ANNUAL REPORT SIP GROUP 2022

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MANAGEMENT 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
- SIP DYSTRYBUCJA PL, Komorow, Poland

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

The SIP Group returned in 2022 to strong growth in physical volumes and sales after a slightly weaker prior year. 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 51.1 million, the SIP Group net sales were 23% higher over the previous year and 6% higher than planned. We sold 5,236 machines, with sales of own-brand products accounting for 95% of total sales. In addition to Slovenia, the SIP Group sells in more than 30 countries, among them Austria, France, Germany, Switzerland and Italy as the largest export markets.

In 2022, subsidiaries:

- SIP DISTRIBUCIJA d.o.o., Croatia, generated net sales revenue of EUR 203,367,
- S.A.R.L, SIP FRANCE, France, generated net sales revenue of EUR 615,883,
- SIP DISTRIBUTION UK LTD, United Kingdom, generated net sales revenue of EUR 1,970,641,
- SIP DEUTSCHLAND GmbH, Germany, generated net sales revenue of EUR 52,362,
- SIP DYSTRYBUCJA PL Poland, generated net sales revenue of EUR 62,487.

Development and investments. The SIP Group continued in 2022 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 2022. The Group generated earnings before interest, taxes, depreciation and amortisation (EBITDA) in the amount of EUR 8.5 million, which is 14% more relative to the previous year. The net result of EUR 4.5 million exceeds the 2021 result by 9%. All subsidiaries recorded a positive financial result in the financial year 2022. 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 the reporting period, the SIP Group also maintained a favourable net debt to operating cash flow ratio and an adequate level of liquidity.

Risk management. The SIP Group regularly monitors credit ratings of all its major customers and key suppliers in order to ensure efficient credit risk management. The 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 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 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 pandemic.

Recruitment. Of total 305 employees at the year-end, 202 have completed the first, second, third, fourth or fifth level of education, and 103 employees have completed the sixth, seventh and eighth level of education. Regardless the pandemic, we organised training and education courses in 2022 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, 8 March 2023

CORPORATE GOVERNANCE STATEMENT of the SIP Šempeter Group

The Management Board of the controlling company SIP d. d., Šempeter v Savinjski dolini hereby declares that its 2022 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 2022 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 2022 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 seven 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 2022, the Management Board was composed of six members, with five members being appointed by the shareholders at the Shareholders' Meeting and one member by the Works Council in accordance with the Workers' Participation in Management Act. From among its members, the Management Board has appointed the Executive Director for a two-year term of office, which commenced on 25 May 2021. During its work, the Management Board applies the Management Board's Rules of Procedure.

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 2022.

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

In the period from date of the financial statements and up to the date of the report hereof, no events have occurred that would have an effect on the true and fair view of the financial statements for 2022.

Šempeter v Savinjski dolini, 8 March 2023

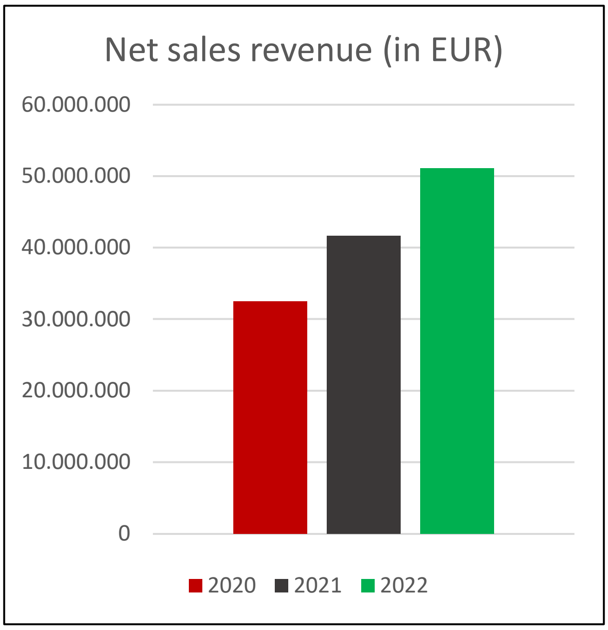
President of the Management Board
Mag. Uroš Korže

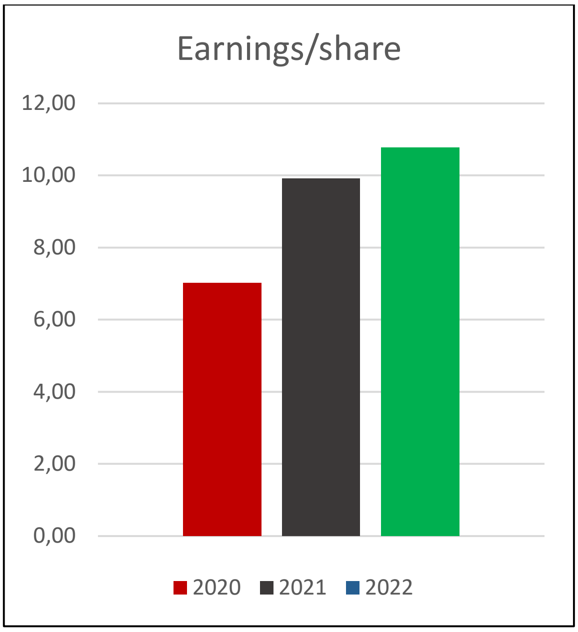
FINANCIAL STATEMENTS
SIP GROUP
2022

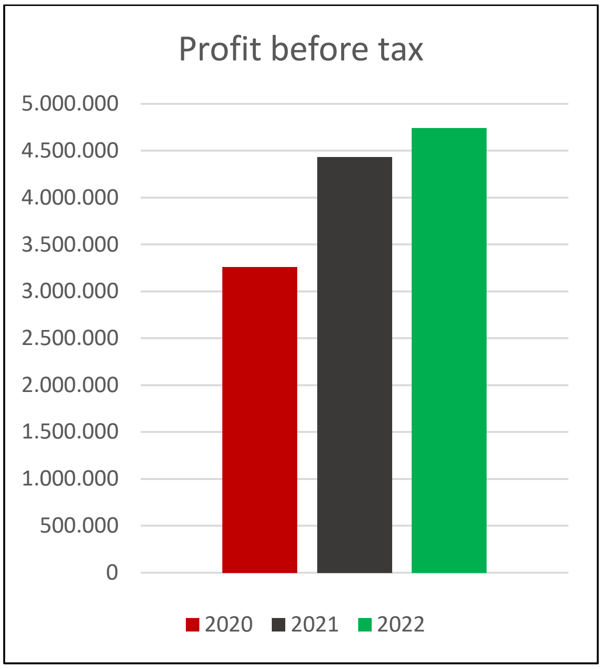
Registration:	SIP, Strojna Industrija d. d. Šempeter, is registered at the District Court in Celje under the entry number 1/00268/00
Corporate address:	Juhartova ulica 2, 3311 Šempeter v Savinjski dolini
Share capital:	EUR 1,724,695
Company ID no.:	5034523
TAX ID no.:	24049174
Activity code:	28.300 Manufacture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

