

Zagreb, 29 April 2017

DALEKOVOD d.d.

ANNUAL REPORT
CONSOLIDATED AND SEPARATE FINANCIAL
STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT 31 DECEMBER 2016



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I. GENERAL INFORMATION

MANAGEMENT BOARD

Alen Premužak – Chairman of the Management Board

Helena Jurčić Šestan – Management Board Member

Marko Jurković – Management Board Member

Ivica Kranjčić – Management Board Member

Ivan Kurobasa – Management Board Member

SUPERVISORY BOARD

Marko Lesić – Chairman of the Supervisory Board

Ivan Peteržilnik – Deputy Chairman of the Supervisory Board

Krešimir Ružđak – Supervisory Board Member

Vlado Čović – Supervisory Board Member

Hrvoje Markovinović – Supervisory Board Member

Uwe Heiland – Supervisory Board Member

Marko Makek – Supervisory Board Member

Mirela Tomljanović Radović – Supervisory Board Member

Anton Pernar – Supervisory Board Member

Dalekovod Dioničko društvo za inženjering, proizvodnju i izgradnju

Marijana čavića 4, 10 000 Zagreb, Croatia

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)

II. ANNUAL REPORT

1. KEY INDICATORS

Dalekovod Group is focused on increasing its revenue while continuously raising its operating efficiency. Consequently, although the **operating revenue** in 2016 for Dalekovod d.d. was HRK 890 million according to the audited figures, and HRK 1,233 million for Dalekovod Group, which is 12% and 4% less than in 2015, respectively, a significant growth in operating profitability was recorded, where **gross margin** in 2016 increased by 9.6% (2.6 p.p.) for Dalekovod d.d. and by 9.1% (1.8 p.p.) for Dalekovod Group. This relatively lower revenue obtained by Dalekovod d.d. in 2016 is a result of a much slower rate of launching infrastructural project tenders on the domestic market.

DALEKOVOD d.d.
EBITDA (HRK million)

96,3

DALEKOVOD d.d.
SALES REVENUE (HRK million)

815,2

DALEKOVOD d.d.
NET PROFIT (HRK million)

25,2

DALEKOVOD GROUP
EBITDA (HRK million)

120,6

DALEKOVOD GROUP
SALES REVENUE (HRK million)

1.160,0


DALEKOVOD GROUP
NET PROFIT (HRK million)

36,8

According to the audited figures, EBITDA for Dalekovod d.d. in 2016 was HRK 96.3 million, which is 20.3% more than in 2015.

EBITDA for Dalekovod Group increased from 95.7 to 120.6 (26.1%). Gross income from projects demonstrating operating efficiency in project implementation for Dalekovod d.d. increased by 9.6% and by 9.1% for Dalekovod Group.

The financial position of Dalekovod Group is presently stable – as of 31 December 2016, the total net debt was HRK 404.9 million for Dalekovod d.d. and HRK 414.7 million for Dalekovod Group.



To reflect the actual value of assets and debt according to the Pre-bankruptcy Settlement (PBS) entered into, the Balance Sheets of Dalekovod d.d. and Dalekovod Group was adjusted both on the asset and liability sides by measuring the assets included in the enforcement procedure at fair value, as well as the associated liabilities to be discharged on completion of the judicial proceeding, i.e. on completion of enforcement and sale of such assets. Note 6 presents all effects of the adjustment on the initial balance, including the impacts of fair valuation of assets under enforcement, as well as fair valuation of the associated liabilities.

During the same period, **net profit** for Dalekovod d.d. in 2016 was **HRK 25.2 million**, which is **19.1%** less compared to 2015. This yoy decrease in profit is mostly a result of impairing the shares in joint ventures. Net profit for Dalekovod Group increased from HRK 4.0 million to HRK 36.8 million (814.88%).

As it did in earlier years, in 2016 (HRK 75.6 million) Dalekovod d.d. performed all its obligations arisen from PBS and cumulatively paid its creditors during the past periods HRK 238.2 million, while continuing to build strong relationships with its partners.

The key markets for Dalekovod d.d. in 2016 were Norway, Ukraine and Croatia and the share of revenue obtained on foreign markets in total revenue exceeded 78.1%. On the Dalekovod Group level, this share was 77.6%, which indicates that the Company is strongly focused on exports. **The total amount of newly awarded contracts in 2016 for the upcoming period exceeded HRK 1 billion.** It is particularly important to mention a new project in the Kingdom of Norway worth HRK 605.0 million and the award of contract for the reconstruction and construction of the second track of the Dugo Selo-Križevci line in a consortium with Croatian partners.

The business of Dalekovod d.d. and Dalekovod Group in 2016 was marked by a focus on obtaining new contracts, increasing building efficiency on the current projects and HR empowerment on all levels as a key condition precedent to future development.

in HRK thousand except for earnings per share	Dalekovod d.d.		Dalekovod Group	
	2016.	2015.	2016.	2015.
Profitability:				
Sales revenue	815.216	928.317	1.159.694	1.202.046
EBITDA	96.311	80.062	120.619	95.652
EBITDA margin (%)	11,8%	8,6%	10,4%	8,0%
Profit for the year	25.188	31.150	36.769	4.019
Earnings per share (in kn)	1,02	1,26	1,49	0,17
Financial position and cash flow				
Total assets	1.352.717	1.452.287	1.448.493	1.855.329
Cash, cash equivalents and financial assets	136.576	150.203	154.532	161.275
Capital employed	720.472	760.825	699.068	715.472
Capital and reserve	271.184	244.953	259.908	222.167
Operating cash flow	32.792	61.598	28.106	79.487
Indicators:				
Return on invested capital	9,3%	12,7%	14,1%	1,8%
Return on capital employed	3,5%	4,1%	5,3%	0,6%
Return on sales	3,1%	3,4%	3,2%	0,3%
Equity ratio	20,0%	16,9%	17,9%	12,0%
Capital turnover	3,2	8,9	4,8	9,1
Current ratio	1,0	1,0	1,2	0,8
Price-to-earnings ratio	13,1	13,3	9,0	9,1

2. STRATEGY – OPERATING GUIDELINES FOR FUTURE PERIODS

In the upcoming period, the Company will mainly focus on:

1. Increasing its revenue by effectively negotiating new contracts and penetrating new markets;
2. Improving its efficiency and optimizing its costs on all levels;
3. Monetizing its non-operating and non-core assets; and
4. Developing its human resources and the supporting corporate culture as a condition precedent to Company's development.

3. CHANGES IN THE MANAGEMENT BOARD

By resolution of the Ordinary General Meeting held on 15 July 2016, Article 23 of the Articles of Association was amended by increasing the number of Management Board Members from five (5) to six (6).

Changes in the Management Board were made in September and November of 2016. On 1 September 2016, Mr. Ivica Kranjčić was appointed Management Board Member, whereby the Management Board

was enlarged to six members. In November, Mr. Branimir Alujević and Mr. Mirko Leko were removed from the Management Board and Mr. Ivan Kurobasa was appointed Management Board Member..

4. OWN SHARES

In 2016, the Company acquired 51,735 of its own shares at an average price of HRK 12.56 per share.

5. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries are detailed in Note 20 to Financial Statements.

Investments in associates are detailed in Note 21 to Financial Statements.

6. SUBSEQUENT EVENTS

Subsequent events are detailed in Note 38 to Financial Statements..

7. 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 3 to Financial Statements.

8. SHAREHOLDINGS (as at 31 December 2016):

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.

Konsolidator d.o.o.	15,000,000
Individuals	4,233,668
Pension funds	3,310,297
Banks	1,089,577
Others	986,922
Own shares	98,841
UKUPNO	24.719.305

On 31 December 2016, the Management Board comprised five members, the Chairman and four Management Board Members. The duty of the Chairman is assigned to Alen Premužak and the remaining four Management Board Members are Helena Jurčić Šestan, Marko Jurković, Ivica Kranjčić and Ivan Kurobasa.

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

The Management Board is appointed and removed by the Supervisory Board which on 31 December 2016 comprised the following members: Marko Lesić, Chairman, Ivan Peteržilnik, Deputy Chairman, and the Supervisory Board Members Vlado Čović, Uwe Heiland, Marko Makek, Hrvoje Markovinović, Anton Pernar, Krešimir Ružđak and Mirela Tomljanović Radović.

9. 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.

10. AFFILIATES AND BRANCH OFFICES

REPUBLIC OF CROATIA

1	DALEKOVOD PROIZVODNJA d.o.o.	Trnošćica 17, Dugo Selo	79970472123/ 080437239
2	DALEKOVOD EMU d.o.o.	43.ulica br. 36., Vela Luka	52516402606/ 090027780
3	DALEKOVOD-PROJEKT d.o.o.	Marijana Čavića 4, Zagreb	30467839701/ 080445749
4	DALEKOVOD ADRIA d.o.o.	Marijana Čavića 4, Zagreb	37315161677/ 080703108
5	EL-RA d.o.o.	Vela Luka (Općina Vela Luka)	30113948970/ 060033055
6	ZABLAĆE d.o.o.	R. F. Mihanovića 9, Zagreb	45070209899/ 080586836
7	DALEKOVOD PROFESSIO d.o.o.	Marijana Čavića 4, Zagreb	88975636912/ 080531484
8	VELIKA POPINA d.o.o.	Jurišićeva 1a, Zagreb	35125743121/ 080537858
9	EKO d.o.o.	Jurišićeva 1a, Zagreb	06095316970/ 080383687

10 DALEKOVOD BREZE j.d.o.o. Marijana Čavića 4, Zagreb 33823079391/ 080812193
11 DALEKOVOD ESCO d.o.o. Marijana Čavića 4, Zagreb 39299967373/ 080636304

ABROAD

12 DALCOM GmbH Freilassing Munchener Str. 67, 83395 Freilassing, Germany MBS: HRB7585
13 DALEKOVOD Plt, Namibia
14 DALEKOVOD TKS a.d. Doboj, BiH
15 CINDAL d.o.o. Doboj; BiH Rudanka 27, 74000 Doboj, BiH JIB: 41028864540002
16 DALEKOVOD MOSTAR d.o.o., BiH Ante Starčevića bb, Mostar, BiH JIB: 4227105910001
17 DALEKOVOD LJUBLJANA d.o.o., Zavetiška ulica 1, 10000 Ljubljana, Slovenia PB: SI 28940024
18 DALEKOVOD UKRAJINA d.o.o., Ukrajne
4 Lunacharskogo str. 02002 Kiev, Ukraine MBS: 36683014
19 DALEKOVOD OIE d.o.o., FYR Macedonia
20 DALEKOVOD LIBYA , Libia
21 DALEKOVOD - SOLEX Ltd, Nigeria
22 DALEKOVOD NORGE AS, Norway Sandviksveien 26, 1363 Høvik, Norway MBS: 998628253
23 DALEKOVOD POLSKA S.A., Poland Płocka 15, 01-231 Warszawa, Poland NIP: 9512112646
24 POLDAL THE BRIDGE 7-SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252616447
25 POLDAL KV -SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252600386
26 POLDAL CONNECT- SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252600357
27 POLDAL TOWERS- SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ,
Płocka 15, 01-231 Warszawa, Poland NIP: 5252584374
28 POLDAL ENERGIE- SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252597661

BRANCH OFFICES

29 DALEKOVOD NUF, Norway Sandviksveien 26, 1363 Høvik, Norveška
30 DALEKOVOD Skopje, FYR Macedonia 50te Divizije br. 36, Skopje-Centar, Skopje, FYR Macedonia
31 DALEKOVOD AG ZWEIGNIEDERKASSUNG Freilassing, Germany
Munchener Str. 67, 83395 Freilassing, Germany
32 DALEKOVOD CRNA GORA Ul. IV Proleterske br. 34, Podgorica, Montenegro



33 DALEKOVOD d.d. - DEGA Tirane, Albania

Rr. Medar Shtylla, Kompleksi Kika, Ap 14/2 Tirana, Albania

34 DALEKOVOD UKRAJINA - predstavništvo u Ukraine

4 Lunacharskogo str. 02002 Kiev, Ukraine

35 DALEKOVOD d.d. P.J. Banja Luka

Nikole Pašića 16, Banja Luka, Bosnia and Herzegovina

36 DALEKOVOD – Branch Of Kosova

St. Garibaldi 3/7, 10000 Prishtine, Kosovo

37 DALEKOVOD d.d. – Branch Finland

c/o Talenom Töölönlahdenkatu 3 B, 00100 Helsinki, Finland

11. DESCRIPTION OF PRODUCTS AND SERVICES

Over time, Dalekovod d.d. has become specialized in performing contracts on a turnkey basis in the following areas:

- electrical facilities, especially transmission lines between 0.4 and 500 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 all types of transmission lines and transformer stations between 0.4 and 500 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


Signed on behalf of the Management Board:


Alen Premužak
Chairman of the Management Board


Helena Jurčić Šestan
Management Board Member


Marko Jurković
Management Board Member


Ivica Kranjčić
Management Board Member


Ivan Kurobasa
Management Board Member



Zagreb, 29 April 2017



III. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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 2016, the Company substantially complied with and implemented the 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 particular recommendations provided in the Code in the Annual Questionnaire provided to Zagreb Stock Exchange.

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 in the effective discharge of their 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 Strategy 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.

Among other resolutions, the Ordinary General Meeting held on 15 July 2016 passed resolutions to acquire own shares and amend the Articles of Association:

Resolution to Acquire Own Shares

Section 1



The Management Board is hereby authorized to acquire Company's own shares identified as DLKV-R-A, having a nominal value of HRK 10, through one or several purchases without requiring any further specific consent from the Supervisory Board, subject to the following conditions:

The Management Board may acquire such amount of Company's own shares which, including the shares already held by the Company, must not exceed 10% (ten percent) of the Company's share capital.

The maximum price at which own shares may be acquired must not be above 10% or below 20% of the average market price per share achieved on the preceding trading day.

Prior to each acquisition, the Management Board shall create the necessary provisions for own shares in accordance with the provisions of Article 220 and Article 233 of the Companies Act.

Prior to each acquisition, the Management Board must comply with all other restrictions defined in the Companies Act and other applicable regulations of the Republic of Croatia.

This authorization remains valid for 5 years following the date of this Resolution.

Section 2

The Management Board is required to notify the General Meeting of the share acquisitions and all other relevant facts at the next General Meeting.

Section 3

This Resolution becomes effective as of the date it is passed and shall apply for the validity period of the authorizations hereby granted.

Resolution to Amend the Articles of Association

Article 1

Article 23 is hereby amended to read as follows: "The Management Board shall have up to 6 (six) members."

Article 2

The words "in the Official Gazette" in Article 49, paragraph 6 are hereby replaced by the words "in accordance with the applicable legislation".

