CONSOLIDATED AND SEPARATE ANNUAL REPORT 2020

DALEKOVOD GROUP

Dalekovod d.d.

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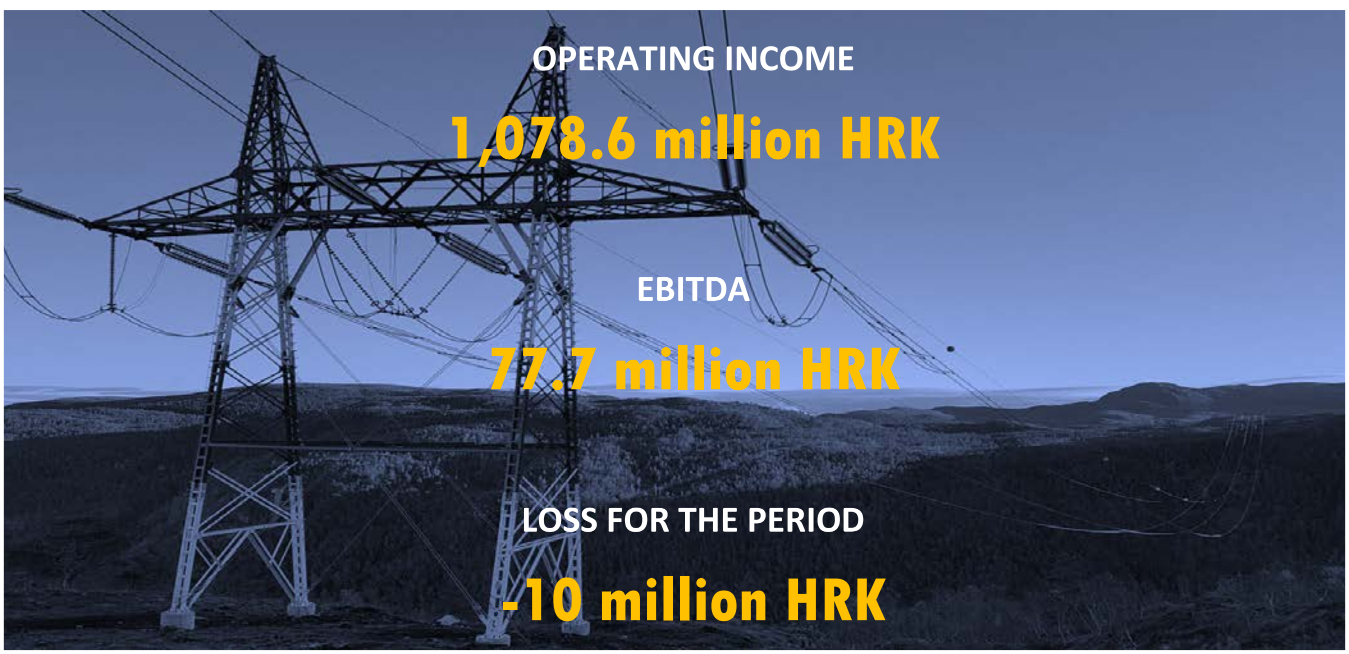
THE GROUP'S OPERATING INCOME, EBITDA AND NET PROFIT

(I–XII 2020)

OPERATING INCOME, EBITDA AND NET PROFIT OF THE COMPANY

DALEKOVOD D.D.

(I–XII 2020)



MANAGEMENT BOARD REPORT

Key messages

The business of the Dalekovod Group (hereinafter: "the Group") in 2020 was marked by great challenges related to the spread of the COVID-19 pandemic, i.e., the effect it had on the execution and dynamics of business activities. In addition to the increased expenses for active projects related to quarantine, transport, material costs, logistics and supply processes, the COVID-19 pandemic had an even greater impact on investors' activities and tender dynamics. The announcement of tender postponement in the second and third quarter also continued throughout the fourth quarter of 2020, and due to the mentioned reasons, the parent company (hereinafter: "the Company") contracted approximately 830 million HRK in new business activities in 2020, which is a significant decrease compared to 2019. The Group's management is closely monitoring the development of the COVID-19 pandemic situation, i.e., its effect on the Group's financial position, and has taken an active approach to managing the current circumstances with the goal of minimising the effect on the Group's business and financial position. The challenges related to the effect of the COVID-19 pandemic persisted throughout the first quarter of 2021 in all of the most important markets of the Group. A significantly more restricting measures of controlling the COVID-19 pandemic, focusing on the restriction / a more difficult entry of foreign citizens, have been implemented on the Norwegian and Swedish markets, where the Group generates the most significant business activities. Such measures have consequently had a significant negative impact on the realisation of active projects on those markets due to the slower realisation or postponement of project activities. As was the case during 2020, all the activities in the subsequent period have been directed at the health of the employees and their families, and the Group's safety policy and measures have been harmonised with the recommendations of the competent national authorities for the protection against the COVID-19 pandemic in all countries and markets where the Group conducts their business activities.

The complete restructuring process, i.e., the activities started in the first quarter of 2019, as well as the active management of the effect of the COVID-19 pandemic, have allowed the Group to become ready to face the mentioned challenges. All activities related to the operational restructuring, that had been planned during 2020, were mostly carried out during that year. Everything mentioned so far has enabled a relative persistence in financial impact realisation in 2020, however, the Group still operates from an extremely challenging financial position, i.e., with limited financial abilities. Furthermore, within the scope of total financial restructuring, in February 2021 a Call for Declaration of Interest for participating in financial restructuring was published in order to create a basis for improving the Company's financial position, adequate liability management and appropriate capitalisation. The Company has a significant amount of due and unregulated liabilities to financial creditors, which amounted to 49 million HRK in principal and interest on 31 December 2020, with significant maturities during 2021, and operates in conditions of limited liquidity.

Key events in 2020: (i) a high rate of business activities, (ii) the negative impact of the COVID-19 pandemic on active projects and tendering activities, (iii) the separation of the business segment into two companies, (iv) the sale of the galvanisation segment, (v) the sale of the Polish company, (vi) the continuation of the operational restructuring and (vii) the increase of due financial liabilities and business operation in conditions of limited liquidity.

Financial results for 2020

Indicators (in HRK 000)	Dalekovod Group			Dalekovod d.d.		
	2020	2019	Index	2020	2019	Index
Total revenue	1.289.656	1.210.398	107	1.078.633	977.135	110
Sales revenue	1.258.611	1.187.595	106	1.047.116	950.734	110
Operating expenses	(1.239.760)	(1.175.065)	106	(1.023.891)	(946.118)	108
EBITDA	77.704	66.332	+11.372kn	77.684	54.215	+23.469kn
EBIT	49.896	35.333	+14.563kn	54.742	31.017	+23.725kn
Net profit	25.611	8.672	+16.939kn	38.514	8.465	+30.049kn
Discontinued operations*	(53.129)	(5.421)	-47.708kn	(48.526)	(2.664)	-45.862kn
Net profit after discontinued operations	(27.516)	3.251	-30.769kn	(10.012)	5.801	-15.813kn
EBITDA margin	6,0%	5,5%		7,2%	5,5%	

*In accordance with the international financial standards, the items in the profit and loss account and in the reports on the Group's financial position in the previous period, i.e., in 2019 and in 2020, have been harmonised for financial impact of the mentioned transactions, i.e., the termination of business activity.

The Group's operating income amounts to 1,289.7 million HRK and has increased by 7% compared to the same period in the previous year. The Group's sales income amounted to 1,258.6 million HRK and has increased by 6% compared to the same period in the previous year. The income increase is the result of the high rate of contracting during 2019, and consequently, of the realisation of the newly contracted projects during 2020. The COVID-19 pandemic also significantly affected the affiliated companies, which suffered from income decrease of 20% during the year and experienced eventual business stabilisation by the end of the year. During the reporting period, some of the members of the Group were granted support by the Croatian Employment Service intended for companies affected by the COVID-19 pandemic, in a total amount of 5,7 million HRK. As it was previously mentioned, the highest risks related to the COVID-19 pandemic affected the tendering activities and their realisation in Scandinavian countries where the Group generates most of the sales income, which will ultimately have a negative impact on the Group's financial result and position in 2021.

The Group's EBITDA (calculated as follows: "Operating income - Operating expenses + Depreciation") amounts to 77.7 million HRK, which presents an increase of 11 million HRK compared to the same period in the previous year, and which is the result of the high order rate at the beginning of 2020, high rate of the Group's employment capacity and the realisation of more profitable projects than in the previous period, as well as of the implemented restructuring effect. The operational restructuring process resulted in significant improvement of the business operations and of the production segment, i.e., in the companies Proizvodnja MK d.o.o. and Proizvodnja OSO d.o.o., which ultimately resulted in the Group having a higher EBITDA than the parent company. Despite the improvement of the business operations in the subject companies, their financial position is still marked by insufficient working capital, unfavourable balance sheet structure and very limited liquidity, which are especially evident in the company Proizvodnja MK d.o.o. The Group's loss in 2020 amounts to 27.5 million HRK, and comprises the profit from the regular business activities in the amount of 25.6 million HRK and the loss from the discontinued operations (related to the sales of the galvanisation segment) in the amount of 53.1 million HRK.

Operating income of the parent company, Dalekovod d.d. (hereinafter: "the Company"), amounts to 1,078.6 million HRK and has increased by 10% compared to the same period in the previous year. The Company's EBITDA amounts to 77.6 million HRK, which presents an increase of 23.4 million HRK compared to the same period in the previous year. The Company's loss in the current year comprises the profit from the regular business activities in the amount of 38.5 million HRK and the loss from the discontinued operations (related to the sales of the galvanisation segment) in the amount of 48.5 million HRK.

The Group's financial position

Dalekovod Group (in 000 HRK)	Dalekovod Group			Dalekovod d.d.		
	2020	2019	Index	2020	2019	Index
ASSETS	**923,020**	**946,633**	**98**	**827,656**	**818,522**	**101**
Non-current assets	**329,130**	**395,850**	**83**	**352,620**	**421,034**	**84**
Current assets	**593,890**	**550,783**	**108**	**475,036**	**397,488**	**120**
Inventories	*72,598*	*85,249*	85	*7,543*	*6,347*	119
Trade and other receivables	*450,633*	*402,370*	112	*410,640*	*340,071*	121
Income tax receivable	*5,915*	*1,645*	360	*5,911*	*1,517*	390
Cash and cash equivalents	*64,100*	*61,519*	104	*50,805*	*49,553*	103
Assets held for sale	*644*	-	-	*137*	-	-
LIABILITIES	**868,272**	**864,119**	**100**	**808,048**	**788,902**	**102**
Provisions	**33,361**	**36,270**	**92**	30,030	31,468	95
Non-current liabilities	**285,300**	**376,595**	**76**	**293,322**	**384,851**	76
Borrowings	*245,641*	*337,903*	73	*249,269*	*342,023*	73
Mezzanine debt	*30,723*	*29,516*	104	*35,117*	*33,721*	104
Trade and other payables	-	*240*	-	-	*171*	-
Deferred tax liability	*8,936*	*8,936*	100	*8,936*	*8,936*	100
Current liabilities	**549,611**	**451,254**	**122**	**484,696**	**372,583**	**130**
Borrowings	*77,465*	*71,162*	109	*80,930*	*76,059*	106
Trade and other payables	*407,092*	*348,438*	117	*342,010*	*265,332*	129
Income tax payable	*25,590*	*31,654*	81	*24,973*	*31,192*	80
Liabilities held for sale	*39,464*	-	-	*36,783*	-	-
EQUITY	**54,748**	**82,514**	**66**	**19,608**	**29,620**	**66**
Share capital	*247,193*	*247,193*	100	*247,193*	*247,193*	100
Share premium	*86,142*	*86,142*	100	*86,142*	*86,142*	100
Legal reserves	*11,652*	*11,652*	100	*11,487*	*11,487*	100
Treasury shares	*(8,466)*	*(8,466)*	100	*(8,466)*	*(8,466)*	100
Statutory and other reserves	*75,584*	*75,584*	100	*40,654*	*40,654*	100
Revaluation reserves	*40,707*	*40,707*	100	*40,707*	*40,707*	100
Translation reserves	*(4,588)*	*(4,340)*	106	-	-	-
Accumulated loss	*(393,476)*	*(365,958)*	108	*(398,109)*	*(388,097)*	103

The Group's assets decreased by 2% compared to the amount on 31 December 2019, while the liabilities stayed on the same level. The decrease in the assets and liabilities were caused mostly by the sales of the galvanisation assets, which is stated on the inventories (subcategory: fixed assets available for sale) and liabilities items (liabilities on the basis of fixed assets available for sale). Considering the fact that the financial impact of the sales of the galvanisation segment is negative, and as it is stated in the profit and loss account, in the discontinued operations activity part, the Group's capital decreased by 34% and amounts to 54,7 million HRK (due to the realised loss in the amount of 27,5 million HRK). Regarding other changes in the financial position, we would like to emphasise the increase in claims from buyers and other claims in the amount of 48 million HRK in the assets segment, while there was an increase in liabilities towards suppliers and other liabilities in the amount of 59 million HRK in the liabilities segment.

The Company recorded an increase in assets of 1%, i.e., they increased by 9,1 million HRK. The Company's capital has decreased by 34% and amounts to 19,6 million HRK due to the realised loss in the amount of 10 million HRK.

Type of financial debt	Dalekovod Group			Dalekovod d.d.		
	2020	2019	Index	2020	2019	Index
Senior debt	213,790	212,875	100	213,790	212,875	100
Lease liabilities	45,825	101,324	45	44,641	100,985	44
Bonds	15,686	16,871	93	20,705	22,261	93
Mezzanine	30,723	29,516	104	35,117	33,721	104
Prebankruptcy liabilities	65,680	67,239	98	65,680	67,239	98
Other	18,740	10,822	173	22,165	14,724	151
Total financial debt	390,444	438,647	89	402,098	451,805	89
Adjusted financial debt	**294,041**	**341,892**	**86**	**301,301**	**350,845**	**86**

The Group's total financial debt on 31 December 2020 amounts to 390.4 million HRK and has decreased by 48.2 million HRK compared to the amount on 31 December 2019. The decrease in financial debt is mostly the consequence of the settlement with the creditor from the company HETA Asset Resolution d.o.o., i.e., of the sales of the galvanisation segment. The adapted financial debt on 31 December 2020 amounts to 294 million HRK and has decreased by 47.9 million HRK compared to the amount on 31 December 2019. During 2021, the Group and Company additionally acquired an amount greater than 135 million HRK on the basis of liabilities towards financial creditors and an amount of due debt towards financial creditors on 31 December 2020.

The overview of the Group's key segment business activities

The **Energetics sector** (construction of transmission lines and substations) recorded an increase in income of 19% in 2020 compared to the same period in the previous year, and the total income amounts to 958 million HRK. During the year, the COVID-19 pandemic affected the increase in expenses caused by the obligatory quarantine, material costs and logistics challenges. A similar trend also persisted during the first quarter of 2021. The biggest part of the income, i.e., 89%, was generated on the international market. During the year, a significant number of current transmission system operators acquired pre-qualifications. In Germany, a pre-qualification process has been completed in the transmission lines departments for chief transmission system operators, in companies such as 50 Hertz and Tennet, and a pre-qualification process is ongoing for transmission system operators in the companies Amprion and TransnetBW.

The Department of high- and low-voltage is currently carrying out works related to 28 big projects (5 in Norway, 11 in Sweden, 6 in the Balkan region and 6 in Croatia) and 17 smaller ones, and the substation department is carrying out works related to 6 big projects and 5 smaller ones. During the first three quarters of 2020, 9 new projects were contracted in the Department of high- and low-voltage, which include some smaller projects worth around 673 million HRK, and 5 projects in the substation department in the amount of 47 million HRK.

The **Infrastructure sector** recorded a decrease in income of 21% compared to the same period in the previous year, and this year's total income amounts to 103 million HRK. The biggest part of income was generated by carrying out project of building Dugo Selo–Križevci railroad. The biggest number of projects is related to the investor HŽ Infrastruktura, followed by HAC and the City of Zagreb. Some of the investors withdrew from several projects, which had a negative impact on the business result of the sector. There are about 10 currently active projects, and the activities are performed at 7 construction sites. So far, 5 projects in the amount of 55 million HRK have been contracted, and 3 projects in the amount of approximately 150 million HRK are currently in the signing phase.

During the reporting period, the **Production segment** (Proizvodnja MK d.o.o. and Proizvodnja OSO d.o.o.) was marked by the separation of the company Proizvodnja MK i OSO d.o.o. into two companies, Proizvodnja MK d.o.o. and Proizvodnja OSO d.o.o. The separation enabled a more efficient implementation of separate strategies for individual segments, all with the goal of increasing business efficiency of both companies. The business result of both companies in 2020 is a confirmation of the strategies and the restructuring process that were carried out this year and during the previous one. A total of 40% decrease in income has been recorded for both companies. Total income of both companies was 140.9 million HRK. Significant decrease was recorded for the company Proizvodnja MK d.o.o., which is the consequence of the COVID-19 pandemic and the lower number of tendering activities. In total, about 3,500 tons were produced/processed, which represents a decrease of 35% compared to the same period in previous year. Company Proizvodnja OSO d.o.o. produced/processed 1,400 tons, which represents an increase of 15% compared to the same period in the previous year. Total EBITDA of both companies amounted to -0.4 mil. HRK, which presents an increase of 31.6 mil. HRK compared to same period in previous year. Companies are operating in conditions of limited liquidity, with high rate of due debt towards suppliers.

The **Designing segment** related to the activities of the company Dalekovod Projekt d.o.o. recorded a decrease in operating income of 13% compared to the same period in the previous year, and it amounted to 34.5 million HRK. The COVID-19 pandemic has significantly affected this segment of the Group, especially in the context of tender postponement. In the domestic market, contractual activities have slowed down considerably in terms of restrictions on field work and operational activities of both public and private investors. The tendering dynamics, i.e., the expected work, has also slowed down considerably.

Name of the company (in 000 HRK)	Operating income			EBITDA*		
	2020	2019	Index	2020	2019	Index
Dalekovod d.d.	1,078,633	977,135	110	77,684	54,215	+23,469 HRK
Proizvodnja MK d.o.o.*	69,469	206,433	68	(9,159)	(32,586)	+32,231 HRK
Proizvodnja OSO d.o.o. *	70,201			8,804		
Dalekovod Projekt d.o.o.	34,238	39,382	87	3,000	2,861	+139 HRK
Cinčaonica Usluge d.o.o.**	28,145	43,765	64	(17,077)	461	-17,538 HRK
Dalekovod EMU d.o.o.	3,175	3,726	85	182	1,034	-852 HRK
Other affiliated companies	147,932	133,168	111	3,508	2,954	+554 HRK
Eliminations	(142,137)	(193,211)	74	10,762	37,393	-26,631 HRK
The Group's total	**1,289,656**	**1,210,398**	**107**	**77,704**	**66,332**	**+11,372 HRK**

*On 1 March 2020, in the company Proizvodnja MK i OSO d.o.o. there was a separation of the economic unit related to the production of suspension and coupling equipment. That economic unit continues to operate as a separate business entity Proizvodnja OSO d.o.o. (PIN: 55411035652), and the company Proizvodnja MK i OSO d.o.o. changed its name to Proizvodnja MK d.o.o.

**Termination of business activity

Strategy – business guidelines for future periods

In addition to achieving the main goals aimed at stabilising income and profit, the year was marked by the beginning of restructuring process and significant growth of newly contracted business endeavours. During the year, a new organisational structure of company Dalekovod d.d. (hereinafter: "Company" or "Parent Company") and other members of the Group has been implemented. New organisational structure has established a more cost-effective business process that can face challenges and dynamics of Groups' future development more efficiently. During the year, a strong dynamic of contracting and tendering was recorded in relation to project activities, i.e., performance of works and design. Parent Company participated in over 60 tenders, and the same can be said for other members of the Group as well. Production segment has recorded a decrease in the contracting dynamics, which is to some extent a consequence of the financial position and competitiveness of the production segment of the Group, i.e., the company Proizvodnja MK i OSO d.o.o.

In addition to the traditional primary markets of Scandinavia, the Balkan Region, Central and Eastern Europe and the domestic market, the positioning on the German market is also planned (where Dalekovod Group has not been present so far), where the pre-qualification process was successfully performed for the biggest German transmission system operator. The pre-qualification procedure for other transmission system operators in Germany is also underway. Such a step forward in view of the announced investments (30% of all investments in Europe according to ENTSO-E) in the reconstruction of the transmission network represents a huge potential for a long-term presence of the company in the implementation of projects on the German market.

Industry in which the Dalekovod Group competes expects a significant improvement of the market conditions in the future due to two key reasons: (i) relatively old transmission network that requires renewal and (ii) the shift towards renewable energy sources and general trend of transitioning from energy generated by traditional fossil fuels to electricity generated by renewable energy sources.

In addition to the financial and operational restructuring implementation, the strategic focus of the Dalekovod Group will be on the development of business operations on the domestic and foreign markets. The Dalekovod Group expects that the aforementioned future activities will enable a significant growth in income and profitability in the next medium-term period.

Management and supervisory board

As at 31 December, the Dalekovod Group ("Group") comprises parent company Dalekovod d.d. and fourteen subsidiaries owned by parent company and one company managed as joint venture (2019: fifteen subsidiaries owned by parent company and one company managed as joint venture) – please see note 22 and 24.

Dalekovod d.d. Zagreb (hereinafter referred to as the Company) was founded in accordance with laws and regulations of Republic of Croatia. Company's registered office is in Zagreb at Marijana Čavića 4. Company's shares are listed on ZSE (Zagreb Stock Exchange).

The main activity of the Company is design, production, construction and erection of power facilities, road, rail and city traffic facilities and telecommunication infrastructure.

Board

The Management Board manages the affairs of the Company in accordance with the positive regulations, Company Articles of Association and the Rules of Procedure of the Management Board.

The Management Board of the Company as at 31 December 2020 consists of Mr. Tomislav Rosandić (President of the Management Board), Mr. Hrvoje Išek (Member of the Management Board), Mr. Ivan Kurobasa (Member of the Management Board) and Mr. Đuro Tatalović (Member of the Management Board).

At April 30, 2020 Mr. Tomislav Đurić ceased to be a Member of the Management Board while Mr. Hrvoje Išek became a Member of the Management Board form May 1, 2020.

Supervisory Board

The Supervisory Board of the Company as at 31 December 2020 consists of: Mr. Dinko Novoselec (Chairman of the Supervisory Board), Mr. Toni Đikić (Deputy Chairman of the Supervisory Board), Mr. Hrvoje Markovinović (Member of the Supervisory Board), Mr. Mladen Gregović (Member of the Supervisory Board), Mr. Gordan Kuvek (Member of the Supervisory Board), Mr. Damir Sertić (Member of the Supervisory Board) and Mr. Dražen Buljić (Member of the Supervisory Board)

Mr. Dražen Buljić was appointed a member of the Supervisory Board with a term of office starting from January 1, 2020.

On April 22, 2020, Mr. Željko Perić and Mr. Vladimir Maoduš ceased to be a Members of the Supervisory Board and new members became Mr. Damir Sertić and Mr. Mladen Gregović with the beginning their term in office from April 23, 2020.

On April 30, 2020, Mr. Dinko Novoselec became President of the Supervisory Board.

On March 7, 2021, members of the Supervisory Board Hrvoje Markovinović, Dinko Novoselec, Toni Đikić, and Gordan Kuvek resigned.

On April 21, 2021, members of the Supervisory Board Krešimir Kukec, Dinko Novoselec, Irena Weber and Dalibor Balgač were elected for a term of 4 years.

According to the authorities provided by the Companies Act, Articles of Association and Standing Orders of operations of Dalekovod dd. Supervisory Board, the Supervisory Board overlooks company's business operations. Sessions of the Supervisory Board are held at least four times annually (more frequently if required); members of Supervisory Board often discuss strategy and operational plan of Company at such sessions. Supervisory Board acts solely for management and supervision and sub-committees (commissions) are appointed with specific responsibilities.

Dalekovod d.d. is represented to Supervisory Board by representatives appointed by the Company. In compliance with the Labour Act, employees also have their representative in the Supervisory Board. General shareholders influence on management processes is specified by the Companies' Act.

The fees payable to the members of the Supervisory Board are fixed and are not subject to their presence at meetings. The qualification and expertise of the members of the Supervisory Board for strategic management of the organization in terms of economic, environmental and social issues are not evaluated separately. However, the members of the Supervisory Board are expected to have expertise and abilities to recognize risks and circumstances arising from the operations of Dalekovod d.d. and from its surrounding (which also includes the issues relating to social responsibility in business operations). It is necessary to constantly improve the Supervisory Board's procedures for supervising the management of economic, environmental and social effects, including some significant risks and circumstances, as well as adherence to or compliance with internationally agreed standards, codes of conduct and principles.