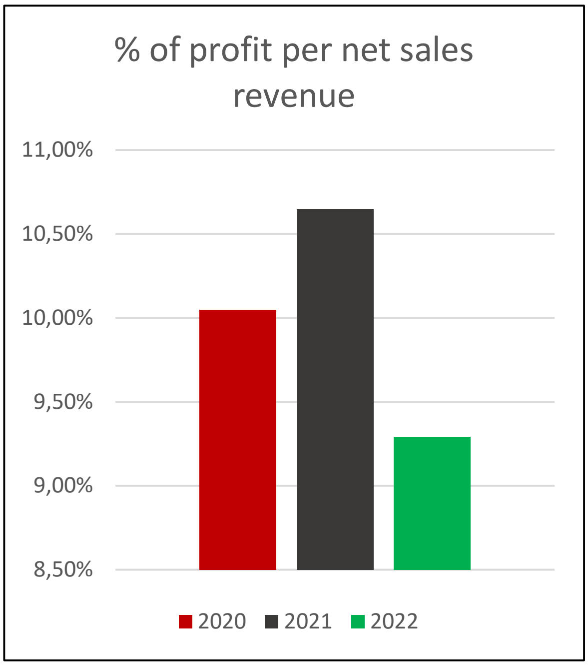
1. FINANCIAL HIGHLIGHTS OF THE GROUP

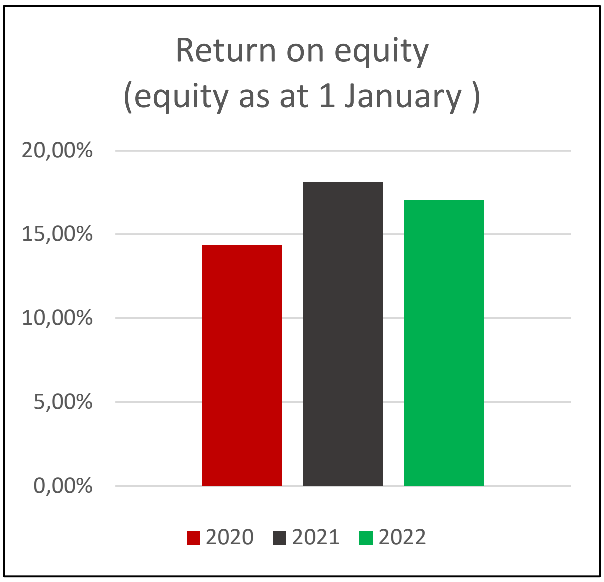
		2020	2021	2022
1.	**Net sales revenue (in EUR)**	**32,429,857**	**41,641,113**	**51,065,898**
2.	**Earnings/share**	**7,01**	**9,91**	**10,76**
3.	**Profit before tax**	**3,258,542**	**4,433,735**	**4,743,715**
4.	**% of profit per net sales revenue**	**10,05%**	**10,65%**	**9,29%**
5.	**Return on equity (1 January)**	**14,35%**	**18,09%**	**17,01%**
	Net financial debt/EBITDA	9,976,357	11,744,470	21,286,579
	EBITDA	5,837,421	7,488,345	8,516,043
6.	**Net financial debt (net financial debt/EBITDA)**	**1.71**	**1.57**	**2.50**

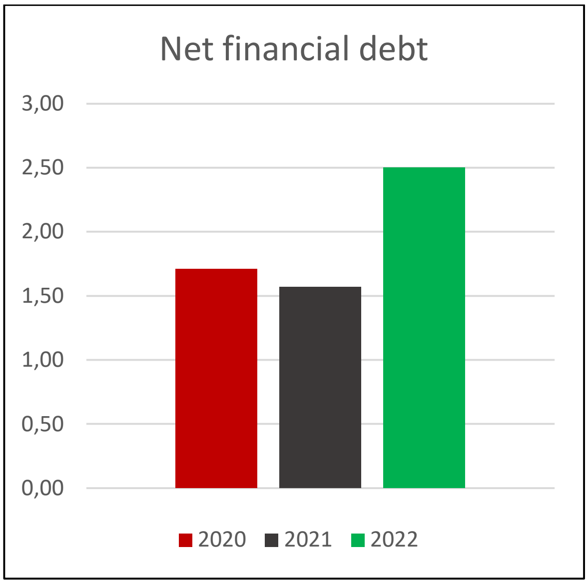









Return on equity
(equity as at 1 January)
20,00%
15,00%
10,00%
5,00%
0,00%
2020
2021
2022


Net financial debt
3,00
2,50
2,00
1,50
1,00
0,50
0,00
2020
2021
2022

2. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022 (IN EUR)

	Note	2022	2021
Net sales revenue	3.6.1	51,065,898	41,641,113
Other operating income	3.6.2	154,988	298,520
Capitalised own products	3.6.3	204,544	169,586
Changes in the value of inventories	3.6.4	2,823,808	2,931,818
OPERATING INCOME		**54,249,238**	**45,041,038**
Cost of goods and materials sold	3.6.5	674,337	522,939
Cost of materials	3.6.6	26,985,058	22,099,118
Cost of services	3.6.7	7,966,217	6,472,376
Employee benefits expense	3.6.8	9,749,306	8,204,233
Other operating expenses	3.6.9	358,277	254,027
Amortisation and depreciation expense	3.6.10	2,561,699	2,221,206
Loss on impairment of trade receivables and contract assets	3.6.11	7,553	15,741
Write-off and impairment of non-financial assets	3.6.12	948,600	622,921
OPERATING EXPENSES		**49,251,047**	**40,412,560**
OPERATING PROFIT		**4,998,191**	**4,628,478**
Financial income	3.6.13	10,111	18,389
Financial expenses	3.6.13	264,587	213,128
NET FINANCIAL RESULT		**-254,476**	**-194,741**
PROFIT BEFORE TAX		**4,743,715**	**4,433,735**
Tax payable	3.6.15	352,922	346,253
Deferred tax	3.6.15	-63,332	-12,843
PROFIT FOR THE PERIOD		**4,454,124**	**4,100,326**

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 2022 (IN EUR)

	Note	2022	2021
PROFIT FOR THE PERIOD	3.6.16	**4,454,124**	**4.100.326**
Change in revaluation reserve of land		1,226,737	0
Unrealised actuarial gains and losses		74,997	-49.546
Changes in deferred taxes		-158,199	22.247
Other changes		-101,584	
Foreign exchange translation differences		-85,694	45.350
Other comprehensive income that will not be reclassified to income statement subsequently		**956,257**	**18.051**
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		**5,410,381**	**4,118,378**

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 2022 (IN EUR)

ASSETS	Note	31 Dec 2022	31 Dec 2021
Intangible assets and other non-current assets	3.6.17	2,735,974	1.731.900
Right-of-use assets	3.6.18	4,391,147	4.797.133
Property, plant and equipment	3.6.18	27,738,308	21.373.459
Investment property	3.6.19	0	0
Non-current operating receivables	3.6.20	0	0
Deferred tax assets	3.6.15	253,640	338.906
TOTAL NON-CURRENT ASSETS		35.119.068	28,241,399
Inventories	3.6.21	22,448,374	17.625.481
Operating receivables	3.6.22	7,752,184	5.507.128
Cash and cash equivalents	3.6.23	383,270	329.465
Advances and other current assets	3.6.24	528,693	339.793
TOTAL CURRENT ASSETS		31.112.520	23,801,868
TOTAL ASSETS		**66.231.588**	**52,043,267**
EQUITY AND LIABILITIES	**3.6.25**		
Called-up capital		1,724,695	1.724.695
Share premium		1,834,498	1.834.498
Reserves for treasury shares		2,938	0
Treasury shares		-2,938	0
Revaluation reserve		8,482,081	7.748.601
Fair value reserve		-57,693	-135.150
Translation differences		-40,289	45.405
Retained earnings or losses		13,947,444	10.864.593
Operating profit		4,454,124	4.100.325
TOTAL EQUITY		**30,344,860**	**26.182.968**
Provisions for post-employment and other non-current employee benefits	3.6.26	701,714	705.067
Other provisions	3.6.27	187,789	154.412
Other non-current liabilities	3.6.27	3,750	0
Financial liabilities	3.6.28	10,648,254	6.570.860
Lease liabilities	3.6.28	1,550,666	1.709.038
Deferred tax liabilities	3.6.15	1,821,894	1.712.212
TOTAL NON-CURRENT LIABILITIES		**14.914.066**	**10,851,588**
Current financial liabilities	3.6.28	8,329,389	2.589.546
Lease liabilities	3.6.28	1,141,540	1.204.490
Trade payables	3.6.29	10,084,906	8.815.203
Advances received	3.6.30	1,267,972	2.388.165
Other payables	3.6.31	148,855	11.304
TOTAL CURRENT LIABILITIES		**20.972.663**	**15,008,710**
TOTAL EQUITY AND LIABILITIES		**66.231.588**	**52,043,267**

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 2022 (IN EUR)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES	**3.6.33**		
Cash receipts from operations		**55,367,051**	**47.553.701**
Proceeds from sale of products and services		50,829,919	45.072.811
Other receipts from operating activities		4,537,132	2.480.891
Cash disbursements from operating activities		**-54,470,352**	**-43.133.875**
Disbursements for acquisition of materials and services		-42,581,256	-34.242.044
Disbursements for wages and salaries, and employee share in profit		-6,582,839	-5.234.058
Disbursements for all kinds of levies		-5,306,257	-3.657.773
NET CASH FROM OPERATING ACTIVITIES		**896.699**	**4,419,827**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from investing activities		**1,650**	**2.167**
Proceeds from sale of property, plant and equipment		1,650	2.167
Cash disbursements from investing activities		**-7,509,424**	**-3.559.340**
Cash disbursements to acquire PPE		-6,242,262	-3.374.680
Cash disbursements to acquire intangible assets		-1,267,162	-184.660
NET CASH USED IN INVESTING ACTIVITIES		**-7.507.774**	**-3,557,173**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financing		**14,998,355**	**10.926.190**
Paid-up share capital		0	368.671
Cash proceeds from borrowings		14,998,355	10.557.519
Cash disbursements from financing		**-8,334,454**	**-11.543.608**
Disbursements for transaction costs associated with borrowings		-152.044	-128,077
Repayment of borrowings		-5,437,561	-8.611.765
Cash repayments of equity		-2,938	-1.360
Dividends paid		-1,240,788	-1.447.841
Repayment of lease liabilities		-1,501,123	-1.354.565
NET CASH USED IN FINANCING ACTIVITIES		**6.663.901**	**-617,418**
NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS		**52.826**	**245,236**
Cash and cash equivalents at the beginning of year		329,466	69.784
Effects of changes in foreign exchange rates on cash and cash equivalents		978	14.446
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**383.270**	**329,466**

