# ANNUAL REPORT
# SIP GROUP
# 2023

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# TABLE OF CONTENTS

# 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.

**General.** The business year 2023 was one of the more challenging for the SIP Group in recent times. It can be roughly divided into two completely different halves. The first half was characterized by solid demand with a relatively stable level of orders amid moderating growth in material and component prices - except for an extremely high increase in energy prices.

Since June onwards, we have observed a sharp decline in orders across the entire industry, which directly impacted our sales performance in the second half. The recession and shift towards pessimism are the result of several interconnected factors. Some key ones include: (1) Over the past two years, there has been significant demand for machinery, which resulted in stockpiling of finished products in distribution channels. (2) European agriculture faces regulatory challenges related to the "green transition". These requirements include demands for farmers to abandon cultivation of certain areas, reduce specific use of phosphates, nitrates, and pesticides, and phase out or drastically reduce subsidies for fuel and other energy sources. (3) Pressure from competitively priced and less regulated competition from third countries - such as Ukraine. (4) Pronounced increases in interest rates as a result of further tightening of monetary policy by central banks. As a consequence, uncertainty among agricultural producers about future prospects has heightened, leading to increased caution in investment decisions, both in infrastructure and new agricultural machinery. Furthermore, distribution intermediaries (retailers) are facing challenges due to high inventories from the current season. They heavily rely on bank financing and, as a result, have decreased their pre-season purchases.

According to the first half of the previous year, our orders decreased by 27% in the second half of 2023, and sales realization by more than 30%. Despite the reduction in the volume of production in the summer-autumn period, we could not avoid an increase in inventories of finished products and higher indebtedness due to the pressure of fixed costs, including labour and financing costs, as well as worsening business results.

**Sales**. Net sales for the year 2023 amounted to EUR 42.2 million, which was 17% lower than the previous year. We sold 3,700 machines, 94% of which were under our brand. In addition to Slovenia, the SIP Group sells its products in more than 40 countries, including major export markets such as France, Italy, Germany, Austria, and Switzerland.

**Development and investments.** The SIP Group continued in 2023 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 the development of new products, the SIP Group also continued the upgrading of production. At the end of the year, the group completed a major investment in an exhibition and commercial-educational centre. To increase both tangible and intangible investments, we allocated a total of EUR 10.5 million in 2023.

**Operating result and cash flow management.** The SIP Group performed well in the financial year 2023 but with a decline compared to the record year 2022. The Group generated earnings before interest, taxes, depreciation and amortisation (EBITDA) in the amount of EUR 6 million, which is 29% lower than the previous year. The net result of EUR 1.9 million is 57.52% lower than in 2022. Despite the increase in inventory and a simultaneous increase in investment activity, the SIP Group maintained an adequate level of liquidity throughout the year, but its indebtedness significantly increased.

**Risk management.** The year 2023 has shown that our business is sensitive to global and regional market risks, which we need to manage more effectively in the future through a combination of marketing, development, and production measures, as well as adjustments to our financing structure. The SIP Group regularly monitors credit ratings of all its major customers and key suppliers to ensure efficient credit risk management. The Group is exposed to currency risk to a lesser extent 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**. The SIP Group employed 300 employees at the end of the year. The average number of employees in 2023 was 300 (2022: 288). We organised training and education courses in 2023 as well to maintain and improve employee competencies.

**Plans.** The SIP Group will continue:

- 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.

Šempeter v Savinjski dolini, 25 April 2024

**mag. Uroš Korže**
President of the Management Board

# CORPORATE GOVERNANCE STATEMENT OF THE SIP GROUP

The Management Board of the parent company SIP, d.d., Šempeter v Savinjski dolini (hereinafter "parent company") hereby declares that its 2023 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 2023 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 2023 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 2023, 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 26 May 2023. 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 does not have an Audit Committee nor is it obligated to appoint one, as it is a non-public company. Considering the size, complexity, risk profile, and the fact that the establishment and maintenance of internal control systems and risk management are within the authority of the parent company's management, there is currently no reason to establish an Audit Committee.

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 REPORTING DATE

As of December 31, 2023, the Group has breached contractual financial covenants related to loans received from commercial banks. Before the end of 2023, the Group informed the commercial banks about the breach and requested a waiver. The Group has been granted a waiver for breaches of contractual financial covenants for loans amounting to EUR 7,181,553, while for a portion of the long-term loan amounting to EUR 4,743,395, the waiver process is still pending. Since the Group has not yet received a waiver for the mentioned loan, the amount of EUR 4,743,39 is classified as a short-term loan. The contractual maturity of the mentioned loan remains unchanged.

After the reporting date, the Group activated a SIP Centre amounting to EUR 6,674,903, which was shown as assets under construction on the reporting date.

In the period from the date of the financial statements and up to the date of the report hereof, no other events have occurred that would have an effect on the true and fair view of the financial statements for 2023.

Šempeter v Savinjski dolini, 25 April 2024

Mag. Uroš Korže
President of the Management Board

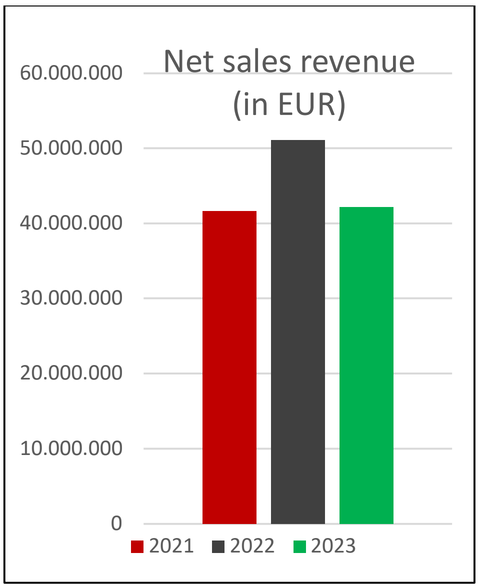
# FINANCIAL STATEMENTS SIP GROUP ŠEMPETER V SAVINJSKI DOLINI

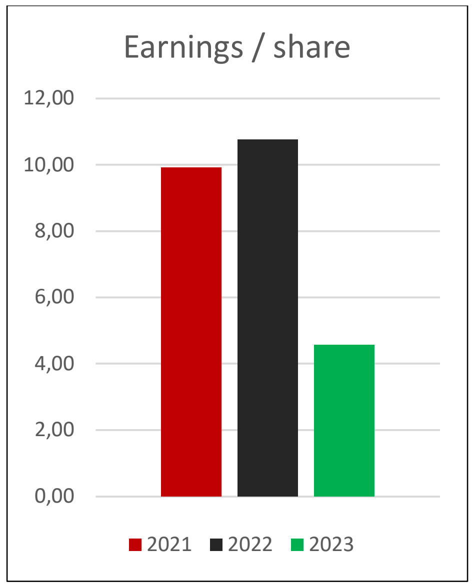
# 2023

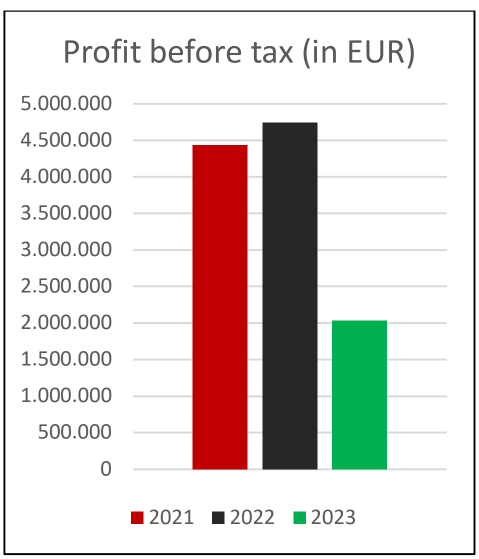
| | |
|---|---|
| Registration of the parent company: | SIP Strojna Industrija d.d. Šempeter V Savinjski dolini, is registered at the District Court in Celje under the entry number 1/00268/00 |
| Corporate address: | Juhartova ulica 2, 3311 Šempeter v Savinjski dolini |
| Share capital: | EUR 1,724,695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

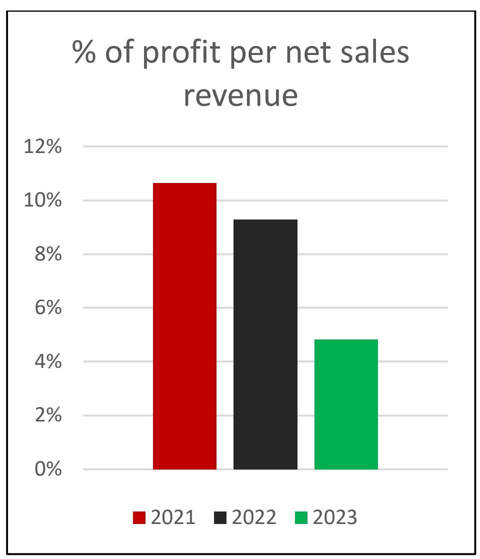
# 1. FINANCIAL HIGHLIGHTS OF THE GROUP

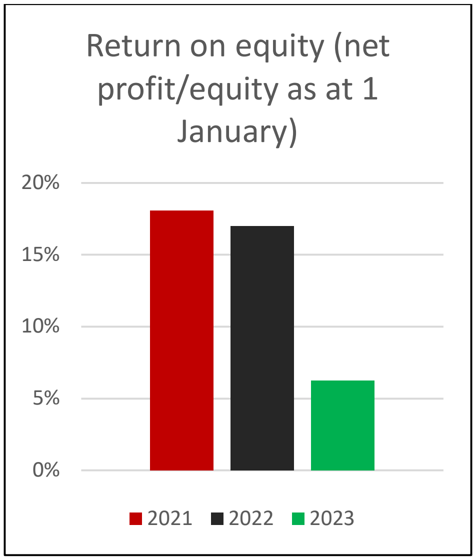
| | | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| **1.** | **Net sales revenue (in EUR)** | **41,641,113** | **51,065,898** | **42,167,885** |
| **2.** | **Earnings/share** | **9.91** | **10.76** | **4.57** |
| **3.** | **Profit before tax (in EUR)** | **4,433,735** | **4,743,715** | **2,036,684** |
| **4.** | **% of profit per net sales revenue** | **10.65%** | **9.29%** | **4.83%** |
| **5.** | **Return on equity (net profit/equity as at 1 January)** | **18.09%** | **17.01%** | **6.24%** |
| | Net financial debt (in EUR) | 11,744,470 | 21,286,579 | 30,666,135 |
| | EBITDA (in EUR) | 7,488,345 | 8,516,043 | 6,019,548 |
| **6.** | **Net financial debt (net financial debt/EBITDA)** | **1.57** | **2.50** | **5.1** |

