Zagreb, 27 April 2018

DALEKOVOD d.d.

ANNUAL REPORT
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT 31 DECEMBER 2017

DALEKOVOD

www.dalekovod.hr

Povezujemo svjetove, gradimo budućnost.

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I. ANNUAL REPORT

KEY INDICATORS

The operative results in 2017 are indicators of continuity in the recovery and growth of business activities in all segments of Dalekovod d.d.. Business in 2017 is marked with positive developments in business in Dalekovod d.d. as well as at the Dalekovod Group level.

Dalekovod d.d.

The operative revenue in 2017. for Dalekovod d.d. was HRK 1,173 million what is an increase for 32% compared to 2016. The incerase of revenue is result of a significant increase in activities compared to the same period last year, as in foreign markets, among which Norway, Ukraine and Finland are especialy emphasized, as well as in the domestic market. In Dalekovd d.d. revenue share on foreign markets in 2017 was 75%.

At the Company level EBITDA was 9% lower compared to 2016 what is in line with expectations, considering the 2016 impact of one-off events, most significant one-off event in 2016 was sale of rights to the Ministry of Finance (HRK 50 million), in 2017 same one-off event had no impact. Excluding non-recurring items normalized EBITDA was HRK 101.96, an increase of 61% compared to 2016. Gross profit, as the most important indicator of operating business, was HRK 150 million, compared to 2016 that was an increase of 40%. The result is continued strong growth of cash flow from operations.

DALEKOVOD d.d. EBITDA (HRK million)
87

DALEKOVOD d.d. BUSINESS REVENUE (HRK million)
1,173

DALEKOVOD d.d. NET PROFIT (HRK million)
22

Net profit for 2017 for Dalekovod d.d. is HRK 22.3 million, compared to the same period last year is decrease of 12%, as was the case with other indicators that is resoult of the impact of one-off events in 2016.

Dalekovod d.d. in 2017, as well as in previous years, have fulfilled all its liabilities arising from financial restructuring. In 2017 HRK 97 million was repaid to creditors, cumulatively in the period from 2014 to 2017 Dalekovod d.d. to the creditors HRK 321.3 million was repaid, which continues to strengthen trust and build solid relationships with all of its partners.

Dalekovod Group

Operating revenue in 2017 for Dalekovod Group was HRK 1,513 million which is an increase for 23% compared to 2016. The incerase of revenue is result of a significant increase in activities compared to the same period last year, as in foreign markets, among which Norway, Ukraine and Finland are especialy emphasized, as well as in the domestic market.

DALEKOVOD GROUP EBITDA (HRK million)
88

DALEKOVOD GROUP BUSINESS REVENUE (HRK million)
1,513

DALEKOVOD GROUP NET PROFIT (HRK million)
12

The entire Dalekovod Group remained highly focused on foreign markets and continued contracting new jobs abroad. In a very demanding market environment, Dalekovod Group contracted in total EUR 126.1 million of new projects. For 2017, it is highly important to highlight two new projects in Norway of EUR 80 million, a BH project worth EUR 20 million, and a project in Sweden that is highly important for opening a new market where Dalekovod has not been present in the past years. The normalized EBITDA of Dalekovod Group excluding non-recurring items amounts to HRK 103.5 million, what is an increase of 19% compared to 2016.

Business in 2017 at the Dalekovod d.d. level and at the Dalekovod Group level, was focused on contracting new projects, increasing efficiency in building on existing projects, and staffing at all levels as a key benchmark for future development. The Group's net profit for 2017 amounts was HRK 12.4 million, which is 2% higher than in 2016.

(in HRK million)	Dalekovod d.d. 2017	2016	2017/2016	Dalekovod Group 2017	2016	2017/2016
Sales revenue	1,134.7	815.2	39%	1,477.9	1,159.7	27%
EBITDA	87.1	96.3	-10%	87.7	96.0	-9%
Normalized EBITDA	101.9	63.2	61%	103.4	87.1	19%
EBIT	52.8	62.0	-15%	44.0	44.7	-2%
Normalized EBIT	67.6	28.9	134%	59.8	35.7	68%
Net profit/(loss)	22.3	25.2	-12%	12.4	12.2	2%

Profit margins	Dalekovod d.d. 2017	2016	2017/2016	Dalekovod Group 2017	2016	2017/2016
EBITDA margin	8%	12%	- 4 pp	6%	8%	-2 pp
Normalized EBITDA margin	9%	8%	+ 1 pp	7%	8%	-1 pp
EBIT margin	5%	8%	-3 pp	3%	4%	-1 pp
Normalized EBIT margin	6%	4%	+2 pp	4%	3%	+1 pp
Net profit margin	2%	3%	-1 pp	1%	1%	0 pp

(in HRK million)	Dalekovod d.d. 2017	2016	Dalekovod Grupa 2017	2016
Net debt	463	494	452	496
Total Assets	1,275	1,353	1,317	1,412
Total Equity and reserves	295	271	237	224
Current assets and current liability ratio	1.00	0.99	1.19	1.19
Net debt and equity increased for net debt ratio	61%	65%	66%	69%
Net debt/Normalized EBITDA	4.5	7.8	4.4	5.7
Interest coverage ratio	2.9	1.3	2.6	1.0
Cash from Operating activities	1.1	32.8	17.1	28.1

STRATEGY – OPERATING GUIDELINES FOR FUTURE PERIODS

Dalekovod Group intends to pursue further internationalization and growth of sales revenues on foreign markets, with primary focus on the markets of the region, Scandinavia (Norway, Finland, Sweden), Eastern Europe (Ukraine), individual EU markets (Poland, Latvia, Slovenia, Germany), and some other markets where opportunities to enter appear (Jordan, Lebanon, Georgia, ...). In these markets, there is a long-term trend of continuous investment in the renewal and expansion of energy infrastructure. This, with quality positioning, provides the Group the potential for long-standing presence in project execution.

The key focus in the future period will be in the following areas:

- Focus on revenue growth
- Focus on project performance efficiency and gross margin growth
- Strong orientation to contracting new jobs both domestically and abroad
- Personnel empowerment at all levels and raising the capabilities of leadership and building supportive corporate culture

MANAGEMENT AND SUPERVISORY BOARD

On 31 December 2017, 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 2017 comprised the following members: Marko Lesić, Chairman, Ivan Peteržilnik, Deputy Chairman, and the Supervisory Board Members Vlado Čović, Milan Račić, Marko Makek, Hrvoje Markovinović, Rajko Pavelić, Krešimir Ruždak and Mirela Tomljanović Radović.

By the decision of the Ordinary General Assembly held on July 14, 2017, there were changes in the Supervisory Board of the company. Mr. Milan Račić was appointed as a member of the Supervisory Board, instead of Mr. Uwe Heiland, who submitted a written resignation on 16 May 2017. Mr Rajko Pavelić has replaced Mr. Anton Pernar in the Supervisory Board on behalf of the workers' representatives.

According to the authorities provided by the Companies Act, Articles of Association and Standing Orders of the operations of the Supervisory Board of Dalekovod D.D., the Supervisory Board overlooks the company's business operations. Sessions of the Supervisory Board are held at least four times annually (more frequently if required); members of the Supervisory Board often discuss the strategy and operational plan of the Company at such sessions. The Supervisory Board exclusively acts as a single body for management and supervision; sub-committees (commissions) with special responsibilities have been defined.

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

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

The Supervisory Board has its sub-committees that make the work of the Supervisory Board easier through their actions, thereby discussing the issues within their scope of competence and contributing to giving proposals for decisions accompanied by reasons for and against acceptance thereof.

The Supervisory Board may form the following sub-committees:

• Subcommittee for corporate management

• Subcommittee for audit

• Subcommittee for appointment and rewarding

OWN SHARES

In 2017, the Company has not acquired any of its own shares.

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.

SUBSEQUENT EVENTS

Subsequent events are detailed in Note 38 to Financial Statements.

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.

SHAREHOLDINGS (as at 31 December 2017):

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	4.680.685
Financial Institutions	4.149.466
Others	790.313
Own shares	98,841
TOTAL	24.719.305

AFFILIATES AND BRANCH OFFICES

REPUBLIC OF CROATIA

1	DALEKOVOD PROIZVODNJA d.o.o.	Trnoščica 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	DALEKOVOD PROFESSIO d.o.o.	Marijana Čavića 4, Zagreb	88975636912/ 080531484
7	VELIKA POPINA d.o.o.	Jurišićeva 1a, Zagreb	35125743121/ 080537858
8	DALEKOVOD ESCO d.o.o.	Marijana Čavića 4, Zagreb	39299967373/ 080636304

ABROAD

9 DALCOM GmbH Freilassing   Munchener Str. 67, 83395 Freilassing, Germany   MBS: HRB7585

10 DALEKOVOD Plt, Namibia

11 DALEKOVOD TKS a.d.   Doboj, BiH

12 CINDAL d.o.o. Doboj; BiH   Rudanka 27, 74000 Doboj, BIH   JIB: 41028864540002

13 DALEKOVOD MOSTAR d.o.o., BiH   Ante Starčevića bb, Mostar, BIHJIB: 4227105910001

14 DALEKOVOD LJUBLJANA d.o.o., Zavetiška ulica 1, 10000 Ljubljana, Slovenia   PB: SI 28940024

15 DALEKOVOD UKRAJINA d.o.o., Ukrajne
4 Lunacharskogo str. 02002 Kiev, Ukraine   MBS: 36683014

16 DALEKOVOD LIBYA , Libia

17 DALEKOVOD NORGE AS, Norway   Sandviksveien 26, 1363 Høvik, Norway   MBS: 998628253

18 DALEKOVOD POLSKA S.A., Poland   Płocka 15, 01-231 Warszawa, Poland   NIP: 9512112646

19 POLDAL THE BRIDGE 7-SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252616447

20 POLDAL KV -SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252600386

21 POLDAL CONNECT- SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252600357

22 POLDAL TOWERS- SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ,
Płocka 15, 01-231 Warszawa, Poland NIP: 5252584374

23 POLDAL ENERGIE- SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, Poland
Płocka 15, 01-231 Warszawa, Poland NIP: 5252597661

BRANCH OFFICES

24 DALEKOVOD NUF, Norway	Sandviksveien 26, 1363 Høvik, Norveška
25 DALEKOVOD Skopje, FYR Macedonia	50te Divizije br. 36, Skopje-Centar, Skopje, FYR Macedonia
26 DALEKOVOD CRNA GORA	Ul. IV Proleterske br. 34, Podgorica, Montenegro
27 DALEKOVOD d.d. - DEGA Tirane, Albania	Rr. Medar Shtylla, Kompleksi Kika, Ap 14/2 Tirana, Albania
28 DALEKOVOD UKRAJINA - Ukraine	4 Lunacharskogo str. 02002 Kiev, Ukraine
29 DALEKOVOD – Branch Of Kosova	St. Garibaldi 3/7, 10000 Prishtine, Kosovo
30 DALEKOVOD d.d. – Branch Finland	c/o Talenom Töölönlahdenkatu 3 B, 00100 Helsinki, Finland
31 DALEKOVOD d.d. – Branch Sweede	c/o Amesto Accounthouse AB, Roselundsgatan 54, 118 63 Stockholm, Sweden

SOCIAL RESPONSIBILITY REPORT

GENERAL STANDARD INFORMATION

REPORT PROFILE

The Social Responsibility Report that Dalekovod prepares at the annual level has been prepared for the 1 January – 31 December 2017 reporting period. It was prepared by the Dalekovod Group and covers three companies within the Group, in which the parent company has the dominant influence. The last report was published in 2017 (for the 2016 calendar year). The person responsible for questions related to the report and its content is the Head of Corporate Communications. The Dalekovod Group selected the option of core compliance with G4 guidelines. The report has not been externally verified. Until the next report, the Dalekovod Group commits to continually improve current practices and to monitor the progress of all companies within the Group, as well as relations with stakeholders, and to notify the public of this in the subsequent report and to consider the option of external verification.

ORGANIZATION PROFILE

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

The Dalekovod Group is continuously working on improving current practices and monitors the work of its companies. We believe that our efforts will be visible in future reports.

SUPPLY CHAIN

Nearly all of our vendors in the past year are from Europe, which is understandable given that all of our projects last year were carried out in Europe.

During cooperation with vendors, particular care is taken to respect the following standards:

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

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

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

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

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

MEMBERSHIP IN ASSOCIATIONS

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

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

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

- Croatian Exporters
- Croatian Chamber of Economy
- CIGRE (International Council on Large Electric Systems)
- HO CIRED (Croatian National Committee)

- MIPRO (Croatian Society for Information and Communication Technology, Electronics and Microelectronics)
- IEEE (Institute of Electrical and Electronics Engineers)
- PMI (project Management Institute)
- Croatian Standards Institute
- Croatian Welding Society
- Croatian Society for Quality, Croatian Public Relations Association (HUOJ)
- Croatian Employers' Association
- Croatian Chamber of Architects and Civil Engineers
- Association of Production of Metals and Metal Products
- Association of Production of Electric and Optic Equipment
- Association of Power Supply – Community of Renewable Energy Sources
- HED (Member of World Energy Council)

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

IDENTIFIED MATERIAL ASPECTS AND LIMITS

Affiliated companies included in this report are Dalekovod D.D., Dalekovod Projekt LLC and Dalekovod Proizvodnja LLC. In the preparation of this report, taken into consideration was the representation of economic, environmental and social dimensions from an equal number of aspects because they are equally important to the business operations and functioning of the Group.

This report was written according to GRI4 guidelines and Global Compact principles. Given the nature of business operations – design, production and construction, the environmental dimension is extremely important. The aspects of water, energy, materials, biodiversity, compliance and dispute resolution mechanisms in relation to the environment must certainly be highlighted here, and they are described in detail in this report. In accordance with the importance and specific characteristics related to business operations, these two companies follow those topics that are significant to their areas of activity.

RESEARCH & DEVELOPMENT ACTIVITIES

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

Company Dalekovod in 2017 launched several research and development (R&D) activities resulting in 3 major R&D projects.

These activities and projects are focused on the area of implementation of information and communication (ICT) technology into building and reconstruction of infrastructure thus resulting in major applications in areas such as Smart Cities and Smart Grids.

All 3 R&D projects were also registered at the tender call for research, development and innovations tendered by Ministry of Economy, Entrepreneurship and crafts in cooperation with Croatian Investment Agency HAMAG BICRO. Tender call was listed under the reference name KK.01.2.1.01 and was named "The increasement of development of new products and services resulting from the research and development activities ". Tender call was funded by European structural and investment funds in the operating program Competitiveness and Cohesion 2014. – 2020.

These registered projects are listed in following table:

Project proposal:	Revitalization and upgrade of public lighting infrastructure based on innovative technology solutions	Monitoring of external objects based on advance sensor networks	Power grid monitoring based on synchronized measurements
Applicant:	Dalekovod d.d. Zagreb	Dalekovod d.d. Zagreb with partner Ubique d.o.o.	Dalekovod d.d. Zagreb
Reference No	KK.01.2.1.01.0035.	KK.01.2.1.01.0083.	KK.01.2.1.01.0087.

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

During 2017. for the R&D project with reference number KK.01.2.1.01.0035. funding contract was signed on 28.12.2017.

The signing of funding contract for R&D projects with reference numbers KK.01.2.1.01.0083. and KK.01.2.1.01.0087. is expected in 2018.

Full commercialization of new products and services resulting from these R&D activities is expected in 2019.

INVOLVING STAKEHOLDERS

Internal and external stakeholders were involved in the preparation of sections of the report.

Internal: employees, other workers and their unions.

External: customers, local communities (donations), shareholders and providers of capital and vendors.

Taking into consideration the production program and business strategy, most companies within the Dalekovod Group are focused on the business market and/or the public sector, and less on the market of individual end users.

Group companies often act within a consortium organized for an individual project, which additionally may result in a reduction in the establishment of direct contact of a Group company with customers and/or communities. Therefore, besides customers, employees (including labor unions with which they are associated), suppliers and the public sector (acting in the double role of a party ordering a product and a business conditions regulator) may be recognized as key participants.

Key participants are identified through an analysis of business processes and circumstances and risks brought about by relationships with individual participants. Communication is conducted on a continual basis with key participants through meetings, and while conducting business, their legitimate interests are taken into consideration.

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

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

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

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

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

A special, internal web intended for employees, containing several directories with documents enabling information sharing, has been created. Key topics that arise from communication with participants include the future development of the company and safety of employment, professional development of employees, the manner and dynamics of the privatization of the parent company and dependent or affiliated companies, and satisfaction of growing market, environmental and regulatory standards required for acting on (especially international) markets.

BUSINESS ETHICS

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

Dalekovod's business policy is founded on the following business principles:

- Satisfaction of customers, vendors and other stakeholders
- Environmental protection, protection of health and safety

• Constant improvement of products and processes, as well as

• Involvement and motivation of all employees.

