim of promoting political objectives,
- State bodies and institutions,
- Organizations and individuals in projects whose activities or implementation thereof promote racial, religious or any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

In 2021, KONČAR allocated HRK 2 million towards donations and sponsorships. Donations were primarily chandelled towards humanitarian and social causes, while sponsorships were primarily channelled towards professional conferences and media promotion.

KONČAR Group financial operations

Growth based on great order intake





a) Revenue from the sales of products and services

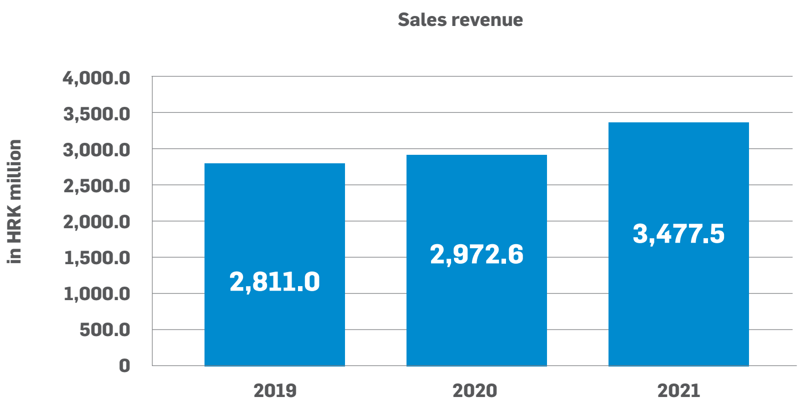
In 2021, revenues generated from sales of products amounted to HRK 3,477.5 million, representing an increase of HRK 504.9 million year-on-year.

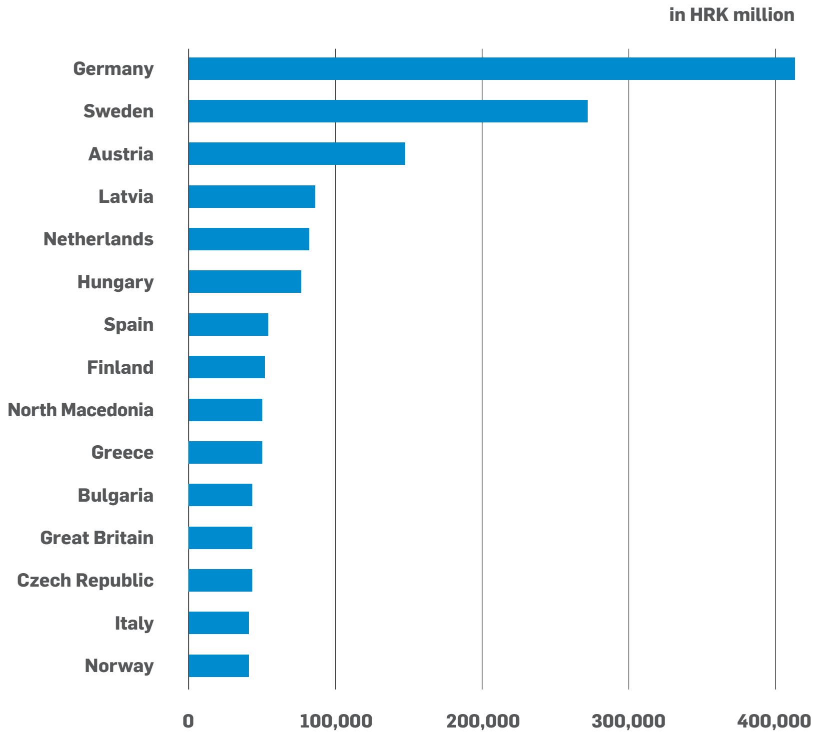
Revenues generated from sales in the domestic market amounted to HRK 1,414.7 million, representing an increase of HRK 291.7 million year-on-year.

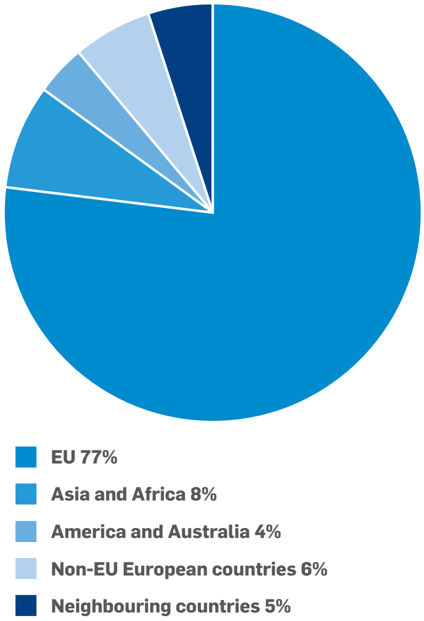
In the structure of products and services sales revenue in the domestic market, revenues generated from sales of products and services to HEP Group members (HEP – Generation, HEP – Distribution System Operator and Croatian Transmission System Operator amounted to HRK 638.5 million (18.4 percent of total revenue from sales of products and services). Revenues from the sales of products and services to HŽ Passenger Transport, HŽ Infrastructure and Rolling Stock Technical Services amounted to HRK 341.9 million (9.8 percent of the total revenue).

Revenues generated from the sales of products and services in foreign markets amounted to HRK 2,062.7 million, representing an increase of HRK 213.1 million or 11.5 percent year-on-year. Exports account for 59.3 percent of the total product and service sales revenue. By country, the most significant sales were realized in the German market, in the amount of HRK 410.9 million, accounting for 19.9 percent of the total exports (HRK 185.3 million increase year-on-year). Goods and services exported to Sweden amounted to HRK 273.5 million (13.3 percent of the total exports); to Austria HRK 148.2 million (7.2 percent of the total exports). Compared to the same period in the previous year, apart from Germany and Austria, a significant increase in revenues from export sales of products and services pertained to the following markets: Greece (an HRK 43.6 million increase); Spain (an HRK

42.1 million); Latvia (an HRK 39.9 million increase); and the Netherlands with HRK 39.8 million more in goods and services exported year-over-year. Exports to the European Union rose by HRK 374.3 million year-on-year and in 2021 amounted to HRK 1,593.3 million. Revenues declined across all other continents as a result of travel restrictions and restrictions of direct contacts with customers during the lockdown and travel disruptions (primarily in container shipping). Somewhat better revenues were generated in the regional markets, amounting to HRK 100.5 million or HRK 26.6 million more than in 2020. Year-on-year, higher order intake was recorded across all markets. Higher order intake impacts on sales results are expected in the upcoming period.







Export by regions (2021)

EU countries	in HRK million
Germany	410,9
Sweden	273,5
Austria	148,2

Non-EU European countries	in HRK million
Great Britain	42,7
Norway	40,4
Switzerland	22,9

Neighbouring countries	in HRK million
North Macedonia	49,1
Bosnia and Herzegovina	31,0
Serbia	8,0

Asia and Africa	in HRK million
UAE	36,9
Philippines	12,3
Malaysia	9,3

America and Australia	in HRK million
USA	23,0
Australia	22,8
Canada	12,2

Export in total sales revenue

60%

b) Revenues from the sales of products and services by product group

In 2021, companies in the transformer segment generated sales revenues in the amount of HRK 1,565.6 million, which was HRK 233.9 million growth year-on-year. The transformer segment accounts for 45 percent of the total sales revenues. Out of the total sales revenues, 86% was generated in export markets, mostly in the EU.

Companies operating in the transformer segment place most of their products in the EU market (86 percent).

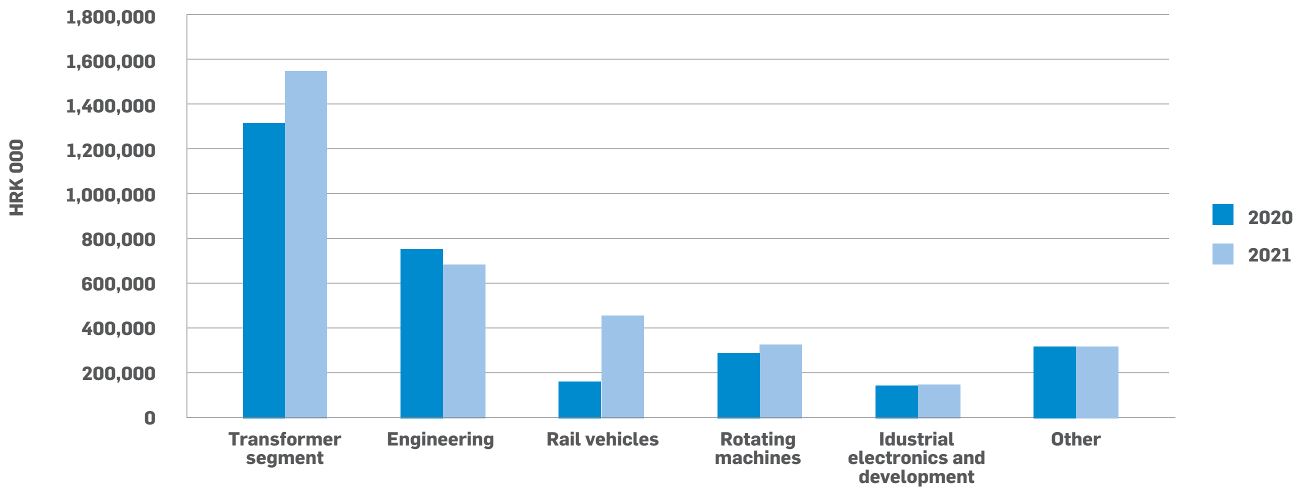
Companies operating in the engineering segment generated revenues in the amount of HRK 681.5 million, which represents an HRK 77.8 million decline year-on-year. Lower revenues were generated mainly due to the shift in deliveries and extensions of some contracts in 2022, at the request of customers.

Revenues generated in the rail solutions segment amounted to HRK 449.1 million, which is an HRK 297.2 million rise year-on-year.

Revenues generated by the companies operating in the rotating machines segment were HRK 323.3 million, which is HRK 44.7 million growth year-on-year. Companies operating in the segment of industrial electronics and rail vehicles generated sales revenues in the amount of HRK 143.3 million, which is HRK 10.9 million increase year-on-year.

HRK 000	2020	2021	Δ	Index 2021/2020
Transformer segment	1,331,729	1,565,631	233,902	118
Engineering	759,350	681,532	-77,818	90
Rail vehicles	151,870	449,080	297,210	296
Rotating machines	278,569	323,273	44,704	116
Industrial electronics and development	132,417	143,310	10,893	108
Other*	318,623	314,627	-3,996	99
Sales revenue	**2,972,558**	**3,477,453**	**504,895**	**117**

Note:
**"Other" relates to sales revenues of the companies whose activities are not classified under specific groups of products and services stated in the table above.*

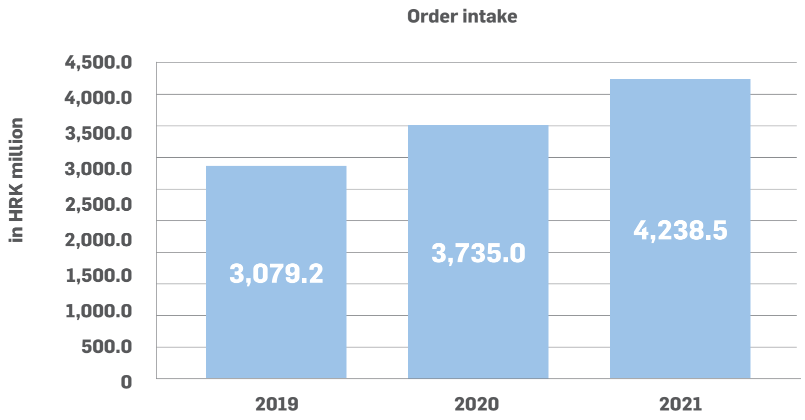


c) Order intake in 2021 and backlog as at 31 December 2021

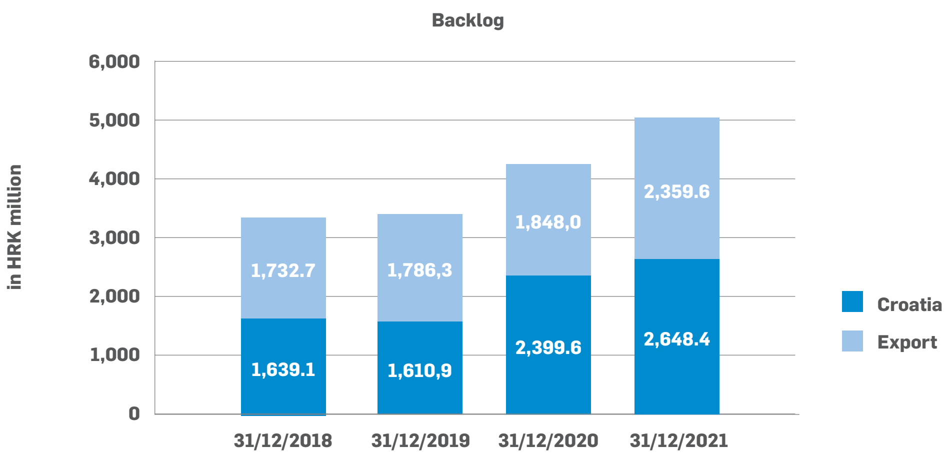
In 2021, KONČAR Group companies contracted new projects worth HRK 4,238.5 million. Compared to 2020, the value of contracted projects as of 31 December 2021 was HRK 503.5 million (13.5%) higher. Book-to-bill ratio for the period January - December 2021 was 1.22.

