ANNUAL REPORT SIP GROUP 2021

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BUSINESS REPORT

In addition to the parent company, the SIP Group comprises following companies:

- SIP DISTRIBUCIJA d.o.o., Jastrebarsko, Croatia
- S.A.R.L, SIP FRANCE, Porte de Savoie, France
- SIP DISTRIBUTION UK LTD, Tewkesbury Glos, United Kingdom
- SIP DEUTSCHLAND GmbH, München, Germany

The parent company holds 100% of the capital in all subsidiaries.

After a slightly weak previous year, the SIP Group returned to strong growth in physical business volumes and sales in 2021. Our market segment (lawn mowing and harvesting machinery) responded to the expected end of the pandemic with high demand growth, while on the other hand it faced worsening disruptions in supply chains and consequently strong inflationary pressures. The success of our business, even in these challenging conditions, is a reflection of the robustness of our business model.

Sales. With EUR 41.6 million, the SIP Group net sales were 28% higher over the previous year and 16% higher than planned. We sold 5,192 machines, with sales of own-brand products accounting for 91% of total sales. In addition to Slovenia, the SIP Group sells in more than 30 countries, among them Austria, France, Germany, Switzerland and Italy which are the largest export markets.

Net sales revenue generated in 2021 by subsidiaries:

- SIP DISTRIBUCIJA d.o.o., Croatia generated net sales revenue of EUR 133,441,
- S.A.R.L, SIP FRANCE, France generated net sales revenue of EUR 361,722,
- SIP DISTRIBUTION UK LTD, United Kingdom generated net sales revenue of EUR 1,948,662,
- SIP DEUTSCHLAND GmbH, Germany; the company was established in 2021 but conducted no business operations.

Development and investments. The SIP Group continued in 2021 to pursue its intense development strategy, focusing on grass mowing and harvesting machinery for large agricultural producers and professional service providers; In addition to investing in development of new products, also the upgrading of production and logistics continued, and as much as a total of EUR 6.8 million was spent on investments in fixed assets.

Operating result and cash flow management. The SIP Group performed well in the financial year 2021. It generated earnings before interest, taxes, depreciation and amortisation (EBITDA) in the amount of EUR 7.5 million, 28% more relative to the previous year. The net result of EUR 4.1 million is 41% higher than in 2020. All subsidiaries realised a positive financial result in the financial year 2021. The SIP Group's good results are also due to the continuous improvement of productivity, the optimisation and digitisation of business processes and the appropriate cost management, even in a situation of inflationary pressures. In 2021, the SIP Group also maintained a favourable net debt to operating cash flow ratio and an adequate level of liquidity.

Risk management. To ensure efficient credit risk management, the SIP Group regularly monitors credit ratings of all its major customers and key suppliers. The SIP Group is exposed to currency risk to a lesser extent as the vast majority of its sales, purchase and financial contracts are denominated in euro. as the vast majority of the sale, purchase and financing contracts are tied to the euro. In addition, the SIP Group has concluded all necessary insurance policies such as insurance against fire and natural disasters, insurance of machinery failures and manufacturer's liability insurance. Through past investments, the SIP Group has in recent years eliminated all key environmental risks but continues to pursue activities and investments towards a "green" transformation of its business. All SIP Group's IT databases and software applications are adequately protected also at locations outside the head office. Through consistent application of the recommended protection measures, we appropriately managed also the risks associated with the coronavirus COVID-19 epidemic.

Recruitment. Of total 268 employees at the year-end, 183 have completed the first, second, third, fourth or fifth level of education, and 85 employees have completed the sixth, seventh and eighth level of education. Regardless the epidemic, we organised training and education courses in 2021 as well with the purpose of maintaining and improving employee competencies.

Plans. In the remaining medium-term period until 2024, the SIP Group plans

- to develop innovative and competitive mowers and hay harvesting machinery, focussing mainly on an improved user-experience;
- improve its productivity based on optimisation and digitization of its production processes
- consolidate its brand and expand its distribution network through client education and after-sales support;
- train its employees, who are and will continue to be the foundation of our market success.

President of the Management Board

Mag. Uroš Korže

Šempeter v Savinjski dolini, 25 February 2022

CORPORATE GOVERNANCE STATEMENT of the SIP Group

The Management Board of SIP d. d., Šempeter v Savinjski dolini hereby declares that its 2021 Annual Report of the SIP Group, inclusive of the corporate governance statement, have been prepared and published in accordance with the provisions of the Companies Act (ZGD-1), International Financial Reporting Standards and pursuant to other applicable regulations and the implementing regulations. The data in the 2021 Annual Report is an integral part of this corporate governance statement.

The parent company and its subsidiaries did not adopt any specific corporate governance code in the 2021 financial year. Furthermore, the Group companies did not apply any specific corporate governance code adopted by a third person. The Group has in place appropriate standards pertaining to corporate governance. While the Group companies employ no diversity policy, professional criteria apply to the representation in the management or supervisory bodies.

Group companies' internal controls and risk management system cover measures and procedures for handling and processing transactions so as to ensure timely, true and fair reporting of the Company's financial position and its assets. Internal controls are carried out in several ways. Transactions are recorded based on credible bookkeeping documents. Incoming invoices are signed according to the "four eyes" principle, i.e. by two signatories The SAP IT system ensures an audit trail of transactions. Controls are established at several levels through comparing and harmonising the data kept in analytical accounting documents with the data in the accounting records, as well as with data provided by business partners or the actual physical existence of assets, and through reconciliation of the analytical accounting documents with the general ledger. The Group is organised into several cost centres, whereby each centre has a specifically designated person responsible for signing documents, while oversight of the cost centre's operations is also carried out by the financial controlling department.

The data referred to in Point 4, Paragraph 5 of Article 70 of the ZGD-1 is disclosed in the Business section of the Annual Report.

The parent company applies a single-tier management system. It is managed and represented, and the conduct of its business supervised, by the Management Board, whose composition and work are based on relevant legal provisions and the provisions of the Company's Articles of Association. The Company is represented by the President of the Management Board or by Management Board members collectively. If the Management Board appoints the Chief Executive Officer from among the members of the Management Board, the Chief Executive Officer shall represent the Company independently and without limitation, otherwise only within the scope of the powers assigned to him by the Management Board. The Company shall have a holder of procuration who shall represent the Company within the scope of his/her legal and statutory powers. Subsidiaries are incorporated as limited liability companies.

The Management Board is composed of a minimum of three and a maximum of six members, according to the Articles of Association, and at least one member is appointed by the Works Council in accordance with the Workers' Participation in Management Act. In 2021, the Management Board was composed of four members, three members appointed by the shareholders at the Shareholders' Meeting and one member appointed by the Works Council in accordance with the Workers' Participation in Management Act. As at 1 January 2021, the Management Board appointed the Chief Executive Officer from among its members for a two-year term of office. During its work, the Management Board applies the Rules of Procedure of the Management Board.

The Shareholder's Meeting acts in accordance with the applicable legal regulations and the Articles of Association. Shareholders may exercise their rights from shares directly or through proxies, who must provide a written power of attorney. Information to shareholders is provided in accordance with the applicable legal regulations (through the Company's website and the AJPES website).

The parent company was not obliged to appoint an Audit Committee in 2021.

The Group regularly monitors its operations and changes in its assets, while considering the economic environment in order to ensure the timely recognition of changes in risks and exposures.

EVENTS AFTER THE BALANCE SHEET DATE

As of the date of the consolidated financial statements and up to the date of this report, two additional new members of the Management Board have been approved by the Company's Shareholders' Meeting and no other events have occurred that would have an impact on the true and fair view of the financial statements for 2021.

Šempeter, 25 February 2022

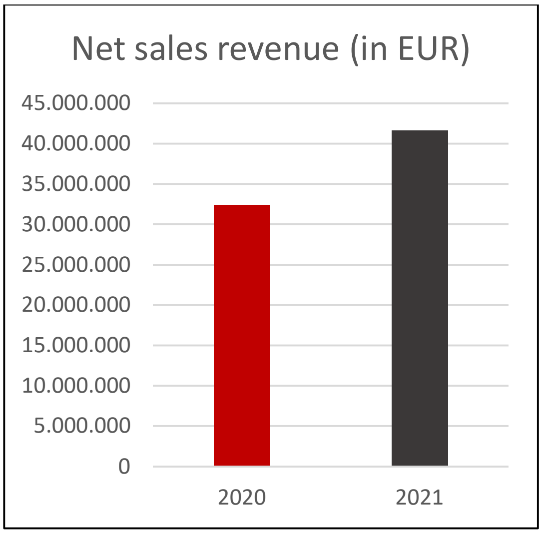
President of the Management Board
Mag. Uroš Korže

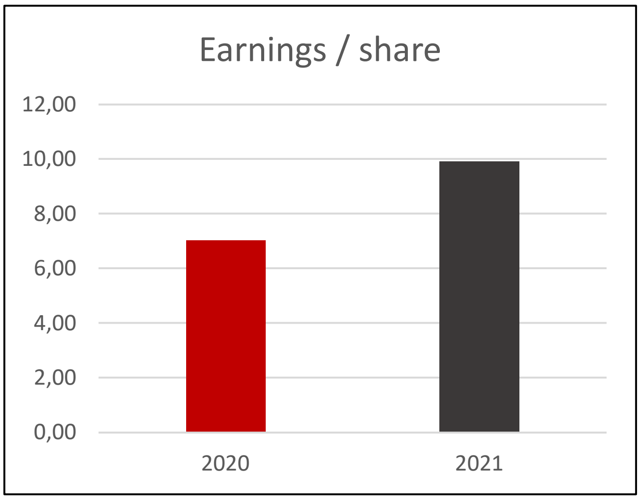
FINANCIAL REPORT
SIP GROUP
2021

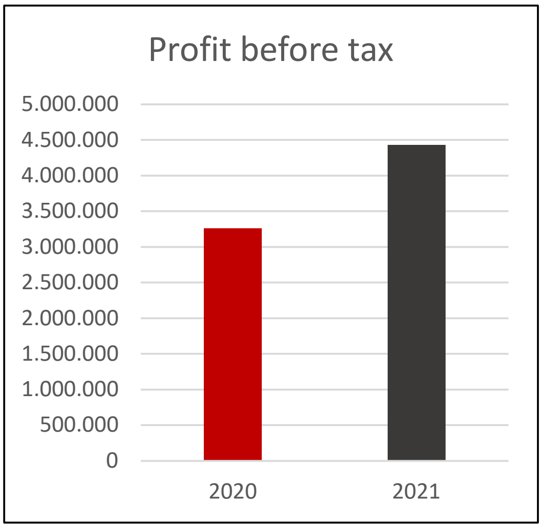
Registration:	SIP, Strojna Industrija d. d. Šempeter, is registered at the District Court in Celje under the entry number 1/00268/00
Corporate address:	Juhartova ulica 2, 3311 Šempeter v Savinjski dolini
Share capital:	EUR 1,724,695
Company ID no.:	5034523
TAX ID no.:	24049174
Activity code:	28.300 Manufacture of agricultural machinery

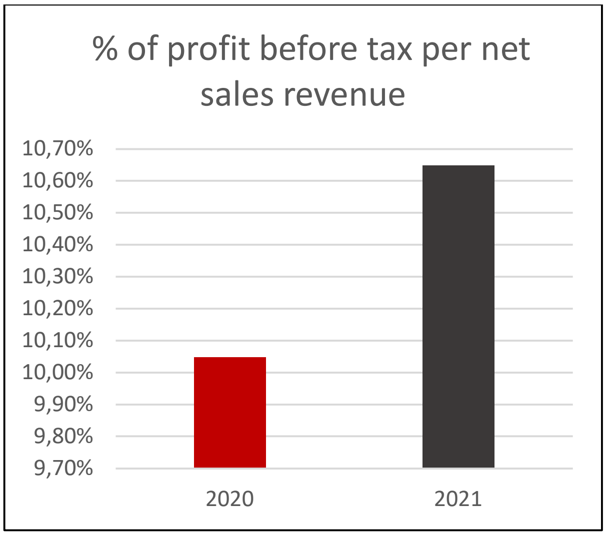
1. FINANCIAL HIGHLIGHTS

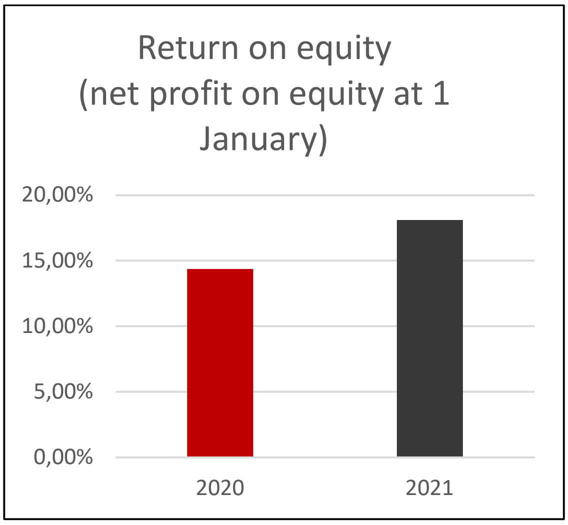
		2020	2021
1.	**Net sales revenue (in EUR)**	**32,429,857**	**41,641,113**
2.	**Earnings/share**	**7.01**	**9.91**
3.	**Profit before tax**	**3,258,542**	**4,433,735**
4.	**% of profit before tax per net sales revenue**	**10.05%**	**10.65%**
5.	**Return on equity (1 January)**	**14.35%**	**18.09%**
	Net financial debt	9,976,357	11,744,470
	EBITDA	5,837,421	7,488,345
6.	**Net financial debt (net financial debt/EBITDA)**	**1.71**	**1.57**

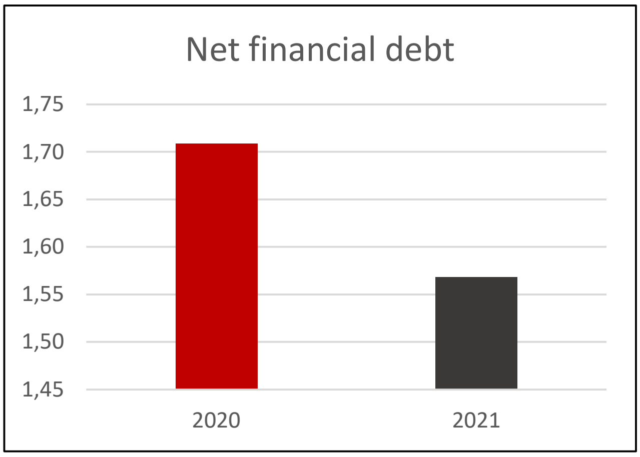









Return on equity
(net profit on equity at 1 January)
20,00%
15,00%
10,00%
5,00%
0,00%
2020
2021


Net financial debt
1,75
1,70
1,65
1,60
1,55
1,50
1,45
2020
2021

2. CONSOLIDATED FINANCIAL STATEMENTS

2.1 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021 (IN EUR)

	Note	2021	2020
Net sales revenue	3.6.1	41,641,113	32,429,857
Other operating income	3.6.2	298,520	535,241
Capitalised own products	3.6.3	169,586	196,347
Changes in the value of inventories	3.6.4	2,931,818	-1,081,972
OPERATING INCOME		**45,041,037**	**32,079,472**
Cost of goods and materials sold	3.6.5	522,939	447,839
Cost of materials	3.6.6	22,099,118	14,111,521
Cost of services	3.6.7	6,472,376	4,977,017
Employee benefits expense	3.6.8	8,204,233	6,541,942
Other operating expenses	3.6.9	254,027	163,733
Amortisation and depreciation expense	3.6.10	2,221,206	2,073,973
Loss on impairment of trade receivables and contract assets	3.6.11	15,741	44,835
Write-off and impairment of non-financial assets	3.6.12	622,921	295,837
OPERATING EXPENSES		**40,412,560**	**28,656,697**
OPERATING PROFIT		**4,628,477**	**3,422,776**
Financial income	3.6.13	18,388	11,227
Financial expenses	3.6.13	213,128	175,459
NET FINANCIAL RESULT		**-194,741**	**-164,233**
PROFIT BEFORE TAX		**4,433,734**	**3,258,542**
Tax payable	3.6.15	346,253	250,890
Deferred tax	3.6.15	-12,843	106,360
PROFIT FOR THE PERIOD		**4,100,325**	**2,901,290**

Notes to the financial statements are an integral part thereof and should be read in conjunction therewith.