Article 3

Article 66, paragraph 1 is hereby amended to read as follows:

"(1) If the law or the Articles of Association define that Company's information and communications are to be published, they shall be published as required under the applicable legislation and on the Company's website."



Article 4

All other Articles remain unchanged and in full force and effect.

Article 5

The amendments to the Articles of Association shall become effective as of the date they are registered in the Court Registry of the Commercial Court in Zagreb.

Article 6

The Management Board shall submit an application for registration to the Court Registry of the Commercial Court in Zagreb.

Article 7

A consolidated text of the Articles of Association shall be prepared on the basis of these amendments. The consolidated text shall be prepared by the Supervisory Board.

The Company has defined its quality management policy which ensures and continuously improves the quality of all its activities in accordance with the 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; and
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 a responsibility of the Management Board, Division Directors, Executives, Managers and all employees of the Company according to the defined targets, tasks and responsibilities in Company's business.

In 2016, 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 particular 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 the purpose of further improving and developing their competencies.


Signed on behalf of the Management Board:



Alen Premužak
Chairman of the Management Board



Helena Jurčić Šestan
Management Board Member



Marko Jurković
Management Board Member



Ivica Kranjčić
Management Board Member



Ivan Kurobasa
Management Board Member





IV. RESPONSIBILITY FOR ANNUAL CONSOLIDATED AND SEPARATE FINANCIAL 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, the 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 at all times 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.

Signed on behalf of the Management Board::



Alen Premužak
Chairman of the Management Board



Marko Jurković
Management Board Member



Ivan Kurobaša
Management Board Member



Helena Jurčić Šestan
Management Board Member



Ivica Kranjčić
Management Board Member





V. INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Dalekovod d.d., Zagreb
Report on the Audit of the Annual Consolidated and Separate Financial Statements

Opinion

We have audited the enclosed annual consolidated and separate financial statements of Dalekovod d.d., Zagreb, Marijana Čavića 4 ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2016, which comprise the consolidated and separate statement of financial position as at 31 December 2016, consolidated and separate income statement, consolidated and separate of other comprehensive income, consolidated and separate of changes in equity and consolidated and separate of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other matters.

In our opinion, the accompanying annual consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2016 and of the consolidated and separate financial performance and the consolidated and separate cash flows of the Group and the Company for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards ("IFRS") as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with Accounting Act, Auditing Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual consolidated and separate financial statements section of our Independent Auditor's report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

1. Valuation of the pledged assets and loan liability with the right to secured settlement

The description of key audit matters related to valuation of the pledged assets and loan liability with the right to secured settlement is described in the notes 5, 6, 18, 19, 30, 31 of the consolidated and separate financial statements.

We consider valuation of the pledged assets and related loan liability with the right to secured settlement as key audit matter due to the Company's specific situation after the settlement proceedings in relation to the collections of receivables which are secured with the right to secured settlement. In the proceedings, secured settlement authorizes the creditor to separate and priority secured claim settlement.

In order to secure the settlement of the mentioned liabilities, a pledge on certain Company/Group's property was entered. The pledge right is limited, actual right to a particular item (a pledge) that authorizes its holder (pledge lender) to make a certain claim, if he or she does not meet its maturity, and settle from the value of the item, regardless of the owner, and its owner (The debtor) is obliged to endure.

Creditor's receivables will settle separately from the settlement proceedings.

Secured creditors who will settle separately from the settlement proceedings are Raiffeisenbank Austria d.d., Erste & Steiermarkische Bank d.d. and Podravska Banka d.d. .

These banks have a pledge right on real estate registered with the Municipal Civil Court in Zagreb, z.k.ul.br. 21127 k.o. I.k.ul. br. 108716 k.o. (Raiffeisenbank Austria d.d. and Erste & Steiermarkische bank d.d.) and a pledge right on property registered with the Municipal Court in Dugi Selo, z.k.ul.br. 1246 k.o., z.k.ul.br. 3650 k.o., z.k.ul.br. 30 k.o. and z.k.ul. br.2044 k.o. (Podravska Bank d.d.).

The Company and the Group made their conclusions on valuation of the pledged property and the loan liabilities related to the same property, on the basis of the following assumptions:

- Until the day of approval of the consolidated and separate financial statements, the ownership of the already mentioned assets was not transferred to banks, ie the banks did not settle their claims from pledged assets. The right to dispose of the already mentioned assets of the Company and the Group is limited due to the secured rights. Based on IAS 16 Property, plant and equipment, the alienation of some items of property, plant and equipment may be performed in different ways and the date of alienation is defined in IAS 18 criteria. As one of the key criteria, the transfer of ownership risks and benefits from the Company / Group to the Bank, is not satisfied, it is considered that conditions that the property ceases to be recognized have not been met,
- based on IAS 39 Financial instruments, loan liabilities with the right to secured settlement are not eligible for termination of recognition. The loan liabilities exist and will be settled by the completion of the acquisition process or by selling the mentioned property.

Conclusions that have arisen:

- The Company and the Group will adopt a new accounting policy in 2016 and measure the fair value of its assets under IFRS 13 Fair value measurement as the price that would have been realized by selling the asset in an orderly transaction between the market participants at the measurement date. Fair value adjustments were carried out through consolidated and separate revaluation reserves under IAS 16,
- Considering that settlement of a liability with a specific right secured is related to the value of the asset, the fair value of the loan liability is based on the fair value of the asset. Revaluation adjustments were performed through consolidated and separate Income Statement under IAS 39, ie through consolidated and separated Accumulated Losses

In the separated Statement of Financial Position, due to the change in accounting policy, the Company made a retroactive increase in the value of pledged property for HRK 84,630 thousand (Property, plant and equipment for HRK 84,497 thousand, Investment property for HRK 133 thousand) as at 01 January 2015.

As a result of the change in accounting policy, the Group has retroactively increased the value of pledged property for HRK 84,630 thousand (Property, plant and equipment for HRK 84,630 thousand) as of January 1, 2015, in the consolidated statement of financial position.

Regarding the retroactive correction of the pledged property, there was also an increase in Revaluation reserves for HRK 67,704 thousand and the deferred tax liability of HRK 16,926 thousand, consolidated and separate statement of Financial Position as at 01 January 2015.

As a result of retroactive fair value adjustments to the loan liabilities with the right to secured settlement, the Company and the Group have impaired the value of Short-term Loans in the consolidated and separate Statement of Financial Position for HRK 35,465 thousand as well as the impairment of short-term Liabilities to suppliers and other liabilities by HRK 710 thousand on 01 January 2015, thereby reducing the amount of Accumulated Losses by HRK 36,175 thousand.

Regarding the above, we have reviewed the appraisers' reports on property and confirmed that they are compiled in accordance with the prescribed methods. We have analysed the pattern of the appropriateness of the appraiser's choice of a certain estimation method and related explanation. We have verified whether the recording of these estimates was carried out in accordance with the requirements of IAS 16, IFRS 13 and IAS 39. We also assessed the adequacy of disclosure in consolidated and separate financial statements.

2. Revenue recognition

A description of key policies and judgments regarding revenue recognition is presented in notes 2.21, 4, 7 of the accompanying consolidated and separate financial statements.

In the separate Income statement at 31 December 2016, the Company reported the amount of HRK 815,216 thousand of sales revenue.

In the consolidated Income Statement, the Group reported HRK 1,159,694 thousand of sales revenue.

Revenue recognition is considered to be a key audit matter in considering the possible intention of its overestimation with the aim of showing the best possible results. The Company and the Group recognize income in accordance with the requirements of IAS 11 Construction Contracts.

Our audit procedures included, among other things, an overview of the sales process, the analytical procedures for determining the degree of completeness and the tests of detail of the invoiced recognised contract amounts to investors.

We interviewed the Management to re-examine their overall project and margin costs.

We also assessed the adequacy of disclosure in the separate and consolidated financial statements.

3. Valuation of investments in subsidiaries and associates

A description of key policies and judgments regarding the valuation of investments in subsidiaries and associates is presented in notes 2.2, 2.9, 20, 21 of the accompanying consolidated and separate financial statements.

As at 31 December 2016, the Company reported investments in subsidiaries amounting to HRK 276,892 thousand and investments in associates in the amount of HRK 8,290 in the separate statement of financial position.

As at 31 December 2016, the Group reported investments in associates of HRK 2,743 thousand in the consolidated statement of financial position.

Valuation of investments in subsidiaries and associates is considered as a key audit matter for possible effects, judgments used and assumptions, during the assessment of the Board, in determining the recoverable value of the investment, or in the model used for the impairment test.

Therefore, the valuation of these investments was significant to our audit. Our audit procedures included confirmation of objectivity and testing of evidence on the basis of which the management determined the impairment of the investment and how it was recorded and disclosed.

Other Information in the Annual Report

The Management Board is responsible for other information. Other information contains information included in the Annual Report, but does not include the annual consolidated and separate financial statements and our Independent Auditor's Report on them.

Our opinion on the annual consolidated and separate financial statements does not include other information, except to the extent explicitly stated in the part of our Independent Auditor's Report, entitled Report on compliance with other legal or regulatory requirements, and we do not express any kind of conclusion with assurance on them.

Regarding our audit of the annual consolidated and separate financial statements, it is our responsibility to read the other information and consider whether other information has significant contradictions to annual consolidated and separate financial statements or our knowledge gained while performing the audit, or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of these other information, we are required to report this fact. In this sense, we do not have anything to report.

Responsibilities of the Management Board and Those Charged with Governance for the Annual Consolidated and Separate Financial Statements

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

In preparing the annual consolidated and separate financial statements, the Management Board is responsible for assessing the Company'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 the Management Board either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Annual Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the annual consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management's Board use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Independent Auditor's report to the report. However, future events or conditions may cause the Group and the Company to cease to continue as related disclosures in the annual consolidated and separate 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 Independent Auditor's a going concern.
- Evaluate the overall presentation, structure and content of the annual consolidated and separate financial statements, including the disclosures, and whether the annual consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 control 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual consolidated and separate financial statements of the current

period and are therefore the key audit matters. We describe these matters in our auditor's 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 Independent Auditor's 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

The Management Board is responsible for the preparation of the Management Report as part of the Annual Report of the Company and the Group. We are obliged to express an opinion on the compliance of the Management Report as part of the Annual Report of the Company with the annual consolidated and separate financial statements of the Group and the Company. In our opinion, based on our audit of the annual consolidated and separate financial statements of the Group and the Company, information in the Management Report as part of the Annual Report of the Group and the Company for the year ended 31 December 2016, are in accordance with the financial information stated in the annual consolidated and separate financial statements of the Group and the Company set out on pages 21 to 111 on which we expressed our opinion as stated in the Opinion section above.

In our opinion, based on the work that we performed during the audit, the Company's and the Group's Management Report for 2016, which is an integral part of the Annual Report for 2016 is prepared in accordance with the Accounting act.

Based on the knowledge and understanding of the Company and the Group its environment obtained while performing the audit, we have not found that there are material misstatements in the Group's and the Company's Management Report for 2016, which is an integral part of the Annual Report for 2016.

In our opinion, based on the work that we performed during the audit, the Statement that code of corporate governance is applied, included in the Annual Report for 2016, is in accordance with the requirements of article 22, paragraph 1, points 3 and 4 of the Accounting act.

The Statement that code of corporate governance is applied, included in the Annual Report for 2016, includes information from article 22, paragraph 1, points 2, 5 and 6 of the Accounting act.

The engagement partner on the audit of the annual consolidated and separate financial statement of the Group and the Company for the year 2016 resulting in this Independent Auditor's report is Olivio Discordia, certified auditor.

Zagreb, 29 April, 2017.

Baker Tilly Hrvatska d.o.o.
Ulica grada Vukovara 269 G
10000 Zagreb

Olivio Discordia
President of the Management Board,
certified auditor

BAKER TILLY
Baker Tilly Hrvatska d.o.o.
Ulica grada Vukovara 269G
10000 Zagreb





- VI. CONSOLIDATED AND SEPARATE INCOME STATEMENT 2016
- VII. CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
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DALEKOVOD d.d.**CONSOLIDATED AND SEPARATE INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2016**

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
Sales revenue	7	1.159.694	1.202.046	815.216	928.317
Other income	7, 8	73.566	82.927	75.158	81.935
Change in work in progress and finished goods		33.149	(10.646)	(35)	(76)
Cost of trade goods sold		(157.298)	(143.224)	(85.946)	(127.534)
Cost of materials and services	9	(592.636)	(598.172)	(456.332)	(526.107)
Staff costs	10	(282.467)	(264.681)	(175.902)	(156.598)
Depreciation and amortisation	17, 18, 19	(51.335)	(50.907)	(34.321)	(33.950)
Other operating expenses	11	(112.824)	(175.895)	(81.603)	(129.910)
Other gains/(losses) – net	12	(565)	3.297	5.755	10.035
Operating gain/(loss)		69.284	44.745	61.990	46.112
Finance income	13	24.673	6.272	10.144	17.410
Finance costs	13	(41.371)	(38.251)	(33.975)	(24.403)
		(16.698)	(31.979)	(23.831)	(6.993)
Share in profit/(loss) of associates and joint ventures	21	26	14	-	-
Profit / (loss) before tax		52.612	12.780	38.159	39.119
Income tax	14	(15.843)	(8.761)	(12.971)	(7.969)
Net profit / (loss)		36.769	4.019	25.188	31.150
Net profit / (loss) attributable to:					
Equity holders of the Company		36.769	4.282	25.188	31.150
Non-controlling interests		-	(263)	-	-
Net profit / (loss)		36.769	4.019	25.188	31.150
Basic and diluted profit / (loss) per share (in HRK)	15	1,49	0,17		

The financial statements set out on pages 21 to 111 were approved by the Management Board on 29 April 2017.

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

DALEKOVOD d.d.**CONSOLIDATED AND SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2016**

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
Net profit / (loss)		36.769	4.019	25.188	31.150
Other comprehensive income / (loss):					
Foreign exchange differences		(71)	(632)	-	-
Income tax rate change	14	1.693	-	1.693	-
Total other comprehensive income / (loss)		1.622	(632)	1.693	-
Total comprehensive income / (loss)		38.391	3.387	26.881	31.150
Comprehensive income / (loss) attributable to:					
Equity holders of the Company		38.390	3.650	26.881	31.150
Non-controlling interests		1	(263)	-	-
Total comprehensive income / (loss)		38.391	3.387	26.881	31.150

The financial statements set out on pages 21 to 111 were approved by the Management Board on 29 April 2017.