Out of the total amount of order intake, HRK 1,663.9 million (39.2% of total order intake) pertains to the Croatian market, whereas HRK 2,574.6 million (60.8% of the total order intake) pertains to export contracts. In terms of the order intake in the Croatian market, the most significant portion in the amount of HRK 1,062.1 million pertains to the contracts for HEP Group (HEP - Generation, HEP - Distribution System Operator, HEP Transmission System Operator), representing 25.0 percent of the total order intake in 2021. Of the total order intake for HEP, the most significant amount pertains to the contract for the replacement of primary equipment at HPP Senj. Contracted works and equipment worth HRK 330 million constitute the main part of the HPP Senj reconstruction project, which will increase the rated capacity of the plant by 20 MW. The works are expected to commence in 2022 and to be completed in 2026. Two significant contracts in the domestic market include the contract for Rimac Automobili in the amount of HRK 57.2 million and the framework agreement for the maintenance and service of trams with Zagreb Holding in the amount of HRK 44.7 million.

In the period from January to December 2021, most order intake in the foreign markets pertained to EU countries, specifically HRK 2,574.6 million, which was HRK 746.9 million or 40.9% percent increase year-on-year. Of the total order intake in foreign markets, the majority pertains to the European Union countries, amounting to HRK 1,928.8 million, which is HRK 550.9 million or 40.0 percent more than contracted in 2020. The most significant growth in order intake was recorded in the German market (HRK 204.0 million more), Swedish market (HRK 112.5 million more) and Italian market (HRK 57.6 million increase year-on-year). The share of the European Union countries in the total order intake in exports stands at 74.9 percent. Following a downturn in contracting in 2020, in 2021 there was an upturn in order intake across all other markets. Order intake in non-EU countries amounted to HRK 222.3 million and increased by HRK 94.1 million. In the regional countries, order intake was HRK 44.6 million higher compared to 2020. In the Americas and Australia, order intake grew by HRK 38.4 million. Order intake in Asian and African countries was HRK 18.9 million higher year-on-year and amounted to HRK 203.0 million. In terms of delivery dynamics, HRK 1,425.9 million or 33.7 percent of order intake was contracted for realization in 2021, and HRK 2,022.2 million (47.7 percent) was contracted for realization in 2022, while HRK 790.4 million or 18.6 percent of order intake was contracted for delivery after 2022.



The status of order intake (backlog) as at 2021 year end amounted to HRK 5,008.1 million, representing a 17.9% increase compared to the value at year start. Backlog at the end of 2021 is higher by HRK 760.5 million year-on-year (HRK 4,247.6 million as at 31 December 2020).



Key indicators of the profit and loss account for 2021

Business operations in 2021 continued to be affected by the COVID-19 pandemic, which primarily affected supply chains and rising prices of key commodities and raw materials.

In addition to challenges faced in the supply of materials, there was a disruption and a significant increase in the cost of transport (primarily container shipping). Despite the challenges, the Group continued to operate successfully in 2021.

Total generated consolidated operating income amounted to HRK 3,602.7 million, representing an increase of HRK 536.4 million or 17.5 percent year-on-year.

Operating revenues amounted to HRK 3,554.3 million, which is 17.4 percent higher year-on-year.

Operating expenses amounted to HRK 3,360.3 million and are 14.2 percent higher year-on-year. With reference to operating expenses, material costs (cost of raw materials and commodities, costs of goods, services and energy sold) amounted to HRK 2,379.4 million. In 2021, there was a surge in the prices of main commodities and raw materials, in particular those related to the transformer segment (copper, aluminium, transformer sheet, transformer oil, steel), which was reflected in the rising costs of commodities and raw materials. Savings were realised from the costs of goods sold and other costs, which are HRK 25.8 million less year-on-year. The Group has continuously taken measures and activities to mitigate the significant impact of the price surge on operations.

Staff costs in the amount of HRK 729.6 million exceed 2020 by HRK 43.6 million. The rise in staff costs was primarily caused by the increase in the overall number of employees. At year end, the total number of employees was 3,640, which is 179 workers more than at the end of 2020.

Net financial result is positive and amounts to HRK 5.1 million. In the comparative period, it amounted to HRK 7.2 million. This is mostly related to fluctuations in foreign currency exchange rates in the largest markets for the Group.

All Group members with the exception of KONČAR - Renewable Sources, achieved positive results in 2021. KONČAR - Renewable Sources realised positive results in the course of regular operations, and following impairment of tangible assets it ended the year at a loss.

Net profit for the period January - December 2021 amounts to HRK 211.4 million, of which non-controlling interest (minority interest) is attributed a profit of HRK 47.4 million (compared to HRK 53.7 million year-on-year) and parent company shareholders are attributed a profit in the amount of HRK 163.9 million (compared to HRK 73.9 million year-on-year). The consolidated result of the Group is higher by HRK 83.8 million or 65.7 percent year-on-year. Operating profit (EBIT) amounted to HRK 194.0 million, representing a year-on-year increase of HRK 108.8 million. The operating margin was 5.6 percent and was almost doubled year-on-year (it amounted to 2.9 percent in 2020). EBITDA amounted to HRK 291.3 million, representing a year-on-year increase of HRK 108.5 million. EBITDA margin was 8.4 percent (it amounted to 6.1 percent in the same period of 2020).

Normalized EBITDA amounts to HRK 306.8 million and is HRK 116.0 million higher year-on-year. Normalized EBITDA margin is 8.8 percent (it amounted to 6.4 percent in the same period of 2020).

Normalized EBITDA was calculated as reported EBITDA less the net effect of provisions amounting to HRK 11.5 million in 2021 (amounted to HRK 17.0 million in 2020), less the profit from the sales of non - operating assets in the amount of HRK 10.8 million (in 2020 it amounted to HRK 1.6 million), less the amount of insurance claims in the amount of HRK 10.4 million (HRK 7 million in 2020). Total value adjustment in the reporting EBITDA amounted to HRK 29.3 million. The increase in the amount of HRK 44.9 million (in 2020 it amounted to HRK 37.1 million) relates to impairment losses on current and non-current assets.

Consolidated profit and loss statement

Item (HRK 000)	2020	2021	Δ	Index 2021/2020
OPERATING INCOME	**3,026,268**	**3,554,258**	**527,990**	**117.4**
OPERATING EXPENSES	**2,941,063**	**3,360,266**	**419,203**	**114.3**
Material costs and change in the value of inventories	1,983,851	2,346,778	362,927	**118.3**
Staff costs	685,997	729,606	43,609	**106.4**
Depreciation & Amortisation	97,546	97,285	-261	**99.7**
Other costs	136,561	141,735	5,174	**103.8**
Value adjustment of non-current and current assets	37,108	44,862	7,754	**120.9**
OPERATING PROFIT	85,205	193,992	108,787	**227.7**
SHARE IN PROFIT OF ASSOCIATED PARTIES	25,662	38,856	13,194	
FINANCIAL INCOME	13,115	9,196	-3,919	**70.1**
FINANCIAL EXPENSE	5,963	4,134	-1,829	**69.3**
TOTAL INCOME	**3,065,045**	**3,602,310**	**537,265**	**117.5**
TOTAL EXPENSES	**2,947,026**	**3,364,400**	**417,374**	**114.2**
Profit before tax	118,019	237,910	119,891	**201.6**
Corporate tax	-9,557	26,519	36,076	
PROFIT FOR THE PERIOD	**127,576**	**211,391**	**83,815**	**165.7**
Shareholder's profit	73,889	163,945	90,056	221.9
Non-controlling interest's profit	53,687	47,446	-6,241	88.4
EPS (basic and diluted)	**29.00**	**64.41**	**35.41**	**222.1**

Statement of financial position

Key indicators of the balance sheet as at 31 December 2021

Compared to the balance at year end 2020, significant changes occurred in the following items:

Balance of total consolidated funds and sources of funds as at 31 December 2021 amounted to HRK 4,447.3 million, which is HRK 272.4 million or 6.5 percent higher year-on-year.

Inventories increased by HRK 198.4 million. In the structure of inventories, the amount of inventories of components and raw materials increased by HRK 132.3 million, the amount of work in progress increased by HRK 41.6 million, the amount of inventories of finished and semi-finished products decreased by HRK 10.6 million, inventories of merchandise increased by HRK 0.7 million, the amount of small inventory and packing increased by HRK 0.2 million, the amount of advances for inventories increased by HRK 34 million. There was an increase in inventories in all members of the Group and the most significant increase was in the companies where increased deliveries are expected in the upcoming period (rail vehicles, transformer segment).

Total current receivables increased by HRK 143.3 million. There was a significant increase in receivables from customers and assets recognized on the basis of acquisition costs in the amount of HRK 65.5 million. Receivables from advances paid for services increased by HRK 20.2 million and other receivables increased by HRK 35.6 million.

Financial assets increased by HRK 225.4 million. The amount of deposits over three months amounts to HRK 121.1 million and is higher by HRK 45.5 million compared to the end of 2020. Other financial assets amount to HRK 180.6 million and relate to the process of share capital increase of Dalekovod.

At the Group level, the amount of cash balance decreased by HRK 319.9 million.

Total non-current assets held for sale amounted to HRK 52.9 million, which was HRK 44 million more than as at 31 December 2020. KONČAR Group Integral Strategy has defined the sale of non - operating assets that are not considered to be part of the Company's core operations. The sale process commenced at the end of 2021 and non - operating assets are expected to be sold off by the end of 2022.

Total capital and reserves amounted to HRK 2,843.6 million, which is a HRK 173.1 million increase compared to the balance as at 31 December 2020.

Non - controlling (minority interest) amounted to HRK 315.4 million, which is HRK 25.4 million more than as at 31 December 2020.

Non - current provisions amount to HRK 178.7 million and are higher by HRK 0.9 million compared to the end of 2020.

Non - current borrowings amount to HRK 104.9 million and are lower by HRK 18.2 million.

Current liabilities amount to HRK 1,320.1 million and are higher by HRK 116.6 million year-on-year.

In the structure of current liabilities, significant changes occurred in the items of liabilities toward banks and other financial institutions, which increased by HRK 75 million compared to the end of 2020, and liabilities towards suppliers, which increased by HRK 78.2 million. Current liabilities are less year-on-year in items warranty provisions (HRK 41.2 million less) and contract liabilities (HRK 53.8 million less).

Current assets are 2.2 times greater than total current liabilities. The structure of the consolidated balance sheet indicates a balance between funding sources and investments and an overall financial stability of KONČAR Group.

HRK 000 Summarised balance sheet	31/12/2020	30/12/2021	Δ	Index 2021/2020
Assets	**4,174,893**	**4,447,304**	**272,411**	**106.5**
Non-current assets	1,598,223	1,502,885	-95,338	94.0
Current assets	2,576,670	2,944,419	367,749	114.3
Liabilities	**1,276,102**	**1,415,457**	**139,355**	**110.9**
Provisions	228,271	188,205	-40,066	82.4
Noin-current liabilities	123,117	104,914	-18,203	85.2
Current liabilities	1,152,985	1,310,543	157,558	113.7
Equity	**2,670,520**	**2,843,642**	**173,122**	**106.5**

Current ratio

HRK 000	31/12/2020	31/12/2021.	Δ
Current assets	2,576,670	2,944,419	367,749
Current liabilities	1,203,477	1,320,087	116,610
Current ratio	**2,1**	**2,2**	

Capital expenditure (CAPEX)

Capital expenditure includes payments made for the purpose of acquisition of property, plant and equipment and other intangible assets. The negative impact of COVID-19 on operations was also present during 2021, and a portion of the investment plans were revised and planned investments that were not crucial for operations were postponed accordingly. Despite that, CAPEX incurred in 2021 amounted to HRK 72 million. The most significant investments pertain to the project of construction of a new laboratory and investments in equipment and machinery in manufacturing companies.

Net debt

Total loans (long-term and short-term) amount to HRK 299.9 million, representing a reduction by HRK 74.4 million compared to the balance as at 31 December 2020. The Group has a low level of indebtedness to financial institutions and total loans account for 6.9% of total capital and liabilities.

HRK 000	31/12/2020	31/12/2021	Δ
Non-current liabilities to banks	120,406	100,912	-19,494
Current liabilities to banks	104,533	199,014	94,481
Financial assets	76,261	301,685	225,424
Cash and cash equivalents	743,747	423,831	-319,916
Net debt	**-595,069**	**-425,590**	**169,479**
Normalised EBITDA	190,829	306,837	116,008
Net debt / normalised EBITDA	**neg**	**neg**	

Operational risks

KONČAR Group is exposed to various market-related and financial operating conditions. The business environment risk is affected by political, economic and social conditions existing in markets in which the companies operate. Group companies monitor all the risks and take measures to mitigate their potential impact on financial stability.

Pursuant to the Corporate Governance Code, which was drafted 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 the Risk Management Policy in 2020.

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

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

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

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

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.

Market Risk

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

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

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

In addition to volatile prices of key raw materials in 2021 in the power engineering equipment market, there has also been a strong competitive pressure on the price of equipment and profit margins. Competitiveness of our products and services is also impacted by changes of operating conditions for both the Group and our customers.