2.2 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 (IN EUR)

	Note	2021	2020
CONSOLIDATED PROFIT FOR THE PERIOD	3.6.16	**4,100,326**	**2,901,290**
Change in revaluation reserve of land		0	0
Unrealised actuarial gains and losses		-49,546	-35,062
Changes in deferred taxes		22,247	63,096
Translation differences		45,350	55
Other comprehensive income that will not be reclassified to income statement subsequently		**18,051**	**28,089**
Interest rate hedging		0	0
Change in deferred taxes		0	0
Other comprehensive income that will be reclassified to income statement subsequently		**0**	**0**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**4,118,376**	**2,929,379**

Notes to the financial statements are an integral part thereof and should be read in conjunction therewith.

2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (IN EUR)

ASSETS	Note	31 Dec 2021	31 Dec 2020
Intangible assets and other non-current assets	3.6.17	1,731,901	1,687,157
Right-of-use assets	3.6.18	4,797,133	3,605,582
Property, plant and equipment	3.6.18	21,373,459	18,259,548
Investment property	3.6.19	0	87,183
Long-term operating receivables	3.6.20	0	0
Deferred tax assets	3.6.15	338,906	326,063
TOTAL NON-CURRENT ASSETS		28,241,399	23,965,535
Inventories	3.6.21	17,625,481	13,041,303
Short-term operating receivables	3.6.22	5,507,128	4,531,320
Other financial assets and loans granted	3.6.23	0	1,000
Cash and cash equivalents	3.6.24	329,465	69,269
Advances and other current assets	3.6.25	339,793	408,310
TOTAL CURRENT ASSETS		23.801.868	18,051,202
TOTAL ASSETS		**52,043,267**	**42,016,737**
EQUITY AND LIABILITIES	**3.6.26**		
Called-up capital		1,724,695	1,724,695
Share premium		1,834,498	1,609,555
Reserves for treasury shares		0	147,612
Treasury shares		0	-147,612
Revaluation reserve		7,748,601	7,726,354
Fair value reserve		-135,150	-97,711
Translation differences		45,405	55
Retained earnings or losses		10,864,593	8,796,085
Operating profit		4,100,325	2,901,291
TOTAL EQUITY		**26,182,968**	**22,660,324**
Provisions for post-employment and other non-current employee benefits	3.6.27	705,067	675,483
Other provisions	3.6.28	154,412	59,431
Other non-current liabilities	3.6.28	0	9,056
Financial liabilities	3.6.29	6,570,860	6,273,586
Lease liabilities	3.6.29	1,709,038	1,350,766
Deferred tax liabilities	3.6.15	1,712,212	1,734,459
TOTAL NON-CURRENT LIABILITIES		**10,851,588**	**10,102,781**
Short-term financial liabilities	3.6.29	2,589,546	1,435,642
Lease liabilities	3.6.29	1,204,490	985,632
Trade payables	3.6.30	8,815,203	6,031,910
Advances received	3.6.31	2,388,165	730,631
Other payables	3.6.32	11,304	69,815
TOTAL CURRENT LIABILITIES		**15,008,710**	**9,253,630**
TOTAL EQUITY AND LIABILITIES		**52,043,267**	**42,016,736**

Notes to the financial statements are an integral part thereof and should be read in conjunction therewith.

2.4 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021 (IN EUR)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES	**3.6.34**		
Cash receipts from operations		**47,553,702**	**36,537,073**
Proceeds from sale of products and services		45,072,811	34,868,076
Other receipts from operating activities		2,480,891	1,668,998
Cash disbursements from operating activities		**-43,133,875**	**-29,269,284**
Disbursements for acquisition of materials and services		-34,242,044	-22,494,226
Disbursements for wages and salaries, and employee share in profit		-5,234,058	-4,295,028
Disbursements for all kinds of levies		-3,657,773	-2,480,030
NET CASH FROM OPERATING ACTIVITIES		**4,419,827**	**7,267,789**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from investing activities		**2,167**	**24,100**
Proceeds from sale of property, plant and equipment		2,167	24,100
Cash disbursements from investing activities		**-3,559,340**	**-2,964,739**
Cash disbursements to acquire PPE		-3,374,680	-2,865,349
Cash disbursements to acquire intangible assets		-184,660	-99,390
NET CASH USED IN INVESTING ACTIVITIES		**-3,557,173**	**-2,940,639**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financing		**10,926,190**	**7,489,132**
Paid-up share capital		368,671	269
Cash proceeds from borrowings		10,557,519	7,488,863
Cash disbursements from financing		**-11,543,608**	**-11,821,236**
Disbursements for transaction costs associated with borrowings		-128.077	-113,240
Repayment of borrowings		-8,611,765	-10,128,140
Cash repayments of equity		-1,360	-2,640
Dividends paid		-1,447,841	0
Repayment of lease liabilities		-1,354,565	-1,577,216
NET CASH USED IN FINANCING ACTIVITIES		**-617,418**	**-4,332,104**
NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS		**245,236**	**-4,954**
Cash and cash equivalents at the beginning of year		69,784	74,660
Effects of changes in foreign exchange rates on cash and cash equivalents		14,446	-436
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**329,466**	**69,269**

Notes to the financial statements are an integral part thereof and should be read in conjunction therewith.

2.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021 (IN EUR)

	Share capital	Share premium	REVENUE RESERVES		Reva-luation reserve	Fair value reserve	Trans-lation diffe-rences	Retained earnings	Profit for the period	Total equity
			Reserves for treasury shares	Treasury shares - deductible item						
OPENING BALANCE 1 Jan 2021	**1.724.695**	**1.609.555**	**147.612**	**-147.612**	**7.726.354**	**-97.710**	**55**	**8.796.085**	**2.901.290**	**22.660.324**
Total comprehensive income for the period (adjusted)										
Profit for the period	0	0	0	0	0	0	0	0	4.100.325	4.100.325
Revaluation of real estate	0	0	0	0	22.247	0	0	0	0	22.247
Other comprehensive income for the period	0	0	0	0	0	-49.546	0	0	0	-49.546
Other comprehensive income - translation differences	0	0	0	0	0	0	45.350	0	0	45.350
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**0**	**0**	**0**	**0**	**22.247**	**-49.546**	**45.350**	**0**	**4.100.325**	**4.118.376**
Transactions with owners										
Dividends	0	0	0	0	0	0	0	-968.366	0	-968.366
Acqusition of shares (equity interests)	0	0	0	-1.360	0	0	0	0	0	-1.360
Sale of treasury shares (equity interests)	0	224.943	0	148.972	0	0	0	0	0	373.915
Fomation of reserves for treasury shares	0	0	1.360	0	0	0	0	-1.360	0	0
Reversal of reserves for treasury shares (equity interests) and allocation to other equity components	0	0	-148.972	0	0	0	0	148.972	0	0
Transfer of actuarial gains to retained eamings or losses	0	0	0	0	0	12.106	0	-12.106	0	0
Other changes	0	0	0	0	0	0	0	78	0	78
Transfer of part of previous year's profit	0	0	0	0	0	0	0	2.901.290	-2.901.290	0
TOTAL TRANSACTIONS WITH OWNERS	**0**	**224.943**	**-147.612**	**147.612**	**0**	**12.106**	**0**	**2.068.508**	**-2.901.290**	**-595.733**
BALANCE AT 31 Dec 2021	**1.724.695**	**1.834.498**	**0**	**0**	**7.748.601**	**-135.149**	**45.405**	**10.864.593**	**4.100.325**	**26.182.968**

Notes to the financial statements are an integral part thereof and should be read in conjunction therewith.

	Called-up capital	Share premium	REVENUE RESERVES		Reva-luation reserve	Fair value reserve	Trans-lation diffe-rences	Retained earnings	Profit for the period	Total equity
			Reserves for treasury shares	Treasury shares - deductible item						
CLOSING BALANCE AT 31 Dec 2019	**1.724.695**	**1.609.555**	**144.972**	**-144.972**	**7.663.258**	**-72.535**		**5.815.402**	**3.472.675**	**20.213.050**
Profit for the period	0	0	0	0	0	0	0	0	2.901.290	2.901.290
Revaluation of real estate	0	0	0	0	63.096	0	0	0	0	63.096
Other comprehensive income - actuarial changes	0	0	0	0	0	-35.062	0	0	0	-35.062
Other comprehensive income - translation differences	0	0	0	0	0	0	55	0	0	55
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**0**	**0**	**0**	**0**	**63.096**	**-35.062**	**55**	**0**	**2.901.290**	**2.929.379**
Transactions with owners										
Dividends	0	0	0	0	0	0	0	-479.465	0	-479.465
Acqusition of shares (equity interests)	0	0	0	-2.640	0	0	0	0	0	-2.640
Sale of treasury shares (equity interests)	0	0	0	0	0	0	0	0	0	0
Formation of reserves for treasury shares	0	0	2.640	0	0	0	0	-2.640	0	0
Other changes	0	0	0	0	0	9.887	0	-9.887	0	0
Transfer of part of previous year's profit	0	0	0	0	0	0	0	3.472.675	-3.472.675	0
TOTAL TRANSACTIONS WITH OWNERS	**0**	**0**	**2.640**	**-2.640**	**0**	**9.887**	**0**	**2.980.683**	**-3.472.675**	**-482.105**
BALANCE AT 31 Dec 2020	**1.724.695**	**1.609.555**	**147.612**	**-147.612**	**7.726.354**	**-97.710**	**55**	**8.796.085**	**2.901.290**	**22.660.324**

Notes to the financial statements are an integral part thereof and should be read in conjunction therewith.

3. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3.1 REPORTING ENTITY AND ITS SUBSIDIARIES

SIP Strojna industrija, d. d., Šempeter (hereinafter also 'Group'), is an entity headquartered in Slovenia. Its registered office address is Juhartova ulica 2, 3311 Šempeter v Savinjski dolini. The Group's financial statements for the year ended 31 December 2021 are presented below. The Group is primarily engaged in the manufacture of agricultural machinery.

a. BASIS FOR CONSOLIDATION

The consolidated financial statement of the Group comprise the relevant financial statements if the controlling company and its subsidiaries.

Subsidiaries

Subsidiaries are companies controlled by the Group. Control exists when:

- the investor is exposed or entitled to variable returns from involvement or the company in which it invests;
- has the ability to influence the return in question on the basis of its control of the investee, or the recipient of the investment;
- there is a correlation between control and return.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries are consistent with those of the Group.

Control is assessed at the time of the investment's acquisition and at the time of preparation of the financial statements. When control is lost, the Group derecognises the assets and liabilities of the subsidiary, non-controlling interests and other equity components relating to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

Transactions excluded from the consolidated financial statements

The consolidated financial statements exclude balances, gains and losses arising from intragroup transactions.

b. DATA ON CONSOLIDATED SUBSIDIARIES IN 2021

Company	Address	Ownership interest (in %)	Value of equity at 31 Dec 2021	Operating result in 2021
SIP DISTRIBUCIJA d.o.o.	NOVAKI PETROVINSKI 4A, JASTREBARSKO, CROATIA	100%	39,092	11,277
S.A.R.L. SIP FRANCE	1006 ROUTE DEPARTEMENTALE FRANCIN, PORTE DE SAVOIE, FRANCE	100%	37,141	15,082
SIP DISTRIBUTION UK LTD	NORTONBURY HOUSE, 37 HIGH STREET, TEWKESBURY GLOS, UNITED KINGDOM	100%	152,739	32,973
SIP DEUTSCHLAND GmbH	TERMINALSTRASSE MITTE 18, MÜNCHEN-FLUGHAFEN, GERMANY	100%	25,000	0

The company SIP DEUTSCHLAND GmbH was established was established but not yet operational in the financial year 2021; the subsidiary is included in the consolidated financial statements.

c. DATA ON CONSOLIDATED SUBSIDIARIES IN 2020

Company	Address	Ownership interest (in %)	Value of equity at 31 Dec 2021	Operating result in 2021
SIP DISTRIBUCIJA d.o.o.	NOVAKI PETROVSKI 4A, JASTREBARSKO, CROATIA	100%	27,752	8,026
S.A.R.L. SIP FRANCE	1006 ROUTE DEPARTEMENTALE FRANCIN, PORTE DE SAVOIE, FRANCE	100%	25,255	26,494
SIP DISTRIBUTION UK LTD	NORTONBURY HOUSE, 37 HIGH STREET, TEWKESBURY GLOS, UNITED KINGDOM	100%	10,971	0

The company SIP DISTRIBUTION UK LTD was established but not yet operational in the financial year 2020; the subsidiary is included in the consolidated financial statements for 2020.

The Group's share capital at 31 December 2021 amounted to EUR 1,724,695.

The SIP Group is preparing consolidated financial statements for the first time for the year ended 31 December 2021, as it has met the criteria for the preparation of a consolidated annual report in accordance with the Companies Act. Consequently, the comparative figures in the consolidated financial statements are unaudited.

3.2 BASIS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

a. The going concern assumption and the accrual basis of accounting

The consolidated financial statements have been compiled under the two fundamental accounting assumptions of a going concern and the accrual basis of accounting.

The consolidated financial statements have been prepared under the going concern assumption meaning that assets are acquired and liabilities settled in the ordinary course of business. If the going concern assumption were not applicable, no adjustments to the consolidated financial statements would be necessary.

b. Compliance statement

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC), as adopted by the European Union, and in compliance with requirements of the Companies Act.

The Management Board approved the consolidated financial statements for 2021 on 21 March 2021.

The Group is preparing its financial statements pursuant to IFRSs.

c. New and revised IFRSs that apply in the reporting period

- **Amendments to IFRS 4 – Insurance Contracts, applicable in EU as of 1 January 2021**

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Reform – Phase 2, became effective as of 1 January 2021. The amendments identify matters arising from the implementation of the IBOR Reform and include the replacement of one 'benchmark' with another. For financial instruments measured at amortised cost, the amendments require entities, as a practical expedient, to account for the change in the basis for determining contractual cash flows as a result of the IBOR Reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. This practical expedient exception applies only to such a change and only to the extent that it is necessary as a direct result of the IBOR reform and the new basis is economically equivalent to the previous basis. In relation to IFRS 16, lessees are required to apply a similar practical expedient when accounting for lease amendments that change the basis on which future lease payments are determined as a result of the IBOR Reform (for example, when lease payments are indexed at the IBOR rate).

The amendments have no significant impact on the Group.

- **COVID-19-related leases, after 30 June 2021 (amendments to IFRS 16)**

The May 2020 revision of the standard is extended by one year. The amendment allows lessees an exemption from applying lease modifications arising from the COVID 19 effects.
The amendment was issued on 31 March 2021 and is effective for annual reporting periods beginning on or after 1 April 2021.

The amendments have no significant impact on the Group.

- **Diverse editorial corrections of IFRSs**

The IASB occasionally issues editorial corrections and amendments to IFRSs and other publications. Since the beginning of calendar year 2021, such revisions have been made in June 2021, October 2021 and December 2021.

The amendments have no significant impact on the Group..

<u>d. Standards and amendments to existing standards issued by IASB and adopted by the EU but not yet effective</u>

- **Amendments to 3 – Reference to the Conceptual Framework**

The updated IFRS 3 refers to the 2018 Conceptual Framework instead of the 1989 Framework. The respective amendments also add to IFRS 3 the requirement for the acquirer to apply IAS 37 to liabilities within the scope of IAS 37 to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy within the scope of IFRIC 21 Levies, the acquirer shall apply IFRIC 21 to determine whether, by the acquisition date, a binding event has occurred that gives rise to a liability to pay the levy.
The amendments also add an explicit statement that the acquirer shall not recognise contingent assets acquired in a business combination.
The amendments shall be applied to business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022. Earlier application is permitted if an entity applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

The amendments have no significant impact on the Group.