The Supervisory Board has its sub-committees that help Supervisory Board within the scope of their competence, thereby contributing to giving proposals for decisions accompanied with reasons for and against acceptance thereof. The Supervisory Board may form following sub-committees:

- Sub-committee for corporate management
- Sub-committee for audit
- Sub-committee for appointment and rewarding

Own shares

In 2020, the Company has not acquired any of its own shares.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries are detailed in Note 22 to Financial Statements.

Investments in associates are detailed in Note 23 to Financial Statements.

Investments in joint ventures are detailed in Note 24 to Financial Statements.

Subsequent events

There have been no important subsequent events.

Targets and policies in connection with financial risk and capital risk management

The Company and the Group are exposed to market risk, price risk, credit risk and liquidity risk, which are, together with capital risk management, detailed in Note 4 to Financial Statements.

Shareholder structure (as at 31 December 2020)

According to the Articles of Association, shareholders' voting right is not limited to a certain percentage of the number of votes and there are no time limits for exercising the voting right. Each ordinary share entitles to one vote at the General Meeting.

The Company's rights and obligations arising from acquiring its own shares are exercised and performed in accordance with the Companies Act and the Articles of Association.

SUBJECT	NUMBER OF SHARES
Konsolidator d.o.o.	15.000.000
Individuals	7.045.883
Financial Institutions	1.956.537
Others	618.044
Own shares	98.841
TOTAL	**24,719,305**

Affiliates and subsidiaries

REPUBLIC OF CROATIA

1. PROIZVODNJA MK d.o.o., Trnoščica 17, Dugo Selo 79970472123/ 080437239
2. PROIZVODNJA OSO d.o.o., Vukomerička 9, 10410 Velika Gorica 55411035652/ 081296773
3. DALEKOVOD EMU d.o.o., 43.ulica br. 36., Vela Luka 52516402606/ 090027780
4. DALEKOVOD-PROJEKT d.o.o., Marijana Čavića 4, Zagreb 30467839701/ 080445749
5. DALEKOVOD ADRIA d.o.o., Marijana Čavića 4, Zagreb 37315161677/ 080703108
6. EL-RA d.o.o., Vela Luka (Općina Vela Luka) 30113948970/ 060033055
7. CINČAONICA USLUGE d.o.o. - do 10.07.2020 90304389514/ 081231295

On March 1, 2020, there is a separation of economic unit related to the production of suspension and coupling equipment in company Proizvodnja MK i OSO d.o.o.. The stated economic unit continues its business as a separate business entity Proizvodnja OSO d.o.o., and the company Proizvodnja MK and OSO d.o.o. changes its name to Proizvodnja MK d.o.o.

ABROAD

8. DALEKOVOD Plt, Namibia
9. DALEKOVOD POLSKA S.A., Poland, Płocka 15, 01-231 Warszawa, Poland, NIP: 9512112646
10. DALEKOVOD TKS a.d., Doboj, BiH (in liquidation)
11. CINDAL d.o.o. Doboj; BiH, Rudanka 27, 74000 Doboj, BIH JIB: 41028864540002
12. DALEKOVOD MOSTAR d.o.o., BiH, Ante Starčevića bb, Mostar, BIHJIB: 4227105910001
13. DALEKOVOD LJUBLJANA d.o.o., Zavetiška ul. 1, 10000 Ljubljana, SLO, Porezni broj: SI 28940024
14. DALEKOVOD UKRAJINA d.o.o., Ukraine, 4 Lunacharskogo str. 02002 Kiev, Ukraine, MBS: 36683014
15. DALEKOVOD LIBYA for engineering, joint company, Libya
16. DALEKOVOD NORGE AS, Norway, Sandviksveien 26, 1363 Høvik, Norway, MBS: 998628253

BRANCH OFFICES

17. DALEKOVOD NUF, Norway, Sandviksveien 26, 1363 Høvik, Norway
18. DALEKOVOD Skopje, 50te Divizije br. 36, Skopje-Centar, Skopje, North Macedonia
19. DALEKOVOD CRNA GORA, Ul. IV Proleterske br. 34, Podgorica, Montenegro
20. DALEKOVOD UKRAJINA - branch in Ukraine, 4 Lunacharskogo str. 02002 Kiev, Ukraine
21. DALEKOVOD – Branch Of Kosova, Kosovo, St. Garibaldi 3/7, 10000 Prishtine, Kosovo
22. DALEKOVOD D.D. – branch in Sweden c/o Amesto Accounthouse AB, Roselundsgatan 54, 118 63 Stockholm, Sweden
23. DALEKOVOD DD Zagreb – podružnica Mostar, Ante Starčevića bb, 88000 Mostar

Description of products and services

Over time, Dalekovod d.d. has become specialized in performing contracts on a “turn-key” basis in the following areas:

• electrical facilities, especially transmission lines between 0.4 and 750 kV
• transformer stations of all levels and voltages up to 500 kV
• air, underground and underwater cables up to 110 kV
• telecommunication facilities, all types of networks and antennas
• production of suspension and joining equipment for transmission lines and TS stations from 0.4 to 750 kV
• production and installation of all metal parts for roads, especially for road lighting, security barriers and traffic signals, tunnel lighting and traffic management
• electrification of railway tracks and tramways

SOCIAL RESPONSIBILITY REPORT

GENERAL STANDARD INFORMATION

Report profile

The Social Responsibility Report that Dalekovod d.d. prepares at the annual level has been prepared for the 1 January – 31 December 2020 reporting period. It was prepared by the Dalekovod Group and covers three companies within the Group, in which the parent company has the dominant influence. The last report was published in 2020 (for the 2019 calendar year). The person responsible for questions related to the report and its content is the Head of Corporate Communications. The Dalekovod Group selected the option of core compliance with G4 guidelines. The report has not been externally verified. Until the next report, the Dalekovod Group commits to continually improve current practices and to monitor the progress of all companies within the Group, as well as relations with stakeholders, and to notify the public of this in the subsequent report and to consider the option of external verification.

Organization profile

The Social Responsibility Report was prepared by the Dalekovod Group, although such a form of the Group has not been legally registered. Nevertheless, given that Dalekovod d.d. is a signatory of the UN Global Compact, we believe that, concerning financial and environmental indicators, the companies Proizvodnja MK i OSO d.o.o. (from March 1 2020, Proizvodnja MK d.o.o. and Proizvodnja OSO d.o.o.) and Dalekovod Projekt d.o.o. must not be ignored, because, together, they form a whole, and this in the design, production and construction of transmission lines, and with their financial reports and environmental indicators have a significant impact on the sustainable operations of the Dalekovod Group.

Dalekovod Group is continuously working on improving current practices and monitors the work of its companies.

Supply chain

Nearly all our vendors in the past year are located in Europe, which is understandable given that all our projects last year were carried out in Europe. During cooperation with vendors, particular care is taken to respect the following standards:

- ISO 9001 – continual improvement of quality of products and process management
- ISO 14001 – environmental management
- OHSAS 18001 – improvement of occupational health and safety.

Based on these standards, operating procedures for all business processes, as well as for the procurement process, are defined in the Dalekovod Group. As part of the implementation of these work procedures, vendor list is compiled. The method of forming the Vendor List is defined according to internal procedures; however, it essentially consists in verifying new vendors by means of questionnaires and visits to major new suppliers by our quality control department.

Permanent vendors on the Vendor List are evaluated at the end of each year in such a manner as to measure quality and delivery deadlines.

As Dalekovod Group is essentially a design, production and engineering company, the structure of vendors can vary significantly from one year to the next depending on the projects themselves, and the purchase process begins at the stage of offering projects, when potential suppliers and the conditions with which to enter the bidding process are defined, and often investors within the tender documents predefine a few vendors whose equipment must be used in the actual implementation of the project. The result of a job obtained through the tendering process is the signing of a contract with the best equipment vendors for each individual project.

Annual contracts with vendors are signed for numerous areas for anticipated purchases that are repeated regardless of the projects themselves. Other annual contracts are related to services and certain materials whose procurement is carried out independently of the projects themselves.

Membership in associations

With the objective of achieving wider social objectives, Dalekovod is a member of:

- Global Compact
- Croatian Chamber of Economy’s Corporate Social Responsibility Board
- American Chamber of Commerce in Croatia
- Nordic Chamber of Commerce in Croatia

Dalekovod, as a group, an individual company or employees, is a member of the following organizations at home and abroad:

• Croatian Exporters
• Croatian Chamber of Economy
• CIGRE (International Council on Large Electric Systems)
• HO CIRED (Croatian National Committee)
• MIPRO (Croatian Society for Information and Communication Technology, Electronics and Microelectronics)
• IEEE (Institute of Electrical and Electronics Engineers)
• PMI (project Management Institute)
• Croatian Standards Institute
• Croatian Welding Society
• Croatian Society for Quality, Croatian Public Relations Association (HUOJ)
• Croatian Employers' Association
• Croatian Chamber of Architects and Civil Engineers
• Association of Production of Metals and Metal Products
• Association of Production of Electric and Optic Equipment
• Association of Power Supply – Community of Renewable Energy Sources
• HED (Member of World Energy Council)

Owing to such memberships, experts working for Dalekovod d.d. participate in professional meetings at home and abroad, contributing with their papers every year, where they present the work, solutions and products of Dalekovod d.d. By sponsoring and actively participating in the preparation and organization of meetings that are held in Croatia, Dalekovod d.d. directly helps the activities of professional organizations, considering them important places for the promotion of their knowledge and for the exchange of experience with other experts.

Identified material aspects and limits

Affiliated companies included in this report are Dalekovod d.d., Dalekovod Projekt d.o.o. and Proizvodnja MK i OSO d.o.o. (since March 1 2020, Proizvodnja MK d.o.o. and Proizvodnja OSO d.o.o.).

In the preparation of this report, taken into consideration was the representation of economic, environmental and social dimensions from an equal number of aspects because they are equally important to the business operations and functioning of the Group.

This report was written according to GRI4 guidelines and Global Compact principles. Given the nature of business operations – design, production and construction, the environmental dimension is extremely important. The aspects of water, energy, materials, biodiversity, compliance and dispute resolution mechanisms in relation to the environment must certainly be highlighted here, and they are described in detail in this report.

In accordance with the importance and specific characteristics related to business operations, these two companies follow those topics that are significant to their areas of activity.

Research & development activities

Focus on investors and partners and ongoing innovation are the Group values governing its market research and new product development activities. We regularly undertake market research activities to better understand the market needs and provide services and products to meet any challenges. At the same time, we monitor trends and developments on highly developed markets with a focus on Scandinavia and potential expansion beyond Europe.

Within these activities numerous co-operations are being settled with various small and medium enterprises (SMEs) as well as local Universities and Institutes but also start-up community bringing new, innovative and advance technology into existing products and services of Dalekovod as a group.

Stakeholders

Internal and external stakeholders were involved in the preparation of sections of the report. Internal: employees, other workers and their unions. External: customers, local communities (donations), shareholders and investors and vendors.

Group companies often act within a consortium organized for an individual project, which additionally may result in a reduction in the establishment of direct contact of a Group company with customers and/or communities. Therefore, besides customers, employees (including labor unions with which they are associated), suppliers and the public sector (acting in the double role as a party ordering a product and as business conditions regulator) may be recognized as key participants. Key participants are identified through an analysis of business processes and circumstances and risks brought about by relationships with individual participants. Communication is conducted on a continual basis with key participants through meetings, and while conducting business, where their legitimate interests are taken into consideration.

Within corporate social responsibility activities, communication with a wide range of representatives of civil society and individuals is maintained. To achieve full implementation of the organization and implementation of corporate social responsibility activities communication with the above stakeholders took place in several manners: communication in business relationships and regular meetings, special thematic discussions and meetings, trade shows and professional conferences.

Dalekovod's key stakeholders are customers, suppliers, employees and shareholders. Communication is conducted with all of them depending on key issues and interests. In addition to the usual reporting system, for all relevant business activities (mail newsletter, website, announcements on the Stock Exchange and in the media), communication is conducted in other ways as deemed necessary. The main topics over the course of the previous period were related to the restructuring of the Company, the impact of COVID-19 pandemic on business, key investment projects and business results, with shareholders, significant contracts at home and abroad.

Communication with employees is conducted by e-mail: svi@dalekovod.hr ; svi_projekt@dalekovod.hr; svi_mk@dalekovod.hr and svi_oso@dalekovod.hr, and by means of different notices and decisions by the Company. Websites are recognized as an important method of communicating with partners at home and abroad, but also the public in general.

We have the following websites:

www.dalekovod.com, www.dalekovod-proizvodnja.com, www.dalekovod-projekt.com.

This is the reason why great importance is to be paid to this kind of communication with the intention of making information on the website timely, accurate and suitable to the media used. In compliance with market requirements and needs, the websites of Dalekovod d.d. and all the above-listed companies within the Dalekovod Group are translated into English. Our main page www.dalekovod.com has additional available versions in Norwegian and Swedish.

There is a special, internal web, intended for employees, containing several directories with documents enabling information sharing. Key topics that arise from communication with participants include the future development of the Company and safety of employment, professional development of employees and satisfaction of growing market, environmental and regulatory standards required for acting on (especially international) markets.

Business ethics

On 4 July 2005, Dalekovod signed a Statement on Acceptance of the Code of Business Ethics, which was confirmed in May 2005 by the Assembly of the Croatian Chamber of Economy. The provisions of the Business Code must be constantly conveyed to employees of the Dalekovod Group and partners. Dalekovod's business policy is founded on the following business principles:

- Satisfaction of customers, vendors and other stakeholders
- Environmental protection, protection of health and safety
- Constant improvement of products and processes, as well as
- Involvement and motivation of all employees.

The principles are founded on the positive regulations of the Republic of Croatia and adopted international standards. Dalekovod accepts and conducts international and local principles, charters and standards that contribute to improved products, work processes and production, as well as for protecting and advancing the natural and social environment.

SPECIFIC STANDARD INFORMATION

ENVIRONMENTAL DIMENSION

Environmental management

The Dalekovod Group has opted for sustainable development by achieving a balance between the environment, society and our activities, to meet the requirements for development, without jeopardizing perspective of future generations. Sustainable development, transparency and conformity are basic components of the economic growth of Dalekovod.

Environmental management promotion

• Dalekovod Group believes that the environmental management and promotion of its activities in accordance with economic activities are among the basic responsibilities of the top management.

• Dalekovod Group performs monitoring, measurement and analysis of the achieved results to determine goals in relation to reducing environmental impact and preventing pollution .

• Group is continuously trying to improve environmental management by performing internal audits.

• Dalekovod Group meets all legal regulations, requirements of investors and its own guidelines relating to environment.

• Dalekovod Group seeks to be open in communication with the local community and interested parties, and transparently report on its environmental impacts.

• Dalekovod Group seeks to raise awareness of environmental protection through continuous training of its employees.

• Dalekovod Group operates on a global scale and promotes environmental protection activities in all the Dalekovod Group's activities accordingly.

Reporting period

• This report refers to the results of the activities from 1 January 2020–31 December 2020, data for Cinčaonica usluge d.o.o. at the location Dugo Selo refer to the period until 15 July 2020, and may refer to results before and after observed period that occurred prior to the publication of this report

Publication

• The latest publication of ecological performance with the data for 2020 was published in Annual consolidated and separate Management Report for 2020.

Reference guidelines

• GRI (Global Reporting Initiative)

Significant changes in Dalekovod Group which had an impact on environmental management

• Environmental management system policies for Group Companies have been reviewed, approved and posted on the website

• Internal audits are conducted according to a predefined plan.

• Environmental risk management: In order to protect the environment and reduce impact on environment, we place special emphasis on assessing the environmental risks associated with our activities.

Activities carried out in Cinčaonica usluge d.o.o. after 15 July 2020 are no longer an integral part of the Dalekovod Group.

Data related to the location Vukomerička 9, Velika Gorica refer to Proizvodnja MK d.o.o. and Proizvodnja OSO d.o.o.

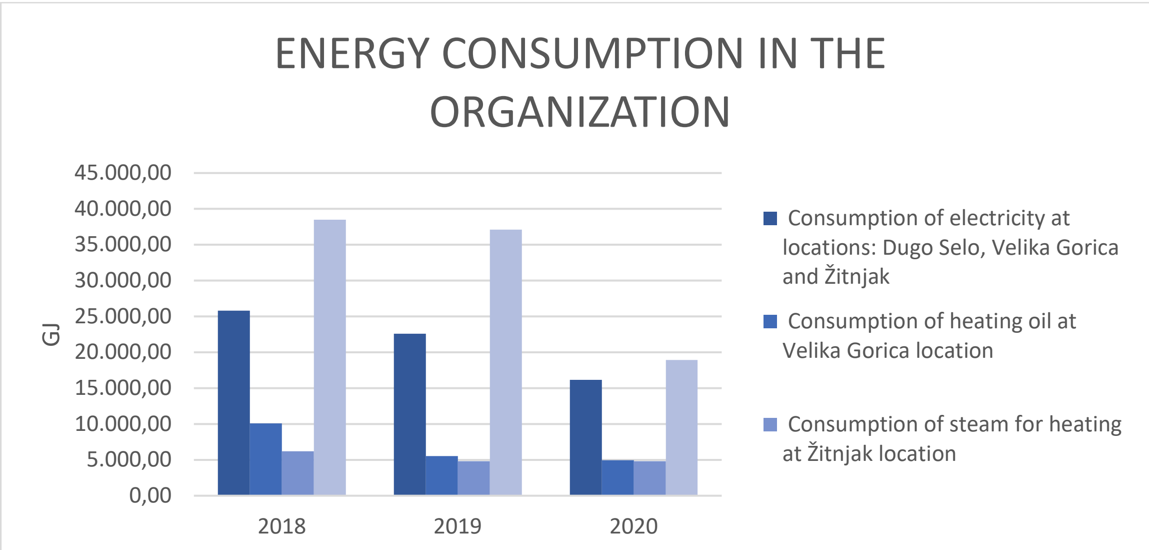
Materials

Strategic materials used in the manufacture of metal structures, suspension and jointing equipment, anti-corrosion steel protection are iron, zinc, aluminum, bronze, hydrochloric acid, paints and varnishes. Countries of origin for metal materials are Czech Republic, Italy, Poland and Spain. Chemicals used in production processes are purchased from suppliers from Hungary, Sweden and Croatia. Product lifetime is 50-70 years. Total 85 % of products are exported to over 80 countries around the world.

80% of the revenue of Dalekovod d.d. is generated from foreign projects. For the realization of construction projects of transmission lines and substations on foreign construction sites, products of suppliers chosen by the investor are installed. For projects in the Republic of Croatia, metal structures and suspension and jointing equipment produced inside Group are used.

Energy

The energy used within the organization refers to the consumption of electric energy, natural gas, steam, fuel oil and fuel (fuel is used for transport within the organization and transport of people and products outside the organization). The energy used comes from non-renewable sources.

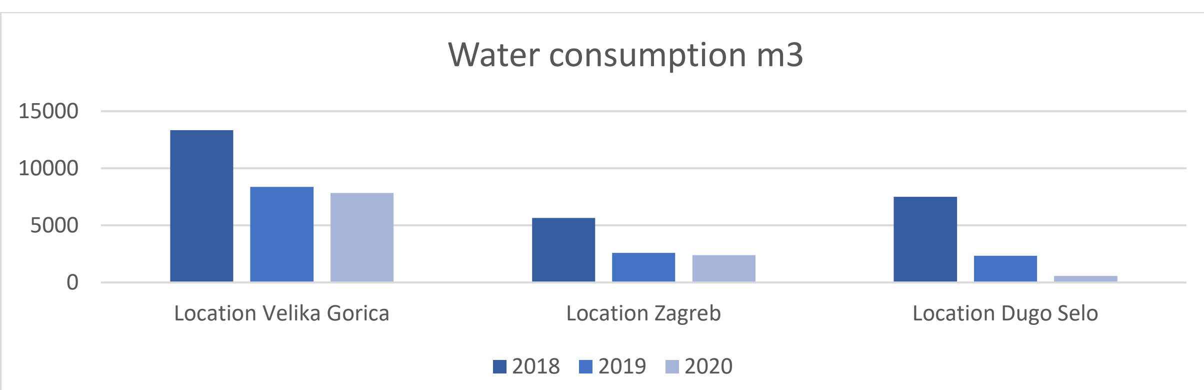


Energy intensity

Electric energy consumption per unit of product is the most significant for the Velika Gorica location. Natural gas consumption per unit of product defines the energy intensity for the Dugo Selo location.

Water consumption

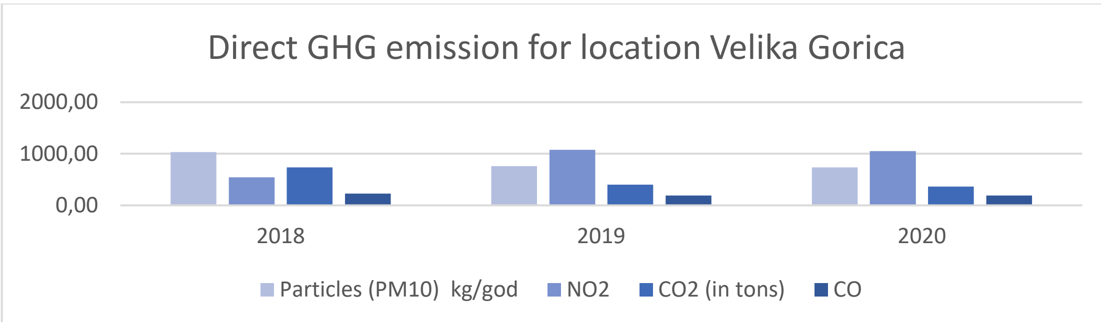
Water is supplied from local waterworks. Water consumption is monitored according to purpose: sanitary water, technological water, cooling water and reclaimed water. More than 65 % of the spent water refers to sanitary water consumption.

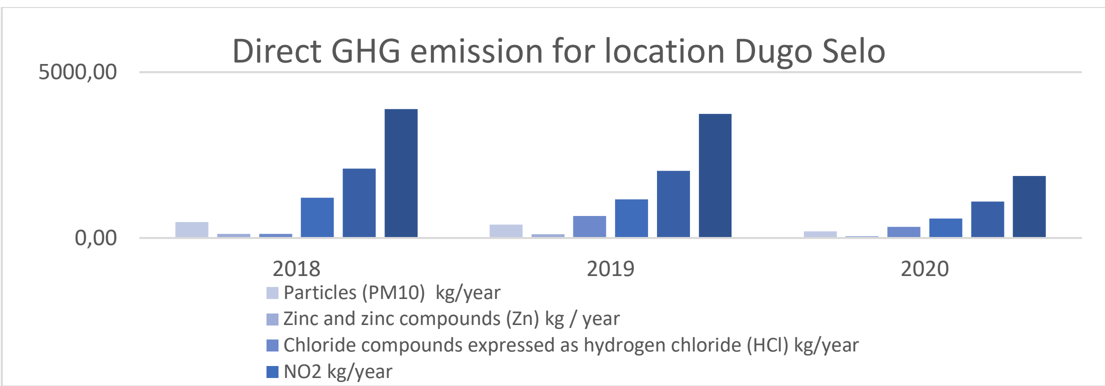


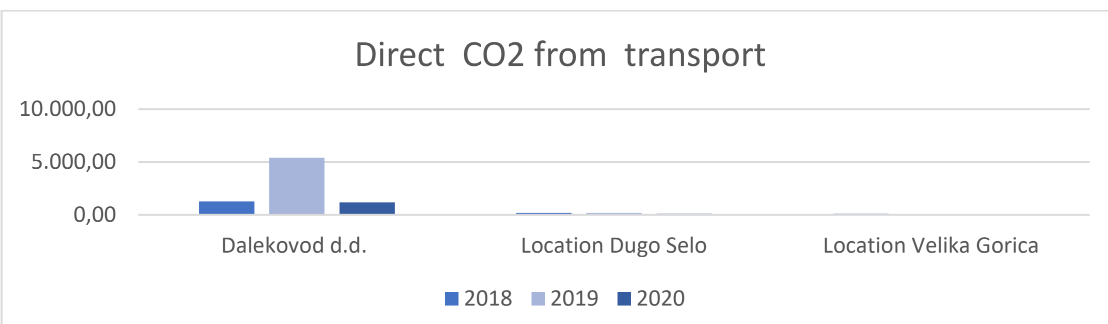
Emissions

At Dugo Selo and Velika Gorica production sites, direct greenhouse gas emissions occur during the combustion of fuel oil - at Velika Gorica site for heating purposes and at Dugo Selo site by combustion of gas during boiler room operation and during combustion for process technology needs. In the production process itself, the following air pollutants are formed: solid particles, zinc and zinc compounds, chlorine compounds and VOCs are formed during technological processes.