Management Boards of individual companies price their products autonomously.

Risk in the procurement market

Prices of key raw materials and commodities (copper, transformer sheet metal, steel ...) increased significantly, especially in the first half of 2021. Raw material price increase severely affected Group companies dealing with transformers.

The Group implementing several measures to hedge against sudden price hikes of key raw materials. In case of copper, given that it is listed on the London Metal Exchange, risk is mitigated by using forward contracts to negotiate with copper suppliers on the quantities and prices for future periods according to stock and estimates of signed contracts. In case of transformer sheet metal and some of the most crucial supply parts, risk is mitigated by employing semi-annual contracts with suppliers, seeking to ensure necessary quantities. Also, certain long-term customer contracts employ a sliding formula based on material price changes. Changes in the prices of materials are taken into account when preparing new offers.

Technological and development risks

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

Human resources risks

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

Capital management risk

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

Foreign Exchange Risk

The functional currency of the Group is Croatian Kuna. However, certain foreign currency transactions are converted to Croatian Kuna using the exchange rates in effect on the date of the balance sheet. Exchange rate differences that arise are credited or charged to the profit and loss statement. The companies hedge against F/X risk by continuously planning and monitoring their cash flow, contracting sales and procurement in the same currency where possible, adjusting inflow and outflow dynamics by F/X forward purchases in accordance with cash inflows and outflows plan. Companies with a higher share of exports in the total revenue employ financial derivatives to hedge against financial risk exposure, primarily in relation to EUR.

Interest rate risk

KONČAR Group companies are exposed to interest rate risk because a portion of the loans is subject to floating (variable) interest rates while the majority of assets are non-interest-bearing. By negotiating a fixed interest rate, companies avoid interest rate risk. The Group has a low level of indebtedness and is not particularly exposed to interest rate risk. The estimated effect of the realistically possible change in interest rates on the result is intangible.

Credit Risk

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

Exposure to credit risk is affected mainly by individual characteristics of each customer.

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

Liquidity Risk

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

Business plan for 2022

At the proposal of the Management Board of KONČAR – Electrical Industry Inc., the Supervisory Board has adopted the business plan of KONČAR – Electrical Industry Inc. and the consolidated plan of the Group for 2022.

The business plan for 2022 is based on the substantial number of contracts concluded by KONČAR by the end of the business year 2021. The value of order intake (backlog) at the end of 2021 is estimated to be more than HRK 5 billion.

In 2022, the revenue from sales of products and services is expected to be HRK 3.78 billion. A further growth in export revenue is projected, with export accounting for 60 percent of the planned revenue from sales. The demanding market of the European Union is expected to contribute the majority of 2022 income, with a planned share of HRK 1.5 billion. In terms of other markets, the Group plans to generate more income than predicted for 2021, with the greatest rise expected in neighbouring countries and on Asian and African markets.

In 2022, the value of order intake is expected to be HRK 4.4 billion. The value of order intake (backlog) at the end of 2022 is expected to reach HRK 5.6 billion.

The expected backlog provides a solid basis for achieving the Group's strategic objectives until 2024.

Developments after the reporting date

The impact of war in Ukraine on KONČAR Group business operations

Following the annexation of Crimea in 2014 and sanctions imposed on Russia, KONČAR significantly scaled back its business activities in Russia. Consequently, total revenue from sales of products and services on the Russian market amounted to HRK 3.5 million, accounting for 0.1 percent of total revenue of KONČAR Group.

Current exposure of KONČAR Group to Russian market poses no significant risk and does not negatively affect the Company's business operations. In 2021, several new contracts, worth HRK 13.1 million, were concluded with customers in Russia or customers linked with Russia through ownership structure. These contracts account for 0.26 percent of the Group's total number of contracts. Performance of these contracts was expected in 2022.

Total sales revenues in the market of Ukraine in 2021 amounted to HRK 3.7 million (0.1 percent of the total revenues of the group) and HRK 4 million of new business was contracted for realization in 2022 (less than 0.1 percent of totally contracted in 2021). All activities on the implementation of these agreements are currently suspended.

Despite a small number of contracts with Russia, generally speaking, Russian attack on Ukraine poses significant risks for the economies worldwide, already struggling with inflation, shortages and supply chain disruptions.

At the moment it is impossible to predict and quantify the scope and severity of damage the war might cause as it depends largely on when the war might end.

KONČAR – ELECTRICAL INDUSTRY Inc.

Statement of Management's responsibilities

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

The Management Board is responsible for:

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

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

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

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

Signed on behalf of Management Board :

Gordan Kolak,
President of the Management Board

Ivan Bahun,
Deputy President and Member of the Management Board

Miki Huljić,
Member of the Management Board

Josip Lasić,
Member of the Management Board

Josip Ljulj,
Member of the Management Board

Božidar Poldrugač,
Member of the Management Board

Končar - Electrical Industry Inc., Zagreb
Fallerovo šetalište 22,
10 000 Zagreb

Končar d.d. Zagreb
Fallerovo šetalište 22
8

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of KONČAR - ELECTRICAL INDUSTRY Inc ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2021, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Revenue recognition</th></tr>
<tr><td colspan="2">Revenue from customer contracts recognized in profit or loss in 2021 amounts to HRK 3,477,453 thousand (2020: HRK 2,972,558 thousand). Please refer to the significant accounting policies 2.5 Revenue recognition, key accounting estimate 2.28 a) Revenue recognition and note 3 Revenue in the financial statements.</td></tr>
<tr><th>Key audit matter</th><th>How we addressed the matter</th></tr>
<tr><td>The Group's core activities include manufacturing, construction and sales of plant and equipment in the energy and transportation sector as well as related services such as design, engineering and maintenance.

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

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

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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

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

Key Audit Matters (continued)

Warranty provisions

Warranty provisions related to customer contracts recognised in the statement of financial position as at 31 December 2021 amounted to HRK 162,464 thousand (31 December 2020.: HRK 182,307 thousand). Please refer to the significant accounting policies *2.23 Provisions,* key accounting estimate *2.28 b) Warranty provisions and note 27 Provisions* in the financial statements.

Key audit matter	How we addressed the matter
The Group's customer arrangements include product warranties given to customers granted for a period ranging from 3 to 5 years from the delivery of products. The product warranties primarily cover expected costs to repair or replace components with defects or functional and/or serial errors as well as financial losses suffered by the Group's customers in connection with unplanned suspension of operations. As stated in note 2.28b), the Group estimates general provisions for product warranties by reference to: historical costs related to product warranties; industry statistics of products failure incidence levels; and market experience from other manufacturers. In addition, where applicable, specific risks attributable to individual customer contracts and related products (as explained in note 2.28b)) are taken into account when assessing the need for additional specific warranty provisions for such individual cases. The completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. As a result, this area required our increased attention in the audit and was considered by us to be a key audit matter.	Our procedures performed in this area included: • Testing the relevant controls regarding completeness of warranty provisions and how the Group assesses valuation of provisions. • Challenging the assumptions underlying the valuation of provisions by reference to relevant information from customer contracts (such as warranty duration and expiry), available industry information and historical information on costs related to product warranties. • Where specific warranty provisions were recognised in relation to individual customer contracts and related products, assessing the reasonableness of warranty provisions at year-end by: - obtaining an understanding of the nature of the specific provision through interviews with management and project managers; - inspecting relevant customer contracts and warranty terms as well as source documentation such as relevant warranty claims; - inspecting correspondence with customers, where applicable; • Assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for warranty provisions related to customer contracts.

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

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

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

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

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 1June 2021 to audit the consolidated 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 years 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 Auditor's 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 consolidated financial statements, as included in the consolidated 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 consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

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

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

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the consolidated financial statements included in the consolidated 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.

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.

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

Report on Compliance with the ESEF Regulation (continued)

Auditors' Responsibilities (continued)

Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the consolidated financial statements of the Group presented in human-readable format;
- evaluating the completeness of the Group's tagging of the consolidated financial statements;
- evaluating the appropriateness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group 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
8

28 April 2022

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 HRK'000	2020 HRK'000
Sales revenue	3	3,477,453	2,972,558
Other operating income	4	76,805	53,710
		3,554,258	**3,026,268**
Change in inventory of work in progress and finished goods		32,604	86,249
Raw materials, products, consumables and services used	5	(2,379,382)	(2,070,100)
Staff costs	6	(729,606)	(685,997)
Depreciation and amortisation		(97,285)	(97,546)
Impairment losses	7	(44,862)	(37,108)
Other operating expenses	8	(141,735)	(136,561)
		(3,360,266)	**(2,941,063)**
Operating profit		**193,992**	**85,205**
Finance income		9,196	13,115
Finance expenses		(4,134)	(5,963)
Net finance income	9	**5,062**	**7,152**
Share in profit of equity accounted investees	16	**38,856**	**25,662**
Profit before tax		**237,910**	**118,019**
Income tax	10	(26,519)	9,557
Net profit for the period		**211,391**	**127,576**
Profit is attributable to			
Owners of the Company		163,945	73,889
Non-controlling interests		47,446	53,687
Earnings per share			
Basic and diluted earnings per share	11	64.41	29.00

	Note	2021 HRK'000	2020 HRK'000
PROFIT FOR THE PERIOD		**211,391**	**127,576**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		65	(2,405)
COMPREHENSIVE INCOME FOR THE YEAR		**211,456**	**125,171**
Comprehensive income for the period attributable to:			
Owners of the Company		163,979	72,620
Non-controlling interest		47,477	52,549

KONČAR – ELECTRICAL INDUSTRY Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

		31 Dec 2021	31 Dec 2020
ASSETS	**Note**	**HRK'000**	**HRK'000**
Goodwill	12	7,342	7,342
Intangible assets	13	42,939	38,559
Property, plant and equipment	14	1,005,669	1,036,061
Right of use assets		7,162	6,586
Investment property	15	115,293	149,099
Investments in equity accounted investees	16	257,299	287,223
Other investments	17	15,716	8,696
Loans and receivables	18	17,242	27,304
Deferred tax assets		34,223	37,353
Non-current assets		**1,502,885**	**1,598,223**
Inventories	19	934,149	735,791
Loans and receivables	20	1,014,248	870,922
Contract assets	21	212,209	135,110
Prepaid income tax		5,361	5,854
Financial assets	22	301,685	76,261
Cash and cash equivalents	23	423,831	743,747
Assets held for sale	24	52,936	8,985
Current assets		**2,944,419**	**2,576,670**
TOTAL ASSETS		**4,447,304**	**4,174,893**
EQUITY AND LIABILITIES			
Share capital		1,208,896	1,208,896
Capital reserves		720	720
Other reserves		805,485	777,637
Retained earnings		513,130	393,286
Attributable to owners of the Company	*25*	*2,528,231*	*2,380,539*
Non-controlling interests	26	315,411	289,981
EQUITY AND RESERVES		**2,843,642**	**2,670,520**
Borrowings	28	104,490	122,006
Warranty provisions	27	119,187	133,242
Other provisions	27	59,474	44,537
Other financial liabilities		424	1,111
Non-current liabilities		**283,575**	**300,896**
Borrowings	28	200,724	108,081
Trade and other payables	29	719,671	641,496
Contract liabilities	21	346,871	400,664
Warranty provisions	27	43,277	49,065
Income tax liabilities		7,878	2,744
Other provisions	27	1,666	1,427
Current liabilities		**1,320,087**	**1,203,477**
Total liabilities		**1,603,662**	**1,504,373**
TOTAL EQUITY AND LIABILITIES		**4,447,304**	**4,174,893**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 HRK'000	2020 HRK'000
Cash flows from operating activities			
Proceeds from trade receivables		3,395,452	3,361,548
Proceeds from insurance reimbursements		5,758	11,512
Proceeds from tax returns		110,750	132,121
Payments to suppliers		(2,726,907)	(2,293,053)
Payments for employees		(670,968)	(644,992)
Cash payments to insurance companies		(16,431)	(10,968)
Taxes paid		(114,046)	(129,869)
Other cash payments		(60,654)	(86,154)
Cash from operations		**(77,046)**	**340,145**
Interest paid		(3,780)	(5,507)
Income tax paid		(19,967)	(22,389)
Net cash flows from operating activities		**(100,793)**	**312,249**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		14,660	2,337
Proceeds from collection of receivables		3,047	2,916
Proceeds from sale of subsidiary	30	-	23,522
Proceeds from return on investments		33,621	-
Interest received		6,502	6,505
Dividends received		26,217	16,895
Proceeds from repayment of term deposits and other investing activities		63,679	304,520
Purchase of non-current tangible and intangible assets	13, 14	(72,041)	(85,151)
Deferred consideration for acquisition of shares in subsidiary		-	(9,775)
Acquisition of additional interest in subsidiaries		(12,923)	(14,789)
Cash used for term deposits and other investing activities		(108,602)	(56,740)
Expenses for buying-in receivables		(60,253)	-
Expenses for recapitalisation of Dalekovod		(155,000)	-
Net cash flows from investing activities		**(261,093)**	**190,240**
Cash flows from financing activities			
Proceeds from borrowings	28	158,984	51,853
Other cash inflow from financing activities		1,505	1,257
Repayments of borrowings	28	(82,456)	(159,965)
Dividends paid		(31,691)	(13,118)
Purchase of treasury shares		-	(4,951)
Other outflow cash from financing activities		(4,372)	(3,604)
Net cash flow from financing activities		**41,970**	**(128,528)**
Net increase in cash flows		**(319,916)**	**373,961**
Cash and cash equivalents at beginning of the period		743,747	369,786
Cash and cash equivalents at end of year	23	**423,831**	**743,747**