- **Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use**

Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use introduces new guidance. Proceeds from the sale (e.g. of samples) before the underlying asset is available for its intended use can no longer be deducted from the cost of the underlying asset, but are recognised in profit or loss together with the cost of production. In doing so, the entity will need to distinguish between the costs of producing and selling the asset before it is available for its intended use and the costs associated with preparing the asset for its intended use. In accordance with IASB, the amendments will become effective from 1 January 2022, but the EU has not yet adopted the amended standard.

The Group is currently assessing the impact of the amendments to the standard.

- **Amendments to IAS 37 – Onerous Contracts – costs of performance of contract**

According to the amendments, the "cost of performance" of a contract includes "costs directly related to the contract". Costs directly related to the contract include both the marginal costs of performing the contract (e.g. direct labour or materials) and the allocation of other costs directly related to performing the contract (e.g. the allocation of depreciation expense for a particular item of property, plant and equipment used in performing the contract).

The amendments apply to contracts for which the entity has not yet performed all of its obligations at the beginning of the annual reporting period in which it first applies the amendments. Comparative figures are not restated. Instead, at the date of initial application, the entity shall recognise the cumulative effect of the initial application of the amendments as an adjustment to the opening balance of retained earnings or another component of equity, as appropriate.

The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted.

The Group is currently assessing the impact of the amendments to the standard.

- **Annual Improvements to IFRSs 2018–2020**

Annual Improvements 2018-2020, which comes into force on 1 January 2022 but has not yet been adopted by the EU. The Annual Improvements contain amendments to IFRS 1 - First-time Adoption of IFRS, simplifying the adoption of IFRS by a subsidiary applying IFRS for the first time, followed by amendments to IFRS 9 – Financial Instruments, which provide clarification on which fee costs to consider in the '10% test' for derecognition of financial liabilities, then amendments to the illustrative example to IFRS 16 – Leases and IAS 41 – Agriculture, where the requirement to exclude cash flows for tax purposes when measuring fair value is removed, thus bringing fair value on a par with the definition in IFRS 13. The EU has not yet adopted the 2018-2020 Annual Improvements.

The Group is currently assessing the impact of the amendments to the standard.

e. Standards and amendments to existing standards issued by the IASB and not yet adopted by the EU and not yet effective

- **Amendments to IAS 1 Classification of Liabilities as Current or Non-current**

The amendments to IAS 1 affect only the classification of liabilities as current or non-current in the statement of financial position and do not change the existing requirements around measurement or timing of recognition of any asset, liability, income or expense nor the information disclosed about those items.
The amendments clarify that the classification of liabilities as current or non-current depends on rights that exist at the end of the reporting period, that the classification is not affected by the expectation that the entity will exercise its right to defer the settlement, and that rights exist

if commitments are fulfilled at the end of the reporting period. In addition, the amendments introduce a definition of settlement to clarify that settlement refers to the transfer of cash, equity instruments, other assets or services to a counterparty.
The amendments should be applied retrospectively and are effective for annual periods beginning on or after 1 January 2023. Early adoption is allowed.

The Group is currently assessing the impact of the amendments to the standard.

- **Amendments to 1 – Presentation of financial statements and IAS 8**

Disclosure of accounting policies that becomes effective as of 1 January 2023. The revised standard requires disclosure of substantive accounting policies, not just significant policies.

The Group is currently assessing the impact of the amendments to the standard.

- **Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates, Estimates and Errors**

Definition of accounting estimate that becomes effective as of 1 January 2023. The amendment introduces a definition of accounting estimate and other clarifications that will allow a distinction to be made between accounting policy and accounting estimate.

The Group is currently assessing the impact of the amendments to the standard.

- **Amendments to IAS 12 Deferred Taxes relating to Assets and Liabilities arising from a Single Transaction**

These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Effective as of 1 January 2023.

The Group is currently assessing the impact of the amendments to the standard.

f. Basis for measurement
The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments stated at fair value or amortised cost.

g. Functional and presentation currency
The consolidated financial statements contained in the Annual Report are presented in euros (EUR) without cents, which is the functional and presentation currency of the Group. Due to rounding of figures, insignificant deviations may occur in the sums contained in the tables.

Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Exchange rate gains and losses from foreign transactions and revaluation of cash and liabilities denominated in foreign currency, are translated into the functional currency on the reporting date and recognised in the profit or loss.

Monetary items denominated in foreign currencies are translated at the exchange rate of the Bank of Slovenia on the last day of the year. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the exchange rates prevailing on the transaction date, whereas non-monetary assets and liabilities at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value was determined.

h. Use of estimates and judgements

In the preparation of consolidated financial statements, management makes certain estimates, judgements and assumptions which impact the accounting policies used and the carrying value of assets and liabilities, revenues and expenses. Pricing and related assumptions and uncertainties are disclosed in the notes to the individual financial statement items. Those estimates, judgements and assumptions are regularly revised. Since estimates and assumptions are subject to subjective judgement and some degree of uncertainty, subsequent actual results may differ from the estimates. Any changes in accounting estimates, judgements and assumptions are recognised in the period when the change occurred, providing the change only affects that particular period; however, when the change also impacts future periods, they are recognised in the period of the change occurring and future periods. Estimates and assumptions are used primarily when making the following judgements:

i.) Revenue from contracts with customers

The Group has adopted the following accounting judgements, which have a significant impact on the determination of the amount and timing of revenue recognition from contracts with customers:

- Determining the point of time when contractual obligations are fulfilled

Under the five-step model, the Group verified the existence of sales contracts and performance obligations, identified the transaction price and allocated it to individual performance obligations, and assessed whether revenue should be recognised at a point of time or over time.

Accordingly, the Group recognises revenue from the sale of goods and services at the time of sale. From the time of sale, the Group no longer has control over the goods or services sold. Furthermore, the Group determined it has no enforcement obligations relating to the so-called service warranty.

i.) The right-of-use assets in applying IFRS 16

Under IFRS 16, the Group applies the short-term lease and low-value leases recognition exemptions.

A contract contains a lease, if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In respect of such contracts (except for the exemptions listed below), the Group recognises:

- the right-of-use assets (disclosed under property, plant and equipment in the statement of financial position),
- lease liabilities (disclosed under financial liabilities in the statement of financial position and as cash flows from financing in the cash flow statement).

In the recognition of lease assets and liabilities, the Group applies two exemptions:
- short-term leases and
- leases of low value assets.

Cash flows are discounted at the interest rates that the Group realises on long-term financing of items with a similar maturity as agreed in the lease contract. Depreciation costs are calculated using the depreciation rates estimated over the remaining lease term.

ii.) Estimates of the useful life of depreciable assets (Note 3.6.16 and 3.6.17)

Depreciation is calculated based on the expected useful life of depreciable assets. Economic life of an asset is assessed annually in consideration of expected physical wear and tear, technical and functional obsolescence and expected legal and other restrictions of use. Useful lives of significant items of assets are checked annually.

ii.) Assets' impairment testing

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have significant impact on the amounts recognised in the financial statements is presented below:

- property, plant and equipment (Note 3.6.16)
- trade receivables and contract assets (Note 3.6.21 and Note 3.6.24),

  - Property, plant and equipment and intangible assets

The Group checks at least once a year whether there are any signs of impairment of cash-generating units – CGU. Fair value less costs to sell is determined and compared to the carrying amount of cash-generating units showing signs of impairment. Valuation is performed either by a certified appraiser of value or else internal valuation models may be used in certain cases.

An annual impairment test is made for intangible assets under construction in accordance with IFRS, regardless of whether there are indicators of impairment or not.

  - Trade receivables

In accordance with IFRS 9, the Group made an impairment assessment using a simplified approach. The impairment assessment is determined according to the concept of expected credit losses over the entire duration of operating receivables, i.e. the lifelong credit losses, based on the allowance matrix.

The following assumptions were used in calculating the expected credit losses from operating receivables:

- The Group determines in which macroeconomic cycle its customers operate based on the employment rate and consequently makes the adjustment of the assessed amount of allowances in the allowance matrix.
- The matrix is based on data excluding receivables due from companies undergoing insolvency proceedings, as the latter are accounted for separately,
- and on the historical values of expected credit losses.
- The matrix is adjusted according to the forecast change in the macroeconomic indicator - future unemployment rate.

iii.) Provisions for post-employment benefits and other non-current employee benefits (Note 2.6.26)

Defined benefit obligations and other employee benefits include the present values of severance pay on retirement and jubilee awards. They are recognised based on the actuarial calculation approved by the management, using assumptions and estimates effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assessment, as well as assessment of an increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

iv.) Assessment of the potential for utilisation of deferred tax assets (Note 2.6.14)

The Group recognises deferred taxes assets on account of receivable allowances, provisions for jubilee awards and severance pay on retirement and tax losses. Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available in the future.

At the financial statement date, the Group verifies the amount of disclosed deferred tax assets and liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In calculating deferred taxes, the Group considers potential restrictions on utilisation of tax relief prescribed under the Corporate Income Tax Act.

v.) Fair value of fixed assets according to the revaluation model (Note 3.6.17)

In measuring the fair value of land and buildings, the Group considers the ability of the market participant to generate economic benefits through best use of the assets or sell them to another market participant.

The fair value of financial assets measured at fair value is determined through the income statement in the amount of the published market price at the end of the reporting period or based on other available information.

All assets at fair value are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement.

i.) Determination of fair value

Considering the adopted accounting policies, the determination of fair value was required for a number of financial and non-financial assets and liabilities. Fair value is estimated price at which an asset can be sold or a liability transferred in an orderly transaction between knowledgeable buyer and knowledgeable seller in an arm's length transaction. The Group applies the following fair value hierarchy in determination of fair value of its financial instruments:

- Level 1 contains quoted prices on active markets for identical assets and liabilities,
- Level 2 – values other than quoted prices from Level 1, but which can be obtained directly from the market (prices for identical or similar assets or liabilities in a less active or inactive markets) or indirectly (e.g. values derived from quoted prices in an active market based on interest rates and yield curves, implied volatilities and credit spreads),
- Level 3 – inputs that are not based on observable market data, however unobserved data must reflect the assumptions that market participants would use in pricing the asset or liability, including risk assumptions.

For assessing the fair value of financial instruments, the Group uses quoted prices. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the Group applies Level 2 or Level 3 inputs to determine the fair value of a financial instrument.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the reporting date.

Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below.

i. Property, plant and equipment under the revaluation model

Following recognition, the Group measures land and buildings at a revalued amount equal to the fair value on the revaluation date (i.e. the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction, on the principal (or most advantageous) market, between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique). Depending on the circumstances or situation, the fair value of land is measured using one or more valuation techniques such as the market approach, cost approach and income approach. The land is regularly revalued to ensure there are no significant difference between its carrying amount and fair value on the reporting date.

ii. Investment property

Fair value of investment property is assessed using the total value of expected cash flows from lease of the property. In determining fair value of property, a yield that reflects the risk specific to the asset is considered in the calculation based on the annual discounted net cash flows.

iii. Receivables and loans

The fair value of receivables and loans is estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date. The fair value assessment takes into account credit risk arising from these financial assets.

iv. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the end of the reporting period.

3.3 FUNDAMENTAL ACCOUNTING POLICIES OF THE GROUP

The accounting policies described below have been consistently applied by the Group in all periods presented in the accompanying financial statements.

The mandatory annual financial statements of the Group comprise the consolidated statement of financial position, which is a presentation of the balance of assets and liabilities at the end of the financial year, the consolidated income statement as a presentation of the income, expenses and profit or loss for the financial year, and the consolidated statement of other comprehensive income, the consolidated statement of cash flows which is a presentation of changes in cash, the consolidated statement of changes in equity as a presentation of changes in equity components during the financial year.

a. Intangible assets

Intangible assets comprise investments in acquired industrial property rights (concessions, patents, licenses, trademarks and similar rights), as well as other rights and other intangible assets. The amortisation period and method of accounting for an item of intangible assets with a finite useful life are revised at least annually at the end of the financial year. After initial recognition, intangible assets are measured under the cost model i.e. at their cost, less amortisation and accumulated impairment losses.

Development costs incurred by the Group are recognised as intangible assets if the entity can demonstrate the following: the technical feasibility of completing the project so that it will be available for use or sale; its intention to complete the project and use or sell it; its ability to use or sell the project; how the project will generate probable future economic benefits, including the existence of a market for the output of the project or the project itself or, if the project is to be used internally, the usefulness of the project; the availability of adequate technical, financial and other resources to complete the development and to use or sell the project; and its ability to measure the expenditure attributable to the intangible asset during its development reliably.

Subsequent costs

Subsequent expenditure on the items of intangible assets is capitalised only when it increases the future economic benefits embodied in the assets. All other costs are recognised in profit or loss as expenses when they arise.

Amortisation

Amortisation is calculated based on the cost of the asset and recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use. This method most accurately reflects the expected pattern of use of the future economic benefits embodied in the asset. The estimated useful lives applied in the year under review and in the comparable financial year range between 2 and 10 years. The amortisation period of a development project is 5 years. Amortisation methods and useful lives of the categories of intangible assets are reviewed at the end of each financial year and adjusted if necessary.

Impairment

As at the date of the final annual amortisation calculation, the Group checks whether there are any indications of impairment of intangible assets, while an impairment test of intangible assets under construction is performed annually. If there are signs of impairment of an item of intangible assets (other than intangible assets under construction), the Group determines the asset's recoverable amount. If the recoverable amount is lower than the asset's carrying amount, the Group recognises and impairment of the asset. The recoverable amount is the higher of an asset's fair value less costs to sell, or its value in use. Fair value less costs to sell is calculated in accordance with IFRS 13 and hence, selling costs are identified as costs that are directly attributable to the sale of an asset. Value in use is calculated in accordance with IAS 36 as the present value of expected future cash flows from the use of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing purposes, the assets that cannot be tested individually are grouped into the smallest cash generating groups from continued use and which are predominantly independent of cash generated by other assets or groups of assets (cash generating unit). An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

At the end of the reporting period, the Group evaluates losses due to impairment in the previous periods to establish whether the loss has decreased or even ceased to exist. An impairment loss is reversed if there has been a change in the estimates used to determine the assets' recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

b. Property, plant and equipment

The Group initially recognises property, plant and equipment at cost, which includes amounts directly attributable to the purchase of a qualifying asset, as well as capitalised borrowing costs.

After the initial recognition of property, plant and equipment, the Group applies the cost model to equipment and the revaluation model to buildings and land. According to the cost model, equipment is disclosed at cost, less accumulated depreciation and any accumulated impairment loss. According to the applied revaluation model, land and buildings are disclosed at fair value on the revaluation date, less accumulated impairment loss.

Accounting for borrowing costs
Borrowing costs that may be directly attributed to the acquisition, construction or manufacture of an asset under construction represent a part of the cost of that asset. Borrowing costs comprise interest expense and exchange rate differences arising from borrowings raised in a foreign currency, if they are accounted for as a restatement of interest expense. The Group attributes borrowing costs to those assets whose preparation for their availability for use exceeds one year and whose total value at the reporting date is in excess of EUR 100,000. Other borrowing costs are recognised in the income statement as an expense in the period in which they arise.

Subsequent costs
The cost of replacing some part of an item of property, plant and equipment is recognised in the carrying amount of the asset if it is probable that the future economic benefits embodied within that part will flow to the Group, and its historical cost can be measured reliably. All other costs are recognised in profit or loss as expenses when they arise.

Depreciation
Deprecation is charged on a straight-line basis over the useful life of each individual item of property, plant and equipment. The method most accurately reflects the expected pattern of use of the asset. Depreciation of an item of property, plant and equipment begins when the asset is made available for use. The residual (non-depreciable) value of fixed assets is not determined. The estimated useful lives of the assets for the current and comparative periods are as follows:
- buildings 30 – 43 years,
- computer hardware 3 years,
- other plant and equipment 3 – 14 years.

The depreciation method and useful lives of the assets are revised annually and adjusted if necessary.