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

SPECIFIC STANDARD INFORMATION

ENVIRONMENTAL DIMENSION

Environmental management

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

Environmental management promotion:

- The Dalekovod Group believes that the environmental management and promotion of environmental management activities in accordance with economic activities are among the basic responsibilities of the top management
- The Dalekovod Group performs monitoring, measurement and analysis of the achieved results to determine goals in relation to reducing environmental impact and preventing pollution
- The Dalekovod Group is continuously trying to improve environmental management by performing internal audits
- The Dalekovod Group meets all legal regulations, requirements of investors and its own guidelines relating to environment
- The Dalekovod Group seeks to be open in communication with the local community and interested parties, and transparently report on its environmental impacts
- The Dalekovod Group seeks to raise awareness of environmental protection through continuous training of its employees
- The Dalekovod Group operates on a global scale and promotes environmental protection activities in all the Dalekovod Group's activities accordingly

Reporting period

- This report refers to the results of the activities from 1.1.2017 to 31.12.2017, and may refer to the results before and after the observed period that occurred prior to the publication of this report

Publication

- The latest publication of ecological performance with the data for 2016 was published in the Social responsibility report 2016 on the UN Global Compact webpage 14.07.2017

Reference guidelines

- GRI (Global Reporting Initiative)

Significant changes made by the Dalekovod Group which had an impact on environmental management

- The environmental management system policy was reviewed and the new one was accepted in February 2018. It is published on the web page of the Dalekovod Group Management system policy

- The Dalekovod Group is certified in accordance with ISO 14001 standard since 2001. The transition to ISO 14001:2015 issue of the standard was carried out in 2017. Bureau Veritas certification agency carried out the certification audit and issued a new certificate on March 15, 2018

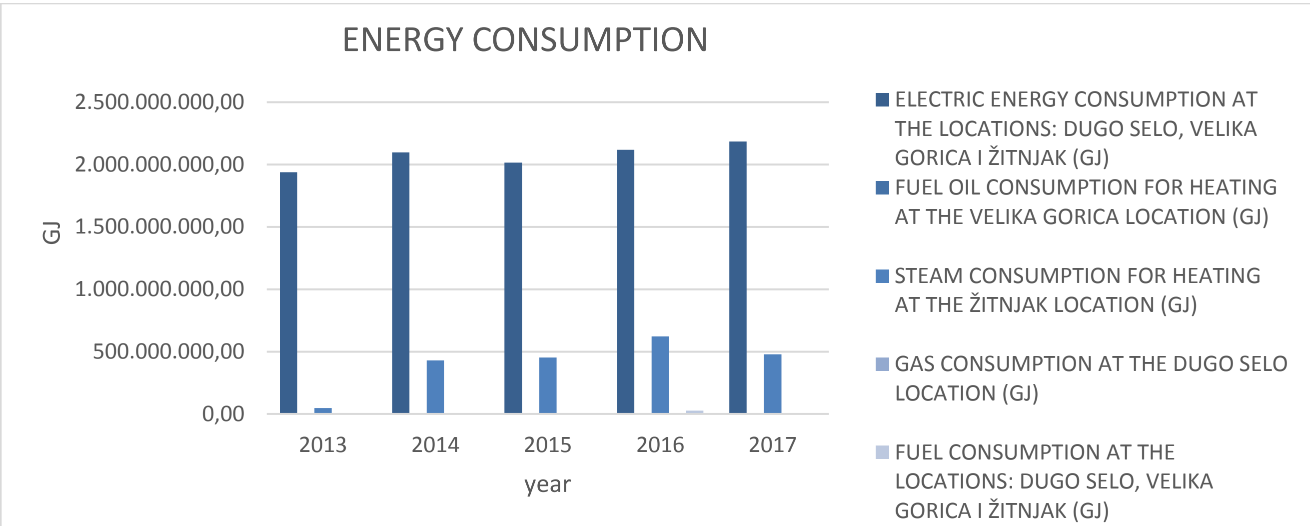
Materials

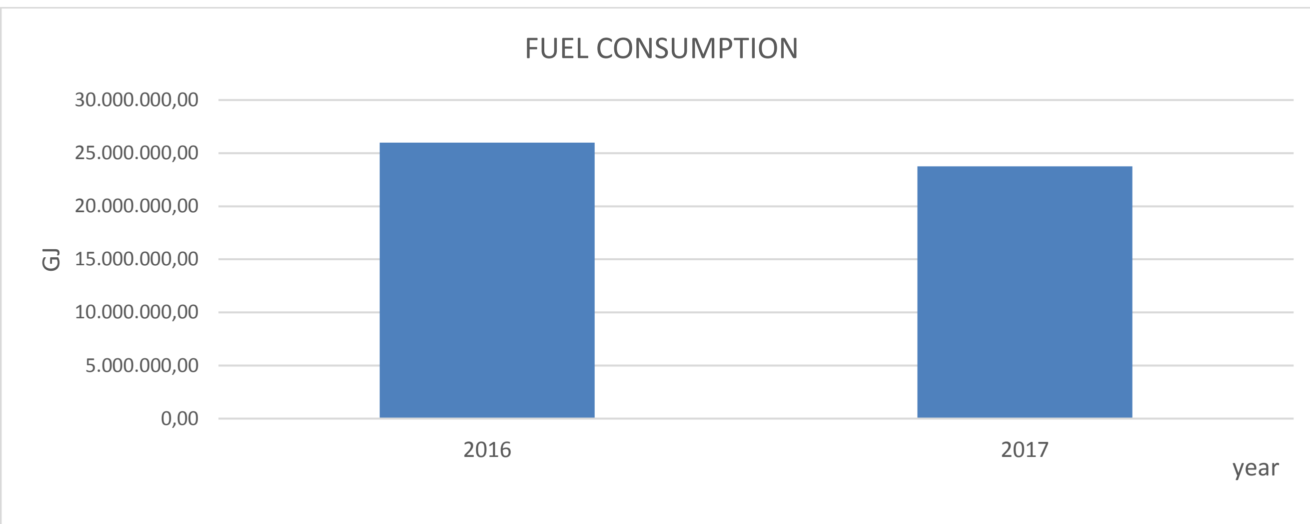
Strategic materials used in the manufacture of metal structures, suspension and jointing equipment, anti-corrosion steel protection by Dalekovod Proizvodnja d.o.o. are iron, zinc, aluminum, bronze, hydrochloric acid, paints and varnishes. Countries of origin for metal materials are Czech Republic, Italy,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

75 % of the revenue of Dalekovod d.d. is generated from foreign projects. For the realization of construction projects of transmission lines and substations on foreign construction sites, products of suppliers chosen by the investor are installed. For projects in the Republic of Croatia, metal structures and suspension and jointing equipment produced by Dalekovod Proizvodnja d.o.o. are used.

Energy

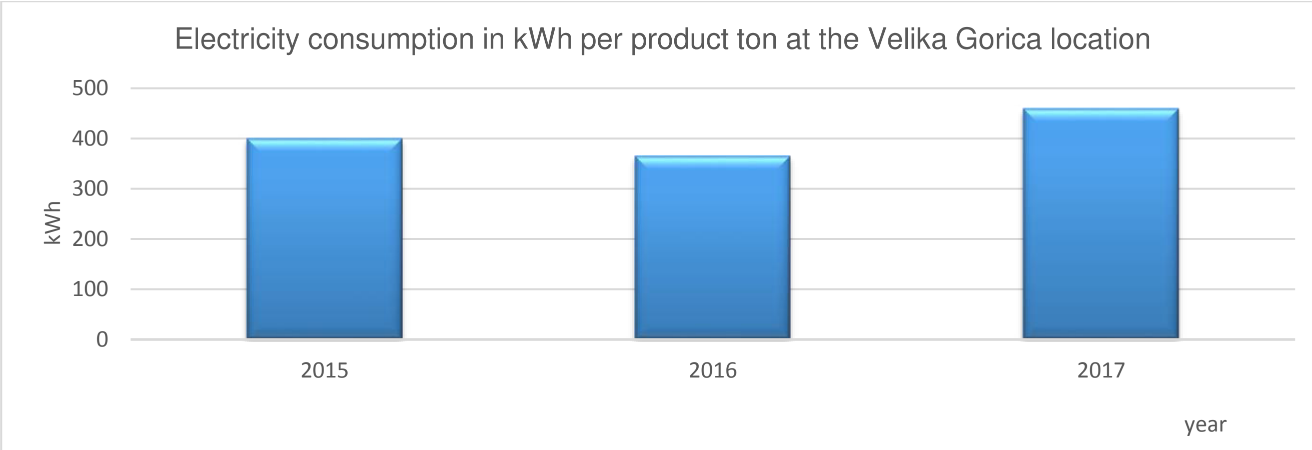
The energy used within the organization refers to the consumption of electric energy, natural gas, steam, fuel oil and fuel (fuel is used for transport within the organization and transport of people and products outside the organization). The energy used comes from non-renewable sources.

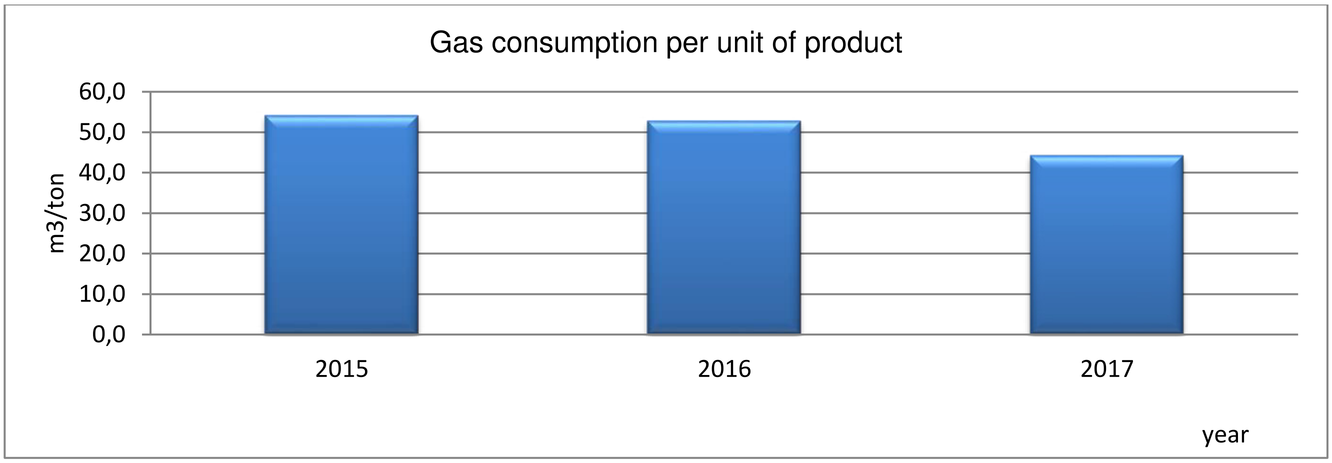




Energy intensity

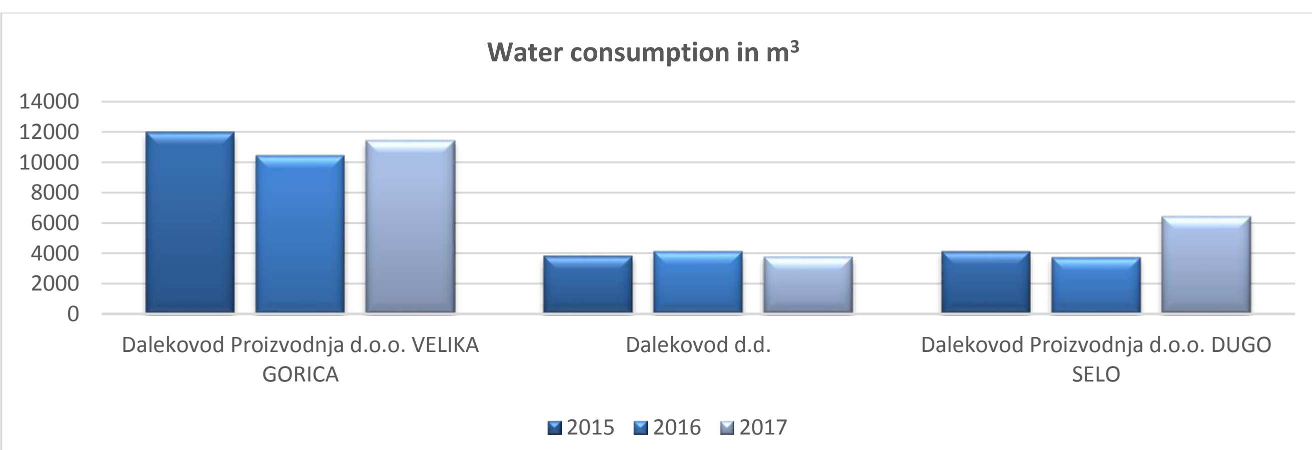
Electric energy consumption per unit of product is the most significant for the Velika Gorica location. Natural gas consumption per unit of product defines the energy intensity for the Dugo Selo location.





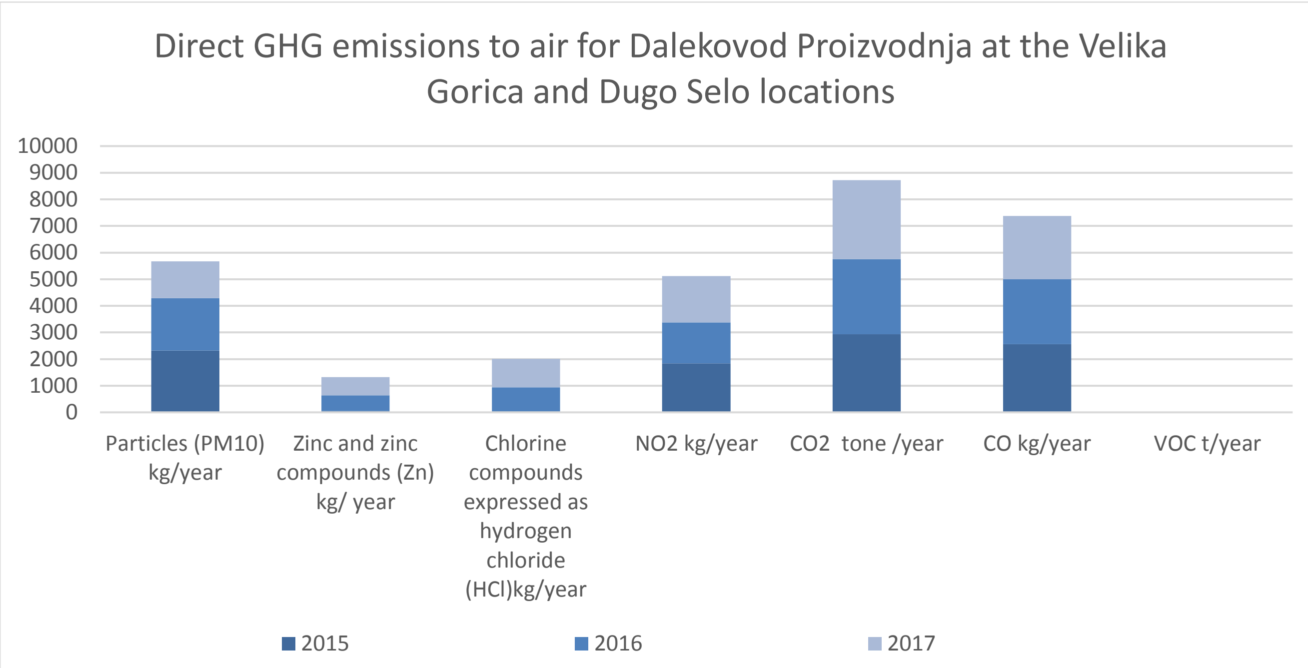
Water consumption

Water is supplied from local waterworks. Water consumption is monitored according to purpose: sanitary water, technological water, cooling water and reclaimed water. More than 65 % of the spent water refers to sanitary water consumption. In 2017, water consumption at the Dugo Selo location increased due to a pipeline burst. Additional water meters were installed at the key points of consumption.

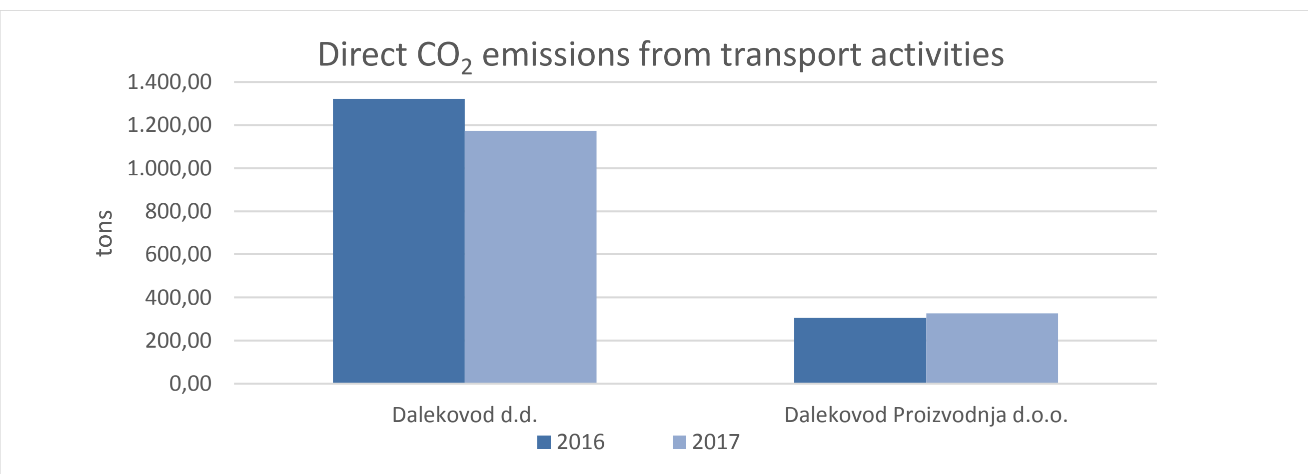


Emissions

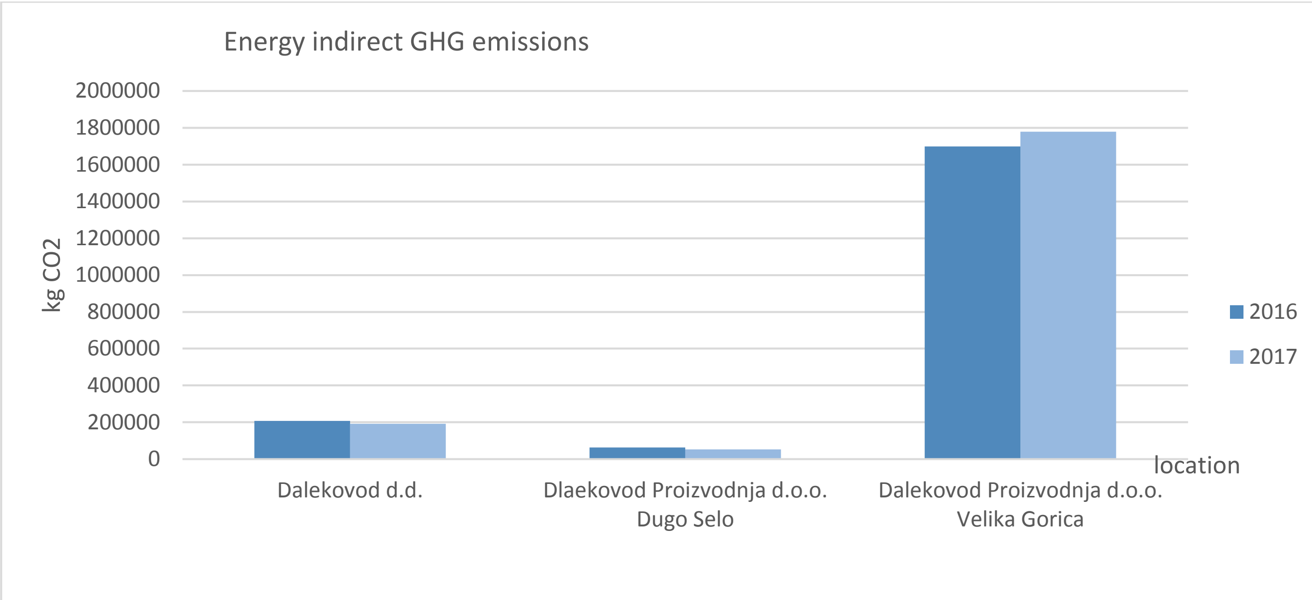
Direct greenhouse gas emissions in Dalekovod Proizvodnja d.o.o. occur at the Velika Gorica location from fuel oil combustion during the mechanical room operation, and at the Dugo Selo location from gas combustion during the mechanical room operation and from combustion for the needs of process technology. The emissions of particles, zinc, zinc and chlorine compounds and VOC occur during technological processes. Measurement of technological process emissions for Dalekovod proizvodnja d.o.o. at the Dugo Selo location is regulated in Decision on integrated environmental protection conditions from 2013 as well as in Decision on amendments to the decision from 2017.