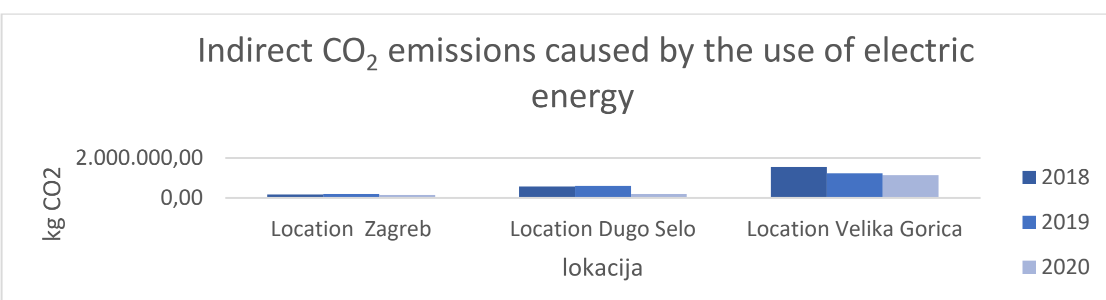
Direct emissions are calculated based on fuel consumption for transport of materials and workers.





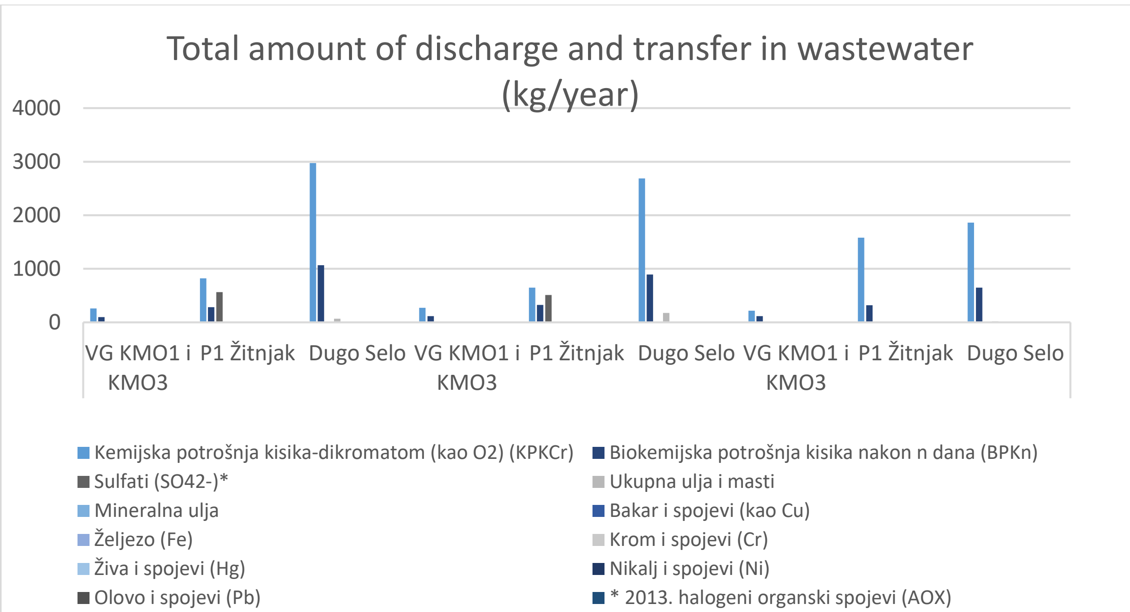


Indirect emissions refer to the consumption of electricity for machines and air conditioners.



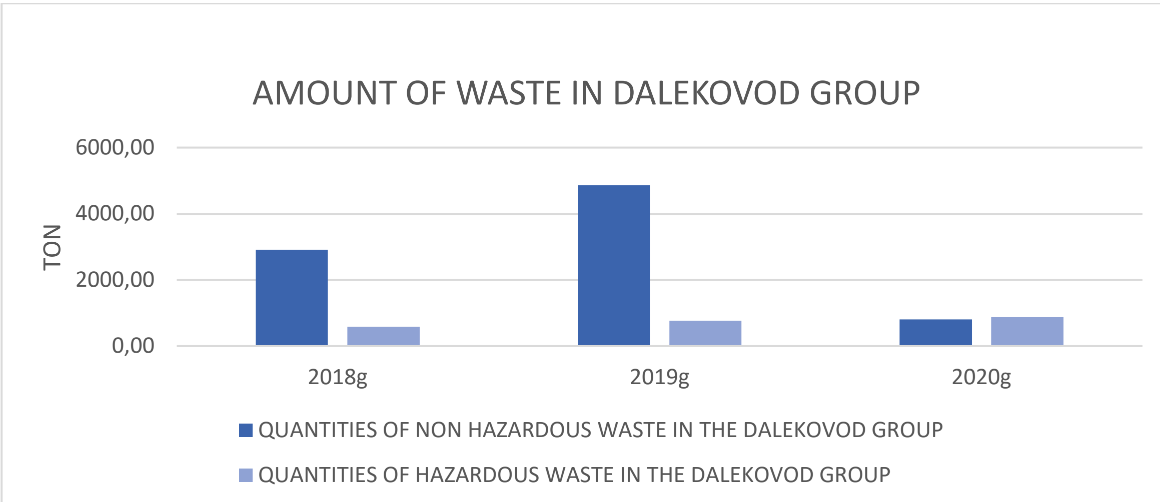
Waste water and other waste

Water discharge includes all discharge water and rainwater from its own locations. At the location Dugo Selo, sanitary water and rainwater are discharged, technological water is not released into the recipient. At the Velika Gorica location all water from the manipulative surfaces as well as water from technological processes is discharged through the separator. All tests are performed by an accredited laboratory. At the sites of Velika Gorica and Žitnjak, all the tests are carried out in accordance with valid water permits, at the location of Dugo Selo in accordance with the Decision on integrated environmental requirements. All wastewaters through the public sewerage network are discharged into the water area of the Sava river. There were no deviations from the prescribed values.



Waste management

Wastes are selected, collected, temporarily disposed and dispatched in accordance with legal requirements. When disposing of waste, the applicable legal documentation that accompanies waste is fulfilled. Waste is handed over to the waste collectors who have a Waste management license. From non-hazardous waste, the highest percentage of waste generation refers to recyclable metal waste, the most significant hazardous waste is acid generated in the process of chemical treatment before hot deep galvanizing process.



Regulatory compliance

The monitoring of legislation is conducted systematically. The procedure is as follows: continuously review the official website of the Official Gazette (Narodne novine), www.nn.hr, is checked whether a new issue of the Official Gazette has been published. All beneficiaries receive information on new changes by email. Operating procedures of the management system are aligned if there have been significant amendments to legislation that affect Dalekovod. Assessment of alignment of the management system to legislation is conducted. On foreign construction sites, legal regulation is done on portals of ministries responsible for: environmental protection, health and safety and construction.

In 2020, there were no inspections by the competent institutions. The Company did not have to pay fines or non-monetary sanctions for non-compliance with environmental laws and regulations. So far, there have been no environmental disputes.

Total environmental protection expenditures and investments

Total expenditures include waste management, wastewater management, tracking and remediation for emissions in air, expenditures for external employee training and, related to environmental protection, salaries of employees in the environmental management system and costs of external certification of the environmental management system. In the period under examination, there were no significant investments for the purchase of equipment, materials with the purpose of reducing pollution. There were no monetary fines for remediation of spills, as well as non-compliance with environmental laws and regulations. So far, there have been no environmental disputes.

Vendor assessment with respect to environmental impact

Dalekovod Group has in place a defined list of eligible vendors. Dalekovod vendors that are certified according to ISO 9001, ISO 14001, OHSAS 18001 are automatically entered on the list of eligible vendors, while those that do not have a certified system are checked out by a specified questionnaire. Removing the vendor or changing vendor ranking on the list depends on its significant negative environment impact.

Biodiversity

Our factories at the Dugo Selo and Velika Gorica locations, as well as offices with workshop for maintenance of tools and mechanization at the Žitnjak location are not situated in areas of high value in terms of biodiversity and protected areas. One of Dalekovod's main business activities is the construction of power transmission lines. The construction takes place in a natural environment, with all the necessary permits and in compliance with national ecological networks, which are adhered to already in the design phase. Avoided in this manner are any negative impacts on protected areas, including biodiversity. Works are performed in periods when they have the smallest impact on biodiversity. During work, it is forbidden to harass and hunt animals and feed wild animals. Seed forests are in accordance with the documentation of the investor or according to national laws. We always try to avoid or minimize any consequences on land use, surface and groundwater, cultural sites and biodiversity. For impacts that cannot be completely avoided, compensation measures are taken to reduce their impact. Participation and communication with the investor and the interested party (local community, legislative bodies) are important for increasing transparency and meeting the expectations of interested parties.

SOCIAL DIMENSION

HEALTH AND SAFETY AT WORK

Organization of the safety at work committee at the Dalekovod Group

Each affiliated company has its own Occupational Safety and Health Committee.

Since April 1, 2020 company Proizvodnja MK i OSO d.o.o. becomes Proizvodnja MK d.o.o. and a new company Proizvodnja OSO d.o.o. is formed. After the separation, two Boards are established, which operate separately, i.e. one within the Production of MK d.o.o., and the other within the Production of OSO d.o.o. The company Cinčaonica usluge d.o.o. was also part of the Dalekovod Group at Dugo Selo location with its Board. Location Dugo Selo is not part of the group from 10 July 2020.

Members of the Safety at Work Committee are:

a) Chairman of the Board - Employer's Representative

b) Deputy Chairman of the Committee - Occupational Safety Expert

c) authorized representatives of Business Units

d) Workers' delegates or their coordinator- elected representatives of workers

e) competent occupational safety specialist

f) a specialist in occupational medicine (contracted work medicine service)

The Chairperson of the Board or his Deputy convene a session at least once in six months and define the agenda depending on the current issue of safety and health at work, regarding planning and monitoring of the application of rules on occupational safety.

If the President fails to convene a session within that period, the delegate or Coordinator of delegates, or Works Council or a Trade Union Commissioner with the rights and obligations of the Works Council, has the right to convene a session of the Committee.

Goals and activities of the Committee

- by proposing preventive activities to influence the prevention of incident situations, work-related disorders, work injuries, and work-related illnesses
- proposing activities to strive for a constant improvement of working conditions and improvement of occupational safety
- Encourage risk reduction in all work processes and workplaces
- contribute to the achievement of permanent health protection of all employees
- planning and monitoring the training and notifying workers about safety at work

To achieve these goals, the following activities are undertaken:

a) define the objectives of safety and health protection as well as plans and programs for their realization in the implementation of legal provisions on occupational safety

b) define activities that will measure system efficiency and oversee the implementation of corrective and preventive activities that have been adopted at sessions of the Safety at Work Committee.

c) define priorities in undertaking necessary activities.

d) to improve co-operation between heads of services and units in solving problems encountered in the Health and Safety Management System.

e) to propose methods of continuous improvement of working conditions i.e. undertaking preventive activities to reduce the risk of work injuries and occupational illnesses related to work, and to supervise their implementation.

Co-ordination of activities related to organization of Board sessions, collecting input data, and drafting the minutes, is responsibility of Chairman of the Board in co-operation with Occupational Safety Expert.

Minutes from sessions of the Committee are submitted to all members of the Committee and the Workers' Council. Suggestions for improvement measures and responsible decision-makers who are part of minutes are sent to the Chairman of the Board for approval.

In Dalekovod d.d., Proizvodnja MK d.o.o., Proizvodnja OSO d.o.o., Cinčaonica usluge d.o.o. and Dalekovod Projekt in 2020, total of 8 sessions were held, with participation of Committee members, representatives of the Workers' Council, trade unions, directors of certain sectors in Dalekovod, as well as members of the Management Board.

A total of 39 improvement measures at meetings of the Board of Associated Companies were adopted in 2020.

Supervision and communication within the activities of the Committee

A total of 169 employees who work at Dalekovod d.d. location Marijana Čavića 4 in Zagreb, are under the direct supervision of the Committee in Dalekovod d.d.

Other 698 employees, who work on domestic and foreign construction sites, communicate via selected delegates with the Coordinator of Workers' Commissions at central office.

Given the complexity and number of projects, the workers of Dalekovod d.d. on external projects they elect a commissioner (representative) of workers for each project.

Employees in Proizvodnja MK d.o.o. (119 employees), Proizvodnja OSO d.o.o. (162 employees) and Cinčaonica usluge d.o.o. can communicate directly with their commissioners at the site.

All of 88 Dalekovod Projekt d.o.o. employees, are under the direct supervision of the Committee because they work at the location of Marijana Čavića 4, Zagreb

Analysis of injuries in 2020 for Dalekovod Group

In 2020, a total of 15 work-related injuries were recorded with the consequence of sick leave. The total number of recorded incidents that resulted in injury was 17. Types of injuries, injury rates, work-related illnesses, sick leave, absence from work, work-related fatalities were analyzed for each firm separately in the occupational injury analysis.

Dalekovod d.d. and Dalekovod Projekt d.o.o.

Working hours 2020	1,340,070
Injuries/Incidents/Cases	
Fatalities	1
HSE Total Recordable Injuries	17
Lost Time Injuries	15
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	2
Incident requiring first aid	2
Restriction of work	2
Cases of substitute work due to injury	0
Dangerous occurrences	46
Near hits / misses	40
HSE/HSA or equivalent improvement notices	12
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	6

Total Recordable Injury Frequencies (TRIF)

LTI - value = (N x 200.000) / T

N = Total number of fatalities, lost time injuries, incidents requiring medical treatment, loss of consciousness, cases of substitute work due to injury

T = Number of hours worked during the year = 1,340,070 TRIF - - Calculation for 2020 = 2.83

Lost Time Injury Rate (LTIF)

LTI - value = (N x 200,000) / T

N = Total number of accidents, causing a sick leave of at least one day =15

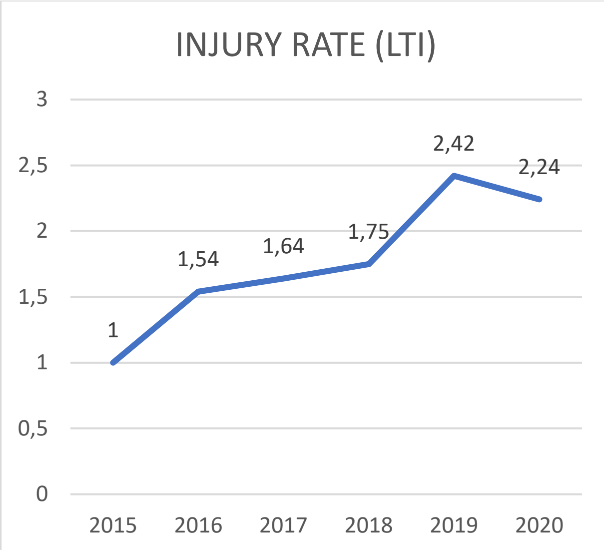
T = Number of hours worked during the year LTIF - - Calculation for 2020 = 2.42

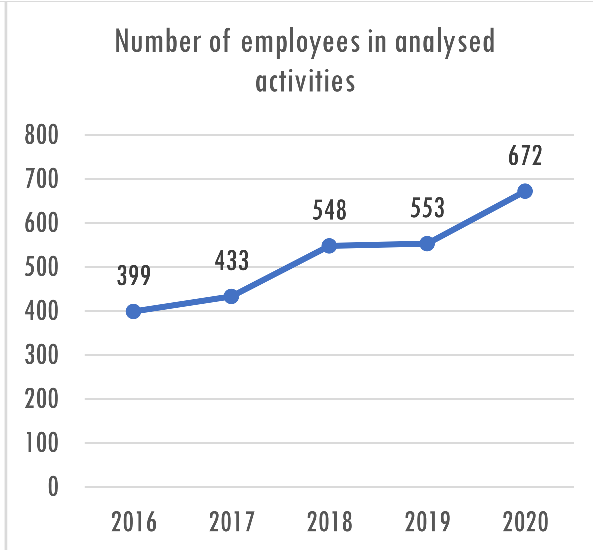
Severity Rate (SR)

SR – value = N / T

N = Total number of lost workdays

T = Total number of recordable incidents SR - - Calculation for 2019 H = 58,03





During 2020 there has been an decrease of injury rate (2.24) compared to 2019 (2.42). It remains slightly increased compared to last 5 years average. The past year has seen a slight decline in the injury rate despite the fact that the number of workers exposed to injuries has increased compared to 2019.

The program of measures for 2021 consists of 12 measures that are divided into six areas, and relate to improvements in the areas: education at all levels, supervision, information, communication, organization and safety culture

The trend of the specific rate in the last three years is related to activities on external construction sites, and especially to weather conditions and demanding terrains, and the increased number of newly employed workers..

Considering that Dalekovod plans to influence the reduction of the number of injuries and the loss of hours of sickness (caused by injuries at work), the goals for 2021 are set.

Objective program has long term character and especially since it is linked to improvement of safety culture of involved in actives. Activities related to this process are part of the program for achieving the goals in 2021.

Proizvodnja MK i OSO d.o.o. / Proizvodnja MK d.o.o.

Working hours 2020	258,849
Injuries/Incidents/Cases	
Fatalities	0
HSE Total Recordable Injuries	2
Lost Time Injuries	2
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	0
Restriction of work	0
Cases of substitute work due to injury	0
Dangerous occurrences	0
Near hits / misses	0
HSE/HSA or equivalent improvement notices	4
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)

TRIF - value = (N x 200,000) / T

N = Fatalities, lost time injuries, incidents requiring medical treatment, loss of consciousness, cases of substitute work due to injury

T = Number of hours worked during the year

TRIF Calculation for 2020 = 1.55

Lost Time Injury Rate (LTIF)

LTI - value = (N x 200,000) / T

N = Total number of accidents, causing a sick leave of at least one day

T = Number of hours worked during the year

LTIF Calculation for 2020 = 1.55

Severity Rate (SR)

SR - value = N / T

N = Total number of lost workdays

T = Total number of recordable incidents

SR Calculation for 2019 H = 6.5

Proizvodnja OSO d.o.o.

Working hours 2020	228,204
Injuries/Incidents/Cases	
Fatalities	0
HSE Total Recordable Injuries	3
Lost Time Injuries	3
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	0
Restriction of work	0
Cases of substitute work due to injury	0
Dangerous occurrences	0
Near hits / misses	3
HSE/HSA or equivalent improvement notices	5
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)

TRIF - value = (N x 200,000) / T

N = Fatalities, lost time injuries, incidents requiring medical treatment, loss of consciousness, cases of substitute work due to injury

T = Number of hours worked during the year TRIF Calculation for 2020 = 2.63

Lost Time Injury Rate (LTIF)

LTI - value = (N x 200,000) / T

N = Total number of accidents, causing a sick leave of at least one day

T = Number of hours worked during the year LTIF Calculation for 2020 = 2.63

Severity Rate (SR)

SR - value = N / T

N = Total number of lost workdays

T = Total number of recordable incidents SR Calculation for 2019 H = 2.44

Cinčaonica usluge d.o.o. – On Dugo Selo location until 15 July 2020

Working hours 2019	106,894
Injuries/Incidents/Cases	
Fatalities	0
HSE Total Recordable Injuries	1
Lost Time Injuries	1
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	0
Restriction of work	0
Cases of substitute work due to injury	0
Dangerous occurrences	0
Near hits / misses	1
HSE/HSA or equivalent improvement notices	0
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)

TRIF - value = (N x 200,000) / T

N = Total number of fatalities, lost time injuries, incidents requiring medical treatment, loss of consciousness, cases of substitute work due to injury

T = Number of hours worked during the year

TRIF Calculation for 2020 = 1.87

Lost Time Injury Rate (LTIF)

LTI - value = (N x 200,000) / T

N = Total number of accidents, causing a sick leave of at least one day

T = Number of hours worked during the year

LTIF Calculation for 2020 = 1.87

Severity Rate (SR)

SR - value = N / T

N = Total number of lost workdays

T = Total number of recordable incidents

SR Calculation for 2020 H = 3

Total number of incidents of non-compliance with regulations and/or voluntary codes concerning health and safety impacts of products and services within the reporting period:

Incidents of non-compliance with regulations resulting in a fine or penalty in 2019		
Br	consequence	cause
0	Termination of contract/warning notice	Violation of the rule of non-use of narcotics
Incidents of non-compliance with regulations resulting in a fine or penalty in 2019		
Br	consequence	cause
0	Termination of contract/warning notice	Working without PPE
0	Termination of contract/warning notice	Violation of safety rules
Incidents of non-compliance with voluntary codes		
Br	consequence	cause
/	/	/

The company is in the scope of campaign "Safety culture" determine the rules which workers should follow at the workplace

THE LUCKY 13

During work hours:

• I am not under influence of drugs or alcohol

• While driving, I use a safety belt, hands free equipment and drive according to the conditions on the road

On the construction site:

• I follow the two-barrier rule

• I use the mandatory personal protective equipment

• I use the fall protection equipment for safe working at height

• I secure excavations and open pits

• I do not walk under a suspended load

• I respect the safety zones around working machinery

• I put hazardous and explosive substances under lock and key

In vicinity of electrical installations:

• I follow the correct procedure during setting up and removal of earthing

• I check visible earthing on disconnected lines

• I check visible barriers and protections while working close to installations under voltage

• I make sure all the measures have been implemented to prevent people and machines coming within the outer limit of the live working zone.

Employment, dignity of work and human rights

The social sustainability dimension concerns the impact of the organization on social systems within which it acts. In this report, it is divided into segments of employment, dignity of work and human rights, society and responsibility for the product. An important strategy guideline of Dalekovod d.d. is directing the development of the Dalekovod Group towards creating a company of knowledge based on the quality of human resources and total intellectual capital.

Because of increased demand for competitiveness, professional development of employees and efficient management of human resources are considered the most important priorities of the organization. When determining labor relations and internal organization, the Dalekovod Group companies comply with applicable regulations, collective and individual agreements and protect human and civil rights, the dignity and reputation of every employee. Neither discrimination nor harassment of employees due to their sex, race, religious, national or political orientation, physical defects, age, family status, personal characteristics or convictions is allowed. The equal salaries for equal work principle are applied in the entire organization. Dalekovod d.d. ensures safe working conditions, which implies minimum differences in health and safety, providing suitable training and insurance from consequences of such risks, where applicable.

The freedom of association and collective negotiation is not limited, and rights specified by the Collective Agreement go beyond legal rights and are above average in the industrial sector. In the event of violation of legal or contractual rights, an employee or an associate is entitled to seek resolution of the problem caused and the protection of his/her own rights. Persons with permanent or temporary specific requirements shall, at the time of employment or while performing their work obligations, be treated equally, however, their specific requirements shall be taken into consideration. The Human Resources Department oversees the area of employment. A common policy compliant with the policy of Dalekovod d.d. is implemented (parent company).

Employment and structure of employees

Permanently employed persons work abroad in representative offices and subsidiaries, depending on requirements. The local labor force at construction sites is subject to the requirements of carrying out larger projects in distant areas and is employed on a temporary basis. In Scandinavian countries, where Dalekovod has the largest presence, local management with the knowledge of the local language is employed with aim to further develop this market.

Trends in the labor force area indicate that the inflow is mainly related to recent employment of younger and highly educated staff, but also with specialist knowledge (electro-mechanics, locksmiths, carpenters) because of working requirements at construction sites, while the outflow is mainly related to retirement of employees.

In Dalekovod d.d., employees work for an indefinite period, full-time, while employees hired for a definite period possess, during the period of their employment agreement, the same rights as those employees working full-time, in compliance with applicable regulations.

Collective agreements and employees rights

The first collective agreement was concluded on 14 June 1996 with the Croatian Metalworkers' Labor Union – Velika Gorica Subsidiary, Croatian Construction Labor Union – Dalekovod subsidiary, Croatian Labor Union Association, Dalekovod Labor Subsidiary, and it is applied to all employees. The Collective Agreement has been revised several times. The recent changes and amendments were adopted in December of 2020. Announcements that refer to important changes in business operations are given in compliance with the Labor Act and are not specifically mentioned in the Collective Agreement. Announcements about significant changes in business operations are given to the Workers' Council, that is, if it has not been organized in a company, to the principal labor union commissioner.

HEALTH AND OCCUPATIONAL SAFETY

During 2020, the world was hit by the COVID-19 disease pandemic, which affected the operations of Dalekovod d.d.

Dalekovod, as a socially responsible company, takes care of all aspects of business and wants to communicate as transparently as possible with all its stakeholders - employees, partners and investors, customers and suppliers, the community and others. The Company has crisis headquarters to manage the situation of the development of the epidemic of COVID-19 disease, caused by the SARS-COV-2 virus, and actions in activities that are challenging for the company's operations. The Headquarters, which is responsible for the entire Dalekovod Group, regularly reports on possible changes related to business continuity, internal and external communication channels managed by the Corporate Communications Office.