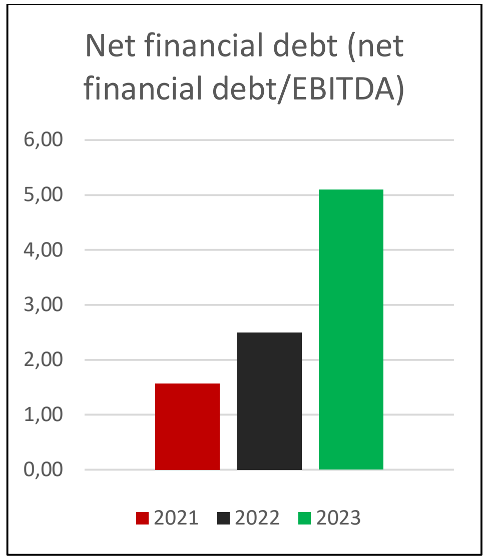



Return on equity (net profit/equity as at 1 January)
20%
15%
10%
5%
0%
2021
2022
2023


Net financial debt (net financial debt/EBITDA)
6,00
5,00
4,00
3,00
2,00
1,00
0,00
2021
2022
2023

# 2. CONSOLIDATED FINANCIAL STATEMENTS

## 2.1 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

| (in EUR) | Notes | 2023 | 2022 |
|---|---|---|---|
| Net sales revenue | 3.6.1 | 42,167,885 | 51,065,898 |
| Other operating income | 3.6.2 | 378,956 | 154,988 |
| Capitalised own products | 3.6.3 | 262,701 | 204,544 |
| Changes in the value of inventories | 3.6.4 | 5,240,788 | 2,823,808 |
| **OPERATING INCOME** | | **48,050,330** | **54,249,238** |
| Cost of goods and materials sold | 3.6.5 | 563,658 | 674,337 |
| Cost of materials | 3.6.6 | 23,917,137 | 26,985,058 |
| Cost of services | 3.6.7 | 7,301,356 | 7,966,217 |
| Employee benefits expense | 3.6.8 | 9,685,014 | 9,749,306 |
| Other operating expenses | 3.6.9 | 563,617 | 358,277 |
| Amortisation and depreciation expense | 3.6.10 | 2,859,576 | 2,561,699 |
| Loss on impairment of trade receivables and contract assets | 3.6.11 | 439 | 7,553 |
| Write-off and impairment of non-financial assets | 3.6.12 | 345,706 | 948,600 |
| **OPERATING EXPENSES** | | **45,236,503** | **49,251,047** |
| **OPERATING PROFIT** | | **2,813,827** | **4,998,191** |
| Financial income | 3.6.13 | 79,193 | 10,111 |
| Financial expenses | 3.6.13 | 856,336 | 264,587 |
| **NET FINANCIAL RESULT** | | **-777,143** | **-254,476** |
| **PROFIT BEFORE TAX** | | **2,036,684** | **4,743,715** |
| Tax payable | 3.6.15 | 201,734 | 352,922 |
| Deferred tax | 3.6.15 | -57,277 | -63,332 |
| **PROFIT FOR THE PERIOD** | | **1,892,227** | **4,454,124** |

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 2023

| (in EUR) | Note | 2023 | 2022 |
|---|---|---|---|
| **PROFIT FOR THE PERIOD** | 3,6,16 | **1,892,227** | **4,454,124** |
| Change in revaluation reserves | | 0 | 1,226,737 |
| Unrealised actuarial gains and losses | | 17,787 | 74,997 |
| Changes in deferred taxes | | -257,334 | -158,199 |
| Other changes | | 0 | -101,584 |
| Foreign exchange translation differences | | -15,308 | -85,694 |
| **Other comprehensive loss/income that will not be reclassified to income statement subsequently** | | **-254,855** | **956,257** |
| **Other comprehensive income that will be reclassified to income statement subsequently** | | **0** | **0** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **1,637,372** | **5,410,381** |

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 2023

| (in EUR) | Notes | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets and other non-current assets | 3.6.17 | 3,741,982 | 2,735,974 |
| Right-of-use assets | 3.6.18 | 3,718,528 | 4,391,147 |
| Property, plant and equipment | 3.6.18 | 34,690,731 | 27,738,308 |
| Non-current operating receivables | 3.6.19 | 0 | 0 |
| Deferred tax assets | 3.6.15 | 314,659 | 253,640 |
| **TOTAL NON-CURRENT ASSETS** | | **42,465,900** | **35,119,068** |
| Inventories | 3.6.20 | 25,825,262 | 22,448,374 |
| Operating receivables | 3.6.21 | 6,014,769 | 7,752,184 |
| Cash and cash equivalents | 3.6.22 | 148,926 | 383,270 |
| Advances and other current assets | 3.6.23 | 115,591 | 528,693 |
| **TOTAL CURRENT ASSETS** | | **32,104,548** | **31,112,520** |
| **TOTAL ASSETS** | | **74,570,448** | **66,231,588** |
| **EQUITY AND LIABILITIES** | **3.6.24** | | |
| Called-up capital | | 1,724,695 | 1.724.695 |
| Share premium | | 1,834,498 | 1.834.498 |
| Reserves for treasury shares | | 2,938 | 2.938 |
| Treasury shares | | -2,938 | -2.938 |
| Revaluation reserve | | 8,199,744 | 8.482.081 |
| Fair value reserve | | -35,499 | -57.693 |
| Translation differences | | -55,597 | -40.289 |
| Retained earnings or losses | | 18,422,164 | 13.947.444 |
| Operating profit | | 1,892,227 | 4.454.124 |
| **TOTAL EQUITY** | | **31,982,232** | **30,344,860** |
| Provisions for post-employment and other non-current employee benefits | 3.6.25 | 750,956 | 701,714 |
| Other provisions | 3.6.26 | 153,116 | 187,789 |
| Other non-current liabilities | | 0 | 3,750 |
| Financial liabilities | 3.6.27 | 8,357,280 | 10,648,254 |
| Lease liabilities | 3.6.27 | 2,326,187 | 1,550,666 |
| Deferred tax liabilities | 3.6.15 | 2,081,021 | 1,821,894 |
| **TOTAL NON-CURRENT LIABILITIES** | | **13,668,560** | **14,914,066** |
| Current financial liabilities | 3.6.27 | 18,805,276 | 8,329,389 |
| Lease liabilities | 3.6.27 | 1,326,318 | 1,141,540 |
| Trade payables | 3.6.28 | 7,057,509 | 10,084,906 |
| Advances received | 3.6.29 | 1,007,422 | 1,267,972 |
| Other payables | 3.6.30 | 723,131 | 148,855 |
| **TOTAL CURRENT LIABILITIES** | | **28,919,656** | **20,972,663** |
| **TOTAL EQUITY AND LIABILITIES** | | **74,570,448** | **66,231,588** |

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 2023

| (in EUR) | Note | 2023 | 2022 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **3.6.32** | | |
| **Cash receipts from operations** | | **49,543,365** | **55,367,051** |
| Proceeds from sale of products and services | | 45,523,221 | 50,829,919 |
| Other receipts from operating activities | | 4,020,144 | 4,537,132 |
| **Cash disbursements from operating activities** | | **-42,926,974** | **-54,470,352** |
| Disbursements for acquisition of materials and services | | -30,872,324 | -42,581,256 |
| Disbursements for salaries and employee share in profit | | -7,100,676 | -6,582,839 |
| Disbursements for all kinds of levies | | -4,953,974 | -5,306,257 |
| **NET CASH FROM OPERATING ACTIVITIES** | | **6,616,391** | **896,699** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **Cash receipts from investing activities** | | **7,365** | **1,650** |
| Proceeds from sale of property, plant and equipment | | 7,365 | 1,650 |
| **Cash disbursements from investing activities** | | **-9,441,413** | **-7,509,424** |
| Cash disbursements to acquire PP&E | | -8,140,861 | -6,242,262 |
| Cash disbursements to acquire intangible assets | | -1,300,552 | -1,267,162 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **-9,434,048** | **-7,507,774** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Cash receipts from financing** | | **18,821,141** | **14,998,355** |
| Cash proceeds from borrowings | | 18,821,141 | 14,998,355 |
| **Cash disbursements from financing** | | **-16,284,722** | **-8.334.454** |
| Disbursements for transaction costs associated with borrowings | | -672.020 | -152,044 |
| Repayment of borrowings | | -13,899,180 | -5,437,561 |
| Cash repayments of equity | | 0 | -2,938 |
| Dividends paid | | 0 | -1,240,788 |
| Repayment of lease liabilities | | -1,713,522 | -1,501,123 |
| **NET CASH GENERATED IN FINANCING ACTIVITIES** | | **2,536,419** | **6,663,901** |
| **NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS** | | **-281,238** | **52,826** |
| Cash and cash equivalents at the beginning of the period | | 383,270 | 329,466 |
| Effects of changes in foreign exchange rates on cash and cash equivalents | | 46,894 | 978 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **148,926** | **383,270** |

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 2023

| (in EUR) | Share capital | Capital surplus | Other equity reserves | | Revaluation reserves | Fair value reserves | Translation differences | Retained earnings | Profit for the period | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves for treasury shares | Treasury shares | | | | | | |
| **CLOSING BALANCE AS AT 31 DEC 2022** | **1,724,695** | **1,834,498** | **2,938** | **-2,938** | **8,482,081** | **-57,693** | **-40,289** | **13,947,444** | **4,454,124** | **30,344,860** |
| **Comprehensive income for the period** | | | | | | | | | | |
| Profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,892,228 | 1,892,228 |
| Revaluation of the property (including the effects of deferred taxes) | 0 | 0 | 0 | 0 | -257,334 | 0 | 0 | 0 | 0 | -257,334 |
| Other comprehensive income for the period | 0 | 0 | 0 | 0 | 0 | 17,787 | 0 | 0 | 0 | 17,787 |
| Other comprehensive income - translation differences | 0 | 0 | 0 | 0 | 0 | 0 | -15,308 | 0 | 0 | -15,308 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **0** | **0** | **0** | **0** | **-257,334** | **17,787** | **-15,308** | **0** | **1,892,228** | **1,637,373** |
| **Transactions with owners** | | | | | | | | | | |
| Other changes - actuary | 0 | 0 | 0 | 0 | 0 | 4,408 | 0 | -4,408 | 0 | 0 |
| Other changes - transfer of revaluation reserves to retained earnings or losses upon elimination of assets | 0 | 0 | 0 | 0 | -25,004 | 0 | 0 | 25,004 | 0 | 0 |
| Transfer of part of previous year's profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,454,124 | -4,454,124 | 0 |
| **TOTAL TRANSACTIONS WITH OWNERS** | **0** | **0** | **0** | **0** | **-25,004** | **4,408** | **0** | **4,474,720** | **-4,454,124** | **0** |
| **BALANCE AS AT 31 DEC 2023** | **1,724,695** | **1,834,498** | **2,938** | **-2,938** | **8,199,742** | **-35,501** | **-55,597** | **18,422,164** | **1,892,228** | **31,982,232** |

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

| (in EUR) | Share capital | Capital surplus | Other equity reserves | | Revaluation reserves | Fair value reserves | Translation differences | Retained earnings | Profit for the period | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves for treasury shares | Treasury shares | | | | | | |
| **CLOSING BALANCE AS 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** |
| **Change in separate financial statement upon consolidation for the year 2021** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -4,761 | -4,761 |
| **CLOSING BALANCE AS AT 31 DEC 2021** | **1,724,695** | **1,834,498** | **0** | **0** | **7,748,601** | **-135,150** | **45,405** | **10,864,593** | **4,095,564** | **26,178,206** |
| Profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,454,124 | 4,454,124 |
| Revaluation of the property (including the effects of deferred taxes) | 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 interest) | 0 | 0 | 0 | -2,938 | 0 | 0 | 0 | 0 | 0 | -2,938 |
| Creation 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 assets | 0 | 0 | 0 | 0 | -233,473 | 0 | 0 | 233,473 | 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 AS 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.