KONČAR – ELECTRICAL INDUSTRY Inc.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

(in HRK thousand)	Share capital	Capital reserves	Reserves from profit	Reserves for treasury shares	Treasury shares	Retained earnings	Non-controlling interest	Total
As at 1 January 2020	**1,208,896**	**720**	**729,439**	**35,092**	**(10,920)**	**346,509**	**262,317**	**2,572,053**
Profit for the year	-	-	-	-	-	73,889	53,686	**127,575**
Other comprehensive income								
Translation reserves	-	-	(1,269)	-	-	-	(1,137)	**(2,406)**
Total comprehensive income	*-*	*-*	*(1,269)*	*-*	*-*	*73,889*	*52,549*	***125,169***
Transactions with owners								
Transfers	-	-	30,820	(574)		(30,246)	-	-
Purchase of treasury shares	-	-	-	-	(4,951)	-	-	**(4,951)**
Dividends paid	-	-	-	-	-	-	(13,096)	**(13,096)**
Effect of sales / acquisitions of subsidiaries	-	-	-	-	-	3,134	(11,789)	**(8,655)**
	-	*-*	*30,820*	*(574)*	*(4,951)*	*(27,112)*	*(24,885)*	***(26,702)***
As at 31 December 2020	**1,208,896**	**720**	**758,990**	**34,518**	**(15,871)**	**393,286**	**289,981**	**2,670,520**
Profit for the year	-	-	-	-	-	163,945	47.446	**211.391**
Other comprehensive income								
Translation reserves	-	-	34	-	-	-	31	**65**
Total comprehensive income	*-*	*-*	*34*	*-*	*-*	*163,945*	*47,477*	***211,456***
Transactions with owners								
Transfers	-	-	27,814	-	-	(27,814)	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(14,764)	(16,978)	**(31,742)**
Effect of sales / acquisitions of subsidiaries	-	-	-	-	-	(1,523)	(5,069)	**(6,592)**
	-	*-*	*27,814*	*-*	*-*	*(44,101)*	*(22,047)*	***(38,334)***
As at 31 December 2021	**1,208,896**	**720**	**786,838**	**34,518**	**(15,871)**	**513,130**	**315,411**	**2,843,642**

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

1 General information on the Group

1.1. Activities

The principal activities of the Končar – Electrical industry Group, Zagreb (hereinafter: "the Group") include the production of electrical machinery and appliances, production of transportation vehicles, machinery and metalworking.

The Group's principal activities are divided into four main areas:

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

Group structure

The Group comprises 12 subsidiaries involved in core business activities and 5 subsidiaries with special activities, specifically research and development of products and infrastructural services and investments.

The Group has two associates and two joint ventures, in China and Croatia.

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

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

Number of employees

As at 31 December 2021, the Group had 3,640 employees, while as at 31 December 2020 the Group had 3,464 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

1 General information on the Group (continued)

Members of the Management Board:

Gordan Kolak	President of the Management Board
Ivan Bahun	Deputy President of the Management Board
Miki Huljić	Member of the Management Board
Josip Lasić	Member of the Management Board
Josip Ljulj	Member of the Management Board
Božidar Poldrugač	Member of the Management Board

The auditors of financial report of the Company and related companies provided services amounting to HRK 1,364 thousand in 2021. Services in 2021 mainly relate to audit and review costs of financial reports and audits of financial reports prepared for regulatory purposes.

Compensations to members of the Management Board and Supervisory Board are presented in note 6 to the financial statements.

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

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 2.28.

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

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods ending 31 December 2021 and that have not been early adopted by the Group in the preparation of these financial statements. Management does not expect any of these standards to have a significant impact on the financial statements of the Group.

2 Significant accounting policies (continued)

2.2 Basis for consolidation

The consolidated financial statements of the Group include the financial statements of the Parent company and the financial statements of the companies controlled by the Parent company (subsidiaries). The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries/loss of control over subsidiaries

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

2.3 Investments in associates and joint ventures

Associates

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

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

The Group’s share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

2 Significant accounting policies (continued)

2.3 Investments in associates and joint ventures (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

Joint arrangements

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

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

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

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

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

2 Significant accounting policies (continued)

2.4 Business combinations

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

Goodwill

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

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

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

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

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

2 Significant accounting policies (continued)

2.5 Revenue recognition

Končar Group recognises revenue from:

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

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

- *Revenue from sale of products, equipment and machinery*

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

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

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

- *Revenue from the sale of rail vehicles and related services*

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

2 Significant accounting policies (continued)

2.5 Revenue recognition (continued)

- *Revenue from construction projects*

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

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

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

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

- *Sales of services*

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

Contract assets and liabilities

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

2 Significant accounting policies (continued)

2.6 Finance income and costs

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

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

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

2.7 Borrowing costs

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

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

2.8 Foreign currency transactions

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

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

2 Significant accounting policies (continued)

2.9 Income tax

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

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

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

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

2.10 Earnings per share

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

2.11 Segment information

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

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

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

Furthermore, assets which cannot be directly attributable to certain business segments remain unallocated.

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

2 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

2 Significant accounting policies (continued)

Impairment of property, plant and equipment

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

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

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

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

2.13 Investment property

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

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

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

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

2 Significant accounting policies (continued)

2.14 Financial assets and liabilities

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

Classification and measurement of financial assets

Financial assets are classified into three categories, depending on the selected business model for managing financial assets and the cash flow characteristics of the asset as follows:

- financial assets carried at amortised cost,
- financial assets at fair value through other comprehensive income and
- financial assets at fair value through profit or loss.

The business model for managing financial assets depends on how the Group manages the financial assets for the purpose of generating cash flows. A reclassification of debt instruments is required if the business model changes. Business models for managing financial assets include:

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

Derecognition of financial assets

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

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and financial liability for the proceeds received.

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

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

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

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

2 Significant accounting policies (continued)

2.14. Financial assets and liabilities (continued)

Impairment of financial assets

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

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.

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

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

In addition to the above assets to which a simplified approach is applied, at subsequent measurement of financial assets, when assessing credit loss, a general impairment approach is applied consisting of three stages: Stage 1, Stage 2 and Stage 3.

- Stage 1 - when determining the impairment of financial assets, a 12-month expected credit loss model is applied. This model applies if there is no significant increase in credit risk.
- Stage 2 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk.
- Stage 3 - when determining the impairment of financial assets, a lifetime ECL model applies. This model applies if there is a significant increase in credit risk and there is objective evidence of impairment at the reporting date.

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

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

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

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

2 Significant accounting policies (continued)

2.14. Financial assets and liabilities (continued)

Financial liabilities and equity instruments

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

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

Share capital

Ordinary shares

Share capital represents the nominal value of shares issued.

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

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

Share capital repurchase

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

Financial guarantee contracts

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

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

2 Significant accounting policies (continued)

Financial liabilities, classification and measurement

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

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

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

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

Derecognition of financial liabilities

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

2.15 Non-current assets held for sale

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

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

2.16 Inventories

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

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

2 Significant accounting policies (continued)

2.16. Inventories (continued)

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

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

2.17 Receivables

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

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

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

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

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

2.18 Cash and cash equivalents

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

2 Significant accounting policies (continued)

2.19 Trade payables

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

2.20 Borrowings

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

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

2.21 Leases

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

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

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

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

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

2 Significant accounting policies (continued)

2.21 Leases (continued)

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.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

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

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

- right of use for the vehicles 4 - 5 years
- right of use commercial buildings 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 Group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognized with corresponding

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

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

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

The weighted average marginal lending rate used to measure lease liabilities is 2% to 4.25%.

2 Significant accounting policies (continued)

2.21 Leases (continued)

Lease activities

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

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

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

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

The Group does not provide any residual value guarantees.

2.22 Government grants

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

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

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

2.23 Provisions

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

Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount

rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

2. Significant accounting policies (continued)

2.24 Employee benefits

i. Pension obligations and post-employment benefits

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

ii. Termination benefits

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

iii. Regular retirement benefits

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

iv. Long-term employee benefits

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

v. Short-term employee benefits

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

2.25 Contingent assets and liabilities

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

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

2 Significant accounting policies (continued)

2.26 Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that:

a) represents a separate major line of business or geographical area of operations,

b) is part of a single co-ordinated plan to dispose of such a line of business or area of operations,

c) or is a subsidiary acquired exclusively with a view to resale.

The results and cash flows of discontinued operations, if any, are presented separately in the statement of profit or loss and the statement of cash flow with comparable information restated.

2.27 Events after the balance sheet date (subsequent events)

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

2.28 Key accounting estimates and judgments

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

a) Revenue recognition

The Group recognises revenue both over time and at a point in time, depending on the specifics of a customer arrangement as described in accounting policy 2.6. When recognising revenue over time, the method of measuring progress highlights the importance of accuracy in measuring progress towards the complete satisfaction of a performance obligation and may include estimates in the performance scope and services required to satisfy contractual obligations. These significant estimates include total estimated costs, total estimated revenues, contractual risks, including technical, political and regulatory risks and other judgments. The Group has determined the input method as the best method for measuring progress in providing services because there is a direct link between Group effort (total project costs incurred) and the transfer of services to the customer. If revenue is recognised over time, this is done by measuring costs incurred up to a certain date in relation to total expected costs required to satisfy contractual obligations.

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

2 Significant accounting policies (continued)

2.28 Key accounting estimates and judgments (continued)

- *Extended warranties*

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

- *Significant financing component*

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

b) Warranty provisions

The Group provides warranties for its products and completed projects for an average period of 3 - 5 years. In certain cases where warranties extend past this range, the Group analysed and concluded that such contracts did not include significant non-standard guarantees which could be considered a separate performance obligation. Management estimates a general provision for warranty repairs based on historical information and industry statistics (such as those related to incidence of major failure of certain equipment, primarily transformers and generators). Additionally, where circumstances are identified which carry increased risk of defects and failures, warranty provisions for such contracts are individually assessed based on those specific circumstances. Provisions are then based on current and future estimated costs of rectification of defects and/or replacement of products as a result of technical analyses and correspondence with customers. Factors which affect these individual provisions include information as to the success of product quality initiatives and rectifications thus far, likelihood of product replacement, as well as cost of spare parts and labour costs. The Group has identified several contracts where defects have been identified which carry specific significant risks (exposure to extreme climate conditions, non-standard technical complexities) of substantial costs of rectification and/or replacement up to the expiry of these warranties. Further details are disclosed in note 27 to the financial statements.

c) Provisions for onerous contracts

During the first quarter of 2021, an accelerated rise in prices is recorded in the world market for all strategic materials used in the production of transformers. This growth continued throughout entire 2021. The growth is caused by the imbalances in the world economy after the Covid-19 pandemic, the green transition policy, especially in the EU, which further stimulates demand, and the increase in demand in China. Additional complications were triggered by disorder in supply chains, which hampered the supply of inputs in production and further affected the growth of raw material prices. In order to amortize the negative consequences of these inflationary trends, the Group initiated appropriate activities towards customers.

2 Significant accounting policies (continued)

2.28 Key accounting estimates and judgments (continued)

c) Provisions for onerous contracts (continued)

However, a number of contracts with customers signed in earlier periods remained, which did not have a built-in mechanisms for anticipating significant fluctuations in the prices of strategic raw materials through the, so-called, sliding formulas. In some of these contracts, the consent to participate in covering the cost of material growth by the customer was either not obtained or the adjustment achieved was insufficient to make the contracted revenue higher than the projected cost of fulfilling the contract. Recognition of the adverse effects of these contracts as required by IAS 37 is presented in Note 8.

d) Recoverability of non-financial assets

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

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

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

During the year, the Group conducted an impairment test related to the assets that constitute the wind farm owned by the subsidiary Končar – Renewable Energy Sources Ltd and recognised an impairment loss of HRK 21.5 million. The impairment test is based on the present value of discounted future cash flows from the wind farm over its expected useful life. The weighted average cost of capital (discount rate) used in the impairment test was 6.2%. In addition to the discount rate, the key variable that affects the impairment test is the expected price of electricity.

In case the applied discount rate had increased by 1%, this would decrease the estimated windfarm’s recoverable amount by HRK 3.1 million. In case the applied electricity price had decreased by 1%, this would decrease the estimated windfarm’s recoverable amount by HRK 0.7 million.