At the beginning of the crisis, Management Board of Dalekovod d.d. decided to take measures to prevent the spread of the COVID-19 virus epidemic to ensure health of employees and business continuity, on the basis of which new executive decisions are made daily, in accordance with the situation and thus manage the crisis.

In order to ensure business continuity, and in accordance with the importance and responsibility of the company to ensure the functionality of critical national infrastructure in the Republic of Croatia and the countries where Dalekovod operates, Dalekovod continues all its business activities on active projects to the extent permitted by current circumstances, simultaneously planning activities in case of escalation of the crisis.

MEASURES TAKEN DURING 2020

PLAN IN CASE OF PATIENTS is distributed in accordance with the Notification Plan available at all locations and construction sites, and includes contacts in case of symptoms and detailed instructions for action.

PROTECTION OF RISK GROUPS - workers over the age of 60 and persons suffering from serious illnesses, as well as workers who may be considered a risk group, are referred to the use of annual leave and / or compulsory work from home

CONTROL OF ACCESS TO LOCATIONS - ban on coming to work for workers who have a high body temperature and respiratory problems

BUSINESS TRAVEL CONTROL - ban on all business trips, except those necessary for business continuity.

HUMAN RESOURCES MANAGEMENT - work from home of administrative staff, list of employees with the right to access locations, separation of shifts in production facilities, division of key people of the company into teams that operate without mutual contact

MAXIMUM SAFETY MEASURES ON CONSTRUCTION SITES - in addition to the usual maximum safety standards, additional protection measures and restrictions related to social contacts and keeping a distance have been introduced, the use of masks, gloves and disinfection is mandatory.

Training and education

Dalekovod Group companies are constantly working on the professional and personal development of employees, from the moment they are hired to the present. Trainees, who are employed for the first time after completing their education, are introduced into the jobs and assignments for their posts by the companies that hire them.

Trainees are introduced to the organization, the entire production program, references, marketing and promotional activities, corporate social responsibility and other activities in Dalekovod Group. As part of their training, they visit factories at the Dugo Selo and Velika Gorica locations, and are introduced to their production processes. This important task that is conducted by Human Resources Department. Quality, frequency and right timing for the training and development have a significant impact on the sustainability and competitiveness of the companies.

The education program attempts to adapt to the requirements of the companies, and it is becoming increasingly complex, and includes in itself the required qualifications for the current job (for instance, training for bridge crane operator, training for chainsaw and rotating tools operator etc.), the possibility of expanding knowledge of tasks that employees conduct – supplementary training and the possibility for advancement of motivated and capable individuals.

Education program adapted to employee requirements is divided into several forms of education: acquisition of IT knowledge, foreign languages, certification exams, various training (professional seminars, program for managers, undergraduate and graduate study program, doctorate program).

Human Resources Department encourage learning and improving of foreign languages, which is organized in accordance with the requirements of their jobs, languages are also learned depending on company needs in specific markets such as Norwegian or other Scandinavian languages.
Pursuant to Occupational Safety Act, a certain number of workers are qualified to administer first aid. For every 50 workers, one worker is trained in first aid. Therefore, due to the well-organized security and occupational safety system, as evidenced by the low rate of injuries and cases of professional incompetence, there was no need to further extend risk counseling, prevention and control.
Regarding communication with employees, regular meetings of teams, departments and direct supervisors are held. Communication with employees is conducted via the e-mails svi.dd@dalekovod.hr, the spokesperson, and by means of various Company decisions and announcements.
Percentage of employees who receive a regular rating for work performance and individual development: Work performance and individual development is monitored with 60% of employees.

Diversity and equal possibilities

The ratio between basic salary for men and women according to the employee category: Basic salary for men and women is identical in all employee categories.

Human rights

No cases of discrimination based on gender, race, age, national orientation, political and religious convictions and other applicable criteria have been recorded. The principles of equality and uniformed criteria are compiled for purposes of managing human resources and making other relevant business decisions.

Freedom of association and collective negotiation

Within all companies of the Dalekovod Group and in all other business activities, there is the freedom of association and collective negotiation. No cases of their restriction have been recorded. This applies to business activities outside of Croatia as well.

Community

A magnitude 6.4 earthquake struck Sisak-Moslavina County on Tuesday, December 29, 2020 at 12:19 pm, with epicenter 3 km SW of the town of Petrinja. The maximum feeling intensity was estimated at, from VIII. (very harmful) to IX. (devastating) degree on the European macro-seismic scale. This event was preceded by three major earthquakes, the strongest of which had a magnitude of 5.2

In just a few hours after the quake, the company organized help. All necessary communication channels and a list of available resources have been created, and a letter of intent to help with a detailed resource table has been sent to all relevant addresses. Dalekovod teams, a total of 25 people with machinery, spent more than 700 hours in the field in 6 days, participating in operations to remove collapsed chimneys from roofs and transport and install housing containers in hard-to-reach locations around Sisak, Petrinja and Glina.

Representatives of the Company's Management Board visited the affected areas and employees of the Group whose property was damaged in the earthquake, and organizational and financial assistance was provided in this segment as well.

Child labor, compulsory and forced labor

Dalekovod d.d. conducts its operations in compliance with applicable legal regulations that prohibit child labor. Dalekovod d.d. thereby operates in accordance with the Constitution and applicable legal regulations prohibiting forced and compulsory work.

Donations and sponsorships

In accordance with its development strategy as a socially responsible company, Dalekovod has for years been active in sponsoring science and education, culture and the arts, sports and sustainable development and health. There is a significant impact on humanitarian activities as well. The aim is to create a society based on knowledge and to create opportunities for young people.

Signed on behalf of the Management Board on 15 April 2021.

Tomislav Rosandić President of the Management Board	Hrvoje Išek Management Board Member
Ivan Kurobasa Management Board Member	Đuro Tatalović Management Board Member

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

MANAGEMENT BOARD – AS AT 31 DECEMBER 2020

Tomislav Rosandić – President of the Management Board

Hrvoje Išek – Management Board Member

Ivan Kurobasa – Management Board Member

Đuro Tatalović – Management Board Member

SUPERVISORY BOARD – AS AT 31 DECEMBER 2020

Dinko Novoselec – President of the Supervisory Board

Toni Đikić – Vice President of the Supervisory Board

Hrvoje Markovinović – Supervisory Board Member

Mladen Gregović – Supervisory Board Member

Gordan Kuvek – Supervisory Board Member

Damir Sertić – Supervisory Board Member

Dražen Buljić – Supervisory Board Member

AUDITING COMITTEE

Dinko Novoselec

Gordan Kuvek

Ivana Matovina

Dalekovod Joint Stock Company for engineering, production and construction
Marijana Čavića 4, 10 000 Zagreb, Hrvatska
10001 Zagreb, P.P. 128
URL: www.dalekovod.hr, www.dalekovod.com
E-mail: dalekovod@dalekovod.hr
Share capital: HRK 247,193,050.00; Number of shares: 24,719,305
IBAN: HR8323600001101226102, ZABA Zagreb
Reg. No. (MBS): 080010093, Commercial Court in Zagreb
Stat. No. (MB): 3275531
PIN (OIB): 47911242222
Activity code: 4222 (Construction of utility projects for electricity and telecommunications)

The Company voluntarily uses its Code of Corporate Governance as defined by the Croatian Financial Services Supervisory Agency (HANFA) and Zagreb Stock Exchange Inc.

In 2020, the Company substantially complied with and implemented recommendations provided in the Code by publishing all information to be published under the applicable regulations and information of interest to Company's shareholders. The Company presents any events of significant noncompliance with recommendations provided in Code in Annual Questionnaire provided to ZSE.

The Annual Corporate Governance Questionnaire for Dalekovod d.d. is available at www.zse.hr and on the website of Dalekovod d.d. in the section intended for investors at http://www.dalekovod.hr/kodeks-korporativnog-upravljanja.aspx.

According to the provisions of the Companies Act, the Supervisory Board supervises the Company's business by holding regular meetings where the Management Board presents the relevant reports. All issues within the Supervisory Board's scope of responsibility as defined by the Companies Act and the Articles of Association are discussed at Supervisory Board's meetings.

The Supervisory Board's Supervision Report is part of the Annual Company Report submitted to the General Meeting. In addition, the Supervisory Board is responsible for internal control and supervision via the Audit Subcommittee which provides technical support to the Supervisory Board and the Management Board regarding corporate governance, risk management, financial reporting and controlling duties.

In addition to the Audit Subcommittee, the Supervisory Board includes the Appointments and Rewards Subcommittee and the Corporate Management Subcommittee. The Management Board is required to ensure that the Company maintains its business accounts and other books and business records, prepares the relevant accounting documents, realistically values its assets and liabilities, and prepares financial statements and other reports in accordance with the applicable accounting regulations and standards and the applicable laws and regulations. The Ordinary General Meeting was held on 17 July 2020.

The Company has defined its quality management policy which ensures and continuously improves quality of all its activities in accordance with relevant statutory and professional requirements and other requirements of its internal and external stakeholders.

The policy shall be governed by the following principles:

1. Ongoing improvement of customer satisfaction with products and services;
2. Ongoing development of fair relationships with suppliers;
3. Ongoing improvement of relationships with employees;
4. Ongoing improvement of product and service quality;
5. Building a collective spirit of belonging to the Company and development of teamwork while insisting on high levels of responsibility and making substantial investments in professional training and motivation.

The Quality Management System is continuously implemented and is responsibility of the Management Board, Division Directors, Executives, Managers and all employees of the Company according to defined targets, tasks and responsibilities in Company's business.

In 2020, the Company actively took measures to promote gender equality across the Company. The focus was on defining equal requirements irrespective of gender and age for new employment and internal reassignment of employees.

Equal criteria also applied to the employment of executives in the Company, which provides for ongoing progress. No differences in salaries for equal or equivalent positions were recorded.

The shares of professionals of all genders and age groups were roughly equal on all levels. As regards the professional criteria, the Company uses a strategy for employment and development of management functions for professions and education levels depending on the nature of each function and its requirements. The Company also continuously provides trainings and educations for its employees for further improving and developing their competencies.

Signed on behalf of the Management Board on 15 April 2021.

Tomislav Rosandić
President of the Management Board

Hrvoje Išek
Management Board Member

Ivan Kurobasa
Management Board Member

Đuro Tatalović
Management Board Member

RESPONSIBILITY FOR CONSOLIDATED AND SEPARATE ANNUAL STATEMENTS

The Management Board of Dalekovod d.d., Marijana Čavića 4, Zagreb (the "Company") and its subsidiaries (jointly: the "Group") is required to ensure that the Company's and Group's annual consolidated and separate financial statements for each year are prepared in accordance with the Accounting Act (Official Gazette 78/15, 120/16) and the International Financial Reporting Standards (IFRS) adopted by the European Union to provide a true and fair view of the financial position, business performance, cash flows and changes in equity for the period.

Having conducted the relevant investigations, the Management Board reasonably expects the Company and the Group to have appropriate funds to continue in business for the foreseeable future. Accordingly, the Management Board prepared the annual consolidated and separate financial statements under the assumption that the Company and the Group will continue in business on a going concern basis.

When preparing annual consolidated and separate financial statements, Management Board is responsible for:

• selecting and consistently applying appropriate accounting policies in accordance with the applicable financial reporting standards;

• making reasonable and prudent judgments and estimates; and

• preparing annual consolidated and unconsolidated financial statements on a going concern basis unless such basis is inappropriate to assume.

The Management Board is responsible for maintaining proper accounting records that will always reflect with reasonable accuracy the financial position, business performance, cash flows and changes in equity of the Company and the Group and their compliance with the Accounting Act and the International Financial Reporting Standards. The Management Board is also responsible for safeguarding Company's and Group's assets, including the taking of reasonable steps to prevent and detect any fraud or any other illegal activities.

The Management Board is also responsible for the preparation and content of Annual Report and Statement of Compliance with the Code of Corporate Governance, in accordance with Croatian Accounting Law. The Annual Report and the Statement of Compliance with the Code of Corporate Governance have been approved for issue by the Management Board and signed in accordance with this. The Management Board is responsible for submitting Annual Report together with the consolidated and separate financial statements to the Supervisory Board. Subsequently, the Supervisory Board must approve the annual financial statements for their submission to the General Shareholders' Meeting.

The Consolidated and Separate Financial Statements and the Annual Report were approved by the Management Board on April 15, 2021 for submission to the Supervisory Board and signed below by:

Tomislav Rosandić
President of the Management Board

Hrvoje Išek
Management Board Member

Ivan Kurobasa
Management Board Member

Đuro Tatalović
Management Board Member

Independent Auditors' Report to the shareholders of Dalekovod d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Dalekovod d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2020, and their respective separate and consolidated statements of statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2020, and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

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

Independent Auditors' Report to the shareholders of Dalekovod d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

<table>
<tr><th colspan="2">REVENUE RECOGNITION UNDER CONSTRUCTION CONTRACTS</th></tr>
<tr><td colspan="2">Revenue recognized from construction contracts recognized in profit or loss in 2020 amounted to HRK 1,162,558 thousand for the Group and HRK 1,047,116 thousand for the Company (92% of total Group revenue and 100% of total Company revenue in 2020). Please refer to the Note 2.20 within Significant accounting policies, Note 5 (a) Key accounting estimates and judgements and Note 8 Segment information in the financial statements.</td></tr>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>The Group's and the Company's principal activities include manufacturing of complex power-generating equipment, its installation and related construction services.

Consequently, contracts with customers typically include one performance obligation which is satisfied over time.

Under the applicable financial reporting standard governing the accounting for revenues, IFRS 15 Revenue from Contracts with Customers, if the requirements for recognition of revenue over time are met, entities measure 'progress to complete satisfaction' of the performance obligation using a method that best depicts the performance.

Given the nature of contracts with customers, revenue from contracts with customers is recognised by reference to the 'progress to complete satisfaction' of the performance obligation which is typically calculated using the 'cost-to-cost' input method which measures the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation.

The accounting for long-term construction contracts requires management to make reliable estimates with respect to future costs to completion of a contract and fulfilment of contractual obligations.

This estimate directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract. As a result, we considered this area to be a key audit matter.</td><td>Our audit procedures in this area included, among others:
• assessing the Group's and the Company's policy for recognizing revenue, including whether the policy is in accordance with the relevant accounting standards;
• evaluating the design and implementation of controls related to:
  o accuracy of budgeting process including effectiveness of management review;
  o approval of contract changes with particular focus on approval of relevant changes in budgeted cost to completion;
• assessing the accuracy of contract budgets by analysing historical accuracy of prior year budgets for completed contracts and contracts with significant change in the stage of completion in the current year;
• for a sample of contracts with key customers:
  o challenging management's identification of performance obligations, particularly with respect to the evaluation of whether the contract relates to a single performance obligation;
  o challenging management's assessment of whether the identified performance obligation meets the criteria for recognising revenue over time vs. at a point-in-time, by reference to the provisions of the contract and our understanding of the resulting pattern of satisfying the performance obligation;
  o challenging the appropriateness of the method used to measure 'progress to complete satisfaction' (cost-to-cost vs. output based on surveys of work performed) by considering contractual terms and the nature of goods or services promised to customers;
• for a sample of contracts evaluating the appropriateness of the estimated 'progress to complete satisfaction' as at year-end by reference to the provisions of the contract and other supporting documents, such, budgets, progress reports and/or surveys of work performed;
• for significant subsequent changes in contracts inspecting their formal approvals by customers;
• assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for construction contracts.</td></tr>
</table>

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES

As at 31 December 2020, investments in subsidiaries in the separate financial statements amounted to HRK 46,906 thousand. During the year the impairment loss on investments in subsidiaries was not recognised. Please refer to notes 2.2 (a) and 2.9 within *Significant accounting policies* and note 22 *Investments in subsidiaries.*

Key audit matter	How our audit addressed the matter
In accordance with the requirements of applicable accounting standards, the Company should perform an impairment test for assets for which there are indicators of impairment. Due to the magnitude of investments in subsidiaries (as well as total exposure toward these entities, calculated as the sum of the carrying amounts of the investments and related loans and receivables, net of related liabilities), identification of the impairment indicators for any such subsidiaries at the reporting date and testing for potential impairment requires significant management judgement. Where impairment indicators are identified for a certain exposure, the Company tests the impairment by determining the recoverable amount of the assets and comparing it with their carrying values. The recoverable amounts are determined, with the assistance from external and internal appraisers, as fair values of the underlying subsidiaries, measured using appropriate valuation techniques, e.g. discounted cash flow models of the underlying entity, supplemented, where available, by comparable valuation multiples or prices achieved in actual market transactions for comparable entities. The determination of the recoverable amount requires making a number of assumptions and judgements, in particular those relating to the selection and application of valuation models, future cash flow projections and the appropriateness of used valuation multiples, and comparable transactions. Future cash flow projections are subject to significant variability due to changing market conditions and environment. Key assumptions relate to discount rate used and cash flows growth rate in the residual period. A minor change in these assumptions may have a significant impact on the recoverable amount. As a result, this area required our significant judgment and increased attention in the course of our audit and consequently we considered it to be a key audit matter.	Our audit procedures in this area included, among others: • evaluating, against the relevant requirements of the financial reporting standards, the process of management's identification of impairment indicators, considering factors such as unfavourable developments in the industry, negative or insufficient net assets, changing laws and regulations, declining financial performance, existence of any overdue loans and receivables and/or rolling of existing facilities, and changing business models; • assessing the appropriateness of valuation methodology applied for impairment testing against the relevant requirements of financial reporting standards. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements; • assessing competence, capabilities and objectivity of internal and external appraisers engaged by the Company; • assisted by our own valuation specialists, challenging the key assumptions used by management in its impairment testing, which specifically involved: o evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes; o challenging the key macroeconomic assumptions applied (such as discount rates and growth rates in the residual period) by reference to publicly available external sources and data on historical financial performance; o analysing sensitivity of the impairment test results to changes in key assumptions and considering whether the level of key assumptions indicates management bias; • evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing against the relevant requirements of the financial reporting standards.

Independent Auditors' Report to the shareholders of Dalekovod d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Other Information

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

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

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

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the Statement of Compliance with the Code of Corporate Governance includes the information specified in Article 22 of the Accounting Act.

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

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

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

Independent Auditors’ Report to the shareholders of Dalekovod d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

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

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

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

Those charged with governance are responsible for overseeing the Company’s and the Group’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

KPMG

Independent Auditors' Report to the shareholders of Dalekovod d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 17 July 2020 to audit the financial statements of the Company and the Group for the year ended 31 December 2020. Our total uninterrupted period of engagement is four years, covering the period from the year ended 31 December 2017 to the year ended 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 13 April 2021;
- for the period to which our statutory audit relates, we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG

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

15 April 2021

KPMG Croatia
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Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
8

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

CONSOLIDATED AND SEPARATE INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2020	Dalekovod Group 2019	Dalekovod d.d. 2020	Dalekovod d.d. 2019
Sales revenue	8	1,258,611	1,187,595	1,047,116	950,734
Other income	9	31,047	22,803	31,517	26,401
Change in work in progress and finished goods		(878)	1,697	-	-
Cost of trade goods sold		(55,345)	(96,901)	(16,431)	(48,939)
Cost of materials and services	10	(707,427)	(649,499)	(633,896)	(553,513)
Staff costs	11	(335,578)	(322,305)	(262,313)	(228,165)
Depreciation and amortisation		(27,808)	(30,999)	(22,942)	(23,198)
Other operating expenses	12	(105,980)	(141,766)	(87,919)	(130,579)
Other gains/(losses) – net	13	(6,744)	64,708	(390)	38,276
Operating gain/(loss)		**49,898**	**35,333**	**54,742**	**31,017**
Finance income	14	6,056	12,989	11,991	15,606
Finance costs	14	(20,164)	(31,015)	(19,399)	(30,691)
		(14,108)	(18,026)	(7,408)	(15,085)
Profit / (loss) before tax		**35,790**	**17,307**	**47,334**	**15,932**
Income tax	15	(10,177)	(8,635)	(8,820)	(7,467)
Net profit / (loss) from continuing operations		**25,613**	**8,672**	**38,514**	**8,465**
Net profit / (loss) from discontinued operations		**(53,129)**	**(5,421)**	**(48,526)**	**(2,664)**
Net profit / (loss)		**(27,516)**	**3,251**	**(10,012)**	**5,801**
Net profit / (loss) attributable to:					
Equity holders of the Company		(27,516)	3,251	(10,012)	5,801
Non-controlling interests		-	-	-	-
Net profit / (loss)		**(27,516)**	**3,251**	**(10,012)**	**5,801**
Basic profit / (loss) per share (in HRK)	16	**(1,12)**	**(0,13)**		
Diluted profit / (loss) per share (in HRK)	16	**(1,12)**	**(0,13)**		

CONSOLIDATED AND SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2020	Dalekovod Group 2019	Dalekovod d.d. 2020	Dalekovod d.d. 2019
Net profit / (loss)		**(27,516)**	**3,251**	**(10,012)**	**5,801**
Other comprehensive income / (loss):					
Foreign exchange differences		(248)	(1,662)	-	-
Other		-	700	-	-
Total other comprehensive income / (loss)		**(248)**	**(962)**	**-**	**-**
Total comprehensive income / (loss)		**(27,764)**	**2,289**	**(10,012)**	**5,801**
Comprehensive income / (loss) attributable to:					
Equity holders of the Company		(27,764)	1,589	(10,012)	5,801
Non-controlling interests		-	700	-	-
Total comprehensive income / (loss)		**(27,764)**	**2,289**	**(10,012)**	**5,801**

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	**Note**	**2020**	**2019**	**2020**	**2019**
ASSETS					
Intangible assets	18	4,831	6,057	2,923	4,173
Property, plant and equipment	19	254,758	339,274	153,026	147,083
Prepayments		20	20	-	-
Investment property	20	-	-	79,038	166,260
Investments in subsidiaries	22	-	-	46,906	46,906
Investments in associates	23	4	4	4	4
Loans and receivables	26	69,517	50,495	70,723	56,608
Non-current assets		**329,130**	**395,850**	**352,620**	**421,034**
Inventories	27	72,598	85,249	7,543	6,347
Trade and other receivables	28	450,633	402,370	410,640	340,071
Income tax receivable		5,915	1,645	5,911	1,517
Cash and cash equivalents	29	64,100	61,519	50,805	49,553
Assets held for sale	38	644	-	137	-
Current assets		**593,890**	**550,783**	**475,036**	**397,488**
Total assets		**923,020**	**946,633**	**827,656**	**818,522**

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2020

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	Note	2020	2019	2020	2019
EQUITY AND LIABILITIES					
Share capital	30	247,193	247,193	247,193	247,193
Share premium	30	86,142	86,142	86,142	86,142
Legal reserves	30	11,652	11,652	11,487	11,487
Treasury shares	30	(8,466)	(8,466)	(8,466)	(8,466)
Statutory and other reserves	30	75,584	75,584	40,654	40,654
Revaluation reserves	30	40,707	40,707	40,707	40,707
Translation reserves		(4,588)	(4,340)	-	-
Accumulated loss		(393,476)	(365,958)	(398,109)	(388,097)
Shareholders' equity		**54,748**	**82,514**	**19,608**	**29,620**
Non-controlling interests		-	-	-	-
Total equity		**54,748**	**82,514**	**19,608**	**29,620**
Borrowings	31,21	245,641	337,903	249,269	342,023
Mezzanine debt	32	30,723	29,516	35,117	33,721
Provisions	34	30,443	35,135	27,327	30,935
Trade and other payables	33	-	240	-	171
Deferred tax liability	15	8,936	8,936	8,936	8,936
Non-current liabilities		**315,743**	**411,730**	**320,649**	**415,786**
Borrowings	31,21	77,465	71,162	80,930	76,059
Provisions	34	2,918	1,135	2,703	533
Trade and other payables	33	407,092	348,438	342,010	265,332
Income tax payable		25,590	31,654	24,973	31,192
Liabilities held for sale	38	39,464	-	36,783	-
Current liabilities		552,529	452,389	487,399	373,116
Total liabilities		**868,272**	**864,119**	**808,048**	**788,902**
Total equity and liabilities		**923,020**	**946,633**	**827,656**	**818,522**