# 3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3.1 REPORTING COMPANY AND ITS SUBSIDIARIES

SIP strojna industrija, d.d., Šempeter v Savinjski dolini (hereinafter “parent company”) is a company headquartered in Slovenia. Its registered office is at Juhartova ulica 2, 3311 Šempeter v Savinjski dolini. The SIP Group Šempeter v Savinjski dolini (hereinafter “the Group”) consolidated financial statements for the year ended 31 December 2023 are presented below. The Group is primarily engaged in the manufacture of agricultural machinery.

The consolidated annual report is available at the parent company’s address.

## 3.2 BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### a. Basis for consolidation

The consolidated financial statement of the Group comprise the relevant financial statements of the parent 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 relevant return based on its control of the company in which the investment is made, or the recipient of the financial 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 control begins 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 derecognizes the assets and liabilities of the subsidiary, non-controlling interests and other equity components relating to the subsidiary. Any surpluses or deficits arising from the loss of control are recognized in income statement.

**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 2023 and 2022

| Company | Address | Ownership interest (in %) | Value of equity at 31 Dec 2023 | Profit for the year 2023 |
|---|---|---|---|---|
| SIP DISTRIBUCIJA D.O.O. | NOVAKI PETROVINSKI 4 A, JASTREBARSKO, CROATIA | 100% | 48,913 | 4,157 |
| S.A.R.L. SIP FRANCE | 1006 ROUTE DEPARTEMENTALE FRANCIN, PORTE DE SAVOIE, FRANCE | 100% | 235,766 | 29,275 |
| SIP DISTRIBUTION UK LTD | NORTONBURY HOUSE, 37 HIGH STREET, TEWKESBURY GLOS, UNITED KINGDOM | 100% | 326,759 | -259,704 |
| SIP DEUTSCHLAND GmbH | TERMINALSTRASSE MITTE 18, MÜNCHEN-FLUGHAFEN, GERMANY | 100% | 238,338 | 17,357 |
| SIP DYSTRYBUCJA PL | UL. ALEJA STARYCH LIP, NR 16, KOMORÓW, POLAND | 100% | 260,957 | 21,301 |

| Company | Address | Ownership interest (in %) | Value of equity at 31 Dec 2022 (in EUR) | Profit for the year 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 generated in 2023 a profit of EUR 2,158,036 (2022: EUR 4,272,229) and as of the period date recorded capital at EUR 32,181,943 (31 Dec 2022: EUR 30,263,460).

In 2022, the parent company established in Poland the subsidiary SIP DYSTRYBUCJA PL. In the year 2023, no new companies were established, nor was any company acquired through a business combination.

The Group's share capital as at 31 December 2023 amounted to EUR 1,724,695 (31 Dec 2022 EUR 1,724,695).

## c. The going concern assumption and the accrual basis of accounting

The consolidated financial statements have been prepared 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.

The management of the parent company conducted an assessment of the sustainability of indebtedness, which amounted to EUR 27,162,556 as of December 31, 2023 (EUR 18,851,933 as of December 31, 2022), as well as the coverage of short-term liabilities with short-term assets. Short-term assets exceed short-term liabilities by EUR 7,261,437 (EUR 9,591,724 as of December 31, 2022). In 2023, the Group realized a positive operating result of EUR 1.9 million (compared to EUR 4.5 million for 2022). Management plans to generate sufficient positive cash flows from operations and increase the profitability of operations in the future, so the current level of indebtedness, considering the projected scope of operations, is sustainable in the medium term. Based on the above, the management of the parent company rightfully expects that the Group will have sufficient financial resources to continue its operations in the foreseeable future.

The consolidated financial statements do not contain any adjustments that would be necessary if the going concern assumption did not apply.

**d. Compliance statement**

The Group's consolidated financial statements have been prepared following International Financial Reporting Standards (IFRS) with associated notes, which are being adopted 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 2023 on 25 April 2024.

**e. New and revised IFRSs that apply in the reporting period**

The following new standards, amendments to existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective as of 1 January 2023:

- **IFRS 17 – Insurance contracts:** IFRS 17 introduces an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, significant diversity existed worldwide relating to accounting for and the disclosure of insurance contracts, with IFRS 4 permitting many previous accounting (non-IFRS) approaches to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time.

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

- **Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2):** In February 2021, the IASB issued amendments to IAS 1, which change the disclosure requirements with respect to accounting policies from "significant accounting policies" to "material accounting policy information". The amendments provide guidance on when accounting policy information is likely to be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2.

*The amendments have impact on the Group.*

- **Definition of Accounting Estimates (Amendment to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors):** In February 2021, the IASB issued amendments to IAS 8, which added the definition of Accounting Estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from correction of prior period errors. The amendments to IAS 8 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

  *The amendments have no significant impact on the Group. The amendments were included in accounting policies.*

- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12):** In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability that, at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

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

- **International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12):** In December 2021, the Organisation for Economic Co-operation and Development (OECD) published Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS (Pillar Two model rules). In March 2022, the OECD released commentary and illustrative examples that elaborate on the application and operation of the rules and clarify certain terms. Stakeholders raised concerns with the IASB about the potential implications on income tax accounting, especially accounting for deferred taxes, arising from the Pillar Two model rules. In response to stakeholder concerns, the IASB issued the final International Tax Reform – Pillar Two Model Rules amendments on 23 May 2023. The amendments introduce a temporary exception to entities from the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two model rules. The amendments also provide for additional disclosure requirements with respect to an entity's exposure to Pillar Two income taxes.

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

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

As at the date of approval of these financial statements, the following amendments to existing standards had already been issued by the IASB and adopted by the EU but were not yet effective:

- **Lease Liability in a Sale and Leaseback (Amendment to IFRS 16):** The amendments provide a requirement for the seller-lessee to determine "lease payments" or "revised lease payments" in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

*The Group is evaluating the impact of the change in standard.*

## g. New standards and amendments to existing standards issued by the IASB and not yet adopted by the EU

At present, IFRSs as adopted by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards:

- **Classification of Liabilities as Current or Non-Current (Amendment to IAS 1):** The IASB issued amendments to IAS 1 – Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by the Non-current Liabilities with Covenants amendments issued in October 2022. The amendments require that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. The classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period. As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024.

  *The Group is evaluating the impact of the change in standard.*

- **Amendment – Non-current Liabilities with Covenants (Amendment to IAS 1):** Subsequent to the release of amendments to IAS 1 – Classification of Liabilities as Current or Non-Current, the IASB amended IAS 1 further in October 2022. If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of "settlement" for the purpose of classifying a liability as current or non-current.

  *The Group is evaluating the impact of the change in standard.*

- **Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 7):** On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. These amendments arose as a result of a submission received by the IFRS Interpretations Committee about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures. In response to this feedback, the IASB undertook a narrow-scope standard setting, leading to the amendments. The amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The amendments also provide guidance on the characteristics of supplier finance arrangements.

  *The Group is evaluating the impact of the change in standard.*

- **Lack of Exchangeability (Amendment to IAS 21):** On 15 August 2023, the IASB issued Lack of Exchangeability, which amended IAS 21 The Effects of Changes in Foreign Exchange Rates. The amendments arose as a result of a submission received by the IFRS Interpretations Committee about the determination of the exchange rate when there is a long-term lack of exchangeability. Prior to the amendments, IAS 21 did not include explicit requirements for the determination of the exchange rate when a currency is not exchangeable into another currency, which led to diversity in practice. The amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency. The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.

*The Group is evaluating the impact of the change in standard.*

## h. Basis for measurement

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

## i. 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 recognized 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.

## j. Use of estimates and judgments

In the preparation of consolidated financial statements, management makes certain estimates, judgments and assumptions that 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, judgments and assumptions are regularly revised. Since estimates and assumptions are subject to subjective judgment and some degree of uncertainty, subsequent actual results may differ from the estimates. Any changes in accounting estimates, judgments and assumptions are recognized 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 recognized in the period of the change occurring and future periods. Estimates and assumptions are used primarily when making the following judgments:

### i.) Revenue from contracts with customers

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

- Determining the point of time when contractual obligations are fulfilled.

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

Accordingly, the Group recognizes 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.

### ii.) 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 recognizes

- 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 realizes 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.

### iii.) 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.

### iv.) Assets impairment testing

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

- property, plant and equipment (Note 3.6.18)
- trade receivables and contract assets (Note 3.6.21 and Note 3.6.22),

**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.

### v.) Provisions for post-employment benefits and other non-current employee benefits (Note 3.6.25)

Defined benefit obligations and other employee benefits include the present values of severance pay on retirement and jubilee awards. They are recognized 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.

### vi.) Estimate of provisions made for repairs within the warranty period

The Group recognizes 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.

### vii.) Assessment of the possibility for utilising deferred tax assets (Note 3.6.15)

The Group recognizes deferred taxes assets on account of receivable allowances, provisions for jubilee awards and severance pay on retirement and tax losses. Deferred tax assets are recognized 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 recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In calculating deferred taxes, the Group considers potential restrictions on utilization of tax relief prescribed under the Corporate Income Tax Act.

### viii.) 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 the 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 categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement.

### k. Determination of fair value

Considering the adopted accounting policies, the determination of fair value was required for several financial and non-financial assets and liabilities. Fair value is the estimated price at which an asset can be sold or liability transferred in an orderly transaction between a knowledgeable buyer and knowledgeable seller in an arm's length transaction. The Group applies the following fair value hierarchy in the determination of the 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 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (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 differences between its carrying amount and fair value on the reporting date.

**ii.) 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.

**iii.) 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

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

The mandatory annual consolidated 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 is 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 amortization 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 amortization and accumulated impairment losses.

Development costs incurred by the Group are recognized 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.

<u>Subsequent costs</u>
Subsequent expenditure on the items of intangible assets is capitalized only when it increases the future economic benefits embodied in the assets. All other costs are recognized in profit or loss as expenses when they arise.

<u>Amortization</u>
Amortization is calculated based on the cost of the asset and recognized 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 amortization period of a development project is 5 years. Amortization methods and useful lives of the categories of intangible assets are reviewed at the end of each financial year and adjusted if necessary.

<u>Impairment</u>
As at the date of the final annual amortization 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 recognizes 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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized 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 amortization, if no impairment loss had been recognized 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.