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 2022 (IN EUR)

	Note	Called-up capital	Share premium	REVENUE RESERVE		Revalu-ation reserve	Fair value reserve	Translation reserve	Retained earnings or losses	Profit for the period	Total equity
				Reserve for treasury shares	Trea-sury shares - deduct-ible item						
CLOSING BALANCE AT 31 DEC 2021		**1.724.695**	**1.834.498**	**0**	**0**	**7.748.601**	**-135.150**	**45.405**	**10.864.593**	**4.100.325**	**26.182.968**
Correction of the consolidated profit for 2021 (change in separate financial statements upon consolidation)		0	0	0	0	0	0		0	-4.761	-4.761
Restatements		**0**	0	0	0	0	0		0	0	**0**
CLOSING BALANCE AT 31 DEC 2021		**1.724.695**	**1.834.498**	**0**	**0**	**7.748.601**	**-135.150**		**10.864.593**	**4.095.564**	**26.178.207**
Total comprehensive income for the period (restated)											
Profit for the period		0	0	0	0	0	0	0	0	4.454.124	4.454.124
Revaluation of property (including deferred tax effects)		0	0	0	0	966.954	0	0	0	0	966.954
Other comprehensive income for the period		0	0	0	0	0	74.997	0	0	0	74.997
Other comprehensive income - translation differences		0	0	0	0	0	0	-85.694	0	0	-85.694
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**0**	**0**	**0**	**0**	**966.954**	**74.997**	**-85.694**	**0**	**4.454.124**	**5.410.381**
Transactions with owners											
Dividends		0	0	0	0	0	0	0	-1.240.788	0	-1.240.788
Purchase of treasury shares (equity interests)		0	0	0	-2.938	0	0	0	0	0	-2.938
Formation of reserves for treasury shares		0	0	2.938	0	0	0	0	-2.938	0	0
Other changes - actuary		0	0	0	0	0	2.460	0	-2.460	0	0
Other changes - transfer of revaluation reserves to retained earnings or losses upon elimination of asset		0	0	0	0	-233.473	0	0	233.473	0	0
Other changes		0	0	0	0	0	0	0	0	0	0
Transfer of part of previous year's profit		0	0	0	0	0	0	0	4.095.564	-4.095.564	0
TOTAL TRANSACTIONS WITH OWNERS		**0**	**0**	**2.938**	**-2.938**	**-233.473**	**2.460**	**0**	**3.082.851**	**-4.095.564**	**-1.243.726**
BALANCE AT 31 DEC 2022		**1.724.695**	**1.834.498**	**2.938**	**-2.938**	**8.482.082**	**-57.693**	**-40.289**	**13.947.444**	**4.454.124**	**30.344.860**

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

	Note	Called-up capital	Share premium	REVENUE RESERVE		Revalu-ation reserve	Fair value reserve	Translation reserve	Retained earnings or losses	Profit for the period	Total equity
				Reserve for treasury shares	Treasury shares - deductible item						
CLOSING 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**
Profit for the period		0	0	0	0	0	0	0	0	4.100.325	4.100.325
Revaluation of property		0	0	0	0	22.247	0	0	0	0	22.247
Other comprehensive income - actuarial changes		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
Acquisition of treasury shares (equity interests)		0	0	0	-1.360	0	0	0	0	0	-1.360
Sale of treasury shares (equity interests)		0	224.942	0	148.972	0	0	0	0	0	373.914
Formation 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 earnings 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**	**224.942**	**-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**	**-135.150**	**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.

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.1 REPORTING COMPANY AND ITS SUBSIDIARIES

SIP Strojna industrija, d. d., Šempeter is the parent or controlling company of the SIP Group (hereinafter also 'Group'). The parent company is headquartered in Slovenia, with its registered office at Juhartova ulica 2, 3311 Šempeter v Savinjski dolini. The Group's consolidated financial statements for the year ended 31 December 2022 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 2022

Company	Address	Ownership interest (in %)	Value of equity at 31 Dec 2022	Operating result in 2022
SIP DISTRIBUCIJA D.O.O.	NOVAKI PETROVINSKI 4 A, JASTREBARSKO, CROATIA	100%	44,745	5,761
S.A.R.L. SIP FRANCE	1006 ROUTE DEPARTEMENTALE FRANCIN, PORTE DE SAVOIE, FRANCE	100%	56,491	18,783
SIP DISTRIBUTION UK LTD	NORTONBURY HOUSE, 37 HIGH STREET, TEWKESBURY GLOS, UNITED KINGDOM	100%	653,842	63,307
SIP DEUTSCHLAND GmbH	TERMINALSTRASSE MITTE 18, MÜNCHEN-FLUGHAFEN, GERMANY	100%	20,981	2,970
SIP DYSTRYBUCJA PL	UL. ALEJA STARYCH LIP, NR 16, KOMORÓW, POLAND	100%	24,419	3,054

The parent company SIP Strojna industrija, d. d., Šempeter generated a profit of EUR 4,272,229 in 2022 and as of the balance sheet date recorded capital at EUR 30,263,460.

In 2022, the parent company established in Poland the subsidiary SIP DYSTRYBUCJA PL.

The Group's share capital as at 31 December 2022 amounted to EUR 1,724,695.

c. 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 4 A, 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 but not yet operational in the financial year 2021; the subsidiary is included in the consolidated financial statements.

The parent company SIP Strojna industrija, d. d., Šempeter generated a profit of EUR 4,187,611 in 2021 and as of the balance sheet date recorded capital at EUR 26,193,006.

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

3.2 BASIS FOR THE 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 2022 on 16 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 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.

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 needs 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 are effective since 1 January 2022.

The amendments have no significant impact on the Group.

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

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 apply to annual periods beginning on or after 1 January 2022.

The amendments have no significant impact on the Group.

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

Annual Improvements 2018-2020 became effective as of 1 January 2022. 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 amendments have no significant impact on the Group.

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

- **IFRS 17: Insurance Contracts**

The Standard is effective for annual periods beginning on or after 1 January 2021, with early application permitted provided that the entity also reports under IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. In March 2020, the International Accounting Standards Board decided to defer the effective date of the standard until 2023. IFRS 17 Insurance Contracts therefore provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts issued. At the same time, the standard requires the application of similar principles to reinsurance contracts and investment contracts with discretionary participation. The objective of the Standard is to ensure that entities include relevant information in presentations in a manner that faithfully reflects those contracts. This information is used to enable users of financial statements to assess the effect of contracts within the scope of IFRS 17 on an entity's financial position, financial performance and cash flows.

The amendments have no significant impact on the Group.

- **FRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)**

The amendments to IFRS 17 are effective for annual periods beginning on or after 1 January 2023 and should be applied retrospectively. Early application of the amendments is permitted. The amendments are intended to make it easier for entities to apply IFRS 17. In particular, the amendments simplify some of the requirements of the standard and reduce the associated costs for an entity, provide an easier explanation of its financial performance and simplify the transition to the new standard by delaying the effective date until 2023, while providing additional relief on first-time adoption of IFRS 17. The amendments to IFRS 4 change the specific expiry date of the temporary relief in IFRS 4 Insurance Contracts from the application of IFRS 9 Financial Instruments. IFRS 4 Insurance Contracts is amended to change the specific expiry date of the temporary relief in IFRS 4 Insurance Contracts from the application of IFRS 9 Financial Instruments. As a result, entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

The amendments have no significant impact on the Group.

- **IAS 12 Income Taxes: Deferred Tax on Assets and Liabilities in a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023. Early application of the amendments is permitted. In May 2021, the International Accounting Standards Board issued amendments to IAS 12 to restrict the application of the initial recognition exemption under IAS 12 and to specify how an entity should account for deferred tax on certain transactions, such as leases and decommissioning liabilities. Under the amendments, the exemption does not apply to transactions for which the taxable amount at initial recognition is equal to the amount of deductible temporary differences. The exception applies only if, on the recognition of the leased asset and the related liability (or the liability in connection with the decommissioning and decommissioning of a component of the asset), the taxable amount is not equal to the amount of the deductible temporary differences.

The amendments have no significant impact on the Group.

- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments to the Standard are effective for annual periods beginning on or after 1 January 2023. Early application of the amendments is permitted. The amendments address changes in accounting policies and accounting estimates at or after the beginning of the period and define accounting estimates as monetary amounts in financial statements that have measurement uncertainty associated with them. The Amendments also clarify what changes in accounting estimates are and how they differ from changes in accounting policies and corrections of errors.

The amendments have no significant impact on the Group.

- **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 amendments have no significant impact on the Group.

- **IAS 1 Presentation of Financial Statements and IFRS International Financial Reporting Position 2: Disclosure of Accounting Policies (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023. Early application of the Amendments is permitted. The Amendments provide guidance for assessing materiality in the disclosure of accounting policies. The amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' information about accounting policies. At the same time, the Framework provides guidance and illustrative examples to assist in applying the concept of materiality in assessing the disclosure of accounting policies.