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

Group

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Translation reserve	Accumulated loss	Total	Non-controlling interests	Total
At 1 January 2019 (restated)*		**247,193**	**88,236**	**11,652**	**(8,466)**	**75,584**	**40,707**	**(2,678)**	**(369,209)**	**83,019**	**(700)**	**82,319**
Net profit/(loss) (restated)*		-	-	-	-	-	-	-	3,251	3,251	-	3,251
Other comprehensive income/(loss)		-	-	-	-	-	-	(1,662)	-	(1,662)	700	(962)
Total comprehensive income/(loss)		-	-	-	-	-	-	(1,662)	3,251	1,589	700	2,289
Transactions with owners												
Fair value of share based payments	30	-	(2,094)	-	-	-	-	-	-	(2,094)	-	(2,094)
At 31 December 2019		**247,193**	**86,142**	**11,652**	**(8,466)**	**75,584**	**40,707**	**(4,340)**	**(365,958)**	**82,514**	**-**	**82,514**
Net profit/(loss)		-	-	-	-	-	-	-	(27,471)	(27,471)	-	(27,471)
Other comprehensive income/(loss)		-	-	-	-	-	-	(248)	-	(248)	-	(248)
Total comprehensive income/(loss)		-	-	-	-	-	-	(248)	(27,471)	(27,719)	-	(27,719)
At 31 December 2020		**247,193**	**86,142**	**11,652**	**(8,466)**	**75,584**	**40,707**	**(4,588)**	**(393,429)**	**54,795**	**-**	**54,795**

The accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

Company

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Accumulated loss	Total
At 1 January 2019		**247,193**	**88,236**	**11,487**	**(8,466)**	**40,654**	**40,707**	**(393,898)**	**25,913**
Net profit/(loss) - restated		-	-	-	-	-	-	5,801	**5,801**
Other comprehensive income/(loss)		-	-	-	-	-	-	-	**-**
Total comprehensive income/(loss)		-	-	-	-	-	-	5,801	**5,801**
Transactions with owners									
Fair value of share based payments	30	-	(2,094)	-	-	-	-	-	(2,094)
At 31 December 2019		**247,193**	**86,142**	**11,487**	**(8,466)**	**40,654**	**40,707**	**(388,097)**	**29,620**
Net profit/(loss)		-	-	-	-	-	-	(10,012)	(10,012)
Other comprehensive income/(loss)		-	-	-	-	-	-	-	-
Total comprehensive income/(loss)		-	-	-	-	-	-	(10,012)	(10,012)
Transactions with owners									
At 31 December 2020		**247,193**	**86,142**	**11,487**	**(8,466)**	**40,654**	**40,707**	**(398,109)**	**19,608**

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2020	Dalekovod Group 2019	Dalekovod d.d. 2020	Dalekovod d.d. 2019
Profit/(loss) before tax		**(17,341)**	**11,957**	**(1,192)**	**13,268**
Adjustments:					
Depreciation and amortisation	18,21	27,808	36,168	22,942	28,226
Loss/(gain) on sale of property, plant and equipment	13	4,641	(1,936)	(348)	(1,020)
Loss of control over subsidiaries	13	-	(18,079)	-	-
Fair value of pre bankrupty liabilities	9, 12	(1,559)	566	(1,559)	566
Impairment of trade receivables and loans receivable	12	1,585	10,782	(104)	9,507
Liquidation of subsidiary	13	-	(197)	-	371
Impairment of investments in subsidiaries	12,22	-	-	-	10,997
Impairment of non-financial assets	12	-	6	-	-
Impairment of joint venture	12,24	-	11,592	-	11,592
Impairment of inventories and inventory shortages	12	183	2,722	79	33
Net change in provisions	36	(2,769)	7,374	(1,438)	7,920
Dividend income	14	-	-	(6,011)	(2,315)
Loss/(gain) on sale of subsidiaries and joint ventures	13	2,103	(44,504)	738	(37,627)
Unrealised foreign exchange differences		961	4,884	86	4,700
Interest income	14	(679)	(1,010)	(1,021)	(2,142)
Income from unwinding of discount	14	-	(1,442)	-	(1,442)
Share based payment transactions	30	-	(2,094)	-	(2,094)
Interest expenses	14	12,671	17,026	13,200	17,616
		27,604	33,815	25,372	58,156
Changes in working capital:					
Trade and other receivables		(87,441)	(17,221)	(100,838)	(14,893)
Inventories		12,468	8,628	(1,275)	5,262
Trade and other payables		84,790	(23,301)	95,046	(26,373)
Net cash generated from operating activities		**37,421**	**1,921**	**18,305**	**22,152**
Interest paid		(3,778)	(9,627)	(3,951)	(9,588)
Tax paid		(20,542)	(1,144)	(19,433)	(321)
Net cash flows from operating activities		**13,101**	**(8,850)**	**(5,079)**	**12,243**

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS(continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	Note	2020	2019	2020	2019
Cash flows from investing activities					
Acquisition of intangible assets	18	(168)	(127)	(4)	-
Acquisition of property, plant and equipment	19	(24,654)	(17,991)	(21,851)	(9,568)
Acquisition of investment property	20	-	-	-	(26,599)
Proceeds from sale of property, plant and equipment		636	2,390	3,454	1,429
Net change in deposits		1,522	(1,452)	3,292	(5,513)
Loans given		-	-	(1,305)	(7,828)
Repayments of loans given		9,281	367	13,672	12,096
Investments in subsidiary	22	-	-	-	(20)
Proceeds from sale of subsidiary	22	-	-	-	109,703
Proceeds from share in profits		-	-	6,011	2,315
Proceeds from the sale less disposal of cash		-	111,938	-	-
Cash lost due to liquidation		-	(5)	-	-
Interest received		1,026	754	1,551	398
Net cash flows used in investing activities		**(12,357)**	**95,874**	**4,820**	**76,413**
		-	-	-	-
Cash flows from financing activities		-	-	-	-
Proceeds from borrowings		10,754	21,375	10,754	24,800
Repayment of borrowings		(2,635)	(47,714)	(2,635)	(47,867)
Repayment of mezzanine		-	(54,203)	-	(55,859)
Redemption of bonds		(1,327)	(1,201)	(1,727)	(1,584)
Repayment of lease liabilities		(4,955)	(9,941)	(4,881)	(9,670)
Net cash flows from / (used in) financing activities		**1,837**	**(91,684)**	**1,511**	**(90,180)**
		-	-	-	-
Net increase / (decrease) in cash		**2,581**	**(4,660)**	**1,252**	**(1,524)**
		-	-	-	-
Cash at beginning of year		61,519	66,179	49,553	51,077
Cash at end of year	29	64,100	61,519	50,805	49,553
Net increase / (decrease) in cash		**2,581**	**(4,660)**	**1,252**	**(1,524)**

NOTE 1 – GENERAL INFORMATION

At 31 December 2020 the Dalekovod Group (the Group) comprises of the parent company Dalekovod d.d., Zagreb and 14 subsidiaries owned by the parent company, one entity owned by the other subsidiary and one entity run as joint venture (2019: 15 subsidiaries owned by the parent company and one entity run as joint venture) – note 22 and 24.

Dalekovod d.d., Zagreb (the Company) was incorporated in compliance with the laws and regulations of the Republic of Croatia. The registered office of the Company is in Zagreb, Marijana Čavića 4 street. The Company's shares are listed on the public joint stock company listing on the Zagreb Stock Exchange.

The Company's principal activity is the engineering, production, construction and installation of electric power facilities, facilities for road, railroad and mass transit and telecommunication infrastructure.

Management Board

Management Board members of the Company as at 31 December 2020 were: Mr. Tomislav Rosandić (President of the Management Board), Mr. Đuro Tatalović (Member of the Management Board), Mr. Ivan Kurobasa (Member of the Management Board) i Mr. Hrvoje Išek (Member of the Management Board).

At 30 April 2020, Mr. Tomislav Đurić ceased to be a Member of the Management Board while Mr. Hrvoje Išek became a Member of the Management Board on 1 May 2020.

Supervisory Board

Members of the Supervisory Board as at 31 December 2020 were: Mr. Dinko Novoselec (President of the Supervisory Board), Mr. Toni Đikić (Vice president of the Supervisory Board), Mr. Hrvoje Markovinović (Member of the Supervisory Board), Gordan Kuvek (Member of the Supervisory Board), Dražen Buljić (Member of the Supervisory Board), Damir Sertić (Member of the Supervisory Board) and Mladen Gregović (Member of the Supervisory Board).

At 22 April 2020, Mr. Željko Perić and Mr. Vladimir Madouš ceased to be a Members of the Supervisory Board and new members became Mr. Damir Sertić and Mr. Mladen Gregović with the beginning their term in office from 23 April 2020. At 30 April Mr. Dinko Novoselec became President of the Supervisory Board.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies are applicable to both the Group and to the Company and they have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) under the historical cost convention, except with aspect to the revaluation of land, buildings, financial assets at fair value through profit or loss and investments in equity instruments through other comprehensive income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

The amounts in these financial statements are rounded to the nearest thousand, unless otherwise stated.

The financial statements have been prepared on a going concern basis, which is analysed in more detail in Note 7.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2020 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) *Subsidiaries*

In the separate financial statements, the Company carries investments in subsidiaries at cost less impairment. Investments are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries that suffered an impairment in previous periods are reviewed for possible reversal of the impairment at each reporting date.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date). They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated, unless there is evidence of impairment of transferred assets. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership of subsidiaries without loss of control

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Disposal of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Associates

Associates are all entities over which the Group or the Company have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group accounts for investments in associates using the equity method and the Company accounts for them at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Mergers

The predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated. Any difference between the carrying value of net assets merged and net assets given up is recorded as equity. Mergers within the Group have no effect on consolidated financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(f) Joint ventures

The Group's interest in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. Under the equity method, the Group's share of post-acquisition profits or losses is recognised in the income statement, whereas its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

2.3 Segment reporting

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

2.4 Foreign currencies

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian Kuna (HRK), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised as a separate component of equity.

At consolidated level, exchange differences arising from the translation of the net investment in foreign operations are taken to 'Cumulative foreign exchange differences' within shareholders' equity. When a foreign operation is partially disposed of or sold and control over the subsidiary is lost, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

2.5.1 Property, plant and equipment

Land, buildings and other tangible assets, except assets under foreclosure, are carried in the balance sheet at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land and assets under construction are not depreciated. Depreciation is calculated using linear method individually for each asset through estimated life expectancy of asset in use. Depreciation is calculated when asset is available and ready to use. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful live in years
Buildings	20 – 40
Equipment	5 – 10
Machinery	25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Gains and losses are included in the line item "other gain/ (loss)– net" in the income statement.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

2.5.2 Assets under foreclosure

Assets under foreclosure are carried at fair value based on periodic, but at least triennial, valuations by external independent assessors.

Increases in the carrying amount of assets under foreclosure arising on revaluation are credited to other comprehensive income and presented in equity under revaluation reserves. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity, all other decreases are charged to the income statement.

Land after initial recognition is stated at a revalued amount based on its fair value at the date of revaluation less any subsequently accumulated impairment losses. Independent estimates of land values are made when the carrying amount is significantly different from the fair value. Any increase in the value of the land is recorded within other comprehensive income on the revaluation reserve position, unless and only to the extent to which it reverses an impairment of the same asset that was previously recognized as an expense in which case is recognised as income.

Any impairment is first offset by an increase that relates to an earlier valuation of the value of the same asset and is subsequently recognized as an expense. The relevant part of the revaluation reserves made during the previous valuation of the value is released from the revaluation reserves directly to retained earnings after the disposal of the asset.

After initial recognition at cost, buildings are recognized at a revalued amount, which represents fair value on the revaluation date less any subsequent depreciation on buildings and impairment losses. Fair value is based on market value, which is the estimated value for which the asset could be sold at the date of valuation between voluntary parties under normal business and commercial conditions.

When the carrying amount of an asset increases as a result of revaluation, the increase is directly approved within other comprehensive income on the revaluation reserve position. Revaluation increases are recognized as income to the extent that they reverse an impairment loss of the same asset previously recognized as an expense.

When the carrying amount of the asset is reduced as a result of revaluation, this decrease is recognized as expense. Revaluation reduction directly charges the revaluation reserve within other comprehensive income to the extent that this decrease does not exceed the amount that exists as a revaluation reserve for the same asset.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

2.5.2 Assets under foreclosure (continued)

Every year transfer from other comprehensive income (revaluation reserves) to other reserves are made in amount not higher then depreciation of revalued asset. Also, the accumulated amortization at the date of revaluation is excluded from the gross carrying amount of the gross carrying amount of the asset and the net amount is adjusted to the revalued amount of asset.

At the time of withdrawal from use or disposal, all remaining revaluation reserves of such assets are transferred to retained earnings.

2.6 Investment property

2.6.1 Investment property

Investment property, except assets under foreclosure, principally comprising office buildings and land, is held for long-term rental yields or appreciation. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified, in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Depreciation for buildings is calculated using the straight-line method to allocate cost over estimated useful life (20 to 40 years).

Subsequent costs are capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.6.2 Assets under foreclosure

Land after initial recognition is stated at a revalued amount based on its fair value at the date of revaluation less any subsequently accumulated impairment losses.

Independent estimates of land values are made when the carrying amount is significantly different from the fair value. Any increase in the value of the land is recorded within other comprehensive income on the revaluation reserve position, unless and only to the extent to which it reverses an impairment loss of the same asset that was previously recognized as an expense in which case it is recognised as income.

Any impairment is first offset by an increase that relates to an earlier valuation of the value of the same asset and subsequently recognized as an expense. The relevant part of the revaluation reserves made during the previous valuation of the value is released from the revaluation reserves directly to retained earnings after the disposal of the asset.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the acquisition cost over the carrying value of the Group's share of the net identifiable assets of the acquired business sector at the acquisition date. Goodwill on acquisition is included in intangible assets.

Separately recognised goodwill is tested annually for impairment, or whenever there are indications of impairment, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified by business segment. If a part or the whole cash generating unit is sold, the related goodwill is included in the carrying amount of net assets sold when determining gain or loss on the transaction.

(b) Rights of use and computer software

Rights of use and computer software are capitalised on the basis of the costs incurred to bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land or goodwill) which are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments

2.9.1 Financial assets

(a) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(b) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:
- amortised cost;
- FVOCI (fair value through other comprehensive income) – debt investment;
- FVOCI – equity investment;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

During initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

(b) Classification and subsequent measurement (continued)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. During initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL, if doing so, eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Trade receivables are held as part of the business model of holding until collection.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on; earning contractual interest income; maintaining a particular interest rate profile; matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows; or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business and/or the portfolio are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

(b) Classification and subsequent measurement (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

When assessing the baseline criteria of whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that the basic criterion would not be met. In making this assessment, the Group considers:

- contingent events that could change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the 'solely payments of principal and interest' criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

(b) Classification and subsequent measurement (continued)

Subsequent measurement and recognition of gains and losses

The table below provides an overview of key features of the accounting policy that the Group applies with respect to subsequent measurement of financial assets and recognition of gains and losses per each type of financial asset:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividends clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(c) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

When the Group enters into transactions whereby it transfers financial assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.2 Financial liabilities

(a) Recognition and initial measurement

Debt securities issued are initially recognised when they incurred. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.
A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(b) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as at FVTPL on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss at derecognition is also recognised in profit or loss.

(c) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.
On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

2.9.3 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.9.4 Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.5 Impairment of non-derivative financial assets

Recognition of loss allowances

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without additional cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk of financial assets is significantly increased when early warning indicators are activated in accordance with the Group's policy or the contractual terms of the instruments.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 365 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.5 Impairment of non-derivative financial assets (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as significant days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For smaller individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For larger corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group generally expects no significant recovery from the amount written off.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Leases

The Group and Company are Lessee

At inception of a contract, the Group and Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and Company use the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group and Company allocate the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group and Company have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group and Company recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group and Company by the end of the lease term or the cost of the right-of-use asset reflects that the Group and Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's and Company's incremental borrowing rate. Generally, the Group and Company use its incremental borrowing rate as the discount rate.

The Group and Company determine its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Lease (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group and Company are reasonably certain to exercise, lease payments in an optional renewal period if the Group and Company are reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group and Company are reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's and Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and Company change its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and Company present right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group and Company have elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group and Company recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In the comparative period leases of property and equipment, where the Group and Company had substantially all the risks and rewards of ownership, were classified as finance leases. Finance leases were capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment was allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs was charged to the income statement over the lease period. The property and equipment acquired under finance leases were depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership were not retained by the Group and Company were classified as operating leases. Payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Lease (continued)

The Group and Company are Lessor

The accounting policy applicable to the Group and Company as a lessor in comparative information is not different from the policy in accordance with the new standard. When concluding a contract, the Group and Company determine whether it is a financial or operating or operating lease, depending on whether the lease agreement transfers almost all risks and rewards associated with the ownership of the property.

All leases where the Group and Company are lessors are operating leases.

Assets under an operating lease where the Group and the Company are the lessor are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term, even if the proceeds are not balanced, unless there is an alternative basis representing the time frame in which the benefits of the lease and the depreciation of the leased property are matched.

2.11 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Small inventory and tools are written off when put into use.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company’s equity holders until the shares are withdrawn or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense in the income statement. Loans that will be repaid solely by sale of assets under foreclosure are valued in accordance with the estimated value of assets under foreclosure.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan if it is probable that some or all of the facility will be drawn down.

Borrowings are classified as current liabilities unless the Group or the Company have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or partially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. The tax base represents the difference between income and expenses, as determined by the applicable law. Management of the Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or partially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Deferred income tax (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes imposed by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group and the Company make payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred.

Furthermore, according to the Collective labour agreement, the Group and the Company have an obligation to make severance payments to employees at the time of the employees' retirement. The liability recognised in the balance sheet is the present value of defined benefit obligation at the balance sheet date less past service costs with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of governmental bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement severance payment.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

(c) Other long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the future value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer. The transfer of control of a good or service may take place continuously (revenue recognition on a progress towards completion basis) or on a specific date (recognition on completion). Before revenue is recognised, the Company identifies both the contract and the various performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activities. Most of the Company’s contracts involve only one performance obligation. Revenue recognition policies under IFRS 15 (applicable from 1 January 2020) applicable to revenue streams are as follows:

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition (continued)

(a) Revenue from construction contracts

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

The Group and the Company estimate the ‘progress to satisfaction’ of the performance obligation to determine the appropriate amount of revenue and costs to recognize in a given period. The ‘progress to satisfaction’ is calculated using the ‘cost-to-cost’ input method which measures the proportion of contracts costs incurred up to the reporting date compared to total estimated contract costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the ‘progress to satisfaction’ and are presented as inventories, prepayments or other assets, depending on their nature.

The Group and the Company present as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within ‘trade and other receivables’.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

(b) Sales of goods

Revenues from sales of products are recognized when Group and Company delivers goods to the buyer, when buyer accept delivered services or goods and when payments of the receivables is fairly secure.
Revenues are recognised at fair value of received funds or receivables, deducted from tax, refunds and approvals, trade discounts and rebates.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the General Assembly of the Company's shareholders.

2.22 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.23 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.24 Mezzanine debt

Mezzanine debt is initially recognized as financial liability recognized at fair value (host contract). Within the host contract, according to IAS 39 the Company has identified embedded derivatives options, for (a) option for holder of the mezzanine instrument to require issuance of additional senior debt for no additional proceeds should the Company achieve certain pre-defined debt-to-EBITDA (D/E) ratios in 7th year and (b) option for early repayment of the mezzanine debt after 7th year for a maximum amount up to HRK 35.5 million. Option (b) is treated as derivative at fair value and is offset with total mezzanine debt, according to IAS 32, which defines net representation of financial liabilities taking into account that Company intends to settle net amount of the commitment.

Managements estimates in assessing the mezzanine debt were as follow:

i. pre-defined debt-to-EBITDA ratio (2.5) in 7th year will not be achieved. The management estimates that EBITDA will not be on the level that would result that D/E ratio is below the 2.5.
ii. the management plans to use early repayment option after 7th year and the Company will repay remaining outstanding mezzanine debt amounting HRK 176.4 million (note 34) with a maximum amount of HRK 35.5 million.

Part of mezzanine debt for which there is an obligation to pay proceeds from the sale of the investment identified in the creditor agreement (to a maximum of HRK 62 million) was accounted for as a financial liability initially recognised at fair value until the end of 2019 and was classified as other financial liabilities and subsequently was measured at amortised cost using the effective interest method, taking into consideration changes in future expected cash flows in accordance with IAS 39.

As at 31 December 2019, the part of the mezzanine debt for which there was an liability to pay with funds collected from the sale of Dalekovod Professio d.d. it no longer exists as such. During 2020, the Company was sold and this obligation was settled by its sale with the funds realized by the sale accordance to the pre-bankruptcy settlement.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Assets held for sale

Non-current assets are classified as held for sale if their carrying value will be largely compensated through sale rather than through its continuing use; if these assets are available for immediate sale in their existing state under conditions which are frequent and common for sale of such assets, and if the sale is probable.

Assets held for sale are stated at the lower of net book value and fair value less cost to sell. Loss on impairment from reduction to fair value less cost to sell, is charged to profit or loss.

Investments in associates and joint ventures that meet the criteria for classification as assets held for sale at a certain time ceased to be measured using the equity method and are measured at lower of carrying value based on equity method and fair value less cost to sell.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the year.

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Company's and the Group's activities expose them to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), price risk, credit risk and liquidity risk. The Group and the Company do not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's finance department.

(a) Market risk

(i) Currency risk

The majority of foreign sales revenue is denominated in EUROs. Domestic sales revenue is denominated in HRK. The majority of long-term and short-term loans were agreed with a currency clause, i.e. they are linked to the EURO. Along EUR, the Company is exposed to the movement in exchange rates between NOK and UAH. Although any movement in exchange rates between the EURO against the Croatian Kuna will have an impact on the Group's and the Company's operating results, the Company does not use financial instruments to protect against currency risk.

At 31 December 2020, if the EURO had weakened/strengthened by 1.00% against the HRK (2019: 1.00%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK (1,456) thousand (2019: HRK 1,864 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

According to the Management Board estimation, the impact of changes in other currencies does not have significant effect on the financial statements of the Group and the Company.

(ii) Price risk

The Group is exposed to equity securities fair value and price risk because of investments held by the Group classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss. Equity investments classified as available for sale are not listed, while those classified as fair value through profit or loss are publicly traded but do not have a significant effect on the financial position. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(iii) Cash flow interest rate risk

The Group has no significant interest-bearing assets, therefore the Group's income and operating cash flows are not substantially independent of changes in market interest rates.

The Group's and the Company's interest rate risk arises from long-term borrowings and commercial papers. Borrowings issued at variable rates expose the Group and the Company to cash flow interest rate risk.

The Group and the Company analyse their interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group and the Company calculate the impact on profit and loss of a defined interest rate shift. As at 31 December 2020, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2019: 0.82%), the loss after tax would have been higher/lower by HRK 56 thousand (2019: HRK 71 thousand) as a result of a higher/lower interest expense.