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

DALEKOVOD d.d.**CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2016**

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
ASSETS					
Intangible assets	17	14.089	17.711	9.817	14.869
Property, plant and equipment	18	443.312	455.351	180.287	172.610
Investment property	19	6.372	363.433	187.182	205.586
Investments in subsidiaries	20	-	-	276.892	285.998
Investments in associates	21	2.743	14.668	8.290	20.241
Financial assets available-for-sale	22	4.568	4.537	4.074	4.254
Embedded derivatives	5	-	-	-	-
Loans and receivables	24	48.061	47.183	62.944	50.831
Non-current assets		519.145	902.883	729.486	754.389
Inventories	25	156.727	117.733	11.060	20.489
Trade and other receivables	26	568.659	634.727	493.657	565.183
Income tax receivable		3.006	2.489	1.180	-
Financial assets at fair value through profit or loss	27	30.485	30.377	30.485	30.377
Cash and cash equivalents	28	105.428	102.077	86.849	81.849
Assets held for sale	29	65.043	65.043	-	-
Current assets		929.348	952.446	623.231	697.898
Total assets		1.448.493	1.855.329	1.352.717	1.452.287

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2016

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
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)	(7.816)	(8.466)	(7.816)
Statutory and other reserves	30	75.584	75.584	40.654	40.654
Revaluation reserves	30	69.397	67.704	69.397	67.704
Translation reserves		(3.188)	(3.116)	-	-
Accumulated loss		(217.711)	(254.480)	(175.223)	(200.411)
Shareholders' equity		260.603	222.863	271.184	244.953
Non-controlling interests		(695)	(696)	-	-
Total equity		259.908	222.167	271.184	244.953
Borrowings	31	367.049	393.641	373.025	399.826
Mezzanine debt	32	23.166	22.166	27.373	26.191
Provisions	34	23.513	13.297	20.779	10.718
Trade and other payables	33	10.199	47.275	12.878	62.211
Deferred tax liability	14	15.233	16.926	15.233	16.926
Non-current liabilities		439.160	493.305	449.288	515.872
Borrowings	31	153.048	458.944	118.700	118.066
Mezzanine debt	32	58.509	58.509	62.000	62.000
Provisions	34	2.343	16.329	1.875	15.751
Trade and other payables	33	524.869	597.351	439.475	486.989
Income tax payable		10.656	8.724	10.195	8.656
Current liabilities		749.425	1.139.857	632.245	691.462
Total liabilities		1.188.585	1.633.162	1.081.533	1.207.334
Total equity and liabilities		1.448.493	1.855.329	1.352.717	1.452.287

The financial statements set out on pages 21 to 111 were approved by the Management Board on 29 April 2017.

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2015 (restated)*		247.193	86.142	11.652	(7.773)	72.701	40.015	(2.484)	(148.060)	299.386	(647)	298.739
Previous year correction		-	-	-	-	-	27.689	-	(107.819)	(80.130)	-	(80.130)
At 1 January 2015 (restated)*		247.193	86.142	11.652	(7.773)	72.701	67.704	(2.484)	(255.879)	219.256	(647)	218.609
Net loss (restated)*		-	-	-	-	-	-	-	4.282	4.282	(263)	4.019
Other comprehensive income/(loss)		-	-	-	-	-	-	(632)	-	(632)	-	(632)
Total comprehensive income/(loss)		-	-	-	-	-	-	(632)	4.282	3.650	(263)	3.387
Transactions with owners												
Reinvestment of profits	14	-	-	-	-	8.274	-	-	(8.274)	-	-	-
Covering losses	30	-	-	-	-	(5.391)	-	-	5.391	-	-	-
Disposal of subsidiary	37	-	-	-	-	-	-	-	-	-	214	214
Share capital increase	30	-	-	-	(43)	-	-	-	-	(43)	-	(43)
At 31 December 2015		247.193	86.142	11.652	(7.816)	75.584	67.704	(3.116)	(254.480)	222.863	(696)	222.167
Net loss		-	-	-	-	-	-	-	36.769	36.769	-	36.769
Other comprehensive income/(loss)		-	-	-	-	-	1.693	(72)	-	1.621	1	1.622
Total comprehensive income/(loss)		-	-	-	-	-	1.693	(72)	36.769	38.390	1	38.391
Transactions with owners												
Share capital increase	30	-	-	-	(650)	-	-	-	-	(650)	-	(650)
At 31 December 2016		247.193	86.142	11.652	(8.466)	75.584	69.397	(3.188)	(217.711)	260.603	(695)	259.908

* For the effect of restatement please see note 6.

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2015 (restated)*	247.193	86.142	11.487	(7.773)	40.654	40.015	(123.742)	293.976
Previous year correction	-	-	-	-	-	27.689	(107.819)	(80.130)
At 1 January 2015 (restated)*	247.193	86.142	11.487	(7.773)	40.654	67.704	(231.561)	213.846
Net loss (restated)*	-	-	-	-	-	-	31.150	31.150
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-
Total comprehensive income/(loss)	-	-	-	-	-	-	31.150	31.150
Transactions with owners								
Covering losses	30	-	-	(43)	-	-	-	(43)
At 31 December 2015	247.193	86.142	11.487	(7.816)	40.654	67.704	(200.411)	244.953
Net profit/(loss)	-	-	-	-	-	-	25.188	25.188
Other comprehensive income/(loss)	-	-	-	-	-	1.693	-	1.693
Total comprehensive income/(loss)	-	-	-	-	-	1.693	25.188	26.881
Transactions with owners								
Covering losses	30	-	-	(650)	-	-	-	(650)
At 31 December 2016	247.193	86.142	11.487	(8.466)	40.654	69.397	(175.223)	271.184

* For the effect of restatement please see note 6.

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
Profit/(loss) before tax		52.612	12.780	38.159	39.119
Adjustments:					
Depreciation and amortisation	17, 18, 19	51.335	50.907	34.321	33.950
Property, plant and equipment writte-off	11	1.788	415	10	29
Impairment of investment property	11	-	766	-	-
Loss/(gain) on sale of property, plant and equipment	12	(315)	(623)	(167)	(494)
Fair value measurement losses of financial assets available for sale	12	(31)	134	180	2
Gain on disposal of financial assets available for sale	12	-	(531)	-	(531)
Gain on change in fair value of financial assets trough profit and loss	12	(108)	(199)	(108)	(199)
Loss on sale of subsidiary	12, 37	(998)	5.804	-	-
Impairment of trade receivables and loans receivable	8	(3.440)	(10.702)	(1.129)	(9.692)
Impairment of other financial assets	11	311	2.370	311	-
Impairment of investments in associates	13	11.951	-	11.951	-
Impairment of non-financial assets	11	48	-	-	-
Impairment of inventories	11	(507)	(8.397)	-	(3.009)
Net change in provisions	34	(3.770)	20.585	(3.815)	20.295
Dividend income	13	-	-	(4.426)	(12.966)
Share in loss/(gain) of associates and joint ventures	21	(26)	(14)	-	-
Unrealised foreign exchange differences		(9.571)	2.781	(5.418)	(1.247)
Interest income	8, 13	(3.258)	(5.433)	(3.125)	(3.633)
Income from interest and fees write-offs	13	(21.473)	-	-	-
Income from unwinding of discount	13	(31)	(807)	(31)	(807)
Other finance income	13	(1)	(105)	-	-
Interest expense	11, 13	36.835	38.783	22.183	24.891
		111.351	108.514	88.896	85.708
<i>Changes in working capital:</i>					
Trade and other receivables		56.274	(104.854)	79.491	(81.755)
Inventories		(38.487)	33.509	9.429	2.833
Trade and other payables		(58.877)	87.083	(111.993)	96.880
Net cash generated from operating activities		70.261	124.252	65.823	103.666
Interest paid		(29.414)	(23.438)	(20.419)	(22.624)
Tax paid		(12.741)	(21.327)	(12.612)	(19.444)
Net cash flows from operating activities		28.106	79.487	32.792	61.598

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
Cash flows from investing activities					
Acquisition of intangible assets	17	(2.260)	(1.445)	(472)	(1.165)
Acquisition of property, plant and equipment	18	(26.954)	(20.810)	(17.641)	(9.090)
Acquisition of investment property	19	-	(6.983)	-	(6.983)
Proceeds from sale of property, plant and equipment		608	1.448	173	540
Deposits given		(3.238)	(6.877)	(4.856)	(8.241)
Deposits received		3.869	-	-	-
Loans given		-	(22.652)	(53.470)	(44.951)
Repayments of loans given		431	1.331	46.022	14.408
Investments in subsidiaries	20	-	-	-	(45)
Proceeds from sale of subsidiary	20, 37	-	1.581	-	2.000
Proceeds from share in profits		-	-	2.258	14.498
Proceeds from sale of available-for-sale financial assets		-	5.000	-	5.000
Investments in cash funds		-	10.000	-	10.000
Interest received		2.709	4.649	2.698	3.091
Net cash flows used in investing activities		(24.835)	(34.758)	(25.288)	(20.938)
Cash flows from financing activities					
Acquisition of own shares		(650)	(43)	(650)	(43)
Proceeds from borrowings		44.710	30.011	7.806	7.548
Repayment of borrowings		(34.215)	(30.765)	-	-
Repayment of finance lease liabilities		(9.765)	(8.243)	(9.660)	(8.078)
Net cash flows from / (used in) financing activities		80	(9.040)	(2.504)	(573)
Net increase / (decrease) in cash and cash equivalents		3.351	35.689	5.000	40.087
Cash and cash equivalents at beginning of year		102.077	66.388	81.849	41.762
Cash and cash equivalents at end of year	28	105.428	102.077	86.849	81.849

The financial statements set out on pages 21 to 111 were approved by the Management Board on 29 April 2017.

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



XI. NOTES TO FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION

The Dalekovod Group (the Group) comprises the parent company Dalekovod d.d., Zagreb and 23 subsidiaries owned by the parent company and additional one company owned by subsidiary (2015: 24 subsidiaries owned by the parent company and additional three companies owned by subsidiaries) – note 20.

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 members of the Company during 2016 were: Mr. Alen Premužak (President of the Management Board), Mr. Marko Jurković (Member of the Management Board), Mr. Branimir Alujević (Member of the Management Board, resigned on 11 November 2016), Mr. Mirko Leko (Member of the Management Board, resigned on 11 November 2016), Ms. Helena Jurčić Šestan (Member of the Management Board,), Mr. Ivica Kranjčić (Member of the Management Board, appointed on 01 September 2016) and Mr. Ivan Kurobasa (Member of the Management Board, appointed on 11 November 2016).

Going concern

The Company went through the pre-bankruptcy settlement procedure, which also includes the financial and operational restructuring plan. Taking into account the Commercial court's approval of the pre-bankruptcy settlement between the Company as debtor and its creditors from 29 January 2014 and the subsequent increase in share capital financial statements have been prepared under the going concern principle.

NOTE 2 – SUMMARY OF 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, as modified by the revaluation of land, buildings, financial assets at fair value through profit or loss and available for sale financial assets.

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 4.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Standards and Interpretations effective for the current period

For its reporting period commencing on 1 January 2016, the Company has adopted the following new and amended standards adopted by the European Union and are relevant to the Company's financial statements.

In the current reporting period, the following amendments to the existing standards and new interpretations published by the International Accounting Standards Board (IASB) are in force and adopted by the European Union:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 " Disclosure of Interests in Other Entities " and IAS 28 " Investments in Associates and Joint Ventures " - "Investment Entities: Application of Consolidation Exemptions", adopted in the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 " Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations", adopted in the European Union on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 "Presentation of Financial Statements" - "Disclosure Initiative", adopted in the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - "Clarification of Acceptable Methods of Depreciation and Amortization", adopted in the European Union on 2 December 2015 (effective for annual Periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" - "Plants" adopted by the European Union on November 23, 2015 (effective for annual periods beginning on or after 1 January) January 2016),
- Amendments to IAS 19 Employee Benefits - "Defined benefit plans: Employee Contributions", adopted in the European Union on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015) .
- Amendments to IAS 27 "Separate Financial Statements" - "Method of Share in Separate Financial Statements", adopted in the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016)
- Amendments to the various standards under the heading "Update of IFRS from the 2010-2012 Cycle" arising from the IFRS Annual Compensation Project (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) Primarily for the purpose of eliminating the inconsistency and clarification of the text adopted in the European Union on 17 December 2014 (applicable for annual periods beginning on or after 1 February 2015),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

• Amendments to the various standards under the heading "Update of IFRS for the period 2012-2014" arising from the IFRS annual adjustment project (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily to eliminate discrepancies and clarification of the text, adopted in the European Union on 15 December 2015 (applicable for annual periods beginning on or after 1 January 2016), the adoption of these amendments to existing standards and interpretations did not result in material changes to the financial statements.

2.1.2 Standards and Interpretations issued by IASB and adopted in the European Union but not yet in force

On the date of approval of the financial statements, the following new standards and interpretations of these changes were published but not in force:

- IFRS 9 "Financial Instruments", adopted in the European Union on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 "Revenue from Contracts with Customers" and Amendments to IFRS 15, adopted in the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

2.1.3 New Standards of Amendments to Existing Standards issued by IASB and not yet adopted in the European Union

The IFRSs currently adopted in the European Union do not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), except for the following standards, amendments to existing standards and interpretations, the adoption of which by the European Union until 27 February 2017 has not yet been adopted. The decision (the dates of entry into force set out below apply to IFRSs as a whole):

- IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after 1 January 2016) - The European Commission has decided to postpone this transition standard until the publication of its final version,
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019), • Amendments to IFRS 2 "Share-based Payments" - "Classification and Measurement of Share based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - "Applying IFRS 9" Financial Instruments "in conjunction with IFRS 4" Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or those in which IFRS 9 "Financial Instruments" applies for the first time),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 " Investments in Associates and Joint Ventures " - " Sale or Contribution of Assets between an Investor and its Associate or Joint Venture " and subsequent amendments (the original date of entry into The power was postponed until the completion of the research project on the application of the share method),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- Amendments to IFRS 15 "Revenue from Contracts with Customers" - IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 "Cash Flow Statement" - "Disclosure Initiative" (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - "Recognition of Deferred Tax Assets for Unrealized Losses" (effective for annual periods beginning on or after 1 January 2017), • Amendments to IAS 40 "Investment property" - "Transfer of Investment property" (effective for annual periods beginning on or after 1 January 2018),
- Amendments to the various standards under the heading "Adjustment of IFRS from Cycle 2014 - 2016" arising from the IFRS Annual Compensation Project (IFRS 1, IFRS 12 and IAS 28) primarily to eliminate discrepancies and clarify the text (amendments to IFRSs 12 apply to annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 to annual periods beginning on or after 1 January 2018)
- IFRIC Interpretation no. 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) Associates

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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

(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.

On consolidation, 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.