Direct emissions have also been calculated on the basis of fuel consumption for the transport of materials and employees.



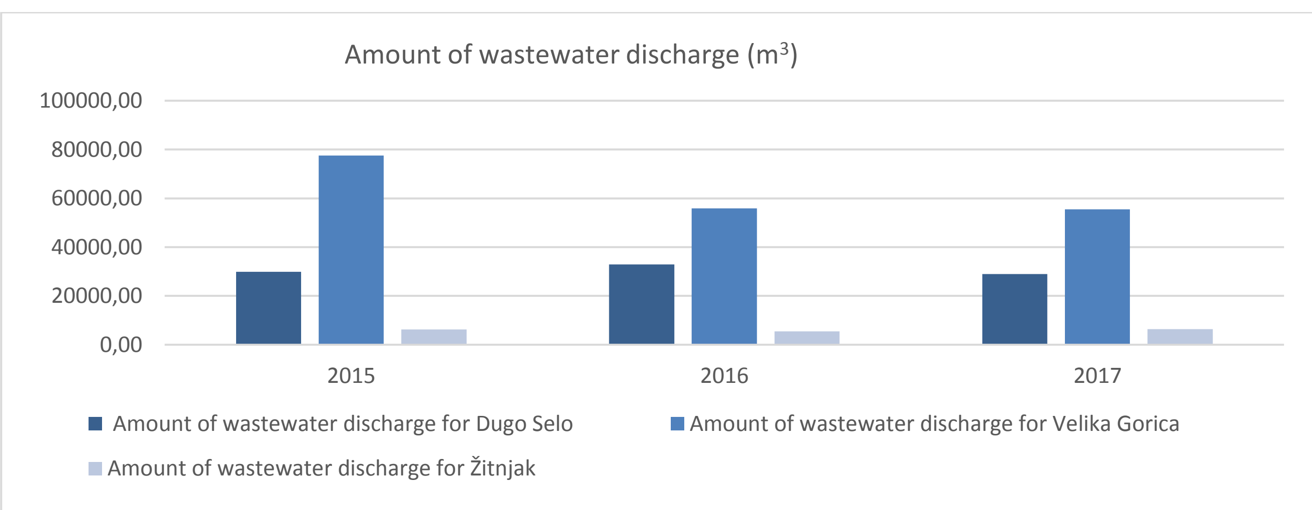
Indirect emissions refer to the consumption of electricity for the operation of machines, air conditioners.

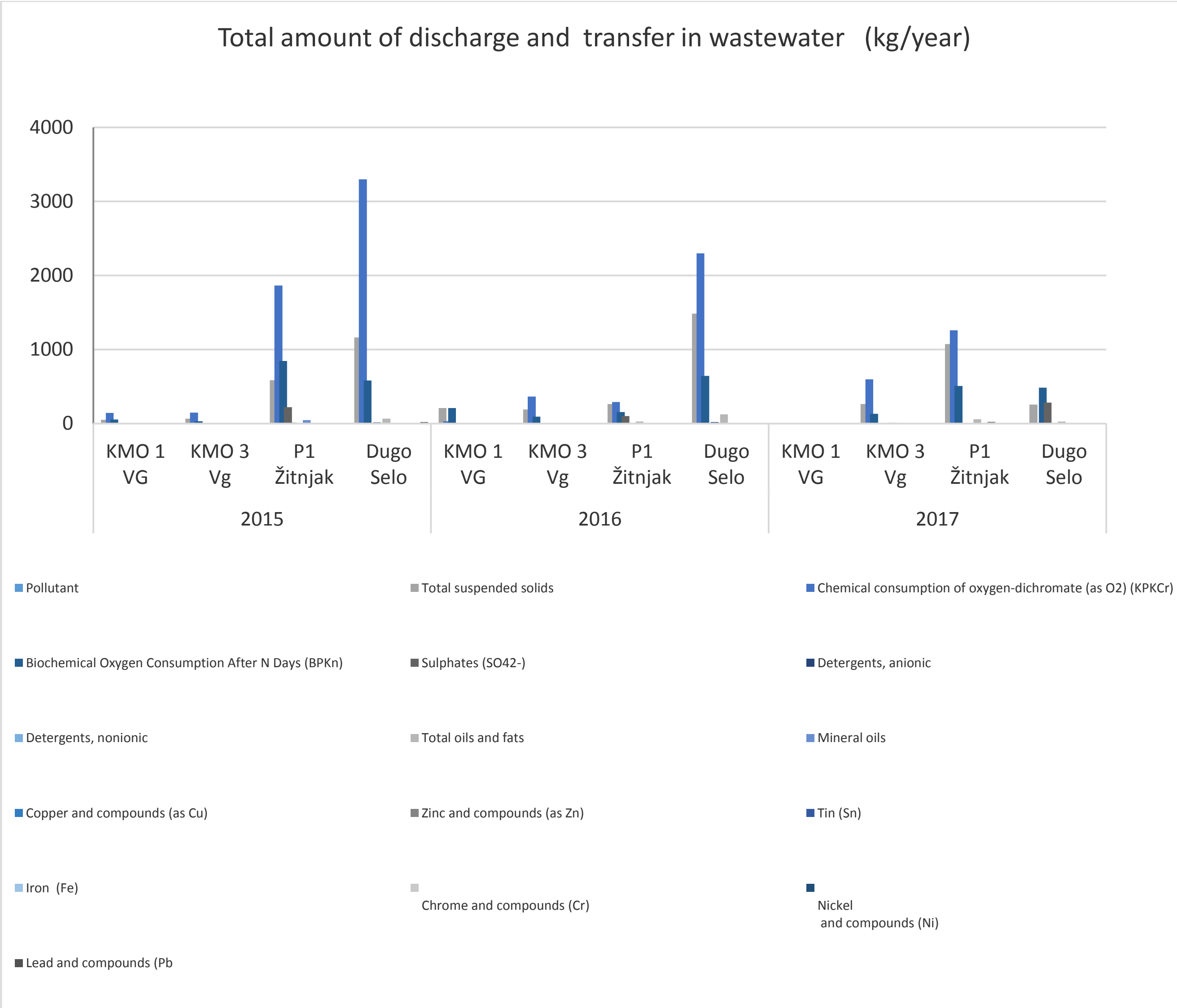


Effluents and waste

Water discharge includes all discharge water and rainwater from its own locations. At the location Dugo Selo, sanitary water and rainwater are discharged, technological water is not released into the recipient. At the Velika Gorica location all water from the manipulative surfaces as well as water from technological processes is discharged through the separator. All tests are performed by an accredited laboratory. At the sites of Velika Gorica and Žitnjak, all the tests are carried out in accordance with valid water permits, at the location of Dugo Selo in accordance with the Decision on integrated environmental requirements. All wastewaters through the public sewerage network are discharged into the water area of the Sava river.

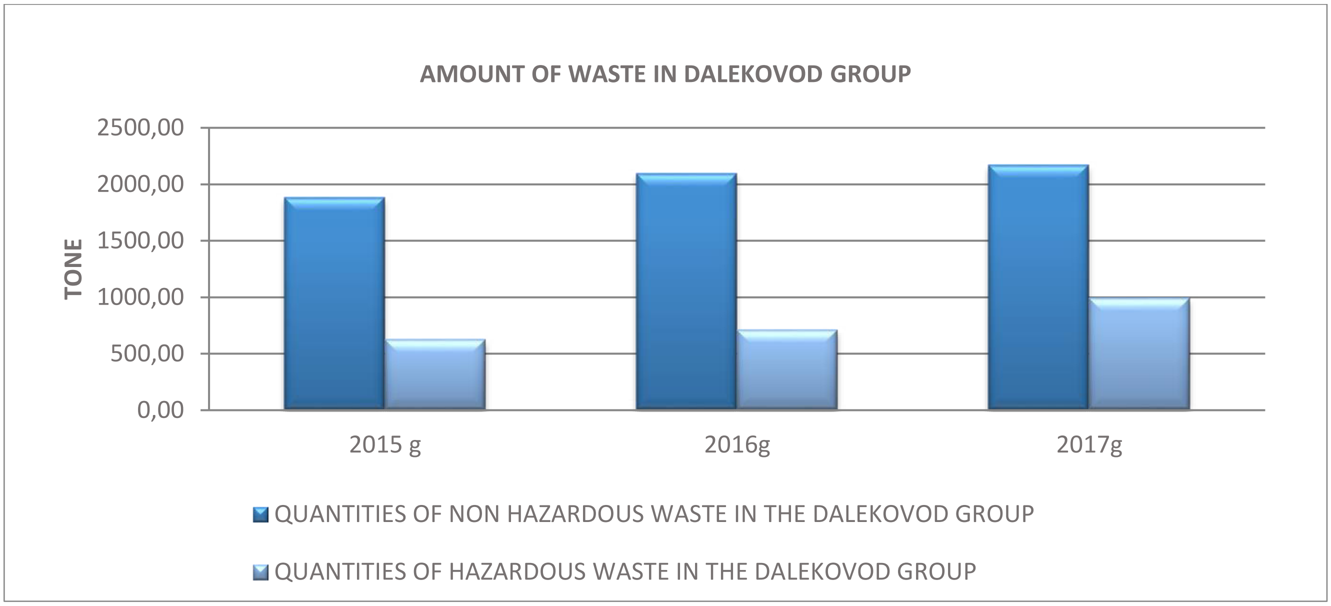
In 2017, new water rights permits were granted for the areas of Žitnjak and Velika Gorica.

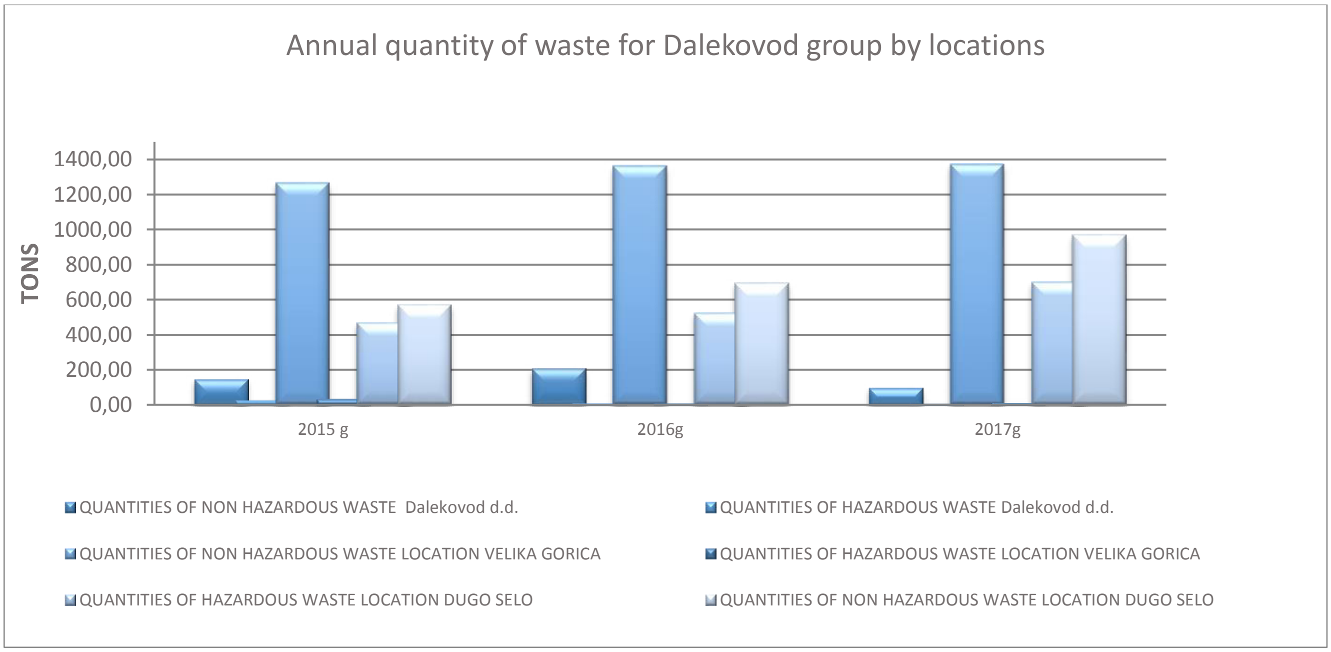




Waste management

Wastes are selected, collected, temporarily disposed and dispatched in accordance with legal requirements. For storage of production waste at our own locations we have been registered in the register of certain persons who are storing their own waste. When disposing of waste, the applicable legal documentation that accompanies waste is fulfilled. Waste is handed over to the waste collectors who have a Waste management license. From non-hazardous waste, the highest percentage of waste generation refers to recyclable metal waste, the most significant hazardous waste is hydrochloric acid generated in the process of chemical treatment before hot deep galvanizing process.





Regulatory compliance

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

In 2017, Inspection of Environmental Protection and Water Inspection was carried out in Dalekovod, d.d., no compliance with the regulations was established. In Dalekovod proizvodnja d.o.o. Inspection of environmental protection was carried out at Dalekovod proizvodnja at location Velika Gorica.

Due to non-compliance with laws and regulations relating to environmental protection Dalekovod did not have to pay fines or non- monetary sanctions Up till now there were no fines imposed and no non-monetary sanctions for non-compliance with environmental laws and regulations.

Total environmental protection expenditures and investments by type

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

Vendor assessment with respect to environmental impact

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

Biodiversity

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

SOCIAL DIMENSION

HEALTH AND SAFETY AT WORK

Organization of the Safety at Work Committee at the Dalekovod Group

Management Board of Dalekovod d.d. establishes a Safety at Work Committee (hereinafter referred to as the Committee) at the level of the entire Company.

The Management Board decides on the appointment of the President, deputy and Board members

Management Board of Dalekovod Proizvodnja d.o.o. decides about appointing two committees one at Velika Gorica and the other at Dugo Selo.

Management Board of Dalekovod Projekt d.o.o. establishes the Committee and appoints Committee members.

Workers delegates and their Coordinator were elected at the proposal of the Workers' Council, and the union organization in Dalekovod d.d.

Workers delegates in Dalekovod proizvodnja d.o.o. were selected based on proposals by the workers, the Workers' Council and the trade union organization.

Employee delegate in Dalekovod Projekt d.o.o. has been chosen on workers proposal.

Members of the Safety at Work Committee:

a) Chairman of the Board - Employer's Representative

b) Deputy Chairman of the Committee - Occupational Safety Expert

c) authorized representatives of Business Units

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

e) competent occupational safety specialist

f) a specialist in occupational medicine (contracted work medicine service), The Chairperson of the Board or his Deputy convenes a session at least once in three months and defines the agenda depending on the current issue of safety and health at work, regarding the planning and monitoring of the application of the rules on occupational safety.

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

Goals and activities of the Committee

- by proposing preventive activities to influence the prevention of incident situations,

  work-related disorders, work injuries, and work-related illnesses

- proposing activities to strive for a constant improvement of working conditions and improvement of occupational safety

- Encourage risk reduction in all work processes and workplaces

- contribute to the achievement of permanent health protection of all employees

- planning and monitoring the training and notification of workers from safety at work

To achieve these goals, the following activities are undertaken:

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

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

c) define priorities in undertaking necessary activities.

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

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

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

Minutes from sessions of the Committee are submitted to all members of the Committee and the Workers' Council.

Suggestions for improvement measures and responsible decision-makers who are part of the minutes are sent to the Chairman of the Board for approval.