Impairment and revaluation
As at the date of the final annual amortisation calculation, the entity checks whether there are any indications of impairment of the assets. If there are indications that an item of property,

plant and equipment has been impaired, the Group determines its recoverable amount. If the recoverable amount is lower than the asset's carrying amount, the Group recognises and impairment of the asset. The recoverable amount is the higher of an asset's fair value less costs to sell, or its value in use. Fair value less costs to sell is calculated in accordance with IFRS 13 and hence, selling costs are identified as costs that are directly attributable to the sale of the asset. Value in use is calculated in accordance with IAS 36 as the present value of expected future cash flows from the use of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing purposes, the assets that cannot be tested individually are grouped into the smallest cash generating groups from continued use and which are predominantly independent of cash generated by other assets or groups of assets (cash generating unit). An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

At the end of the reporting period, the Group evaluates losses due to impairment in the previous periods to establish whether the loss has decreased or even ceased to exist. An impairment loss is reversed if there has been a change in the estimates used to determine the assets' recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Low value assets whose useful life exceeds one year and whose value is not in excess of EUR 500 are also considered the items of property, plant and equipment made available for use. Large tools with individual value in excess of EUR 500 are also included in the low value assets to ensure a unified inventory records.

The land and buildings are revalued regularly to ensure that at the reporting date their carrying amount does not deviate significantly from the fair value. If an asset belonging to an individual class of assets is revalued, all other assets in that group are also revalued. Land and buildings are revalued to their fair value based on the valuation performed by a certified real estate appraiser. The fair value measurement is made in accordance with IFRS 13. If the carrying amount of land and building increases due to the revaluation, the increase is recognised in the statement of other comprehensive income directly in equity as a revaluation reserve. A decrease in the carrying amount of land and buildings as a result of revaluation reduces the revaluation surplus of that land and buildings. If the decrease in the carrying amount exceeds the accumulated revaluation reserve for that same asset, the difference is transferred to profit or loss as an expense. As a component of equity, the revaluation surplus of land and buildings is transferred directly to retained earnings when the asset is derecognised.

Buildings under construction are reported at cost and as the items of a separate group of assets until they are put to use.

Leases

Upon initial recognition, the Group measures the right-of-use assets at cost, which comprises:
- the amount of the initial measurement of lease liabilities,
- lease payments made at or before the commencement date of the lease, less any incentives received,
- the initial direct costs incurred by the lessee, and

- an estimate of the costs to be incurred by the lessee in dismantling or removing the leased asset, restoring the site where it is located, or returning the leased asset to the condition as required by the lease terms.

After initial recognition, the Group measures the leased asset at cost less accumulated depreciation and accumulated impairment loss and adjusted for remeasurement of lease liabilities.

Lease liabilities

Upon initial recognition, the Group recognises lease liabilities at the present value of lease payments to be made over lease term. Lease payments are discounted at the interest rate implicit in the lease, if it is determinable. Otherwise, the Group uses its incremental borrowing rate that it would have had to pay if it had acquired the asset in a similar economic environment over a similar period, under a similar guarantee and value as the right-of-use asset.

Subsequent to initial recognition, the carrying amount of lease payments is:

- increased by the accretion of interest,
- reduced for the lease payments made, and
- increased or decreased by any adjustments to the lease liability to account for the remeasurement the lease payments of modification of the lease terms.

c. Investment property

Investment property is property held to earn rental income and/or for long-term investment appreciation. The costs of an item of investment property comprises its purchase price and the costs that can be directly attributable to the acquisition thereof. Such items are measured at fair value and are not depreciated. Any gain or loss arising from a change in the fair value of an item of investment property is recognised in the profit or loss of the period in which it arises.

Fair value is determined in accordance with IFRS 13 based on a regular valuation performed by a certified appraiser of property to ensure that at the reporting date the carrying amount does not deviate significantly from fair value. If there is significant difference between the two, investment property is restated to fair value, and the resulting effects are reported in profit or loss.

d. Financial assets and loans granted

Financial assets comprise cash and cash equivalents, receivables, loans and investments. Investments of the Group include investments in loans granted.

Loans, receivables and deposits are initially recognised by the Group on the transaction date. Other financial assets are initially recognised on the trade date or when the Group becomes a party to the contractual provisions of the financial instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Cash and cash equivalents comprise cash at banks and in hand, cash held on bank accounts and short-term deposits with maturity of three months or less. Cash equivalents may include fixed-term deposits, sight deposits, and readily convertible debt securities. Overdrafts agreed on business accounts are disclosed under financial liabilities.

Upon initial recognition, the Group classifies its financial instruments into one of the following groups:
- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit or loss.

The classification depends on the entity's business model for managing the assets and whether the instrument's contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. With the exception of trade receivables, which do not contain a significant financing component, the Group measures its financial assets at fair value increased by the transaction costs.

Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section n) Revenue from contracts with customers.

Financial asset classification according to the business model for managing the assets and characteristics of contractual cash flows from financial assets:

Group of financial assets	Financial asset
Financial assets at amortised cost	Trade and other receivables, assets from contracts with customers, loans granted and deposits
Financial assets at fair value through OCI	Non-trading equity instruments irrevocably measured at fair value through other comprehensive income upon initial recognition
Financial assets at fair value through profit or loss	Equity instruments not irrevocably measured at fair value through other comprehensive income upon initial recognition

The Group's significant accounting policies for the periods presented in the financial statements refer to the group of financial assets measured at amortised cost

<u>Financial assets at amortised cost</u>
Initially, financial assets at amortised cost are recognised at fair value plus direct costs of transaction. The Group's financial assets at amortised cost include financial assets held to acquire contractual cash flows providing cash flows represent solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost comprise loans granted and receivables. According to their maturity, they are classified as short-term financial assets (maturity up to 12 months after the reporting date) or long-term financial assets (maturity over 12 months after the reporting date). The Group measures financial assets at amortised cost if both of the following conditions are met:
- the financial asset is held within the business model to hold financial assets to collect their contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment of financial assets
In accordance with IFRS 9, the Group applies the expected credit loss model and recognises not only losses incurred but also losses that are expected to arise in the future. Under the IFRS, the Group assesses whether, in view of the increased credit risk, it should calculate a lifelong credit loss, or whether given the unchanged credit risk, a 12-month expected credit loss can be used.

A financial asset is considered impaired if there is objective evidence to show that the expected, reliably measurable future cash flows arising from this assets have been decreased due to one or more events.
Objective evidence of impairment may include the following:

- default or breach by the debtor;
- restructuring of the amount owed in agreement of the Group;
- signs that the debtor is about to file for bankruptcy;
- the disappearance of an active market for such an instrument.

Objective evidence of impairment of an investment in equity securities is significant and prolonged reduction in its fair value below its cost.

The impairment test is based on the expected credit losses associated with the probability of defaults on loans and receivables in the next 12 months, unless the credit risk has significantly increased from initial recognition. If the latter is the case, the impairment test is based on the probability of default over the entire duration of the financial asset (ECL). Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. Impairments for expected credit losses are assessed in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). The Group considers a financial asset to be defaulted when contractual payments are overdue for 60 days. For some cases, however, the Group may assess that there are signs of increased credit when based on the information, it is probable that it will not receive the outstanding contractual amounts in full.

The Group checks signs of impairment of all significant items of loans granted individually.

The Group recognises the write-off of a financial asset when it reasonably expects that it will be not be able to collect the contractual cash flows.

Impairment of receivables and contract assets
In accordance with IFRS 9, the Group applies a simplified approach to the impairment of trade receivables and contract assets, using impairment based on the expected credit losses over the duration of the assets. The Group checks signs for any impairment of receivables individually or collectively. For the purpose of specific impairment all significant receivables are checked for signs of impairment individually. If it is assessed that the carrying amount of an asset

exceeds its fair value i.e. its recoverable amount, the receivable is impaired. Doubtful receivables are the receivables not believed to be settled by their due date, or believed to be only settled in part. When a dispute has been developed between the creditor and the debtor, which is to be settled by the Court, they are recognised as doubtful.

The assessed allowance of an individual group of receivables is based on a matrix containing an assessment of the lifelong loss on receivables according to their maturity, credit risk and an assessment of the current macroeconomic environment in which the customers operate based on the projected employment rate.

According to IFRS 9, impairment losses should be presented as a separate item in the income statement.

e. Financial liabilities

The financial liabilities of the Group comprise borrowings. Upon initial recognition, they are classified as financial liabilities at fair value through profit or loss, borrowings or trade payables. Financial liabilities are initially recognised on the trade date, i.e. when the Group becomes a party to the contractual provisions of the financial instrument. With exception of borrowings, all other financial liabilities are initially recognised at fair value. Borrowings are measured at amortised cost using the effective interest rate. Depending on their maturity, borrowings are classified as short-term financial liabilities (maturity up to 12 months after the reporting date) or long-term financial liabilities (maturity over 12 months after the reporting date). Any gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

f. Liabilities under customer contracts

A liability arising under a customer contract is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer (liabilities for advances received).

g. Inventories

Inventories of materials and merchandise are initially measured at cost which comprises the purchase price, import and other non-refundable purchase taxes and directly attributable costs of acquisition. Any discounts received are deducted from the purchase price. Inventories of work in progress and products are measured at production costs. The consumption of inventories is disclosed under the average price method using constant prices and variances. Production costs comprise direct costs of materials, direct labour costs, direct costs of services, direct depreciation costs, direct cost of energy consumption and the relevant amount of production overheads.

Production overhead costs include other costs of materials and services, as well as other costs that are charged in the production process, but cannot be directly attributed to products or services. Inventories are measured at the lower of initial cost and net realisable value. Inventories are impaired on an individual basis. The entity assesses the value of any finished products with no movements in more than 2 years. If the assessed value is lower than the carrying amount of the inventory, the inventory value is reduced by the difference. An analysis of the requirement of input materials and semi-finished products for existing product lines is made at least once every two years. Input materials and semi-finished products, older than 2 years, are subject to a committee examining the possibility of alternative use or processing thereof with minor adjustments. A write-off is proposed and made for inventories that are not suitable for either processing or modification. On the last day of the financial year, an allowance of 5% is made for inventories that are subject to processing or modification due to the fact that they have remained unsold up to 2 years. A 100% allowance is created for inventories without movement for more than 3 years. Inventories are also revalued when they are damaged or become completely or partially obsolete.

h. Other assets and liabilities

Other assets or liabilities comprise receivables and other assets and liabilities expected to arise within a set period, their occurrence is probable and their amount can be reliably estimated.

Other current assets include deferred costs or deferred expenses, which are disclosed separately and classified into major types. Other current liabilities comprise accrued revenues and deferred costs or deferred expenses, which are reported separately and classified into significant types. Other assets and liabilities used within a year are designated as short-term, while those that will be used over a longer period are classified as long-term.

Other assets and liabilities do not comprise the amounts of contract assets and liabilities, reported separately in the statement of financial position.

i. Equity

Total equity comprises called-up capital, share premium, profit reserves, revaluation reserve, fair value reserve, retained earnings or accumulated loss brought forward, and transitionally undistributed net profit or unsettled net loss of the financial year.

Treasury shares and treasury interests are deducted from equity. Gains or losses on the repurchase, sale, issue or withdrawal of treasury shares are not recognized in profit or loss; all the differences are accounted for in equity.

j. Provisions

Provisions are recognised for present obligations arising from obligating past events and which will be settled in a period that cannot be determined with any certainty but whose amounts can be reliably estimated. The amount of provisions is equal to the present value of expenditure needed to settle the obligation.
The most significant provisions include:

- **Provisions for post-employment benefits and other non-current employee benefits**

Pursuant to the legislation, collective agreement and internal rules, the organisation is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. For these purposes it sets aside relevant amount of provisions. The Group has no other pension obligations.

The obligation is calculated by estimating the cost of retirement benefits upon retirement and the cost of all expected anniversary bonuses until retirement. The calculation is made by a certified actuary using the projected unit credit method. Payments made for retirement benefits and jubilee awards reduce the amount of provisions set aside. Employee benefit costs, as well as cost of interest are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial gains or losses on termination benefits are recognised in other comprehensive income.

- **Provisions for warranties issued**

The Group recognises contract liabilities arising from unfulfilled performance obligations relating to the warranties issued and reports these as the items of contract obligations in the statement of financial position. The warranty period is 3 years.

k. Revenue

The majority of revenues from contracts with customers is generated from the delivery of finished products, spare parts and service repairs.

The Group recognises revenue under the five-step model provided in IFRS 15:
- identification of the contract with a customer,
- identification of a separate performance obligation,
- determination of the transaction price,
- allocation of the transaction price to the individual performance obligation,
- recognition of revenue when the performance obligation is fulfilled.

Business line	Separate performance obligations	Payment terms
Product delivery	- **Product delivery** - revenue recognition at a point in time	common
Supply of spare parts	- **Product delivery** - revenue recognition at a point in time	common

All performance obligations are fulfilled at a point in time i.e. upon the delivery of goods and when control over the goods transfers to the customer. Normally, control of the goods is transferred to the customer when the goods are unconditionally delivered, considering the contractually agreed Incoterms.

The transaction price is allocated to the individual performance obligation based on stand-alone selling prices. All transactions performed on behalf of another legal entity are excluded from the transaction price.

l. Other operating income

Other operating income comprises unusual items and other income that increases profit or loss.

m. Expenses

Costs are recognised as expenses in the accounting period in which they are incurred.

n. Financial income and financial expenses

Financial income comprises interest income from financial assets, income from derecognition of financial assets at fair value through OCI, income from recovered receivables previously written-off or impaired, change in fair value of financial assets designated at fair value through profit or loss, and foreign exchange gains. Interest income is recognised as it accrues using the effective interest rate method.
Dividend income is recognised in the Group's income statement on the date when the shareholder's right to payment is exercised.

Financial expenses include borrowing costs (unless they are capitalised), foreign exchange losses, changes in fair value of financial assets designated at fair value through profit or loss, impairment losses recognised on financial assets, and receivable impairments. Borrowing costs are recognised in profit or loss using the effective interest rate method.

o. Taxes

Corporate income tax comprises current taxes and deferred taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income under equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is assessed at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the legislation enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit associated with the asset will be realised.

p. Net earnings per share

The Group reports basic and diluted earnings per ordinary share. The basic earnings per share is calculated by dividing the net profit belonging to the owners by the weighted average number of ordinary shares. Diluted earnings per share is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in the financial period for the effects of all potential ordinary shares, which are convertible bonds and stock options granted to employees. As the Group holds no convertible bonds or share options granted to employees, the basic earnings per share is equal to diluted earnings per share.

r. Statement of cash flows

The section of the cash-flow statement relating to operations is compiled using the indirect method based on data from the statements of financial position as at the reporting date of the period under review and the previous financial year, and the income statement data for the financial year for the year then ended. Interest paid and default interest received in relation to trade receivables is allocated to cash flows from operating activities. Interest on loans and dividends paid and received is classified as cash flows from financing activities. Cash flows derived from the right-of-use assets are accounted for at the amount of lease payments made during the year. Factoring contracts are also taken into account in the cash flow statement at the amount of actual cash flows.

3.4 SEGMENT REPORTING

As the Group's shares are not listed on the stock exchange nor does it issue bonds quoted on a regulated market, it does not disclose operating segments in accordance with IFRS 8.

3.5 FINANCIAL RISK MANAGEMENT

In terms of financial instruments, the Group is exposed to the following risks:
- credit,
- liquidity,
- market and
- business risk.

Below is presentation of how the Group manages its exposure to individual risks, inclusive of the disclosure of its objectives, policies and procedures for measuring and managing risks and capital management. Refer to Note 34 for other quantitative disclosures.

Credit risk
Credit risk is a risk of the Group incurring financial loss if a customer or a counterparty to a financial instrument fails to fulfil its contractual obligations. Credit risk arises mainly in relation to the Group's trade receivables.

While the Group's exposure to credit risk depends mainly on the characteristics of individual customers, the management also considers the demographic structure of customers and the risk of insolvency in terms of industry and country in which they operate, as these factors may affect credit risk particularly in adverse economic conditions.

According to the risk management policies, an analysis of a creditworthiness of any major new customer is performed before standard payment and delivery terms are proposed to the new customer. Trade allowances are recognised on account of impairment equal to the amount of estimated losses resulting from trade and other receivables, and investments. The main elements of the allowance are the specific part of the loss, which relates to individual significant risks, and total loss recognised for groups of similar assets due to already incurred unspecified losses.