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 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:

	<u>Useful lives in years</u>
Buildings	20 – 40
Equipment	5 – 10
Machinery	25

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.1 Property, plant and equipment (continued)

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 (losses)/gains – net" in the income statement.

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 that makes its fair value at the date of revaluation less any 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 invalidates the value of the same asset that was previously recognized as an expense and in that case is shown 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.

After initial recognition at cost, buildings are recognized at a revalued value, which represents fair value on the revaluation date less any subsequent depreciation on buildings and expense impairment. 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 of other comprehensive income on the revaluation reserve position. Revaluation increases are recognized as income to the extent that it reverses the revaluation reduction 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 than depreciation of revalued asset. Also, the accumulated amortization at the date of revaluation is made and excludes the 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 alienation, 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

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 that makes its fair value at the date of revaluation less any 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 invalidates the value of the same asset that was previously recognized as an expense and in that case is shown 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 – SUMMARY OF 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) *Computer software*

Computer software is 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets

The Group and the Company classify their financial assets in the following categories: at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets valued at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category is classified as current assets.

Financial assets valued at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within the line item ‘other (losses)/gains – net’ in the period in which they arise.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value and the transaction costs are recorded in the income statement.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in line item ‘other (losses)/gains – net’.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale securities are recognised in the income statement when the right to receive payment is established.

The Group and the Company assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "other operating expenses". Subsequent recoveries of the provision for impairment of trade receivables are recorded in the income statement within "other operating expenses".

2.10 Leases

(a) *The Group and the Company are the lessee*

The Group and the Company lease certain property, plant and equipment. Leases of property, plant and equipment, where the Group or the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is 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 is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(b) *The Group and the Company are the lessor*

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 expensed when put into use.

2.12 Construction contracts

Contract costs are recognised when incurred.

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 period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group and the Company use the ‘percentage of completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated 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 stage of completion. Costs 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 recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within ‘trade and other receivables’.

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

2.13 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 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 cancelled 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.

2.15 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan extent that 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.

2.16 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 substantively 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 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 substantially 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.

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 levied 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.

2.18 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.

2.19 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 bargaining 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(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.

(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.

2.20 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 one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time 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.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Company's activities. Revenue is shown net of value-added tax, estimated returns, rebates and discounts. The Group and the Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's and the Company's activities as described below.

(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 period of the contract (note 2.12).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

(b) Sales of goods

Sales of goods are recognised when the Group and the Company have delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(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.

2.22 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.

2.23 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.

2.24 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 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 35,5m HRK. Option (b) is treated as derivative at fair value and is offset with total mezzanine debt, according to IAS 32.42, 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. Part of mezzanine debt for which there is an obligation to pay proceeds from the sale of the investment in the creditor agreement (to a maximum of HRK 62 million) will be paid in full amount, i.e. estimated proceeds from sale of investment is in line with the maximum amount of HRK 62 million and higher.
- ii. 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 which would result that D/E ratio is below the 2.5.
- iii. 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 32) 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) is accounted for as a financial liability initially recognised at fair value and classified as other financial liabilities and subsequently would be measured at amortised cost using the effective interest method, taking into consideration changes in future expected future cash flows in accordance with IAS 39.

2.26 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 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 – FINANCIAL RISK MANAGEMENT

3.1 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, UAH and Croatian Kuna. 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 2016, if the EURO had weakened/strengthened by 1.00% against the HRK (2015: 1.00%), with all other variables held constant, the net loss for the reporting period after tax would have been HRK 2,029 thousand (2015: HRK 955 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 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 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 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 2016, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2015: 0.82%), the loss after tax would have been higher/lower by HRK 103 thousand (2015: HRK 107 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 note 31. Further, judgements and estimates in respect of credit risk exposure and related impairment provisions are described in more detail in note 4(b).

(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 5) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 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:

<i>(in thousands of HRK)</i>	31 December 2016	31 December 2015
Borrowings (note 31)	491.725	517.892
Cash and cash equivalents (note 28)	(86.849)	(81.849)
Net debt	404.876	436.043
Equity	271.184	244.953
Total equity and net debt	676.060	680.996
Gearing ratio - Company	59,9%	64,0%

The Group's gearing ratio was as follows:

<i>(in thousands of HRK)</i>	31 December 2016	31 December 2015
Borrowings (note 31)	520.097	852.585
Cash and cash equivalents (note 28)	(105.428)	(102.077)
Net debt	414.669	750.508
Equity	259.908	222.167
Total equity and net debt	674.577	972.675
Gearing ratio - Group	61,5%	77,2%

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 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 present the Group's assets at fair value as at 31 December 2016 and 2015:

<i>(in thousands of HRK)</i>	Level 1	Level 2	Level 3	Total
Group				
31 December 2016				
Property, plant and equipment				
Land and buildings	-	-	171.522	171.522
Available for sale financial assets				
Listed entities	509	-	5	514
Unlisted entities	-	4.054	-	4.054
Financial asstes at fair value through profit and loss				
Investments in cash funds	30.485	-	-	30.485
Total	30.994	4.054	171.527	206.575
31 December 2015				
Property, plant and equipment				
Land and buildings	-	-	180.570	180.570
Available for sale financial assets				
Listed entities	296	-	5	301
Unlisted entities	-	4.236	-	4.236
Financial asstes at fair value through profit and loss				
Investments in cash funds	30.377	-	-	30.377
Total	30.673	4.236	180.575	215.484

There were no transfers between level 1 and level 2 during 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The table below present the Company's assets at fair value as at 31 December 2016 and 2015:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Company				
31 December 2016				
Property, plant and equipment				
Land and buildings	-	-	7.650	7.650
Available for sale financial assets				
Listed entities	20	-	-	20
Unlisted entities	-	4.054	-	4.054
Financial asstes at fair value through profit and loss				
Investments in cash funds	30.485	-	-	30.485
Total	30.505	4.054	7.650	42.209
31 December 2015				
Property, plant and equipment				
Land and buildings	-	-	8.090	8.090
Available for sale financial assets				
Listed entities	18	-	-	18
Unlisted entities	-	4.236	-	4.236
Financial asstes at fair value through profit and loss				
Investments in cash funds	30.377	-	-	30.377
Total	30.395	4.236	8.090	42.721

There were no transfers between level 1 and level 2 during 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The tables below present the fair value liabilities of the Group and Company as at 31 December 2016 and 2015:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Group				
31 December 2016				
Finance lease	-	-	103.739	103.739
Mezzanine debt	-	-	81.675	81.675
Trade payables	-	-	67.480	67.480
Total	-	-	252.894	252.894
31 December 2015				
Finance lease	-	-	110.829	110.829
Mezzanine debt	-	-	80.675	80.675
Trade payables	-	-	98.799	98.799
Total	-	-	290.303	290.303

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Company				
31 December 2016				
Finance lease	-	-	104.004	104.004
Mezzanine debt	-	-	89.373	89.373
Trade payables	-	-	70.228	70.228
Total	-	-	263.605	263.605
31 December 2015				
Finance lease	-	-	110.829	110.829
Mezzanine debt	-	-	88.191	88.191
Trade payables	-	-	113.735	113.735
Total	-	-	312.755	312.755

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTE 4 – 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 uses the percentage-of-completion method in accounting for its revenue from construction contracts to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract (note 7).

(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 11).

(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).

(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 2.26).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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 2.25).

NOTE 5 – PRE-BANKRUPTCY SETTLEMENT

The pre-bankruptcy settlement procedure (“the Settlement”), which the Company initiated on 20 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, incorporate 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 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 these are 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 financial liability initially recognized at fair value (host contract) within which the Company identified embedded derivative, which is treated as derivative at fair value and is offset with total mezzanine debt, according to IAS 32.42, which defines net representation of financial liabilities taking into account that Company intends to settle net amount of the commitment.

NOTE 5 – PREBANKRUPTCY SETTLEMENT (continued)

Estimates applied in recognition and measurement of mezzanine debt are disclosed under section Summary of significant accounting policy (note 2.25).

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.

- 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, is 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, with the unwinding of the discount on the long-term payables in the amount of HRK 3,498 thousand accounted for as an interest expense in profit and loss. Renegotiated maturity date of these long term payables is 31 March 2018.

- New repayment plan, substantially different from the original, have been agreed with lessor for the finance lease arrangement. Fair value gain on initial recognition on 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 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 and the payment of the first instalment to suppliers was made in accordance with the Settlement.

- 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 have 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 joint debt, joint and several liability or warranty was relived in full.

NOTE 6 – RESTATEMENT OF COMPARATIVE BALANCES

During the year the Company restated and reclassified certain balances for the purpose of comparability of financial statements data in 2016 and 2015.

Restatements and reclassifications in the statement of financial position are as follows:

6.1 Correction of errors and changes in accounting policies:

a) Change in accounting policies – Property, plant & equipment and Investment property

During 2016, the Company and the Group changed the accounting policy for Property, plant & equipment and Investment property. Accordingly, the assets are no longer stated under revaluation model but under cost less accumulated amortization model.

In the statement of financial position, the Company reduced the value of assets (property, plant and equipment for HRK 157,348 thousand, Investment property by HRK 36,665 thousand) for HRK 194,013 thousand as of 31 December 2015 and 01 January 2015.

In the statement of financial position, the Group reduced the value of assets (property, plant and equipment) by HRK 194,013 thousand for the balance as at 31 December 2015 and 1 January 2015.

According to the new policy at Company and Group level, revaluation reserves were reduced by HRK 155,210 thousand as of 1 January 2015 and as at 31 December 2015 and the position of deferred tax liability for HRK 38,803 thousand as of 1 January 2015 and for 31 December 2015.

b) Correction of previous period error

In previous years Company and the Group recorded a loss of HRK 143,994 which was debited to revaluation reserves. For the amount of the losses mentioned above, Company and Group increased accumulated losses for the balance as of January 1, 2015 and for the balance as at 31 December 2015. At the Company and Group, in accordance with the correction, the position of revaluation reserves was increased by HRK 115,195 thousand as of 1 January 2015 and as at 31 December 2015 and the position of deferred tax liability for HRK 28,799 thousand as of 01 January 2015 and for the balance as at 31 December 2015

c) Change in accounting policy - Assets under foreclosure

According to the pre-bankruptcy settlement entered into, three banks will have their claims satisfied beyond the scope of the pre-bankruptcy settlement through sale of assets under foreclosure.

In 2016, the Company and the Group introduced a new accounting policy according to which these assets are carried in revalued amounts and, accordingly, they applied fair valuation to their obligations to banks based on loans and unpaid guarantees, which will be settled by selling the assets under foreclosure.

In the statement of financial position, the Company increased the value of assets (property, plant and equipment by HRK 84,497 thousand, investment property by HRK 133 thousand) by HRK 84,630 thousand as at 31 December 2015 and as at 1 January 2015.

NOTE 6 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

In the statement of financial position, the Group increased the value of assets (property, plant and equipment) by HRK 84,630 thousand as at 31 December 2015 and as at 1 January 2015.

As a result of the fair valuation of the liabilities to be discharged by selling the assets under foreclosure, the Company and the Group decreased the value of their current borrowings by HRK 35,465 thousand as at 1 January 2015 and as at 31 December 2015 and their current trade payables and other payables by HRK 710 thousand as at 1 January 2015 and as at 31 December 2015, as well as accrued losses as at 1 January 2015 and accrued losses as at 31 December 2015 by HRK 36,175 thousand.

According to the revaluation of the assets under foreclosure, the revaluation reserve was increased by HRK 67,704 thousand as at 1 January 2015 and as at 31 December 2015 and the deferred tax liability was increased by HRK 16,926 thousand as at 1 January 2015 and as at 31 December 2015.

6.2. Reclassifications:

a) Reclassification of Embedded Derivatives

Company and the Group, recorded mezzanine debt as a long-term liability and at the same time as the embedded derivative as financial assets at fair value under IAS 39. Note 2.25 describes the conditions under which realisation of derivative option.

According to the Company and Group estimates, the predefined debt ratio and EBITDA will be achieved in the seventh year, and based on that estimation, the derivative instrument was recognized as well. The management plans to use the option of early repayment after seven years, so the remaining long-term mezzanine debt will be repaid in the net amount.

The Company and the Group believe that the financial statements are overrated leading to unrealistic disclosure of assets and liabilities and in accordance with IAS 32.42 Presentation of Financial Instruments which, in certain circumstances, foresees a offset of amounts.

In accordance to IAS 32.42, the Company has reduced the position of Embedded Derivatives by HRK 150,230 thousand as of 31 December 2015 and the liability for long-term mezzanine debt in the same amount.

In accordance with IAS 32.42, the Group reduced the Position of Embedded Derivatives for HRK 127,141 thousand as of 31 December 2015 and the liability for long-term mezzanine debt in the same amount.

b) Reclassification of Equipment to Investment Property

The Company has signed a lease agreement (Land and Buildings) with a related company Dalekovod Proizvodnja d.o.o.. During 2016, it was determined that certain equipment in the rented property is an integral part of the building and accordingly the Company has made a reclassification.

The Company decreased the value of Property, plant and equipment by HRK 27,936 thousand and increased the amount of Investment Property as at 31 December 2015.