2 Significant accounting policies (continued)

2.29 Subsidiaries:

	Country	31 December 2021	31 December 2020
		Voting rights (%)	Voting rights (%)
Consolidated subsidiaries registered in Croatia:			
Končar – Motors and Electrical Systems Ltd, Zagreb (previously Končar – Small Electrical Machines Inc., Zagreb)	Croatia	100.00	100.00
Končar – Engineering Co. Ltd for production and services, Zagreb (during 2021 Končar – Power Plant and Electric Traction Engineering Inc., Zagreb)	Croatia	100.00	100.00
Končar - Infrastructure and Services Ltd., Zagreb	Croatia	100.00	100.00
Končar - Electrical Engineering Institute Ltd, Zagreb	Croatia	100.00	100.00
Končar - Generators and Motors Ltd, Zagreb	Croatia	100.00	100.00
Končar - Steel Structures Ltd, Zagreb	Croatia	100.00	100.00
Končar - Switchgear Ltd	Croatia	100.00	100.00
Končar - Renewable Energy Sources Ltd., Zagreb	Croatia	100.00	100.00
Direct ownership		*91.25*	*90.30*
Indirect ownership		*8.75*	*9.70*
Končar - Electric Vehicles Inc., Zagreb	Croatia	75.04	75.04
Končar - Electronics and Informatics Inc., Zagreb	Croatia	97.64	88.98
Končar - Instrument Transformers Inc., Zagreb	Croatia	99.77	99.77
Končar - Distribution and Special Transformers Inc., Zagreb	Croatia	67.90	67.90
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	Croatia	-	100.00
Končar – Investments Ltd, Zagreb	Croatia	100.00	-
Končar – Digital Ltd, Zagreb	Croatia	100.00	-
Advanced Energy Solutions Ltd, Zagreb *(Indirect ownership through Končar – Investments Ltd)*	Croatia	51.00	-
Consolidated subsidiaries not registered in Croatia:			
Power Engineering Transformatory Sp. z o.o. (PET), Poznan, Poland *(Indirect ownership through subsidiary Končar - Distribution and Special Transformers Inc.)*	Poland	100.00	100.00
Non-consolidated subsidiaries due to imateriality:			
Konell Ltd., Sofia, Bulgaria *(Indirect ownership through Končar – Electric Vehicles Inc)*	Bulgaria	85.00	85.00
Windfarm Rust d.o.o. *(Indirect ownership through Končar – Renewable Energy Sources Ltd)*	Croatia	100.00	100.00

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

	31 December 2021	31 December 2020
	Ownership share (%)	Ownership share (%)
Končar - Instrument Transformers Inc., Zagreb	61.97	61.97
Končar - Distribution and Special Transformers Inc., Zagreb	52.73	52.73
Končar - Engineering for Plant Installation & Commissioning Inc., Zagreb	-	96.79

2 Significant accounting policies (continued)

2.29 Subsidiaries (continued)

In 2021 by decisions of the General assembly of the companies Končar - Generators and Motors Ltd, Končar - Switchgear Ltd, Končar - Steel Structures Ltd, Končar - Electrical Engineering Institute Ltd, Končar – Engineering Co. Ltd and Končar – Motors and Electrical Systems Ltd, companies were converted from public limited liability companies to limited liability companies.

In 2021 and in period until signing of report there have been changes in the names of companies and company Končar – Small Electrical Machines Inc was renamed to Končar – Motors and Electrical Systems Ltd and company Končar - Power Plant and Electric Traction Engineering Inc was renamed to Končar – Engineering Co. Ltd for production and services.

As at 1 July 2021 company Končar - Engineering for Plant Installation & Commissioning Inc was merged to Končar - Power Plant and Electric Traction Engineering Inc. As at 30 September 2021 the division of the company was carried to a company Končar - Power Plant and Electric Traction Engineering Inc with founding of the company Končar - Digital Ltd.

3 Sales revenue

	2021	2020
	HRK'000	HRK'000
Major products/service lines		
Transformers	1,565,631	1,331,729
Rotating machines	323,273	278,569
Engineering services	681,532	759,350
Rail vehicles	449,080	151,870
Industrial electronic and development	143,310	132,417
Other	314,627	318,623
Total revenue from contracts with customers	**3,477,453**	**2,972,558**
Related parties	96,792	104,724
Unrelated parties	3,380,661	2,867,834
Total revenue from contracts with customers	**3,477,453**	**2,972,558**
Timing of revenue recognition		
At a point in time	2,348,658	2,165,852
Over time	1,128,795	806,706
Total revenue from contracts with customers	**3,477,453**	**2,972,558**

Revenue by regions:

	2021		2019	
	HRK'000	**%**	**HRK'000**	**%**
Croatia	**1,414,720**	**40.70%**	**1,122,970**	**37.80%**
Other countries in the European Union	1,593,342	45.80%	1,219,050	41.00%
	3,008,062	**86.50%**	**2,342,020**	**78.80%**
Asia and Africa	159,877	4.60%	299,677	10.10%
Neighboring countries	100,502	2.90%	73,868	2.40%
America and Australia	80,236	2.30%	100,923	3.40%
Europe countries not part of European Union	128,776	3.70%	156,070	5.30%
	469,391	**13.50%**	**630,538**	**21.20%**
	3,477,453	**40.70%**	**2,972,558**	**100,00%**

4 Other operating income

	2021	2020
	HRK'000	HRK'000
Revenues from project co-financing	17,114	5,290
Profit from the sale of property	10,801	1,567
Proceeds from litigation outcomes	8,877	-
Compensation for damages	7,020	10,415
Revenue from subsequent use of inventories	5,306	900
Collected written-off receivables	4,338	1,298
Sales of materials	2,857	4,237
State aid	2,854	13,361
Rental income	2,293	1,823
Subsequent discounts, rebates	1,560	635
Surpluses	1,248	1,479
Unrealized gains	1,170	516
Other	11,367	12,189
	76,805	**53,710**

5 Raw materials, products, consumables and services used

	2021	2020
	HRK'000	HRK'000
Cost of raw materials and supplies	1,970,304	1,648,780
External product design and selling services	129,286	140,597
Cost of goods sold	58,984	84,778
Energy cost	37,719	35,346
Maintenance services (servicing)	37,222	34,313
Freight forwarding, transport, post and telephone	81,194	58,017
Agent commission costs	21,432	15,963
Other external costs	43,241	52,306
	2,379,382	**2,070,100**

6 Staff costs

	2021	2020
	HRK'000	HRK'000
Net salaries and wages	410,299	377,080
Taxes and contributions from salaries	173,006	172,377
Contributions on salaries	90,101	85,780
Reimbursements of costs to employees, gifts and support	51,296	45,363
Compensations to members of the Supervisory Board (gross)	2,946	3,423
Voluntary pension funds	1,958	1,974
	729,606	**685,997**

In 2021, pension fund contributions amounted to HRK 108,042 thousand (2020: HRK 105,330 thousand).

During 2021 termination benefits and severances amounted to HRK 4,075 thousand (2020: HRK 3,362 thousand).

Average number of employees during 2021 was 3,586 (2020: 3,436 employees).

During the year, the Group capitalized salaries in the total amount of HRK 7,171 thousand (2020: HRK 2,381 thousand) (net salaries and wages in the amount of HRK 4,300 thousand (2020: HRK 1,399 thousand), taxes, surcharges and contributions from salaries in the amount of HRK 1,900 thousand (2020: HRK 731 thousand) and salary contributions in the amount of HRK 971 thousand (2020: HRK 251 thousand)).

7 Impairment losses

	2021	2020
	HRK'000	HRK'000
Impairment losses on non-financial assets::		
Impairment losses on non-current assets:		
Impairment losses on property, plant and equipment	21,528	17,412
Impairment losses on intangible assets	988	1,560
Impairment losses on investment property	34	-
Impairment losses on current assets:		
Impairment of inventories	14,200	11,713
	36,750	**30,685**
Impairment losses on financial assets	**8,112**	**6,423**
Total impairment losses	**44,862**	**37,108**

Impairment losses on property, plant and equipment relate to impairment loss for the assets that constitute the wind farm owned by the subsidiary Končar – Renewable Energy Sources Ltd., as further explained in note 2.28 Key accounting estimates, c) Recoverability of non-financial assets.

8 Other operating expenses

	2021	2020
	HRK'000	HRK'000
Daily allowances for business trips and travel expenses	40,237	35,565
Net release of provisions	(11,481)	(17,048)
Intellectual and similar services	20,209	18,194
Insurance premiums	16,438	16,924
Bank charges and payment transactions	11,746	12,155
Entertainment	9,969	7,904
Professional training costs	3,758	4,568
Compensations for temporary service contracts and fees	3,755	3,286
Contributions, membership fees and similar charges	3,581	3,264
IT services	14,007	9,802
Sponsorships and donations	1,952	2,342
Taxes irrespective of result and fees	2,798	2,539
Accrued expenses	6,123	6,301
Other costs	18,643	30,765
	141,735	**136,561**

9 Net financial result

	2021	2020
	HRK'000	HRK'000
Finance income		
Interest income	6,603	11,194
Net foreign exchange gains	1,006	315
Income from dividends and shares in profit	203	623
Other finance income	1,248	952
Unrealised gains (income)	136	31
	9,196	**13,115**
Finance cost		
Interest expense	3,999	5,337
Other finance costs	122	533
Impairment losses on non-current financial assets	13	93
	4,134	**5,963**
Net financial result	**5,062**	**7,152**

10 Income tax

	2021	2020
	HRK'000	HRK'000
Current tax	23,232	16,012
Deferred tax	3,287	(25,569)
Income tax expense	**26,519**	**(9,557)**

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

	2021	2020
	HRK'000	HRK'000
Consolidated profit before tax	237,910	118,018
Tax at applicable tax rate of 18%	**42,824**	**21,243**
Tax effect:		
Non-deductible expenses	13,457	7,798
Income not subject to tax	(19,361)	(5,918)
Utilisation of previously unrecognised tax losses	(2,029)	(2,731)
Tax losses for which no deferred tax asset is recognised	6,280	2,660
Change in recognised temporary differences	(11,752)	(1,063)
Recognition of deferred tax asset on investment tax credit	-	(19,935)
Income tax paid abroad	223	75
Investment tax credit utilisation	(3,123)	(11,686)
Income tax	**26,519**	**(9,557)**
Income tax expense is attributable to:		
Profit from continuing operations	26,519	(9,557)
Profit from discontinued operation	-	-
	26,519	**(9.557)**

Investment incentives

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

During October 2020, a subsidiary Končar - Distribution and Special Transformers Inc became the holder of incentive measures related to the project "Increasing the production capacity of distribution transformers" in the amount of HRK 28,114 thousand for which the company has the opportunity to reduce future tax liabilities based on income tax for the years ended 31 December 2028 up to the maximum amount of the tax rate reduction of 75% per annum. Based on the assessment of the usability of the tax relief by the Management Board, the financial statements for 2020 recognized the entire approved amount of the tax relief as deferred tax assets and tax revenue. In 2021, HRK 15,192 thousand was used to reduce the tax liability for the current year (2020: HRK 9,551 thousand).

Investment incentives (continued)

Pursuant to the Investment Promotion Act, the company Končar – Electrical Engineering Institute received the status of beneficiary of investment support related to the "LAVESP" project. The Company was thus granted the use of incentive measures as support for eligible costs of job creation related to the investment project and tax benefits for capital costs of the investment project in the allowed amount of tax relief for investments of HRK 13,025 thousand. For this amount, the company has the option of reducing future tax liabilities on the basis of income tax for the years ended 31 December 2030 to a maximum amount of reduction of the tax rate of 100% per annum. The Company recognized the entire amount of the approved relief as deferred tax assets and tax revenue, of which HRK 2,237 thousand has already been used to reduce the tax liability for the current year.

Tax losses carried forward

The Group can carry forward tax losses for companies which incurred losses in 2021 and are not subject to taxation and for subsidiaries that realised a profit in 2021 but are not subject to taxation due to tax losses carried forward from previous periods. The Group can carry forward tax losses into future periods in order to reduce taxable income within the following 5-year period. As at 31 December 2021, unrecognised deferred tax assets on tax losses carried forward amount to HRK 24,255 thousand (31 December 2020: HRK 18,549 thousand). Tax losses relate to Group entities for which it was assessed that there will not be sufficient future taxable profits to utilise the losses.

Gross tax losses expire as follows:

	31 December 2021	**31 December 2020**
	HRK'000	HRK'000
Within 1 year	22,595	22,072
Within 2 years	11,887	24,821
Within 3 years	26,902	11,286
Within 4 years	49,165	25,456
Within 5 years	25,060	19,418
	135,609	**103,053**

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

11 Earnings per share

	2021 HRK'000	2020 HRK'000
Profit for the year attributable to the owners		
From continuing operations	163,945	73,889
From discontinued operation	-	-
	163,945	*73,889*
Weighted average number of shares (net of treasury shares)	**2,545,449**	**2,547,936**
Basic and diluted earnings per share		
From continuing operations	64.41	29.00
From discontinued operation	-	-
Earnings per share	**64.41**	**29.00**

Diluted earnings per share for 2021 and 2020 are the same as basic since the Group had no convertible instruments or options outstanding during either period.