Liquidity risk
Liquidity risk is a risk of the Group incurring financial difficulties when meeting its financial obligations settled by cash or other financial assets. The Group ensures good liquidity position by having at all times sufficient liquid assets to settle its liabilities when due under ordinary and more demanding circumstances, without incurring unacceptable losses or risking damage to its reputation.

Market risk
Market risk is the risk of changes in market prices, such as exchange rates, interest rates and equity instruments, affecting the Group's revenues or the value of its financial instruments. The objective of efficient market risk management is reasonable control and supervision over the Group's exposure to market risks and profit optimisation.

Business risks
Business risk is the risk of the Group incurring direct or indirect loss due to a number of different reasons related to its processes, personnel, technology and infrastructure, as well as due to the consequences of external factors not related to credit, market or liquidity risks, such as, inter alia, risks arising from legal and regulatory requirements and generally accepted corporate standards. Business risks arise from the entire operation of the Group. The aim is to manage business risks in a manner that ensures a reasonable balance between avoiding financial losses that could damage the Group's reputation and overall cost-effectiveness, as well as avoiding such control procedures that inhibit or limit self-initiative and creativity. The key responsibility for the development and implementation of controls related to business risks rests with the senior management.

3.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.6.1 NET SALES

a. Sources of revenue

The Group generates most of its revenues from the sale of products to both domestic and foreign customers. Only a minor part of sales revenue relates to the sale of merchandise and materials.

(in EUR)	2021	2020
Revenue from the sale of products and services	41,572,627	32,380,140
Revenue from the sale of materials and merchandise	68,486	49,718
Revenue from warranty repairs	0	0
Total revenue from contracts with customers	**41,641,113**	**32,429,857**

In 2021, revenues from the sale of products accounted for 99.84% of total sales (2020: 99.85%), and sales of merchandise and materials for 0.16% (2020: 0.15%)

b. Classification of revenue from contracts with customers by geographical origin

	Products		Merchandise and material	
(in EUR)	2021	2020	2021	2020
Domestic market	8,190,403	6,217,946	25,820	0
Foreign markets	33,382,224	26,162,194	42,666	49,718
- EU	24,424,661	18,205,034	33,436	37,531
- third countries	8,957,563	7,957,160	9,230	12,187
Total revenue from contracts with customers	**41,572,627**	**32,380,140**	**68,486**	**49,718**

c. Classification of revenue from contracts with customers in terms of time of their recognition

	Products		Merchandise and material	
(in EUR)	2021	2020	2021	2020
Revenue recognised at the point of sale or performance of the service	41,572,627	32,380,140	68,486	49,718
Revenue recognised over time	0	0	0	0
Total revenue from contracts with customers	**41,572,627**	**32,380,140**	**68,486**	**49,718**

3.6.2 OTHER OPERATING INCOME

(in EUR)	2021	2020
Reversal of provisions	36,564	61,527
Drawing on EU projects	118,677	121,363
Gains from sale of fixed assets	1,719	19,853
Insurance proceeds	40,752	38,131
Compensation received	0	0
Other extraordinary items	99,420	288,164
Other	1,389	6,204
Total	**298,520**	**535,241**

Other operating income comprises funds as part of the co-financing of development projects, income from the reversal of provisions for exempt contributions relating to employment of the employees with disabilities, insurance proceeds and other items.

3.6.3 CAPITALISED OWN PRODUCTS

(in EUR)	2021	2020
Capitalised own products and own services	169,586	196,347
Total	**169,586**	**196,347**

Capitalised own products comprise the value of own products made internally by utilising the Group's own workforce and resources.

3.6.4 CHANGE IN THE VALUE OF INVENTORIES

(in EUR)	2021	2020
Change in the value of inventories	2,931,818	-1,081,972
Total	**2,931,818**	**-1,081,972**

The change in the value of inventories refers to the products that have not yet been sold and are kept in stock.

The change in the value of inventories includes, among others, the effects of unrealised gains on intragroup sales of EUR 181,045. Deferred taxes of EUR 34,398 have also been accounted for.

3.6.5 COST OF GOODS AND MATERIAL SOLD

(in EUR)	2021	2020
Cost of goods and material sold	522,939	447,839
Total	**522,939**	**447,839**

The cost of goods sold primarily refers to the cost of inventories consumed during the sale of spare parts.

3.6.6 COST OF MATERIAL

(in EUR)	2021	2020
Cost of materials	19,057,757	11,897,806
Cost of ancillary materials	118,361	89,541
Cost of energy	784,483	636,621
Cost of materials and spare parts used in FA maintenance	279,284	178,029
Write-off of low value assets and packaging, and stocktaking differences	419,324	256,689
Cost of office supplies and professional literature	41,928	35,410
Cost of other materials	1,397,980	1,017,425
Total	**22,099,117**	**14,111,521**

Majority of the cost of materials amounting to EUR 19,057,757 (2020: EUR 11,897,806) refers to the cost of basic materials, while other costs of materials include the cost of ancillary materials, energy supply, cost of spare parts used in maintenance, low value assets and the cost of other materials.

3.6.7 COST OF SERVICES

(in EUR)	2021	2020
Cost of production services and the rendering of services	2,322,900	1,271,704
Cost of transportation	669,405	498,366
Cost of FA maintenance and overhaul	348,645	298,354
Lease payments	110,938	117,288
Reimbursement of costs associated with labour	165,999	125,000
Payment transaction and bank charges, and insurance premiums	117,727	115,200
Cost of intellectual and personal services	1,063,544	1,273,694
Cost of trade fairs, advertising and entertainment	508,340	351,154
Cost of services provided by natural persons inclusive of levies	48,272	7,000
Cost of other services	1,116,606	919,258
Total	**6,472,376**	**4,977,017**

The largest part of the cost of other services refers to the costs of IT services in the amount of EUR 325,343 (2020: EUR 285,534) and the costs of student work amounting to EUR 267,571 (2020: EUR 196,714). The cost of IT services includes lease payments for lease of the business information system and its maintenance.

The amount spent on the auditor for auditing the separate and consolidated Annual Report amounts to EUR 13,710. The auditor of financial statements did not provide other assurance services, tax advisory services or other non-audit services.

3.6.8 EMPLOYEE BENEFITS EXPENSE

(in EUR)	2021	2020
Wages and salaries	5,443,887	4,337,294
Wage and salary compensations	695,005	635,427
Social security costs	1,014,368	809,892
Other employee benefits expense	1,050,972	759,329
Total	**8,204,233**	**6,541,942**

Within social security costs, pension insurance costs amount to EUR 561,223 (2020: EUR 450,456) and other social security costs to EUR 418,079 (2020: 334,419).

Other employee benefits expense mostly comprise annual leave bonus, meal allowance and reimbursement of the cost of transport to and from work, accrued costs of hours and unutilised annual leave, provisions for termination benefits upon retirement, jubilee premiums and other costs.

The average number of staff within the Group in 2021 is recorded at 252 (2020: 241).

The remuneration of Management Board members totalled to EUR 154,946 (2020: EUR 68,175), whereof:

Ime in priimek	Skupina oseb	Plača	Sejnina	Drugo	Skupaj
UROŠ KORŽE	predsednik upravnega odbora	36.000		2.740	38.740
MIHA SITAR	namestnik predsednika UO	66.000		2.740	68.740
MEZNARIČ ANTON	član upravnega odbora	27.443	6.450	2.740	36.633
ŠIROVNIK JANEZ	član upravnega odbora		10.833		10.833
Skupaj		**129.442**	**17.283**	**8.220**	**154.946**

The Group employs two persons on contracts not covered by the tariff part of the Collective Agreement, mag. Uroš Korže, who holds the position of the President of the Management Board, and Miha Sitar, who holds the positions of Deputy President of the Management Board and Chief Executive Officer.

3.6.9 OTHER OPERATING EXPENSES

(in EUR)	2021	2020
Compensation for the use of building land	58,900	57,015
Environmental protection charges	5,476	5,024
Other costs	189,651	101,695
Total	**254,027**	**163,733**

Other costs mostly include provisions for guarantees given in the amount of EUR 154,412 (2020: EUR 59,431).

3.6.10 AMORTISATION AND DEPRECIATION EXPENSE

(in EUR)	2021	2020
Amortisation of intangible fixed assets	368,357	433,233
Depreciation of buildings	266,861	220,301
Depreciation of equipment and spare parts	1,352,469	1,173,092
Depreciation of low value assets	233,519	247,347
Total	**2,221,206**	**2,073,973**

The Group checked at the end of the financial year whether the useful lives of fixed assets were appropriate. They remained unchanged in 2021.

3.6.11 LOSS ON IMPAIRMENT OF TRADE RECEIVABLES AND CONTRACT ASSETS

(in EUR)	2021	2020
Impairment loss on trade receivables	15,741	44,835
Impairment loss on contract assets	0	0
Total	**15,741**	**44,835**

The impairment loss on trade receivables is the result of impairment of receivables using the simplified lifetime credit loss approach. This was done using an allowance matrix that was constructed using empirical data and adjusted for expected future losses. Both impairment of trade receivables and impairment of contract assets were assessed in the same way.

3.6.12 WRITE-OFFS AND IMPAIRMENT OF NON-FINANCIAL ASSETS

(in EUR)	2021	2020
Impairment loss on inventories	316,473	104,118
Loss on sale of fixed assets	262	3,327
Impairment loss on fixed assets	306,186	188,392
Total	**622,921**	**295,837**

Impairment losses on intangible assets and property, plant and equipment totalling to EUR 306,186 (2020: EUR 188,392) equal the present value of written-off development projects and tools relating to production ranges that were either abolished, eliminated or sold for scrap.

The impairment loss on inventories in the amount of EUR 316,473 (2020: EUR 104,118) comprises the impairment and write-off of inventories due either to their revaluation to the net realisable value or to partial or complete destruction of inventories.

3.6.13 NET FINANCIAL RESULT

(in EUR)	2021	2020
Interest income on loans to others	4	4
Financial income on assets valued at amortised cost	**4**	**4**

(in EUR)	2021	2020
Financial income – discounts	18,384	11,222
Financial income - other	**18,384**	**11,222**

(in EUR)	2021	2020
Interest expenses on borrowings and actuarial restatements	110,503	116,033
Interest on leasing	51,959	56,712
Financial expenses from financial liabilities measured at amortised cost	**162,462**	**172,745**

(in EUR)	2021	2020
Other financial expenses (default interest on taxes and contributions)	79	0
Interest expense	136	50
Exchange rate losses	50,451	2,664
Other financial expenses	**50,666**	**2,714**

(in EUR)	2021	2020
Net financial result	**-194,741**	**-164,233**

3.6.14 EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the net profit belonging to the owners by the weighted average number of ordinary shares, excluding all the ordinary shares held by the Group. As the Group holds no dilutive ordinary shares, the basic earnings per share equals the amount of diluted earnings per share.

Net earnings per share
Net earnings per share in 2021: EUR 10.14
Net earnings per share in 2020: EUR 7.25

The basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Total comprehensive income per share
Total comprehensive income per share in 2021: EUR 10.18
Total comprehensive income per share in 2020: EUR 7.32

Carrying value per share
Carrying value per share at 31 Dec 2021: EUR 63.31
Carrying value per share at 31 Dec 2020: EUR 54.79

3.6.15 TAXES

A. INCOME TAX

(in EUR)	2021	2020
Current tax expense		
Tax payable	346,253	250,890
Changes relating to the previous years	0	0
Total tax	**346,253**	**250,890**
Deferred tax expense		
Formation and elimination of temporary differences	0	0
Change in tax rate	0	0
Recognition of previously unrecognised tax losses	21,555	106,360
Change in deferred taxes for unrecognised tax losses	-34,398	0
Total deferred tax	**-12,843**	**106,360**
Tax expense (continuing operations)	**333,410**	**357,250**

Tax return:

(in EUR)	2021	2020
Revenue determination based on accounting rules	45,088,076	32,172,603
Revenue reduction to tax recognised revenue	-35,915	-20,147
Revenue recognised for tax purposes	**45,052,161**	**32,152,456**
Expense determination based on accounting rules	40,545,018	28,953,792
Expense reduction to tax recognised expenditure	-354,067	-358,764
Expense increase to tax recognised expenditure	204,308	226,508
Expenditure recognised for tax purposes	**40,395,259**	**28,821,536**
Increase in tax base	**117,397**	**116,884**
Tax loss	**0**	**0**
Decrease in tax base and tax relief	**-3,016,975**	**-2,172,116**
Tax base	**1,757,325**	**1,275,687**
TAX (19%)	**333,892**	**242,381**
DEFERRED TAX	**21,555**	**106,360**
TOTAL TAX EFFECT OF SUBSIDIARIES	**12,361**	**8,509**
EFFECTIVE TAX RATE	**7.5%**	**11.0%**

Applicable tax rates:

	2021	2020
Croatia	10%	12%
France	28%	28%
United Kingdom	19%	19%

B. MOVEMENTS IN DEFERRED TAX ASSETS

(in EUR)	Tax loss
Balance at 1 Jan 2020	**432,424**
Charged/credited to profit or loss	-106,360
Balance at 31 Dec 2020	**326,063**
Charged/credited to profit or loss	12,843
Balance at 31 Dec 2021	**338,906**

Movements in deferred taxes includes also the effect of unrealised gains on intragroup sales totalling to EUR 34,398.

C. MOVEMENTS IN DEFERRED TAX LIABILITIES

(in EUR)	Revaluation of fixed assets
Balance at 1 Jan 2020	**1,797,554**
Charged/credited to other comprehensive income	-63,096
Balance at 31 Dec 2020	**1,734,459**
Charged/credited to other comprehensive income	-22,247
Balance at 31 Dec 2021	**1,712,212**

D. UNCERTAINTY REGARDING FUTURE TAXABLE PROFITS

Deferred tax assets are recognised based on unused tax losses as the Group, based on its medium-term business plan, expects its performance to be profitable in the future.

3.6.16 CHANGES IN OTHER COMPREHENSIVE INCOME

Unrealised actuarial gains and losses in the amount of EUR -49,546 (2020: EUR -35,062) refer to provisions for retirement benefits.

The change in the revaluation reserves in the total amount of EUR 22,247 (2020: EUR 63,096) occurred on the elimination of deferred tax liabilities in accordance with the Corporate Income Tax Act.

Translation differences of EUR 45,350 (2020: EUR 55) result from the translation of assets and liabilities at the exchange rate published on the Bank of Slovenia's website at 31 December 2021.

3.6.17 INTANGIBLE ASSETS AND OTHER NON-CURRENT ASSETS

The item of intangible assets and other non-current assets comprises long-term property rights and long-term deferred development costs.