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTE 6 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

Restatements and reclassifications in statement of financial position as at 1 January are as follows:

<i>(in thousands of HRK)</i>	Previously published 2015	Correction of error - revaluation of assets	Correction of error - previous periods	Correction of error - assets under foreclosure	Reclassification - embedded derivatives	Reclassification - equipment	Restated 2015
Group							
Assets							
Property, plant & equipment	596.264	(194.013)	-	84.630	-	-	486.881
Investment property	365.835	-	-	-	-	-	365.835
Embedded derivatives	151.358	-	-	-	-	-	151.358
Equity							
Revaluation reserves	(40.015)	155.210	(115.195)	(67.704)	-	-	(67.704)
Accumulated loss	148.060	-	143.994	(36.175)	-	-	255.879
Liabilities							
Mezzanine debt	(148.607)	-	-	-	-	-	(148.607)
Deferred tax liability	(10.004)	38.803	(28.799)	(16.926)	-	-	(16.926)
Borrowings	(471.212)	-	-	35.465	-	-	(435.747)
Trade and other payables	(464.768)	-	-	710	-	-	(464.058)

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTE 6 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

Restatements and reclassifications in statement of financial position as at 1 January are as follows:

<i>(in thousands of HRK)</i>	Previously published 2015	Correction of error - revaluation of assets	Correction of error - previous periods	Correction of error - assets under foreclosure	Reclassification - embedded derivatives	Reclassification - equipment	Restated 2015
Company							
Assets							
Property, plant & equipment	281.861	(157.348)	-	84.497	-	-	209.010
Investment property	215.646	(36.665)	-	133	-	-	179.114
Embedded derivatives	151.358	-	-	-	-	-	151.358
Equity							
Revaluation reserves	(40.015)	155.210	(115.195)	(67.704)	-	-	(67.704)
Accumulated loss	123.742	-	143.994	(36.175)	-	-	231.561
Liabilities							
Mezzanine debt	(176.421)	-	-	-	-	-	(176.421)
Deferred tax liability	(10.004)	38.803	(28.799)	(16.926)	-	-	(16.926)
Borrowings	(150.664)	-	-	35.465	-	-	(115.199)
Trade and other payables	(341.032)	-	-	710	-	-	(340.322)

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTE 6 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

Restatements and reclassifications in statement of financial position as at 31 December are as follows:

<i>(in thousands of HRK)</i>	Previously published 2015	Correction of error - revaluation of assets	Correction of error - previous periods	Correction of error - assets under foreclosure	Reclassification - embedded derivatives	Reclassification - equipment	Restated 2015
Group							
Assets							
Property, plant & equipment	564.734	(194.013)	-	84.630	-	-	455.351
Investment property	363.433	-	-	-	-	-	363.433
Embedded derivatives	127.141	-	-	-	(127.141)	-	-
Equity							
Revaluation reserves	(40.015)	155.210	(115.195)	(67.704)	-	-	(67.704)
Accumulated loss	146.661	-	143.994	(36.175)	-	-	254.480
Liabilities							
Mezzanine debt	(149.307)	-	-	-	127.141	-	(22.166)
Deferred tax liability	(10.004)	38.803	(28.799)	(16.926)	-	-	(16.926)
Borrowings	(494.408)	-	-	35.465	-	-	(458.943)
Trade and other payables	(598.061)	-	-	710	-	-	(597.351)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

Restatements and reclassifications in statement of financial position as at 31 December are as follows:

<i>(in thousands of HRK)</i>	Previously published 2015	Correction of error - revaluation of assets	Correction of error - previous periods	Correction of error - assets under foreclosure	Reclassification - embedded derivatives	Reclassification - equipment	Restated 2015
Company							
Assets							
Property, plant & equipment	273.397	(157.348)	-	84.497	-	(27.936)	172.610
Investment property	214.182	(36.665)	-	133	-	27.936	205.586
Embedded derivatives	150.230	-	-	-	(150.230)	-	-
Equity							
Revaluation reserves	(40.015)	155.210	(115.195)	(67.704)	-	-	(67.704)
Accumulated loss	92.592	-	143.994	(36.175)	-	-	200.411
Liabilities							
Mezzanine debt	(176.421)	-	-	-	150.230	-	(26.191)
Deferred tax liability	(10.004)	38.803	(28.799)	(16.926)	-	-	(16.926)
Borrowings	(153.531)	-	-	35.465	-	-	(118.066)
Trade and other payables	(487.699)	-	-	710	-	-	(486.989)

NOTE 7 – 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – SEGMENT INFORMATION (continued)

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.

Operating results by business segments for the Group

<i>(in thousands of HRK)</i>	Construction	Production	Other	Total
Year ended 31 December 2016				
Gross revenues	1.026.018	213.589	31.774	1.271.381
Inter-segment revenues /i/	(63.554)	(48.133)	-	(111.687)
Total revenues	962.464	165.456	31.774	1.159.694
Operating profit/(loss) before depreciation and amortisation	102.590	5.714	12.315	120.619
Depreciation and amortisation	(35.430)	(7.566)	(8.339)	(51.335)
Operating profit/(loss)	67.160	(1.852)	3.976	69.284
Total assets	1.075.556	286.159	86.778	1.448.493
Total liabilities	1.013.244	163.591	11.750	1.188.585
Year ended 31 December 2015				
Gross revenues	1.050.627	270.176	31.189	1.351.992
Inter-segment revenues /i/	(46.635)	(103.311)	-	(149.946)
Total revenues	1.003.992	166.865	31.189	1.202.046
Operating profit/(loss) before depreciation and amortisation	82.269	(650)	14.033	95.652
Depreciation and amortisation	(35.244)	(7.305)	(8.358)	(50.907)
Operating loss	47.025	(7.955)	5.675	44.745
Total assets	1.126.044	262.424	466.861	1.855.329
Total liabilities	1.083.406	154.303	395.452	1.633.161

Out of the total gross revenues within segment 'Other', amount of HRK 26,372 thousand refers to the income from rent realized from investment property (2015: HRK 25,789 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – SEGMENT INFORMATION (continued)

/i/ Inter-segment sales are eliminated on consolidation.

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Segment sales revenue	1.239.607	1.320.803
Inter-segment receivables	(111.687)	(149.946)
Unallocated:		
Other	31.774	31.189
Total revenues	<u>1.159.694</u>	<u>1.202.046</u>

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

	<u>2016</u>		<u>2015</u>	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Norway	383.298	33,05	323.077	26,88
Croatia	258.525	22,29	328.491	27,33
Bosnia and Herzegovina	115.429	9,95	49.289	4,10
Ukraine	112.529	9,70	247.289	20,57
Kosovo	55.571	4,79	148.547	12,36
Poland	39.768	3,43	10.440	0,87
Pakistan	36.170	3,12	9.226	0,77
Slovenia	31.933	2,75	28.926	2,41
Saudi Arabia	12.408	1,07	17.777	1,48
Montenegro	4.867	0,42	1.034	0,09
Serbia	4.165	0,36	3.188	0,27
Slovakia	3	-	5.142	0,43
Marocco	-	-	232	0,02
Other abroad	105.028	9,07	29.388	2,42
Total	<u>1.159.694</u>	<u>100,00</u>	<u>1.202.046</u>	<u>100,00</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 – SEGMENT INFORMATION (continued)

/iii/ Sales revenues by sectors are as follows:

	2016	2015
	<i>(in thousands of HRK)</i>	
Energetics	862.298	886.621
Roads	32.735	61.955
Properties	46.698	48.988
Telecommunications	3.557	2.996
Railroads	14.355	-
Sale of metal constructions	74.322	74.608
Sale of suspension and jointing equipment	91.087	89.396
Other	34.642	37.482
Total	1.159.694	1.202.046

Revenue from construction contracts amounts to HRK 962,563 thousand (2015: HRK 1,003,992 thousand).

Advances received for projects under construction that are active at the reporting date are presented within advances in note 33 and amounts to HRK 130,018 thousand (2015: HRK 105,507 thousand).

Out of total amount of guarantee deposits shown within notes 24 and 26, HRK 95,496 thousand relates to guarantee deposits (retentions) for contracts under construction that are active at the reporting date (2015: HRK 109,156 thousand).

NOTE 8 – OTHER INCOME

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Court settlement income	198	51.825	-	51.825
Change in provision for impairment of trade receivables and loans - net	3.440	10.702	1.129	9.692
Rental income	2.003	1.238	7.263	5.793
Insurance claims proceeds	202	428	193	420
Income from reversal of provisions	855	3.029	588	57
Income from penalty interest	90	72	7	30
Inventory surpluses	567	2.286	71	7
Other operating income	66.211	13.347	65.907	14.111
	73.566	82.927	75.158	81.935

Rental income of the Company are realised based on investment property (note 19).

NOTE 8 – OTHER INCOME (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

/i/ Other operating income of the Company is related to the provision of technical support services to its subsidiaries.

During 2016 Company made a profit in amount of HRK 50,000 thousand (2015: HRK – thousand) based on the Contract with Ministry of Finance.

NOTE 9 – COST OF MATERIALS AND SERVICES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Raw materials and supplies				
Raw materials and supplies	253.047	217.505	182.245	171.756
Energy	18.353	20.297	8.640	9.493
Spare parts and small inventory	10.883	7.022	6.339	4.217
	282.283	244.824	197.224	185.466
External services				
Subcontractor services	250.775	299.496	223.149	312.091
Transportation	20.104	19.037	9.795	7.648
Repairs and maintenance	15.253	12.519	8.485	6.044
Advertising and promotion	545	222	361	38
Rental expense	15.926	17.499	14.943	12.670
Other	7.750	4.575	2.375	2.150
	310.353	353.348	259.108	340.641
Total cost of materials and services	592.636	598.172	456.332	526.107

NOTE 10 – STAFF COSTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Net salaries	179.783	152.119	121.997	95.845
Taxes and contributions on and from salaries	78.066	79.057	41.165	42.361
Severance costs	1.569	3.385	1.424	2.726
Unused vacation days	1.087	4.469	561	1.648
Other staff costs	21.292	24.977	10.085	13.373
Supervisory Board compensation	670	674	670	645
	282.467	264.681	175.902	156.598

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 10 – STAFF COSTS (continued)

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 32,190 thousand (2015: HRK 30,619 thousand) for the Group, and HRK16,689 thousand for the Company (2015: HRK 15,972 thousand). Contributions are calculated as a percentage of the employees' gross salaries.

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

As at 31 December 2016, the Group had 1,406 employees (2015: 1,335 employees), and the Company had 689 employees (2015: 645 employees).

NOTE 11 – OTHER OPERATING EXPENSES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Intellectual and non-production services	21.107	36.912	8.645	14.307
Daily allowances and travel cost	22.532	25.299	20.841	24.035
Bank charges	9.963	10.161	7.885	8.532
Entertainment	2.574	1.910	1.290	964
Taxes and contributions	5.886	6.640	2.679	3.348
Insurance	5.797	15.940	2.571	13.873
Sponsorships, donations and other aids	492	695	382	568
Impairment and write-off of property, plant and equipment	1.788	1.181	10	29
Impairment of other financial assets (note 24 and note 26)	311	2.370	311	-
Impairment of non-financial assets (note 25)	48	-	-	-
Impairment of inventories	507	8.397	-	3.009
Inventory shortages	606	2.189	51	3
Interest from suppliers	2.061	665	159	488
Fines and penalties	8.271	522	7.724	278
Court settlement agency cost	1.677	8.245	1.677	8.245
Court cases	10.910	19.679	10.910	19.303
Other	18.294	35.090	16.468	32.928
	112.824	175.895	81.603	129.910

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 12 – OTHER GAINS/(LOSSES) – NET

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Net foreign exchange loss from operating activities	(2.017)	7.882	(1.602)	8.813
Gains/(loss) on sale of available-for-sale financial assets	-	531	-	531
Gains from fair value changes of the assets at fair value through profit and loss (note 27)	108	199	108	199
Fair value losses of financial assets available-for-sale (note 22)	31	(134)	(180)	(2)
Net gain on sale of property, plant and equipment	315	623	167	494
Gain/(loss) from sale of subsidiary (note 37)	998	(5.804)	7.262	-
	(565)	9.101	(1.507)	10.035

NOTE 13 – FINANCE INCOME AND COSTS – NET

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Income from shares in profit	-	-	4.426	12.966
Interest income	3.071	4.811	3.088	3.411
Interest income on bank deposits	97	550	30	192
Income from discount of long term liabilities	-	-	-	-
Income from interest and fees write-offs	21.473	-	-	-
Income from unwinding of discount	31	806	31	806
Net foreign exchange differences from financing activities	-	-	2.569	35
Other finance income	1	105	-	-
Finance income	24.673	6.272	10.144	17.410
Net foreign exchange differences (financing activities)	5.357	(131)	-	-
Interest expense	(34.774)	(38.118)	(22.024)	(24.403)
Impairment of investment in associates	(11.951)	-	(11.951)	-
Other financial expenses	(3)	(2)	-	-
Finance costs	(41.371)	(38.251)	(33.975)	(24.403)
	(16.698)	(31.979)	(23.831)	(6.993)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 14 – INCOME TAX

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Profit/(loss) before tax	52.612	12.780	38.159	39.119
Tax calculated at the domestic tax rate applicable to profits in the respective countries	14.183	11.457	14.474	14.082
Effect of non-taxable income	(19.155)	(6.484)	(17.455)	(5.709)
Effect of non-deductible expenses	11.580	10.937	10.817	6.679
Effect of tax losses not recognised as deferred tax assets	12.092	1.796	5.135	-
Utilisation of tax losses for which deferred tax assets was not recognised	(2.857)	(8.945)	-	(7.083)
Income tax expense	15.843	8.761	12.971	7.969
Effective tax rate	30,1%	68,6%	34,0%	20,4%

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:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Unutilised tax losses				
Tax loss from 2011 - expires 2016	-	381	-	-
Tax loss from 2012 - expires 2017	327.263	327.887	327.255	327.255
Tax loss from 2013 - expires 2018	71.146	73.197	45.157	45.157
Tax loss from 2014 - expires 2019	18.526	29.729	-	-
Tax loss from 2015 - expires 2020	12.873	13.630	-	-
Tax loss from 2016 - expires 2021	61.861	-	61.851	-
	491.669	444.824	434.263	372.412

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 14 – 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 (note 30).

Movement in deferred tax liability

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At beginning of year	16.926	10.004	16.926	10.004
Previous year correction	-	6.922	-	6.922
Income tax rate change	(1.693)	-	(1.693)	-
At end of year	15.233	16.926	15.233	16.926

NOTE 15 – BASIC AND DILUTED LOSS PER SHARE

Basic 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 dilutable potential ordinary shares.

	Dalekovod Group	
	2016	2015
Net loss attributable to shareholders <i>(in thous. of HRK)</i>	36.769	4.282
Weighted average number of shares	24.703.080	24.675.354
Basic/diluted loss per share <i>(in HRK)</i>	1,49	0,17

NOTE 16 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 101 thousand (2015: HRK 101 thousand) are presented as dividend payable within "trade and other payables" (note 33), and it relates to dividends for shareholders who did not submit the required data for payment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 17 – INTANGIBLE ASSETS

Group

<i>(in thousands of HRK)</i>	Goodwill	Usage rights	Software	Assets under construction	Total
At 1 January 2015					
Cost	4.559	15.511	40.819	128	61.017
Accumulated amortisation and impairment losses	(3.346)	(1.034)	(34.454)	-	(38.834)
Net book value	1.213	14.477	6.365	128	22.183
Year ended 31 December 2015					
At 1 January	1.213	14.477	6.365	128	22.183
Additions	-	-	280	1.165	1.445
Transfer	-	-	435	(435)	-
Amortisation	-	(3.102)	(2.815)	-	(5.917)
At 31 December	1.213	11.375	4.265	858	17.711
At 31 December 2015					
Cost	2.024	15.511	39.458	858	57.851
Accumulated amortisation and impairment losses	(811)	(4.136)	(35.193)	-	(40.140)
Net book value	1.213	11.375	4.265	858	17.711
Year ended 31 December 2016					
At 1 January	1.213	11.375	4.265	858	17.711
Additions	-	-	267	1.993	2.260
Transfer	-	-	375	(375)	-
Amortisation	-	(3.102)	(2.780)	-	(5.882)
At 31 December	1.213	8.273	2.127	2.476	14.089
At 31 December 2016					
Cost	2.024	15.511	39.958	2.476	59.969
Accumulated amortisation and impairment losses	(811)	(7.238)	(37.831)	-	(45.880)
Net book value	1.213	8.273	2.127	2.476	14.089

NOTE 17 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is allocated entirely to the Production segment.