The amendments have no significant impact on the Group.

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback**

The amendment clarifies how a vendor-lessee subsequently measures sale and leaseback transactions that meet the requirements of IFRS 15 to be accounted for as sales. The amendments are effective for annual periods beginning on or after 1 January 2024.

The amendments have no significant impact on the Group.

e. 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.

f. 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.

The separate income statements of the subsidiaries have been translated into EUR during the consolidation process using the average annual exchange rate published by the Bank of Slovenia.

g. 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:

h. 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.

2. 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 non-current 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.

3. Estimates of the useful life of depreciable assets (Note 3.6.17 and 3.6.18)

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.

4. 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 3.6.18)
- trade receivables and contract assets (Note 3.6.22 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.

5. 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.

6. Estimate of provisions made for repairs within the warranty period (note 3.6.27)

The Group recognises a provision for warranty on repairs to machinery and presents it in the statement of financial position. The warranty period is 3 years. The present obligation is calculated as the best estimate of the repair expenditure that the Group will incur during the period of the warranty.

7. Assessment of the possibility for utilising 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.

8. Fair value of fixed assets according to the revaluation model (Note 3.6.18)

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.

j.) 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.

<u>Leases</u>
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.

<u>Lease liabilities</u>
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 non-current 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

Financial assets at amortised cost

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 current financial assets (maturity up to 12 months after the reporting date) or non-current 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.

<u>Impairment of receivables and contract assets</u>

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 current financial liabilities (maturity up to 12 months after the reporting date) or non-current 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 current, while those that will be used over a longer period are classified as non-current.

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 a provision for warranty on repairs to machinery and presents it in the statement of financial position. The warranty period is 3 years. The present obligation is calculated as the best estimate of the repair expenditure that the Group will incur during the period of the warranty.

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 REVENUE

a. Source 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)	2022	2021
Revenue from the sale of products and services	50,938,206	41,572,627
Revenue from the sale of materials and merchandise	127,692	68,486
Revenue from warranty repairs	0	0
Total revenue from contracts with customers	**51,065,898**	**41,641,113**

Revenue from the sale of products accounted in 2022 for 99.75% of total sales (2021: 99.84%), and revenue from sales of merchandise and materials for 0.25% (2021: 0.16%).

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

	Products		Merchandise and material	
(in EUR)	2022	2021	2022	2021
Domestic market	9,678,259	8,190,403	49,838	25,820
Foreign markets	41,259,947	33,382,224	77,854	42,666
- EU	31,445,273	24,424,661	67,465	33,436
- third countries	9,814,674	8,957,563	10,389	9,230
Total revenue from contracts with customers	**50,938,206**	**41,572,627**	127,692	68,486

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

	Products		Merchandise and material	
(in EUR)	2022	2021	2022	2021
Revenue recognised at the point of sale or performance of the service	50,938,206	41,572,627	127,692	68,486
Revenue recognised over time	0	0	0	0
Total revenue from contracts with customers	**50,938,206**	**41,572,627**	**127,692**	**68,486**

3.6.2 OTHER OPERATING INCOME

(in EUR)	2022	2021
Reversal of provisions	0	36,564
Drawing on EU projects	79,749	118,677
Gains from sale of fixed assets	1,641	1,719
Insurance proceeds	40,965	40,752
Compensation received	0	0
Other extraordinary items	32,638	99,420
Other	-3	1,389
Total	**154,988**	**298,520**

Other operating income refers to co-financing of development projects, insurance proceeds and other items.

3.6.3 CAPITALISED OWN PRODUCTS

(in EUR)	2022	2021
Capitalised own products and own services	204,544	169,586
Total	**204,544**	**169,586**

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)	2022	2021
Change in the value of inventories	2,823,808	2,931,818
Total	**2,823,808**	**2,931,818**

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 65,746 and effects of the realisation of unrealised gains in 2021 totalling to EUR 181,045. Deferred tax assets of EUR 12,492 (2021: EUR 34,398) have been formed.

3.6.5 COST OF GOODS AND MATERIAL SOLD

(in EUR)	2022	2021
Cost of goods and material sold	674,337	522,939
Total	**674,337**	**522,939**

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

3.6.6 COST OF MATERIALS

(in EUR)	2022	2021
Cost of materials	23,540,712	19,057,850
Cost of ancillary materials	136,464	118,361
Cost of energy	736,855	784,483
Cost of materials and spare parts used in FA maintenance	272,978	279,284
Write-off of low value assets and packaging, and stocktaking differences	555,792	419,324
Cost of office supplies and professional literature	52,919	41,928
Cost of other materials	1,689,337	1,397,887
Total	**26,985,058**	**22,099,118**

Most of the cost of materials amounting to EUR 23,540,712 (2021: EUR 19,057,850) refers to the cost of basic materials, while other cost 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)	2022	2021
Cost of production services and the rendering of services	2,760,612	2,322,900
Cost of transportation	892,043	669,405
Cost of FA maintenance and overhaul	432,581	348,645
Lease payments	123,730	110,938
Reimbursement of costs associated with labour	311,532	165,999
Payment transaction and bank charges, and insurance premiums	147,033	117,727
Cost of intellectual and personal services	1,127,161	1,063,544
Cost of trade fairs, advertising and entertainment	1,072,272	508,340
Cost of services provided by natural persons inclusive of levies	66,628	48,272
Cost of other services	1,032,625	1,116,606
Total	**7,966,217**	**6,472,376**

The largest part of the cost of other services refers to the costs of IT services in the amount of EUR 245,371 (2021: EUR 325,343) and the costs of student work amounting to EUR 285,254 (2021: EUR 267,571). 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 14,924. 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)	2022	2021
Wages and salaries	6,316,068	5,443,887
Wage and salary compensations	796,229	695,005
Social security costs	1,117,469	1,014,368
Other employee benefits expense	1,519,539	1,050,972
Total	**9,749,306**	**8,204,233**

Within social security costs, pension insurance costs amount to EUR 648,185 (2021: EUR 561,223) and other social security costs to EUR 469,284 (2021: 453,145).

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

The average number of staff within the Group in 2022 is recorded at 288 (2021: 252).

Remuneration of Management Board members totalled to EUR 199,919 (2021: EUR 154,946), whereof:

	Group of persons	Salary	Attendace fee	Other	Total
UROŠ KORŽE	President of the Management Board	41,429		2,923	44,352
MIHA SITAR	Vice President of the Management Board	80,043	5,419	2,923	88,386
MEZNARIČ ANTON	Member of the Management Board	29,797	6,45	3,419	39,665
ŠIROVNIK JANEZ	Member of the Management Board		5,839		5,839
BOGATAJ SEBASTJAN	Member of the Management Board		10,839		10,839
COSOVICI ANDREI	Member of the Management Board		10,839		10,839
Skupaj		**151,269**	**39,385**	**9,265**	**199,919**

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 OPERATIG EXPENSES

(in EUR)	2022	2021
Compensation for the use of building land	65,383	58,900
Environmental protection charges	5,493	5,476
Other costs	287,401	189,651
Total	**358,277**	**254,027**

Other costs mostly include provisions for guarantees given in the amount of EUR 187,789 (2021: EUR 154,412).

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3.6.10 AMORTISATION AND DEPRECIATION EXPENSE

(in EUR)	2022	2021
Amortisation of intangible fixed assets	225,422	368,357
Depreciation of buildings	350,017	266,861
Depreciation of equipment and spare parts	1,715,378	1,352,469
Depreciation of low value assets	270,882	233,519
Total	**2,561,699**	**2,221,206**

The Group checked at the end of the financial year whether the useful lives of fixed assets were appropriate. They remained unchanged in 2022.