In Dalekovod d.d., Dalekovod proizvodnja d.o.o. and Dalekovod Projekt in 2017, four sessions were held, with participation of Committee members, representatives of the Workers' Council, trade unions, directors of certain sectors in Dalekovod, as well as members of the Management Board.

A total of 37 improvement measures were adopted in 2017.

Supervision and communication within the activities of the Committee

A total of 270 employees who work at Dalekovod d.d. location Marijana Čavića 4 in Zagreb, are under the direct supervision of the Committee in Dalekovod d.d.

Other 480 employees, who work on domestic and foreign construction sites, communicate via selected delegates with the Coordinator of Workers' Commissions at headquarters.

Records from the Committee are delivered to all domestic and foreign construction sites.

Employees in Dalekovod proizvodnja d.o.o. have two committees, which allows workers at both locations to communicate directly with their commissioners at the site.

All of 89 Dalekovod Projekt d.o.o. employees, are under the direct supervision of the Committee because they work at the location of Marijana Čavića 4, Zagreb

Analysis of injuries in 2017 for Dalekovod Group

The total number of injuries that were recorded in 2017 was 29.

Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

Dalekovod d.d.

Working hours Injuries/Incidents/Cases	2017 1217000
Fatalities	0
HSE Total Recordable Injuries	12
Lost time Injuries	10
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	2
Incident requiring first aid	5
Restriction of work	5
Cases of substitute work due to injury	0
Dangerous Occurrences	1
Near Hits/Misses	98
HSE/HSA or equivalent improvement notices	0
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)
LTI - value = (N x 200.000) / T
N = Total number of fatalities, lost time injuries, incidents requiring medical treatment, loss of consciousness, cases of substitute work due to injury
T = Number of hours worked during the year

TRIF
Calculation for 2017 = 1,97

Lost Time Injury Rate (LTIF)
LTI - value = (N x 200.000) / T
N = Total number of accidents, causing a sick leave of at least one day
T = Number of hours worked during the year

LTIF
Calculation for 2017 = 1,64

Severity Rate (SR)
SR – value = N / T
N = Total number of lost workdays
T = Total number of recordable incidents

SR
Calculation for 2017 H = 40,5

Dalekovod proizvodnja d.o.o.

Working hours Injuries/Incidents/Cases	2017 1037000
Fatalities	0
HSE Total Recordable Injuries	17
Lost time Injuries	16
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	3
Restriction of work	0
Cases of substitute work due to injury	1
Dangerous Occurrences	0
Near Hits/Misses	15
HSE/HSA or equivalent improvement notices	0
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)
LTI - value = (N x 200.000) / T
N = Total number of fatalities, lost time injuries, incidents requiring medical treatment, loss of consciousness, cases of substitute work due to injury
T = Number of hours worked during the year

TRIF
Calculation for 2017 = 3,10

Lost Time Injury Rate (LTIF)
LTI - value = (N x 200.000) / T
N = Total number of accidents, causing a sick leave of at least one day
T = Number of hours worked during the year

LTIF
Calculation for 2017 = 3,27

Severity Rate (SR)
SR – value = N / T
N = Total number of lost workdays
T = Total number of recordable incidents

SR
Calculation for 2017 H = 43,8

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

incidents of non-compliance with regulations resulting in a fine or penalty in 2017		
No	consequence	cause
3	termination of contract	violation of the rule of non-use of narcotic
incidents of non-compliance with regulations resulting in a warning notice in 2017		
No	consequence	cause
1	Warning notice	insulting colleagues
1	Warning notice	Working without PPE
2	Warning notice	Irresponsible behavior
8	Warning notice	Violence of safety rules
1	Warning notice	Violence of procedures
incidents of non-compliance with voluntary codes.		
Nr	consequence	cause
/	/	/

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

THE LUCKY 13

During work hours:

- I am not under influence of drugs or alcohol
- While driving, I use a safety belt, hands free equipment and drive according to the conditions on the road

On the construction site:

- I follow the two-barrier rule
- I use the mandatory personal protective equipment
- I use the fall protection equipment for safe working at height
- I secure excavations and open pits
- I do not walk under a suspended load
- I respect the safety zones around working machinery
- I put hazardous and explosive substances under lock and key

In vicinity of electrical installations:

- I follow the correct procedure during setting up and removal of earthing
- I check visible earthing on disconnected lines
- I check visible barriers and protections while working close to installations under voltage
- I make sure all the measures have been implemented to prevent people and machines coming within the outer limit of the live working zone.

EMPLOYMENT, DECENT WORK AND HUMAN RIGHTS

The social sustainability dimension concerns the impact of the organization on social systems within which it acts. In this report, it is divided into segments of employment, decent work and human rights, society and responsibility for the product.

An important strategy guideline of Dalekovod D.D. is directing the development of the Dalekovod Group towards creating a company of knowledge based on the quality of human resources and total intellectual capital.

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

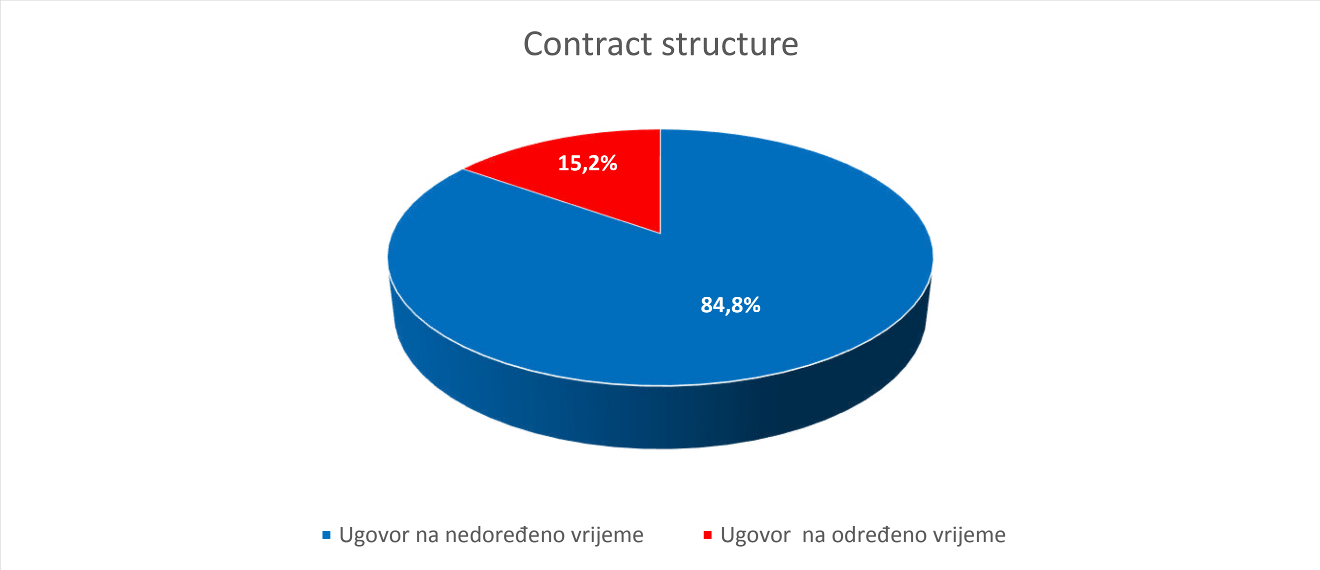
The freedom of association and collective negotiation is not limited, and rights specified by the Collective Agreement extend beyond legal rights and are above average in the industrial sector. In the event of violation of legal or contractual rights, an employee or an associate is entitled to seek resolution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

Employment and structure of employees

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

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

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



Collective agreements and employees' rights

The first collective agreement was concluded on 14 June 1996 with the Croatian Metalworkers' Labor Union – Velika Gorica Subsidiary, Croatian Construction Labor Union – Dalekovod subsidiary, Croatian Labor Union Association, Vinkovci Democratic Protection Community and Dalekovod Labor Subsidiary, and it is applied to all employees. The Collective Agreement has been revised several times. The recent changes and amendments were adopted in 2016. Announcements that refer to important changes in business operations are given in compliance with the Labor Act and are not specifically mentioned in the Collective Agreement. Announcements about significant changes in business operations are given to the Workers' Council, that is, if it has not been organized in a company, to the principal labor union commissioner.

Health and occupational safety

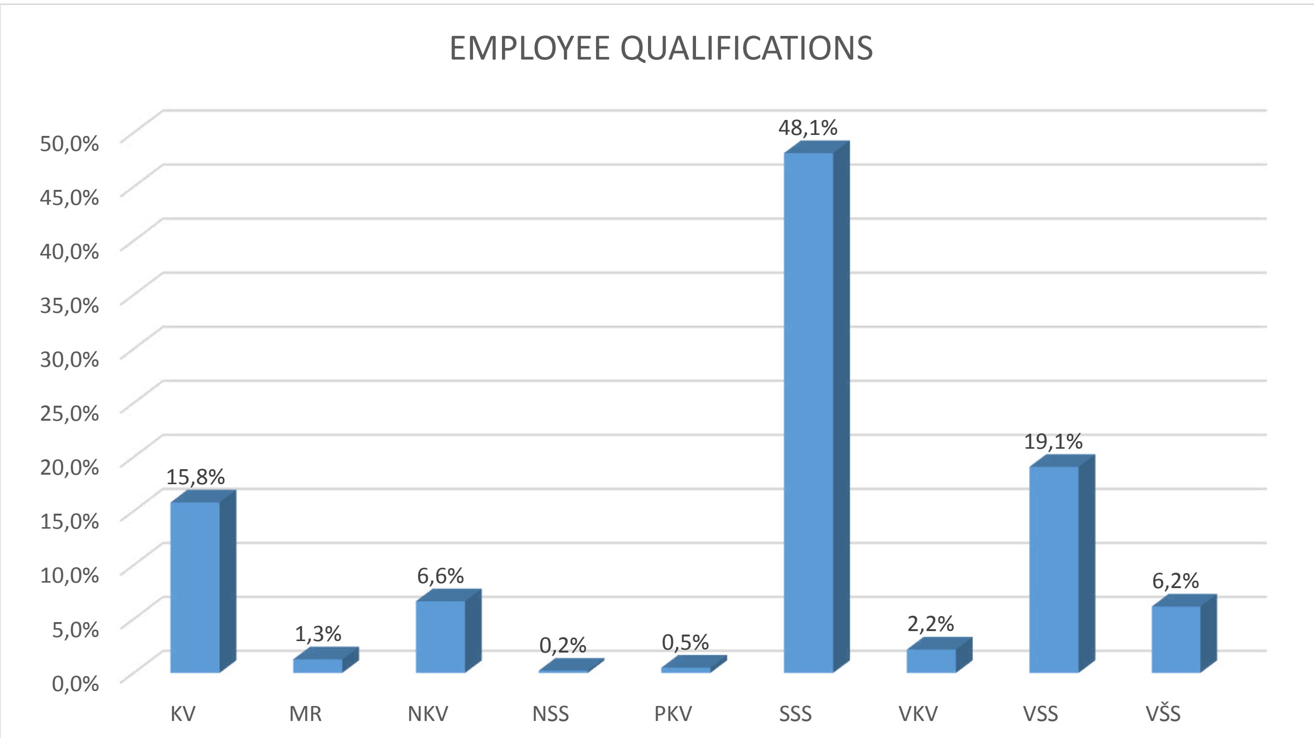
There are two Occupational Safety Boards in Dalekovod LLC. The boards consist of authorized persons of the company and employee representatives for every business unit, and two experts for occupational safety and occupational physician. The board session is convened at least once every three months.

Training and education

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

Trainees are introduced to the organization, the entire production program, references, marketing and promotional activities, corporate social responsibility and other activities in Dalekovod Group. As part of their training, they visit factories at the Dugo Selo and Velika Gorica locations, and are introduced to their production processes.

Employee training and development is an important task that is conducted by the Human Resources Department. The quality, frequency and right timing for the training and development of employees have a significant impact on the sustainability and competitiveness of the companies.



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

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

Furthermore, the Human Resources Department encourages the learning and improving of foreign languages, which is organized in accordance with the requirements of their jobs, and languages are also learned depending on company needs in specific markets such as Norwegian or other Scandic languages.

Pursuant to the Occupational Safety Act, a certain number of workers are qualified to administer first aid. For every 50 workers, one worker is trained in first aid. Therefore, it must be said that, due to the well-organized security and occupational safety system, as evidenced by the low rate of injuries and cases of professional incompetence, there was no need to further extend risk counseling, prevention and control.

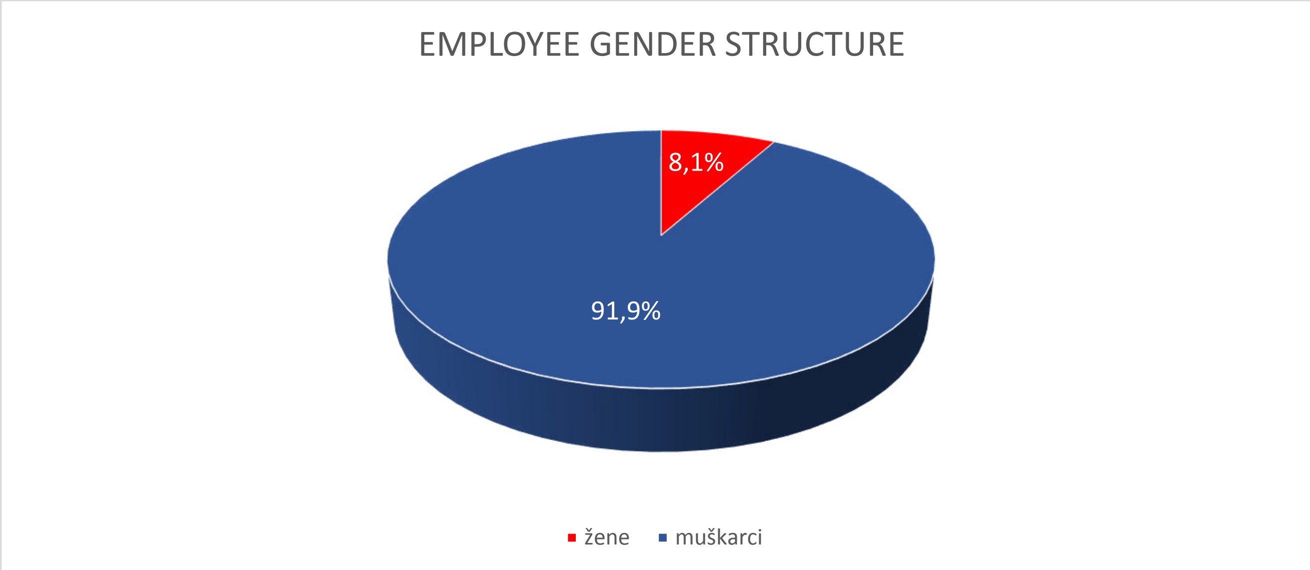
Regarding communication with employees, regular meetings of teams, departments and direct supervisors are held. Communication with employees is conducted via the e-mails svi_Dalekovod.dd@dalekovod.hr, the spokesperson, and by means of various Company decisions and announcements.

Percentage of employees who receive a regular rating for work performance and individual development.

Work performance and individual development is monitored with 60% of employees.

Diversity and equal possibilities

The composition of managerial bodies and the structure of employees by categories according to gender, age groups, belonging to minority groups and other variety indicators. The ratio between basic salary for men and women according to the employee category Basic salary for men and women is identical in all employee categories.



Human rights

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

Freedom of association and collective negotiation

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

Community

The level of activities in which Dalekovod Group members are present at specific locations and in specific communities is not sufficient to be able to systematically monitor the impact of business activities on the above communities.

Child labor, compulsory and forced labor

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

DONATIONS AND SPONSORSHIPS

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

SOCIAL AND RECREATIONAL ACTIVITIES

Mountaineering Association "Dalekovod"

During the 1980s, a group of enthusiasts and aficionados of nature and companionship decided to found the "DALEKOVOD" Mountaineering Association. Today, the Association draws together many members and it has numerous programmes which serve both for companionship and to show people the way of responsible behavior towards the nature. The company encourages and finances the activity of the mountaineering association throughout the year.

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

Alen Premužak
Chairman of the Management Board

Helena Jurčić Šestan
Management Board Member

Ivan Kurobasa
Management Board Member

Ivica Kranjčić
Management Board Member

DALEKOVOD

Zagreb, 27 April 2018

II. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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
Milan Račić – Supervisory Board Member
Marko Makek – Supervisory Board Member
Mirela Tomljanović Radović – Supervisory Board Member
Rajko Pavelić – Supervisory Board Member

AUDIT COMMITTEE

Krešimir Ružđak – Chairman
Marko Makek – Vice Chairman
Mladen Štahan – 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)

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 2017, 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 Corporate Management Subcommittee. The Management Board is required to ensure that the Company maintains its business accounts and other books and business records, prepares the relevant accounting documents, realistically values its assets and liabilities, and prepares financial statements and other reports in accordance with the applicable accounting regulations and standards and the applicable laws and regulations. The Ordinary General Meeting was held on 14 July 2017.

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 2017, 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 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

Ivan Kurobasa
Management Board Member

Ivica Kranjčić
Management Board Member

DALEKOVOD
dionička društvo za inženjering, proizvodnju i izgradnju
Zagreb, Republika Hrvatska, p.p. 128, MB 3275...

III. RESPONSIBILITY FOR CONSOLIDATED AND SEPARATE ANNUAL STATEMENTS

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

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

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

- selecting and consistently applying appropriate accounting policies in accordance with the applicable financial reporting standards;
- making reasonable and prudent judgments and estimates; and
- preparing annual consolidated and unconsolidated financial statements on a going concern basis, unless such basis is inappropriate to assume.