Goodwill is tested annually for impairment as stated in note 2.8.

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 3.00%, 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.

During 2013 goodwill impairment loss in the amount of HRK 3,346 thousand have been recognised in the income statement. As a result of the sale of subsidiary, goodwill in the amount of HRK 2,535 thousand that has been fully impaired has been written-off.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 17 – INTANGIBLE ASSETS (continued)

Company

<i>(in thousands of HRK)</i>	Usage rights	Software	Assets under construction	Total
At 1 January 2015				
Cost	15.511	36.249	-	51.760
Accumulated amortisation	(1.034)	(31.583)	-	(32.617)
Net book value	14.477	4.666	-	19.143
Year ended 31 December 2015				
At 1 January	14.477	4.666	-	19.143
Additions	-	-	1.165	1.165
Transfer	-	435	(435)	-
Amortisation	(3.102)	(2.337)	-	(5.439)
At 31 December	11.375	2.764	730	14.869
At 31 December 2015				
Cost	15.511	36.587	730	52.828
Accumulated amortisation	(4.136)	(33.823)	-	(37.959)
Net book value	11.375	2.764	730	14.869
Year ended 31 December 2016				
At 1 January	11.375	2.764	730	14.869
Additions	-	10	462	472
Transfer	-	375	(375)	-
Amortisation	(3.103)	(2.421)	-	(5.524)
At 31 December	8.272	728	817	9.817
At 31 December 2016				
Cost	15.511	36.968	817	53.296
Accumulated amortisation	(7.239)	(36.240)	-	(43.479)
Net book value	8.272	728	817	9.817

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

Group

<i>(in thousands of HRK)</i>	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2015						
Cost or deemed cost	58.329	360.065	370.641	292.065	12.861	1.093.961
Accumulated depreciation	-	(180.854)	(263.112)	(53.731)	-	(497.697)
Net book value	58.329	179.211	107.529	238.334	12.861	596.264
Year ended 31 December 2015						
At 1 January	58.329	179.211	107.529	238.334	12.861	596.264
Previous year correction	(36.666)	-	-	(72.717)	-	(109.383)
At 1 January - restated	21.663	179.211	107.529	165.617	12.861	486.881
Additions	1.158	3.946	7.192	-	11.099	23.395
Transfer	-	-	12.261	-	(12.261)	-
Disposal of subsidiary	(974)	(15.500)	(595)	-	-	(17.069)
Disposals and write-offs	-	(23)	(297)	-	-	(320)
Foreign exchange differences	(14)	26	(191)	-	(66)	(245)
Depreciation	-	(8.923)	(25.352)	(2.096)	-	(36.371)
Impairment loss	-	-	-	-	(920)	(920)
At 31 December	21.833	158.737	100.547	163.521	10.713	455.351
At 31 December 2015						
Cost or deemed cost	21.833	337.929	363.163	219.348	10.713	952.986
Accumulated depreciation and impairment losses	-	(179.192)	(262.616)	(55.827)	-	(497.635)
Net book value	21.833	158.737	100.547	163.521	10.713	455.351
Year ended 31 December 2016						
At 1 January	21.833	158.737	100.547	163.521	10.713	455.351
Additions	-	133	4.429	-	22.392	26.954
Transfer	-	-	22.104	-	(22.104)	-
Disposals and write-offs	-	(7)	(197)	-	(1.877)	(2.081)
Foreign exchange differences	(40)	(336)	426	-	(197)	(147)
Depreciation	-	(8.798)	(25.871)	(2.096)	-	(36.765)
At 31 December	21.793	149.729	101.438	161.425	8.927	443.312
At 31 December 2016						
Cost or deemed cost	21.793	345.757	387.745	219.348	8.927	983.570
Accumulated depreciation and impairment losses	-	(196.028)	(286.307)	(57.923)	-	(540.258)
Net book value	21.793	149.729	101.438	161.425	8.927	443.312

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

<i>(in thousands of HRK)</i>	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2015						
Cost or deemed cost	-	8.953	248.493	268.982	-	526.428
Accumulated depreciation	-	(5.550)	(185.286)	(53.731)	-	(244.567)
Net book value	-	3.403	63.207	215.251	-	281.861
Year ended 31 December 2015						
At 1 January	-	3.403	63.207	215.251	-	281.861
Previous year correction	-	-	-	(72.851)	-	(72.851)
At 1 January - restated	-	3.403	63.207	142.400	-	209.010
Additions	1.158	3.946	6.571	-	-	11.675
Transfer to investment property	-	-	(27.936)	-	-	(27.936)
Disposals and write-offs	-	(24)	(51)	-	-	(75)
Depreciation	-	(393)	(17.575)	(2.096)	-	(20.064)
At 31 December	1.158	6.932	24.216	140.304	-	172.610
At 31 December 2015						
Cost or deemed cost	1.158	12.856	144.931	196.131	-	355.076
Accumulated depreciation	-	(5.924)	(120.715)	(55.827)	-	(182.466)
Net book value	1.158	6.932	24.216	140.304	-	172.610
Year ended 31 December 2016						
At 1 January	1.158	6.932	24.216	140.304	-	172.610
Additions	-	-	4.072	-	13.569	17.641
Transfer	-	-	13.569	-	(13.569)	-
Disposals and write-offs	-	(7)	(9)	-	-	(16)
Foreign exchange differences	-	-	445	-	-	445
Depreciation	-	(433)	(7.864)	(2.096)	-	(10.393)
At 31 December	1.158	6.492	34.429	138.208	-	180.287
At 31 December 2016						
Cost or deemed cost	1.158	12.452	170.742	196.131	-	380.483
Accumulated depreciation	-	(5.960)	(136.313)	(57.923)	-	(200.196)
Net book value	1.158	6.492	34.429	138.208	-	180.287

NOTE 18 – 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, 6 and 31, three creditors (banks) decided to have their claims satisfied beyond the scope of the pre-bankruptcy settlement from the 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 chose to have their claims satisfied separately through the sale of said properties, the assets under foreclosure were estimated at fair value and the fair valuation of the loan obligations and other liabilities to be discharged by selling the assets under foreclosure is presented accordingly. Other tangible assets are disclosed in the balance sheet on a historical cost basis less accrued depreciation. Historical cost includes costs directly attributable to the acquisition of an asset.

The Company and Group, has changed the policy of valuing other long-term assets and now is stated at historical cost less accumulated depreciation. The effects of policy change as well as the revaluation of assets under foreclosure are presented in Note 6.

Had revaluation not been performed, the carrying amount of land and buildings of the Group would have amounted to HRK 76,795 thousand at 31 December 2016 (2015: HRK 78,891 thousand), while the carrying amount of land and buildings of the Company would have amounted to HRK 53,578 thousand (2015: HRK 55,674 thousand).

As at 31 December 2016, land and buildings of the Group and the Company with a net book value of HRK 47,051 thousand (2015: HRK 50,153 thousand) were pledged as security for borrowings (note 31).

As at 31 December 2016, assets under foreclosure of the Group with a net book value of HRK 161,452 thousand (2015: HRK 163,521 thousand) were pledged as security for borrowings (note 31).

As at 31 December 2016, assets under foreclosure of the Company with a net book value of HRK 138,208 thousand (2015: HRK 140,304 thousand) were pledged as security for borrowings (note 31).

At 31 December 2016, assets under a finance lease where the Company are the lessee amounted to HRK 12,750 thousand (2015: HRK 13,473 thousand) – see note 31.

NOTE 19 – INVESTMENT PROPERTY

Group

(in thousands of HRK)

	Land	Buildings	Total
At 1 January 2015			
Cost	38.096	402.001	440.097
Accumulated depreciation	-	(74.262)	(74.262)
Net book value	38.096	327.739	365.835
Year ended 31 December 2015			
At 1 January	38.096	327.739	365.835
Additions	-	6.983	6.983
Depreciation	-	(8.619)	(8.619)
Impairment loss	-	(766)	(766)
At 31 December	38.096	325.337	363.433
At 31 December 2015			
Cost	38.096	408.984	447.080
Accumulated depreciation	-	(83.647)	(83.647)
Net book value	38.096	325.337	363.433
Year ended 31 December 2016			
At 1 January	38.096	325.337	363.433
Sale of subsidiary	(38.096)	(310.277)	(348.373)
Depreciation	-	(8.688)	(8.688)
At 31 December	-	6.372	6.372
At 31 December 2016			
Cost	-	6.983	6.983
Accumulated depreciation and impairment losses	-	(611)	(611)
Net book value	-	6.372	6.372

Investment property mainly relates to Sky office which was sold at the end of 2016 and building in Topusko.

As at 31 December 2016, land and buildings of the Group and the Company with a net book value of HRK - thousand (2015: HRK 356,712 thousand) were pledged as security for borrowings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 19 – INVESTMENT PROPERTY (continued)

Company

<i>(in thousands of HRK)</i>	Land	Buildings	Assets under foreclosure	Total
At 1 January 2015				
Cost	49.126	273.366	23.083	345.575
Accumulated depreciation	-	(129.929)	-	(129.929)
Net book value	49.126	143.437	23.083	215.646
Year ended 31 December 2015				
At 1 January	49.126	143.437	23.083	215.646
Previous year correction	(36.665)	-	133	(36.532)
At 1 January - restated	12.461	143.437	23.216	179.114
Additions	-	6.983	-	6.983
Transfer from property, plant and equipment	-	27.936	-	27.936
Depreciation	-	(8.447)	-	(8.447)
At 31 December	12.461	169.909	23.216	205.586
At 31 December 2015				
Cost	12.461	379.074	23.216	414.751
Accumulated depreciation	-	(209.165)	-	(209.165)
Net book value	12.461	169.909	23.216	205.586
Year ended 31 December 2016				
At 1 January	12.461	169.909	23.216	205.586
Depreciation	-	(18.404)	-	(18.404)
At 31 December	12.461	151.505	23.216	187.182
At 31 December 2016				
Cost	12.461	379.074	23.216	414.751
Accumulated depreciation and impairment losses	-	(227.569)	-	(227.569)
Net book value	12.461	151.505	23.216	187.182

Land and buildings with a carrying amount of HRK 104,349 thousand (2015: HRK 118,795 thousand) have been pledged as security for the repayment of the finance lease (note 31).

NOTE 19 – INVESTMENT PROPERTY (continued)

As at 31 December 2016, land and buildings of the Company with a net book value of HRK 47,051 thousand (2015: HRK 50,153 thousand) were pledged as security for borrowings (note 31).

As at 31 December 2016, assets under foreclosure of the Company with a net book value of HRK 23,216 thousand (2015: HRK 23,216 thousand) were pledged as security 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 5, 6 and 31, three creditors (banks) decided to have their claims satisfied beyond the scope of the pre-bankruptcy settlement from the 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 chose to have their claims satisfied separately through the sale of said properties, the assets under foreclosure were estimated at fair value and the fair valuation of the loan obligations and other liabilities to be discharged by selling the assets under foreclosure is presented accordingly.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 20 – INVESTMENTS IN SUBSIDIARIES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At 1 January	-	-	285.998	287.782
Additions /i/	-	-	868	5.508
Decrease /ii/	-	-	(9.974)	(7.292)
Impairment /iii/	-	-	-	-
Transfer of shares /iv/	-	-	-	-
At 31 December	-	-	276.892	285.998

/i/ During 2016 by transfer of loans receivable investment in subsidiary Dalekovod Polska S.A was increases by HRK 868 thousand (2015: by transfer of loans receivable investment in subsidiary Dalekovod Polska S.A was increases by HRK 5,463 thousand and also companies POLDAL ENERGIE, POLDAL CONNECT, POLDAL TOWERS, POLDAL KV and POLDAL THE BRIDGE were established with the share capital of HRK 9 thousand each).

/ii/ Decrease of investement referes to the sale of the company Dalekovod Ulaganja d.o.o. (2015: Decrease of investement referes to the sale of the company Dalekovod TIM Topusko d.d.).

/iii/ During 2016 there was no impairment of investment in subsidiaries. Change in impairment is related to the sale of the company Dalekovod Ulaganja d.o.o. (2015: Dalekovod TIM Topusko d.d.) which previously impaired investment was written-off. During 2014 the Company partially impaired investment in subsidiaries Dalekovod Ulaganja in the amount of HRK 67,694 thousand and Dalekovod TIM Topusko d.d. in the amount of HRK 4,151 thousand. During 2013 the Company fully impaired investments in subsidiaries Dalekovod TKS a.d., Dobož i Cindal d.o.o., Dobož and partially impaired investments in subsidiaries Dalekovod Proizvodnja d.o.o. i Dalekovod TIM d.d. During 2012, the Company impaired investments in subsidiaries Denacco Namibia (PTY) Ltd, Dalekovod-Adria d.o.o. and Dalekovod Libya, while investment in Dalekovod-Polska S.A. had been impaired in 2009. The impairment in 2014 of HRK 71,845 thousand was recorded in the income statement (note 11).

/iv/ During 2015 the Company took over underlying share in the company Dalekovod ESCO (renamed from Dalekovo OIE) from the subsidiary Dalekovod Professio. The share is transferred without any fees and is recorded in the share capital of subsidiary and identical impairment.

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 8.13% and 12.96% (source: <http://pages.stern.nyu.edu/~adamodar/>), depending on the industry in which the individual entity operates.