3.6.11 LOSS ON IMPAIRMENT OF TRADE RECEIVABLES AND CONTRACT ASSETS

(in EUR)	2022	2021
Impairment loss on trade receivables	7,553	15,741
Impairment loss on contract assets	0	0
Total	**7,553**	**15,741**

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)	2022	2021
Impairment loss on inventories	525,889	316,473
Loss on sale of fixed assets	0	262
Impairment loss on fixed assets	422,710	306,186
Total	**948,600**	**622,921**

Impairment losses on intangible assets and property, plant and equipment totalling to EUR 422,710 (2021: EUR 306,186) 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 525,889 (2021: EUR 316,473) 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)	2022	2021
Interest income on loans to others	6	4
Financial income on assets valued at amortised cost	**6**	**4**

(in EUR)	2022	2021
Financial income – discounts	10,105	18,384
Financial income - other	**10,105**	**18,384**

(in EUR)	2022	2021
Interest expenses on borrowings	165,354	110,503
Interest on leasing	48,884	51,959
Financial expenses from financial liabilities measured at amortised cost	**214,239**	**162,462**

(in EUR)	2022	2021
Other financial expenses (default interest on taxes and contributions)	33	79
Interest expense	11	136
Foreign exchange rate losses	50,304	50,451
Other financial expenses	**50,348**	**50,666**

(in EUR)	2022	2021
Net financial result	**-254,476**	**-194,741**

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 2022: EUR 10.76
Net earnings per share in 2021: EUR 10.14

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 2022: EUR 13.07
Total comprehensive income per share in 2021: EUR 10.18

Carrying value per share
Carrying value per share at 31 Dec 2022: EUR 73.29
Carrying value per share at 31 Dec 2021: EUR 63.31

3.6.15 TAXES

A. INCOME TAX

(in EUR)	2022	2021
Current tax expense		
Tax payable	352,922	346,253
Changes relating to the previous years	0	0
Total tax	**352,922**	**346,253**
Deferred tax expense		
Formation and elimination of temporary differences	0	0
Change in tax rate	0	0
Recognition of previously unrecognised tax losses	-85,239	21,555
Change in deferred taxes for unrecognised tax losses	21,907	-34,398
Total deferred tax	**-63,332**	**-12,843**
Tax expense (continuing operations)	**289,590**	**333,410**

Tax return:

(in EUR)	2022	2021
Revenue determination based on accounting rules	54,054,974	45,088,076
Revenue reduction to tax recognised revenue	-2,606	-35,915
Revenue recognised for tax purposes	**54,052,368**	**45,052,161**
Expense determination based on accounting rules	49,538,518	40,545,018
Expense reduction to tax recognised expenditure	-198,343	-354,067
Expense increase to tax recognised expenditure	137,732	204,308
Expenditure recognised for tax purposes	**49,477,907**	**40,395,259**
Increase in tax base	**112,114**	**117,397**
Tax loss	**0**	**0**
Decrease in tax base and tax relief	**-2,952,542**	**-3,016,975**
Tax base	**1,734,033**	**1,757,325**
TOTAL TAX OF THE CONTROLLING COMPANY (19%)	**329,466**	**333,892**
TOTAL TAX EFFECT OF SUBSIDIARIES	**23,456**	**12,361**
TOTAL TAX OF THE GROUP:	**352,922**	**346,253**
TOTAL DEFERRED TAXES OF THE GROUP:	**-63,332**	**-12,843**
EFFECTIVE TAX RATE (exclusive of deferred taxes)	**7.44%**	**7.81%**
EFFECTIVE TAX RATE (inclusive of deferred taxes)	**6.10%**	**7.52%**

Applicable tax rates:

	2022	2021
Croatia	10%	10%
France	28%	28%
United Kingdom	19%	19%
Germany	15%	15%
Poland	19%	19%

B. MOVEMENT IN DEFERRED TAX ASSETS

(in EUR)	Tax loss
Balance at 1 Jan 2022	**338,906**
Charged/credited to profit or loss	-21,555
Balance at 31 Dec 2021	**317,350**
Charged/credited to profit or loss	-63,709
Balance at 31 Dec 2022	**253,641**

The movement in deferred taxes includes, among other, the effect of unrealised gains on intragroup sales totalling to EUR -21,907, with deferred tax assets thereon decreasing from EUR 34,398 at 31 December 2021 to EUR 12,492 at 31 December 2022.

C. MOVEMENT IN DEFERRED TAX LIABILITIES

(in EUR)	Revaluation of property, plant and equipment	Derecognition of buildings	Revaluation of property, plant and equipment
Balance at 1 Jan 2021			**1,734,459**
Charged/credited to other comprehensive income	-22,247		-22,247
Balance at 31 Dec 2021			**1,712,213**
Charged/credited to profit or loss		-48,518	**-48,518**
Charged/credited to other comprehensive income	158,199		158,199
Balance at 31 Dec 2022			**1,821,894**

Total effects of deferred taxes on the income statement and the statement of other comprehensive income:

(in EUR)	INCOME STATEMENT	STATEMENT OF OTHER COMPREHENSIVE INCOME
- Use of deferred tax assets arising from utilising previous tax losses	64,864	0
- Formation of deferred tax liabilities arising from revaluation of assets	0	-179,501
-Use of deferred tax liabilities arising from the difference between tax amortisation and the operating amortisation of revalued assets	0	21,302
-Elimination of deferred tax liabilities arising from derecognition of building by applying the revaluation model	-48,518	0
-Adjustment of revaluation reserves arising from deferred taxes, which were already used in the tax return	-101,584	**0**
TOTAL EFFECT	**-85,238**	**-158,199**

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 -74,997 (2021: EUR -49,546) refer to provisions for retirement benefits.

The change in the revaluation reserve of EUR 1,226,737 (2021: EUR 0) relates to the revaluation of property. The change in deferred taxes of EUR -158,199 (2021: EUR 22,247) relates to the revaluation of assets and use for the corporate income tax purposes. Other changes in the amount of EUR -101,584 (2021: EUR 0) relate to the adjustment of revaluation reserves arising on deferred taxes already utilised in the tax return.

The effect of the translation reserve in the amount of EUR -85,694 (2021: EUR 45,350) results from the translation of assets and liabilities at the exchange rate published on the Bank of Slovenia's website at 31 December 2022. The effects represent the difference between the translation reserve as at 31 December 2021 and 31 December 2022.

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 (IA) and other non-current assets in 2022 and 2021 are presented below (in EUR):

	R&D expenses	Industrial and other rights	IA being acquired	Other non-current assets	Total
Purchase cost					
Balance at 1 Jan 2022	3,752,162	782,254	1,115,416	49,672	5,699,504
Additions	0	0	1,267,162	0	1,267,162
Transfer from investments under construction	441,228	167,432	-608,660	0	0
Disposals	0	0	0	0	0
Write-downs	0	0	0	-37,667	-37,667
Reclassification	0	0	0	0	0
Balance at 31 Dec 2022	4,193,390	949,687	1,773,917	12,005	6,928,999
Accumulated amortisation					
Balance at 1 Jan 2022	3,619,703	347,902	0	0	3,967,605
Amortisation	161,885	63,537	0	0	225,422
Write-downs	0	0	0	0	0
Reclassification	0	0	0	0	0
Balance at 31 Dec 2022	3,781,588	411,438	0	0	4,193,027
Carrying amount at 1 Jan 2022	132,459	434,352	1,115,416	49,672	1,731,901
Carrying amount at 31 Dec 2022	411,802	538,249	1,773,917	12,005	2,735,974

	R&D expenses	Industrial and other rights	IA being acquired	Other non-current assets	Total
Purchase cost					
Balance at 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 investments under construction	**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 at 31 Dec 2021	**3,752,162**	**782,254**	**1,115,416**	**49,672**	**5,699,504**
Accumulated amortisation					
Balance at 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 at 31 Dec 2021	**3,619,703**	**347,902**	**0**	**0**	**3,967,605**
Carrying amount at 1 Jan 2021	**727,079**	**345,123**	**540,111**	**74,843**	**1,687,158**
Carrying amount at 31 Dec 2021	**132,459**	**434,354**	**1,115,416**	**49,672**	**1,731,901**

Long-term property rights recorded in the amount of EUR 538,249 (2021: EUR 434,354) comprise investments in software. Long-term deferred costs of developing new products amounting to EUR 2,159,945 (2021: EUR 1,203,460) include the cost of prototype construction and testing, the construction and catalogue documentation, and the development of technology used in these projects. EUR 1,748,142 (2021: EUR 1,071,001) thereof refers to projects that have not yet been completed as at 31 December 2022 and are reported under the items of intangible assets being acquired. In 2022, deferred development costs totalled to EUR 1,118,370 (2021: EUR 541,695). The amortisation period of a development project is 5 years.
The Group does not report non-amortising assets as intangible assets.
As of the balance sheet date, the impairment review of intangible assets indicated that no further impairment was required.