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

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

The Consolidated and Separate Financial Statements and the Annual Report were approved by the Management Board on April 27, 2018 for submission to the Supervisory Board and signed below by:

Alen Premužak Chairman of the Management Board	Helena Jurčić Šestan Management Board Member
Ivan Kurobasa Management Board Member	Ivica Kranjčić Management Board Member

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IV. INDEPENDENT AUDITOR'S REPORT

DALEKOVOD

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

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Dalekovod d.d. (“the Company”) and the consolidated financial statements of the Company and its subsidiaries (“the Group”), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2017, and their respective separate and consolidated statements of statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter “the financial statements”).

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2017, and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”).

Basis for Opinion

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

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

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

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

Key Audit Matters

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

REVENUE RECOGNITION UNDER LONG-TERM (CONSTRUCTION) CONTRACTS

Revenue recognized from construction contracts recognized in profit or loss in 2017: HRK 1,262,226 thousand (85 per cent of the total revenue amount for 2017).

Please refer to the Notes 2.12 and 2.21 of *Significant accounting policies*, Note 4 (a) of *Key accounting estimates and judgements* and Note 7 *Segment information* in the financial statements.

Key audit matter	How our audit addressed the matter
The Group's principal activities include manufacturing of complex power-generating equipment, its installation and related construction services. Consequently, the majority of contracts with customers are accounted for using percentage of completion method in accordance with the relevant accounting standard. Accordingly, the Group recognises contract revenue and contract costs by reference to the stage of completion of a contract at the reporting date, measured based on the proportion of contract costs incurred for work performed to date to the estimated total contract costs. The accounting for long-term construction contracts requires reliable estimate of future costs to complete to fulfil contractual obligations. This estimate directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract. As a result, we considered this area to be a key audit matter.	Our audit procedures in this area included, among others: • challenging the appropriateness of applying the percentage of completion method by considering the contract terms and the nature of the goods or services promised to customers in a sample of contracts; • testing the design, implementation and operating effectiveness of controls related to: - segregation of duties over revenue and cost budgeting processes; - management assessment of forecasts and budget to actual variances; - segregation of duties over subsequent revenue/costs update in case of any changes in the scope of contract work; • testing the stage of completion calculation per each relevant contract through its direct recalculation using actual costs incurred and estimated costs to complete; • for variations from original contracts with customers, inspecting a sample of contracts to assess whether such contract variations are supported by formal agreements with customers; • analysis of the historical accuracy of the Group's estimation of the planned costs and revenue amounts; • considering the adequacy of the Group's disclosures regarding estimation uncertainty involved in the accounting for construction contracts.

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

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

Key Audit Matters (continued)

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND RELATED LOANS AND RECEIVABLES

As at 31 December 2017, investments in subsidiaries in the separate financial statements amounted to HRK 280,799 thousand while loans and receivables to subsidiaries amounted to HRK 34,081 thousand.

Please refer to the Notes 2.2 (a) and 2.9 of *Significant accounting policies*, Note 20 *Investments in subsidiaries*, Note 24 *Loans and receivables and* Note 26 *Trade and other receivables in* the financial statements.

Key audit matter	How our audit addressed the matter
Due to the magnitude of exposure toward subsidiaries (calculated as the sum of the carrying amounts of investments in subsidiaries and related loans and receivables, net of related liabilities), the existence of impairment indicators for any such exposure at the reporting date requires significant judgement by management in determining the appropriate approach to impairment testing in order to assess whether an impairment loss should be recognized. Where impairment indicators are identified for a certain exposure, the Company assesses the potential impairment loss by comparing the carrying amount of the exposure with the estimated value of the underlying subsidiary which is generally measured by using appropriate valuation techniques, such as present value techniques (based on a discounted cash flows models of the underlying entity) supplemented, where available, by techniques based on comparable valuation multiples or prices achieved in actual market transaction for comparable entities. Impairment allowances on loans and receivables to subsidiaries represent management's best estimate of the credit losses incurred at the reporting date. Although the Company has control over subsidiaries, this still requires a significant amount of judgment from management over both the timing of recognition and the amounts of any such impairment. In addition, the selection and application of valuation techniques for impairment testing requires a significant degree of judgement by management, including, but not limited to; the determination of the appropriate discount rates and growth rates; the reasonableness of assumptions used in estimation of future cash flows; and the appropriateness of used valuation multiples, and comparable transactions. As a result, we considered this area to be a key audit matter in our audit of the separate financial statements of the Company.	Our audit procedures in this area included, among others: • assessing the Company's identification of impairment indicators, based on our knowledge and experience considering factors such as, but not limited to; unfavourable developments in the industry; negative or insufficient net assets; changing laws and regulations; declining financial performance; existence of any overdue loans and receivables and/or rolling of existing facilities; and changing business models; • assessing the appropriateness of valuation methods applied by the Company for impairment testing in terms of their compliance with the relevant accounting standards; • assessing competence, capabilities and objectivity of internal valuers and external valuation experts engaged by the Company; • involving our own valuation specialists in challenging the key assumptions used by the Company in its impairment testing, which specifically involved: - evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes; - evaluating the key assumptions applied (such as discount rates and growth rates) for reasonableness compared to both externally derived data and historical financial performance; - where applicable, evaluating the appropriateness of used valuation multiples or comparable transactions; - sensitivity analysis of the impairment test results to changes in key assumptions; • evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing.

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

Report on the Audit of the Financial Statements (continued)

Other Matter

The separate financial statements of the Company and consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 29 April 2017.

Other Information

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

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

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

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

KPMG

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 14 July 2017 to audit the financial statements of the Company and the Group for the year ended 31 December 2017. Our total uninterrupted period of engagement is 1 year, covering the year ended 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 26 April 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Igor Gošek.

KPMG

KPMG Croatia d.o.o. za reviziju **27 April 2018**
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

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

V. CONSOLIDATED AND SEPARATE INCOME STATEMENT 2017

VI. CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

VII. CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

VIII. CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY 2017

IX. CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT 2017

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2017	Dalekovod Group 2016 Restated*	Dalekovod d.d. 2017	Dalekovod d.d. 2016
Sales revenue	7	1,477,894	1,159,694	1,134,701	815,216
Other income	7, 8	34,637	73,565	38,366	75,158
Change in work in progress and finished goods		(6,092)	9,294	(16)	(35)
Cost of trade goods sold		(211,334)	(157,298)	(150,815)	(85,946)
Cost of materials and services	9	(787,667)	(592,636)	(643,819)	(456,332)
Staff costs	10	(317,059)	(282,466)	(208,214)	(175,902)
Depreciation and amortisation	17, 18, 19	(43,642)	(51,335)	(34,382)	(34,321)
Other operating expenses	11	(108,894)	(113,553)	(82,591)	(81,603)
Other gains/(losses) – net	12	6,169	(565)	(472)	5,755
Operating profit		44,012	44,700	52,758	61,990
Financial income	13	8,650	24,673	8,008	10,144
Financial expense	13	(23,267)	(41,371)	(23,413)	(33,975)
		(14,617)	(16,698)	(15,405)	(23,831)
Share in profit/(loss) of associates and joint ventures	21	(1,330)	26	-	-
Profit before tax		**28,065**	**28,028**	**37,353**	**38,159**
Income tax	14	(15,701)	(15,843)	(15,043)	(12,971)
Net profit		**12,364**	**12,185**	**22,310**	**25,188**
Net profit attributable to:					
Equity holders of the Company		12,364	12,185	22,310	25,188
Non-controlling interests		-	-	-	-
Net profit		**12,364**	**12,185**	**22,310**	**25,188**
Basic profit per share (in HRK)	15	**0.50**	**0.49**		
Diluted profit per share (in HRK)	15	**0.50**	**0.49**		

* For the effect of restatement please see note 6.

CONSOLIDATED AND SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	**Note**	**2017**	**2016**	**2017**	**2016**
			Restated*		
Net profit		**12,364**	**12,185**	**22,310**	**25,188**
Other comprehensive income / (loss):					
Change of tax rates	14	-	1,693	-	1,693
Foreign exchange differences		(720)	(71)	-	-
Gain on revaluation of assets	14, 30	5	-	5	-
Total other comprehensive income / (loss)		**(715)**	**1,622**	**5**	**1,693**
Total comprehensive income / (loss)		**11,649**	**13,807**	**22,315**	**26,881**
Comprehensive income attributable to:					
Equity holders of the Company		11,648	13,806	22,315	26,881
Non-controlling interests		1	1	-	-
Total comprehensive income		**11,649**	**13,807**	**22,315**	**26,881**

* For the effect of restatement please see note 6.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 31 December 2017	Dalekovod Group 31 December 2016 Restated	Dalekovod Group 1 January 2016 Restated	Dalekovod d.d. 31 December 2017	Dalekovod d.d. 31 December 2016
ASSETS						
Intangible assets	17	11,003	14,089	17,711	6,785	9,817
Property, plant and equipment	18	416,048	443,312	455,351	173,472	180,287
Investment property	19	488	6,372	363,433	163,696	187,182
Investments in subsidiaries	20	-	-	-	280,799	276,892
Investments in associates	21	7	2,743	14,668	7	8,290
Financial assets available-for-sale	22	1,599	4,568	4,537	1,343	4,074
Loans and receivables	24	72,653	48,061	47,183	74,122	62,944
Non-current assets		501,798	519,145	902,883	700,224	729,486
Inventories	25	95,559	120,398	105,988	8,241	11,060
Trade and other receivables	26	544,512	568,659	634,727	475,162	493,657
Income tax receivable		2,194	3,006	2,489	1,460	1,180
Financial assets at fair value through profit or loss	27	497	30,485	30,377	497	30,485
Cash and cash equivalents	28	107,378	105,428	102,077	89,349	86,849
Assets held for sale	29	65,038	65,043	65,043	-	-
Current assets		815,178	893,019	940,701	574,709	623,231
Total assets		**1,316,976**	**1,412,164**	**1,843,584**	**1,274,933**	**1,352,717**

* For the effect of restatement please see note 6.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 31 December 2017	31 December 2016 Restated	1 January 2016 Restated	Dalekovod d.d. 31 December 2017	31 December 2016
EQUITY AND LIABILITIES						
Share capital	30	247,193	247,193	247,193	247,193	247,193
Share premium	30	87,215	86,142	86,142	87,215	86,142
Legal reserves	30	11,652	11,652	11,652	11,487	11,487
Treasury shares	30	(8,466)	(8,466)	(7,816)	(8,466)	(8,466)
Statutory and other reserves	30	75,584	75,584	75,584	40,654	40,654
Revaluation reserves	30	69,402	69,397	67,704	69,402	69,397
Translation reserves		(3,909)	(3,188)	(3,116)	-	-
Accumulated loss		(241,676)	(254,040)	(266,225)	(152,913)	(175,223)
Shareholders' equity		236,995	224,274	211,118	294,572	271,184
Non-controlling interests		(694)	(695)	(696)	-	-
Total equity		**236,301**	**223,579**	**210,422**	**294,572**	**271,184**
Borrowings	31	330,656	367,049	393,641	340,203	373,025
Mezzanine debt	32	24,208	23,166	22,166	28,605	27,373
Provisions	34	22,476	23,513	13,297	19,600	20,779
Trade and other payables	33	1,437	10,199	47,275	1,526	12,878
Deferred tax liability	14	15,235	15,233	16,926	15,235	15,233
Non-current liabilities		394,012	439,160	493,305	405,169	449,288
Borrowings	31	145,795	153,048	458,944	121,328	118,700
Mezzanine debt	32	58,509	58,509	58,509	62,000	62,000
Provisions	34	2,660	2,343	16,329	2,205	1,875
Trade and other payables	33	459,197	524,869	597,351	369,189	439,475
Income tax payable		20,502	10,656	8,724	20,470	10,195
Current liabilities		686,663	749,425	1,139,857	575,192	632,245
Total liabilities		**1,080,675**	**1,188,585**	**1,633,162**	**980,361**	**1,081,533**
Total equity and liabilities		**1,316,976**	**1,412,164**	**1,843,584**	**1,274,933**	**1,352,717**

* For the effect of restatement please see note 6.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves /i/	Revaluation reserves	Translation reserve	Accumulated loss	Total	Non-controlling interests	Total
At 1 January 2016 (previously reported)		247,193	86,142	11,652	(7,816)	75,584	67,704	(3,116)	(254,480)	222,863	(696)	222,167
Previous year restatement		-	-	-	-	-	-	-	(11,745)	(11,745)	-	(11,745)
At 1 January 2016 (restated)*		**247,193**	**86,142**	**11,652**	**(7,816)**	**75,584**	**67,704**	**(3,116)**	**(266,225)**	**211,118**	**(696)**	**210,422**
Net profit/(loss) (restated)*		-	-	-	-	-	-	-	12,185	12,185	-	12,185
Other comprehensive income/(loss)		-	-	-	-	-	1,693	(72)	-	1,621	1	1,622
Total comprehensive income/(loss)		-	-	-	-	-	1,693	(72)	12,185	13,806	1	13,807
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)**	**(254,040)**	**224,274**	**(695)**	**223,579**
Net profit/(loss)		-	-	-	-	-	-	-	12,364	12,364	-	12,364
Other comprehensive income/(loss)		-	-	-	-	-	5	(721)	-	(716)	1	(715)
Total comprehensive income/(loss)		-	-	-	-	-	5	(721)	12,364	11,648	1	11,649
Transactions with owners												
Fair value of share based payments	30	-	1,073	-	-	-	-	-	-	1,073	-	1,073
At 31 December 2017		**247,193**	**87,215**	**11,652**	**(8,466)**	**75,584**	**69,402**	**(3,909)**	**(241,676)**	**236,995**	**(694)**	**236,301**

/i/ Statutory and other reserves include treasury shares reserves in the amount of HRK 8,466 thousand.

* For the effect of restatement please see note 6.

Company

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves /i/	Revaluation reserves	Accumulated loss	Total
At 1 January 2016		**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									
Share capital increase	30	-	-	-	(650)	-	-	-	(650)
At 31 December 2016		**247,193**	**86,142**	**11,487**	**(8,466)**	**40,654**	**69,397**	**(175,223)**	**271,184**
Net profit/(loss)		-	-	-	-	-	-	22,310	22,310
Other comprehensive income/(loss)		-	-	-	-	-	5	-	5
Total comprehensive income/(loss)		-	-	-	-	-	5	22,310	22,315
Transactions with owners									
Fair value of share based payments	30	-	1,073	-	-	-	-	-	1,073
At 31 December 2017		**247,193**	**87,215**	**11,487**	**(8,466)**	**40,654**	**69,402**	**(152,913)**	**294,572**

/i/ Statutory and other reserves include treasury shares reserves in the amount of HRK 8,466 thousand.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2017	Dalekovod Group 2016 Restated *	Dalekovod d.d. 2017	Dalekovod d.d. 2016
Profit before tax		**28,065**	**28,028**	**37,353**	**38,159**
Adjustments:					
Depreciation and amortisation	17, 18, 19	43,642	51,335	34,382	34,321
Property, plant and equipment writte-off	11	831	1,788	642	10
Intangible assets write-off	17	128	-	-	-
Loss/(gain) on sale of property, plant and equipment	12	7,067	(315)	7,512	(167)
Fair value measurement loses/(gains) of financial assets available for sale	12	2,649	(31)	2,731	180
Gain on disposal of financial assets available for sale	12	(1,673)	-	(1,673)	-
Gain on change in fair value of financial assets trough profit and loss	12	(12)	(108)	(12)	(108)
Loss on sale of subsidiary	12	-	(998)	-	-
Impairment of trade receivables and loans receivable	8	(4,840)	(3,440)	(5,490)	(1,129)
Impairment of other financial assets	11	1,330	311	1,330	311
Liquidation of subsidiary	12	314	-	124	-
Impairment of investments in associates	13	-	11,951	-	11,951
Impairment of non-financial assets	11	198	48	198	-
Impairment of inventories	11	2,653	1,236	-	-
Write-off of assets held for sale	12	5	-	-	-
Net change in provisions	34	(720)	(3,770)	(849)	(3,815)
Dividend income	13	-	-	(3,185)	(4,426)
Share in loss/(gain) of associates and joint ventures	21	1,330	(26)	-	-
Gain/(loss) from sale of associate	12	(5,544)	-	1,333	-
Unrealised foreign exchange differences		(4,649)	(9,571)	(3,924)	(5,418)
Interest income	8, 13	(2,894)	(3,258)	(3,436)	(3,125)
Income from interest and fees write-offs	13	-	(21,473)	-	-
Income from unwinding of discount	13	(839)	(31)	(839)	(31)
Equity-settled share based payment transactions	35	1,073	-	1,073	-
Other finance income	13	-	(1)	-	-
Interest expense	11, 13	23,687	36,835	23,604	22,183
		91,801	88,510	90,874	88,896
Changes in working capital:					
Trade and other receivables		3,331	56,274	14,533	79,491
Inventories		22,186	(15,646)	2,819	9,429
Trade and other payables		(76,706)	(58,877)	(84,767)	(111,993)
Net cash generated from operating activities		**40,612**	**70,261**	**23,459**	**65,823**
Interest paid		(18,482)	(29,414)	(17,352)	(20,419)
Tax paid		(5,043)	(12,741)	(5,048)	(12,612)
Net cash flows from operating activities		**17,087**	**28,106**	**1,059**	**32,792**

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

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2017	Dalekovod Group 2016 Restated *	Dalekovod d.d. 2017	Dalekovod d.d. 2016
Cash flows from investing activities					
Acquisition of intangible assets	17	(641)	(2,260)	(300)	(472)
Acquisition of property, plant and equipment	18	(18,760)	(26,954)	(11,982)	(17,641)
Proceeds from sale of property, plant and equipment		5,092	608	4,014	173
Net change in deposits		5,771	631	7,203	(4,856)
Loans given		-	-	(43,955)	(53,470)
Repayments of loans given		403	431	34,882	46,022
Proceeds from share in profits		-	-	5,353	2,258
Proceeds from sale of available-for-sale financial assets		1,993	-	1,673	-
Investments in cash funds		30,000	-	30,000	-
Interest received		3,731	2,709	3,642	2,698
Net cash flows from / (used in) investing activities		**27,589**	**(24,835)**	**30,530**	**(25,288)**
Cash flows from financing activities					
Acquisition of own shares		-	(650)	-	(650)
Proceeds from borrowings		29,764	44,710	3,600	7,806
Repayment of borrowings		(59,601)	(34,215)	(19,389)	-
Redemption of bonds		(973)	-	(1,526)	-
Repayment of finance lease liabilities		(11,916)	(9,765)	(11,774)	(9,660)
Net cash flows from / (used in) financing activities		**(42,726)**	**80**	**(29,089)**	**(2,504)**
Net increase / (decrease) in cash and cash equivalents		**1,950**	**3,351**	**2,500**	**5,000**
Cash and cash equivalents at beginning of year		105,428	102,077	86,849	81,849
Cash and cash equivalents at end of year	28	107,378	105,428	89,349	86,849
Net increase / (decrease) in cash and cash equivalents		**1,950**	**3,351**	**2,500**	**5,000**

* 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.