<u>Accounting for borrowing costs</u>
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.

<u>Subsequent costs</u>
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 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 following 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 following 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 above EUR 500 are also considered the items of property, plant and equipment made available for use. Large tools with individual value above EUR 500 are also included in the low-value assets to ensure 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 following 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.

The right-of-use asset is depreciated from the date of the commencement of lease until the end of the useful life or the end of the lease term, if it is shorter from useful life. If the lease transfers ownership of the asset or the value of asset representing the right-of-use reflects an expectation that the Group will use the possibility to buy, the asset representing the right-of-use is depreciated from the date of the commencement of the lease until the end of the useful life of a leased asset.

<u>Lease liabilities</u>
Upon initial recognition, the Group recognises lease liabilities at the present value of lease payments to be made over the 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.

After 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 of the lease payments or modification of the lease terms.

**c. 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
Following 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, given 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 these 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 the 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 following 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>
Following 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.

**d. 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.

**e. 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).

## f. 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.

## g. 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.

## h. 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.

### i. 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**

Under the legislation, collective agreement and internal rules, the Group is liable to pay its employees anniversary bonuses and termination benefits upon retirement. For these purposes it sets aside a 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 the 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.

### j. 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.

**k. Other operating income**

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

**l. Expenses**

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

**m. 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.

**n. 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.

The Group does not compile consolidated income taxes. The companies in the Group are independently liable to compile and file the tax return following the regulations in the tax law of the country in which they are established. Income tax is calculated at the currently applicable tax rates on the tax bases established for each company in the Group.

**o. 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.

**p. Statement of cash flows**

The cash flow statement shows changes in the balance of cash and cash equivalents for the financial year for which it is compiled. The cash flow statement is compiled according to the direct method. Information for inflows and outflows are obtained from the business records of companies in the Group. 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 following 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) | 2023 | 2022 |
|---|---|---|
| Revenue from the sale of products and services | 42,081,411 | 50,938,206 |
| Revenue from the sale of materials and merchandise | 86,474 | 127,692 |
| **Total revenue from contracts with customers** | **42,167,885** | **51,065,898** |

Revenue from the sale of products accounted in 2023 for 99.79% of total sales (2022: 99.75%), and revenue from sales of merchandise and materials for 0.21% (2022: 0.25%).

#### B. CLASSIFICATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS BY GEOGRAPHICAL ORIGIN

| | Products | | Merchandise and material | |
|---|---|---|---|---|
| (in EUR) | 2023 | 2022 | 2023 | 2022 |
| Domestic market | 7,986,540 | 9,678,259 | 56,383 | 49,838 |
| Foreign markets | 34,094,871 | 41,259,947 | 30,091 | 77,854 |
| - EU | 26,184,209 | 31,445,273 | 26,397 | 67,465 |
| - third countries | 7,910,662 | 9,814,674 | 3,694 | 10,389 |
| **Total revenue from contracts with customers** | **42,081,411** | **50,938,206** | **86,474** | **127,692** |

#### C. CLASSIFICATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS IN TERMS OF TIME OF THEIR RECOGNITION

| | Products | | Merchandise and material | |
|---|---|---|---|---|
| (in EUR) | 2023 | 2022 | 2023 | 2022 |
| Revenue recognised at the point of sale or performance of the service | 42,081,411 | 50,938,206 | 86,474 | 127,692 |
| Revenue recognised over time | 0 | 0 | 0 | 0 |
| **Total revenue from contracts with customers** | **42,081,411** | **50,938,206** | **86,474** | **127,692** |

### 3.6.2 OTHER OPERATING INCOME

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Drawing on EU projects | 7,512 | 79,749 |
| Gains from sale of fixed assets | 6,127 | 1,641 |
| Insurance proceeds | 218,826 | 40,965 |
| Compensation received | 96,250 | 0 |
| Other extraordinary items | 39,072 | 32,638 |
| Other | 11,169 | -3 |
| **Total** | **378,956** | **154,988** |

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

### 3.6.3 CAPITALISED OWN PRODUCTS

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Capitalised own products and own services | 262,701 | 204,544 |
| **Total** | **262,701** | **204,544** |

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) | 2023 | 2022 |
|---|---|---|
| Change in the value of inventories | 5,240,788 | 2,823,808 |
| **Total** | **5,240,788** | **2,823,808** |

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 loss on intragroup sales of EUR 122,312 (unrealised gains EUR 65,746 in 2022) and effects of the realisation of unrealised gains in 2022 totalling EUR 65,746 (unrealised gains in 2021 for 2022 of EUR 181,045). Deferred tax assets of EUR 26,909 (2022: EUR 12,492) have been formed.

### 3.6.5 COST OF GOODS AND MATERIAL SOLD

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Cost of goods and material sold | 563,658 | 674,337 |
| **Total** | **563,658** | **674,337** |

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) | 2023 | 2022 |
|---|---|---|
| Cost of materials | 20,174,846 | 23,540,712 |
| Cost of ancillary materials | 165,156 | 136,464 |
| Cost of energy | 1,224,021 | 736,855 |
| Cost of materials and spare parts used in FA maintenance | 242,832 | 272,978 |
| Write-off of low-value assets and packaging, and stocktaking differences | 465,946 | 555,792 |
| Cost of office supplies and professional literature | 52,646 | 52,919 |
| Cost of other materials | 1,591,690 | 1,689,337 |
| **Total** | **23,917,137** | **26,985,058** |

Most of the cost of materials amounting to EUR 20,174,846 (2022: EUR 23,540,712) 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) | 2023 | 2022 |
|---|---|---|
| Cost of production services and the rendering of services | 2,478,878 | 2,760,612 |
| Cost of transportation | 807,644 | 892,043 |
| Cost of FA maintenance and overhaul | 306,919 | 432,581 |
| Lease payments | 116,912 | 123,730 |
| Reimbursement of costs associated with labour | 304,309 | 311,532 |
| Payment transaction and bank charges, and insurance premiums | 208,073 | 147,033 |
| Cost of intellectual and personal services | 1,049,607 | 1,127,161 |
| Cost of trade fairs, advertising and entertainment | 1,018,637 | 1,072,272 |
| Cost of services provided by natural persons inclusive of levies | 59,181 | 66,628 |
| Cost of other services | 951,196 | 1,032,625 |
| **Total** | **7,301,356** | **7,966,217** |

The largest part of the cost of other services refers to the costs of IT services in the amount of EUR 265,644 (2022: EUR 245,371 ) and the costs of student work amounting to EUR 186,586 (2022: EUR 285,254). 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 18,027 (2022: 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) | 2023 | 2022 |
|---|---|---|
| Wages and salaries | 6,226,593 | 6,316,068 |
| Wage and salary compensations | 1,312,224 | 796,229 |
| Social security costs | 1,197,611 | 1,117,469 |
| Other employee benefits expense | 948,586 | 1,519,539 |
| **Total** | **9,685,014** | **9,749,306** |

Within social security costs, pension insurance costs amount to EUR 665,392 (2022: EUR 648,185) and other social security costs to EUR 532,219 (2022: 424,796).

Other employee benefits expenses 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 2023 is recorded at 300 (2022: 288).

Remuneration of Management Board members totalled to EUR 191,403 (2022: EUR 199,919), whereof:

| Name and surname | Group of person | Salary | Attendance fee | Other | Total |
|---|---|---|---|---|---|
| Uroš Korže | President of the Management Board | 40,250 | 0 | 2,140 | 42,390 |
| Miha Sitar | Vice President of the Management Board | 80,500 | 6,000 | 2,140 | 88,640 |
| Meznarič Anton (till october 2023) | Memeber of the Management Board | 23,756 | 5,733 | 2,140 | 31,630 |
| Brglez Iztok | Memeber of the Management Board | 3,510 | 633 | 600 | 4,743 |
| Bogataj Sebastjan | Memeber of the Management Board | 0 | 12,000 | 0 | 12,000 |
| Cosovici Andrei | Memeber of the Management Board | 0 | 12,000 | 0 | 12,000 |
| **Total** | | **148,016** | **36,366** | **7,020** | **191,403** |

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

### 3.6.9 OTHER OPERATING EXPENSES

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Compensation for the use of building land | 66,000 | 65,383 |
| Environmental protection charges | 5,223 | 5,493 |
| Other costs | 492,394 | 287,401 |
| **Total** | **563,617** | **358,277** |

Other costs mostly include provisions for guarantees given in the amount of EUR 153,116 (2022: EUR 187,789).

### 3.6.10 AMORTISATION AND DEPRECIATION

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Amortisation of intangible fixed assets | 278,284 | 225,422 |
| Depreciation of buildings | 385,562 | 350,017 |
| Depreciation of equipment and spare parts | 1,939,099 | 1,715,378 |
| Depreciation of low value assets | 256,631 | 270,882 |
| **Total** | **2,859,579** | **2,561,699** |

The Group checked at the end of the financial year whether the useful lives of fixed assets were appropriate. They remained unchanged in 2023.

### 3.6.11 LOSS ON IMPAIRMENT OF TRADE RECEIVABLES AND CONTRACT ASSETS

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Impairment loss on trade receivables | 439 | 7,553 |
| Impairment loss on contract assets | 0 | 0 |
| **Total** | **439** | **7,553** |

The impairment loss on trade receivables is the result of the 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) | 2023 | 2022 |
|---|---|---|
| Impairment loss on inventories | 164,629 | 525,889 |
| Impairment loss on fixed assets | 181,077 | 422,710 |
| **Total** | **345,706** | **948,600** |

Impairment losses on intangible assets and property, plant and equipment totalling to EUR 181,077 (2022: EUR 422,710) 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 164,629 (2022: EUR 525,889) 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) | 2023 | 2022 |
|---|---|---|
| Interest income on loans to others | 2,553 | 6 |
| **Financial income on assets valued at amortised cost** | **2,553** | **6** |

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Foreign exchange rate gains | 58,767 | 0 |
| Financial income – discounts | 17,873 | 10,105 |
| **Financial income - other** | **76,640** | **10,105** |

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Interest expenses on borrowings | 660,768 | 165,354 |
| Interest from actuarial calculations | 26,967 | 0 |
| Interest on leasing | 66,512 | 48,884 |
| **Financial expenses from financial liabilities measured at amortised cost** | **754,247** | **214,239** |

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Other financial expenses (default interest on taxes and contributions) | 40 | 33 |
| Interest expense | 675 | 11 |
| Foreign exchange rate losses | 101,374 | 50,304 |
| **Other financial expenses** | **102,089** | **50,348** |

| (in EUR) | 2023 | 2022 |
|---|---|---|
| **Neto exchange rate differences** | **-42,607** | **-50,304** |

| (in EUR) | 2023 | 2022 |
|---|---|---|
| **Net financial result** | **-777,143** | **-254,476** |

### 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.

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.