3.6.18 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Movements in property, plant and equipment in 2022 and 2021 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:
Purchase cost								**0**
Balance at 1 Jan 2022	**5,665,431**	**12,383,390**	**14,888,926**	**4,179,607**	**2,420,856**	**235,120**	**6,298,301**	**46,071,630**
Additions	**0**	**0**	**0**	**0**	**0**	**7,490,654**	**0**	**7,490,654**
Transfer from investments under construction	**0**	**729,714**	**635,436**	**375,440**	**389,252**	**-3,329,787**	**1,199,946**	**0**
Disposals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Revaluation	**198,041**	**1,028,697**	**0**	**0**	**0**	**0**	**0**	**1,226,738**
Write-downs	**0**	**-465,565**	**-433,153**	**-31,433**	**-145,896**	**0**	**0**	**-1,076,046**
Reclassification	**0**	**0**	**1,859,918**	**0**	**0**	**0**	**-1,859,918**	**0**
Balance at 31 Dec 2022	**5,863,472**	**13,676,236**	**16,951,129**	**4,523,614**	**2,664,212**	**4,395,987**	**5,638,328**	**53,712,977**
Accumulated depreciation								**0**
Balance at 1 Jan 2022	**0**	**842,712**	**12,250,516**	**3,644,369**	**1,662,272**	**0**	**1,501,168**	**19,901,037**
Depreciation	**0**	**350,018**	**574,652**	**270,882**	**319,993**	**0**	**820,110**	**2,335,655**
Write-downs	**0**	**-44,019**	**-432,986**	**-31,433**	**-144,732**	**0**	**0**	**-653,169**
Reclassifications	**0**	**0**	**1,074,097**	**0**	**0**	**0**	**-1,074,097**	**0**
Balance at 31 Dec 2022	**0**	**1,148,710**	**13,466,279**	**3,883,818**	**1,837,533**	**0**	**1,247,181**	**21,583,521**
Carrying amount at 1 Jan 2022	**5,665,431**	**11,540,678**	**2,638,409**	**535,238**	**758,583**	**235,120**	**4,797,133**	**26,170,591**
Carrying amount at 31 Dec 2022	**5,863,472**	**12,527,526**	**3,484,850**	**639,796**	**826,679**	**4,395,987**	**4,391,147**	**32,129,454**

	Land	Buildings	Manufacturing plant and equipment	Low-value assets and major tools	Other equipment	Assets under construction	Right-of-use equipment	Total:
Purchase cost								0
Balance at 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 investments under construction	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 at 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 at 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
Reclassifications	0	0	77,600	0	0	0	-77,600	0
Balance at 31 Dec 2021	0	842,712	12,250,516	3,644,369	1,662,272	0	1,501,168	19,901,037
Carrying amount at 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 at 31 Dec 2021	5,665,431	11,540,678	2,638,410	535,238	758,583	235,120	4,797,133	26,170,592

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)	2022	2021
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 amounted to EUR 4,391,147 (2021: EUR 4,797,131), calculated as the present value of future lease payments for an individual asset.

Property, plant and equipment under construction in the amount of EUR 4,395,988 (2021: EUR 235,120) relate in large part to investments in property, mainly a new SIP centre in the amount of EUR 3,858,449, external landscaping in the amount of EUR 221,080, a gas station in the amount of EUR 105,888, tools for the G2 mowers in the amount of EUR 62,833, a lifting table in the amount of EUR 32,550, the renovation of a 400 tonne press in the amount of EUR 24,874, and other items in the amount of EUR 90,314.

As at 31 December 2022, the Group recorded EUR 3,058,088 of commitments (contracts and confirmed orders) for the purchase of property, plant and equipment (2021: EUR 655,000).

With the assistance of an external expert, 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 established 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. The buildings were therefore revalued to a total fair value of EUR 1,028,697 and the land to EUR 198,041. The valuation was carried out in accordance with the Hierarchy of Valuation Rules, the International Valuation Standards, the Slovenian Financial and Business Standard (SPS) 2 and (SPS) 8 and the Law of Property Code. The valuation followed the fair value measurement provisions of International Financial Reporting Standards IFRS 13.

The market comparisons and yield-based approaches were used to estimate the value.

The properties are pledged for non-current borrowings with commercial banks for a value of EUR 8,878,116, with no restrictions on use.

3.6.19 INVESTEMNT PROPERTY

	Investment property
Carrying amount	
Balance at 1 Jan 2022	**0**
Additions	**0**
Change in fair value	**0**
Reclassifications	**0**
Disposals	**0**
Balance at 31 Dec 2022	**0**

	Investment property
Carrying amount	
Balance at 1 Jan 2021	**87,183**
Additions	**0**
Change in fair value	**0**
Reclassifications	**-87,183**
Disposals	**0**
Balance at 31 Dec 2021	**0**

The SIP Group does not show any balance as investment property as at 31 December 2022.

3.6.20 NON-CURRENT OPERATING RECEIVABLES

(in EUR)	31 Dec 2022	31 Dec 2021
Non-current trade receivables	50,417	50,417
Allowances for non-current operating receivables	-50,417	-50,417
Total	**0**	**0**

Non-current operating receivables comprise EUR 50,417 (2021: EUR 50,417) of trade receivables due from the customer after the confirmed compulsory settlement, and the write-down of non-current 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 2022	31 Dec 2021
Materials	7,793,409	5,348,743
Allowances for obsolete inventories – material	-13,425	-32,389
Work in progress	494,825	343,617
Semi-finished products	6,662,910	4,567,491
Allowances for obsolete inventories – work in progress and semi-finished products	-3,185	-1,958
Products	7,523,707	7,561,496
Allowances for obsolete inventories – products	-9,869	-161,518
Merchandise	0	51
Allowances for obsolete inventories – merchandise	0	-51
Total	**22,448,374**	**17,625,481**

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 2022	Inventory surplus	Inventory deficit	Write-off due to the change in quality	Impairment to net realisable value	Net realisable value
Materials	**7,779,984**	**702**		**94,366**	**-18,964**	**7,779,984**
Work in progress	**494,825**					**494,825**
Semi-finished products	**6,659,725**		**27,380**	**130,270**	**1,227**	**6,659,725**
Products	**7,513,838**			**446,149**	**-248,105**	**7,513,838**
Merchandise	**0**					**0**
Total	**22,448,374**	**702**	**27,380**	**670,784**	**-265,842**	**22,448,374**

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 non-current borrowings.

3.6.22 CURRENT OPERATING RECEIVABLES

(in EUR)	31 Dec 2022	31 Dec 2021
Trade receivables from local customers	795,940	615,470
Trade receivables from foreign customers	6,077,563	3,830,439
Other receivables	1,013,256	1,241,237
Allowances for trade receivables on account of expected lifelong credit losses	-134,575	-180,018
Total	**7,752,184**	**5,507,128**

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 2022, EUR 5,455,605 of trade receivables has not matured (2021: EUR 3,580,224); receivables due and outstanding up to 90 days amount to EUR 1,189,808 (2021: EUR 630,084), receivables due and outstanding more than 90 days and up to 1 year amount to EUR 67,353 (2021: EUR 69,510), and EUR 160,737 of receivables is outstanding more than one year (2021: EUR 166,092). Receivables are not insured. Trade receivables due from others are not past due.

Movement in allowances for trade receivables in 2022 (in EUR)

Balance at 1 Jan 2022	180,018
Increase	7,553
Decrease	-52,996
Balance at 31 Dec 2022	134,575

Movement 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

The Group discloses no receivables against members of the Management Board as at 31 December 2022.

3.6.23 CASH AND CASH EQUIVALENTS

(in EUR)	31 Dec 2022	31 Dec 2021
Cash in hand	600	600
Bank balances	382,670	328,865
Total	**383,270**	**329,465**

The Group has agreed with commercial banks overdrafts on its business account in the amount of EUR 2,500,000 as an additional source of current liquidity. At the year-end of 2022, the organisation had drawn down automatic borrowings amounting to EUR 999,393, which is transferred to current financial liabilities.

3.6.24 ADVANCES AND OTHER CURRENT ASSETS

(in EUR)	31 Dec 2022	31 Dec 2021
Advances for property, plant and equipment	445,028	99,991
Advances for inventories	709	0
Other advances	17,412	105,712
Deferred and accrued items	65,544	134,091
Total	**528,693**	**339,793**

The item of deferred costs and accrued revenue refers to prepaid.

3.6.25 EQUITY

(in EUR)	31 Dec 2022	31 Dec 2021
Share capital	1,724,695	1,724,695
Share premium	1,834,498	1,834,498
Legal reserves	0	0
Treasury shares	-2,938	0
Reserves for treasury shares	2,938	0
Revaluation reserve	8,482,081	7,748,601
Fair value reserve	-57,693	-135,150
Translation differences	-40,289	45,405
Retained earnings	13,947,444	10,864,593
Profit for the period	4,454,124	4,100,325
Total	**30,344,860**	**26,182,968**

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 2022, the parent company purchased 63 (0.002%) own or treasury shares.

Movement in treasury shares in 2022:

	Quantity	Holding in share capital
Balance at 1 Jan 2022	0	0.00%
Purchases	63	0.02%
Disposals	0	0.00%
Balance at 31 Dec 2022	63	0.02%

The weighted average number of ordinary shares outstanding during the financial year 2022 was 413,984 shares.

	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 5,073,868, less EUR 964,035 of deferred tax, and buildings in the amount of EUR 5,031,692, less EUR 959,443 of deferred tax.

Fair value reserve comprises as at 31 December 2022 actuarial losses of EUR 57,693.