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20 – INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Country of incorporation	Primary activity	2016	2015	2016	2015
			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
Dalekovod Proizvodnja 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	Germany	Construction	100,00	100,00	372	372
Dalekovod-Polska S.A., Warsaw /i/, /iii/	Poland	Construction	100,00	100,00	12.912	12.044
Dalekovod TKS a.d., Doboj /iii/	Bosnia and Herzegovina	Production	97,25	97,25	20.344	20.344
Dalekovod Professio d.o.o., Zagreb	Croatia	Other	100,00	100,00	77.029	77.029
Denacco Namibia (PTY) Ltd /iii/	Namibia	Construction	60,00	60,00	18	18
Dalekovod – ulaganja d.o.o. Zagreb /i/, /iii/	Croatia	Other	100,00	100,00	-	77.668
Cindal d.o.o. Doboj /iii/	Bosnia and Herzegovina	Production	95,01	95,01	5.191	5.191
Dalekovod-Adria d.o.o. Zagreb /iii/	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 /iii/	Libya	Construction	65,00	65,00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	Construction	100,00	100,00	74	74
Dalekovod ApS, Grenland	Grenland	Construction	100,00	100,00	124	124
Dalekovod Norge AS /i/	Norway	Construction	100,00	100,00	2.072	2.072
Dalekovod ESCO d.o.o., Zagreb /iv/	Croatia	Other	100,00	-	20	20
POLDAL ENERGIE Sp. z o.o. /i/	Poland	Construction	100,00	-	9	9
POLDAL CONNECT Sp. z o.o. /i/	Poland	Construction	100,00	-	9	9
POLDAL TOWERS Sp. z o.o. /i/	Poland	Construction	100,00	-	9	9
POLDAL KV Sp. z o.o. /i/	Poland	Construction	100,00	-	9	9
POLDAL THE BRIDGE 7 Sp. z.o.o. /i/	Poland	Construction	100,00	-	9	9
Impairment of investments /iii/					(115.498)	(183.192)
					276.892	285.998

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2015**

NOTE 20 – INVESTMENTS IN SUBSIDIARIES (continued)

A Group member (Dalekovod Professio d.o.o.) owns shares in the following subsidiaries:

Name	Country of incorporation	2016	2015
		<i> Holding in %</i>	
Voštane j.d.o.o., Zagreb	Croatia	-	100,00
Dalekovod breze j.d.o.o., Zagreb	Croatia	100,00	100,00
Otrić j.d.o.o., Zagreb	Croatia	-	100,00

Business of the companies is related to the renewable energy. The companies Voštane j.d.o.o., Dalekovod breze j.d.o.o. and Otrić j.d.o.o. are not included in consolidation due to immaterial assets and operating volume.

During the 2016 subsidiaries Voštane j.d.o.o. and Otrić j.d.o.o , which were 100% owned by the subsidiary Dalekovod Professio d.o.o., were liquidated. Voštane j.d.o.o. and Otrić j.d.o.o did not have significant operations or assets.

NOTE 21 – INVESTMENTS IN ASSOCIATES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At beginning of year	14.668	14.654	20.241	20.241
Share in profit/(loss)	26	14	-	-
Impairment (note 9)	(11.951)	-	(11.951)	-
At end of year	2.743	14.668	8.290	20.241

Associates are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Holding in %	
	2016	2015	2016	2015
TLM Group Members	7	7	25-47	25-47
Unidal d.o.o., Vinkovci	2.736	14.661	44,65	44,65
Total	2.743	14.668		

Financial information about associate is summarised below:

<i>(in thousands of HRK)</i>	Assets	Liabilities	Revenues	Net gain / (loss)
At 31 December 2016				
Unidal d.o.o.	59.100	43.461	66.720	58
At 31 December 2015				
Unidal d.o.o.	60.491	44.909	75.548	31

NOTE 22 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At beginning of year	4.537	10.269	4.254	9.854
Increase	-	-	-	-
Decrease /i/	-	(5.598)	-	(5.598)
Transfer from other receivables	-	-	-	-
Adjustment to fair value /ii/	31	(134)	(180)	(2)
At end of year	4.568	4.537	4.074	4.254

/i/ During the year the Company sold part of available-for-sale financial assets. Gains from the sale amounting HRK 531 thousand are disclosed in note 12.

/ii/ At 31 December 2016, the Company performed a valuation of available for sale financial assets and adjusted them to fair value. The fair value loss at the Company level of HRK 180 thousand and increase on the Group level of HRK 31 thousand (2015:decrease HRK 2 thousand on the Company level and HRK 134 on the Group level) was recognised in the income statement (note 12).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Group

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Loans and receivables</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Available for sale financial assets</u>	<u>Total</u>
31 December 2016					
Financial assets					
Trade receivables	24, 26	191.610	-	-	191.610
Receivables by construction contracts	26	90.473	-	-	90.473
Loans receivable and deposits	24, 25	149.770	-	-	149.770
Interest receivable	26	219	-	-	219
Other receivables	26	82.225	-	-	82.225
Available for sale financial assets	22	-	-	4.568	4.568
Financial assets at fair value through profit or loss	27	-	30.485	-	30.485
Cash and cash equivalents	28	105.428	-	-	105.428
Total		619.725	30.485	4.568	654.778

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Other financial liabilities</u>
31 December 2016		
Financial liabilities		
Loans	31	373.471
Bonds	31	19.330
Finance lease	31	124.973
Mezzanine debt	32	81.675
Trade payables	33	237.184
Other payables	33	75.048
Total		911.681

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Loans and receivables</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Available for sale financial assets</u>	<u>Total</u>
31 December 2015					
Financial assets					
Trade receivables	24, 26	291.391	-	-	291.391
Receivables by construction contracts	26	107.358	-	-	107.358
Loans receivable and deposits	24, 25	180.524	-	-	180.524
Interest receivable	26	903	-	-	903
Other receivables	26	33.755	-	-	33.755
Available for sale financial assets	22	-	-	4.537	4.537
Financial assets at fair value through profit or loss	27	-	30.377	-	30.377
Cash and cash equivalents	28	102.077	-	-	102.077
Total		716.008	30.377	4.537	750.922

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Other financial liabilities</u>
31 December 2015		
Financial liabilities		
Loans	31	705.369
Commercial papers	31	20.891
Finance lease	31	126.325
Mezzanine debt	32	80.675
Trade payables	33	323.525
Other payables	33	145.500
Total		1.402.285

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Loans and receivables</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Available for sale financial assets</u>	<u>Total</u>
31 December 2016					
Financial assets					
Trade receivables	24, 26	124.545	-	-	124.545
Receivables by construction contracts	26	69.310	-	-	69.310
Loans receivable and deposits	24, 25	165.328	-	-	165.328
Interest receivable	26	1.979	-	-	1.979
Other receivables	26	80.648	-	-	80.648
Available for sale financial assets	22	-	-	4.074	4.074
Financial assets at fair value through profit or loss	27	-	30.485	-	30.485
Cash and cash equivalents	28	86.849	-	-	86.849
Total		530.827	30.485	4.074	565.386

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Other financial liabilities</u>
31 December 2016		
Financial liabilities		
Loans	31	339.293
Bonds	31	25.516
Finance lease	31	123.861
Mezzanine debt	32	89.373
Trade payables	33	194.517
Other payables	33	67.239
Total		839.799

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Loans and receivables</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Available for sale financial assets</u>	<u>Total</u>
31 December 2015					
Financial assets					
Trade receivables	24, 26	248.163	-	-	248.163
Receivables by construction contracts	26	86.399	-	-	86.399
Loans receivable and deposits	24, 25	187.444	-	-	187.444
Interest receivable	26	1.491	-	-	1.491
Receivables from subsidiaries for share in profits	26	-	-	-	-
Other receivables	26	32.553	-	-	32.553
Available for sale financial assets	22	-	-	4.254	4.254
Financial assets at fair value through profit or loss	27	-	30.377	-	30.377
Cash and cash equivalents	28	81.849	-	-	81.849
Total		637.899	30.377	4.254	672.530

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Other financial liabilities</u>
31 December 2015		
Financial liabilities		
Loans	31	364.918
Bonds	31	27.580
Finance lease	31	125.394
Mezzanine debt	32	88.191
Trade payables	33	312.804
Other payables	33	94.193
Total		1.013.080

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

NOTE 24 – LOANS AND RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Long-term deposits	10.093	13.962	7.897	7.805
Long-term guarantee deposits	26.463	31.281	26.268	29.315
Long-term trade receivables	5.542	721	4.833	11
Other long-term receivables	60	3	60	3
Long-term loans receivable:				
- loans to subsidiaries	-	-	18.925	13.730
- housing loans and other loans to employees	2.214	2.645	562	686
- loans to other companies	18.830	8.551	18.830	8.551
Impairment of long-term deposits and loans receivable	(9.390)	(9.820)	(9.390)	(9.110)
Impairment of other long-term receivable	(5.532)	-	(4.822)	-
Total long-term deposits and loans receivable	48.280	47.343	63.163	50.991
Current portion of long-term loans and deposits (note 26)	(219)	(160)	(219)	(160)
Long-term loans and deposits given	48.061	47.183	62.944	50.831

Deposits

Deposits are denominated in EUR for the purpose of insuring bank placements. Some deposits are not interest bearing and other have effective interest rates ranged from 0.01% to 0.57%. Long-term deposits mature in 2018 and 2022.

Housing loans

Housing loans to employees carry an average effective interest rate of 6%, and are repayable over 2 to 25 years through deductions from employee salaries. Housing loans are denominated in HRK with currency clauses (EUR).

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 24 – LOANS AND RECEIVABLES (continued)

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At 1 January	9.820	10.627	9.110	9.917
Unwinding of discount og guarantee deposits	(31)	(807)	(31)	(807)
Transfer to imapirment of other long-term receivables	(710)	-	-	-
Provision for impairment of trade receivables and other financial assets (note 11)	311	-	311	-
At 31 December	9.390	9.820	9.390	9.110

NOTE 25 – INVENTORIES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Raw materials	70.922	62.601	8.798	16.259
Finished and semi-finished goods and work in progress	72.185	39.059	235	266
Spare parts and small inventories	6.289	5.999	1.550	2.216
Trade goods	6.803	9.016	477	1.748
Advances for inventories	528	1.058	-	-
	156.727	117.733	11.060	20.489

Cost of raw materials and supplies recognised in the income statement is disclosed in note 9.

Impairment of inventories recognised in the income statement is disclosed in note 11.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Domestic trade receivables	156.156	243.097	127.611	218.043
Foreign trade receivables	133.013	173.284	93.388	148.901
Impairment of trade receivables	(103.101)	(125.711)	(101.287)	(118.792)
	186.068	290.670	119.712	248.152
Receivable from customers for contract work	90.473	107.358	69.310	86.399
Guarantee deposits – current portion	71.458	88.072	69.227	79.838
Short-term deposits /iii/	15.224	11.986	9.872	5.108
Current portion of long-term loans (note 25)	219	160	219	160
Loans to subsidiary	-	-	21.004	44.626
Other short-term loans /i/	26.495	39.988	23.597	23.576
Interest receivable	8.524	9.204	11.858	11.431
Dividend receivable	-	-	2.168	-
Other receivables	91.094	42.623	89.517	41.424
Impairment of other financial assets	(23.319)	(23.313)	(35.450)	(35.493)
Total financial assets	466.236	566.748	381.034	505.219
Advances /ii/	92.668	44.558	107.247	43.065
Receivable from employees	222	323	197	255
VAT receivable	10.689	23.693	7.810	20.180
Outstanding VAT receivable	2.482	3.251	1.345	813
Prepaid expenses	2.609	2.401	2.271	1.898
Impairment of non-financial assets (note 11)	(6.247)	(6.247)	(6.247)	(6.247)
Total non-financial assets	102.423	67.979	112.623	59.964
	568.659	634.727	493.657	565.183

/i/ Other short-term loans and loans to subsidiaries represent primarily trade receivables converted to loans and loans given to sports organisations with annual interest rates from 4.5%-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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

/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 1.00%.

The ageing of trade receivables is as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Not due	113.789	191.906	100.008	193.763
Up to 90 days	47.078	34.267	10.371	8.658
From 91 to 180 days	3.563	10.677	1.632	2.685
Over 180 days	21.638	53.820	7.701	43.046
	186.068	290.670	119.712	248.152

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At 1 January	149.024	160.478	154.285	164.051
Impairment of trade receivables and other financial assets (note 11)	924	4.916	399	1.606
Collected amounts (note 11)	(4.364)	(13.248)	(1.528)	(11.298)
Sale of subsidiary	-	(1.556)	-	-
Transfer to impairment of financial asset available-for-sale	(11.251)	-	(11.251)	-
Transfer to impairment of other long-term receivables	(4.822)	-	(4.822)	-
Receivables written-off during the year as uncollectible	(3.091)	(1.566)	(346)	(74)
At 31 December	126.420	149.024	136.737	154.285
Direct write-off of trade receivables and other financial assets (note 11)	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
HRK	164.277	225.571	166.416	200.905
EUR	93.220	181.750	91.258	161.374
NOK	70.344	53.197	70.319	51.363
UAH	92.411	88.077	50.299	88.018
Other currencies	45.984	18.153	2.742	3.559
Total	466.236	566.748	381.034	505.219

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group or the Company hold collaterals as security.

The fair value of trade receivables approximates their carrying amount.

NOTE 27 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss relate to investment in domestic cash funds.

As at 31 December 2016, the fair value of these assets in the Group amounted to HRK 30,485 thousand (2015: HRK 30,377 thousand), and in the Company to HRK 30,485 thousand (2015: HRK 30,377 thousand).

During the year the Company realized gain amounted to HRK 108 thousand (2015: HRK 199 thousand) – note 12.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 28 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Cash at bank and petty cash in domestic currency	15.927	15.920	10.014	4.674
Cash at bank and petty cash in foreign currency	89.501	86.157	76.835	77.175
	105.428	102.077	86.849	81.849

As at 31 December 2016 there was no deposits on a period less than 3 months held at bank (2015: no deposits on a period less than 3 months held at bank).

Cash and cash equivalents are denominated in the following currencies:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
EUR	31.886	48.231	27.146	41.250
NOK	26.017	19.100	26.013	19.053
UAH	24.425	16.771	23.597	16.208
Other currencies	7.173	2.055	79	664
Total	89.501	86.157	76.835	77.175

NOTE 29 – ASSETS HELD FOR SALE

<i>(in thousands of HRK)</i>	Dalekovod Group	
	2016	2015
Velika Popina d.o.o.	16.298	16.298
Eko d.o.o.	48.740	48.740
OIE Makedonija	5	5
Total	65.043	65.043

In accordance with the pre-bankruptcy settlement, investments in joint ventures have been classified as assets held for sale. Fair value of the investments in joint ventures less cost to sell is higher than book value of the investment in joint ventures so there is no need for impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 30 – SHAREHOLDERS' EQUITY

Share capital

The share capital as at 31 December 2016 amounts to HRK 247,193 thousand (2015: HRK 247,193 thousand) and consists of 24,719,305 shares (2014: 24,719,305 shares). Nominal value of a share amounts to HRK 10 (31 December 2015: HRK 10).

As of 28 March 2014, based on General Assembly decision, the share capital was decreased from HRK 286,726,500 by HRK 258,053,850 to HRK 28,672,650 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 28,672,650 by HRK 158,521,680 to HRK 187,194,330 by cash payment of HRK 150,000,000 and a contribution in rights/conversion of debt of HRK 8,521,680 by issuing new shares.

Additionally, during August 2014, the share capital was increased from HRK 187,194,330 by cash payment of HRK 59,998,720 to HRK 247,193,050 by issuing 5,999,872 new shares whose nominal value is HRK 10.00.