Weighted average number of shares is as follows:

	2020 **HRK**	**2020** **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**

12 Goodwill

Goodwill was recognised in the course of gaining control over the companies Končar - Instrument Transformers Inc., Končar - Distribution and Special Transformers Inc. and Končar - Engineering Co. for Plant Installation & Commissioning Inc. Goodwill recognized per each company amounts to:

	HRK'000
Končar - Instrument Transformers Inc.	1,184
Končar - Distribution and Special Transformers Inc	6,090
Končar - Engineering Co. for Plant Installation & Commissioning Inc.	68
At 31 December 2021	**7,342**

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

13 Intangible assets

	Development expenditure	Concessions, patents, licences, software etc.	Other	Assets under construction and advances	Total
Cost	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
At 1 January 2020	**117,932**	**41.053**	**1,507**	**12,760**	**173,252**
Transfer from property, plant and equipment	-	4,074	-	-	4,074
Additions	1,101	3,394	-	8,625	13,120
Transfer from assets under construction	8,446	4,162	-	(12,608)	-
Disposals	-	(798)	-	(995)	(1,793)
At 31 December 2020	**127,479**	**51,885**	**1,507**	**7,782**	**188,653**
Transfer from property, plant and equipment	-	749	-	-	749
Additions	-	660	-	15,636	16,296
Transfer from assets under construction	8,897	5,015	1	(13,913)	-
Write-off	-	-	-	(1,319)	(1,319)
Disposals	-	(214)	-	(145)	(359)
At 31 December 2021	**136,376**	**58,095**	**1,508**	**8,041**	**204,020**
Accumulated amortisation					
At 1 January 2020	**101,250**	**29,787**	**1,507**	**624**	**133,168**
Transfer from property, plant and equipment	-	3.391	-	-	3,391
Amortisation for the year	5,674	7,013	-	-	12,687
Impairment	-	-	-	1,560	1,560
Disposals	-	(712)	-	-	(712)
At 31 December 2020	**106,924**	**39,479**	**1,507**	**2,184**	**150,094**
Amortisation for the year	6,010	4,670	-	-	10,680
Impairment	-	512	-	-	512
Disposals	-	(205)	-	-	(205)
At 31 December 2021	**112,944**	**44,456**	**1,507**	**2,184**	**161,081**
Net book amount					
31 December 2020	**20,555**	**12,406**	**-**	**5,598**	**38,559**
31 December 2021	**23,442**	**13,639**	**1**	**5,857**	**42,939**

14 Property, plant and equipment

(in HRK thousand)	Land	Buildings	Plant and equipment	Tools and office inventory	Other	Assets under construction and advances	Total
Cost							
As at 1 January 2020	**166,590**	**1,055,999**	**1,047,843**	**292,942**	**906**	**82,979**	**2,647,259**
Reclassifications	-	-	6,787	(6,787)	-	-	-
Additions	192	10,749	2,333	5,576	1,151	90,703	110,704
Transfer from assets under construction	-	7,440	46,152	12,757	-	(66,349)	-
Transfer to Intangibles	-	-	-	(4,031)	-	(43)	(4,074)
Transfer to assets held for sale	(2,586)	(19,441)	-	-	-	-	(22,027)
Sale of subsidiaries	-	-	(1,524)	-	-	(21,742)	(23,266)
Disposals	(198)	(737)	(16,758)	(11,045)	-	(10,432)	(39,170)
As at 31 December 2020	**163,998**	**1,054,010**	**1,084,833**	**289,412**	**2,057**	**75,116**	**2,669,426**
Reclassifications	-	433	(587)	145	9	-	-
Additions	26	277	4,801	394	13	106,947	112,458
Transfer from assets under construction	-	24,492	32,635	14,740	263	(72,130)	-
Transfer to Intangibles	-	-	-	-	-	(749)	(749)
Transfer to/from investment property	(554)	43,978	(16,984)	-	-	(2,259)	24,181
Transfer to assets held for sale	(9,345)	(40,121)	(965)	-	-	-	(50,431)
Disposals	(1,047)	(13,532)	(13,458)	(13,590)	(22)	(17,280)	(58,929)
As at 31 December 2021	**153,078**	**1,069,537**	**1,090,275**	**291,101**	**2,320**	**89,645**	**2,695,956**
Accumulated depreciation							
As at 1 January 2020	**-**	**622,288**	**716,978**	**233,795**	**160**	**40**	**1,573,261**
Reclassifications	-	-	6,314	(6,314)	-	-	-
Depreciation for the year	-	25,836	43,990	15,568	2	-	85,396
Impairment	-	-	17,412	-	-	-	17,412
Transfer to Intangibles	-	-	-	(3,391)	-	-	(3,391)
Transfer to assets held for sale	-	(13,042)	-	-	-	-	(13,042)
Disposals and write offs	-	(284)	(16,107)	(9,840)	-	(40)	(26,271)
As at 31 December 2020	**-**	**634,798**	**768,587**	**229,818**	**162**	**-**	**1,633,365**
Reclassifications	-	86	7	(93)	-	-	-
Depreciation for the year	-	25,675	43,197	16,084	37	-	84,993
Impairment	-	-	21,528	-	-	-	21,528
Transfer to/from investment property	-	11,004	(11,682)	-	-	-	(678)
Transfer to assets held for sale	-	(12,893)	(308)	-	-	-	(13,201)
Disposals and write offs	-	(10,311)	(11,655)	(13,754)	-	-	(35,720)
As at 31 December 2021	**-**	**648,359**	**809,674**	**232,055**	**199**	**-**	**1,690,287**
Net book amount							
31 December 2020	**163,998**	**419,212**	**316,246**	**59,594**	**1,895**	**75,116**	**1,036,061**
31 December 2021	**153,078**	**421,178**	**280,601**	**59,046**	**2,121**	**89,645**	**1,005,669**

The Group's property and plant in the carrying amount of HRK 273,925 thousand (2020: HRK 355,807 thousand) and equipment and movables in the amount of HRK 30,000 thousand (2020: HRK 17,705 thousand) has been pledged as collateral for long-term and short-term borrowings (note 28).

15 Investment property

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

	Land HRK'000	Buildings HRK'000	Assets under construction HRK'000	Total HRK'000
Cost				
At 1 January 2020	**44,741**	**189,930**	**-**	**234,671**
Reclassification	14,200	(14,200)	-	-
At 31 December 2020	**58,941**	**175,730**	**-**	**234,671**
Reclassification	3,300	8,384		11,684
Additions	-	-	4	4
Transfer from assets under construction	-	764	(764)	-
Transfer to/from non-current tangible assets	554	(26,994)	2,259	(24,181)
Transfer to assets held for sale	(635)	(8,730)	-	(9,365)
Disposals		(1,317)	-	(1,317)
At 31 December 2021	**62,160**	**147,837**	**1,499**	**211,496**
Accumulated depreciation				
At 1 January 2020	**555**	**84,832**	**-**	**85,387**
Reclassification	10,396	(10,396)	-	-
Depreciation for the year	-	185	-	185
At 31 December 2020	**10,951**	**74,621**	**-**	**85,572**
Reclassification	3,300	8,384	-	11,684
Depreciation for the year	-	182	-	182
Transfer to/from non-current tangible assets	-	678	-	678
Transfer to assets held for sale	(81)	(2,563)	-	(2,644)
Impairment	81	907	-	988
Disposals	-	(257)	-	(257)
At 31 December 2021	**14,251**	**81,952**	**0**	**96,203**
Net book amount				
31 December 2020	**47,990**	**101,109**	**-**	**149,099**
31 December 2021	**47,909**	**65,885**	**1,499**	**115,293**

The fair value of land amounting to HRK 72.8 million and fair value of investments in buildings amounting to HRK 73.7 million relates to fair value level 3 since the input variables are not based on observable market data.

16 Investments accounted for using the equity method

	31 December 2021 Ownership share (in %)	31 December 2020 Ownership share (in %)
Associates accounted for by using the equity method:		
Končar - Power Transformers Ltd., Zagreb	49.00	49.00
Elkakon d.o.o., Zagreb*	50.00	50.00
Joint ventures accounted for using the equity method:		
KONČAR - XD High Voltage Switchgear Ltd.	-	50.00
TBEA Končar Instrument Transformers Ltd., China *	27.00	27.00
Male hidre d.o.o.*	51.00	51.00

* company in indirect ownership by the Company

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

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

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

KONČAR - XD High Voltage Switchgear Ltd. was liquidated as at 13 August 2021 and with that date company is deleted from Judicial Registry.

The company Male hidre d.o.o. was incorporated during 2020 and is primarily engaged in electricity generation from hydro potentials.

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

	Power Transformers Ltd.	**Elkakon Ltd.**	**Tbea Končar Instrument Transformers Ltd.**	**KONČAR - XD High Voltage Switchgears Ltd.**	**Male hidre Ltd.**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
1 January 2020	**233,845**	**5,222**	**9,969**	**35,189**	**-**	**284,225**
Establishment	-	-	-	-	3,164	3,164
Profit/(Loss)	21,836	947	4,124	(1,239)	(7)	25,660
Dividend payment	-	(200)	-	-	-	(200)
Dividend declared	(25,614)	-	-	-	-	(25,614)
Other	-	(12)	-	-	-	(12)
31 December 2020	**230,067**	**5,957**	**14,093**	**33,950**	**3,157**	**287,223**
New investment/recapitalization	-	-	-	-	-	-
Profit/(Loss)	34,213	1,178	3,834	(292)	(78)	38,855
Dividend payment	(34,213)	(400)	(503)	-	-	(35,116)
Other	-	(5)	-	-	-	(5)
Liquidation of the company	-	-	-	(33,658)	-	(33,658)
31 December 2021	**230,067**	**6,730**	**17,424**	**-**	**3,079**	**257.300**

Dividends declared by the associate reduce the equity accounted investment and are presented as dividends receivable within note 20 "Loans and receivables". The total dividend paid in 2021 amounts to HRK 26,014 thousand while in 2020 the total cash inflow from dividends amounted to HRK 16,243 thousand.

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

	Associates			**Joint ventures**		
	Power Transformers Ltd.*	**Elkakon Ltd.**	**Tbea Končar Instrument Transformers Ltd.**	**KONČAR - XD High Voltage Switchgears Ltd.**	**Male hidre Ltd.**	**Total**
	2021*	**2021**	**2021**	**2021**	**2021**	**2021**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Non-current assets	138,242	8,265	2,667	-	5,400	154,574
Current assets	754,888	16,304	180,659	-	2,825	954,676
Total assets	**813,130**	**24,569**	**183,326**	-	**8,225**	**1,109,250**
Total liabilities	**539,346**	**11,120**	**105,408**	-	**2,188**	**658,062**
Revenues	930,823	104,899	130,804	435	-	1,166,961
Expenses	(845,569)	(102,004)	(115,339)	(1,019)	(153)	(1,064,084)
Profit/(loss) before tax	85,254	2,895	15,465	(584)	(153)	102,877
Income tax	(15,431)	(537)	(1,265)	-	-	(17,233)
Profit/(loss) after tax	**69,823**	**2,358**	**14,200**	**(584)**	**(153)**	**85,644**
Ownership share (in %)	49%	50%	27%	50%	51%	
Share in profit/(loss) for equity accounted investments	**34,213**	**1,179**	**3,834**	**(292)**	**(78)**	**38.856**

**based on the financial year of the associate*

Summary information on the financial position of associates and joint ventures as at 31 December 2020 is shown in the following table:

	Associates			Joint ventures		
	Power Transformers Ltd.*	**Elkakon Ltd.**	**Tbea Končar Instrument Transformers Ltd.**	**KONČAR - XD High Voltage Switchgears Ltd.**	**Male hidre Ltd.**	**Total**
	2020	**2020**	**2020**	**2020**	**2020**	**2020**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Non-current assets	72,061	9,216	2,717	44	3,040	87,078
Current assets	758,458	17,550	166,133	68,119	3,150	1,013,410
Total assets	**830,519**	**26,766**	**168,850**	**68,163**	**6,190**	**1,100,488**
Total liabilities	**352,419**	**16,322**	**109,016**	**110**	**-**	**477,867**
Revenues	870,795	95,644	115,063	1,367	-	1,082,869
Expenses	(816,349)	(93,333)	(99,571)	(3,845)	(14)	(1,013,112)
Profit/(loss) before tax	54,446	2,311	15,492	(2,478)	(14)	69,757
Income tax	(9,882)	(416)	(219)	-	-	(10,517)
Profit/(loss) after tax	*** 44,564**	**1,895**	**15,274**	**(2,478)**	**(14)**	**59,241**
Ownership share (in %)	49%	50%	27%	50%	51%	
Share in profit/(loss) for equity accounted investments	**21,836**	**948**	**4,124**	**(1,239)**	**(7)**	**25,662**

**based on the financial year of the associate*

17 Other investments

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Financial assets at FVOCI	12,678	6,378
Financial assets at FVTPL		
Investment in bond fund	20	-
Investments in shares	2,476	2,318
Derivative instruments - forward currency contract	542	-
Financial assets at FVOCI	**15,716**	**8,696**

18 Loans and receivables

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Receivables for shares sold /i/	13,796	16,243
Loans, deposits and similar assets	2,498	2,649
Receivables for recognised claims /ii/	-	6,634
Receivables for flats sold	924	1,733
Other	24	45
	17,242	**27,304**

/i/ Receivables for shares sold relate to non-current receivables from sales of shares of related company Končar – Household Appliances in instalments over the period of 10 years (note 30).

/ii/ Receivables for recognised claims toward an entity in receivership for which there is a court deposit for payment of the claim.

19 Inventories

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Raw materials and supplies	492,167	359,898
Work in progress	286,012	244,361
Finished goods	79,654	90,229
Trade goods and goods in transit	991	199
Small inventory and packaging	4,909	4,679
Advance payments and other	70,416	36,425
	934,149	**735,791**

20 Loans and receivables

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Trade receivables	783,584	744,448
Receivables from related parties /i/	55,571	42,665
Receivables for value added tax	27,229	18,802
Receivables from recognized claims	37,961	35,513
Receivables for advances given for services	28,344	8,118
Prepaid expenses and accrued income	17,837	6,721
Assets recognized on the basis of costs related to the acquisition of the contract	16,275	2,776
Other /ii/	47,447	11,879
	1,014,248	**870,922**

/i/ Receivables from affiliated companies include dividend receivables declared by the associated company in the total amount of HRK 34,213 thousand (31 December 2020: HRK 25,614 thousand).