Movements in intangible assets and other non-current assets in 2021 and 2020 are presented below (in EUR):

	R&D expenses	Industrial and other rights	IA being acquired	Other non-current assets	Total
Cost					
Balance 1 Jan 2021	**4,209,342**	**642,008**	**540,111**	**74,843**	**5,466,304**
Additions	**0**	**0**	**726,356**	**11,976**	**738,331**
Transfer from assets being acquired	**0**	**140,245**	**-140,245**	**0**	**0**
Disposals	**0**	**0**	**0**	**0**	**0**
Write-downs	**-457,179**	**0**	**-10,805**	**-37,146**	**-505,130**
Reclassification	**0**	**0**	**0**	**0**	**0**
Balance 31 Dec 2021	**3,752,162**	**782,254**	**1,115,416**	**49,672**	**5,699,504**
Accumulated amortisation					
Balance 1 Jan 2021	**3,482,263**	**296,885**	**0**	**0**	**3,779,148**
Amortisation	**317,339**	**51,018**	**0**	**0**	**368,357**
Write-downs	**-179,899**	**0**	**0**	**0**	**-179,899**
Reclassification	**0**	**0**	**0**	**0**	**0**
Balance 31 Dec 2021	**3,619,703**	**347,902**	**0**	**0**	**3,967,605**
Carrying amount 1 Jan 2021	**727,079**	**345,123**	**540,111**	**74,843**	**1,687,158**
Carrying amount 31 Dec 2021	**132,459**	**434,354**	**1,115,416**	**49,672**	**1,731,901**

	R&D expenses	Industrial and other rights	IA being acquired	Other non-current assets	Total
Cost					
Balance 1 Jan 2020	**4,348,830**	**449,092**	**172,031**	**2,961**	**4,972,914**
Additions	**0**	**0**	**641,509**	**103,629**	**745,138**
Transfer from assets being acquired	**80,512**	**192,917**	**-273,429**	**0**	**0**
Disposals	**0**	**0**	**0**	**0**	**0**
Write-downs	**-220,000**		**0**	**-31,747**	**-251,747**
Reclassification	**0**	**0**	**0**	**0**	**0**
Balance 31 Dec 2020	**4,209,342**	**642,008**	**540,111**	**74,843**	**5,466,305**
Accumulated amortisation					
Balance 1 Jan 2020	**3,136,707**	**256,944**	**0**	**0**	**3,393,651**
Amortisation	**393,293**	**39,940**	**0**	**0**	**433,233**
Write-downs	**-47,737**	**0**	**0**	**0**	**-47,737**
Reclassification	**0**	**0**	**0**	**0**	**0**
Balance 31 Dec 2020	**3,482,263**	**296,885**	**0**	**0**	**3,779,147**
Carrying amount 1 Jan 2020	**1,212,123**	**192,147**	**172,031**	**2,961**	**1,579,264**
Carrying amount 31 Dec 2020	**727,079**	**345,125**	**540,111**	**74,843**	**1,687,158**

Long-term property rights recorded in the amount of EUR 434,354 (2020: EUR 345,127) comprise investments in software. Long-term deferred costs of developing new products amounting to EUR 1,203,460 (2020: EUR 1,267,188) include the cost of prototype construction and testing, the construction and catalogue documentation, and the development of technology used in these projects. EUR 1,071,001 (2020: EUR 540,110) thereof refers to projects that have not yet been completed as at 31 December 2021 and are reported under the items of intangible assets being acquired. In 2021, deferred development costs totalled to EUR 541,695 (2020: EUR 521,244). The amortisation period of a development project is 5 years.
The item of Group's intangible assets includes assets that are subject to amortisation.

3.6.18 PROPERTY, PLANT AND EQUIPMENT (PPE) AND RIGHT-OF-USE ASSETS

Movements in property, plant and equipment in 2021 and 2020 are presented below (in EUR):

	Land	Buildings	Manufacturing plant and equipment	Low-value assets and major tools	Other equipment	Assets under construction	Right-of-use equipment	Total
Cost								**0**
Balance 1 Jan 2021	**5,523,431**	**8,904,123**	**14,718,344**	**3,888,770**	**2,240,317**	**1,348,849**	**4,566,924**	**41,190,757**
Additions	**0**	**0**	**0**	**0**	**0**	**6,084,740**	**0**	**6,084,740**
Transfer from assets being acquired	**142,000**	**3,396,314**	**1,140,479**	**295,171**	**313,378**	**-7,198,468**	**1,911,127**	**0**
Disposals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Write-downs	**0**	**-4,230**	**-1,139,307**	**-4,333**	**-132,839**	**0**	**-10,341**	**-1,291,050**
Reclassification	**0**	**87,183**	**169,408**	**0**	**0**	**0**	**-169,408**	**87,183**
Balance 31 Dec 2021	**5,665,431**	**12,383,390**	**14,888,926**	**4,179,607**	**2,420,856**	**235,120**	**6,298,301**	**46,071,631**
								0
Accumulated depreciation								**0**
Balance 1 Jan 2021	**0**	**576,205**	**12,849,315**	**3,414,082**	**1,524,682**	**0**	**961,341**	**19,325,625**
Depreciation	**0**	**266,863**	**458,456**	**233,519**	**268,936**	**0**	**621,089**	**1,848,862**
Write-downs	**0**	**-355**	**-1,134,854**	**-3,231**	**-131,347**	**0**	**-3,662**	**-1,273,450**
Reclassification	**0**	**0**	**77,600**	**0**	**0**	**0**	**-77,600**	**0**
Balance 31 Dec 2021	**0**	**842,712**	**12,250,516**	**3,644,369**	**1,662,272**	**0**	**1,501,168**	**19,901,037**
Carrying amount 1 Jan 2021	**5,523,431**	**8,327,918**	**1,869,028**	**474,688**	**715,634**	**1,348,849**	**3,605,582**	**21,865,130**
Carrying amount 31 Dec 2021	**5,665,431**	**11,540,678**	**2,638,410**	**535,238**	**758,583**	**235,120**	**4,797,133**	**26,170,592**

	Land	Buildings	Manufacturing plant and equipment	Low-value assets and major tools	Other equipment	Assets under construction	Right-of-use equipment	Total
Cost								
Balance 1 Jan 2020	5,257,453	8,271,718	14,645,260	3,711,636	2,047,148	460,039	3,625,542	38,018,794
Additions	0	0	0	0	0	3,951,676	0	3,951,676
Transfer from assets being acquired	275,723	635,656	595,196	177,134	215,075	-3,062,867	1,164,083	0
Disposals	-9,745	0	0	0	0	0	0	-9,745
Write-downs	0	-3,252	-744,813	0	-21,906	0	0	-769,971
Revaluation	0	0	0	0	0	0	0	0
Reclassifications	0	0	222,702	0	0	0	-222,702	0
Balance 31 Dec 2020	5,523,431	8,904,123	14,718,345	3,888,770	2,240,317	1,348,849	4,566,924	41,190,757
								0
Accumulated depreciation								0
Balance 1 Jan 2020	0	355,979	13,052,976	3,166,735	1,306,258	0	553,610	18,435,558
Depreciation	0	220,301	490,836	247,347	240,330	0	441,918	1,640,732
Write-downs	0	-75	-728,684	0	-21,906	0	0	-750,665
Reclassification	0	0	34,187	0	0	0	-34,187	0
Balance 31 Dec 2020	0	576,205	12,849,315	3,414,082	1,524,682	0	961,341	19,325,625
Carrying amount 1 Jan 2020	5,257,453	7,915,739	1,592,284	544,901	740,890	460,039	3,071,931	19,583,237
Carrying amount 31 Dec 2020	5,523,431	8,327,918	1,869,029	474,688	715,634	1,348,849	3,605,582	21,865,131

The Group applies the straight-line depreciation method. Depreciation is calculated individually and is not subject to change during the accounting year.

The depreciation of property, plant and equipment and the amortisation of intangible assets is calculated using the following annual rates (in %):

(in EUR)	2021	2020
Buildings	2.33 - 3.33	2.33 - 3.33
Landscaping	1.5 - 6.6	1.5 - 6.6
Parts of buildings	6	6
Manufacturing plant	7.0 - 20.0	7.0 - 20.0
Computer hardware and software	33.3	33.3
Motor vehicles	14.3 - 20.0	14.3 - 20.0
Concessions, trademarks and licences	10.00 - 20.00	10.00 - 20.00
Long-term deferred development costs	20	20
Other equipment	5.0 - 25.0	5.0 - 25.0

As of the reporting date, the carrying amount of the right-of-use assets amounts to EUR 4,797,133 (2020: EUR 3,605,582), calculated as the present value of future lease payments for an individual asset. The right-of-use assets include also leases that were prior to 1 January 2019 accounted for as finance leases, discounted at the interest rate agreed in the contracts.

Property, plant and equipment under construction and amounting to EUR 235,120 (2020: EUR 1,348,849) relates in large part to investments in real estate, mainly the new Experience Centre in the amount of EUR 137,612, the construction of the faecal sewer connection in the amount of EUR 11,176, the welding and laboratory office in the amount of EUR 14,876, the mower tools in the amount of EUR 38,528, the CNC tools in the amount of EUR 8,283 and the tools in the amount of EUR 24,645.

As at 31 December 2021, the Group records EUR 4,202,158 of commitments (contracts and confirmed orders) for the purchase of property, plant and equipment (2020: EUR 1,082,240).

The Group checked at the end of the financial year, whether there had been significant changes in the assumptions used in the valuation of buildings and land on 31 December 2019. It was determined that no significant changes occurred either in the assumptions used or the real estate market that would significantly affect the assessed fair value of business facilities.

Real estate is mortgaged as collateral for long-term borrowings raised from a commercial bank in the amount of EUR 4,559,593. There are no restrictions to the use of these facilities.

3.6.19 INVESTMENT PROPERTY

	Investment property
Carrying amount	
Balance 1 Jan 2021	**87,183**
Additions	**0**
Fair value change	**0**
Reclassifications	**-87,183**
Disposals	**0**
Balance 31 Dec 2021	**0**

	Investment property
Carrying amount	
Balance 1 Jan 2020	**87,183**
Additions	**0**
Fair value change	**0**
Reclassifications	**0**
Disposals	**0**
Balance 31 Dec 2020	**87,183**

The SIP Group does not show any balance as investment property as at 31 December 2021. As of 2021, the investment property was transferred to own real estate due to a change of use, and the contract with the tenant was terminated. The building is in the process of demolishing as an Experience Centre shall be constructed.

3.6.20 LONG-TERM OPERATING RECEIVABLES

(in EUR)	31 Dec 2021	31 Dec 2020
Long-term trade receivables	50,417	50,417
Allowances for long-term operating receivables	-50,417	-50,417
Total	**0**	**0**

Long-term operating receivables comprise EUR 50,417 (2020: EUR 50,417) of trade receivables due from the customer after the confirmed compulsory settlement, and the write-down of long-term receivables due to non-compliance with the financial restructuring programme. The customer is currently undergoing bankruptcy procedures. The receivables are not collateralised.

3.6.21 INVENTORIES

(in EUR)	31 Dec 2021	31 Dec 2020
Materials	5,348,743	3,427,324
Allowances for obsolete inventories – material	-32,389	-1,946
Work in progress	343,617	279,704
Semi-finished products	4,567,491	3,746,980
Allowances for obsolete inventories – work in progress and semi-finished products	-1,958	-652
Products	7,561,496	5,612,960
Allowances for obsolete inventories – products	-161,518	-23,066
Merchandise	51	51
Allowances for obsolete inventories – merchandise	-51	-51
Total	**17,625,481**	**13,041,303**

Inventory differences, write-offs and the estimated net realisable value of individual categories of inventories are shown in the following table:

	Carrying amount at 31 Dec 2021	Inventory surplus	Inventory deficit	Write-off due to the change in quality	Impairment to net realisable value	Net realisable value
Materials	**5,316,354**		**2,078**	**31,613**	**30,444**	**5,316,354**
Work in progress	**343,617**					**343,617**
Semi-finished products	**4,565,533**	**1,259**			**1,306**	**4,565,533**
Products	**7,399,978**			**114,658**	**138,452**	**7,399,978**
Merchandise	**0**					**0**
Total	**17,625,481**	**1,259**	**2,078**	**146,271**	**170,202**	**17,625,481**

The carrying amount of inventories does not exceed their realisable value. Part of inventories is pledged as collateral for the payment of EUR 3,000,000 of long-term borrowings.

3.6.22 SHORT-TERM OPERATING RECEIVABLES

(in EUR)	31 Dec 2021	31 Dec 2020
Trade receivables from local customers	615,470	578,522
Trade receivables from foreign customers	3,830,439	3,534,291
Other receivables	1,241,237	618,699
Allowances for trade receivables on account of expected lifelong credit losses	-180,018	-200,192
Total	**5,507,128**	**4,531,320**

All the amounts are current. The net carrying amount of receivables is a reasonable approximation of their fair value. Trade receivables are accounted for as financial assets at amortised cost, which are expected to be repaid within 6 months at the latest. Thus, any potential effect of the difference between the effective interest rate and the market interest rate is negligible.

The Group impaired its receivables in accordance with IFRS 9 based on a simplified approach, taking into account the expected lifelong credit losses on receivables using the allowance matrix. Information on the credit risk exposure is described in detail in the Risk Management section of the Annual Report. In the calculation of the expected credit losses, trade receivables were accounted for as a group based in individual maturity classes. The expected credit loss was calculated based on the past three-year period and the loss incurred during that period. Historical data was revised to reflect future expectations and consequently allowance was recognised also for receivables that have yet to mature. The Group based its forecasts on the expected employment rate in various countries where its customers operate.

Receivables are written-off when there are no longer any reasonable expectations of repayment

As at 31 December 2021, EUR 3,580,224 of trade receivables has not matured (2020: EUR 3,079,379); receivables due and outstanding up to 90 days amount to EUR 630,084 (2020: EUR 537,761), receivables due and outstanding more than 90 days and up to 1 year amount to EUR 69,510 (2020: EUR 316,855), and EUR 166,092 of receivables is outstanding more than one year (2020: EUR 178,819). No receivables are insured against payment default. No trade receivables due from others have matured.

Movements in allowances for trade receivables in 2021 (in EUR)	
Balance at 1 Jan 2021	200.192
Increase	15,741
Decrease	-35,915
Balance at 31 Dec 2021	180,018
Movements in allowances for trade receivables in 2020 (in EUR)	
Balance at 1 Jan 2020	172,024
Increase	34,835
Decrease	-6,667
Balance at 31 Dec 2020	200,192

The Group discloses no receivables against members of the Management Board as at 31 December 2021.

3.6.23 OTHER FINANCIAL ASSETS AND LOANS GRANTED

(in EUR)	**31 Dec 2021**	**31 Dec 2020**
Short-term loans granted	0	1.000
Total	**0**	**1.000**

Loans granted are accounted for as financial assets at amortised cost using the effective interest rate. Based on the assessment of a debtor's creditworthiness, the Group assesses whether an individual loan granted belongs to the category for which either a lifelong credit loss or a 12-month credit loss should be accounted for. As there were no significant changes in credit risk after the loans were granted, a 12-month credit loss was calculated for existing loans.

3.6.24 CASH AND CASH EQUIVALENTS

(in EUR)	31 Dec 2021	31 Dec 2020
Cash in hand	600	600
Bank balances	328,865	68,669
Total	**329,465**	**69,269**

The Group has agreed with commercial banks overdrafts on its business account in the amount of EUR 1,500,000 as an additional source of current liquidity. At the year-end, the balance of the account has not changed in 2021 as the Group did not make use of the overdraft facility.

3.6.25 ADVANCES AND OTHER CURRENT ASSETS

(in EUR)	31 Dec 2021	31 Dec 2020
Advances for fixed assets	99,991	227,240
Advances for inventories	0	0
Other advances	105,712	17,045
Deferred and accrued items	134,091	164,026
Total	**339,793**	**408,310**

The item of deferred costs and accrued revenue refers to prepaid costs and short-term accrued income associated with the co-financed development projects.

3.6.26 EQUITY

(in EUR)	31 Dec 2021	31 Dec 2020
Share capital	1,724,695	1,724,695
Share premium	1,834,498	1,609,555
Legal reserves	0	0
Treasury shares	0	-147,612
Reserves for treasury shares	0	147,612
Revaluation reserve	7,748,601	7,726,354
Fair value reserve	-135,150	-97,711
Translation differences	45,405	55
Retained earnings	10,864,593	8,796,085
Profit for the period	4,100,326	2,901,289
Total	**26,182,968**	**22,660,325**

The share capital amounting to EUR 1,724,695 is divided into 413,596 no-par value shares of a single class and the same ticker symbol (SIPR).

In 2021, the parent company purchased 68 (0.02%) and sold 14,110 (3.41%) own shares.

The following movements in treasury shares were recorded in 2021:

	Quantity	Holding in share capital
Balance at 1 Jan 2021	14,042	3.40%
Purchases	68	0.02%
Disposals	14,110	3.41%
Balance at 31 Dec 2021	0	0.00%

The weighted average number of ordinary shares outstanding during the financial year 2021 was 404,409 shares.

Capital surplus or share premium of EUR 1,834,498 is composed of:
- EUR 1,595,990 of a premium acquired when exercising share purchase options based on bonds issued,
- EUR 238,508 of consideration in excess of the cost of treasury shares sold.

Revaluation reserves include revaluation of land in the amount of EUR 4,875,827, less EUR 926,407 of deferred tax, and buildings in the amount of EUR 4,584,986, less EUR 785,805 of deferred tax.