X. 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 (2016: 23 subsidiaries owned by the parent company and additional one company 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 2017 were: Mr. Alen Premužak (President of the Management Board), Mr. Marko Jurković (Member of the Management Board; resigned on 1 April 2018), Ms. Helena Jurčić Šestan (Member of the Management Board), Mr. Ivica Kranjčić (Member of the Management Board and Mr. Ivan Kurobasa (Member of the Management Board).

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 (EU 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 EU 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 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2017 and/or are not yet adopted by the European Union and as such have not been applied in preparation of these financial statements.

Overview:

IFRS 15 – Revenue from Contracts with customers and related appendices to different other standards (effective for annual periods which begin on or after January 1st, 2018)

Standard offers unique Five-step Model Framework for determination and recognition of revenues from contracts with customers. New Standard replaces actual standards IAS 18 Revenue Recognition and IAS 11 Accounting for Construction Contracts. Company will use possibility of simplified initial application of IFRS 15, i.e. contracts which have not been completed till January 1st will be recognized as have been recognized in accordance with IFRS 15 from the beginning. The cumulative effect of transition will be recognized as equity value adjustment in year of initial application. According to current management estimate, the Company does not expect that transition to the new financial reporting standard will result with material impact on financial statements in terms of time and the amount of recognition revenue from customers

According to the initial ongoing analysis of customer contracts, the following areas have been identified that could give rise to differences in relation to existing accounting treatment

- In accordance with IFRS 15, the Company should recognize revenue to present the transfer of the promised goods or services to customers in the amount which reflects the fee that the Company expects to be entitled to in exchange for the goods or services using the 5-step model. Accordingly, revenue recognition is based on the transfer of control and revenue is recognized at a certain time or period. Based on the analysis of customer contracts, realizing current accounting policies and certain clauses of the contract in accordance with IFRS 15, currently we do not expect that the impact of IFRS 15 will result in material changes in terms of time and amount of revenue recognition under existing customer contracts.
- Some customer contracts include a contracted variable fee. Based on the analysis of customer contracts in accordance with IFRS 15 and understanding existing accounting policies, currently we do not expect that the impact of IFRS 15 will result in materially significant changes in terms of time and amount of revenue recognition under existing customer contracts.
- In accordance with IFRS 15, the cost of sales charges (customer acquisition costs) should be capitalized and recognized through the duration of the customer agreement. In accordance with IFRS 15 and understanding of existing accounting policies, we currently do not expect that the previously mentioned will result in material changes in terms of time and the amount of recognition of revenue under customer contracts.
- Some customer contracts have a contractual clause relating to a performance guarantee. Based on the analysis of the customer agreement and some warranty clauses, it has been established that these guarantees do not represent a separate delivery obligation. In accordance with IFRS 15 and understanding of existing accounting policies, we currently do not expect that the impact of IFRS 15 will result in material changes in terms of time and revenue recognition under existing customer contracts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New standards and interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (effective for annual periods which begin on or after January 1st, 2018)

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 on 1 January 2018. This new standard is not expected to have a significant effect on the financial statements of the Company since the carrying amount of financial assets and liabilities approximates their fair value.

IFRS 16 Leases (effective for annual periods which begin on or after January 1st, 2019)

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. This new standard is not expected to have a significant effect on the financial statements of the Company.

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 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (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.

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) 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.

(e) Joint ventures

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

2.3 Segment reporting

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

2.4 Foreign currencies

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) Group companies

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

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:

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

2.5.2 Assets under foreclosure (continued)

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.

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment property (continued)

2.6.2 Assets under foreclosure (continued)

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.

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 – 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 – 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 – 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 – 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 – 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 – 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 – 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 – 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 7^{th} year and (b) option for early repayment of the mezzanine debt after 7^{th} year for a maximum amount up to HRK 35,5million. 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.

Management's 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 7^{th} 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 2017, if the EURO had weakened/strengthened by 1.00% against the HRK (2016: 1.00%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 278 thousand (2016: HRK 1,758 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 2017, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2016: 0.82%), the loss after tax would have been higher/lower by HRK 92 thousand (2016: HRK 103 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.

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:

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Borrowings (note 31)	461,531	491,725
Cash and cash equivalents (note 28)	(89,349)	(86,849)
Net debt	372,182	404,876
Equity	294,572	271,184
Total equity and net debt	**666,754**	**676,060**
Gearing ratio - Company	**55.8%**	**59.9%**

The Group's gearing ratio was as follows:

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Borrowings (note 31)	476,451	520,097
Cash and cash equivalents (note 28)	(107,378)	(105,428)
Net debt	369,073	414,669
Equity	236,301	223,579
Total equity and net debt	**605,374**	**638,248**
Gearing ratio - Group	**61.0%**	**65.0%**

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 2017 and 2016:

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
31 December 2017				
Property, plant and equipment				
Land and buildings	-	-	156,950	156,950
Available for sale financial assets				
Listed entities	274	-	5	279
Unlisted entities	-	1,320	-	1,320
Financial asstes at fair value through profit and loss				
Investments in cash funds	497	-	-	497
Total	**771**	**1,320**	**156,955**	**159,046**
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**

There were no transfers between level 1 and level 2 during 2017 and 2016.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The table below present the Company's assets at fair value as at 31 December 2017 and 2016:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2017				
Property, plant and equipment				
Land and buildings	-	-	804	804
Available for sale financial assets				
Listed entities	23	-	-	23
Unlisted entities	-	1,320	-	1,320
Financial asstes at fair value through profit and loss				
Investments in cash funds	497	-	-	497
Total	**520**	**1,320**	**804**	**2,644**
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**

There were no transfers between level 1 and level 2 during 2017 and 2016.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The tables below present the fair value liabilities of the Group and Company as at 31 December 2017 and 2016:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Group				
31 December 2017				
Finance lease	-	-	97,737	97,737
Mezzanine debt	-	-	82,717	82,717
Trade payables	-	-	19,997	19,997
Total	**-**	**-**	**200,451**	**200,451**
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**

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2017				
Finance lease	-	-	97,737	97,737
Mezzanine debt	-	-	90,605	90,605
Trade payables	-	-	20,154	20,154
Total	**-**	**-**	**208,496**	**208,496**
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**

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (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).

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 20th December 2012, was formally completed at 14 February 2014 by issuance of the final legally valid decision.

As a part of pre-bankruptcy settlement the Company prepared financial and operating restructuring plan which was the basis for negotiations with creditors and which was accepted by creditors on 2 April 2013 by more than 90% votes indicating the commitment of the Company's creditors; suppliers, banks, tax authorities and other stakeholders to support completion of administrative proceedings.

The restructuring plan prepared by the Company, and adopted by the creditors, 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 1,583 thousand (2016: HRK 3,498 thousand) accounted for as an interest expense in profit and loss in 2017.

  Renegotiated maturity date of these long term payables is 31 March 2018. Liabilities have been settled till the date of publishing of these financial statement.

- 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 – CORRECTION OF ACCOUNTING ERRORS

During 2017, Management Board of subsidiary Dalekovod Proizvodnja d.o.o. identified an error in the accounting of production process, where the inadequate turnover rate was used in variance allocation to inventories held at stock.

Furthermore, during the analysis of inventories held at stock, Management identified obsolete inventories as a result of changes in technology and technological processes and changes in customer requirements.

Since these errors are result of omissions made in previous years, they were corrected in accordance with requirements of IAS 8 and they resulted in corrections of previously published balances.

The effect of correction of errors to the statement of financial position is as follows:

In thousands of HRK	Previously reported	Correction of error	Correction of error	Restated	Correction of error	Correction of error	Correction of error	Restated
Dalekovod Group	**1 January 2016**	**Obsolete inventories**	**Correction of stock turnover coefficient**	**1 January 2016**	**31 December 2016**	**Obsolete inventories**	**Correction of stock turnover coefficient**	**31 December 2016**
Assets								
Inventory	117,733	(4,922)	(6,823)	105,988	156,727	(5,651)	(30,678)	120,398
Shareholders' equity								
Accumulated losses	(254,480)	(4,922)	(6,823)	(266,225)	(217,711)	(5,651)	(30,678)	(254,040)

NOTE 6 – CORRECTION OF ACCOUNTING ERRORS (continued)

The effect of correction of errors to the income statement is as follows:

In thousands of HRK	**Previously reported**	**Correction of error**	**Correction of error**	**Restated**	**Correction of error**	**Correction of error**	**Correction of error**	**Restated**
Dalekovod Group	**2015**	**Obsolete inventories**	**Correction of stock turnover coefficient**	**2015**	**2016**	**Obsolete inventories**	**Correction of stock turnover coefficient**	**2016**
Change in work in progress and finished goods	(10,646)	-	(6,823)	(17,469)	33,149	-	(23,855)	9,294
Other operating expenses	(175,895)	(4,922)	-	(180,817)	(112,824)	(729)	-	(113,553)

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.

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.

NOTE 7 – SEGMENT INFORMATION (continued)

Operating results by business segments for the Group

(in thousands of HRK)	Construction	Production	Other	Total
Year ended 31 December 2017				
Gross revenues	1,300,943	279,531	5,404	1,585,878
Inter-segment revenues	(38,717)	(69,267)	-	(107,984)
Total revenues	**1,262,226**	**210,264**	**5,404**	**1,477,894**
Operating profit/(loss) before depreciation and amortisation	93,929	(6,854)	580	87,655
Depreciation and amortisation	(35,584)	(8,058)	-	(43,642)
Operating profit/(loss)	**58,345**	**(14,912)**	**580**	**44,013**
Total assets	**1,015,535**	**219,582**	**81,859**	**1,316,976**
Total liabilities	**919,538**	**148,155**	**12,982**	**1,080,675**
Year ended 31 December 2016				
Gross revenues	1,026,018	213,589	31,774	1,271,381
Inter-segment revenues	(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	(18,870)	12,315	96,035
Depreciation and amortisation	(35,430)	(7,566)	(8,339)	(51,335)
Operating loss	**67,160**	**(26,436)**	**3,976**	**44,700**
Total assets (restated)	**1,075,556**	**249,830**	**86,778**	**1,412,164**
Total liabilities	**1,013,244**	**163,591**	**11,750**	**1,188,585**

Out of the total gross revenues within segment 'Other', amount of HRK 5,404 thousand refers to the income from supporting operation for maintenance (2016: HRK 31,774 thousand mainly income from rent).

NOTE 7 – SEGMENT INFORMATION (continued)

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

	2017	2016
	(in thousands of HRK)	
Segment sales revenue	1,580,474	1,239,607
Inter-segment receivables	(107,984)	(111,687)
Unalocated:		
Other	5,404	31,774
Total revenues	**1,477,894**	**1,159,694**

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

	2017		2016	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Norway	577,723	39.09	383,298	33.05
Croatia	333,933	22.60	258,525	22.29
Ukraine	252,258	17.07	112,529	9.70
Bosnia and Herzegovina	84,894	5.74	115,429	9.95
Finland	69,730	4.72	83,623	7.21
Slovenia	46,465	3.14	31,933	2.75
Cyprus	23,237	1.57	-	-
Pakistan	19,261	1.30	36,170	3.12
Serbia	18,065	1.22	4,165	0.36
Sweeden	14,294	0.97	775	0.07
Poland	11,991	0.81	39,768	3.43
Saudi Arbia	7,652	0.52	12,408	1.07
Montenegro	2,665	0.18	4,867	0.42
Slovakia	901	0.06	3	-
Kosovo	-	-	55,571	4.79
Other abroad	14,825	1.01	20,630	1.79
Total	**1,477,894**	**100.00**	**1,159,694**	**100.00**

NOTE 7 – SEGMENT INFORMATION (continued)

/iii/ Sales revenues by sectors are as follows:

	2017	2016
	(in thousands of HRK)	
Energetics	1,063,252	862,298
Railroads	104,737	14,355
Sale of metal constructions	93,293	74,322
Sale of suspension and jointing equipment	87,025	91,087
Roads	55,431	32,735
Design	26,255	24,790
Properties	2,457	46,698
Telecomunications	2,507	3,557
Other	42,937	9,852
Total	**1,477,894**	**1,159,694**

Revenue from construction contracts amounts to HRK 1,262,226 thousand (2016: HRK 962,563 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 65,435 thousand (2016: HRK 130,990 thousand).

Out of total amount of guarantee deposits shown within notes 24 and 26, HRK 119,691 thousand relates to guarantee deposits (retentions) for contracts under construction that are active at the reporting date (2016: HRK 95,495 thousand).

NOTE 8 – OTHER INCOME

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2017	2016	2017	2016
Rental income /i/	1,712	2,003	6,097	7,263
Change in provision for impairment of trade receivables and loans - net	4,840	3,440	5,490	1,129
Income from reversal of provisions	4,933	855	4,871	588
Income from penalty interest	1,209	90	1,148	7
Insurance claims proceeds	255	202	248	193
Inventory surpluses	367	567	80	71
Court settlement income	-	198	-	-
Other operating income /ii/	21,321	66,210	20,432	65,907
	34,637	**73,565**	**38,366**	**75,158**

/i/ Rental income is realised based on investment property (note 19).

NOTE 8 – OTHER INCOME (continued)

/i/ Other operating income of the Company mainly relates to the provision of technical support services to its subsidiaries in the amount of HRK 11.465 thousand (2016: income based on Contract with Ministry of Finance in the amount of HRK 50.000 thousand and income from provision of technical support services to its subsidiaries in the amount of HRK 12.607 thousand). Other operating income of the Group mainly relates to income from sale of waste in the amount of HRK 7,056 thousand.

NOTE 9 – COST OF MATERIALS AND SERVICES

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Raw materials and supplies				
Raw materials and supplies	339,266	253,047	265,384	182,245
Spare parts and small inventory	21,324	10,883	16,964	6,339
Energy	14,771	18,353	10,676	8,640
	375,361	282,283	293,024	197,224
External services				
Subcontractor services	364,269	250,775	325,369	223,149
Transportation	21,478	20,104	7,029	9,795
Rental expense	12,791	15,926	11,112	14,943
Repairs and maintenance	6,693	15,253	4,081	8,485
Advertising and promotion	1,468	545	1,162	361
Other	5,607	7,750	2,042	2,375
	412,306	310,353	350,795	259,108
Total cost of materials and services	**787,667**	**592,636**	**643,819**	**456,332**

NOTE 10 – STAFF COSTS

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Net salaries	207,007	179,783	147,755	121,997
Taxes and contributions on and from salaries	76,489	78,066	41,261	41,165
Severance costs	896	1,569	498	1,424
Unused vacation days	6,910	1,087	4,534	561
Other staff costs	25,223	21,291	13,632	10,085
Supervisory Board compensation	534	670	534	670
	317,059	**282,466**	**208,214**	**175,902**

NOTE 10 – STAFF COSTS (continued)

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

As at 31 December 2017, the Group had 1,466 employees (2016: 1,406 employees), and the Company had 774 employees (2016: 689 employees).