(b) Credit risk

The Group's and the Company's assets which potentially subject them to concentrations of credit risk primarily include cash, trade and other receivables. The Group and the Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. A favourable structure of buyers (major buyers are mainly state-owned companies) and the fact that, if necessary, collection from buyers is regulated by bank payment guarantees, bills of exchange, letters of credit and other types of security, almost completely diminishes the risk arising from the collection of trade receivables. A detailed analysis and maximum exposure to credit risk are shown in notes 28 and 26. Further, judgements and estimates in respect of credit risk exposure and related impairment provisions are described in more detail in note 2.9.5.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

With the legal validity of the pre-bankruptcy settlement on 14 February 2014 conditions for enforcement of financial restructuring were met which had significant affect over the Company's debt and their maturity. Part of trade payables is converted into share capital (note 30), part is converted into mezzanine debt (note 6) and part is reclassified into long-term liabilities in accordance with the adopted plan. Borrowings are also partly converted into mezzanine debt, and partly reprogrammed. The maturity of borrowings is presented in note 31.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital risk management

The Company's and Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company and the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company and the Group monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including long-term and short-term borrowings, as shown in the balance sheet) less cash and cash equivalents and short-term deposits given. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The Company's gearing ratio was as follows:

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Borrowings (note 31)	330,199	418,082
Cash and cash equivalents (note 29)	(50,805)	(49,553)
Net debt	279,394	368,529
Equity	19,608	29,620
Total equity and net debt	**299,002**	**398,149**
Gearing ratio - Company	**93.4%**	**92.6%**

The Group's gearing ratio was as follows:

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Borrowings (note 31)	323,106	409,065
Cash and cash equivalents (note 29)	(64,100)	(61,519)
Net debt	259,006	347,546
Equity	54,748	82,514
Total equity and net debt	**313,754**	**430,060**
Gearing ratio - Group	**82.6%**	**80.8%**

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The table below presents the Group's assets at fair value:

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
31 December 2020				
Property, plant and equipment				
Asset under foreclosure	-	-	110,326	110,326
Total	**-**	**-**	**110,326**	**110,326**
31 December 2019				
Property, plant and equipment				
Asset under foreclosure	-	-	112,388	112,388
Total	**-**	**-**	**112,388**	**112,388**

There were no transfers between level 1 and level 2 during 2020 and 2019.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

The table below presents the Company's assets at fair value:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2020				
Property, plant and equipment				
Land and buildings	-	-	86,695	86,695
Investment property				
Asset under foreclosure	-	-	23,630	23,630
Total	**-**	**-**	**110,325**	**110,325**
31 December 2019				
Property, plant and equipment				
Land and buildings	-	-	88,757	88,757
Investment property				
Asset under foreclosure	-	-	23,630	23,630
Total	**-**	**-**	**112,387**	**112,387**

There were no transfers between level 1 and level 2 during 2020 and 2019.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

The tables below present the fair value liabilities of the Group and Company:

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
31 December 2020				
Liabilities secured with foreclosure assets	-	-	65,680	65,680
Mezzanine debt	-	-	30,723	30,723
Trade payables	-	-	3,720	3,720
Total	**-**	**-**	**100,123**	**100,123**
31 December 2019				
Liabilities secured with foreclosure assets	-	-	67,239	67,239
Finance lease	-	-	68,145	68,145
Mezzanine debt	-	-	29,516	29,516
Trade payables	-	-	3,720	3,720
Total	**-**	**-**	**168,620**	**168,620**

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
Company				
31 December 2020				
Liabilities secured with foreclosure assets	-	-	65,680	65,680
Mezzanine debt	-	-	35,117	35,117
Trade payables	-	-	3,720	3,720
Total	**-**	**-**	**104,517**	**104,517**
31 December 2019				
Liabilities secured with foreclosure assets	-	-	67,239	67,239
Finance lease	-	-	68,145	68,145
Mezzanine debt	-	-	33,721	33,721
Trade payables	-	-	3,720	3,720
Total	**-**	**-**	**172,825**	**172,825**

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Revenue recognition

The Group estimates the ‘progress to satisfaction’ of the performance obligation to determine the appropriate amount to recognise in a given period. The ‘progress to satisfaction’ is calculated using the ‘cost-to-cost’ input method which measures the proportion of contracts costs incurred up to the reporting date compared to total estimated contract costs for each contract (note 8).

(b) Impairment of loans and receivables

The Group and the Company review the portfolio of loans and receivables on an annual basis to assess impairment. While assessing the recognition of impairment in the statement of comprehensive income, the Group and the Company assess whether there is observable data indicating the existence of a measurable decrease in future cash flows of the portfolio of loans and receivables before establishing the impairment of certain loans and receivables in the stated portfolio (note 12).

(c) Useful life of property, plant and equipment

The Company’s and the Group companies’ managements determine and reassess the useful lives and related depreciation charge for tangible assets. This assessment is based on the estimated remaining useful life of assets and could significantly change as a result of technical innovation and activities of competitors. Management will increase the depreciation charge if it assesses that the useful life of assets is lower than prior to estimates, or it will write off obsolete and discarded property (note 2.5.1).

(d) Legal claims and disputes

Provisions for legal claims and disputes are recorded based on Management's best estimate of probable losses after consultation with legal counsel (note 34).

(e) Sale of assets held for sale

Sale of asset held for sale, which is one of the measures of the pre-bankruptcy settlement, is expected within a defined time period (note 2.25).

(f) Mezzanine debt

Estimates related to the recognition of mezzanine debt are described in the summary of significant accounting policies for the recognition and measurement of mezzanine debt (note 2.24).

NOTE 6 – PRE-BANKRUPTCY SETTLEMENT

The pre-bankruptcy settlement procedure which the Company initiated on 20th December 2012, was formally completed at 14 February 2014 by issuance of the final legally valid decision.

As a part of pre-bankruptcy settlement the Company prepared financial and operating restructuring plan which was the basis for negotiations with creditors and which was accepted by creditors on 2 April 2013 by more than 90% votes indicating the commitment of the Company's creditors; suppliers, banks, tax authorities and other stakeholders to support completion of administrative proceedings.
The restructuring plan prepared by the Company, and adopted by the creditors, incorporates financial and operational measures with the objective of deleveraging the Company and thus improving profitability and EBITDA to achieve a long term sustainable business case.

Financial restructuring is focused on ensuring liquidity, through disposal of non-core assets and debt restructuring and reduction, with the objective of creating conditions for recapitalisation and achieving financial stability.
Following the date on which the Settlement became legally effective, the Company implemented the following measures with the accompanying effect on the financial position and financial performance of the entity for the year ended 31 December 2014:

- As of 28 March 2014, the share capital was decreased from HRK 286,726 thousand by HRK 258,054 thousand to HRK 28,672 thousand to cover the losses by reducing the nominal value of share from HRK 100 to HRK 10. Simultaneously, the share capital was increased from HRK 28,672 thousand by HRK 158,522 thousand to HRK 187,194 thousand by cash payment of HRK 150,000 thousand and a contribution in rights/conversion of debt of HRK 8,522 thousand by issuing 15,852,168 new shares. Phase I of the cash injection into the share capital was available to a Croatian equity fund.

- As of 21 August 2014, the share capital was increased from HRK 187,194 thousand by cash payment of HRK 59,999 thousand to HRK 247,193 thousand by issuing 5,999,872 of new shares. Phase II of the cash contribution was available to existing shareholders and limited to the HRK 60,000 thousand.

- Conversion of the debt in the amount of HRK 238,421 thousand in mezzanine debt. Mezzanine is a subordinated low-interest hybrid instrument with equity and debt conversion right subject to EBITDA and net debt targets. Mezzanine lenders are not shareholders of the Company; they relate to banks who are not related to the Company in the amount of HRK 207,026 thousand and entities who are related parties of the Company in the amount of HRK 31,395 thousand.

- Mezzanine debt is a financial liability initially recognized at fair value (host contract) within which the Company identified an embedded derivative, which is treated as derivative at fair value and offset against total mezzanine debt, according to IAS 32 which defines net representation of financial liabilities taking into account that Company intends to settle the net amount of the commitment.

  Estimates applied in recognition and measurement of mezzanine debt are disclosed under section Summary of significant accounting policy (note 2.24.)

  Embedded derivative is separated from host contract and recognized at fair value. Fair value gain on initial measurement of embedded derivative in the amount of HRK 151,908 thousand was recognised as finance income in statement of comprehensive income.

NOTE 6 – PRE-BANKRUPTCY SETTLEMENT (continued)

- Transfer of trade payables and liabilities towards tax authorities to long term payables – since the terms of these debts are substantially modified in accordance with the Settlement, the renegotiation of the liabilities in the amount of HRK 176,448 thousand is accounted for as an extinguishment of the original liabilities. The new modified financial liabilities recognised at fair value amounted to HRK 158,176 thousand. The difference, between the consideration paid and the carrying amount of the original liabilities which are derecognised, was recognised in finance income within profit or loss in the amount of HRK 18,272 thousand.

  These financial liabilities are subsequently measured at amortised cost using the effective interest method, there were no unwinding of the discount on the long-term payables in 2019 (2018: HRK 146 thousand) accounted for as an interest expense in profit and loss.

- New repayment plan, substantially different from the original, has been agreed with a lessor for a finance lease arrangement. Fair value gain on initial recognition of a new financial liability in the amount of HRK 15,269 thousand was realised and recognised as finance income in profit or loss.

  Expected repayment date for this portion of mezzanine principle is 31 December 2022 which is the period for the unwinding of the discount realised at initial recognition.

- Repayment terms of loans received, other than those transferred to mezzanine, did not change significantly so no fair value gains or losses have been recognised. The liabilities have been reclassified to reflect the loans repayment plans. All liabilities from the pre-bankruptcy settlement to financial institutions are regularly settled.

- Also, in compliance with the Settlement, the liabilities for interest and fees were written off and the Company realised income on release of liabilities for interest and fees in the amount of HRK 19,188 thousand. Income on release of liabilities from interest and fees has been recognised as finance income in the profit or loss.

- Furthermore, three creditors (banks) decided to settle their receivables outside the pre-bankruptcy settlement through future proceeds from the sale of assets under foreclosure (pledged as security for payment), as explained in note 31 of the financial statements.

- Additionally, the Company's debt on the basis of co-debtorships and guarantees or warranties was extinguished in full.

- In case the asset under foreclosure relating to Žitnjak and Dugo Selo locations are sold, these assets would cease to be recognised and the liabilities stated in Statement of financial position would be settled. The amount received that would exceed the liabilities toward pre-bankruptcy creditors related to liabilities toward banks secured by mortgage, and which participated in the pre-bankruptcy settlement are stated within long-term loans and receivables.

NOTE 7 – GOING CONCERN

In the second half of 2019, the Group and the Company launched a comprehensive process of financial and operational restructuring. A restructuring plan has been prepared to ensure long-term sustainable cash flow and business growth, which assumes certain measures to reduce debt and improve operational profitability and reduce costs.

Furthermore, the Group contracted a significant number of projects during 2020, also it currently has a significant number of order projects and sufficient contracted projects, not taking into account also a significant number of contracts that are either about to be concluded or in which the Group is the preferred contractor. Also, the Group has secured sufficient guarantee frameworks for the execution of and implementation of existing and contracting of new projects in the future. In addition, in order to ensure the preconditions for further growth, in February 2021 the Group issued a public call for expressions of interest for participation in the financial restructuring of the Company, where further financial debt restructuring and recapitalization are expected.

Based on this year's results, especially the improvement of the results for the year and the financial position from continuing operations, as well as the expected market trends, the Management Board concludes that the going concern assumption used in preparing the financial statements as of 31 December 2020 is appropriate within the context of active support of financial creditors.

NOTE 8 – BUSINESS SEGMENT INFORMATION

The Group separately monitors and presents business results of basic business segments, Production and Construction, whose operating activities are interrelated for the purpose of realising profit for the Group.

1. The Production segment includes forging works, the casting plant and the laboratory for quality control and the production and sales of metal frames/structures, as well as the manufacture and sales of suspension and jointing equipment.

2. The Construction segment includes the services of construction and project documentation preparation of power and distribution facilities, transformer stations, laying submarine and subterranean energy and telecommunication cables, posting public lighting, installing antenna, television and telecommunication posts as well as work relating to the construction of motorways.

Management monitors the operating results of the business segments to make decisions on the allocation of resources and performance assessment. Segment performance assessment is based on the gross segment revenue and realised profit from regular operations, as explained in the following table. The Group manages finance income and costs, share of profit of joint ventures and income tax and they are not allocated by operating segments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

Operating results by business segments for the Group

(in thousands of HRK)	Construction	Production	Other	*Discontinued operations*	Total
Year ended 31 December 2020					
Gross revenues	1,230,952	158,069	4	(20,590)	1,368,435
Inter-segment revenues /i/	(39,690)	(70,134)	-	-	(109,824)
Total revenues	**1,191,262**	**87,935**	**4**	**(20,590)**	**1,258,611**
Operating profit/(loss) before depreciation and amortisation	82,560	(49,915)	(1)	45,060	77,704
Depreciation and amortisation	(24,153)	(7,035)	-	3,380	(27,808)
Operating profit/(loss)	**58,407**	**(56,950)**	**(1)**	**48,440**	**49,896**
Total assets	**780,830**	**141,774**	**416**	**644**	**923,020**
Total liabilities	**748,217**	**117,747**	**2,308**	**39,462**	**868,272**
Year ended 31 December 2019					
Gross revenues	1,125,937	275,435	456	(39,208)	1,362,620
Inter-segment revenues /i/	(50,646)	(124,379)	-	-	(175,025)
Total revenues	**1,075,291**	**151,056**	**456**	**(39,208)**	**1,187,595**
Operating profit/(loss) before depreciation and amortisation	70,461	(11,905)	9,016	(1,240)	66,332
Depreciation and amortisation	(24,239)	(11,929)	-	5,169	(30,999)
Operating loss	**46,222**	**(23,834)**	**9,016**	**3,929**	**35,333**
Total assets	**720,753**	**151,104**	**74,776**	**-**	**946,633**
Total liabilities	**733,418**	**128,412**	**2,289**	**-**	**864,119**

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

/i/ Sales are allocated based on the country in which the customer is located.

	2020		2019	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Norway	462,229	36,73	509,681	42,92
Sweden	329,166	26,15	145,014	12,21
Croatia	264,945	21,05	299,796	25,24
Slovenia	78,533	6,24	47,642	4,01
Bosnia and Herzegovina	70,989	5,64	107,421	9,05
Island	4,682	0,37	4,648	0,39
Austria	4,454	0,35	1,874	0,16
Italy	3,883	0,31	7,599	0,64
France	3,321	0,26	6,323	0,53
Other abroad	36,409	2,90	57,597	4,85
Total	**1,258,611**	**100,00**	**1,187,595**	**100,00**

In 2020, the Group achieved 34% with the largest customer, and the Company 41% of total sales revenue. With the next largest customer, the Group generated 17% in 2020, and the Company 21% of total sales revenues.

In 2019, the Group achieved 29% with the largest customer, and the Company 37% of total sales revenue. With the next largest customer, the Group generated 11% in 2019, and the Company 8% of total sales revenues.

/ii/ Sales revenues by sectors are as follows:

	2020	2019
	(in thousands of HRK)	
Energetics	1,053,681	879,692
Railroads	47,512	75,895
Sale of metal constructions	19,952	66,342
Sale of suspension and jointing equipment	47,353	47,944
Roads	34,299	44,604
Projects	28,705	33,542
Properties	19,973	7,740
Other	7,136	31,836
Total	**1,258,611**	**1,187,595**

Revenue from construction contracts amounts to HRK 1,162,558 thousand for the Group (2019: HRK 1,075,291 thousand) and 1,047,116 for the Company (2019.: HRK 950,734 thousand)

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

In the following table, information on receivables and liabilities towards customers based on the construction contract was disclosed, for which, at the reporting date, the Company and the Group reported customer receivables by contractual obligation or liability to customers by contractual obligation:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Trade receivables	161,898	157,888	134,934	117,485
Guarantee deposits - retention	102,638	63,817	94,936	59,135
Contract assets	71,997	75,500	62,435	65,156
Contract liabilities	(135,780)	(39,050)	(131,120)	(37,309)
	200,753	**258,155**	**161,185**	**204,467**

Contract assets primarily relate to the Company's and Group's right to compensation for the works executed but not charged on the reporting date. Contract assets are transferred to receivables when they become unconditional. That usually happens when the Company and Group issues the an invoice to the customer.

Contract liabilities relate to deferred income for construction works, for which revenues are recognized over time and to customer advances received.

Advances received for projects under construction that are active at the reporting date are presented within advances in note 33 and amount to HRK 89,904 thousand (2019: HRK 28,145 thousand) for Company and HRK 96,365 thousand (2019: HRK 30,909 thousand) for the Group.

NOTE 9 – OTHER INCOME

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020.**	**2019.**	**2020.**	**2019.**
Income from reversal of provisions	4,280	6,392	2,630	4,924
Court settlement income	-	3,390	-	3,390
Rental income	424	373	6,176	6,824
Inventory surpluses	74	275	-	17
Insurance claims proceeds	1,019	101	990	19
Income from penalty interest	58	63	59	55
Other operating income	25,192	12,209	21,662	11,172
	31,047	**22,803**	**31,517**	**26,401**

Rental income of the Company is related to investment property (note 20).

The majority of Other operating income relates to release of Provisions for unused holidays.

NOTE 10 – COST OF MATERIALS AND SERVICES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Raw materials and supplies				
Raw materials and supplies	317,627	268,428	295,003	234,830
Energy	11,053	12,364	10,568	10,769
Spare parts and small inventory	14,947	11,516	13,782	11,629
	343,627	292,308	319,353	257,228
External services				
Subcontractor services	276,814	289,768	241,959	246,253
Rental expense	40,332	32,891	38,595	31,948
Transportation	22,357	15,720	17,814	5,779
Repairs and maintenance	15,814	11,394	13,724	9,450
Advertising and promotion	415	564	394	433
Other	8,068	6,854	2,057	2,422
	363,800	357,191	314,543	296,285
Total cost of materials and services	**707,427**	**649,499**	**633,896**	**553,513**

NOTE 11 – STAFF COSTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Net salaries	237,582	221,583	198,374	172,679
Taxes and contributions on and from salaries	66,477	68,396	42,965	39,569
Severance costs	5,038	9,120	1,110	4,523
Supervisory Board compensation	127	306	127	306
Unused vacation days	793	116	628	-
Other staff costs	25,561	22,784	19,109	11,088
	335,578	**322,305**	**262,313**	**228,165**

Other staff costs include gifts, jubilee awards and other benefits.

As at 31 December 2020, the Group had 1,238 employees (2019: 1,345 employees), and the Company had 867 employees (2019: 778 employees).

One of the measures of the restructuring process in 2019. included reducing the number of employees. The severance pay in the amount of HRK 4,436 thousand was paid to 42 employees of the Company and is a consequence of the restructuring process, for the Group this amount is HRK 8,807 thousand and relates to 113 employees. In 2020, severance pay for the Company amounts to HRK 1,110 thousand, while for the Group it amounts to HRK 5,038 thousand.

NOTE 12 – OTHER OPERATING EXPENSES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Daily allowances and travel cost	47,391	52,906	47,158	52,005
Intellectual and non-production services	20,493	20,366	11,677	12,128
Court cases	3,303	10,999	2,977	10,635
Impairment of trade receivables and loans – net	1,585	10,782	(104)	9,507
Bank charges	7,488	9,359	6,818	8,178
Insurance	8,028	6,139	5,534	5,112
Taxes and contributions	4,365	4,281	3,013	2,904
Entertainment	1,033	1,852	454	756
Impairment of inventories (restated)	-	1,929	-	-
Interest from suppliers	1,305	1,183	1,102	445
Inventory shortages	183	793	79	33
Sponsorships, donations and other aids	613	750	206	237
Fines and penalties	740	269	638	181
Impairment of investments in subsidiaries (note 22)	-	-	-	10,997
Impairment of other financial assets (note 24)	-	11,592	-	11,592
Other	9,453	8,560	8,367	5,869
	105,980	**141,766**	**87,919**	**130,579**

Cost of litigation in 2020 relates mainly to provision for litigation according to ENEA Sp.z.o. in the amount of HRK 814 thousand.

Cost of litigation in 2019 relates mainly to: provision for litigation under the Tax Administration in the amount of HRK 4,096 thousand, provision for litigation under the Tax Administration of Kosovo in the amount of HRK 3,614 thousand, provision for litigation according to ENEA Sp.z.o. in the amount of HRK 803 thousand and provisions for litigation against company Div Grupa d.o.o. in the amount of HRK 732 thousand.

Impairment of joint ventures in 2019 refers to the impairment of share in Officium Partner d.o.o., while impairment of investments in subsidiaries in 2020 relates to Dalekovod Polska S.A.

The costs of intellectual and non-production services at the Group level include HRK 667 thousand (2019: 1,069 thousand) of fees to the auditors. The fees mostly relate to the audit services of the Company and its subsidiaries and the permitted non-audit consulting services.

NOTE 13 – OTHER GAINS/(LOSSES) – NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Gain/(loss) from sale of subsidiary	(2,103)	44,504	(738)	37,627
Gain from loss of control - subsidiary	-	18,079	-	-
Net gain on sale of property, plant and equipment	(4,641)	1,928	348	1,020
Liquidation of subsidiary	-	197	-	(371)
	(6,744)	**64,708**	**(390)**	**38,276**

During 2020, Dalekovod Polska S.A. was sold, which resulted in a loss of HRK 738 thousand at the Company level and a loss from expenses of the subsidiary at the Group level in the amount of HRK 2,103 thousand.

During 2019, Dalekovod Professio d.d. was sold, gain from sale at the Company level amounted to HRK 37,627 thousand, while at the Group level it amounted to HRK 47,154 thousand. Also during 2019, there was a sale of Liburana d.o.o., there was no gain/(loss) from sale at the Company level, at the Group level a loss of sales in the amount of HRK 2,650 thousand was realized.

In 2019, the loss of control over the subsidiary relates to the subsidiary Dalekovod TKS a.d., Doboj. At the Group level, there was a gain amounted to HRK 18,079 thousand as results of write-off liabilities of company, at the Company level there was no impact on the profit and loss statement since the shares and receivables from the subsidiary are fully impaired in previous years.

During 2019, Dalcom Engineering GmbH, Freilassing was liquidated. There was a loss of HRK 371 thousand at the Company level, while a gain of HRK 197 thousand is realized at the Group level.

For more details regarding subsidiaries write-off please see Note 37.

NOTE 14 – FINANCIAL INCOME AND EXPENSES– NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Net foreign exchange differences from financing activities	5,377	10,537	4,959	9,707
Interest income	558	853	961	2,058
Income from unwinding of discount	-	1,442	-	1,442
Interest income on bank deposits	121	157	60	84
Income from shares in profit	-	-	6,011	2,315
Finance income	**6,056**	**12,989**	**11,991**	**15,606**
Net foreign exchange differences (financing activities)	(6,338)	(15,409)	(5,045)	(14,407)
Interest expense	(12,671)	(15,606)	(13,200)	(16,196)
The cost of discounting long-term receivables	(869)	-	(869)	-
Other financial expenses	(286)	-	(285)	(88)
Finance costs	**(20,164)**	**(31,015)**	**(19,399)**	**(30,691)**
	(14,108)	**(18,026)**	**(7,408)**	**(15,085)**

NOTE 15 – INCOME TAX

The reconciliation of accounting income and taxable income is detailed in the table below:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Profit/(loss) before tax	**(17,341)**	**11,886**	**(1,192)**	**13,268**
Tax calculated at the domestic tax rate applicable to profits in the respective countries	631	3,833	1,634	10,018
Effect of non-taxable income	(7,764)	(1,673)	(6,888)	(1,673)
Effect of non-deductible expenses	6,650	9,839	6,134	8,781
Effect of tax losses not recognised as deferred tax assets	10,660	(3,299)	7,940	(9,659)
Income tax expense	**10,177**	**8,635**	**8,820**	**7,467**

In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The same regulations apply to other subsidiaries of the Group in Croatia. Foreign subsidiaries abroad must comply with tax regulations of the country in which they operate. During the year there were no changes in tax rates in countries where members of the Group operate. Reported income tax expense in the Company includes income tax expense recorded in separate business units abroad in accordance with the tax laws of the countries in which the units operate.

Overview of tax losses for which deferred tax asset has not been recognised is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Unutilised tax losses				
Tax loss from 2015 - expires 2020	-	9	-	-
Tax loss from 2016 - expires 2021	40,701	40,701	40,648	40,648
Tax loss from 2017 - expires 2022	22,515	22,515	10,031	10,031
Tax loss from 2018 - expires 2023	10,221	100,168	73,429	73,429
Tax loss from 2019 - expires 2024	35,334	36,824	-	-
Tax loss from 2020 - expires 2025	59,264	-	44,108	-
	168,035	**200,217**	**168,216**	**124,108**

NOTE 15 – INCOME TAX (continued)

The Company and the Group did not recognise deferred tax asset as it is not probable that future taxable profits will be available to utilize the tax losses.

During the year the Company and the Group recognised deferred tax liability on revaluation of assets under foreclosure (note 19).

Movement in deferred tax liability

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
At beginning of year	8,936	8,936	8,936	8,936
Charged to revaluation reserves	-	-	-	-
At end of year	**8,936**	**8,936**	**8,936**	**8,936**

NOTE 16 – BASIC AND DILUTED PROFIT / (LOSS) PER SHARE

Basic and diluted earnings per share are calculated on the basis of the Company's net profit attributable to the Company shareholders and the weighted average number of ordinary shares in issue, excluding treasury shares. There are no diluted potential ordinary shares.

	Dalekovod Group	
	2020	**2019**
Net loss attributable to shareholders *(in thousands. of HRK)*	(27,516)	3,251
Weighted average number of shares	24,620,464	24,620,464
Basic/diluted loss per share *(in HRK)*	(1.12)	0.13

NOTE 17 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 101 thousand (2019: HRK 101 thousand) are presented as dividend payable within "liabilities to suppliers and other liabilities" (note 33), and relate to dividends payable to shareholders who did not submit the required payment data.