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Net earnings per share | 4.57 | 10.76 |
| Total comprehensive income | 3.96 | 13.07 |
| Carrying value per share | 77.27 | 73.29 |

### 3.6.15 TAXES

#### A. INCOME TAX

| (in EUR) | 2023 | 2022 |
|---|---|---|
| **Current tax expense** | | |
| Tax payable | 201,734 | 352,922 |
| **Total tax** | **201,734** | **352,922** |
| | | |
| **Deferred tax expense** | | |
| Formation and elimination of temporary differences | -5,021 | 0 |
| Change in tax rate | -37,839 | 0 |
| Recognition of previously unrecognised tax losses | 0 | -85,239 |
| Change in deferred taxes for unrecognised tax losses | -14,417 | 21,907 |
| **Total deferred tax** | **-57,277** | **-63,332** |
| **Tax expense (continuing operations)** | **144,457** | **289,590** |

Tax return:

| (in EUR) | 2023 | 2022 |
|---|---|---|
| Revenue determination based on accounting rules | 48,132,392 | 54,054,974 |
| Revenue reduction to tax recognised revenue | -16,932 | -2,606 |
| **Revenue recognised for tax purposes** | **48,115,460** | **54,052,368** |
| Expense determination based on accounting rules | 45,840,259 | 49,538,518 |
| Expense reduction to tax recognised expenditure | -359,737 | -198,343 |
| Expense increase to tax recognised expenditure | 260,915 | 137,732 |
| **Expenditure recognised for tax purposes** | **45,741,437** | **49,477,907** |
| Increase in tax base | **143,144** | **112,114** |
| Decrease in tax base and tax relief | **-1,585,815** | **-2,952,542** |
| Tax base | **931,352** | **1,734,033** |
| **Total tax of the parent company (19%)** | **176,957** | **329,466** |
| **Total tax effect of subsidiaries** | **24,777** | **23,456** |
| **Total tax of the Group** | **201,734** | **352,922** |
| **Total deferred taxes of the Group** | **-57,277** | **-63,332** |
| **Effective tax rate (exclusive of deferred taxes)** | **9.91%** | **7.44%** |
| **Effective tax rate (inclusive of deferred taxes)** | **7.09%** | **6.10%** |

| | 2023 | 2022 |
|---|---|---|
| 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** | **317,350** |
| Charged/credited to profit or loss | -63,709 |
| **Balance at 31 Dec 2022** | **253,641** |
| Charged/credited to profit or loss | 61,019 |
| **Balance at 31 Dec 2023** | **314,659** |

The movement in deferred taxes includes, among other, the effect of unrealised gains on intragroup sales totalling to EUR 14,417, with deferred tax assets thereon increasing from EUR 12,492 as at 31 December 2022 to EUR 26,909 as at 31 December 2023.

## 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 2022** | | | **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** |
| Charged/credited to profit or loss | | 1,793 | 1,793 |
| Charged/credited to other comprehensive income | 257,334 | | 257,334 |
| **Balance at 31 Dec 2023** | | | **2,081,021** |

## D. TOTAL EFFECTS OF DEFERRED TAXES ON THE CONSOLIDATED INCOME STATEMENT AND THE CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| **2023** (in EUR) | Income statement | Statement of other comprehensive income |
|---|---|---|
| Formation of deferred tax liabilities due to the increase in the tax rate | 64,864 | 0 |
| 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 |
| Change in deferred taxes for unrealized gains/losses | -101,584 | **0** |
| **TOTAL EFFECT** | **-85,238** | **-158,199** |

| **2022** (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 |
| Change in deferred taxes for unrealized gains/losses | 21,906 | 0 |
| **TOTAL EFFECT** | **-85,238** | **-158,199** |

## E. 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.

## F. UNRECOGNIZED DEFERRED TAX ASSETS

The Group recognised deferred taxes from the carry forward of tax losses. Assets totalling EUR 539,000 were not recognised for temporary differences arising from severance pay and jubilee awards, as well as differences between the tax and accounting depreciation rates.

## G. TAX RATE

On December 22, 2023, the Act on Reconstruction, Development and Provision of Financial Assets (ZORZFS) was published in the Official Gazette of the Republic of Slovenia, which, among other things, provides for a temporary increase in the corporate income tax rate by three percentage points. Following the provision of Article 64 of the ZORZFS, for the years 2024, 2025, 2026, 2027 and 2028, the tax is to be paid at a rate of 22%. As a result, the assets and liabilities arising from the financial statements of the parent company were recalculated at a rate of 22%, as this represents the tax rate in the foreseeable future.

## 3.6.16 CHANGES IN OTHER COMPREHENSIVE INCOME

Unrealised actuarial gains and losses in the amount of EUR 17,787 (2022: EUR 74,997) refer to provisions for retirement benefits.

There was no change in the revaluation reserve in 2023 (2022: EUR 1,226,737). The change in deferred taxes of EUR -257,334 (2022: EUR -158,199) mainly relates to the increase in the corporate tax rate to 22%, amounting to EUR -282,847, and the utilization of deferred tax liabilities arising from the difference between tax amortisation and the operating amortisation of revalued assets, amounting to EUR 25,507 (2022: 21,302). There were no other changes in 2023.

The effect of the translation reserve in the amount of EUR -15,308 (2022: EUR -85,694) results from the translation of assets and liabilities at the exchange rate published on the Bank of Slovenia's website at 31 December 2023. The effects represent the difference between the translation reserve as at 31 December 2022 and 31 December 2023.

### 3.6.17 INTANGIBLE ASSETS AND OTHER NON-CURRENT ASSETS

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

Movements in intangible assets and other non-current assets in 2023 and 2022 are presented below.

| (in EUR) | R&D expenses | Industrial and other rights | Intangible assets under construction | Other non-current assets | Total |
|---|---|---|---|---|---|
| **Purchase cost** | | | | | |
| **Balance as at 1 Jan 2023** | **4,193,390** | **949,687** | **1,773,917** | **12,005** | **6,928,999** |
| Additions | 0 | 0 | 1,296,298 | 0 | 1,296,298 |
| Transfer from investments under construction | 1,734,844 | 225,286 | -1,960,130 | 0 | 0 |
| Disposals | 0 | 0 | 0 | -12,005 | -12,005 |
| **Balance as at 31 Dec 2023** | **5,928,234** | **1,174,973** | **1,110,085** | **0** | **8,213,292** |
| **Accumulated amortisation** | | | | | |
| **Balance as at 1 Jan 2023** | **3,781,588** | **411,438** | **0** | **0** | **4,193,026** |
| Amortisation | 195,183 | 83,101 | 0 | 0 | 278,284 |
| **Balance as at 31 Dec 2023** | **3,976,771** | **494,539** | **0** | **0** | **4,471,310** |
| **Carrying amount as at 1 Jan 2023** | **411,802** | **538,249** | **1,773,917** | **12,005** | **2,735,974** |
| **Carrying amount as at 31 Dec 2023** | **1,951,464** | **680,433** | **1,110,085** | **0** | **3,741,982** |

| (in EUR) | R&D expenses | Industrial and other rights | Intangible assets under construction | Other non-current assets | Total |
|---|---|---|---|---|---|
| **Purchase cost** | | | | | |
| **Balance as 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 | -37,667 | -37,667 |
| **Balance as at 31 Dec 2022** | **4,193,390** | **949,687** | **1,773,917** | **12,005** | **6,928,998** |
| **Accumulated amortisation** | | | | | |
| **Balance as at 1 Jan 2022** | **3,619,703** | **347,902** | **0** | **0** | **3,967,605** |
| Amortisation | 161,885 | 63,537 | 0 | 0 | 225,422 |
| **Balance as at 31 Dec 2022** | **3,781,588** | **411,438** | **0** | **0** | **4,193,026** |
| **Carrying amount as at 1 Jan 2022** | **132,459** | **434,352** | **1,115,416** | **49,672** | **1,731,901** |
| **Carrying amount as at 31 Dec 2022** | **411,802** | **538,249** | **1,773,917** | **12,005** | **2,735,974** |

Long-term property rights recorded in the amount of EUR 680,433 (2022: EUR 538,249) comprise investments in software. Long-term deferred costs of developing new products amounting to EUR 3,033,050 (2022: EUR 2,159,945) include the cost of prototype construction and testing, the construction and catalogue documentation, and the development of technology used in these projects. EUR 1,081,887 (2022: EUR ,748,142) thereof refers to projects that have not yet been completed as at 31 December 2023 and are reported under the items of intangible assets under construction. In 2023, deferred development costs totalled to EUR 1,068,589 (2022: EUR 1,118,370). The amortisation period of a development project is 5 years.

The Group does not report non-amortising assets as intangible assets. As of the reporting date 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 2023 and 2022 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 assets - equipment | Total |
|---|---|---|---|---|---|---|---|---|
| **Purchase cost** | | | | | | | | |
| **Balance as at 1 Jan 2023** | **5,863,472** | **13,676,236** | **16,951,128** | **4,523,614** | **2,664,212** | **4,395,987** | **5,638,328** | **53,712,976** |
| Additions | 0 | 0 | 0 | 0 | 0 | 9,168,222 | 0 | 9,168,222 |
| Transfer from investments under construction | 0 | 89,526 | 879,516 | 209,873 | 615,155 | -2,655,222 | 861,152 | 0 |
| Disposals | 0 | -30,365 | -724,174 | -54,589 | -23,621 | 0 | -89,718 | -922,467 |
| Reclassification | 0 | 0 | 1,504,323 | 0 | 0 | -131,333 | -1,504,323 | -131,333 |
| Translation differences | 0 | 0 | 0 | 0 | 6,793 | 0 | 0 | 6,793 |
| **Balance as at 31 Dec 2023** | **5,863,472** | **13,735,397** | **18,610,795** | **4,678,898** | **3,262,539** | **10,777,654** | **4,905,439** | **61,834,191** |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| **Balance as at 1 Jan 2023** | **0** | **1,148,710** | **13,466,279** | **3,883,819** | **1,837,533** | **0** | **1,247,181** | **21,583,521** |
| Depreciation | 0 | 385,562 | 876,411 | 256,631 | 328,675 | 0 | 735,083 | 2,582,362 |
| Disposals | 0 | -3,615 | -656,620 | -54,589 | -21,704 | 0 | -5,390 | -741,917 |
| Reclassifications | 0 | 0 | 791,775 | 0 | 0 | 0 | -791,775 | 0 |
| Translation differences | 0 | 0 | 0 | 0 | -845 | 0 | 1,812 | 967 |
| **Balance as at 31 Dec 2023** | **0** | **1,530,656** | **14,477,845** | **4,085,860** | **2,143,659** | **0** | **1,186,911** | **23,424,931** |
| | | | | | | | | |
| **Carrying amount as at 1 Jan 2023** | **5,863,472** | **12,527,525** | **3,484,848** | **639,796** | **826,679** | **4,395,987** | **4,391,147** | **32,129,454** |
| **Carrying amount as at 31 Dec 2023** | **5,863,472** | **12,204,740** | **4,132,350** | **593,038** | **1,118,880** | **10,777,654** | **3,718,528** | **38,409,258** |

| (in EUR) | Land | Buildings | Manufacturing plant and equipment | Low-value assets and major tools | Other equipment | Assets under construction | Right-of-use assets - equipment | Total |
|---|---|---|---|---|---|---|---|---|
| **Purchase cost** | | | | | | | | |
| **Balance as at 1 Jan 2022** | **5,665,431** | **12,383,390** | **14,888,927** | **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 |
| Revaluation | 198,041 | 1,028,697 | 0 | 0 | 0 | 0 | 0 | 1,226,738 |
| Disposals | 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 as at 31 Dec 2022** | **5,863,472** | **13,676,236** | **16,951,128** | **4,523,614** | **2,664,212** | **4,395,987** | **5,638,328** | **53,712,977** |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| **Balance as 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 as at 31 Dec 2022** | **0** | **1,148,710** | **13,466,279** | **3,883,819** | **1,837,533** | **0** | **1,247,181** | **21,583,521** |
| | | | | | | | | |
| **Carrying amount as at 1 Jan 2022** | **5,665,431** | **11,540,678** | **2,638,411** | **535,238** | **758,583** | **235,120** | **4,797,133** | **26,170,591** |
| **Carrying amount as at 31 Dec 2022** | **5,863,472** | **12,527,525** | **3,484,849** | **639,796** | **826,679** | **4,395,987** | **4,391,147** | **32,129,454** |

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 %) | 2023 | 2022 |
|---|---|---|
| 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 3,718,528 (2022: EUR 4,391,147), calculated as the present value of future lease payments for an individual asset. Depreciation of the right-of-use assets amounted to EUR 735,083 (2022: 820,110).