NOTE 11 – OTHER OPERATING EXPENSES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Daily allowances and travel cost	31,514	22,532	30,341	20,841
Intellectual and non-production services	28,575	21,107	15,647	8,645
Bank charges	9,314	9,963	7,483	7,885
Insurance	5,333	5,797	4,316	2,571
Taxes and contributions	4,317	5,886	2,848	2,679
Court cases	3,303	10,910	3,281	10,910
Fines and penalties	3,230	8,271	2,116	7,724
Impairment of inventories (restated)	2,653	1,236	-	-
Entertainment	2,315	2,574	1,148	1,290
Impairment of other financial assets (note 24 and note 26)	1,330	311	1,330	311
Sponsorships, donations and other aids	1,076	492	706	382
Impairment and write-off of property, plant and equipment	831	1,788	642	10
Interest from suppliers	420	2,061	191	159
Inventory shortages	380	606	44	51
Impairment of non-financial assets (note 25)	198	48	198	-
Court settlement agency cost	-	1,677	-	1,677
Other	14,105	18,294	12,300	16,468
	108,894	**113,553**	**82,591**	**81,603**

NOTE 12 – OTHER GAINS/(LOSSES) – NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Net foreign exchange loss from operating activities	8,965	(2,017)	9,543	(1,602)
Gains/(loss) on sale of available-for-sale financial assets	1,673	-	1,673	-
Gains from fair value changes of the assets at fair value through profit and loss (note 27)	12	108	12	108
Fair value gains/(losses) of financial assets available-for-sale (note 22)	(2,649)	31	(2,731)	(180)
Net gain on sale of property, plant and equipment	(7,067)	315	(7,512)	167
Gain/(loss) from sale of subsidiary	-	998	-	7,262
Disposal of financial assets avaliable-for-sale	5	-	-	-
Liquidation of subsidiary	(314)	-	(124)	-
Gain/(loss) from sale of associate	5,544	-	(1,333)	-
	6,169	**(565)**	**(472)**	**5,755**

NOTE 13 – FINANCIAL INCOME AND EXPENSES– NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Income from shares in profit	3,500	-	3,185	4,426
Interest income	1,606	3,071	2,275	3,088
Interest income on bank deposits	79	97	13	30
Income from interest and fees write-offs	-	21,473	-	-
Income from unwinding of discount	839	31	839	31
Net foreign exchange differences from financing activities	2,276	5,357	1,346	2,569
Other financial income	350	1	350	-
Financial income	8,650	30,030	8,008	10,144
Net foreign exchange differences (financing activities)	-	-	-	-
Interest expense	(23,267)	(34,774)	(23,413)	(22,024)
Impairment of investments in associates	-	(11,951)	-	(11,951)
Other financial expenses	-	(3)	-	-
Financial expenses	(23,267)	(46,728)	(23,413)	(33,975)
	(14,617)	**(16,698)**	**(15,405)**	**(23,831)**

NOTE 14 – INCOME TAX

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Profit/(loss) before tax	**28,065**	**28,028**	**37,353**	**38,159**
Tax calculated at the domestic tax rate applicable to profits in the respective countries	13,036	14,183	14,554	14,474
Effect of non-taxable income	(4,767)	(19,155)	(4,098)	(17,455)
Effect of non-deductible expenses	3,506	11,580	2,781	10,817
Effect of tax losses not recognised as deferred tax assets	4,050	12,092	1,806	5,135
Utilisation of tax losses for whic deferred tax assets was not recognised	(124)	(2,857)	-	-
Income tax expense	**15,701**	**15,843**	**15,043**	**12,971**
Effective tax rate	***55.9%***	***56.5%***	***40.3%***	***34.0%***

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

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Unutilised tax losses				
Tax loss from 2012 - expires 2017	-	327,263	-	327,255
Tax loss from 2013 - expires 2018	45,179	71,146	45,157	45,157
Tax loss from 2014 - expires 2019	26,345	18,526	-	-
Tax loss from 2015 - expires 2020	19,942	12,873	-	-
Tax loss from 2016 - expires 2021	70,917	61,861	61,851	61,851
Tax loss from 2017 - expires 2022	10,144	-	10,031	-
	172,527	**491,669**	**117,039**	**434,263**

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 18).

Movement in deferred tax liability

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At beginning of year	15,233	16,926	15,233	16,926
Charged to revaluation reserves	2	-	2	-
Income tax rate change	-	(1,693)	-	(1,693)
At end of year	**15,235**	**15,233**	**15,235**	**15,233**

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	
	2017	**2016**
Net loss attributable to shareholders *(in thous. of HRK)*	12,364	12,185
Weighted average number of shares	24,620,464	24,703,080
Basic loss per share *(in HRK)*	0.50	0.49

	Dalekovod Group	
	2017	**2016**
Net loss attributable to shareholders *(in thous. of HRK)*	12,364	12,185
Weighted average number of shares	24,916,308	24,703,080
Diluted loss per share *(in HRK)*	0.50	0.49

NOTE 16 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 101 thousand (2016: 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.

NOTE 17 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Goodwill	Usage rights	Software	Assets under construction	Total
At 1 January 2016					
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**
Year ended 31 December 2017					
At 1 January	1,213	8,273	2,127	2,476	14,089
Additions	-	-	11	630	641
Disposals and write-offs	-	-	-	(128)	(128)
Transfer	-	-	399	(399)	-
Foreign exchange differences	-	-	(9)	-	(9)
Amortisation	-	(3,102)	(488)	-	(3,590)
At 31 December	**1,213**	**5,171**	**2,040**	**2,579**	**11,003**
At 31 December 2017					
Cost	1,213	15,511	40,368	2,579	59,671
Accumulated amortisation and impairment losses	-	(10,340)	(38,328)	-	(48,668)
Net book value	**1,213**	**5,171**	**2,040**	**2,579**	**11,003**

NOTE 17 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is allocated entirely to the Construction segment.

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

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a five-year period. The terminal growth rate used to extrapolate the cash flows beyond the five-year period is 3.00%, 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.

NOTE 17 – INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Usage rights	Software	Assets under construction	Total
At 1 January 2016				
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**
Year ended 31 December 2017				
At 1 January	8,272	728	817	9,817
Additions	-	12	288	300
Transfer	-	288	(288)	-
Foreign exchange differences	-	(9)	-	(9)
Amortisation	(3,102)	(221)	-	(3,323)
At 31 December	**5,170**	**798**	**817**	**6,785**
At 31 December 2017				
Cost	15,511	37,259	817	53,587
Accumulated amortisation	(10,341)	(36,461)	-	(46,802)
Net book value	**5,170**	**798**	**817**	**6,785**

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2016						
Cost or deemed cost	21,833	337,929	363,163	219,348	10,713	952,986
Accumulated depreciation	-	(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**
Year ended 31 December 2017						
At 1 January	21,793	149,729	101,438	161,425	8,927	443,312
Additions	-	771	7,806	-	12,788	21,365
Revaluation	-	-	-	7	-	7
Transfer	-	52	12,299	-	(12,351)	-
Revaluation surplus	-	(542)	-	-	-	(542)
Disposals and write-offs	(1,158)	(4,844)	(848)	-	-	(6,850)
Foreign exchange differences	(23)	(183)	(1,163)	-	(109)	(1,478)
Depreciation	-	(8,645)	(29,031)	(2,090)	-	(39,766)
At 31 December	**20,612**	**136,338**	**90,501**	**159,342**	**9,255**	**416,048**
At 31 December 2017						
Cost or deemed cost	20,612	341,011	405,839	219,355	9,255	996,072
Accumulated depreciation and impairment losses	-	(204,673)	(315,338)	(60,013)	-	(580,024)
Net book value	**20,612**	**136,338**	**90,501**	**159,342**	**9,255**	**416,048**

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2016						
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**
Year ended 31 December 2017						
At 1 January	1,158	6,492	34,429	138,208	-	180,287
Additions	-	-	7,472	-	7,115	14,587
Revaluation	-	-	-	(407)	-	(407)
Transfer	-	(542)	7,115	-	(7,115)	(542)
Disposals and write-offs	(1,158)	(4,844)	(27)	-	-	(6,029)
Foreign exchange differences	-	-	(1,668)	-	-	(1,668)
Depreciation	-	(302)	(10,360)	(2,094)	-	(12,756)
At 31 December	**-**	**804**	**36,961**	**135,707**	**-**	**173,472**
At 31 December 2017						
Cost or deemed cost	-	7,066	185,302	195,724	-	388,092
Accumulated depreciation	-	(6,262)	(148,341)	(60,017)	-	(214,620)
Net book value	**-**	**804**	**36,961**	**135,707**	**-**	**173,472**

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 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.

As at 31 December 2017, land and buildings of the Group and the Company with a net book value of HRK 47,987 thousand (2016: HRK 47,051 thousand) were pledged as security for borrowings (note 31).

As at 31 December 2017, assets under foreclosure of the Group with a net book value of HRK 159,340 thousand (2016: HRK 161,452 thousand) were pledged as security for borrowings (note 31).

As at 31 December 2017, assets under foreclosure of the Company with a net book value of HRK 135,706 thousand (2016: HRK 138,208 thousand) were pledged as security for borrowings (note 31).

At 31 December 2017, assets under a finance lease where the Company are the lessee amounted to HRK 12,298 thousand (2016: HRK 12,750 thousand).

NOTE 19 – INVESTMENT PROPERTY

Group

(in thousands of HRK)	Land	Buildings	Total
At 1 January 2016			
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	-	15,060	15,060
Accumulated depreciation	-	(8,688)	(8,688)
Net book value	-	**6,372**	**6,372**
Year ended 31 December 2017			
At 1 January	-	6,372	6,372
Transfer from property, plant and equipment	-	542	542
Disposals and write offs	-	(6,140)	(6,140)
Depreciation	-	(286)	(286)
At 31 December	-	**488**	**488**
At 31 December 2017			
Cost	-	9,462	9,462
Accumulated depreciation and impairment losses	-	(8,974)	(8,974)
Net book value	-	**488**	**488**

As at 31 December 2017, land and buildings of the Group and the Company with a net book value of HRK 488 thousand are not pledged as security for borrowings.

NOTE 19 – INVESTMENT PROPERTY (continued)

Company

(in thousands of HRK)	Land	Buildings	Assets under foreclosure	Total
At 1 January 2016				
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	-	(227,569)	-	(227,569)
Net book value	**12,461**	**151,505**	**23,216**	**187,182**
Year ended 31 December 2017				
At 1 January	12,461	151,505	23,216	187,182
Revaluation	-	-	414	414
Transfer from property, plant and equipment	-	542	-	542
Disposals and write-offs	-	(6,139)	-	(6,139)
Depreciation	-	(18,303)	-	(18,303)
At 31 December	**12,461**	**127,605**	**23,630**	**163,696**
At 31 December 2017				
Cost	12,461	373,477	23,630	409,568
Accumulated depreciation and impairment losses	-	(245,872)	-	(245,872)
Net book value	**12,461**	**127,605**	**23,630**	**163,696**

Land and buildings with a carrying amount of HRK 89,903 thousand (2016: HRK 104,349 thousand) have been pledged as security for the repayment of the finance lease.

NOTE 19 – INVESTMENT PROPERTY (continued)

As at 31 December 2017, land and buildings of the Company with a net book value of HRK 47,987 thousand (2016: HRK 47,051 thousand) were pledged as security for borrowings (note 31).

As at 31 December 2017, assets under foreclosure of the Company with a net book value of HRK 23,629 thousand (2016: 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 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.

NOTE 20 – INVESTMENTS IN SUBSIDIARIES

(in thousands of HRK)	Dalekovod d.d. 2017	2016
At 1 January	276,892	285,998
Additions /i/	4,031	868
Decrease /ii/	(124)	(9,974)
Impairment /iii/	-	-
Transfer of shares /iv/	-	-
At 31 December	**280,799**	**276,892**

/i/ During 2017 by transfer of loans receivable investment in subsidiary Dalekovod Polska S.A was increases by HRK 4,031 thousand (2016: by transfer of loans receivable investment in subsidiary Dalekovod Polska S.A was increased by HRK 868 thousand).

/ii/ Decrease of investment of HRK 124 thousand refers to the liquidation of the company Dalekovod Greenland (2016: Decrease of investment refers to the sale of the company Dalekovod Ulaganja d.o.o., that resulted with gain on disposal in the amount of HRK 7,262 thousand at the Company level and HRK 988 thousand at the Group level – note 12).

/iii/ During 2017 there was no impairment of investment in subsidiaries. During previous years Company have fully impaired following subsidiaries: Dalekovod TKS a.d, Cindal Ltd, Denacco Namibia (PTY) Ltd, Dalekovod Adria Ltd, Dalekovod Libija, Dalekovod – Polska S.A. and partially impaired investment in subsidiary Dalekovod Proizvodnja Ltd.

/iv/ During 2017. new entity. Liburana d.o.o., was founded by demerger of subsidiary Dalekovod Professio d.o.o.

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.

NOTE 20 – INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Country of incorporation	Primary activity	2017	2016	2017	2016
			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	16,943	12,912
Dalekovod TKS a.d., Doboj /iii/	Bosnia and Herzegovina	Production	97.25	97.25	20,344	20,344
Dalekovod Professio d.o.o., Zagreb /iv/	Croatia	Other	100.00	100.00	73,375	77,029
Denacco Namibia (PTY) Ltd /iii/	Namibia	Construction	60.00	60.00	18	18
Liburana d.o.o., Zagreb /iv/	Croatia	Other	100.00	0.00	3,654	-
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 /ii/	Grenland	Construction	100.00	100.00	-	124
Dalekovod Norge AS	Norway	Construction	100.00	100.00	2,072	2,072
Dalekovod ESCO d.o.o., Zagreb	Croatia	Other	100.00	100.00	20	20
POLDAL ENERGIE Sp. z o.o.	Poland	Construction	100.00	100.00	9	9
POLDAL CONNECT Sp. z o.o.	Poland	Construction	100.00	100.00	9	9
POLDAL TOWERS Sp. z o.o.	Poland	Construction	100.00	100.00	9	9
POLDAL KV Sp. z o.o.	Poland	Construction	100.00	100.00	9	9
POLDAL THE BRIDGE 7 Sp. z.o.o.	Poland	Construction	100.00	100.00	9	9
Impairment of investments /iii/					(115,498)	(115,498)
					280,799	**276,892**

NOTE 20 – INVESTMENTS IN SUBSIDIARIES (continued)

As at 31 December 2017 a group member (Dalekovod Professio d.o.o.) owns shares in the following subsidiaries:

Name	Country of incorporation	2017	2016
		Holding in %	
Dalekovod breze j.d.o.o., Zagreb	Croatia	-	100.00

During the year, the subsidiary Dalekovod breze j.d.o.o., Zagreb, which was 100% owned by the subsidiary Dalekovod Professio d.o.o., was liquidated. Dalekovod breze j.d.o.o. did not have significant operations or assets.

NOTE 21 – INVESTMENTS IN ASSOCIATES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At beginning of year	2,743	14,668	8,290	20,241
Share in profit/(loss)	(1,330)	26	-	-
Decrease /i/	(1,406)	-	(8,283)	-
Impairment (note 13)	-	(11,951)	-	(11,951)
At end of year	**7**	**2,743**	**7**	**8,290**

Associates are as follows:

	Dalekovod Group		Holding in %	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
TLM Group Members	7	7	25-47	25-47
Unidal d.o.o., Vinkovci	-	2,736	-	44.65
Total	**7**	**2,743**		

Financial information about associate is summarised below:

(in thousands of HRK)	Assets	Liabilities	Income	Net profit / (loss)
At 31 December 2016				
Unidal d.o.o., Vinkovci	59,100	43,461	66,720	58

During 2017. company sold shares in associate Unidal Ltd, with the net book value of HRK 8,283 to a Company Unior Kovaška Industry d.d., Zreče Slovenija for amount of HRK 6,950 thousand. During the year, Unidal realized loss of HRK 2,979 thousand.

NOTE 22 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At beginning of year	4,568	4,537	4,074	4,254
Decrease /i/	(320)	-	-	-
Adjustment to fair value /ii/	(2,649)	31	(2,731)	(180)
At end of year	**1,599**	**4,568**	**1,343**	**4,074**

/i/ During 2017, based on a pre-bankruptcy settlement, the Company converted receivables from HNK Cibalia Vinkovci to shares in equity in the amount of HRK 1,728. These receivables have been impaired in previous years.

/ii/ As at 31 December 2017, 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 2,731 thousand and decrease on the Group level of HRK 2,649 thousand (2016:decrease HRK 180 thousand on the Company level and increase HRK 31 on the Group level) was recognised in the income statement (note 12).

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
31 December 2017					
Financial assets					
Trade receivables	24, 26	230,743	-	-	**230,743**
Receivables by construction contracts	26	88,721	-	-	**88,721**
Loans receivable and deposits	24, 25	168,326	-	-	**168,326**
Interest receivable	26	84	-	-	**84**
Other receivables	26	85,710	-	-	**85,710**
Available for sale financial assets	22	-	-	1,599	**1,599**
Financial assets at fair value through profit or loss	27	-	497	-	**497**
Cash and cash equivalents	28	107,378	-	-	**107,378**
Total		**680,962**	**497**	**1,599**	**683,058**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2017		
Financial liabilities		
Loans	31	343,119
Bonds	31	18,132
Finance lease	31	114,039
Mezzanine debt	32	82,717
Trade payables	33	278,597
Other payables	33	23,074
Total		**859,678**

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

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
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**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2016		
Financial liabilities		
Loans	31	373,471
Commercial papers	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 tax payables, payables to employees, taxes and contributions and advances received.

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
31 December 2017					
Financial assets					
Trade receivables	24, 26	166,007	-	-	**166,007**
Receivables by construction contracts	26	75,396	-	-	**75,396**
Loans receivable and deposits	24, 25	169,778	-	-	**169,778**
Interest receivable	26	2,473	-	-	**2,473**
Other receivables	26	84,501	-	-	**84,501**
Available for sale financial assets	22	-	-	1,343	**1,343**
Financial assets at fair value through profit or loss	27	-	497	-	**497**
Cash and cash equivalents	28	89,349	-	-	**89,349**
Total		**587,504**	**497**	**1,343**	**589,344**

(u tisućama kuna)	Bilješka	Ostale financijske obveze
31. prosinca 2017.		
Financijske obveze		
Krediti	31	322,787
Obveznice	31	24,302
Financijski najam	31	113,281
Mezzanine dug	32	90,605
Obveze prema dobavljačima	33	226,048
Ostale obveze	33	18,718
Ukupno		**795,741**

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

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
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**
Receivables from subsidiaries for share in profits	26	2,168	-	-	**2,168**
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**

(in thousands of HRK)	Note	Other financial liabilities
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.

NOTE 24 – LOANS AND RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Long-term deposits	12,473	10,093	8,333	7,897
Long-term guarantee deposits	49,581	26,463	49,252	26,268
Long-term trade receivables	6,455	5,542	6,127	4,833
Other long-term receivables	36	60	36	60
Long-term loans receivable:				
- loans to subsidiaries	-	-	7,127	18,925
- consumer goods loans	-	-	-	-
- housing loans and other loans to employees	1,811	2,214	416	562
- loans to other companies	18,830	18,830	18,830	18,830
Impairment of long-term deposits and loans receivable	(9,883)	(9,390)	(9,883)	(9,390)
Impairment of other financial assets	(6,650)	(5,532)	(6,116)	(4,822)
Total long-term deposits and loans receivable	72,653	48,280	74,122	63,163
Current portion of long-term loans and deposits (note 26)	-	(219)	-	(219)
Long-term loans and deposits given	**72,653**	**48,061**	**74,122**	**62,944**

Deposits

Deposits are mostly denominated in EUR for the purpose of insuring bank placements. Some deposits are not interest bearing and other had effective interest rates during 2017, ranging from 0.04% to 0.57%. Long-term deposits mature in 2020 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.