NOTE 18 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Goodwill	Usage rights	Software	Assets under construction	Total
At 1 January 2019					
Cost	1,213	15,511	47,726	722	65,172
Accumulated amortisation and impairment losses	-	(13,443)	(41,032)	-	(54,475)
Net book value	**1,213**	**2,068**	**6,694**	**722**	**10,697**
Year ended 31 December 2019					
At 1 January	1,213	2,068	6,694	722	10,697
Additions	-	-	127	-	127
Transfer	-	-	48	(48)	-
Disposals and write-offs	-	-	(769)	(394)	(1,163)
Amortisation	-	(2,068)	(1,536)	-	(3,604)
At 31 December	**1,213**	**-**	**4,564**	**280**	**6,057**
At 31 December 2019					
Cost	1,213	15,511	47,535	280	64,539
Accumulated amortisation and impairment losses	-	(15,511)	(42,971)	-	(58,482)
Net book value	**1,213**	**-**	**4,564**	**280**	**6,057**
Year ended 31 December 2020					
At 1 January	1,213	-	4,564	280	6,057
Additions	-	-	76	92	168
Amortisation	-	-	(1,394)	-	(1,394)
At 31 December	**1,213**	**-**	**3,246**	**372**	**4,831**
At 31 December 2020					
Cost	1,213	15,511	45,396	372	62,492
Accumulated amortisation and impairment losses	-	(15,511)	(42,150)	-	(57,661)
Net book value	**1,213**	**-**	**3,246**	**372**	**4,831**

NOTE 18 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is allocated entirely to the Construction segment.

Goodwill is tested annually for impairment as stated in note 2.7.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a five-year period. The terminal growth rate used to extrapolate the cash flows beyond the five-year period is 3%, and the present value of future cash flows is calculated using a discount rate of 7.24%. The growth rate assumption was based on the historical data and the management's expectations for market development. The discount rate used is based on the Group's weighted average cost of capital.

NOTE 18 – INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Usage rights	Software	Assets under construction	Total
At 1 January 2019				
Cost	15,511	42,618	-	58,129
Accumulated amortisation	(13,443)	(37,110)	-	(50,553)
Net book value	**2,068**	**5,508**	**-**	**7,576**
Year ended 31 December 2019				
At 1 January	2,068	5,508	-	7,576
Amortisation	(2,068)	(1,335)	-	(3,403)
At 31 December	**-**	**4,173**	**-**	**4,173**
At 31 December 2019				
Cost	15,511	42,618	-	58,129
Accumulated amortisation	(15,511)	(38,445)	-	(53,956)
Net book value	**-**	**4,173**	**-**	**4,173**
Year ended 31 December 2020				
At 1 January	-	4,173	-	4,173
Additions	-	4	-	4
Amortisation	-	(1,254)	-	(1,254)
At 31 December	**-**	**2,923**	**-**	**2,923**
At 31 December 2020				
Cost	15,511	42,622	-	58,133
Accumulated amortisation	(15,511)	(39,699)	-	(55,210)
Net book value	**-**	**2,923**	**-**	**2,923**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2019						
Cost or deemed cost	20,561	319,341	438,309	184,360	3,111	965,682
Accumulated depreciation	-	(191,416)	(343,028)	(69,909)	-	(604,353)
Net book value	**20,561**	**127,925**	**95,281**	**114,451**	**3,111**	**361,329**
			-	-		
Year ended 31 December 2019			-	-		
At 1 January	20,561	127,925	95,281	114,451	3,111	361,329
Initial implementation of IFRS 16	-	-	8,200	-	-	8,200
Additions	-	76	14,490	-	4,022	18,588
Transfer	-	4,179	(152)	-	(4,027)	-
Transfer from intangible assets	-	-	1,163	-	-	1,163
Disposals and write-offs	-	(390)	(64)	-	-	(454)
Disposal of subsidiary	(1,874)	(12,053)	(1,146)	-	(45)	(15,118)
Sale of a subsidiary	-	-	-	-	(2,119)	(2,119)
Foreign exchange differences	12	111	116	-	11	250
Depreciation	-	(8,559)	(21,943)	(2,063)	-	(32,565)
At 31 December	**18,699**	**111,289**	**95,945**	**112,388**	**953**	**339,274**
			-	-		
At 31 December 2019			-	-		
Cost or deemed cost	18,699	309,414	416,197	184,360	953	929,623
Accumulated depreciation and impairment losses	-	(198,125)	(320,252)	(71,972)	-	(590,349)
Net book value	**18,699**	**111,289**	**95,945**	**112,388**	**953**	**339,274**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

Group

Year ended 31 December 2020	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January	18,699	111,289	95,945	112,388	953	339,274
Transfer	-	-	-	-	(140)	(140)
Disposals and write-offs	(6,504)	(67,505)	(10,587)	-	-	(84,596)
Additions	-	98	26,138	-	349	26,585
Foreign exchange differences	17	19	7	-	6	49
Depreciation	-	(6,555)	(17,797)	(2,062)	-	(26,414)
At 31 December	**12,212**	**37,346**	**93,706**	**110,326**	**1,168**	**254,758**
At 31 December 2020						
Cost or deemed cost	12,212	187,606	340,102	184,360	1,168	725,448
Accumulated depreciation and impairment losses	-	(150,260)	(246,396)	(74,034)	-	(470,690)
Net book value	**12,212**	**37,346**	**93,706**	**110,326**	**1,168**	**254,758**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2019						
Cost or deemed cost	-	5,502	190,974	160,728	-	357,204
Accumulated depreciation	-	(4,363)	(138,459)	(69,909)	-	(212,731)
Net book value	**-**	**1,139**	**52,515**	**90,819**	**-**	**144,473**
Year ended 31 December 2019						
At 1 January	-	1,139	52,515	90,819	-	144,473
Initial implementation of IFRS 16	-	-	8,200	-	-	8,200
Additions	-	-	10,165	-	-	10,165
Transfer to investment property	-	-	(8)	-	-	(8)
Disposals and write-offs	-	(390)	(19)	-	-	(409)
FX changes	-	-	111	-	-	111
Depreciation	-	(141)	(13,246)	(2,062)	-	(15,449)
At 31 December	**-**	**608**	**57,718**	**88,757**	**-**	**147,083**
At 31 December 2019						
Cost or deemed cost	-	3,358	207,422	160,728	-	371,508
Accumulated depreciation	-	(2,750)	(149,704)	(71,971)	-	(224,425)
Net book value	**-**	**608**	**57,718**	**88,757**	**-**	**147,083**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

Year ended 31 December 2020	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January	-	608	57,718	88,757	-	147,083
Additions	-	98	22,107	-	350	22,555
Disposals and write-offs	-	-	(852)	-	-	(852)
Depreciation	-	(95)	(13,603)	(2,062)	-	(15,760)
At 31 December	**-**	**611**	**65,370**	**86,695**	**350**	**153,026**
At 31 December 2020						
Cost or deemed cost	-	3,456	227,841	160,728	350	392,375
Accumulated depreciation	-	(2,845)	(162,471)	(74,033)	-	(239,349)
Net book value	**-**	**611**	**65,370**	**86,695**	**350**	**153,026**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

The assets under foreclosure were revalued and estimated at fair value. The valuation of the assets under foreclosure includes revaluation of land and buildings. As specified in Notes 5 and 32, three creditors (banks) decided to have their claims settled outside the scope of the pre-bankruptcy settlement, from proceeds of future sale of assets under foreclosure (pledged as security). As the assets under foreclosure are expected to be disposed of, i.e. sold by the banks that are not involved in the pre-bankruptcy settlement and that are to settle their claims separately through the sale of mentioned properties, the assets under foreclosure were estimated at fair value. Accordingly, the loan obligations and other liabilities to be settled by selling the assets under foreclosure is also presented at fair value. Other tangible assets are disclosed in the balance sheet, based on historical cost less accumulated depreciation. Historical cost includes costs directly attributable to the acquisition of an asset.

As at 31 December 2020, land and buildings of the Group and the Company with a net book value of HRK 34,278 thousand (2019: HRK 37,370 thousand) were pledged as collateral for loans (note 31).

As at 31 December 2020, assets under foreclosure of the Group with a net book value of HRK 110,326 thousand (2019: HRK 112,388 thousand) were pledged as collaterals for loans (note 31).

As at 31 December 2020, assets under foreclosure of the Company with a net book value of HRK 86,695 thousand (2019: HRK 88,757 thousand) were pledged as loan repayment insurance (note 31).

As at 31 December 2020, assets under finance lease where the Group is the lessee amounted to HRK 9,943 thousand (2019: HRK 16,400 thousand).

As at 31 December 2020, assets under finance lease where the Company is the lessee amounted to HRK 9,601 thousand (2019: HRK 16,103 thousand).

As at 31 December 2020, the value of the assets under foreclosure amounts to HRK 110,326 thousand (2019: HRK 112,388 thousand) and liabilities for secured pre-bankruptcy creditors were revalued accordingly (note 6 and note 31).

NOTE 20 – INVESTMENT PROPERTY

Company

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Total
At 1 January 2019					
Cost	12,461	273,367	104,435	23,630	413,893
Accumulated depreciation	-	(162,583)	(102,283)	-	(264,866)
Net book value	**12,461**	**110,784**	**2,152**	**23,630**	**149,027**
Year ended 31 December 2019					
At 1 January	12,461	110,784	2,152	23,630	149,027
Additions	-	4,428	22,171	-	26,599
Revaluation surplus	-	-	8	-	8
Depreciation	-	(8,226)	(1,148)	-	(9,374)
At 31 December	**12,461**	**106,986**	**23,183**	**23,630**	**166,260**
At 31 December 2019					
Cost	12,461	277,795	126,614	23,630	440,500
Accumulated depreciation	-	(170,809)	(103,431)	-	(274,240)
Net book value	**12,461**	**106,986**	**23,183**	**23,630**	**166,260**
Year ended 31 December 2020					
At 1 January	12,461	106,986	23,183	23,630	166,260
Disposals and write-offs	(6,505)	(67,504)	(5,031)	-	(79,040)
Depreciation	-	(6,199)	(1,983)	-	(8,182)
At 31 December	**5,956**	**33,283**	**16,169**	**23,630**	**79,038**
At 31 December 2020					
Cost	5,956	155,869	23,633	23,630	209,088
Accumulated depreciation and impairment losses	-	(122,586)	(7,464)	-	(130,050)
Net book value	**5,956**	**33,283**	**16,169**	**23,630**	**79,038**

NOTE 20 – INVESTMENT PROPERTY (continued)

There was no land and buildings pledged as collateral for the repayment of financial lease in 2020, while in 2019 they amounted to HRK 67,064 thousand.

On 31 December 2020, land and buildings of the Company with a net book value of HRK 34,278 thousand (2019: HRK 37.370 thousand) were pledged as collateral for borrowings (note 31).

On 31 December 2020, assets under foreclosure of the Company with a net book value of HRK 23,630 thousand (2019: HRK 23,630 thousand) were pledged as collateral for borrowings (note 31).

The assets under foreclosure were revalued and estimated at fair value. The valuation of the assets under foreclosure includes revaluation of land and buildings. As specified in Notes 6 and 31, three creditors (banks) decided to have their claims settled outside the scope of the pre-bankruptcy settlement, from proceeds of future sale of assets under foreclosure (pledged as security).

As the assets under foreclosure are expected to be disposed of, i.e. sold by the banks that are not involved in the pre-bankruptcy settlement and that are to settle their claims separately through the sale of mentioned properties, the assets under foreclosure were estimated at fair value. Accordingly, the loan obligations and other liabilities to be settled by selling the assets under foreclosure are also presented at fair value.

Since real estate investments at the Company level relate to part of real estate that are intragroup leases to subsidiaries, these assets are treated as regular real estate at Group level and the Group does not perform valuations or and discloses fair value related to this asset.

NOTE 21 – LEASES

The company leases vehicles under rental agreements.

/ i / Leases recorded in the statement of financial position as at 31 December are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Right of use assets:				
Vehicles	5,288	6,001	4,247	6,001
	5,288	**6,001**	**4,247**	**6,001**
Lease liabilities:				
Non-current liabilities	2,388	2,527	2,081	2,527
Current liabilities	3,157	3,806	2,417	3,806
	5,545	**6,333**	**4,498**	**6,333**

NOTE 21 – LEASES (continued)

/ ii / Long-term lease liabilities as at 31 December are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
From 1 to 2 years	1,946	2,164	1,625	2,164
From 2 to 5 years	1,211	1,642	792	1,642
	3,157	**3,806**	**2,417**	**3,806**

/ iii / Leases recorded in the statement of comprehensive income are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Depreciation	2,737	2,796	2,691	2,796
Interest expenses (note 14)	256	332	251	332
Lease cost related to short-term lease (note 10)	40,332	32,891	38,595	31,948
	43,325	**36,019**	**41,537**	**35,076**

/ iv / An overview of the movement of assets with right of use is as follows:

	Dalekovod Group 2020	**Dalekovod Group 2019**	**Dalekovod d.d. 2020**	**Dalekovod d.d. 2019**
(in thousands of HRK)	Vehicles	Vehicles	Vehicles	Vehicles
For the year ended 31. December 2020				
Opening net book value of lease recognized under IFRS 16	8,797	8,200	6,001	8,200
Accumulated depreciation	(2,796)	-	(2,796)	-
Net book value	**6,001**	**8,200**	**3,205**	**8,200**
Opening net book value	**6,001**	**8,200**	**6,001**	**8,200**
Additions	1,791	597	704	597
Exchange rate	233	-	233	-
Depreciation	(2,737)	(2,796)	(2,691)	(2,796)
Closing net book value	**5,288**	**6,001**	**4,247**	**6,001**
At 31 December 2020				
Cost	10,821	8,797	6,938	8,797
Accumulated depreciation	(5,533)	(2,796)	(2,691)	(2,796)
Net book value	**5,288**	**6,001**	**4,247**	**6,001**

NOTE 22 – INVESTMENTS IN SUBSIDIARIES

	Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**
At 1 January	46,906	59,254
Additions /i/	738	20
Decrease /ii/	-	(371)
Impairment /iii/	-	(10,997)
Transfer of shares /iv/	(738)	(1,000)
At 31 December	**46,906**	**46,906**

/i/ The increase in investments in subsidiaries in 2020 in the amount of HRK 738 thousand relates to shares in Dalekovod-Polska S.A. d.o.o., arising from the transfer of receivables related to given loans.During 2019 there was additional investment in subsidiary Cinčaonica usluge d.o.o. in amount HRK 20 thousand.

/ii/ The decrease in the amount of HRK 371 thousand in 2019 relates to liquidation of company Dalcom Engineering GmbH, Freilassing.

/iii/ In 2019, Investment in Dalekovod-Polska S.A. was impaired by HRK 10,997 thousand. During previous years, the Company impaired investments in the following subsidiaries: Dalekovod TKS a.d., Cindal d.o.o., Denacco Namibia (PTY) d.o.o., Dalekovod Libija, Dalekovod-Adria d.o.o. and partially investments in subsidiaries Dalekovod-Polska S.A. and Proizvodnja MK i OSO d.o.o.

/iv/ During 2020, the subsidiary Dalekovod-Polska S.A. was sold and there was a decrease in the value of the share in the net amount of HRK as a result. During 2019, the subsidiary Liburana d.o.o. was sold and there was a decrease in the value of the share in the net amount of HRK 1,000.

Impairment of investments in subsidiaries

Impairment of investments in subsidiaries, i.e. calculation of recoverable amount is based on approved plans using the discounted cash flows method. Future cash flows derived from those plans are discounted using the weighted average cost of capital between 6.3% and 8.7% (source: http://pages.stern.nyu.edu/~adamodar/), depending on the industry in which the individual entity operates.

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

At 31 December, the Company owns shares in the following subsidiaries:

Name	Country of incorporation	Primary activity	2020	2019	2020	2019
			Holding in %		*(in thousands of HRK)*	
Dalekovod d.o.o., Ljubljana	Slovenia	Construction	100,00	100,00	2.075	2.075
Dalekovod d.o.o., Mostar	Bosnia and Herzegovina	Construction	100,00	100,00	210	210
Proizvodnja MK d.o.o., Dugo Selo	Croatia	Production	100,00	100,00	222.758	222.758
Dalekovod-projekt d.o.o., Zagreb	Croatia	Construction	100,00	100,00	4.614	4.614
Dalcom Engineering GmbH, Freilassing/ii/	Germany	Construction	0,00	0,00	-	-
Dalekovod-Polska S.A., Varšava /i/, /iv/	Poland	Construction	100,00	100,00	-	16.943
Dalekovod TKS a.d., Doboj	Bosnia and Herzegovina	Production	97,25	97,25	20.344	20.344
Denacco Namibia (PTY) Ltd	Namibia	Construction	60,00	60,00	18	18
Liburana d.o.o., Zagreb	Croatia	Production	0,00	0,00	-	-
Cindal d.o.o. Doboj	Bosnia and Herzegovina	Production	95,01	95,01	5.191	5.191
Dalekovod-Adria d.o.o. Zagreb	Croatia	Other	100,00	100,00	32.098	32.098
Dalekovod EMU d.o.o. Zagreb	Croatia	Construction	100,00	100,00	11.063	11.063
EL-RA d.o.o. Zagreb	Croatia	Other	100,00	100,00	492	492
Dalekovod Libya za inženjering, zajedničko poduzeće, Libya	Libya	Construction	65,00	65,00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	Construction	100,00	100,00	74	74
Dalekovod Norge AS	Norway	Construction	100,00	100,00	2.072	2.072
Cinčaonica usluge /i/	Croatia	Other	100,00	100,00	20	20
Accumulated Impairment of investments					(255.002)	(271.945)
					46.906	**46.906**

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

As of March 1, 2020 the production company Proizvodnja MK is partitioned from the economic unit related to the production of suspension and jointing equipment. The mentioned new economic entity is continuing its business as a separate business entity under the name Proizvodnja OSO d.o.o. Production MK d.o.o. is the holder of a 100% share in the newly established company.

NOTE 23 – INVESTMENTS IN ASSOCIATES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
At beginning of year	4	4	4	4
At end of year	**4**	**4**	**4**	**4**

Associates are as follows:

	Dalekovod Group		Holding in %	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
TLM Group Members	4	4	22-25	22-25
Total	**4**	**4**		

NOTE 24 – INVESTMENTS IN JOINT VENTURE

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
At beginning of year	-	11,592	-	11,592
Impairment od investments in joint ventures	-	(11,592)	-	(11,592)
At end of year	**-**	**-**	**-**	**-**

Financial information about a joint venture in which the Company has a 50% interest can be summarized as follows:

(in thousands of HRK)	**Assets**	**Liabilities**	**Revenue**	**Net income / (loss)**
Officium partner d.o.o.	666,988	668,796	33,795	(2,808)

NOTE 25 – FINANCIAL INSTRUMENTS BY CATEGORY

GROUP *(in thousands of HRK)*	**Note**	**Financial assets at amortized cost 2020**	**Financial assets at FVTPL 2020**	**Total 2020**	**Financial assets at amortized cost 2019**	**Financial assets at FVTPL 2019**	**Total 2019**
Financial assets							
Trade receivables	26,28	166,720	-	166,720	162,710	-	162,710
Receivables by construction contracts	28	71,997	-	71,997	75,500	-	75,500
Loans receivable and deposits	26,28	113,979	-	113,979	84,703	-	84,703
Interest receivable	28	98	-	98	-	-	-
Other receivables	28	78,033	-	78,033	94,828	-	94,828
Cash and cash equivalents	29	64,100	-	64,100	61,519	-	61,519
Total		**494,927**	**-**	**494,927**	**479,260**	**-**	**479,260**
Financial liabilities							
Loans	31	232,529	65,680	298,209	223,631	67,239	290,870
Bonds	31	15,686	-	15,686	16,871	-	16,871
Finance lease	31	9,211	-	9,211	33,179	68,145	101,324
Mezzanine debt	32	-	30,723	30,723	-	29,516	29,516
Trade payables	33	167,625	3,720	171,345	218,115	3,720	221,835
Other payables	33	31,302	-	31,302	15,473	-	15,473
Total		**456,353**	**100,123**	**556,476**	**507,269**	**168,620**	**675,889**

Financial instruments do not include transactions with employees, receivables/payables for contributions, taxes and receivables/payables for advances received.

NOTE 25 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company *(in thousands of HRK)*	**Note**	**Financial assets at amortized cost 2020**	**Financial assets at FVTPL 2020**	**Total 2020**	**Financial assets at amortized cost 2019**	**Financial assets at FVTPL 2019**	**Total 2019**
Financial assets							
Trade receivables	26,28	139,756	-	139,756	122,307	-	122,307
Receivables by construction contracts	28	62,435	-	62,435	65,156	-	65,156
Loans receivable and deposits	26,28	107,998	-	107,998	88,830	-	88,830
Interest receivable	28	611	-	611	364	-	364
Other receivables	28	76,151	-	76,151	85,419	-	85,419
Cash and cash equivalents	29	50,805	-	50,805	49,553	-	49,553
Total		**437,756**	**-**	**437,756**	**411,629**	**-**	**411,629**
Financial liabilities							
Loans	31	235,955	65,680	301,635	227,597	67,239	294,836
Bonds	31	20,231	-	20,231	22,261	-	22,261
Finance lease	31	7,859	-	7,859	32,840	68,145	100,985
Mezzanine debt	32	-	35,117	35,117	-	33,721	33,721
Trade payables	33	121,698	3,720	125,418	152,610	3,720	156,330
Other payables	33	28,655	-	28,655	14,493	-	14,493
Total		**414,398**	**104,517**	**518,915**	**449,801**	**172,825**	**622,626**

Financial instruments do not include tax payables, payables to employees, taxes and contributions and advances received.

NOTE 26 – LOANS AND RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Long-term deposits	8,793	12,773	8,355	12,967
Long-term guarantee deposits	63,503	39,336	63,503	39,201
Long-term trade receivables	4,822	4,822	4,822	4,822
Other long-term receivables	-	15	-	15
Long-term loans receivable:				
- housing loans and other loans to employees	676	957	154	177
- loans to other companies	13,504	13,504	13,504	13,504
- loans to subsidiaries	-	-	2,167	6,836
Impairment of long-term deposits and loans receivable	(16,959)	(16,090)	(16,960)	(16,091)
Impairment of long-term deposits and loans receivable	(4,822)	(4,822)	(4,822)	(4,823)
	69,517	**50,495**	**70,723**	**56,608**

Deposits

Deposits are mostly denominated in EUR and used as collateral for bank guarantees. Some deposits are not interest bearing and other had effective interest rates, ranging from 0.04% to 0.57%.

Long-term guarantee deposits refer to retentions or retentions for each invoice / situation issued, which amounts are defined in accordance with the provisions of the contract. The amounts of retentions for individual projects vary between 5% -10% and are cumulated up to a certain contract value.

While for the Norwegian market the specific cumulation of retention value is 10% for each invoice issued, at the same time this amount is limited to a maximum of 5% of the total contract value, so on the other hand local retentions are characterized by cumulation in percentage defined by the contract. In all cases, the retention is released after the takeover of the facility by the Investor, after the construction period and if the contracts allow it after the partial takeover of part of the facility with the consent of the Investor.

Loans to other companies

During 2008, the Company concluded a Loan Agreement with TPN Sportski grad from Split, according to which a revolving loan facility was agreed in the total amount of HRK 9,000 thousand, and the debtor drew down HRK 8,660 thousand on this facility. The loan was granted with a discount rate which was 9% annually at the date of Agreement. The loan matures in one instalment in 2028, while interest is calculated over the entire period and will be repaid from 31 October 2010. Due to the uncertainty of receivables collection under this loan, the Company impaired this loan during 2012. The remaining amount refers to the receivable on the loan given to the company Officium partner d.o.o. which is also fully value-adjusted in 2018.

NOTE 26 – LOANS AND RECEIVABLES (continued)

Movements in the provision for impairment of long-term deposits and loans receivable are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
At 1 January	16,090	20,272	16,091	20,274
Collection of impaired receivables	-	(5,325)	-	(5,325)
Unwinding of discount of guarantee deposits	-	(1,442)	-	(1,442)
Discount of guarantee deposits	869	2,585	869	2,584
At 31 December	**16,959**	**16,090**	**16,960**	**16,091**

NOTE 27 – INVENTORIES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Raw materials (restated)	34,637	44,496	4,805	4,707
Finished and semi-finished goods and work in progress (restated)	28,258	28,221	48	48
Spare parts and small inventories	5,577	5,074	2,082	1,152
Trade goods (restated)	4,126	7,083	608	440
Advances for inventories	-	375	-	-
	72,598	**85,249**	**7,543**	**6,347**

Cost of raw materials and supplies recognised in the income statement is disclosed in note 10.

Impairment of inventories recognised in the income statement is disclosed in note 12.