/ii/ Other receivables mostly relate to the redemption of receivables from the ultimate debtor which is not considered a related party at the balance sheet date, as explained in Note 35.

Trade receivables are as follows:

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Trade receivables – domestic, gross	351,306	371,291
Trade receivables – foreign, gross	454,764	405,308
Impairment	(22,486)	(32,151)
	783,584	**744,448**

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

	31 December 2021	**31 December 2020**
	HRK'000	HRK'000
Not yet due	642,910	665,661
< 60 days	91,905	67,725
60-90 days	11,873	4,451
90-180 days	13,180	3,232
180-365 days	21,809	2,285
> 365 days	1,907	1,094
	783,584	**744,448**

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

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

	HRK'000
At 1 January 2020	31,101
Decrease in expected credit loss	106
Collected during the year	(1,025)
Impaired during the year	4,589
Total changes in expected credit loss through profit or loss	*3,670*
Written off during the year	(2,627)
Foreign exchange differences	7
At 31 December 2020	**32,151**
Increase in expected credit loss	(656)
Collected during the year	(3,535)
Impaired during the year	1,179
Total changes in expected credit loss through profit or loss	*(3,012)*
Written off during the year	(6,651)
Foreign exchange differences	(2)
At 31 December 2021	**22,486**

21 Contract assets and contract liabilities

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

	31 Dec 2021	**31 Dec 2020**
	HRK'000	HRK'000
Contract assets from contract with customers	212,273	135,218
Expected credit loss	(64)	(108)
Total current assets from contract with customers	**212,209**	**135,110**
Contractual obligation from contracts with customers	52,492	58,210
Contractual obligation - advances received from the buyer	294,379	342,454
Total contract liabilities	**346,871**	**400,664**

Revenue recognized in the reporting period that was included in the balance sheet of contract liabilities at the beginning of the period amounts to HRK 58,210 thousand (2020: HRK 72,249 thousand).

Contractual obligations at the reporting date relate to contracts with customers with a total value of HRK 2,048,711 thousand (31 December 2020: HRK 1,612,800 thousand), and for which performance obligations are to be met in the next reporting period.

22 Current financial assets

	31 December 2021	31 December 2020
	HRK	HRK
Deposits over 3 months	121,097	75,590
Other financial assets	180,588	671
	301,685	**76,261**

The contractual interest rate on the Group's deposits of over 3 months held at commercial banks ranges from 0.01% to 0.35% (2020.:0.01%-1.7%).

Other current financial assets mainly relate to funds paid for recapitalization and redemption of receivables related to loans and borrowings, to the ultimate debtor not considered a related party at the balance sheet date, as explained in Note 35.

23 Cash and cash equivalents

	31 December 2021	31 December 2020
	HRK	HRK
Cash in bank	396,616	743,624
Cash on hand	153	123
Investments in money market funds	-	-
Deposits up to 3 months	27,062	-
	423,831	**743,747**

Interest rate on the Group's cash in bank and deposits up to 3 months is 0.001% - 0.01% (2020.:0.01 %) .

Disclosures related to credit risk are presented in note 30 Financial risk management and financial instruments.

24 Non-current assets held for sale

The Management Board and the Supervisory Board adopted a new business strategy in October 2021, which defines the sale of non-operating assets of the Company. Accordingly, the Management Board started the process of selling several locations owned by the Company, and these locations were presented as assets held for sale. Actions regarding the sale of the property have been started by the Management, and the sale is expected by the end of 2022.

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Land	12,484	2,586
Buildings	40,452	6,399
	52,936	**8,985**

The fair value of non-current assets held for sale at the balance sheet date refers to level 3 of fair value as the input variables for its determination are not based on observable market data. The fair value of non-current assets held for sale at the balance sheet date is HRK 89.4 million, of which:

- the amount of HRK 15.7 million relates to land,
- and the amount of HRK 73.7 million relates to construction facilities.

25 Equity

Share capital is determined in the nominal amount of HRK 1,208,896 thousand (31 December 2020: HRK 1,208,896 thousand) and comprises 2,572,119 shares with a nominal value of HRK 470 per share.

The ownership structure of the Parent company is as follows:

	31 December 2021		31 December 2020	
Shareholder	Number of shares	Ownership share %	Number of shares	Ownership share %
HPB d.d. (Kapitalni fond d.d.)	724,515	28.17	724,515	28.17
Addiko Bank d.d./PBZ Croatia Osiguranje OMF	-	-	426,907	16.60
Erste & Steiermarkische bank D.D./ PBZ CO OMF - Kategorija B	440,121	17.11	-	-
OTP Banka d.d. / AZ OMF	370,178	14.39	371,162	14.43
OTP Banka d.d./ Erste Plavi obvezni mirovinski fond	398,402	15.49	393,972	15.32
Centar za restrukturiranje i prodaju / RH	68,584	2.67	60,000	2.33
Floričić Kristijan	25,000	0.97	40,714	1.58
Addiko Bank/RBA OMF	-	-	47,636	1.85
Privredna banka Zagreb d.d./Raiffaisen OMF kategorije B	47,636	1.85	-	-
Zagrebačka banka d.d. /AZ Profit DMF	35,870	1.39	35,870	1.39
OTP banka d.d. / OTP Indeksni find - OIF s javnom ponudom	22,308	0.87	21,345	0.83
Other shareholders	412,835	16.05	423,328	16.46
KONČAR d.d. (treasury shares)	26,670	1.04	26,670	1.04
	2,572,119	**100**	**2.572.119**	**100**

During 2018, the Company started purchasing its treasury shares. In 2019 based on a decision of General Assembly, the Management Board is authorized to acquire treasury shares over a period of 5 years. The part of other reserves in amount of HRK 25 million in accordance with General Assembly's decision will be used for the purpose of the acquisition of treasury shares, while reserves for treasury shares are formed accordingly. In 2020, the Parent Company repurchased shares in the amount of HRK 4,951 thousand. During 2021 there was no share repurchase and as at 31 December 2021 the Group owns 26,670 treasury shares (31 December 2020: 26,670 shares).

In 2021, the General Meeting of the parent company made a decision on the payment of dividends to shareholders in the amount of HRK 14,764 thousand (in 2020 there was no dividend payment).

The Group has formed legal, statutory and other reserves that are defined on the basis of profit distribution in accordance with the General Assembly's decision.

26 Non-controlling interests

The following are the companies in which the Parent company has a significant non-controlling interest:

- Končar - Distribution and Special Transformers Inc., Zagreb (KONČAR D&ST Inc.)
- Končar - Instrument Transformers Inc., Zagreb (KONČAR MT Inc.) and
- Končar - Electric Vehicles Inc., Zagreb (KONČAR EV Inc.)

These three companies represent 99.41% of the total amount of the Group's non-controlling interest at the balance sheet date.

Summary of the stated companies with significant non-controlling interests are presented below:

	KONČAR D&ST Inc.		KONČAR MT Inc.		KONČAR EV Inc.	
	2021 HRK'000	**2020 HRK'000**	**2021 HRK'000**	**2020 HRK'000**	**2021 HRK'000**	**2020 HRK'000**
Statement of comprehensive income						
Income	1,380,708	1,093,782	193,265	215,391	462,265	169,813
Expenses	(1,271,964)	(1,018,442)	(184,306)	(202,988)	(434,818)	(148,827)
Profit before tax	108,744	75,340	8,959	12,403	27,447	20,986
Income tax	(20,307)	16,751	(673)	(1,205)	(5,426)	(3,274)
Profit after tax	**88,437**	**92,091**	8,286	**11,198**	**22,021**	**17,712**
Statement of financial position						
Non-current assets	233,387	268,767	66,857	65,175	65,825	56,953
Current assets	740,003	618,920	154,508	143,452	386,639	399,643
Total assets	**973,390**	**887,687**	**221,365**	**208,627**	**452,464**	**456,596**
Total liabilities	**451,711**	**428,168**	**106,198**	**96,148**	**327,877**	**345,176**
Cash flow						
Cash flow from operating activities	66,622	78,537	4,343	14,937	(172,333)	233,851
Cash flow from investing activities	(16,260)	(51,708)	(5,099)	(7,860)	(11,683)	(4,222)
Cash flow from financing activities	(33,649)	(15,100)	432	(9,470)	43,074	(96,023)
Net increase/(decrease) in cash	**16,713**	**11,729**	**(324)**	**(2,393)**	**(140,942)**	**133,606**
Cash at beginning of period	107,965	96,236	4,632	7,025	172,152	38,546
Cash at end of period	**124,678**	**107,965**	**4,308**	**4,632**	**31,210**	**172,152**

27 Provisions

	Warranty provisions	Provisions for legal disputes	Jubilee awards and retirement benefits	Other provisions	Total
	000´HRK	000´HRK	000´HRK	000´HRK	000´HRK
1 January 2020	**209,788**	**1,912**	**40,341**	**2,368**	**254,409**
Additional provisions	25,022	225	14,075	2,254	41,576
Usage of provisions	(8,572)	(130)	(2,806)	(1,120)	(12,628)
Release of provision	(43,928)	(867)	(10,173)	-	(54,968)
Foreign exchange differences and similar	(3)	-	(115)	-	(118)
31 December 2020	**182,307**	**1,140**	**41,322**	**3,502**	**228,271**
Current provision	49,065	66	1,281	80	50,492
Non-current provision	133,242	1,074	40,041	3,422	177,779
	182,307	**1,140**	**41,322**	**3,502**	**228,271**
Additional provisions	46,219	3,596	6,632	13,244	69,691
Usage of provisions	(5,551)	(65)	(547)	-	(6,163)
Release of provision	(60,512)	(100)	(7,507)	(81)	(68,200)
Foreign exchange differences and similar	1	-	4	-	5
31 December 2021	**162,464**	**4,571**	**39,904**	**16,665**	**223,604**
Current provision	*43,277*	*119*	*1,547*	-	*44,943*
Non-current provision	*119,187*	*4,452*	*38,357*	*16,665*	*178,661*
	162,464	**4,571**	**39,904**	**16,665**	**223,604**

Warranty provisions

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

In addition, the Management Group, if necessary, creates individual provisions relating to specific contracts with customers and the products in question if it becomes known about potential problems with the quality of transformers sold. The Group set aside a total of HRK 28.9 million (2020: HRK 58.9 million) for individual provisions. These provisions relate to several product sales contracts in geographical areas where the Group has identified specific risks arising from atypical deficiencies related to the delivery of products to areas with extreme climatic conditions and technically complex projects considered non-standard. The Group has created a provision based on the expected cost of repairing and / or replacing the transformers. For several contracts in which individual provisions were created, the warranty periods expired during 2021 and they did not result in significant expenditures for repairs. As a result, the Group canceled a total of HRK 29.9 million of individual provisions. The remainder of the individual provision relates to contracts with two customers for which the initial estimate of the risks has not changed when compared to prior period and warranty periods are still ongoing.

There were no significant repair costs during the year due to travel and transportation restrictions caused by the pandemic for both the Group and customers. The Group continuously communicates with customers and through cooperation with customers to eliminate deficiencies seeks to minimize estimated costs.

Provisions for legal disputes

Non-current provisions for legal disputes in the amount of HRK 4,571 thousand (2020: HRK 1,140 thousand) relate to legal disputes in progress initiated against the companies within the Group and estimated costs of these disputes.

Provisions for jubilee awards and retirement benefits

Provisions for jubilee awards and termination benefits in the amount of HRK 39,940 thousand (2020: HRK 41,322 thousand) relate to regular employee benefits (regular termination benefits and jubilee awards), and termination benefits to the Management Board in accordance with the Collective Agreement, to which the Group's employees are entitled. The net present value of the provision is calculated on the basis of the number of employees, amount of benefit, years of service at the balance sheet date and the discount rate of 0.6% (2020: 0.7%).

Other provisions – provisions for onerous contracts

During 2021 there was a sharp and significant increase in prices for almost every raw material used in transformers production. In some contracts with customers, the estimated value of contract costs exceed contractual revenues and for these contracts an onerous contract provision (disclosed within Other provisions) was recognised in accordance with IAS 37, amounting to HRK 10,725 thousand (for further information refer to note 2,28 c)). These inflationary trends continued in early 2022 and were additionally emphasized by the war in Ukraine. The Group initiated activities to manage these risks as efficiently as possible.