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

	Number of shares		Holding	
	2016	2015	2016	2015
Konsolidator d.o.o.	15.000.000	15.000.000	60,68%	60,68%
Individuals	4.233.668	3.848.142	17,13%	15,57%
Pension funds	3.310.297	3.604.748	13,39%	14,58%
Banks	1.089.577	1.229.719	4,41%	4,97%
Others	986.922	989.590	3,99%	4,00%
Treasury shares	98.841	47.106	0,40%	0,19%
	24.719.305	24.719.305	100,00%	100,00%

Share premium

Share premium as at 31 December 2016 amounts to HRK 86,142 thousand (2015: HRK 86,142 thousand). Share premium arose by issuance 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 is 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 a 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.

NOTE 30 – SHAREHOLDERS' EQUITY (continued)

Legal reserves

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. Legal reserves are not distributable.

Treasury shares

As at 31 December 2016, the Company owns 98,841 treasury shares (2015: 47,106 treasury shares). The Company acquired 51,735 during 2016 at a average price of HRK 12.56 per share.

Statutory and other reserves

Statutory and other reserves consist of statutory reserves in the amount of HRK 32,188 thousands (2015: HRK 32,838 thousands) and reserves for own shares in the amount of HRK 8,466 thousand (2015: HRK 7,816 thousand).

Revaluation reserves

During 2011, the Group and the Company performed a revaluation of land and buildings on the sites in Velika Gorica and Žitnjak based on the assessment of an authorised external appraiser. The fair value of land and buildings at the site in Velika Gorica was determined using the revenue method based on future rental fees, while the fair value of land and buildings at the site in Žitnjak was determined using the cost method based on active market prices and recent arm's length market transactions.

During 2016. Company and Group revoked accounting policy for revaluation of land and property and accompanying deferred tax liability and the effects were shown as restatement of previous years (Note 6,14).

During 2016. Company and Group defined new accounting policy for assets under foreclosure and effects of recognition of revaluation reserve and accompanying deferred tax liability were shown as restatement of previous years (Note 6,14).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 31 – BORROWINGS

<i>(in thousands of HRK)</i>	Average interest rate	Dalekovod Group		Dalekovod d.d.	
		2016	2015	2016	2015
Non-current					
Loans from banks and subsidiaries	4,00%	238.038	259.041	238.471	259.010
Bonds	4,00%	19.330	20.891	25.516	27.580
Finance lease /i/	4,66%	109.681	113.709	109.038	113.236
		367.049	393.641	373.025	399.826
Current					
Loans from banks and subsidiaries	4,00%	135.433	446.328	100.822	105.908
Bonds	4,00%	2.323	-	3.055	-
Finance lease /i/	4,69%	15.292	12.616	14.823	12.158
		153.048	458.944	118.700	118.066
Total borrowings		520.097	852.585	491.725	517.892

/i/ Gross liabilities under the finance lease – minimum lease payments:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Up to 1 year	15.055	20.723	14.507	20.225
Between 1 to 5 years	54.197	52.880	53.610	52.376
Over 5 years	63.146	67.905	63.146	67.905
	132.398	141.508	131.263	140.506
Future finance costs under finance lease	(7.425)	(15.183)	(7.402)	(15.112)
Present value of liabilities under finance lease	124.973	126.325	123.861	125.394

/ii/ In the total amount of loans received from banks and subsidiaries disclosed by the Company and the Group on 31 December 2016, part of the debt in the amount of HRK 79,503 thousand relates to three banks holding first-rank pledges over the Company's assets and refinancing their claims until such assets are transferred to them by using the separate satisfaction right enforcement model. Furthermore, the Company also owes a debt to one of the banks based on unpaid guarantees in the amount of HRK 6,198 thousand as at 31 December 2016 (Note 33).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 31 – BORROWINGS (continued)

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

The Company and the Group as at 31 December 2016 and 2015, 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, 18 and 19).

The Group's borrowings totalling HRK 33,840 thousand (2015: HRK 345,324 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 406,754 thousand (2015: HRK 427,758 thousand), except for borrowings which will be discharged by selling assets under foreclosure, have fixed interest rates and relate to loans, bonds and finance lease liability amounting to HRK 302,485 thousand with interest rate of 4% and other lease financing with interest rates range of 4.73%-9.12% and finance lease amounting HRK 104,269 thousand with the fixed rate of 4.0%, according to pre-bankruptcy settlement.

The borrowings are denominated in the following currencies:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
EUR	282.902	540.994	266.686	218.071
HRK	237.111	311.444	225.039	299.821
Other	84	147	-	-
Total	520.097	852.585	491.725	517.892

The maturity of long-term borrowings is as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Between 1 to 5 years	97.308	88.902	97.741	78.192
Over 5 years	140.730	170.139	140.730	180.818
	238.038	259.041	238.471	259.010

NOTE 32 – MEZZANINE DEBT

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Long-term	23.166	22.166	27.373	26.191
Short-term	58.509	58.509	62.000	62.000
	81.675	80.675	89.373	88.191

Movements in Mezzanine debt are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
At 1 January	80.675	207.026	88.191	238.421
Additions	1.000	790	1.182	-
Reclassification /i/	-	(127.141)	-	(150.230)
At 31 December	81.675	80.675	89.373	88.191

/i/ In accordance with IAS 32 (paragraph 42), the Company has reduced the position of Embedded Derivatives for HRK 150,230 thousand as at 31 December 2015 and the liability for long-term mezzanine debt in the same amount (Note 2.25 and Note 6).

In accordance with IAS 32 (item 42), the Group reduced the position of Embedded Derivatives for HRK 127,141 thousand as at 31 December 2015 and the liability for long-term mezzanine debt in the same amount (Note 2.25 and Note 6).

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
HRK	48.322	47.730	57.561	56.800
EUR	33.353	32.945	31.812	31.391
	81.675	80.675	89.373	88.191

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 33 – TRADE AND OTHER PAYABLES

Long-term

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Trade payables	10.199	47.275	12.878	62.211
	10.199	47.275	12.878	62.211

Short-term

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Domestic trade payables	112.394	134.650	106.258	128.470
Foreign trade payables	114.591	141.600	75.381	122.123
	226.985	276.250	181.639	250.593
Interest payable	2.165	45.631	1.618	2.123
Dividends payable (note 15)	101	101	101	101
Contracted liabilities from acquisition	1.672	1.672	1.672	1.672
Other accruals and liabilities	64.811	76.053	57.549	68.254
Due to banks arising from collected guarantees	6.299	22.043	6.299	22.043
Financial liabilities	302.033	421.750	248.878	344.786
Advances	135.581	109.296	130.990	106.683
Deferred income	15.762	14.506	15.762	14.506
Due to employees	41.581	34.449	21.223	13.292
VAT payable	15.366	2.707	14.771	-
Taxes and contributions	7.387	7.401	3.335	3.408
Unused vacation days	7.159	7.242	4.516	4.314
Non-financial liabilities	222.836	175.601	190.597	142.203
	524.869	597.351	439.475	486.989

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 34 – TRADE AND OTHER PAYABLES (continued)

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
HRK	9.650	44.080	11.839	57.622
EUR	514	3.019	1.005	4.413
NOK	3	11	3	11
UAH	-	-	-	-
Other currencies	32	165	31	165
Total	10.199	47.275	12.878	62.211

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
HRK	145.069	160.502	123.960	141.631
EUR	17.473	82.165	15.373	44.292
NOK	42.400	26.872	42.400	26.872
UAH	63.797	133.392	63.301	129.976
Other currencies	33.294	18.819	3.844	2.015
Total	302.033	421.750	248.878	344.786

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 34 – PROVISIONS

Group

<i>(in thousands of HRK)</i>	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2016	3.173	3.621	22.832	29.626
Increase	269	1.558	10.910	12.737
Decrease	(19)	(1.059)	(15.429)	(16.507)
Transfer	-	(100)	100	-
At 31 December 2016	3.423	4.020	18.413	25.856
Analysis:			2016	2015
Non-current portion			23.513	13.297
Current portion			2.343	16.329
Total			25.856	29.626

Company

<i>(in thousands of HRK)</i>	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2016	1.595	2.247	22.627	26.469
Increase	176	1.438	10.910	12.524
Decrease	-	(1.051)	(15.288)	(16.339)
At 31 December 2016	1.771	2.634	18.249	22.654
Analysis:			2016	2015
Non-current portion			20.779	10.718
Current portion			1.875	15.751
Total			22.654	26.469

Provisions for jubilee awards and severance payments

These provisions relate to estimated long-term employee benefits for jubilee awards and severance payments at the time of retirement according to the Collective bargaining agreement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate of 4.59% for the Group, and 2.0% for the Company (2015: Group 4.27%, Company 2.00%), an annual discount rate of 2.8% (2015: 4.0%); 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 is 61 years for men and 60 years for women).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 34 – PROVISIONS (continued)

Other provisions

Other provisions relate to provisions for court cases.

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 20 and associates presented in note 21, the Company's related parties include its Management Board, Executive Directors, owners and ultimate owner fund Nexus FGS.

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

<i>(in thousands of HRK)</i>	2016	2015
Sales revenue	41.947	26.839
Rental income	5.437	4.613
Interest income	956	649
Income from discount of long-term liabilities	-	-
Dividend income	4.426	12.966
Other operating income	12.375	7.946
	65.141	53.013
Cost of goods sold	3.035	26.740
Cost of raw materials and supplies	22.697	29.013
Subcontractor services	15.110	14.258
Other operating expenses	574	1.741
Interest expenses and foreign exchange losses	1.203	2.006
	42.619	73.758

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

<i>(in thousands of HRK)</i>	2016	2015
Trade receivables	10.788	32.876
Dividends receivable	2.168	-
Interest receivable	1.757	2.927
Advances	17.045	544
Loans receivable	26.929	43.839
	58.687	80.186
Trade payables	33.813	59.905
Mezzanine debt	7.698	7.516
Interest payable	175	123
Bonds	6.918	6.689
Advances	534	732
Loans payable	1.790	2.072
	50.928	77.037

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 associates are as follow:

Revenues and expenses

<i>(in thousands of HRK)</i>	2016	2015
Sales revenue	232	301
Income from discount of long-term liabilities	-	-
	232	301
Interest expense	24	36
	24	36

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)

	2016	2015
Trade receivables	519	715
	519	715
Trade payables	388	669
	388	669

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 venture, which are classified as assets held for sale, are as follow:

Revenues and expenses

(in thousands of HRK)

	2016	2015
Sales revenue	-	39
	-	39

Receivables, payables and loans

(in thousands of HRK)

	2016	2015
Trade receivables	-	39
	-	39

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

In addition to the Company, other Group members have dealings with associates. Items in the income statement for the year and balances in the statement of financial position of the Group at the end of the year that arise from transactions with associates are as follow:

Revenues and expenses*(in thousands of HRK)*

	2016	2015
Sales revenue	3.083	2.367
Income from discount of long-term liabilities	-	-
	3.083	2.367
Cost of raw materials and supplies	8.010	6.279
Interest expense	24	36
	8.034	6.315

Receivables, payables and loans*(in thousands of HRK)*

	2016	2015
Trade receivables	1.056	799
	1.056	799
Trade payables	1.542	2.240
	1.542	2.240

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Certain Group members have dealings with joint ventures as well, which are classified as assets held for sale. Items in the income statement for the year and balances in the statement of financial position of the Group at the end of the year that arise from transactions with joint ventures are *as follow*:

Revenues and expenses*(in thousands of HRK)*

	2016	2015
Sales revenue	5.400	5.439
	5.400	5.439

Receivables, payables and loans*(in thousands of HRK)*

	2016	2015
Trade receivables	563	1.414
	563	1.414
Loans payable	2.000	2.000
	2.000	2.000

Transactions with key management

Key management consists of Management Board and Executive Directors. Remuneration to key management at Group's level amounted to HRK 21,114 thousand (2015: HRK 18,018 thousand), while remuneration at the level of the Company amounted to HRK 16,831 thousand (2015: 14,255 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 36 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2016, 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 1,284,474 thousand (2015: HRK 911,213 thousand).

Future minimum lease payments under non-cancellable operating lease are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2016	2015	2016	2015
Up to 1 year	2.432	3.117	2.322	2.974
Between 1 to 5 years	2.185	3.439	2.038	3.323
Over 5 years	-	-	-	-
	4.617	6.556	4.360	6.297

As at 31 December 2016, 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 655,152 thousand and HRK 586,666 thousand (2015: HRK 612,461 thousand Group and HRK 588,957 thousand Company). The Company is additionally exposed as subsidiaries' co-debtors in the total amount of HRK 36,686 thousand (2015: HRK 2,253 thousand).

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Based on Management Board and legal counsel believes, provision have been created for those court cases that will result with losses and were those losses can be estimated (note 34). In addition to those court cases for which provision have been made there are some legal disputes will not result in significant losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 37 – DISPOSAL OF SUBSIDIARY

On 30 December 2016 an agreement on the sale and transfer of subsidiary Dalekovod Ulaganja d.o.o. was conducted.

On 13 February 2015 an agreement on the sale and transfer of 254,056 shares of subsidiary Dalekovod TIM d.d. Topusko was conducted.

Disposal of subsidiary had the following effect:

<i>(in thousands of HRK)</i>	2016	2015
Property, plant and equipment	-	17.069
Investment property	348.373	-
Loans and receivables	-	3
Inventories	-	3.781
Trade and other receivables	18.029	2.215
Cash and cash equivalents	10.722	419
Assets	377.124	23.487
Provisions	-	418
Borrowings	324.400	3.134
Trade and other payables	34.798	6.839
Income tax liability	1.687	-
Liabilities	360.885	10.391
Disposed net assets	16.239	13.096
Income from sale of subsidiary	17.237	7.292
Loss on disposal of subsidiary	998	(5.804)

NOTE 38 – EVENTS AFTER THE BALANCE SHEET DATE

After 31 December 2016, there were no events that have material impact on financial statements as of and for the year ended or that are of such impact on business operations of the Company or the Group that should require the disclosure in the notes to the financial statements.

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

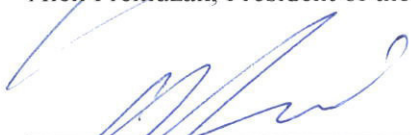
NOTE 39 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 21 to 111 were approved by the Management Board on 29 April 2017.

Signed on behalf of Group and Company on 29 April 2017:



Alen Premužak, President of the Management Board



Marko Jurković, Member of the Management Board



Helena Jurčić Šestan, Member of the Management Board



Ivica Kranjčić, Member of the Management Board



Ivan Kurobasa, Member of the Management Board