Property, plant and equipment under construction in the amount of EUR 10,777,654 (2022: EUR 4,395,988) relate in large part to investments in property, mainly a new SIP centre in the amount of EUR 6,674,903, Gleason machine in the amount of EUR 1,233,802, external landscaping in the amount of EUR 1,022,572, the renovation of a canteen in the amount of EUR 313,527, electric transformer station in the amount of EUR 295,132, tools for the Gleason machine in the amount of EUR 278,560, furniture in the amount of EUR 135,774, tools for the G2 mowers in the amount of EUR 94,558, a door for SC in the amount of EUR 84,289, the renovation of a cargo entrance in the amount of EUR 69,975, and other items in the amount of EUR 574,562. The majority of the assets under construction will be available for use at the beginning of 2024.

As at 31 December 2023, the Group recorded EUR 6,672 of commitments (contracts and confirmed orders) for the purchase of property, plant and equipment (2022: EUR 3,058,088).

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 2022. 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 properties are pledged for non-current and current borrowings with commercial banks for a value of EUR 13,313,665 (2022: EUR 8,878,116), with no restrictions on use.

### 3.6.19 NON-CURRENT OPERATING RECEIVABLES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---:|---:|
| 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 (2022: 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.

### 3.6.20 INVENTORIES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---:|---:|
| Materials | 5,789,339 | 7,793,409 |
| Allowances for obsolete inventories – material | -8,005 | -13,425 |
| Work in progress | 452,757 | 494,825 |
| Semi-finished products | 7,070,959 | 6,662,910 |
| Allowances for obsolete inventories – work in progress and semi-finished products | -3,709 | -3,185 |
| Products | 12,862,353 | 7,523,707 |
| Allowances for obsolete inventories – products | -338,432 | -9,869 |
| **Total** | **25,825,262** | **22,448,374** |

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

| Inventory | Carrying amount as at 31 Dec 2023 | Inventory deficit | Write-off due to the change in quality | Impairment to net realisable value | Net realisable value |
|---|---:|---:|---:|---:|---:|
| **Materials** | **5,781,334** | 4,568 | 14,696 | -5,420 | **5,781,334** |
| **Work in progress** | **452,757** | 0 | 0 | 0 | **452,757** |
| **Semi-finished products** | **7,067,251** | 21,963 | 89,755 | 524 | **7,067,251** |
| **Products** | **12,523,921** | 6,134 | 43,395 | -296,043 | **12,523,921** |
| **Total** | **25,825,263** | 32,665 | 147,846 | -300,939 | **25,825,263** |

The carrying amount of inventories does not exceed their realisable value. Part of the inventories is pledged as collateral for the payment of EUR 2,900,000 of non-current borrowings. Additionally, according to the loan agreement, the inventories must not fall below EUR 7,300,000 at any time.

### 3.6.21 CURRENT OPERATING RECEIVABLES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Trade receivables from local customers | 555,681 | 795,940 |
| Trade receivables from foreign customers | 4,492,648 | 6,077,563 |
| Other receivables | 1,084,522 | 1,013,256 |
| Allowances for trade receivables on account of expected lifelong credit losses | -118,082 | -134,575 |
| **Total** | **6,014,769** | **7,752,184** |

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 under 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 2023, EUR 3,437,732 of trade receivables has not matured (2022: EUR 5,455,605); receivables due and outstanding up to 90 days amount to EUR 1,169,046 (2022: EUR 1,189,808), receivables due and outstanding more than 90 days and up to 1 year amount to EUR 284,943 (2022: EUR 67,353), and EUR 156,608 of receivables is outstanding more than one year (2022: EUR 160,737). Receivables are not insured. Trade receivables due from others are not past due.

Movements in allowances for trade receivables in 2023 and 2022 are shown in the following table.

| (in EUR) | 2023 | 2022 |
|---|---|---|
| **Balance as at 1 Jan** | **134,575** | **180,018** |
| Increase | 439 | 7,553 |
| Decrease | -16,932 | -52,996 |
| **Balance as at 31 Dec** | **118,082** | **134,575** |

The Group discloses no receivables against members of the Management Board as at 31 December 2023 and as at 31 December 2022.

### 3.6.22 CASH AND CASH EQUIVALENTS

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Cash in hand | 0 | 600 |
| Bank balances | 148,926 | 382,670 |
| **Total** | **148,926** | **383,270** |

The Group has agreed with commercial banks overdrafts on its business account in the amount of EUR 2,500,000 (2022: EUR 2,500,000) as an additional source of current liquidity. At the year-end of 2023, the parent company had drawn down automatic borrowings amounting to EUR 1,565,868 (2022: EUR 999,393), which is transferred to current financial liabilities (note 3.6.27).

### 3.6.23 ADVANCES AND OTHER CURRENT ASSETS

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Advances for property, plant and equipment | 6,672 | 445,028 |
| Advances for inventories | 0 | 709 |
| Other advances | 74,431 | 17,412 |
| Deferred and accrued items | 34,488 | 65,544 |
| **Total** | **115,591** | **528,693** |

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

### 3.6.24 EQUITY

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Share capital | 1,724,695 | 1,724,695 |
| Share premium | 1,834,498 | 1,834,498 |
| Legal reserves | 0 | 0 |
| Treasury shares | -2,938 | -2,938 |
| Reserves for treasury shares | 2,938 | 2,938 |
| Revaluation reserve | 8,199,744 | 8,482,081 |
| Fair value reserve | -35,499 | -57,693 |
| Translation differences | -55,597 | -40,289 |
| Retained earnings | 18,422,164 | 13,947,444 |
| Profit for the period | 1,892,227 | 4,454,124 |
| **Total** | **31,982,232** | **30,344,860** |

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 2023, the parent company did not purchase any of its own or treasury shares (in 2022 the parent company purchased 63 or 0.02% of its own shares).

**Movement in treasury shares in 2023:**

| Item | 2023 Quantity | 2023 Holding in share capital | 2022 Quantity | 2022 Holding in share capital |
|---|---|---|---|---|
| **Balance as at 1 Jan** | **63** | **0.02 %** | **0** | **0.00 %** |
| Purchases | 0 | 0.00 % | 63 | 0.02 % |
| **Balance as at 31 Dec** | **63** | **0.02 %** | **63** | **0.02 %** |

The weighted average number of ordinary shares outstanding during the financial year 2023 was 413,926 shares (2022: 413,926 shares).

Capital surplus or share premium of EUR 1,834,498 is composed of (31 December 2022: EUR 1,834,498):

- EUR 1,595,990 of a premium acquired when exercising share purchase options based on bonds issued,
- EUR 238,508 of consideration above the cost of treasury shares sold.

Revaluation reserves include revaluation of land in the amount of EUR 5,073,868, less EUR 1,116,251 of deferred tax, and buildings in the amount of EUR 5,301,672, less EUR 1,059,545 of deferred tax.

Fair value reserve comprises as at 31 December 2022 actuarial losses of EUR 35,499 (31 December 2023 loss EUR 57,693).

## A. MOVEMENT IN REVALUATION RESERVES

| (in EUR) | Land | Buildings | Deferred tax liabilities | Total |
|---|---|---|---|---|
| **Balance 1 Jan 2023** | **5,073,867** | **5,331,692** | **-1,923,479** | **8,482,080** |
| Positive revaluation | 0 | 0 | -252,318 | -252,318 |
| Negative revaluation | 0 | -30,020 | 0 | -30,020 |
| **Balance at 31 Dec 2023** | **5,073,867** | **5,301,672** | **-2,175,797** | **8,199,744** |

| (in EUR) | 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 |
| **Balance at 31 Dec 2022** | **5,073,867** | **5,331,692** | **-1,923,478** | **8,482,081** |

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 22 percent applicable for 2024.

## B. MOVEMENT IN FAIR VALUE RESERVES

| (in EUR) | 2023 (Actuarial loss) | 2022 (Actuarial loss) |
|---|---|---|
| **Balance as at 1 Jan** | **-57,693** | **-135,152** |
| Positive revaluation | 22,194 | 77,457 |
| **Balance as at 31 Dec** | **-35,499** | **-57,693** |

## C. OWNERSHIP STRUCTURE OF THE SIP GROUP

| SHAREHOLDERS OF SIP d. d. | No. of shares at 31 Dec 2023 | Equity interest (in %) | No. of shares at 31 Dec 2022 | 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 2023, 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 and movements in individual equity components in 2023 and 2022, are outlined in the Consolidated statement of changes in equity.

## 3.6.25 PROVISIONS FOR POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Provisions for retirement benefits | 603,062 | 588,911 |
| Provisions for jubilee premiums | 147,894 | 112,803 |
| **Total** | **750,956** | **701,714** |

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 2023 and 2022 is presented below:

| (in EUR) | Retirement benefits | Jubilee premiums |
|---|---|---|
| **Balance as at 1 Jan 2023** | **588,911** | **112,803** |
| Employee benefits | 63,067 | 37,953 |
| Interest expense | 22,483 | 4,484 |
| Pay-out | -53,612 | -6,032 |
| Actuarial gains/losses | -17,787 | -1,315 |
| **Balance as at 31 Dec 2023** | **603,062** | **147,894** |
| | | |
| **Balance as at 1 Jan 2022** | **617,118** | **87,948** |
| Employee benefits | 51,665 | 25,501 |
| Interest expense | 5,160 | 562 |
| Pay-out | -10,036 | -21,864 |
| Actuarial gains/losses | -74,997 | 20,656 |
| **Balance as at 31 Dec 2022** | **588,911** | **112,803** |

**Estimates and assumptions**

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

| | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| **Discount rate** | **3.20%** | **4.20%** |
| **Average wage growth** | **3.50%** | **3.50%** |
| **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 2023, the weighted average maturity of provisions for post-employment benefits is 21.6 years (2022: 21.3 years).