28 Borrowings

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Liabilities to banks and other financial institutions /i/	299,926	224,939
Lease liabilities /ii/	4,938	5,148
Liabilities for loans to affiliated companies (long-term)	350	-
	305,214	**230,087**

	31 December 2021	31 December 2020
	HRK'000	HRK'000
/i/ Liabilities to banks and other financial institutions		
Liabilities to banks	145,834	171,843
Less: Current portion	(44,922)	(51,437)
Long term liabilities to banks	**100,912**	**120,406**
Liabilities to banks and other financial institutions	154,092	53,096
Plus: Current portion	44,922	51,437
Short term liabilities to banks and other financial institutions	**199,014**	**104,533**
	299,926	**224,939**

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Lease liabilities		
Long term	3,228	1,600
Short term	1,710	3,548
	4,938	**5,148**

Changes in bank borrowings were as follows:

	HRK'000
1 January 2020	**327,893**
New borrowings	51,853
Foreign exchange differences	1,324
Repayment of borrowings	(159,965)
Non-cash transactions	3,834
31 December 2020	**224,939**
New borrowings	153,556
Foreign exchange differences	(264)
Repayment of borrowings	(82,456)
Non-cash repayment of borrowings	4,151
31 December 2020	**299,926**

Long-term bank borrowings mature as follows:

	31 December 2021	**31 December 2020**
	HRK'000	HRK'000
Within one year	199,014	103,545
From 1 to 2 years	7,517	21,095
Between 2 and 5 years	49,349	48,820
More than 5 years	44,046	51,479
	299,926	**224,939**

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

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

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

The fixed interest rate on the Group's long term borrowings ranges from 1.0% to 1.85% p.a., while the fixed interest rate on the Group's short-term borrowings ranges from 0.55% to 1.45% p.a.

29 Trade and other payables

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Domestic trade payables	280,009	319,835
Foreign trade payables	244,424	138,703
Liabilities towards employees	45,958	40,832
VAT payable	14,635	44,133
Liabilities for contributions on and from salaries and taxes and surtaxes	32,252	29,711
Advances received	12,447	5,372
Agency commissions	18,168	8,074
Calculated costs	54,919	34,498
Other liabilities	16,859	20,338
	719,671	**641,496**

30 Financial risk management and financial instruments

Capital risk management

Financial leverage ratio

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

	31 December 2021	31 December 2020
	HRK'000	HRK'000
Debt (current and non-current) = D	(305,214)	(230,087)
Bank deposits (current)	121,097	75,590
Cash and cash equivalents	423,831	743,747
Net cash / (debt)	239,714	589,250
Equity = E	2,843,642	2,670,520
Financial leverage ratio = D/(D+E)	**10%**	**8%**

Financial risk management

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

	FV hierarchy	31 December 2021 HRK'000	31 December 2020 HRK'000
Quoted shares	Level 1	2,476	2,318
Share in cash funds	Level 1	-	-
Derivative instruments	Level 2	543	-
Total financial assets at FVTPL		**3,019**	**2,318**
Financial assets at FVOSD	Level 3	12,678	6,378
Total financial assets at FVOSD		**12,678**	**6,378**
Non-current financial assets	n/a	2,498	2,649
Non-current receivables	n/a	14,720	24,635
Current financial assets	n/a	301,685	76,261
Trade and other receivables	n/a	944,195	829,091
Cash and cash equivalents	n/a	423,831	743,747
Total financial assets at amortised cost		**1,686,929**	**1,676,383**
Total financial assets		**1,702,626**	**1,685,079**
Loans payable	n/a	300,276	224,939
Leases payable	n/a	4,938	5,148
Trade payables	n/a	524,433	458,538
Total financial liabilities at amortised cost		**829,647**	**688,625**
Derivative instruments	Level 2	2,054	4,161
Total financial liabilities at FVTPL		**2,054**	**4,161**
Total financial liabilities		**831,701**	**692,786**

A) Fair value of financial assets and liabilities

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

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

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

Derivative financial instruments

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

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

Receivables and bank deposits

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

Borrowings

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

Other financial instruments

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

B) Financial instrument risks

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

1. Market risk

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

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

a) Foreign currency risk and cash flow hedge accounting

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

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

The relevant exchange rate for EUR were as follows:

	Spot exchange rate		Average exchange rate	
	31 December 2021	31 December 2020	2021	2020
	HRK	HRK	HRK	HRK
EUR	7.51717	7.5369	7.52418	7.53308

The carrying amounts of the Group's EUR denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Denominated in EUR	
	31 December 2021	**31 December 2020**
	HRK'000	**HRK'000**
Non-current receivables	-	-
Non-current financial assets	560	21
Trade and other receivables	370,628	333,462
Derivative instruments	-	-
Deposits (over 3 months)	53,393	68,903
Cash and cash equivalents	163,595	449,673
Trade and other payables	(229,335)	(140,598)
Borrowings	(184,958)	(148,308)
Derivative instruments	(2,273)	(4,161)
	171,610	**558,992**
Effect of the change in exchange rates by 1% on profit	**1,716**	**5,590**

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

	31 Dec 2021	**31 Dec 2020**
	HRK'000	HRK'000
Bank and other loans based on fixed interest rates	248,539	196,164
Bank and other loans based on floating interest rates	51,737	28,775
	300,276	**224,939**

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

Credit risk

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

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

Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables arising from the sale of goods and services
- Contract assets
- Debt instruments at amortised costs
- Debt instruments at fair value through other comprehensive income

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

Trade receivables and contract assets

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

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

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2021 respectively and the corresponding historical credit losses experienced within this period.

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

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

Other financial assets at amortised cost

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

The analysis performed has shown that the effect of applying IFRS 9 on receivables for recognised claims, receivables for dividends and receivables from foreign sales is immaterial and as such was not recognized at 31 December 2021 and at 31 December 2020.

Liquidity risk

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

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

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

	Net book value	Contractual cash flows	up to 1 year	2 – 5 years	over 5 years
31 December 2020	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-interest bearing liabilities					
Current trade and other payables	458,538	458,538	449,549	8,918	71
Interest bearing liabilities	230,086	235,495	111,109	72,460	51,926
	688,624	**694,033**	**560,658**	**81,378**	**51,997**

31 Segment reporting

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

- Transformers: includes activities of production and sale of distribution, special, instrument and other transformers, mainly in the energy segment;
- Rotary machines: includes activities of production and sale of generators and motors and small electrical machines, mainly in the energy segment;
- Engineering: includes the execution of more complex projects for construction of plant and equipment in the energy and transport sector and related design and engineering services;
- Industrial electronics: includes the production and sale of devices and solutions for electronics systems in the energy sector and similar;
- Rail vehicles: includes construction and sale of rail vehicles such as trains and trams and related maintenance services in the transport sector;

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

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

Segment revenues and results

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

31 Segment reporting (continued)

2021, in HRK thousands	Transformers	Rotary machines	Rail vehicles	Engineering	Industrial electronics	Total reportable segments	Other	Total
External revenue	1,519,799	333,533	457,429	694,113	136,698	3,141,572	315,894	3,457,466
Intersegment revenue	46,698	3,843	-	394	16,632	67,567	29,225	96,792
Revenue	**1,566,497**	**337,376**	**457,429**	**694,507**	**153,330**	**3,209,139**	**345,119**	**3,554,258**
Segment operating profit / (loss)	**257,735**	**1,274**	**69,335**	**76,268**	**(79,744)**	**324,868**	**(130,876)**	**193,992**
Net financial result	(100)	(92)	6,260	(550)	487	6,005	(943)	5,062
Share of result in equity accounted investee	39,226	-	-	-	-	39,226	(370)	38,856
Profit / (loss) before tax	**296,861**	**1,182**	**75,595**	**75,718**	**(79,257)**	**370,099**	**(132,189)**	**237,910**
Income tax	(20,980)	(2,481)	(5,426)	(5,139)	9,271	(24,755)	(1,764)	(26,519)
Profit / (loss) after tax	**275,881**	**(1,299)**	**70,169**	**70,579**	**(69,986)**	**345,344**	**(133,953)**	**211,391**
Non-controlling interest								47,446
Profit attributable to owners								**163,945**
Non-current assets	500,706	125,467	65,874	14,601	110,876	817,524	685,361	1,502,885
Current assets	892,634	315,779	363,828	438,194	190,099	2,200,534	743,885	2,944,419
Total assets	**1,393,340**	**441,246**	**492,702**	**452,795**	**300,975**	**3,018,058**	**1,429,246**	**4,447,304**
Total liabilities	**572,537**	**150,923**	**277,996**	**299,156**	**76,740**	**1,377,352**	**226,310**	**1,603,662**

31 Segment reporting (continued)

2020 in HRK thousands	Transformers	Rotary machines	Rail vehicles	Engineering	Industrial electronics	Total reportable segments	Other	Total
External revenue	1,331,729	278,569	151,870	759,350	132,416	2,653,934	318,624	**2,972,558**
Intersegment revenue	46,426	11,819	279	54,569	96,418	209,511	127,709	**337,220**
Revenue	**1,378,155**	**290,388**	**152,149**	**813,919**	**228,834**	**2,863,445**	**446,333**	**3,309,778**
Segment operating profit / (loss)	**103,907**	**(12,352)**	**9,944**	**13,168**	**9,473**	**124,140**	**(38,935)**	**85,205**
Net financial result	(7,158)	(256)	11,042	1,471	423	5,522	1,630	**7,152**
Share of result in equity accounted investee	24,416	-	-	-	-	24,416	1,246	**25,662**
Profit / (loss) before tax	**121,165**	**(12,608)**	**20,986**	**14,639**	**9,896**	**154,078**	**(36,059)**	**118,019**
Income tax	15,546	2,638	(3,274)	(3,465)	(777)	10,668	(1,111)	**9,557**
Profit / (loss) after tax	**136,712**	**(9,970)**	**17,712**	**11,174**	**9,119**	**164,747**	**(37,171)**	**127,576**
Non-controlling interest								**53,687**
Profit attributable to owners								**73,889**
Non-current assets	358,102	116,614	56,953	39,319	80,802	651,790	946,358	**1,598,148**
Current assets	761,493	244,217	399,643	467,302	203,288	2,075,943	500,793	**2,576,736**
Total assets	**1,119,594**	**360,831**	**456,597**	**506,621**	**284,091**	**2,727,733**	**1,447,151**	**4,174,884**
Total liabilities	**535,758**	**111,918**	**345,176**	**370,112**	**56,503**	**1,419,467**	**84,897**	**1,504,364**

32 Order book

The Group’s balance for the consolidated negotiated deals (order book) based on active projects as at 31 December 2021 amounts to HRK 5,009 million (31 December 2020: HRK 4,104 million).

33 Related party transactions

Parties are considered related if one party has the ability to control the other party, if it is under joint control or has a significant influence on the business of the other party. The Group is also in a significant part owned by the Republic of Croatia and other companies in control or under significant influence of the Republic of Croatia. In that respect, the Group is in a related party relationship with state institutions and other companies where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Group does not consider routine transactions (such as taxes, levies, etc.) with various local communal entities (directly or indirectly owned by the State) or with other bodies to be related party transactions. More significant transactions with state—owned companies relate to supply of electricity, gas similar utilities. During 2021 the Group has realised total of HRK 947 million (2020: HRK 647,5 million) of sale revenues with state institutions and other companies where the State is a majority owner or has a significant influence, which mostly relate to engineering services in energy sector, rail vehicles and industry equipment.

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

2021	Receivables HRK'000	Liabilities HRK'000	Revenues HRK'000	Expenses HRK'000
Related party				
Associates	53,912	13,191	95,311	100,066
Joint venture	1,660	49	1,481	217
Total business operations	***55,571***	***13,240***	***96,793***	***100,283***

2020	Receivables HRK’000	Liabilities HRK’000	Revenues HRK’000	Expenses HRK’000
Related party				
Associates	41,971	69,965	101,540	170,277
Joint venture	694	-	3,182	8,669
Total business operations	***42,665***	***69,965***	***104,722***	***178,946***

Dividend receivables from associates amounted to HRK 34,213 thousand as at 31 December 2021 (31 December 2020: HRK 25,614 thousand).

Key management remuneration

Net salaries in the amount of HRK 410,299 thousand (2020: HRK 346,873 thousand) include compensations to the Management Board of the Company and other related companies in the amount of HRK 17,536 thousand (2020: HRK 16,326 thousand) and accrued bonuses for the Management Board in the amount of HRK 6,752 thousand (2020: HRK 6,205 thousand), and are an integral part of staff costs. In 2021, total number of key management personnel was 34 (2020: 39).

34 Events after the reporting date

Acquisition of control - Dalekovod

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 the 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.

Armed conflict on the territory of Ukraine and the consequences of the introduction of sanctions against the Russian Federation

On 24 February 2022, the army of the Russian Federation launched its attack on Ukraine which provoked negative political reactions around the world. Many countries, including the United States, EU member states and the United Kingdom, soon imposed economic sanctions on the Russian Federation. Uncertainty regarding the delivery of goods and services from Russia to Europe, primarily energy, has caused a significant increase in oil, natural gas and electricity prices in European and world markets. In addition, in some European countries, governments are working on urgent measures to reduce dependence on Russian oil and gas imports and the potential imposition of additional economic sanctions on the Russian Federation. Although the development of the situation in Ukraine is uncertain, it is certain that the further escalation of this conflict, its longer duration and the scope of economic sanctions against the Russian Federation will have far-reaching negative effects on the European economy.

The Group has no significant business activities in Russia or Ukraine and the Management Board has concluded that direct risks are minimal. In order to mitigate indirect risks, the Group actively monitors the market situation and introduces risk reduction measures.

Apart from the above, and after the reporting date, until the date of approval of the consolidated financial statements, there were no events that would significantly affect the Group's annual consolidated financial statements for 2021, which should, therefore, be published.

Fallerovo šetalište 22
10000 Zagreb, Croatia
phone: +385 1 3655 555
e-mail: marketing@koncar.hr, ir@koncar.hr