Fair value reserve comprises as at 31 December 2021 actuarial losses of EUR -135,150.

A. Movements in revaluation reserve

	Land	Buildings	Deferred tax liabilities	Total
Balance 1 Jan 2021	**4,875,826**	**4,584,986**	**-1,734,458**	**7,726,354**
Positive revaluation	**0**	**0**	**22,247**	**22,247**
Negative revaluation	**0**	**0**	**0**	**0**
Balance 31 Dec 2021	**4,875,826**	**4,584,986**	**-1,712,211**	**7,748,601**

	Land	Buildings	Deferred tax liabilities	Total
Balance 1 Jan 2020	**4,875,826**	**4,584,986**	**-1,797,554**	**7,663,258**
Positive revaluation	**0**	**0**	**63,096**	**63,096**
Negative revaluation			**0**	**0**
Balance 31 Dec 2020	**4,875,826**	**4,584,986**	**-1,734,458**	**7,726,354**

Deferred tax liabilities refer to the tax on account of the revaluation of land to its fair value, calculated based on the corporate income tax rate of 19 percent applicable in 2021.

B. Movements in fait value reserve

	Actuarial gains	Actuarial losses	Total
Balance 1 Jan 2021	0	-97,711	-97,711
Positive revaluation	0	12,106	12,106
Negative revaluation	0	-49,546	-49,546
Balance 31 Dec 2021	0	-135,150	-135,150

	Actuarial gains	Actuarial losses	Total
Balance 1 Jan 2020	0	-72,535	-72,535
Positive revaluation	0	9,887	9,887
Negative revaluation	0	-35,062	-35,062
Balance 31 Dec 2020	0	-97,711	-97,710

C. Ownership structure of the SIP Group

SHAREHOLDERS OF SIP d. d.	No. of shares at 31 Dec 2021	Equity interest (in %)	No. of shares at 31 Dec 2021	Equity interest (in %)
CCM d. o. o.	162,956	39.40	159,356	38.53
KORŽE d. o. o.	65,247	15.78	68,847	16.65
HOLINVEST d. o. o.	50,139	12.12	50,139	12.12
LAFIN d. o. o.	32,000	7.74	32,000	7.74
MSE d. o. o.	29,010	7.01	28,500	6.89
Other shareholders	74,244	17.95	74,754	18.07
Total:	**413,596**	**100**	**413,596**	**100**

As at 31 December 2021, the members of the Management Board were indirect owners of 307,352 shares (holders of a 74.31% stake in the Group's ownership structure).

The balance of individual equity components as at 1 January 2021 and 31 December 2021, and movements in individual equity components in 2021, are outlined in the Statement of changes in equity.

3.6.27 PROVISIONS FOR POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

(in EUR)	31 Dec 2021	31 Dec 2020
Provisions for retirement benefits	617,119	584,316
Provisions for jubilee premiums	87,948	91,167
Total	**705,067**	**675,483**

Provisions for post-employment and other non-current employee benefits consist of provisions for retirement benefits and jubilee premiums. Provisions are made in the amount of estimated future payments of termination benefits upon retirement and jubilee premiums discounted at the end of the financial year. The obligation is calculated by estimating the cost of termination benefits upon retirement and the cost of all expected jubilee premiums until retirement.

Movement in provisions in 2021 and 2020 is presented below (in EUR):

	Retirement benefits	Jubilee premiums
Balance 1 Jan 2021	**584,316**	**91,167**
Employee benefits	70,317	18,495
Past service cost	0	0
Interest expense	1,981	339
Pay-out	-89,041	-6,434
Actuarial gains/losses	49,546	-15,619
Balance 31 Dec 2021	**617,119**	**87,948**
Balance 1 Jan 2020	**595,695**	**91,785**
Employee benefits	61,266	17,835
Past service cost	0	0
Interest expense	2,428	403
Pay-out	-110,134	-11,258
Actuarial gains/losses	35,062	-7,598
Balance 31 Dec 2020	**584,316**	**91,167**

Estimates and assumptions

Actuarial calculation is based on the following significant assumptions: discount rate, average wage growth and mortality rates.

	31 Dec 2021	31 Dec 2020
Discount rate	**0.85%**	**0.40%**
Average wage growth	**2.00%**	**1.50%**
Mortality rate		
Male, age 45 years	0.34%	0.34%
Female, age 45 years	0.14%	0.14%
Male, age 65 years	2.00%	2.00%
Female, age 65 years	0.80%	0.80%

Provisions are defined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and jubilee premiums paid to employees. The obligation is calculated for each employee by estimating the costs of termination benefits upon retirement and the costs of all expected jubilee premiums until retirement. The calculation is made by a certified actuary using the projected unit credit method.

The discount rate is set at the rate of the corporate bonds return with maturity similar to the average maturity of provisions.

The present value of provisions was calculated using the projected unit credit method.

As at 31 December 2021, the weighted average maturity of provisions for post-employment benefits is 20.8 years (2020: 20.0 years).

If the discount rate is decreased by 0.5%, provisions for retirement benefits would increase by EUR 31,619, and provisions for jubilee premiums by EUR 3,542. If the discount rate is increased by 0.5%, provisions for retirement benefits would decrease by EUR 28,693, and provisions for jubilee premiums by EUR 3,269. Future long-term real growth of wages is set at 2% p.a. If future wage growth would decrease by 0.5% p.a., provisions for retirement benefits would decrease by EUR 25,408, while a 0.5% annual increase in future wage growth would result in an increase of the provisions for retirement benefits by EUR 29,103.

3.6.28 OTHER PROVISIONS and OTHER NON-CURRENT LIABILITIES

(in EUR)	**31 Dec 2021**	**31 Dec 2020**
Warranty repairs	154,412	59,431
Total	**154,412**	**59,431**

Provisions for warranty repairs refer to future warranty repairs of machinery. Based on the costs of warranty repairs incurred in the past, they were estimated at 0.4% (2020: 0.2%) of products sold during the financial year.

(in EUR)	31 Dec 2021	31 Dec 2020
Assigned assets	0	4,120
Other provisions	0	4,936
Total	**0**	**9,056**

Movement in other provisions and other non-current liabilities for 2021 and 2020:

	Lawsuits	Warranty repairs	Assigned assets	Other provisions
Balance 1 Jan 2021	0	59,431	4,120	4,936
Formation	0	154,412	27,507	0
Utilisation	0	-59,431	-31,627	-4,936
Reversal	0	0	0	0
Balance 31 Dec 2021	0	154,412	0	0
Balance 1 Jan 2020	0	0	3,711	15,514
Formation	0	59,431	51,359	0
Utilisation	0	0	-50,950	-10,578
Reversal	0	0	0	0
Balance 31 Dec 2020	0	59,431	4,120	4,936

3.6.29 FINANCIAL LIABILITIES AND LEASE LIABILITIES

(in EUR)	31 Dec 2021	31 Dec 2020
Long-term financial liabilities to banks	6,570,860	6,273,586
Long-term lease liabilities	1,709,038	1,350,766
Short-term borrowings from local banks	2,578,733	928,571
Other short-term financial liabilities	10,814	507,071
Short-term lease liabilities	1,204,490	985,632
Total	**12,073,935**	**10,045,626**

The Group has long-term and short-term bridging loans with commercial banks to ensure its current solvency for a total amount of EUR 4,500,000, which were drawn down by EUR 1,590,000 at the end of the financial year.

(in EUR) 31 Dec 2021	At fair value through profit or loss	At amortised cost
Long-term financial liabilities to banks	6,570,860	6,570,860
Long-term lease liabilities	1,709,038	1,709,038
Short-term borrowings from local banks	2,578,733	2,578,733
Other short-term financial liabilities	10,814	10,814
Short-term lease liabilities	1,204,490	1,204,490
Total	**12,073,935**	**12,073,935**

(in EUR) 31 Dec 2020	At fair value through profit or loss	At amortised cost
Long-term financial liabilities to banks	6,273,586	6,273,586
Long-term lease liabilities	1,350,766	1,350,766
Short-term borrowings from local banks	928,571	928,571
Other short-term financial liabilities	507,071	507,071
Short-term lease liabilities	985,632	985,632
Total	**10,045,626**	**10,045,626**

A. REPAYMENT TERMS AND TIMETABLE

Borrowings and leases are recognised at amortised cost using the effective interest method.

Long-term financial liabilities to banks maturing in 2026 and 2028 are linked to a fixed interest rate and 6-month EURIBOR. The current amount of long-term liabilities of EUR 988,733 is disclosed under short-term financial liabilities to banks.
The borrowings are collateralised by a mortgage on real estate and inventory of finished and semi-finished products up to the carrying amount of the borrowings.

The carrying amount of long-term financial liabilities to banks maturing over a period of more than 5 years is recorded at EUR 1,370,691.

Lease liabilities payable over a period 2020-2025 are linked to a fixed interest rate and 3- and 6-month EURIBOR. The current amount of the long-term lease liabilities of EUR 1,204,490 is reported under short-term financial liabilities. Lease liabilities are collateralised by the pledge of property, plant and equipment.

Short-term borrowings raised from local banks are included in the current amounts of long-term financial liabilities to banks.

Short-term lease liabilities refer to the current amount of long-term lease liabilities.

B. MOVEMENT IN FINANCIAL LIABILITIES

	2021
Balance 1 Jan 2021	**10,045,626**
Receipts from borrowings	**10,556,352**
Payments for borrowings	**-8,608,917**
Receipts from other financial liabilities	**0**
Expenditure on other financial liabilities	**-1,447,841**
Interest expenses	**-128,077**
Rental income	**1,889,000**
Rental deposits	**-188,900**
Rental expenditure	**-1,168,351**
Dividend liability	**968,366**
Interest liability	**156,677**
Balance 31 Dec 2021	**12,073,935**

	2020
Balance 1 Jan 2020	**12,527,046**
Receipts from borrowings	**6,877,812**
Payments for borrowings	**-9,653,098**
Receipts from other financial liabilities	**609,861**
Expenditure on other financial liabilities	**-132,183**
Rental income	**1,389,651**
Lease expenditure	**-1,573,461**
Balance 31 Dec 2020	**10,045,626**

C. COMPLIANCE WITH FINANCIAL COVENANTS

The following financial covenants have been agreed on bank borrowings:
- equity share of at least 45% of the balance sheet total
- EBITDA/net debt ratio 1:3.5
- no more than 40% reduction in the number of employees

The Group complies with all the above covenants as at 31 December 2021.

3.6.30 SHORT-TERM OPERATING LIABILITIES

(in EUR)	**31 Dec 2021**	**31 Dec 2020**
Payables to local suppliers	5,077,984	3,194,785
Payables to foreign suppliers	1,746,490	1,738,573
Payables for uncharged goods and services	109,850	90,736
Other short-term liabilities	1,880,879	1,007,816
Total	**8,815,203**	**6,031,910**

At 31 December 2021, payables to the members of the Management Board and shareholders amount to EUR 32,669 (2020: EUR 77,588).

All the amounts are current. The carrying amount of trade payables is an approximation of their fair value.

3.6.31 PAYABLES FOR ADVANCES

(in EUR)	31 Dec 2021	31 Dec 2020
Short-term advances received from local customers	398	2,068
Short-term advances received from foreign customers	2,387,768	728,563
Total	**2,388,165**	**730,631**

Contractual obligations arising from the contracts with customers refer to performance obligations that have yet to be fulfilled and relate to advances received.

Contract assets and contract liabilities arising from contracts with customers:

(in EUR)	2021	2020
Contract assets	0	0
Contract liabilities	2,388,165	730,631
Total	**-2,388,165**	**-730,631**

3.6.32 OTHER SHORT-TERM LIABILITIES

(in EUR)	31 Dec 2021	31 Dec 2020
Other short-term liabilities	11,304	69,815
Total	**11,304**	**69,815**

Other short-term liabilities refer to accrued costs and expenses.

3.6.33 CONTINGENT LIABILITIES

As at 31 December 2021, the SIP Group reports the following contingent liabilities:

- customs guarantee for the financial year under review of EUR 3,000 (2020: EUR 3,000)
- real estate pledged as collateral for borrowings amounting to EUR 4,559,593 (2020: EUR 4,202,158)
- guarantee issued to the municipality to the amount of EUR 0 (2020: EUR 33,816)
- pledge of the inventory of finished and semi-finished products worth EUR 3,000,000 (2020: EUR 3,000,000)

TOTAL: EUR 7,562,593 (2020: EUR 7,238,974)

3.6.34 NOTES TO ITEMS OF THE CASH FLOW STATEMENT

Data referring to individual items of the cash flow statement compiled under the direct method, have been obtained directly from the books of account.

Receipts from operating activities in the amount of EUR 47,553,702 comprise receipts from the sale of products and services, advances received, VAT received and other receipts associated with products and services, of which the largest amount refers to recovered bad debts, compensation received and other receipts (2020: EUR 36,537,073).

Disbursements from operating activities in the amount of EUR 43,133,875 comprise disbursements for the purchase of materials and services, wages and taxes, as well as other disbursements from operating activities, such as fines paid, compensation paid, and other disbursements (2020: EUR 29,269,284).

Receipts from investing activities in the total amount of EUR 2,167 comprise proceeds from the disposal of the items of property, plant and equipment (2020: EUR 24,100).

Disbursements for investing activities of total EUR 3,559,340 comprise disbursements for the purchase of equipment, as well as disbursements on investments in real estate (2020: EUR 2,964,739).

Receipts from financing activities of total amount of EUR 10,926,190 comprise receipts from short-term and long-term borrowings and receipts from paid-in equity (2020: EUR 7,489,132).

Disbursements from financing activities in the total amount of EUR 11,543,608 refer to the repayment of long-term and short-term liabilities and interest paid on financing (2020: EUR 11,821,236). The payment of dividends and disbursements on account of equity repayments is also included in the amount.

3.6.35 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Credit risk

The Group actively monitors the balance of its trade receivables. Maximum credit risk exposure at 31 December 2021 was as follows:

(in EUR)	Carrying amount at 31 Dec 2021	Carrying amount at 31 Dec 2020
Current loans granted	0	1,000
Long-term operating receivables	0	0
Trade receivables	4,265,892	3,912,622
Other operating receivables	1,241,237	618,699
Other short-term operating receivables	339,793	408,310
Cash and cash equivalents	329,465	69,269
Total	**6,176,387**	**5,009,900**

As at 31 December 2021, the largest credit risk exposure stems from trade receivables. Maturity structure of receivables – overdue receivables will be repaid in full once the liquidity situation in the agricultural machinery industry improves (April-May), as the industry is highly seasonal. Appropriate amount of bad debt allowance was made for disputed and doubtful receivables. Other receivables, most of which have not yet matured, are due from the state institutions (VAT, refund from the Employment Service, other refunds).

Short-term receivables by maturity:

	Not-past due	Due and outstanding up to 30 days	Due and outstanding from 31 to 60 days	Due and outstanding from 61 to 90 days	Due and outstanding in excess of 90 days	Total
Trade receivables	3,580,224	523,188	67,463	39,433	235,601	4,445,910
Other short-term operating receivables	1,241,237					1,241,237
Advances and other assets	339,793					339,793
Total 31 Dec 2021	**5,161,254**	**523,188**	**67,463**	**39,433**	**235,601**	**6,026,940**

	Not-past due	Due and outstanding up to 30 days	Due and outstanding from 31 to 60 days	Due and outstanding from 61 to 90 days	Due and outstanding in excess of 90 days	Total
Trade receivables	3,079,378	209,686	43,178	284,897	495,674	4,112,814
Other short-term operating receivables	618,699					618,699
Advances and other assets	408,310					408,310
Total 31 Dec 2020	**4,106,387**	**209,686**	**43,178**	**284,897**	**495,674**	**5,139,822**

Movement in allowances for short-term operating receivables:

	Allowances for short-term operating receivables	Allowances for short-term interest receivables	Total
Balance 1 Jan 2021	200,192	0	200,192
Allowances affecting profit or loss	15,741	0	15,741
Repayments	-35,915	0	-35,915
Write-downs	0	0	0
Balance 31 Dec 2021	**180,018**	**0**	**180,018**

	Allowances for short-term operating receivables	Allowances for short-term interest receivables	Total
Balance 1 Jan 2020	172,024	0	172,024
Allowances affecting profit or loss	34,835	0	34,835
Repayments	-6,667	0	-6,667
Write-downs	0	0	0
Balance 31 Dec 2020	**200,192**	**0**	**200,192**

Trade receivable insurance
Trade receivables are not insured.
The Group is constantly improving its credit risk control system.