If the discount rate is decreased by 0.5%, provisions for retirement benefits would increase by EUR 25,858, and provisions for jubilee premiums by EUR 6,261. If the discount rate is increased by 0.5%, provisions for retirement benefits would decrease by EUR 23.446, and provisions for jubilee premiums by EUR 5,741. 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 10,808, while a 0.5% annual increase in future wage growth would result in an increase of the provisions for retirement benefits by EUR 13,456.

### 3.6.26 OTHER PROVISIONS AND OTHER NON-CURRENT LIABILITIES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Warranty repairs | 153,116 | 187,789 |
| **Total** | **153,116** | **187,789** |

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% (2022: 0.4%) of products sold during the financial year.

Movement in other provisions and other non-current liabilities for 2023 and 2022:

| (in EUR) | Warranty repairs | Other provisions |
|---|---|---|
| **Balance as at 1 Jan 2023** | **187,789** | **0** |
| Formation | 153,116 | 0 |
| Utilisation | -187,789 | 0 |
| **Balance as at 31 Dec 2023** | **153,116** | **0** |
| | | |
| **Balance as at 1 Jan 2022** | **154,412** | **4,936** |
| Formation | 187,789 | 0 |
| Utilisation | -154,412 | -4,936 |
| **Balance as at 31 Dec 2022** | **187,789** | **0** |

### 3.6.27 FINANCIAL LIABILITIES AND LEASE LIABILITIES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Non-current financial liabilities to banks | 8,357,280 | 10,648,254 |
| Non-current lease liabilities | 2,326,187 | 1,550,666 |
| Current borrowings from local banks | 18,248,053 | 8,224,221 |
| Current borrowings from others | 527,509 | 0 |
| Other current financial liabilities | 29,714 | 105,168 |
| Current lease liabilities | 1,326,318 | 1,141,540 |
| **Total** | **30,815,061** | **21,669,849** |

The Group has current bridge loans of EUR 7,000,000 (2022: EUR 7,500,000), current reverse factoring of EUR 2,500,000 (2022: EUR 2,500,000) and non-current bridge loans of EUR 7,000,000 (2022: EUR 0) 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 12,003,293 (2022: EUR

8.349.984, where EUR 5,880,000 (2022: EUR 5,950,000) were current loans, EUR 1,173,309 (2022: EUR 0) were current reverse factoring which is partly disclosed under Current borrowings from others and EUR 4,949,984 (2022: 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 2023 amounted to EUR 1,565,868 (note 3.6.22). Among current financial liabilities, the Group also disclosed non-current contractual loans for which it has not yet obtained a waiver for breach of contractual obligations, amounting to a total of EUR 4,743,395. More details can be found in Chapter C. Compliance with financial covenants.

| **31 Dec 2023** (in EUR) | **At fair value through profit or loss** | **At amortised cost** |
|---|---|---|
| Non-current financial liabilities to banks | 8,357,280 | 8,357,280 |
| Non-current lease liabilities | 2,326,187 | 2,326,187 |
| Current borrowings from local banks | 18,248,053 | 18,248,053 |
| Current borrowings from others | 29,714 | 29,714 |
| Other current financial liabilities | 527,509 | 527,509 |
| Current lease liabilities | 1,326,318 | 1,326,318 |
| **Total** | **30,815,061** | **30,815,061** |

| **31 Dec 2022** (in EUR) | **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** |

## 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 2025 and 2032 are linked to a fixed interest rate and 6-month EURIBOR. The current amount of non-current liabilities of EUR 7,656,399 (2022: 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 1,660,194.

Lease liabilities payable over the 2024-2027 period are linked to a fixed interest rate. The current amount of the non-current lease liabilities of EUR 1,326,318 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.

The Group transferred a part of the long-term loan under current financial liabilities, for which it has not yet obtained a waiver for breach of contractual obligations, amounting to a total of EUR 4,743,395. The contractual maturity of the mentioned loan remains unchanged. More details can be found in Chapter C. Compliance with financial covenants.

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

## B. MOVEMENT IN FINANCIAL LIABILITIES

| (in EUR) | 2023 | 2022 |
|---|---|---|
| **Balance as at 1 Jan** | **21,669,849** | **12,073,935** |
| Receipts from borrowings | 18,821,141 | 15,205,024 |
| Payments for borrowings | -13,899,180 | -5,311,924 |
| Receipts from other financial liabilities | 0 | 0 |
| Expenditure on other financial liabilities | 0 | -1,240,788 |
| Interes expense | -672,020 | -151,605 |
| Rental income | 2,663,348 | 1,198,866 |
| Rental deposits | 0 | -384,717 |
| Rental expenditure | -1,713,522 | -1,116,406 |
| Dividend liability | 0 | 1,240,788 |
| Interest liability | 660,768 | 156,677 |
| Factoring liability | 2,852,333 | 0 |
| Other financial liability | 432,344 | 0 |
| **Balance as at 31 Dec** | **30,815,061** | **21,669,849** |

## 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, respectively 1:3.0.
- the share of debt must be lower than the amount of capital,
- no more than 40% reduction in the number of employees.

As of December 31, 2023, the Group has breached contractual financial covenants related to loans received from commercial banks. Before the end of 2023, the Group informed the commercial banks about the breach and requested a waiver. The Group has been granted a waiver for breaches of contractual financial covenants for loans amounting to EUR 7,181,553, while for a portion of the long-term loan amounting to EUR 4,743,395, the waiver process is still pending. Since the Group has not yet received a waiver for the mentioned loan, the amount of EUR 4,743,39 is classified as a short-term loan. The contractual maturity of the mentioned loan remains unchanged.

### 3.6.28 CURRENT OPERATING LIABILITIES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Payables to local suppliers | 4,333,167 | 5,972,684 |
| Payables to foreign suppliers | 1,496,366 | 2,467,739 |
| Payables for uncharged goods and services | 177,909 | 119,271 |
| Other current liabilities | 1,050,067 | 1,525,212 |
| **Total** | **7,057,509** | **10,084,906** |

At 31 December 2023, payables to the members of the Management Board and shareholders amounted to EUR 61,407 (2022: EUR 60,141).

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

### 3.6.29 PAYABLES FOR ADVANCES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Short-term advances received from local customers | 3,244 | 116 |
| Short-term advances received from foreign customers | 1,004,178 | 1,267,856 |
| **Total** | **1,007,422** | **1,267,972** |

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) | 2023 | 2022 |
|---|---|---|
| Contract assets | 0 | 0 |
| Contract liabilities | 1,007,422 | 1,267,972 |
| **Contract-related balance** | **-1,007,422** | **-1,267,972** |

### 3.6.30 OTHER CURRENT LIABILITIES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Other current liabilities | 723,136 | 148,855 |
| **Total** | **723,136** | **148,855** |

Other current liabilities refer to accrued costs and expenses.

### 3.6.31 CONTINGENT LIABILITIES

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Guarantee for the customs-clearance procedure for the year | 3,000 | 3,000 |
| Pledge of property for credit purposes | 9,032,112 | 8,878,116 |
| Pledge of inventories of finished and semi-finished products | 2,900,000 | 3,000,000 |
| Lease contracts | 4,281,553 | 1,432,749 |
| **Total** | **16,216,665** | **13,313,865** |

As of 31 December 2023, the Group has no legal disputes that would result in significant potential liabilities.

### 3.6.32 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 49,543,365 (2022: EUR 55,367,051) 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 42,926,974 (2022: EUR 54,470,352) 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 7,365 (2022: EUR 1,650) comprise proceeds from the disposal of the items of property, plant and equipment.

Disbursements for investing activities of a total of EUR 9,441,413 (2022: EUR 7,509,424) comprise disbursements for the purchase of equipment, as well as disbursements on investments in real estate.

Receipts from financing activities of a total amount of EUR 18,821,141 (2022: EUR 14,998,355) comprise receipts from current and non-current borrowings and receipts from paid-in equity.

Disbursements from financing activities in the total amount of EUR 16,284,722 (2022: EUR 8,334,454) refer to the repayment of non-current and current liabilities and interest paid on financing.

### 3.6.33 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 2023 was as follows:

| Item (in EUR) | Carrying amount as at 31 Dec 2023 | Carrying amount as at 31 Dec 2022 |
|---|---|---|
| Trade receivables | 4,930,247 | 6,738,928 |
| Other operating receivables | 1,084,522 | 1,013,256 |
| Advances and other assets | 115,591 | 528,693 |
| Cash and cash equivalents | 148,926 | 383,270 |
| **Total** | **6,279,286** | **8,664,147** |

As at the balance sheet date, the largest credit risk exposure stems from trade receivables. The 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. The 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:

| Item | 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 more than 90 days | Total |
|---|---|---|---|---|---|---|
| Trade receivables (without allowance) | 3,437,732 | 842,934 | 212,396 | 113,716 | 441,551 | 5,048,329 |
| Other current operating receivables | 1,084,522 | 0 | 0 | 0 | 0 | 1,084,522 |
| Advances and other assets | 115,591 | 0 | 0 | 0 | 0 | 115,591 |
| **Total as at 31 Dec 2023** | **4,637,845** | **842,934** | **212,396** | **113,716** | **441,551** | **6,248,442** |

| Item | 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 more than 90 days | Total |
|---|---|---|---|---|---|---|
| Trade receivables (without allowance) | 5,455,605 | 1,016,181 | 173,627 | 0 | 228,090 | 6,873,503 |
| Other current operating receivables | 1,013,256 | 0 | 0 | 0 | 0 | 1,013,256 |
| Advances and other assets | 528,693 | 0 | 0 | 0 | 0 | 528,693 |
| **Total as at 31 Dec 2022** | **6,997,553** | **1,016,181** | **173,627** | **0** | **228,090** | **8,415,451** |

Movement in allowances for current operating receivables:

| Item | Allowances for current operating receivables | Allowances for current interest receivables | Total |
|---|---|---|---|
| **Balance as at 1 Jan 2023** | **134,575** | **0** | **134,575** |
| Allowances affecting profit or loss | 439 | 0 | 439 |
| Repayments | -16,932 | 0 | -16,932 |
| Write-downs | 0 | 0 | 0 |
| **Balance as at 31 Dec 2023** | **118,082** | **0** | **118,082** |

| Item | Allowances for current operating receivables | Allowances for current interest receivables | Total |
|---|---|---|---|
| **Balance as at 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 as at 31 Dec 2022** | **134,575** | **0** | **134,575** |

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.

| Item | 2023 | 2022 |
|---|---|---|
| Average days receivable under contract | 54 | 41 |
| Average maturity of receivables | 13 | 7 |
| **Total days of receivables** | **67** | **48** |

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 on short-term credit lines with the banks, thus ensuring it can meet its obligations at all times.