NOTE 24 – LOANS AND RECEIVABLES (continued)

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At 1 January	9,390	9,820	9,390	9,110
Unwinding of discount og guarantee deposits	493	(31)	493	(31)
Transfer on impairment of other financial assets	-	(710)	-	-
Provision for impairment of trade receivables and other financial assets (note 11)	-	311	-	311
At 31 December	**9,883**	**9,390**	**9,883**	**9,390**

NOTE 25 – INVENTORIES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Raw materials (restated)	48,563	68,374	4,989	8,798
Finished and semi-finished goods and work in progress (restated)	32,995	38,869	218	235
Spare parts and small inventories	6,217	6,289	1,512	1,550
Trade goods (restated)	7,530	6,338	1,522	477
Advances for inventories	254	528	-	-
	95,559	**120,398**	**8,241**	**11,060**

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.

NOTE 26 – TRADE AND OTHER RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Domestic trade receivables	152,803	156,156	132,607	127,611
Foreign trade receivables	164,557	133,013	119,348	93,388
Impairment of trade receivables	(93,072)	(103,101)	(92,075)	(101,287)
	224,288	186,068	159,880	119,712
Receivable from customers for contract work	88,721	90,473	75,396	69,310
Guarantee deposits – current portion	74,758	71,458	70,439	69,227
Short-term deposits /iii/	7,073	15,224	2,233	9,872
Current portion of long-term loans (note 24)	-	219	-	219
Loans to subsidiary	-	-	21,775	21,004
Other short-term loans /i/	26,585	26,495	24,022	23,597
Interest receivable	7,687	8,524	11,652	11,858
Dividend receivable	-	-	-	2,168
Other receivables	94,579	91,094	93,370	89,517
Impairment of other financial assets	(22,760)	(23,319)	(34,734)	(35,450)
Total financial assets	500,931	466,236	424,033	381,034
Advances /ii/	34,550	92,668	46,581	107,247
Receivable from employees	24	222	5	197
VAT receivable	10,215	10,689	7,320	7,810
Outstanding VAT receivable	1,934	2,482	887	1,345
Prepaid expenses	3,105	2,609	2,583	2,271
Impairment of non-financial assets (note 11)	(6,247)	(6,247)	(6,247)	(6,247)
Total non-financial assets	43,581	102,423	51,129	112,623
	544,512	**568,659**	**475,162**	**493,657**

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

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

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 0.39%.

/iv/ Other receivables include receivable from Ministry of finance in the amount of HRK 50,000 thousand (2016: HRK 50,000 thousand).

The ageing of trade receivables is as follows:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Not due	153,882	113,789	126,769	100,008
Up to 90 days	41,321	47,078	13,321	10,371
From 91 to 180 days	5,321	3,563	4,589	1,632
Over 180 days	23,764	21,638	15,201	7,701
	224,288	**186,068**	**159,880**	**119,712**

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

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At 1 January	126,420	149,024	136,737	154,285
Impairment of trade receivables and other financial assets (note 11)	922	924	-	399
Collected amounts (note 8)	(5,762)	(4,364)	(5,490)	(1,528)
Transfer to long term impairment of financial asset available for sale	-	(11,251)	-	(11,251)
Transfer from impairment of other financial asset available for sale	(1,729)	-	(1,729)	-
Transfer from impairment of other long-term receivables	(1,294)	-	(1,294)	-
Transfer to impairment of long-term receivables	-	(4,822)	-	(4,822)
Receivables written-off during the year as uncollectible	(2,725)	(3,091)	(1,415)	(346)
At 31 December	**115,832**	**126,420**	**126,809**	**136,737**
Direct write-off of trade receivables and other financial assets (note 11)	-	-	-	-

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:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
HRK	213,440	164,277	176,942	166,416
EUR	142,711	93,220	112,290	91,258
NOK	44,270	70,344	44,270	70,319
UAH	83,446	92,411	83,437	50,299
Other currencies	17,064	45,984	7,094	2,742
Total	**500,931**	**466,236**	**424,033**	**381,034**

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. During 2017, the Company sold part of the investments.

As at 31 December 2017, the fair value of these assets in the Group and the Company amounted to HRK 497 thousand (2016: HRK 30,485 thousand).

During the year the Company realized gain amounted to HRK 12 thousand (2016: HRK 108 thousand) – note 12.

NOTE 28 – CASH AND CASH EQUIVALENTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Cash at bank and petty cash in domestic currency	30,235	15,927	23,988	10,014
Cash at bank and petty cash in foreign currency	77,143	89,501	65,361	76,835
	107,378	**105,428**	**89,349**	**86,849**

As at 31 December 2017 there was no deposits on a period less than 3 months held at bank (2016: no deposits on a period less than 3 months held at bank).

Cash and cash equivalents are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
EUR	33,756	31,886	31,492	27,146
NOK	32,146	26,017	30,241	26,013
UAH	294	24,425	190	23,597
Other currencies	10,947	7,173	3,438	79
Total	**77,143**	**89,501**	**65,361**	**76,835**

NOTE 29 – ASSETS HELD FOR SALE

	Dalekovod Group	
(in thousands of HRK)	**2017**	**2016**
Velika Popina d.o.o.	16,298	16,298
Eko d.o.o.	48,740	48,740
OIE Makedonija	-	5
Total	**65,038**	**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.

NOTE 30 – SHAREHOLDERS' EQUITY

Share capital

The share capital as at 31 December 2017 amounts to HRK 247,193 thousand (2016: 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 2016: 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	
	2017	2016	2017	2016
Konsolidator d.o.o.	15,000,000	15,000,000	60.68%	60.68%
Individuals	4,680,685	4,233,668	18.94%	17.13%
Financial institutions	4,149,466	4,399,874	16.79%	17.80%
Others	790,313	986,922	3.20%	3.99%
Treasury shares	98,841	98,841	0.40%	0.40%
	24,719,305	**24,719,305**	**100.00%**	**100.00%**

During the first quarter of 2018, there was a change in company that manages FGS Nexus fund, the owner of the Company's majority owner Konsolidator d.o.o. The new fund management company is Inspire Investments d.o.o.

Share premium

Share premium as at 31 December 2017 amounts to HRK 87,215 thousand (2016: 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.

During 2017 there was an increase of Share premium in total amount of HRK 1,073 thousand. (note 35). Mentioned increase relates to share-based payments.

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 2017, the Company owns 98,841 treasury shares (2016: 98,841 treasury shares). The Company acquired 51,735 during 2016 at an 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 40,654 thousands (2016: HRK 40,654 thousands) and reserves for own shares in the amount of HRK 8,466 thousand (2016: HRK 8,466 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.

NOTE 31 – BORROWINGS

(in thousands of HRK)	Average interest rate	Dalekovod Group 2017	Dalekovod Group 2016	Dalekovod d.d. 2017	Dalekovod d.d. 2016
Non-current					
Loans from banks and subsidiaries /ii/	4.00%	214,638	238,038	218,448	238,471
Bonds	4.00%	18,132	19,330	24,302	25,516
Finance lease /i/	4.66%	97,886	109,681	97,453	109,038
		330,656	**367,049**	**340,203**	**373,025**
Current					
Loans from banks and subsidiaries /ii/	4.00%	128,481	135,433	104,339	100,822
Commercial papers	4.00%	1,161	2,323	1,161	3,055
Finance lease /i/	4.69%	16,153	15,292	15,828	14,823
		145,795	**153,048**	**121,328**	**118,700**
Total borrowings		**476,451**	**520,097**	**461,531**	**491,725**

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

(in thousands of HRK)	Dalekovod Group 2017	Dalekovod Group 2016	Dalekovod d.d. 2017	Dalekovod d.d. 2016
Up to 1 year	18,517	15,055	18,180	14,507
Between 1 to 5 years	101,503	54,197	101,059	53,610
Over 5 years	-	63,146	-	63,146
	120,020	132,398	119,239	131,263
Future finance costs under finance lease	(5,981)	(7,425)	(5,958)	(7,402)
Present value of liabilities under finance lease	**114,039**	**124,973**	**113,281**	**123,861**

/ii/ In the total amount of loans received form banks and subsidiaries disclosed by the Company and the Group on 31 December 2017, 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 6,309 thousand as at 31 December 2017 (Note 33).

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 2017 and 31 December 2016, 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 5, 18 and 19).

The Group's borrowings totalling HRK 22,577 thousand (2016: HRK 33,840 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 398,435 thousand (2016: HRK 406,754 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.
According to pre-bankruptcy settlement, interest rate on senior debt, bonds and finance lease is fixed at 4% while on other lease financing interest rate is variable and ranges from 4.0% to 6.7% .

The borrowings are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
EUR	127,513	282,902	112,485	266,686
HRK	338,869	237,111	347,400	225,039
Other	10,069	84	1,646	-
Total	**476,451**	**520,097**	**461,531**	**491,725**

The maturity of long-term borrowings is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Between 1 to 5 years	214,638	97,308	97,015	97,741
Over 5 years	-	140,730	121,433	140,730
	214,638	**238,038**	**218,448**	**238,471**

NOTE 32 – MEZZANINE DEBT

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Long-term	24,208	23,166	28,605	27,373
Short-term	58,509	58,509	62,000	62,000
	82,717	**81,675**	**90,605**	**89,373**

Movements in Mezzanine debt are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
At 1 January	81,675	80,675	89,373	88,191
Additions /i/	1,042	1,000	1,232	1,182
At 31 December	**82,717**	**81,675**	**90,605**	**89,373**

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
HRK	82,717	81,675	90,605	89,373
	82,717	**81,675**	**90,605**	**89,373**

NOTE 33 – TRADE AND OTHER PAYABLES

Long-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Trade payables	1,437	10,199	1,526	12,878
	1,437	**10,199**	**1,526**	**12,878**

Short-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Domestic trade payables	102,561	112,394	77,324	106,258
Foreign trade payables	174,599	114,591	147,198	75,381
	277,160	226,985	224,522	181,639
Interest payable	4,437	2,165	4,747	1,618
Dividends payable (note 16)	101	101	101	101
Contracted liabilities from acquisition	1,672	1,672	1,672	1,672
Other accruals and liabilities	10,468	64,811	5,802	57,549
Due to banks arising from collected guarantees	6,396	6,299	6,396	6,299
Financial liabilities	**300,234**	**302,033**	**243,240**	**248,878**
Advances	70,872	135,581	65,435	130,990
Deferred income	13,308	15,762	13,308	15,762
Due to employees	47,850	41,581	27,953	21,223
VAT payable	11,872	15,366	10,374	14,771
Taxes and contributions	8,194	7,387	4,345	3,335
Unused vacation days	6,867	7,159	4,534	4,516
Non-financial liabilities	**158,963**	**222,836**	**125,949**	**190,597**
	459,197	**524,869**	**369,189**	**439,475**

NOTE 34 – TRADE AND OTHER PAYABLES (continued)

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
HRK	1,437	9,650	1,526	11,839
EUR	-	514	-	1,005
NOK	-	3	-	3
Other currencies	-	32	-	31
Total	**1,437**	**10,199**	**1,526**	**12,878**

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
HRK	123,257	145,069	87,583	123,960
EUR	21,202	17,473	14,725	15,373
NOK	22,737	42,400	22,737	42,400
UAH	113,413	63,797	113,413	63,301
Other currencies	19,625	33,294	4,782	3,844
Total	**300,234**	**302,033**	**243,240**	**248,878**

NOTE 34 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2017	3,423	4,020	18,413	25,856
Increase	19	298	5,269	5,586
Utilized	(106)	(1,267)	-	(1,373)
Decrease	(217)	-	(4,716)	(4,933)
At 31 December 2017	**3,119**	**3,051**	**18,966**	**25,136**

Analysis:	**2017**	**2016**
Non-current portion	22,476	23,513
Current portion	2,660	2,343
Total	**25,136**	**25,856**

Company

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2017	1,771	2,634	18,249	22,654
Increase	12	180	5,097	5,289
Utilized	-	(1,267)	-	(1,267)
Decrease	(175)	-	(4,696)	(4,871)
At 31 December 2017	**1,608**	**1,547**	**18,650**	**21,805**

Analysis:	**2017**	**2016**
Non-current portion	19,600	20,779
Current portion	2,205	1,875
Total	**21,805**	**22,654**

NOTE 34 – PROVISIONS (continued)

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 5.36% for the Group, and 3.0% for the Company (2016: Group 4.59%, Company 2.00%); the age of retirement is determined for each individual employee taking into account their present age and the overall realised years of service (the average age of retirement used in the calculation is 61 years for men and 62 years for women).

Other provisions

Other provisions relate to provisions for court cases and bonuses to employees.

NOTE 35 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Dalekovod d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Dalekovod d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year.

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 31 December 2017	295,844	Service during the contracted vesting	31.12.2020
Total share options	**295,844**		

Fair value measurement

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the Company’s share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

NOTE 35 – SHARE BASED PAYMENTS

Fair value measurement (continued)

Input variables for calculation of fair value:

Share option programme for key management	**2017**	**2016**
Fair value at grant date (weighted average)	7.25	0
Share price at grant date (weighted average)	14.07	0
Exercise price (weighted average)	14.07	0
Expected volatility (weighted average)	35.04%	0%
Expected life (weighted average in years)	2.0	0.0
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.97%	0.00%

Expense recognised in profit or loss	**2017**	**2016**
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,073	-

Movement in number of share options and respective exercise prices is as follows:

	2017		**2016**	
	Number of options	**Weighted average excercise price**	**Number of options**	**Weighted average excercise price**
Outstanding at 1 January	-	-	-	-
Granted	295,844	14.07	-	-
Outstanding at 31 December	**295,844**	**14.07**	**-**	**-**
Exercisable at 31 Dec	**-**	**-**	**-**	**-**

As at 31 December 2017, there are 295,844 of outstanding options (2016: there were no options). The weighted average exercise price of outstanding options at the end the year is HRK 14.07. The weighted average remaining validity of options is 3 years at year end.

NOTE 36 – 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 an 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

(in thousands of HRK)	**2017**	**2016**
Sales revenue	33,861	41,947
Rental income	4,975	5,437
Interest income	798	956
Dividend income	3,185	4,426
Other operating income	11,155	12,375
	53,974	**65,141**
Cost of goods sold	3,232	3,035
Cost of raw materials and supplies	34,377	22,697
Subcontractor services	2,140	15,110
Other operating expenses	1,105	574
Interest expense and foreign exchange losses	960	1,203
	41,814	**42,619**

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	**2017**	**2016**
Trade receivables	18,038	10,788
Dividends receivable	-	2,168
Interest receivable	2,612	1,757
Advances	13,684	17,045
Loans receivable	16,043	26,929
	50,377	**58,687**
Trade payables	13,707	33,813
Mezzanine debt	7,888	7,698
Interest payable	424	175
Bonds	6,170	6,918
Advances	-	534
Loans payable	5,246	1,790
	33,435	**50,928**

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

(in thousands of HRK)	**2017**	**2016**
Sales revenue	-	232
	-	**232**
Interest expense	-	24
	-	**24**

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	2017	2016
Trade receivables	-	519
	-	**519**
Trade payables	-	388
	-	**388**

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)	2017	2016
Sales revenue	1,241	3,083
	1,241	**3,083**
Cost of raw materials and supplies	4,370	8,010
Interest expense	-	24
	4,370	**8,034**

Receivables, payables and loans

(in thousands of HRK)	2017	2016
Trade receivables	-	1,056
	-	**1,056**
Trade payables	-	1,542
	-	**1,542**

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

In addition to the Company, other Group members have dealings with joint ventures, 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)	**2017**	**2016**
Sales revenue	5,400	5,400
	5,400	**5,400**

Receivables, payables and loans

(in thousands of HRK)	**2017**	**2016**
Trade receivables	1,813	563
	1,813	**563**
Loans payable	2,000	2,000
	2,000	**2,000**

In addition to the previously presented transactions, the Company had transactions with companies related through its ultimate owner. As at 31 December 2017, resulting from the loans given in previous years, the Company has a loan receivable in the amount of HRK 29,779 thousand (2016. HRK 29,779 thousand). Interest income realised during the year amounted to HRK 871 thousand (2016: HRK 873 thousand). Furthermore, as a result of sale of subsidiary Dalekovod Ulaganja realised in 2016, the Company as at 31 December 2017 has receivable in the amount of HRK 17,237 thousand (2016: HRK 17,237 thousand).

Transactions with key management

Key management consists of Management Board and Executive Directors. Remuneration to key management at Group's level amounted to HRK 21,801 thousand (2016: HRK 21,114 thousand), while remuneration at the level of the Company amounted to HRK 16,986 thousand (2016: HRK 16,831 thousand).

NOTE 37 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2017, 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 1,273,655 thousand (2016: HRK 1,284,474 thousand).

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

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
Up to 1 year	2,098	2,432	2,023	2,322
Between 1 to 5 years	888	2,185	718	2,038
Over 5 years	-	-	-	-
	2,986	**4,617**	**2,741**	**4,360**

As at 31 December 2017, 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 533,826 thousand and HRK 483,471 thousand (2016: HRK 655,152 thousand Group and HRK 586,666 thousand Company). The Company is additionally exposed as subsidiaries' co-debtors in the total amount of HRK 19,040 thousand (2016: HRK 36,686 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.

NOTE 38 – EVENTS AFTER THE BALANCE SHEET DATE

After 31 December 2017, 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.