The receivable management efficiency is measured based on the accounts receivable days criterion.

	2021	2020
Average days receivable under contract	40	44
Average maturity of receivables	6	8
Total days receivables	**46**	**52**

None of the receivables are collateralised.

b. Liquidity risk

The Group is successfully managing liquidity risk by:

- ensuring an adequate liquidity structure,
- annual planning of required financial resources, as well as monthly and daily monitoring of their adequacy,
- a unified approach to banks.

The Group has agreed short-term credit lines with the banks, thus ensuring it is able to meet its obligations at all times.

The Group also in 2021 carefully prepared its cash flow plans, to be able to forecast any cash surpluses or shortages and secure their optimum management.

	Carrying amount	Contractual cash flows	Maturity up to 1 year	Maturity 1-5 years	Maturity more than 5 years
Borrowings	9,149,593	9,478,658	2,676,982	5,414,117	1,387,559
Other financial liabilities	660	660	660		
Lease liabilities	2,913,528	2,983,779	1,244,045	1,739,734	
Interest	10,084	10,084	10,084		
Trade payables	8,941,210	8,941,210	8,941,210		
Other operating liabilities	2,399,469	2,399,469	2,399,469		
Total 31 Dec 2021	**23,414,544**	**23,813,860**	**15,272,450**	**7,153,851**	**1,387,559**

	Carrying amount	Contractual cash flows	Maturity up to 1 year	Maturity 1-5 years	Maturity more than 5 years
Borrowings	7,202,157	8,995,067	1,039,885	5,586,394	2,368,787
Other financial liabilities	480,134	480,134	480,134		
Lease liabilities	2,336,398	2,395,303	1,022,063	1,373,240	
Interest	28,855	28,854	28,854		
Trade payables	6,032,829	6,032,829	6,032,829		
Other operating liabilities	800,446	800,446	800,446		
Total 31 Dec 2020	**16,880,819**	**18,732,633**	**9,404,211**	**6,959,634**	**2,368,787**

Contractual cash flows include all anticipated interest liabilities and payment of approved borrowings currently not yet drawn.

c. Currency risk:

	EUR	PLN	HRK	GBP	Total
Cash and cash equivalents	329,465	0	0	0	329,465
Loans granted	0	0	0	0	0
Long-term operating receivables	0	0	0	0	0
Short-term operating receivables	5,507,128	0	0	0	5,507,128
Advances and other short-term assets	339,793	0	0	0	339,793
Trade payables	-8,814,416	-359	0	-429	-8,815,203
Other operating liabilities	-2,388,165	0	0	0	-2,388,165
Financial position exposure 31 Dec 2021	**-5,026,194**	**-359**	**0**	**-429**	**-5,026,982**

	EUR	USD	HRK	GBP	Total
Cash and cash equivalents	69,269	0	0	0	69,269
Loans granted	1,000	0	0	0	1,000
Long-term operating receivables	0	0	0	0	0
Short-term operating receivables	4,232,700	0	0	279,586	4,512,286
Advances and other short-term assets	408,310	0	0	0	408,310
Trade payables	-6,013,710	0	0	-8,229	-6,021,938
Other operating liabilities	-730,631	0	0	0	-730,631
Financial position exposure 31 Dec 2020	**-2,033,062**	**0**	**0**	**271,357**	**-1,761,705**

Following exchange rates applied in 2021 and 2020:

for EUR 1	31 Dec 2021	31 Dec 2020
USD	1.1326	1.2271
HRK	7.5156	7.5519
GBP	0.8403	0.8990
PLN	4.5969	4.5597

d. Price and quantity risk

The Group is exposed to the price and quantity risk arising from the purchase of raw materials used in production and ensures efficient price risk management by maintaining an adequate inventory of production materials. The Group manages the quantitative risks associated with the cyclical nature of production by adjusting the appropriate level of inventory of finished products.

e. Interest rate risk

The Group is exposed to interest rate risk arising from lease contracts agreed at a variable interest rate, which is mostly based on Euribor.

To manage its exposure to interest rate risk, the Group uses the following hedging instruments
- raising borrowings at a fixed interest rate

Review of the Euribor interest rates in 2021 and 2020:

	6-month	3-month	1-month
Value at 31 Dec 2021 (in %))	-0.541%	-0.572%	-0.573%
Value at 31 Dec 2020 (in %)	-0.526%	-0.545%	-0.554%
Change in interest rate (in percentage points)	**-0.015%**	**-0.027%**	**-0.019%**
Lowest value in 2021 (in %)	-0.541%	-0.572%	-0.573%
Highest value in 2020 (in %)	-0.526%	-0.545%	-0.528%
Change between the highest and lowest interest rate (in percentage points)	**-0.015%**	**-0.027%**	**-0.045%**
Average value in 2021	-0.522%	-0.546%	-0.559%
Average value in 2020	-0.367%	-0.427%	-0.499%
Change in the average interest rate (in percentage points)	**-0.155%**	**-0.119%**	**-0.060%**

EURIBOR values below 0 are not taken into account.

Analysis of the cash flow's sensitivity by applying the variable interest rate

As at the reporting date, a change in interest rates by 100 basis point would increase/decrease interest expense by the amounts reported below. The analysis assumes that all remaining variables remain unchanged.

	Interest expenses (in EUR)	
	Decrease by 100 bp	Increase by 100 bp
Financial instruments at a variable interest rate at 31 Dec 2021	0	17,158
Financial instruments at a variable interest rate at 31 Dec 2020	0	15,320

Short-term and long-term financial liabilities to lessors are partly linked to the EURIBOR, which impacts the exposure to the interest rate risk fluctuation. The Group does not hedge against the risks arising from short-term or long-term liabilities.

f. Capital management

The main purpose of capital management is to ensure capital adequacy, maximum financial stability and Group's long-term solvency position.

(in EUR)	31 Dec 2021	31 Dec 2020
Long-term financial liabilities	8,279,898	7,624,352
Short-term financial liabilities	3,794,036	2,421,274
Total financial liabilities	12,073,935	10,045,626
Total capital	26,182,969	22,660,324
Debt/equity	**0,46**	**0,44**
Cash and cash equivalents	329,465	69,269
Net financial liabilities	11,744,470	9,976,357
Net debt/equity	**0.45**	**0.44**

g. Fair values and carrying amounts of financial instruments

the Group has no financial assets and liabilities measured at fair value.

in (EUR) 31 Dec 2021	**Carrying amount**	**Fair value**
Financial assets at fair value through profit or loss	0	0
Total assets at fair value	**0**	**0**
Short-term financial receivables	0	0
Trade receivables	5,507,128	5,507,128
Cash and cash equivalents	329,465	329,465
Total non-derivative financial assets at amortised cost	**5,836,593**	**5,836,593**
Bank borrowings and other financial liabilities	-12,073,935	-12,073,935
Trade payables excluding amounts owed to the state, to employees and advances	-6,934,324	-6,934,324
Total non-derivative financial liabilities at amortised cost	**-19,008,258**	**-19,008,258**

in (EUR) 31 Dec 2020	**Carrying amount**	**Fair value**
Financial assets at fair value through profit or loss	0	0
Total assets at fair value	**0**	**0**
Short-term financial receivables	1,000	1,000
Trade receivables	4,531,320	4,531,320
Cash and cash equivalents	69,269	69,269
Total non-derivative financial assets at amortised cost	**4,601,589**	**4,601,589**
Bank borrowings and other financial liabilities	-10,045,626	-10,045,626
Trade payables excluding amounts owed to the state, to employees and advances	-5,024,094	-5,024,094
Total non-derivative financial liabilities at amortised cost	**-15,069,720**	**-15,069,720**

Fair values of financial assets and liabilities according to the fair value hierarchy

Assets at fair value

in (EUR) 31 Dec 2021	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	0	0	0	**0**
Total assets at fair value	**0**	**0**	**0**	**0**
Short-term financial receivables	0	0	0	**0**
Trade receivables	0	0	5,507,128	**5,507,128**
Cash and cash equivalents	0	0	329,465	**329,465**
Total assets for which fair value is disclosed	**0**	**0**	**5,836,593**	**5,836,593**
Total assets	**0**	**0**	**5,836,593**	**5,836,593**

in (EUR) 31 Dec 2020	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	0	0	0	**0**
Total assets at fair value	**0**	**0**	0	**0**
Short-term financial receivables	0	0	1,000	**1,000**
Trade receivables	0	0	4,531,320	**4,531,320**
Cash and cash equivalents	0	0	69,269	**69,269**
Total assets for which fair value is disclosed	**0**	**0**	**4,601,589**	**4,601,589**
Total assets	**0**	**0**	**4,601,589**	**4,601,589**

Liabilities at fair value

in (EUR) 31 Dec 2021	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	0	0	0	**0**
Total liabilities at fair value	**0**	**0**	**0**	**0**
Short-term financial liabilities	0	0	-12,073,935	-12,073,935
Trade payables	0	0	-6,934,324	-6,934,324
Total liabilities for which fair value is disclosed	**0**	**0**	**-19,008,258**	**-19,008,258**
Total liabilities	**0**	**0**	**-19,008,258**	**-19,008,258**

in (EUR) 31 Dec 2020	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	0	0	0	**0**
Total liabilities at fair value	**0**	**0**	**0**	**0**
Short-term financial liabilities	0	0	-10,045,626	-10,045,626
Trade payables	0	0	-5,024,094	-5,024,094
Total liabilities for which fair value is disclosed	**0**	**0**	**-15,069,720**	**-15,069,720**
Total liabilities	**0**	**0**	**-15,069,720**	**-15,069,720**

3.6.36 ADDITIONAL DISCLOSURES PURSUANT TO COMPANIES ACT AND THE TAKEOVERS ACT

The Group's share capital of EUR 1,724,695 is represented by 413,596 ordinary freely negotiable registered no-par-value shares.
The Group's shares grant the holders the following rights:

- the right to participate in management,
- the right to a proportionate share of the profits,
- the right to a proportionate share of other assets following the Group's liquidation or bankruptcy

The shares are issued in book-entry form and entered in the central register of the book-entry form of securities at the Securities Clearing Corporation.

The Shareholder's Meeting may decide to increase share capital by issuing new shares of a certain type and class with a three-quarters majority of the share capital represented. The existing shareholders have pre-emptive right to subscribe for new shares in proportion to their share of the Group's share capital.

Such pre-emptive right may only be excluded on the basis of the Shareholder's Meeting's resolution adopted by a three-quarters majority of the share capital represented. Shares are freely transferrable. The Group does not impose any specific restrictions on the achievement of qualifying holdings. Shares do not convey special control rights, no employee share vesting scheme exists, and there are no restrictions on voting.

The following are holders of more than 5 percent of the Group's share capital:

- CCM d. o. o.	162.956	shares	39.40%
- KORŽE d. o. o.	65.247	shares	15.78%
- HOLINVEST d. o. o.	50.139	shares	12.12%
- LAFIN d. o. o.	32.000	shares	7.74%
- MSE d. o. o.	29.010	shares	7.01%

The Shareholder's Meeting may, by a vote of three-quarters majority of the share capital represented, decide to amend the memorandum of association, to dismiss Management Board members before expiry of their office, or to increase the share capital. Based on the Shareholder's Meeting's resolution, the Management Board may acquire treasury shares in the nominal amount of up to 10% of the share capital for the purposes referred to in ZGD-1B.

No shareholders have entered into specific agreements that could impose restrictions on the transfer of securities or voting rights. In addition, no agreements exist that come into effect, change or terminate based on a change in control of the Group as a result of a bid, as defined by the Takeovers Act, including the impact of such agreements. The Group and members of its management have agreed no special compensation in the case of their resignation, dismissal without cause or termination of their employment in the event of a bid as defined by the Takeovers Act.

3.6.37 EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred from the reporting date and up to the Annual Report date that could impact the true and fair presentation of the consolidated financial statements for the year ended 31 December 2021.

3.6.38 THE EPIDEMIC'S IMPACT ON GROUP'S BUSINESS OPERATIONS

Despite the pandemic, the Group's operations ran smoothly in 2021 as it made considerable efforts to successfully regulate cash flows from sales and supply chain without any consequences for the business.

To combat the threat of a potential disruption of production due to the potential quarantine imposed for all its employees or the interruption of deliveries by suppliers, the Group decided raise slightly the level of inventories of both input materials and products. In addition, the Group secured additional liquid funds by raising short-term borrowings and agreeing overdrafts. However, none of these additional resources were drawn.

We believe the pandemic did not result in any changes in the sales market that could affect the viability of inventories. Sales are proceeding normally and in the autumn we even noted a slight increase in demand.

No major risks have been identified in respect of trade receivables that could affect the amount of allowances.

Furthermore, we have not perceived any pressure for subsequent price changes, or any changes resulting from the pandemic that could affect the amount of provisions.

3.6.39 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Company's Management Board is responsible for the preparation of the consolidated financial statements of the SIP Group for 2021, including the accompanying accounting policies and notes, which, in their opinion, present a true and fair view and results of the Group's operations and its financial position, including a description of the significant risks to which the Group companies are exposed.

Management Board confirms that appropriate accounting policies have consistently been applied in the preparation of the consolidated financial statements, that the accounting estimates have been made on the basis of fair value, prudence and good management and that the financial statements give a true and fair view of the Group's assets and of the results of its operations for the year ended 31 December 2021.

Management Board is also responsible for keeping proper accounting records, for taking adequate measures to safeguard property and other assets and for confirming that the financial statements together with notes thereto have been prepared on a going concern basis and in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

The Management Board of the Company hereby adopts and approves the consolidated financial statements with the accompanying accounting policies and notes of the SIP Group for the year 2021.

Tax authorities may, at any time within 5 years after the year of tax assessment, inspect the operations of the Group, which may result in additional tax liabilities, default interest and penalties related to the corporate income tax or other taxes and duties. The Management Board of the Company is not aware of any circumstances that might result in any material liability for such reasons.

President of the Management Board

mag. Uroš KORŽE

Šempeter, 25 February 2022

4. INDEPENDENT AUDITOR'S REPORT

CONSTANTIAPRIMIA

INDEPENDENT AUDITORS' REPORT[i]

To the shareholders of the SIP, d.d. Šempeter v Savinjski dolini

Opinion

We have audited the consolidated financial statements of the company **SIP, d.d. Šempeter v Savinjski dolini** ("the Company") **and its subsidiaries** (»the Group«), which comprise the consolidated statement of financial position as of 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of* Consolidated *Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

We draw attention to the fact that the consolidated financial statements of the Group as at and for the year ended 31 December 2020 were not audited. As at 31 December 2021 the Group prepared its consolidated financial statements for the first time, as explained in Disclosure 3.1. of the Annual Report.

Other Information

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

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

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ID za DDV: SI23811978, Matična številka: 8261440000, TRR: 0208 3026 2805-861 NLB d.d.
osnovni kapital družbe: 15.000 EUR, št. registrskega vložka: 2018/32175 pri Okrožnem sodišču v Ljubljani
št. vpisa v register revizijskih družb: RD-A-113/18

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

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

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is consistent, in all material respects with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Other Information that we obtained prior to the date of this auditors report. We have nothing to report in this respect.

Responsibility of Management and those responsible for Governance for the Consolidated Financial Statements

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

In preparing the consolidated 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 of 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.

The Management board is responsible for overseeing the Group's financial reporting process and for the approval of the audited Group Annual Report.

Auditor's Responsibility for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 control.
- 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 control.

- 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated 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.

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

On behalf of the auditing company

CONSTANTIA PRIMIA revizijska družba d.o.o.

Primož Koder

Certified auditor

CONSTANTIAPRIMIA

CONSTANTIA PRIMIA d.o.o.
Ogrinčeva ulica 4
1000 Ljubljana

Ljubljana, 25 February 2022

[1] The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.