NOTE 28 – TRADE AND OTHER RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Domestic trade receivables	117,052	131,792	130,083	135,208
Foreign trade receivables	124,926	104,371	79,238	61,960
Impairment of trade receivables	(80,080)	(78,275)	(74,387)	(79,683)
	161,898	157,888	134,934	117,485
Receivable from customers for contract work	71,997	75,500	62,435	65,156
Guarantee deposits – current portion	39,135	24,481	31,433	19,934
Short-term deposits /iii/	7,657	5,199	5,544	4,224
Loans to subsidiary	-	-	6,645	13,174
Other short-term loans /i/	6,809	23,291	4,987	23,167
Interest receivable	8,199	8,546	8,712	11,642
Other receivables /iv/	78,033	104,045	76,151	94,288
Impairment of other financial assets	(12,418)	(31,704)	(14,613)	(43,602)
Total financial assets	361,310	367,246	316,228	305,468
Advances /ii/	72,008	23,581	83,157	29,008
Receivable from employees	75	323	64	259
VAT receivable	8,142	13,687	5,803	9,181
Outstanding VAT receivable	957	439	-	-
Prepaid expenses	14,388	3,341	11,636	2,402
Impairment of non-financial assets (note 11)	(6,247)	(6,247)	(6,248)	(6,247)
Total non-financial assets	89,323	35,124	94,412	34,603
	450,633	**402,370**	**410,640**	**340,071**

/i/ Other short-term loans and loans to subsidiaries are with annual interest rates from 2.2%-6.5%. The loans are generally granted for periods from 3 to 12 months and are secured by bills of exchange, promissory notes, pledges on shares and fixed assets. Credit risk related to credit claims is limited due to the allocation of these claims to various customers.

/ii/ Advances were granted to suppliers for the purchase of material and equipment, as well as for project design services.

/iii/ Short-term deposits are contracted with fixed maturities and variable interest rates that are approximately equal to market rates. All deposits have maturities of one year after the balance sheet date. Some of the deposits are not interest bearing while other have effective interest rate ranged from 0.01% to 0.39%.

/iv/ Other receivables include receivable from Ministry of finance in the amount of HRK 50,000 thousand (2019: HRK 50,000 thousand).

NOTE 28 – TRADE AND OTHER RECEIVABLES (continued)

The ageing of trade receivables is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Not due	90,534	99,178	74,284	70,102
Up to 90 days	45,143	46,337	35,067	25,590
From 91 to 180 days	10,561	9,419	8,662	5,164
Over 180 days	15,660	2,954	16,922	16,629
	161,898	**157,888**	**134,934**	**117,485**

Movements on the provision for impairment of trade receivables and other financial assets are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
At 1 January	109,979	109,925	123,285	132,658
Impairment of trade receivables and other financial assets	2,035	17,344	15,950	15,893
Collected amounts)	(85)	(1,237)	(127)	(1,061)
Recapitalization of a subsidiary	-	-	(9,125)	-
Transfer to discontinued operations	-	-	(15,562)	-
Change after adjustment to IFRS 9	(365)	-	(365)	-
Receivables written-off during the year as uncollectible	(19,066)	(16,053)	(25,056)	(24,205)
At 31 December	**92,498**	**109,979**	**89,000**	**123,285**

The carrying amounts of the Group's and the Company's financial assets are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
HRK	167,313	189,004	164,429	181,557
EUR	68,413	76,796	18,616	27,002
NOK	73,735	46,232	73,946	45,930
UAH	4,034	1,117	4,028	1,103
Other currencies	47,815	54,097	55,209	49,876
Total	**361,310**	**367,246**	**316,228**	**305,468**

The fair value of trade receivables approximates their carrying amount.

NOTE 29 – CASH AND CASH EQUIVALENTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Cash at bank and petty cash in domestic currency	14,289	7,712	11,772	2,788
Cash at bank and petty cash in foreign currency	49,426	53,807	39,033	46,765
Deposits at bank in foreign currency	385	-	-	-
	64,100	**61,519**	**50,805**	**49,553**

Cash and cash equivalents are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
EUR	15,629	14,594	5,189	11,971
NOK	19,592	18,919	19,453	18,913
UAH	4,991	2,120	4,792	1,874
Other currencies	9,600	18,174	9,599	14,007
Total	**49,811**	**53,807**	**39,033**	**46,765**

NOTE 30 – SHAREHOLDERS' EQUITY

Share capital

The share capital as at 31 December 2020 amounts to HRK 247,193 thousand (31 December 2019: HRK 247,193 thousand) and consists of 24,719,305 shares (2019: 24,719,305 shares). Nominal value of a share amounts to HRK 10 (31 December 2019: HRK 10).

The structure of shareholders as at 31 December is as follows:

	Number of shares		Holding	
	2020	**2019**	**2020**	**2019**
Konsolidator d.o.o.	15,000,000	15,000,000	60,68%	60,68%
Individuals	7,045,883	5,231,183	28,50%	21,16%
Financial institutions	1,956,537	3,776,068	7,92%	15,28%
Others	618,044	613,213	2,50%	2,48%
Treasury shares	98,841	98,841	0,40%	0,40%
	24,719,305	**24,719,305**	**100,00%**	**100,00%**

NOTE 30 – SHAREHOLDERS’ EQUITY (continued)

Management company Inspire investments d.o.o. manages the fund which owns the majority owner of Dalekovod d.d.

Share premium

Share premium as at 31 December 2020 amounts to HRK 86,142 thousand (2019: HRK 86,142 thousand).

Share premium resulted from the issue of shares in 2011 when the Company realised a premium of HRK 83,151 thousand, which was reduced by the cost of issuing new shares of HRK 2,672 thousand. During 2014 part of share premium in the amount of HRK 70,424 thousand was used to cover losses. Furthermore, during 2014 share premium was increased as a result of increase in share capital, i.e. transfer of debts towards suppliers into share capital as part of the pre-bankruptcy settlement in the amount of HRK 76,695 thousand and decreased by the cost of issuing new shares in the amount of HRK 608 thousand.

During 2019, there was a decrease in the premium for issued shares in the amount of HRK 2,094 thousand. This decrease is the reason for the cancellation of the option purchase of shares.

Legal reserves

The legal reserve is required under Croatian law whereby a minimum of 5% of the profit for the year is required to be allocated to legal reserves until they reach 5% of the Company's share capital. Legal reserves are not distributable.

Treasury shares

As at 31 December 2020, the Company owns 98,841 treasury shares (2019: 98,841 treasury shares).

Statutory and other reserves

Statutory and other reserves consist of statutory reserves in the amount of HRK 40,654 thousands (2019: HRK 40,654 thousands) and reserves for own shares in the amount of HRK 8,466 thousand (2019: HRK 8,466 thousand).

Revaluation reserves

In 2020, it was estimated that there were no significant deviations in market conditions that would indicate a significant change in the value of the aforementioned land and buildings.

The fair value of land and buildings at the site in Žitnjak was determined using the income method and comparative method. The value of the property is determined based on the comparable value of similar properties. The fair value of land and buildings at the site in Dugo Selo was determined using the comparative method based on active market prices and recent arm’s length market transactions.

Additionally, at Group level, fair value of land and buildings at the site in Velika Gorica was determined by income method based on future rents.

NOTE 31 – BORROWINGS

(in thousands of HRK)	Average interest rate	Dalekovod Group 2020	Dalekovod Group 2019	Dalekovod d.d. 2020	Dalekovod d.d. 2019
Non-current					
Loans from banks and subsidiaries	4,00%	226,144	246,882	226,144	246,247
Bonds	4,00%	14,380	15,620	18,980	20,610
Finance lease /i/	4,07%	5,117	75,401	4,145	75,166
		245,641	**337,903**	**249,269**	**342,023**
Current					
Loans from banks and subsidiaries	4,00%	72,065	43,988	75,491	48,589
Commercial papers	4,00%	1,306	1,251	1,725	1,651
Finance lease /i/	4,07%	4,094	25,923	3,714	25,819
		77,465	**71,162**	**80,930**	**76,059**
Total borrowings		**323,106**	**409,065**	**330,199**	**418,082**

Gross liabilities under the Lease liabilities – minimum lease payments:

(in thousands of HRK)	Dalekovod Group 2020	Dalekovod Group 2019	Dalekovod d.d. 2020	Dalekovod d.d. 2019
Up to 1 year	4,094	26,004	3,714	25,892
Between 1 to 5 years	6,596	79,785	5,549	79,541
Over 5 years	-	-	-	-
	10,690	105,789	9,263	105,433
Future finance costs under finance lease	(1,479)	(4,465)	(1,404)	(4,448)
Present value of liabilities under finance lease	**9,211**	**101,324**	**7,859**	**100,985**

NOTE 31 – BORROWINGS (continued)

In the total amount of loans received form banks and subsidiaries disclosed by the Company and the Group on 31 December 2020, part of the debt in the amount of 59,371thousand (2019.: HRK 60,930 thousand) relates to three banks holding first-rank pledges over the Company's assets which refinance their claims until such assets are transferred to them by activation of their enforceable pledges and foreclosure.

Furthermore, the Company also owes a debt to one of those banks based on unpaid guarantees in the amount of HRK 6,309 thousand as at 31 December 2020 (2019: HRK 6,309 thousands).

The foreclosure procedures were initiated by enforcing pledges held by banks that chose to have their claims against the Company (secured by first-rank pledges over assets) settled through enforcement procedures, rather than the proposed settlement. The Company believes that no additional losses (cash outflows) will incur as a result of the separate settlement of these liabilities because the applicable Financial Operations and Pre-bankruptcy Settlement Act allows for claims of creditors with separate secured creditor claims rights to be satisfied only from the pre-bankruptcy debtor's assets over which the creditor held a separate secured claim at the time the pre-bankruptcy settlement was initiated.

The Company and the Group as at 31 December 2020 and 31 December 2019, according to the accounting policy for assets under foreclosure, have fair valued the corresponding loan obligation and other liabilities (guarantees) which relate to assets under foreclosure (notes 6, 19 and 20).

The Group's borrowings totalling HRK 9,211 thousand (2019: HRK 8,948 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 248,215 thousand (2019: HRK 325,979 thousand), except for borrowings which will be discharged by selling assets under foreclosure, have fixed interest rates and relate to loans, bonds and lease liability according to pre-bankruptcy settlement.

Interest rate on senior debt, bonds and lease liabilities is fixed at 4%, according to pre-bankruptcy settlement, short-Term bank loan 4.75 while interest rate on other lease liabilities is variable and ranges from 4% to 7% . Borrowings of the Group and the Company that matured by 31 December 2020 amount to HRK 34,011 thousand (2019.: HRK 24,003 thousand).

The Group's management with key financial creditors carries out financial restructuring activities in order to improve the financial position and liquidity of the Company and the Group.

The borrowings are denominated in the following currencies:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
EUR	100,032	212,335	130,080	214,660
HRK	212,152	196,440	187,823	201,519
Other	10,922	290	12,296	1,903
Total	**323,106**	**409,065**	**330,199**	**418,082**

NOTE 31 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Between 1 to 5 years	77,801	58,693	77,801	58,058
Over 5 years	148,343	188,189	148,343	188,189
	226,144	**246,882**	**226,144**	**246,247**

NOTE 32 – MEZZANINE DEBT

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Long-term	30,723	29,516	35,117	33,721
	30,723	**29,516**	**35,117**	**33,721**

Movements in Mezzanine debt are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
At 1 January	29,516	83,807	33,721	91,444
Additions	1,207	865	1,396	1,333
Decrease	-	(55,156)	-	(59,056)
At 31 December	**30,723**	**29,516**	**35,117**	**33,721**

During 2019, the sale of Dalekovod Professio d.d. the short-term part of the mezzanine debt is repaid as determined by the pre-bankruptcy settlement.

The mezzanine debt of the Group and the Company is denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
HRK	18,230	17,520	22,624	21,725
EUR	12,493	11,996	12,493	11,996
	30,723	**29,516**	**35,117**	**33,721**

NOTE 33 – TRADE AND OTHER PAYABLES

Long-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Trade payables	-	240	-	171
	-	**240**	**-**	**171**

Short-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Domestic trade payables	95,069	128,681	86,946	102,830
Foreign trade payables	76,276	92,914	38,472	53,329
	171,345	221,595	125,418	156,159
Interest payable	17,081	9,395	17,574	9,721
Dividends payable (note 17)	101	101	101	101
Contracted liabilities from acquisition	10	10	10	10
Other accruals and liabilities	14,044	5,901	10,904	4,595
Due to banks arising from collected guarantees	66	66	66	66
Financial liabilities	**202,647**	**237,068**	**154,073**	**170,652**
Advances	96,365	30,909	89,904	28,145
Deferred income	43,799	13,548	42,517	13,548
Due to employees	32,283	31,953	28,792	24,619
VAT payable	18,660	23,896	17,301	22,382
Taxes and contributions	7,836	6,207	5,162	2,817
Unused vacation days	4,955	4,470	3,411	2,783
	547	387	850	386
Non-financial liabilities	**204,445**	**111,370**	**187,937**	**94,680**
	407,092	**348,438**	**342,010**	**265,332**

NOTE 33 – TRADE AND OTHER PAYABLES (continued)

The Group's and the Company's long-term financial liabilities are denominated as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Kuna	-	173	-	171
EUR	-	67	-	-
Total	**-**	**240**	**-**	**171**

The Group's and the Company's short-term financial liabilities are denominated as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Kuna	122,453	140,444	99,339	112,060
EUR	59,352	53,342	26,846	26,487
NOK	8,998	10,687	9,375	10,941
UAH	-	1,139	-	1,139
Other currencies	11,844	31,456	18,513	20,025
Total	**202,647**	**237,068**	**154,073**	**170,652**

NOTE 34 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2020	2,809	5,409	28,052	36,270
Increase	512	454	5,528	6,494
Decrease	(942)	(1,386)	(7,075)	(9,403)
At 31 December 2020	**2,379**	**4,477**	**26,505**	**33,361**

Analysis:	**2020**	**2019**
Non-current portion	30,443	35,135
Current portion	2,918	1,135
Total	**33,361**	**36,270**

Company

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2020	1,424	2,682	27,362	31,468
Increase	387	265	5,204	5,856
Decrease	(411)	(466)	(6,417)	(7,294)
At 31 December 2020	**1,400**	**2,481**	**26,149**	**30,030**

Analysis:	**2020**	**2019**
Non-current portion	27,327	30,935
Current portion	2,703	533
Total	**30,030**	**31,468**

NOTE 34 – PROVISIONS (continued)

Provisions for jubilee awards and retirement benefits

These provisions relate to estimated long-term employee benefits for jubilee awards and regular retirement benefit at the time of retirement according to the Collective Labour agreement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate of 8,15% for the Group, and 7,50% for the Company (2019: Group 6.47%, Company 6.00%); the age of retirement is determined for each individual employee taking into account their present age and the overall realised years of service. The average age of retirement used in the calculation for the Company is 62 years and the Group is 61 years for men and for women it is 61 for the Company and 62 for the Group (2019.: the average age of retirement used in the calculation for the Company and the Group is 61 years for men and 61 years for women while previous years it was 62 for women and 62 for men both for the Company and the Group).

Other provisions

Other provisions relate to provisions for litigation in the amount of HRK 24,278 thousand for the Group and HRK 23,922 thousand for the Company (2019: HRK 28,052 thousand for the Group and HRK 27,362 thousand for the Company) and provisions for management bonuses in the amount of HRK 2,227 thousand for both the Group and the Company (2019: 0).

NOTE 35 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party, if it is under common control or if it has significant influence over the other party's operations.

In the ordinary course of business operations, the Company enters into related party transactions, which include the purchase of goods and services and loans. The nature of services with related parties is based on arm's length terms. In addition to the subsidiaries presented in note 22, associates presented in note 23 and joint ventures presented in note 23, the Company's related parties include its Management Board, Executive Directors, their related parties, owners and ultimate owner Inspire Investments d.o.o.

The Company has no transactions with the ultimate owner.

Items in the income statement for the year and balances in the statement of financial position at the end of the year that relates to subsidiaries are as follow:

Revenues and expenses

(in thousands of HRK)	**2020**	**2019**
Sales revenue	28,373	28,183
Rental income	8,924	10,915
Interest income	303	958
Dividend income	6,011	2,315
Interest income	7,142	7,178
	50,753	**49,549**
Cost of goods sold	9,933	3,003
Cost of raw materials and supplies	22,296	36,648
Subcontractor services	27,979	17,283
Other operating expenses	13	4
Interest expense and foreign exchange losses	147	545
	60,368	**57,483**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	**2020**	**2019**
Trade receivables	45,980	37,345
Impairment of trade receivables	(15,562)	(4,982)
Interest receivable	454	3,112
Impairment of interest receivable	(13)	(2,383)
Advances given	16,728	9,172
Loans receivable	6,227	20,010
Impairment of loans receivable	(2,183)	(9,514)
	51,631	**52,760**
Trade payables	22,210	21,539
Mezzanine debt	4,394	4,205
Interest payable	392	474
Bonds	5,019	5,390
Advances received	29,969	-
Loans payable	3,426	4,227
	65,410	**35,835**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Items in the income statement for the year and balances in the statement of financial position at the end of the year that relates to joint ventures are as follow:

Revenues and expenses

(in thousands of HRK)	**2020**	**2019**
Interest income	247	456
Other income	-	5,325
	247	**5,781**

Receivables, payables and loans

(in thousands of HRK)	**2020**	**2019**
Interest receivable	491	244
Loan receivables	4,954	4,954
	5,445	**5,198**

Receivable related to given loans is fully impaired. During the year it was collected HRK 5,325 thousand that is stated within other income.

Transactions with key management

Key management consists of Management Board and Executive Directors, 21 people in total (2019: 23 people). Remuneration to key management at Group's level amounted to HRK 11,448 thousand (2019: HRK 12,560 thousand), while remuneration at the level of the Company amounted to HRK 7,305 thousand (2019: 9,114 thousand).

Remuneration to Supervisory Board in 2020 amounted to HRK 127 thousand (2019.: HRK 306 thousand).

NOTE 36 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2020, the Group has numerous contracts which have commenced, but have not been completed. Costs to be incurred in the future arising from these contracts are estimated in the amount of HRK 825,597 thousand (2019: HRK 1,431,724 thousand).

As at 31 December 2020, the Group and the Company are exposed to potential liabilities arising from issued bank guarantees (as collateral for collection and security for the quality of work performed) in the total amount of HRK 429,894 thousand and HRK 385,198 thousand (2019: HRK 349,289 thousand and HRK 321,010 thousand Company). The Company is additionally exposed as a co-debtor for borrowings of subsidiaries in the total amount of HRK 37,885 thousand (2019: HRK 22,093 thousand). The Group and the Company estimate that it is not certain that any contingent liabilities arising from bank guarantees will be collected, as the Group and the Company, as in previous periods, fulfil all contractual liabilities arising from the projects. On April 30, the Group and the Company issued all the necessary guarantees for contracted projects.

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Based on the opinion of the Management Board and its legal counsel, provision have been created for those legal dispute that will potentially result in losses (note 34). In addition to those court cases for which provision have been made, there are legal disputes for which Management Board and legal counsel believe will not result in significant losses.

NOTE 37 – WRITE-OFF OF SUBSIDIARIES

2020

During 2020, the independent company Dalekovod-Polska S.A. was sold.

The effect of the subsidiary's expenses is as follows:

(all amounts are expressed in thousands of HRK)	Sale 2020
ASSETS	
Property, plant and equipment	279
Trade and other receivables	6,813
Cash and cash equivalents	(5)
Total assets	**7,087**
Long-term provisions	26
Long-term borrowings	409
Short-term borrowings	29
Trade and other payables	4,520
Total liabilities	**4,984**
Written-off net assets/(liabilities)	**2,103**
Proceeds from sale	-
Profit / (loss) from write-off	**(2,103)**

The effect of write-off the above listed subsidiaries has the following effect at the Company level:

(all amounts are expressed in thousands of HRK)	Sale 2020
Proceeds from sale	-
Investments in subsidiaries	(738)
Profit / (loss) from write-off	**(738)**

NOTE 37 – WRITE-OFF OF SUBSIDIARIES (continued)

2019

During 2019, the subsidiary Dalekovod Proffessio d.o.o. was sold as it was defined in the pre-bankruptcy settlement, subsidiary Liburana d.o.o. was also sold.

Subsidiary Dalcom Engineering GmbH (Freilassing, Germany) was liquidated during the year while for subsidiary Dalekovod TKS a.d. (Doboj, Bosnia and Herzegovina) was made write-off because of loss of control on the subsidiary due to bankruptcy, there is no possibility of recourse of the creditors of the company to the Group / Company.

The effect of write-off the above listed subsidiaries has the following effect at the Group level:

(all amounts are expressed in thousands of HRK)	**Sale**	**Liquidation**	**Loss of control**	**Total**
	2019	**2019**	**2019**	**2019**
ASSETS				
Property, plant and equipment	2,119	-	15,118	17,237
Loans and receivables	299	-	48	347
Inventories	-	-	821	821
Trade and other receivables	3,856	66	3,627	7,549
Income tax receivable	22	-	-	22
Cash and cash equivalents	64	5	-	69
Assets held for sale	65,038	-	-	65,038
Financial assets at fair value through profit or loss	5	-	-	5
Total assets	**71,403**	**71**	**19,614**	**91,088**
Non-controlling interests	-	-	(700)	(700)
Long-term provisions	-	43	97	140
Long-term borrowings	-	-	33	33
Short-term borrowings	2,000	163	9,848	12,011
Trade and other payables	1,905	62	28,415	30,382
Total liabilities	**3,905**	**268**	**38,393**	**42,566**
Written-off net assets/(liabilities)	**67,498**	**(197)**	**(18,079)**	**49,222**
Proceeds from sale	112,002	-	-	112,002
Profit / (loss) from write-off	**44,504**	**197**	**18,079**	**62,780**

NOTE 37 – WRITE-OFF OF SUBSIDIARIES (continued)

The effect of write-off the above listed subsidiaries has the following effect at the Company level:

(all amounts are expressed in thousands of HRK)	**Sale**	**Liquidation**	**Loss of control**	**Total**
	2019	**2019**	**2019**	**2019**
Proceeds from sale	112,002	-	-	112,002
Investments in subsidiaries	74,375	371	-	74,746
Profit / (loss) from write-off	**37,627**	**(371)**	**-**	**37,256**

Profit from sales in the amount of HRK 37,627 thousand was realized through the sale of subsidiary Dalekovod Professio d.d. which as at 31 December 2018 was stated as assets held for sale in the amount of HRK 73,375 thousand. The sale of Liburana d.o.o. has no effect on the result because the share of the net book value of HRK 1,000 was sold at the same value.

Loss of control over the subsidiary Dalekovod TKS a.d. had no impact on the Company's profit and loss statement as the shares in the subsidiary were fully impaired in previous years.

NOTE 38 – DISCONTINUED OPERATIONS

On July 10, 2020, a settlement was concluded with the creditor from the Pre-Bankruptcy Settlement, HETA Asset Resolution d.o.o., on regulating the relationship from three leasing contracts of which HETA is the exclusive creditor on the property which in nature is a galvanizing plant in Dugo Selo. HETA took over the leased property by settlement and sold it to the end customer, NFS Cink d.o.o. members of the Czech Signum Group. The entire segment of galvanizing services has been put into discontinued operation. The impact on the statements of comprehensive income and financial position is shown below.

Impact on the statement of comprehensive income:

(all amounts are expressed in thousands of HRK)	**Dalekovod Group discontinued operations 2020**	**Dalekovod Group discontinued operations 2019**	**Dalekovod d.d. discontinued operations 2020**	**Dalekovod d.d. discontinued operations 2019**
Sales revenue	20,590	39,208	-	-
Other income	3,293	2,621	3,109	4,420
Cost of trade goods sold	(11,216)	-	(5)	-
Cost of materials and services	(19,296)	(28,027)	(578)	(636)
Staff costs	(8,985)	(11,419)	-	-
Depreciation and amortisation	(3,380)	(5,169)	(3,271)	(5,028)
Other operating expenses	(4,567)	(1,150)	(19,372)	-
Other gains/(losses) – net	(24,879)	7	(23,778)	-
Operating gain/(loss)	(48,440)	(3,929)	(43,895)	(1,244)
	-		-	
Finance income	2,460	9	2,316	-
Finance costs	(7,149)	(1,430)	(6,947)	(1,420)
	(4,689)	(1,421)	(4,631)	(1,420)
Income tax	-	(71)	-	-
Discontinued operations	***(53,129)***	***(5,421)***	***(48,526)***	***(2,664)***

NOTE 38 – DISCONTINUED OPERATIONS (continued)

Impact on the statement of financial position:

(all amounts are expressed in thousands of HRK)	**Dalekovod Group discontinued operations 2020**	**Dalekovod d.d. discontinued operations 2020**
ASSETS		
Trade and other receivables	476	137
Income tax receivable	31	-
Cash and cash equivalents	137	-
Assets held for sale	***644***	***137***
LIABILITIES		
Provisions	114	-
Borrowings	15,863	15,863
Trade and other payables	23,487	20,920
Liabilities held for sale	***39,464***	***36,783***