A. Movement in revaluation reserves

	Land	Buildings	Deferred tax liabilities	Total
Balance 1 Jan 2022	**4,875,826**	**4,584,986**	**-1,712,212**	**7,748,600**
Positive revaluation	**198,041**	**746,706**	**-211,266**	**733,480**
Negative revaluation	**0**	**0**	**0**	**0**
Balance at 31 Dec 2022	**5,073,867**	**5,331,692**	**-1,923,478**	**8,482,081**

	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 at 31 Dec 2021	**4,875,826**	**4,584,986**	**-1,712,211**	**7,748,601**

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 2022.

B. Movement in fair value reserves

	Actuarial gains	Actuarial losses	Total
Balance 1 Jan 2022	**0**	**-135,152**	**-135,152**
Positive revaluation	**0**	**77,457**	**77,457**
Negative revaluation	**0**	**0**	**0**
Balance at 31 Dec 2022	**0**	**-57,693**	**-57,693**

	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 at 31 Dec 2021	**0**	**-135,150**	**-135,150**

C. Ownership structure of the SIP Group

SHAREHOLDERS OF SIP d. d.	No. of shares at 31 Dec 2022	Equity interest (in %)	No. of shares at 31 Dec 2021	Equity interest (in %)
CCM d. o. o.	162,956	39.40	162,956	39.40
KORŽE d. o. o.	65,247	15.78	65,247	15.78
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	29,010	7.01
Other shareholders (31)	74,244	17.95	74,244	17.95
Total:	**413,596**	**100**	**413,596**	**100**

As at 31 December 2022, the members of the Management Board were indirect owners of 275,813 shares (holders of a 66.69% stake in the Group's ownership structure).

The balance of individual equity components as at 1 January 2022 and 31 December 2022, and movements in individual equity components in 2022, are outlined in the Statement of changes in equity.

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

(in EUR)	31 Dec 2022	31 Dec 2021
Provisions for retirement benefits	588,911	617,119
Provisions for jubilee premiums	112,803	87,948
Total	**701,714**	**705,067**

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 2022 and 2021 is presented below (in EUR):

	Retirement benefits	Jubilee premiums
Balance 1 Jan 2022	**617,118**	**87,948**
Employee benefits	51,665	25,501
Past service cost	0	
Interest expense	5,160	562
Pay-out	-10,036	-21,864
Actuarial gains/losses	-74,997	20,656
Balance at 31 Dec 2022	**588,911**	**112,803**
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 at 31 Dec 2021	**617,118**	**87,948**

Estimates and assumptions

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

	31 Dec 2022	31 Dec 2021
Discount rate	**4.20%**	**0.85%**
Average wage growth	**3.50%**	**2.00%**
Mortality rate		
Male aged 45 years	0.34%	0.34%
Female aged 45 years	0.14%	0.14%
Male aged 65 years	2.00%	2.00%
Female aged 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 2022, the weighted average maturity of provisions for post-employment benefits is 21.3 years (2021: 20.8 years).

If the discount rate is decreased by 0.5%, provisions for retirement benefits would increase by EUR 23,191, and provisions for jubilee premiums by EUR 4,405. If the discount rate is increased by 0.5%, provisions for retirement benefits would decrease by EUR 21,239, and provisions for jubilee premiums by EUR 4,073. Future long-term real growth of wages is set at 3.5% p.a. If future wage growth would decrease by 0.5% p.a., provisions for retirement benefits would decrease by EUR 16,955, while a 0.5% annual increase in future wage growth would result in an increase of the provisions for retirement benefits by EUR 20,227.

3.6.27 OTHER PROVISIONS AND OTHER NON-CURRENT LIABILITIES

(in EUR)	31 Dec 2022	31 Dec 2021
Warranty repairs	187,789	154,412
Total	**187,789**	**154,412**

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% (2021: 0.4%) of products sold during the financial year.

(in EUR)	31 Dec 2022	31 Dec 2021
Assigned assets	0	0
Other provisions	3,750	0
Total	**3,750**	**0**

Movement in other provisions and other non-current liabilities for 2022 and 2021:

	Lawsuits	Warranty repairs	Assigned assets	Other provisions
Balance 1 Jan 2022	0	154,412	0	4,936
Formation	0	187,789	0	3,750
Utilisation	0	-154,412	0	-4,936
Reversal	0	0	0	0
Balance at 31 Dec 2022	0	187,789	0	3,750
Balance 1 Jan 2021	0	59,431	4,120	15,514
Formation	0	154,412	27,507	0
Utilisation	0	-59,431	-31,627	-10,578
Reversal	0	0	0	0
Balance at 31 Dec 2021	0	154,412	0	4,936

3.6.28 FINANCIAL LIABILITIES AND LEASE LIABILITIES

(in EUR)	31 Dec 2022	31 Dec 2021
Non-current financial liabilities to banks	10,648,254	6,570,860
Non-current lease liabilities	1,550,666	1,709,038
Current borrowings from local banks	8,224,221	2,578,733
Other current financial liabilities	105,168	10,814
Current lease liabilities	1,141,540	1,204,490
Total	**21,669,849**	**12,073,935**

The Group has current bridge loans of EUR 7,500,000 and non-current bridge loans of EUR 2,500,000 with commercial banks to ensure its current solvency. At the end of the financial year, these were drawn down in a total amount of EUR 8,349,984, whereof EUR 5,950,000 were current loans and EUR 2,399,984 were non-current loans. The Group's current financial liabilities also include the automatic overdraft facility drawn down, which at the year-end of 2022 amounted to EUR 999,393.

(in EUR) **31 Dec 2022**	**At fair value through profit or loss**	**At amortised cost**
Non-current financial liabilities to banks	10,648,254	10,648,254
Non-current lease liabilities	1,550,666	1,550,666
Current borrowings from local banks	8,224,221	8,224,221
Other current financial liabilities	105,168	105,168
Current lease liabilities	1,141,540	1,141,540
Total	**21,669,849**	**21,669,849**

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

A. REPAYMENT TERMS AND TIMETABLE

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

Non-current financial liabilities to banks maturing in 2024 and 2032 are linked to a fixed interest rate and 6-month EURIBOR. The current amount of non-current liabilities of EUR 1,229,862 is disclosed under current 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 borrowing, which is in detail disclosed with individual asset item.

The carrying amount of non-current financial liabilities to banks maturing over a period of more than 5 years is recorded at EUR 1,978,970.

Lease liabilities payable over the 2023-2026 period are linked to a fixed interest rate. The current amount of the non-current lease liabilities of EUR 1,141,540 is reported under current financial liabilities. Lease liabilities are collateralised by the pledge of property, plant and equipment.

Current loans obtained from local banks form the current portion of the non-current financial liabilities to banks, current loans and the automatic borrowing on the operating account.

Current lease liabilities refer to the current amount of non-current lease liabilities.

B. MOVEMENT IN FINANCIAL LIABILITIES

	2022
Balance 1 Jan 2022	**12,073,935**
Receipts from borrowings	**15,205,024**
Payments for borrowings	**-5,311,924**
Receipts from other financial liabilities	**0**
Expenditure on other financial liabilities	**-1,240,788**
Interest expenses	**-151,605**
Rental income	**1,198,866**
Rental deposits	**-384,717**
Rental expenditure	**-1,116,406**
Dividend liability	**1,240,788**
Interest liability	**156,677**
Balance at 31 Dec 2022	**21,669,849**

	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 at 31 Dec 2021	**12,073,935**

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 2022 and 31 December 2021.

3.6.29 CURRENT OPERATING LIABILITIES

(in EUR)	31 Dec 2022	31 Dec 2021
Payables to local suppliers	5,972,684	5,077,984
Payables to foreign suppliers	2,467,739	1,746,490
Payables for uncharged goods and services	119,271	109,850
Other current liabilities	1,525,212	1,880,879
Total	**10,084,906**	**8,815,203**

At 31 December 2022, payables to the members of the Management Board and shareholders amounted to EUR 60,141 (2021: EUR 32,669).

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

3.6.30 PAYABLES FOR ADVANCES

(in EUR)	31 Dec 2022	31 Dec 2021
Short-term advances received from local customers	116	398
Short-term advances received from foreign customers	1,267,856	2,387,768
Total	**1,267,972**	**2,388,165**

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)	2022	2021
Contract assets	0	0
Contract liabilities	1,267,972	2,388,165
Contract-related balance	**-1,267,972**	**-2,388,165**

3.6.31 OTHER CURRENT LIABILITIES

(in EUR)	31 Dec 2022	31 Dec 2021
Other current liabilities	148,855	11,304
Total	**148,855**	**11,304**

Other current liabilities refer to accrued costs and expenses.

3.6.32 CONTINGENT LIABILITIES

(in EUR)	31 Dec 2022	31 Dec 2021
Guarantee for the customs-clearance procedure for the year	3,000	3,000
Pledge of property for the purpose of taking out a credit	8,878,116	4,559,593
Pledge of inventories of finished and semi-finished products	3,000,000	3,000,000
Lease contracts	1,432,749	0
Total	**13,313,865**	**7,562,593**

3.6.33 NOTES TO THE 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 55,367,051 (2021: 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.