The Group also in 2023 carefully prepared its cash flow plans, to be able to forecast any cash surpluses or shortages and secure their optimum management.

| **Balance sheet item** (in EUR) | **Carrying amount** | **Contractual cash flows** | **Maturity up to 1 year** | **Maturity 1-5 years** | **Maturity more than 5 years** |
|---|---|---|---|---|---|
| Borrowings | 27,132,842 | 29,108,762 | 14,359,308 | 13,736,214 | 1,013,241 |
| Other financial liabilities | 660 | 660 | 660 | 0 | 0 |
| Lease liabilities | 3,652,505 | 2,784,313 | 1,189,671 | 1,594,642 | 0 |
| Interest | 29,054 | 29,054 | 29,054 | 0 | 0 |
| Trade payables | 7,057,509 | 7,057,509 | 7,057,509 | 0 | 0 |
| Other operating liabilities | 1,730,558 | 1,730,558 | 1,730,558 | 0 | 0 |
| **Total as at 31 Dec 2023** | **39,603,128** | **40,710,856** | **24,366,760** | **15,330,856** | **1,013,241** |

As of December 31, 2023, the Group has breached contractual financial covenants related to loans received from commercial banks. Before the end of 2023, the Group informed the commercial banks about the breach and requested a waiver. The Group has been granted a waiver for breaches of contractual financial covenants for loans amounting to EUR 7,181,553, while for a portion of the long-term loan amounting to EUR 4,743,395, the waiver process is still pending. Since the Group has not yet received a waiver for the mentioned loan, the amount of EUR 4,743,39 is classified as a short-term loan. The contractual maturity of the mentioned loan remains unchanged, therefore the contractual cash flows have not changed and the amounts in the table remain the same according to the maturity.

| Balance sheet item (in EUR) | 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 | 0 | 0 |
| Lease liabilities | 2,692,206 | 2,784,313 | 1,189,671 | 1,594,642 | 0 |
| Interest | 10,084 | 10,084 | 10,084 | 0 | 0 |
| Trade payables | 10,210,913 | 10,210,913 | 10,210,913 | 0 | 0 |
| Other operating liabilities | 1,416,827 | 1,416,827 | 1,416,827 | 0 | 0 |
| **Total as at 31 Dec 2022** | **33,203,165** | **33,737,451** | **21,078,074** | **10,651,456** | **2,007,921** |

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

## C. CURRENCY RISK

| Balance sheet item | EUR | PLN | ZAR | GBP | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 119,709 | 10,785 | 0 | 19,432 | 148,926 |
| Current operating receivables | 5,756,141 | 0 | 0 | 258,628 | 6,014,769 |
| Advances and other current assets | 51,750 | 13,568 | 0 | 50,273 | 115,591 |
| Trade payables | -6,978,026 | -31,167 | 0 | -48,316 | -7,057,509 |
| Other operating liabilities | -1,007,422 | 0 | 0 | 0 | -1,007,422 |
| **Financial position exposure as at 31 Dec 2023** | **-2,057,848** | **-6,814** | **0** | **280,017** | **-1,785,645** |

| Balance sheet item | EUR | PLN | ZAR | GBP | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 383,270 | 0 | 0 | 0 | 383,270 |
| 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 as at 31 Dec 2022** | **-2,687,728** | **0** | **-1,317** | **-1,003** | **-2,690,048** |

Following foreign exchange rates applied in 2023 and 2022.

| For EUR 1 | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| USD | 1.1050 | 1.0666 |
| HRK | 0 | 7.5365 |
| GBP | 0.8691 | 0.8869 |
| PLN | 4.3395 | 4.6808 |
| ZAR | 20.3477 | 18.0986 |

## 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 instruments:
- raising borrowings at a fixed interest rate.

Review of the Euribor interest rates in 2023 and 2022:

| Item | 6m EURIBOR | 3m EURIBOR | 1m EURIBOR |
|---|---|---|---|
| Value as at 31 Dec 2023 (in %) | 4.004 | 3.960 | 3.869 |
| Value as at 31 Dec 2022 (in %) | 2.405 | 1.972 | 1.526 |
| **Change in interest rate (in percentage points)** | **1.599** | **1.988** | **2.343** |
| Lowest value in 2023 (in %) | 2.732 | 2.162 | 1.883 |
| Lowest value in 2022 (in %) | -0.539 | -0.570 | -0.576 |
| **Change between the highest and lowest interest rate (in percentage points)** | **3.271** | **2.732** | **2.459** |
| Average value in 2023 (in %) | 3.646 | 3.348 | 3.168 |
| Average value in 2022 (in %) | 0.362 | 0.234 | -0.005 |
| **Change in the average interest rate (in percentage points)** | **3.284** | **3.114** | **3.173** |

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.

| Item | Interest expenses (in EUR) | |
|---|---|---|
| | **Decrease by 100 bp** | **Increase by 100 bp** |
| Financial instruments at a variable interest rate at 31 Dec 2023 | 29,680 | 29,680 |
| Financial instruments at a variable interest rate at 31 Dec 2023 | 35,732 | 35,732 |

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 the Group's long-term solvency position.

| (in EUR) | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Non-current financial liabilities | 10,683,467 | 12,198,920 |
| Current financial liabilities | 20,131,594 | 9,470,929 |
| Total financial liabilities | 30,815,061 | 21,669,849 |
| Total capital | 32,982,232 | 30,344,860 |
| **Debt/Equity** | **0.96** | **0.71** |
| Cash and cash equivalents | 148,926 | 383,270 |
| Net financial liabilities | 30,666,135 | 21,286,579 |
| **Net debt/Equity** | **0.96** | **0.70** |

## G. FAIR VALUES AND CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS

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

| **31 Dec 2023** (in EUR) | Carrying value | 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 | 6,014,769 | 6,014,769 |
| Cash and cash equivalents | 148,926 | 148,926 |
| **Total non-derivative financial assets at amortised cost** | **6,163,695** | **6,163,695** |
| Bank borrowings and other financial liabilities | -30,815,061 | -30,815,061 |
| Trade payables excluding amounts owed to the state, to employees and advances | -6,007,442 | -6,007,442 |
| **Total non-derivative financial liabilities at amortised cost** | **-36,822,503** | **-36,822,503** |

| **31 Dec 2022** **(in EUR)** | **Carrying value** | **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** |

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

### Assets at fair value

| **31 Dec 2023** **(in EUR)** | **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 | 6,014,769 | **6,014,769** |
| Cash and cash equivalents | 0 | 0 | 148,926 | **148,926** |
| **Total assets for which fair value is disclosed** | **0** | **0** | **6,163,695** | **6,163,695** |
| **Total assets** | **0** | **0** | **6,163,695** | **6,163,695** |

| **31 Dec 2022** **(in EUR)** | **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** |

### Liabilities at fair value

| 31 Dec 2023<br>(in EUR) | 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 | -30,815,061 | **-30,815,061** |
| Trade payables | 0 | 0 | -6,007,442 | **-6,007,442** |
| **Total liabilities for which fair value is disclosed** | **0** | **0** | **-36,822,503** | **-36,822,503** |
| **Total liabilities** | **0** | **0** | **-36,822,503** | **-36,822,503** |

| 31 Dec 2022<br>(in EUR) | 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** |

## 3.6.34 ADDITIONAL DISCLOSURES UNDER 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 the 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 a 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 based on 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 the 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 on 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.

### 3.6.35 EVENTS AFTER THE BALANCE SHEET DATE

As of December 31, 2023, the Group has breached contractual financial covenants related to loans received from commercial banks. Before the end of 2023, the Group informed the commercial banks about the breach and requested a waiver. The Group has been granted a waiver for breaches of contractual financial covenants for loans amounting to EUR 7,181,553, while for a portion of the long-term loan amounting to EUR 4,743,395, the waiver process is still pending. Since the Group has not yet received a waiver for the mentioned loan, the amount of EUR 4,743,39 is classified as a short-term loan. The contractual maturity of the mentioned loan remains unchanged.

After the reporting date, the Group activated an SIP Centre amounting to EUR 6,674,903, which was shown as assets under construction on the reporting date.

No other 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 2023.

### 3.6.36 THE IMPACT OF THE WAR IN UKRAINE ON GROUP'S BUSINESS OPERATIONS

The Group's operations ran smoothly in 2023 despite 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 interruption of deliveries by suppliers. The Group also secured additional liquidity in the form of short-term and long-term credit facilities, reverse factoring and an overdraft facility.

We estimate that due to 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 with respect to 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 war in Ukraine that could affect the level of provisions.

### 3.6.37 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board of the parent company is responsible for the preparation of the consolidated financial statements of the SIP Group for 2023, 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 2023.

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 parent company hereby adopts and approves the consolidated financial statements with the accompanying accounting policies and notes of the SIP Group for the year 2023.

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 parent company is not aware of any circumstances that might result in any material liability for such reasons.

Šempeter v Savinjski dolini, 25 April 2024

**mag. Uroš Korže**
President of the Management Board

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# INDEPENDENT AUDITORS' REPORT

## 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 2023, 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 to the consolidated financial statements, including material 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 2023 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 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 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.

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:

**CONSTANTIA PRIMIA revizijska družba d.o.o.**, Dunajska cesta 156, 1000 Ljubljana
M: 040 530 775, E: info@constantiaprimia.si, W: www.constantiaprimia.si
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 Other information for the financial year for which the consolidated financial statements are prepared, is consistent, in all material respects, with the consolidated financial statements;
- Other information has been prepared in accordance with the applicable legal requirements; and
- based on the knowledge and understanding of the Group and its environment in which it operates, we have not identified any material misstatements in the Other information.

***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 Consolidated 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 scepticism 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'

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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.

Ljubljana, 25 April 2024

On behalf of the auditing company
**CONSTANTIA PRIMIA**
**revizijska družba , d.o.o.**

**Primož Koder**

*Certified auditor*

*Director*

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CONSTANTIA PRIMIA d.o.o.
Dunajska cesta 156
1000 Ljubljana

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

**Note to the Annual Report SIP Group 2023 and Note 3.6.27 Financial Liabilities and Lease Liabilities**

As of December 31, 2023, the Group was in breach of the contractual financial covenants related to loans received from commercial banks. Before the end of 2023, the Group informed the commercial banks about the breach and requested a waiver. The Group has been granted a waiver for breaches of contractual financial covenants for loans amounting to EUR 7,181,553, while for a portion of the long-term loan amounting to EUR 4,743,395, the waiver process was still pending. Since the Group had not received the waiver for the mentioned loan by the time of audit and preparation of the annual report, the amount of EUR 4,743,395 was classified as a short-term loan. The contractual maturity of the mentioned loan remained unchanged.
After the completion of the audit and the preparation of the audited annual report, the Group received the waiver for the remaining part of the long-term loan amounting to EUR 4,743,395. The contractual maturity of the mentioned loan remained unchanged.

Šempeter v Savinjski dolini, 1 July 2024

**mag. Uroš Korže**
President of the Management Board