Disbursements from operating activities in the amount of EUR 54,470,352 (2021: 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.

Receipts from investing activities in the total amount of EUR 1,650 (2021: EUR 2,167) comprise proceeds from the disposal of the items of property, plant and equipment.

Disbursements for investing activities of total EUR 7,509,424 (2021: EUR 3,559,340) comprise disbursements for the purchase of equipment, as well as disbursements on investments in real estate.

Receipts from financing activities of total amount of EUR 14,998,355 (2021: EUR 10,926,190) comprise receipts from current and non-current borrowings and receipts from paid-in equity.

Disbursements from financing activities in the total amount of EUR 8,334,454 (2021: EUR 11,543,608) refer to the repayment of non-current and current liabilities and interest paid on financing. The payment of dividends and disbursements on account of equity repayments is also included in the amount.

3.6.34 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 2022 was as follows:

(in EUR)	Carrying amount at 31 Dec 2022	Carrying amount at 31 Dec 2021
Current loans granted	0	0
Non-current operating receivables	0	0
Trade receivables	6,738,928	4,265,892
Other operating receivables	1,013,256	1,241,237
Other current operating receivables	528,693	339,793
Cash and cash equivalents	383,270	329,465
Total	**8,664,147**	**6,176,387**

As at the balance sheet date, 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 are not past due and refer to State institutions (VAT, refund from the Employment Service, other refunds).

Current 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	5,455,605	1,016,181	173,627	0	228,090	6,873,503
Other current operating receivables	1,013,256					1,013,256
Advances and other assets	528,693					528,693
Total at 31 Dec 2022	**6,997,553**	**1,016,181**	**173,627**	**0**	**228,090**	**8,415,451**

	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 current operating receivables	1,241,237					1,241,237
Advances and other assets	339,793					339,793
Total at 31 Dec 2021	**5,161,254**	**523,188**	**67,463**	**39,433**	**235,601**	**6,026,940**

Movement in allowances for current operating receivables:

	Allowances for current operating receivables	Allowances for current interest receivables	Total
Balance 1 Jan 2022	180,018	0	180,018
Allowances affecting profit or loss	7,553	0	7,553
Repayments	-52,996	0	-52,996
Write-downs	0	0	0
Balance at 31 Dec 2022	**134,575**	**0**	**134,575**

	Allowances for current operating receivables	Allowances for current 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 at 31 Dec 2021	**180,018**	**0**	**180,018**

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.

	2022	2021
Average days receivable under contract	41	40
Average maturity of receivables	7	6
Total days of receivables	**48**	**46**

Receivables are not specifically 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 2022 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	18,872,475	19,314,654	8,249,919	9,056,814	2,007,921
Other financial liabilities	660	660	660		
Lease liabilities	2,692,206	2,784,313	1,189,671	1,594,642	
Interest	10,084	10,084	10,084		
Trade payables	10,210,913	10,210,913	10,210,913		
Other operating liabilities	1,416,827	1,416,827	1,416,827		
Total at 31 Dec 2022	**33,203,165**	**33,737,451**	**21,078,074**	**10,651,456**	**2,007,921**

	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 at 31 Dec 2021	**23,414,544**	**23,813,860**	**15,272,450**	**7,153,851**	**1,387,559**

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

c. Currency risk:

	EUR	PLN	ZAR	GBP	Total
Cash and cash equivalents	383,270	0	0	0	383,270
Loans granted	0	0	0	0	0
Non-current operating receivables	0	0	0	0	0
Current operating receivables	7,752,184	0	0	0	7,752,184
Advances and other current assets	528,693	0	0	0	528,693
Trade payables	-10,083,903	0	-1,317	-1,003	-10,086,223
Other operating liabilities	-1,267,972	0	0	0	-1,267,972
Financial position exposure at 31 Dec 2022	**-2,687,728**	**0**	**-1,317**	**-1,003**	**-2,690,048**

	EUR	PLN	HRK	GBP	Total
Cash and cash equivalents	329,465	0	0	0	329,465
Loans granted	0	0	0	0	0
Non-current operating receivables	0	0	0	0	0
Current operating receivables	5,507,128	0	0	0	5,507,128
Advances and other current 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 at 31 Dec 2021	**-5,026,194**	**-359**	**0**	**-429**	**-5,026,982**

Following foreign exchange rates applied in 2022 and 2021.

For EUR 1	31 Dec 2022	31 Dec 2021
USD	1.1326	1.2271
HRK	7.5156	7.5519
GBP	0.8403	0.8990
PLN	4.5969	4.5597
ZAR	18.0986	17.5176

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 2022 and 2021:

	6m EUR	3m EUR	1m EUR
Value at 31 Dec 2022 (in %)	2.405%	1.972%	1.526%
Value at 31 Dec 2021 (in %)	-0.541%	-0.572%	-0.573%
Change in interest rate (in percentage points)	**2.946%**	**2.544%**	**2.099%**
Lowest value in 2022 (in %)	-0.539%	-0.570%	-0.576%
Highest value in 2021 (in %)	-0.541%	-0.572%	-0.573%
Change between the highest and lowest interest rate (in percentage points)	**0.002%**	**0.002%**	**-0.003%**
Average value in 2022	0.362%	0.234%	-0.005%
Average value in 2021	-0.522%	-0.546%	-0.559%
Change in the average interest rate (in percentage points)	**0.884%**	**0.780%**	**0.554%**

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 2022	35,732	35,732
Financial instruments at a variable interest rate at 31 Dec 2021	0	17,158

Current and non-current financial liabilities to lessors and banks 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 current or non-current 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 2022	31 Dec 2021
Non-current financial liabilities	12,198,920	8,279,898
Current financial liabilities	9,470,929	3,794,036
Total financial liabilities	21,669,849	12,073,935
Total capital	30,344,860	26,182,968
Debt/equity	**0,71**	**0,46**
Cash and cash equivalents	383,270	329,465
Net financial liabilities	21,286,579	11,744,470
Net debt/equity	**0.70**	**0.45**

g. Fair values and carrying amounts of financial instruments

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

(in EUR) at 31 Dec 2022	**Carrying amount**	**Fair value**
Financial assets at fair value through profit or loss	0	0
Total assets at fair value	**0**	**0**
Current financial receivables	0	0
Trade receivables	7,752,184	7,752,184
Cash and cash equivalents	383,270	383,270
Total non-derivative financial assets at amortised cost	**8,135,454**	**8,135,454**
Bank borrowings and other financial liabilities	-21,669,849	-21,669,849
Trade payables excluding amounts owed to the state, to employees and advances	-8,559,694	-8,559,694
Total non-derivative financial liabilities at amortised cost	**-30,229,543**	**-30,229,543**

(in EUR) at 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**
Current 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**

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

Assets at fair value

(in EUR) at 31 Dec 2022	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**
Current financial receivables	0	0	0	**0**
Trade receivables	0	0	7,752,184	**7,752,184**
Cash and cash equivalents	0	0	383,270	**383,270**
Total assets for which fair value is disclosed	**0**	**0**	**8,135,454**	**8,135,454**
Total assets	**0**	**0**	**8,135,454**	**8,135,454**

(in EUR) at 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**
Current 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**

Liabilities at fair value

(in EUR) at 31 Dec 2022	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**
Current financial liabilities	0	0	-21,669,849	-21,669,849
Trade payables	0	0	-8,559,694	-8,559,694
Total liabilities for which fair value is disclosed	**0**	**0**	**-30,229,543**	**-30,229,543**
Total liabilities	**0**	**0**	**-30,229,543**	**-30,229,543**

(in EUR) at 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**
Current 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**

3.6.35 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.

3.6.36 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 2022.

3.6.37 THE IMPACT OF THE PANDEMIC AND THE WAR IN UKRAINE ON GROUP'S BUSINESS OPERATIONS

The Group's operations ran smoothly in 2022 despite the pandemic and the war in Ukraine, as it made considerable efforts to successfully regulate cash flows from sales and supply chain without any impact on the business.
The Group decided to operate with a slightly higher level of inventories of both inputs and products, due to the threat posed by the possible interruption of production due to the quarantine of all employees or the interruption of deliveries by suppliers. The Group also secured additional liquidity in form of short-term credit facilities and an overdraft facility, which did not need to be utilised.
We estimate that due to the pandemic and the war in Ukraine, there have been no changes in the sales market that would affect the realisability of inventories. Sales are normal, with an increase in demand in the autumn.
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 and the war in Ukraine that could affect the level of provisions.

3.6.38 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board of the controlling company is responsible for the preparation of the consolidated financial statements of the SIP Group for 2022, 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 2022.

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 controlling company hereby adopts and approves the consolidated financial statements with the accompanying accounting policies and notes of the SIP Group for the year 2022.

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 v Savinjski dolini, 8 March 2023

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 2022, 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 2022, 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 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.

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:

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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

- 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, 8 March 2023

[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.